

Frequently Asked Questions

Valuation Protocol

Overview

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Revised 12/7/12

New Construction

001 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.

002 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, NPMA 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:

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New Construction, Continued

- 002 (continued)
- 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, NPMA 99a and 99b
 - Local Health Authority well water analysis or septic report, where applicable
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003 **If the builder has gone out of business and no longer willing/able to sign the Builder's Certification or Builder's One Year Warranty and the foreclosing lender has a buyer who will rely upon FHA-insured financing to purchase the home, what documentation is required to be retained in the case binder?**

If the construction is completed and the lender has a certificate of occupancy or its equivalent, the home may be treated as existing construction for purposes of FHA documentation.

004 **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.

005 **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.

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Wood Destroying Insects / Termites

001 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.

002 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.

003 Mortgagee 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.

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Wood Destroying Insects / Termites, Continued

003 (continued) 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.

004 **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

001 **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.

002 **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.

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Utilities – Well and Septic, Continued

003 **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.

004 **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.
-

005 **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.

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Utilities – Well and Septic, Continued

006 Will the Underwriter require 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.

007 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.

008 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.

009 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.

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Inspections & Certifications

001 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 note what inspections, if any, are customary for the area, required by state or local law, or that are recommended 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.

002 It was stated that handrails and trip hazards are cosmetic. 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.

003 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.

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Inspections & Certifications, Continued

003 (continued) 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.

004 **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.

005 **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.

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Inspections & Certifications, Continued

006 **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.

007 **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 4155.2 Rev-1 (4.5, C.1.c) The DE underwriter may waive cosmetic or unnecessary repairs but not repairs to meet Minimum Property Standards or Minimum Property Requirements, which would include defective construction and conditions that impair the safety, security or soundness of the dwelling. DE Underwriters should document the reason for over riding a repair or an inspection that the appraisal is conditioned upon.

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Inspections & Certifications, Continued

008

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 in Handbook 4150.2 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.

009

Who can perform repairs when the appraiser noted defective paint in a home built prior to 1978 in view of EPA’s new lead based paint Renovation, Repair and Remodeling Rule?

On April 22, 2010, the EPA changed its requirements regarding renovation, repair and painting for houses built prior to 1978 as follows:

- Homeowners performing renovation, repair or painting work on their own home are exempt from the rule but are encouraged to learn to perform lead-safe work practices.
 - Property owners/landlords who renovate, repair, or prepare surfaces for painting in pre-1978 rental housing must be certified and follow lead-safe work practices required by the rule.
 - Contractors who perform the repair must be certified and must follow specific work practices to prevent lead contamination.
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Inspections & Certifications, Continued

010 **Who can inspect for completion of repairs when the appraiser noted defective paint in a home built prior to 1978 in view of EPA's new lead based paint Renovation, Repair and Remodeling Rule?**

FHA Roster appraisers and inspectors as well as other independent third parties may perform inspections to verify if painting repairs have been performed as required. These inspections are to determine completion of the repairs, not compliance with the Rule.

011 **What is appropriate documentation to evidence compliance with EPA's new lead based paint rule?**

If the repair has been made by a contractor and/or property owner/landlord if rental housing, the underwriter must be provided with a copy of the EPA or state-lead training certificate in the name of the party who performed the work. If the repair was made by the homeowner on their own home, the homeowner must provide the underwriter a letter stating that the homeowner made the repair and an inspection to verify completion of the repair is required.

012 **Can the 1004D be used in lieu of form HUD-92051 for manufactured housing?**

No, manufactured housing, whether new or existing, requires the use of HUD form 92051. The 1004D Part B can be used only for existing site built construction (stick built or modular).

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Inspections & Certifications, Continued

13 NEW FAQ How should an empty or non-functioning in-ground swimming pool be treated? Does a swimming pool require perimeter fencing?

An empty swimming pool can pose a health and safety risk. At minimum, swimming pools must comply with all local ordinances (perimeter fencing, covers, etc.) and, if empty or non-functioning, the pool must be secured by a cover that would be sufficiently sturdy to prevent a person from falling in the pool or through the cover. Non-functioning pools (and related equipment) which are not covered must be repaired. Swimming pools whose sides are unstable must be repaired or removed and the surrounding land re-graded. If adverse weather conditions prevent completion of required repairs, the lender should follow the guidance provided in Chapter 4, Section 4.6.d in Handbook 4155.2, Escrow of Funds for Completion of Construction.

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Cost Approach

001 When is the cost approach 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.

002 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 applicable appraisal reporting form together with the guidance provided in Appendix D of Handbook 4150.2 is sufficient to produce an accurate and adequately supported cost approach.

Be mindful that form 1007 may be required for use by those HOCs with jurisdictions having properties eligible for FHA-insured mortgages 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 unit family residence located on Hawaiian homelands.
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003 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."

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Accessory Dwelling Units

001 Can you please provide a definition of Accessory Dwelling Unit?

An accessory dwelling unit (ADU) is defined as a habitable living unit added to, created within, or detached from a primary single-family dwelling and contained on one lot. ADU's are commonly understood to be a separate additional living unit, including kitchen, sleeping, and bathroom facilities. ADU's are *subordinate* in size, location, and appearance to the primary home and may or may not have separate means of ingress or egress. An attached unit contained within a single-family home, also known as a "mother-in-law apartment," or a "garage apartment" that may or may not be attached to the primary residence are the most common types of accessory dwelling unit. An accessory dwelling unit sometimes involves the renovation of a garage, basement, or a small addition to a primary residence.

The determination of whether or not an ADU is a second dwelling unit is to be made by the appraiser and indicated in the site analysis section of the report where zoning, highest and best use, and legal use are addressed. The fact that an ADU is rented or generates income should not categorically result in a determination that the property contains two dwelling units.

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

An accessory dwelling unit may or may not have separate electrical service. The appraiser will make the determination of whether or not an ADU is a second dwelling unit utilizing the criteria stated above in question number one. FHA does not take the position that an appraiser should conclude the presence of two electric meters necessarily constitute a two dwelling unit structure and not an ADU.

003 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.

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Manufactured Housing

001 **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.

002 **Is vinyl skirting attached to framework acceptable for a manufactured home?**

There must be a perimeter enclosure constructed of concrete, masonry or treated wood. Light weight, non-load bearing skirting may be attached over the perimeter enclosure but is not an acceptable substitute.

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Two Unit Properties

001 **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.**

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.

HECM Appraisals

001 **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 with the exception of pre-1978 homes that are security for a HECM and in which children under the age of 7 will not be residing in the home. In these cases, the borrower can certify to the fact that no children under the age of 7 reside in the home and the correction/repair of defective paint surfaces will not be required.

Lender Concerns

001 **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.

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Lender Concerns, Continued

002 **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, 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).

003 **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 and/or 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.

004 **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.

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Lender Concerns, Continued

005 **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.

006 **Page D-3 of the new appendix D in Handbook 4150.2: 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.

007 **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.

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Lender Concerns, Continued

008 **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.

009 **Does a new Conditional Commitment need to be completed when an appraisal is updated?**

No, a new conditional commitment only needs to be completed when a completely new second appraisal is provided.

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Reconsideration of Value

001 What is a reconsideration of value and who can request one?

A reconsideration of value is a request to the FHA Roster appraiser to reconsider the analysis and conclusions of his or her appraisal based on information that was not presented on the appraisal report, but was relevant to the appraisal and available to the appraiser in the normal course of business as of the effective date of the appraisal. Only the lender's underwriter can request a reconsideration of value from the FHA Roster appraiser.

002 In the course of reconsideration of value, what information can be presented to the appraiser?

Information regarding comparable sales, listings or under contract of sale properties that the FHA Roster appraiser did not cite in the appraisal report but was available to the appraiser in the normal course of business as of the effective date of the appraisal are appropriate data to be provided to the appraiser.

003 Does the appraiser have to change the appraisal based on the "new" information?

The FHA Roster appraiser is required to consider the data provided by the lender. The consideration may or may not result in an amended report.

004 If the reconsideration does not result in a value change can I order another consideration or appraisal?

No, a reconsideration of value is the process of analyzing data not utilized in an appraisal report regardless of whether the value is changed. The underwriter should include all relevant data with the request for the reconsideration.

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Reconsideration of Value, Continued

005 **Can the appraiser charge for the reconsideration of value?**

No, since the information provided to the appraiser was available at the time of the appraisal, the appraiser should have been aware of it and either provided it in the original appraisal report or have analyzed it and decided not to provide it in the original report in which case the information should be in the appraiser's file.

006 **Can information regarding sales of properties after the effective date of the appraisal be used?**

Although the 2010/2011 edition of USPAP provides guidance for appraisers when using comparable sales dated after the effective date of the appraisal in FAQ #117 on retrospective appraisals, FHA does not accept retrospective appraisal reports for FHA-insured loans. The effective date of the appraisal must be the date the appraiser inspected the property. Comparable sales and other market activity that occurred after the effective date of the appraisal cannot be used by the underwriter when requesting a reconsideration of value.

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203k Loans/Eligible Repairs

001

Can mold be abated using a streamline 203k loan?

ML 05-50 contains a list of improvements that are permissible under the Streamline K:

*“The Streamlined (k) program is intended to facilitate uncomplicated rehabilitation and/or improvements to a home for which plans, consultants, engineers and/or architects are not required. The Streamlined (k) program **includes** the discretionary improvements and/or repairs shown below:*

Repair/Replacement of roofs, gutters and downspouts

- Repair/Replacement/upgrade of existing HVAC systems
- Repair/Replacement/upgrade of plumbing and electrical systems
- Repair/Replacement of flooring
- Minor remodeling, such as kitchens, which does not involve structural repairs
- Painting, both exterior and interior
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- *Repair/replace/add exterior decks, patios, porches*
- *Basement finishing and remodeling, which does not involve structural repairs*
- *Basement waterproofing*
- *Window and door replacements and exterior wall re-siding*
- *Septic system and/or well repair or replacement”*

This list is not all-inclusive. Mold clean up and repair/correction is typically considered uncomplicated and is acceptable as an eligible repair item for the Streamline K program unless the magnitude of the mold requires complicated rehabilitation for which plans and other specialists are required.

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Appraisal Portability

001 If the appraisal is transferred from one lender to another must the appraiser cooperate with the second lender?

We encourage appraisers to cooperate with lender's underwriters within the confines of USPAP. Appraisers must comply with all the requirements of USPAP, including the confidentiality section of the Ethics Rule. This may require the second lender to obtain a release of liability from the first lender and provide it to the appraiser.

002 Is the appraiser required to provide a copy of the appraisal to the second lender?

No, the second lender must obtain the appraisal from the original lender. If the original lender is uncooperative with the new lender, the new lender should document the efforts made to obtain the appraisal in the case binder per the guidance offered in Mortgagee Letter 2009-29.

FHA Appraisals

001 What work can an appraiser trainee or licensee perform on an FHA appraisal?

The FHA Roster appraiser is required to sign the appraisal and perform all parts of the analysis and reconciliation. A trainee or licensee may assist in any part of the appraisal but the opinions and analysis must be performed by the FHA Roster appraiser, who must hold the certified residential credential at minimum. Therefore, the FHA Roster appraiser is required to select the comparables and perform all critical analyses contained in the appraisal report as well as the Market Conditions form. The FHA Roster appraiser must also inspect the subject property and at least the exterior of the comparable properties. A trainee or licensee may accompany the FHA Roster appraiser on the inspections but may not perform the inspections in place of the FHA Roster appraiser. Appraiser trainees and/or licensees may not sign the appraisal report.

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FHA Appraisals, Continued

002 Can the Fannie Mae form 2055 be used to report a second appraisal?

No, only full appraisals written on the form applicable to the property type are acceptable.

003 Should data on the 1004MC mirror that in the neighborhood section of the appraisal report?

Not necessarily, the information on the 1004 MC relates to properties that are *comparable* to the subject property and which a buyer may select as a competitive property. This reflects the subject's micro market. The information in the neighborhood section is broader and encompasses market activity in the subject's macro market.

004 Can FHA Roster appraisers use foreclosures, short sales and other distressed sales?

FHA Roster appraisers must perform a neighborhood analysis to determine and identify the geographic area that is subject to the same influences as the property being appraised. The appraiser is responsible for selecting comparable sales and, if foreclosure or short sales are prevalent in the subject's market, the appraiser must consider the impact these sales have on market conditions, including marketing times, list to sale ratios, absorption rates, etc., in making the decision to use a distressed sale. A foreclosure or short sale may have condition deficiencies that are not readily apparent. Before relying upon foreclosure or short sales as comparable sales, it is imperative that the appraiser perform the necessary due diligence to fully understand the circumstances surrounding such sales and the impact upon the subject's value and marketability. FHA Roster appraisers must fully explain and support the sales used in the appraisal report with a thorough analysis of market conditions, which include the types of sales found within the market, i.e., new construction, resale, short sales, foreclosures, REO and /or estate sales. The appraiser should attempt to balance the analysis by using more than one sale type, if representational of the market, and contrast the differences of market impact between the sales in order to provide support for the report's conclusions.

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FHA Appraisals, Continued

005 **ML 2010-15 states that if an appraisal is performed by a FHA Roster appraiser but for conventional or government guaranteed loan purposes and is converted to a FHA-insured mortgage, the lender must ensure that the appraisal is in compliance with FHA appraisal reporting requirements which may result in the need for a re-inspection of the property. Isn't re-inspection of the property a new appraisal assignment?**

If the Scope of Work of the original appraisal does not result in an appraisal report which would comply with FHA appraisal reporting requirements and the appraiser must re-inspect the property, this becomes a new assignment. For instance, the extent to which a property is inspected may be less rigorous for an appraisal report performed for conventional lending purposes than for that of FHA-insured financing where, for example, the appraiser is required to check if the mechanical, plumbing and electrical systems are in proper working order. FHA approved lenders and Roster appraisers must ensure that appraisals performed for non-FHA purposes comply with FHA appraisal reporting requirements in order to be acceptable for FHA-insured financing.

Title Concerns

001 **May a property have multiple property tax account numbers and be eligible for FHA-insured financing?**

FHA requires that the lender is responsible for conveying good and marketable title to FHA when a claim is filed. If a property is comprised by multiple lots and/or parcels, buildable or otherwise, each with a separate property tax account number, the multiple lots/parcels must be in the same ownership. The legal description of the property (often referred to as a metes and bounds description or a rectangular survey system) contained within the deed must specifically reference and describe each lot or parcel in its entirety and each must be encumbered under the same deed. The property must be one contiguous assemblage of land and improvements and all parcels must be encumbered under the same mortgage instrument.

Conventional Heating Systems

001

How should I categorize a heating system that burns wood pellets?

FHA requires a permanently installed back up conventional heating system that maintains a temperature of at least 50 degrees Fahrenheit in areas containing plumbing when the primary heat source is from a solar system or a wood burning stove.

An acceptable conventional heating system would include one that burns wood pellets provided the system:

- heats the living areas of the home to a minimum of 50 degrees Fahrenheit;
- is permanently installed, safe to operate and provides healthful and comfortable heat
- relies upon a fuel source which is readily obtainable within the subject's geographic area;
- has market acceptance within the subject's marketplace
- operates without human intervention for extended periods of time; and
- is in compliance with any local codes and regulations governing such.

Note: Appraisers must adequately describe the system; its location within the home; its adequacy in maintaining healthful heat; and demonstrate market acceptance of the system within the appraisal report.
