1	FHA Single Family Housing Policy Handbook	
2	TABLE OF CONTENTS	
3 4	IV. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND REVERSE MORTGAGES	1
5	A. ACCEPTABLE APPRAISAL REPORTING FORMS AND PROTOCOLS	1
6	1. Mortgagee Requirements to the Appraiser	2
7 8	 Mortgagee Requirements to the Appraiser for New Construction Requirements for the Submission of the Appraisal Report and Data 	2
9	B. PROPERTY ACCEPTABILITY CRITERIA	
10 11 12 13 14 15 16 17 18 19 20 21 22	 Application of Minimum Property Requirements and Minimum Property Standards by Construction Status	3 3 3 4 4 4 4 4 4 4 4
23 24 25 26 27 28 29 30 31 32 33 34 35 36 37	 iv. Leasehold Interests. b. Legal and Land Use Considerations	5 5 5 6 6 6 6 7 7 7 7 8
38 39 40 41	 d. Site Conditions i. Access to Property ii. On-Site Hazards and Nuisances iii. Topography 	8 8

FHA Single Family Housing Policy Handbook IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages Table of Contents

1		i	v. Suitability of Soil	9
2		١	v. Subsidence	10
3		١	vi. Operating and Abandoned Oil or Gas Wells	10
4			(A) Special Case - Proposed, Existing or Abandoned Wells	10
5		۲	vii. Slush Pits	11
6		۲	viii. Property Eligibility in Special Flood Hazard Areas	11
7		i	x. Coastal Barrier Resources System	11
8		Х	x. Lava Zones	11
9		Х	xi. Mineral, Oil and Gas Reservations	11
10			xii. Soil Contamination	
11			xiii. Residential Underground Storage Tank	
12			xiv. Grading and Drainage	
13			New Construction Site Analysis	
14		i	. Excess and Surplus Land	13
15		f. (Characteristics of Property Improvements	13
16			. Requirements for Living Unit	13
17			i. Access to Living Unit	14
18			ii. Non-Standard House Styles	
19			v. Modular Housing	
20			v. Identifying an Accessory Dwelling Unit	
21			vi. Additional Manufactured Home on Property	
22	4.		ss Living Area	
23			Additions and Converted Space	
24			Partially Below-Grade Habitable Space	
25			Bedrooms	
26	5.		liances	
27	6.		mming Pools	
28	о. 7.		hanical Components	
29			Heating and Cooling Systems	
30			Electrical System	
31			Plumbing System	
32			Roof Covering	
33			Structural Conditions	
34			Defective Paint	
35	8.		c Observation Requirements	
36	9.		ndation	
37			Basement	
38			Sump Pumps	
39	10		vI Space Observation Requirements	
40			ironmental and Safety Hazards	
40 41	11.		Lead-Based Paint	
42			Methamphetamine Contaminated Property	
42 43			Wood Destroying Insects/Organisms/Termites	
43 44	12		air Requirements	
44 45	14.	-	Minimum Required Repairs	
45 46			As-Is Condition and Cosmetic Repairs	
-10		v. r	is is condition and cosmetic repairs	<i>_J</i>

FHA Single Family Housing Policy Handbook IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages Table of Contents

1	(c. Defective Conditions Requiring Repair	23
2		d. Conditions Requiring Inspection by a Qualified Individual or Entity	
3		Utility Services	
4		a. Individual Water Supply Systems	
5		b. Water Wells	
6	(c. Conditions for Individual Water Supplies	
7	(d. Appraiser Reporting Requirements for Individual Water Supply Systems	
8		e. Shared Wells	
9	1	f. Community Systems	
10	ş	g. Onsite Sewage Disposal Systems	
11	С. У	VALUATION AND REPORTING PROTOCOLS	31
12		Photograph, Exhibits and Map Requirements	
13	2. 1	Intended Use of Appraisal	32
14		Development of the As-Is Property Value	
15	6	a. Appraisal Conditions	32
16	1	b. Valuation Development	
17		i. FHA Data Requirements	34
18		ii. Effective Age Remaining Economic Life	34
19		iii. Approaches to Value	34
20		(A) Cost Approach to Value	
21		(1) Land Valuation	
22		(2) Estimate of Cost New for Housing	
23		(B) Income Approach to Value for Residential Properties	
24		(C) Sales Comparison Approach	
25		(1) Comparable Sale Selection	
26		(2) Adjusting Comparable Properties	
27		(3) Comparable Selection in Diverse Real Estate Markets	
28		(a) Subdivisions, Condominium or Planned Unit Development Projects	
29		(4) Comparable Sale Selection in Rural and Slow Growth Markets	
30		(5) Sales Concessions	
31		(6) Bracketing	
32		(7) Market Condition (Time) Adjustments	
33		(8) FHA Appraisal Requirements in Changing Markets	
34		Final Reconciliation and Conclusion	
35	6	a. Trainee Appraisers	40
36	D. 1	PROPERTY ACCEPTABILITY CRITERIA FOR MANUFACTURED HOUSING	
37		FOR TITLE II INSURED MORTGAGES	
38		Definitions	
39		Eligibility and General Requirements for Manufactured Housing under Title II	
40		Foundation Systems	
41		Running Gear	
42		Perimeter Enclosure	
43		Label Required	
44	7. I	Data Plate	43

1	8.	Manufactured Housing Units Located within Condominium Projects	44
2	E.	APPRAISER REQUIREMENTS FOR MANUFACTURED HOME APPRAISALS	S 45
3	1.	Flood Zone	45
4	2.	Perimeter Enclosure	45
5	3.	Additions to Manufactured Housing	45
6	4.	Measurement Protocols	
7	5.	Sales Comparison Approach for Manufactured Housing	
8	6.	Estimate of Cost New for Manufactured Housing	45
9	F.	CONDOMINIUM PROJECTS	46
10	1.	Site Condominiums	46
11	2.	Manufactured Housing Condominium Projects	46
12	G.	VALUATION OF LEASEHOLD INTERESTS	47
13	H.	APPRAISAL OF SINGLE FAMILY HOUSING ON INDIAN LANDS	48
14	1.	Introduction	48
15	2.	Property Rights to be Appraised	48
16		a. Fee Simple Unrestricted	48
17		b. Tribal Trust Lands, Restricted Trust Land	
18		c. Tribal Trust Lands, Allotted Trust Land	
19		Approaches to Value	
20	4.	11	
21		a. Cost Approach for New Construction	
22	~	b. Cost Approach for Existing Construction	
23	5.	Sales Comparison Approach to Value Income Approach to Value	50
24 25	6. 7.	Final Reconciliation of Value	
25 26		HUD/FHA Requirements	
20 27		HUD/FHA Section 248 and Section 184 Requirements	
28		. Reporting Requirements	
29		Instructions for Assisted Appraisal Processing	
30	12	. Requirements for Section 184 Indian Housing Loan Guarantee Program	53
31		a. Mechanical System Requirements	
32		b. Minimum Housing Unit Size	
33		c. Energy Efficiency	55
34		d. Lead-Based Paint	55
35		e. Compliance with Fair Housing	55
36		f. Appraisals	
37		i. Purpose of the Appraisal	
38		ii. Ordering the Appraisal	
39		iii. Appraisal Guidelines	
40		iv. Methodology	
41		(A) Trust/Allotted Land	
42		(B) Fee Simple Land	
43		(C) Validity Period	36

1		(D) Appraisal Form	
2		(E) Desk Review	
3		v. Real Estate Commission	
4		g. Flood Plains	
5	10	i. Minimum Property Requirements and Minimum Property Standards	
6	13.	Appraisals for Single Family Properties on Hawaiian Home Lands	58
7 8		ADDITIONAL APPRAISAL REQUIREMENTS FOR 203(K) STANDARD AND LIMITED REHABILITATION MORTGAGES	59
9	1.	Appraisal of the Property "As Is"	59
10	2	Appraisal of the Property "Subject to Repairs and Improvements"	
11	2. 3.	Mixed Use One- to Four-Unit Single-Family Properties	
12		ADDITIONAL APPRAISAL REQUIREMENTS FOR 223(E) MORTGAGES	
13		ADDITIONAL APPRAISAL REQUIREMENTS FOR SPECIAL ENERGY-	
14	1	RELATED BUILDING COMPONENTS	
15 16	1.	Special Energy Components Energy Efficiency Building Components	02
10			
17	5.	Measurement and Reporting of Contribution to Value a. Sales Comparison Based Extraction Method	
18 19		b. Cost Approach Based Method	
20		c. Income Approach Based Methods	
20		i. Gross Rent Multiplier Method	
22		ii. Net Income/Savings Capitalization Method	
23		d. Reconciliation of the Approaches	63
24	L.	ADDITIONAL REQUIREMENTS FOR VALUATION OF HUD REAL ESTATE	
25		OWNED PROPERTIES	64
26	1	Appraisal Requirements for REO and Related Purposes Properties	64
27		Additional Appraisal Form Instructions	
28	3.	Intended Use of Appraisal	
29		Intended User	
30	5.	Appraiser's Inspection	
31	6.	Utilities-Mechanical Components	
32	7.	Extraordinary Conditions	
33	8.	Statement of Insurability	66
34		a. Insurable	
35		b. Insurable With Repair Escrow	66
36		c. Uninsurable	66
37	9.	Photographs Required	66
38		Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales	
39	11.	Unimproved Property Appraisal	67
40 41	M.	MARKET CONDITIONS ADDENDUM, FANNIE MAE FORM 1004MC/FREDI MAC FORM 71 INSTRUCTIONS APPLICABLE TO FHA APPRAISALS	
41			
42	GI	LOSSARY	71

1	ACRONYMS	. 76	5

2

1IV.APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II2FORWARD AND REVERSE MORTGAGES

- 3 The appraisal process is the mortgagee's tool for determining if a property meets the minimum
- 4 requirements and eligibility standards for a Federal Housing Administration (FHA) insured
- 5 mortgage. Mortgagees bear primary responsibility for determining eligibility; however, the
- 6 appraiser is the on-site representative for the mortgagee and provides preliminary verification
- 7 that the Property Acceptability Criteria have been met.
- 8 The requirements in this section of the FHA Single Family Housing Policy Handbook (SF
- 9 Handbook) contain the Property Acceptability Criteria for FHA mortgage insurance, which
- 10 include Minimum Property Requirements (MPR) and Minimum Property Standards (MPS), and
- 11 include by reference, associated rules and regulations. The criteria apply to residential properties
- 12 containing one- to four-family housing units, individual condominium units, and Manufactured
- 13 Housing units and related property improvements and the sites on which they are located, as well
- 14 as the immediate environment for the dwelling, including streets and other services or facilities
- 15 associated with the site. Manufactured Housing properties have additional requirements
- 16 contained in the <u>Valuation of Manufactured Housing Section</u>.

17 A. ACCEPTABLE APPRAISAL REPORTING FORMS AND PROTOCOLS

- 18 The appraiser is required to follow HUD/FHA guidance and comply with the Uniform Standards
- 19 of Professional Appraisal Practice (USPAP) when completing appraisals of property used as
- 20 security for FHA-insured mortgages. The Fannie Mae Form 1004 MC/Freddie Mac Form 71,
- 21 Market Conditions Addendum to the Appraisal Report, must be completed for every appraisal.
- 22 Other forms to be used in the completion of an FHA appraisal are as follows:

Property/Assignment Type	Acceptable Reporting Form
Single Family, Detached, Attached or	Fannie Mae Form 1004/Freddie Mac Form 70,
Semi-Detached Residential Property	Uniform Residential Appraisal Report (URAR);
	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
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	Fannie Mae Form 1025/Freddie Mac Form 72, Small
(Two- to Four-Units)	Residential Income Property Appraisal Report;
	MISMO 2.6 Errata 1 format
Update of Appraisal	Summary Appraisal Update Report Section of
(All Property Types)	Fannie Mae Form 1004D/Freddie Mac Form 442,
	Appraisal Update and/or Completion Report;
	MISMO 2.6 Errata 1 format

FHA Single Family Housing Policy Handbook

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

A. Acceptable Appraisal Reporting Forms and Protocols

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

1 1. Mortgagee Requirements to the Appraiser

- 2 The mortgagee must provide for the appraiser's review and analysis:
 - a complete copy of the subject sales contract;
 - the land lease;
 - surveys if available; and
 - any other legal documents contained in the loan file.

7 2. Mortgagee Requirements to the Appraiser for New Construction

- 8 Before ordering the appraisal, the mortgagee must provide a fully executed form <u>HUD-92541</u>,
- 9 Builder's Certification of Plans, Specifications, and Site, dated no more than 30 Days prior to the
- 10 date of the appraisal order.
- 11 In addition, the chart below lists the document requirements for new construction at the
- 12 following stages of completion.

Percent Complete	Documentation Requirements
Less Than 90% Complete	• Floor plan
	• Plot plan
	• Exhibits necessary to determine size and level of finish
90% or More Complete	A list of components to be installed or completed after the date
	of the appraisal

13 **3.** Requirements for the Submission of the Appraisal Report and Data

- 14 Instructions for detailing specific requirements for data format and delivery are found at:
- 15

3 4

5

6

16 (Link to Appraisal Report and Data Delivery Requirements)

1 **B. PROPERTY ACCEPTABILITY CRITERIA**

- HUD requires every property to be safe, sound, and secure to be eligible for FHA insurance. The
 property must comply with HUD's MPR and MPS.
- 4 These requirements and standards form the basis for identifying the deficiencies of the property
- 5 that the appraiser must note within the appropriate appraisal form and that must be addressed by
- 6 the mortgagee before closing.
- Application of Minimum Property Requirements and Minimum Property Standards by Construction Status
- 9 Existing Construction must comply with HUD's MPR. New construction must comply with
- 10 HUD's MPR and MPS, including <u>24 CFR §§ 200.926a-200.926e</u>.

11 **a. Existing Construction**

12 Existing Construction refers to a property that has been 100 percent complete for over one 13 year or has been completed for less than one year and was previously occupied.

14 **b.** New Construction

- 15 There are three categories of new construction:
- Proposed Construction refers to a property where no concrete or permanent material has been
 placed. Digging of footing and placement of rebar is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100
 percent completion with no Certificate of Occupancy (CO) or equivalent.
- 20 New Construction Existing Less than One Year refers to a property that is 100 percent
- complete and has been completed less than one year from the date of the issuance of the CO
 or equivalent. The property must have never been occupied.

23 2. Appraiser Responsibility for Reporting Property Eligibility

- 24 The appraiser must observe, analyze and report that the property meets HUD's MPR and MPS,
- 25 including legal requirements, land use considerations, Externalities, site conditions, property
- 26 improvements, hazards, repair requirements, water supply and new construction MPS.

27 **a. Defective Conditions**

- 28 Defective construction, evidence of continuing settlement, excessive dampness, leakage,
- 29 decay, termites, environmental hazards, or other conditions affecting the health and safety of
- 30 occupants, collateral security or structural soundness of the dwelling must render the
- 31 property ineligible until the defects or conditions have been remedied and the probability of
- 32 further damage eliminated.

1 The appraiser must identify defective conditions and provide photographic documentation of 2 defective conditions in the appraisal report.

3 **b. Defective Conditions Requiring Repair**

The appraiser must identify defective conditions that require repairs to make the property
comply with HUD's MPR, together with the estimated cost to cure. If the appraiser cannot
determine that a property meets HUD's MPR or MPS, an inspection by a qualified individual
or Entity is required.

8 c. Inspection by a Qualified Individual or Entity

- 9 Examples of conditions that require an inspection by qualified individuals or entities include,
 10 but are not limited to:
- 11 12

13

16

23

- 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);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation); or
 - leaking or worn-out roofs.
- 17 The reason for or indication of a particular problem must be given when requiring an 18 inspection of any mechanical system, structural system, etc.

19 **3. Minimum Property Requirements**

All properties must meet HUD's MPR as identified in this section. New construction properties must also meet HUD's MPS as identified in this section and at <u>24CFR § 200.926d</u>.

- 22 a. Legal Requirements
 - i. Real Estate Entity

The subject property must be a single, marketable real estate Entity, and may consist of a
 primary plot with a secondary plot contributing to the use and marketability of the
 property. The secondary plot must not be legally capable of a separate use.

27 ii. Property Rights

A mortgage must be on real estate held in Fee Simple or Leasehold that complies with
 HUD's property eligibility and property acceptability criteria.

30 iii. Planned Unit Development

A Planned Unit Development (PUD) refers to a residential development that contains,
 within the overall boundary of the subdivision, 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. The property to be appraised consists of the
 fee title to the real estate represented by the lot and the improvements thereon plus the
 benefits arising from ownership of an interest in the HOA. Properties located in PUDs
 that do not meet this definition are ineligible for FHA insurance.

5 iv. Leasehold Interests

6 Leasehold Interests refer to real estate where the residential improvements are located on
7 land that is subject to long-term lease from the underlying fee owner, creating a divided
8 estate in the property. A mortgage secured by real estate under Leasehold requires a
9 renewable lease with a term of not less than 99 years, or a lease that will extend not less
10 than 10 years beyond the maturity date of the mortgage.

11 b. Legal and Land Use Considerations

- 12 i. Party or Lot Line Wall
- A building constructed on or to a property line must be separated from the adjoining
 building by a wall extending the full height of the building from the foundation to the
 ridge of the roof.
- 16 **ii. Non-Residential Use of Property**
- Any non-residential use of the property must be subordinate to its residential use,
 character and appearance. If non-residential use impairs the residential character or
 marketability of the property, it is not eligible for FHA insurance.
- Within a building that includes the dwelling, areas designed or used for non-residential purposes must not exceed 25 percent of the total floor area of that building. Storage areas or similar spaces that are integral parts of the non-residential portion must be included in the calculation of the non-residential area. The non-residential use of the property must be legally permitted and conform to current zoning requirements.
 - The appraiser must:
 - comment on any non-residential use within the property and state the percentage of the total floor area that is utilized as non-residential; and
 - report whether the non-residential usage is legal and in compliance with current zoning requirements.
- The Section 203(k) Rehabilitation Mortgage Programs have separate commercial use
 requirements.
- 32 iii. Zoning

25

26

27

28

29

FHA requires the property to comply with all applicable zoning ordinances. Illegal
 property uses are not eligible for FHA insurance.

1 The appraiser must determine whether current use complies with zoning ordinances. If 2 the existing property does not comply with all of the current zoning regulations but is 3 accepted by the local zoning authority, the appraiser must report the property as "Legal 4 Non-Conforming" and provide a brief explanation. The appraiser must analyze and report 5 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. 6 7 iv. Encroachments 8 An encroachment may cause a property to be ineligible. The appraiser must identify any 9 encroachments of: 10 the subject's dwelling, garage, or other improvement onto an adjacent property, • 11 right-of-way, utility easement, or building restriction line; and a neighboring dwelling, garage, other physical Structure or improvements on the 12 • 13 subject property. 14 The appraiser must notify the mortgagee if, upon observation, it appears that an 15 encroachment affects the subject property. 16 v. Easements and Restrictions The appraiser must consider the effect that easements and other legal restrictions such as 17 18 deed restrictions may have on the use, value and marketability of the property. Recorded 19 subdivision plats that indicate the presence of easements must be reviewed when 20 available. 21 c. Externalities

Externalities refer to off-site conditions that affect a property's value. The appraiser must consider how Externalities affect marketability and value of the subject 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.

26 i. Heavy Traffic

The appraiser must analyze and report whether close proximity to heavily traveled
roadways has an effect on the marketability and value of a site because of excess noise
and safety issues.

30 ii. Airport Noise and Hazards

Appraisers must identify properties affected by noise and hazards of low flying aircraft
 because they are near an airport. The appraiser must review airport contour maps and
 analyze accordingly. The acceptability of the property must be based on its marketability.

iii. Special Airport Hazards

1

The appraiser must note if the property is located within a Clear Zone (also known as a
Runway Protection Zone) at a civil airport or military airfield and consider the effect of
the airport hazards on the marketability when valuing the subject property.

- 5 For existing dwellings, the appraiser must condition the appraisal on the Borrower's 6 acknowledgment of the hazard.
- For Proposed Construction, Under Construction and New Construction Less than One
 Year Old, the appraiser must note that the property is ineligible for FHA insurance, and
 notify the mortgagee.
- 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.

13 iv. Proximity to High Pressure Gas Lines

A dwelling or related property improvement near high-pressure gas, liquid petroleum
 pipelines or other volatile and explosive products, both aboveground and subsurface,
 must be located more than 10 feet from the nearest boundary of the pipeline easement.

- 17 v. Overhead Electric Power Transmission and Distribution Lines
- 18 The appraiser must indicate in the appraisal report whether the dwelling or related 19 property improvements are located within the easement area serving a high-voltage 20 transmission or distribution line. If the dwelling or related property improvements are 21 located within the easement area, the mortgagee must require a certification from the 22 appropriate utility company or local regulatory agency stating that the property conforms 23 to local standards and is safe.
- The appraiser is required to note and comment on the effect on marketability resulting from the proximity to such site hazards and/or nuisances.
- Local distribution lines commonly supply power to residential housing developments,
 similar facilities and individual properties. These lines may not pass directly over any
 dwelling, Structure or related property improvement, including pools. The power line
 must be relocated for a property to be eligible for FHA-insured financing.
- The residential service drop line may not pass directly over any pool, spa or waterfeature.
- If the property or its components appear to be located within an unacceptable distance of
 any power line or tower and appear to be a safety issue, the appraiser must notify the
 mortgagee before completing the report.

1 The appraiser is to note and comment on the effect on marketability resulting from the 2 proximity to such site hazards and nuisances. The appraiser must also determine if the 3 guidelines for encroachments apply.

4 vi. Smoke, Fumes and Offensive Odors

5 If excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor 6 surface drainage and excessive dampness threaten the health and safety of the occupants 7 or the marketability of the property, the appraiser must notify the mortgagee. If the 8 conditions exist but do not threaten the occupants or marketability, the appraiser must 9 consider the effect of the condition in the valuation of the property.

10 vii. Stationary Storage Tanks

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, the site is ineligible for FHA insurance. This includes domestic and
 commercial uses as well as automotive service station tanks.

15 **d.** Site Conditions

16 i. Access to Property

- 17 The appraiser must note whether there is adequate access to the site and analyze any 18 effect on value or marketability.
- Each property must be provided with a safe and adequate pedestrian or vehicular access
 from a public or private street. Adequate vehicular access is defined as an all-weather
 road surface over which emergency and typical passenger vehicles can pass at all times.
- Streets must either be dedicated to public use and maintenance, or retained as private
 streets protected by permanent recorded easements.
- Private streets must be protected by permanent recorded easements, ownership interest,
 or be owned and maintained by an HOA. Shared driveways that are not part of an HOA
 must also meet these requirements. The appraiser must report evidence of a permanent
 easement.
- A joint maintenance agreement is not required; however, the appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane.
- 30 ii. On-Site Hazards and Nuisances
- The appraiser must note and comment on all on-site or adjacent hazards and nuisances
 affecting the subject property that may endanger the health and safety of the occupants
 and/or the structural integrity or marketability of the property. In addition to the

1 2	description, the appraiser must provide a photograph of the potential problem or issue when possible to assist the mortgagee in understanding the problem.
3 4 5 6	In the appraisal of new and Proposed Construction, special conditions may exist or arise during construction that were unforeseen and necessitate precautionary or hazard mitigation measures. HUD will require corrective work to mitigate potential adverse effects from the special conditions as necessary.
7 8 9 10 11 12	 Special site conditions include: rock formations unstable soils or slopes high ground water levels springs other conditions that may have a negative effect on the value
13 14	The appraiser must note which inspections, if any, are customary for the area, required by state or local law, or that are recommended based on observed property conditions.
15	iii. Topography
16 17	The property is ineligible for FHA insurance if the surface and subsurface water is not diverted from the dwelling to ensure positive drainage away from the foundation.
18 19 20	If the purchase contract, the appraisal, or any other documentation states that there is dampness because of a foundation issue, the appraiser must require an inspection by a qualified individual or Entity.
21 22 23	If there is a 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, the appraiser must report this to the mortgagee.
24	iv. Suitability of Soil
25 26 27 28 29	The appraiser must consider the readily 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.
30 31 32	The appraiser should also consider events and published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

v. Subsidence

1

Danger of subsidence may be encountered where buildings are constructed on
uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of
organic material, and where the subsoil is unstable and subject to slippage or expansion.

5 The appraiser must note any readily observable conditions of the surface of the land that indicate potential problems from subsidence or the potential for lack of support for the 6 7 surface of the land and/or building foundations. Typical signs include fissures or cracks 8 in the terrain, damaged foundations, sinkholes or settlement problems. In mining areas, 9 the appraiser must consider the depth or extent of mining operations and the site of 10 operating or abandoned shafts or tunnels to determine if the danger is imminent, probable 11 or negligible. If there is danger of subsidence, the appraiser must notify the mortgagee, as 12 the property is ineligible for FHA insurance.

13 vi. Operating and Abandoned Oil or Gas Wells

The appraiser must examine the site for the existence of or any readily observable
evidence of an oil or gas well, and report the distance from the dwelling. The distance is
measured from the dwelling to the site boundary, not to the actual well site.

- If an existing dwelling is located closer than 150 feet from an active or planned drilling
 site, the appraiser must stop work and notify the mortgagee that the property is ineligible.
- If a proposed or newly constructed dwelling is located within 75 feet of an operating or
 planned well, the appraiser must stop work and notify the mortgagee that the property is
 ineligible for FHA insurance.
- For abandoned gas or oil wells on adjacent or subject sites, the appraiser must note the location of the well and require a letter from local jurisdiction or appropriate state agency, stating that the subject well was permanently abandoned in a safe manner.
 - (A) Special Case Proposed, Existing or Abandoned Wells
- Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely
 hazardous. Minimum clearance from sour gas wells may be established only after a
 petroleum engineer has assessed the risk, and state authorities have concurred on
 clearance recommendations for petroleum industry regulation and for public health
 and safety.
- 31The appraiser must account for the presence of wells in the valuation of the property32if an inspection by a qualified person verifies that the condition exists and is33acceptable based on the standards defined above.

25

vii. Slush Pits

1

2

3

4

5

A Slush Pit is a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings. If the property has a Slush Pit, the appraiser must require that all unstable and toxic materials be removed and the pit be filled with compacted selected materials.

6 If a property is proposed to be located near an active or abandoned Slush Pit, the 7 appraiser must require a survey to locate the pit.

8 viii. Property Eligibility in Special Flood Hazard Areas

- FHA Roster appraisers are required to review the Federal Emergency Management
 Agency (FEMA) Flood Insurance Rate Map (FIRM) and make appropriate notations on
 the applicable appraisal reporting form. 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.
- 14 The appraiser must enter the FEMA zone designation on the reporting form, identify the 15 map panel number, and map date. If the property is not shown on any map, the appraiser 16 must enter "not mapped." The appraiser must quantify the effect on value, if any, for 17 properties situated within a designated SFHA.
- 18 ix. Coastal Barrier Resources System
- 19 A property is not eligible for FHA mortgage insurance if the improvements are located or 20 are proposed to be located within a Coastal Barrier Resources System (CBRS) designated 21 area. The appraiser must review the FEMA FIRM to determine if a property is located within a CBRS. The FIRM will identify CBRS boundaries through patterns of backward-22 23 slanting diagonal lines, both solid and broken. If it appears that the property is located in 24 a CBRS, the appraiser must review CBRS location maps to confirm. The appraiser must 25 stop work on the assignment and notify the mortgagee if the property is found to be located within a CBRS. 26

27 x. Lava Zones

When a property is located on the Islands of Hawaii, the appraiser is required to review the U.S. Geological Survey (USGS) <u>Lava Flow Hazard Zone maps</u>. The appraiser must report in the "Comments" section that the property is in the Lava Flow Hazard Zone and provide the Zone Number. Properties located in Zones 1 or 2 are ineligible for FHA insurance, and the appraiser must stop work immediately and notify the mortgagee.

- 33 xi. Mineral, Oil and Gas Reservations
- The appraiser must consider the degree to which the residential benefits may be impaired
 or the property damaged by the exercise of the rights set forth in oil, gas and mineral
 reservations.

1 Consideration should be given to the following: 2 the infringement on the property rights of the fee owner caused by the rights 3 granted by the reservation or lease; and 4 the hazards, nuisances, or damages that may arise or accrue to the subject • 5 property from exercise of reservation or lease privileges on neighboring 6 properties. xii. Soil Contamination 7 8 The appraiser must check readily observable evidence of hazardous substances in the 9 soil. Conditions that indicate soil contamination include: the existence of Underground 10 Storage Tanks (UST) used for heating oil, pools of liquid, pits, ponds, lagoons, stressed 11 vegetation, stained soils or pavement, drums or odors. The appraiser must note the 12

- 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.
- 15 xiii. Residential Underground Storage Tank
- 16 The appraiser must note any readily observable surface evidence of USTs, such as fill 17 pipes, pumps, ventilation caps, etc. The presence of a UST does not automatically trigger 18 an inspection requirement. If there is readily observable evidence of leakage or on-site 19 contamination, the appraiser must make a requirement for further inspection.
- 20 xiv. Grading and Drainage
- 21 The appraiser must check for readily observable evidence of grading and drainage 22 problems. Proper drainage control measures may include gutters and downspouts or 23 appropriate grading or landscaping to divert the flow of water away from the foundation. If the grading does not provide positive drainage away from the improvements, the 24 25 appraiser must make a repair requirement. The appraiser must note any readily 26 observable evidence of standing water adjacent to the foundation that indicates improper 27 drainage. If the standing water is problematic, report this in the "Site" section of the 28 report.
- 29 e. New Construction Site Analysis
- The appraiser must receive a fully executed form <u>HUD-92541</u>, *Builder's Certification of Plans, Specifications, and Site*, signed and dated no more than 30 Days prior to the date the appraisal was ordered, before performing the appraisal on Proposed, Under Construction or properties less than one year old.
- Appraisers must review Item 1 on the form, "Site Analysis Information," and note in the
 appraisal report any discrepancies between the information in Item 1 and the actual
 conditions observed on-site.

1 Appraisers must also receive a floor plan, plot plan and any other exhibits necessary to allow them to determine the size and level of finish of the house they are appraising. 2 3 i. Excess and Surplus Land The appraiser must first distinguish "Excess Land" from "Surplus Land." 4 5 Excess Land refers to land that is not needed to serve or support the existing 6 improvement. The highest and best use of the Excess Land may or may not be the same 7 as the highest and best use of the improved parcel. Excess Land may have the potential to 8 be sold separately. 9 Surplus Land refers to land that is not currently needed to support the existing 10 improvement but cannot be separated from the property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value 11 12 of the improved parcels. Highest and best use analysis must be included in the appraisal report to support the 13 14 appraiser's conclusion of the existence of Excess Land. 15 • If the subject of an appraisal contains two or more legally conforming platted lots under one legal description and ownership, and the second vacant lot is capable of 16 being divided and/or developed as a separate parcel where such division will not 17 18 result in a non-conformity to zoning regulations for the remaining improved lot, 19 the second vacant lot is treated as Excess Land and the value of the second lot 20 must be excluded from the final value conclusion of the appraisal. 21 If the subject has Excess Land that does not meet the criteria above, the appraiser • 22 must document the determination of the Excess Land and provide a value of only 23 the principal site and improvements under a hypothetical condition. f. Characteristics of Property Improvements 24 25 i. Requirements for Living Unit 26 Each living unit must contain: 27 a continuing and sufficient supply of safe and potable water under adequate 28 pressure and of appropriate quality for all household uses; 29 • sanitary facilities and a safe method of sewage disposal. Every living unit must 30 have at least one bathroom, which must include at a minimum, a water closet, lavatory, and a bathtub or shower; 31 32 adequate space for healthful and comfortable living conditions; • 33 • heating adequate for healthful and comfortable living conditions; 34 domestic hot water; and ٠ 35 electricity adequate for lighting, cooking and for mechanical equipment used in • 36 the living unit.

FHA does not have a minimum size requirement for one- to four-family dwellings and
 condominium units. For Manufactured Housing requirements, see the Manufactured
 Housing section.

4 ii. Access to Living Unit

- Access to the living unit must be provided without passing through any other living unit.
 Access to the rear yard must be 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.
- 9 Security bars on bedroom windows and doors are unacceptable unless they comply with
 10 local fire codes.

11 iii. Non-Standard House Styles

- For unique properties such as a log house, earth sheltered housing, dome houses, houses with lower-than-normal ceiling heights, etc., the appraiser must provide a comment that the property is structurally sound and readily marketable, and must apply appropriate techniques for analysis and evaluation.
- 16 The appraiser may require additional education, experience, or assistance for these types 17 of properties. The appraiser must provide a comment that the property is structurally 18 sound and readily marketable, and must apply appropriate techniques for analysis and 19 evaluation. In order for such a property to be fully marketable, it must be located in an 20 area of other similar types of construction and blend in with the landscape.

21 iv. Modular Housing

- Modular Housing refers to dwellings constructed according to state and local codes, off site in a factory, transported to a building lot, and assembled by a contractor into a
 finished house. 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.
- Modular Housing is not considered Manufactured Housing for FHA insurance purposes.
 Modular Housing is treated the same as stick-built housing, and appraisals are reported
 on the same form, not on the Manufactured Housing form. Appropriate comparable sales
 must be selected and analyzed; this may include conventionally built housing, Modular
 Housing or Manufactured Housing.
- 32 v. Identifying an Accessory Dwelling Unit

An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created
 within, or detached from a primary one-unit single-family dwelling, which together
 constitute a single interest in real estate. It is a separate additional living unit, including
 kitchen, sleeping, and bathroom facilities.

- 1 As part of the highest and best use analysis, the appraiser will make the determination to 2 classify the property as a single-family dwelling with an ADU, or a two-family dwelling.
- An ADU is usually subordinate in size, location and appearance to the primary house and may or may not have separate means of ingress or egress.
- 5 Only one ADU is permissible in a dwelling. The living area of the ADU must not be 6 included in the Gross Living Area of the primary dwelling.

7 vi. Additional Manufactured Home on Property

- A manufactured home may be an ADU if it meets highest and best use and FHA
 requirements.
- 10 A manufactured home on the property that physically or legally may not be used as a 11 dwelling and does not pose any health and safety issues by its continued presence may be 12 valued as a storage unit.

13 4. Gross Living Area

- Gross Living Area (GLA) is the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the Structure. It includes only finished, habitable, above-
- 16 grade living space.
- 17 The appraiser must:
- identify non-contiguous living area and analyze its effect on functional utility;
- ensure finished basements and unfinished attic areas are not included in total GLA; and
- use the same measurement techniques for the subject and the comparable sales, and
 report the building dimensions in a consistent manner.
- 22 The standard requires that when any part of a finished level is below-grade, all of that level is
- 23 reported as below-grade finished area, and is therefore considered on a different line in an
- 24 appraisal report, unless the market considers it to be partially below-grade habitable space.
- In the case of non-standard properties and floor plans, the appraiser must observe, consider,
 analyze, and report the market expectations and reactions to the unique property.

27 a. Additions and Converted Space

dwelling.

Room additions and garage conversions are to be treated as part of the Gross Living Area
 (GLA) of the dwelling provided that the addition/conversion space:

has a permanent and sufficient heat source; and

• is accessible from the interior of the main dwelling in a functional manner;

was built in keeping with the design, appeal, and quality of construction of the main

30 31

32

33

٠

•

Room additions and garage conversions that do not meet the criteria listed above, are to be
 addressed as a separate line item in the sales grid, not in the GLA. The appraiser must
 address the impact of inferior quality garage conversions and room additions on
 marketability as well as Contributory Value, if any.

5 Appraisers must consider differences in functional utility when selecting comparable

6 properties of similar total GLA that do not include converted living space. If the appraiser

7 chooses to include converted living spaces as GLA, an explanation detailing the composition

8 of the GLA reported for the comparable sales, functional utility of the subject and

9 comparable properties, and market reaction is required.

- Alternatively, appraisers may consider and analyze converted living spaces on a separate line
 within the sales comparison grid including the functional utility line in order to demonstrate
 market reaction.
- 13 The appraiser must not add an ADU or secondary living area to the GLA.

14 b. Partially Below-Grade Habitable Space

Some properties have habitable space on levels partially below grade. This space may havethe full utility of GLA but does not meet its strict definition.

In all cases, 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 is required to analyze all components of the subject property in the
 valuation process.

23 c. Bedrooms

The acceptability of a bedroom requires windows or a door that can accommodate
 ingress/egress, especially in an emergency, regardless of location above or below grade.

26 5. Appliances

- 27 Cabinets and built-in appliances that are considered real property must be present and
- 28 operational. The appraiser must note appliances present in the house at the time of observation
- and indicate whether that appliance is considered personal property or real property.
- 30 Appliances that are being conveyed must be operational.

31 **6. Swimming Pools**

32 Swimming pools must comply with all local ordinances (perimeter fencing, covers, etc.).

33

- 1 Swimming pools must be operational to provide Contributory Value.
- 2

The appraiser must report readily observable defects in a non-covered pool that would render the pool inoperable or unusable. If the pool water contains algae and is aesthetically unappealing, but

- 5 not otherwise contaminated, no cleaning is required.
- 6 The appraiser must require that pools with unstable sides or structural issues be repaired or
- permanently filled in accordance with local guidelines, and the surrounding land re-graded if
 necessary.
- 9 If the swimming pool has been winterized, or the appraiser cannot determine if the pool is in
- 10 working order, the appraiser is to complete the appraisal with the extraordinary assumption that
- 11 the pool and its equipment can be restored to full operating condition at normal costs.

12 7. Mechanical Components

- 13 Mechanical systems must be safe to operate, protected from destructive elements, have
- 14 reasonable future utility, durability and economy, and have adequate capacity.
- 15 The appraiser must observe the physical condition of the plumbing, heating and electrical
- 16 systems. The appraiser must operate the applicable systems and observe their performance. If the
- 17 systems are damaged or do not function properly, the appraiser must condition the appraisal on
- 18 the repair or further inspection.
- 19 If the property is vacant, the appraiser must note in the report whether the utilities were on or off 20 at the time of the appraisal.
- 21 If the utilities are not on at the time of observation and the systems could not be operated, the 22 appraiser must:
- 22 appraiser must:23 render the

24

25

- 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, appliances, etc. are in working order.
- The appraiser must note that the re-observation may result in additional repair requirements onceall the utilities are on and fully functional.
- 30 If systems could not be operated due to weather conditions, appraisers must clearly note this in
- 31 the report. Appraisers should not operate the systems if doing so may damage equipment or
- 32 when outside temperatures will not allow the system to operate.
- 33 Electrical, plumbing, and/or heating/cooling certifications may be required when the appraiser
- 34 cannot determine if one or all of these systems are working properly.

a. Heating and Cooling Systems

1

5

6

7

8

9

10

11

12

13

14

15

The appraiser must examine the heating system to determine if the heating system is
adequate for healthful and comfortable living conditions, regardless of design, fuel or heat
source. The property must have a permanently installed heating system that:

- automatically heats 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;
 - is safe to operate and provides healthful and comfortable heat;
 - is installed in accordance with the manufacturer's recommendations;
 - relies upon a fuel source that is readily obtainable within the subject's geographic area;
 - has market acceptance within the subject's marketplace;
 - operates without human intervention for extended periods of time; and
 - complies with all local codes and regulations governing such equipment.
- 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,
 consider the effect on marketability, and include the cost to cure.
- 19 **b. Electrical System**
- The electrical system must be adequate to support the typical functions performed in the
 dwelling without disruption, including appliances adequate for the type and size of the
 dwelling.
- 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 note if the amperage appears inadequate for the property. The appraiser must operate a sample of switches, lighting fixtures, and receptacles inside the house, garage and on the exterior walls, and note any deficiencies. 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.
- 29 c. Plumbing System
- 30 The plumbing system must function to supply water pressure, flow and waste removal.
- 31 The appraiser must flush the toilets and operate a sample of faucets to check water pressure
- 32 and flow, to determine that the plumbing system is intact, that it does not emit foul odors,
- that faucets function appropriately, that both cold and hot water run, and that there is no
- 34 readily observable evidence of leaks or structural damage under fixtures.
- 35 The appraiser must examine the water heater to ensure that it has a temperature and pressure-
- 36 relief valve with piping to safely divert escaping steam or hot water.

1 If the property has a septic system, the appraiser must examine it for any signs of failure or 2 surface evidence of malfunction. If there are deficiencies, the appraiser must require repair or 3 further inspection.

4 **d.** Roof Covering

- 5 The roof covering must prevent entrance of moisture and provide reasonable future utility, 6 durability and economy of maintenance. The roof must have a remaining physical life of at 7 least two years.
- 8 The appraiser must observe the roof to determine whether there are deficiencies that present a 9 health and safety hazard or do not allow for reasonable future utility. The appraiser must 10 identify the roofing material type, and the condition observed, in the "Improvements" section 11 of the report.
- 12 The appraiser must report if the roof has less than two years of remaining life, and make the 13 appraisal subject to inspection by a professional roofer.
- When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic,
- 16 and the ceilings.

17 e. Structural Conditions

- 18 The foundation and Structure of the property must be serviceable for the life of the mortgage.
- 19 The appraiser must perform a visual observation of the foundation and Structure of the 20 improvements and transmit those results in the report. If the appraiser notes any structural 21 issues, the appraiser must address the nature of the deficiency in the appraisal where physical
- 22 deficiencies or adverse conditions are reported and require inspection, if appropriate.
- 23 f. Defective Paint

If the dwelling and or related improvements were built after 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.

If the dwelling and or related improvements were built before 1978, refer to the section on
 Lead-Based Paint.

29 8. Attic Observation Requirements

- 30 The appraiser is required to observe the interiors of all attic spaces.
- 31 The appraiser is not required to disturb insulation, move personal items, furniture, equipment or
- 32 debris that obstructs access or visibility. If unable to view the improvements safely in their
- 33 entirety, the appraiser must contact the mortgagee and reschedule a time when a complete visual

FHA Single Family Housing Policy HandbookIV. Appraiser and Property Requirements for Title II Forward and Reverse MortgagesB. Property Acceptability Criteria

- 1 observation can be performed, or complete the appraisal subject to inspection by a qualified third
- 2 party. In cases where access through a scuttle is limited and the appraiser cannot fully enter the
- 3 attic, the insertion of at least the head and shoulders of the appraiser will suffice.
- 4 If there is evidence of a deficient condition (such as a water-stained ceiling or smell of mold), the
- 5 appraiser must report this condition, and render the appraisal as subject to inspection and repairs
- 6 if necessary.
- 7 If there is no access or scuttle, the appraiser must report the lack of accessibility to the area in the
- 8 appraisal report. There is no requirement to cut open walls, ceilings or floors for the appraiser's
- 9 observation.
- 10 An observation performed in accordance with these guidelines is visual and is not technically
- 11 exhaustive. These guidelines are applicable to buildings with four or fewer Dwelling Units and
- 12 their related property improvements.

13 9. Foundation

- 14 All foundations must be adequate to withstand all normal loads imposed.
- 15 The appraiser must examine the foundation for readily observable evidence of safety or
- 16 structural deficiencies that may require repair. If a deficiency is noted, the appraiser must
- 17 describe the nature of the deficiency and note necessary repairs, alterations or required
- 18 inspections in the appraisal where physical deficiencies or adverse conditions are reported.
- 19 For Manufactured Housing, the appraisal must be conditioned upon the certification of an
- 20 engineer or architect that the foundation is in compliance with the <u>Permanent Foundations Guide</u>
- 21 for Manufactured Housing (PFGMH).

a. Basement

Basements must be free of dampness or wetness, or any obvious structural problems. The
 furnace, water heater or other components located in the basement must be functioning.

b. Sump Pumps

- A sump pump is acceptable to HUD if it is properly functioning at the time of appraisal. A sump pump may be hard-wired by an acceptable wiring method or may have a factory
- 28 electrical cord that is to be connected to a receptacle suitable for such use.

29 10. Crawl Space Observation Requirements

- The appraiser must access the crawl space to ensure compliance with the following MPR. Access is defined as ability to visually observe all areas of the crawl space:
- The floor joists must be sufficiently above ground level to provide access for maintaining
 and repairing ductwork and plumbing.

- The minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists, if the crawl space contains any system components.
 - The crawl space must be properly vented.
 - The crawl space must be free of trash, debris, and vermin.
- The crawl space must not be excessively damp and must not have any water pooling. If
 moisture problems are evident, a vapor barrier and/or prevention of water infiltration
 must be required.
- 8 In cases where access through a scuttle is limited and the appraiser cannot fully enter the crawl
- 9 space, the insertion of at least the head and shoulders of the appraiser will suffice. If there is no
- 10 access to the crawl space but there is evidence of a deficient condition (such as water-stained
- 11 subflooring or smell of mold), the appraiser must report this condition and the mortgagee must
- 12 have a qualified third party perform an inspection.
- 13 If there is no access, the appraiser must report the lack of accessibility to the area in the appraisal
- 14 report. There is no requirement to cut open walls, ceilings or floors for the appraiser's
- 15 observation, but the lack of ability to inspect these areas may affect the eligibility of the property.
- 16 Inadequate access does not automatically deem the property ineligible. The appraiser must report
- 17 any evidence that may indicate issues with structural support, dampness, damage, or vermin that
- 18 may affect the safety, soundness and security of the property.
- 19 Not all homes (especially historic homes) with a vacant area beneath the flooring are considered
- 20 to have a crawl space; it may be an intentional void, with no mechanical systems and no
- 21 intention or reason for access.

1

2

3

4

22 **11. Environmental and Safety Hazards**

- 23 The property must be free of all known environmental and safety hazards and adverse conditions
- that may affect the health and safety of the occupants, the property's ability to serve as collateral,
- and the structural soundness of the improvements.
- 26 Examples include defective lead-based paint, mold, toxic chemicals, radioactive materials, other
- 27 pollution, hazardous activities, and potential damage to the Structure from soil or other
- 28 differential ground movements, subsidence, flood, and other hazards.
- 29 These measures to ensure health and safety also apply to HUD/Real Estate Owned (REO)
- 30 properties being financed using new FHA-insured mortgages.
- 31 In the appraisal of new and Proposed Construction, special conditions may exist or arise during
- 32 construction that were unforeseen and necessitate precautionary or hazard mitigation measures.
- 33 HUD will require corrective work to mitigate potential adverse effects from the special
- 34 conditions as necessary.
- 35 The appraiser must note what inspections, if any, are customary for the area, required by state or
- 36 local law, or that are recommended based on observed property conditions.

1 a. Lead-Based Paint

2 The property must be free of lead paint hazards.

If the improvements were built before 1978, the appraiser must note the condition and
location of all defective paint on the property and require repair in compliance with current
EPA standards. The appraiser must inspect all interior and exterior surfaces – stairs, deck,
porch, railings, windows and doors – for defective paint (chipping, flaking or peeling).
Surfaces include those surfaces on fences, detached garages, storage sheds, and other
outbuildings and appurtenant Structures.

For condominium units built before 1978, the appraiser must inspect the interior of the unit,
and exterior surfaces and appurtenant Structures of the specific unit being appraised; address
the overall condition, maintenance and appearance of the Condominium Project; note the
condition and location of all defective paint in the unit; and require repair.

13 b. Methamphetamine Contaminated Property

If the mortgagee or the appraiser identifies a property as contaminated by the presence of
 methamphetamine (meth), either by its manufacture or by consumption, the property is
 ineligible due to this environmental hazard until the property is certified safe for habitation.

- 17 If the effective date of the appraisal is prior to certification that the property (site and
 18 dwelling) is safe for habitation, the appraiser will complete the appraisal subject to
 19 certification that the property is safe for habitation.
- If the effective date of the appraisal is after certification that the property (site and dwelling) is safe for habitation, and the lender has provided a copy of the certification by the certified hygienist, the appraiser must include a copy of the certification in the appraisal report.
- The appraiser must address any long-term stigma caused by the property's contamination by meth and the impact on value and/or marketability.
- 25 c. Wood Destroying Insects/Organisms/Termites
- 26 The property must be free of wood destroying insects and organisms.
- The appraiser must observe the foundation and perimeter of the buildings for evidence of
 wood destroying pests. The appraiser's observation is not required to be at the same level as
 a qualified pest control technician.
- 30 If there is evidence of infestation, including a prior treatment, the appraiser must mark the 31 evidence of infestation box in the "Improvements" section of the appraisal and make the
- 32 appraisal subject to inspection by a qualified pest control specialist.

1 **12. Repair Requirements**

2 When examination of new or Existing Construction reveals non-compliance with the applicable

3 standards, the appraiser will note the repairs necessary to make the property comply, together

- 4 with an estimated cost to cure, provide descriptive photographs, and condition the appraisal for
- 5 the required repairs.

If correction is not feasible and compliance can only be affected by major repairs or alterations,
the property may be ineligible for FHA insurance. FHA Roster appraisers must report all readily
observable property deficiencies, as well as any adverse conditions discovered performing the
research involved in completion of the appraisal, within the appraisal reporting form. The

10 underwriter will determine which repairs for existing properties must be made for the property to

11 be eligible for FHA-insured financing.

12 **a. Minimum Required Repairs**

Required repairs are limited to those repairs necessary to maintain safety, security and soundness. Required repairs are those necessary to preserve the continued marketability of the property and protect the health and safety of the occupants. If an element is functioning well but has not reached the end of its useful life, the appraiser should not recommend replacement because of age.

The nature and degree of any noted deficiency will determine whether to address the
 deficiency in the narrative comments area of the report under "condition of the property" or
 "physical deficiencies" affecting livability or structural soundness.

21 **b.** As-Is Condition and Cosmetic Repairs

22 The appraiser may complete an as-is appraisal for existing properties when minor property 23 deficiencies, which generally result from deferred maintenance and normal wear and tear, do 24 not affect the health and safety of the occupants or the security and soundness of the 25 property. Cosmetic/minor repairs are not required; however, they must be reported by the 26 appraiser and considered in the overall condition when rating and valuating the property. 27 Some examples of cosmetic repairs include missing handrails that do not pose a threat to 28 safety, holes in window screens, cracked window glass, defective interior paint surfaces in 29 housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a 30 dripping faucet), etc.

31 c. Defective Conditions Requiring Repair

A property with defective conditions is ineligible until the defects or conditions have been
 remedied and the probability of further damage eliminated. The appraiser must note those
 repairs necessary to make the property comply with FHA's MPR, together with the estimated
 cost to cure.

d. Conditions Requiring Inspection by a Qualified Individual or Entity

Examples of conditions that require an inspection by qualified individuals or Entities include,
but are not limited to:

- 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);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation); and
 - leaking or worn out roofs.
- 10 The reason or indication of a particular problem must be given when requiring an inspection 11 of any mechanical system, structural system, etc.

12 **13. Utility Services**

1

4

5

6

9

13 For attached, detached, and manufactured single-family dwellings, utilities must be independent

- 14 for each living unit; each unit must have individual electric, water and gas meters as applicable.
- 15 Multiple living units under a single mortgage or ownership (two- to four-family properties) may
- 16 utilize common services, such as water, sewer, gas and electricity and be served by one meter in
- 17 jurisdictions that allow single meter rental properties. Separate utility service shut-offs for each
- 18 unit must be provided.
- 19 For living units under separate ownership and part of a larger planned community, common
- 20 utility services may be provided from the main to the building line when protected by an
- 21 easement or covenant and maintenance agreement acceptable to HUD. Individual utilities
- 22 serving a living unit may not pass over, under, or through another living unit unless provision is
- 23 made for repair and maintenance of utilities without trespass on adjoining properties, or legal
- 24 provision is made for permanent right of access for maintenance and repair of utilities. If a single
- drain line in the building serves more than one unit, the building drain clean-outs must be
- accessible from the exterior.
- 27 Other facilities must be independent for each living unit, except common services, such as
- 28 laundry, storage space or heating, which may be provided in two- to four-living unit buildings
 29 under a single mortgage.
- 30 Utilities must be located on easements that have been permanently dedicated to the local
- 31 government or appropriate public utility body. This information must be recorded on the deed
- 32 record so that the utility services match the easement.

a. Individual Water Supply Systems

- When a public water supply system is available but the subject property is not connected, the mortgagee must determine whether connection is feasible. When an individual water supply system is present, the following must be required:
- 37
 - Water quality must meet the requirements of the health authority with jurisdiction.

- If there are no local (or state) water quality standards, then water quality must meet the standards set by the <u>U.S. Environmental Protection Agency</u> (EPA), as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141 and 142.
 - Soil poisoning is an unacceptable method for treating termites unless satisfactory assurance is provided that the treatment will not endanger the quality of the water supply.
- Requirements for the location of wells for FHA-insured properties are based on <u>24 CFR §</u>
 200.926d (f) (3). The following tables provide a summary of requirements for the minimum
- 9 distance required between wells and sources of pollution.

	Individual Water Supply System for Minimum Property Standards for New Construction
	24 CFR § 200.926d(f)(3)(iv)*
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* dis	stance requirements of local authority prevail if greater than stated above

10

1

2

3

4

5 6

Individual Water Supply System for Minimum Property Requirements for Existing Construction*

_	
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority
5	If the subject property line is adjacent to residential property then local well distance requirements prevail. If the subject property is adjacent to nonresidential property or roadway, there needs to be a separation distance of at least 10 feet from the property line
* dis	stance requirements of local authority prevail if greater than stated above

11 **b. Water Wells**

12 The following tables provide a summary of requirements for individual water systems.

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

B. Property Acceptability Criteria

Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)		
1	Lead free piping	
2	If no local chemical and bacteriological water standards, state standards apply	
3	Connection of public water whenever feasible	
4	Wells must deliver water flow of five gallons per minute over at least a four-hour	
	period	

1

3

4

5 6

7

8 9

10

11 12

13

14

15

16

17

18

19

20

21 22

23

24

25

26

27

	Water Wells Minimum Property Requirements for Existing Construction
1	Existing wells must deliver water flow of three to five gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirements of local jurisdiction or the EPA if no local
	standard

2 c. Conditions for Individual Water Supplies

A well located within the foundation walls of an existing dwelling is acceptable only if there is evidence that the local jurisdiction recognizes and permits such a location.

A well located within the foundation walls of new construction dwelling is acceptable only in arctic or sub-arctic regions.

Conditions required for acceptability of dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site:

- the mortgagee verifies that no other potable water source is available for the property,
- they are common in the immediate marketing area;
- they are readily accepted by local market participants; and,
- they are permitted by the local jurisdictional authority;
 - the local health department provides a certificate indicating that the water met local standards, or;
 - an independent laboratory provides a certificate indicating that the water meets EPA standards:

The following water sources or well conditions are unacceptable:

- mechanical chlorinators;
- wells that do not provide a continuous, adequate supply of water defined as a flow of at least three to five gallons per minute supply for an existing well, and five gallons per minute for a new well;
- properties served by springs, lakes, rivers;
- Sandpoint Wells or Artesian Wells.

1

2

22

23

24

25

26

27

28 29

30

31

32

33

34

35

36

37

38

d. Appraiser Reporting Requirements for Individual Water Supply Systems

3 The appraiser must note any readily observable deficiencies regarding the well and require 4 test or inspection if any of the following apply: 5 • the water supply relies upon a water purification system due to the presence of contaminates: 6 7 • corrosion of pipes (plumbing); 8 areas of intensive agricultural uses within one quarter mile; • 9 coal mining or gas drilling operations within one quarter mile; • a dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one 10 • quarter mile; or 11 an unusually objectionable taste, smell, or appearance of well water. 12 • 13 The appraiser must also be familiar with the minimum distance requirements between private 14

wells and sources of pollution and, if discernible, comment on them. The appraiser is not
required to sketch or note distances between the well, property lines, septic tanks, drain
fields, or building Structures but may provide estimated distances where they are comfortable
doing so. If available, the homeowner or mortgagee should provide the appraiser with a copy
of a survey or other documents attesting to the separation distances between the well and
septic system or other sources of pollution.

20 e. Shared Wells

21 To be eligible for FHA mortgage insurance, a shared well must:

- serve existing properties that cannot feasibly be connected to an acceptable public or community water supply system;
 - serve new or Proposed Construction only if:
 - it is infeasible to serve the housing by an acceptable public or community water system; and
 - the housing is located other than in areas where local officials have certified that installation of public or adequate community water and sewer are economically feasible;
- be capable of providing a continuous supply of water to involved Dwelling Units so
 that each existing property simultaneously will be assured of at least three gallons per
 minute (five gallons per minute for Proposed Construction) over a continuous fourhour period. (The well itself may have a lesser yield if pressurized storage is provided
 in an amount that will make 720 gallons of water available to each connected existing
 dwelling during a continuous four-hour period or 1,200 gallons of water available to
 each proposed dwelling during a continuous four-hour period. The shared well system
 yield must be demonstrated by a certified pumping test or other means acceptable to
 all agreeing parties.);
- provide safe and potable water. An inspection is required under the same
 circumstances as an individual well. This may be evidenced by a letter from the
 health authority having jurisdiction or, in the absence of local health department

1 2 2	standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;
3	• have a valve on each dwelling service line as it leaves the well so that water may be
4	shut off to each served dwelling without interrupting service to the other properties;
5	and
6	• serve no more than four living units or properties.
7	If the property has a shared well, the appraiser must report it. In addition to noting any
8	readily observable deficiencies, the appraiser must be provided a shared well agreement and

8 readily observable deficiencies, the appraiser must be provided a shared well agreement and
9 include it in the appraisal report. For both proposed and existing properties, a shared well
10 agreement must comply with the guidance provided in the following table.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Permit well water sampling and testing by the local authority at the request of any party at any time.
2	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
3	Assure continuity of water service to "supplied" parties if the "supplying" party has no further need for the shared well system. ("Supplied" parties normally should assume all costs for their continuing water supply.)
4	Prohibit well water usage by any party for other than bona fide domestic purposes.
5	Prohibit connection of any additional living unit to the shared well system without:
	• the consent of all parties;
	• the appropriate amendment of the agreement; and
	• compliance with item 3.
6	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for Proposed Construction) of the shared well.
7	Establish easements for all elements of the system, assuring access and necessary
	working space for system operation, maintenance, improvement, inspection and testing.
8	Specify that no party may install landscaping or improvements that will impair use of the easements.
9	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection or testing will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
10	Establish the right of any party to act to correct an emergency in the absence of the other parties on-site. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand.
11	Permit an agreement amendment to assure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved property.

B. Property Acceptability Criteria

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
12	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement or improvement.
13	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.
14	 Specify required cost sharing for: the energy supply for the well pump; system maintenance, including repairs, testing, inspection and disinfecting; system component replacement due to wear, obsolescence, incrustation or corrosion; and system improvement to increase the service life of material or component, to restore well yield or to provide necessary system protection.
15	Specify that no party shall be responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
16	 Require that each party be responsible for: prompt repair of any detected leak in this water service line or plumbing system; repair costs to correct system damage caused by a resident or guest at his property; and necessary repair or replacement of the service line connecting the system to the dwelling.
17	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a property sharing the well.
18	Assure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
19	Assure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs.
20	Specify that the recorded agreement may not be amended during the term of a federally insured or guaranteed mortgage on any property served, except as provided in items 5 and 11 above.
21	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

A pressure tank having a minimum capacity of 42 gallons must be provided. However, pre pressured tanks and other pressurizing devices are acceptable if delivery between pump
 cycles equal or exceed that of a 42-gallon tank. Tanks must be equipped with a clean-out

4 plug at the lowest point and a suitable pressure relief valve.

f. Community Systems

A community water system is a central system that is owned, operated and maintained by a private corporation or a non-profit property owners' association. If the property is on a community water system, the appraiser must note the name of the water company on the appraisal report.

6 If required by jurisdiction, the community water system must be properly licensed.

Connection must be made to a public or community water/sewage disposal system whenever
feasible and available at a reasonable cost. If connection costs to the public or community
system are not reasonable, the existing on-site systems will be acceptable provided they are
functioning properly and meet the requirements of the local health department. The appraiser
must report on the availability of connection to public and/or community water/sewer
systems, and any jurisdictional conditions requiring connection.

13 g. Onsite Sewage Disposal Systems

If not served by an off-site sewer system, each living unit must be provided with a sewage disposal system adequate to dispose of all domestic wastes in a manner that will not create a nuisance, or in any way endanger the public health. The appraiser must visually inspect the on-site system and its surrounding area. If there are readily observable signs of system failure, the appraiser must require an inspection to ensure that the system is in proper working order. In some cases, FHA will require connection to an off-site sewer system. The appraiser must report on the availability of public sewer to the site.

21

1

1 C. VALUATION AND REPORTING PROTOCOLS

2 1. Photograph, Exhibits and Map Requirements

- 3 The appraiser must include a legible street map showing the location of the subject and each of
- 4 the comparable properties, including sales, rentals, listings, etc. utilized. If substantial distance
- 5 exists between the subject and comparable properties, additional legible maps must be included.
- 6 The appraiser must include a building sketch showing the Gross Living Area (GLA), all exterior
- 7 dimensions of the house, patios, porches, decks, garages, out buildings contributing value,
- 8 breezeways, etc. The sketch must show "covered" or "uncovered" to indicate a roof or no roof
- 9 (such as over a patio). The appraiser must show calculations used to arrive at the estimated GLA.
- 10 An interior sketch or floor plan is required for properties exhibiting functional obsolescence
- 11 attributable to the floor plan design.
- 12 The requirements in the table below satisfy FHA's minimum requirements for photographs of
- 13 single family (one to four Dwelling Units) appraisals.

FHA Minimum Photograph Requirements		
Photograph Exhibit	Minimum Photograph Requirement	
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 	
Subject Property Interior	 Kitchen, main living area, bathroom, bedrooms Any other room representing overall condition Basement, attic, and/or crawl space Recent updates such as restoration, remodeling and renovation For two-to four-unit properties, also include photographs of common areas, hallways, etc. 	
Comparable Sales, Listings, Pending Sales, Rentals, etc.	 Photographs depicting the front view of each comparable utilized must be those taken by the appraiser. The photographs should be taken at an angle to depict both the front and the side. The use of Multiple Listing Service (MLS) photographs to exhibit comparable condition at the time of sale is acceptable; however, appraisers must include their own photographs as well to document compliance. 	
Subject Property Deficiencies	• Photographs of the deficiency or condition requiring inspection or repair	

FHA Single Family Housing Policy Handbook

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

C. Valuation and Reporting Protocols

FHA Minimum Photograph Requirements	
Photograph Exhibit	Minimum Photograph Requirement
Condominium Projects	• Additional photographs of the common areas and shared amenities of the Condominium Project

1 The documentation provided by the required attachments/exhibits satisfies FHA's minimum

2 requirements. The appraiser should include additional exterior and/or interior photographs,

3 reports, studies, analysis, or copies of prior listings in support of the appraiser's observation and

4 analysis.

5 2. Intended Use of Appraisal

6 The intended use for an appraisal prepared for an FHA-insured mortgage is to support

- 7 underwriting requirements.
- 8 FHA appraisals are not a guarantee that the property is free from defects. The appraisal

9 establishes the value of the property for mortgage insurance purposes only. Buyers need to

10 secure their own home inspections through the services of a qualified inspector and satisfy

11 themselves about the condition of the property.

12 **3.** Development of the As-Is Property Value

13 **a.** Appraisal Conditions

The conclusions about the observed conditions of the property provide the rationale for theopinion of Market Value.

16 The completed appraisal form, together with the required exhibits, constitutes the reporting 17 instrument to HUD for FHA-insured mortgages. Conditions of the property, mortgage type 18 and/or the market will determine if the appraisal is to be performed as-is, or if the value 19 opinion needs to be conditioned upon an extraordinary assumption(s), a hypothetical 20 condition(s), subject to an additional inspection, or completion of construction, repairs or

- 21 alterations.
 - 22 The appraisal report must state whether repairs, alterations or inspections are necessary to

23 eliminate conditions threatening the continued use, security, and marketability of the

- 24 property.
- 25 The following table illustrates appraisal conditions under which an appraisal must be made.

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

C. Valuation and Reporting Protocols

	Report Conclusion	Appraisal Condition
1.	There is/are no repair(s), alteration(s) or inspection conditions noted by the appraiser.	"As-is"
2.	Establishing the As-Is Value for a 203(k).	
3.	The property is being recommended for rejection.	
4.	Intended use is for Pre-Foreclosure Sale (PFS) in accordance	
	with 24 CFR § 203.370 or Claims Without Conveyance of	
	Title (CWCOT) @ 24 CFR § 203.368.	
5.	Intended use is for REO in accordance with 24 CFR § 291.100.	
1.	Proposed Construction where construction has not started.	"Subject to completion
2.	Under Construction but not yet complete (less than 90%).	per plans and
3.	Certain Section 203(k) Rehabilitation Mortgages depending	specifications"
	on scope of work.	
1.	Repair or Alteration Condition(s) noted by the appraiser to:	"Subject to the
	• protect the health and safety of the occupants;	following repairs or
	• protect the security of the property;	alterations"
	• correct physical deficiencies or conditions affecting	
	structural integrity.	
2.	Certain Section 203(k) Rehabilitation Mortgages depending	
	on scope of work.	
3.	Under Construction, more than 90% complete with only	
	minor finish work remaining (Buyer preference items e.g.,	
	floor coverings, appliances, fixtures, landscaping, etc.). This	
	eliminates the need for plans and specifications.	
Re	quired inspection(s) are noted by the appraiser.	"Subject to the
		following required
		inspection"

b. Valuation Development

- 2 There are three valuation approaches as applied to one- to four-residential unit properties:
 - sales comparison approach
 - cost approach
 - income approach to value
- 6 The application of the three approaches to value requires that the appraiser obtain credible 7 and verifiable data to support each approach.
- 8 The appraiser must perform a thorough analysis of the characteristics of the market,
- 9 including the supply of properties that would compete with the subject and the corresponding10 demand.
- 11 Appraisers must utilize their assessment of the highest and best use of the property, including 12 accurate and verifiable zoning information, during valuation development.

1

3

4 5

i. FHA Data Requirements

1

2

3

4

21

22

23

24

The appraiser must verify both the characteristics of the transaction (such as: sale price, date, seller concessions, conditions of sale) and the characteristics of the property at the time of sale through reliable data sources.

- 5 The appraiser must verify transactional data via parties to the transaction: agents, Buyers, 6 sellers, mortgagees, etc. If the sale cannot be verified by a party to the transaction, the 7 appraiser may utilize public records or another impartial source that can be verified.
- 8 MLS records and property site visits alone are not acceptable verification sources.

9 **ii.** Effective Age Remaining Economic Life

- 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.
- 13 The appraiser is required to state the remaining economic life as a single number or as a 14 range for all property types, including condominiums. An explanation is required if the 15 remaining economic life is less than 30 years.
- 16 The appraiser must apply the appropriate technique to estimate the economic life of the 17 subject and not just report a number without analysis.

18 iii. Approaches to Value

- 19 The appraiser must consider all approaches to value and must develop and reconcile each 20 approach that is relevant.
 - (A) 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, etc.).
- For Proposed/new Construction, any cost estimates provided by the contractor or
 builder must be reasonable and independently verified.
- 27 (1) Land Valuation
- The appraiser is only required to estimate the value of the site if the cost approachis applicable.
- 30Acceptable methodology used to estimate land value includes sales comparison,31allocation and extraction.

1 2 3 4 5	Supporting documentation and analysis must be summarized and included in the appraisal. Additionally, comparable land sales data and analysis or other supporting information must be maintained in the appraiser's file and included by reference in the appraisal. For properties with Excess Land, all comparable land sale data and analysis should be included in the report.
6	(2) Estimate of Cost New for Housing
7 8	The appraiser may use either the replacement cost or the reproduction cost. The appraiser must state the method used and the source of the data.
9 10 11 12 13 14	Appraisers must use the current version of a published cost data source recognized by the industry. The appraiser must report the quality rating selected and utilized, as well as identify the source of the data, its publication and/or effective date. The appraiser is expected to be aware of local cost data from builders, contractors, building supply firms, etc. as a check against the published cost data.
15 16 17 18 19	 The appraiser must 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.
20 21 22	Specific requirements for the cost approach as applied to manufactured houses are addressed in the SF Housing Appraisal and Data Delivery Requirements Manufactured Home Appraisal Report.
23	(B) Income Approach to Value for Residential Properties
24 25	The income approach should be applied to a single-family residential property when there is evidence of recently rented and then sold data pairs.
26 27 28	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.
29 30	The Gross Rent Multiplier (GRM) factor must be market-derived, supported, and applied to the market rent for the subject.
31	Rent Control
32 33 34 35	The appraiser must verify if the subject and/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.

1 (C) Sales Comparison Approach 2 The sales comparison approach is required for all appraisals completed for FHA-3 insured financing. 4 The appraisal report must present the data, points of comparison, and analysis, provide support for the appraiser's choice of comparable properties, and the 5 adjustments for dissimilarities to the subject, and include sufficient description and 6 7 explanation to support the facts, and the analyses and conclusions of the appraiser. 8 If the data from the market area is insufficient to support some of these requirements, 9 the appraiser must provide the best information available and include an explanation 10 of the issue, the data available, the conclusions reached and the steps taken by the appraiser to attempt to meet the guidelines. 11 12 (1) Comparable Sale Selection 13 Comparable sale selection must be based on properties having the same or similar 14 locational characteristics, physical characteristics and the priority the market assigns to each factor, including: 15 • design 16 17 • appeal 18 style • 19 age • 20 size 21 utility • 22 quality 23 • condition 24 The appraisal report requires the inclusion of as many comparable properties as 25 are necessary to support the appraiser's analysis and conclusion. At a minimum, 26 the appraiser is required to include the most recent and relevant sales, preferably 27 within the last six months. In less active markets, the appraiser must include at 28 least three sales that settled no longer than 12 months prior to the date of 29 appraisal. Additional support can be provided by including more sales, offerings 30 and/or offerings now under contract. 31 Appraisers must analyze the whole market, including when there are a number of sales that may or may not be classified as arm's length sales. 32 33 An Arm's Length Transaction refers to a transaction between unrelated parties 34 who are each acting in their own best interest. The appraiser is required to utilize 35 Arm's Length Transactions for comparable properties except when there is 36 evidence that REO sales and/or short sale/Pre-Foreclosure Sale (PFS) transactions 37 are so prevalent that normal Arm's Length Transactions s are not present or 38 supported by the market trend.

1 2 3	A transaction involving a foreclosure transfer to a mortgagee is not evidence of the Market Value, and is not a valid type of comparable sale for an FHA-insured mortgage.
4 5 7 8 9 10 11	 The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an Arm's Length Transaction: REO sale – transfer from mortgagee to new owner short sale/PFS estate sale court ordered sale relocation sale flip transactions
12	(2) Adjusting Comparable Properties
13 14 15 16	 Calculation of the Contributory Value includes methods based on the: direct sales comparison approach; cost approach; and income approach.
17 18	Appraisers are required to apply all appropriate techniques and methods, analyze and report the results.
19	(3) Comparable Selection in Diverse Real Estate Markets
20 21	Comparable sales should be selected based on similar locational and physical characteristics, not sales price.
22	(a) Subdivisions, Condominium or Planned Unit Development Projects
23 24 25 26 27	Arm's length resale activity from within the established subdivision, condominium or Planned Unit Development (PUD) project is the best indicator of value. If the appraiser uses sales of comparable properties that are located outside of the subject's subdivision/project, the analysis must include an explanation to reflect typical Borrower expectations and behavior.
28 29 30 31 32 33 34 35	For properties in new subdivisions, or units in new (or recently converted) Condominium Projects, the appraiser must include, for comparison, properties in the subject market area as well as properties within the subject subdivision or project. Whenever possible, the comparable selection must include at least one sale from a competing subdivision or project and one sale from within the subject subdivision or project so that this market acceptance may be directly compared. If the new project is mature enough to have experienced arm's length resales, then those properties must also be considered and included.

1	(4) Comparable Sale Selection in Rural and Slow Growth Markets
2 3 4	If insufficient comparable sales have occurred within the previous six months, the appraisal report must include at least three sales that occurred less than 12 months prior to the date of appraisal.
5 6 7 8 9	In markets where there is a scarcity of recent comparable sales data, sales older than 12 months may be included as additional sales. The appraiser must report the most recent and relevant sales, and include a thorough explanation of the market conditions, the levels of supply and demand, and a reason for the lack of recent sales data.
10	(5) Sales Concessions
11 12	Sales concessions refer to non-realty items, upgraded features in newly constructed houses, and special financing incentives.
13 14 15 16 17	The appraiser must verify all comparable sales transactions for seller concessions and report those findings in the appraisal. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (i.e., buyers, sellers or one of their representatives), the appraiser must clearly state how and to what extent the sale was verified.
18 19 20 21 22 23 24 25	The appraiser must make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price. The Sales Concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The adjustment should reflect the difference between the sales price with the Sales Concessions, and what the property would have sold for without the concessions under typical market conditions. The appraiser must include an explanation of the effect of the Sales Concessions on the market price of the comparable.
26 27 28 29 30	Adjustments are not calculated on a dollar for dollar cost of the financing or concession; however, the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment and analysis based on observable and supportable market trends and expectations.
31	(6) Bracketing
32 33	Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.
34 35 36 37	In analyzing the comparable pool to determine the best comparable sales to display and compare in the adjustment grid, appraisers must use Bracketing techniques when possible and appropriate. Comparable properties should not be chosen only because their prices bracket a desired or estimated value. The

1 2	selection must be made based on the principle of substitution and the analysis will reveal the relevance of that data.
3	(7) Market Condition (Time) Adjustments
4 5	Market condition adjustments refer to adjustments made to reflect value changes in the market from the time of the comparable sale to the time of the appraisal.
6 7 8 9 10	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.
11 12	The appraiser must provide a summary comment and support for all conclusions relating to the trend of the current market.
13	(8) FHA Appraisal Requirements in Changing Markets
14 15 16 17	In changing markets, the appraiser must include an absorption rate analysis, and at least two comparable sales that closed within 90 Days prior to the effective date of the appraisal. If the appraiser cannot comply with this requirement due to the lack of market data, a detailed explanation is required.
18 19	The appraiser must include a minimum of two active listings or pending sales on the appraisal grid (in addition to at least three recently settled sales).
20 21 22 23 24 25 26 27 28 29 30 31 32 33	 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). The appraiser must provide an explanation for the DOM that does not approximate periods reported in the "Neighborhood" section of the appraisal reporting form; reconcile the Adjusted Values of active listings or pending sales with the Adjusted Values of the settled comparable properties are higher than the Adjusted Values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate.
34	Increasing Markets
35 36	In a rapidly increasing market, positive time adjustments should be applied if the appraiser has sufficient proof of the trend from a credible source (such as a

- sale/resale comparison, a thorough analysis of specific market trends, etc.), a copy
 of which must be included in the addendum.
- 3 The final conclusion from this approach should be based on the reconciliation of 4 all data.

5 4. Final Reconciliation and Conclusion

6 After the approaches to value are completed, the appraiser must check the data, calculations and

conclusions. Each approach to value must be reconciled, and there must be a reconciliation of all
approaches into a final estimate of value for the subject property.

- 9 If the appraisal has no conditions, the value opinion must be rendered as-is.
- 10 If the appraiser must conclude the report under a hypothetical condition or extraordinary
- 11 assumption, the issues and requirements must be reported 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;" or
 - "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."

18 **a. Trainee Appraisers**

14

15

19 The FHA Roster appraiser is required to sign the appraisal and perform all parts of the 20 analysis and reconciliation. A trainee or licensee may assist in any part of the appraisal but 21 the opinions and analysis must be performed by the FHA Roster appraiser, who must hold 22 the certified residential credential at minimum.

The FHA Roster appraiser is required to 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 also inspect the subject property and at least the exterior of the comparable properties. A trainee or licensee may accompany the FHA Roster appraiser on the observations but may not perform the observations in place of the FHA Roster appraiser. Appraiser trainees and/or licensees may not sign the appraisal report.

The FHA Roster appraiser must disclose the name of the trainee appraiser in the report andtheir role in developing the appraisal.

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

D. Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages

D. PROPERTY ACCEPTABILITY CRITERIA FOR MANUFACTURED HOUSING FOR TITLE II INSURED MORTGAGES

3 **1. Definitions**

- 4 Manufactured Housing refers to Structures that are transportable in one or more sections. They
- 5 are designed to be used as a dwelling when connected to the required utilities, which includes the
- 6 plumbing, heating, air-conditioning and electrical systems contained therein. Manufactured
- 7 Housing is designed and constructed to the federal Manufactured Home Construction and Safety
- 8 Standards (MHCSS) as evidenced by an affixed certification label. Manufactured Housing may
- 9 also be referred to as mobile homes, sectionals, multi-sectionals, doublewide, triple-wide or
- 10 singlewide.
- 11 Modular Housing is built to the local/state codes and is not to be considered Manufactured
- 12 Housing for FHA-insured mortgages.
- 13 The following is a table of definitions and terms that apply to FHA-insured financing of
- 14 Manufactured Housing.

Term	Definition
Anchorage	 A connection between the superstructure and the foundation, by means of welds, bolts, and various light gage metal plates. Anchorage does not refer to any type of soil anchor. (Note: soil anchors are not acceptable.)
Existing Construction	• The manufactured home has been permanently installed on a site for one year or more prior to the case number assignment date.
Exterior Foundation Wall	 Foundation walls placed directly below the exterior perimeter walls of the unit. These walls may or may not be structurally used as bearing walls under gravity loads and/or shear walls under horizontal loads. If these walls are not used structurally, they are called non-bearing walls or skirt walls.
Itemized Value	• The appraised value of the components of the property (unit, site improvements and land), separately calculated and added to produce the total of all.
New Construction	• The manufactured home has been permanently erected on a site for less than one year prior to the case number assignment date.
PFGMH	<u>Permanent Foundations Guide for Manufactured Housing</u>

FHA Single Family Housing Policy Handbook

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

D. Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages

Term	Definition
Relocation (of Eligible Manufactured Housing)	 To be eligible for FHA insurance under Title II, the manufactured unit must not have been previously installed or occupied at any other site or location. Manufactured units may be moved only from the manufacturer or dealer's lot to the site on which the unit will be insured. If a permanent foundation is to be constructed under an existing eligible unit, the unit may be jacked-up or underpinned in order to install a new foundation.
Skirting	 A term often used to describe a non-structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal attached to the side of the Structure, extending to the ground (generally, not installed below frost depth).

2. Eligibility and General Requirements for Manufactured Housing under Title II 1

- 2 A Manufactured House must comply with the following: 3
 - It must have a floor area of not less than 400 square feet.
- 4 It must be constructed on or after June 15, 1976, in conformance with the federal • 5 MHCSS, as evidenced by an affixed certification label in accordance with 24 CFR § 6 3280.11 (Manufactured Houses produced prior to that date are ineligible for insured 7 financing).
 - The Manufactured House and site must exist together as a real estate Entity in accordance with state law (but need not be treated as real estate for taxation purposes).
- 10 The mortgage must cover both the manufactured unit and its site and must have a term of not more than 30 years from the date amortization begins. 11
- 12 • It must be moved from the factory or dealer directly to the site.
- 13 It must be designed to be used as a dwelling with a permanent foundation built to comply • 14 with the Permanent Foundations Guide for Manufactured Housing (PFGMH).
- 15 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 16 17 flood elevation.
- 18 • The Structure must be designed for occupancy as a Principal Residence by a single 19 family.
- 20 Manufactured homes on leased ground are eligible if the lease meets the requirements of
- 21 Valuation of Leasehold Interests eligibility.

22 3. Foundation Systems

- 23 The manufactured home must be erected on a permanent foundation in compliance with HUD
- 24 guidelines for foundation systems. Currently, these guidelines are set forth in the PFGMH. A
- 25 certification by a licensed professional engineer or registered architect, who is licensed/registered
- in the state where the manufactured home is located, attesting to compliance with the current 26

8

9

- 1 foundation guidelines is required. This requirement does not apply to refinances of current FHA
- 2 mortgages or where a valid certificate is obtained from a prior FHA mortgage.
- 3 The following table displays specific requirements based on the stage of construction.

Stage of Construction	Requirements
New Construction	The space beneath the house must be enclosed by a continuous foundation type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. The enclosure must be adequately secured to the perimeter of the house and be constructed of materials that conform, accordingly, to HUD MPS (such as concrete,
Existing Construction	masonry or treated wood) and the <u>PFGMH</u> for foundations. If the perimeter enclosure is non-load-bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood or a product with similar strength and durability.

4 4. Running Gear

5 The towing hitch and running gear must be removed.

6 **5.** Perimeter Enclosure

- 7 The space beneath manufactured homes must be properly enclosed. The perimeter enclosure
- 8 must be a continuous wall that is adequately secured to the perimeter of the unit and allows for
- 9 proper ventilation of the crawl space.

10 6. Label Required

- 11 The manufactured home must have an affixed HUD certification label (HUD seal/HUD tag)
- 12 which is a two inch by four inch aluminum plate permanently attached to the housing, and
- 13 located at one end of each section of the house, approximately one foot up from the floor and one
- 14 foot in from the road side, or as near that location on a permanent part of the exterior of the
- 15 house as practicable. Etched on the certification label is the certification label number, also
- referred to as the HUD label number. Label numbers are not required to be sequential on a multi-
- 17 section house.

18 7. Data Plate

- 19 Manufactured homes have a data plate affixed in a permanent manner, typically adjacent to the
- 20 electric service panel, the utility room or within a cabinet in the kitchen. The data plate provides
- 21 information required to be reported within the appraisal, such as the manufacturer name, serial
- 22 number, model and date of manufacture, as well as wind, roof load and thermal zone maps.

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

D. Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages

8. Manufactured Housing Units Located within Condominium Projects

- 2 Manufactured Housing units in Condominium Projects are eligible for FHA insurance if located
- 3 within an approved Condominium Project.

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

E. Appraiser Requirements for Manufactured Housing Appraisals

1 E. APPRAISER REQUIREMENTS FOR MANUFACTURED HOME APPRAISALS

2 1. Flood Zone

- 3 If the appraiser determines that a manufactured home is located in Flood Zones A or V, the
- 4 appraiser must stop work and contact the mortgagee. The mortgagee may ask the appraiser to
- 5 continue work on the assignment based on a Letter of Map Amendment (LOMA) or Letter of
- 6 Map Revision (LOMR) or flood elevation certification. If the appraiser is provided with a
- 7 LOMA or LOMR, the appraiser does not need to indicate that the property is in a flood zone. If
- 8 provided with an elevation certificate, the appraiser will indicate the property is in a flood hazard
- 9 area on the appraisal report.

10 2. Perimeter Enclosure

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

13 **3.** Additions to Manufactured Housing

- 14 If the appraiser observes additions or structural changes to the original house, the appraiser must
- 15 condition the appraisal upon inspection by the state or local jurisdiction administrative agency
- 16 that inspects manufactured homes for compliance or a licensed structural engineer may report on
- 17 the structural integrity of the manufactured dwelling and the addition if the state does not employ
- 18 inspectors.

19 4. Measurement Protocols

- 20 Measurement for GLA is based on the overall length, including living areas and other projections
- 21 that are at least seven feet in height. Length and width must not include bay windows, roof
- 22 overhangs, drawbars, couplings or hitches.

23 5. Sales Comparison Approach for Manufactured Housing

The appraiser must include a sufficient number of sales to produce a credible value; at least twomanufactured houses must be included in the comparable sales grid.

26 6. Estimate of Cost New for Manufactured Housing

- Specific requirements for the cost approach as applied to manufactured houses are addressed inthe Manufactured Home Appraisal Report.
- 29 The cost approach is required for new construction manufactured homes.

1 F. CONDOMINIUM PROJECTS

- 2 A Condominium Project refers to a multiunit property in which persons hold title to individual
- 3 units and an undivided interest in common elements. Examples of common elements (areas)
- 4 include underlying land and building Structures, driveways, parking areas, elevators, outside
- 5 hallways, and recreation and landscaped areas. Common areas are typically managed by a
- 6 Homeowners' Association (HOA).
- 7 To be eligible for FHA insurance, the project must be on the list of <u>FHA-approved</u>
- 8 <u>condominiums</u>

9 1. Site Condominiums

- 10 Site Condominiums refer to a project of single family, totally detached dwellings encumbered by
- 11 a declaration of condominium covenants or a condominium form of ownership. They have no
- 12 shared garages or any other attached buildings. Project approval is required for Site
- 13 Condominiums that do not meet this definition.
- 14 The appraiser must report the appraisal on Fannie Mae Form 1073/Freddie Mac Form 465,
- 15 Individual Condominium Unit Appraisal Report.
- 16 2. Manufactured Housing Condominium Projects
- 17 Individual Manufactured Housing units in Condominium Projects are eligible for FHA
- 18 insurance, on both Home Equity Conversion Mortgages (HECM) and forward mortgages. The
- 19 project must be on the list of FHA-approved condominiums.

1 G. VALUATION OF LEASEHOLD INTERESTS

- 2 The appraiser must obtain a copy of the lease from the mortgagee. The appraiser must analyze
- 3 and report the terms of the ground lease, including the amount of the Ground Rent, the term of
- 4 the lease, if the lease is renewable, if the lessee has the right of redemption (the right to obtain a
- 5 Fee Simple title by paying the value of the Leased Fee to the lessor, thereby cancelling the
- 6 Ground Rent), and if the Ground Rent can increase/decrease over the life of the lease term.
- 7 Eligible Leasehold terms must include the following:
- They must be under a lease for not less than 99 years, which is renewable.
- 9 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.
- 12 The value of the Leasehold Interest must be estimated and reported by the appraiser. The
- 13 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

- 14 In valuing the Leasehold Interest, the appraiser must apply the appropriate techniques to each of
- 15 the approaches to value included 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
- 21 similarity to the subject in the "Ownership Rights" section of the sales adjustment grid.

1 H. APPRAISAL OF SINGLE FAMILY HOUSING ON INDIAN LANDS

2 1. Introduction

- For the purposes of this guidance, if a mortgagee specifically requires an appraisal for a property
 to be financed under HUD/FHA's Section 248 program on Tribal Trust land or for HUD's Office
- 5 of Native American Program, Office of Loan Guarantee (HUD/ONAP/OLG) Section 184 on
- 6 Tribal Trust, allotted (which is also known as individual trust) and Fee Simple lands, the
- 7 guidance in this section must apply and supersede any conflicting guidance found elsewhere in
- 8 this *SF Handbook*.
- 9 If the property is on allotted (or individual), trust or Fee Simple land located on Native American
- 10 reservations and the title interest to be encumbered by the mortgage qualifies for FHA insurance
- 11 under HUD/FHA's Section 203(b), the appraiser must use the appraisal methodology addressed
- 12 in this SF Handbook.

13 **2. Property Rights to be Appraised**

- 14 Within designated Native American reservations, treaties and tribal laws have created a variety
- 15 of ownership patterns. Some parcels may be unrestricted Fee Simple; other parcels are restricted
- 16 tribal trust or allotted trust land. The appraiser must be familiar with the different restrictions and
- 17 develop a reasonable and credible value for the subject property.

18 **a. Fee Simple Unrestricted**

- Fee Simple unrestricted ownership is ownership in real property that may be bought, sold and transferred between Native American or non-Native American purchasers without review by the tribe or the Bureau of Indian Affairs (BIA). For the HUD/ONAP/OLG Section 184 program, Fee Simple land on a reservation, the procedures utilized for tribal trust and allotted trust may be followed.
- 24 b. Tribal Trust Lands, Restricted Trust Land
- Restricted trust land is land held by an individual Native American or tribe that is subject to federal restriction against alienation or encumbrance. Before any lien can be placed against restricted land, the transaction must be approved by the BIA. All HUD mortgages must comply with this requirement and provide evidence in the loan file. Mortgagees are encouraged to make contact with the appropriate BIA and tribal realty officers early in the mortgage processing.
- Tribal trust lands are held in trust for the tribe by the United States government. Tribes may
 lease portions of the tribal trust land for the use of specific individuals, but ownership,
 through the federal trust, remains with the tribe.
- HUD/FHA's Section 248 insures mortgages, and HUD/ONAP/OLG's Section 184 guarantees
 mortgages on houses that are located on Indian tribal trust land. For these properties, leased
 ownership of the underlying land remains with the tribe and will be subject to a long-term,

50-year ground lease (or a 25-year lease with a 25-year renewable term). The appraisal will
 determine the value for the Leasehold Estate and provide supporting documentation for an
 FHA-insured mortgage.

4 c. Tribal Trust Lands, Allotted Trust Land

HUD/ONAP/OLG's Section 184 guarantees mortgages on allotted trust land. Allotted trust
land is held in trust by the federal government for individual Native Americans. The land is
owned by the individual and value is given for the land. When appraising allotted trust land
for Section 184, appraisers may follow the method given for tribal trust land.

9 The appraiser must perform the complete appraisal process according to current USPAP and 10 HUD/FHA standards. This includes consideration of all applicable approaches to value and 11 complete development of all applicable approaches, as identified herein.

12 **3.** Approaches to Value

The appraiser must be familiar with the different restrictions and develop the appropriate value 13 14 for the subject property. The supply of comparable sales and rental transactions vary by site and 15 by tribe. Until sufficient sales exist on a reservation or within the specific Indian area to provide 16 a reasonable sales comparison approach for determining the value of tribal trust Leaseholds or 17 allotted land sales, the appraiser must rely on other value indicators. The appraisal process must 18 be documented more thoroughly than a typical market appraisal. USPAP Standards #1 and #2 19 are effective in allowing the appraiser to "correctly employ those recognized methods and 20 techniques that are necessary to produce a credible appraisal." In addition, "in reporting the 21 results of a real property appraisal an appraiser must communicate each analysis, opinion and 22 conclusion in a manner that is not misleading." An appraisal on trust land may rely more on the cost approach or data developed from other tribes. HUD will accept the report if the appraiser 23 24 has documented the search, information developed and conclusions clearly for the intended users 25 to understand.

26 4. Cost Approach to Value

The cost approach is often the primary indication of value based on the unique nature of land rights in the reservation. Depending on the property rights held (or not held) by an individual in the land on tribal trust sites, the value of the site as vacant may not apply.

30 In the "Cost Approach" section of the form report the value of the site may be zero or a small

Leasehold value. The appraiser must enter the statement "subject is on Tribal Trust Land with annual rent not capitalized" in the "Comments" section. If a market exists and an interest in the

32 annual feat not capitalized in the Comments' section. If a market of33 land was purchased, the value is estimated via traditional methods.

34 a. Cost Approach for New Construction

Due to the flexibility allowed by law, HUD permits the inclusion of development costs for
 new construction, which can exceed Market Value, to be used in both Section 248 and
 Section 184. The following are instructions specific to new construction on tribal lands.

FHA Single Family Housing Policy HandbookIV. Appraiser and Property Requirements for Title II Forward and Reverse MortgagesH. Appraisal of Single Family Homes on Indian Lands

1 In addition to including the cost of water, septic, and any other on-site costs in the cost 2 approach, for lands within the reservation the appraiser may provide an allowance for off-site 3 development costs. The lesser of actual pro-rated costs or up to 15 percent of the cost of the 4 construction of the subject house may be added for off-site infrastructure associated with 5 development of the subject lot. This policy applies principally to new construction where 6 such charges are assessed by tribally approved entities such as housing entities or housing 7 authorities, or agreements with other federal or local government bodies for providing power, utilities, sewer/water and/or road construction. The costs to bring utilities, including public 8 9 water, sewer, electricity and telephone, to sites represent significant development costs. The 10 traditional tract development of residential houses may not be a part of the local culture. Therefore, the utility costs to hook up to any form of a public system in a more rural area can 11 12 exceed local standards.

In remote areas, the construction costs in construction cost manuals may have to be adjusted for transportation, labor or other costs not included in the basic estimate. Architect fees are not typically reflected in the base building costs. Due to special circumstances, the normal allocation for this fee may not automatically reflect the above actual cost. The appraiser must provide a supporting explanation for the adjustments to the construction costs.

18 **b.** Cost Approach for Existing Construction

Where market sales are limited HUD requires the cost approach to be completed on all tribal
trust appraisals, including a credible estimate of depreciation. The report must include details
of the cost and depreciation components over and above those typically found in the "Cost
Approach Summary" section of the APPRAISAL REPORT.

23 These details include:

24

25

26

27

28 29

30

31

32

- the name of the cost service;
- the source and date, if electronic version. Upload as an exhibit into the report when available;
 - the page numbers of cost tables or factors, if paper version. The reviewer or reader must be able to replicate;
- all current multipliers applicable to locale and time as updated and published by the cost service used;
 - depreciation due to normal aging, which may be derived from the tables in the cost service book; and
- a computer-generated cost analysis, which is acceptable as long as the printout
 contains sufficient information to verify that all significant property features have
 been properly addressed in the cost analysis.

36 5. Sales Comparison Approach to Value

- 37 Native American communities are developing economies at varying rates and degrees. It is
- important for the mortgagee and HUD to understand the economic factors that affect value;
- 39 therefore, the appraiser must clearly describe and communicate the local tribal housing market.

- 1 The sales comparison approach will generally be completed as part of the appraisal report.
- 2 Property appraisals in remote areas may involve sales up to 18 months old. The appraiser must
- 3 make every attempt to find potentially comparable sales. Where no credible comparable
- 4 properties are available, a narrative justification that describes the market and provides any sales,
- 5 rental or vacancy information pertinent to the subject will be acceptable to support a value
- 6 developed from the cost approach.
- 7 In addition to the typical data sources the appraiser should obtain sales information from the
- 8 local tribal or BIA realty office if available. Sales from other reservations within the region may
- 9 be considered. Each situation will have unique factors for consideration and the appraiser must
- 10 explain deviations from the sales comparison approach instructions outlined in this SF
- 11 Handbook.
- The order of selection preferences for sales depends upon the type of interest in the land beingappraised:
- tribal trust Leasehold sales (market sales between tribal members)
- sales of allotted land trust between tribal members
- Fee Simple within the reservation (residual value of the improvements by adjusting out the land contribution)
- 18 Fee Simple proximate to the reservation
- 19 The appraiser will report the property rights in the Ownership line of the grid (Fee
- 20 Simple/Leasehold) and apply an appropriate adjustment (if any) or use an open line on the lower
- 21 part of the grid. In addition, the appraiser will explain the differences in ownership rights of the
- 22 comparable properties as compared to the subject, and the basis for any adjustment.

23 6. Income Approach to Value

- 24 The income approach is generally not developed with regard to Indian trust land. If the property
- 25 includes a rental unit(s), the appraiser must provide an estimate of monthly rent for each unit and
- 26 note whether the rent is limited to the tribal sub-market. If the appraiser determines that this
- 27 approach can be credibly completed, refer to the <u>Income Approach</u> section in this *SF Handbook*.

28 7. Final Reconciliation of Value

- 29 The appraiser must determine the Market Value for the restricted trust properties from the
- 30 limited data available. Value determination on trust land is not limited to the lower of cost or
- 31 market. Where market information is limited and the support for the sales comparison analysis is
- 32 weaker, the appraiser may need to place greater consideration on the cost approach. In all
- appraisals, the appraiser must reconcile the approaches utilized, and explain why other
- 34 approaches were not appropriate, including an explanation of the decision process and the
- 35 reasons supporting the value conclusion.

36 8. HUD/FHA Requirements

For mortgages involving restricted trust land under either Section 184 or Section 248, HUD will
 accept appraisals based on the cost approach and waive the requirement of a strict interpretation

- of the Market Value definition. All other health and safety, security, soundness, access and
 property condition issues must conform to FHA requirements.
- 3 The appraiser must indicate if the property is in need of, or in the process of, receiving any
- 4 repairs. If so, the appraiser will make appropriate requirements for repairs to be completed and
- 5 appraise the property "as repaired."
- 6 The appraiser must indicate if the property conforms to the applicable MPR. If it does not, the
- 7 appraiser must recommend correction of the deficiency or rejection of the mortgage, and explain.
- 8 Tribally owned and maintained streets and utilities are considered publicly owned. Appraisers
- 9 must note that easements and a maintenance agreement for non-public, common ownership
- 10 situations are required.
- 11 HUD accepts tribal enforcement of building codes and inspections to the extent that they are
- 12 standard and enforced. Where tribal support is not available, the review and certification that the
- 13 work complies with an appropriate national standard must be contracted to a licensed or certified
- 14 specialist. For example, a tribe issues building permits, but has no provisions for inspections. The
- 15 mortgagee/Borrower must contract with a mortgagee-approved, qualified specialist, such as an
- 16 engineer, architect or inspector. Inspection/approval by the Indian Health Service is acceptable
- 17 for individual or community water and sewer systems.
- 18 The remaining economic life must be estimated and reported but does not limit the mortgage.
- 19 The subject property must possess sufficient remaining physical life to warrant a long-term
- 20 mortgage. The mortgage term may not exceed the remaining physical life of the property.

21 9. HUD/FHA Section 248 and Section 184 Requirements

- 22 For both Section 248 and Section 184 programs the property must be free of hazards, noxious
- 23 odors, grossly offensive sights, or excessive noises that might endanger the physical
- 24 improvements, or affect the livability of the property, its marketability, or the health and safety
- 25 of its occupants. If any of these conditions exist, the appraiser must recommend correction of the
- 26 problem or rejection of the mortgage, and provide an explanation.

27 **10. Reporting Requirements**

- 28 The appraiser must report if an approach was not developed and provide the rationale for
- 29 exclusion of the approach. The appraiser must attach an addendum complete with the
- 30 assumptions supporting the indication of value by the cost approach. The cost approach is
- 31 reconciled to the other values, if any, on the appraisal report.
- 32 The appraiser will indicate any repairs or requirements pursuant to outstanding instructions. The
- 33 mortgagee must assure acceptable completion of any repairs or requirements pursuant to existing
- 34 instructions.

1 **11. Instructions for Assisted Appraisal Processing**

- 2 Assigned appraisers may network with local personnel where the high cost of real estate
- 3 appraisals is a concern for underwriting single-family mortgages in Native American
- 4 communities. To minimize this problem, FHA and ONAP will allow the use of trained local
- 5 personnel to perform the inspection, provide current analysis of the local market, and draft the
- 6 appraisal report. The report must be forwarded to the assigned appraiser who will review the
- 7 report, provide additional documentation, sign the appraisal report, and forward the report to the
- 8 mortgagee.

18

19

- 9 Use of the Assisted Appraisal Process is restricted to remote areas where licensed appraisers are
- 10 not readily available. It may be used when the cost of transportation and/or time increases the
- 11 cost of the appraisal to twice the cost of typical appraisals in local urban areas. The process must
- 12 be monitored and acceptable to the mortgagee. The assigned appraiser may use local
- 13 subcontractors who meet the following requirements:
- The subcontractor must have general real estate skills (construction, lending, sales, management) that are acceptable to the appraiser (such as Housing Authority staff, Tribally Designated Housing Entities (TDHE) staff or BIA realty personnel, or local real estate professionals).
 - The subcontractor must comply with the Conflict of Interest limitations (have no personal or financial interest with the buyers or sellers of the property).
- An appraiser who signs a real property appraisal report prepared by another, even under the label of "review appraiser," must accept full responsibility for the contents of the report, USPAP Standard 2-5.
- The assigned appraiser is responsible for the entire appraisal and signs the appraisal
 report. The individual assisting in the report must document the extent of help provided
 and certify no conflict of interest exists in the certification.
- 26 The assigned appraiser must be familiar with the Competency Rule in USPAP. This includes key
- 27 issues such as the unique property rights conveyed, the local market involved and market
- 28 conditions. It is assumed the remote area markets will change slowly. If conditions have
- changed, an updated analysis is required. The assigned appraiser assumes all responsibility that
- 30 the appraisal meets all HUD/FHA and ONAP program requirements.

31 12. Requirements for Section 184 Indian Housing Loan Guarantee Program

- 32 The following sections were extracted from the Handbook for Section 184 Indian Housing Loan
- 33 Guarantee Program. Due to the unique nature of this program and the property rights for some of
- 34 the properties insured under this program, these requirements may supersede other requirements
- 35 set forth in this *SF Handbook*.
- 36 All properties under the Section 184 Program must be decent, safe, and sanitary and must
- 37 conform to general construction standards for the region. The Section 184 statute specifies the
- 38 standards listed below.

1 a. Mechanical System Requirements

The following property standards represent a minimum level of housing quality. The mortgagee, individual owner, tribe, Indian Housing Authority (IHA), or TDHE may wish to develop a property that meets a higher standard. The tribe/IHA/TDHE must indicate to the mortgagee which construction codes are followed, how building permits are handled, and how building inspections will be performed.

Component	Requirement
Heating System	 Have the capacity to maintain a minimum temperature of 65 degrees Fahrenheit during the coldest weather in the area. Be safe to operate and maintain. Deliver a uniform distribution of heat. Conform to any applicable tribal heating code. If there is no applicable tribal code, the system must conform to the applicable county, state, or national code.
Plumbing System	 Use a properly installed system of piping. Include a kitchen sink and a separate bathroom with lavatory, toilet, and bath or shower. Use water supply, plumbing and sewage disposal systems that conform to any applicable tribal code. If there is no applicable tribal code, the plumbing must comply with the minimum standards established by the applicable county or state. If water and sewer systems cannot be connected to public systems, the water well and/or septic system must meet the requirements of the local health authority with jurisdiction.
Electrical System	Use wiring and equipment that is properly installed, safely supplies electrical energy for lighting and operation of appliances, and conforms to any applicable tribal code. If there is no applicable tribal code, the electrical system must comply with an appropriate county, state or national code.

7 **b.** Minimum Housing Unit Size

8 The Section 184 statute specifies minimum unit sizes for the program. The statute does not

- 9 specify a maximum unit size, although all units must be modest in size and design.
- 10 Borrowers should select housing that is within their budget and meets the needs of their
- 11 families.

When the unit is designed for a family of	Then the size of the unit may be no smaller than
one to four persons	570 square feet in size
between five and seven persons	850 square feet in size
eight or more persons	1,020 square feet in size
OR	

FHA Single Family Housing Policy Handbook

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

H. Appraisal of Single Family Homes on Indian Lands

When the unit is designed for a family of	Then the size of the unit may be no smaller than
The unit must be of the size provided under locally adopted standards for the size of Dwelling Units.	

1 HUD may waive the above-stated unit size requirements based upon a request from a tribe or

2 IHA/TDHE. If such a waiver is desired, the tribe or IHA/TDHE must send a letter explaining

- 3 the necessity of the change, along with any relevant background data or materials to the OLG.
- 4

5 c. Energy Efficiency

For new construction or substantial rehabilitation (rehabilitation costing \$25,000 or more), 6 7 the Dwelling Unit must comply with the energy performance standards for new construction established by HUD under section 526(a) of the National Housing Act. 8

9 d. Lead-Based Paint

The Dwelling Unit must comply with lead-based paint rules at 24 CFR Part 35 (i.e., no 10 cracking, peeling, or scaling paint). The EPA lead-based paint pamphlet must be given to 11 12 Borrowers purchasing pre-1978 units before execution of the sales contract and include an 13 acknowledgement signed by the Borrower. The EPA pamphlet, Protect Your Family From 14 *Lead in Your Home*, may be ordered through the Government Printing Office by calling: 15 (202) 512-1800, stock number 055-000-00507-9.

Units must substantially meet all of the above-listed standards before Borrowers will be 16 17 allowed to move in. It is possible that a few minor "punch list" items will remain incomplete 18 at the time that the Borrower takes possession of the property. If that is the case, the 19 mortgagee must ensure that these final improvements are completed.

20 e. Compliance with Fair Housing

After October 1, 1997, for those IHAs/TDHEs subject to the Fair Housing Act, all four-unit, 21 22 newly constructed dwellings must comply with the accessibility design and construction requirements set forth at 24 CFR § 100.205. 23

f. Appraisals 24

i. Purpose of the Appraisal 25

All properties under the Section 184 Program must be appraised. The purpose of the 26 27 appraisal is to estimate the value of the property. Based in part upon the information 28 contained in the appraisal, mortgagees will determine the mortgage amount and terms. 29 Any required repairs are limited to those necessary to preserve the continued 30 marketability of the property and to protect the health and safety of the occupants.

ii. Ordering the Appraisal

On new construction, the mortgagee must provide the appraiser with contracts, property plans and specifications, and other related construction exhibits when the appraisal is ordered.

5 iii. Appraisal Guidelines

6 The cost approach is often the primary indication of value based on the unique nature of 7 the reservation setting.

8 iv. Methodology

1

2

3 4

9 (A) Trust/Allotted Land

- 10On trust or allotted land, appraisers must use a national cost service manual as source11and supporting data for the cost approach, as well as local building cost data from12local sources. Where comparable sales data is available, the appraiser must make13every attempt to use the direct sales comparison approach to value.
- 14When the cost approach is used on tribal trust sites, the value of the site as vacant15does not apply. If the land lease is at market and there was no upfront payment, the16lease-fee value is equivalent to the Leasehold value, which is zero. This is the typical17scenario and no value exists for the underlying land. The appraiser must enter the18statement "subject is on Tribal Trust Land with annual rent not capitalized" in the19"Comments" section. If a market exists and the land was purchased, the value must be20estimated via traditional methods.
- 21 (B) Fee Simple Land
- 22On Fee Simple land, appraisers must use the direct sales comparison method of23appraisal and include a review of comparable sales. If this methodology is not24appropriate given the location of the house, the appraiser must refer to the Land25Valuation section in this SF Handbook.
- 26 (C) Validity Period
- For all case numbers assigned on or after January 1, 2010, the validity period for all
 appraisals on Existing and Proposed and Under Construction properties will be 120
 Days. The OLG or the mortgagee will have the option of extending this timeframe
 when a cost-based appraisal is used.
- 31 (D) Appraisal Form
- 32 The appraisal must be conducted using the appropriate appraisal reporting form.

(E) Desk Review

All appraisals may be subject to a desk review. If errors are found in the initial appraiser's methodology, the review appraiser may adjust the value accordingly. In case of a dispute over the appraisal amount, the OLG may consult with the mortgagee and the appraiser to make the final determination.

6 v. Real Estate Commission

Real estate commissions are not applicable to tribal trust land transactions. Some cost
services handbooks typically include in its estimate of value an amount for a real estate
commission in tract development. When this expense is not present, the appraiser will
subtract the typical estimate of the real estate commission from the total value.

11 g. Flood Plains

1

12 If an existing property is located in an area mapped by FEMA and it is in an SFHA (100-year 13 flood plain), flood insurance must be obtained. HUD will not endorse mortgages on

14 properties located in a mapped flood plain without such insurance. This is a statutory

requirement and an elevation certificate does not eliminate the flood insurance requirement.

16 Flood insurance will not be required if the Borrower obtains a Letter of Map Amendment

- (LOMA) from the local jurisdiction certifying the building site is above the 100-year flood
 plain.
- When an area is not mapped, the tribe may request FEMA to map a specific area or an entire
 reservation. This is recommended, especially if it is anticipated that there will be significant
 Section 184 activity.
- Absent a flood plain map, the appraiser must indicate that to the best of their knowledge the property is or is not in a flood plain. If the appraiser believes the property is in a flood plain, no endorsement may be issued unless flood insurance is obtained.
- 25

i. Minimum Property Requirements and Minimum Property Standards

- For new construction to be eligible for 184 financing, it must comply with HUD's MPS (including 24 CFR § 200.926d). Existing Construction must comply with HUD's MPR.
- In the performance of a Section 184 appraisal, the appraiser must denote any deficiency
 in the appropriate section(s) (e.g., site issues in the "Site" section, improvement issues in
 the "Improvements" section) of the appraisal report.
- The appraiser is to note those repairs necessary to make the property comply with HUD's
 MPR or MPS together with the estimated cost to cure. The mortgagee will determine
 which repairs for existing properties must be made for the property to be eligible for
 Section 184 insured financing.

1 13. Appraisals for Single Family Properties on Hawaiian Home Lands

2 Due to the nature of the title and property rights, only the cost approach is required for both

- 3 existing and Proposed Construction. The market and sales comparison approaches are not
- 4 required.
- 5 The following statement must be included in the appraisal report: "The value defined for this
- 6 appraisal is not 'Market Value' as defined in the standard documents of form appraisal reports.

7 This appraisal has been completed for FHA mortgage insurance purposes, per HUD instructions

- 8 for DHHL properties."
- 9 The appraisal must include the effective date, the final value and the appraiser's signature.
- 10 The cost approach for the Department of Hawaiian Home Lands (DHHL) properties must be 11 developed from a published cost service and conform to the following:
- The appraiser will provide photocopies of all pages used to derive the cost figures, except as noted below.
- The appraiser will apply all current multipliers applicable and published by the cost service.
- No marketing expense may be added to the cost analysis of a DHHL property appraisal
 because these properties are not freely marketable.
- Entrepreneurial venture may not be addressed as a separate adjustment factor if
 reasonable profit and overhead are already included in all costs.
- Depreciation due to normal aging may be derived from the tables in the cost service
 book. Depreciation from incurable external or functional obsolescence should be based
 on verifiable market extractions, either by paired-sales analysis and/or capitalized rent
 loss.
- Computer-generated cost analysis is acceptable as long as the printout conforms to the
 format of the cost service form and contains sufficient information to verify that all
 significant property features have been properly addressed in the cost analysis.
- Accordingly, the appraiser will not be required to supplement a computer-generated cost analysis with photocopies from the cost service book.

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

I. Additional Appraisal Requirements for 203(k) Standard and Limited Rehabilitation Mortgages

1 I. ADDITIONAL APPRAISAL REQUIREMENTS FOR 203(K) STANDARD AND 2 LIMITED REHABILITATION MORTGAGES

- 3 If a mortgagee requires both an as-is and an after-improved value of the property, the case will 4 require two separate appraisal assignments and reports:
- 5
 - an analysis to provide the as-is value; and
- 6 • a separate analysis performed under the hypothetical condition that the repairs have been 7 completed.
- 8 The mortgagee may order both reports from the same appraiser.

9 1. Appraisal of the Property "As Is"

- 10 Assignment conditions for this appraisal are the same as in all FHA appraisal assignments,
- 11 except that the value of the property is to be estimated "as is" even though the property may not
- 12 meet the property acceptability criteria required for FHA-insured properties.
- 13 The appraiser must provide an analysis and report of the value of the subject property "as is." If
- 14 the appraiser observes property conditions that do not meet the property acceptability criteria, the
- 15 appraiser must report those items or conditions and note that the property, in its "as is" condition,
- 16 does not meet the property acceptability criteria for an FHA-insured mortgage. This appraisal is
- not to be rendered "subject to repairs." 17

2. Appraisal of the Property "Subject to Repairs and Improvements" 18

- 19 The appraiser must review the consultant's work write-up or the contractor's proposal and cost
- 20 estimates. If the appraiser notes any health and safety issues in the property that are not
- 21 addressed on the work write-up or proposal, the appraiser must notify the mortgagee. When the
- consultant or contractor has modified the work write-up or proposal, the appraiser must complete 22
- 23 the appraisal based on the Final Work Write-Up or proposal.
- 24 The appraiser is to provide an "after improved value." The appraiser must make the appraisal
- 25 "subject to the following repairs or alterations on the basis of a hypothetical condition that the
- 26 repairs or alterations have been completed."
- 27 The appraiser must include the work write-up or proposal as an exhibit to the appraisal report.

28 3. Mixed Use One- to Four-Unit Single-Family Properties

- 29 The appraisal must include all of the components of the real estate, but not include business
- 30 valuation or the value of personal property or business fixtures.
- 31 The appraiser must provide measurements and calculations of the building area to show what
- 32 portion of the property is allocated to residential use, and what portion is allocated to non-
- 33 residential use.

- 1 The appraiser must provide a statement as to whether the commercial use will or will not affect
- 2 the health and safety of the occupants of the residential property.

1 J. ADDITIONAL APPRAISAL REQUIREMENTS FOR 223(E) MORTGAGES

- 2 Section 223(e) is a mortgage insurance program for properties located in older, declining urban
- 3 areas. The program allows for the acquisition, repair, and/or renovation or construction of a
- 4 residential property.
- 5 If the mortgagee orders an appraisal for a property to be insured under the 223(e) program, the
- 6 appraiser must provide a remaining physical life in addition to the remaining economic life.

IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages K. Additional Appraisal Requirements for Special Energy-Related Building Components

K. ADDITIONAL APPRAISAL REQUIREMENTS FOR SPECIAL ENERGY RELATED BUILDING COMPONENTS

- 3 The appraiser must analyze and report the local market acceptance of special energy-related
- 4 building components and equipment including solar energy components, high-energy efficiency
- 5 housing features and components, geothermal system, and wind powered components.

6 1. Special Energy Components

- 7 A Special Energy System refers to any addition, alteration, or improvement to an existing or new
- 8 Structure that is designed to utilize wind or solar energy to reduce energy requirements,
- 9 obtained from other sources.
- 10
- 11 Active, passive and photovoltaic solar energy systems are permitted in this program. Solar collectors
- 12 must be located where they will be free from natural or man-made obstructions to the sun. Special
- 13 Energy Systems not part of the Real Estate must not be included in the appraised value.

14 **2. Energy Efficiency Building Components**

- 15 The appraiser must note which features are installed in a house and calculate whether and how
- 16 each component affects the value of the property.

17 **3.** Measurement and Reporting of Contribution to Value

- 18 Contributory Value refers to the change in the value of a property as a whole, whether positive or
- 19 negative, resulting from the addition or deletion of a property component.
- 20 Measurement of the Contributory Value of the component is accomplished by the application of
- 21 techniques based on one or more of the recognized three approaches to value: cost approach,

22 income approach, and sales comparison approach. Each of these recognized methods and

23 techniques requires the appraiser to collect, verify, and analyze all information necessary for

- 24 credible assignment results.
- 25 a. Sales Comparison Based Extraction Method
- If there is sufficient data based on direct sales comparison to produce credible results, then
 the appraiser must calculate the adjustment and explain the methodology and analysis
 supporting the method and results in the appraisal report. The extracted adjustment is applied
- to the comparable sales.
- While this method is typically favored by appraisers, if there is insufficient data to perform a
 matched pairs analysis, the appraiser must consider one of the approaches below to calculate
 an appropriate adjustment.

33 b. Cost Approach Based Method

The appraiser must include the details of the item(s) being valued and measure the Contributory Value of the component(s) to the whole by calculating the cost of the item less accrued depreciation. The accrued depreciation should include consideration of physical
 depreciation, functional obsolescence (including superadequacies) and external obsolescence.
 The resulting calculation of the Contributory Value is applied to the comparable sales.

4 c. Income Approach Based Methods

5 i. Gross Rent Multiplier Method

6 If the property is located in a market where the appraiser can calculate a GRM, and rental 7 data for properties with similar special energy components is available, an adjustment 8 relevant to the rental value of the feature is extracted from the analysis of those similar 9 rentals. The appropriate GRM factor is applied to calculate an adjustment for the 10 comparable sales.

11 ii. Net Income/Savings Capitalization Method

12 The income approach solution is based on capitalization of savings attendant to the 13 alternative energy source. The discounted cash flow technique provides a method to 14 estimate the present value of the future benefit. Application of commercially available 15 tools to assist in this calculation are permitted by FHA as long as the appraiser is 16 competent to use them and provides the explanation of the analysis, and their use 17 provides credible results.

18 **d. Reconciliation of the Approaches**

19 The appraiser may elect to utilize some of the tools and training available from professional 20 organizations and energy-related firms; however, the appraiser is responsible for providing a 21 credible analysis, and explaining the methodology and support for the adjustment.

As related to special building components, the appraiser must provide an analysis of the information and conclusions supporting the application of adjustments. IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages L. Additional Requirements for Valuation of HUD Real Estate Owned Properties

L. ADDITIONAL REQUIREMENTS FOR VALUATION OF HUD REAL ESTATE OWNED PROPERTIES

Requirements for providing appraisals for Real Estate Owned (REO) properties and related
 purposes are the same as for any other assignment type, except as noted in this section, which
 supersedes other instructions. This includes appraisals for:

- A HUD REO property, also known as a HUD home or HUD-owned home, is a single family one- to four-unit residential property acquired by HUD as a result of a foreclosure on an FHA-insured mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the Mortgage Insurance Claim that HUD paid to the mortgagee. Management and Marketing (M&M) contractors assist HUD Asset Management (AM) with the management and marketing of the HUD REO properties.
- The pre-conveyance procedure Claims Without Conveyance of Title (CWCOT) allows the mortgagee to provide a Fair Market Value (FMV) bid using a Commissioner's Adjusted Fair Market Value (CAFMV) instead of bidding full debt. The CWCOT can also be used to pursue a deficiency judgment at HUD's discretion; however, the mortgagee must have authorization from HUD's National Servicing Center (NSC) to pursue a deficiency judgment. The CWCOT appraisal is required to calculate the CAFMV.
- The Pre-Foreclosure Sale (PFS) Loss Mitigation Program option allows an FHA-insured Borrower in default or in imminent default to sell the home and use the sale proceeds to satisfy the outstanding mortgage debt when the proceeds are less than the amount owed.
 Properties offered for sale through the PFS Program are to be listed at no less than the "as is" appraised value. PFS properties are often referred to as a short sale.

24 1. Appraisal Requirements for REO and Related Purposes Properties

REO properties are to be appraised "as is," in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value.

The appraisal report must include the applicable property specific appraisal reporting form, allrequired exhibits, and a copy of the Property Condition Report (PCR).

29 2. Additional Appraisal Form Instructions

- Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the appraiser
 must mark the box labeled "other" and indicate that the property is a HUD REO property.
- Under "Reconciliation" in "This appraisal is made" segment, the appraiser must mark the boxlabeled "as is."
- 34 For Manufactured Housing, the appraiser must <u>**not**</u> require a certification that the foundation
- 35 complies with the Permanent Foundations Guide for Manufactured Housing (PFGMH).

36 The appraiser may contact the M&M contractor for guidance and clarification when appraising

an REO property that is impacted by complex or extraordinary circumstances.

- 1 Any discrepancies between the information contained in the PCR and the appraiser's
- 2 observations during the inspection of the property must be reported in the appraisal report.

3 **3. Intended Use of Appraisal**

The intended use of the appraisal is to develop the as-is Market Value that is the AM contractor's primary tool for determining the list price of a HUD REO property (24 CFR § 291.100 (b))

6 4. Intended User

The intended user of an REO appraisal is the Asset Manager, AM contractor, the M&M
 contractor, or the mortgagee, as well as HUD/FHA.

9 5. Appraiser's Inspection

- 10 The scope of work must include a full interior and exterior inspection. The AM contractor must
- 11 provide to the appraiser a completed copy of the PCR to review and include in the appraisal
- 12 report. Appraisers must review the PCR and when appropriate include it by reference in the
- 13 "Comments" section of the appraisal report. Any differences found between the information
- 14 contained in the PCR and the appraiser's observation must be noted in the appraisal report and
- 15 supported by photographs when warranted.
- 16 If the appraiser cannot enter the property, and if so instructed, the appraiser may perform the
- 17 valuation based on an exterior-only inspection on the Fannie Mae Form 2055/Freddie Mac Form
- 18 <u>2055</u>, *Exterior-Only Inspection Residential Appraisal Report*, dated March 2005, or the Fannie
- 19 Mae Form 1075/Freddie Mac Form 466, Exterior-Only Inspection Individual Condominium Unit
- 20 Appraisal Report, for a condominium property. The appraiser must indicate that the property
- 21 could not be entered and identify the sources of the factual property data employed by the
- 22 appraiser in determining the value.

23 6. Utilities-Mechanical Components

- 24 Generally, an REO property is secured with the utilities turned off. The appraiser must attempt to
- 25 have the AM contractor have the utilities turned on at the time of inspection and complete all
- 26 requirements under <u>Mechanical Components</u>. However, if it is not feasible to have the utilities
- turned on, then the appraisal must be completed without the utilities turned on or the mechanical
- 28 systems functioning. The appraiser must include the information provided in the PCR and refer
- 29 to the PCR in the applicable sections of the appraisal report.

30 7. Extraordinary Conditions

- 31 The As-Is Value can be impacted by extraordinary conditions. For example, if a HUD home is
- 32 zoned as single family and has an illegal second unit, the appraisal must include the estimated
- cost of bringing the property into compliance with zoning. In some instances of illegal use, a
- 34 statement documenting any conversations held with the local zoning official regarding whether
- any grandfathered use is allowed should be included in the appraisal report. Nevertheless, the

appraiser may contact the AM contractor for guidance and clarification when appraising a HUD
 home that is impacted by complex or extraordinary circumstances.

3 8. Statement of Insurability

4 The appraiser must include a Statement of Insurability in the "Comments" section of the

5 appraisal report. This statement provides preliminary verification that an REO property is

6 eligible to be sold with FHA-insured mortgage financing according to one of the three following

7 conditions.

8 a. Insurable

9 Properties marketed as insurable are those that meet the Property Acceptability Criteria and

10 MPR or MPS at the time of the appraisal in their as-is condition without any necessary 11 repairs.

12 **b.** Insurable With Repair Escrow

A property is insurable with repair escrow when it requires no more than \$5,000 for repairs to meet Property Acceptability Criteria and MPR or MPS. The cost of repairs is estimated in the PCR. The appraiser must review the estimate and determine that it is reasonable.

16 **c.** Uninsurable

A property is uninsurable when it does not meet Property Acceptability Criteria and MPR or
 MPS and the estimated cost of repairs is greater than \$5,000.

19 9. Photographs Required

20 Interior photographs of all rooms, basement, attic, and crawlspace are required. The appraiser

21 must also provide photographs of significant damage or repair items.

22 10. Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales

23 When considering sales to be utilized as comparables, the appraiser must note the conditions of

24 the sale and the motivation of the sellers and purchasers.

25 In some markets, non-arm's length sales constitute the majority of recent transactions of similar

26 properties and thus are significant in the analysis of the subject. This assignment is to estimate

27 Market Value, so REO sales, short sales and other non-Arm's Length Transactions must not

automatically be chosen as comparables. If there is compelling evidence in the market to warrant

- 29 their use, the appraiser must provide additional explanation and support in the "Analysis" section
- 30 of the sales comparison approach.
- 31 Transfers to a mortgagee or Entity that owns the mortgage by deed of trust, through foreclosure
- 32 sale or sheriff's sale, are not acceptable as comparable sales.

- 1 Appraisers must exercise due diligence and care in the research and validation of REO sales to
- 2 ensure similarity to the subject, especially in physical condition.

3 **11. Unimproved Property Appraisal**

- 4 An appraisal of unimproved property (land appraisal) may be warranted when:
 - the subject property does not include building improvements;
 - the prior improvements on the subject property were demolished;
 - the improvements are in such deteriorated condition as to provide no Contributory Value to the property; or
- condemnation proceedings by the local authority have acquired the improvements in part or in their entirety.
- 11 The appraiser must provide a written narrative format or a commercially available reporting
- 12 form. The appraisal report must include, at minimum, the following:
- 13 property address
- 14 legal description
- 15 owner of record
- 16 occupancy

5

6

7

8

21

26

27

28

29

30

31

- 17 assessment/tax information
- 18 property rights appraised
- site size
- zoning
 - highest and best use
- shape
- topography
- drainage
- availability of utilities
 - whether it is located within a FEMA designated SFHA
 - a sales grid, including, but not limited to:
 - detailed information on at least three comparable sales;
 - a quantitative comparison of those property attributes to the subject; and
 - a comparison of the number of comparable unimproved properties sold with the number of offered/listed for sale to determine supply/demand, absorption rate, etc.
- certification and limiting conditions as are included in the URAR, Fannie Mae Form
 1004/Freddie Mac Form 70
- any other forms and documentation necessary to comply with USPAP Standard 2
- 35 When completing the sales grid, the appraiser must compare and appropriately adjust the sales of
- 36 comparable unimproved building lots/sites for differences in location, size, zoning, utility
- 37 connection and/or availability, site improvement and any other pertinent factors. The appraiser
- 38 must then reconcile the adjusted sales into a value conclusion.

- 1 Any costs to be incurred in razing the existing improvements and/or clean-up of the site must be 2 calculated and extracted from the value of the supporting land to arrive at a final conclusion of
- 2 calculated and extracted from the value of the supporting land to arrive at a3 value of the site as if vacant and ready to be put to its highest and best use.

M. MARKET CONDITIONS ADDENDUM, <u>FANNIE MAE FORM 1004MC/FREDDIE</u> <u>MAC FORM 71</u> INSTRUCTIONS APPLICABLE TO FHA APPRAISALS

- The following instruction is found on the Fannie Mae Form 1004MC/Freddie Mac Form 71,
 Market Conditions Addendum to the Appraisal Report:
- 5 "Sales and listings must be properties that compete with the subject property, determined by 6 applying the criteria that would be used by a prospective buyer of the subject property."
- 7 This instruction seems to require that the appraiser only analyze and report properties that are
- 8 potential comparables, and ignore the rest of the subject's market area. It is critical for the
- 9 appraiser to analyze the broad market area first (neighborhood analysis), analyze the specific
- 10 market (direct sales comparison), and then report how the subject relates to its market area.
- 11 The appraiser must provide support for conclusions regarding housing trends and overall market
- 12 conditions as reported in the "Neighborhood" section of the appraisal report form. The
- 13 information required on this form will demonstrate the basis for the appraiser's analysis and
- 14 conclusions. The appraiser's study of the market affecting the subject property must include data
- 15 sufficient for a statistical analysis to be relevant. Trying to identify trends based only on
- specifically similar properties may not be possible in many market areas, so the appraiser must
- 17 then define the parameters of the data search to include properties that bracket the features of the
- 18 subject and are located within the market area. The point of this analysis is relevance.
- 19 The appraiser must fill in all the information to the extent it is available and reliable and must
- 20 provide analysis as indicated. If any required data is unavailable or is considered unreliable, the
- 21 appraiser must provide an explanation. It is recognized that not all data sources will be able to
- 22 provide data for the shaded areas on the form; if it is available, however, the appraiser must
- 23 include the data in the analysis.
- 24 If data sources provide the required information as an average instead of the median, the
- 25 appraiser should report the available figure and identify it as an average. The appraiser must
- 26 explain any anomalies in the data, such as seasonal markets, new construction, foreclosures, etc.
- 27 It is important to the analysis and valuation of FHA-insured property to properly analyze and
- address market trends in the subject's market. Whether these trends are positive, neutral or
- 29 negative, proper data collection and reporting are imperative components of a complete market
- 30 conditions analysis; however, this is most important where markets are demonstrating negative
- 31 trends.
- 32 Although there is no standard industry definition, for purposes of performing appraisals of
- 33 properties that are to be collateral for FHA-insured mortgages, a Declining Market refers to any
- neighborhood, market area or region that demonstrates a decline in prices or deterioration in
- 35 other market conditions as evidenced by an oversupply of existing inventory or extended
- 36 marketing times. Generally, a trend in the housing market is identifiable when it extends for a
- 37 period of six months or two quarters prior to the effective date of the appraisal.

FHA Single Family Housing Policy Handbook IV. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages M. Fannie Mae Form 1004MC/Freddie Mac Form 71 Form Instructions Applicable to FHA Appraisals

- 1 It is important for the appraiser to analyze market trends for at least the past 12 months preceding
- 2 the effective date of the appraisal in order to establish a benchmark for reporting present market
- 3 conditions.
- 4 FHA Roster appraisers must accurately report market conditions and determine when housing
- 5 trends are increasing, stable or declining. The appraiser must provide a summary comment as to
- 6 the continuance of the current trend or if the trend appears to be changing and provide support
- 7 for all conclusions.

FHA Single Family Housing Policy Handbook 1 **GLOSSARY** 2 3 **Accessory Dwelling Unit (ADU)** An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or 4 5 detached from a primary one-unit single-family dwelling, which together constitute a single 6 interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and 7 bathroom facilities. 8 9 Adjusted As-Is Value (Limited to 203(k) Mortgages) 10 For Purchase transactions, the Adjusted As-Is Value is the lesser of: 11 the purchase price less any inducements to purchase, or • 12 the As-Is Property Value. • 13 14 For Refinance transactions, the mortgagee must obtain an as-is appraisal to determine the 15 Adjusted As-Is Value when the existing debt on the property plus the cost of repairs exceeds the 16 after-improved value, or the property was acquired within 12 months of the case assignment 17 date. 18 19 For properties acquired greater than or equal to 12 months prior to the case assignment 20 date: 21 • When an appraisal is required, the Adjusted As-Is Value is the As-Is Property 22 Value. 23 • When the existing debt on the property plus the cost of repairs does not exceed 24 the after-improved value, the mortgagee has the option of using the existing debt 25 or an as-is appraisal to determine the Adjusted As-Is Value. 26 For properties acquired less than 12 months of the case assignment date: 27 • For properties acquired by the Borrower within 12 months of the case assignment 28 date, the Adjusted As-Is Value is the lesser of: 29 • the lowest Acquisition Cost of the property in the past 12 months, plus any 30 documented improvements made subsequent to the purchase; or 31 the As-Is Property Value. 0 For properties acquired by the Borrower within 12 months of the case assignment 32 • 33 date by inheritance or through a gift from a Family Member, the mortgagee may 34 utilize the calculation of Adjusted As-Is Value for properties acquired greater than 35 or equal to 12 months prior to the case assignment date. 36 37 38 **Arm's Length Transaction** 39 An Arm's Length Transaction refers to a transaction between unrelated parties who are each

40 acting in his or her own best interest.

41

1 As-Is Property Value

- 2 As-Is Property Value refers to the as-is value as determined by the FHA Roster appraiser except
- 3 in the case of property flipping.

4 5 **Borrower**

- 6 Borrower refers to each and every Borrower on the loan application. Is used to cover all (one or
- 7 many) Borrowers applying for the mortgage.
- 8

9 Bracketing

- 10 Bracketing refers to selecting comparable properties with features that are superior to and
- 11 inferior to the subject features.
- 12

13 Condominium Project

- 14 A Condominium Project refers to a multi-unit property in which persons hold title to individual
- 15 units and an undivided interest in common elements. Examples of common elements (areas)
- 16 include underlying land and building Structures, driveways, parking areas, elevators, outside
- 17 hallways, and recreation and landscaped areas. Common areas are typically managed by a
- 18 Homeowners' Association (HOA).
- 19

20 **Contributory Value**

- 21 Contributory Value refers to the change in the value of a property as a whole, whether positive or 22 negative, resulting from the addition or deletion of a property component.
- 23

24 Days

- 25 Days refer to calendar days.
- 26

27 Declining Market

- A Declining Market refers to any neighborhood, market area or region that demonstrates a
- 29 decline in prices or deterioration in other market conditions as evidenced by an oversupply of 20 evisting inventory or extended marketing times
- 30 existing inventory or extended marketing times.
- 31

32 **Dwelling Unit**

33 Dwelling Unit refers to a single unit of residence for a household of one or more persons.

3435 Entity

- 36 Entity refers to a business entity such as a corporation, trust, partnership, or sole proprietorship.
- 37

38 Excess Land

- 39 Excess Land refers to land that is not needed to serve or support the existing improvement and
- 40 has its own highest and best use.
- 41

42 Existing Construction

- 43 Existing Construction refers to a property that has been 100 percent complete for over one year
- 44 or has been completed for less than one year and was previously occupied.
- 45

1 **Externalities**

- 2 Externalities refer to off-site conditions that affect a property's value.
- 3

4 Fee Simple

5 Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

67 Final Work Write-Up

8 The Final Work Write-Up refers to the contractor's final proposal and cost estimates.

9

10 Gross Living Area

- 11 Gross Living Area (GLA) is the total area of finished, above-grade residential space calculated
- 12 by measuring the outside perimeter of the Structure.
- 13

14 Ground Rent

- 15 Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made
- 16 by the ground lessee typically revert to the ground lessor at the end of the lease term. Leased Fee
- 17 Leased Fee refers to an ownership interest held by a landlord with the right of use and occupancy
- 18 conveyed by lease to others.
- 19

20 Leasehold

- 21 Leasehold refers to the right to hold or use property for a fixed period of time at a given price,
- 22 without transfer of ownership, on the basis of a lease contract.
- 23

24 Leasehold Estate

- 25 Leasehold Estate refers to the right to use and occupy real estate for a stated term and under
- 26 certain conditions that have been conveyed by a lease.
- 27

28 Leasehold Interests

- 29 Leasehold Interests refer to real estate where the residential improvements are located on land
- 30 that is subject to long-term lease from the underlying fee owner, creating a divided estate in the 31 property.
- 31 prop 32

33 Manufactured Housing

- 34 Manufactured Housing refers to Structures that are transportable in one or more sections. They
- are designed to be used as a dwelling when connected to the required utilities, which includes the plumbing beating air conditioning and electrical systems contained therein
- 36 plumbing, heating, air-conditioning and electrical systems contained therein.
- 37

38 Market Value

- 39 REO properties are to be appraised "as is," in the condition as it exists on the effective date of
- 40 the appraisal. The value to be determined is Market Value.
- 41

42 Mixed Use

- 43 Mixed-Use refers to a property suitable for a combination of uses including any of the following:
- 44 commercial, residential, retail, office or parking space.

45

1 Modular Housing

- 2 Modular Housing refers to dwellings constructed according to state and local codes off-site in a
- 3 factory, transported to a building lot, and assembled by a contractor into a finished house.
- 4

5 New Construction Existing Less than One Year

- 6 New Construction Existing Less than One Year refers to a property that is 100 percent complete
- 7 and has been completed less than one year from the date of the issuance of the Certificate of
- 8 Occupancy (CO) or equivalent. The property must have never been occupied.
- 9

10 Planned Unit Development (PUD)

- 11 A Planned Unit Development (PUD) refers to a residential development that contains, within the
- 12 overall boundary of the subdivision, common areas and facilities owned by a Homeowners'
- 13 Association (HOA), to which all homeowners must belong and to which they must pay lien-
- 14 supported assessments.
- 15

16 Principal Residence

- 17 Principal Residence refers to a dwelling where the Borrower maintains or will maintain his or
- 18 her permanent place of abode and typically spends or will live in the home the majority of the
- 19 calendar year. A person may have only one Principal Residence at any one time. A person in
- 20 military service must meet the requirements of <u>24 CFR § 203.31</u>.
- 21

22 **Proposed Construction**

- 23 Proposed Construction refers to a property where no concrete or permanent material has been
- 24 placed. Digging of footing and placement of rebar is not considered permanent.
- 25

26 Sales Concessions

- 27 Sales Concessions refer to a form of interested party contribution of non-realty items, upgraded
- 28 features in newly constructed houses, and special financing incentives.
- 29

30 Site Condominiums

- 31 Site Condominiums refer to a project of single family, totally detached dwellings encumbered by
- 32 a declaration of condominium covenants or a condominium form of ownership. They have no
- 33 shared garages or any other attached buildings.

3435 Slush Pit

- A Slush Pit is a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.
- 38

39 Special Energy System

40 A Special Energy System refers to any addition, alteration, or improvement to an existing or new

41 Structure that is designed to utilize wind or solar energy to reduce energy requirements, obtained

- 42 from other sources.
- 43

44 Structure

- 45 Structure refers to a building that has a roof, walls, and stands permanently in one place, which
- 46 contains single or multiple housing units that are used for human habitation.

1

2 Surplus Land

- 3 Surplus Land refers to land that is not currently needed to support the existing improvement but
- 4 cannot be separated from the property and sold off. It does not have its own highest and best use.

6 Under Construction

- 7 Under Construction refers to the period from the first placement of permanent material to 100
- 8 percent completion with no Certificate of Occupancy (CO) or equivalent.
- 9

10 Uniform Residential Appraisal Report (URAR)

- 11 The URAR is the standard appraisal reporting form available through all lenders. Fannie Mae and
- 12 Freddie Mac URAR forms are acceptable.
- 13

1

ACRONYMS

- 2 ADU Accessory Dwelling Unit
- 3 AM Asset Management
- 4 APZ Accident Potential Zone
- 5 **BIA** Bureau of Indian Affairs
- 6 CAFMV Commissioner's Adjusted Fair Market Value
- 7 **CBRS** Coastal Barrier Resources System
- 8 **CO** Certificate of Occupancy
- 9 CWCOT Claims Without Conveyance of Title
- 10 **DHHL** Department of Hawaiian Home Lands
- 11 **DoD** Department of Defense
- 12 **DOM** Days on Market
- 13 **EPA** Environmental Protection Agency
- 14 **FEMA** Federal Emergency Management Agency
- 15 **FHA** Federal Housing Administration
- 16 **FIRM** Flood Insurance Rate Map
- 17 **GBA** Gross Building Area
- 18 **GLA** Gross Living Area
- 19 **GRM** Gross Rent Multiplier
- 20 HECM Home Equity Conversion Mortgage
- 21 HOA Homeowners' Association
- 22 IHA Indian Housing Authority
- 23 LOMA Letter of Map Amendment
- 24 **LOMR** Letter of Map Revision
- 25 M&M Management and Marketing
- 26 MHCSS Manufactured Home Construction and Safety Standards
- 27 MLS Multiple Listing Service
- 28 MPR Minimum Property Requirements
- 29 MPS Minimum Property Standards
- 30 N.A.D.A. National Automobile Dealers Association
- 31 NSC National Servicing Center
- 32 **OLG** Office of Loan Guarantee
- 33 **ONAP** Office of Native American Program
- 34 **PCR** Property Condition Report
- 35 **PDF** Portable Document Format
- 36 **PFGMH** Permanent Foundations Guide for Manufactured Housing
- 37 PFS Pre-Foreclosure Sale
- 38 **PUD** Planned Unit Development
- 39 **REO** Real Estate Owned
- 40 SFHA Special Flood Hazard Area
- 41 **TDHE** Tribally Designated Housing Entities
- 42 UAD Uniform Appraisal Dataset
- 43 URAR Uniform Residential Appraisal Report
- 44 **USGS** U.S. Geological Survey

- **USPAP** Uniform Standards of Professional Appraisal Practice **UST** Underground Storage Tanks 1
- 2
- 3 XML - Extensible Markup Language