NEW PERCENTAGE TO DETERMINE NET VALUE

1. **Purpose.** The purpose of this circular is to announce a change concerning the percentage to be used in calculating the purchase price of a property that secured a terminated loan. The new percentage is 14.95 percent, effective October 8, 2013.

2. **Background.** The Department of Veterans Affairs (VA) Home Loan program authorized by Title 38, United States Code (U.S.C.), Chapter 37, offers a partial guaranty against loss to lenders who make home loans to Veterans. VA regulations concerning the payment of loan guaranty claims are set forth at 38 CFR 36.4300, et seq. Conveyance of properties to VA is addressed in 38 CFR 36.4323, which refers to the formulas in 38 U.S.C. 3732(c) for determining whether a loan holder has the option to convey a property to VA following termination. A key component of this is the net value of the property to the Government, as defined in 38 CFR 36.4301. Essentially, the net value is the fair market value of the property, minus the total costs the Secretary estimates would be incurred by VA resulting from the acquisition and disposition of the property for property operating expenses, selling expenses, and administrative cost. Each year, for all properties VA acquired under 38 CFR 36.3423, VA reviews the average operating expenses incurred for managing those properties which were sold during the preceding year, as well as the average administrative cost to VA associated with the property management activity. VA also includes in the calculation an amount equal to the gain or loss experienced by VA on the resale of acquired properties sold during the previous fiscal year. VA annually analyzes its property management results and, when appropriate, publishes a new net value percentage in the Federal Register.

3. **Change.** In order to more accurately reflect the costs of acquiring, managing, and reselling properties in the VA Home Loan program, based on the recent fiscal year's data, VA is revising the net value percentage to 14.95 percent. Accordingly, the loan holder (or its authorized servicing agent) will use 14.95 percent to calculate the net value of the property under the provisions of 38 CFR 36.4322(c). This revised percentage will be used in net value calculations made by holders and servicers on or after October 8, 2013. This change was published in a notice in the Federal Register on August 9, 2013 (78 FR 48789).

4. **Implementation.** Net value for terminating events will be calculated based on the date the Notice of Value (NOV) is issued. If the issue date of the NOV is on or before October 7, 2013, the net value percentage used will be 11.87 percent. If the issue date of the NOV is on or after October 8, 2013, the net value percentage used will be 14.95 percent.
5. **NOV Validity.** The NOV must be valid on the date that a compromise sale, deed-in-lieu of foreclosure, or foreclosure sale is completed. Otherwise, a new VA liquidation appraisal must be ordered. If the NOV will expire prior to the completion date, a request for an extension may be submitted by contacting the assigned VA Loan Technician in the VA Loan Electronic Reporting Interface before the NOV expiration date. VA will normally grant an extension for a maximum of 14 calendar days, if the request is received before the completion of the loss mitigation or foreclosure action, and no other circumstances exist that negatively impact the value of the property. If the request for extension is denied, then a new VA liquidation appraisal must be ordered.

6. **Rescission:** This circular is rescinded October 1, 2015.

By Direction of the Under Secretary for Benefits

Michael J. Frueh
Director
Loan Guaranty Service

Distribution: CO: RPC 2024
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2024)