



February 23, 2023

Mr. John Bell, III
Executive Director
Loan Guaranty Service
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, D.C. 20402

RE: MBA Suggested VA Appraisal-Related Policy Reforms in Response to the Improving the VA Home Loan Benefit Act of 2022

Dear Executive Director Bell,

Thank you and the entire Loan Guaranty Service team for your continued work toward an equitable, sustainable, and efficient VA home loan program. MBA¹ appreciates its partnership with the VA on behalf of its members who deliver the VA home loan program to communities across America. The VA home loan program is one of the most significant benefits servicemembers receive in return for their sacrifices, and making this program more accessible and operationally efficient is a critical step towards delivering much-needed housing to our nation's heroes. There is, unfortunately, a perception within the homebuying market that purchase offers made with VA financing are less desirable than offers using conventional mortgage loans. One of the most direct and impactful ways to remedy this, and to improve the effectiveness of the VA home loan benefit overall, is through modernization of the appraisal process. MBA applauds the passage of H.R. 7735, the Improving the VA Home Loan Benefit Act of 2022 ("the Act"), which addresses several policy areas that create friction in the Department of Veterans Affairs' ("VA") home loan appraisal process.

Feedback from mortgage lenders of all types and sizes suggest servicemembers' home purchase offers are often passed over in favor of other competitive offers that might be perceived to close more quickly or with greater certainty due to the backing of conventional

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,100 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mb.org.

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financing. The Act encourages VA to make important reforms to its appraisal-related requirements including clarifying: when an appraisal is necessary, how appraisals are conducted, and who is eligible to conduct an appraisal for a loan guaranteed by the VA. By directing the VA to consider updates to its existing rules and program guidelines, the Act took an important first step towards broader modernization of VA appraisal processes.

As VA considers revisions to its policy as mandated by the Act, MBA offers the following suggestions applicable to relevant aspects of the loan guaranty program.

1. Promote expansion of appraiser workforce through revised certification requirements and pilot programs.

The well-documented shortage of appraisers has negatively impacted housing markets, particularly with respect to government lending programs such as VA that require unique certifications or experience for appraisers. Appraiser rosters are dwindling in many areas across the country and an increase in demand over the past few years has led to increased costs for appraisals. MBA suggests VA revise the certification requirements and consider a pilot program that would alleviate the appraiser shortage and help increase appraiser diversity.

Suggested revisions to the requirements include:

- Reduce the appraiser experience requirement from 5 years to 2 years;
- Allow appropriate “alternative experience” to count toward the appraisal experience; and
- Enhance college “practicum” curriculum, helping to fulfill experience requirements.

VA should consider, additionally, a pilot program whereby non-VA appraisers managed by AMCs could conduct VA appraisals in areas where VA appraisers are scarce. VA should endeavor to prevent a single VA-appraiser, or even a small handful of appraisers, from having a monopoly in any given market area. This pilot program, tracked over time, would provide important data on the performance of VA loans originated with valuations produced by non-VA-panel appraisers.

2. Promote Continuing Education for Real Estate Professionals to Dispel Misconceptions

VA should conduct research that could aid in the development of content for or offering courses in partnership with local realtor groups which dispel misconceptions that VA contract execution takes longer and is more costly. If the research does not bear this out, this should further validate – and expedite – the need for the other reforms outlined here.

3. Align and revise Minimum Property Requirements (MPRs).

Before certifying a valuation, the VA reviews the appraisal to ensure the dwelling

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meets minimum property requirements (“MPRs”). MPRs range anywhere from minor deficiencies in paint or appliances to structural damage or foundational issues.

MBA recommends VA provide clarity and standardization related to the safe/sound/sanitary requirements. For example, lenders report frequent instances of VA appraisers calling for items like baseboards to be installed in relation to fulfillment of the MPRs, an arguably cosmetic improvement being required under the policy.

MBA suggests VA align with Fannie Mae and Freddie Mac (“the GSEs”) by separating appraisal MPRs from repair and inspection requirements. VA appraisers can follow basic safety, structure, and soundness principles, and continue to identify hazards and make their appraisal subject to the item repair. Inspections of private water supplies and sanitary facilities should be conducted by a home inspector.

Non-safety and structural items should be negotiated between the Veteran and the seller, and not subject to MPRs. Many veterans seek out “fixer-upper” properties where they can use their skills to improve the home.

Additional suggestions to improve efficiency related to MPRs:

- MPR standards could be waived in cases of VA-to-VA cash-out refinances where the VA is not taking on any additional collateral risk. This particularly applies when the equity position on the new loan is still higher than the original loan. VA could facilitate this comparison by displaying the original LTV in WebLGY.
- Allow termite inspections and water tests to remain current for a VA-to-VA refinance occurring within one year.
- Align Wood Destroying Insect (WDO) inspection requirements with the GSEs, which only require inspection if the appraiser encounters evidence of infestation.
- Allow for home warranty as a substitute for conducting certain repairs prior to closing.
- Clarify that the requirement for a wall separating the properties applies to attached properties only.

Again, continuing education is critical, and any changes to the MPRs implemented by VA will require clear communication and training to VA appraisers and SARs.

Remedies exist for both buyers and sellers to address concerns with MPRs, low valuations, or other issues with VA appraisals – all of which take considerable time and have no guaranteed outcome. The still-competitive housing markets across the country continue to favor sellers and, given the conditions that must be met for VA loans to close, lenders report that many sellers do not prioritize VA-backed offers due to concerns over the MPRs. The above suggestions would aid in assuaging those concerns.

4. Align the process for selecting and reviewing comparable sales to industry standard.

In reviewing the standards for VA appraisers' selection of comparable sales, we strongly recommend VA consider aligning with the GSEs to establish an industry-wide standard. This would serve, again, to promote the notion that VA loan offers as "on par" with conventional loan offers.

VA should consider aligning with the GSEs on the following policies related to comparable sales:

- Selection and adjustment requirements of comparable sales;
- Data and verification source requirements for comparable sales; and
- Requirements related to sale histories provided on comparable sales.

MBA suggests, additionally, that the VA could improve education for real estate professionals regarding the Tidewater process. MBA members report that, given the time required to complete the Tidewater process, agents often discourage the execution of a Tidewater request and instead prefer to re-negotiate the price or look at other offers. VA should look to increase automation where possible, engage in outreach and education efforts, and ensure that application and execution of the Tidewater process is consistent across RLCs.

5. Continue to enhance quality control processes.

MBA applauds VA's recent announcement² to enhance oversight of appraisal reports. VA's commitment to review appraisal reports is an important step in increasing transparency and accountability for appraisers who issue non-compliant appraisals. If the VA plans to implement additional policy changes within the quality control process, MBA suggests that VA seek industry input, allow ample time for implementation, and ensure that educational resources are available for industry participants who are affected.

6. Reconsider alternative appraisal options

MBA appreciates VA's recent guidance on acceptable use of alternative valuation methods and suggests that VA monitor performance data to potentially support expansion of those policies without significant impact to the risk profile of loan.³ VA's policy requires that a veteran offer a 20% downpayment to qualify for alternative valuation methods. One of the greatest servicemember benefits to using

² VA Circular 26-23-04. "Oversight of Appraisal Reports to Promote Fair Housing for All Veterans Obtaining Loans Backed by the Department of Veteran Affairs" January 18, 2023. Available at: <https://www.benefits.va.gov/HOMELOANS/documents/circulars/26-23-05.pdf>

³ VA Circular 26-22-13. "Procedures for Alternative Valuation Methods" July 27, 2022. Available at: https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_22_13.pdf

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the VA home loan program is the zero downpayment. Therefore, as the policy stands most veterans are not able to benefit from alternative valuation methods.

MBA suggests VA consider a pilot program that operationalizes hybrid appraisals using Freddie Mac's LPA Automated Collateral Evaluation (ACE) model. This would likely expand the valuation database and provide more accurate assessments for the use of alternative appraisal options. The ACE model allows for automated evaluations of refinances in addition to purchase transactions but requires a Property Data Report (PDR) in addendum to the desktop appraisal for high LTV Rate/Term Refinances and all eligible Cash-Out Refinances. Adopting this model could have significant positive impacts on the marketability of VA refinances. Any change to alternative valuation policy, however, should only be undergone insofar as performance data suggests the changes can be made safely and soundly. MBA appreciates the importance of mitigating risk when using alternative valuations, particularly for high LTV loans.

7. Enable Automation

VA should work to provide automation between the LGY Portal and the lender's (or the lender vendor's) system.

Appraisal delay is often the cause for missed closing dates. Automation would enable lenders to order, receive, and deliver appraisals faster, allowing for a timely closing process. Automation would allow lenders to better track the appraisal process.

Thank you again for your consideration of MBA-member supported reforms within the VA Loan Guaranty Service appraisal policy guidance. It is our goal to help facilitate changing the perception of VA-backed offers within the homebuying market, making VA home loans as attractive as possible to sellers and their agents. Should you have questions or wish to discuss this issue further, please contact Hanna Pitz at hpitz@mba.org.

Sincerely,



Pete Mills
Senior Vice President
Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association