The FHA Appraisal
A Summary of the Changes Effective in 2015 & 2016
Presented by:
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Metro-West Appraisal Company

FHA Update
HUD SF Handbook 4000.1

This presentation focuses on Appraisal requirements documented in the new HUD Handbook 4000.1 which became effective September 14, 2015, updated 3/14/2016.
Presentation content was obtained from:
- HUD.gov website;
- In-person training at the Denver Homeownership Center;
- In-person training in Fort Worth, Texas;
- HUD training videos presented in April, May, and September 2015, class room and on-line HUD update courses.

Presentation content was also obtained from:
- Personal interviews with Gary Eisenbraun, Branch Chief, Appraisal/Technical Support, Denver HOC.
- Special acknowledgements to Tom Munizzo and T.J. McCarthy for their contributions to the content of this presentation.
Course Schedule
- 8:00 – 8:30 > Registration
- 8:30 – 9:30 > Review of Updates
- 9:30-9:45 > First Morning Break
- 9:45-10:45 > Continuation of Updates
- 10:45-11:00 > Second Morning Break
- 11:00–12:00 > Protocols
- 12:00-1:00 > Lunch
- 1:00 – 2:00 > Property Inspections
- 2:00-2:15 > First PM Break
- 2:15 – 3:15 > Valuation Protocols
- 3:15-3:30 > Second PM Break
- 3:30 – 4:15 > Mfg., REO, Condo, 203(k)
- 4:15 – 4:30 > Wrap Up

A Few House Keeping Items
- No Tape Recording
- Silence Cell Phones
  - Buys First Round of Drinks……..
- Professional Classroom Demeanor
  - No Scurvy Elephants
- Restrooms
- Attendance Sheets – 100% required
  - 50 Minutes/Hour Classroom
- Evaluations

Don’t Shoot The Messenger
Disclaimer
As mentioned in the previous slide, this presentation is a compilation of information obtained from numerous HUD/FHA resources and is meant to provide you with an informative update as a supplement to the authoritative documentation published by HUD/FHA.
Any questions relating to FHA/HUD guidelines should always be directed to your nearest HOC.

Presentation Objectives
- Clarify Sections of Handbook specific to Appraisals
- Discuss the Appraisal Report & Data Delivery Guide
- Clarify Information Required Prior to Commencement of Appraisal
- Provide an Overview of General Appraiser Requirements
  - What is New
  - What is Not New
  - What is Different
- Emphasize Key Expectations
- Review Property Condition Requirements
- Practical Applications / Discussions

Homeownership Centers
HUD by the numbers

Five Star Government Forum Washington D.C.
- Edward Golding, Principal Deputy Asst. Secretary
  - Less than 900 employees in Single Family
  - GSEs have 15,000 of which 2/3 are in SF Business
  - FHA borrower - Average FICO is 690
  - Process 3,000 loans / day @ 3% down.
  - 40% of loans are for First Time Homebuyers
  - One Third of loans are to minorities – 20 years running
  - Underfunded…. 10 systems that are > 30 years old
  - 47,000 appraisers on Roster

HUD Resources

Resource Center:
- www.HUD.gov
- 800-CALL FHA (800-225-5342)
- E-Mail: answers@hud.gov
- Knowledge Base: www.hud.gov/answers
- Training Videos: www.hud.gov
  - SF Handbook – Events and Training/Archived Webinars
  - Module 3A: Appraisals
  - Module 3B: Underwriting the Property

Accessing HUD.Gov
March 23, 2016, 1:30 PM - 3:30 PM (Eastern)  "FHA Underwriting (Philadelphia Homeownership Center) This five-hour training will provide an overview of FHA underwriting procedures, credit scenarios, new construction/REHAB on Own Land, and occupancy and occupancy transactions. Loan officers, underwriters, post-closing staff and lender management personnel with all levels of experience will benefit from this course. Registration required. No fee.

April 7, 2016, 10:30 AM - 1:30 PM (Central)  "FHA Appraiser (Minneapolis Homeownership Center) This 3.5-hour training will provide an overview of FHA appraisal requirements, including appraisal protocol and updates to FHA appraisal policy. It also reviews the knowledge to determine property eligibility. The course is a refresher for seasoned FHA appraisers and provides valuable information to new FHA appraisers. Also beneficial for industry professionals who will benefit, including underwriters, brokers, etc. Registration required. No fee.

April 11, 2016, 9:30 AM - 1:30 PM (Eastern)  "FHA Underwriting (Huntington Homeownership Center) This five-hour training will provide an overview of FHA underwriting procedures, credit scenarios, new construction, REHAB on Own Land, and occupancy and occupancy transactions. Loan officers, underwriters, and lender management personnel with all levels of experience will benefit from this course. Registration required. No fee.

April 12, 2016, 10:30 AM - 1:30 PM (Central)  "FHA Appraiser (Minneapolis Homeownership Center) This five-hour training will provide an overview of FHA appraisal requirements, including appraisal protocol and updates to FHA appraisal policy. It also reviews the knowledge to determine property eligibility. The course is a refresher for seasoned FHA appraisers and provides valuable information to new FHA appraisers. Also beneficial for industry professionals who will benefit, including underwriters, brokers, etc. Registration required. No fee.

April 14, 2016, 9:30 AM - 1:30 PM (Eastern)  "FHA Underwriting (Huntington Homeownership Center) This five-hour training will provide an overview of FHA underwriting procedures, credit scenarios, new construction, REHAB on Own Land, and occupancy and occupancy transactions. Loan officers, underwriters, and lender management personnel with all levels of experience will benefit from this course. Registration required. No fee.
ROSTER INFORMATION & HUD UPDATES

KEEP YOUR ROSTER INFORMATION CURRENT IN FHA CONNECTION!

Get on the FHA E-Mail list by sending a request to:

answers@hud.gov

Submiting Roster Applications, Renewals & Updates

- [http://www.hud.gov/groups/appraisers.cfm](http://www.hud.gov/groups/appraisers.cfm)
  - To submit roster application, renewals & updates
  - New applications now go through FHA Connection
- ASC Website: [http://www.asc.gov](http://www.asc.gov)
  - Verify license on National Registry of Appraisal Subcommittee
  - Note: appraisal license number on the FHA Appraiser Roster must match ASC

HUD SF HANDBOOK 4000.1
FHA Single Family Housing Policy Handbook

- Title I - Doing Business with FHA
- Title II – Origination Through Post-Closing Endorsement
- Title III – Servicing and Loss Mitigation
- Title IV – Claims and Disposition
- Title V – Quality Control Oversight & Compliance
- Appendix 1.0 – 6.0

Significant Dates - 2015

- April 30, 2015 –
  - FHA Announced that it extended the effective date for the policies contained in the Single Family Housing Policy Handbook - (HUD Handbook 4000.1) from June 15, 2015 to September 14, 2015

- June 24, 2015 –
  - FHA added two new sections to the Handbook that became effective March 14, 2016
    - Servicing & Loss Mitigation – Title II Insured Housing Programs Forward Mortgages
    - Quality Control, Oversight & Compliance – Servicer Tier Ranking System II

- November 5, 2015
  - Updated Appraisal Report & Data Delivery Guide
    - Revised Sales History of Comps from 3 years to 1
Significant Dates - 2016

- October 2015
  - Updated Appraisal Report & Data Delivery Guide
  - Revised Sales History of Comps from 3 years to 1

Significant Dates – 3/14/2016

- March 14, 2010
  - Handbooks 4000.1, FHA Single Family Housing Policy Handbook
  - Effective Date: Multiple; See Below

3/14/2016 Update

1. This Transmits:

2. Explanation of Materials Transmitted:
   - This revision to the FHA Single Family Housing Policy Handbook, or Handbook 4000.1 (Handbook), is being published to add new sections to the Handbook and update existing sections. To prepare for future publications of additional sections of the Handbook as described below, future changes to the table of contents have been denoted in this update:
3/14/2016 Update

- Section I – Doing Business with FHA
  - Added the following Sections:
    - Other Participants – Real Estate Brokers
    - Other Participants – Closing Agents.

3/14/2016 Update

- Section II – Origination Through Post-Closing Endorsement
  - Added Placeholders for:
    - Title II Insured Housing Programs Reverse Mortgages
    - Condominium Project Approvals
    - Title I insured Programs
    - Appraiser and Property Requirements for Title I
  - Appraiser and Property Requirements for Title II Forward and Reverse mortgages - (currently section II.B)
  - Will become II.D.

3/14/2016 Update

- Section III – Servicing and Loss Mitigation
  - Added placeholders for:
    - Title II Insured Housing Programs Reverse Mortgages
    - Title I Insured Programs

- Section IV – Claims and Disposition
  - Added the following sections:
    - Title II Claims
    - Title II Disposition
  - Added placeholders for:
    - Title I Claims
    - Title I Disposition
3/14/2016 Update

- Section V – Quality Control, Oversight and Compliance
- Added the following sections:
  - Quality Control of Other Participants – Real Estate Brokers
  - Quality Control of Other Participants – Closing Agents
  - Monitoring of Other Participants – Real Estate Brokers
  - Monitoring of Other Participants – Closing Agents
  - Enforcement – Real Estate Brokers
  - Enforcement – Closing Agents
- Additionally, the Handbook is being published to provide updates to existing Handbook content.

3/14/2016 Update

Below is a list of content updates being made to the Handbook:

<table>
<thead>
<tr>
<th>Handbook Section</th>
<th>Handbook Changes</th>
<th>Page Number(s)</th>
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<tr>
<td>I.B.1.iii Communications with Appraisers</td>
<td>Clarified language in “Communications with Appraisers”</td>
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</tr>
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</table>

I.B.1.iii

ii. Appraiser Competency Requirement

The Appraiser assigned to provide the appraisal must be able to complete an assignment for the property type, assignment type, and geographic location of the subject Property.

The Appraiser must comply with the USPAP, including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing.

iii. Communications with Appraisers

An FHA-Related Appraiser must avoid conflicts of interest and the appearance of conflicts of interest. To avoid conflicts of interest and the appearance of conflicts of interest, the Appraiser must not be unduly influenced by:

- a member of a Mortgagee’s loan production staff or any other person who is compensated based upon the successful completion of a loan; or
- anyone who reports ultimately to any officer of the Mortgagee not independent of the loan production staff and process.
ASSIGNMENT RESULTS: An appraiser’s opinions or conclusions developed specific to an assignment.

- Comment: Assignment results include an appraiser’s:
  - opinions or conclusions developed in an appraisal assignment, not limited to value;
  - opinions or conclusions developed in an appraisal review assignment, not limited to an opinion about the quality of another appraiser’s work; or
  - opinions or conclusions developed when performing a valuation service other than an appraisal or appraisal review assignment.

Physical characteristics are not assignment results.
§ 3 Real Estate Brokers [Effective on September 28, 2016]

a. Definition

A HUD-Registered Real Estate Broker is a real estate listing or selling broker approved by HUD to list or sell HUD Real Estate Owned (REO) Properties.

A Listing Broker is a HUD-Registered Real Estate Broker who lists HUD-owned Properties for sale.

A Selling Broker is a HUD-Registered Real Estate Broker who submits bids on behalf of prospective buyers.

b. Requirements

1. Program Overview

HUD must approve any real estate broker wishing to list Properties or represent buyers in sales transactions of HUD REO Properties.

2. Use of Name and Address Identification Numbers

Each real estate broker wishing to list Properties or represent buyers in sales transactions of HUD REO Properties must have an active Name and Address Identification Number (NAID) issued by HUD; all agents conducting business in that real estate broker’s office may use the broker’s active NAID. For brokerages with several offices, each with a different real estate broker, each office may apply for a separate NAID.

II. Investment Properties

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<th>Clarity Language to indicate that investment properties are eligible for insurance under HUD’s REO Purchasing program, except under the 203(k) program.</th>
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Investment Properties

(C) Investment Property

(1) Definition
An Investment Property refers to a Property that is not occupied by the Borrower as a Principal or Secondary Residence.

(2) Standard
Investment Properties are not eligible for FHA insurance.

Exception
Investment Properties are eligible if the borrower is a HUD-approved Nonprofit Borrower, or a state and local government agency, or an Instrumentality of Government.

Investment Properties are eligible for insurance under the HUD Real Estate Owned (REO) Purchase Program, except under the 203(k) program.

Property Flipping

Property Flipping is indicative of a practice whereby recently acquired Property is resold for a considerable profit with an artificially inflated value.

(a) Definition
Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

(b) Standard
(i) Time Restriction on Transfers of Title
The eligibility of a Property for a Mortgage insured by FHA is determined by the time that has elapsed between the date the seller has transferred title to the Property and the date of execution of the sales contract that will result in the FHA-insured Mortgage.

FHA defines the seller’s date of acquisition as the date the seller acquired legal ownership of the Property. FHA defines the resale date as the date of execution of the sales contract by all parties intending to finance the Property with an FHA-insured Mortgage.

(ii) Restriction on Resales Occurring 90 Days or Fewer After Acquisition
A Property that is being resold 90 Days or fewer following the seller’s date of acquisition is not eligible for an FHA-insured Mortgage.

(iii) Resales Occurring Between 91 Days and 180 Days After Acquisition
A Mortgagee must obtain a second appraisal by another Appraiser if:
- the resale date of a Property is between 91 and 180 Days following the acquisition of the Property by the seller; and
- the resale price is 100 percent or more over the price paid by the seller to acquire the Property.
If the Appraiser cannot determine that a Property meets HUD’s MPR or MPS, the Mortgagor may obtain an inspection from a qualified Entity to make the determination. Mortgagors must use professional judgment in determining when inspections are necessary to determine that a property meets MPR or MPS.

Mortgagors must also use professional judgment in determining when a Property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the Property, such that additional inspections and/or repairs are necessary.

203(k)

Updated “General Improvement Standards” sections to provide guidance that all improvements to existing structures completed as part of a 203(k) must meet or exceed local building codes.

I. ORIGINATION THROUGH POST-CLOSING ENFORCEMENT
A. Title II Insured Forward mortgages
B. Programs and Products - 203(k) Rehabilitation Mortgage Insurance Program

(1) Improvement Standards
(a) General Improvement Standards:
All improvements to existing Structures must comply with HUD’s MPR and must meet or exceed local building codes. For a newly constructed addition to the existing Structure, the energy improvements must meet or exceed local energy codes and the requirements of the 2006 International Energy Conservation Code (IECC) or a successor energy code standard that has been adopted by HUD through a Federal Register notice.
Limited 203(k) [Former Streamline]

(1) Written Proposal and Cost Estimates

Added requirement that the written proposal for a Limited 203(k) must indicate which work items require permits and state that repairs are non-structural.

567*

(2) Written Proposal and Cost Estimates [Highlighted text effective for case numbers assigned on or after June 30, 2016]

The Mortgagor must obtain a written proposal and Cost Estimate from a contractor for each specialized repair or improvement. The Mortgagor must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements. The written proposal must indicate Work Items that require permits and state that repairs are non-structural. The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials.

Energy Efficient Mortgages

c. Energy Efficient Mortgages

i. Definitions

The Energy Efficient Mortgage (EEM) program allows the Mortgagor to offer financing for cost-effective energy efficient improvements to an existing Property at the time of purchase or refinancing, or for upgrades above the established residential building code for New Construction.

Cost-Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of those improvements.

Energy Efficient Mortgages

ii. Eligibility

(A) Eligible Property Types

EEM may be used with:
- New Construction Properties (one- to four-units);
- Existing Construction Properties (one- to four-units);
- condominiums (one unit); or
- Manufactured Housing.
Energy Efficient Mortgages

(B) Eligible Programs and Transaction Types

The EEM program can be used in conjunction with any mortgage insurance under Title II, including:

- 203(b)
  - Purchase
  - No cash-out refinances
- 203(h) Mortgage Insurance for Disaster Victims
- 203(k) (Standard and Streamlined)
- Weatherization Policy (Existing Construction only)

Energy Efficient Mortgages

iii. Standard

Energy Package

The energy package is the set of improvements agreed to by the Borrower based on recommendations and analysis performed by a qualified home energy rater. The improvements can include energy-saving equipment, and active and passive solar and wind technologies. The energy package can include materials, labor, inspections, and the home energy assessment by a qualified energy rater. If the Borrower desires, labor may include the cost of an EEM Facilitator (general contractor).

Energy Efficient Mortgages

(B)(4) Qualifications of Energy Raters/Assessors

Updated language in "Qualifications of Energy Raters/Assessment" section in Energy Efficient Mortgages product sheet.

(A) Qualifications of Energy Raters/Assessors

Qualified home energy raters/assessors must be trained and certified as one of the following:

- Building Performance Institute Building Analyst Professional
- Building Performance Institute Home Energy Professional Energy Auditor
- Residential Energy Services Network Home Energy Rater
- Energy user, assessor or auditor who meets local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, license and insurance requirements,
Energy Efficient Mortgages

viii. Appraisals

For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the Property. If the appraisal does include the value of the energy package, the value must be subtracted from the Property Value when computing the Adjusted Value.

On the 203(k) program, the After Improved Value is to be used for the EEM process.
### C. MANUFACTURED HOME APPRAISAL REPORT

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### B. IMPERIAL CONSOLIDATION APPRAISAL REPORT

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### E. SMALL RESIDENTIAL INCOME PROPERTY (TWO TO FOUR UNITS) APPRAISAL REPORT

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<td>Final Report Information Section</td>
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Appraisal Report & Data Delivery Guide

1. APRAVAL REPORT AND DATA DELIVERY TO FHA

This document provides guidance to appraisers who are preparing residential appraisal reports utilizing the industry standard form and to lenders who are submitting the appraiser’s completed reports to FHA. FHA’s policy requires that the appraisal report be submitted on the form appropriate for the property type.

FHA has implemented an Electronic Appraisal Delivery (EAD) system, which provides portal access to all FHA-approved lenders. The system will allow electronic appraisal files to be uploaded to a central location, processed, and matched against an FHA-defined specification. The original file, as well as the results of the scoring process, will then be securely transmitted to HUD servers.

For the EAD portal, FHA will only accept appraisals in the Mortgage Information Standards Maintenance Organization (MISO) 2.5 with embedded PDF format, as created directly by the appraiser (first generation). FHA does not accept private or proprietary data formats or appraisal reports that have been manipulated or translated by anyone or any process.

Field and Protocol Tables

<table>
<thead>
<tr>
<th>Field</th>
<th>Protocol</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA Case Number / Appraiser Additional File Number</td>
<td>Include the FHA case number at the top of the report (2-digit) followed by an SBE label. This must be entered in mm/mm/xxxxx, case number only. (Example: 122-128086) This may also appear in a similar place on the other pages of the report, but it is not a title required.</td>
</tr>
<tr>
<td>Appraiser’s File Number</td>
<td>This is the appraisal’s unique file number.</td>
</tr>
<tr>
<td>Address</td>
<td>The address on every page of the report must be consistent.</td>
</tr>
</tbody>
</table>

The following address elements must be included in the report:
- street number
- street name (including applicable pre-directional indication, suffix, and post-directional indication)
- address unit number and number (of applicable)
- This data is required (more than one or the form and must be represented consistently). If the property is located in a rural municipality, it must be represented consistently. In cases where the property is located in a rural municipality, it must be represented consistently. This data is required.

This report is intended to be in writing, statements of the United States Postal Service, Publication 19-157, Title 49, 384 Pub.

Field: Address
- It must conform to the following standards of the United States Postal Service, Publication 19-157, Title 49, 384 Pub.
- It must conform to the following standards of the United States Postal Service, Publication 19-157, Title 49, 384 Pub.
Title II, Origination Through Post Closing
B. Appraiser & Property Requirements

The appraisal process provides the Mortgagor with necessary information to determine if a property meets the minimum requirements and eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage and will serve as adequate security for a specific FHA-insured Mortgage. Mortgagors bear primary responsibility for determining eligibility and the sufficiency of collateral; however, the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met and an appraised value for the property.

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

A. FHA Lenders and Mortgagees

B. Other Participants
   1. Appraisers
      a. FHA Appraiser Roster
      b. Application and Approval Process
      c. Renewal
      d. Post-Approval Requirements

Mortgagee Responsibility for Appraisal Integrity

The Mortgagee is responsible for identifying any problems or potential problems with the integrity, accuracy, and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

Introduction

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

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

The appraisal must be reported in accordance with Acceptable Appraisal Reporting Forms and Protocols.
FHA Single Family Housing Policy Handbook

- Title II
- Origination Through Post-Closing Endorsement
  - B. Appraiser & Property Requirements for Title II Forward and Reverse Mortgages of the Handbook 4000.1
  - Property Acceptability Criteria for FHA Mortgage Insurance
    - Include Minimum Property Requirements (MPR)
    - Include Minimum Property Standards (MPS)
    - Include by Reference – Associated Rules and Regulations

APPRAISAL GUIDANCE

- Property Requirements
  - FHA Requires underwriting of property condition as well as valuation.
  - Appraiser Requirements:
    - To Observe, Analyze, Report
  - The objective of Handbook 4000.1 is to provide one place where the appraiser requirements are spelled out CLEARLY

APPRAISAL GUIDANCE

- Property Requirements
  - The appraisal process provides the Mortgagee with necessary information to determine if a property meets the minimum requirements and eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage and will serve as adequate security for a specific FHA insured Mortgage.
<APPRAISAL GUIDANCE

- **Property Requirements**
- Mortgagees bear primary responsibility for determining eligibility and the sufficiency of collateral; however, **the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met** and an appraised value for the property.

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Prior to Commencement of Appraisal

1. Commencement of the Appraisal
   a. Information Required before Commencement of Appraisal

   The Appraiser must obtain all of the following from the Mortgagee before beginning an appraisal:
   - a complete copy of the executed sales contract for the subject, if a purchase transaction;
   - the land lease, if applicable;
   - surveys or legal descriptions, if available;
   - any other legal documents contained in the loan file; and
   - a point of contact and contact information for the Mortgagee so that the Appraiser can communicate any noncompliance issues.

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Prior to Commencement of Appraisal

b. Additional Information Required Before Commencement of an Appraisal on New Construction

The Appraiser must obtain, from the Mortgagee, a fully executed form [HUD 92541](#). 
Builder’s Certification of Plans, Specifications, and Size, dated no more than 30 Days prior to the date of the appraisal order and documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built or, if new Under Construction, what will be built when finished.
Appraisers must follow FHA Guidance and comply with USPAP when completing appraisals of Property used as security for FHA-insured Mortgages.

Appraisers are expected to exercise both sound judgement and due diligence in the appraisal of properties to be insured by FHA. *

* Quote from Gary Eisenbraun, Branch Chief, Appraisal/Technical Support, Denver HOC.

When performing an Appraisal, the Appraiser must review and analyze the following:

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

Sales Transaction or New Construction

When performing an appraisal for a sales transaction or on New Construction, the Appraiser must also review and analyze the following:

- the complete copy of the executed sales contract for the subject; and
- documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished, and report the results of that analysis in the appraisal report.
General Appraiser Requirements

1. Additional Documentation Required for Appraisals of New Construction

When New Construction is less than 90% complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.

When New Construction is 90% or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.

Appraiser Responsibility to Report Property Compliance

- The Appraiser must observe, analyze and report that the Property meets HUD’s MPR and MPS.

- Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure – (the 3 S’s).

- Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness and security of New Construction.

- Every Property must be safe, sound, and secure so that the Mortgagor can determine eligibility. The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with FHA’s MPR and MPS.

Appendix D of HUD Handbook 4150.2
- Minimum Property Requirements (MPR) and Minimum Property Standards (MPS)

Excerpt: “In the performance of an FHA appraisal, the appraiser must denote any deficiencies in the appropriate section(s) (site issues in the Site Section, Improvement issues in the improvements section) of the appraisal report.”
Appraiser Responsibility to Report Property Compliance

- “The appraiser is to note those repairs necessary to make the property comply with FHA’s MPR or MPS together with the estimated cost to cure.

- The Lender will determine which repairs for existing properties must be made for the property to be eligible for FHA-insured financing.”

Appraiser Responsibility to Report Property Compliance

- “Appraisers are reminded not to recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection of any mechanical system, structural system, etc.”

- “These guidelines are provided to assist in the examination of the property. To perform this analysis, the appraiser must have full access to all property improvements.”

Appraiser Responsibility to Report Property Compliance

- “If unable to visually evaluate the improvements in their entirety, contact the lender and reschedule a time when a complete visual inspection can be performed. “

- “This includes access to the crawl space and attic.”
Application of Minimum Property Requirements and Minimum Property Standards

b. Application of Minimum Property Requirements and Minimum Property Standards by Construction Status

i. Existing Construction

(A) Definition

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

(B) Standard

For Existing Construction, the Appraiser must notify the Mortgagor of the deficiencies when the Property does not comply with FHA’s MPR.

ii. New Construction

(A) Definition

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year.

Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.

Under Construction refers to the period from the first placement of permanent material to 100 percent completion with a Certificate of Occupancy (CO) or equivalent.

Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

(B) Standard

For New Construction, the Appraiser must notify the Mortgagor of the deficiencies when the Property does not comply with FHA’s MPR, including 24 CFR 200.926 to 200.926a.

iii. Determination of Defective Conditions

(A) Definition

Defective Conditions refer to defective construction, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards or other conditions affecting the health and safety of occupants, collateral security or structural soundness of the dwelling.

(B) Standard

The Appraiser must identify readily observable defective conditions.

Defective Conditions Requiring Repair

The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD’s MPR, and provide an estimated cost to cure.
Application of Minimum Property Requirements and Minimum Property Standards

iv. Inspection by a Qualified Individual or Entity

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

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

Readily Observable Defects

Foundation

Not So Readily Observable Defects

Interior
Sometimes it is a No-Brainer......

Property Acceptability Criteria - Defective Conditions
If defective conditions exist and correction is not feasible, the Mortgagor must reject the Property.

II.B. 3 - Acceptable Appraisal Forms and Protocols

1. Legal Requirements
   a. Real Estate Entity
      The Appraiser must contact the Mortgagor if the subject Property is not a single, marketable real estate entity, and/or does not consist of a primary plot with a secondary plot contributing to the use and marketability of the Property as a single marketable real estate entity.

II.B. 3 - Acceptable Appraisal Forms and Protocols

b. Property Rights
(1) Definition
   Fee Simple refers to absolute ownership unencumbered by any other interest or estate.
   Leasehold refers to the right to hold or use Property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.
(2) Standard
   An Appraiser must contact the Mortgagor if the property rights to be appraised are not on real estate held in Fee Simple or Leasehold that comply with HUD’s requirements below.
### II.B.3 - Acceptable Appraisal Forms and Protocols

#### (C) Planned Unit Development

1. **Definition**
   
   A Planned Unit Development (PUD) refers to a residential development that contains, within the overall boundary of the subdivision, common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments. A unit in a PUD consists of the fee title to the real estate represented by the land and the improvements thereon plus the benefits arising from ownership of an interest in the HOA.

2. **Standard**
   
   An Appraiser must contact the Mortgagor if the Property is located in a PUD that does not meet this definition.

#### (D) Leasehold Interests

1. **Definition**
   
   Leasehold Interests refer to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

2. **Standard**

   - **(a) Forward Mortgage Requirements**
     
     A Mortgage secured by real estate under Leasehold requires a renewable lease with a term of not less than 99 years, or a lease that will extend not less than 10 years beyond the maturity date of the Mortgage. Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

   - **(b) Reverse Mortgage (HECM) Requirements**
     
     A reverse mortgage, or Home Equity Conversion Mortgage (HECM), secured by real estate under Leasehold requires a renewable lease for not less than 99 years, or a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor. Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

3. **Required Analysis and Reporting**

   An Appraiser must contact the Mortgagor if the Leasehold Interest does not meet this requirement.
II.B. 3 - Acceptable Appraisal Forms and Protocols

II. Legal and Land Use Considerations

(A) Party or Lot Line Wall

(1) Standard
A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the edge of the roof.

(2) Required Analysis and Reporting
The Appraiser must note if the party or lot line wall does not extend to the roof or beyond.

II.B. 3 - Acceptable Appraisal Forms and Protocols

(B) Non-Residential Use of Property

(1) Standard
The non-residential portion of the total floor area may not exceed 49 percent.

Any non-residential use of the Property must be subordinate to its residential use, character and appearance. Non-residential use may not impair the residential character or marketability of the Property. The non-residential use of the Property must be legally permitted and conform to current zoning requirements.

(2) Required Analysis and Reporting
The Appraiser must calculate the non-residential portion of any residential Property. Storage areas or similar spaces that are integral parts of the non-residential portion must be included in the calculation of the non-residential area.

The Appraiser must document any non-residential use within the Property and state the percentage of the total (floor area that is utilized as non-residential. The Appraiser must report whether the non-residential usage is legal and in compliance with current zoning requirements.

The Appraiser must contact the Mortgagee if the non-residential portion of the Property exceeds 49 percent.
### II.B. 3 - Acceptable Appraisal Forms and Protocols

#### (C) Zoning

1. **Standard**
   
   FHA requires the Property to comply with all applicable zoning ordinances.

2. **Required Analysis and Reporting**
   
   The Appraiser must determine if current use complies with zoning ordinances. If the existing Property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the Appraiser must report the Property as “Legal Non-Conforming” and provide a brief explanation. The Appraiser must analyze and report any adverse effect that the non-conforming use has on the Property’s value and marketability, and state whether the Property may be legally rebuilt if destroyed.

### II.B. 3 - Acceptable Appraisal Forms and Protocols

#### (E) Easements and Deed Restrictions

1. **Definition**
   
   An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

   A Deed Restriction refers to a private agreement that restricts the use of real estate in some way, and is listed in the deed.

2. **Standard**
   
   The Appraiser must note the presence of any Easements and Deed Restrictions to assist the Mortgagor in determining eligibility.

3. **Required Analysis and Reporting**
   
   The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property. The Appraiser must review recorded subdivision plans when available through the normal course of business.
II.B. 3 - Acceptable Appraisal Forms and Protocols

iii. Externalsities

(A) Definition

Externalsities refer to off-site conditions that affect a Property’s value. Externalsities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas lines, Overhead Electric Power Transmission Lines and Local Distribution Lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

(B) Standard

The Appraiser must report the presence of Externalsities so that the Mortgagor can determine eligibility.

(C) Required Analysis and Reporting

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

1. Heavy Traffic

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

(2) Airport Noise and Hazards

The Appraiser must identify if the Property is affected by noise and hazards of how flying aircraft because it is near an airport. The Appraiser must review airport contour maps and analyze accordingly. The Appraiser must determine and report the marketability of the Property based on this analysis.

(3) Special Airport Hazards

The Appraiser must identify if the Property is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield and consider the effect of the airport hazards on the marketability when valuing the subject Property.
II.B. 3 - Acceptable Appraisal Forms and Protocols

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

(a) Existing Dwelling

The Appraiser must condition the appraisal on the Borrower’s acknowledgment of the hazard.

(b) Proposed Construction, Under Construction, and Existing Less than One Year

The Appraiser must note that the Property is ineligible for FHA insurance and notify the Mortgagee.

II.B. 3 - Acceptable Appraisal Forms and Protocols

(4) Proximity to High Pressure Gas Lines

The Appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both aboveground and subsurface. The Appraiser must determine and report the marketability of the Property based on this analysis. The Appraiser must notify the Mortgagee of the deficiency of MPR or MPN if the Property is located more than 10 feet from the nearest boundary of the pipeline easement.

Proximity to High Pressure Gas Lines
Proximity to High Pressure Gas Lines

Overhead Electric Power Transmission and Local Distribution Lines

(5) Overhead Electric Power Transmission and Local Distribution Lines

(a) Definitions

Overhead Electric Power Transmission Lines refer to electric lines that supply power from power generation stations to Local Distribution Lines.

Local Distribution Lines refer to electric lines that commonly supply power to residential housing developments, similar facilities and individual properties.

(b) Required Analysis and Reporting

The Appraiser must notify the Mortgagor of the deficiency of MPR or MPS if the Overhead Electric Power Transmission Lines or the Local Distribution Lines pass directly over any dwelling, structure or related property improvement, including pools, spas, or water features.

The Appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances. The Appraiser must also determine if the guidelines for Encroachments apply.
Enhancements to Note

- Stationary Storage Tanks
  - No distinction for above-or below-ground

  - (7) Stationary Storage Tanks
    - The Appraiser must notify the Mortgagor of the deficiency of MPR or MPS if the subject property line is located within 300 feet of an aboveground or subsurface stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material. This includes domestic and commercial uses as well as automotive service station tanks.

Site Conditions

iv. Site Conditions

(A) Access to Property

(1) Definition

Adequate Vehicular Access to Property refers to an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.

(2) Required Analysis and Reporting

The Appraiser must notify the Mortgagor of the deficiency of MPR or MPS if the Property does not have public pedestrian access and Adequate Vehicular Access from a public street or private street that is protected by a permanent recorded Easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.
Site Conditions

a.

The Appraiser must note whether there is safe pedestrian access and adequate vehicular access to the site and analyze any effect on value or marketability.

The Appraiser must report evidence of a permanent easement.

The Appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane.

Onsite Hazards and Nuisances

(1) Onsite Hazards and Nuisances

(1) Definition

Onsite Hazards and Nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the Property.

(2) Standard

The Appraiser must report the presence of all Onsite Hazards and Nuisances so that the Mortgagor can determine eligibility and any corrective work that may be necessary to mitigate potential adverse effects from the special conditions.

(3) Required Analysis and Reporting

The Appraiser must note and comment on all Onsite Hazards and Nuisances affecting the Property. The Appraiser must also provide photographs of potential problems or issues to assist the Mortgagor in understanding the problem.

Onsite Hazards and Nuisances

Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

New and Proposed Construction

The Appraiser must report any special conditions that may exist or arise during construction and necessitate precautionary or hazard mitigation measures.
Onsite Hazards and Nuisances

(D) Grading and Drainage

The Appraiser must check for readily observable evidence of grading and drainage problems. Proper drainage control measures may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation.

The Appraiser must make the appraisal subject to repair if the grading does not provide positive drainage away from the improvements. The Appraiser must note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage. The Appraiser must report this in the “Site” section of the report, if the standing water is problematic.
Onsite Hazards and Nuisances

(E) Suitability of Soil

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

The Appraiser should also consider events and published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

The Appraiser must analyze and report how this would affect the Property.

Onsite Hazards and Nuisances

(G) Oil or Gas Wells

(1) Operating or Proposed

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

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

(2) Abandoned

If the Appraiser notes an abandoned gas or oil well on the subject site or an adjacent property, the Appraiser must stop work and notify the Mortgagee.

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

ACTIVE DRILL SITE

Active Drilling Site

- The existing dwelling may not be less than 300' from an active or proposed drilling site boundary
- Some locations have been accepted via waiver
Soil Contamination

(M) Soil Contamination

(1) Definition
Soil Contamination refers to the presence of manmade chemicals or other alterations to the natural soil environment.

(2) Standard
Conditions that indicate Soil Contamination include the existence of underground storage tanks used for heating oil, pools of liquids, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

(3) Required Analysis and Reporting
The Appraiser must check readily observable evidence of Soil Contamination and hazardous substances in the soil. The Appraiser must report the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes that may have a negative influence on the marketability and/or value of the subject property.
Underground Storage Tanks

(N) Residential Underground Storage Tanks

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

New Construction Site Analysis

v. New Construction Site Analysis

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

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

Excess vs. Surplus Land

vi. Excess and Surplus Land

(A) Definition

Excess Land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. Excess Land may have the potential to be sold separately.

Surplus Land refers to land that is not currently needed to support the existing improvement but cannot be separated from the Property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.
Excess vs. Surplus Land

(B) Required Analysis and Reporting

The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser’s conclusion of the existence of Excess Land. The Appraiser must include Surplus Land in the valuation.

If the subject of an appraisal contains two or more legally conforming plotted lots under one legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

vi. Characteristics of Property Improvements

(A) Requirements for Living Unit

The Appraiser must notify the Mortgagor of the deficiency of MPR or MPS if each living unit does not contain any one of the following:

- a continuous and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- adequate space for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water; or
- electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

Access to Living Unit

(B) Access to Living Unit

The Appraiser must notify the Mortgagor of the deficiency of MPR or MPS if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit. For attached dwellings, the access may be by means of alley, easement, common area or passage through the dwelling.

The Appraiser must report when the Property has security bars on bedroom windows or doors.
Non-Standard Housing Styles

(C) Non-Standard House Styles

(1) Definition

Non-Standard House Style refers to unique Properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower than normal ceiling heights, and other houses that in the Appraiser's professional opinion, are unique.

(2) Required Analysis and Reporting

The Appraiser must provide a comment that the non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a Property to be fully marketable, the Appraiser must demonstrate that it is located in an area of other similar types of construction and blend in with the landscape.

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

Modular Housing

(D) Modular Housing

(1) Definition

Modular Housing refers to Structures constructed according to state and local codes off-site in a factory, transported to a building lot, and assembled by a contractor into a finished house. Although quality can vary, all of the materials - from framing, roofing and plumbing to cabinetry, interior finish and electrical - are identical to what is found in comparable quality conventional "stick-built" housing.

(2) Required Analysis and Reporting

The Appraiser must treat Modular Housing the same as stick-built housing, including reporting the appraisal on the same form. The Appraiser must select and analyze appropriate comparable sales, which may include conventionally built housing, Modular Housing or Manufactured Housing.

IMPROVEMENTS

Improvements

Common Deficiencies:
- Improperly identifying accessory units
- Improperly identifying constructive means
- Etc. (not specific) to height (ft)
- Architectural style

- Metro-West

- Common Deficiencies:
  - Improperly identifying accessory units
  - Improperly identifying constructive means
  - Etc. (not specific) to height (ft)
  - Architectural style

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(E) Identifying an Accessory Dwelling Unit

(1) Definition

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

(2) Required Analysis and Reporting

As part of the highest and best use analysis, the Appraiser must make the determination to classify the Property as a Single Family dwelling with an ADU, or a two-family dwelling. The conclusion of the highest and best use analysis will then determine the classification of the Property and the analysis and reporting required.

An ADU is usually subordinate in size, location and appearance to the primary Dwelling Unit and may or may not have separately metered utilities or separate means of ingress or egress. The Appraiser must not include the living area of the ADU in the calculation of the Gross Living Area (GLA) of the primary dwelling.

The Appraiser must notify the Mortgagor of the deficiency in MPR or MPS if more than one ADU is located on the subject Property.

Accessory Units

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

Improvements/Accessory Unit

- Accessory Dwelling Unit or Duplex?
  - Determination is made by the appraiser considering the highest and best use and market reaction
  - What is legally permissible?
  - What do market participants think?
  - If the ADU is rented, should not categorically result in determining as a two unit
  - An accessory dwelling unit may or may not have separate electrical service

Additional Manufactured Home

(F) Additional Manufactured Home on Property

The Appraiser may consider a Manufactured Home to be an ADU if it meets the highest and best use and FHA requirements.

The Appraiser may value a Manufactured Home on the Property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

Leased Equipment, Etc.

(G) Leased Equipment, Components, and Mechanical Systems

The Appraiser must not include the value of leased mechanical systems and components in the Market Value of the subject Property. This includes furnaces, water heaters, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the property owner. The Appraiser must identify such systems in the appraisal report.
Additions and Converted Space

iii. Additions and Converted Space

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

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

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

Additions and Converted Space

The Appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space. If the Appraiser chooses to include converted living spaces as GLA, the Appraiser must include an explanation detailing the composition of the GLA reported for the comparable sales, functional utility of the subject and comparable properties, and market reaction.

Alternatively, the Appraiser may consider and analyze converted living spaces on a separate line within the sales comparison grid including the functional utility line in order to demonstrate market reaction.

The Appraiser must not add an ADU or secondary living area to the GLA.

Partially Below-Grade Habitable Space

iv. Partially Below-Grade Habitable Space

(A) Definition

Partially Below-Grade Habitable Space refers to living area constructed partially below grade, but has the full utility of GLA.
Partially Below-Grade Habitable Space

(B) Required Analysis and Reporting

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

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

MECHANICAL SYSTEMS

Mechanical Systems

• All utilities should be on at the time of appraisal

Mechanical Components and Utilities

g. Mechanical Components and Utilities

The Appraiser must notify the Mortgage of the deficiency of MPR or MPS if mechanical systems are not safe to operate, not protected from destructive elements, do not have reasonable future utility, durability and economy, or do not have adequate capacity.

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance. If the systems are damaged or do not function properly, the Appraiser must condition the appraisal on its repair or further inspection.

If the property is vacant, the Appraiser must note in the report whether the utilities were on or off at the time of the appraisal.
MECHANICAL SYSTEMS

If the utilities are not on at the time of observation and the systems could not be operated, the Appraiser must:
1. treat the appraisal as subject to re-observation;
2. condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
3. complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

The Appraiser must note that the re-observation may result in additional repair requirements once all the utilities are on and fully functional.

Mechanical Components and Utilities

1. Heating and Cooling Systems

The Appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of design, fuel or heat source.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the permanently installed heating system does not:
- automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;
- provide healthful and comfortable heat or is not safe to operate;
- rely upon a fuel source that is readily obtainable within the subject's geographic area;
- have market acceptance within the subject's marketplace; and
- operate without human intervention for extended periods of time.

FURNACE/HEATING SYSTEM

Furnace/Heating System

Permanently installed, conventional system
- At least 50° in those areas with plumbing
- Must operate without human intervention for extended period of time

What does the appraiser look for when checking the unit(s)?
- Unit does not turn on
- Heat is not emitted
- Unusual or irregular noises are heard
- Smoker or irregular smell is detected
- Holes or deterioration on the unit(s)
COOLING SYSTEM

Cooling System
HUD Does Not Require Air Conditioning
But, if installed, it must be operational

What does the appraiser look for when checking the unit(s)?
- Unit does not turn on
- Cool air is not emitted
- Unusual or irregular noises are heard
- Smell or irregular smell is emitted
- Noise or deterioration on the unit(s)

MECHANICAL SYSTEMS

ii. Electrical System
The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the electrical system is not adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.

The Appraiser must examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amperage and panel size appears inadequate for the Property. The Appraiser must operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. The Appraiser is not required to insert any tool, probe or testing device inside the electrical panel or to dismantle any electrical device or control.

ELECTRICAL SYSTEM

Electrical System
- Do electrical switches function?
- Presence of sparks or smoke from outlet(s)
- Exposed, frayed, or unconnected wiring
MECHANICAL SYSTEMS

iii. Plumbing System

The Appraiser must notify the Mortgagee of the deficiency of MPH or MPS if the plumbing system does not function to supply water pressure, flow, and waste removal.

The Appraiser must flush the toilets and operate a sample of faucets to check water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there is no readily observable evidence of leaks or structural damage under fixtures.

The Appraiser must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.

If the Property has a septic system, the Appraiser must examine it for any signs of failure or surface evidence of malfunction. If there are deficiencies, the Appraiser must require repair or further inspection.

PLUMBING SYSTEM

Plumbing System

Water
- Drop or limitation of pressure
- No hot water

Toilet
- Toilets do not function
- Presence of leaks

Sinks/Bathtubs/Shower
- Basin or pipe leak
- Water does not run

PLUMBING SYSTEM

Plumbing System

Leaks
- Evidence of leakage/damage under fixtures
- Puddles present

Sewer System
- Observable evidence of malfunction
PLUMBING SYSTEM

Plumbing System

Leaks
  • Evidence of leakage/damage under fixtures
  • Puddles present

Sewer System
  • Observable evidence of malfunction

Q & A

• When does FHA require the basic kitchen appliances in order for the property to meet MPR/S?
  
  A. Always
  B. Never, FHA does not require kitchen appliances
  C. Only for new construction
  D. Only when it is customary in the local area, and when they are classified as real property.

Roof Covering

b. Roof Covering

The Appraiser shall notify the Mortgagee of the deficiency of MPR or MPS if the roof covering does not prevent entrance of moisture or provide reasonable future utility, durability, and economy of maintenance and does not have a remaining physical life of at least two years.

The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility. The Appraiser must identify the roofing material type and the condition observed in the “Improvements” section of the report.
Roof Covering – Remaining Life

The Appraiser must report if the roof has less than two years of remaining life, and make the appraisal subject to inspection by a professional roofer.

When the Appraiser is unable to view the roof, the Appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the settings.

Structural Conditions

1. Structural Conditions

The Appraiser must report on structural conditions so that the Mortgagor can determine if the foundation and structure of the Property will be serviceable for the life of the Mortgage.

The Appraiser must perform a visual observation of the foundation and structure of the improvements and report those results. If the Appraiser notes any structural issues, the Appraiser must address the nature of the deficiency in the appraisal where physical deficiencies or adverse conditions are reported and require inspection.

Defective Paint

j. Defective Paint

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

If the dwelling or related improvements were built on or before December 31, 1978, refer to the section on Lead-Based Paint.
Defective Paint

1. Lead-Based Paint

(A) Improvements Built on or Before 1978

The Appraiser must note the condition and location of all defective paint and require repair in compliance with 24 CFR §200.810(c) and any applicable EPA requirements. The Appraiser must observe all interior and exterior surfaces, including common areas, stairs, decks, porches, railings, windows, and doors, for defective paint (cracking, scaling, chips, peeling, or loose). Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and other outbuildings and appurtenant structures.

Defective Paint 24CFR§200.810( c )

(c) Treatment of defective paint surfaces. For defective paint surfaces, treatment shall be provided to defective areas. Treatment of hazards shall consist of covering or removing defective paint surfaces. Covering may be accomplished by such means as adding a layer of wallpaper to the wall surface. Depending on the wall condition, wallcovering which are permanently attached may be used. Covering or replacing trim surfaces is also permitted. Pain removal may be accomplished by such methods as scraping, heat treatment (infrared or coil type heat gun) or chemicals. Machine sanding and use of propane or gasoline torches (open flame methods) are not permitted. Washing and repainting without thorough removal or covering does not constitute adequate treatment. In the case of defective paint tanks, scraping and repainting the defective area is considered adequate treatment. Treatment of a defective paint surface is not required if such a surface is found not to be a lead-based paint surface by a lead-based paint inspector certified pursuant to procedures of the U.S. Environmental Protection Agency at 40 CFR part 78.

Defective Paint

(B) Condominium Units Built on or Before 1978

The Appraiser must observe the interior of the unit, common unit and exterior surfaces and appurtenant Structures of the specific unit being appraised; and address the overall condition, maintenance and appearance of the Condominium Project. The Appraiser must note the condition and location of all defective paint in the unit, common area and exterior, and require repair in compliance with 24 CFR §200.810(c) and any applicable EPA requirements.
Attic Observations

Attic Inspection Requirements
Clarifies that FHA requires an inspection – more than just “head and shoulders” if possible.

How is this different?
From 4150.2 Appendix D: Valuation Protocol

Attic – Enter the attic and observe the interior roofing, insulation, deficient materials, leaks or readily observable evidence of significant water damage, structural problems, previous fire damage, FRT sheathing, exposed and frayed wiring and inadequate ventilation by vent, fan or window. If any of these deficiencies exist, condition the appraiser on their repair and program the appraisal “subject to repairs” and/or “subject to inspection”.

The attic must be entered, at a minimum, by head and shoulders, whether access is by pull-down stairs or scuttle. Size of the scuttle and accessibility of the attic dictate the level of entry.

IMPROVEMENTS - ATTIC

Common Deficiency
Not accessing head & shoulders

Look for:
- Inadequate access
- Evidence of holes
- Missing Insulation
- Wood rot
- Support structure not intact/damaged
- Significant water damage visible from interior
- No ventilation by vent, fan, or window
- Fallen/detonated heating/cooling vent pipes
- Infestations/droppings
- Frayed/frayed wiring
- Evidence of prior fire damage

Attic Observations

k. Attic Observation Requirements

The Appraiser must observe the interiors of all attic spaces.

The Appraiser is not required to disturb insulation, move personal items, furniture, equipment or debris that obstructs access or visibility. If unable to view the area safely in their entirety, the Appraiser must contact the Mortgagee and reschedule a time when a complete visual observation can be performed, or correlate the appraised subject to inspection by a qualified third party. In cases where access through a scuttle is limited and the Appraiser cannot fully enter the attic, the insertion of at least the head and shoulders of the Appraiser will suffice.

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the Appraiser must report this condition and render the appraisal subject to inspection and repairs if necessary.
If there is no access or scuttle, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

An observation performed in accordance with these guidelines is visual and is not technically exhaustive.

ATTIC OBSERVATION / PHOTOS

Attic Observations – Radiant Barriers
Basements and Sump Pumps

i. Basement
The Appraiser must notify the Mortgagor of the deficiency of MPR or MPS if the basement is not free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the Structure.

ii. Sump Pumps
The Appraiser must notify the Mortgagor of the deficiency of MPR or MPS if the sump pump is not 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 that is to be connected to a receptacle suitable for such use.

Crawl Space Observations

m. Crawl Space Observation Requirements
The Appraiser must visually observe all areas of the crawl space and notify the Mortgagor of the deficiency of MPR and MPS when the crawl space does not satisfy any of the following criteria:

- The floor joists must be sufficiently above ground level to provide access for maintenance and routine dollar work and inspection.
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.
- The crawl space must be properly vented unless the area is mechanically conditioned.
- The crawl space must be free of leaks, debris, and vermin.
- The crawl space must not be excessively damp and must not have any water pooling.
- If moisture problems are evident, a vapor barrier and/or prevention of water infiltration must be required.

Crawl Space Observations

In cases where access through a sconce is limited, and the Appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulders of the Appraiser will suffice. If there is no access to the crawl space but there is evidence of a deficient condition (such as water-stained subflooring or smell of mold), the Appraiser must report this condition and the Mortgagor must have a qualified third party perform an inspection.

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

Not all houses (especially historic houses) with a vacant area beneath the flooring are considered to have a crawl space; it may be an intentional void, with no mechanical systems and no intention or reason for access.
Crawl Space

Meth Labs

Meth Labs

ii. Methamphetamine Contaminated Property

If the Mortgagor notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Appraiser must render the appraisal subject to the Property being certified safe for habitation.

If the effective date of the appraisal is prior to certification that the Property (site and dwelling) is safe for habitation, the Appraiser will complete the appraisal subject to certification that the Property is safe for habitation.
Meth Labs

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

The Appraiser must analyze and report any long-term stigma caused by the Property’s contamination by meth and the impact on value or marketability.

Wood Destroying Insects

iii. Wood Destroying Insects/Organisms/Termites

The Appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests. The Appraiser’s observation is not required to be at the same level as a qualified pest control specialist.

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

Termite Treatment Exception Areas available at:

PROPERTY CONDITION REQUIREMENTS

Property Condition Requirements

- Consider and describe overall quality and condition of property
- Identify items that require immediate repair (health & safety, structural soundness)
- Identify items where maintenance has been deferred, which may not require immediate repair
- Photo documentation of property condition is always advisable
PROPERTY CONDITION REQUIREMENTS

Property Condition Requirements

Typical conditions that would require further inspection and/or repair by qualified individuals or entities:

- Septic System — Evidence of system failure
- Infiltration = Presence of wasted penetrating incess
- Inadequate or inadequate plumbing, heating or electrical systems
- Evidence of structural problems
- Leaking or worn-out roofs
- Cracked masonry or foundation damage
- Drainage problems/bulking water against foundation/structural
- Hazards material on the site
- Faulty, defective or hazardous mechanical systems
- Defective exterior paint surfaces in post-1980 homes where the finish is otherwise unprocted

PROPERTY CONDITION REQUIREMENTS

• FHA does not require automatic inspections for the following items and/or conditions in existing properties unless mandated by State or local jurisdiction, customary in the area or lender required:

  - Well (individual water system)
  - Termite
  - Flat and/or unobservable roof

Required Repairs

0. Repair Requirements

When examination of New or Existing Construction reveals non-compliance with MPR and MRS, the Appraiser must report the repairs necessary to make the Property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for the required repairs.

If compliance can only be affected by major repairs or alterations, the Appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered during the research involved in completion of the appraisal, within the reporting form.
Required Repairs

Regardless of the Appraiser’s suggested repairs, the Mortgagee will determine which repairs are required.

i. Limited Required Repairs

The Appraiser must limit required repairs to those repairs necessary to:

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

Required Repairs – As Is Condition

The appraiser may complete an As-IS appraisal for existing Properties when Minor Property Deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants of the security and soundness of the Property.

Cosmetic Repairs

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

Cosmetic Repairs Include:

* Missing handrails that do not pose a threat to safety;
Cosmetic Repairs

- Holes in window screens;
- Cracked window glass;
- Defective interior paint surfaces in housing constructed after 1978;
- Minor plumbing leaks that do not cause damage (such as a dripping faucet);

Other inoperable or damaged components that, in the Appraiser’s professional judgement do not pose a health or safety issue to the occupants of the house.

If an element is functioning well, but has not reached the end of its useful life, the Appraiser should not recommend replacement because of age.

Remember

- The nature and degree of any noted deficiency will determine whether the deficiency will require repair or simply be addressed as deferred maintenance by the appraiser.
- Appraiser must provide cost estimate for required repair.
- The lender is responsible to clear the condition.
- The lender decides whether to accept the property.
Inspections by “Others”

- The Appraiser must notify the Mortgagee and make the appraisal Subject To Inspection By A Qualified Individual or Entity, when the observation reveals evidence of a potential safety, soundness, or security issue beyond the appraiser’s ability to assess.
- The Appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structure system, or other component requiring repair.

Domestic Water and Sewerage

Individual Water Supply & Sewage Systems

- Report and call for inspection of readily observable deficiencies of well or septic systems or HUD and state and local separation distances
- Report availability of connection to public or community water/sewer system
- Appraiser must identify noncompliance
- Additional clarifying comments may be necessary

Pollution Source Distances

Well and Pollution Source Distances

<table>
<thead>
<tr>
<th>Source of pollution</th>
<th>Minimum horizontal distance (ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Line</td>
<td>10 FT</td>
</tr>
<tr>
<td>Septic Tank</td>
<td>10 FT</td>
</tr>
<tr>
<td>Groundwater Discharges</td>
<td>100 FT</td>
</tr>
<tr>
<td>Sewage Pit</td>
<td>100 FT</td>
</tr>
<tr>
<td>Accessory Drain</td>
<td>100 FT</td>
</tr>
<tr>
<td>Sewer Lines with Permanent Jointed Joints</td>
<td>10 FT</td>
</tr>
<tr>
<td>Other Sewer Line</td>
<td>50 FT</td>
</tr>
<tr>
<td>Chemical Treatment Ground</td>
<td>25 FT</td>
</tr>
<tr>
<td>Dry Well</td>
<td>50 FT</td>
</tr>
<tr>
<td>Other</td>
<td>50 FT</td>
</tr>
</tbody>
</table>
Valuation Protocols

- Photograph, Exhibits and Map Requirements
  - Legible Street Map showing location of the subject and each comparable properties, including sales, rentals, listings, and other data points utilized.

Required Exhibits

- Additional maps may be necessary if substantial distance exists

Required Exhibits-Photographs

<table>
<thead>
<tr>
<th>Photograph Exhibit</th>
<th>FHA Minimum Photograph Requirements</th>
<th>Minimum Photograph Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject Property Exteriar</td>
<td>• Front and rear at opposite angles to show all sides of the dwelling</td>
<td>• Improvements with Contributory Value not captured in the front or rear photograph</td>
</tr>
<tr>
<td></td>
<td>• Street scene photograph to include a portion of the subject site</td>
<td>• For Proposed Construction, a photograph that shows the grade of the vacant lot</td>
</tr>
<tr>
<td></td>
<td>• For New Construction, include photographs that depict the subject's grade and drainage</td>
<td></td>
</tr>
<tr>
<td>Subject Property Interior</td>
<td>• Kitchen, main living area, bathrooms, bedrooms</td>
<td>• Any other rooms representing overall condition</td>
</tr>
<tr>
<td></td>
<td>• Basement, attic, and crawl space</td>
<td>• Recent updates, such as restoration, remodeling and renovation</td>
</tr>
<tr>
<td></td>
<td>• For two- to four-unit Properties, also include photographs of hallways, foyers, laundry rooms and other common areas</td>
<td></td>
</tr>
</tbody>
</table>
Required Exhibits - Photographs

<table>
<thead>
<tr>
<th>Photograph Exhibit</th>
<th>Minimum Photograph Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable Sales, Listings, Pending Sales, Rentals, etc.</td>
<td>• First view of each comparable utilized</td>
</tr>
<tr>
<td></td>
<td>• Photographs taken at an angle to depict both the front and the side when possible</td>
</tr>
<tr>
<td></td>
<td>• Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, Appraisers must include their own photographs as well, to document compliance.</td>
</tr>
<tr>
<td>Subject Property Deficiencies</td>
<td>• Photographs of the deficiency or condition requiring inspection or repair</td>
</tr>
<tr>
<td>Condominium Projects</td>
<td>• Additional photographs of the common areas and shared amenities of the Condominium Project</td>
</tr>
</tbody>
</table>

Valuation Protocols

Development of Market Value


Financing and Sales Concession Adjustments:

No adjustments are necessary for those costs normally paid by sellers as a result of tradition or law in a market area; Adjustments should not be made on a mechanical dollar for dollar cost but should reflect the market reaction to the financing or sales concession based upon the appraiser’s judgment.

Valuation Protocols

Highest and Best Use Analysis

Four Tests of Highest and Best Use

Legally Permissible

Physically Possible

Financially Feasible and

Maximally Productive
Valuation Protocols

ii. Appraisal Conditions

(A) Definition

Appraisal Conditions refer to anything the Appraiser requires to occur or be known before the value of conclusion can be considered valid.

(B) Standard

Conclusions about the observed condition of the Property provide the rationale for the opinion of Market Value.

The completed appraisal form, together with the required exhibits, constitutes the reporting instrument for FHA-insured Mortgages. Conditions of the Property, mortgage type and the market will determine if the appraisal is to be performed as-is, or if the value option needs to be conditioned upon an extraordinary assumption(s), a hypothetical condition(s), subject to an additional inspection, or completion of construction, repairs or alterations.

Valuation Protocols

(C) Required Analysis and Reporting

The Appraiser must state in the appraisal report whether repairs, alterations or inspections are necessary to eliminate conditions threatening the continued use, security, and marketability of the Property.

The following table illustrates property conditions under which an Appraisal Condition must be made.

<table>
<thead>
<tr>
<th>Report Conclusion</th>
<th>Appraisal Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. There is/are no repair(s), alteration(s) or inspection condition(s) noted by the Appraiser.</td>
<td>As-is</td>
</tr>
<tr>
<td>2. Establishing the As-Is Value for a 203(k).</td>
<td>As-is</td>
</tr>
<tr>
<td>3. The Property is being recommended for rejection.</td>
<td>As-is</td>
</tr>
<tr>
<td>4. Intended use is for Pre-Foreclosure Sale (PFS) in accordance with 24 CFR § 203.370 or Claws Without Conveyance of Title (CWCT) @ 24 CFR § 203.358.</td>
<td>As-is</td>
</tr>
<tr>
<td>5. Intended use is for Real Estate Owned (REO) in accordance with 24 CFR § 201.180.</td>
<td>As-is</td>
</tr>
<tr>
<td>1. Proposed Construction where construction has not started.</td>
<td>Subject to completion per plans and specifications</td>
</tr>
<tr>
<td>2. Under Construction but not yet complete (less than 90%).</td>
<td>Subject to completion per plans and specifications</td>
</tr>
<tr>
<td>3. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work.</td>
<td>Subject to completion per plans and specifications</td>
</tr>
</tbody>
</table>
Valuation Protocols

**Valuation Approaches:**
Must consider and attempt all approaches to value
Must develop and reconcile each approach that is relevant.
- Differs from USPAP –
  - “When required for credible assignment results.”

Sales Comparison Approach is required for all appraisals

**Comparable Sale Selection:**
Must be based on properties having the same or similar
Locational characteristics,
Physical characteristics,
and the priority the market assigns to each factor, including:
Site;
Site view;
Location;
Comparable Sale Selection:
Design;
Appeal;
Style;
Age;
Size;
Utility;
Quality;
Condition; and
Any other factor that in the appraiser’s professional judgement is recognized as relevant in the subject market.

(b) Bracketing
   (i) Definition
Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.

(ii) Standard
Comparable properties must be selected based on the principle of substitution, and the analysis will reveal the relevance of that data. Comparable properties should not be chosen only because their prices bracket a desired or estimated value.

(F) FHA Appraisal Requirements in Changing Markets
(1) Standard
An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

The final conclusion must be based on the reconciliation of all data.
(a) Increasing Markets
In an increasing market, positive Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.
(2) Required Analysis and Reporting

The Appraiser must accurately report market conditions and determine when housing trends are increasing, stable or declining. The Appraiser must provide a summary comment as to the continuance of the current trend or if the trend appears to be changing, and provide support for all conclusions. If the Appraiser bases the adjustment on a published source, the Appraiser must include a copy of which must be included in the addendum.

Valuation Protocols

The Appraiser must include an absorption rate analysis, and at least two comparable sales that closed within 90 Days prior to the effective date of the appraisal. If the Appraiser cannot comply with this requirement due to the lack of market data, a detailed explanation is required.

The Appraiser must include a minimum of two active listings or pending sales on the appraisal grid (in addition to at least three recently settled sales).

For active listings or pending sales, the Appraiser must:

- ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable properties;
- use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sale price ratios;

Valuation Protocols

- include the original list price, any revised list prices, and calculate the total Days on Market (DOM). The Appraiser must provide an explanation for the DOM that does not approximate periods reported in the “Neighborhood” section of the appraisal reporting form;
- reconcile the Adjusted Values of active listings or pending sales with the Adjusted Values of the settled sales provided; and
- if the Adjusted Values of the settled comparable properties are higher than the Adjusted Values of the active listings or pending sales, determine if a Market Condition Adjustment is appropriate.
Valuation Protocols

(G) Final Reconciliation and Conclusion

(1) Definition

Final Reconciliation refers to the process by which an Appraiser evaluates and selects from among alternative conclusions to reach a final value estimate, and reports the results of the analysis.

(2) Standard

After the approaches to value are completed, the Appraiser must check the data, calculations, and conclusions. The Appraiser must reconcile each approach to value, and must reconcile all approaches into a final estimate of value for the Property.

General Property Eligibility

Property Types

FHA’s programs differ from one another primarily in terms of what types of Properties and financing are eligible. Except as otherwise stated in this SF Handbook, FHA’s Single Family programs are limited to one- to four-family Properties that are owner-occupied Principal Residences.

General Property Eligibility – Property Types

FHA insures Mortgages on Real Property secured by:
- detached or semi-detached dwellings
- manufactured housing
- townhouses or row houses
- individual units within FHA-approved Condominium Projects
General Property Eligibility

FHA will not insure Single Family Mortgages secured by:
- commercial enterprises
- boarding houses
- hotels, motels and condotels
- tourist houses
- private clubs
- bed and breakfast establishments
- other transient housing
- vacation homes
- fraternity and sorority houses

General Property Eligibility

- **Site Condominiums** are Single Family detached dwellings encumbered by a declaration of condominium covenants or condominium form of ownership and **do not need to be FHA-approved.**
- Manufactured Housing condominium units **may not be processed as Site Condominiums.**

General Property Eligibility

**Manufactured Housing**

Manufactured Housing is a Structure that is transportable in one or more sections. It may be part of a Condominium Project, provided the project meets applicable FHA requirements.
General Property Eligibility

Manufactured Housing must:
- be designed as a one-family dwelling;
- have a floor area of not less than 400 square feet;
- have the HUD Certification Label affixed or have obtained a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976.
- The Appraiser must report the HUD label number for all sections, or report that the HUD Certification Label is missing or that the Appraiser was unable to locate it.

General Property Eligibility

Manufactured Housing must:
- be classified as real estate (but need not be treated as real estate for purposes of state taxation);
- be built and remain on a permanent chassis;
- be designed to be used as a dwelling with a permanent foundation built in accordance with the Permanent Foundations Guide for Manufactured Housing (PFGMH); and
- have been directly transported from the manufacturer or the dealership to the site.

General Property Eligibility

Manufactured Housing must:

SKIRTING

- If the perimeter enclosure is non-load-bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood or a product with similar strength and durability.
## General Property Eligibility

### SKIRTING

- Skirting refers to a non-structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal attached to the side of the Structure, extending to the ground (generally, not installed below frost depth).
- If the Manufactured Home foundation does not meet the requirements for Existing Construction, the **Appraiser must notify the Mortgagee and report the deficiency in the MPR or MPS.**

### Manufactured Housing must:

#### Perimeter Enclosure

The space beneath Manufactured Homes must be properly enclosed. The perimeter enclosure must be a continuous wall that is adequately secured to the perimeter of the unit and allows for proper ventilation of the crawl space.

### Manufactured Housing must:

#### Running Gear

Running Gear refers to a mechanical system designed to allow the Manufactured Housing unit to be towed over public roads. The towing hitch and Running Gear must be removed.

The Appraiser must notify the Mortgagee and report deficiency of MPR or MPS if the Running Gear or towing hitch are still attached to the Manufactured Housing unit.
General Property Eligibility

Manufactured Housing must:

Have a HUD Certification Label

If the appraisal indicates the HUD Certification Label is missing from the Manufactured Housing unit, the Mortgagee must obtain label verification from the Institute for Building Technology and Safety (IBTS) - WWW.IBTS.ORG

Manufactured Housing must:

Data Plate refers to a paper document located on the interior of the Property that contains specific information about the unit and its manufacturer.

- Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to the electric service panel, the utility room or within a cabinet in the kitchen

Manufactured Housing must:

- The Appraiser must report the information on the Data Plate within the appraisal, including the manufacturer name, serial number, model and date of manufacture, as well as wind, roof load and thermal zone maps.
- If the Data Plate is missing or the Appraiser is unable to locate it, the Appraiser must report this in the appraisal and is not required to secure the Data Plate information from another source.
Additions to Manufactured Housing

If the Appraiser observes additions or structural changes to the original Manufacture Home, the Appraiser MUST condition the appraisal upon inspection by the state or local jurisdiction administrative agency that inspects Mfg. Housing for compliance, or a licensed engineer if the state does not employ inspectors.

Manufactured Housing Condominium Projects

Individual Manufactured Housing units in Condominium Projects are eligible for FHA insurance, on both HECM and Forward Mortgages.

The required appraisal report is the Fannie Mae Form 1004C/Freddie Mac Form 70-B Manufactured Home Report.

Section 223 (e) Mortgage Insurance

Section 223(e) is a mortgage insurance program for Properties located in older, declining urban areas. The program allows for the acquisition, repair, and/or renovation or construction of a residential Property.
Section 223 (e) Mortgage Insurance

The Appraiser must provide a remaining economic physical life in addition to remaining economic life if the Mortgagor orders an appraisal for a Property to be insured under the 223(e) Program.

223 (k) and Limited 203 (k) Rehabilitation

Possible to be asked to perform two separate types of valuation by the Mortgagor for Standard 203(k) and Limited 203(k) Rehabilitation Mortgages.

The Mortgagor may order both reports from the same appraiser or select two different Appraisers.

223 (k) and Limited 203 (k) Rehabilitation

If both “As Is” and an “After Improved” value of the Property, the case will require two separate appraisal assignments and reports:
- An analysis to prove the “As-Is” value;
- A separate analysis performed under the Hypothetical Condition that the repairs have been completed.
223 (k) and Limited 203 (k) Rehabilitation

Appraiser must review the 203(k) Consultant’s Work Write-Up or the contractor’s proposal and Cost Estimates.

The appraisal must be completed based upon the Final Work Write-Up or the contractor’s final proposal and Cost Estimates.

223 (k) and Limited 203 (k) Rehabilitation

Appraiser must include the Work Write-Up or Contractor’s Proposal as an exhibit to the appraisal report.

Special Energy-Related Building Components

d. Special Energy-Related Building Components
i. Special Energy Components

(A) Definition

A Special Energy System refers to any addition, alteration, or improvement to an existing or new Structure that is designed to utilize wind, geothermal or solar energy to produce energy to support the habitability of the Structure.

(B) Standard

Active, passive and photovoltaic solar energy systems are permitted in this program. Solar collectors must be located where they will be free from natural or man-made obstructions to the sun. Special Energy Systems not part of the real estate must not be included in the appraised value.
(C) Required Analysis and Reporting

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

Other Energy Related Building Components

ii. Other Energy Related Building Components

(A) Definition

Other Energy Related Building Components refer to components in the Property designed to reduce energy requirements.

(B) Required Analysis and Reporting

The Appraiser must note which features are installed in a house and calculate how each component affects the value of the Property.

Measuring & Reporting Contributory Value

iii. Measurement and Reporting of Contribution to Value

(A) Definition

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

(B) Standard

Measurement of the Contributory Value of the component is accomplished by the application of techniques based on one or more of the recognized three approaches to value: cost approach, income approach, and sales comparison approach. Each of these recognized methods and techniques requires the Appraiser to collect, verify, and analyze all information necessary for credible assignment results.
Measuring & Reporting Contributory Value

(C) Required Analysis and Reporting

The Appraiser must apply all appropriate methods and techniques necessary for credible assignment results.

(D) Sales Comparison Based Extraction Method

If there is sufficient data based on direct sales comparison to produce credible results, the Appraiser must calculate the adjustment and explain the methodology and analysis supporting the method and results in the appraisal report. The Appraiser must apply the extracted adjustment to the comparable sales and include the reasoning that supports the analyses, opinions, and conclusions in the report.

If there is insufficient data to perform a matched pairs analysis the Appraiser must analyze and report one of the approaches below to calculate an appropriate adjustment.

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Measuring & Reporting Contributory Value

(E) Cost Approach Based Method

The Appraiser must include the details of the item(s) being valued and measure the Contributory Value of the component(s) to the whole by calculating the cost of the item less accrued depreciation. The Appraiser must include considerations of physical depreciation, functional obsolescence (including superseding capacities) and external obsolescence in the estimate of accrued depreciation and apply the resulting calculation of the Contributory Value to the comparable sales.

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Measuring & Reporting Contributory Value

(F) Income Approach Based Methods

(1) Gross Rent Multiplier Method

If the Property is located in a market where the Appraiser can calculate a GRM, and rental data for properties with similar special energy components is available, the Appraiser must extract an adjustment relevant to the rental value of the feature from the analysis of those similar rentals and apply the appropriate GRM factor to calculate an adjustment for the comparable sales.

(2) Net Income/Savings Capitalization Method

The Appraiser may use an income approach solution based on capitalization of savings attendant to the alternative energy source. The Appraiser may estimate the present value of the future benefit using the discounted cash flow technique or commercially available tools; however, the Appraiser must be competent to use them and provide an explanation of the analysis.
(G) Reconciliation of the Approaches

The Appraiser may elect to utilize some of the tools and training available from professional organizations and energy-related firms. The Appraiser must provide a credible analysis and reconciliation explaining the methodology and support for the adjustment.

As related to special building components, the Appraiser must provide an analysis of the information and conclusions supporting the application of adjustments.

The Appraiser must reconcile all the methods utilized and resolve to a final opinion of the adjustment, analyzing both the quantity and quality of available data.

HUD Real Estate Owned Properties

e. HUD Real Estate Owned Properties

i. Definition

A HUD REO Property, also known as a HUD house or a HUD-owned home, refers to a one- to four-unit residential Property acquired by HUD as a result of a foreclosure on an FHA-insured Mortgage or other means of acquisition, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagor.

ii. Standard

An appraisal may be ordered on a HUD REO Property as one of one or more evaluation tools to establish list price or subsequent price adjustments.

HUD Real Estate Owned Properties

(A) Assignment Type

Under “Assignment Type” in the “Subject” section of the appraisal reporting form, the Appraiser must mark the box labeled “other” and indicate that the Property is a HUD REO Property.

(B) Intended Use of Appraisal

The intended use of the appraisal for a HUD REO Property is as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(C) Intended User

The intended user of an appraisal of a HUD REO Property is HUD/FHA or its contractors.
HUD Real Estate Owned Properties

iii. Required Analysis and Reporting

(A) Appraiser’s Inspection

The Appraiser must inspect the interior and exterior of the Property. The Appraiser must describe any differences found between the information contained in the Property Condition Report (PCR) and the Appraiser’s observations. The Appraiser must support this description with photographs when warranted.

(B) Utilities - Mechanical Components

If the utilities are off at the time of inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

HUD Real Estate Owned Properties

(C) Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales

When considering sales to be utilized as comparables, the Appraiser must note the conditions of the sale and the motivation of the sellers and purchasers.

In some markets, non-arm’s-length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate Market Value, so REO sales, short sales and other non-arm’s-length transactions must not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the Appraiser must provide additional explanation and support in the “Analysis” section of the sales comparison approach.
HUD Real Estate Owned Properties

Transfers to a Mortgagee or Entity that owns the Mortgage by deed of trust, through foreclosure sale or sheriff’s sale, are not acceptable as comparable sales.

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

(F) Statement of Insurability
The Appraiser must include a Statement of Insurability in the “Comments” section of the appraisal report.

1) Insurable
The Appraiser must state that the Property is insurable if, at the time of the appraisal, the Property meets MPR and MFS without needing repairs.

2) Insurable With Repair Escrow
If the Property requires no more than $5,000 in repair, the Appraiser must state that the Property is insurable with a repair escrow.

(G) Submitting the Appraisal
The submission of the appraisal report and data is uploaded in HUD’s P260 Web-based Internet Portal or subsequent system.

The Appraiser must obtain a completed copy of the PCR from the contractor and submit the PCR with the appraisal report.
iv. Appraisals for HUD Real Estate Owned Properties Purchased With a New FHA-Insured Mortgage (Effective for Case Numbers Assigned on or after March 14, 2016)

A new appraisal must be prepared for all transactions involving the purchase of a HUD REO Property with a new FHA-Insured Mortgage. The appraisal must be prepared in accordance with the requirements of HUD Real Estate Owned Properties except as noted.

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(A) Property Meets HUD’s MPR

If the appraisal reveals that the Property meets HUD’s MPR, the Appraiser must complete the appraisal report “as is.”

(B) Property Requires Repairs

If the appraisal reveals that the Property requires repairs in order to meet HUD’s MPR, the Appraiser must provide an estimate of the cost to cure and complete the report “Subject to the following repairs or alterations on the basis of the hypothetical condition that the repairs or alterations have been completed.”

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(II) Claims Without Conveyance of Title Properties

(1) Assignment Type

Under “Assignment Type” in the “Subject” section of the appraisal reporting form, the Appraiser must mark the box labeled “other” and indicate that the Property is a HUD Claims Without Conveyance of Title (CWCOT) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee’s tool for calculating the Commissioner’s Adjusted Fair Market Value (CFMV) (24 CFR § 203.308).

(3) Intended User

FHA is the intended user of a CWCOT appraisal.
Claims Without Conveyance of Title

(4) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. If the Appraiser cannot enter the Property, the Appraiser may perform the valuation based on an exterior-only inspection on the Fannie Mae Form 2055/Freddie Mac Form 2015, Exterior-Only Inspection Residential Appraisal Report, dated March 2005, or the Fannie Mae Form 1075 Freddie Mac Form 446, Exterior-Only Inspection Individual Condominium Unit Appraisal Report, for a condominium Property. The Appraiser must indicate that the property could not be entered and identify the sources of the actual property data employed by the Appraiser in determining the value.

Claims Without Conveyance of Title

(5) Appraisal Conditions

CWCOT Properties are to be appraised "as is," in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

Enhancements to Note

Contributory Value of Energy Efficiency Components:
Valuation of Solar Components not Limited to Paired Sales Only;
Appraiser must follow proper appraisal practice including:
- Sales Comparison Based Extraction Method;
- Cost Approach Based Method;
- Income Approach Based Method;
  - 1. Gross Rent Multiplier Method
  - 2. Net Income Savings Capitalization Method
- Reconciliation of Approaches
Enhancements to Note

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

Manufactured Homes in Approved Condo Projects:
Condo must be an FHA-approved Condo Project

Reporting instructions require use of 1004C form PLUS the Condominium Project Data as would be found in the Project Section of the 1073 Form.

Additional Notes

- Final Inspections:
  - Don’t Overstep Level of Competency
  - Ensure Compliance with USPAP Competency Rule
    - If inspection is beyond expertise or competency decline the assignment.

- Prior to Final Inspection - Review Workfile for Components List to ensure what is in the Plans and Specs is also what was built.

Appraisal Review – Material Deficiencies

Material Deficiencies

- Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability.

- Material deficiencies are evident on the effective date of the appraisal.
Material Deficiencies

Material deficiencies include, but are not limited to:

- Failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
- Reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- Fraudulent statements or conclusions when the appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy and/or thoroughness of the appraisal submitted to the client.

Reconsideration of Value

- The Underwriter may request a reconsideration of value when the appraiser did not consider information that was relevant on the effective date of the appraisal.
- The Underwriter must provide the appraiser with all relevant data that is necessary for a reconsideration of value.

Common Deficiencies - Photographs

Common Deficiencies: Photographs

- Photos reflecting silhouettes or "Black Blobs" are not acceptable.
- Imaed photos and documents must also be clear.
HUD Resources

Resource Center:
- [www.HUD.gov](http://www.HUD.gov)
- 800-CALL FHA (800-225-5342)
- E-Mail: [answers@hud.gov](mailto:answers@hud.gov)
- Knowledge Base: [www.hud.gov/answers](http://www.hud.gov/answers)
  - SF Handbook – Events and Training/Archived Webinars
  - Module 3A: Appraisals
  - Module 3B: Underwriting the Property

CONTACT INFO

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THANK YOU FOR PARTICIPATING