

Compromise Sale Appraisal Requirements

1. Purpose. This Circular provides updated guidance on the procedures to complete a liquidation appraisal for a property that is being reviewed for a Compromise Sale.

2. Background. The Department of Veterans Affairs (VA) previously required an appraisal to include interior access of a property if a Compromise Sale was under consideration because it was expected that the borrower will cooperate with the VA appraiser to ensure access. This requirement negatively impacted the ability of many Veteran borrowers to avoid foreclosure through the Compromise Sale loss mitigation option due to various situations, such as when the borrower was not able to assist in providing interior access to the VA appraiser due to relocation. VA does allow exterior-only appraisals for other liquidation purposes.

a. In addition, when a Compromise Sale became a viable loss mitigation option after a liquidation appraisal was originally ordered, the closing of the Compromise Sale could be delayed or even cancelled because the liquidation appraisal was completed without access to the interior of the property. Often times, a Compromise Sale would fall through because interior access could not be gained, or there was an extensive delay and cost in gaining access, and the loan would ultimately be terminated through foreclosure.

b. Fannie Mae Form 2055/Freddie Mac Form 2055, Fannie Mae Form 1004/Freddie Mac Form 70, Fannie Mae Form 1073/Freddie Mac form 465 and Fannie Mae Form 1073/Freddie Mac Form 466 require that the effective date of the appraisal and the date the property is inspected by the appraiser be the same. To perform an interior inspection after an exterior-only appraisal was done would require a new effective date and would be considered a new assignment (see Uniform Standards of Appraisal Practice Advisory Opinion 3). VA can assist Veteran borrowers by allowing the use of exterior-only appraisals for the completion of Compromise Sales. This would negate the need for a new appraisal and reduce unnecessary delays. Expanding the intended use of the exterior-only appraisal can be another course of action when completing a Compromise Sale.

c. VA routinely forecloses and accepts conveyance of properties which only have had exterior appraisals. VA holds no liability when a property is not conveyed, such as with a Compromise Sale, and the borrower/seller and mortgage servicer have the option to reject any unreasonable offers to purchase the property.

3. Action. Effective immediately, any liquidation appraisal for a property originally scheduled for foreclosure will no longer need a second appraisal if a subsequent short sale offer is made on the property. The exterior-only liquidation appraisal will be sufficient to complete the Compromise Sale without any further delays.

a. The only exception to this rule is if the purchaser is a Veteran or surviving spouse originating a VA-guaranteed loan. An origination requires an interior inspection, thus no liquidation appraisal without interior access may be converted for the purposes of origination. An origination appraisal must be obtained by the purchaser. Interior inspections will still be required for a Deed-in-Lieu of Foreclosure.

b. The standard for completing a liquidation appraisal for a loan with a pending Compromise Sale is the same as all other liquidation appraisals for properties facing termination, as outlined in the Liquidation Appraisals section located in Chapter 11, Section 13 of the VA Lender's Handbook. The lender/servicer must provide assistance to the VA appraiser in gaining access to the vacant property unless one or more of the exceptions stated in Section 13(a) apply.

c. If access cannot be gained, the VA appraiser must continue to follow the procedures outlined in Chapter 11, Section 13 of the VA Lender's Handbook prior to submitting an exterior-only liquidation appraisal. The VA appraiser must use the Freddie Mac Form 466/Fannie Mae Form 1075 for a condominium unit or Freddie Mac Form 2055/Fannie Mae Form 2055 for a one-unit residential property.

4. Rescission. This Circular is rescinded October 1, 2017.

By Direction of the Under Secretary for Benefits

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