

FHA Appraising 101:

A man in a blue polo shirt and jeans is standing on a ladder, inspecting a ceiling. He is holding a flashlight in his right hand, shining it upwards, and a tablet in his left hand. The background shows a white ceiling with wooden beams and a doorway.

**15 Top Tips
+
124 FAQs**

Dear Readers,

To help those appraisers hoping to join the FHA roster in 2009, as well as those who are already members of the roster, Valuation Review offers the following list of practical tips for FHA assignments. Also included are several FAQ lists for FHA appraising.

Enjoy!

— **Matt Smith**
Managing Editor
Valuation Review

In this report:

P. 1 — Top tips from FHA appraising aces

P. 8 — IRR Residential's frequently asked FHA appraisal questions

P. 15 — HUD's frequently asked appraisal questions

Top tips from FHA appraising aces

Interest in FHA appraising has soared over the past year. According to one source within HUD, FHA loan applications for 2008 were up 150 percent, and endorsements were up about 120 percent. The number of applications to join the FHA appraiser roster followed that trajectory. For fiscal year 2007, there were approximately 34,000 roster appraisers. In late 2008, HUD reported, the count revealed a list size of 57,000. FHA is receiving 50 to 70 applications per day.

However, for appraisers eager to join the list, working with HUD is a new ballgame, thanks to December 2008 changes in eligibility requirements. The agency issued a mortgagee letter setting forth revised eligibility requirements for appraisers to qualify for placement and retention on the FHA Appraiser Roster.

The letter also provided the timeline for implementation of those requirements.

Section 1404 of the Housing and Economic Recovery Act of 2008 (HERA, approved July 30, 2008) amended the National Housing Act to revise qualification standards for FHA-approved appraisers. The new law mandated that all appraisers doing work for FHA-insured mortgages must be certified by the state in which the property is located or by a nationally recognized professional appraisal organization. They must also demonstrate verifiable education in FHA's appraisal requirements.

Approximately 75 percent of FHA's roster appraisers are already certified, with the remaining 25 percent

being licensed, according to HUD officials.

Regarding the timeline, FHA stated that although Section 202(f) of the National Housing Act was made effective upon enactment, the loss of available FHA Roster appraisers in certain locations would impede its ability to support affordable mortgage financing in those areas, which would contravene the goals of the HOPE for Homeowners Program. Therefore, the new requirements will be phased in as follows:

- Effective Oct. 1, 2008, FHA stopped accepting applications to the FHA Appraiser Roster from licensed but uncertified appraisers. All applicants for the FHA Appraiser Roster must be state certified residential or general appraisers who meet the minimum certification criteria issued by the Appraiser Qualifications Board (AQB) of the Appraisal Foundation. Requirements still specify that applicants not be listed on the General Service Administration (GSA) Excluded Parties List System (EPLS), HUD's Limited Denial of Participation List (LDP) or HUD's Credit Alert Interactive Voice Response System (CAIVRS).

- No later than Oct. 1, 2009, all FHA Appraiser Roster appraisers in all states and territories must be state certified in order to be eligible to conduct appraisals for FHA-insured mortgages and remain on the FHA Appraiser Roster.

Applicants who meet all eligibility criteria may apply online at <http://www.hud.gov/appraisers>. See <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/08-39ml.doc> for the full mortgagee letter and to see what the new rules are.

Appraisers' growing interest in FHA work has been well documented in *Valuation Review*, as well. According to its 2008 Appraiser Survival Survey, 41.1 percent of appraisers are eyeing FHA for business expansion in 2008 and 2009. However, as valuation professionals rush to capture expanding FHA business, some leaders report the quality and qualifications of the appraiser pool has suffered.

This niche of the lending world, with its unique inspection requirements and tougher criteria, has historically been viewed as the domain of the highly qualified, well-trained professional appraiser. But as **Adam Johnston**, chief appraiser with Mortgage Information Services, explained, since HUD made it easier to join the FHA roster in 2008, appraisers no longer have to demonstrate their knowledge of FHA's handbooks. Some are getting approved without the necessary training and producing appraisals that contain violations.

Another FHA expert who's growing concerned with less-than-stellar appraisal work is **Tom Munizzo**, IFA and chief appraiser and compliance officer with national appraisal franchiser IRR-Residential. FHA is a special area of focus for Munizzo, and IRR handles all FHA appraisal assignments for its largest client — those assignments make up 30 percent of his company's total appraisal volume.

"We see them all day long," Munizzo said. "As chief appraiser, when we see recurring patterns, it's my job to issue guidance and reminders."

For some FHA appraisals, especially those in which IRR has to engage an appraiser outside its typical coverage area, the work Munizzo reviews isn't always good, he said. That's especially frustrating, considering that appraisers aren't taking advantage of opportunities to improve their skills. For example, he attended a training session in Chicago given by FHA's Atlanta Homeownership Center in 2008, where FHA officials expressed what weaknesses they're seeing in appraisals.

Although Munizzo estimates there are 3,000 FHA appraisers in the Chicago area, only about 30 showed up.

"What does that tell you? Appraisers think they know it, or they're just too busy to come," he said.

FHA problem areas

Munizzo said he believes too many unqualified appraisers started chasing FHA work after they discovered there was opportunity and HUD lowered its barriers to joining the roster. He and several other FHA appraisal experts *Valuation Review* spoke with discussed a number of best practices and tips for FHA

appraisals.

1. Learn the details for manufactured homes.

One problem Munizzo is seeing involves manufactured homes built prior to July 1976.

"Any experienced appraiser should know that if you go out to a manufactured home built prior to 1976, it's ineligible (for FHA insurance)," he said. "That's something readily apparent in the handbook and all the guidance, and the appraisers are missing this."

The simple solution: When doing the inspection, appraisers should ask the homeowner when it was built.

In addition, many appraisers valuing manufactured homes aren't even using similar properties for comps. That's a problem for HUD, which wants the appraiser to use at least two manufactured homes as the primary comps.

In addition, because manufactured homes are often located in rural areas where there are few sales of any property type, much less manufactured homes, the appraiser can be forced to expand search parameters far beyond the subject neighborhood, sometimes necessitating significant adjustments for location, according to HUD.

Sales of new manufactured homes by dealers often involve sales concessions, as well. However, appraisers don't always review the sales invoice for evidence of such concessions and adjust for them.

2. Know the mortgage letters.

Another issue HUD has pointed to is appraisers aren't paying attention to mortgage letters.

Appraisers shouldn't be expected to know every FHA guideline, Munizzo said, but HUD regularly issues such letters with guidance on declining property values, property flipping and how to condition a report based on repairs.

For example, he explained, a mortgage letter on property flipping dictates that if the property resells in 0 to 90 days, HUD won't insure the loan unless the property falls into one of several exempted categories — e.g, it's a non-profit, the owner acquired it through inheritance, it's a HUD REO or it's a relocation. However, appraisers are returning reports for properties that flipped within the 0-90 day window but don't meet exemption requirements.

"The appraisers should know: Don't even do the assignment," Munizzo said.

A related example: Many appraisers and lenders don't know the requirements for a property that flips in the 91-180 day period and is sold for an increased price.

"Say someone bought a property for \$50,000 and here it is 120 days later for sale for \$100,000. Then HUD requires a second appraisal be done," Munizzo said.

3. Follow the 'four S's.'

One of the most frustrating errors he encounters regularly is appraisers simply don't prepare reports correctly. For example, they'll submit reports with repairs that violate HUD's four S's: Safe, Secure, Sound and Sanitary.

If the appraiser inspects a property and encounters a repair condition that violates any of those items, he has to condition the report "subject to." However, appraisers are often coerced by underwriters to overlook repairs.

"What's happening is they say, 'The underwriter told me it's a cosmetic item, so I can appraise the property 'as is,'" Munizzo said. "That's not the case. What HUD's saying is, 'Sure, you can weigh cosmetic repair items, but if it violates Safe, Sound, Sanitary or Secure, then you have to condition it.'"

Take the example of lead-based paint. If a 1950 house has peeling paint on the fence, garage and windows, the appraiser might conclude that the paint should simply be scraped and listed as a cosmetic problem.

"No, no, no. What the appraiser is supposed to say is, 'Because the house was built before 1978 (when lead-based paint requirements went into effect), I have to condition the report accordingly,'" Munizzo said.

The appraiser is required to make the appraisal "subject to" scraping and painting on any defective paint surfaces pre-1978, or post-1978 where exterior finish is otherwise unprotected.

Scott Whaley, a Certified Residential Appraiser, owner of Whaley Appraisal Service in Knoxville, Tenn., and a member of the FHA appraiser roster since 1995, also pointed to misconceptions about whether appraisers have to conduct a "subject to" appraisal for FHA deals. He said that confusion stems from new mortgage brokers coming online and reading about changes that took place in 2006, when HUD retired the Valuation Conditions (VC) sheets. Many brokers interpreted that to mean appraisers no longer have to report the key items on the sheet.

"Yes, we still have to report it," he said. "We just have to report it in the new URAR. Revised Appendix D is almost a line-for-line item on where

these things need to be reported in the URAR appraisal. If you go through Appendix D, even if you're not an FHA appraiser, you'll know how to fill out that 1004."

FHA appraisals, in fact, require a "subject to" for the repairs, on inspections and for new and proposed construction, he added.

According to HUD, some appraisers struggle to grasp the rules for handling conditions. Less experienced roster members sometimes go overboard and require that everything be fixed. HUD advises appraisers to use common sense and prudence in determining what would be a required repair and what is simply cosmetic.

4. Inspections: Know what's required.

Rose Lusk, senior vice president and chief appraiser for First American eAppraiseIT, said she hasn't witnessed a drastic drop in FHA appraisal quality. eAppraiseIT's panel appraisers sometimes have questions about how to report FHA items in the property-specific format, she said, and to ensure report accuracy, the company provides individual training through its QC and Appraiser Management departments.

Any issues she has seen aren't easily traced to new rules for joining HUD's roster.

"Some of the quality issues we're seeing now are due to a possible lack of understanding regarding changes to FHA requirements in recent years," she said.

After Fannie Mae changed its appraisal forms in January 2006, FHA also changed its process to ensure consistency, ditching its VC inspection sheets in favor of property-specific forms.

"The assumption is that appraisers who have been doing conventional appraisals do know a lot, because they've been doing appraisals on these forms. A lot of the FHA standards would be covered through those, so I don't know if there's a lack of knowledge or experience," she explained.

Still, Lusk and her team are finding that they have to go back to some appraisers and help them understand certain details in FHA appraising, such as rules for inspections.

"FHA used to require inspections, and that's what the VC sheets were for," she said. "So you always did an FHA appraisal 'subject to' the items on the VC sheets. Now, FHA accepts 'as is' appraisals and doesn't require the inspections they used to."

Instead, appraisers are to report whether they see areas of concern via "readily observable" means.

5. Get the gritty details on pest and septic issues.

One issue that has caused confusion is pest inspection requirements. HUD previously required that a pest inspection be done for FHA loans, but appraisers today are required first to note if there's evidence that such an inspection is even needed.

Many appraisers are unsure about similar changes to well and septic issues, according to Lusk. Those also used to trigger automatic inspections, and HUD required appraisers to sketch the location of the well or septic tank.

6. Get organized to streamline the process.

Whaley has seen his FHA order volume quadruple this year. As that volume grows, he's paying special attention to the FHA inspection process and has even created a checklist other appraisers can use for their reports (see the accompanying PDF download for this special report).

According to Whaley, one of the ways FHA assignments differ dramatically from conventional assignments is the inspection. For a conventional appraisal, for example, appraisers aren't required to check electrical outlets, ensure the electricity is working in each room, open windows, examine the crawl space, go into the attic or test the heating and air conditioning — all of which are required for FHA deals.

"There's a big difference in what you need to look for, and that's where I'm afraid some of these new appraisers are going to drop the ball," Whaley said.

To ensure that they'll be on the quality end of the spectrum of FHA appraisers, Whaley is sharing his checklist to help newcomers to this niche.

The tool can be used in the field to make sure no details are overlooked when appraisers conduct inspections. The checklist is organized so that the first items on the list are the first ones an appraiser will encounter during an appraisal inspection — *i.e.*, it starts with the roof, siding and foundation; continues with the grading, sewage and road access; and moves on to the interior, including ceilings, walls, floors and windows. Last are the HVAC, plumbing and electrical systems.

Whaley recommends appraisers with a Tablet PC use a Microsoft Word version of the form with the WinJournal program (you can e-mail him at Value.finder@comcast.net for the Word version). They can import the Word document and write directly on the form.

7. Pursue the right clients.

As more of your competitors rush to join the FHA roster and diversify their business, differentiating yourself from the masses could become trickier.

According to Whaley, one path to success is to focus on mortgage lenders rather than brokers.

Mortgage brokers, he explained, are also swarming to get approved to handle FHA deals. They have appraisers on their lists that they used during the subprime boom. As those appraisers are added to the FHA list, brokers will go back to them because they know they'll cooperate and "make value."

Of course, that mistake will be easier to avoid after the Home Valuation Code of Conduct goes into effect May 1 and bans brokers from ordering appraisals directly.

Whaley said he does not work with local brokers, dealing mostly with bigger banks.

"They know which appraisers to use," he said. "Seasoned appraisers need to market themselves: 'Look, I've been on the FHA roster forever.' They need to sell themselves on experience to lenders, because HUD FHA doesn't want a deal where they have to come back to the appraiser and ask for corrections and give conditions on the appraisal report. They want a clean appraisal to go through without any questions."

8: Don't skimp on the photography.

Dawn Walker — a certified residential appraiser specializing in refinance and purchases, probate, dissolution, new construction, PMI removal and manufactured housing — has authored an e-book designed to help those appraisers who are new to FHA appraising get up to speed.

In the book, she points to several mistakes she sees in FHA appraisals today. One is not taking enough pictures.

"FHA has definite requirements of the pictures they want to see for any given property," Walker said. "For example, when taking outside pictures when doing a regular appraisal, an appraiser may not take pictures of the sides of a property — just the front, back and street scene. FHA wants to see all sides of a given property."

"I take many, many pictures," she added. "I would rather have pictures of everything than have to return for a second inspection. FHA requests pictures of any potential issues."

For example, if she sees water damage on the ceiling

below a bathroom, she'll take a picture to support the written information in the report. Similarly, if an obstruction prevents her from viewing a particular part of a home or accessing the attic, she'll take a picture and include it in the report to support her explanation of why she couldn't view that part of the property.

9. Don't rely solely on the MLS.

As it manages the changes, HUD continues to look for new ways to ensure its appraisers meet its standards and have the necessary training. Although all FHA appraisers have to sign an agreement stating they will abide by the administration's handbooks, mortgagee letters and policy documents, they often haven't done the due diligence to understand what FHA wants, said **Donna Tomposki**, director of the Home Valuation Policy Division within FHA's Office of Single Family Program Development in the Washington, D.C., HUD headquarters.

One common problem area is comparable sales: Not all appraisers understand they can't simply rely on the MLS. FHA requires that they confer with a party who has first-hand knowledge of a property to verify the comps are appropriate.

10. Adjust for sales concessions.

Declining markets also remain a challenge for appraisers — many of whom are hard-pressed to provide solid analysis and explanations — as do sales and financing concessions.

"There seems to be a lot of confusion about that," Tomposki said. "The bottom line for us is whenever there's a concession, it should be analyzed and carefully noted in the appraisal."

In addition, if an adjustment is warranted, it should be done on a cash-equivalent basis.

11. Partner to get up to speed.

Tomposki had two recommendations for newcomers. One is to take advantage of HUD's training and guidance by attending shows produced by HUD's Homeownership Centers and joining relevant listservs. Another good strategy is to partner with a mentor who can share insights into FHA appraising.

According to Whaley, partnering with a seasoned FHA appraiser who can take you on assignments and explain the nuances of the inspections and report writing is the ideal final stage of the learning process for newcomers to FHA appraisers.

"That means maybe five to 20 (appraisals)," he said. "It might not be that many. It might be more."

12. Avoid HUD's 'six deadly sins' of FHA appraising.

Despite changes that some viewed as a lowering of the bar for doing FHA appraisal work, the quality and accuracy of appraisals performed by FHA Roster appraisers has risen in the past year, according to HUD officials.

In explaining the February 2008 changes to its roster eligibility requirements, HUD spokesman **Lemar C. Wooley** said FHA had determined that the examination requirement was an outdated regulatory barrier that did little to ensure high-quality valuation work for FHA financing.

While overall quality remains high, there are problem areas for a small number of FHA appraisers, according to Wooley.

For example, he noted that all appraisers have to report on the supporting site and the improvements in factual and specific terms that describe the property thoroughly. FHA appraisers also have to take into consideration how certain conditions might adversely affect the property's marketability and value.

"We find that a limited number of FHA Roster appraisers are not submitting appraisal reports that adequately and completely describe the property nor the effect of adverse conditions, such as needed repairs, upon marketability and value," Wooley stated.

He also noted that one of the most challenging tasks facing appraisers today — one that isn't FHA-specific — is determining whether a property is in a declining market and, if so, how to reflect that decline.

"FHA is finding that some appraisers are not correctly determining whether a property is located within a declining or stagnant market and are failing to provide adequate data and analysis to support their conclusions on housing trends," he said.

Reviewers have highlighted six specific problems they're seeing in FHA appraisal reports:

1. Failure to adequately explain problematic issues in an appraisal, such as relying upon older comparable sales or not providing enough support and explanation when making adjustments in the comparable sales grid;
2. Failure to verify comparable sales with someone who has first-hand knowledge of the terms and conditions of those sales;
3. Use of boilerplate comments that

conflict with FHA guidelines/protocol (e.g., “appraiser did not inspect the attic or crawl space”);

4. Use of MLS photos of comparable sales without accompanying appraiser-initiated photos;

5. Failure to recognize what distinguishes a second unit within a single-family home from an accessory dwelling unit (ADU) and appraise the property accordingly; and

6. Unfamiliarity with FHA appraisal guidelines and protocols.

13. Be geographically competent.

HUD officials remind appraisers that they must know the market in which they’re appraising and get back to basics by making phone calls and knocking on doors, if necessary, to get accurate information that can serve as the backbone of a good appraisal.

14. Increase your due diligence.

HUD also recommends that appraisers familiarize themselves with FHA appraisal guidelines and protocols and exercise more due diligence in reporting the assignment. That includes:

- Reviewing the completed appraisal report for errors and omissions before submitting it; and
- Taking extra time to confirm the terms and conditions of the comparable sales with a party that has first-hand knowledge.

15. Stay plugged into HUD’s latest requirements.

HUD encourages appraisers to revisit “FHA Quick Tips,” the introductory segment of Appendix D to Handbook 4150.2, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings.

The agency also recommends that they take advantage of training sessions that are frequently conducted by FHA’s Homeownership Centers. To learn more, join the e-mail list at <http://www.hud.gov/offices/hsg/sfh/ref/hsgregst.cfm>.

Staying up to date on evolving guidelines will be critical in 2009. For example, HUD sources indicated that while the administration does not expect any further changes in the eligibility requirements for joining the FHA appraiser roster, it is evaluating the efficacy of requiring appraisers to provide current listings, along with comparable sales, for appraisals of properties located in declining markets. It’s also exploring cost-effective educational outreach measures, such as Webcasts, to communicate with roster appraisers and ensure they’re familiar with FHA’s appraisal reporting requirements.

For newcomers, pursuing FHA work means reading and rereading — and rereading once again — the key HUD literature:

- The HUD Handbook 4150.2;
- Mortgagee Letter 2005-34; and
- Mortgagee Letter 2005-48 and the accompanying revised Appendix D: Valuation Protocol.

It’s critical that appraisers understand what HUD FHA requires on minimum property requirements (MPRs) and minimum property standards (MPSs) for new construction.

After reading the literature, they should find an FHA class to attend:

- HUD FHA offers various forms of training at <http://www.hud.gov/groups/appraisers.cfm>;
- The Appraisal Institute offers courses at <http://www.appraisalinstitute.org/education>, including “Introduction to FHA Appraising: What Appraisers Need to Know About HUD Policies, Procedures, and 2008 Roster Eligibility”; and
- The National Association of Independent Fee Appraisers (NAIFA) has offerings at <http://www.naifa.com/education/designations.cfm>.

IRR Residential's frequently asked FHA appraisal questions

Presented by:
Thomas M. Munizzo, IFA
 Chief Appraiser and Compliance
 Officer
 IRR-Residential
 (913) 261-1880
 tom.munizzo@irr-residential.com

The following questions were submitted by appraisers and underwriters after the latest changes made to FHA appraisal protocol in 2008 and used as a supplement in a 7-hour FHA appraisal seminar. All answers provided were reviewed by a number of past & present chief appraisers on the technical staff at various homeownership centers in addition to the single-family policy division in Washington D.C. Please refer to the 4150.2 HUD Handbook and appendix D for more details on the questions and answers below.

1. I am appraising a condo and the condo complex is not on the FHA condo approved list, now what? Is this a spot loan and if so what does that mean?

A spot loan means exactly that the lender will have to obtain information regarding the condominium development and apply to HUD to preliminarily approve this loan until the entire project becomes HUD-approved and is assigned a condominium approval number. Some of the questions which will be required are:

- Does any entity own a large percentage?
- Is there a mandatory HOA fee with a non severable interest?
- Is there a condominium or homeowners association board?
- How much are the monthly assessment fees and are they sufficient and typical of the market?

2. In HUD's handbook, they address properties that back to high voltage transmission lines and require that the property be outside of the designated fall zone. On their Web page, they imply that as long as the property is outside the easement, it is OK. What does HUD actually require for properties that back to high voltage transmission lines?

The appraiser must indicate whether the dwelling or related property improvements is located within the easement serving a high-voltage transmission line, radio/TV transmission tower, cell phone tower,

microwave relay dish or tower, or satellite dish (radio, TV cable, etc.). If the dwelling or related property improvements are located within such an easement, the DE Underwriter must obtain a letter from the owner or operator of the tower indicating that the dwelling and its related property improvements are not located within the tower's (engineered) fall distance.

3. HUD states that properties with kitchens in the basement are not allowed. How about inverted raised ranches, which have the kitchen below grade?

HUD does not specifically state basement kitchens are not allowed, but local code and the type of kitchen will typically dictate the legality here. Kitchens in inverted raised ranches would be acceptable, and I would also recommend for the FHA appraiser to comment whether or not any functional obsolescence exists as a result of this arrangement and if this impacts the value on the property in anyway. Likely, the appraiser will also use inverted raised ranches for comparables.

4. Does HUD require grounded outlets or ground fault outlets? Is so when would they be required and where would they need to be placed in the residence?

HUD does not required ground fault outlets. Local code supersedes and typically the town will require them if the home is new construction. Old HUD guidelines required them near all water sources, (kitchen, baths, utility sinks etc).

5. Are DE underwriters required to have any training whatsoever to underwrite FHA loans?

Each homeownership center provides training opportunities for lenders and their underwriters. It is the lender's responsibility to train their underwriters, especially since the lenders are also held accountable for the quality of the FHA-insured loan.

6. If I am a certified licensed appraiser, can an associate licensed appraiser (trainee), complete an FHA appraisal that I can sign off on as the supervisor?

NO! NADA! NOT IN THIS LIFETIME! NEVER EVER!

7. Am I allowed, under FHA guidelines, to turn in a FHA appraisal assignment to my client without the FHA case number included on the report?

The answer to this question should be simple but unfortunately, it isn't. Technically, you should not even start the assignment without the case number, and submitting the file to the client without it puts you at risk. HUD directs the appraiser not to submit the appraisal without including the FHA case number.

8. While performing my inspection of the property, I discover serious issues that I feel need to be reported. Since there no longer is a VC sheet, where am I supposed to address these issues?

Appendix D of the 4150.2 handbook explains where all valuation condition issues need to be reported in the appraisal report.

9. Follow-up question: Does the appraisal need to be 'SUBJECT TO' the repair or correction of these issues?

YES, if these repairs were essential to eliminate conditions threatening the continued physical security, safety and soundness of the property.

10. On a purchase transaction, what do I do if the seller's disclosure statement reports repair issues or other serious problems with the subject property?

Condition the appraisal report accordingly. Also, see the answers to questions 8 & 9 above.

11. How about lender pressure to "make a number"? Can I report them to HUD? Where do I report the problem?

HUD has made available a 24/7 hotline to report lender pressure. If pressured by an FHA lender to inflate an appraisal to meet a predetermined value, FHA Roster appraisers should contact the HOC with jurisdiction at 1-800-255-5342. Make sure you have the property address, case number, lender information with a detailed explanation of the complaint so a HUD representative can follow-up.

12. When the roof of a house is covered in snow, should we still state that "although a head-and-shoulders visual inspection in the attic did not yield obvious signs of moisture or leakage, the appraiser was unable to state with certainty the remaining economic life of the roof due to it being covered in snow"?

This is overkill...simply state, "The roof was snow-covered." It also limits liability. If it is unreasonable to expect the snow to clear within a reasonable amount of time, the appraiser may access the condition of the roof by observing the roof from the interior. The lender may also require additional requirements to satisfy this condition.

13. Does HUD have any specific type of language they want us to use when addressing environmental issues such as mold?

NO.

14. Does HUD still want us to check on the reverse mechanism of garage doors?

YES.

15. Lead-based paint. I still go around and around with processors on this one, as they seem to think that when the VC sheets went out the window, so did the requirements for scrape and paint. When is the appraiser required to make the appraisal SUBJECT TO scraping and painting?

On any defective paint surfaces pre-1978, or post-1978 where exterior finish is otherwise unprotected.

16. Follow-up question: What if they just paint over the old paint and don't scrape?

It depends on the severity of the peeling paint. Technically, they have encapsulated it by simply painting, so it could be acceptable, unless it still requires scraping.

17. Follow-up question: What if they leave all the scraped paint chips on the ground around the property? Must I require them to remove them?

YES, they pose a safety hazard.

18. Follow-up question: Is an Extraordinary Assumption required?

Not unless you think the soil has been contaminated by the loose paint chips.

19. Follow-up question: Are there additional inspections required to see if the work has been completed, and if so on what forms are these inspections reported?

There may be. It depends if the lender actually makes them correct the deficiency. If they do, they do not have to use you to do the final. They can use anyone they determine has competency to complete the inspection. Typically, it is the original appraiser, but sometimes the lender will use an FHA compliance inspector or an employee from the broker may do it. They should be using the 92051 compliance inspection form unless they were cosmetic or non-HUD-required repairs.

20. Follow-up question: What if the required repairs are not performed?

If you are performing the inspection, you must state

that the repairs have not been completed. If the lender uses someone else to inspect the property, it is no longer the appraiser's problem.

21. Do we still look for smoke alarms? How many should there be, and where should they be placed?

Although FHA strongly recommends them, smoke detectors are not a nationwide HUD requirement at this time. The 203(k) rehabilitation program requires that smoke detectors be installed adjacent to sleeping areas.

22. Do we still comment on broken/cracked window panes?

YES.

23. Follow-up question: Do they have to be repaired?

Only if they affect the health and safety, security, soundness and structural integrity of the property.

24. Do we still need handrails for three or more stairs?

Not unless the appraiser feels it poses a safety hazard. See question #73 for additional direction.

25. Are CIR's still going to be used for verification that repairs have been completed? Since the appraiser is commenting on the condition of the property, and the lender is the one calling for the repairs, please clarify what will be used for evidence that work has been completed?

The Compliance Inspection Report (CIR), form HUD-92051, will be used by the appraiser to report whether or not required repairs have been completed. If the lender required a repair as the result of an inspection, or through information obtained other than the appraisal, the lender may use whatever they deem appropriate to document compliance with inspection or certification requirements. This form states that it expired as of 12/31/07. HUD will have to correct this problem in the future.

26. Follow-up question: Can the above repair items be escrowed and rectified after closing?

Typically, NO because escrowed items are usually weather-related and these would not be impacted by the weather.

27. The subject has building code violations (perhaps an un-permitted addition, electrical wiring that appears shoddy, etc). How are these treated in the URAR, and by FHA?

See questions 8 & 9 above.

28. Are there any conditions that would halt the appraisal in its tracks? Perhaps being within the engineering fall height of a tower, or within so many feet of a high-pressure gas valve?

You betcha! How about a 2-unit mixed-use property where the first use commercial exceeds 49% of the GLA? When you encounter properties that have unacceptable locations or which clearly demonstrate they will not be eligible for FHA financing, reject the property.

29. Follow-up question: Who do you contact, and what do you turn in, if anything?

Notify the DE Underwriter and submit your pictures with your supporting documentation from the 4150.2 HUD handbook.

30. Who are the intended users of an FHA appraisal?

The intended user of the appraisal report is the lender/client and HUD/FHA. THIS LANGUAGE NEEDS TO BE INSERTED IN ALL OF YOUR FHA APPRAISAL REPORTS.

31. Are there any special USPAP-related considerations when performing FHA appraisals?

USPAP does not specifically address any FHA requirements.

32. Is an FHA appraisal inspection a home inspection?

NO!

33. Follow-up question: How can appraisers protect themselves from a homeowner's mistaken assumption on this issue?

HUD requires the lender to provide to the borrower "the appraisal is not a home inspection form" on all purchase transactions. It would also be advisable to clearly define that your walkthrough is not to be considered a home inspection and that you were only observing readily visible conditions.

34. Who should the appraiser contact if they suspect fraud (or other irregularities) during the appraisal assignment? The state? The client? HUD?

Use the hotline number at 800CALLFHA which is 800-225-5342. I would also notify the DE underwriter and your state licensing board.

35. What is FHA 203k, and are the appraisal requirements different for a 203k assignment?

See 4150.2 Handbook - Appendix B - Special Programs.

36. What is an FHA case number, who generates it and where does the appraiser place the number on an appraisal report?

The FHA case number is a reference number for tracking FHA loans. It goes in the upper right-hand corner on the appraisal report, and the lender generates it through CHUMS.

37. How long is the lifespan of an FHA appraisal?

An FHA appraisal has a six-month lifespan.

38. I performed an FHA appraisal for Client A. Now Client B calls me and wants me to put their name on the appraisal. Can I change the name to the new lender?

Simply tell Client A to transfer the case # to Client B, which is commonly called a case reassignment. You can not change the name on the appraisal.

39. The utilities are not on at time of inspection. Should the appraiser make the appraisal SUBJECT TO the utilities being turned on?

YES because HUD requires the appraiser to test a representative sample of all mechanical systems including plumbing, electrical and heating/cooling systems. If no utilities were on, then the appraiser could not adequately satisfy his/her scope of work requirements — specifically, perform a complete interior inspection.

40. Follow-up question: What if the property is a vacant HUD-owned property?

See answer to question 38 above.

41. The subject is not habitable. A detailed list of required repairs (i.e., cost-to-cure) is not readily available. The lender asks the appraiser to prepare a list of all the necessary repairs and provide an approximate cost to complete these repairs. Should the appraiser comply with this request?

YES, this is required by HUD. See Appendix D page 34.

42. My lenders always ask me to provide a cost to cure when I condition the appraisal on items FHA requires. Is this an FHA requirement?

YES, the appraiser must indicate the extent of repairs and note this in the appropriate section of the appraisal, in the “additional comments” section or in an addendum under the heading of “Reconciliation – Required Repairs” listing the repairs noted together with an estimated cost to cure.

43. Are drive-by appraisals acceptable for FHA

assignments? If so, what extra conditions are there?

NO, FHA does not accept drive-by appraisals.

44. What are the current FHA loan limits?

Approximately \$410,000 for Chicago metro areas.

45. Will the FHA accept an appraisal with an extraordinary assumption?

YES.

46. Now that the VC sheets are no longer part of an FHA appraisal assignment, do I still have to do all the things that were required on the VC sheets?

With exception to cosmetic items...YES. Review the FHA quick tips section.

47. Where can I get a 4150.2 HUD Handbook?

Online at www.hudclips.org.

48. Is the 4150.2 HUD Handbook free since I am an FHA appraiser?

YES. It is free online to anyone.

49. Does FHA notify appraisers when they are placed on the approved appraisal roster?

NO, only if you are not approved. You will have to go online to monitor your approved roster status.

50. Does FHA require the appraiser to consider any personal property that will stay with the property?

NO. If a sale involves personal property it should be identified and excluded from the valuation.

51. My mortgage broker client will not provide the FHA case# to me until I provide them with my opinion of value. What should I do?

Do not comply with this request. Find another client. Report this client to the FHA hotline number.

52. Do HUD compliance inspectors still exist?

YES.

53. Do you have to be a HUD compliance inspector to do a final inspection on new construction?

NO, but whomever does the final needs to be competent enough to recognize that the work was done in a satisfactory manner.

54. Is there any difference in appraising a new construction home when it is less than 90% complete

vs. over 90% complete?

YES, less than 90% complete constitutes marking the “subject to completion” box. Over 90% complete constitutes marking the “subject to repairs” box.

55. What are the FHA guidelines on smoke detectors and carbon monoxide detectors in reference to Illinois law? Does Illinois law override FHA requirements?

FHA does not require smoke detectors. Local code ALWAYS supersedes HUD reporting requirements.

56. VA has said we do not need to go into crawl spaces or attics anymore. What does FHA require?

FHA is not VA. You still must inspect these areas.

57. Are termite reports for homes still automatically required?

FHA no longer mandates automatic inspections for wood-destroying insects or organisms in existing properties (over one year old). However, pest inspections are required if there is evidence of active infestation, if it is mandated by the state or local jurisdiction, if it is customary to area or at the lender’s discretion. Prudent underwriting would dictate an inspection in areas prone to wood-destroying insects or organisms.

58. What about ground fault outlets in the kitchen and bathrooms? What about homes that use Romex or BX for electrical wiring instead of metal conduit?

No longer required by HUD. However, these items may be required by local code. Local code will always supersede HUD requirements.

60. Does HUD still want the monthly taxes and insurance cost reported in the appraisal report?

NO.

61. What does HUD require to be in an appraisal report when a neighborhood is described as declining?

HUD does not require specific language. They do require the appraiser to provide support in the Market Condition section of the appraisal report if the DECLINING box is checked. HUD expects the appraiser to have completed sufficient analysis to reach this conclusion. I would also recommend a comment if any negative time adjustments were made. Refer to Mortgagee letter 2007-11.

62. When there is a deficiency, such as peeling paint, how is it to be addressed in the appraisal report?

My understanding is that we are to identify deficiencies; however, we are not allowed to require repairs.

Although we have answered this question on different levels, this is really the confusing part of the latest changes. Bottom line, if you go to a property and there are obvious deficiencies which impact the property that pose to be a hazard, then you must condition the report on remediation of that negative condition. If the deficiency is cosmetic or likely not to pose a problem, then you can mark the appraisal “AS IS” but comment about the deficiency.

“The appraisal process is the lender’s tool for determining if a property meets the minimum requirements for eligibility standards for an FHA insured mortgage. Underwriters bear primary responsibility for determining eligibility; however, the appraiser is the on-site representative for the lender and provides preliminary verification that the general acceptability criteria standards have been met.”

63. What does HUD require to be in an appraisal report when a neighborhood is described as having an oversupply of active listings?

See answer to question #60.

64. Previously, HUD required a cost approach to value when a property was developed within the past two years. Is this still a requirement, or is the development of the cost approach left to the appraiser’s decision as to whether it is relevant or not?

HUD does not require the cost approach anymore. However, if the subject property is new construction (less than one year old), or the cost approach is recognized in the market as the basis for pricing, the appraiser may complete the cost approach.

HUD directs the appraiser to complete the cost approach if the property:

- is a unique property
- has specialized improvements
- is manufactured housing, or
- client requests the cost approach to be completed.

On a side note, the appraiser is always to state the remaining economic life as a single number or as a range. This must be completed for every FHA appraisal, whether or not the cost approach is completed. An explanation is required if the remaining economic life is less than 30years.

65. If an appraiser completes the cost approach, do they still use form 1007, or has it too been eliminated?

The Marshall & Swift Square Foot Appraisal Form, form 1007, has not been eliminated. It is still in use.

In those instances where the cost approach is employed, FHA feels the use of the newly revised forms together with the guidance provided in Appendix D is sufficient to produce an accurate and adequately supported cost approach.

66. Does HUD still require that the use of fuses in an electrical panel be identified in the appraisal report?

No, not unless they pose an electrical hazard or are insufficient for the electrical needs of the home.

67. Is a well located in the basement okay? If not allowed by FHA, what if local laws permit it?

An existing property, which is serviced by a well located within the foundations walls of the dwelling, is acceptable as security for FHA-insured financing only when the local jurisdiction recognizes and permits such a location. A well located within the foundation walls of new construction is not acceptable except in arctic or sub-arctic regions.

68. Does the appraiser determine what inspections are required, or does the lender determine that?

Mortgagee Letter 2005-48 provides examples of property conditions that will continue to require automatic inspections. The appraiser should be noting what inspections, if any, are customary for the area, required by state or local law or recommend based on observed property conditions.

Lenders must review the appraisal to determine whether the appraiser has reported any property conditions that affect the health and safety of the occupants, or the security and the soundness of the property, and must require immediate repair or inspection where the property condition poses a threat to these criteria.

69. Are oil tank certifications still required for underground tanks with no evidence of surface contamination?

The presence of an underground storage tank (UST) does not automatically trigger a certification. The appraiser is to note if there is any surface evidence of USTs. Further analysis or testing is required where the appraiser notes any readily observable surface evidence of leakage from a UST. If there is readily observable evidence of on-site contamination, the appraiser must make a requirement for further inspection in the site section of the report.

The lender should require further analysis in those instances where a UST exists and the source of heating fuel is other than that provided by the UST,

i.e. electric, natural gas, etc., to make sure the tank has been properly abandoned. FHA defers to the underwriter to employ prudent underwriting in requiring any tests or certifications based on reported property conditions.

70. Where does the appraiser insert Remaining Economic Life on the condo form to comply with FHA reporting requirements?

It is to be entered in the Reconciliation section of the form 1073 as a statement similar to that contained in the cost approach section of the other three FHA-approved forms — *i.e.* “Estimated Remaining Economic Life _____ Years.”

71. Can you please provide a definition of Accessory Dwelling Unit?

The accessory unit is defined as a habitable living unit added to, created within or detached from a single-family dwelling that provides the basic requirements for living, sleeping, eating, cooking and sanitation. Accessory Dwelling Units (ADUs) are commonly understood to be a separate additional living unit, including separate kitchen, sleeping and bathroom facilities, attached or detached from the primary residential unit, on a single-family lot. ADUs are usually subordinate in size, location and appearance to the primary unit and may or may not have separate means of ingress or egress. Attached units, contained within a single-family home, known variously as “mother-in-law apartments,” are the most common type of accessory dwelling unit.

Accessory units usually involve the renovation of a garage, basement, or small addition to a single family home. If they generate income, they are not considered accessory units, but a second unit.

72. If the Accessory Dwelling is on a separate meter, does it then become a 2-unit property?

An accessory dwelling unit may or may not have separate services. However, Appendix D of the 4150.2 handbook states that “An accessory apartment must be connected to the utilities (except telephone, television and cable) of the dwelling unit and may not have separate services.”

If the second unit is rented, it would be considered a 2-unit dwelling. The determination of whether or not an ADU is a second unit will be made by the appraiser in the site analysis section of the report where zoning, highest and best use, and legal use are addressed.

73. The subject property is an up-and-down two-unit dwelling with common utilities. The top unit is rented. Do we have an accessory unit or a small income producing property?

HUD defines this as a two-unit dwelling which would require the form 1025, the Small Residential Income Property Appraisal Report. However, the appraiser must determine if the two unit property is legal or legal non-conforming based on zoning. If it turns out to be illegal, it is not eligible for a FHA insured mortgage.

74. It was stated that handrails and trip hazards are cosmetic. I don't understand! Wouldn't these items be health and safety issues?

The appraiser must always be mindful of health and safety issues and report what is readily observable. The missing handrails or trip hazards are property conditions that no longer require automatic repair for existing properties but should be reported by the appraiser. In these instances, lender discretion and prudent underwriting will determine whether or not a repair is advisable. For example, a stairwell or staircase comprised of eight (8) or nine (9) risers without a handrail would probably pose a safety risk.

75. Are private road maintenance agreements still required?

FHA is no longer requiring evidence of a joint maintenance agreement, recorded or otherwise, but still requires evidence of a permanent easement. The appraiser should ask if a maintenance agreement exists and comment on the condition of the private road or lane, especially if it is in inferior condition.

76. Please define "Readily Observable."

"Readily observable" is defined as observations made by the appraiser of conditions that are immediately discernable and noticeable during the typical site visit. The appraiser is not required to move furniture, equipment or cause damage to the property.

77. What if I am unable to take the required photographs to show the front, rear and sides of the property because of shrubbery, topography, etc.?

The appraiser should make every attempt to take the required photographs. If not possible, the appraiser should so state on the appraisal report.

78. Handbook 4150.2 requires that the heating system must be able to maintain 50 degrees in all areas containing plumbing systems and that the system must be installed in accordance with the manufacturer's recommendations. How will the appraiser know this?

This requirement pertains only to dwellings that use wood-burning stoves or solar systems. If the

appraiser is unable to make the necessary determinations, he/she should so state on the URAR form by making a condition requirement. The lender may obtain a certification from a qualified firm that the system is properly installed to clear the condition requirement.

79. Please clarify the requirements for lead-based paint repairs on condominium units.

The lead-based paint requirements relate only to the unit being appraised, not to the entire project. Section 3-6A-17 of the Handbook will be revised to reflect this correction. However, the appraiser should always comment on the overall condition of the condominium project.

80. Why can't appraisers use comparables over 12 months old, especially in rural areas where it is difficult to obtain comparables that are more recent?

A sale over 12 months old is not acceptable in the first three comparables. The appraiser should go to a competing neighborhood. An older sale may be used as a fourth or fifth comparable sale to supplement the three comparables. However, the search must be sufficient to capture comparables from the past 12 months.

81. Please give us instructions on reverse mortgages, if any different from a regular appraisal. Any difference in the appraisal process, or is it just the difference in the lending?

Good question! At one time there was a difference between the two programs regarding the appraisal process. The 203B assignment use to require the appraiser to identify all cosmetic repairs and condition the appraisal accordingly. The reverse mortgage assignment never required the appraiser to report on cosmetic repairs. HUD has since removed the requirement for reporting cosmetic repairs on 203B assignments. Other than that, there are differences in the lending program itself which are invisible to the appraiser.

82. My question pertains to rural properties with outbuildings. Some of these properties have buildings that are pretty old, have tons of paint issues etc. One thing I have always done on a safety side is to have cistern (underground water collection vessels) lids welded or permanently secured down.

You are right on! Good job, but also remember that if these out buildings contribute to the value of the whole, then you need to identify any deficiencies that they may have, especially pre-1978 paint.

HUD's frequently asked appraisal questions

These FAQs are issued to clarify or illustrate FHA's appraisal reporting requirements and applicability on valuation issues.

(Content updated January 24, 2007)

New Construction

1. What are the new construction documentation requirements for appraisers on properties 90% or more complete?

Appendix D provides guidance for appraisers in the performance of FHA appraisals. In those cases involving new construction that is 90% or more complete, including existing less than one year old, the appraiser does not need the plans and specs to perform an appraisal.

1a. What are the new construction documentation requirements for lenders on new construction?

FHA has revised the list of architectural exhibits needed for single-family properties one year old or less excluding manufactured homes and condominiums, which have separate requirements. Per Mortgagee Letter 2006-33, lenders are not required to obtain, retain or submit to FHA construction plans and specifications, including:

- Plot Plan
- Floor Plan
- Exterior Elevations, Sections and Details
- Specifications, form HUD-92005 (Description of Materials)

FHA does require the submission and retention of the following documents for compliance review purposes:

- Builder's Certification of Plans, Specifications and Site, form HUD-92541
- Builder's Warranty, form HUD-92544 (on high ratio loans that are greater than 90%).
- Building Permit and Certificate of Occupancy or 3 Compliance Inspections by an FHA Inspector (Footing, Framing and Final) or 10-Year Warranty and a Final Inspection by an FHA Inspector (refer to ML 01-27)
- Wood Infestation Report, NPCA 99a and 99b
- Local Health Authority well water analysis or septic report, where applicable

NOTE: If a property is 100% complete (existing

construction less than one year old), the lender must obtain and retain the following documents:

- Builder's Certification of Plans, Specifications and Site, form HUD-92541
- Builder's Warranty, form HUD-92544 (on high ratio loans only)
- Wood Infestation Report, NPCA 99a and 99b
- Local Health Authority well water analysis or septic report, where applicable

2. Is the lender required to maintain a copy of the plans and specs on new construction, less than 1 year old, when a certificate of occupancy has not been issued?

No.

3. When a property is "Under construction, more than 90% complete with only minor finish work remaining...", the appraiser is instructed to condition the appraisal "Subject to the following Repairs or Alterations" Who does the final inspection, an Inspector or an Appraiser?

The final inspection may be completed by anyone the lender selects for those cases processed under the guidance of ML 01-27 (Lender to Certify); otherwise, the final inspection must be done by a FHA fee inspector.

Wood Destroying Insects / Termites

1. Are termite reports for homes located in southern states still automatically required?

FHA no longer mandates automatic inspections for wood destroying insects or organisms in existing properties (over one year old). However, pest inspections are required if, there is evidence of active infestation, it is mandated by the state or local jurisdiction, it is customary to area, or at the lender's discretion. Prudent underwriting would dictate an inspection in areas prone to wood destroying insects or organisms.

2. Many areas of the country are termite prone. Does the appraiser address it on a form or does the underwriter call it out on the conditional commitment?

The appraiser is instructed report any evidence of infestation in the "improvements section" of the

appraisal report under “foundation” by simply marking the evidence of infestation box. The box is checked only if there is evidence of infestation which may include the appraiser noting a prior treatment. FHA requires a clear pest inspection report on Wood Destroying Insects/Organisms only if there is evidence of active infestation, it is mandated by the state or local jurisdiction, is customary to the area, or at the lender’s discretion.

3. Mortgage Letter 2005-48 states that a termite inspection is no longer automatically required unless there is evidence of active infestation, it is mandated by the state or local jurisdiction, is customary to the area, or at the lender’s discretion. Can you provide more clarification of exactly how lenders should apply “customary to the area?”

“Customary to the area” would be driven by local market practices such as incorporating provisions addressing termite or wood destroying organisms in the standard real estate sales contract in termite prone areas or where the potential of infestation exists, or local requirements such as states requiring the use of their own- wood destroying insects/organism form.

Lender discretion and prudent underwriting is key to properly evaluating the risk associated with a property’s condition including its geographic location. Lenders may refer to the TIPS (termite infestation probability) zone and use that information as one of the tools in their determination of whether or not to require a pest inspection.

The Termite Infestation Probability (TIP) Zones (available on-line at the following URL: <http://www.npmapestworld.org/HUD.asp>) provide a valuable resource for lenders to have familiarity with the geographic areas in which they process and underwrite loans. The TIP zones are based on a copy of the International Residential Code map showing areas of termite infestation, prepared by the US Forest Service.

4. Will repairs that are now considered “minor” also be considered “minor” if listed on the termite report? Can the underwriter waive those conditions listed on the termite report to coincide with the URAR?

The appraiser will report what is readily observable during their visit to the property. Waiving any repairs noted on a termite report, which may or may not have been noted in the appraisal, should be evaluated on a case-by-case basis by the underwriter based on the nature and degree of deterioration noted in the termite report.

Utilities - Well and Septic

1. Is the appraiser still required to report well, septic and property line distances on an addendum to the URAR or is this only required when problems are noted? How is the lender to determine if these distance requirements are met if the appraiser is not required to identify?

The appraiser is not required to sketch the distances between the well and septic, however, he or she should be mindful of FHA’s minimum distance requirements between private wells and sources of pollution (septic systems) in the performance of FHA appraisals; and, if discernible, comment on them. Prudent appraisal practice would have the appraiser requesting a copy of a survey from the homeowner, if available.

If the appraisal notes a distance issue it could be potential for contamination. If the appraisal notes any adverse site conditions, that may warrant further inspections or due diligence. In either case, it is the lender’s decision as to whether a qualified third party should map the distances and/or require testing for compliance with local or state requirements, or, in their absence, FHA requirements. Appraisers are expected to have geographic competency, which would include familiarity with local or customary inspection requirements. Local or customary requirements should be noted within the appropriate area of the appraisal report. However, the decision to require a test, certification or inspection, other than what is automatically required as noted in ML 2005-48, is made by the lender and FHA requires the lender to be familiar with the market areas in which they lend.

2. Is it mandatory for a well/septic report to show distance to lot lines?

There is no standardized well/septic report and its contents would typically be determined by what is requested. If a lender determines that there is a need to confirm distances between well and septic systems, or lot lines, then the lender would specifically request that a qualified third party measure such distances.

3. If a water test is required, what tests are included? FHA required tests (pre-2006) for five contaminants. If local/state does not require testing of the five contaminants, can we just do what the state/local authorities require?

For existing properties, FHA will defer to the testing requirements of the local jurisdiction and will not add additional contaminant level testing to that required by the local jurisdiction.

If the local authority does not have any requirements, the maximum contaminant levels established by the Environmental Protection Agency

(EPA) apply.

4. Are dug wells acceptable? Are there any changes with the new guidelines?

Properties served by dug wells are unacceptable unless a complete survey conducted by an engineer is delivered to the lender. To be considered acceptable, the engineer's survey must include these items:

- i. A health report with no qualifications
- ii. A pump test indicating a flow of at least 3-5 gallons per minute supply for an existing well, and 5 gallons per minute for a new well
- iii. No indication of exposure to environmental contamination, mechanical chlorination or anything else that adversely affects health and safety.

5. Is a well located in the basement okay? If not allowed by FHA, what if local laws permit it?

An existing property, which is serviced by a well located within the foundations walls of the dwelling, is acceptable as security for FHA-insured financing only when the local jurisdiction recognizes and permits such a location. A well located within the foundation walls of new construction is not acceptable except in arctic or sub-arctic regions.

6. Will the Underwriter call out for a septic inspection when the property is vacant?

Septic testing is to be governed by state or local requirements; however, the appraiser must note any readily observable deficiencies regarding the septic system and its surrounding area.

If there are obvious or readily observable signs of system failure, the appraiser is to "require inspection" to ensure that the system is in proper working order. In those instances where a subject property is vacant FHA defers to the underwriter to employ prudent underwriting in requiring any tests or certifications based on reported property conditions including property vacancy.

7. Does FHA have a list of the state and local governments that may require well and septic tests?

FHA does not maintain a list of states or local jurisdictions that require well and/or septic testing. The decision to require a test, certification or inspection, other than what is automatically required as noted in ML 2005-48, is made by the lender.

8. If hook-up to public water is available, must the homeowner do it?

The appraiser is required to report on the availability of connection to public and/or community

water/sewer systems. The lender is responsible for the determination of the feasibility for requiring connection.

9. How would shared well agreements be treated?

Wells shared by up to four properties are acceptable provided that there is an acceptable legal agreement between the property owners, the quality of the water is found acceptable, there is sufficient capacity, and it is in accordance with local well codes. A shared well must have a shared well agreement and shall be binding upon signatory parties and their successors in title.

Inspections & Certifications

1. Does the appraiser determine what inspections are required or does the lender determine that?

Mortgagee Letter 2005-48 provides examples of property conditions that will continue to require automatic inspections. The appraiser should be noting what inspections, if any, are customary for the area, required by state or local law, or that are recommend based on observed property conditions.

Lenders must review the appraisal to determine whether the appraiser has reported any property conditions that affect the health and safety of the occupants, or the security and the soundness of the property, and must require immediate repair or inspection where the property condition poses a threat to these criteria.

2. Are oil tank certifications still required for underground tanks with no evidence of surface contamination?

The presence of an underground storage tank (UST) does not automatically trigger a certification. The appraiser is to note if there is any surface evidence of USTs. Further analysis or testing is required where the appraiser notes any readily observable surface evidence of leakage from a UST. If there is readily observable evidence of on-site contamination, the appraiser must make a requirement for further inspection in the site section of the report. The lender should require further analysis in those instances where a UST exists and the source of heating fuel is other than that provided by the UST, i.e. electric, natural gas, etc., to make sure the tank has been properly abandoned. FHA defers to the underwriter to employ prudent underwriting in requiring any tests or certifications based on reported property conditions.

3. Are CIR's still going to be used for verification that repairs have been completed?

Since the appraiser is commenting on the condition

of the property, and the lender is the one calling for the repairs, please clarify what will be used for evidence that work has been completed.

The Compliance Inspection Report (CIR), form HUD-92051, will be used by the appraiser to report whether or not required repairs have been completed. If the lender required a repair as the result of an inspection, or through information obtained other than the appraisal, the lender may use whatever they deem appropriate to document compliance with inspection or certification requirements.

4. Is an engineer's report (certification) still required for manufactured homes?

Yes, the engineer's certification of the foundation's compliance with HUD/FHA criteria is required for all manufactured homes in order to become eligible for Title II insurance.

If the manufactured home is proposed, an engineer must design a site-specific foundation that complies with the Permanent Foundations Guide for Manufactured Housing (PFGMH). For existing manufactured homes already installed on a permanent foundation and in cases where the plans and specifications used to construct the permanent foundation are not available, an engineer must inspect the site and foundation to confirm that the design and construction of foundation is in compliance with the PFGMH.

5. Who completes a final inspection? Is a final required? Does the appraisal constitute a final? Will the lender's certification on the 92900-A, page 3 suffice for a final inspection?

If there is a Bldg Permit and CO is a final required? The final inspection may be completed by anyone the lender selects for those cases processed under the guidance of ML 01-27 (Lender to Certify), otherwise the final inspection must be done by an FHA fee inspector. Under these scenarios the lender's certification provided via form HUD-92900-A would suffice as a final inspection.

The appraisal may constitute a final for a newly constructed property that is 100% complete on the date the appraiser visits the property, however, page 3 of form HUD-92900-A is still required to certify completion and compliance with HUD requirements and local building code.

6. Can you confirm my understanding as to whether or not the DE Underwriter has the authority to waive cosmetic repairs if they are listed on the appraisal report? If so, does the DE Underwriter need to fill out a specific form or just leave the repairs off of the Conditional Commitment?

Please refer to Handbook 4000.4 Rev-1 (3-3G.) "The underwriter may also add comments or corrections to modify or amend the report by using the "Direct Endorsement Underwriter/HUD Reviewer Analysis of Appraisal" form (see Appendix 15). Comments or corrections must be supported by HUD valuation policy and adequately documented. This includes the adjusting of value, the removal or addition of repair requirements, and the overall determinations of property approval and rejection, etc".

Cost Approach

1. When is the cost approach is required for an FHA appraisal?

The cost approach is required when the subject is a unique property, has specialized improvements, is new manufactured housing (initial sale from manufacturer), or the client requests the Cost Approach be completed. The square foot method is to be used and addressed in the Cost Approach section of the applicable appraisal reporting form.

2. If an appraiser completes the cost approach, do they still use form 1007 or has it too been eliminated?

The Marshall & Swift Square Foot Appraisal Form, form 1007, has not been eliminated. It is still in use.

In those instances where the cost approach is employed, FHA feels the use of the newly revised forms together with the guidance provided in Appendix D is sufficient to produce an accurate and adequately supported cost approach.

Be mindful that the form 1007 may be required for use by those HOCs with jurisdictions having properties eligible for an FHA-insured mortgage under:

- 1) HUD/FHA's Section 248 program on Tribal Trust land or
- 2) HUD's Office of Native American Program (HUD/ONAP) Section 184 on Tribal Trust, or
- 3) Homestead lease granted by the Department of Hawaiian Home Lands covering a one - to four - family residence located on Hawaiian home lands.

3. Where does the appraiser insert Remaining Economic Life on the condo form to comply with FHA reporting requirements?

It is to be entered in the Reconciliation section of the form 1073 as a statement similar to that contained in the cost approach section of the other three FHA approved forms, i.e. "Estimated Remaining Economic Life _____ Years."

Property Type or Program Area

1. Can you please provide a definition of Accessory Dwelling Unit?

The accessory unit is defined as a habitable living unit added to, created within, or detached from a single-family dwelling that provides the basic requirements for living, sleeping, eating, cooking, and sanitation. Accessory Dwelling Units (ADUs) are commonly understood to be a separate additional living unit, including separate kitchen, sleeping, and bathroom facilities, attached or detached from the primary residential unit, on a single-family lot. ADUs are usually subordinate in size, location, and appearance to the primary unit and may or may not have separate means of ingress or egress. Attached units, contained within a single-family home, known variously as “mother-in-law apartments,” are the most common type of accessory dwelling unit.

Accessory units usually involve the renovation of a garage, basement, or small addition to a single-family home. If they generate income, they are not considered accessory units, but a 2nd unit.

2. If the Accessory Dwelling is on a separate meter, does it then become a 2-unit property?

An accessory dwelling unit may or may not have separate services. If the second unit were rented it would be considered a 2-unit dwelling. The determination of whether or not an ADU is a second unit will be made by the appraiser in the site analysis section of the report where zoning, highest and best use, and legal use are addressed.

3. The subject property is an up and down two-unit dwelling with common utilities. The top unit is rented. Do we have an accessory unit or a small income producing property?

As described, it is a two-unit dwelling which would require the form 1025, the Small Residential Income Property Appraisal Report.

4. If there is a manufactured home on the property, does it have to meet FHA standards if it is only being used for storage or has a family member living in it, but is NOT paying rent?

If the manufactured home being used for storage is not in compliance with FHA requirements; does not pose any health and safety issues by its continued presence on the property; is in compliance with the regulations of local jurisdiction; and is not functioning as a living unit (kitchen rendered inoperable), then the property could be eligible for FHA-insured financing, assuming all other site and property improvements are in compliance with FHA

standards. If the appraiser places value on the manufactured home, the value can only be contributory value as a storage or accessory building and not as a living unit.

If the manufactured home is used as a living unit and is not in compliance with FHA requirements, the property is not eligible for FHA-insured financing unless the manufactured home is removed from the property.

5. In Hawaii and Florida it is quite common to have two-unit properties where there are two single family (unattached) homes on one property? We have been told that HUD denies this type of property even though they have a high value. Will HUD start to consider these types of properties with regard to HECM loans?

FHA does accept two unit properties comprised of two detached or unattached dwellings on one property provided it is a single real estate entity having a legal use.

6. Are HECM (Home Equity Conversion Mortgage) appraisals different from “regular” FHA appraisals?

No. The appraisal reporting requirements are the same for the HECM as they are for regular FHA loans.

Lender Concerns

1. What is the requirement for a borrower to get a copy of the Conditional Commitment?

The Conditional Commitment form HUD 92800.5B or a copy of the appraisal is to be provided to the borrower at or before loan closing.

2. Can the DE Underwriter highlight the required repairs on the appraisal if they write on the conditional commitment – “see attached appraisal” or do the required repairs have to be listed on the Conditional Commitment?

The DE Underwriter can highlight the required repairs or inspection conditions noted in the appraisal and write the notation “see attached appraisal” on the Conditional Commitment form or they may list the required repairs, alterations or inspection on form HUD-92800.5B (Conditional Commitment Direct Endorsement Statement of Appraised Value).

3. It was stated that handrails and trip hazards are cosmetic. I don’t understand! Wouldn’t these items be health and safety issues?

The appraiser must always be mindful of health and safety issues and report what is readily observable.

The missing handrails or trip hazards are property conditions that no longer require automatic repair for existing properties but should be reported by the appraiser. In these instances, lender discretion and prudent underwriting will determine whether or not a repair is advisable. For example, a stairwell or staircase comprised of eight (8) or nine (9) risers without a handrail would probably pose a safety risk.

4. If conditions or physical deficiencies are found, are repair estimates still required on all items?

Repair estimates are required for those items that may represent a risk to the health and safety of the occupants, the soundness or structural integrity of the property. The appraiser must indicate the extent of repairs and note this in the appropriate section of the appraisal, or in the “additional comments” section, or in an addendum. The estimated cost to cure is noted together with the required repairs.

5. Noted lead based paint still seems to be an issue that is unclear in the minds of some appraisers and lenders. Should the lender automatically call for painting only if the home is pre-1978, or should further measures be taken in all cases?

Page 6 of Appendix D states, “For any home built prior to 1978, check for evidence of defective paint surfaces, including: peeling, scaling or chipping paint. For all FHA insured properties, correction is required to all defective paint surfaces in or on structures and/or property improvements built before January 1, 1978 in accordance with 24 CFR Part 35.” The appraiser is further instructed to provide a detailed description and identify the exact location of any deficiency under “physical deficiencies” affecting livability. The appraiser is required to condition the appraisal on the “repair” of any noted lead based paint deficiencies.

As noted in mortgagee letter 2005-48, defective exterior paint surfaces in homes constructed post-1978 where the finish is otherwise unprotected will require automatic repair.

6. Are private road maintenance agreements still required?

FHA is no longer requiring evidence of a joint maintenance agreement, recorded or otherwise, but still requires evidence of a permanent easement. The appraiser should ask if a maintenance agreement exists and comment on the condition of the private road or lane, especially if it is in inferior condition.

7. Please discuss the ongoing treatment of garage door openers that don't reverse with pressure. What about the sensor beam that stops the door when something breaks down?

FHA no longer requires repair of a garage door opener; however, appraisers should be mindful that local requirements may require repair.

8. Page D-3 of the new appendix D: Valuation Protocol, Site Hazards and Nuisances, states that the appraiser must note and comment on residential structures located within the fall distance of high-voltage transmission line., etc. The HOC Reference Guide states in part “If the dwelling or related property improvements is located within such an easement, the DE Underwriter must obtain a letter from the owner or operator of the tower indicating that the dwelling and its related property improvements are not located within the tower’s (engineered) fall distance in order to waive this requirement.” It is true that if the dwelling and related improvements are located outside the easement then the property is eligible for FHA and no further action is required. Is this still correct?

Yes, if a living unit is located outside the easement then the property is eligible for FHA financing. However, the appraiser is instructed to note and comment on the effect on marketability resulting from the proximity to such site hazards and/or nuisances.

9. How long must the remaining economic life be for a home to be eligible for FHA financing?

The term of the mortgage must be supported by the estimated remaining economic life.

10. Does the appraiser need to state the remaining economic life or just effective age?

The appraiser is required to state the Remaining Economic Life as a single number or as a range. It must be provided for every FHA appraisal whether or not the cost approach is completed. An explanation is required if the remaining economic life is less than 30 years. Rejection may also be appropriate if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical. The appraiser must explain their analysis of the factors considered in estimating the remaining economic life.

The appraiser is also required to enter the effective age of the improvements. A range is acceptable. The effective age reflects the condition of a property relative to similar competitive properties. The effective age may be greater than, less than or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation in the “condition of property” comments section.