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Purpose & Scope

Chapter 1 Appraisal & Requirements Page 1-01

Purpose of the Federal Housing Administration (FHA) Appraisal and Property Condition Assessment

The appraisal and property condition assessment is used to determine the market value and acceptability of the property for FHA mortgage insurance purposes. The value serves as a basis for determining the maximum FHA insurable mortgage loan. The appraisal is performed for the use and benefit of HUD, and the lender involved in an FHA transaction. In addition to providing an estimate of value, the appraisal provides an examination of the property for any visible, obvious and/or apparent deficiencies that may affect the livability of that property in terms of basic needs, health and safety of the property's occupants. HUD/FHA MAKES NO WARRANTIES AS TO THE VALUE AND/OR CONDITION OF ANY FHA-APPRAISED PROPERTY, therefore buyers/borrowers must determine for themselves that the price of the property is "reasonable" and that its condition is "acceptable".

NOTE: Borrowers should be encouraged to obtain an independent detailed HOME INSPECTION of the property. The actual cost of the home inspection fees, up to \$300, may be included as closing costs in meeting the borrower's minimum investment. (HUD Handbook 4000.2 Chapter 5)

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Basic Eligibility Requirements

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A: The primary references for single family properties, one to four units are:

1. HUD handbooks
2. Code of Federal Regulations, Title 24, (24CFR). Codifies the general and permanent rules of the Department.
3. Mortgagee Letters - Typically reflect interpretation, clarification, changes and additions to policies produced since the last printing of a HUD Handbook.
4. Housing notices

B. To order or view handbooks, forms, Mortgagee Letters, etc. on line refer to the section of this manual titled "Other internet links page 3-7".

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Gross Rent Multiplier

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Gross Rent Multiplier (GRM) - When using the URAR for three and four unit properties the appraiser is to complete the Gross Rent Multiplier calculations and analysis. If the FNMA 1025 - Small Residential Income Property Appraisal Report form is used then completion of the GRM section on the form is acceptable. Also see the recommended GRM form and sample.

Please see HUD Handbook 4150.2, Chapter 4-7 "Income Approach".

Please note: The use of the newly revised Fannie Mae appraisal reporting forms, and elimination of the VC sheet and Homebuyer summary, which have been adopted by FHA via Mortgage Letter 2005-34, is optional between November 1, 2005 and the mandatory start date of January 1, 2006. The new protocol must be followed when using the new form whether it is done at the lender/client's request or of the appraiser's choosing. This reference guide page will be further updated after January 1, 2006. For further information please contact your local HUD Homeownership Center.

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Appraising Refinances

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

A. Appraising Refinances - A standard refinance requires a complete appraisal with repair conditions, while a streamline refinance may be insured with or without an appraisal. Valuation Condition (VC) form (HUD-92564-VC) and the Homebuyer Summary (HUD-92564-HS) apply to refinances from conventional financing and on cash-out FHA to FHA refinances. Lenders must ensure that the appraiser is fully informed on the type of appraisal that is being ordered. Appraisers may routinely wish to complete both the VC form and the Homebuyer Summary.

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

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

Please note: The use of the newly revised Fannie Mae appraisal reporting forms, and elimination of the VC sheet and Homebuyer summary, which have been adopted by FHA via Mortgagee Letter 2005-34, is optional between November 1, 2005 and the mandatory start date of January 1, 2006. The new protocol must be followed when using the new form whether it is done at the lender/client's request or of the appraiser's choosing. This reference guide page will be further updated after January 1, 2006. For further information please contact your local HUD Homeownership Center.

Reference. Handbook 4155.1, Rev. 4 Chapter 1, and Mortgagee Letter 1996-10.

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Appraisal & Inspection

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A: Appraisal fees

- ▶ HUD no longer establishes fees or due dates. See: Mortgagee Letter 1997-22.
- ▶ The appraiser and lender will negotiate the price and due date, consistent with USPAP guidelines. This includes fees for canceled assignments, missed appointments, etc. Collection of unpaid fees is the responsibility of the appraiser.
- ▶ Fee is paid for market value estimates based on HUD policy and procedure. Fees are never contingent upon the appraiser arriving at a minimum or specific valuation, an amount or within a predetermined range of values or loan approval.
- ▶ Appraisal Management Firms may charge the mortgagor a fee for the appraisal that may encompass fees for services performed by the firm as well as fees for the appraisal itself. However, the total of these fees is limited to the customary and reasonable fee for an appraisal in the market area where the appraisal is performed. All aspects of RESPA must be complied with. (While the owners/operators of such Appraisal Management firms may be licensed, the appraiser actually doing the appraisal must be licensed and on HUD's Approved Roster. No "supervisory" appraisals will be accepted. That is, the assigned licensed/approved appraiser must visit the subject and all comparables and complete the appraisal analysis. Others may accompany this appraiser to assist with measuring and photo taking, but the Roster Appraiser must actually do the appraisal and sign it.) Appraisal trainees shall not sign on the appraisal report in any capacity.

B: Inspection Fees

- ▶ Inspection and Mileage Fee. Click here to Get individual HOC maximum inspection fees. This is for both new construction and repair inspections. Inspection and mileage may differ within individual HOC jurisdictions.
- ▶ 203(k) Inspections. The fees for 203(k)s are outlined in HUD Handbook 4240.4 Rev-2 and Mortgagee Letter 1995-40.

C: Appraisal Forms

- ▶ Appraisal Forms Appraisal written on the Uniform Residential Appraisal Report form (FNMA 1004), the Federal National Mortgage Association's Individual Condominium Unit Appraisal Report form (FNMA 1073), or their Small Residential Income Property Appraisal Report form (FNMA 1025) are acceptable to the Department as long as the form used is a pre-March 2005 version. Currently, only these forms are acceptable for FHA cases. Later versions are currently under review by the Department, and are not to be used for FHA cases until HUD issues a notice of acceptance and use

instructions. (See below) Also, other appraisal forms that are used for streamlined appraisals or qualitative sales comparison analysis are not acceptable at this time. Please see: Mortgagee Letter 1997-22 and Notice of June 23, 2005.

- ▶ **Please note:** The use of the newly revised Fannie Mae appraisal reporting forms, and elimination of the VC sheet and Homebuyer summary, which have been adopted by FHA via Mortgagee Letter 2005-34, is optional between November 1, 2005 and the mandatory start date of January 1, 2006. The new protocol must be followed when using the new form whether it is done at the lender/client's request or of the appraiser's choosing. This reference guide page will be further updated after January 1, 2006. For further information please contact your local HUD Homeownership Center.

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Expiration of Appraisals

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A. Term of Appraisal. The appraisal has a term of six months for existing construction and 12 months for proposed construction, properties under construction and those undergoing substantial rehabilitation. However, if the appropriate HOC determines that soft market conditions exist in certain areas or markets, it may shorten the term of appraisals for proposed construction and substantial rehabilitation to a period of less than 12 months upon advance notice to lenders. The term of the appraisal begins on the day the home is inspected by the FHA appraiser and this date appears on the appraisal form. Please see: HUD Handbook 4000.2, Section 2-9.

B. Re-Use of Appraisal. Appraisals cannot be re-used after the mortgage for which the appraisal was ordered has closed. For example, an appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if six months has not passed. A new appraisal is required for each refinance transaction requiring an appraisal.

C. Extension of Appraisal. If a borrower signs a valid sales contract or is approved for a loan prior to the expiration date of the appraisal, the term of the appraisal may be extended, at the option of the lender, for 30 days to allow for the approval of the borrower and closing of the loan. Approval of the borrower occurs when the lender's DE underwriter signs the Mortgage Credit Analysis Worksheet, Form HUD-92900-WS and/or 92900-PUR.

For information on the extension of the Firm Commitment please see: HUD Handbook 4000.2

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Appraisal License Renewals

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

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

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

C. FHA Roster Applications, Renewals and Updates - All appraisers on the Roster are required to inform HUD of any changes in their contact information and license status.

1. Applications, license renewals and changes in certification levels must have hard copies of the application and/or license sent to HUD Headquarters in Washington DC:

- Department of Housing and Urban Development
Office of Single Family Housing
Attn: Appraisal Branch
451 7th Street, SW, Suite 9270
Washington DC 20410
Telephone Number: 202-708-2121- Fax Number: 202-401-0416

2. Information regarding updates to business addresses, phone numbers, etc. are best done over the Internet and HUD's FHA Connection.

- Go to the FHA Connection at: <https://entp.hud.gov/clas/>
- Click on "about this Site and Registration"
- Click on the "Appraiser Registration" link
- Fill out the Appraiser Registration page and click "send"

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Construction and New Homes: Introduction

Chapter 1 Appraisal and Property Requirements Page 1-08a

It is the appraiser's responsibility to determine the exact category of "CONSTRUCTION" they are appraising. This is reported on page 1 of the URAR in Description of Improvements.

The "category" in which the appraiser reports the construction status is important for several reasons:

- ▶ Determines the high or low-ratio status of the mortgage to be insured by FHA.
- ▶ Determines the specific Conditional Commitment Requirements.
- ▶ Provides the Direct Endorsement Underwriter the proper information needed to determine exactly how to process the case.

The condition of the site on the date the appraiser makes their on-site appraisal inspection (i.e. date of valuation) determines the project's construction status.

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Construction and New Homes: Construction Definitions

Chapter 1 Appraisal and Property Requirements Page 1-08b

A complete list of items required for high/low ratio loans found in HUD Handbook 4145.1 Appendix 11.

1. Proposed Construction are properties approved for mortgage insurance prior to the beginning of construction, defined as the first placement of concrete or other permanent materials. This means that the DE Statement of Appraised Value or Early Start letter has been issued by the DE Underwriter for the property prior to the first placement of concrete or other permanent materials.

2. Under Construction are those properties in which the first placement of concrete or other permanent materials has begun, but construction is not yet 100% complete.

3. Existing Construction properties that are 100% complete at the time of appraisal. "Complete" means everything is complete including the installation of buyer preferences (flooring, appliances, etc.), utilities are on and fully functioning and all site improvements completed at the time of appraisal (Ready for Occupancy). If no repair or correction conditions are made by the appraiser, the appraisal serves as the final inspection as per HUD Handbook 4145.1 Paragraph 6-3-A(3). (Note: Prior occupancy has no bearing of the requirement for new construction exhibits.)

4. Pre-Approval and Inspections on New Construction Properties. For a high ratio loan, HUD requires the property to be pre-approved prior to the start of construction and obtain the required construction inspections, which; at a minimum are the initial, framing and final inspections. If the property is not pre-approved with evidence of the required inspections, then a final inspection and a HUD approved 10-year warranty is required for a high ratio loan.

a. Pre-Approval: HUD defines pre-approval as follows:

1. Appraised prior to the start of construction. The property is appraised and the DE lender issues form HUD-92800.5b, Conditional Commitment/Statement of Appraised Value, prior to the start of construction, OR
2. Building Permit & Certificate of Occupancy. (Mortgagee Letter 2001-27) In those jurisdictions that issue BOTH a building permit prior to the start of construction, (or it's equivalent) and a

certificate of occupancy, (or it's equivalent), HUD will accept these as evidence of pre-approval and inspections. This process DOES NOT apply to condominium properties or manufactured housing due to special requirements applicable to these housing types. OR

3. Early Start Letter issued prior to start of construction. Builder may request an early start letter prior to the start of construction, completion of the appraisal and issuance of HUD-92800.5b Conditional Commitment/Statement of Appraised Value.
4. Regardless of the process used, the lender must certify by using Form HUD 92900-A, page 3, that the property is 100% complete (both on site and off site improvements) and that the property meets HUD's minimum property standards. (See Mortgagee Letter 2001-27)

b. Inspections: HUD accepts the following new construction inspections:

1. FHA Compliance Inspections. When the inspections are performed by an FHA Compliance Inspector, form HUD-92051 Compliance Inspection Report must be completed and submitted in the case binder.
2. Local Building Department Inspections -Copy of building permit and certificate of occupancy (or their equivalent) for properties that meet the requirements of Mortgagee Letter 2001-27.
3. Appraisal, only if the property is 100% complete at the time of appraisal and meets the requirement of HUD Handbook 4145.1 Paragraph 6-3. This includes completion of grading, drainage and functional utilities.

Note: HUD does not accept final inspections by local authority on condominiums or manufactured homes. An FHA compliance inspector must complete final inspections for these property types. For manufactured homes, HUD will also accept inspections by the engineer that completed the foundation certification.

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Construction and New Homes: General Requirements

Chapter 1 Appraisal and Property Requirements Page 1-08c

1. Appraisals/Appraisers: The lender must provide the appraiser with the following documents. If not provided return the incomplete appraisal to the lender:

1. Builder's plans, specifications and construction documents
2. The lender should provide a complete set of the approved plans and specifications the builder submitted to the local building authority to obtain the building permits.
3. In the event the property is located in a jurisdiction that does not approve plans then the following documents are required:

- ▶ Plot Plan (including dwelling and accessory buildings, finish grade elevations and direction of drainage)
- ▶ Floor plan (separate foundation plan and plan of each floor and basement, if any)
- ▶ Kitchen cabinet details
- ▶ Electrical layout
- ▶ Heat layout (ductwork and location of all vents)
- ▶ Heat loss calculations
- ▶ Cooling system layout
- ▶ Exterior elevations (front, side and rear)
- ▶ Sections (exterior wall sections, stairwells, and stairs)
- ▶ Fireplace section and elevations
- ▶ Roof truss details
- ▶ Water supply plans and specifications
- ▶ Sewage system plans and specifications
- ▶ Individual water supply and sewage disposal systems, if applicable
- ▶ Description of materials HUD Form 92005 (This form is a six part .pdf file: p.1, p.2, p.3, p.4, p.5, p.6)

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

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

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

2. Lender Required Documents: for proposed, under construction and existing

less than one year old properties. Please see: HUD Handbook 4145.1 Appendix 11 and HUD Mortgagee Letters 1995-11, 2001-27, and 2005-09.

- ▶ Complete appraisal package or Master Appraisal Report (MAR)
- ▶ Form HUD-92544, One Year Builder's Warranty
- ▶ Form HUD-92541, Builder's Certification
- ▶ d. A complete set of architectural drawings, plans and specifications as noted above. If the property is not processed and closed under the guidance of Mortgagee Letter 2001-27, see Mortgagee Letter 2005-09. (These are to be kept in the lender's files and will not be submitted with the case binder when requesting endorsement.)
- ▶ Termite forms of the National Pest Control Association, NPCA 99a and NPCA 99b (where applicable) Please see: HUD Mortgagee Letter 1999-03, 2001-04 and 2003-11.
- ▶ Early start letter or ten year warranty as applicable.
- ▶ Applicable inspections and/or certifications (Engineer Certification on Manufactured Home foundation).
- ▶ Any other additional/appropriate submissions required in satisfying FHA requirements which may include, but are not limited to the FHA Data Sheet 79G; a LOMA/LOMR or elevation certificate (Refer to HUD Mortgagee Letter 1999-34) regarding flood plains, well water tests, local health authority approval for individual water and sewer systems, etc.

Note: Unless otherwise indicated, above listed items are to be included in the endorsement case binder. Also, Mortgagee Letter 1999-34 IS NOT applicable for condominium projects in any capacity.

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Construction and New Homes: Minimum Property Standards

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

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Construction and New Homes: Subdivision Approvals

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HUD/FHA no longer approve subdivisions. HUD Mortgagee Letter 1993-27 modified paragraph Paragraph 3-11 of the HUD Valuation Handbook 4150.1, Rev-1. This Mortgagee Letter is not applicable to Condominiums.

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Construction and New Homes: Final Inspection on Properties

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For final inspection guidance on "Under construction" or "existing less than one year old" dwellings. Please see: HUD Handbook 4145.1 Chapter 6-3, also see the "Inspections" found in the definition section this Guide under Construction and New Homes.

If the home is 100% complete at time of the appraisal and the appraisal is to serve as the final: (This procedure does not apply to manufactured homes.)

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

If the property is under construction and NOT 100% complete at time of appraisal:

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

Handbook 4145.1 Chapter 6-3.

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

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Manufactured Homes: Eligibility and General Requirements - Title II

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

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

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

For information on FHA Insurance under the Title II Program, see HUD Handbooks 4150.2 Chapter 8; HUD Handbook 4145.1, Rev-2, Section 3-4 and Appendix 11; and Permanent Foundations Guide for Manufactured Housing (HUD-7584), dated September 1996 (Mortgagee Letter 1997-36). The latter is a revision of HUD Handbook 4930.3G, dated August 1989. The guide and software may also be obtained by calling: 1-800-245-2691.

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Manufactured Homes: Special State Requirements

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Additions, Modifications, and Special State Requirements. Additions or structural modifications may put the home at risk if changes were not performed in accordance with the HUD Manufactured Home Construction Safety Standards. Some states require a state agency (often this is the State Administrative Agency) to approve all modifications to manufactured (mobile) homes once they leave the factory. The appraiser and underwriter are held responsible for knowing the local regulations on this. If the area where the manufactured home is located has such requirements, then the property must meet these requirements or it shall be deemed ineligible for FHA insurance.

If the appraiser observes changes to the original home, an inspection by the State Administrative Agency, which inspects manufactured homes for compliance, is required. If there is no State Administrative Agency willing to inspect such homes, the lender may obtain a report from a licensed professional engineer, indicating the structural modifications/additions were made in accordance with HUD's Manufactured Home Construction and Safety Standards (CFR 3280). Please see: HUD Handbook 4150.2 Chapter 8, Mortgagee Letter 1999-32 FAQ #47. If the certification cannot be obtained then the manufactured home is unacceptable and should be rejected.

The appraiser will complete VC-14b of the HUD-92564-VC (Notice to Lender Valuation Conditions) and note the nature and location of the addition or modification.

Please note: The use of the newly revised Fannie Mae appraisal reporting forms, and elimination of the VC sheet and Homebuyer summary, which have been adopted by FHA via Mortgagee Letter 2005-34, is optional between November 1, 2005 and the mandatory start date of January 1, 2006. The new protocol must be followed when using the new form whether it is done at the lender/client's request or of the appraiser's choosing. This reference guide page will be further updated after January 1, 2006. For further information please contact your local HUD Homeownership Center.

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Manufactured Homes: Age Requirements

Chapter 1 Appraisal and Property Requirements Page 1-09c

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

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Manufactured Homes: Foundation Compliance

Chapter 1 Appraisal and Property Requirements Page 1-09d

1. All foundation systems, new and existing, must meet the guidelines published in the Permanent Foundations Guide for Manufactured Housing, (HUD-7584), dated September 1996. A certification attesting to compliance with this handbook must be obtained from a licensed professional engineer and included in the insuring file. This procedure does not apply when the current FHA borrower refinances their loan. It is applicable for all re-sales.

2. HUD Handbook 4145.1, Rev-2, Section 3-4. C. "Criteria for Existing Properties", dated Feb. 1990 states: "The foundation design information in HUD Handbook 4930.3G, Permanent Foundations Guide for Manufactured Housing, Appendices A, B and C, may be used to verify the design of the existing system. Provide a licensed professional engineer's certification to verify compliance with the handbook guidelines and with the requirements set forth in paragraph 3-4.B." Note: HUD Handbook 4930.3G was replaced by as HUD-7584, Permanent Foundation Guide for Manufactured Housing.

3. Permanent Foundations Guide for Manufactured Housing (PFGMH). This guide as well as software can be ordered by calling (800) 245-2691 or from HUDuser.

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Manufactured Homes: Site

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The manufactured unit must not have been installed or occupied previously at any other site or location. Manufactured units may be moved only from the manufacturer's or dealer's lot to the site on which the unit will be insured. If a permanent foundation is to be constructed under an existing eligible unit, the unit may be jacked up in order to install a new foundation. (See summary of main requirements in Appendix 11, item 12 of HUD Handbook 4145.1 Rev-2.) (24CFR203.43f)

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Manufactured Homes: Tags

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All manufactured homes must have an affixed HUD seal (tag) located on the outside of the home. If the home is a multi-wide unit, each unit must have a label. In some instances, the unit may not be sequentially numbered. Appraisers are to list the manufactured unit's label number(s) on the appraisal report in one of the comment sections, preferably on the front page under "Additional Features" and complete VC14a on the HUD-92564-VC (Notice to Lender- Valuation Conditions)

If for any reason the labels are missing, appraisers must REJECT the property and notify the lender. In some states a manufactured home may not be re-sold if missing a label. HUD does not reissue tags for manufactured homes, however the Department can issue a letter of label (tag) verification lieu of rejecting the property. HUD will accept documentation from IBTS - Institute for Building Technology and Safety (Current HUD Contractor) verifying HUD labels were issue to the manufactured home if the tags are not affixed to the home at the time of appraisal. The lender is to include this documentation in the file submitted to HUD. Information regarding a request of label verification can be found at HUD's Manufactured Housing website.

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Manufactured Homes: Title I

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Title I consists of two loan programs, one for property improvements and one for the purchase of manufactured homes and/or lots on which the manufactured homes are to be placed. The lender, under the Uniform Commercial Code or through judicial processes, does the repossessions under this program. For more information on the Title I program, visit our Title I web site or call the Title I customer service number (202) 708-6396. (Regulations can be found in 24CFR 201.) Please see: Sections 8-3 and 8-4 of HUD Handbook 4150.2 pertain to Title I.

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203k Rehabilitation Mortgages

Chapter 1 Appraisal & Property Requirements Page 1-10

General

The Section 203(k) program is the Department's primary program for the rehabilitation and repair of single-family properties. The program allows the borrower to get just one mortgage loan, at a long-term fixed or adjustable rate, to finance or refinance both the acquisition and the rehabilitation. See HUD Handbook 4240.4 rev-2 and 4150.2 Appendix B-1 for additional information. See Mortgagee Letter 2005-19 for information on the Streamline 203(k) process. (Cooperatives are not eligible for 203(k) mortgage insurance).

Appraisals

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

List of 203(k) Consultants

203(k) Consultants can be found on HUD's website by using the 203(k) Consultant Search Tool.

Additional information on matters relating to consultants may be obtained from HUD Mortgagee Letters 1995-40 and 2000-25.

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223(e) Declining Urban Areas

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Purpose and General Information: HUD Handbook 4260.1 Miscellaneous Type Home Mortgage Insurance Section 223(a), (e), and (d), and HUD Handbook 4150.2 Section B-3) The purpose of Section 223(e) is to permit the use of FHA mortgage insurance in older, declining urban areas where there is a need for affordable housing. A mortgage may be insured pursuant to Section 223(e) for the repair, rehabilitation, construction, or purchase of properties in older, declining urban areas. Eligibility under Section 223(e) is to be determined by the appropriate HOC. (Please see: HUD Handbook 4000.2, Section 2-12.) For additional information on appraising and underwriting a 223(e) mortgage, see the references above. The ADP CODE for a 223(e) is 792.

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Reverse Mortgages (HECM)

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General

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

Appraisal & Conditions

The appraiser must perform the appraisal with the same standards and forms expected in an FHA single-family appraisal. This includes noting the same deficiencies and repair items. In certain instances, the borrower is not required to treat any defective paint surfaces after closing for properties built before 1978.

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

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Native American Lands

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To access information quickly, one of the following below should be helpful:

- ▶ HUD Handbook 4150.2 Appendix A-2
- ▶ Information for Native Americans
- ▶ National Office of Native American Programs (Code Talk)

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Hawaiian Home Lands

Chapter 1 Appraisal & Property Requirements Page 1-14A

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

B. Native Hawaiian Eligibility: The mortgagor must be an adult meeting the blood quantum requirement established by the Sec. 247 statute and 24CFR 203.43i(c)(3). A mortgagor who is an original lessee of a homestead lease (also called a residential lot lease) must have 50% Hawaiian blood. A mortgagor who is a successor lessee or an assignee of an original lessee must have 25% Hawaiian blood. Determination of native Hawaiian eligibility is made by DHHL. Lenders may obtain the "Request for Certification of Eligibility" from HUD Mortgagee Letter 2004-43 or Department of Hawaiian Homelands's website.

C. Principal Residence Requirement: The native Hawaiian mortgagor must occupy as his/her principal residence a one-unit home located on the Hawaiian Home Lands leasehold estate being insured.

D. Eligible Leases: Lender must obtain and keep a copy of the Residential Lot Lease issued by DHHL which identifies the proposed mortgagor as the lessee; this will be EITHER an original lease issued to the proposed mortgagor OR an original lease, along with documentation showing succession or assignment of the lease to the mortgagor and DHHL's consent to each and every transfer of the lease. Any amendments to the original lease must be included as part of the documentation. The Lease must be in the form approved by HUD and must include DHHL's Mortgage Insurance Rider (refer to HUD Mortgagee Letter 2004-43) as part of the Lease. See 24CFR 203.43i(h). All lease documents must bear evidence of having been recorded at the DHHL.

E. Recordation: Upon loan closing, the mortgage must be recorded in DHHL's own recording system. The documents should NOT be recorded at the State of Hawaii Bureau of Conveyances or filed with the Office of Assistant Registrar of the Land Court. Recordation at either of these offices does not effectuate a lien on the Hawaiian Home Lands lease.

F. DHHL Consent to Mortgage: A Consent to Mortgage executed by the Chairman of the Hawaiian Homes Commission and recorded in the DHHL must be

obtained for the loan file. Lenders can obtain this form by writing to: Department of Hawaiian Home Lands, Attn: Loan Services Branch, P.O. Box 1879, Honolulu, HI 96805.

G. Appraisals: Licensed appraisers are required to conform to Uniform Standards of Professional Appraisal Practices (USPAP) which identifies Market Value as "...the most reasonable price which a property should bring in a competitive and open market". Since sales of DHHL are neither freely transferable nor subject to an open market, neither the Market Approach nor Sales Comparison Approach are required when appraised for FHA insurance purposes. Thus, appraisals on DHHL properties (existing and proposed construction) require only the use of the Cost Approach. (This change was brought about because appraisers felt that performing the Sales Approach on DHHL violated USPAP.)

1. In the Reconciliation Section of the URAR:

- When only the Cost Approach is used, a statement, similar to the following, should be added. "The final value stated in this appraisal is not "market value" as defined in USPAP. This appraisal has been completed for FHA mortgage insurance purposes, per HUD instructions for DHHL properties".
- The appraisal must include a date (which is the date the appraiser performed the site inspection), the final value and the appraiser's signature.

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

H. Mortgage Insurance Premium: Section 247 loans are subject only to the Up Front Mortgage Insurance Premium (UFMIP); they are not subject to the annual risk-based premium. The following "UFMIP Repayment Term in Years" factor table is to be used:

Portion Financed	Less than 18	18-22	23-25	Over 25
100%	.02400	.03000	.03600	.03800
0%	.02344	.02913	.03475	.03661

I. Automated Data Processing (ADP) Codes: Mortgages on DHHL properties are identified by the following Section of the Act ADP suffix codes:

Section of the Act	Section of the Act ADP Code	Sec. of the Act ADP Code for Direct Endorsement
203(b)/247	259	759
203(b)/247/251	280	780 (ARM)
203(b)/247	411	811 (Buydown)
203(b)/245(a)	293	793 (GPM)
203(k)/247	408	808 (Rehab)
203(b)/247	405	808 (Rehab/Buydown)

J. Title Evidence: Because there is no first lien requirement for Sec. 247 loans, no title policy or certificate of title need be obtained.

K. Real Property Taxes: By statute, real property taxes are not assessed for the first seven years of the lease.

L. Life Estate: If the lease is encumbered by the interest of a life tenant (life estate), the life tenant must be a signatory to the mortgage but is NOT required to be a signatory to the note.

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Private Roadways

Chapter 1 Appraisal & Property Requirements Page 1-15

A. General:

1. Each property shall be provided with vehicular and pedestrian access by a public or private street. Private streets shall be protected by recorded permanent/recorded easements. Existing or proposed streets at the site shall connect to private or public streets and shall provide all-weather access to all buildings for essential and emergency use, including access needed for deliveries, service, maintenance and fire equipment. FHA defines all-weather surface as a road surface over which emergency and the area's typical passenger vehicles can pass at all times.

2. Private streets must be protected by permanent recorded easements and have joint maintenance agreements. Some roads labeled "public" have not been accepted by the local jurisdiction for maintenance. These roads require a maintenance agreement from the parties responsible for it's maintenance.

3. For FHA insuring purposes the real estate laws in the following states provide sufficient road access and maintenance requirements, thus the special road maintenance agreement discussed in this section is not required: California, Oregon.

B. Underwriters' Note:

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

C. Criteria for Agreement Acceptance:

- ▶ The agreement includes the entire private road system to the public road;
- ▶ The agreement and access must be legal and in perpetuity (i.e. run with the land);
- ▶ The road is in an acceptable condition. The roadway(s) within the system must have all-weather surface(s). An all-weather surface is defined above.
- ▶ The agreement states how the costs are to be shared (e.g. equally by all lots, pro-rata). The provision for maintenance must not create an unusual or abnormal burden upon the ownership of the subject property.
- ▶ All of the property owners served by the private road system must be party to the agreement.

- ▶ The roadway meets local jurisdictions emergency service access requirements.
- ▶ The Direct Endorsement Underwriter may waive the above requirements when the subject property abuts a publicly maintained road, the recorded easement is a common driveway between two neighbors, and is constructed of all weather materials. Example: Shared driveways in many older parts of a city.

Please see: 24 CFR sec. 200.926d and HUD Handbook 4150.2, Section 3-6A.7

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Zoning

Chapter 1 Appraisal & Property Requirements Page 1-16

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

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Homeownership Center Reference Guide

Chapter 1 Appraisal and Property Requirements Unique Properties, Page 1-17a

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

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- ▶ Excess land
- ▶ Non residential use
- ▶ Move ons
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Homeownership Center Reference Guide

Chapter 1 Appraisal and Property Requirements Unique Properties: Shared Lots with Undivided Interest, Page 1-17b

Properties, including condominiums, with legal descriptions that read "An undivided 1/2 (or 1/3,) interest in and to Lot. . . ." are **NOT** eligible for mortgage insurance. If requested to do an appraisal on a property with this kind of legal description, the appraiser should **REJECT** the property as the lot is not considered a Fee Simple entity. The lender should be notified of the Reject as soon as it is determined.

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Chapter 1 Appraisal and Property Requirements Unique Properties: Excess Land, Page 1-17c

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

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Chapter 1

Appraisal and Property Requirements Unique Properties: Non Residential Use Page 1-17d

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

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

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

Stories	Allowable % of Commercial Purpose
One story building	25%
Two story building	49%
Three story building	33%

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Move Ons

Chapter 1

Appraisal and Property Requirements Unique Properties, Move Ons, Page 1-17e

1. This procedure applies only to stick built homes: Manufactured homes (mobile homes) are not eligible for FHA Insurance if they have moved. The only movement acceptable for manufactured homes is from the factory to the dealer and then to the site. Once there it must remain. It may be jacked up to have a permanent foundation installed. (See the section on Manufactured Housing.)

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

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

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

Please see: HUD Handbook 4150.1 REV-1, Section 12-6

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- ▶ Non residential use
- ▶ Move ons
- ▶ Forest and farm property tax deferral programs

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Forest and Farm Property Tax Deferral Programs

Chapter 1

Appraisal and Property Requirements, Unique Properties, Forest and Farm Property Tax Deferral Programs, Page 1-17f

The programs provide a deferral of a portion of the property taxes when the land qualifies under these uses. The "deferred" portion of the taxes are eventually totally forgiven if that land use continues for a specified period of time.

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

- ▶ Unique properties
- ▶ Shared lots with undivided interest
- ▶ Excess land
- ▶ Non residential use
- ▶ Move ons
- ▶ Forest and farm property tax deferral programs

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Hazards and Nuisances: Airports

Chapter 1 Appraisal & Property Requirements Page 1-18a

1. Airport Noise: Properties are not to be rejected solely because of airport influences (noise) if there is evidence of acceptance in the market and if use of the dwellings is expected to continue. Special consideration should be given to determine if there is indication that adverse changes in market attitude are taking place in the area.

2. Hazards: Runway Clear Zones (aka Runway Protection Zones) at Civil Airports or Clear Zones or Accident Potential Zone I at Military Airfields.

- All dwellings are acceptable provided the prospective purchaser acknowledges awareness that the property is located in a Runway Clear Zone/Clear Zone. Please see: HUD Handbook 4150.1, Rev-1, Sections 4-26 for a sample of the buyers acknowledgment certification. This notification must be provided to the prospective purchaser at the time loan application is initiated. (Also see section titled "Hazards and Nuisances")
- Properties located in Accident Potential Zone I at military airfields may be eligible. Please see: HUD Handbook 4150.2, Section 2-2 for details.

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- ▶ Insulation materials
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Hazards and Nuisances: Railroad Tracks and Other High Noise Sources

Chapter 1 Appraisal & Property Requirements Page 1-18b

1. New Construction (The definition of new construction includes proposed, under construction and less than one year old.) - appraisers and builders are to pay particular attention to Item 1.b. "Noise" on form HUD-92541, Builder's Certification of Plans, Specifications & Site.

2. Existing Construction (over 1 year of age) - Noise exposure by itself will not necessarily result in the rejection of the property for FHA financing. Marketability factors should be considered.

3. For all single family dwellings FHA does not require noise assessment or acoustical analysis. HUD no longer has noise requirements (Ldn/dba) for single family dwellings, this does not include condominium projects.

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Chapter 1 Appraisal and Property Requirements

Hazards and Nuisances: Flood Zones and Insurance Page 1-18c

General Requirements can be found in: Mortgagee Letter 90-16 (existing properties over 1 year old), HUD Handbook 4150.1, REV-1, Section 4-23, 4000.2 Rev-3 Section 2-6, 4150.2 Section 2-2 and Mortgagee Letter 99-34 for new construction (not applicable to condominium projects).

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

Please Contact FEMA Flood Hazard Mapping for more information on National Flood Insurance Program maps.

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Chapter 1 Appraisal and Property Requirements

Hazards and Nuisances: Lead Based Paint Page 1-18d

1. General Requirements - For all properties built before January 1, 1978, the appraiser must inspect ALL interior and exterior surfaces, such as walls, stairs, deck, porch, railing, eaves, windows, doors, fences, detached garages and other outbuilding appurtenant structures for defective paint surfaces (i.e. chipping, peeling, flaking paint).
2. For condominium units, the appraiser needs to inspect the interior of and exterior surfaces and appurtenant structures of the specific unit being appraised.
3. Refinances with an appraisal are also subject to this inspection and a procedure.
4. Properties built between 1950 and 1978 that involve a VA-CRV must be inspected for lead based paint.

Please see: [HUD Handbook 4150.1, Rev-1, 5-14.D](#), [HUD Handbook Section 3-6A.17](#), [4000.2 Rev-3 Section 2-6](#), [Mortgagee Letter 96](#), [Mortgagee Letter 00-01](#). Also please visit [HUD's Office of Healthy and Lead Hazard Control](#) for further information on lead based paint

Please Note: The use of the newly revised Fannie Mae appraisal report and elimination of the VC sheet and Homebuyer summary, which have been adopted by FHA via [Mortgagee Letter 2005-34](#), is optional between January 1, 2005 and the mandatory start date of January 1, 2006. The new procedure should be followed when using the new form whether it is done at the lender's request or of the appraiser's choosing. This reference guide page will be updated after January 1, 2006. For further information please contact your [HUD Homeownership Center](#).

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Hazards and Nuisances: Radon

Chapter 1 Appraisal and Property Requirements Page 1-18e

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

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Hazards and Nuisances: Overhead High Voltage Transmission Towers and Lines

Chapter 1 Appraisal and Property Requirements Page 1-18f

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

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Hazards and Nuisances: Lava Zones

Chapter 1 Appraisal and Property Requirements Page 1-18i

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

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

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

- "Zone #1 consists of the summit areas and active parts of the rift zones of Kilaua and Mauna Loa..."*
- "Zone #2 consists of several areas that are adjacent to and downslope from the active rift zones of Kilaua and Mauna Loa and therefore are subject to burial by lava flows of even small volume eruptions in those rift zones..."*

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

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

Hawaiian Lava Flow Maps and other information on this can be located on line at the USGS Hawaiian Volcano Observatory site. Select Lava Zones.

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

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Hazards and Nuisances: Insulation Materials

Chapter 1 Appraisal and Property Requirements Page 1-18h

Asbestos Insulation: Asbestos used as roof shingles or siding on a house does not pose a danger as would be if the material were deteriorating within the confines of a home. When used as a wrap for hot water pipes, it is usually covered and poses no danger. When the material is deteriorating into a fine powder and can be inhaled, it may pose a danger to one's health.

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

Foam Plastic Or Foam Core: Please see: HUD Handbook 4150.1, P. 12-20, Section 20-21.

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Hazards & Nuisances: Operating & Abandoned Oil and Gas Wells, Tanks & Pressure Lines

Chapter 1 Appraisal & Property Requirements Page 1-18g

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

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

- a. The appraiser should use a VC, indicate the location of the tank, and require evidence that the subject's vacated tank has been removed or properly abandoned.
- b. Generally, the local jurisdiction may have established requirements. If not, the tank must be removed or abandoned per the recommendations issued by the applicable State.

Hydrogen Sulfide Gas: Commonly referred to as Sour Gas Wells are extremely hazardous. Please see: HUD Handbook 4150.2, Section 2-2.D. "Special Case" for instructions.

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

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Hazards and Nuisances: Avalanche Hazards

Chapter 1 Appraisal and Property Requirements Page 1-18j

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

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

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

Reference: "Mears Avalanche Assessment for Anchorage", Avalanche Zoning by Art Mears and "City (Juneau) and Borough Avalanche Assessment" and United States Avalanche Danger Descriptors.

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Utilities Not On

Chapter 1 Appraisal & Property Requirements Page 1-19

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

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

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Please see: HUD Handbook 4150.1, Rev-1, Section 5-19 and Mortgagee Letter 2005-34

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Community Sewer Systems

Chapter 1 Appraisal & Property Requirements Page 1-20

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

Individual Sewage Systems: For properties that cannot connect to a public system and are served by an individual sewage system that is acceptable to the local health authority, the system is then acceptable to HUD/FHA. This includes numerous types of sewage systems including cesspools, individual pit privies, and mound systems.

Inspections are only required if the appraiser suspects a problem with the system, or problems are customary in the area. In those instances, the appraiser is to condition for a certification by the local health authority, a licensed sanitarian or an individual determined to be qualified by the DE Underwriter. If the home is not occupied and the systems have not been in use for several months, an inspection of the sewerage system must be made. If the system has not been in use for 30 days, a dye test is recommended.

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

For distances between water sources and sewage, please see: HUD Handbook 4150.2 Section 3-6 and CFR 200.926d.

References

Please see: HUD Handbook 4150.1, Rev-1, section 12-16, 4905.1 Rev-1, 4150.2 Section 3-6.

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Water Systems: Individual Water Systems

Chapter 1 Appraisal and Property Requirements Page 1-21b

1: General Requirements

A: Refer to the section of this guide titled [Utilities Not On](#), HUD Handbooks [4905.1 REV-1, 2-5.B.2](#) and [4150.2](#) to see when connection to a public or community system is required.

B: Individual water supply systems (wells) may be acceptable when connection to a public or community water system is not available and there is assurance of a continuing adequate supply of safe potable water for domestic needs, and shall also include auxiliary uses for lawn and garden maintenance.

C: The appraiser is responsible to identify the individual water system and appropriately condition their appraisal for all water testing requirements.

D: The lender is to ensure that certifications of water quality and quantity are obtained for proper processing and determination of final acceptability.

2: Water Quality

A: Individual water wells are owned and maintained by the homeowner, and are subject to compliance with all requirements of the local and or State Health Authority having jurisdiction.

B: For FHA mortgage insurance, the following procedures are required prior to accepting a house with an individual well: (Please see: [Mortgagee Letter 1995-34](#))

1. Well water must be tested in accordance with the latest local and State drinking water regulation for private wells. This includes all microbiological and chemical test parameters in the regulation.
2. If there are no local or adequate State requirements and standards for private wells, then water quality must be tested for lead and acute contaminants, including nitrates/nitrites and microbial contaminants such as total and fecal coliform and, if of local concern, other contaminants. i) For information regarding acceptable test results and analytical methods, Please see the [attachment](#) to Mortgagee Letter 95-34.

C: The water sample(s) necessary for microbiological and chemical testing must be tested in

accordance with the State drinking water regulations and EPA's analytical methods by a State-certified private laboratory (Please see the [attachment](#) to Mortgage Letter 95-34).

D: In some States, County Health Authorities are required to collect the test samples; however, if they are unable or are not required to collect the samples, an individual/company acceptable to the State and the laboratory may collect the samples.

E. If water purification equipment is required to meet the State drinking water regulation and/or EPA's recommendations for private well water, follow the instructions in [Mortgage Letter 1992-18](#) dated June 5, 1992. Also see the section below titled "Miscellaneous Individual Well Items".

3: Well Location

Individual water supply systems (wells) should be checked to establish the distance from the septic system. The Appraiser's site sketch should indicate approximate location of individual systems and leach fields. See the section of this manual titled Appraisal Package.

A: A well located within the foundation walls of a dwelling is not acceptable except in arctic or sub-arctic regions.

B: Water which comes from any soil formation which may be polluted, contaminated, fissured, creviced or less than 20 ft. below the natural ground surface is not acceptable, unless acceptable to the local health authority. Certification of such is required in the insuring package.

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

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

Distance from Source of pollution Minimum horizontal distance (feet) Supplemental requirements*

Property Line	10 (*EP)
Septic Tank	50
Absorption Field	100
(SUP1)(*EP) Seepage Pit	100
(SUP1) Absorption Bed	100
(SUP1) Sewer Lines w/Permanent Watertight Joints	10

Other Sewer Lines	50
Chemically Poisoned Soil	25
(SUP3) Dry Well	50
Other	
(SUP2)	

Supplemental Requirements Notes*

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

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

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

(*EP) For Existing Properties. If the locality permits distance requirements less than those prescribed by FHA, the property may be considered eligible for a mortgage insured by FHA provided that the lender submits evidence in the case binder that the subject property is in compliance with the applicable local or state distance requirements and meets the conditions stated in [Mortgagee Letter 2002-25](#).

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

F: Additional distance information may be referenced from [HUD Handbook 4910.1, Appendix K, 24CFR Sec. 200.926d](#) & [Mortgagee Letter 2002-25](#).

G: Cisterns: [HUD Handbook 4150.2 Section 3-6](#) indicates that properties served by cisterns are not acceptable for mortgage insurance. However, the HOCs have the authority to consider waivers in areas where cisterns are typical. Link to HOC policy on cisterns.

Please see: [HUD Handbook 4150.1, Rev-1, Sec. 12-16](#) and [12-17](#) and [4075.12 REV, 4150.2 Section 3-6, 24CFR 200.926\(f\)](#).

4: Miscellaneous Individual Well Items

A: New wells must be drilled, no less than 20 feet deep, and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to (either) the local health authority and

(or) the trade or profession licensed to drill and repair wells in the local jurisdiction. Additional information on new wells, pumps, and storage tanks construction information may be referenced from [HUD Handbook 4910.1, Appendix K](#) and [24CFR 200.926d\(f\)](#)

B: Individual Residential Water Purification Equipment - If a property is otherwise eligible for insurance but does not have access to a continuing supply of safe and potable water without the use of a water purification system, the requirements in [Mortgagee Letter 1992-18](#) and [1995-34](#) must be satisfied.

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Water Systems

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Water Systems: Community Water Systems

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

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

Please see: [HUD Handbooks 4150.2 Section 3-6](#), [4150.1 Section 12-16](#), & [4075.12](#)

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Water Systems: Shared Wells

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Shared wells may serve existing properties that cannot feasibly be connected to an acceptable public or community water supply system. A shared well shall have a valve on each dwelling service line as it leaves the well. A shared well shall service no more than four living units or properties. A shared well must have a shared well agreement and shall be binding upon signatory parties and their successors in title. More information on this agreement can be referenced in [HUD Handbook 4150.1 Rev-1, Section 12-17](#).

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Repair Conditions

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1: Home Inspections: Borrowers should be encouraged to obtain a detailed home inspection of the property. Borrowers should research home inspector's qualifications and designations to ascertain that they feel comfortable with the individual they hire. HUD does not maintain lists of approved Home Inspectors.

2: Valuation Condition Sheet (HUD-92564-VC): Repairs and other conditions of the appraisal are to be indicated on the "Valuation Condition (VC) Sheet" found on line at HUDClips. (Legal size paper is needed to print this form.) Handbook 4150.2 provides instructions on the completion of the this form.

Please Note: The use of the newly revised Fannie Mae appraisal reporting forms, and elimination of the VC sheet and Homebuyer summary, which have been adopted by FHA via Mortgagee Letter 2005-34, is optional between November 1, 2005 and the mandatory start date of January 1, 2006. The new protocol must be followed when using the new form whether it is done at the lender/client's request or of the appraiser's choosing. This reference guide page will be further updated after January 1, 2006. For further information please contact your local HUD Homeownership Center.

3: Excessive Conditions Requiring Repairs:

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

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

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

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

d. Poor Condition Properties: If the subject property is in such poor condition that it may be cost prohibitive or impractical to bring it up to FHA's minimum property

requirements, the appraiser should recommend Rejecting the property and:

1. Complete the appraisal on an "AS-IS" basis, clearly marking the report as rejected for Section 203(b) and provide reasons for the rejection;
2. Provide a list of all major deficiencies and state that the list should not be considered all inclusive. Additional items may be required before acceptable for FHA Insurance; and
3. Provide photographs if possible.

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

5. Clearing Conditions on Existing Homes

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

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

Professionals as defined above may use their company's forms and letterhead to make the certifications. Appraisers and fee inspectors are to use the Compliance Inspection Report, HUD-92051. The individual signing Section II must be the person who actually performed the inspection. Section III or IV, as appropriate, is to be signed by the Direct Endorsement Underwriter.

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

2. Mechanical Certifications: Please see: Heating & Electrical section of this manual.

Please see: HUD Handbook 4000.2 Rev-2, Section 2-19.

6. Refinances: All refinances require a complete appraisal with repair conditions. Although HUD does not require completion of the repairs on a streamline refinance, except lead based paint repairs, the lender may require completion of repairs. A streamline refinance may be insured with or without an appraisal. Handbook 4155.1, Rev. 4 Chapter 1, Mortgagee Letter 1996-10, & Appraising Refinances.

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Pest Control

Chapter 1 Appraisal & Property Requirements Page 1-23

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

The four HUD Homeownership Centers (HOCs) have identified areas of the country requiring protection from termites, based on maps published in the IRC (International Residential Code), or the CABO One and Two Family Dwelling Code, or the US Department of Agriculture's Bulletin 64. These areas are called Termite Infestation Zones, a.k.a. TIP Zones. Please see: Mortgagee Letter 2001-04. Visit TIP zones to determine if your location must comply.

1. New Construction: The Department's policy concerning the requirement for builder's warranty against termite infestation in new homes is outlined Mortgagee Letter(s) 1999-03, 2001-04 and 2003-11. The Department has determined that if the property meets requirements in the International Residential Code (IRC) by the International Code Council (ICC) on protection against subterranean termites, (specifically Sections R323 and R324) they will satisfy the requirements of HUD's minimum property standards. Acceptable treatment methods for protection include chemical soil treatment, pressure preservative treated wood, naturally termite resistant wood or physical barriers (such as metal or plastic termite shields), bait systems, or any combination of these methods.

New Construction is defined as properties processed as proposed construction, under construction and existing less than 1 year old. In those geographic areas favorable to damage from termite or other wood destroying insects, the builder must complete the HUD-NPCA-99-A (or NPCA-99a) form and indicate that one of the following accepted treatment methods was used:

a. HUD-NPCA-99-A - (Subterranean Termite Builders Certification and Guarantee) Completed by the builder as indicated in Mortgagee Letter 1999-03 and 2001-04, providing a 1 year guarantee indicating one of the following treatments was used:

1. Bait system, OR
2. Wood (pressure preservative treated wood as outlined in Mortgagee Letter 2001-04) - Under "type of Treatment", check the box titled "wood" and add statement "Complies with Mortgagee Letter 2001-04 for use of preservative treated wood", OR
3. Soil (Chemical Soil treatment) - HUD-NPCA-99-B (or NPCA-99b) is to be used with form HUD-NPCA-99-A only if the property is treated with a soil termiticide. (The licensed pest control company is responsible for completing

- form HUD-NPCA-99-B, as appropriate, and providing it to the builder; who is responsible for distribution. Please see: Mortgagee Letter 1999-03.) OR
4. Buildings using steel, masonry or concrete building components (with only minor interior wood trim and roof sheathing.) - Under "Type of Treatment" on form the Builder is to add in the space to the right of the box titled "Soil" the statement "Masonry (steel, or concrete) construction, no treatment needed. Complies with Mortgagee Letter 2001-04."

b. The use of post-construction soil treatment where a chemical termiticide is applied only around the perimeter of the foundation is NOT acceptable.

Note: All chemical soil treatments, bait systems, and chemical wood treatment must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA label instructions.

2. Existing (over 1 year old): The National Pest Management Association form NPMA-33, Wood Destroying Insect Inspection Report, must be completed for existing construction on properties located in those States or geographic areas of the country favorable to damage from termite or other wood destroying insects.

All improvements within the property lines must be inspected and be free of active infestation. The validity period is 90 days from the initial date of inspection. (See Mortgagee Letter 1995-33. Form NPMA-33 replaced form NPCA-1 effective January 1, 2005).

If a property is located in a State having a mandated wood infestation form, then the State mandated form must be used. At this time the following States have their own mandated form for wood destroying insect infestation and the use of the NPMA-33 is NOT required: Alabama, Arizona, California, Florida, Georgia, Hawaii, Louisiana, Maryland, Mississippi, Nevada, North Carolina, Oklahoma, South Carolina and Texas.

Visit TIP zones to determine if your location must comply.

3. Condominiums: The first floor units of a condominium are subject to the same inspection requirements as stated in the section titled "existing (over 1 year old)" (The inspection is to include ground floor attached and/or detached garage, shed, and other structures that are a part of the subject). If the unit is on the second floor or above, then a wood destroying pest inspection is not automatically required. However, if the appraiser detects evidence of possible dry rot or infestation by some wood-destroying organism, the appraiser must call for the inspection report. In order to waive the repair requirements on a condominium, a letter from the homeowners association listing the date of scheduled repairs, name of the contractor awarded the work, and acknowledgment that the funds necessary to pay for those repairs have already been budgeted and/or collected should be attached to the Homebuyer Summary with a copy retained in the case binder.

B: Appraiser's Observations: Appraisers are to observe all areas of the house and other structures/areas within the legal boundaries of the property that have potential for infestation by termites and other wood destroying organisms. The appearance of what might be active infestation must be noted.

C: Sectioned Reports and Condition Clearance: The following are guidelines for clearance of termite report conditions in states where section termite reports

are provided. On these reports each finding/recommendation will be noted in either Section I or Section II, or the equivalent.

a. Section I: contains items where there is evidence of active infestation, infection or conditions that have resulted in or from infestation or infection.

b. Section II: items are conditions deemed likely to lead to infestation or infection, but where no visible evidence of such was found. The Structural Pest Control Board has advised that Section II items will probably be major items which have not become infestations/infections, but possibly will become in the future.

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Please see: HOC's Procedures for Clearing Sectioned Pest Reports.

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Atlanta HOC Revision 2: Termites and Other Wood Destroying Insects

Within the entire Atlanta HOC jurisdiction, a termite/wood destroying pest inspection is required for all ground level existing construction structures. A termite inspection is required on each existing property, with the exception of streamline refinances with or without an appraisal. The inspection is to be performed by a state licensed pesticide business (registered pest control technician). The purpose of the inspection is to provide reasonable assurance that the physical security of the property improvements is not threatened or damaged by termites or other wood destroying insects. Active infestations must be treated. The National Pest Control Association form NPMA-33 is the proper form to use for existing construction. Exceptions would be the following states that have a mandated form: Alabama, Florida, Georgia, Mississippi, North Carolina, and South Carolina. The form NPMA-33 is valid for 90 days from the date of the inspection. For all cases involving new construction treatment, form HUD-NPCA-99-A, Subterranean Termite Soil Treatment Builder's Guarantee, and form HUD-NPCA-99-B, New Construction Subterranean Soil Treatment Record, must be used. If a state has more stringent record keeping requirements than the form HUD-NPCA-99-B, then the state form can be accepted in lieu of the form HUD-NPCA-99-B, in which case the state form would be attached to the form HUD-NPCA-99-A. If either the pest control inspector or the appraiser indicates termite damage is present, an inspection by either an approved fee compliance inspector or a qualified home building inspector with expertise in structural related matters must be conducted to determine the degree of damage and recommend corrective action, if necessary. This requirement does not apply to REO sales, since a second inspection is performed prior to issuance of the termite letter for closing.

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Roofs & Attics

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

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

Snow Covered Roofs:

a. In areas where the snow is likely to lay for more than a few days:

1: The appraiser is required to make an extra thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials.

2: If there is evidence of damage and/or leaks the appraiser is to condition appropriately for correction(s).

3: If there is no evidence of damage and/or water leaks. The borrower must be informed that the roof was snow covered at the time of the appraisal and that it is acceptable to the purchaser without any warranty or guarantees from HUD/FHA.

4: If the borrower has concerns, they can request the seller to shovel the roof for inspection by a qualified roofer. If damage occurs during shoveling, it is between the buyer and seller to resolve.

b. In areas where the snow is not likely to lay for more than a few days a clear roof inspection is to be obtained prior to closing.

1: The appraiser is required to make an extra thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials and call for a clear roofing inspection.

2: If the Underwriter determines, due to unusual weather conditions, it is not possible to obtain the clear inspection prior to closing, then the

purchaser and seller are to sign an acknowledgment that indicates:

i: The roof was covered with snow at the time of the appraisal inspection,

ii: The snow is likely to continue to cover the roof for several more days and that the roof cannot be inspected prior to loan closing

iii: HUD/FHA makes no guarantees or warranties as to the roof's condition.

3: A clear roof inspection must then be obtained prior to submission for FHA Insurance or an escrow account equal to 1 ½ times the cost of a new roof is to be established in the event repairs or a new roof is found to be needed when the inspection takes place. (Certification is to be in the insuring package.)

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

d. Inspections: A person determined to be qualified by the lender should make a certification as to the condition of the roof and the completion of work requirements.

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

2: Attics:

1. It is the homeowner/seller's responsibility to provide clear access to these areas. FHA appraisers are required to observe the attic area.

2. When there is no safe access to the attic the appraiser is to mark the VC-2 to require access. Please see: Mortgagee Letter 1997-22.

3. Do not require attic access openings for mobile homes and dwellings with little or no attic area (due to interior roof slope). Please see: HUD Handbook 4150.2

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

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Basements and Crawl Spaces

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

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

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

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

Please see: HUD Handbook 4150.2, Section 3-6A.11, & HUD Handbook 4905.1, Rev-1.

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Electrical and Heating

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A: Electrical Service:

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

B: Mechanical Certifications:

Electrical, plumbing and/or heating certifications may be called for by the appraiser when he/she cannot determine if one or all of these systems are working properly. An appraiser should not arbitrarily call for such certifications as they are still responsible for checking on the adequacy of these systems at the time of appraisal.

The certification must be done by a home inspector, an inspector from the local building department, an FHA compliance inspector, a professional in the specific field (e.g. electrician, plumber) or any individual deemed to be qualified by the Direct Endorsement underwriter. (Also see "Utilities Not On")

C: Heating:

1. General: ALL habitable rooms must have a heat source. This does not mean that each room must contain a heating device but that each room must receive sufficient heat. (Exception: Homes located in the Caribbean, Hawaii and the Florida counties of Lee, Charlotte, Glades, Hendry, Palm Beach, Collier, Broward, Monroe and Miami-Dade do not require heat if, the lack of, is "typical" for the market area and does not adversely affect the marketability of the property. Click here to link to the local HOC's list of excepted locations.
2. Wood Stoves and Solar Systems: Dwellings with wood burning stoves or solar systems as a primary heat source must have

permanently installed conventional heating systems that can maintain at least 50 degrees Fahrenheit in all living areas and those containing plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations.

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

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

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

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Water Heaters

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Requirements:

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

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Repair Conditions

Chapter 1

Appraisal & Property Requirements

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1: Home Inspections: Borrowers are encouraged to obtain a detailed home inspection of the property. Borrowers should research home inspector's qualifications and designations to ascertain that they feel comfortable with the individual they hire. HUD does not maintain lists of approved Home Inspectors.

2: Repairs and Alterations: Deficiencies, required repairs, alterations and/or required inspections must be reported within the appropriate section of the applicable appraisal reporting form. (See Mortgage Letter 2005-48 and 2005-34)

- **Required Repairs:** Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants, A.K.A. the three S's:
 - **Safety:** protect the health and safety of the occupants
 - **Security:** protect the security of the property (security for the FHA insured mortgage.)
 - **Soundness:** correct physical deficiencies or conditions affecting structural integrity

- **Properties in Poor Condition:** If the subject property is in such poor condition that it may be cost prohibitive or impractical to bring it up to FHA's minimum property requirements, the appraiser should recommend rejecting the property and contact the Lender before continuing with the assignment. If continuing:
 - **Complete the appraisal** on an "AS IS" basis, clearly marking the report as recommended for rejection for Section 203(b) and provide reasons for the rejection;
 - **Provide a list of all major deficiencies** and state that the list should not be considered all-inclusive. Additional items may be required before acceptable for FHA Insurance; and
 - **Provide photographs of deficiencies** to support recommended action.

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

4. Clearing Conditions on Existing Homes

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

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

the appraiser.

Professionals as defined above may use their company's forms and letterhead to make the certifications. Appraisers and Compliance Inspectors are to use the Compliance Inspection Report, form HUD-92051. The individual signing Section II must be the person who actually performed the inspection. Section III or IV, as appropriate, is to be signed by the Direct Endorsement Underwriter.

- o **Mortgagee Certification:** When a Mortgagee Certification is used to clear minor conditions the HUD-92051 is not required.
- **Mechanical Certifications:** Please see: Heating & Electrical section of this manual.

5. Refinances: Standard refinances require a complete appraisal with deficiencies and repair conditions reported. Although HUD does not require completion of the repairs on a streamline refinance, except lead-based paint repairs, the lender may require completion of repairs. A streamline refinance may be insured with or without an appraisal. Please see: Handbook 4155.1, Rev. 4 Chapter 1

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