

Federal Housing Administration

Appraisal and Collateral Issues



Appraisal and Collateral Issues

WHAT HAS CHANGED ?

- FHA has aligned it's appraisal reporting standards with that of the conventional market
- FHA now requires the use of the same appraisal reporting forms as does the conventional market for the 1-4 unit single family dwellings FHA insures loans on and no longer allows the URAR to be a catch-all reporting form
- FHA no longer requires the appraiser to submit a comprehensive valuation package (CVP)



Current Rulemaking Initiatives

Eliminate the examination requirement for placement on the FHA Appraiser Roster

- Examination requirement does not ensure that the appraisal is either accurate or credible
- The minimum work experience and education levels set by the AQB, coupled with the federally mandated exam, is a better indicator of a credible and accurate appraisal report



Current Rulemaking Initiatives/Manufactured Housing

- Eliminate current foundation requirements for manufactured homes and adopt the Model Manufactured Home Installation Standards for manufactured homes securing Title I & Title II loans
- Align the flood hazard regulations for manufactured housing with that of stick-built housing
- Permit manufactured housing that is part of a condominium to be eligible for FHA mortgage insurance



Current Rulemaking Initiatives/Condominium

- Streamline new construction condo inspection requirements and accept local building permits and certificates of occupancy in lieu of FHA inspections



Current Handbook and Mortgagee Letter Initiatives

- Updating and consolidating the two appraisal Handbooks (HB 4150.1 and HB 4150.2)
- Updating 203k Handbook (HB 4240.4)
- Updating the HECM Handbook (HB 4235.1)
- Issuing a single source document via Mortgagee Letter that would delineate all current appraisal and underwriting requirements for manufactured housing



Mortgagee Letter 2006-08

Announced FHA Resource Center, a state of the art call facility to act as first line of response for majority of FHA's 1.2 million annual inquiries

- Available by telephone – 800-CALLFHA (800-225-5342)
- Knowledge base available to public via website: <http://answers.hud.gov>
- Electronic mail requests can be sent to: hud@custhelp.com



Mortgagee Letter 2006-9

Announced the release of the updated and revised Appendices A and C of Handbook 4150.2, Valuation Analysis for Home Mortgage Insurance

- Appendix A provides updated guidance for appraising HUD REO properties
- Appendix C provides updated guidance for appraising properties on Native American Tribal Trust Lands



Mortgagee Letter 2006-14

- Amended regulations prohibiting property flipping
- Provided additional exceptions to the time restriction of sales including the sale of properties by
 - 1) state and federally chartered financial institutions and GSE's
 - 2) local and state government agencies
 - 3) nonprofits approved to buy HUD REO properties at discount
 - 4) sales of properties within disaster areas



Mortgagee Letter 2006-26

- Streamlines the FHA Appraiser Exam and eliminated the examination fee
- Appraisers can update contact information by ongoing online to <https://entp.hud.gov/clas>



Mortgagee Letter 2006-33

- Revised the list of architectural exhibits required for new construction
- Eliminated the requirement for lenders to obtain, retain or submit Plot Plan, Floor Plan, Exterior Elevations and Specifications (form HUD-92005, Description of Materials)
- Appraiser to obtain these documents from builder
- Still require submission and retention of Builder's certification, Builder's Warranty, Building Permit, Certificate of Occupancy or Compliance Inspections and 10 Year Warranty



Declining Market Conditions

- Many regional and sub-regional markets are experiencing a decline in home prices
- Critical for appraisers to be geographically competent and know the market(s) they are appraising
- Critical for lenders to be on the alert for inflated appraisals due to reliance on comparable sales that may have declined in value since date of sale and no negative time adjustments made



Appraisal Q & A



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

Answer:

Final Inspection may be performed by anyone the lender selects for those cases processed under the guidance of ML 01-27, otherwise the final inspection must be by a FHA Inspector



If a water test is required, what tests are included? FHA required tests (pre-2006) for 5 different contaminants. If local/state does not require testing of the 5 contaminants, can we just follow local requirements?

Answer:

For existing properties, FHA will defer to testing requirements of local jurisdiction. If the local authority does not have any requirements, the maximum contaminant levels established by the EPA apply.



Are Private road maintenance agreements still required?

Answer:

No. FHA is no longer requiring evidence of a joint maintenance agreement, recorded or otherwise. FHA still requires evidence of a permanent easement that conveys with the property. Important for the appraiser to comment on the condition and/or utility of use of the private road and its impact upon the value of the property.



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

Answer:

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



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

Answer:

The required repairs or inspections can be highlighted on the appraisal and a notation on the Conditional Commitment “see attached appraisal” is sufficient.



If property conditions or physical deficiencies are noted in the appraisal, does the appraiser still provide repair estimates?

Answer:

Repair estimates are only required for all those items that pose a risk to the health and safety of the occupants or the soundness and structural integrity of the property. Cosmetic repairs and conditions resulting from normal wear and tear do not require a cost to cure.

