

February 9, 2024

Mr. John Bell III
Executive Director
Loan Guaranty Service
Veterans Benefits Administration
Department of Veterans Affairs
810 Vermont Avenue NW
Washington, DC 20420

RE: AS02-Advance Notice of Proposed Rulemaking-Loan Guaranty: Minimum Property Requirements for VA-Guaranteed and Direct Loans

Dear Director Bell,

In response to the Veteran's Affairs (VA) request for input on the VA Minimum Property Requirements (MPRs)¹, and on behalf of the companies and veterans we represent, we recommend that the VA Home Loan Guaranty Program align with the standards established by Fannie Mae and Freddie Mac (the GSEs). One of the most direct and effective ways to remedy the market perception of the VA Program, and to improve the VA home loan benefit and its utilization overall, is to modernize the collateral valuation process to align it with the conventional market. Thus, our organizations appreciate the VA's issuance of an Advanced Notice of Proposed Rulemaking (ANPR) to seek information on ways to address collateral valuation processes, including the unique minimum property requirements. The ANPR conveys a receptivity to adopt approaches that align with other industry-wide collateral standards. We recommend that the VA Home Loan Guaranty Program should align its MPRs with the property condition standards established by Fannie Mae and Freddie Mac, the most widely used financing programs in the market, and one of the most common alternatives used by veterans.

While we share the VA's objective – to protect the health and safety of prospective VA homebuyers – in practice the current standards hurt veterans. We have observed over the years, based on the experience of many stakeholders across the housing finance system, that the VA MPRs are one of the most significant impediments to the utilization of VA financing by prospective homebuyers. The standards impose an additional set of requirements that do not reduce the lenders' collateral risk or in most cases improve the overall soundness of the property. Instead, the MPRs delay and prevent consummation of sales transactions, making purchase offers based on VA financing less desirable than offers that rely on conventional mortgage loans.

¹ https://www.govinfo.gov/content/pkg/FR-2023-12-11/pdf/2023-27068.pdf?utm_campaign=subscription+mailing+list&utm_medium=email&utm_source=federalregister.gov

Whether real or perceived, the MPRs are considered by market participants to make the VA program more difficult operationally, more time-consuming, and more likely to result in a failed deal. This causes adverse selection, which disadvantages VA home loans when other financing is available, and increases the costs to originate, underwrite and close a VA guaranteed loan.

Our organizations believe that the VA home loan program is one of the most important benefits that servicemembers receive for the sacrifices they make for the citizens of our country. Aligning the VA home loan program with conventional financing, to be both more efficient and more appealing, will enhance the utility of this unique benefit. In turn, this will assist veterans as they pursue the American dream, and it promotes the VA's fulfillment of its mission of serving those who have honorably served us.

We agree with the goal of the VA's MPRs, of "ensur[ing] that any property financed through a VA-guaranteed or direct loan is suitable for dwelling purposes." However, this worthy goal can be achieved by aligning with the GSE policy of requiring appraisers and property data collectors to holistically determine the condition in accordance with a standardized condition rating, on a scale that rates the property condition from C1-C6, where C6 represents a property that is unsuitable for dwelling purposes. This industry standard protocol, including the companion standard quality ratings, is currently captured on all VA appraisals. The approach allows an appraiser to identify when a property is unsuitable for dwelling purposes – as signified by a property condition rating of C6.² We would note that a C5 rating doesn't mean that a property isn't suitable for dwelling, and instead explicitly refers to a "dwelling [that] remains useable and functional as a residence."³

Aligning the VA's MPRs with the GSE property condition quality ratings would allow the VA to focus appraiser training on critical issues like conducting a quality appraisal and eliminating appraisal bias. It would also have the benefit of standardizing key elements of the appraisal process, making the VA home loan program easier and more attractive for lenders and REALTORS®. Additionally, by eliminating unique VA requirements and the special training that are tied to doing VA work, and instead focusing the appraiser on appraisal analysis rather than a quasi-home inspection, the VA could expect to attract more appraisers to the program, further reducing the challenges the VA currently experiences in finding appraisers in certain areas of the country.

If the VA decides to retain MPRs for some property types, which we would not support, we strongly urge the VA to combine that effort with the GSE property condition rating system. Further, we recommend that the MPRs be limited to properties with a condition rating of C5 or C6. C5 and C6 are both condition ratings that signify that significant repairs are needed to the property, and thus we wouldn't object to allowing appraisers to issue "subject to repair" recommendations to meet the MPRs tied to significant and obvious safety and collateral suitability and soundness issues. As suggested in Question 5 of the ANPR, this policy objective could be achieved by providing a waiver to the MPRs for properties that are rated as C1-C4. If

² Fannie Mae Selling Guide on [Property Condition Ratings](#)

³ Id.

the current Minimum Property Standard requirements are reduced to the most significant safety and soundness issues and further limited to C5 or C6, for example, then at least the most egregious and time-consuming Minimum Property Standard issues that are encountered today can be eliminated. However, we would note that by retaining the current MPRs in limited form, it will still require extensive appraiser training and monitoring, and risks perpetuating the stigma associated with the VA program.

We look forward to working with the VA to continue to strengthen the Home Loan Guaranty Program. As your team navigates this issue, our organizations would welcome the opportunity to meet with you – to the extent possible, jointly—to discuss our recommendations and concerns. Please have your staff contact Matt Douglas at matt.douglas@housingpolicycouncil.org with any questions or to arrange further discussion. Thank you for your consideration.

Sincerely,

American Bankers Association
America's Credit Unions
Community Home Lenders of America
Housing Policy Council
Independent Community Bankers of America
Mortgage Bankers Association
National Association of Realtors
Operation Homefront
Veterans Association of Real Estate Professionals

Appendix A

Responses to the VA ANPR Questions for Comments

Question 1(a)- What are the advantages and/or disadvantages of VA MPRs noted in the above table as compared with similar requirements found in other Federal housing programs and conventional sources of financing (e.g., property condition requirements)?

Answer: Feedback from entities across the housing finance ecosystem highlight that veterans' home purchase offers are often passed over in favor of other competitive offers that might be perceived to close more quickly or with greater certainty due to the backing of conventional financing. One of the main reasons for this is the VA MPRs.

MPRs can range from minor deficiencies in paint or appliances to structural damage or foundational issues. We recommend that that VA align with Fannie Mae and Freddie Mac by separating appraisal MPRs from repair and inspection requirements.

Question (2)(a)- Should VA replace the above noted VA MPRs with the property condition ratings outlined in Fannie Mae's Selling Guide or Freddie Mac's Single-Family Seller/Service Guide, and included in the Uniform Appraisal Dataset (UAD)?

Answer: Yes. This is exactly what we recommend.

Question (5)(a)- As an interested stakeholder, in your opinion, are waivers of certain MPRs necessary in the VA home loan buying process? If so, please explain.

Answer: If the VA decides to retain MPRs for some property types, which we would not support, we strongly urge the VA to combine that effort with the GSE property condition rating system. Further, we recommend that the MPRs be limited to properties with a condition rating of C5 or C6. C5 and C6 are both condition ratings that signify that significant repairs are needed to the property, and thus we wouldn't object to allowing appraisers to issue "subject to repair" recommendations to meet the MPRs tied to significant and obvious safety and collateral suitability and soundness issues. As suggested in Question 5 of the ANPR, this policy objective could be achieved by providing a waiver to the MPRs for properties that are rated as C1-C4. If the current Minimum Property Standard requirements are reduced to the most significant safety and soundness issues and further limited to C5 or C6, for example, then at least the most egregious and time-consuming Minimum Property Standard issues that are encountered today can be eliminated. However, we would note that by retaining the current MPRs in limited form, it will still require extensive appraiser training and monitoring, and risks perpetuating the stigma associated with the VA program.