



LENDERS HANDBOOK

[VA-Pamphlet 26-7]

CHAPTER 14

CONSTRUCTION INSPECTIONS



Chapter 14

Construction Inspections

Overview

Purpose The purpose of VA inspections during construction is to ensure that all onsite and offsite improvements have been acceptably completed according to

- the construction exhibits on which the VA value estimate is based, and
- VA Minimum Property Requirements (MPRs) per Chapter 12.

Consequences of Inspections A lender may close a loan based on a “clear” final inspection report.

Deviations from the construction exhibits may necessitate revision of the VA value estimate, if appropriate.

Properties that fail to meet VA MPRs will *not* be acceptable as the security for a VA loan.

Determining the Type of Inspection Use the table below to determine the type of inspection required.

When the property is appraised as ...	Then ...
proposed or under construction with no insured ten year protection plan	<ul style="list-style-type: none"> • either a full complement of inspections is required, or • a final (third stage) inspection is required, only if local building authority inspections are acceptable in lieu of VA first and second stage inspections.
proposed or under construction with an insured ten year protection plan	only a final (third stage) inspection is required.

Determining the Type of Inspection (continued)

When the property is appraised as ...	Then ...
existing construction with major <ul style="list-style-type: none"> • alterations • improvements, or • repairs 	VA will determine on a case-by-case basis <ul style="list-style-type: none"> • what regular or special inspections are required, and • if it is appropriate, based on the nature of the work, to have the lender certify that it has been satisfactorily completed.

Specially Adapted Housing Cases

The compliance inspection procedures applicable in Specially Adapted Housing cases are identical with those for other types of cases, except that special emphasis should be given to the adaptive features.

Any questions should be referred to the VA Specially Adapted Housing Agent at the VA field station.

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14.01 Obtaining an Inspection

How to Assign an Inspector

VA assigns, without favoritism or discrimination, an inspector from its fee inspector roster

- at the same time as the appraiser, in most cases, or
- at the time a notice of value is issued by VA staff, if the appraisal requester does not choose to have the inspectors assigned at the same time as the appraiser **and** the value determination will be made by VA staff.

VA may assign more than one inspector in the case of master appraisals.

Reference: For information about assigning a fee inspector, refer to Section 10.04.

Early Start Assignments

To avoid builder delays in starting construction, VA can assign the inspector prior to assigning the appraiser. The builder or sponsor must submit a written request which includes

- a statement of understanding of the special nature of the procedure and the fact that inspection fees will be paid whether or not a VA value notice is issued, and
 - construction exhibits which are properly certified in accordance with Section 10.10, *Construction Exhibits*.
-

Requesting an Inspection

The builder contacts the inspector directly to schedule inspections as each phase of construction is completed.

Inspection Report Form

All compliance inspections will be reported on VA Form 26-1839, Compliance Inspection Report.

14.02 Inspection Stages

Introduction This topic contains information about

- displaying legal notices
 - the stages of inspection
 - what inspectors look for during the inspection
 - re-inspections
 - special inspections, and
 - missed inspections.
-

**Equal
Employment
Opportunity
Poster
Requirement**

At the initial inspection, inspectors will note any failure of the builder to prominently display VA Poster 26-83-1, Equal Employment Opportunity is the Law, as a noncompliance item on the inspection report. Each contractor and subcontractor must display the poster in conspicuous places at job sites covered by VA value notices for proposed construction.

In all areas with significant concentrations of Spanish-speaking people, VA Poster 26-83-1(S) printed in Spanish, must be displayed next to the poster in English.

When noncompliance with the poster requirement is found, the VA office of jurisdiction will immediately inform the builder that no further inspections will be made until the poster is displayed.

**Obtaining
Equal
Employment
Opportunity
Posters**

VA supplies the poster to the builder with the VA value notice, if issued by the VA. Although one poster may be used to cover a group of properties being constructed simultaneously by a builder, VA will furnish additional posters needed for adequate coverage.

Posters are available from the VA Forms and Publications Depot.

14.02 Inspection Stages, Continued

First Inspection Stage Alternatives

VA will notify builders, lenders, and inspectors which of the following first stage inspection alternatives are to be used in specific areas:

- *Excavation complete and ready for footings and foundations* usually applies in localities where it is advisable to have the bearing soil examined before construction proceeds, or
 - *Foundation walls complete and ready for backfill* usually applies where soil conditions are generally uniform and free of faults likely to cause foundation problems.
-

Completion of Excavation Alternative

For the *completion of excavation* alternative, VA inspects

- display of VA Poster 26-83-1, Equal Employment Opportunity is the Law
 - the nature of the bearing soil
 - form work for footings or the condition and quality of the footing trench if forms are not required, and
 - compliance with construction exhibits and VA Minimum Property Requirements regarding
 - the location of the structures on the plot, and
 - depth of excavation and its relation to street and proposed finish grades and to grades of adjoining improved properties.
-

Completion of Foundation Alternative

For the *completion of foundation* alternative, *all* of the above items will be observed and reported. In addition, VA will inspect

- the size, location, and condition of all footings, foundation walls, piers, and other supporting members, and
 - the quality of materials and workmanship of masonry, damp proofing, and foundation drainage.
-

14.02 Inspection Stages, Continued

Second Inspection Stage

During the second inspection stage VA inspects

- all construction below the superstructure not installed or which was installed but not inspected or reported upon at the first inspection stage, including footings, foundations, piers, columns, waterproofing and drainage provisions
- construction of the superstructure, including quality of materials and workmanship, details of construction, and the suitability of arrangement of all items for subsequent installation of equipment and of interior and exterior finishing materials
- plan of the dwelling, including the arrangement of partitions and the sizes and placement of all openings
- roughing-in of mechanical work, including plumbing, heating, and electric installations with respect to
 - providing for the correct installation of fixtures, equipment, and accessories
 - avoiding impairment of the strength of structural members, and
 - proper operation of the completed systems.

Note: No second stage inspection of the dwelling is required for modular construction since the unit is fabricated in a factory and must be inspected to state standards.

14.02 Inspection Stages, Continued**Third
Inspection
Stage**

During the third inspection stage VA inspects for acceptable completion of *all* specified onsite and offsite improvements.

The table below lists the exterior and interior items to be inspected and reported upon during the third inspection stage.

Exterior Inspection:

- compaction of fill material
- finish grading
- drainage
- utility connections
- walks
- drives
- accessory buildings
- retaining walls
- planting
- safety provisions at
 - terraces
 - porches
 - areaways
- protection against the elements and penetration of moisture
- masonry pointing
- caulking at openings
- paint coverage
- flashing
- design of dwelling structure
- materials and details of their installation and finish
- offsite improvements including
 - utilities
 - storm sewer system
 - drainage channels
 - grading
 - curbs
 - gutters
 - paving
 - pavement edging
 - subgrade, and
 - base and wearing surface and erosion control

Interior Inspection:

- design
- materials, equipment, and details of their installation
- interior surfaces and their finish treatment
- cabinets and millwork
- details and operation of systems, equipment, and fixtures related to
 - plumbing
 - heating
 - ventilating
 - electric
- quality and operation of hardware
- quality of
 - tilework
 - glass
 - linoleum
 - venting of attics and underfloor spaces

14.02 Inspection Stages, Continued

Individual Water Supply and Sewage Disposal System

Individual Water Supply and Sewage Disposal System

The inspector will include with the inspection report evidence obtained from the builder that installation is satisfactory to the health authority having jurisdiction.

Final Inspection

Generally, this coincides with the third inspection stage and requires the Compliance Inspection Report, [VA Form 26-1839](#) to

- include two photographs (preferably taken from the diagonally opposite front and rear corners) to record the appearance of the dwelling and indicate the grading and drainage of the site
 - describe the condition, suitability, and readiness for use of all equipment, fixtures and observable construction of the property
 - report shortcomings such as scratches in painted surfaces, poorly fitted doors, stuck windows, cracks in walls, irrespective of any arrangements made on the site for corrections, and
 - confirm that any instance of inferior workmanship, defective materials or equipment, or faulty installation or application of materials or equipment and/or deviation from approved plans and specifications is reported on [VA Form 26-1839](#), and
 - if the property is a unit on a *master* appraisal either
 - clearly identify any optional variation or item of equipment included in the construction, or
 - state that none is included.
-

14.02 Inspection Stages, Continued

Special Inspections

VA may also require special inspections by the VA-assigned fee inspector at any stage of construction to help monitor cases involving

- unusual site features
- construction methods, or
- builders with frequent construction complaints.

For cases involving major alteration or repair work, the stages at which special inspections are to be made will be determined according to the nature of the proposed work.

Re-inspection

A re-inspection is required

- whenever a first- or second-stage, or special inspection shows noncompliance and the work involved will be concealed before the next regular inspection, or
 - as a result of noncompliance or incomplete work reported at the third-stage inspection, unless the VA field station waives the re-inspection because
 - the incomplete work is of a minor nature, and
 - the lender is willing to certify that it has been satisfactorily completed.
-

Missed Inspections

Occasionally a required inspection may be missed through oversight by the builder or other party responsible for requesting them. To waive a missed inspection, the VA field office must be provided with

- a written request signed by the lender and the veteran
 - evidence that the local building authority inspected the construction at the stage(s) not inspected by VA, and
 -
 - **Note:** In areas without local inspections at prescribed construction stages, the VA inspector must provide a statement regarding his/her experience with the quality of the builder's workmanship and the builder's conformity with both constructions exhibits submitted to VA and VA minimum property requirements.
 - evidence of HUD's consent to the waiver, if the case is HUD related.
-

14.03 VA Reliance on Local Building Inspections for First and Second Stages

Waiving First and Second Stage Inspections

The requirement for a first and second stage VA inspection is waived in all proposed or under construction cases in which both of the following requirements are met:

- The property is located in an area where the inspection procedures of the local building authority are acceptable to the Department of Housing and Urban Development (HUD) for loan insurance purposes, and
- a third stage (final) VA compliance inspection is performed by a VA fee inspector assigned by the VA office of jurisdiction.

Exception

This provision has no affect on other proposed or under construction-related VA requirements and does not apply to cases involving a VA Specially Adapted Housing grant.

Lender's File Documentation

For each loan processed under this provision, the lender's loan origination file must include *both*

- a properly executed *clear* third stage (final) compliance inspection report on [VA Form 26-1839](#), and
- an occupancy permit or other appropriate documentation issued by the locality to verify that all construction has been acceptably completed.

Discontinuing VA Reliance on Local Inspections

VA may discontinue relying on the inspections of a particular building authority if VA staff detects

- excessive construction deficiencies, or
- construction complaint activity in that building authority's jurisdiction.

14.04 Manufactured Homes Classified as Real Estate

Required Inspections

The following inspections are required on manufactured homes classified as real estate.

First and third (final) inspections:

To verify that the manufactured home is properly attached to the permanent foundation as specified in the construction exhibits, and that all onsite and offsite improvements are properly completed.

Special inspections:

As discussed in the topic *Inspection Stages* in this chapter, and as necessitated by the construction of other onsite improvements financed with the VA guaranteed loan.

Note: Second stage inspections are not generally required since manufactured homes are factory fabricated.

Additional Inspections for Used Manufactured Homes

In cases involving a *used* manufactured home moved to the purchaser's lot to be affixed to a permanent foundation, all of the following additional manufactured home inspection reports are required to ensure the safety of the dwelling:

- Water-Plumbing Systems Inspection Report, VA Form 26-8731a
- Electrical Systems Inspection Report, VA Form 26-8731b
- Fuel and Heating Systems Inspection Report, VA Form 26-8731c, and
- certification that the roof was coated after set-up on the site.

These reports must be completed by qualified third-party inspectors, for example, experienced plumbers, electricians, heating and air-conditioning contractors and manufactured home service personnel, following the installation and setup of the manufactured home on the lot. The roof coating certification can be made by the lender.

14.04 Manufactured Homes Classified as Real Estate,

Continued

**Qualified
Inspectors**

While inspectors will perform only those inspections for which they are qualified, licensed manufactured home service personnel will be permitted to perform any of the required inspections.

Lenders must order the inspections and retain the original of the reports in their loan origination file. No loan on a manufactured home with unsatisfactory inspections is eligible for VA guaranty.

14.05 Delayed Installation of Appliances and Finished Floor Covering

What is Required

With the exception of floor covering in bathrooms and wood finish flooring, installation of appliances and finished floor covering may be delayed until as late as just prior to loan closing, provided the third-stage inspection report includes the following:

- In Section 1, a description of
 - all appliances and finish floor covering to be installed as identified in the specifications, for example, carpet manufacturer’s name and carpet quality code number, and
 - the living area(s) involved, if not obvious.
 - In Section 6, check
 - “Prefinal Report Approved,” and
 - “Certification is required that lender’s inspection prior to loan closing reveals satisfactory installation of specified appliances and finish floor covering as described in Item 1 in the area(s) identified in Item 1.”
-

What is not Required

A revised VA Value Notice is not required.

14.06 Lender Use of Inspection Reports

Receipt of Inspection Reports

If construction is acceptable and there are no deviations or substitutions, the compliance inspector will submit the inspection report (VA Form 26-1839) in the following manner:

- *If the lender is known:*
 - Provide the lender with a copy,
 - Provide the builder with a copy, and
 - Keep a copy for his/her file.

 - *If the lender is not known:*
 - Provide the builder with two copies, one of which the builder will forward to the lender when known, and
 - Keep a copy for his/her file.
-

Use of Inspection Reports

Considering the requirements to obtain VA loan guaranty, before the loan is closed, the lender should ensure that

- all VA value notice requirements regarding inspections are met
- any deviations and/or noncompliance items listed on the third-stage inspection report are resolved to VA's satisfaction
- any appliances or floor coverings installed under Section 14.05 are the same as those described in Section 1 of the third-stage inspection report, and

the third stage inspection report includes all of the information required for a final inspection.

Retention of Inspection Reports

The lender must retain all inspection-related material in their loan origination file.

14.07 Changes to Construction Exhibits

How to Request a Change Use the table below to request a change to construction exhibits after the appraisal.

When a Veteran is ...	Then ...
under contract	the veteran under contract must make a written request for any changes.
<i>not</i> under contract	the builder, lender, or sponsor making the written request for modification must certify that the property is not under contract to a veteran.

Change Request Form

VA Form 26-1844, **Request For Acceptance of Changes in Approved Drawings and Specifications** must be used to request the change. There are two exceptions:

- If there is no veteran-purchaser involved and the change is limited to substitution of mechanical equipment of equal value, then the fee inspector may check [VA Form 26-1839](#), Section 1B, Substitutions or Deviations, describe the change of equipment and the value attributed to the substituted equipment and note the change on the related plans and specifications.
- If the property was inspected by HUD, provided
 - the additions, substitutions or variations are clearly described on the HUD inspection report
 - the veteran-purchaser has signed his/her acceptance of the changes, and
 - the change items are of a minor nature with no additional cost to the veteran involved and no change in reasonable value is indicated.
 -
 - **Example:** Substitution of water heater, furnace, hardware, bath fixtures and/or relocation of electrical outlets, windows, etc.

14.07 Changes to Construction Exhibits, Continued

Approval of Changes not Affecting Property Value

Fee inspectors may approve and distribute a properly completed VA Form 26-1844, containing all required signatures, which does not involve deletions or a change in value. In these cases, the builder must complete VA Form 26-1844 in duplicate and have the form at the job site at the time of the scheduled inspection.

The inspector

- confirms the above information
 - inspects the property according to the plans, specifications and change order
 - signs the change order in the appropriate space
 - gives the builder the original counter-signed change order to forward to the lender, and
 - retains one copy.
-

Approval of Changes Which Affect Property Value

VA staff must approve any VA Form 26-1844, **Request for Acceptance of Changes in Approved Drawings and Specifications**, including deletions or a change in value, by **issuing an amended NOV**.

VA will generally find it more appropriate to pursue this action in cases which also involve changes in notice of value conditions or legal requirements, legal descriptions substitution of plan types, etc...

14.07 Changes to Construction Exhibits, Continued

Notification

For changes approved by the VA staff, VA

- mails a copy of the amended NOV directly to the veteran-purchaser,
- places copy of amended NOV in the VA loan file, and
- notifies the lender that the amended NOV is available through TAS.

If no veteran is under contract, a copy will be attached to the veteran's copy of the notice of value in the loan file and mailed to him/her upon receipt of a loan application or loan report.

**Cancellation of
VA Approval**

Any violation of the Conditions of Acceptance printed on the reverse of VA Form 26-1844 will be cause to withdraw or cancel VA's acceptance of the changes.

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