

HOMEOWNERSHIP CENTER

REFERENCE GUIDE

This was taken from

<http://www.hud.gov/fha/sfh/ref/fhachap1.html>

on Feb 23, 2001 and is only Chapter 1. Chapters 2 and 3 are lender oriented. Check the website for the complete Guide.

MORTGAGEE LETTER 2003-09 is attached--it changes the guide but is not a "change",

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of
HOC
REFERENCE MANUAL

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1 CHAPTER ONE
APPRAISAL AND PROPERTY REQUIREMENTS

HOC
REFERENCE MANUAL

PURPOSE AND SCOPE

PURPOSE OF THE FEDERAL HOUSING ADMINISTRATION (FHA) APPRAISAL AND PROPERTY CONDITION ASSESSMENT

The appraisal and property condition assessment is used to determine the market value and acceptability of the property for FHA mortgage insurance purposes. The value serves as a basis for determining the maximum FHA insurable mortgage loan. The appraisal is performed for the use and benefit of HUD, and the lender involved in an FHA transaction. In addition to providing an estimate of value, the appraisal provides an examination of the property for any visible, obvious and/or apparent deficiencies that may affect the livability of that property in terms of basic needs, health and safety of the property's occupants. **HUD/FHA MAKES NO WARRANTIES AS TO THE VALUE AND/OR CONDITION OF ANY FHA-APPRAISED PROPERTY**, therefore buyers/borrowers must determine for themselves that the price of the property is "reasonable" and that its condition is "acceptable". NOTE: Borrowers should be encouraged to obtain a detailed HOME INSPECTION of the property. Up to \$300 of this fee is considered an allowable fee as per Secretary Cuomo's Homebuyer Protection Plan dated 6/1/98.

PROPERTY ELIGIBILITY REFERENCES

Basic Eligibility Requirements - The primary references for single family properties, one to four units are:

1. **HUD Handbooks**
2. **Code of Federal Regulations**, Title 24, (24CFR) Codifies the general and permanent rules of the Department.
3. **Mortgagee Letters** - Typically reflect interpretation, clarification, changes and additions to policies produced since the last printing of a HUD Handbook.
4. **To order or view** handbooks, forms, Mortgagee Letters, etc. on line refer to the section of this manual titled "HUD/FHA On The Internet"
5. **To locate** HUD/FHA Offices and online services see the section of this manual titled "HUD/FHA On The Internet"

GROSS RENT MULTIPLIER

Gross Rent Multiplier (GRM) - When using the URAR for three and four unit properties the appraiser is to complete the Gross Rent Multiplier calculations and analysis. If the FNMA 1025 - Small Residential Income Property Appraisal Report form is used then completion of the GRM section on the form is acceptable. Click for access to the recommended [GRM Form](#) and [GRM Sample](#). See HUD Handbook 4150.2, "Income Approach".

APPRAISING REFINANCES

To access information quickly click on one of the following:

- A. **Refinance**
- B. **Streamline Refinance**

Appraising Refinances - Definitions of both Refinances and Streamline Refinances can be found in HUD Handbook 4155.1 REV-4 CHG 1, Chapter 1, Section 4.

- A. **Refinance** - A standard requires a complete appraisal with repair conditions, while a streamline refinance may be insured with or without an appraisal. The Valuation Condition (VC) form and the Homebuyer Summary apply to refinances from conventional financing and on cash-out FHA to FHA refinances. Lenders must ensure that the appraiser is fully informed on the type of appraisal that is being ordered.

Appraisers may routinely wish to complete both the VC form and the Homebuyer Summary.

B. Streamline Refinance - Streamline refinances are designed to lower the monthly principal and interest payments on a **CURRENT FHA-insured** mortgage and must involve no cash back to the borrower except for minor adjustments at closing not to exceed \$250. Streamline refinances can be insured with or without an appraisal. Streamline refinances with an appraisal, the (VC) form is required, the Homebuyer Summary is not required. FHA does not require repairs (except for lead based paint repairs) on streamline refinances with appraisals, however the lender may require completion of repairs as a condition of the appraisal.

Additionally, FHA does not require an appraisal on streamline refinances, however, if the lender is required by law or banking regulations (e.g., FIRREA) or its investors to obtain an appraisal on a mortgage that will be processed as if no appraisal was made, the appraisal fee may be paid by the borrower out-of-pocket (i.e., not financed).

Reference: **Handbook 4155.1, Rev. 4 Chpt. 1**, and **Mortgagee Letter 96-10**

FEES - APPRAISAL & INSPECTION

To access information quickly click on one of the following:

- A. **Appraisal fees**
- B. **Inspection Fees**
- C. **Appraisal Forms**

A. Appraisal fees (Reference: HUD Handbook 4150.2 Section (1-2))

1. HUD no longer establishes fees or due dates. **Mortgagee Letter 97-22**.
2. The appraiser and lender will **negotiate the price and due date**, consistent with USPAP guidelines. This includes fees for canceled assignments, missed appointments, etc. Collection of unpaid fees are the responsibility of the appraiser.
3. **Fee is paid for market value** estimates based on HUD policy and procedure. Fees are never contingent upon the appraiser arriving at a minimum or specific valuation, an amount or within a predetermined range of values or loan approval.
4. **Appraisal Management Firms** may charge the mortgagor a fee for the appraisal that may encompass fees for services performed by the firm as well as fees for the appraisal itself. However, the total of these fees is limited to the customary and reasonable fee for an appraisal in the market area where the appraisal is performed. All aspects of RESPA must be complied with. (While the owners/operators of such Appraisal Management firms may be licensed, the appraiser actually doing the appraisal must be licensed and on HUD's Approved Roster. No "supervisory" appraisals. That is, the licensed/approved appraiser must visit the subject and all comparables and complete the appraisal analysis. Others may accompany this appraiser to assist with measuring and photo taking, but the Roster Appraiser must actually do the appraisal and sign it.) Appraisal trainees shall not sign on the appraisal report in any capacity.

B. Inspection Fees

Inspection and Mileage Fee [Click here for individual HOC maximum inspection fees.](#) This is for both new construction and repair inspections. Inspection and mileage may differ within individual HOC jurisdictions.

203(k) Inspections. The fees for 203(k)s are outlined in HUD Handbook 4240.4 Rev-2 and Mortgagee Letter 95-40.

C. Appraisal Forms Appraisal written on the Uniform Residential Appraisal Report form (URAR), the Federal National Mortgage Association's (FNMA) Individual Condominium Unit Appraisal Report form, or FNMA's Small Residential Income Property Appraisal Report form are acceptable to the Department. Currently, only these forms are acceptable for FHA cases. Other FNMA appraisal forms which are used for streamlined appraisal or a qualitative sales comparison analysis are not acceptable at this time. **Mortgagee Letter 97-22.**

EXPIRATION OF APPRAISALS

FHA appraisals on existing properties over one (1) year old are valid for six (6) months with **no** extension period.

Proposed construction, under construction, and existing properties (less than one (1) year old) is valid for twelve (12) months. A 12 month extension may be granted for lots on which construction began prior to the previous expiration.

Appraisals on Section 203(k) loans are valid for a period of twelve (12) months.

Master Appraisal Reports (MARS) are valid for 12 months. These may be extended up to 12 (twelve) additional months for lots on which construction has started. Requests for extensions must be received by the underwriter prior to the commitment expiration date. There is no grace period allowed for this type of extension. The appraisal and value of alternates must be updated prior to the extension being granted.

The date of the appraisal is the date the property was inspected by the appraiser. Validity period runs from that date.

For information on the extension of the **Firm Commitment** visit **HUD Handbook 4000.2.**

APPRAISER LICENSE RENEWAL & UPDATES

To be eligible for placement on the FHA Roster of Appraisers, and thus be eligible for selection by a lender to appraise a property that will be security for FHA insured mortgage financing, an appraiser must:

- be State licensed or certified in accordance with the minimum licensing criteria established by the Appraiser Qualifications Board of the Appraisal Foundation,
- not be listed on either the General Services Administration's Suspension and Debarment List, HUD's Limited Denial of Participation (LDP) List, or HUD's Credit Alert Interactive Voice Response System (CAIVRS), and
- pass a HUD/FHA examination on appraisal methods and reporting.

An appraiser's status is automatically changed to inactive in CHUMS upon the expiration of the appraiser's license. The appraiser is responsible for notifying HUD's Real Estate Assessment Center (REAC) of any changes in their personal data. It is also highly recommended that appraisers submit their renewed license prior to their license's expiration date. Refer to *Mortgagee Letter 99-35*, dated November 24, 1999, for detailed instructions on procedure to obtain placement on the FHA Appraiser Roster and appraiser license renewal and updates.

If an appraisal assignment is made without a case number and verification that the appraiser is currently on the Roster, the lender takes the risk of not being able to obtain a case number and/or insurance if an appraiser cannot be approved or re-instated. Lenders are cautioned that appraisers can be removed at any time from the roster for disciplinary actions.

CONSTRUCTION & NEW HOMES

To access information quickly click on one of the following:

- A. Introduction**
- B. Construction Definitions**
- C. General Requirements**
- D. Minimum Property Standards**
- E. Subdivision Approvals**
- F. Final Inspection on Properties**
- G. Existing Homes**

A. Introduction

1. It is the appraiser's responsibility to determine the exact category of "CONSTRUCTION" he/she is appraising. This is reported on page 1 of the URAR in Description of Improvements.
2. The "category" in which the appraiser reports the construction status is important for several reasons:
 - a. Determines the high or low-ratio status of the mortgage to be insured by FHA.
 - b. Determines the specific Conditional Commitment Requirements.
 - c. Provides the Direct Endorsement Underwriter the proper information needed to determine exactly how to process the case.
3. The condition of the site on the date the appraiser makes his/her on-site appraisal inspection (i.e. date of valuation) determines the project's construction status.

B. Construction Definitions: Click here for a complete list of items required for high/low ratio loans found in HUD Handbook 4145.1 Appendix 11.

1. Proposed Construction are properties approved for mortgage insurance prior to the beginning of construction. This means that the DE Statement of Appraised Value or Early Start letter has been issued by the DE Underwriter for the property prior to pouring of the footing. For high ratio loans, provide either the appraisal or Early Start letter AND at least three inspections (initial, framing and final) by a HUD fee approved panel inspector or approved local jurisdiction. When the inspections are performed by a HUD approved fee panel inspector the form HUD 92051 Compliance Inspection Report must be completed and submitted in the case binder. If the above items are not provided, evidence of an approved ten year warranty and a final inspection are required for high ratio loans.

2. Under Construction are properties that are under construction and are not complete at the time of the appraisal. For high ratio loans, provide final inspection by a HUD approved inspector or approved local jurisdiction AND evidence of an approved ten year warranty. (NOTE: For properties under construction, three local inspections do not allow for maximum financing unless combined with an approved ten year warranty.) Under Construction status is in effect with the first placement of concrete through the point of being 100% complete.

3. Existing Construction (less than one year old) (new, prior occupancy has no bearing) properties that are less than one year old. If no repair or correction conditions are made by the appraiser, the appraisal serves as the final inspection as per HUD Handbook 4145.1 paragraph 6-3-A(3). A ten year warranty is required in the case binder for maximum financing.

C. General Requirements:

1. Appraisals/Appraisers

- a. Lender to provide appraiser - The lender must provide the appraiser with the following documents. If not provided return the incomplete appraisal to the lender:
 - 1) Builder's plans, specifications and construction documents:
 - Plot Plan (including dwelling and accessory buildings, finish grade elevations and direction of drainage)
 - Floor plan (separate foundation plan and plan of each floor and basement, if any)
 - Kitchen cabinet details
 - Electrical layout
 - Heat layout (ductwork and location of all vents)
 - Heat loss calculations
 - Cooling system layout
 - Exterior elevations (front, side and rear)
 - Sections (exterior wall sections, stairwells, and stairs)
 - Fireplace section and elevations
 - Roof truss details
 - Water supply plans and specifications
 - Sewage system plans and specifications

- Individual water supply and sewage disposal systems, if applicable
- Description of materials HUD Form 92005

2) Completed Builder's Certification (Form HUD-92541) signed and dated no more than 30 days prior to the date the appraisal was ordered.

3) All reports and available information (i.e. sales agreement, title report, environmental reports or studies and inspection reports)

NOTE: Appraisers must receive a fully executed form HUD-92541, Builder's Certification of Plans, Specifications, & Site, before performing the appraisal on proposed, under construction or less than one year old properties. Appraisers must review Item 1 on the form and note in the Appraisal Report any discrepancies between the information in Item 1 and the actual conditions observed on site. The lender is responsible to address any yes answer in Item 1.

2. Lender required documents - for proposed, under construction and existing less than one year old properties. Click here for link to 4145.1 Appendix 11.

- Complete appraisal package or Master Appraisal Report (MAR)
- Form HUD-92544, One Year Builder's Warranty
- Form HUD-92541, Builder's Certification
- A complete set of architectural drawings, plans and specification as noted above. (These are to be kept in the lender's files and will not be submitted with the case binder when requesting endorsement.)
- Termite forms of the National Pest Control Association, NPCA 99a and NPCA 99b (where applicable) (Mortgagee Letter 99-3.)
- Early start letter or ten year warranty as applicable.
- Applicable inspections and/or certifications
- Any other additional/appropriate submissions required in satisfying FHA requirements which may include, but are not limited to the FHA Data Sheet 79G; a LOMA/LOMR or elevation certificate (Refer to *Mortgagee Letter 99-34*, dated November 16, 1999) regarding flood plains, well water tests, local health authority approval for individual water and sewer systems, etc.

Note: Unless otherwise indicated, above listed items are to be included in the endorsement case binder. **Also, Mortgagee letter 99-34 IS NOT applicable for condominium projects in any capacity.**

D. Minimum Property Standards - MPS

Appraisers and others dealing with FHA loans should be familiar with HUD Handbook 4910.1 Appendix K, Minimum Property Standards for Housing, which contains a summary of the basic requirements for newly constructed single family homes insured by FHA.

E. Subdivision Approvals

HUD/FHA no longer approve subdivisions. Paragraph 3-11 of the HUD Valuation *Handbook 4150.1, Rev-1*, has been **modified by *Mortgagee Letter 93-27***. This is not applicable to Planned Unit Developments and Condominiums. The "Builder Certification" and the "Improved Area" concept are the current procedures to be followed for subdivision processing.

F. Final Inspection on Properties "under construction" or "existing less than one year old". Click here for 4145.1 Chapter 6-3

1. If the home is **100% complete** at time of the appraisal and the appraisal is to serve as the final:
 - a. The appraiser must have a complete set of the plans, specifications (as described in Section C) including the Builders Certification HUD-92541 in order to do the appraisal.
 - b. The appraisal serves as the final inspection and Form HUD-92051 is not required.
 1. The appraiser is to verify general conformance with plans and specifications;
 2. Inspect for health and safety violations;
 3. If no health and safety problems are noted and the property is ready for occupancy, the appraiser is to make the following statement in the remarks section of the appraisal: *"This is a newly completed dwelling and appears to be in conformance with the submitted construction exhibits."*
 4. Take a clear photograph (in addition to the standard appraisal photos) of each diagonally opposite front and rear corner of the house to record adequate grading and drainage of the site; and
 5. Make a statement on the appraisal report of the acceptance of the grading and drainage.

2. If the property is under construction and **NOT 100% complete** at time of appraisal:
 - a. The appraiser must have a complete set of the plans and specifications and the Builder Certification in order to do the appraisal (as described in Section C).
 - b. The appraiser will perform the appraisal and call for a final inspection to be completed by a FHA Fee Inspector; or, when applicable, the local authority or equivalent. The appraiser will make the following statement on the appraisal report: *"Property under construction; complete according to submitted construction exhibits."*
 - c. When the final inspection is completed by a fee inspector, the inspection will include photographs as noted in Item 1 above along with a statement on the HUD-92051 as follows: *"This is a newly completed dwelling that was not completed under HUD or VA inspections. The dwelling appears to be in conformance with the submitted construction exhibits." Refer to HUD Handbook 4145.1 Section 6-3.*

3. The Department requires that **all utilities are on and fully functional** during a final inspection otherwise, the property is not 100% complete.

NOTE: "[Local Authority Construction Inspections](#)". Click here for individual HOC jurisdictions.

MANUFACTURED HOMES

To access information quickly click on one of the following:

- A. **[Eligibility & General Requirements - Title II](#)**
- B. **[Special State Requirements](#)**

- C. Age Requirement
- D. Foundation Compliance
- E. Site
- F. Tags
- G. Title I

- **Eligibility & General Requirements - Title II**

A Manufactured Home is a structure that is transportable in one or more sections. In traveling mode, the home is eight feet or more in width and forty feet or more in length. A Manufactured Home is designed and constructed to the Federal Manufactured Construction and Safety Standards and is so labeled. To be eligible for FHA mortgage insurance, all manufactured home must comply with the following:

- have a floor area of not less than 400 square feet;
- be constructed after June 15, 1976, in conformance with the Federal manufactured home construction and safety standards, as evidenced by an affixed certification label in accordance with 24 CFR Section 3280.8; (manufactured homes produced prior to that date are ineligible for insured financing);
- be classified and subject to taxation as real estate;
- the mortgage must cover both the manufactured unit and its site and shall have a term of not more than 30 years from the date amortization begins;
- built and remains on a permanent chassis;
- designed to be used as a dwelling with a permanent foundation built to FHA criteria; and
- the finished grade elevation beneath the manufactured home or, if a basement is used, the lowest finished exterior grade adjacent to the perimeter enclosure, shall be at or above the 100-year return frequency flood elevation .

Modular construction is also a factory-built home, but is treated the same as stick-built housing.

For information on FHA Insurance under the Title II Program, see HUD Handbooks 4150.2 Chapter 8; HUD Handbook 4145.1, REV-2, Section 3-4 and Appendix 11; and Permanent Foundations Guide for Manufactured Housing (HUD-7584), dated September 1996 (Mortgagee Letter 97-36). The latter is a revision of HUD Handbook 4930.3, dated August 1989. The guide and software may be obtained by calling 1-800-245-2691 or on the Internet at <http://www.huduser.org>, then select publications, then Manufactured Housing, then the guide or software.

B. Special State Requirements. Some states require a state agency to approve all modifications to manufactured (mobile) homes once they leave the factory. The appraiser and underwriter are held responsible for knowing the local regulations on this. If the area where the manufactured home is located has such requirements, then the property must meet these requirements or it shall be deemed ineligible for FHA insurance.

C. Age Requirement - A manufactured home must be built after June 15, 1976, and bear an affixed "HUD seal" on each section to be eligible for FHA Insurance. The appraiser should verify the location and wording on the seal(s). Manufactured houses built before June 15, 1976, must be rejected. No exceptions are allowed.

D. Foundation Compliance

1. All foundation systems, new and existing, must meet the guidelines published in the Permanent Foundations Guide for Manufactured Housing, HUD-7584, dated September 1996. A certification attesting to compliance with this handbook must be obtained from a licensed professional engineer and **included** in the insuring file. This procedure does not apply when the current FHA borrower refinances their loan. **It is applicable for all re-sales.**
2. HUD Handbook 4145.1 Section 3-4. C. Criteria for Existing Properties, dated Feb. 1990 states: "The foundation design information in HUD Handbook 4930.3, Permanent Foundations Guide for Manufactured Housing, Appendices A,B and C, may be used to verify the design of the existing system. Provide a licensed professional engineer's certification to verify compliance with the handbook guidelines and with the requirements set forth in paragraph 3-4.B." Handbook 4930.3 was republished as HUD-7584.
3. Permanent Foundations Guide for Manufactured Housing, HUD-7584 (PFGMH) This guide as well as software can be ordered by calling 1-800-245-2691 or from the web at www.huduser.org.

E. Site - The manufactured unit must not have been installed or occupied previously at any other site or location. Manufactured units may be moved only from the manufacturer's 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 in order to install a new foundation. (See summary of main requirements in Appendix 11, item 12 of HUD Handbook 4145.1 Rev-2.)

F. Tags - All manufactured homes must have an affixed HUD seal(s) located on the outside of the home. If the home is a multi-wide unit, each unit must have a seal. This will be numbered sequentially. Appraiser is to list the manufactured unit's tag number(s) on the appraisal report in one of the comment sections, preferably on the front page under "Additional Features".

If for any reason the tags are missing, appraisers must REJECT the property and notify the lender. In some states a manufactured home may not be re-sold if missing a seal. If this is the case, the property is a reject. However, a lender may contact the NCSCS (Housing Building Technology Division) and request issuance of a letter stating that the home was in fact HUD labeled. Contact NCSCS (Pam Brillhart) 703-437-0100. (The information on the data plate inside the home is not an acceptable alternative.). The lender/home owner need to obtain the serial number(s) of the home from the data plate found inside the home, or the serial numbers found on the steel chassis under the home. With these numbers the HUD and the NCSCS can research to see if in fact the home was properly labeled.

G. Title I - Title I consists of two loan programs, one for property improvements and one for the purchase of manufactured homes and/or lots on which the manufactured homes are to be placed. Repossessions under this program are done by the lender under the Uniform Commercial Code or through judicial processes. For more information on the Title I program, visit their web site at <http://www.hud.gov/progdsc/manuf14.html>. or call the Title I customer service number

202-708-6396. (Regulations can be found in 24CFR 201.)
Sections 8-3 and 8-4 of HUD Handbook 4250.2 pertain to Title I.

203(k) - REHABILITATION PROGRAM

To access information quickly click on one of the following:

- A. **General**
- B. **Appraisal**
- C. **Consultant**

A. General - The Section 203(k) program is the Department's primary program for the rehabilitation and repair of single family properties. The program allows the borrower to get just one mortgage loan, at a long-term fixed or adjustable rate, to finance or refinance both the acquisition and the rehabilitation. See HUD Handbook 4240.4 Rev-2 and 4150.2 Appendix B-1. (Cooperatives are not eligible for 203(k).)

B. Appraisals

1. The appraiser is not to include VC Conditions on the appraisal report for a 203(k). However, if the appraiser identifies repair conditions that were not noted in the work write-up, the appraiser should notify the lender.
2. An appraiser may not perform a dual role on the same 203(k) property. To prevent apparent conflict of interest an appraiser may not be a 203(k) consultant, or have a direct or indirect involvement on any property he/she appraise.
3. The appraisal will contain a statement on the report by the final value that the appraisal being performed is a 203(k) as improved per plans & specifications. A copy of the plans, specifications, work write-up and other conditions upon which the value was based must be part of the appraisal package.
4. In mixed use properties, commercial space is to be appraised as if it were residential. The lot value assigned should be for the residential use, not the commercial use.

A. Consultant

1. **List of Approved 203(k) Consultants** and additional related information for each HOC can be accessed by clicking here or visiting <http://www.hud.gov/fha/sfh/keywords.html>

Additional information on matters relating to consultants may be obtained from HUD Mortgagee Letters 95-40 and 00-25. Please note that HUD Mortgagee Letters and Handbooks may be researched on the Internet at http://www.hudclips.org/sub_nonhud/cgi/hudclips.cgi

223(e) - DECLINING URBAN AREAS

PURPOSE AND GENERAL INFORMATION - HUD Handbook 4260.1 Miscellaneous Type Home Mortgage Insurance Section 223(a), (e), and (d), (HUD Handbook 4150.2)

The purpose of Section 223(e) is to permit the use of FHA mortgage insurance in older, declining urban areas where there is a need for affordable housing. For additional information on appraising and underwriting a 223(e) mortgage, see the references above.

ADP CODE for a 223(e) is 792.

REVERSE MORTGAGE (HECM)

To access information quickly click on one of the following:

- A. General**
- B. Appraisal & Conditions**

A. General - Section 255: Home Equity Conversion Mortgages (Reverse Mortgages, a.k.a. HECM) allows a borrower aged 62 and older to borrow against the equity in a property that has limited outstanding debt. A subject property under this program must be an existing one-to four-unit dwelling in which the mortgagor occupies one of the units. It may be a condo or PUD if in a FHA approved project. Manufactured homes are eligible if the home complies with outstanding FHA guidance.

B. Appraisal & Conditions -The appraiser must perform the appraisal with the same standards and forms expected in an FHA single-family appraisal.

The same deficiencies and repair items must be noted on the appraisal forms. In certain instance, the borrower is not required to treat any defective paint surfaces after closing for properties built before 1978.

See HUD Handbook 4235.1, Rev-1, Section 3 for requirements of appraisal and property.

NATIVE AMERICAN LANDS

To access information quickly, click on one of the following:

- 4150.2 Appendix A-2**
- National Office of Native American Programs**

HAWAIIAN HOME LANDS

To access information quickly click on one of the following:

- A. [General Eligibility](#)
- B. [Appraisals on DHHL](#)
- C. [ADP Code](#)

A. General Eligibility - A mortgage on a homestead lease granted by the Department of Hawaiian Home Lands covering a one- to four-family residence located on Hawaiian home lands is eligible for insurance pursuant to section 247 of the National Housing Act (12 U.S.C. 1715z-12) if the mortgagor is a native Hawaiian who will occupy it as a principal residence. Mortgage insurance on cooperative shares under Sec. 203.43c on homes in federally impacted areas under Sec. 203.43e is not authorized under this section.” See 24CFR Sec. 203.43i for more information.

B. Appraisals on DHHL - Appraisals on Department of Hawaiian Home Lands (DHHL) properties (existing and proposed construction) only require the use of the Cost Approach. This change was brought about because appraisers felt that performing the Sales Approach on DHHL violated the Uniform Standards of Professional Appraisal Practices (USPAP). Licensed appraisers are required to conform to USPAP which identifies Market Value as “...the most reasonable price which a property should bring in a competitive and open market:”. The Market Approach or Sales Comparison Approach is no longer required as these properties are neither freely transferable nor subject to an open market.

In the Reconciliation Section of the URAR under Conditions of the Appraisal, the appraiser can conclude that the appraisal is being completed per HUD instructions for FHA mortgage insurance purposes only and the sales comparison approach is waived for DHHL properties.

A statement can be added in the Reconciliation Section of the URAR when estimating the final value that, “the value stated in the appraisal is not “market value” as defined in USPAP”, however, the appraiser must include a date (which is the date of the inspection), a value and sign the appraisal.

References: 24CFR Sec. 203.43i Eligibility of mortgages on Hawaiian Home Lands insured pursuant to section 247 of the National Housing Act.

C. Hawaiian Home Lands The ADP code for a regular DHHL loan should be **759**, if it is a DHHL buydown, then the ADP code should be **811**.

PRIVATE ROADWAYS

To access information quickly, click on one of the following:

- A. [General](#)
- B. [Underwriters' Note](#)
- C. [Criteria for Agreement Acceptance](#)

A. General - (Reference:: 24 CFR Sec. 200.926d)

1. Each property shall be provided with vehicular and pedestrian access by a public or private street. Private streets shall be protected by permanent easements. Existing or proposed streets at the site shall connect to private or public streets and shall provide all-weather access **to all buildings** for essential and emergency use, including access needed for deliveries, service, maintenance and fire equipment.

FHA defines all-weather surface as a road surface over which emergency and the area's typical passenger vehicles can pass at all times.

2. Private streets must be protected by permanent recorded easements and have joint maintenance agreements.

B. Underwriters' Note - The recorded easement and road maintenance agreement must be reviewed and approved by the Direct Endorsement Underwriter and documented in the file when the loan is submitted for mortgage insurance. A letter to the file from the DE Underwriter is the only item to be included in HUD's insuring file.

C. Criteria for Agreement Acceptance:

1. The agreement includes the entire private road system to the public road;
2. The agreement and access must be legal and in perpetuity (i.e. run with the land);
3. The road is in an acceptable condition. The roadway(s) within the system must have all-weather surface(s). An all-weather surface is defined above.
4. The agreement states how the costs are to be shared (e.g. equally by all lots, pro-rata). The provision for maintenance must not create an unusual or abnormal burden upon the ownership of the subject property.
5. All of the property owners served by the private road system must be party to the agreement.
6. The roadway meets local jurisdictions emergency service access requirements.
7. The above requirements may be waived by the Direct Endorsement Underwriter when the subject property abuts a publicly maintained road and the easement is a common driveway between two neighbors, and it is all weather, such as in a shared driveway in many older parts of cities.

ZONING

To be eligible for FHA Insurance a property is to be "legal" and free of health and safety hazards and major structural problems. **If the use is not legal, the property is not eligible for HUD mortgage insurance** and remains such until it becomes legal. A property can be "legal" "non-conforming". In this case the non-conformance part is to be reflected in value, if applicable.

UNIQUE PROPERTIES

To access information quickly, click on one of the following:

- A. Unique Properties
- B. Shared Lots with Undivided Interests
- C. Excess Land
- D. Nonresidential Use
- E. Move Ons
- F. Forest & Farm Property Tax Deferral Programs

A. Unique Properties - Sometimes a unique property, such as a log home, extra small home, lower than normal ceiling heights, etc., is submitted for FHA insuring. The eligibility of these properties depends on whether or not the property is structurally sound and readily marketable. If a property meets these criteria, the appraiser establishes market value. However, depending on the uniqueness of a property, the final determination to accept or reject the house is made by the lending institution's underwriter.

B. Shared Lots with Undivided Interests - Properties, including condominiums, with legal descriptions that read "An undivided ½ (or 1/3,) interest in and to Lot. . . ." are NOT eligible for mortgage insurance. If requested to do an appraisal on a property with this kind of legal description, the appraiser should **REJECT** the property as the lot is not considered a Fee Simple entity. The lender should be notified of the Reject as soon as it is determined.

C. Excess Land - Excess land is defined as that which is larger than what is typical in the neighborhood AND capable of a separate use. Generally, the excess portion can be subdivided and marketed as an individual parcel. However, in small communities and outlying areas, appraisers must use different criteria because the market may accept a wide variance in lot sizes. If the plot contains excess land, the appraiser should describe it but not value it. In this instance, the appraisal is based upon a hypothetical condition. A legal description of the portion being appraised is required. The lender will require that the excess land be excluded from the mortgage security.

D. Nonresidential Use - Any nonresidential use of the property shall be subordinate to its residential use and character. A property, any portion of which is designed or used for nonresidential purposes, is eligible only if the type and extent of the nonresidential use does not impair the residential character of the property.

Areas designed or used for nonresidential purposes shall not exceed 25 percent of the total floor area. Storage areas or similar spaces which are integral parts of the nonresidential portion shall be included in the total nonresidential area. **HUD Handbook 4905.1 Rev-1, Section 2-6.**

On 203(k) mortgages, the percentage floor area used for commercial purposes follows these standards:

- One story building - 25 percent
- Two story building - 49 percent
- Three story building - 33 percent

E. Move-Ons - See HUD Handbook 4150.1 REV-1, Section 12-6 for instructions.

1. This procedure applies only to stick built homes. Manufactured homes (mobile homes) are not eligible for FHA Insurance if they have moved. The only movement acceptable for manufactured homes is from the factory to the dealer and

then to the site. Once there it must remain. It may be jacked up to have a permanent foundation installed. See the section on Manufactured Housing.)

2. Homes moved without prior approval.

A house which has been moved to a new foundation without prior HUD approval is to be treated in the same manner as proposed construction. That is, if it has been on the new foundation for less than one year, it would be eligible for only a low ratio loan; if it has been on the new foundation for more than a year, it should be treated as any other existing construction over a year old and be eligible for a high ratio loan.

If a house, covered by HUD insurance, is moved without prior approval, whether emergency or non-emergency, the move is made at the risk of the mortgagee. Any damage which may occur to the house during the move will be the responsibility of the mortgagee.

The 203(k) program is available to assist an applicant to move a house.

F. Forest & Farm Property Tax Deferral Programs - The programs provide a deferral of a portion of the property taxes when the land qualifies under these uses. The "deferred" portion of the taxes are eventually totally forgiven if that land use continues for a specified period of time.

Farm or forest deferral of taxes does not make a property ineligible for mortgage insurance. **If** it is likely that the farm or forest use will not continue, a termination of deferral and payment of all deferred taxes must be required.

HAZARDS & NUISANCES

To access information quickly, click on one of the following:

- A. Airports
- B. Railroad Tracks and Other High Noise Sources
- C. Flood Zones & Insurance
- D. Lead-Based Paint
- E. Radon
- F. Overhead High Voltage Transmission Towers & Lines
- G. Operating & Abandoned Oil & Gas Wells, Tanks, Pressure Lines
- H. Insulation Materials
- I. Lava Flow Zones
- J. Avalanche Hazards

The property must be free of all foreseeable hazards and adverse conditions that: (1) may affect the health and safety of the occupants (2) may affect the structural soundness of the improvements (3) may impair the customary use and enjoyment of the property. The hazards include toxic chemicals, radioactive materials, other pollution, hazardous activities, potential damage from soil or other differential ground movements, ground water, inadequate surface drainage, flood, erosion, excessive noise, defective lead base paint (24 CFR Part 35) and other hazards on or off site.

Primary Reference for articles in this section are HUD Handbook 4150.1 REV-1 Chapter 4, and HUD Handbook 4150.2 Section 2-2.

A. Airports

1. Airport Noise
 - a. Properties are not to be rejected solely because of airport influences (noise) if there is evidence of acceptance in the market and if use of the dwellings is expected to continue. Special consideration should be given to determine if there is indication that adverse changes in market attitude are taking place in the area.
2. Hazards - Runway Clear Zones (aka Runway Protection Zones) at Civil Airports or Clear Zones or Accident Potential Zone I at Military Airfields.
 - a. All dwellings are acceptable provided the prospective purchaser acknowledges awareness that the property is located in a Runway Clear Zone/Clear Zone. See HUD Handbook 4150.1, Rev-1, Sections 4-26 for a sample of the buyers acknowledgment certification. This notification must be provided to the prospective purchaser at the time loan application is initiated. (Also see section titled "Hazards and Nuisances")
 - b. Properties located in Accident Potential Zone I at military airfields may be eligible. See HUD Handbook 4150.2, Section 2-2 for details.

B. Railroad Tracks and Other High Noise Sources -

1. New Construction (The definition of new construction includes proposed, under construction and less than one year old.) -
Appraisers and builders are to pay particular attention to Item 1.b. "Noise" on form HUD-92541, Builder's Certification of Plans, Specifications & Site.
2. Existing Construction (over 1 year of age) - Noise exposure by itself will not necessarily result in the rejection of the property for FHA financing. Marketability factors should be considered.
3. For all single family dwellings FHA does not require noise assessment or acoustical analysis. HUD no longer have noise requirements (Ldn/dba) for single family dwellings, this does not include condominium projects.

C. Flood Zones and Insurance - General Requirements can be found in: Mortgagee Letter 90-16 (existing properties over 1 year old), HUD Handbook 4150.1, REV-1, Section 4-23, HUD Handbook 4150.2 Section 2-2 and Mortgagee Letter 99-34 for new construction (not applicable to condominium projects).

Appraisers are required to verify whether the subject property is located in a designated flood zone and indicate the designation on the appraisal form.

D. Lead-Based Paint Surfaces - HUD Handbook 4150.2, Section 3-6A.17, Mortgagee Letter 96-67 and Mortgagee Letter 00-01.

1. General Requirements - For all properties built before January 1, 1978, the appraiser must inspect ALL interior and exterior surfaces, such as walls, stairs, deck, porch, railing, eaves, windows, doors, fences, detached garages and other outbuildings and appurtenant structures for defective paint surfaces (i.e. chipping, peeling or flaking paint).
2. For condominium units, the appraiser needs to inspect the interior of the unit and exterior surfaces and appurtenant structures of the specific unit being appraised.
3. Refinances with an appraisal are also subject to this inspection and abatement procedure.

4. Properties built between 1950 and 1978 that involve a VA-CRV must be inspected for lead based paint. HUD Handbook 4150.1, Rev-1, 5-14.D.

E. Radon - Currently, HUD does not require radon testing of homes that are being insured under the FHA mortgage insurance program.

F. Overhead High Voltage Transmission Towers & Lines - The appraiser must indicate whether the dwelling or related property improvements is located within the easement serving a high-voltage transmission line, radio/TV transmission tower, cell phone tower, microwave relay dish or tower, or satellite dish (radio, TV cable, etc). If the dwelling or related property improvements is located within such an easement, the DE Underwriter must obtain a letter from the owner or operator of the tower indicating that the dwelling and its related property improvements are not located within the tower's (engineered) fall distance in order to waive this requirement.

G. Operating & Abandoned Oil & Gas Well/Tanks/Pressure Lines - HUD Handbook 4150.2 Section 2-2.D.

Operating and abandoned oil and gas wells pose potential hazards to housing, including potential fire, explosion, spray and other pollution. Therefore, no dwelling may be located closer than 300 feet from an active or planned drilling site or 75 feet from an operating well; this applies to the site boundary, not to the actual well location.

1. Underground Tanks -

If an underground tank has been abandoned, its removal or proper abandonment is required.

a. The appraiser should use a VC, indicate the location of the tank, and require evidence that the subject's vacated tank has been removed or properly abandoned.

b. Generally, the local jurisdiction may have established requirements. If not, the tank must be removed or abandoned per the recommendations issued by the applicable State.

2. Hydrogen Sulfide Gas (Sour Gas Wells) - are extremely hazardous. See HUD Handbook 4150.2, Section 2-2.D. "Special Case - ..." for instructions.

3. Stationary Tanks - If the property is within 300 feet of a stationary storage tank containing more than 1000 gallons of flammable or explosive materials the location may be determined ineligible by the lender. See HUD Handbook 4150.2, Section 2-2.M. HUD approved lenders are responsible to determine the acceptability of a dwelling when the health and safety of the occupants or the continued marketability of the property may be in jeopardy.

H. Insulation Materials - See HUD Handbook 4150.1 Chapter 12

1. Asbestos Insulation - Asbestos used as roof shingles or siding on a house does not pose a danger as would be if the material were deteriorating within the confines of a home. When used as a wrap for hot water pipes, it is usually covered and poses no

danger. When the material is deteriorating into a fine powder and can be inhaled, it may pose a danger to one's health.

Asbestos wrapping around hot water pipes in the basement of a dwelling may be found in older homes. If an appraiser notices this, he/she should make a note on the appraisal report that there appears to be asbestos insulation wrap around the hot water pipes. If there is not obvious deterioration of the asbestos such as punctures or other damage, it should be left alone. If there is obvious damage, the appraiser should annotate the valuation condition sheet and the lender should require an inspection by a professional in that field.

2. Foam Plastic Or Foam Core - See HUD Handbook 4150.1, P. 12-20, Section 20-21

I. Lava Flow Zones - Based upon potential volcano activity, FHA mortgage insurance is not available in lava flow zones 1 and 2 Areas.

1. Island of Hawaii - In 1971 HUD established a policy which responded to volcanic hazards on the Island of Hawaii. Under this policy certain areas were identified as being unacceptable for HUD programs. This policy was re-evaluated and the findings were posted in 1991. Except for a newly designated area to the northeast of Mauna Loa, the 1990 and 1971 HUD non-participation areas are not significantly changed in location or extent. The 1990 boundaries are more closely based on known geologic features and current estimates of the U.S.G.S. Hawaiian Volcano Observatory.

HUD, in consultation with U.S.G.S. geologists at the Menlo Park Center in California and at the Volcano Observatory, reviewed 20 volcanic zones involving lava flows, subsidence and ground fracture, tephra falls, volcanic gas, and pyroclastic surge. Ultimately HUD identified two zones as being particularly hazardous. These are defined by the U.S.G.S. Observatory as lava flow zones # 1 and #2.

"Zone #1 consists of the summit areas and active parts of the rift zones of Kilaua and Mauna Loa..."*

"Zone #2 consists of several areas that are adjacent to and downslope from the active rift zones of Kilaua and Mauna Loa and therefore are subject to burial by lava flows of even small volume eruptions in those rift zones."*

It was concluded that these two zones should be classified as non-participation areas for the purpose of HUD program assistance. For the purpose of simplification and ease of administration the two zones were integrated so that a single (composite) zone or non-participation boundary line provides the basis for HUD's volcanic hazard policy.

Most of the HUD non-participation area falls within parks, conservation areas, or other state and federally-owned lands where housing and other urban uses are prohibited. However, a limited extent of the non-participation area will not be enclosed by federal or state lands. In these areas we must rely entirely upon lava flow boundaries for zones #1 and #2, as defined by the U.S.G.S.

Hawaiian Lava Flow Maps and other information on this can be located on line at the USGS (U.S. Geological Survey) Hawaiian Volcano Observatory site. <http://hvo.wr.usgs.gov> Select Lava Zones.

(*Mullineaux, D. R., Peterson, D. W., and Crandell, D. R., 1985, Volcanic Hazards in the Hawaiian Islands.)

J. Avalanche Hazards - Code of Federal Regulations (CFR) 200.926d(b)(3) requires that the property shall be free of those foreseeable hazards or adverse condition which may affect the health and safety of the occupants or the structural soundness of the property. It has been determined that this includes properties in avalanche slide or run-out areas.

Property located in either the Red or Blue Zones are ineligible for FHA insurance and should be rejected. Red Zones (Black/extreme on some maps) are those that have positive danger and are in the path of a routine slide (less than a 100 year occurrence probability). Blue Zone (Red/high on some maps) is an area identified as having the potential for snow blast damage in a 100 year slide but limited probability to cause severe damage to a structure. More on these zones can be found at the free web sites listed as references below.

Due to the extreme hazards to the health and safety of the occupants, the Department will not entertain request for waivers of this requirement unless it has been determined that construction of diversionary structures (engineered and constructed in accordance with plans by an approved Avalanche Specialist) have been constructed.

Reference: "Mears Avalanche Assessment for Anchorage", Avalanche Zoning by Art Mears found at <http://www.avalanche.org/~moonstone/zoning/AVALANCHE%20ZONING.htm> and "City (Juneau) and Borough Avalanche Assessment". United States Avalanche Danger Descriptors can be found at <http://www.avalanche.org/usdanger.htm>

UTILITIES

To access information quickly click on one of the following:

A. Utilities Not On - HUD Handbook 4150.1, Rev-1, Section 5-19

When utilities (water, gas, electric) are NOT on at the time of appraisal, the appraiser is to condition on the Valuation Condition sheet for a certification stating that all utilities have been tested and that they appear to be in good working order. The certification must be done by an FHA roster appraiser, a home inspector, an inspector from the local building department, an FHA compliance inspector, a professional in the specific field (e.g. electrician, plumber), or another person determined to be qualified by the DE.

NOTE: The appraiser will also annotate on the VC sheet, that additional repair requirement may apply once all the utilities are on and fully functional.

SEWAGE SYSTEMS

To access information quickly click on one of the following:

- A. Community Sewer Systems**
- B. Individual Sewage Systems**

A. Community Sewer Systems

HUD no longer maintain list of approved systems. The appraiser must note on the URAR the name of the community system(s). The lender is responsible to ensure the community system(s) are licensed and adequate to service the property.

B. Individual Sewage Systems

1. General.

- a.** For properties that cannot connect to a public system and are served by an individual sewage system that is acceptable to the local health authority, the system is then acceptable to HUD/FHA. This includes numerous types of sewage systems including cesspools, individual pit privies, and mound systems.
- b.** Certifications are only required if the appraiser suspects a problem with the system, or problems are customary in the area. In those instances, the appraiser is to condition for a certification by the local health authority, a licensed sanitarian or an individual determined to be qualified by the DE Underwriter.
- c.** Appraiser's site sketch should indicate approximate location of individual systems and leach fields. See the section of this manual titled Appraisal Package.
- d.** For distances between water sources and sewage, see HUD Handbook 4150.2 Section 3-6 and CFR 200.926d.

References: HUD Handbook 4150.1, REV-1, Section 12-16, 4905.1 REV-1, HUD Handbook 4150.2 Section 3-6.

WATER SYSTEMS

To access information quickly click on one of the following:

- A. Community Water Systems**

B. Individual Water Systems

C. Shared Wells

A. Community Water System - Is a central system, owned, operated and maintained by a private corporation or a non-profit property owners association. HUD no longer maintain list of approved systems.

1. If on community water, the appraiser must note on the URAR the name of the water company. The lender is responsible to ensure the community system(s) are licensed and adequate to service the property.

B. Individual Water Systems

1. General Requirements:

- a. Refer to the section of this guide titled Utilities, Connection to Public & Community Utilities, to see when connection to a public or community system is required. HUD Handbook 4905.1 REV-1, 2-5.B.2 and 4150.2
- b. Individual water supply systems (wells) may be acceptable when connection to a public or community water system is not available and there is assurance of a continuing adequate supply of safe potable water for domestic needs, and shall also include auxiliary uses for lawn and garden maintenance.
- c. The appraiser is responsible to ensure that certifications of water quality and quantity are provided to the lender for proper processing and determination of final acceptability. As such, the appraiser should condition his/her appraisal for the appropriate Health Authority approval and pump test.

2. Water Quality Mortgage Letter 95-34.

- a. Individual water wells are owned and maintained by the homeowner, and are subject to compliance with all requirements of the local and or State Health Authority having jurisdiction.
- b. HUD testing requirements, as stated in Mortgage Letter 95-34, are the minimum standards acceptable for FHA insured mortgages. This includes at a **minimum** lead, (first flush) nitrate, nitrite, total nitrate/nitrite, total coliforms, and fecal coliforms or E.coli. If state and local agencies impose **additional** standards, they too must be met.
- c. All test sample should be taken by a state-certified private laboratory or their designee in accordance with the State drinking water regulations.

3. Well Location - Individual water supply systems (wells) should be checked to establish the distance from the septic system.

The Appraiser's site sketch should indicate approximate location of individual systems and leach fields. See the section of this manual titled Appraisal Package

- a. A well located within the foundation walls of a dwelling is not acceptable except in arctic or sub-arctic regions.
- b. Water which comes from any soil formation which may be polluted, contaminated, fissured, creviced or less than 20 ft. below the natural ground surface is not acceptable, unless acceptable to the local health authority. Certification of such is required in the insuring package.

c. Individual water supply systems are not acceptable for individual lots in areas where chemical soil poisoning has been or is practiced if the overburden of soil between the ground surface and the water bearing strata is coarse grained sand, gravel, or porous rock, or is creviced in a manner which will permit the recharge water to carry the toxicants into the zone of saturation.

d. The following shall be used in establishing the **minimum** acceptable distance between wells and sources of pollution located on either the same or adjoining lots. These distances may be increased by either the health authority having jurisdiction or HUD.

Distance From Source of Pollution

Source of pollution (i)	distance (feet)	Minimum horizontal
Property Line.....		10
Septic Tank.....		50
Absorption Field.....	(SUP1)	100
Seepage Pit.....	(SUP1)	100
Absorption Bed.....	(SUP1)	100
Sewer Lines w/Permanent Watertight Joints.....		10
Other Sewer Lines.....		50
Chemically Poisoned Soil.....	(SUP3)	25
Dry Well.....		50
Other.....	(SUP2)	

Supplemental requirement notes*

(SUP1) This clearance may be increased or decreased depending upon soil and rock penetrated by the well and aquifer conditions. The clearance may be increased in creviced limestone and permeable strata of gravel and sand. The clearance may be reduced to 50 ft. only where the ground surface is effectively separated from the water bearing formation by an extensive, continuous and impervious strata of clay, hardpan, or rock. The well shall be constructed so as to prevent the entrance of surface water and contaminants.

(SUP2) The recommendations or requirements of the local health authority shall apply.

(SUP3) This clearance may be reduced to 15 feet only where the ground surface is effectively separated from the water bearing formation by an extensive, continuous and impervious strata of clay, hardpan, or rock.

a. Individual Water Systems/Wells should be located ON the subject property site. If not, they must be on an adjacent property, and evidence of water rights and recorded maintenance agreement must be provided for acceptance of the well as the primary source of water for an FHA insured property.

b. Additional distance information may be referenced from HUD Handbook 4910.1, Appendix K, and 24CFR Sec. 200.926d.

c. **Cisterns-** HUD Handbook 4150.2 Section 3-6 indicates that properties served by cisterns are not acceptable for mortgage insurance. However, the HOCs have

the authority to consider waivers in areas where cisterns are typical. [Link to HOC policy on cisterns.](#)

Additional information may be researched in HUD Handbook 4150.1, Rev-1, Sec. 12-16 and 12-17 and 4075.12 REV., 4150.2 Section 3-6, 24CFR 200.926(f) "General Acceptability" (or HUD Handbook 4150.2)

2. Miscellaneous Individual Well Items

a. New wells must be drilled, no less than 20 feet deep, and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to (either) the local health authority and (or) the trade or profession licensed to drill and repair wells in the local jurisdiction. Additional information on new wells, pumps, and storage tanks construction information may be referenced from HUD Handbook 4910.1, Appendix K and 24CFR 200.926d(f)

b. Individual Residential Water Purification Equipment - If a property is otherwise eligible for insurance but does not have access to a continuing supply of safe and potable water without the use of a water purification system, the requirements in Mortgage Letter 92-18 and 95-34 must be satisfied.

F. Shared Wells - Shared wells may serve existing properties which cannot feasibly be connected to an acceptable public or community water supply system. A shared well shall have a valve on each dwelling service line as it leaves the well. A shared well shall service **no more than four** living units or properties. A shared well must have a shared well agreement and shall be binding upon signatory parties and their successors in title. More information on this agreement can be referenced in HUD Handbook 4150.1 Rev-1, Section 12-16.

REPAIR CONDITIONS

To access information quickly click on one of the following:

- [A. Home Inspections](#)**
- [B. Condition Sheet](#)**
- [C. Excessive Conditions Required](#)**
- [D. Code Enforcement for Existing Properties](#)**

- [E. Clearing Conditions on Existing Homes](#)**
- [F. Refinances](#)**

See HUD Handbook 4150.2 and Mortgage Letter 97-22.

A. Home Inspections

Borrowers should be encouraged to obtain a detailed home inspection of the property. Borrowers should complete sufficient research of home inspector's qualifications and

designations to ascertain that they feel comfortable with the individual they hire. HUD does not maintain lists of approved Home Inspectors.

B. Valuation Condition Sheet (form HUD-92564-VC) - Repairs and other conditions of the appraisal are to be indicated on the "Valuation Condition (VC) Sheet" found on line at HUDClips <http://www.hudclips.org/subscriber/html/forms.htm> or REAC's site at http://www.hud.gov/reac/appraisal_form.html (Legal size paper is needed to print this form.) Handbook 4150.2 provides instructions on the completion of the this form.

C. Excessive Conditions Required -

1. Requiring Repairs -

a. Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants. The three S's:

- 1) Salability - preserve the continued marketability of the property
- 2) Safety - protect the health and safety of the occupants
- 3) Security - protect the security of the property (security for the FHA insured mortgage.)

b. Avoid unnecessary requirements because they increase housing costs without adding any basic amenities to the property.

c. While appraisers are not to add repairs beyond FHA's guidelines, the Underwriter (Mortgagee) may add requirements as a condition of making the loan. Individual mortgagees have the right to make additional requirements they feel necessary to protect their investment. The applicant has the option of selecting another lender if they feel these requirements/conditions are excessive.

2. Poor Condition Properties - If the subject property is in such poor condition that it may be cost prohibitive or impractical to bring it up to FHA's minimum property requirements, the appraiser should recommend **Rejecting** the property and:

a. Complete the appraisal on an "AS IS" basis, clearly marking the report as rejected for Section 203(b) and provide reasons for the rejection;

b. Provide a list of all major deficiencies and state that the list should not be considered all inclusive. Additional items may be required before acceptable for FHA Insurance; and

c. Provide photographs if possible.

D. Code Enforcement for Existing Properties - As stated in *HUD Handbook 4150.2* HUD has neither the authority nor responsibility for enforcing code. This rests with the local municipalities.

E. Clearing Conditions on Existing Homes - (*HUD Handbook 4000.2 REV-2, Section 2-19.*)

1. All repair items required by the appraiser or underwriter must be inspected and the clearance documented.

The form HUD-92564-VC states "A professionally licensed, bonded, registered engineer, licensed home inspector or appropriately registered/licensed trades person, as applicable, must provide documentation that all deficiencies have been acceptably corrected upon completion of repairs." "As applicable" has been determined to mean any individual who the lender deems to be qualified.

Professionals as defined above may use their company's forms and letterhead to make the certifications. Appraisers and fee inspectors are to use the Compliance Inspection Report,

HUD-92051. The individual signing Section II must be the person who actually performed the inspection. Section III or IV, as appropriate, is to be signed by the Direct Endorsement Underwriter.

a. Mortgagee Certification - When a Mortgagee Certification is used to clear minor conditions the HUD-92051 must be used.

2. Mechanical Certifications - See Heating & Electrical section of this manual.

B. Refinances - (See section on Appraising Refinances.) All refinances require a complete appraisal with repair conditions. Although HUD does not require completion of the repairs on a streamline refinance, except lead based paint repairs, the lender may require completion of repairs. A streamline refinance may be insured with or without an appraisal. Handbook 4155.1, Rev. 4 Chpt. 1, and Mortgagee Letter 96-10

PEST CONTROL

To access information quickly, click on one of the following:

A. Requiring Reports and Treatment

B. Appraiser's Observations

C. Sectioned Reports and Condition Clearance

A. Requiring Reports and Treatment

Wood destroying insects and other organisms can cause serious problems in the wood structural components of a house and may go undetected for a long period of time. FHA requires maximum assurance that a home is free of any infestation.

[Click here to determine if your location must comply.](#)

1. New Construction - The Department's policy concerning the requirement for builder's warranty against termite infestation in new homes is outlined in Mortgagee Letter 99-03. All chemical soil treatments, bait systems, and chemical wood treatment must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA label instructions. When these methods of protection are provided, the NPCA-99a form is to be completed in accordance with the Mortgagee Letter. However, in some cases it is not feasible for a builder to arrange for soil treatment. In this regard, the National CABO code allows a builder to utilize pressure treated wood as a measure of termite protection. If pressure treated wood is used, however, it must be used in all framing members up to and including the top plate of the first floor level wall. This includes the subfloor and floor joists of the first floor. The use of pressure treated wood in only the sill plate is not acceptable. When using pressure treated wood, the NPCA-99a form is not to be used. In such cases, the builder must provide the lender with a letter stating that the house is protected from termites by the use of pressure treated wood. The builder must also provide the home buyer with a one year warranty against termites similar to that required on the NPCA-99a form.

New Construction = Proposed construction, under construction and existing less than 1 year old.

- a. For new construction in affected areas, one of the following must be used:
 1. Soil treatment, NPCA-99b, PLUS one year guarantee NPCA-99a ; OR
 2. Bait system/Wood PLUS NPCA-99a ; OR
 3. Any construction determined not requiring termite protection by the CABO One and Two Family Dwelling Code (i.e., steel frame or concrete structures, or structures built of pressure treated or termite resistant wood with only minor interior wood trim. Roof sheathing may be untreated wood).
- b. The use of post-construction soil treatment where the chemicals are applied only around the perimeter of the foundation is NOT acceptable in new construction.

2. Existing (over 1 year old) - For existing construction in affected areas, Form NPCA-1, Wood Destroying Insect Infestation Inspection Report, or a state mandated form, will be required and will be valid for 90 days from the date of the inspection. (Mortgagee Letter 95-33)

3. Condominiums - NPCA-1 is required on first floor units only. If the unit is on the second floor or above, then a termite inspection is not required (to include ground floor attached and or detached garage, shed, and other structure that are apart of the subject) **INSPECTION IS REQUIRED**

B. Appraiser's Observations - Appraisers are to observe all areas of the house and other structures/areas within the legal boundaries of the property that have potential for infestation by termites and other wood destroying organisms, including the bottoms of exterior doors and frames, wood siding in contact with the ground and crawl spaces. Mud tunnels running from the ground up the side of the house may indicate termite infestation. Observe the eave and gable vents and wood window sills for indication of the entrance of swarming termites and note excessive dampness or large areas where the vegetation is dead. Evidence of active termite infestation must be noted.

C. Sectioned Reports and Condition Clearance - The following are guidelines for clearance of termite report conditions in states where section termite reports are provided. On these reports each finding/recommendation will be noted in either Section I or Section II, or the equivalent.

1. Sections
 - a. Section I - contains items where there is evidence of active infestation, infection or conditions that have resulted in or from infestation or infection.
 - b. Section II - items are conditions deemed likely to lead to infestation or infection, but where no visible evidence of such was found. The Structural Pest Control Board has advised that Section II items will probably be major items which have not become infestations/infections, but possibly will become in the future.

[Link to HOC's procedures for clearing Sectioned Pest Reports.](#)

ROOFS & ATTICS

To access information quickly, click on one of the following:

A. Roofs

B. Attics

A. Roofs - The covering must prevent moisture from entering and provide reasonable future utility, durability and economy of maintenance. The appraiser must visually examine the roof to determine whether deficiencies present a health and safety hazard or do not allow for reasonable future utility. (4905.1 REV-1, 2-12.)

1. Life Expectancy: The appraiser must exercise sound judgment when evaluating roof condition. The roof should have a remaining physical life of at least two years. If the roof has less than two years remaining life, then the appraiser must call for re-roofing or repair. The condition must clearly state whether the subject is to be repaired or re-roofed.

2. Snow Covered Roofs

- a. In areas where the snow is likely to lay for more than a few days:
 - 1) The appraiser is required to make an extra thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials.
 - 2) If there is evidence of damage and/or leaks the appraiser is to condition appropriately for correction(s).
 - 3) If there is no evidence of damage and/or water leaks. The borrower must be informed that the roof was snow covered at the time of the appraisal and that it is acceptable to the purchaser without any warranty or guarantees from HUD/FHA.
 - 4) If the borrower has concerns, they can request the seller to shovel the roof for inspection by a qualified roofer. If damage occurs during shoveling, it is between the buyer and seller to resolve.
- b. In areas where the snow is **not likely** to lay for more than a few days a clear roof inspection is to be obtained prior to closing.
 - 1) The appraiser is required to make an extra thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials and call for a clear roofing inspection.
 - 2) If the Underwriter determines, due to unusual weather conditions, it is not possible to obtain the clear inspection prior to closing, then the purchaser and seller are to sign an acknowledgment that indicates:
 - i) The roof was covered with snow at the time of the appraisal inspection,
 - ii) The snow is likely to continue to cover the roof for several more days and that the roof cannot be inspected prior to loan closing
 - iii) HUD/FHA makes no guarantees or warranties as to the roof's condition.
 - 3) A clear roof inspection must then be obtained prior to submission for FHA Insurance or an escrow account equal to 1 1/4 times the cost of a new roof is to be established in the event repairs or a new roof is found to be needed when the inspection takes place. (Certification is to be in the insuring package.)

3. Re-Roofing

a. FHA will accept a maximum of 3 layers of existing roofing. If more than 2 layers exist **and** repair is necessary, then all old roofing must be removed as part of the re-roofing. (4905.1 REV-1, 2-12)

4. **Inspections** - Certification as to the condition of the roof and the completion of work requirements should be made by a person determined to be qualified by the lender.

5. **Valuation of Roof** - Appraisers are expected to know the market value of the different roofing types in the area of the subject. For example in one market homes with wood shingles may reap a higher price than those with composition shingles, while in another they may be equal or the wood may even be less desirable. When evaluating the quality of the roof, items like multiple layering and composition over wood must be considered. Should the appraisal value be based on the conditions that the subject will have a new roof the appraiser needs to clearly indicate the type of roofing being valued. .

a. All **flat roofs** require an inspection as identified in item 4 above. This includes roofs on any structure on the property except open pole style patios that appear to be in good condition. If the subject is part of a large multifamily buildings, i.e. condominiums, no roof inspection is required. If the subject is in a small 4 unit building or is a townhouse type unit covered by a condo association with the subject property having its own roof, then a roof inspection is required. (This does not include PUDs as they are considered single family in their nature.)

B. Attics -

1. **Access** - It is the homeowner/seller's responsibility to provide clear access to these areas. FHA appraisers are required to observe the attic area and will likely need to have a ladder to gain attic access.

2. When there is no safe access to the attic the appraiser is to mark VC-2 to require access. (Mortgagee Letter 97-22)

Do not require attic access openings for mobile homes and dwellings with little or no attic area (due to interior roof slope).

REF: HUD Handbook 4150.1 Rev-1, Section 8-2.E. (or HUD Handbook 4150.2)

3. **Inspection** - The attic must be examined whether access is by pull-down stairway or scuttle. At a minimum, the appraiser must enter head and shoulders into the attic.

CRAWL SPACE & FOUNDATIONS

To access information quickly click on one of the following:

- A. **Basements**
- B. **Crawl Space**

HUD Handbook 4150.2, Section 3-6A.11, HUD Handbook 4905.1, Rev-1,

A. Basements - Basements must be examined for dampness or wetness, any obvious structural problems and the condition of the furnace, hot water heater or other components located there.

1. **Sump Pumps in Crawl Space and Basement Areas** - Sump pumps are acceptable to HUD provided that they are properly functioning at the time of appraisal. A sump pump may be hard-wired by an acceptable wiring method or may have a factory electrical cord which is to be connected to a receptacle suitable for such use. The receptacle must be located to allow connection to the factory wiring without the use of an extension cord. NOTE: A sump pump is not a cure-all. If there is significant incurable ponding of water in basements or crawl spaces, the underwriter may elect to reject the property.

B. Crawl Space - General Requirements *HUD Handbooks 4905.1 REV-1, 2-14 & 2-11 and 4150.2, Section 3-6A11* - In order to ensure against conditions which could cause deterioration to the building and seriously affect the marketability of the property, it is required that:

1. There must be adequate access to the crawl space.
2. The appraiser will enter the crawl space at a minimum entry of the head and shoulders to observe conditions, except when access is obstructed, when entry could damage the property, or when dangerous and adverse situations are suspected.
3. It is highly recommended that the minimum height of a crawl space be 18 inches from the bottom of the joists.
4. The crawl space must be clear of all debris and properly vented.
5. The crawl space must not be excessively damp and must not have any water ponding.
6. The crawl space must be adequately ventilated, providing positive airflow with no dead air space. A vapor barrier is not typically required; however, if moisture problems are evident, a vapor barrier should be required.

HEATING & ELECTRICAL

To access information quickly click on one of the following:

- A. **Electrical Service**

B. Mechanical Certifications

C. Heating

A. Electrical service -

1. May be either circuit breakers or fuses.
2. Appraisers should examine the electrical box to ensure that there are no frayed or exposed wires.
3. Existing 60-amp service is acceptable if it appears that this is adequate amperage for the appliances present in the property, or those considered “standard” if the present appliances appear to be less than found in the “standard” home.
4. Knob and tube wiring is acceptable if found to be in good condition and a minimum of 60-amps.

B. Mechanical Certifications - (Also see section titled “Utilities”) Electrical, plumbing and/or heating certifications may be called for by the appraiser when he/she cannot determine if one or all of these systems are working properly. An appraiser should not arbitrarily call for such certifications as they are still responsible for checking on the adequacy of these systems at the time of appraisal.

The certification must be done by a home inspector, an inspector from the local building department, an FHA compliance inspector, a professional in the specific field (e.g. electrician, plumber) or any individual deemed to be qualified by the Direct Endorsement underwriter.

C. Heating

1. General - ALL habitable rooms must have a heat source. This does not mean that each room must contain a heating device but that each room must receive sufficient heat.

2. Wood Stoves and Solar Systems

Dwellings with wood burning stoves or solar systems as a primary heat source must have permanently installed conventional heating systems that can maintain at least 50 degrees Fahrenheit in all living areas and those containing plumbing systems. These systems must be installed in accordance with the manufacturer’s recommendations.

3. Floor Heaters - Due to the inherent dangers of a floor heater it is highly recommended that floor heaters in need of repair be replaced with another permanent heat source.

4. Non-Conventional Heating Systems - All non-conventional heating systems – space heaters and others - must comply with local jurisdictional guidelines. Often these are not acceptable as the primary source of heat.

5. Propane tanks must be a safe distance from the dwelling. Leased tanks are acceptable when not offered for sale. **Propane fired furnaces located in a crawl space area is not acceptable.**

WATER HEATER

A. Requirements -

1. All water heaters must have a non-adjustable temperature and pressure-relief valve.
2. The water heater must comply with local building codes regardless of its location.
3. Rental water heaters are not acceptable.

COMPREHENSIVE VALUATION (APPRAISAL) PACKAGE

To access information quickly click on one of the following:

- A. Contents of the Comprehensive Valuation (Appraisal) Package, aka CVP**
- B. Submission of CVP**

A. Contents of the Comprehensive Valuation Package (CVP)

1. Part 1 of the Comprehensive Valuation Package.
 - a. **Uniform Residential Appraisal Report (URAR)**FNMA 1004. The FNMA 1025-Small Residential Income Property Appraisal Report and FNMA 1073-Individual Condominium Appraisal Report may be used, instead of the URAR when applicable (Mortgagee Letter 97-22).
 - b. **Addendum** to Appraisal Report with supporting documentation, when applicable.
 - c. **Local map** identifying location of subject and comparable properties.
 - d. **Sketch** should include all exterior dimensions of the subject property as well as patios, porches, garages, breezeways and other offsets. State “covered “or “uncovered” to indicate a roof or no roof such as over a porch. In cases of obsolescence the appraiser may wish to sketch the subject property’s floor plan with interior rooms identified. Also, the appraiser should indicate the approximate location of individual systems, i.e. wells, septic and leach fields.
 - e. **Photographs** showing the front, rear, sides, and street scene of the subject and a photograph of the front of each comparable property.
 - f. **Cost Approach** for all single family one to four dwellings to include Planned Unit Development units that are proposed, under construction and existing less than one year old.
 - g. A separate **Gross Rent Multiplier** analysis for 3 & 4 unit properties or FNMA Form 1025. See section on Gross Rent Multiplier for more information.
 - h. **Appraiser Certification and Statement of Limiting Conditions**
 - i. Appraisals performed on **manufactured homes** must meet the criteria in Sections 8-0 through 8-2 of HUD Handbook 4150.2 and the “Manufactured Home” section of this guide. (Sections 8-3 and 8-4 of the 4150.2 are for manufactured homes appraised under HUD’s Title I program.)
 - k. **Electronic Signatures** - (Mortgagee Letter 95-50) HUD accepts the procedure of electronically affixing a signature to an appraisal report, provided certain security measures are taken. In conformance with the Appraisal Standards Board’s (ASB) Standard No. 8, all appraisers electronically signing a report must have a digital signature security feature built into their software program. The appraiser should ensure their signature is protected and only the appraiser maintains control of their signature. This control may be maintained by a personalized identification number, security cards or other hardware devices, where the appraiser has sole

personalized control of affixing their signature. Electronically affixing a signature to an appraisal report carries the same level of authenticity and responsibility as an appraisal report with an ink signature. (Note: Appraisal trainees shall not sign on the appraisal report in any capacity. Mortgagee Letter 94-54)

2. Part II - **National Valuation Condition** (VC) Sheet (HUD92564-VC) -Required in all appraisal packages. (<http://www.hudclips.org/subscriber/html/forms.htm> or http://www.hud.gov/reac/appraisal_form.html Legal size paper is needed to print this form.)

3. Part III - Homebuyer Summary (HUD-92564-HS)

B. Submission of Appraisal Package(s) - See Mortgagee Letter 98-13

1. At least two complete CVPs will be submitted to the lender for inclusion into the insuring file. At least one of these may be used by HUD to conduct reviews of the appraisal.

2. **Electronic transmission** of an appraisal report will be between appraisers and lenders. Appraisal reports will not and cannot be received by HUD electronically. Electronic signatures and electronic transmission does not eliminate the appraiser's responsibility of supply a complete appraisal package for HUD's review. This is one of the sets submitted to the lender. (The old copy 6.) (Mortgagee Letter 95-50)

Note: The lender selected appraiser is required to personally visit the subject property and all comparables used in the appraisal report. Having someone else inspect and or take pictures of the subject property and or comparables is not acceptable. The lender selected appraiser who performed the appraisal and made the inspection must personally sign the appraisal report. An appraisal trainees shall not sign on the appraisal report in any capacity.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

June 20, 2003

MORTGAGEE LETTER 2003-09

TO: ALL APPROVED MORTGAGEES
ALL FHA ROSTER APPRAISERS

SUBJECT: Update of Appraiser Qualifications for Placement on FHA Single Family
Appraiser Roster and Appraisal Reporting Requirements

On May 16, 2003, the Department of Housing and Urban Development published a final rule [FR-4620-F-02](#) in the *Federal Register* making several changes designed to strengthen the licensing and certification requirements for placement on the Federal Housing Administration (FHA) Appraiser Roster. The changes in eligibility requirements are effective June 16, 2003.

This Mortgagee Letter provides a synopsis of the final rule and updates the requirements contained in [Mortgagee Letter 99-35](#) and the appraisal reporting requirements, describe in HUD Handbook 4150.2 CHG1. In addition, the Mortgagee Letter provides specific guidance to assist mortgagees and appraisers in complying with these new requirements. The Department urges mortgagees and appraisers to review the entire published final rule at website <http://www.gpoaccess.gov/fr/index.html>.

Highlights of Final Rule

The final rule provides: a) twelve-month phase-in of Appraiser Qualifications Board (AQB) requirements for appraisers listed on the appraiser roster, b) automatic suspension of appraisers licensed or certified in multiple states, c) clarification of scope of automatic suspensions not due to State disciplinary action.

Twelve-month Phase-in of AQB Requirements for Appraisers Listed on the Appraiser Roster

An appraiser who is included on the Appraiser Roster on June 16, 2003, but does not meet the minimum AQB licensing/certification criteria in effect on that date, has until June 16, 2004 to comply with the AQB criteria and submit evidence of compliance to HUD. Failure to submit such evidence to HUD by the deadline date constitutes cause for removal from the FHA Appraiser Roster. The phase-in period does not restrict HUD's ability to remove an unsatisfactory appraiser from the Appraiser Roster for any other cause identified in

24 CFR 200.204.

Automatic Suspension of Appraisers Licensed or Certified in Multiple States

An appraiser, whose license or certification in any state has been revoked, suspended or surrendered as a result of a state disciplinary action, will be automatically removed from the Appraiser Roster. This removal will remain in effect until HUD receives evidence demonstrating that the state-imposed sanction has been lifted.

Clarification of Scope of Automatic Suspensions not due to State Disciplinary Action

An appraiser whose licensing or certification in a state has expired is automatically removed from the Appraiser Roster in that state and may not conduct FHA appraisals in that state. This removal will remain in effect until HUD receives evidence of the appraiser license with certification renewal. The appraiser may continue to perform FHA appraisals in other states in which the appraiser is licensed or certified.

Reasons for Removal from the Appraiser Roster

Reasons for removal from the Appraiser Roster include, but are not limited to:

- Significant deficiencies in appraisals, including non-compliance with Civil Rights requirements regarding appraisals;
- Losing standing as a state-certified or state-licensed appraiser due to disciplinary action in any state in which the appraiser is certified or licensed;
- Prosecution for committing, attempting to commit, or conspiring to commit fraud, misrepresentation, or any other offense that may reflect on the appraiser's character or integrity;
- Failure to perform appraisal functions in accordance with instructions and standards issued by HUD;
- Failure to comply with any agreement made between the appraiser and HUD or with any certification made by the appraiser;
- Being issued a final debarment, suspension, or limited denial of participation;
- Failure to maintain eligibility requirements for placement on the Appraiser Roster; or,
- Failure to comply with HUD-imposed education requirements or failure to comply with such education requirements.

Eligibility Requirements for Placement on the FHA Appraiser Roster – Current and New Applicants

To be eligible for placement on the FHA Roster of Appraisers an appraiser must:

- Be a state-licensed or state-certified appraiser with credentials based on the minimum licensing/certification criteria issued by the Appraiser Qualifications Board (AQB) of the Appraisal Foundation. An appraiser is not deemed to have credentials based on AQB standards if the state licensing/certification requirements did not conform to AQB criteria at the time the appraiser obtained the license or certification. This is true even if the state
- has subsequently adopted AQB criteria and has "grandfathered" previously licensed or certified appraisers (see attachment 1);
- Pass a HUD examination on FHA appraisal methods and reporting; and
- Not be listed on the GSA Suspension and Debarment List, HUD's Limited Denial of Participation List (LDP), or HUD's Credit Alert Interactive Voice Response System (CAIVRS).

Procedure to Obtain Placement on FHA Appraiser Roster – New Applicants

Appraisers that are not currently on the FHA Roster of Appraisers must apply to Office of Single Family Housing at the address listed below. The following information must be submitted:

- A completed Form HUD-92563, "Fee or Roster Designation - Application for Fee Personnel Designation" ([Form HUD-92563](#));
- A photocopy of a valid State appraiser's license or certification with credentials based on the minimum criteria issued by the AQB; and
- A certification from Prometric, the entity providing the test, to evidence that they passed the FHA appraisal examination. Prometric's registration number is 1-800-503-8991.

Procedures to Submit Evidence of AQB Compliance.

As required by the Appraiser Roster Rule an appraiser who is currently listed on the Appraiser Roster as of June 16, 2003, but does not meet the minimum Appraiser Qualifications Board (AQB) licensing/certification criteria listed on the Attachment, has until June 16, 2004, to comply with the AQB criteria. This evidence of compliance must be submitted to HUD at the address listed below. Failure to submit such evidence to HUD by the deadline date constitutes cause for removal from the Appraiser Roster. The phase-in period does not restrict HUD's ability to remove an unsatisfactory appraiser from the Appraiser Roster for any other cause identified in § 200.204.

HUD address for Appraiser Requesting Placement on the FHA Appraiser Roster, or submitting evidence of AQB Compliance is:

Department of Housing and Urban Development
Office of Single Family Housing
451 7th Street, SW, Suite 9278
Attn: Appraisal Branch
Washington, DC 20410

Fax Number: (202) 401-0416
Telephone Number: (202) 708-2121

Appraisal Reporting Requirements Superceding of Paragraph 16 in [Mortgagee Letter 2003-07](#)

Effective January 1, 2003, the Uniformed Standards Professional Appraiser Practice (USPAP), modified Standards Rule 1-5 to require appraisers to analyze all prior sales of the subject property within the past three (3) years for all types of real property (including one-to-four family), if such information is available in the normal course of business. The Uniform Residential Appraisal Report (URAR –1004) contains a field for reporting prior sales within one year of appraisal, which also includes comparable sales. Therefore, FHA appraisers are now required to report and analyze:

- All sales of the subject property that occurred within three (3) years prior to the effective date of the appraisal; and
- All sales of the comparable properties that occurred within one (1) year prior to the effective date of the appraisal.

Consequently, HUD Handbook 4150.2 CHG-1 Appendix D, Section 6, page D-17 in the Field and Protocol referring to “Date, Price and Data for Sales Within One Year of Appraisal” is amended to read as follows:

Field	Protocol
Date, Price and Data for Prior Sales Within Three Years of Appraisal	This is in accordance with USPAP Standards, which require the appraiser to consider, analyze and report any prior sales of the subject property within three years of the date of the appraisal. For comparable sales, the time period is one year of the date of the appraisal.

The above changes also supercede the reporting requirements noted in Mortgagee Letter 2003-07, Prohibition of Property Flipping, section titled Date of Property Acquisition Determined by the Appraiser.

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If you have any questions concerning this Mortgagee Letter, please contact your local Homeownership Center in Atlanta (888) 696-4687, Denver (800) 543-9378, Philadelphia (800) 440-8647, or Santa Ana (888) 827-5605.

Sincerely,

John C. Weicher
Assistant Secretary for Housing-
Federal Housing Commissioner

Attachment

Attachment

AQB Requirements as of January 1, 2003

States are required to implement appraiser certification requirements that are no less stringent than those issued by the AQB in the *Real Property Appraiser Qualification Criteria*. Currently, the AQB lists three Real Property Appraiser classifications. They are as follows:

Licensed Real Property Appraiser
Certified Residential Real Property Appraiser
Certified General Real Property Appraiser

The following chart specifies the qualification criteria mandated by the AQB for each recognized licensure/certification type as of June 2003:

Level of Licensure/ Certification	Uniform State Licensed Real Property Appraiser Exam	Number of Classroom Hours Required 1	Number of Experience Hours Required	Continuing Education Hours Required 2
Licensed Real Property Appraiser	Yes	90	2,000	14
Certified Residential Real Property Appraiser	Yes	120	2,500	14
Certified General Real Property Appraiser	Yes	180	3,000	14

1. Credit toward classroom hour requirement may only be granted for subjects related to real estate appraisal where the length of the educational offering is at least 15 hours, and the individual successfully completes an examination pertinent to that educational offering. Fifteen of the total hours in each classification must be relative to the *Uniform Standards of Professional Appraisal Practice* (USPAP).

2. Classroom hours of instruction in courses or seminars for each year during the period preceding renewal.

Note: The authority to develop requirements for the License and Trainee classifications is vested in the individual states, territories and possessions.

Visit the AQB website (<http://www.appraisalfoundation.org>) for the most recent minimum AQB licensing/certification criteria.