

## **VALUING PROPERTIES DURING PERIODS OF DECLINING MARKET**

1. Purpose. The purpose of this circular is to reaffirm VA's requirement that the appraised value, for a property that will become the security for a VA guaranteed loan, must reflect the current fair market value. VA has historically required VA fee appraisers to provide a value estimate in accordance with VA's regulatory definition of reasonable value (38 CFR 36.4301), "that value which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in light of prevailing conditions." During periods of rapidly increasing or declining real estate values, it may become more difficult to establish an estimate of the current fair market value.

2. Market Trend Indicators and Analysis. Analysis of real estate market conditions, using market trend indicators, lends support to an appraiser's estimate of fair market value, particularly during periods of rapidly increasing or decreasing market values. Circular 26-93-25, dated October 22, 1993, required appraisers to specifically address certain market trend indicators in every appraisal report. VA later changed the market trend indicators from a "requirement" in each appraisal report to "factors to be considered."

a. Information on market trend indicators is now contained in chapter 11, section 8 of the Lender's Handbook. A summary of market trend indicators to consider when performing an appraisal is provided below.

(1) Determine whether sales or financing concessions are being offered in the subject property's market area. If so, determine the effect on the sales price of comparable properties.

(2) Consider the supply and demand for available housing in the subject market and compare the average listing price to the sales price ratio in the subject market area.

(3) Consider the marketing time trend (increasing or decreasing) in the subject marketing area.

(4) Analyze sales listings, contract offers, and unsettled sales to determine if market conditions changed between the date each comparable sold and the date of the subject property appraisal. Provide an addendum if a significant market transition is indicated due to changes in employment opportunity, housing supply/demand, average marketing time, seller concessions, etc. However, appraisers should certify in the appraisal report, "I have considered relevant competitive listings/contract offerings in performing this

(LOCAL REPRODUCTION AUTHORIZED)

appraisal, and any trend indicated by that data is supported by the listings/offering information included in this report.”

b. VA appraisal reviewers should note that trend analyses performed by professional organizations or educational institutions, published in journals or newspapers, may be used to support an appraiser’s conclusions. If market trend indicators reveal the need to use either positive or negative time adjustments, VA accepts such adjustments as long as they are adequately supported.

3. General Guidance

a. Certain areas around the country are experiencing what is frequently referred to as a "declining market." We recognize that some lenders may object to receiving appraisal reports that contain comments or analyses of negative market conditions and, consequently, may request that such items be removed. VA expects appraisal reports to contain negative comments when they accurately reflect market conditions. Be assured that VA has no objection to guaranteeing a VA loan in a declining market area as long as the appraiser has properly documented the facts of the case. Furthermore, secondary market sources have indicated that they will purchase VA loans in declining markets as long as the appraisal analysis is proper and complete.

b. It has been reported that some lenders may also be reluctant to provide prompt payment to VA fee appraisers who submit reports containing discussion of declining market trends. VA reminds lenders that, when an appraisal is requested, the lender is certifying the approved fee being held for this purpose will be forwarded to the appraiser upon delivery of the appraisal. Furthermore, since 97 percent of appraisals are processed under the Lender Appraisal Processing Program (LAPP), lenders know when an appraisal is delivered and, consequently, should be able to process the appraisal fee promptly.

4. Station Releases. Stations will not be required to distribute copies of this circular, as it will be posted to the Loan Guaranty webpage under new circulars. Stations may post links to that page with appropriate notices on their websites.

5. Rescission: This circular is automatically rescinded January 1, 2009.

By Direction of the Under Secretary for Benefits

Judith Caden, Director  
Loan Guaranty Service

Distribution: CO: RPC 2022  
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2022)