

SALE OF NEW CONSTRUCTION PROPERTIES BY LENDERS

1. Purpose. The purpose of this circular is to announce that, under certain circumstances, the Department of Veterans Affairs (VA) will allow for the purchase of “new construction” properties without either a VA 1-year warranty or a 10-year insurance backed protection plan.

2. Background. VA requires the builder of a “new construction” property to provide the veteran purchaser with a 1-year VA builder warranty and/or a 10-year insurance backed protection plan. However, due to current market conditions, there has been a significant increase in the number of properties being offered for sale by lenders that have acquired titles to the properties due to the builder’s bankruptcy or cessation of business.

3. Details. To provide veterans with the opportunity to purchase such properties, VA will consider and process these properties as “existing construction” as long as the property is fully completed. Properties that are not fully completed are considered ineligible unless the lender agrees to complete the construction in accordance with VA minimum property requirements (MPRs) for existing construction.

4. Actions. Effective immediately, when a veteran chooses to purchase such properties, lenders must:

- a. Order the appraisal as “IND” and “existing construction.”
- b. Provide evidence of their ownership of the property.
- c. Agree to complete any repairs required to meet VA MPRs for existing construction.
- d. Obtain final inspection approval or a certificate of occupancy in those jurisdictions where the local building department requires construction inspections.
- e. Require written acknowledgement from the purchaser that: “This property is being purchased as existing construction from a lender that acquired this new construction property from the builder. There is no warranty and VA will provide no assistance with any construction defects.”

5. Rescission: This circular is rescinded January 1, 2012.

By Direction of the Under Secretary for Benefits

Mark Bologna, Director
Loan Guaranty Service

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