

Frequently Asked Questions

Valuation Protocol

New Construction

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

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

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

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

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

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

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

NOTE: If a property is 100% complete (existing construction less than one year old), the lender must obtain and retain the following documents:

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

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

No.

Frequently Asked Questions Valuation Protocol

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

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

Wood Destroying Insects / Termites

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

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

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

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

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

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

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

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

Frequently Asked Questions Valuation Protocol

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

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

Utilities - Well and Septic

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

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

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

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

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

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

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

Frequently Asked Questions Valuation Protocol

If the local authority does not have any requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) apply.

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

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

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

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

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

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

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

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

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

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

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

The appraiser is required to report on the availability of connection to public and/or community water/sewer systems. The lender is responsible for the determination of the feasibility for requiring connection.

9. How would shared well agreements be treated?

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

Frequently Asked Questions

Valuation Protocol

Inspections & Certifications

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

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

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

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

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

The lender should require further analysis in those instances where a UST exists and the source of heating fuel is other than that provided by the UST, i.e. electric, natural gas, etc., to make sure the tank has been properly abandoned. FHA defers to the underwriter to employ prudent underwriting in requiring any tests or certifications based on reported property conditions.

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

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

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

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

If the manufactured home is proposed, an engineer must design a site-specific foundation that complies with the Permanent Foundations Guide for Manufactured Housing (PFGMH). For existing manufactured homes already installed on a permanent foundation and in cases where the

Frequently Asked Questions Valuation Protocol

plans and specifications used to construct the permanent foundation are not available, an engineer must inspect the site and foundation to confirm that the design and construction of foundation is in compliance with the PFGMH.

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

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

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

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

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

Cost Approach

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

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

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

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

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

Frequently Asked Questions Valuation Protocol

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

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

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

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

Property Type or Program Area

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

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

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

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

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

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

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

Frequently Asked Questions Valuation Protocol

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

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

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

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

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

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

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

Lender Concerns

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

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

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

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

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

The appraiser must always be mindful of health and safety issues and report what is readily observable. The missing handrails or trip hazards are property conditions that no longer require

Frequently Asked Questions Valuation Protocol

automatic repair for existing properties but should be reported by the appraiser. In these instances, lender discretion and prudent underwriting will determine whether or not a repair is advisable. For example, a stairwell or staircase comprised of eight (8) or nine (9) risers without a handrail would probably pose a safety risk.

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

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

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

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

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

6. Are private road maintenance agreements still required?

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

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

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

8. Page D-3 of the new appendix D: Valuation Protocol, Site Hazards and Nuisances, states that the appraiser must note and comment on residential structures located within the fall distance of high-voltage transmission line., etc. The HOC Reference Guide states in part "If the dwelling or related property improvements is located within such an easement, the DE Underwriter must obtain a letter from the owner or operator of the tower indicating that the dwelling and its related property improvements are not located within the tower's (engineered) fall distance in order to waive this requirement." It is true that if the dwelling

Frequently Asked Questions Valuation Protocol

and related improvements are located outside the easement then the property is eligible for FHA and no further action is required. Is this still correct?

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

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

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

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

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

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