



Let's meet the Instructor



- I'm making this video to introduce myself and to review several of the topics we will cover.
- I began appraising residential properties in the summer of 1988. After many appraisal courses and years of apprenticeship, I received a Certified General Appraisers license in 1993.
- I've been preparing mortgage appraisals since 2004 and wrote FHA – The Future of Financing in 2008 to simplify the process.
- FHA requirements have changed since then.
- We'll cover the most important aspects of appraising for FHA.
- We hope you will enjoy this FHA Standards course.
- Many of the situations shown throughout this course are examples from myself, other appraisers, agents/brokers, and home inspectors.
- The photographs are sure to provide useful information with some discussions that will make you pause.
- Some information may provide laughter and disgust. They are sure to open your eyes or ... perhaps you could share your own stories and photographs?

You can reach me at (804) 231-4676 or lore@continental-appraisal.com with questions and suggestions for this course. We're happy to hear from you!




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SECTION 1

In this section, we will discuss:

- Who will benefit from this course?
- Symbols used throughout
- Resources needed
- Appraisal versus Home Inspection
- FHA Single Family Handbook



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FHA Appraisal Standards

In this course you will learn:

- Summary of the most popular single-family mortgage loans
- The necessary process for FHA appraisal reports
- Inspection and repair requirements
- Appraisal techniques to appraise a home for FHA

Our Goal:

Provide Continuing Education and Post Licensing Education to licensed and certified professionals with the most recent requirements for FHA appraisals.



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Who will benefit from this course?

This course is for:

- Certified Real Estate Appraisers
- Mortgage Brokers
- Lenders
- Real Estate Agents & Brokers



Symbols

A question has been asked from the author Lore DeAstra.



This mouse indicates links or more research.



Hot Tip offers important advice!



This caution sign indicates essential information.



Take photographs, when you see the camera.



This cell phone indicates a vital number that may assist you.



What Resources Are Needed?

- Computer
 - Internet Access
 - Computer Speakers
 - Email Address
 - Calculator
 - Paper
 - Pencil / Pen
 - FHA Single Family Housing Policy Handbook 4000.1
- Please take a moment to download the FHA SF Handbook.**



We will access this text for this course.



Appraisal vs. Home Inspection

Are you, the appraiser, acting as a home inspector while completing an FHA assignment?



This is a concern for many appraisers. Let's discuss

Are you licensed as a home inspector?



Were you hired to complete a home inspection?

If you said NO to all questions, Congratulations!

A: Home inspectors do not estimate market value.

For more information about home inspections, the American Society of Home Inspectors website is included for your convenience.



<http://www.homeinspector.org/>



Appraisal vs. Home Inspection (cont.)

During the appraisal process, the appraiser verifies components of a home: quality, condition, and functional utility.

You are inspecting the subject property and the surrounding area in search for factors that may affect safety, soundness, and security of the structure [Minimum Property Standards (MPS)].

Further, FHA is concerned with Minimum Property Requirements (MPR), which requires all homes insured by FHA be safe, sound, and secure.

If you see anything in or outside the home that may adversely affect the inhabitants, FHA wants you to document with photographs and within your report.



The MPS and MPR are discussed in more detail later in this course.



SF Handbook Overview

FHA's Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1) will eventually be single source for FHA Single Family Housing Policy:

- Consolidated: All SF Mortgagee Letters, Housing Notices, Handbooks, and other policy documents will be combined into a single source.
- Consistent: The format and terms throughout the SF Handbook support easier use – a key to FHA's Access to Credit strategy.
- Comprehensive: The SF Handbook will cover all Single Family Housing policy.



Appraiser & Property Requirements for Title II Forward and Reverse Mortgages

- Covers FHA policies specific to appraiser actions and property eligibility:
 - Requirements for performing an appraisal;
 - Reporting of appraisal results.
- Roster Requirements are located in the Doing Business with FHA section.
- Appraiser QC requirements are found in the Quality Control – Other Participants section.



Appraiser & Property Requirements (cont')

The appraisal process provides the Mortgagee with necessary information to determine if a property meets:

- the minimum requirements and
- eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage

The appraisal will, also, serve as adequate security for a specific FHA-insured Mortgage.

Mortgagees bear primary responsibility for determining eligibility and the sufficiency of collateral.

However, the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met and an appraised value for the property.



Appraiser & Property Requirements (cont')

Property refers to the real estate entity that will serve as adequate security for a specific FHA-insured Mortgage.

The requirements in this section of the *FHA Single Family Housing Policy Handbook (SF Handbook)* contain the Property Acceptability criteria for FHA mortgage insurance.

This includes the Minimum Property Requirements (MPR), Minimum Property Standards (MPS), by reference, associated rules and regulations.



Appraisal Report and Data Delivery Guide

- Posted online—works as supplement to the SF Handbook.
- Contains FHA requirements for:
 - Completion of appraisal forms (UCDP and FHA-specific data);
 - Lender delivery of appraisal data and reports to FHA;
 - Format is MISMO 2.6 GSE or Errata 1, depending on form type.
- Mortgagee Letter 2015-08 announced the Electronic Appraisal Delivery (EAD) portal for Federal Housing Administration (FHA) Insured Single Family Mortgages.



Appraiser & Property Requirements: Key Policy Changes

- Focus of the Appraiser and Property Requirements section: OBSERVE, ANALYZE, and REPORT.
- Appraisers will be provided with a contact name and number by the lender for working through eligibility issues.
- Appraisers must have the full contract and any other pertinent documents prior to starting the appraisal process.
- Four tests of Highest and Best Use:
 - Legally Permissible;
 - Physically Possible;
 - Financially Feasible; and
 - Maximally Productive.



Appraiser & Property Requirements: Key Policy Changes (con't)

- Properties with a Legal Non-Conforming Use: requiring the appraiser to comment if improvements can be rebuilt by right.
- Accessory Dwelling Units: emphasizing Highest and Best Use to determine property type of classification.
- Attic and Crawl Space Inspection Requirements: clarifying that FHA requires an inspection. Head and Shoulders is the alternate to a full inspection.
- Non-residential Use of Property: ensuring that mixed-use properties comply with zoning.



Appraiser & Property Requirements: Key Policy Changes (con't)

- Cost and Income Approach for Value: clarifying that ALL appropriate approaches must be utilized when applicable.
- Energy Efficient Building Components, Solar Systems, etc., requiring that contributory value of building components that enhance efficiency or energy savings must be analyzed and reported.
- FHA requires that the appraiser utilize all appropriate methods of valuation and does not restrict this to only a matched pairs analysis.

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Electronic Appraisal Delivery (EAD) Portal Implementation

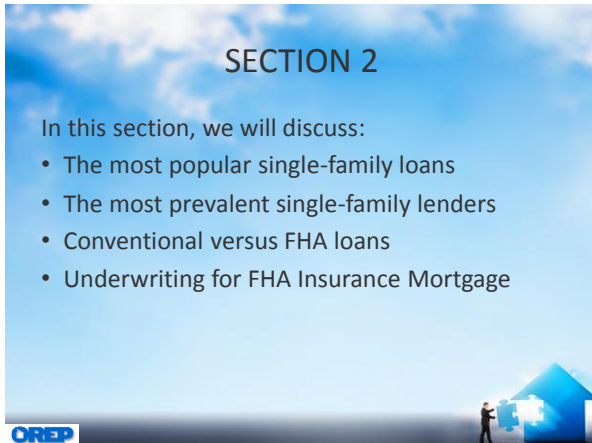
- Mandatory use effective with case numbers assigned on/after June 27, 2016.
- Mortgagees remain responsible for proper underwriting of the appraisal and for ensuring the property meets FHA's minimum property requirements and standards.
- The appraiser remains accountable for appraisal quality, credibility, and compliance with FHA appraisal requirements.
- When an individual appraisal is submitted— appraisal submitted becomes official record.

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SECTION 2

In this section, we will discuss:

- The most popular single-family loans
- The most prevalent single-family lenders
- Conventional versus FHA loans
- Underwriting for FHA Insurance Mortgage



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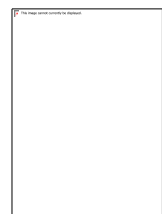


Most Popular Single-Family Loans

What are the most popular home loans?



- Conventional
- FHA
- VA
- Rehabilitation
- Jumbo
- Non-Conforming
- Reverse Mortgage
- Sub-Prime
- USDA
- New Construction
- Home equity
- Adjustable Rate



Most Prevalent Single-Family Lenders



Most Common Home Lenders

Three most common types of home loans available:

1. **Veterans Administration** (VA) loans are guaranteed by the federal government and are only available to qualifying veterans and surviving spouses.



Most Common Home Lenders (cont.)

2. **Conventional** loans are offered by lenders to borrowers who meet specific criteria with the best credit scores.

Conventional mortgages are issued by banks, credit unions and private mortgage companies. Freddie Mac and FannieMae are the major lenders in the conventional market.



Unlike the VA or FHA loans, conventional loans are not insured by the federal government. However, borrowers are required to purchase private mortgage insurance (PMI) with less than a 20% down payment.

Conventional Versus FHA Loans

Conventional Loan – Advantages:

- Mortgage insurance is required for loans exceeding 80 percent loan-to-value
- Conventional mortgage insurance is only monthly or single premium
- Conventional mortgage insurance will automatically end at 78 percent loan-to-value
- Conventional mortgage insurance is credit sensitive
- Conventional loans can cover much higher loan amounts
- Conventional loans for investment or second homes
- New programs allow individuals 3% down payments for first-time and lower-income buyers enter the housing market



Conventional Versus FHA Loans (cont.)

Conventional Loan – Disadvantages:

- 5 percent minimum
- 620 minimum for conventional
- Higher interest rates
- Lenders will be required to ensure that borrowers have the ability to repay their mortgages
- Longer timeframe following major credit problems
 - 7 years for foreclosure versus 4 years for bankruptcy



Most Common Home Lenders (cont.)

3. **Federal Housing Administration (FHA)** loans are available to all borrowers and guaranteed by the federal government. Although the mortgage is issued by lenders, the federal government insures the loan against nonpayment.



Since the VA has their own appraisal standards. Let's discuss the differences between Conventional and FHA, since these types of loans compete.

Conventional Versus FHA Loans (cont.)

FHA Loan – Advantages:

- Less down payment of 3.5 percent
- Minimum of 500 credit score
- Not limited to 43 percent for debt-to-income ratio
- FHA loans are assumable
- FHA loans are eligible for "streamline" refinances
- Shorter time frame following major credit problems
 - 3 years versus 4 years for bankruptcy
- FHA loans typically will have a lower base interest rate than a comparable conventional loan
- Non-occupant co-borrower (a relative) may be used for qualifying by blending ratios



Conventional Versus FHA Loans (cont.)

FHA Loan - Disadvantages:

- Mortgage insurance is required on all FHA loans regardless of the loan-to-value
- FHA is upfront and monthly premiums
- Mortgage insurance
 - For FHA, one premium for all borrowers
- FHA doesn't lend for investment or second homes

Will mortgage insurance with an FHA automatically disappear?





Underwriting for FHA Insurance Mortgage

The Mortgagee must underwrite the completed appraisal report to determine if the property provides sufficient collateral for the FHA insured mortgage.

Who is the mortgagee?



The appraisal and the property must comply with the requirements in Appraiser and Property Requirements for Title II Forward and Reverse Mortgages section of the Handbook 4000.1.

The appraisal must be reported in accordance with Acceptable Appraisal Reporting Forms and Protocols.



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SECTION 3

In this section, we will discuss:

- Viability of FHA
- FHA Changes to Home Rules
- FHA SF Handbook Overview

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Viability of FHA

- Borrowers who have high credit scores, but lack the resources for substantial down payments, are likely to be the main beneficiaries of the new mortgages because it will help them avoid expensive mortgages offered by the Federal Housing Administration.

- FHA offers a variety of programs, including 203(k) loans.

- As the U.S. housing stock continues to age, the 203(k) loan program will become more popular for needed repairs.

- As of November 2014, the median home price rose 1.35% from the previous year with an average decline of 4.29%.

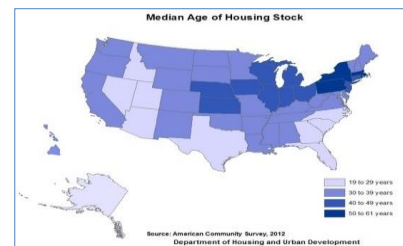


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Viability of FHA (cont.)

Most homes typically need repairs after five to ten years, depending on the area, maintenance, and other factors.





FHA Changes Home Mortgage Rules

On October 4, 2015, FHA changed its mortgage lending rules.

FHA is setting a minimum FICO score of 500 for homebuyers. However, borrowers with less than 580 will need a 10% down payment, instead of 3.5%.

FHA opened its refinancing program to a larger section of homeowners who owe more than their homes are worth.

The agency is also considering limiting seller cash contributions on mortgages to 3 percent of the home price, down from the current 6 percent.

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FHA Single Family Handbook Overview

The FHA's Single Family Housing Policy Handbook became effective September 14, 2015.

Before reviewing the handbook, let's discuss:

- The reasons for the handbook
- Access to the handbook
- Organizational structure

The SF Handbook, HUD Handbook 4000.1, is a consolidated, consistent, and comprehensive single source for FHA Single Family Housing Policy.



FHA Single Family Handbook Overview (cont.)

Remember the 3 C's?

The FHA SF Handbook is now :

1. Consolidated
2. Consistent
3. Comprehensive



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FHA Single Family Handbook Overview (cont.)

The SF Handbook has an organizational structure of five main categories that follow the logical flow of a mortgagee or lender's process.

- I. Doing Business with FHA
- II. Origination through Post-Closing/Endorsement
- III. Servicing and Loss Mitigation
- IV. Claims and Disposition
- V. Quality Control, Oversight and Compliance

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SECTION 4

In this section, we will discuss:

- FHA Roster Appraiser
- Eligibility Requirements for Placement
- Competency & Licensing Requirements
- Submitting Application
- Post-Approval Requirements
- Conflicts of Interest

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FHA Roster Appraiser

• FHA requires Mortgagees to select qualified, competent and knowledgeable Appraisers.

• FHA maintains a list of qualified Appraisers on the FHA Appraiser Roster.

• Only an Appraiser on the FHA Appraiser Roster and the Appraisal Subcommittee's (ASC) National Registry may be selected by the Mortgagee to conduct an appraisal for FHA insured financing.



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Eligibility Requirements for Placement on the FHA Appraiser Roster

The appraiser must:

- be a state-certified residential or state-certified general appraiser with minimum licensing/certification criteria issued by the AQB or AF*
- not be suspended, debarred, or excluded; and
- not be listed on HUD's Limited Denial of Participation (LDP) List, HUD's Credit Alert Verification Reporting System (CAIVRS), or "subject to" any current loss of standing or suspension as a certified appraiser in any state.



*Appraiser Qualifications Board (AQB) of the Appraisal Foundation (AF);



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Competency Requirements for an FHA Appraiser



- The Appraiser must be knowledgeable of the Uniform Standards of Professional Appraisal Practice (USPAP) and FHA appraisal requirements.
- The Appraiser must meet the competency requirements defined in the USPAP prior to accepting an assignment.
- The Appraiser must be knowledgeable in the market where the assignment is located.



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Licensing Requirements for an FHA Appraiser

- The Appraiser must be a state-certified residential or state-certified general Appraiser.
- The Appraiser must maintain and be able to prove certification in all states in which the Appraiser performs appraisals.



Submitting Your Appraiser Application to FHA

The appraiser must submit applications electronically through FHA Connection (FHAC) and follow the FHA Appraiser Roster Application Instructions.



Form HUD-92563a: The appraiser must complete form HUD-92563a in FHAC. The appraiser must sign this form, scan it and save it in a PDF format for delivery to FHA.



The appraiser must certify that the appraiser has "read and fully understands and will comply with FHA Single Family Housing Policy Handbook (SF Handbook), and FHA Single Family Housing Appraisal Report and Data Delivery Guide."



FHA Appraiser Roster Application Instructions

Before you begin the process:

1. Read these instructions in their entirety, first, before taking action.
2. Read the **eligibility requirements**.
3. Applications **must** be submitted online.
4. If you were previously on the roster at any time, you will not be able to apply again as a "new" applicant. Your application will be rejected. You may qualify for **reinstatement**.
5. You must be able to fill-in and print the application form **HUD-92563a** from FHA Connection (FHAC), sign it, scan it and save it in PDF format.
6. In addition to the application, you must also have your current paper state-issued certification scanned and saved in PDF format to upload in the required area of FHAC.
7. Review your personal information listed on the Appraisal Subcommittee's National Registry.
8. The FHA Roster Training Demo walks you through the process using screen prints and a video.
9. Now you may begin your application in **FHA Connection**.



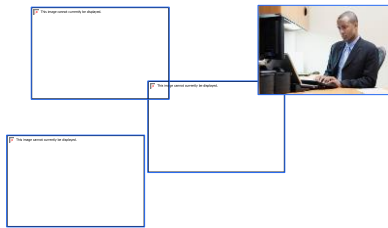
Submitting Your Application to FHA



The screenshot shows the 'Appraiser Roster Application' form on the FHA Connection website. The form is divided into two main sections: 'Personal Information' and 'Contact Information'. The 'Personal Information' section includes fields for First Name, Middle Initial, Last Name, Social Security Number, Gender, and Ethnicity. The 'Contact Information' section includes fields for Home Address, Email Address, Phone Number, and Fax Number. There are also dropdown menus for State, Termination Date, and Zip Code. The form is titled 'Appraiser Roster Application' and has a 'Go to next page' button at the top right.

Submitting Your Appraiser Application to FHA (cont.)

- **State Certification:** The appraiser must provide a PDF image of their current state-issued certification for each state in which the appraiser is certified.



Submitting Your Appraiser Application to FHA (cont.)

- **Pending or Settled Actions:** The applicant must disclose all lawsuits, administrative complaints, findings, or reports produced in connection with an investigation, audit, or review conducted by HUD, another federal, state, or local governmental agency, or by any other regulatory or oversight entity with jurisdiction over the appraiser, its officers, partners, directors, principals, managers, supervisors, and other agents, that are currently pending or were resolved within two years of the application, including any violations of the Fair Housing Act.



Processing and Approval of Appraiser Application by FHA

- FHA will review all completed applications for approval to determine if the appraiser complies with all eligibility requirements.
- If FHA requires additional documentation or clarifying information, FHA may request such additional information and provide the appraiser with a deadline for response.
- If the appraiser does not submit a completed application or provide the additional information requested by the specified deadline, FHA may deny approval on this basis.



Processing and Approval of Appraiser Application by FHA (cont.)

- If FHA approves the appraiser's application, the Appraiser's name will appear on the FHA Appraiser Roster.
- Applicants deemed ineligible for placement on the FHA Appraiser Roster will be notified electronically and provided the reason(s) for denial.






Renewal of Expiring Appraiser License with FHA

- The Appraiser should renew expiring licenses at least 45 Days prior to expiration in order for state records to process the renewal to the ASC National Registry.
- FHA Appraiser Roster records are based on National Registry records.
- Failure of the Appraiser to renew in a timely manner may result in removal from the FHA Appraiser Roster.




Post-Approval Requirements

- The Appraiser's performance must comply with all applicable federal, state, and local laws. 
- The Appraiser must adhere to all state and local laws relating to appraisal, licensing and certification requirements.
- The Appraiser assigned to provide the appraisal must be able to complete an assignment for the property type, assignment type, and geographic location of the subject Property.
- The Appraiser must comply with the USPAP, including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing.



Conflicts of Interest

An FHA Roster Appraiser must avoid the appearance of conflicts of interest. 

- No member of a Mortgagee's loan production staff or any person who is compensated on a commission based upon the successful completion of a loan;
- or anyone who reports ultimately to any officer of the Mortgagee not independent of the loan production staff and process;
- shall have communications with an Appraiser having an impact on valuation, including ordering or managing an appraisal assignment.

The Appraiser is bound by the confidentiality provisions of the USPAP and may not discuss the value or conclusions of the appraisal with anyone other than the Direct Endorsement (DE) underwriter or FHA staff or their representatives.



SECTION 5

In this section, we will discuss:

- Appraisal Fees
- Req. Info. Before Appraisal Commencement
- Req. Info. For New Construction
- Appraiser & Property Requirements
- Key Policy Changes

Appraisal Fees

- FHA does not establish appraisal fees or due dates.
- The Appraiser and the Mortgagee or Mortgagee-designated third party will negotiate the appraisal fees and due date.



Information Required before Beginning the Appraisal

The Appraiser must obtain all of the following from the Mortgagee before beginning an appraisal, if available:



- a complete copy of the executed sales contract for the subject, if a purchase transaction;
- the land lease
- surveys or legal descriptions
- other legal documents contained in the loan file; and
- contact person for the Mortgagee so the Appraiser can communicate any noncompliance issues.

General Appraiser Requirements

When performing an appraisal, the Appraiser must review and analyze:

- the land lease, if applicable;
- surveys or legal descriptions, if available; and
- any other legal documents contained in the loan file, and report the results of that analysis in the appraisal report.



Additional Information Required - New Construction

The Appraiser must obtain, from the Mortgagee:



- a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, dated no more than 30 Days prior to the date of the appraisal order, and

- documents related to New Construction, that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished.

What documents are needed?

- Plans
- Specifications, and
- Exhibits



Appraiser & Property Requirements for Title II Forward and Reverse Mortgages

- FHA policies specific to appraiser actions and property eligibility:
 - Requirements for performing an appraisal;
 - Reporting of appraisal results.
- Roster Requirements are located in the Doing Business with FHA section.
- Appraiser QC requirements are found in the Quality Control – Other Participants section.

Appraiser & Property Requirements: Key Policy Changes

- Focus of the Appraiser and Property Requirements section: OBSERVE, ANALYZE, and REPORT.
- Appraisers will be provided with a contact name and number by the lender for working through eligibility issues.
- Appraisers must have the full contract and any other pertinent documents prior to starting the appraisal process.
- Four tests of Highest and Best Use:
 - Legally Permissible;
 - Physically Possible;
 - Financially Feasible; and
 - Maximally Productive.



Appraiser & Property Requirements: Key Policy Changes (cont.)

- Properties with a Legal Non-Conforming Use:
 - Require the appraiser to comment if improvements can be rebuilt

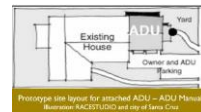


Acceptable?

No. Take photos at each angle and send to the lender.

Appraiser & Property Requirements: Key Policy Changes (cont.)

- Accessory Dwelling Units:
 - Emphasize Highest and Best Use to determine the property type of classification.
 - If different than single-family, contact the lender.



Appraiser & Property Requirements: Key Policy Changes (cont.)

- Attic and Crawl Space Inspection Requirements:
 - FHA prefers FULL inspection
 - Head and Shoulders is the alternate to a full inspection.



- Non-Residential Use:
 - Ensure that mixed-use properties comply with zoning.

This home was converted to a 4-unit property.
- 1st = Retail+1 bed Apt
- 2nd = 2 1-bed Apt.



Appraiser & Property Requirements: Key Policy Changes (cont.)

- Cost and Income Approach for Value: clarifying that ALL appropriate approaches must be utilized when applicable.



- Energy Efficient Building Components, Solar Systems, etc., requiring that contributory value of building components that enhance efficiency or energy savings must be analyzed and reported.

- FHA requires that the appraiser utilize all appropriate methods of valuation and does not restrict this to only a matched pairs analysis.

SECTION 6

In this section, we will discuss:

- Appraisal Report and Data Delivery Guide
- Electronic Appraisal Delivery (EAD)
- Appraiser Responsibility
- Determination of Defective Conditions
- Conditions Requiring Inspection By Qualified Individual or Entity

Appraisal Report and Data Delivery Guide

- Instructions detailing specific requirements for reporting the results of the appraisal, including data and file format and delivery are found in this Guide that works as a supplement to the SF Handbook.
- This document provides guidance to appraisers who are preparing residential appraisal reports utilizing the industry standard forms and to lenders who are submitting the appraiser's completed reports to FHA.
- FHA policy requires that the appraisal report be submitted on the form appropriate for the property type.



Requirements for Reporting: SF Housing Appraisal Report and Data Delivery Guide

- Posted to the HUD website.
- Describes line by line reporting requirements for the five appraisal report forms utilized by FHA.
- Includes Fannie Mae/Freddie Mac Uniform Appraisal Dataset (UAD) formats and requirements where applicable.
- Appraisal software companies will use this document to ensure that their products will comply with FHA requirements.



Appraisal Report and Data Delivery Guide (cont.)

- FHA has procured an Electronic Appraisal Delivery (EAD) system, which provides portal to access all HUD approved lenders and will allow electronic appraisal files to be uploaded to a central location, processed, and checked against an FHA defined rule set.



- The Appraiser must complete the Fannie Mae Form 1004 MC/Freddie Mac Form 71, Market Conditions Addendum to the Appraisal Report, for every appraisal.



Appraisal Report and Data Delivery Guide (cont.)

Other forms to be used in the completion of an FHA appraisal:

Property/Assignment Type	Acceptable Reporting Form
Single Family, Detached, Attached or Semi-Detached Residential Property	Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report; MISMO 2.6 GSE format
Single Unit Condominium	Fannie Mae Form 1073/Freddie Mac Form 465, Individual Condominium Unit Appraisal Report; MISMO 2.6 GSE format + 1004C
Manufactured (HUD Code) Housing	Fannie Mae Form 1004C/Freddie Mac Form 70B, Manufactured Home Appraisal Report; MISMO 2.6 Errata 1 format
Small Residential Income Properties (Two- to Four-Units)	Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report; MISMO 2.6 Errata 1 format



Appraisal Report and Data Delivery Guide (cont.)

Property/Assignment Type	Acceptable Reporting Form
Update of Appraisal (All Property Types)	Summary Appraisal Update Report Section of Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report; MISMO 2.6 Errata 1 format
Compliance or Final Inspection for New Construction or Manufactured Housing	Form HUD-92051, Compliance Inspection Report, in Portable Document Format (PDF)
Compliance or Final Inspection for Existing Property	Certificate of Completion Section of Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report; MISMO 2.6 Errata 1 format



Appraisal Report and Data Delivery Guide (cont.)

Additional Documentation Required for Appraisals of New Construction:

- When New Construction is less than 90% complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.
- When New Construction is 90% or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.



Electronic Appraisal Delivery (EAD) Portal Implementation

- Mortgagee Letter 2015-08 announced the Electronic Appraisal Delivery (EAD) portal for Federal Housing Administration (FHA) Insured Single Family Mortgages, which provides portal to access all HUD approved lenders.
- The solution will allow electronic appraisal files to be uploaded to a central location, processed, and checked against an FHA defined rule set.
- The original file, as well as the results of the scoring process will then be securely transferred to HUD servers.



Electronic Appraisal Delivery (EAD) Portal Implementation (cont.)

- Mandatory use effective with case numbers assigned on/after June 27, 2016.
- Mortgagees remain responsible for proper underwriting of the appraisal and for ensuring the property meets FHA's minimum property requirements and standards.
- The appraiser remains accountable for appraisal quality, credibility, and compliance with FHA appraisal requirements.
- When an individual appraisal is submitted— appraisal submitted becomes official record.



Electronic Appraisal Delivery (EAD) Portal Implementation (cont.)

- FHA's EAD portal is a web-based technology system that enables electronic transmission of appraisal data and reports to FHA by FHA-approved mortgagees and/or their designated third-party service providers prior to loan endorsement.
- Mortgagees must register for one of seven onboarding phases. Registration takes place within the FHA Connection (FHAC) system. More details are available on the EAD portal **Mortgagee Onboarding** page:



Electronic Appraisal Delivery (EAD) Portal Implementation (cont.)

- FHA will only accept appraisals in the Mortgage Information Standards Maintenance Organization (MISMO) 2.6 with embedded PDF format, as created directly by the appraiser (first generation).
- FHA does not accept private or proprietary data formats or appraisal reports that have been manipulated or "translated by anyone or any process.
- The EAD shall apply business rules, edits and handle overrides, based on the FHA's requirements for rule sets that are applied to appraisals.
- The portal will securely transmit discrepancies, findings, and other feedback messages to users based on FHA's requirements.



Electronic Appraisal Delivery (EAD) Portal Implementation (cont.)

Features of Portal System:

- Provides real-time feedback on compliance with FHA appraisal data and report requirements
- Leverages industry data standards and industry appraisal practices
- Offers process efficiencies
- Implements industry standard data formats developed and maintained by the Mortgage Information Standards Maintenance Organization (MISMO)
- Reduces error rates before endorsement
- Eliminates most paper-based FHA reviews of appraisals
- Offers role-based access and functionality, with specific user and administrator roles that control use
- Reduces redundancies by linking data submitted through the portal to data in the FHA Connection (FHAC) system, including auto-population of the FHAC Appraisal Logging screen



Electronic Appraisal Delivery (EAD) Portal Onboarding

- Mortgagees must register for and participate in an onboarding phase on or before the EAD portal's June 27, 2016 mandatory use date.
- Mortgagee's designated FHAC Application Coordinator should follow these three easy steps:
 - The FHAC Application Coordinator logs in to FHAC and selects the Lender Functions option.
 - On the Lender Functions screen, the FHAC Application Coordinator chooses the second item in the menu, Electronic Appraisal Delivery Sign Up. The onboarding phase information and registration capability are displayed on this screen.
 - The FHAC Application Coordinator selects the chosen onboarding phase to complete the registration process.



Electronic Appraisal Delivery (EAD) Portal Onboarding (cont.)

There are five onboarding phases remaining:

Phase	Onboarding Phase Start Date	Onboarding Phase End Date	Status
1	October 15, 2015	December 15, 2015	Closed to New Registrants
2	November 15, 2015	January 15, 2016	Closing Soon. Must Register by November 14, 2015.
3	December 15, 2015	February 15, 2016	Open
4	January 15, 2016	March 15, 2016	Open
5	February 15, 2016	April 15, 2016	Open
6	March 15, 2016	May 15, 2016	Open
7	April 15, 2016	June 15, 2016	Open

- Mortgagees must be registered to participate in their chosen onboarding phase **before** the start date of the phase.
- Mortgagees must register to participate in an onboarding phase for each of their approved FHA Lender IDs.





Appraiser Responsibility to Report Property Compliance

The Appraiser must observe, analyze and report that the Property meets HUD's:



- Minimum Property Requirements (MPR) which refer to general requirements that all homes insured by FHA be safe, sound, and secure, and
- Minimum Property Standards (MPS) which refer to regulatory requirements relating to the safety, soundness and security of New Construction.



Appraiser Responsibility to Report Property Compliance (cont.)

The 3 S's:

Safety: Protect the health and safety of the occupants;



Security: Protect the security of the property; and

Soundness: Structural integrity.



Determination of Defective Conditions

Defective conditions may adversely affect the health and safety of occupants, collateral security or structural soundness of the dwelling.

Examples include:

- defective construction,
- evidence of continuing settlement,
- excessive dampness,
- leakage,
- decay,
- termites, and
- environmental hazards.



The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD's MPR, and provide an estimated cost to cure.



Conditions Requiring Inspection by a Qualified Individual or Entity

- If the Appraiser cannot determine that a Property meets FHA's MPR or MPS, an inspection by a qualified individual or Entity may be required.



- If inspection is required, the Appraiser must cite the reason for requiring an inspection.



- The Appraiser must observe, analyze and report defective conditions and must also provide photographic documentation of those conditions in the appraisal report.





Conditions Requiring Inspection by a Qualified Individual or Entity (cont.)

Conditions include:

- standing water against the foundation and/or excessively damp basements;
- hazardous materials on the site or within the improvements;
- faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation);
- evidence of possible pest infestation;
- leaking or worn-out roofs; or
- any other condition that in the professional judgment of the Appraiser warrants inspection.



SECTION 7

In this section, we will discuss:

- Minimum Property Requirements (MPR)
- Minimum Property Standards (MPS)
- MPR & MPS
 - Legal Requirements
 - Legal and Land Use Considerations



Minimum Property Requirements and Minimum Property Standards

- Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) form the basis for identifying the deficiencies of the Property that the Appraiser must note within the appraisal report.
- Minimum Property Standards refer to regulatory requirements relating to the safety, soundness and security of New Construction.



Minimum Property Standards (MPS)

- MPS establishes certain minimum standards for buildings constructed under HUD housing programs, including new single family homes, multi-family housing and health care type facilities.
- Since the mid-1980's, HUD no longer maintains separate MPS for different structure types. Since that time, however, HUD has accepted the model building codes including over 250 referenced standards and building codes.
- Durability requirements are the major difference between MPS and other model building codes.



Minimum Property Standards (MPS) (cont.)

Homes and projects financed by FHA-insured mortgages are the collateral for these loans and their lack of durability can increase FHA's financial risk in the event of default.



Minimum Property Standards (MPS) (cont.)

- MPS includes minimum standards for items such as doors, windows, gutters, downspouts, painting, wall coverings, kitchen cabinets, carpeting, and other items.

These items are examined to ensure that the value of an FHA-insured home is not reduced by the deterioration of these components.



- The model codes do not contain any minimum requirements for the durability of such items. The stove is to the right of the vent. Is this acceptable?



Yes! Although unattractive, it is acceptable. However, it may affect marketability.

Minimum Property Standards (MPS) (cont.)

- HUD requires that each property insured with an FHA mortgage meet one of the nationally recognized building codes or a State or local building code based on a nationally recognized building code.



Source: ThisOldHouse.com Photo: Bob Pyne

Is a gutter system acceptable?

Why is this gutter system not acceptable?

A: Because the roof of the garage is leaking.



MPR and MPS - Legal Requirements

The Appraiser must contact the Mortgagee if:



- the Subject is not a single, marketable **real estate entity**.
- the **property rights** appraised are not on real estate held in *Fee Simple* or *Leasehold* that comply with HUD's requirements.
- the Property is located in a **Planned Unit Development (PUD)** that does not comply with common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments.





MPR and MPS Legal and Land Use Considerations

Party or Lot Line Wall: The Appraiser must note if the party or lot line wall does not extend to the roof or beyond.



Non-Residential Use of Property: The Appraiser must calculate the non-residential portion of any residential property such as:



- Storage areas or similar spaces
- Any non-residential use within the property
- State the percentage of the total floor area used as non-residential.
- Report whether the non-residential usage is legal and in compliance with current zoning requirements.
- Contact the Mortgagee if the non-residential portion of the Property exceeds 49 percent.



MPR and MPS Legal and Land Use Considerations (cont.)

Zoning: The Appraiser must determine if current use complies with zoning ordinances.



• If Property does not comply with all of the current zoning ordinances, but is accepted by the local zoning authority, the Appraiser must report the Property as "Legal Non-Conforming" and provide a brief explanation.

• The Appraiser must analyze and report any adverse effect that the non-conforming use has on the Property's value and marketability, and state whether the Property may be legally rebuilt if destroyed.



MPR and MPS Legal and Land Use Considerations (cont.)

Easements and Deed Restrictions: The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property.



The Appraiser must review recorded subdivision plats when available through the normal course of business.



MPR and MPS Legal and Land Use Considerations (cont.)

Encroachments: The Appraiser must identify any Encroachments of the subject's dwelling, garage, or other improvement onto an adjacent Property, right-of-way, utility Easement, or building restriction line.



The Appraiser must also identify any Encroachments of a neighboring dwelling, garage, other physical Structure or improvements onto the subject Property.

The Appraiser must notify the Mortgagee if, upon observation, it appears that an Encroachment affects the subject Property.

SECTION 8

In this section, we will discuss:

- MPR and MPS Externalities
- MPR and MPS Site Conditions

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MPR and MPS Externalities

The Appraiser must consider how Externalities affect the marketability and value of the Property, report the issue and the market's reaction, and address any positive or negative effects on the value of the subject Property within the approaches to value. Externalities include:



Heavy Traffic: The Appraiser must analyze and report if excess noise and safety issues could result from close proximity to heavily traveled roadways or railways.

Airport Noise and Hazards: The Appraiser must identify if the Property is affected by noise and hazards of low flying aircraft because it is near an airport. The Appraiser must review airport contour maps and analyze accordingly.

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MPR and MPS Externalities (cont.)

Special Airport Hazards: The Appraiser must:

- identify if the Property is located within a Runway Clear Zone at a civil airport or military.

For Properties located in an Accident Potential Zone 1 (APZ 1) at military airfields, the Appraiser must require compliance with the Department of Defense (DoD) Guidelines and a buyer's acknowledgement.



Source: www.FAA.gov

Airport Subdivision - Acceptable

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MPR and MPS Externalities (cont.)

Proximity to High Pressure Gas Lines: The Appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both aboveground and subsurface.



The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Property is not located more than 10 feet from the nearest boundary of the pipeline Easement.



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MPR and MPS Externalities (cont.)



Overhead Electric Power Transmission and Distribution Lines:

The Appraiser must identify if Overhead Electric Power Transmission Lines or Local Distribution Lines pass directly over any dwelling, Structure or related property improvement, including pools, spas, or water features.

The Appraiser must identify if the dwelling or related property improvements are located within an Easement or if they are located within an unsafe distance of any power line or tower. The Appraiser must also determine if the guidelines for Encroachments apply.



MPR and MPS Externalities (cont.)

Smoke, Fumes and Offensive or Noxious Odors:

The Appraiser must identify if excessive smoke, chemical fumes, noxious odors, stagnant ponds, marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the Property.

The Appraiser must consider the effect of the condition in the valuation of the Property if the conditions exist but do not threaten the occupants or marketability.



Stationary Storage Tanks:

The Appraiser must identify if the subject property line is located within 300 feet of an aboveground or subsurface stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material. This includes domestic and commercial uses as well as automotive service station tanks.

MPR and MPS Site Conditions

If the Appraiser identifies the following Site Conditions, the Appraiser must notify the Mortgagee of the deficiency of MPR or MPS.



Access to Property: The Appraiser must identify if the Property has pedestrian access and adequate vehicular access from a public or private street protected by a permanent recorded easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

? This situation depending on the circumstances.



MPR and MPS Site Conditions (cont.)

Onsite Hazards and Nuisances:

Include items that may have a negative effect on the value.

- rock formations,
- unstable soils or slopes,
- high ground water levels,
- springs, and other conditions.

Acceptable?

No. Foundation repairs.

The Appraiser must provide photographs of potential problems or issues to assist the Mortgagee in understanding the problem.



Source: TheOnHouse.com Photo: Getty Images

MPR and MPS Site Conditions (cont.)

Topography:

The Appraiser must identify if the surface and subsurface water is not diverted from the dwelling to ensure positive drainage away from the foundation.



The Appraiser must make the appraisal "subject to" an inspection by a qualified individual or Entity if the purchase contract or any other documentation indicates, or if the Appraiser observes dampness because of a foundation issue.

The Appraiser must report to the Mortgagee any danger due to topographic conditions (e.g., earth and mudslides from adjoining properties, falling rocks and avalanches) to the subject Property or the adjoining land.



MPR and MPS Site Conditions (cont.)

Grading and Drainage:

The Appraiser must check for readily observable evidence of grading and drainage problems. The Appraiser must make the appraisal "subject to" repair if the grading does not provide positive drainage away from the improvements.



The Appraiser must note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage. The Appraiser must report this in the "Site" section of the report, if the standing water is problematic.



MPR and MPS Site Conditions (cont.)

Suitability of Soil: The Appraiser must consider the observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements.



MPR and MPS Site Conditions (cont.)

Land Subsidence and Sinkholes: The Appraiser must identify if there is probable or imminent danger of Land Subsidence so that the Mortgagee can determine eligibility or the need to require the purchase of subsidence insurance. In mining areas, the Appraiser must analyze and report the depth or extent of mining operations and the site of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable or negligible.



Acceptable?

No. Take photos at each angle and send to the lender.



MPR and MPS Site Conditions (cont.)

Operating, Proposed Oil or Gas Wells:

The Appraiser must examine the site for the existence of any evidence of an oil or gas well and report the distance from the dwelling.

- The Appraiser must notify the Mortgagee if the dwelling is located < 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.



Abandoned Oil or Gas Wells: The Appraiser may only complete the appraisal on a Property located near a gas well that emits hydrogen sulfide, IF the minimum clearance has been established by a petroleum engineer.



MPR and MPS Site Conditions (cont.)



Abandoned Oil or Gas Wells: If the Appraiser notes an abandoned gas or oil well on the subject site or an adjacent Property, the Appraiser must stop work and notify the Mortgagee.

The Appraiser may resume work when the Mortgagee provides a letter from local jurisdiction or the appropriate state agency, stating that the well was abandoned in a safe manner.



MPR and MPS Site Conditions (cont.)

Slush Pits: If the Property has a Slush Pit, the Appraiser must make the appraisal "subject to" the removal of all unstable and toxic materials and the site made safe.



Property Eligibility in Special Flood Hazard Areas: If the Property appears to be located within a Special Flood Hazard Area (SFHA), the Appraiser must attach a copy of the flood map panel to the appraisal report. The Appraiser must enter the FEMA zone designation on the reporting form, and identify the map panel number and map date.

Coastal Barrier Resources System: The Appraiser must review the FEMA FIRM to determine if a Property is located within a Coastal Barrier Resources System (CBRS). The Appraiser must stop work and notify the Mortgagee if the Property is located within a designated area.

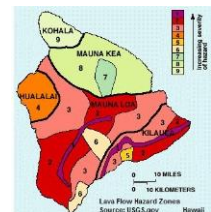


MPR and MPS Site Conditions (cont.)

Lava Zones:

When a Property is located in Hawaii, the Appraiser must review the U.S. Geological Survey (USGS) Lava Flow Hazard Zone maps and must identify if the Property is located in Zones 1 or 2.

The Appraiser must report in the "Comments" section that the Property is in the Lava Flow Hazard Zone and provide the Zone Number.



MPR and MPS Site Conditions (cont.)

Mineral, Oil, and Gas Reservations or Leases

The Appraiser should consider:

- the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease; and
- the hazards, nuisances, or damages that may occur to the subject property from exercise of a reservation or lease privileges on neighboring properties.

If a property has any leases, the appraiser must analyze and include a summary of the effect on the property.

Appraisers must comment on:

- Impairment;
- Property damage; or
- Environmental concerns.



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MPR and MPS Site Conditions (cont.)

Soil Contamination: The Appraiser must report the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes that may have a negative influence on the marketability and/or value of the subject Property.



Residential Underground Storage Tanks:

The Appraiser must note any observable surface evidence such as fill pipes, pumps, ventilation caps, etc. If there is observable evidence of leakage or onsite contamination, the Appraiser must make a requirement for further inspection.

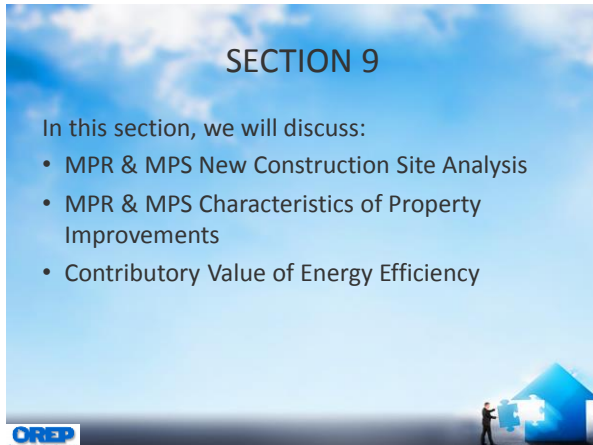


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SECTION 9

In this section, we will discuss:

- MPR & MPS New Construction Site Analysis
- MPR & MPS Characteristics of Property Improvements
- Contributory Value of Energy Efficiency



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MPR and MPS New Construction Site Analysis

The Appraiser must obtain a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site Plans*, signed and dated no more than 30 Days prior to the date the appraisal was ordered, before performing the appraisal on Proposed Construction, Properties Under Construction or Properties Existing Less than One Year.

The Appraiser must review the form and analyze and report any discrepancies between the information provided by the builder and the Appraiser's observations.



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MPR and MPS Excess and Surplus Land



- The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser's conclusion of the existence of Excess Land.
 - The Appraiser must include Surplus Land in the valuation.
- If two or more legally conforming platted lots are under one legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land.
 - The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.



MPR and MPS Characteristics of Property Improvements



- The property must be a single, marketable real estate **entity**.
- Any **non-residential use** of the property must be inferior to its residential use and character.

If any portion of a property is designed or used for non-residential purposes, it is eligible if the non-residential use does not impair the residential character of the property, or exceed 49% the total floor area.



MPR and MPS Characteristics of Property Improvements (cont.)



Each living unit must have the **space requirements** necessary to assure suitable living, sleeping, cooking and dining accommodations, and sanitary facilities.

- Each unit must have a continuing and sufficient safe and potable **water supply** under adequate pressure and of appropriate quality for all household uses, including domestic hot water.
- Each unit must have **sanitary facilities** and a safe method of sewage disposal, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower.
- Each unit must have **electricity** adequate for lighting, cooking and for mechanical equipment used in the living unit.



MPR and MPS Characteristics of Property Improvements (cont.)



Would this property meet MPR and MPS requirements?

Situation: Two-story home with 4-Bedrooms, 1.5 bathrooms on 1st and 2nd floors, and a semi-renovated kitchen. Basement access from kitchen. Fenced yard in quiet neighborhood.



Photo of different house




No, the 1st and 2nd floors met safety and health requirements. Basement did not meet FHA requirements. Among other reasons, no water/sewer.





MPR and MPS Characteristics of Property Improvements (cont.)

Heating must be adequate for healthful and comfort living conditions. 

- Unvented space heaters –appraisers must report any space heater that uses liquid or gaseous fuel.
- Unvented fireplace – must be reported.
- Wood burning stove - as primary heat source must have a permanently installed conventional heating system that maintains a temperature of at least 50 degrees Fahrenheit in areas with plumbing.
- Solar systems - for domestic water and/or space heating must meet standards in HUD Handbook 4930.2, and be backed-up 100 percent with a conventional thermal energy subsystem or other backup system.



MPR and MPS Characteristics of Property Improvements (cont.)

Is this radiator system acceptable?

Yes, if it functions properly and does not cause safety issues.

This radiator was noisy, but provided ample heat according to the home inspector.




MPR and MPS Characteristics of Property Improvements (cont.)

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if:


- **access to the living unit** is not provided without passing through any other living unit, or
- **access to the rear** yard is not provided without passing through any other living unit.

For attached dwellings, the access may be by means of alley, easement, common area or passage through the dwelling.

The Appraiser must report when the Property has security bars on bedroom windows or doors. 



MPR and MPS Characteristics of Property Improvements (cont.)

For **non-standard house styles**, the Appraiser must provide a comment that the unit appears structurally sound and marketable and must apply appropriate techniques for analysis and evaluation. 

In order for such a Property to be fully marketable, the Appraiser must demonstrate that it is located in an area of other similar types of construction and blend in with the landscape.



The Appraiser may require additional education, experience, or assistance for these types of Properties.

MPR and MPS Characteristics of Property Improvements (cont.)

The Appraiser must treat **modular housing** the same as stick-built housing, including reporting the appraisal on the same form.

Although quality can vary, all of the materials – from framing, roofing and plumbing to cabinetry, interior finish and electrical – are identical to what is found in comparable quality conventional "stick-built" housing.



The Appraiser must select and analyze appropriate comparable sales, which may include conventionally built housing, Modular Housing or Manufactured Housing.



MPR and MPS Characteristics of Property Improvements (cont.)

- The Appraiser must make the determination to classify the Property as a Single Family dwelling with an **accessory dwelling unit (ADU)**, as part of the highest and best use analysis. The conclusion of the analysis will then determine the classification of the Property and the analysis and reporting required.



An ADU is usually subordinate in size, location and appearance to the primary Dwelling Unit and may or may not have separately metered utilities or separate means of ingress or egress.

The Appraiser must not include the living area of the ADU in the calculation of the Gross Living Area (GLA) of the primary dwelling. The Appraiser must notify the Mortgagee of the deficiency in MPR or MPS if more than one ADU is located on the subject Property.

MPR and MPS Characteristics of Property Improvements (cont.)

- The Appraiser may consider an **additional manufactured home** to be an accessory dwelling unit (ADU) if it meets the highest and best use and FHA requirements. The Appraiser may value a Manufactured Home on the Property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.



MPR and MPS Characteristics of Property Improvements (cont.)

- The Appraiser must not include the value of **leased equipment, components, and mechanical systems** in the Market Value of the subject Property that are NOT allowed by the property owner. Items include:
 - Furnaces
 - water heaters
 - fuel or propane storage tanks
 - solar or wind systems (including power purchase agreements)
 - other mechanical systems and components



The Appraiser must identify such systems in the appraisal report.

Contributory Value of Energy Efficiency

Measurement/Reporting of Contributory Value of energy efficiency components or alternate systems:

– Valuation of Solar Components is not limited to paired sales only.

– Appraiser must follow proper appraisal practice including:

- Contribution (Principle of Contribution & Contributory Value;
- Direct Sales Comparison Approach;
- Cost Approach;
- Income Approach; and Reconciliation of Approaches



Source: TheGuardian.com



Source: IncomeOfTheGrid.com

SECTION 10

In this section, we will discuss:

- Gross Living Area
- Appliances
- Swimming Pools

Gross Living Area

The Appraiser must:

- identify non-contiguous living area
 - analyze its effect on functional utility;
 - ensure that finished basements and unfinished attic areas are not included in the total GLA; and
 - use the same measurement techniques for the subject and comparable sales, and report the building dimensions in a consistent manner.
- When any part of a finished level is below grade, the Appraiser must report all of that level as below-grade finished area, and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.



Gross Living Area (cont.)

The Appraiser must treat **room additions and garage conversions** as part of the GLA of the dwelling, provided that the addition or conversion space:

- is accessible from the interior of the main dwelling in a functional manner;
- has a permanent and sufficient heat source; and
- was built in keeping with the design, appeal, and quality of construction of the main dwelling.



If the Appraiser chooses to include converted living spaces as GLA, the Appraiser must detail the composition of the GLA reported for the comparable sales, functional utility of the subject and comparable properties, and the market reaction.

Gross Living Area (cont.)

Room additions and garage conversions that do not meet the criteria are addressed as a separate line item in the sales grid, not in the GLA. The Appraiser must address the impact of inferior quality conversions and room additions on marketability and Contributory Value, if any. The Appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space.



The Appraiser may analyze converted living spaces on a separate line within the sales comparison grid including the functional utility line in order to demonstrate market reaction. The Appraiser must not add an ADU or secondary living area to the GLA.

Gross Living Area (cont.)

Partially Below-Grade Habitable Space: The Appraiser must report the design and measurements of the subject, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.



Regardless of the description of the rooms, bedrooms or baths as above grade or below grade, the Appraiser must analyze all components of the subject Property in the valuation process.

Bedrooms: The Appraiser must not identify a room as a bedroom that cannot accommodate ingress or egress in the event of an emergency, regardless of location above or below grade.



Appliances

Cabinets and built-in appliances considered Real Property *must be present and operational*.

- The Appraiser must note appliances present in the house and indicate whether that appliance is Personal Property or Real Property.

- The Appraiser *must operate all conveyed appliances* and observe their performance, unless operation will damage.

- Vent or Fan hood
- Dishwasher
- Stove
- Garbage Disposal
- Heat Pump/Heater
- Refrigerator
- Hot Water Heater

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if any conveyed appliances are inoperable.



Swimming Pools

- Swimming pools must be operational to provide full Contributory Value.



- If the pool water contains algae and is aesthetically unappealing, but there is no evidence that the pool is otherwise contaminated, no cleaning is required.

- If the pool has been winterized, or cannot be determined if in working order, the appraisal must be completed with the extraordinary assumption that the pool and its equipment can be restored to full operating condition at normal costs.




Is this pool acceptable?

Yes! As long as there is no evidence of contamination that may cause unhealthy conditions for the inhabitants.



Swimming Pools (cont.)

- Readily observable defects must be reported in a non-covered pool that would render the pool inoperable or unusable. 

- The Appraiser must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines, and the surrounding land re-graded if necessary.



This pool is unacceptable because it is inoperable and may pose safety and health issues.

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SECTION 11

In this section, we will discuss:

- Mechanical Components and Utilities
 - Plumbing
 - Heating
 - Electrical

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Mechanical Components and Utilities

Mechanical systems - plumbing, heating and electrical: must be safe to operate, be protected from destructive elements, have reasonable future utility, durability and economy, and, have adequate capacity and quality.

- The Appraiser must operate the applicable systems and observe their performance.

- If the systems are damaged or do not function properly, the Appraiser must condition the appraisal on its repair or further inspection.



No, this non-functional toilet is not acceptable because of water leaks.



OREP



Mechanical Components and Utilities (cont.)



- If the Property is vacant, the Appraiser must note in the report if the utilities were on or off at the time of the appraisal. If off and the systems could not be operated, the Appraiser must:
 - render the appraisal as "subject to" re-observation;
 - condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
 - complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.
- The Appraiser must note that the re-observation may result in additional repair requirements once all the utilities are on and fully functional.

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Mechanical Components and Utilities (cont.)



- The Appraiser should not operate the systems if doing so may damage equipment or when outside temperatures will not allow the system to operate.
- If systems could not be operated due to weather conditions, the Appraiser must clearly note this in the report.
- Electrical, plumbing, or heating/cooling certifications may be required when the Appraiser cannot determine if one or all of these systems are working properly.

Yes, As long as safe and operational.



Mechanical Components and Utilities (cont.)



Plumbing System

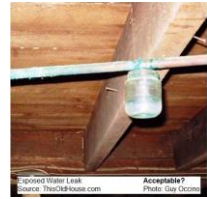
An appraiser should check water pressure and flow to determine if the plumbing system is intact and without foul odors.

The Appraiser must:

- flush the *toilets*;
- operate *faucets*
- and *shower head* to test water pressure.

Each should function properly with cold & hot water.

If water pressure wanes, there may be a leak in one of the fixtures.



Mechanical Components and Utilities (cont.)



Plumbing System (cont.)

The appraiser should check that there is no observable evidence of leaks or structural damage under fixtures.



Both of these plumbing fixtures are unacceptable.

Mechanical Components and Utilities (cont.)

Plumbing System (cont.)

The *water heater* must be examined to ensure it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.

No, this water heater could weigh between 320 and 450 pounds.

When the plastic crate collapses, the water will cause safety and health issues.



Let's discuss how you help a homeowner prevent explosions.

Mechanical Components and Utilities (cont.)



Septic systems must be examined for signs of failure or surface evidence of malfunction. If there are deficiencies, the Appraiser must require repair or further inspection.

Probably Not An Acceptable Septic



Mechanical Components and Utilities (cont.)



Heating System

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the permanently installed heating system does not:

- automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components "subject to" failure or damage due to freezing;
- provide healthful and comfortable heat or is not safe to operate;
- rely upon a fuel source that is obtainable within the subject's geographic area;
- have market acceptance within the subject's marketplace; and
- operate without human intervention for extended periods of time.



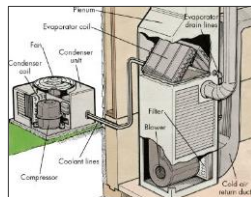
Mechanical Components and Utilities (cont.)



Cooling System

Central air conditioning is not required but, if installed, must be operational.

If the air conditioning system is not operational, the Appraiser must indicate the level of deferred maintenance, analyze and report the effect on marketability, and include the cost to cure.



Mechanical Components and Utilities (cont.)



Electrical System

The Appraiser must examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amperage and panel size appears inadequate for the Property.



Mechanical Components and Utilities (cont.)

Electrical System (cont.)

The Appraiser must operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies.



No, the exposed brick and drywall caused by the water damage is unacceptable due to safety.



Water leak, exposed walls, unfunctional electric switch

Acceptable?
Photo: L. DeAstra

Mechanical Components and Utilities (cont.)

Electrical System (cont.)

The Appraiser is not required to insert any tool, probe or testing device inside the electrical panel or to dismantle any electrical device or control.



No, this unorganized electrical panel with open wires is a safety hazard.



Unorganized Electrical Wiring
Source: ThisOldHouse.com

Acceptable?
Photo: Bob Shipp

SECTION 12

In this section, we will discuss:

- Roof Covering
- Defective Paint
- Attic Observation

Roof Covering

- The **roof covering** must prevent moisture, future utility, durability, economy of maintenance, and have a *remaining life of at least 2 years*.
- The Appraiser must identify the roofing material type and the condition observed in the "Improvements" section of the report.
- If less than 2 years remaining, make the appraisal "subject to" inspection by a professional.
- If 3 or more layers of shingles, they must be replaced with old shingles removed.



Roof Covering (cont.)



Yes, if the left side is a 2nd layer.

If roof is covered with snow, view attic for signs of leaking.

Roof Covering (cont.)



The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility.



Defective Paint



- If the dwelling or related improvements were built before 1978, the Appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements.



Defective Paint (cont.)



- If the dwelling or related improvements were built on or before December 31, 1978, the Appraiser must note the condition and location of all defective paint and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements.
- The Appraiser must observe all interior and exterior surfaces, including common areas, stairs, deck, porch, railings, windows and doors, for defective paint (cracking, scaling, chipping, peeling, or loose).
- Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and other outbuildings and appurtenant structures.

Attic Observation

The Appraiser must observe all attic spaces.

- NEVER walk on the attic floor without a solid covering. Otherwise, gravity may pull your weight through the ceiling.



- As required by FHA, take photos of the attic with a 360 view. There may be items stored in attic, so it is best to have an extraordinary assumption for areas that cannot be observed.



Attic Observation (cont.)

If unable to view the Attic safely, the Appraiser:

- must contact the Mortgagee and reschedule a time when a complete visual observation can be performed, or
- complete the appraisal "subject to" inspection by a qualified third party.

If there is no access or scuttle, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.



When an Appraiser cannot fully enter the attic, insertion of at least the head and shoulders will suffice.



Source: This Old House Photo: Barry M. Wong

Attic Observation (cont.)

Evidence of a deficient condition:

- water-stained ceiling,
- insufficient ventilation, or
- smell of mold.



The Appraiser must report the condition, *and* render the appraisal "subject to" inspection and repairs if necessary.

Natural ventilation of structural spaces such as attics and crawl spaces must be provided to reduce the effect of excess heat and moisture which could cause decay and deterioration of the structure.



Attic Observation (cont.)

Obvious Concerns



Source: ThisOldHouse.com Photo: Barry M. Wong



Source: ThisOldHouse.com Photo: Barry M. Wong



A ceiling fan in the GLA supported by a rope attached to a support beam in the attic is not acceptable because it is a safety concern.

Attic Observation (cont.)



Attic Observation (cont.)

What to observe:

- Smell - Is there mold?
- Ventilation and Air Flow - A lack can cause wall and ceiling cracks that may eventually affect structure of dwelling.
- Insulation - If damaged or non-existent, the hot/cold temperatures could cause wall/ceiling cracks.
- Dark Spots - Evidence of water leak.
- Soffit - Areas susceptible to water damage can rot and result in a mold issue.



SECTION 13

In this section, we will discuss:

- Soffit
- Structural Conditions
- Foundation
- Crawl Space Observation

Soffit

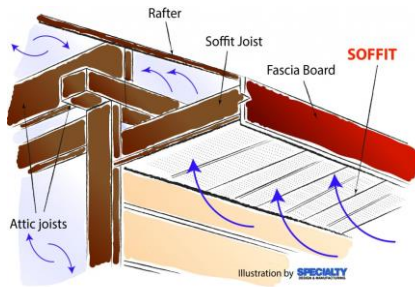
Definition: soffit, 'săfit (*noun*) - the underside of an architectural structure such as an arch, a balcony, or overhanging eaves.

The material connecting the roof overhang and the side of your building?

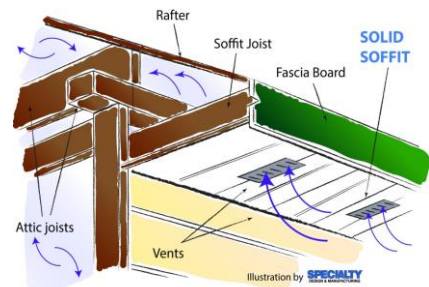
A soffit is the main roof of a building, but a soffit can also be used under porches, under arches or columns, under a flight of stairs... pretty much anything that has a visible ceiling. It is commonly made in aluminum and vinyl, as well as fiber cement, wood, and steel.



Soffit (cont.)



Soffit (cont.)



Structural Conditions



The Appraiser must perform a visual observation of the foundation and Structure of the improvements and report those results.

If any structural issues, the Appraiser must address the deficiency in the appraisal where physical deficiencies or adverse conditions are reported and require inspection.

No, the rebar is a safety issue!



Foundation

- The Appraiser must examine the foundation for observable evidence of safety or structural deficiencies that may require repair. If a deficiency is noted, the Appraiser must describe the nature of the deficiency and report necessary repairs, alterations or required inspections.





Foundation

- The Appraiser must notify the Mortgagee if the **sump pump** is not properly functioning at the time of appraisal. A sump pump may be hardwired by an acceptable wiring method or may have a factory electrical cord that is to be connected to a receptacle suitable for such use.



This sump pump is not functioning and unacceptable.

Unfortunately for the mouse, he brought the raft but no food for the trip.



Foundation (cont.)

- The Appraiser must notify the Mortgagee if the **basement** has dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the Structure.



Crawl Space Observation

- The crawl space must have adequate access.
- The space must be clear of all trash, debris, and vermin.
- The space must be properly vented.



Crawl Space Observation (cont.)

- The Appraiser must visually observe all areas of the crawl space.

- Notify the Mortgagee of the deficiency of MPR and MPS when the crawl space does not satisfy the listed criteria.



- Any excessive dampness or ponding of water in the crawl space must be corrected.



Crawl Space Observation (cont.)

- When the Appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulders will suffice.
- If there is no access to the crawl space, but there is evidence of a deficient condition the Appraiser must report this condition and the Mortgagee must have a qualified third party perform an inspection.
 - Example: Water-stained subflooring and the smell of mold.
- If there is no access, the Appraiser must report the lack of accessibility to the area in the appraisal report.



Crawl Space Observation (cont.)

- The floor joists must be sufficiently above the highest level of the ground to provide access for maintenance and repair of ductwork and plumbing.
- If the space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.
- The space must not be excessively damp and must not have any water pooling.

No, these conditions are unacceptable.



SECTION 14

In this section, we will discuss:

- Environmental and Safety Hazards
- Repair Requirements

Environmental and Safety Hazards

Environmental and safety hazards may include defective lead-based paint, mold, toxic chemicals, asbestos, radioactive materials, other pollution, hazardous activities, and potential damage to the structure from soil or other differential ground movements, subsidence, flood, and other hazards.



Environmental and Safety Hazards (cont.)

Lead-Based Paint: The Appraiser must note the condition and location of all defective paint and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements.

If the improvements were built before 1978, the appraiser must note the condition and location of all defective paint on the Property.

The appraiser must inspect all interior and exterior surfaces – stairs, deck, porch, railings, windows and doors – for defective paint (chipping, flaking or peeling).



Environmental and Safety Hazards (cont.)

Wood Destroying Pests

The foundation and perimeter of buildings must be observed for evidence of wood destroying pests.

If there is evidence or notification of infestation, including a prior treatment, the Appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal and make the appraisal "subject to" inspection by a qualified pest control specialist.



Environmental and Safety Hazards (cont.)



The most common wood destroying insects and organisms include bees, termites, ants, and beetles.



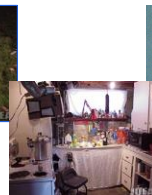
Source: <http://lancaster.unt.edu/pest/termite.shtml>, <http://www.termiteinstitute.com/media-library-view.aspx?ID=EIAAJZa3-4>, <http://media.flas.unt.edu/NO35>

Environmental and Safety Hazards (cont.)

Methamphetamine Contaminated Property

If the Mortgagee notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth),

- either by its manufacture or by consumption,
- the Appraiser must render the appraisal "subject to" the Property being certified safe for habitation.



Environmental and Safety Hazards (cont.)

Methamphetamine Contaminated Property

- Contaminated properties have potentially significant environmental risks due to use and/or storage of dangerous chemicals on the property.
- If the Mortgagee notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Appraiser must render the appraisal subject to the Property being certified safe for habitation.
- The Appraiser must analyze and report any long-term stigma caused by the Property's contamination by meth and the impact on value or marketability.



Environmental and Safety Hazards (cont.)

If the effective date of the appraisal is prior to certification that the Property is safe for habitation, the Appraiser will complete the appraisal "subject to" certification that the Property is safe for habitation.



If the effective date of the appraisal is after certification that the Property is safe for habitation, and the Mortgagee has provided a copy of the certification by the certified hygienist, the Appraiser must include a copy of the certification in the appraisal report.



Repair Requirements

The Appraiser must report the repairs necessary to make the Property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for the required repairs.

Limited Required Repairs: The Appraiser must limit required repairs to those repairs necessary to:

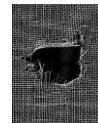
- maintain the safety, security and soundness of the Property;
- preserve the continued marketability of the Property; and
- protect the health and safety of the occupants.



Repair Requirements (cont.)

As-Is Condition: The Appraiser may complete an as-is appraisal for existing Properties when minor property deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the Property.

Cosmetic Repairs: Cosmetic or minor repairs are not required, but the Appraiser must report and consider them in the overall condition when rating and valuing the Property.



Torn Screen



Worn Hardwood



Broken Glass

Repair Requirements (cont.)

Defective Conditions Requiring Repair: The nature and degree of any noted deficiency will determine whether the Appraiser must address the deficiency in the narrative comments area of the report under "condition of the property" or "physical deficiencies" affecting livability or structural soundness.

Conditions Requiring Inspection by a Qualified Individual or Entity:

Observations that reveal evidence of a potential safety, soundness, or security issue beyond the Appraiser's ability to assess.

No, an open shower below an electrical panel is unacceptable and may lead to a shocking experience!



SECTION 15

In this section, we will discuss:

- Utility Services
- Onsite Sewage Disposal Systems
- Eligibility and General Requirements for Manufactured Housing under Title II

Utility Services

For attached, detached, or manufactured Single Family dwellings:

- the utilities should be independent for each living unit, and
- located on easements that have been permanently dedicated to the local government or appropriate public utility body.

Multiple Living Units Under Single Ownership

It is *not* a deficiency if the Property contains multiple living units under a single Mortgage or ownership (two- to four-family Properties) that utilize common services, such as water, sewer, gas and electricity.



Sometimes, a property might be served by one meter in jurisdictions that allow single meter rental properties, *unless separate utility service shut-offs are not provided for each.*

Utility Services (cont.)

Living Units Under Separate Ownership:

It is *not* a deficiency if the Property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an Easement or covenant and maintenance agreement,

unless individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities.

Utility Services (cont.)

Individual Water Supply Systems:

- Water quality must meet the requirements of the health authority within the jurisdiction.
- If there are no local (or state) water quality standards, then water must be potable, which may be demonstrated by compliance with the current EPA Manual of Individual and Non-Public Water Supply Systems.

Acceptable?

Maybe. Check with local codes or if unsafe, note in report and take photographs.



Utility Services (cont.)

Conditions for Individual Water Supplies:

The Appraiser must note the deficiency such as:

- If a well is within the foundation walls of an existing dwelling
- no evidence that the local jurisdiction permits the location
- that it is common for the market area, and
- does not adversely affect marketability unless the well is located within the foundation walls of a New Construction dwelling in an arctic or sub-arctic region.



Utility Services (cont.)

The Appraiser must report when:

- water to a Property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site;
- if such systems are accepted by local market participants and that the water supply system may violate MPR or MPS; and
- if a water source includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point or artesian wells.

A pressure tank with a minimum capacity of 42 gallons must be provided. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.



Utility Services (cont.)

Conditions for Individual Water Supplies (cont.):

The Appraiser must note and require test or inspection if:

- the water supply relies upon a water purification system due to the presence of contaminants;
- areas of intensive agricultural uses within one quarter mile;
- coal mining or gas drilling operations within one quarter mile;
- a dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile; or
- an unusually objectionable taste, smell, or appearance of well water; and
- corrosion of pipes (plumbing).



Utility Services (cont.)

Shared Wells:

- Shared wells must be reported and any observable deficiencies noted.
- The Appraiser must also obtain a Shared Well Agreement and include it in the appraisal report so that the Mortgagee may review the agreement to determine eligibility.
- The Appraiser must also require an inspection under the same circumstances as an individual well.



Community Water Systems:

The Appraiser must:

- note the name of the water company on the appraisal report
- report on the availability of connection to public and/or Community Water System or sewer system, and any jurisdictional conditions requiring connection.



Onsite Sewage Disposal Systems

The Appraiser must:

- visually inspect the onsite Sewage Disposal System and its surrounding area;
- require an inspection to ensure that the system is in proper working order if there are observable signs of system failure;
- report on the availability of public sewer to the site; and
- note the deficiency of MPR or MPS and notify the Mortgagee if the Appraiser has evidence that the Onsite Sewage Disposal System is not sufficient.



No, the sewer pipe should be sited for the safety of the inhabitants.



Eligibility and General Requirements for Manufactured Housing under Title II

The manufactured house:

- must have a floor area of not less than 400 square feet;
- must be constructed on or after June 15, 1976, in conformance with the federal MHCS, as evidenced by an affixed certification label under [24 CFR §3280.11](#) (Manufactured Houses produced prior to that date are ineligible for insured financing);
- and site must exist together as a real estate Entity under state law (but need not be treated as real estate for taxation);
- must be moved from the factory or dealer directly to the site; and
- must be a dwelling with a permanent foundation built to comply with the Permanent Foundations Guide for Manufactured Housing (PFGMH).



Eligibility and General Requirements for Manufactured Housing under Title II (cont.)

Look for this type of label and take a photograph for your file.



Eligibility and General Requirements for Manufactured Housing under Title II (cont.)

- The mortgage must cover both the manufactured unit and its site and must have a term of not over 30 years from the date amortization begins.
- The finished grade elevation beneath the manufactured home or, if a basement is used, the grade beneath the basement floor must be at or above the 100-year return frequency flood elevation.
- The Structure must be designed for occupancy as a Principal Residence by a single family.

Appraiser to require inspection by State Agency if any Additions or Structural changes are observed.



Eligibility and General Requirements for Manufactured Housing under Title II (cont.)

Manufactured Housing within a Condominium Project is eligible for FHA insurance if they are within an approved Project.



Flood Zone

If a manufactured home is in Flood Zones A or V, the appraiser must stop work and contact the mortgagee. The mortgagee may ask the appraiser to continue work on the assignment based on a Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) or flood elevation certification.

If the appraiser is provided with a LOMA or LOMR, the appraiser need not indicate that the property is in a flood zone. If provided with an elevation certificate, the appraiser will indicate the property is in a flood hazard area on the appraisal report.

Eligibility and General Requirements for Manufactured Housing under Title II (cont.)

Perimeter Enclosure

The **appraiser must address** the adequacy of the perimeter enclosure and call for repairs or further inspection, if warranted.

Manufactured Housing: Skirting



FHA requires a properly enclosed crawl space with a continuous perimeter enclosure. The permanent foundation can consist of concrete block, brick, or other solid materials.

Source: www.hud.gov FHA Appraisal Inspection Requirements webinar, 8/14



SECTION 16

In this section, we will discuss:

- Condominium Projects
- 203(k) Rehabilitation Mortgage Insurance Program
- 203(k) Program Highlights of Changes
- Maps, Exhibits and Photographs Requirements

Condominium Projects

- A Condominium Project is a multiunit property in which persons hold title to individual units and an undivided interest in common elements.
- Common elements (areas) include underlying land and building structures, driveways, parking areas, elevators, outside hallways, and recreation and landscaped areas.
- Common areas are typically managed by a Homeowners' Association (HOA).
- To be eligible for FHA insurance, the project must be on the list of FHA-approved condominiums

Reporting instructions require use of the 1004C form **PLUS** the condominium project data as would be found in the project section of the 1073 form.



203(k) Rehabilitation Mortgage Insurance Program

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance outstanding indebtedness on the Structure and the Real Property on which the Structure is located; or
- purchase and rehabilitate a Structure and purchase the Real Property on which the Structure is located.

Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase (and refinancing) of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home.

203(k) Program Highlights of Changes

- Product name change: Streamline 203(k) to Limited 203(k).
- New terminology in maximum mortgage calculation:
 - Financeable Repair and Improvement Costs and Fees;
 - Financeable Contingency Reserves;
 - Financeable Mortgage Payment Reserves; and
 - Financeable Mortgage Fees.
- Combination with other FHA products and programs.



203(k) Program Changes (cont.)

- As-Is Appraisal requirement for refinance transactions:
 - Less than 12 months seasoning; and
 - Existing debt plus Financeable Repairs, Improvement costs, and fees exceeds After Improved Value.
- As-Is Appraisal requirement for purchase transactions

Property Flipping.

- Maximum Mortgage Worksheets – to be automated.
- Mixed Use Properties – 51 percent of Gross Building Area.



Maps, Exhibits and Photograph Requirements

Map:

The Appraiser must include a legible street map with the location of:

- the subject
- each sale,
- each rental,
- each listings, and
- other data points utilized.



Maps, Exhibits and Photograph Requirements

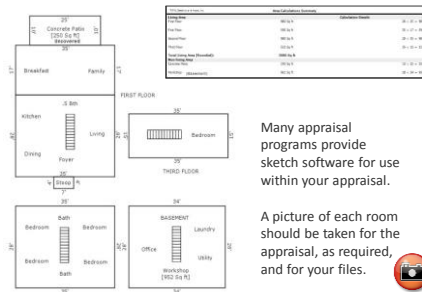


Exhibits:

- The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or out buildings contributing value.
- The sketch must show "covered" or "uncovered" to indicate a roof or no roof (such as over a patio).
- The Appraiser must show the calculations used to arrive at the estimated GLA.
- The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

An example follows.

Maps, Exhibits and Photograph Requirements



Many appraisal programs provide sketch software for use within your appraisal.

A picture of each room should be taken for the appraisal, as required, and for your files.



Maps, Exhibits and Photograph Requirements (cont.)



Photographs - Subject Property Exterior:

- Front and rear at opposite angles to show all sides of the dwelling
- Improvements with Contributory Value not captured in the front or rear photograph
- Street scene photograph to include a portion of the subject site
- For New Construction, include photographs that depict the subject's grade and drainage
- For Proposed Construction, a photograph that shows the grade of the vacant lot

Maps, Exhibits and Photograph Requirements (cont.)

Photographs - *Subject Property Interior:*

- Kitchen, main living area, bathrooms, bedrooms
- Any other rooms representing overall condition
- Basement, attic, and crawl space
- Recent updates, such as restoration, remodeling and renovation

For two- to four-unit properties, include photographs of hallways, foyers, laundry rooms and other common areas



Maps, Exhibits and Photograph Requirements (cont.)

Photographs - *Comparable Sales, Listings, Pending Sales, Rentals, etc.:*

- Front view of each comparable utilized
- Photographs taken at an angle to depict both the front and the side when possible
- Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale, however, Appraisers must include their own photographs to document compliance



Maps, Exhibits and Photograph Requirements (cont.)

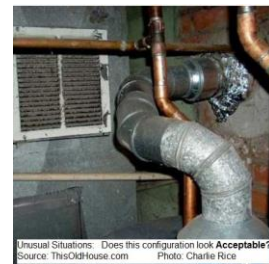
Photographs - *Subject Property Deficiencies:*

- Photographs of the deficiency or condition requiring inspection or repair



Let's review several potential deficiencies.

Maps, Exhibits and Photograph Requirements (cont.)



Did you notice the tin foil around the chimney vent?

If there were a gas furnace, what might happen?

A: Carbon monoxide poisoning



Maps, Exhibits and Photograph Requirements (cont.)



What purpose does the sock fulfill?
A: Water Collection
 No. The sock is not an appropriate water collection system because it will retain water, creating mold, and potential health hazards for the occupants.



Maps, Exhibits and Photographs Requirements (cont.)

Would these properties qualify?



A: Yes. Even though house is on a slope, the landscaping helps water travel away from foundation.



A: No. evidence of sinking soil



Maps, Exhibits and Photographs Requirements (cont.)



Which support is acceptable?

A: Neither

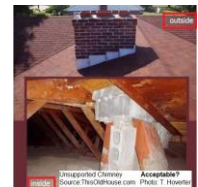


Maps, Exhibits and Photographs Requirements (cont.)



Two chimney deficiencies.

Both are fire hazards.



Maps, Exhibits and Photographs Requirements (cont.)



Mold Photo: L. DeAstra

Distinct evidence of moisture producing mold.



Evidence of Moisture Source: ThisOldHouse.com

Acceptable? Photo: Joe LeCron

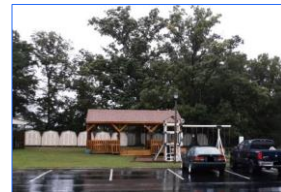


Maps, Exhibits and Photographs Requirements (cont.)

Photographs - Condominium Projects:



- Additional photographs of the common areas and shared amenities of the Condominium Project



SECTION 17

In this section, we will discuss:

- Intended Use and Intended Users of Appraisal
- Development of the Market Value
- Valuation Development
- Cost Approach to Value
- Income Approach to Value
- Sales Comparison Approach to Value

Intended Use & Intended Users

- The intended use of the appraisal is to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage (24 CFR § 200.145(b)).
- FHA and the Mortgagee are the intended users of the appraisal report.
- The FHA Appraiser does not guarantee that the Property is free from defects.
- The appraisal establishes the value of the Property for mortgage insurance purposes only.



Development of the Market Value

Value Required:

- The Appraiser must analyze all data researched and collected prior to reporting the value.
- Adjustments to the comparables must be made for special or creative financing or Sales Concessions.
- Special or creative financing adjustments can be made to the comparable Property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the Property or transaction.
- Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the Appraiser's judgment.



Development of the Market Value (cont.)

Appraisal Conditions:

- The Appraiser must state in the appraisal report whether repairs, alterations or inspections are necessary to eliminate conditions threatening the continued use, security, and marketability of the Property.
- The completed appraisal form, together with the required exhibits, constitutes the reporting instrument for FHA-insured Mortgages.
- Conditions of the Property, mortgage type and the market will determine if the appraisal is to be performed as-is, or if the value opinion needs to be conditioned upon an extraordinary assumption(s), a hypothetical condition(s), "subject to" an additional inspection, or completion of construction, repairs or alterations.



Valuation Development

There are **three valuation approaches** applied to one-to-four residential unit properties:

- sales comparison approach;
- cost approach; and
- income approach to value.

The Appraiser must:

- obtain credible and verifiable data to support the application of the three approaches to value;
- perform a thorough analysis of the characteristics of the market, including the supply of properties that compete with the subject and the corresponding demand; and
- perform a highest and best use of the Property, using all four tests and report the results of that analysis.



Valuation Development (cont.)

FHA Data Requirements for the Subject and Comparables:

The Appraiser:

- Must verify the characteristics of the transaction (such sale price, date, seller concessions, conditions of sale) and the characteristics of the comparable property at the time of sale through reliable data sources;
- Must verify transactional data via public records and the parties to the transaction: agents, buyers, sellers, Mortgagees, or other parties with relevant information; and
- May rely on public records or another verifiable impartial source, if the sale cannot be verified by a party to the transaction.





Valuation Development (cont.)

Effective Age and Remaining Economic Life:



The Appraiser must:

- state the remaining economic life as a single number or as a range for all property types, including condominiums;
- provide an explanation if the remaining economic life is less than 30 years; and
- apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.



Valuation Development (cont.) Cost Approach to Value

- The Appraiser may use any of the credible and recognized methods to complete the cost approach:
 - unit in place,
 - segregated costs,
 - price per unit,
 - detailed builder's cost method, or
 - any other credible source that can be duplicated by the reader.
- If the Appraiser uses cost estimates provided by the contractor or builder of the Property, the cost estimates must be reasonable and independently verified.



Valuation Development (cont.) Cost Approach to Value

Land Valuation:

The Appraiser must:

- include a summary of the supporting documentation and analysis in the appraisal;
- maintain comparable land sales data and analysis or other supporting information in the Appraiser's file and include it by reference in the appraisal; and
- include all comparable land sale data and analysis in the report for Properties with Excess Land.



Valuation Development (cont.) Cost Approach to Value (cont.)

Estimate of Cost New for Housing:



The Appraiser must:

- state the method used and the source of the data;
- use the current version of a published cost data source recognized by the industry;
- report the quality rating selected and utilized, as well as identify the source of the data, and its publication and/or effective date;
- be aware of local cost data from builders, contractors, building supply firms, and other building industry participants as a check against the published cost data; and
- provide a supporting explanation when applying adjustments to the published cost data, such as adjustments for transportation and labor in remote areas; entrepreneurial profit; or fees and charges unique to the area.



Valuation Development (cont.) Income Approach to Value

The Appraiser must:

- analyze rental data and provide support for the estimated market rents and adjustments applied to the comparable rentals in the reconciliation of this approach;
- derive the Gross Rent Multiplier (GRM) factor from market data and support it prior to applying it to the market rent for the subject; and
- verify if the subject or the comparable rentals and sales are "subject to" rent control restrictions. If comparable sales do not have rent control restrictions similar to those of the subject, an appropriate adjustment should be applied.



Valuation Development (cont.) Sales Comparison Approach to Value

The Appraiser must:


- present the data, points of comparison, and analysis; provide support for the Appraiser's choice of comparable properties, and the adjustments for dissimilarities to the subject; and include sufficient description and explanation to support the facts, analyses and the Appraiser's conclusion; and
- provide the best information available and include an explanation of the issue, the data available, the conclusions reached, and the steps taken by the Appraiser to attempt to meet the guidelines, if the data from the market area is insufficient to support some of these requirements.



SECTION 18

In this section, we will discuss:

- Valuation of Leasehold Interests
- Comparable Sales Selection
- Adjusting Comparable Properties
- Sales Concessions
- Bracketing




Valuation of Leasehold Interests

A leasehold interest (such as a ground lease) is created when a fee simple owner or lessor enters into a rental agreement for the land with the lessee (someone who will be use the land). Ground leases are predominant in Hawaii and large cities.



Photo: Malia Wisch and Hugh Jones

Valuation of Leasehold Interests

The appraiser must:

- obtain a copy of the lease from the mortgagee.
- analyze and report the ground lease, including the Ground Rent, the term of the lease, if the lease is renewable, if the lessee has the right of redemption (the right to obtain a Fee Simple title by paying the value of the Leased Fee to the lessor, cancelling the Ground Rent), and if the Ground Rent can increase/decrease over the life of the lease term.

Eligible Leasehold terms must include:

- A lease for not less than 99 years, which is renewable.
- They must be under a lease having a period of not less than 10 years to run beyond the maturity date of the mortgage.
- Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

Valuation of Leasehold Interests (cont.)

- The value of the Leasehold Interest must be estimated and reported by the appraiser.
- The appraiser must provide support for the capitalization rate selected.

Calculation of the Leasehold Interest Formulas:

- Value of Leased Fee = Ground Rent / Capitalization Rate
- Value of Leasehold = Value of Fee Simple - Value of Leased Fee
- Calculate value of Leased Fee Interest

Annual Rent from Ground Lease (Leasehold Interest)	<u>\$6,000</u>
Divided by market derived Capitalization Rate	7%
Value of Ground Lease (If stabilized)	\$85,714
Value of the Fee Simple Interest	\$200,000
Subtracted Ground Lease from Value of Real Estate	<u>\$85,714</u>
Opinion of Market Value	\$114,286

Valuation of Leasehold Interests (cont.)

In valuing the Leasehold Interest, the appraiser must apply the techniques to each of the approaches to value in the analysis:

- In the cost approach, the value of the land reported must be its Leasehold Interest.
- In the GRM income approach, the sales used to derive the GRM factor must be based on properties under similar Ground Rent terms (or be adjusted to similar Ground Rent terms).
- In the sales comparison analysis, the comparable sales must be adjusted for their lack of similarity to the subject in the "Ownership Rights" section of the sales adjustment grid.

Comparable Sale Selection

Characteristics of the Property:

Comparable sale selection must be based on properties having the same or similar locational characteristics, physical characteristics and the priority the market assigns to each factor, including:

- site;
- site view;
- location;
- design;
- appeal;
- style;
- age;
- size;
- utility;
- quality;
- condition; and
- any other factor relevant in the subject market.



Comparable Sale Selection (cont.)

Characteristics of the Transaction:



The Appraiser must:

- include as many comparable properties as are necessary to support the Appraiser's analysis and conclusion;
- include the most recent and relevant sales, preferably within the last six months;
- include at least three sales that settled no longer than 12 months prior to the effective date of the appraisal;
- provide additional support by including more sales, offerings, offerings now under contract, or relevant sales that settled more than 12 months prior to the effective date of the appraisal; and
- analyze the whole market, including when there are a number of sales that may or may not be classified as arm's length sales or may not be classified as directly similar to the Property.



Adjusting Comparable Properties

Calculation of the Contributory Value includes methods based on the:

- direct sales comparison approach;
- cost approach; and
- income approach.

The Appraiser must:

- apply all appropriate techniques and methods;
- conduct an analysis;
- report the results; and
- include the reasoning that supports the analyses, opinions, and conclusions in the report.



Sales Concessions



The Appraiser must:

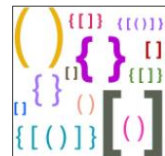
- clearly state how and to what extent the sale was verified;
- report the lack of verification, if the sale cannot be verified with someone who has first-hand knowledge of the transaction;
- make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price; and
- include an explanation of the effect of the Sales Concessions on the sale price of the comparable.



Bracketing



- In analyzing the comparable pool of properties to determine the best comparable sales to display and compare in the adjustment grid, the Appraiser must use Bracketing techniques when possible and appropriate.
- Comparable properties should not be chosen only because their prices bracket a desired or estimated value.
- Comparable properties must be selected based on the principle of substitution, and the analysis will reveal the relevance of that data.



SECTION 19

In this section, we will discuss:

- Market Conditions (Time) Adjustments
- Requirements in Changing Markets
- Final Reconciliation and Conclusion
- Trainee/Licensee
- Signature

OREP

Market Condition (Time) Adjustments

- Within the sales adjustment grid, the potentially comparable properties may be adjusted if they were contracted for sale during a market period different from that of the date of valuation.



- If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation.



- The Appraiser must provide a summary comment and support for all conclusions relating to the trend of the current market.

OREP

Requirements in Changing Markets

- To establish a benchmark for reporting present market conditions, an analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary.
- The final conclusion must be based on the reconciliation of all data.



The Appraiser must:

- accurately report market conditions and determine when housing trends are increasing, stable or declining;
- provide a summary comment as to the continuance of the current trend or if the trend appears to be changing, and provide support for all conclusions.
- include an absorption rate analysis, and at least two comparable sales that closed within 90 Days prior to the effective date of the appraisal.
- include a minimum of two active listings or pending sales on the appraisal grid (in addition to at least three recently settled sales).

OREP

Requirements in Changing Markets (cont.)

For active listings or pending sales, the Appraiser must:

- ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable properties;
- use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sale price ratios;
- include the original list price, any revised list prices, and calculate the total Days on Market (DOM);
- reconcile the Adjusted Values of active listings or pending sales with the Adjusted Values of the settled sales provided; and
- if the Adjusted Values of the settled comparable properties are higher than the Adjusted Values of the active listings or pending sales, determine if a Market Condition Adjustment is appropriate.



OREP



Final Reconciliation and Conclusion

- If the appraisal has no conditions, the Appraiser must render an as-is value opinion.
- If the Appraiser must conclude the report under a hypothetical condition or extraordinary assumption, the Appraiser must report the issues and requirements as one of the following:
 - "subject to" completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed;
 - "subject to" the following repairs or alterations (list them) on the basis of a hypothetical condition that the repairs or alterations have been completed; or
 - "subject to" a required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair.



Trainee/Licensee



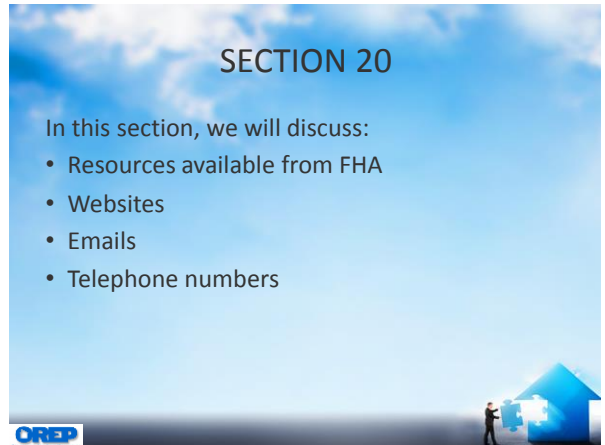
- A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the FHA Roster Appraiser.
- A trainee or licensee may accompany the FHA Roster Appraiser on the observations but may not perform the observations in place of the FHA Roster Appraiser.
- The FHA Roster Appraiser must select the comparable properties and perform all critical analyses contained in the appraisal report as well as the Market Conditions Addendum to the appraisal form.
- The FHA Roster Appraiser must inspect the subject Property and at least the exterior of the comparable properties.



Signature

- The Appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation.
- Appraiser trainees or licensees may *not* sign the appraisal report.

John Hancock



SECTION 20

In this section, we will discuss:

- Resources available from FHA
- Websites
- Emails
- Telephone numbers



Resources

- Contact the FHA Resource Center:
 - Obtain answers to frequently asked questions 24/7 at www.hud.gov/answers.
 - E-mail the FHA Resource Center at answers@hud.gov.
 - Emails and phone messages will be responded to during normal hours of operation, 8:00 a.m. to 8:00 p.m., EST, Monday through Friday on all non-Federal holidays.
 - Call 1-800-CALLFHA (1-800-225-5342).
 - Persons with hearing or speech impairments may reach this number by calling the Federal Information Relay Service at [1-800-877-8339](tel:1-800-877-8339).



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