

CHAPTER 2 - VALUATION PROCEDURES

- 2-1. GENERAL. This chapter describes the valuation processing required to underwrite a Section 203(k) mortgage. Valuation procedures for applications submitted under this program must follow the instructions outlined in HUD Handbook 4150.1, Valuation Analysis for Home Mortgage Insurance, except as set forth in this chapter.
- 2-2. REQUIRED APPRAISALS. In order to determine the maximum mortgage amount, valuation analysis consists of two separate appraisals, to be recorded on two separate appraisal (Uniform Residential Appraisal Report) packages.
- A. As-Is Value. Appraise the property in its present condition. Reflect those benefits to be derived from the legal use of the property. Do not include repair requirements in this as-is value appraisal.
- As-is appraisal is not required for a HUD-owned property. Refer to paragraph 6-3.
- B. Value After Rehabilitation. Determine the expected market value of the property upon completion of the proposed rehabilitation and/or improvements. The appraisal report should be noted: "Subject to Repairs, Alterations, etc."
- 2-3. VALUATION ANALYSIS AND REVIEW. Using the two appraisals, the Review Appraiser or DE Underwriter determines the as-is value plus cost of rehabilitation and completes the value after rehabilitation for mortgage insurance purposes. Complete Form HUD 92700, 203(k) Maximum Mortgage Worksheet (Appendix 11), to determine market value of the property after rehabilitation and the maximum mortgage amount to be shown on the Conditional Commitment/Statement of Appraised Value (Form HUD 92800.5B). If HUD issues the Conditional Commitment, the lender should provide the Field Office with sufficient information to complete the Form HUD 92700.

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- 2-4. ISSUANCE OF CONDITIONAL COMMITMENT or STATEMENT OF APPRAISED VALUE. Maximum mortgage amount is based on the appraised value. Issue Form HUD 92800.5B with a term of 12 months. The name of the fee inspector should be placed on the form. The following exhibits must be issued as part of the Conditional Commitment/Statement of Appraised Value:
- A. Homebuyer's Statement of Appraised Value (Homebuyer's Copy of Form HUD 92800.5B). The value placed on the form should always be the as-is value plus the cost of rehabilitation, or 110 percent of the value, whichever is less. Input the figure on line C3 for a purchase transaction and line D4 for a refinance transaction from Form HUD 92700. If the Escrow Commitment

Procedure is used, refer to paragraph 1-10 for additional information on the use of the market value in lieu of the above mentioned values;

- B. Maximum Mortgage Worksheet (Form HUD 92700, see paragraph 1-10 and Appendix 11);
- C. Architectural Exhibits (See paragraph 3-2.C.); and
- D. Contingency Reserve Notice, where applicable (See paragraph 1-9.F. and Appendix 4). This notice will explain to the homebuyer that the contingency reserve can only be used for health, safety and necessity items and what happens to the contingency reserve if it is not used.

If DE processed, lender provides to the builder one set of the accepted architectural exhibits for use during the construction period, marked "Builders/Inspector's Copy. Maintain a "File Copy" in the lender's office. If HUD processed, send "Builder's/Inspector's Copy." Maintain a "File Copy" in the case binder.

Rehabilitation construction should not begin until the Conditional Commitment or Statement of Appraised Value is issued. The As-is Value must reflect the condition of the property at the time of appraisal. Repairs completed prior to issuance of Form HUD 92800.5B will be appraised as part of the As-is Value and cannot be included into the cost of rehabilitation. Repairs completed after issuance of Form HUD 92800.5B, but prior to loan closing, can be included in the first Draw Request, no earlier than one day after closing occurs.

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- 2-5. SECTION 223(e). Properties located in older, declining urban areas, where one or more of the requirements of Section 203(b) cannot be met, may be eligible for Section 203(k) pursuant to Section 223(e). The instructions are in HUD Handbook 4260.1. DE Lenders cannot process loans in a 223 (e) area.
- 2-6. MARKET VALUE. To determine the estimate of market value after rehabilitation in any neighborhood, the appraiser must give full consideration to neighborhood improvements that are proposed and in progress through government action and/or organized community effort. In areas undergoing rehabilitation or revitalization, either with public or private funds, the value estimate must use market data from similar areas, including those that have been revitalized, as would be done in any other appraisal.

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