

## Procedures for Alternative Valuation Methods

1. Purpose. This Circular clarifies when an appraisal is required for VA-guaranteed loans and announces new procedures for alternative valuation methods.

2. Background. An appraisal of a property is generally required for VA-guaranteed loans.<sup>1</sup> Appraisals are performed by an appraiser on VA's fee panel to protect the interest of Veterans, lenders, servicers, and VA. VA's fee panel is comprised of independently-credentialed fee appraisers who provide objective, impartial, and unbiased opinions about the value of real property. Each appraisal assignment is completed in accordance with the Uniform Standards of Appraisal Practice (USPAP)<sup>2</sup> and VA appraisal guidelines as outlined in the Lenders Handbook, VA Pamphlet 26-7.<sup>3</sup>

a. Generally, VA fee panel appraisers access and view the exterior and interior of the property prior to completing the appraisal report. This has been normal practice in the real estate industry for decades to aid in the determination of market value and ensure real property meets the safe, sound, and sanitary requirements as outlined in VA's Minimum Property Requirements (MPRs).<sup>4</sup> Effective January 1, 2020, VA introduced the Assisted Appraisal Processing Program (AAPP), which allows VA fee panel appraisers to complete the appraisal report using information gathered by certain persons with whom the appraiser has entered into an agreement for such services.<sup>5</sup> Under the AAPP, the VA fee panel appraiser may use such individual to complete any interior and exterior viewing of the property and/or gather appropriate market data.

b. In 2020, as a response to lockdowns and public health concerns associated with the COVID-19 pandemic, VA temporarily allowed, for certain types of loans and characteristics of those loans, Exterior-only Appraisals and, in very limited circumstances, Desktop Appraisals.<sup>6</sup> In amending its procedures, VA noted that, according to USPAP, both Desktop Appraisals and Exterior-only Appraisals can fulfill the requirements of USPAP as long as the analysis by the VA fee panel appraiser is credible.<sup>7</sup>

3. Effective Date. This Circular is effective immediately (see date above).

4. Definitions. For purposes of this Circular, the following definitions apply:

a. *Interior Appraisal* means a valuation where the VA fee panel appraiser, or the appraiser's designee under the AAPP, has physically viewed the exterior and interior of the property and the VA fee panel appraiser has determined an opinion of value based on the physical viewing and

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<sup>1</sup> See 38 U.S.C. § 3731. VA does not require a determination of reasonable value for interest rate reduction refinancing loans (IRRRLs). See 38 C.F.R. § 36.4339(a).

<sup>2</sup> USPAP requirements are not established by VA. USPAP represents the generally accepted and recognized standards of appraisal practice in the United States.

<sup>3</sup> See also 38 C.F.R. § 36.4351.

<sup>4</sup> 38 C.F.R. §§ 36.4347 and 36.4351.

<sup>5</sup> VA Circular 26-19-13 (Nov. 15, 2019).

<sup>6</sup> VA Circular 26-20-11 (Mar. 27, 2020).

<sup>7</sup> USPAP Scope of Work Rule, Standard Rule 1-2, and Advisory Opinion 2.

information obtained from public records and other appropriate sources of data (as determined by the appraiser).

b. *Exterior-only Appraisal* means a valuation where the VA fee panel appraiser, or the appraiser's designee under the AAPP, has physically viewed the full exterior of the property and the VA fee panel appraiser has determined an opinion of value based on the full exterior viewing and information obtained from the public records and other appropriate sources of data (as determined by the appraiser). The appraiser has determined that adequate information is available about the property to deliver a credible report under the defined Scope of Work. Value is based on an Extraordinary Assumption (EA)<sup>8</sup> and the report is completed "AS IS" unless there are MPR requirements the appraiser observes in the review of the property. The use of an Exterior-only Appraisal may allow a local VA fee panel appraiser to complete the assignment when access to the property may be difficult or cause undue delay in the appraisal process.

c. *Desktop Appraisal* means a valuation where neither the VA fee panel appraiser nor the appraiser's designee under the AAPP has physically viewed the exterior or interior of the property and the VA fee panel appraiser has determined an opinion of value based on information obtained from public records, the Veteran, homeowner, realtor, and other appropriate data sources (as determined by the appraiser). The appraiser has determined that adequate information is available about the property to deliver a credible report under the defined Scope of Work. Value is based on an EA and the report is completed "AS IS" unless there are MPR requirements the appraiser observed in the review of property related documents. The use of a Desktop Appraisal may allow an appraiser from outside the market area, but with appropriate credentials for the jurisdiction of the property, to complete the assignment when no local VA fee panel appraiser is available.

5. Appraisal Assignment Waterfall. With consideration for the high demand for appraisal services and limited availability of appraisers in certain local market areas, VA is providing lenders, servicers, and appraisers with a procedural waterfall that clarifies acceptable valuation methods when certain conditions exist. Lenders and appraisers can also refer to Exhibit A for more information. VA continues to explore opportunities for expanding the use of Exterior-only Appraisals and Desktop Appraisals and will update this procedural waterfall, as appropriate.

a. Interior Appraisal. This appraisal type is acceptable for all VA-guaranteed mortgage transactions. It may be completed with or without the assistance of a VA fee panel appraiser's designee under the AAPP.

b. Exterior-only Appraisal and Desktop Appraisal. These appraisal types are acceptable for the following VA-guaranteed **purchase** transactions where all of the following are true:

(1) Lender is approved to participate in the Lender Appraisal Processing Program (LAPP).

(2) Purchase price does not exceed the current calendar year conforming loan limit<sup>9</sup> for the property jurisdiction.

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<sup>8</sup> USPAP Scope of Work Rule, Standard Rule 1-2, and Advisory Opinion 2.

<sup>9</sup> <https://www.fhfa.gov/DataTools/Tools/Pages/Conforming-Loan-Limit-Map.aspx>.

(3) The dwelling is a single family (1-unit) home that is not a manufactured home or condominium, not located on a leasehold estate, and not undergoing renovation.

(4) One or both of the following: The Veteran is making a down payment of at least 20 percent of the purchase price; **OR** more than 7 business days have elapsed since the lender requested an appraisal and the case remains unassigned in VA's system.

#### 6. Additional Procedures and Documentation Requirements.

a. Assigned Cases. Lenders interested in utilizing an Exterior-only Appraisal or Desktop Appraisal should work with the VA fee panel appraiser assigned to the case and, if desired, the Veteran to make appropriate arrangements. VA's willingness to accept appraisal reports completed via Exterior-only Appraisals and Desktop Appraisals is not a substitute for an assessment by a VA fee panel appraiser as to the appropriate Scope of Work and whether a credible report may be delivered for the subject property using these methods.

b. Unassigned Cases. In the case of appraisal requests for purchase transactions that remain unassigned for more than 7 business days, lenders may alert VA of their desire to proceed with an Exterior-only Appraisal and/or Desktop Appraisal by sending an email to [cvvaluestream.vbaspt@va.gov](mailto:cvvaluestream.vbaspt@va.gov) with the subject line "Waterfall ##-##-#-##### [insert VA loan number]" and include the appraisal type(s) the lender is willing to accept from a VA fee panel appraiser (i.e., Desktop and/or Exterior-only). This will ensure that VA C&V Value Stream staff can maximize search criteria in attempting to locate a VA fee panel appraiser with knowledge of the subject property's market area and place the request with a qualified appraiser. A licensed or certified appraiser will conduct appraisals in the state of the assignment and have access to the necessary data and Multiple Listing Service (MLS) to provide a credible report.

(1) In the event a VA fee panel appraiser accepts an assignment but later determines that a credible report cannot be provided via a Desktop Appraisal, the appraiser may complete the report via an Exterior-only Appraisal. The appraiser may return the assignment to VA within 2 business days if the appraiser is unable to perform the assignment. VA C&V Value Stream staff will notify the lender and continue working to locate a VA fee panel appraiser to complete the assignment.

(2) In the event a VA fee panel appraiser accepts an assignment but later determines that a credible report cannot be provided via an Exterior-only Appraisal, the appraiser may return the assignment to VA within 2 business days if the appraiser is unable to perform the assignment. VA C&V Value Stream staff will notify the lender and continue working to locate a VA fee panel appraiser to complete the assignment.

c. Appraisal Report. When completing the appraisal report for an Exterior-only Appraisal or Desktop Appraisal, state the use of an EA in the **Reconciliation Section** of the appraisal report. In addition to stating the EA, explain in detail how, what, and from who, information regarding the exterior and interior of the property was obtained. The use of third-party platforms that assist an appraiser in gathering information about the subject property are accepted by VA and their use

is encouraged by VA when available. Refer to Chapter 11 of the Lenders Handbook, VA Pamphlet 26-7, and Exhibit B of this Circular for additional information on the appraisal report.

7. Fees. The use of third-party platforms to gather information about the subject property is more likely to be necessary when completing an appraisal report via an Exterior-only Appraisal or Desktop Appraisal. Additional fees may therefore apply.<sup>10</sup>

8. Oversight. While VA understands that Veterans may adjust their down payment after valuation has been obtained, lenders are reminded to exercise proper judgment in using the procedural waterfall outlined in this Circular. VA will conduct oversight of Exterior-only and Desktop appraisals through its current audit process and, as needed, address any willful or negligent practices detrimental to the interest of Veterans or VA.

9. Paperwork Reduction Act. The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. § 3501-3520) and assigned OMB control number 2900-0890. In accordance with the Paperwork Reduction Act, VA may not conduct, or sponsor and a person is not required to respond, to a collection of information unless the collection displays a currently valid OMB control number.

10. Rescission. This Circular is effective until rescinded.

By Direction of the Under Secretary for Benefits

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Loan Guaranty Service

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<sup>10</sup> Recognizing that Exterior-only Appraisals and Desktop Appraisals will be used in areas where market conditions and appraiser shortages affect VA's ability to make timely appraisal assignment, Veterans may be charged the actual cost of any fees associated with use of a third-party platform to complete an appraisal report via an Exterior-only Appraisal or Desktop Appraisal. VA is authorizing this fee, in advance, as a local variance. See 38 C.F.R. § 36.4313(d)(1)(ix).