



AN INSIDERS GUIDE TO THE  
**VA LOAN APPRAISAL**  
PROCESS





## **SO YOU'VE FOUND THE PERFECT HOME FOR YOUR CLIENT.**

Your buyer's offer has been accepted and they've been preapproved. Smooth sailing from here, right? Perhaps. Each property up for VA loan consideration must also undergo a VA appraisal.

The VA appraisal is not just a drive-by glance at the property. It's a thorough look at a home's condition and value that puts a premium on health and safety. Problems can be discovered by an appraiser that must be addressed before a loan can close. This process is especially important for veterans looking to purchase foreclosures, short sales and other properties that may have fallen into disrepair.

Homes that don't immediately meet VA conditions can still be approved for financing, but not without repairs. Give your client a good shot at a trouble free home purchase by getting an understanding of the VA appraisal process and what it means for potential homebuyers.



# MAIN PURPOSES OF A VA APPRAISAL

The VA appraisal has two primary objectives: ensuring that the property measures up to the VA's Minimum Property Requirements (MPRs) and establishing the property's monetary value. Let's take a closer look at how the VA appraisal accomplishes these goals.

## APPRAISALS VS. INSPECTIONS

Don't confuse the VA appraisal with a professional home inspection. A home inspection is a much more exhaustive examination of a property that can reveal significant issues. Buyers, who pay for home inspections, can use the findings to renegotiate the terms or purchase price of the contract. Home inspections aren't mandatory, but they are strongly suggested.

## ***PURPOSE 1: ENSURE COMPLIANCE WITH MPRS***

The VA's Minimum Property Requirements serve as universal screening guidelines for VA appraisers. Although military buyers can find MPRS annoying at times, their purpose is to ensure those who serve purchase safe and structurally sound properties.

Homes must be what the VA considers "move-in ready," meaning that caved-in ceilings or rotten flooring are definite deal-breakers unless fixed prior to closing. Veterans need homes in good repair, not dicey money pits. Costly surprises can put a military buyer's finances at risk and make mortgage payments more difficult. The VA appraisal seeks to eliminate shoddy homes from contention through a comprehensive review of each property. In pursuit of that goal, MPRS cover a wide variety of home characteristics. Appraisers will scrutinize the tiniest crawl space and scale the tallest roof to make sure conditions are acceptable.



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## HERE'S A SUMMARY OF WHAT YOUR VA APPRAISER WILL BE LOOKING FOR:

- ★ **Functional mechanical systems:** Electrical and plumbing systems must be in good repair and have some usable life remaining.
- ★ **Adequate heating:** The home's heating system must be safe and adequate and able to maintain a temperature of at least 50 degrees Fahrenheit to prevent pipes from freezing.
- ★ **Adequate roofing:** The roof must be in good condition and without any major defects.
- ★ **Dry basements/crawl spaces:** Basement leaks must be corrected for VA approval.
- ★ **Free of hazards and defective conditions:** A toxic landfill on the property or poor workmanship can eliminate homes from VA contention. Faulty support beams, exposed wires or stairs without proper railings can also be considered hazardous by a VA appraiser.
- ★ **No wood-destroying insects:** If shopping in a pest-prone area, the VA may require a termite inspection. Properties with termite infestations must be treated and re-evaluated to garner VA approval.
- ★ **No lead-based paint:** Properties built before 1978 must be inspected for lead-based paint. Surfaces with cracked or chipped paint must be scraped and repainted, covered with drywall, or totally removed.

## PURPOSE 2: ESTABLISH PROPERTY VALUE

The appraisal also places a tangible value on a property. This value helps lenders determine how much they should loan toward a purchase and helps buyers verify the home is worth the price they are paying. Lenders will loan the lesser of the purchase price or the appraised value.

Appraisers will look at the sales of three comparable homes, otherwise known as "comps," to arrive at a fair market value for your property. Value is added or subtracted from the property depending on how it stacks up against the comps.



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## RULES THAT MUST BE FOLLOWED BY VA APPRAISERS:

- ✓ VA appraisers must use a “sales comparison” approach rather than a “cost-based” approach in calculating appraisal value. The cost of building or replacing the home has no bearing on the appraisal value.
- ✓ Only completed sales can be used as comps for the purposes of the VA appraisal. Sales listings, contract offers and unsettled sales don't qualify.
- ✓ Comps should reflect a relatively narrow price range. So if you're buying a \$175,000 home, the appraiser should rely on comps that are similarly priced rather than extrapolating from multimillion dollar properties.
- ✓ Comps should have been sold less than 12 months ago and ideally less than six months ago.
- ✓ Comps should be closely located to the appraised property.

## THE APPRAISAL REPORT

The appraiser will compose a thorough report for the lender to review. The appraisal and report should ideally be completed within a couple of weeks of signing the purchase agreement on the home. Lenders will order the appraisal. Unless the seller agrees to cover the fee, the buyer is usually required to pay for the appraisal. Appraisal fees are set by the VA and vary from \$425 to \$900 depending on the state of purchase. To find the most up to date appraisal fees for your area visit [www.benefits.va.gov/HOMELOANS/appraiser\\_fee\\_schedule.asp](http://www.benefits.va.gov/HOMELOANS/appraiser_fee_schedule.asp).

VA Appraisal Fees for Single-Family Homes (Selected States)	
California	\$600
Florida	\$450
Maine	\$600
Texas	\$475
Montana	\$800-\$900

The appraisal report will include a variety of details about the property, including maps, photos and sketches of each floor. The most significant part of the report explains the value calculation and lists the repairs needed to bring the home up to VA standards.



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# TWO MAJOR APPRAISAL CHALLENGES

The best-case appraisal scenario looks like this: The home appraises for at least the amount of the loan, needs no repairs and moves swiftly to closing without delays.

But two big challenges could be looming over the purchase. If repairs are necessary or if the home doesn't appraise for at least the loan amount, your client has some decisions to make. Take a careful look at the appraiser's findings, talk to the lender and decide how to proceed.

## CHALLENGE 1: REPAIRS NEEDED

It's rare for homes to be in perfect condition. Appraisals may mandate repairs be made to bring the property up to VA standards. Here's what can be done if the VA appraiser is mandating repairs:

- 1. Ask the seller to make repairs.** The appraisal will contain a list of mandatory repairs. Make sure the seller knows your client can't buy the house until repairs are made. Many sellers are willing to handle minor repairs.
- 2. Walk away from the home purchase.** The VA appraisal might reveal some really serious concerns. The foundation may be crumbling. The lot may contain a huge sinkhole. The plumbing may be in shambles. A home with these kinds of issues might never reach VA standards. Your client may be out the cost of the appraisal, but as long as the contract is contingent on obtaining a loan, your client will get their earnest money back upon walking away.
- 3. Buyer pays for repairs themselves.** Sellers may refuse to do any repairs, even though they know a sale will be lost. In this situation, eager buyers sometimes volunteer to handle the repairs themselves. This option should be approached with caution. Talk with the loan officer in detail about this option before your client invests any of their own funds into a property they don't yet own.



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## CHALLENGE 2: LOW APPRAISAL VALUE

Lenders will not loan more than the appraised value or the agreed-upon purchase price, whichever is less, plus applicable fees and charges. So if a buyer signs a \$150,000 purchase agreement and the appraised value of the home comes in at \$140,000, the lender isn't going to hand over an additional \$10,000 to plug the gap. At that point, the buyer has to make some tough decisions. Unfortunately, low appraisal values can creep up on buyers for all kinds of reasons.

### CAUSES FOR A LOW APPRAISAL VALUE

#### 1. Market conditions.

A December 2011 study by the National Association of Home Builders found that 60 percent of builders are reporting trouble with appraisals coming in below contract sales prices. In an era of shaky home values and tight lending, it seems that many appraisers are making more conservative estimates of value. Conduct a Comparative Market Analysis (CMA) before your buyer makes an offer, and keep an eye on similar sales in the area. Any sale, foreclosure or otherwise, is considered an accurate reflection of market conditions and can be used by an appraiser.

#### 2. Using old comps.

Markets can change quickly, so VA appraisers are expected to use recent comparable sales to arrive at an appraisal value. Ideally, these sales will have occurred within the past six months. Sales more than 12 months old must be justified to the VA. But if shopping in a rural area, there might not be any recent comparable sales to consider. Appraisers may be forced to dig into sales that are two or three years old in their calculations.

#### 3. Information in appraisal is incorrect.

Appraisals could contain errors that lead to lower values. The square footage could be off, or a bathroom may not have been included in the calculations.



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## HOW TO HANDLE A LOW APPRAISAL VALUE

- 1. Check for errors and ask for a Reconsideration of Value if necessary.** The VA recognizes that appraisal values can be erroneous, so your client can apply to the VA for a Reconsideration of Value (ROV). They will need to fully explain why another value is warranted. Provide supporting documentation such as details on other comps that weren't used in the first appraisal. Requesting an ROV doesn't guarantee the VA will change the appraised value.
- 2. Ask seller to lower the price.** Let the seller know the appraised value came in below the sales price. Ask the seller to lower the sales price to equal the appraised value. This is a common solution to this problem, especially in the current housing market.
- 3. Make up the difference in cash.** Your buyer can also choose to make up the difference between the appraisal value and the loan value in cash. But be cautious before grabbing at this straw. It may not be wise to pay above the appraised value of a home, particularly if market values in the area are still declining.

## AFTER THE VA APPRAISAL

You clients' post-appraisal journey can take several different routes.

If the seller agreed to complete mandated repairs, a second appraisal, known as a "compliance" or "final" inspection, will take place. There is a separate fee for this ranging from \$100-\$150. The VA will send the appraiser back out to the property to evaluate the repairs and ensure the home now meets VA standards. If the repairs were successful, the loan can move quickly to closing. If additional repairs are necessary, it's back to the negotiating table.

If the initial appraisal resulted in a low appraisal value, your request for a reconsideration of value may have been granted. If the updated value of the home is set at the loan amount or above, the loan should move ahead to closing. But if the updated value still comes in low, the buyer will either have to make up the difference in cash or ask the seller to lower the purchase price for a successful sale.



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## WORK WITH VA EXPERTS

What's the best way to prepare yourself for the VA appraisal? Become familiar with VAs, Minimum Property Requirements and work with an experienced lender. Knowledgeable experts can steer you to sound homes and carefully guide you through the VA loan process.

The trek is certainly worth the effort. VA loans offer unbeatable advantages to qualifying service members, including 100 percent financing, no private mortgage insurance, historically lower interest rates and low closing costs.

**HAVE MORE QUESTIONS  
ABOUT THE VA APPRAISAL  
OR VA LOAN PROCESS?  
CONTACT A DID YOU  
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BY EMAILING  
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## THE POST-APPRAISAL PROCESS

- 1. Order a home inspection.** If your client hasn't already done so, make sure they schedule a professional home inspection. Any additional problems spotted during the inspection can be used to negotiate a lower purchase price or to persuade a seller to perform repairs.
- 2. Purchase homeowners' and title insurance.** The lender will require the buyer to purchase both homeowners' and title insurance before closing on the loan. Homeowners insurance protects the buyer and lender against financial loss from property damage, and title insurance offers protection from deed-related problems.
- 3. Final loan approval.** The lender will conduct a final review of the purchase. Assuming all qualifications have been met, the lender will issue final loan approval and schedule the closing date.
- 4. Closing.** At the closing meeting, the property sale is finalized and keys are transferred. Congratulations to you and your new homeowner.



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