



*Office of Single Family Program Development*

# FHA Appraisal Essentials: An In-Depth Look

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The information in this document is current as of the Last Update date noted above. This document does not establish or modify the policy contained in FHA's Handbooks and Mortgagee Letters in any way.





# Today's Presentation

An in-depth look at:

- FHA's *Single Family Housing Policy Handbook 4000.1* (SF Handbook), Appraisal and Property Requirements
- FHA's *Single Family Housing Appraisal Report and Data Delivery Guide*
- Electronic Appraisal Delivery(EAD)



# SF Handbook Overview

FHA's *Single Family Housing Policy Handbook* 4000.1 (SF Handbook) is a:

- **Consolidated;**
- **Consistent; and**
- **Comprehensive** single source for FHA Single Family Housing policy.



## USPAP Standards Rule 1-1 (In Part)

In developing a real Property appraisal, an Appraiser must:

- (a) be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.



# Appraiser Competency

## SF Handbook, I.B.1.b.i.(B)

- (B) Competency Requirement

The Appraiser must be knowledgeable of the Uniform Standards of Professional Appraisal Practice (USPAP) and FHA appraisal requirements. The Appraiser must meet the competency requirements defined in the USPAP **prior to** accepting an assignment. The Appraiser must be knowledgeable in the market where the assignment is located.



# Appraiser Independence

Appraiser **MUST** report attempts to influence.

- Email: [answers@hud.gov](mailto:answers@hud.gov)
- Phone: Monday-Friday, 8:00 AM to 8:00 PM, (Eastern)  
Toll Free: **(800) CALL-FHA** or (800) 225-5342; **and**
- **MUST** report to HUD OIG Hotline **(800-347-3735)**.

Appraisal Management Companies and Third Parties are **PROHIBITED** from influencing, or attempting to influence, the independence of the Appraiser and the Valuation Process!



# Legal Requirements

## Real Estate Entity

The Appraiser must contact the Mortgagee if the subject Property:

- Is not a single, marketable real estate entity; and/or
- Does not consist of a primary plot with a secondary plot contributing to the use and marketability of the Property as a single marketable real estate entity.



# Legal Requirements (cont.)

## Leasehold Interest

- **Forward Mortgages require:**
  - A renewable lease with a term of not less than 99 years; or
  - A lease that will extend not less than 10 years beyond the maturity date of the Mortgage.
- Sub-Leasehold Estates are not eligible for FHA mortgage insurance.



## Legal Requirements (cont.)

- **Reverse mortgages, or Home Equity Conversion Mortgages (HECM) require:**
  - A renewable lease for not less than 99 years; or
  - A remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor
- Sub-Leasehold Estates are not eligible for FHA mortgage insurance



# Legal Requirements (cont.)

## Party or Lot Line Wall

- A building constructed on or next to a Property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.



# Legal Requirements (cont.)

## Encroachments

- An encroachment may cause a Property to be ineligible. The Appraiser must identify any encroachments of:
  - The subject's dwelling, garage, or other improvement onto an adjacent Property, utility easement, etc.; and/or
  - A neighboring dwelling, garage, other physical structure or improvements on the subject Property.
- The Appraiser must contact the Mortgagee if, upon observation, it appears that an encroachment affects the subject Property.



# Legal Requirements (cont.)

## Easements and Deed Restrictions

- The Appraiser must analyze and report the effect that Easements and Deed Restrictions may have on the use, value, and marketability of the Property.



# Appraisal Reporting Requirements

- **Appraisal Report and Data Delivery Guide**
  - Posted to the HUD website;
  - Describes line-by-line reporting requirements for FHA appraisal report forms;
  - Includes FHA's Electronic Appraisal Delivery (EAD) and Fannie Mae/Freddie Mac Uniform Appraisal Dataset (UAD) formats and requirements.
- Appraisal software companies use the Guide to ensure that their products comply with FHA requirements.



# Electronic Appraisal Delivery (EAD)

- Followed the EAD and UAD formats and requirements provided in the Data Delivery Guide.
- Ensure your software has the most recent updates.
- Run the FHA checks and edits provided by your software company.



# Greatest Hits in EAD (Hard stops)

Hardstop	Description	Solution
9001 9002 9003	File is corrupt or not the required MISMO XML with embedded PDF created by appraiser's software (first generation)	Obtain proper format from appraiser and upload it
FHA 500	FHA Case number missing or invalid format	Ensure that the format is xxx-xxxxxxx. Make sure it is entered in the proper location. No extra text, no extra # such as FHA#xxx-xxxxxxx. No product code or extra numbers such as 123-1234567-703.
FHA 501	FHA Case number in appraisal does not match document file	Look for a transposed number or typing error in Document File and/or Appraisal
FHA 3300	Site Area must be greater than "0" unless under condominium ownership	Typical on 1025 and 1004C-FHA requires UAD format for this data. 10452 sf, 1.42 ac, 383 sqm. No extra text. Do not spell out square feet or acres etc. use exact format required
200	Missing Appraiser Certification	Typically, appraiser has enter the certification information in the area where it says license number. Must use the space for Certification Number. HERA required FHA to use only certified appraisers.
FHA 4200	Effective Date of Appraisal must be a valid date	Appraisers muse use mm/dd/yyyy and not spell out the date.



# Hard stop Greatest Hits FHA504

Hard stop	Description	Solution
FHA504	FHA Case Number on appraisal is not assigned to lender	<p>Typically caused (1) when a non-FHA entity tries to upload an appraisal or (2) by an error in defining the relationship in CHUMS. (1) If the entity trying to upload the appraisal is not an FHA approved entity with full access to FHA and is acting as a Sponsored Originator for the Authorized Mortgagee, then that entity cannot upload into EAD. (2) If both entities are FHA Approved and are authorized users of FHAC, but the originator has been declared as a "Sponsored Originator" in the Case number creation screen in FHAC by mistake (Sponsored Originator = Yes) , then that entry is treated by FHAC and EAD the same as the lender in scenario (1). Change the classification to "Sponsored Originator = No" to allow them to participate and EAD and FHAC will recognize that after the required system update time has passed.</p> <div data-bbox="1000 1079 1427 1196"><p><i>Field Office: Salt Lake City, UT</i></p><p><i>Is this a Sponsored Originator Case? No</i></p></div>





## Contract Analysis

- On a purchase, the Mortgagee must provide the Appraiser with a complete copy of the ratified sales contract, including all addenda.
- If there are concessions, down payment assistance, buyer incentives, and/or discounts, etc., analyze and explain the potential influence on the purchase price.
- **Comment on and analyze** any atypical sales, such as:
  - Sale price higher than list price; and/or
  - On market for longer than typical marketing time, but selling for list price.



# Neighborhood

*Common Deficiencies*

- Geographic boundaries and characteristics:
  - N, E, S, W; or,
  - Provide explanation why this is not practical.
- Factors affecting marketability of properties.
- Market conditions.
- Prevalence of seller and financial concessions.
- FHA still requires a full analysis of the neighborhood.
  - Do not limit your analysis to only comparable properties



# Decreasing and Increasing Markets

- Analyze market trends for at least the prior 12 to 24 months to establish benchmark for reporting present market conditions.
- Summarize your data and analysis. Include commentary on whether the trend is continuing or changing.
- Identify your data sources.
- Include an absorption rate analysis.
- Reconcile data and provide support for conclusions.
- See Sales Comparison Approach for further requirements.



# Site/Zoning

## Common Deficiencies:

- Site dimensions not included or erroneous references to county records or plat maps that are not included in the appraisal report.
- Failure to correctly identify zoning code or provide zoning description.
- Not adequately addressing EXCESS and SURPLUS LAND.



# Site

## Excess Land:

- Site is larger than typical; **and**
- A portion is capable of separate use and may be sold separately.

## Appraiser is to:

- Include highest and best use analysis supporting determination of excess land.
- Describe the excess land.
- Exclude value of excess land from total valuation.
- Value only the principal site and improvements under a **HYPOTHETICAL CONDITION**.



# Surplus Land

- Site is larger than typical, BUT
  - DOES NOT have an independent highest and best use;
  - Not necessary to support existing improvements; and
  - May contribute minimal value.
- Appraiser must:
  - Include value of surplus land (if any) in total valuation.
  - Explain contribution (if any) to total value.



# Externalities

- Externalities refer to off-site conditions that affect a Property's value.
- The Appraiser must:
  - Analyze and consider how Externalities affect the marketability and value of the Property.
  - Report the issue and the market's reaction.
  - Address any positive or negative effects on the value of the subject Property.



# Site Conditions

## Access to the Property

- Each Property must be provided with safe and adequate pedestrian or vehicular access from a public or private street.
- Adequate Vehicular Access is defined as an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.



# Private Road Access and Maintenance

- Private streets must have an ownership interest or be:
  - Protected by permanent recorded easements; or
  - Owned and maintained by a Homeowner Association (HOA).
- Shared driveways that are not part of an HOA must also meet these requirements.
  - Report evidence of a permanent easement; or
  - Determine if a maintenance agreement exists; and
  - Comment on the condition of the private road or lane.



# Legal Non-Conforming

- Analyze and report:
  - The highest and best use.
  - Any adverse effect that the non-conforming use has on the Property's value and marketability.
- State whether the Property can be legally rebuilt if destroyed to ensure the collateral continues to support the loan.



# Flood Zone: Determination & Responsibilities

- A Property is not eligible for FHA insurance if:
  - A residential building and related improvements to the Property are located within Special Flood Hazard Area (SFHA) Zone A, a Special Flood Zone Area , Zone V, or a Coastal Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
  - The improvements are, or are proposed to be, located within a Coastal Barrier Resource System (CBRS).



# Observing the Site

If Property is subject to hazards that:

- Endanger the physical improvements;
- Affect livability;
- Affect marketability; or
- Affect the health and safety of occupants?



## Site Hazards & Nuisances

- Subsidence and Soil Contamination
- Active or Planned Drill Sites
- Stationary Storage Tanks (300 feet/1,000 gallons—above or below ground)
- High Voltage and Overhead Transmission Lines/Towers



## Site Hazards & Nuisances (cont.)

- Grading and drainage
- Methamphetamine contamination
- Smoke, fumes, offensive noises, odors
- If evident on existing problems, the Property may not be eligible
- Analyze and explain in the appraisal report
- **TAKE PICTURES!!**

# Operating/Proposed Well



- If dwelling is within 75 feet of the site boundary of a proposed or operating well, the Appraiser must notify the Mortgagee that **the Property is ineligible** for FHA insurance, unless mitigated.
- The distance is measured from the dwelling to the site boundary.



## Abandoned Oil/Gas Wells and Slush Pits

- If evidence exists of an abandoned well on the subject or adjacent Property, the Appraiser must stop and notify the Mortgagee.
- The Appraiser may proceed and complete the assignment when the Mortgagee has provided a letter from the local jurisdiction or state agency, noting that the well was permanently abandoned in a safe manner.
- Slush pits: If located on the subject Property, complete the appraisal subject to removal of all unstable and toxic materials.



## High Pressure Gas Line Easement

- Dwelling or related improvements must be located more than 10 feet from the nearest boundary of the pipeline easement.
- Appraiser must determine and report the marketability.



# Individual Water Supply and Sewage Systems

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



## Other Hazards & Nuisances

- If unclear as to the severity of the condition, report it, and submit the completed report.
- The Mortgagee is responsible to clear the condition.
- The Mortgagee decides whether, or not, to accept the Property.
- Appraiser should always consider any marketability issues.



## Non-Residential Use

- Cannot exceed 49 percent of total floor area.
- Must be subordinate to residential use/must remain residential in nature.
- Must be legal and in compliance with zoning.
- Must analyze the Highest and Best Use.

# Accessory Units



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



# Accessory Dwelling Unit or Duplex?

Determination is made by the Appraiser considering:

- Highest and Best Use and market reaction.
- What is legally permissible?
- How is it viewed by market participants?
- If the ADU is rented, should not categorically result in determination as a two-unit.
- An accessory dwelling unit may or may not have separate electrical service.



# Additions and Converted Space

Treat room additions and garage conversions as part of the Gross Living Area (GLA) of the dwelling, provided that the addition or conversion space:

- Is accessible from the interior of the main dwelling in a functional manner;
- Has a permanent and sufficient heat source;
- Is legally permitted; and
- Was built in keeping with the design, appeal, and quality of construction of the main dwelling.



## Additions and Converted Space (cont.)

Additions/conversions that do not meet this criteria:

- Address as a separate line item in the sales grid, not in the GLA.
- Address the impact of inferior quality garage conversions and room additions on marketability as well as their contributory value, if any.

The Appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space.



## Additions and Converted Space (cont.)

If the Appraiser includes converted spaces as GLA:

- The Appraiser must include a description of the composition of the GLA reported for the comparable sales.
- The functional utility of the subject versus the comparable properties.
- Market reaction.



# Property Improvements

## Appliances

- Cabinets and built-in appliances that are considered real Property must be present and operational.
- The Appraiser must observe the operation of all conveyed appliances (***defined as real estate***) and observe their performance.

*NOTE: (HUD does not expect Approved FHA Roster Appraisers to operate, inspect, or value personal Property.)*



# Defining the Stage of Construction

Appraisers must specifically describe the stage of construction.

- Check the appropriate box
  - Existing
  - Proposed
  - Under Construction



# Construction Exhibits for Appraiser

## Under Construction: More than 90 Percent Complete

- Builder's Certification of Plans, Specifications, and Site.
- Note all unfinished items and/or repairs, and complete the appraisal as: "subject to the following repairs or alterations".
- A cost-to-cure must be provided.
- Final inspection by a fee inspector required, unless Building Permits and Certificate of Occupancy (CO) are issued. If Permits and CO are issued, the Mortgagee can have any credible entity perform the final inspection (must use HUD-92051 – Compliance Inspection Report).



# Crawl Space

**Photo  
Required**

The Appraiser must visually observe all areas of the crawl space.

- Floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing if present.
- If there are any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.
- Must be properly vented unless the area is mechanically conditioned.
- Must be free of trash, debris, and vermin.
- Must not be excessively damp or have pooling water. If moisture problems are evident, a vapor barrier and/or prevention of water infiltration must be required.



# Foundation/Basement

**Photo  
Required**

- Blocked or inadequate access.
- Evidence of water damage.
- Cracks or erosion in exposed areas that could affect structural soundness.



# Reminder

- The nature and degree of any noted deficiency will:
  - Determine whether the deficiency will require repair; or,
  - Be addressed as deferred maintenance by the Appraiser.
- Provide a cost estimate for required repairs.
- Mortgagee is responsible to clear the condition.
- Underwriter decides whether, or not, Property is eligible for FHA insurance.



# Appraisal Report Delivery Requirements

## Electronic Appraisal Delivery (EAD-FHA) and Uniform Appraisal Dataset (UAD - GSEs)

- UAD field specific requirements are not a substitute and do not exempt FHA Roster Appraisers from the requirement to provide explanation regarding methodology, anomalies, Property deficiencies or other conditions that may impact value and marketability.
- If the appraisal is made “subject to,” the condition rating must reflect the as-repaired condition.



# Neighborhood Conformity

- Is the subject Property:
  - An over-improvement for the neighborhood?
  - Unique or significantly different from homes in the neighborhood (design/style, stories, age, etc.)?
  - Suffering from excessive deferred maintenance?
  - Site typical to the neighborhood (size, amenities, and appeal)?
- Did you go outside of the neighborhood for to obtain more similar properties?
  - Consider non-conformity and its effect on the subject.
  - Provide supportive justification.



## Observing the Attic (cont.)

- Did you see?
  - Signs of water damage.
  - No ventilation by vent, fan, or window.
  - Fallen/disconnected heating/cooling vent pipes.
  - Infestations or droppings.
  - Frayed/gnawed wiring.
  - Evidence of prior fire damage.

***NOTE: Complete observation required!***



# Observing the Electrical System

- Do electrical switches function?
- Presence of sparks or smoke from outlet(s)?
- Exposed, frayed, or unconnected wiring?
- Large house but only a few circuits in the service panel?

Look around, check a representative sampling...



# Observing Plumbing System

## Water

- Limitation of pressure
  - Turn on the sink, flush the toilet
- No hot water

## Toilet

- Toilets do not function
- Presence of leaks

## Sinks/Bathtubs/showers

- Basin or pipes leak
- Water does

## Sewer System Malfunction?



# Observing Furnace/Heating System

Permanently installed, conventional system:

- Automatically heats all GLA to a minimum of 50 degrees;
- All non-GLA containing building or system components must maintain a minimum of 50 degrees;
- Heat source relies upon a fuel that is readily obtainable within the subject's geographical area;
- Has market acceptance; and
- Must operate without human intervention.



# Energy Efficient Components

Appraiser must utilize all appropriate methods of valuation.

- Valuation of Solar Components is not limited to only a paired sales method.
- Proper appraisal practice reminders:
  - Apply the Principle of Contribution
  - Estimate the contributory value of the real estate
  - Direct Sales Comparison Approach Cost Approach
  - Income Approach
  - Reconciliation of the Approaches



# Funding Energy Efficient Components

## Property Assessed Clean Energy (PACE) or Leased Components

- Property Assessed Clean Energy (PACE)
  - Taxing body applies a special assessment on the tax bill to collect the payment for the improvement.
  - Appraiser must analyze and if appropriate, adjust to market reactions.
- Leases for equipment must not violate 24 CFR 203.41
  - No lease can be superior to the FHA mortgage. Leased systems should not be included in the market value of the subject.

***NOTE: Ensure Appraiser Competency for complex assignments!***





# Energy Efficient Mortgage (EEM)

- See SF Handbook; and
- The Department of Energy's website:  
[http://www.energystar.gov/index.cfm?c=home\\_improvement.hm\\_improvement\\_contractors#s1](http://www.energystar.gov/index.cfm?c=home_improvement.hm_improvement_contractors#s1)



# Sales Comparison Approach

There are	comparable properties currently offered for sale in the subject neighborhood ranging in price from \$	to \$
There are	comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$	to \$

Common Deficiency:  
Reporting a price range of all  
sales, not ***comparable sales***

## Comparable Listings

- Number of comparable listings within the subject neighborhood, with the price range

## Comparable Sales

- Number of comparable sales that occurred within the 12-month period preceding the effective date of the appraisal, and within the subject neighborhood, together with the price range



# Selection of Comparable Properties

- Identify relevant market area, then:
  - Select properties to compare using bracketing methods.
  - Only include non-arm's length transactions if the market analysis indicates they are appropriate.
  - Do not select comparable properties by price.
- Utilize the most recent and relevant sales.
- There is **NO RULE LIMITING TO ONLY THREE** comparable properties!
  - Listings and pending sales may be used as supplemental data.
  - FHA requires that at least three sales that sold within the past 12 months.



## Verification Sources

- Enter verification source(s). MLS by itself is not considered a verification source.
- Contacting someone with first-hand knowledge (agent, broker, seller, etc.), is the preferred method of verification.
- Ask specifically about seller concessions.
- A single source may be used if the quality of data is such that sales data is confirmed and verified by settled transactions (least preferred method).
- Do not use or rely heavily on any sale that was not verified with an involved party or one of their representatives.



# Sale or Financing Concessions

## EAD/UAD Format

- Line 1: Sale type
- Line 2: Financing type and total amount of concessions in UAD Format
- Make market-based adjustments to the comparable sales for any concessions that may have affected the sales price
- Adjustments must reflect the difference between the sales price with the sales concessions and what the Property would have sold for without the concessions



# Declining Markets

- Include at least two comparable sales that closed within 90 days of effective date. If unable, provide a detailed explanation.
- Include at least two active listings or pending sales.
  - Must be market tested with reasonable exposure; avoid overpriced properties.
  - Use the contract price when available; if not available, apply appropriate list-to-sale price ratio adjustment.
  - Include list price history. Explain days on market that are atypical.
  - Reconcile adjusted values of listings with adjusted values of sales. If lower, determine if a market conditions adjustment is appropriate.



# Changing Markets - Increasing or Declining

- Market condition (time) adjustments
  - If time adjustments are warranted, apply to date of contract, not closing date.
  - Provide summary and support for application of time adjustments.
  - Adjustments must be consistent with market trend findings in Neighborhood Section.
  - If time adjustments are based on a published source, a copy of the source material must be included.



## Sales Comparison Grid

- Use descriptive terms to define the subject Property and comparable sales
- Analyze the differences and adjustment and explain them to the reader
- UAD field specific requirements are not a substitute and do not exempt FHA Roster Appraisers from the requirement to provide explanation regarding methodology, anomalies, Property deficiencies, or other conditions that may impact value and marketability



## Sales Comparison Grid (cont.)

- Use market-based adjustments
- Provide an explanation of the relevance of that Property if line, net, and gross adjustments exceed 10 percent, 15 percent, or 25 percent, respectively.
- Sales over six months old require an explanation so that the reader will understand their relevance and inclusion in the analysis.



# Reconciliation of Approaches to Value

## Sales Comparison Approach

- Reconcile the approach, include a brief description of its validity with respect to the appraisal assignment.
  - Explain the selection of comparable properties;
  - Explain rationale for adjustments;
  - Explain any adjustments exceeding recommended guidelines; and
  - Explain which comparable Property was given most weight or consideration, and why.



# Reconciliation of Approaches to Value (cont.)

## Cost Approach

- Reconcile the approach, include a brief description of its validity with respect to the appraiser's assignment.
  - Discuss the process to:
    - Estimate the value of the site;
    - Calculate the cost to construct the improvements; and
    - Calculate the accrued depreciation.
  - Discuss the relevance of the conclusion in relation to the subject Property and current market conditions.



# Reconciliation of Approaches to Value (cont.)

## Income Approach via Gross Rent Multiplier (GRM)

- Reconcile the approach, include a brief description of its validity with respect to the appraiser's assignment.
  - Discuss the process to:
    - Estimate the market rent for the subject;
    - Calculate an appropriate GRM from current market data; and
    - Calculate the estimate of value by this approach.
  - Discuss the relevance of the conclusion in relation to the subject Property and current market conditions.



# Conditions of Value Conclusion

- As Is
  - No repairs, alterations, or required inspections.
  - Establishing the “as is” value for 203(k).
  - Recommending the Property for rejection.
  - All HUD Real Estate Owned (REO) for establishing a listing price.
- Subject to Completion per Plans and Specs
  - New/proposed construction—Less than 90 percent complete.
  - 203(k) Standard based on repair/improvements estimate.



## Conditions of Value Conclusion (cont.)

- Subject to Repairs or Alterations
  - New construction – Over 90 percent complete with only buyer-preference items remaining.
  - 203(k) limited.
  - Existing properties not meeting MPR/MPS.
  - HUD REO for resale.
- Subject to Required Inspection(s)
  - May be beyond the scope of an Appraiser's expected expertise.



# Reconciliation

- Analyze and describe the contributions and credibility of each approach.
- Discuss the condition of value employed in the value conclusion and its effect on the credibility of results.
- Reconcile all approaches to a single point estimate of value.



# Cost Approach Reminders

Must ALWAYS be considered (to comply with USPAP)

- FHA inclusion of the cost approach when:
  - New Construction of Manufactured Housing
  - Unique Properties
  - Properties with Specialized Improvements
  - Specifically Requested by the Mortgagee
  - Required for Credible Assignment Results
- Provide the name of the cost service and reference page numbers of cost tables or factors (to be credible, data must be current). Reviewer or reader must be able to replicate

***NOTE: Remaining Economic Life must be included for every FHA appraisal (even if cost approach is not completed).***



# Manufactured Housing





# Manufactured Housing Additional Resources

- Permanent Foundation Guide for Manufactured Housing (HUD-7584)
- Institute for Building Technology and Safety (IBTS)

***NOTE: Appraisal report must be EAD compliant***



# Factory Built Homes

## Manufactured

Constructed to comply with the Federal Manufactured Home Construction & Safety Standards.

## Modular

Constructed to comply with the local State codes and the Uniform Building Code (UBC) or International Residential Code (IRC).



# Manufactured Housing

## Regulation Compliance

- Must be built after June 15, 1976.
- Never occupied at any other location.
- At least 400 square feet of GLA.
- Classified as real estate by local jurisdiction.
- Licensed, local engineer must certify the foundation system is in compliance with the “Permanent Foundations Guide for Manufactured Housing” (9/96).
- If used as a model home on the dealers lot, that is okay. If moved from the dealers lot to a storage facility, this is not okay.



# Manufactured Housing

## Flood Zone

- All manufactured homes located in Flood Zones A or V are **not eligible** for FHA mortgage insurance without:
  - FEMA issued Letter of Map Amendment (LOMA);
  - FEMA issued Letter of Map Revision (LOMR); or
  - Acceptable Elevation Certificate

# Manufactured Housing: Modular? Manufactured? Site Built?



You can no longer tell sitting at the curb.

# Manufactured Housing: Modular? Manufactured? Site Built? (cont.)



You can no longer tell sitting at the curb.

# Modular Housing





## Modular Housing (cont.)

- Could Have a Steel Undercarriage
- Could Have a Wooden Floor Structure
  - **Be aware of some recent trends that make it harder to distinguish.**
- Built to State and UBC Codes
- Will Not Have a HUD Label



# Manufactured Housing

## Common Deficiency: Failure to Analyze the Manufacturer's Invoice

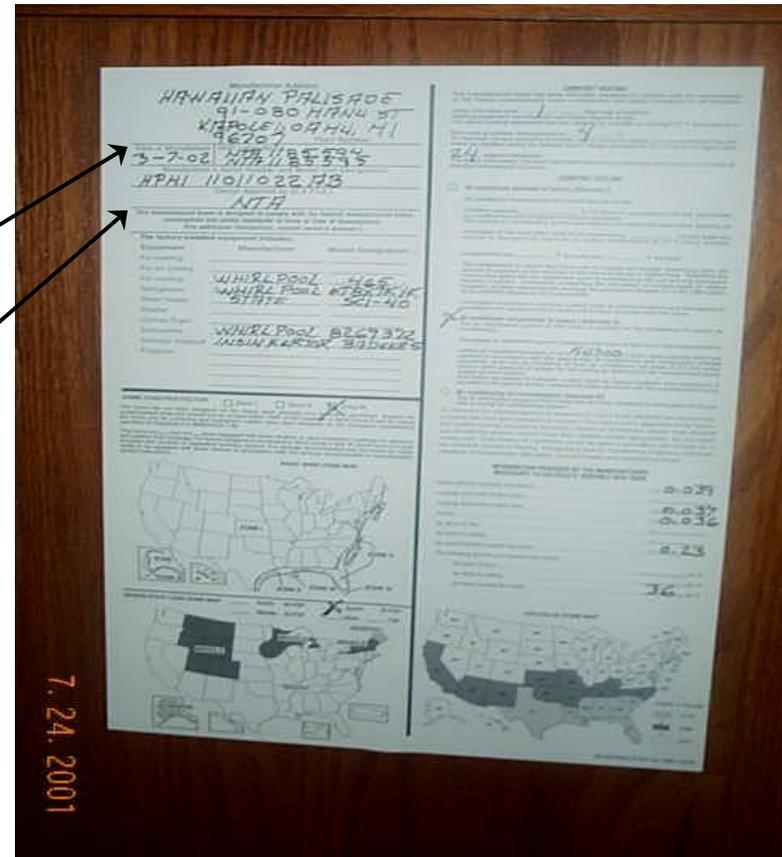
C O N T R A C T	<input type="checkbox"/> did <input type="checkbox"/> did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.		
	Contract Price \$	Date of Contract	Is the property seller the owner of public record? <input type="checkbox"/> Yes <input type="checkbox"/> No Data Source(s)
	Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, report the total dollar amount and describe the items to be paid.		
	<input type="checkbox"/> did <input type="checkbox"/> did not analyze the manufacturer's invoice. Explain the results of the analysis of the manufacturer's invoice or why the analysis was not performed.		
	Retailer's Name (New Construction)		

# Manufactured Housing

**DATA  
PLATE**

**HUD  
Certification  
Label Number**

**Serial Number**





# Data Plate

What to look for:

- Manufacturer's Serial Number(s) or Vin Number(s)
- HUD Certification Label Number(s)
- Manufacturer's Name, Model, and Date Manufactured
- Wind, Roof Load, and Thermal Zones



# HUD Certification Label

## Certification Label (Tag or Seal)

- Must have HUD Certification Label affixed to the tail-light end of each transportable section.
- Multi-section homes will have one certification label for each section.



## Missing HUD Tag(s)

If the house is missing the HUD Certification Labels/Tags:

- Mortgagee:
  - Must be notified by the Appraiser.
  - Can obtain the label and/or serial number from data plate or chassis.
  - Must contact IBTS\* for label verification.

(\*Institute for Building Technology and Safety, Inc.-[www.ibts.org](http://www.ibts.org))



# Engineer's Certification

- The Appraiser should indicate if a copy of the Engineer's Certification of the foundation's compliance was provided by the Mortgagee.
- Should be provided by the Mortgagee, EXCEPT for the following:
  - FHA/HUD Real Estate Owned (REO) sales.
  - FHA-to-FHA transactions (streamline), provided that no modifications have been made to the foundation since the original certification.



# Skirting



## Skirting (cont.)





# Additions





# Additions to Manufactured Housing

If the Appraiser observes additions or structural changes to the original manufactured home, the Appraiser must condition the appraisal upon inspection by:

- The state or local jurisdiction administrative agency that inspects Manufactured Housing for compliance; or
- A licensed structural engineer may report on the structural integrity of the manufactured dwelling and the addition if the state does not employ inspectors.

***NOTE: Required for HUD REO.***



# Selection Of Comparable Properties

- At least two of the comparable sales must be manufactured homes (when possible):
  - Use best available comparable properties;
  - Make market supported adjustments; and
  - May need to use site-built homes, for the other comparable sales.
- Combining of Land and Home Sales is NOT ACCEPTABLE.
- If it is necessary to expand the search parameters, an explanation is required. (Always consider neighborhood non-conformance.)



# Cost Approach

- Required if new construction (less than one year old and initial sale from manufacturer/dealer).
- If retail purchase price, including delivery, installation and set up costs are available, the Appraiser may use this information instead of a cost service.
- Copy of invoice(s) showing all costs must be appended to report.
- Validity and reliability of the value derived by the cost approach must be discussed in the reconciliation section.



# Reconciliation

Must require engineering inspection, if:

- Evidence of Structural Defects
- Other problems with:
  - Foundation
  - Set-up (includes dry-stacked piers)

Remember the two exceptions to this rule:

- HUD REO
- FHA Streamline Refinance



# Condominium or Planned Unit Development (PUD)?

## Condominium

- One-family unit in a project with an **undivided interest in the common areas** and facilities that serve the project.
  - May include dwelling units in detached, semi-detached, row garden-type, low or high rise structures.
  - Minimum units allowed in the project is two (2).

## Planned Unit Development (PUD)

- Development contains **common areas and facilities owned by a homeowners' association** to which all homeowners must belong and to which they must pay lien-supported assessments.



# Condominium Reporting Requirements

*Common Deficiency*

- **Remaining Economic Life** - entered in the Reconciliation section of the Form 1073 . Appraiser must comment on any properties with less than 30 years remaining on its economic life.
- Report and discuss if there is any commercial space in the project. **Approved condominiums are limited to 25% commercial area, however exception requests up to 35% may be considered on a case-by-case basis with the FHA jurisdictional Homeownership Center (HOC).**



# Condominium Reporting Requirements

- Site Condos
  - Must be completely detached;
  - Reported on Form 1073; and
  - Should use site condos for comparison sales.
- Manufactured Housing Condominium Projects
  - Reported on Form 1004C;
  - Provide the Project Information as would be found in that section of the 1073 and include in the appraisal as an addendum; and
  - Comparable properties must be manufactured homes under a condominium regime.

# Manufactured Home Under Condominium Regime – Acceptable?





# Small Residential Income Property Appraisal

- A four-unit dwelling with an accessory unit is ineligible for FHA financing
- If one or more of the units is a manufactured home, the Appraiser:
  - Completes the HUD Data Plate and Improvements sections from the Form 1004C; and
  - Appends the data into the appraisal report.

***NOTE: Appraisal report must be EAD compliant.***



# Objectives of the REO Appraisal

## Two Types:

- Appraisal for Asset Manager/Field Service Manager:
  - Serves as the primary tool for determining the listing price of HUD REO properties.
- Appraisal for Mortgagee:
  - Serves as the primary tool for the mortgage finance transaction. (This is a separate appraisal that is completed after HUD has accepted an offer from the buyer.)



# REO Property Analysis and Reporting

If the utilities were off:

- Note in appraisal which utilities were off;
- Rely upon the Property Condition Report (PCR) and reference the PCR in the applicable sections; and
- Append a copy of the PCR into the report.



# Adverse Property Issues

If:

- Appraiser is unable to determine the extent of required repairs.
- Repair requirements or condition are beyond the scope of an Appraiser's expertise.

Then:

- Prepare **'as is'**, disclosing the **Extraordinary Assumption**, which, if found to be false, could alter the Appraiser's opinions or conclusions.
- Recommend inspection by **appropriate professional**.



# Preparing the Report

- The appraisal report will include:
  - Typically required forms and addenda; and
  - Copy of the Property Condition Report (PCR) from the Asset Manager.
- **Must** disclose discrepancies between the PCR and what the Appraiser observes during the inspection of the Property
- Discrepancies must be noted and ***highlighted*** in the appraisal

HUD REO Resources: SF Handbook, II.B.12.e HUD Real Estate Owned Properties





# Statement of Insurability

- Statement of Insurability in **bold font**: must be included in the Comment Section of the appraisal report.
  - Insurable (As Is)
  - Insurable with Repair Escrow (\$10,000 or less)
  - Uninsurable (more than \$10,000 in repairs)
- Indicate if the Property can be sold with FHA mortgage insurance.



# Sales Comparison Approach

## Assignment is to provide Market Value

Use Non Arm's Length Transactions **ONLY** when they are deemed to be the best available for the market area **AND** are:

1. Located in the subject neighborhood or reasonable proximity (same influences?);
2. Comparable Property subject to reasonable adjustment;
3. Sold with a **willing** buyer and seller;
4. Exposed to the market for a reasonable period; and
5. Supported by appropriate justification/explanation.



# Appraisals of Unimproved Land

May be necessary when:

- Improvements have NO contributory value; or
- Property is condemned, in part or in whole.

Include information and certification per the SF Handbook

- A General Purpose Land Appraisal Report providing that data is acceptable.



# REO Appraisal For Purchase by HUD

## Mortgagee/HUD as Intended User

- Appraiser must verify that properties meet MPR/MPS.
- Prepared in accordance with HUD REO protocol, except:
  - Completed “As Is” only if meets MPR/MPS.
  - If does not meet MPR/MPS, complete “Subject to Repairs” and provide a cost to cure.



# Section 203(k) Rehabilitation Mortgage Appraisals

## SF Handbook 4000.1, II.D.12.c

- **Standard 203(k):** The Standard 203(k) Mortgage may be used for remodeling and repairs. There is a minimum repair cost of \$5,000 and the use of a 203(k) Consultant is required.
- **Limited 203(k):** The Limited 203(k) Mortgage may only be used for minor remodeling and non-structural repairs. The Limited 203(k) does not require the use of a 203(k) Consultant, but a Consultant may be used. The total rehabilitation cost must not exceed \$35,000. There is no minimum rehabilitation cost.



# Section 203(k) Rehabilitation Mortgage Appraisals

## Eligible Properties:

- Existing one- to four-unit structure
- Mixed use (business = no more than 49% of total floor area)

### **MUST REMAIN RESIDENTIAL IN NATURE**

- Individual Condominium unit, meeting specific requirements: see SF Handbook
- Site Condominium unit
- Manufactured Housing where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the Federal Manufactured Home Construction and Safety Standards
- HUD Real-Estate Owned (REO) Property



# Section 203(k) Rehabilitation Mortgage Appraisals

## “As Repaired” vs. “As Is”:

- The Appraiser may be asked to perform two separate types of valuation by the Mortgagee for Standard 203(k) and Limited 203(k) Rehabilitation Mortgages.
- The Mortgagee may order both reports from the same Appraiser or select two different Appraisers for the two valuation assignments.
- **IF** a Mortgagee requires both an **as-is** and an **after-improved** value of the Property, the case will require **two separate** appraisal assignments and reports:
  - An analysis to provide the as-is value; and
  - A separate analysis performed under the hypothetical condition that the repairs have been completed.



# Section 203(k) Rehabilitation Mortgage Appraisals

## Appraisal “As Repaired”:

- The Appraiser must provide an “After Improved Value.” The Appraiser must make the appraisal “subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed.”
- The Appraiser must review the 203(k) Consultant’s Work Write- Up or the contractor’s proposal and Cost Estimates. The Appraiser must notify the Mortgagee of any health and safety issues in the Property that are not addressed in the Work Write-Up or proposal.
- The Appraiser must include the Work Write-Up or proposal as an exhibit to the appraisal report.



# Section 203(k) Rehabilitation Mortgage Appraisals

## Appraisal “As Is”:

- Assignment conditions for the “as is” appraisal are the same as all other FHA appraisal assignments, except that the value of the Property is to be estimated “as is” even if the Property does not meet Minimum Property Requirements.
- The Appraiser must provide an analysis and report of the value of the subject Property in its “as is” condition. If the Appraiser observes deficiencies, the Appraiser must report these deficiencies and note that the Property, in its “as is” condition, does not meet Minimum Property Requirements.

**Appraisal must not be completed “subject to repair”.**



# Resources

- SF Handbook
  - II. Origination Through Post-Closing/Endorsement
    - D. Appraiser and Property Requirements For Title II Forward and Reverse Mortgages
- *Appraisal Report and Data Delivery Guide*
- Mortgagee Letter 2011-22
  - Condominium Approval Process for Single Family Housing



## The FHA Resource Center

- Knowledge Base: [www.hud.gov/answers](http://www.hud.gov/answers) — **1600+ Qs and As** addressing 90 percent of our phone calls **and** announcements of policy changes and training opportunities.
- Email: [answers@hud.gov](mailto:answers@hud.gov)
- Phone: Monday-Friday, 8:00 AM – 8:00 PM (Eastern)  
Toll Free: **(800) CALL-FHA** or (800) 225-5342
- *Single Family Housing News* (FHA INFO) emails: Frequent email notifications of new policies and training opportunities for anyone who signs up.



**THANK YOU!**