



March 4, 2010

**MEMORANDUM FOR:** All Approved Mortgagees and Appraisers Doing Business in the Jurisdiction of the Atlanta Homeownership Center (HOC) Caribbean Field Office

**FROM:** N. Daniel Rogers III, Director, Atlanta Homeownership Center (HOC)

**SUBJECT:** Atlanta Homeownership Center (HOC) Circular Letter 10-01: Standardized Appraisal Policies and Procedures Specific to Puerto Rico and the Virgin islands

In an effort to standardize and update processing for property related issues within the Caribbean Field Office jurisdiction, we are issuing the following Atlanta HOC policies and procedures. This Circular Letter replaces all previously issued Atlanta HOC Circular Letters pertaining to these topics. If you have any questions regarding the information contained in this circular letter, you may contact the Processing and Underwriting Division by e-mail at [answers@hud.gov](mailto:answers@hud.gov). You may also dial 1-800-CALL FHA (1-800-225-5342).

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1) Attached Wood Structure - The appraiser will determine if the wood structure is either an Accessory Dwelling Unit (ADU) or a second unit of a two unit property or an appurtenance that does not meet Minimum Property Requirements (MPR). An ADU is defined in the revised appraisal protocol, Appendix D of HUD HB 4150.2, page D-21. Based on the highest and best use, the wood structure may be considered a second unit instead of an ADU. If this is the case, the two to four family appraisal report form would be required. If the wood structure is not an ADU or 2nd unit of a two unit property, it should be treated as an appurtenance or accessory building such as one used for storage. The appraiser can give the structure contributory value or no value but must describe it in the report. Regardless of value, any safety issue, lead based paint and infestation observed by the appraiser must be inspected by a "qualified" professional chosen by the lender.

2) Domestic Hot Water – Although a hot water tank is not required, domestic hot water is required for the entire dwelling. Alternative hot water systems such as tank-less electric water heaters, solar hot water heaters, etc. are acceptable in lieu of hot water tanks. These alternative hot water heaters are excluded from the Technical Suitability of Products Program and therefore do not require approval by the Construction Standards Division at the Headquarters Office.

3) Septic Systems - A property is not eligible for FHA insured financing if there is a structure such as a shed, room addition, storage building, terrace, concrete driveway, etc. located on top of the septic system. If the appraiser observes this condition at site visit, the property should be rejected. A Direct Endorsement (DE) underwriter can correct this condition by following the recommendations of an engineer or other qualified professional. Repair or replacement of the septic system is an eligible item under the HUD Streamline K Rehab Program. **This requirement also applies to HUD REO properties even though the Property Condition Report (PCR) may indicate that the system is still functioning.**

4) Location Maps - In addition to the location map provided by the appraiser in the report addendum, a detailed street map with turn by turn directions is also required for the subject and each of the comps. In lieu of these additional directions, the appraiser may provide geographical coordinates so that the subject and comps can be located with a navigational system such as a Global Positioning System (GPS).

5) Multiple FHA Case Numbers - To prevent multiple case numbers for the same property, the lender should check in the case query screen in the FHA Connection for duplicate address. An exact match of the property address is necessary to ensure another case number has not been issued for the same property.

6) Property Flipping and Date of Acquisition for a Bank Owned REO Property - In calculating the 90 day resale period, the first date is the date of acquisition by the seller/owner of record and not the date the deed is recorded or presented to the Division of Registry. For a purchase of a bank owned REO property, the acquisition date will be the date the bidder's non-refundable cash bid is accepted by the seller. Although the acquisition date is not the date of the judicial sale, the judicial sale must take place prior to closing so the lender can obtain evidence of the owner of record. The second date used in calculating the 90 day resale period is the date the FHA buyer signs the contract.

7) Form HUD 54114 - Underwriters should not ask the roster appraiser to add repairs, delete repairs, change the effective date and/or the opinion of value after the appraisal report has been completed. The DE underwriter has the authority to change value using form HUD 54114 as long as there are comments to support the change. Please keep in mind that the underwriter cannot "mark-up" the actual URAR because this would invalidate the report. The form HUD-54114 can also be used to make corrections or add or delete repairs. This form should be included in the endorsement binder or in the case of Lender Insured (LI), in the origination binder.

8) Meters-Utility - Separate meters are not required if dwellings are under a single mortgage.

9) Legal Description – The appraiser must enter a legal description on page one of the appraisal or as an addendum if the space provided on page one is insufficient. It is not acceptable for the appraiser to merely state "see attached deed", when the deed is not incorporated into the appraisal as an addendum.

10) Public Water/Sewer Connection - The appraiser shall indicate whether a public water or sewage disposal system is available to the site. If available, connection must be made to public or community water/sewage disposal system if connection costs are reasonable. The lender will determine whether connection is feasible (Revised Appendix D of HUD Handbook 4150.2).

11) Market Conditions Addendum (Fannie Mae Form 1004MC/Freddie Mac Form 71) – The Form 1004MC is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. When there is a lack of market data, appraisers may employ a variety of methodologies such as using data from the appraiser’s work files in identifying trends. Appraisals of properties located in declining markets must include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal and two active listings or pending sales. If compliance with this requirement is too difficult or not possible due to the lack of market data, a detailed explanation is required.