§ 36.4348 Servicer Appraisal Processing Program.

(a) Delegation of authority to servicers to review liquidation appraisals and determine reasonable value. Based on the reasonable value, the servicer will be able to determine net value.

(1) To be eligible for delegation of authority to review VA liquidation appraisals and determine the reasonable value for liquidation purposes on properties secured by VA guaranteed or insured loans, a lender must:

(i) Have automatic processing authority under 38 U.S.C. 3702(d), and

(ii) Employ one or more Staff Appraisal Reviewers (SAR) acceptable to the Secretary.

(2) To qualify as a servicer’s staff appraisal reviewer an applicant must be a full-time member of the servicer’s permanent staff and may not be employed by, or perform services for, any other mortgagee. The individual must not engage in any private pursuits in which there will be, or appear to be, any conflict of interest between those pursuits and his/her duties, responsibilities, and performance as a Servicer Appraisal Processing Program (SAPP) staff appraisal reviewer. Three years of appraisal related experience is necessary to qualify as a servicer’s staff appraisal reviewer. That experience must demonstrate knowledge of, and the ability to apply industry-accepted principles, methods, practices and techniques of appraising, and the ability to competently determine the value of property. The individual must demonstrate the ability to review the work of others and to recognize deviations from accepted appraisal principle, practices, and techniques, error in computations, and unjustifiable and unsupportable conclusions.

(3) Servicers that have a staff appraisal reviewer determined acceptable to VA, will be authorized to review liquidation appraisals and make reasonable value determinations for liquidation purposes on properties that are the security for VA guaranteed or insured loans. Additionally, servicers must satisfy initial VA office case review requirements prior to being allowed to determine reasonable value without VA involvement. The initial office case review requirement must be satisfied in the VA regional loan center in whose jurisdiction the servicer’s staff appraisal reviewer is located before the SAPP authority may be utilized by that servicer in any other VA office’s jurisdiction. To satisfy the initial office case review requirement, the first five cases of each servicer staff appraisal reviewer involving properties in the regional office location where the staff appraisal reviewer is located will be processed by him or her up to the point where he or she has made a reasonable value determination and fully drafted, but not issued, the servicer’s notice of value. At that point, and prior to loan termination, each of the five cases will be submitted to the VA regional loan center having jurisdiction over the property. After a staff review of each case, VA will issue a notice of value which the servicer may use to compute the net value of the property for liquidation purposes. If these five cases are found to be acceptable by VA, the servicer’s staff appraisal reviewer will be allowed to fully process subsequent appraisals for properties regardless of jurisdictional location without prior submission to VA and issuance by VA of a notice of value. Where the servicer’s reviewer cannot readily meet the jurisdictional review requirement, the SAR applicant may request that VA expand the geographic area of consideration. VA will accommodate such requests if practicable. The initial office case review requirement may be expanded by VA if acceptable performance has not been demonstrated. After satisfaction of the initial office case review requirement, routine reviews of SAPP cases will be made by VA staff based upon quality control procedures established by the Undersecretary for Benefits. Such review will be made on a random sampling or performance related basis.

(4) Certifications required from the servicer will be specified with particularity in the separate instructions issued by the Secretary, as noted in §36.4848(b).

(b) Instructions for SAPP Procedures. The Secretary will publish separate instructions for processing appraisals under the Servicer Appraisal Processing Program. Compliance with these
regulations and the separate instructions issued by the Secretary is deemed by VA to be the minimum exercise of due diligence in processing SAPP cases. Due diligence is considered by VA to represent that care, as is to be properly expected from, and ordinarily exercised by, a reasonable and prudent servicer who would be dependent on the property as security to protect its investment. 

(c) Adjustment of value recommendations. The amount of authority to upwardly adjust the fee appraiser’s estimated market value during the servicer staff appraisal reviewer’s initial review of the appraisal report or to subsequently process an appeal of the servicer’s established reasonable value will be specified in the separate instructions issued by VA as noted in §36.4848(b). The amount specified must not in any way be considered an administrative adjustment figure which may be applied indiscriminately and without valid basis or justification.

(1) Adjustment during initial review. Any adjustment during the staff appraisal reviewer’s initial review of the appraisal report must be fully and clearly justified in writing on the appraisal report form or, if necessary, on an addendum. The basis for the adjustment must be adequate and reasonable by professional appraisal standards. If real estate market or other valid data was utilized in arriving at the decision to make the adjustment, such data must be attached to the appraisal report. All adjustments, comments, corrections, justifications, etc., to the appraisal report must be made in a contrasting color, be clearly legible, and signed and dated by the staff appraisal reviewer.

(2) Processing appeals. The authority provided under 38 U.S.C. 3731(d) which permits a lender to obtain a VA fee panel appraiser’s report which VA is obligated to consider in an appeal of the established reasonable value shall not apply to cases processed under the authority provided by this section. All appeals of VA fee appraiser’s estimated market values or servicer’s reasonable value determinations above the amount specified in the separate instructions issued by VA must be submitted, along with the servicer’s recommendations, if any, to VA for processing and final determination. Unless otherwise authorized in the separate instructions servicers must also submit appeals, regardless of the amount, to VA in all cases where the staff appraisal reviewer has made an adjustment during their initial review of the appraisal report to the fee appraiser’s market value estimate. The fee appraiser’s estimated market value or servicer’s reasonable value determination may be increased only when such increase is clearly warranted and fully supported by real estate market or other valid data considered adequate and reasonable by professional appraisal standards and the servicer’s staff appraisal reviewer clearly and fully justifies the reasoning and basis for the increase in writing on the appraisal report form or an addendum.

The staff appraisal reviewer must date and sign the written justification and must cite within it the data used in arriving at the decision to make the increase. All such data shall be attached to the appraisal report form and any addendum.

(d) Indemnification. When the Secretary has incurred a loss as a result of a payment of claim under guaranty and in which the Secretary determines an increase made by the servicer under §36.4848(c) was unwarranted, or arbitrary and capricious, the lender shall indemnify the Secretary to the extent the Secretary determines such loss was caused or increased, by the increase in value.

(e) Affiliations. A servicer affiliated with a real estate firm, builder, land developer or escrow agent as a subsidiary division, or in any other entity in which it has a financial interest or which it owns may not use the authority for any cases involving the affiliate unless the servicer demonstrates to the Secretary’s satisfaction that the servicer and its affiliate(s) are essentially separate entities that operate independently of each other, free of all cross-influences (e.g., a formal corporate agreement exists which specifically sets forth this fact).

(f) Quality control plans. The servicer must have an effective self-policing or quality control system to ensure the adequacy and quality of their SAPP
staff appraisal reviewer’s processing and, that its activities do not deviate from high standards of integrity. The quality control system must include frequent, periodic audits that specifically address the appraisal review activity. These audits may be performed by an independent party, or by the servicer’s independent internal audit division which reports directly to the firm’s chief executive officer. The servicer must agree to furnish findings and information under this system to VA on demand. While the quality control personnel need not be appraisers, they should have basic familiarity with appraisal theory and techniques and the ability to prescribe appropriate corrective action(s) in the appraisal review process when discrepancies or problems are identified. The basic elements of the system will be described in separate instructions issued by the Secretary. Copies of the lender’s quality control plan or self-policing system evidencing appraisal related matters must be provided to the VA office of jurisdiction with the servicer’s application of SAPP authority.

(g) Fees. The Secretary will require servicers to pay a $100.00 application fee for each SAR the servicer nominates for approval. The application fee will also apply if the SAR begins work for another servicer.

(h) Withdrawal of servicer authority. The authority for a servicer to determine reasonable value may be withdrawn by the Loan Guaranty Officer when proper cause exists. A servicer’s authority to make reasonable value determinations shall be withdrawn when the servicer no longer meets the basic requirements for delegating the authority, or when it can be shown that the servicer’s reasonable value determinations have not been made in accordance with VA regulations, requirements, guidelines, instructions or applicable laws, or when there is adequate evidence to support reasonable belief by VA that a particular unacceptable act, practice, or performance by the servicer or the servicer’s staff has occurred. Such acts, practices, or performance include, but are not limited to: Demonstrated technical incompetence (i.e., conduct which demonstrates an insufficient knowledge of industry accepted appraisal principles, techniques and practices; or the lack of technical competence to review appraisal reports and make value determinations in accordance with those requirements); substantive or repetitive errors (i.e., any error(s) of a nature that would materially or significantly affect the determination of reasonable value or condition of the property; or a number or series of errors that, considered individually, may not significantly impact the determination of reasonable value or property condition, but which when considered in the aggregate would establish that appraisal reviews or SAPP case processing are being performed in a careless or negligent manner), or continued instances of disregard for VA requirements after they have been called to the servicer’s attention.

(1) Withdrawal of authority by the Loan Guaranty Officer may be either for an indefinite or a specified period of time. For any withdrawal longer than 90 days a reapplication for servicer authority to process appraisals under these regulations will be required. Written notice will be provided at least 30 days in advance of withdrawal unless the Government’s interests are exposed to immediate risk from the servicer’s activities in which case the withdrawal will be effected immediately. The notice will clearly and specifically set forth the basis and grounds for the action. There is no right to a formal hearing to contest the withdrawal of SAPP processing privileges. However, if within 15 days after receiving notice the servicer requests an opportunity to contest the withdrawal, the servicer may submit, in person, in writing, or through a representative, information and argument to the Loan Guaranty Officer in opposition to the withdrawal. The Loan Guaranty Officer will make a recommendation to the Regional Loan Center Director who shall make the determination as to whether the action should be sustained, modified or rescinded. The servicer will be informed in writing of the decision.

(2) The servicer has the right to appeal the Regional Loan Center Director’s decision to the Undersecretary for Benefits. In the event of such an appeal, the Undersecretary for Benefits
§ 36.4350 Servicing procedures for holders.

(a) Establishment of loan servicing program. The holder of a loan guaranteed or insured by the Secretary shall develop and maintain a loan servicing program which follows accepted industry standards for servicing of similar type conventional loans. The loan servicing program established pursuant to this section may employ different servicing approaches to fit individual borrower circumstances and avoid establishing a fixed routine. However, it must incorporate each of the provisions specified in paragraphs (b) through (l) of this section.

(b) Procedures for providing information. (1) Loan holders shall establish procedures to provide loan information to borrowers, arrange for individual loan consultations upon request and maintain controls to assure prompt responses to inquiries. One or more of the following means of making information readily available to borrowers is required.

(i) An office staffed with trained servicing personnel with access to loan account information located within 200 miles of the property.

(ii) Toll-free telephone service or acceptance of collect telephone calls at an office capable of providing needed information.

(2) All borrowers must be informed of the system available for obtaining answers to loan inquiries, the office from which the needed information may be obtained, and reminded of the system at least annually.

(c) Statement for income tax purposes. Before February 1st of each calendar year, the holder shall furnish to the borrower a statement of the interest paid and, if applicable, a statement of the taxes disbursed from the escrow account during the preceding year. At the borrower’s request, the holder shall furnish a statement of the escrow account sufficient to enable the borrower to reconcile the account.

(d) Change of servicing. Whenever servicing of a loan guaranteed or insured by the Secretary is transferred...