

General

Homebuyer Summary Form

1. Is the Homebuyer Summary Form required for refinances?

Yes, on refinances from conventional financing to FHA and on cash-out FHA to FHA refinances. The lender must ensure that the appraiser is fully informed on the type of appraisal that is being ordered. Appraisers may routinely wish to complete the Valuation condition (VC) Form and the Homebuyer Summary.

2. Is the Homebuyer Summary Form required for streamline refinances with appraisals?

On streamline refinances with appraisals, all that is required is the VC form, not the Homebuyer Summary. Although FHA does not require repairs (except for lead based paint repairs) on streamline refinances with appraisals, the lender may require completion of repairs as a condition of the appraisal.

3. Is the Homebuyer Summary Form required for existing properties (over one year old)?

Yes. The form is also required for existing properties less than one year old. The form is not required for proposed construction and properties under construction.

4. Should the Homebuyer Summary reflect only items needing repair, or should it also reflect certifications that may be required (termite inspections, well test, septic certifications, etc.)?

The Homebuyer Summary should reflect ALL conditions noted on the VC Form; if none, the appraiser should so state.

5. If there are no repairs or conditions, is the Homebuyer Summary Form still required?

Yes.

Valuation Conditions (VC) Form

1. Appraisers are concerned that a completed VC Form will be interpreted by some in the home purchase process as being equivalent to a Home Inspection. What measures are in place to ensure this will not happen? What role does the Lender play here?

The VC Form is for use by lenders and will not typically be issued to the borrower(s). Purchasers are provided with the Homebuyer Summary, which specifically provides them

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with a summary of the observations of an appraiser who visited the property, plus reminds them that an appraisal is different from a home inspection. The Lender's role is to ensure that the borrower(s) understand the Homebuyer Summary and acknowledges receipt of the form. Also, Form HUD-92564-CN "For Your Protection: Get a Home Inspection" is presented to the buyer(s), and requires a signed acknowledgment, before or at the same time the contract is executed.

2. Is the VC Form required for existing properties (over one year old)?

Yes. The VC form is also required for existing properties less than one year old. The form is not required for proposed construction or for properties under construction.

3. Is the VC Form required on a 203(k) case?

The VC Form is not required on a 203(k) case. However, if the appraiser identifies repair conditions that were not noted in the Plan Review (Specifications of Repairs/Work Write-Up) for the 203(k) loan, the appraiser should notify the lender before proceeding any further with the appraisal.

4. Why is there a "no" response available in sections VC-2 through VC-13, but not in VC-1?

"Yes" to any VC-1 item may make the property ineligible for FHA financing, as the condition cannot be remedied. "Yes" to VC-2 through VC-13 can usually be remedied.

5. What is the definition of "Readily Observable"?

Observations made by the appraiser of conditions that are immediately discernable and noticeable during the typical site visit. The appraiser is not required to move furniture, equipment or cause damage to the property.

6. What is a representative sample?

For multiple identical components such as windows and electrical outlets, one such component per room. For multiple identical exterior components, one such component on each side of the building.

7. Please explain the requirements for a termite inspection and are they also required for condominiums?

If the structure is ground level, or if the structure is wood and touches the ground, a termite inspection is required. In those geographic areas, which are not susceptible to termite infestation, a termite inspection is not required. However, an appraiser must note any infestation, any damage resulting from previous infestation, repairs due to infestation, or repairs necessary due to infestation. For condominiums, termite inspections are

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required for the first floor units only. If the unit is located on the second floor or above, a termite inspection is not required.

8. Please address the eligibility of properties located within 300 feet of a gas station.

The appraiser would note this on the VC Form, describe its impact on value or marketability on the URAR, and finish the appraisal. It would not necessarily render the property unacceptable. The DE Underwriter is required to provide a written disclosure to the borrower that the property is located within 300 feet of a gas station.

9. Page 2-1-C of the Handbook states that, if a dwelling is less than 2 years old, the appraiser must indicate the year and month the home was completed. What is meant by the term “completed” and explain why this information is necessary.

The purpose of this provision is for the application of the Cost Approach. The Handbook requirement will be reduced from two years to “thirteen months”. “Completed” is defined as 100 percent complete.

10. Page 2-10 of the Handbook states that low voltage power lines may not pass over any structure on the property. What structure or structures are we discussing?

“Structure” is limited to the primary living unit. Should the appraiser indicate that the lines pass over other structures they should keep in mind the safety of the occupants of the property. If the line(s) is/are considered unsafe, it should be noted on the VC Form to require correction of the condition to satisfy the safety issue.

11. If the appraiser is unable to take the required photographs to show the front, rear and sides of the improvements because of shrubbery, topography, etc., what should he/she do?

The appraiser should make every attempt to take the required photographs. If not possible, the appraiser should so state on the appraisal report.

12. If the appraiser does not know the location of the private well or septic tank drain field, how can the distance between them be documented?

If the appraiser is unable to make the determination, a condition requirement will be made on the VC Form. The DE Underwriter can clear the condition by obtaining satisfactory evidence from a qualified party that the distance requirements (between the two systems, and between the systems and property line) have been met.

13. Section 3-6A-11 indicates that the crawl area space must be 18” – is this the distance from the bottom of the joists or from the sub-floor? Please clarify “Enter” for crawl space and attic areas.

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The Handbook will be clarified, as follows: “The minimum distance is 18 inches from the bottom of the joists”. 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. In any event, the crawl space and accessibility dictates the level of entry. However, the appraiser will visually examine the crawl space for inadequacies (see HUD HB 4150.2 Chapter 3-6 A-11 and Protocol for VC-8). The attic must be examined whether access is by pull-down stairway or scuttle. At a minimum head and shoulders entry. However, size and accessibility dictates the level of entry. The requirement to examine the crawl space and attic is not a new requirement nor has the requirement changed.

14. When is a handrail necessary?

A handrail is necessary usually when three or more risers are present. However, if a situation poses a safety issue for the occupants, a condition requirement should be made regardless of the number of risers.

15. VC-11 references multiple broken windows. What if there is only one broken window?

All broken windows should be repaired or replaced, as necessary.

The URAR and Other Issues

1. Why can't appraisers use comparables over 12 months old, especially in rural areas where it is difficult to obtain comparables that are more recent?

For FHA purposes, a sale over 12 months old is not acceptable as a comparable. The appraiser should go to a competing neighborhood; however, an older sale may be used as a fourth or fifth comparable sale to supplement the three comparables and to demonstrate market trends or marketability. For the three comparables, however, the search must be sufficient to capture comparables from the past 12 months.

2. On Page D-9, Room Grid, appraisers are instructed to enter the appropriate square footage for each designated room. Is this correct?

No. The Handbook will be revised to reflect “enter the number of each type of room on each level. Show the appropriate area square footage for each designated level”

3. How are sales concessions to be addressed by the appraiser when completing the URAR?

Sales concessions influence the price paid for real estate. It may be in the form of loan discount points, loan origination fees, settlement assistance, payment of condo/PUD fees, builder incentives or the inclusion of non-realty items in the transaction. As noted in

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Handbook 4150.2, Chapter 4 – The Valuation Process: sections 1-A, 6A-3, 6A-8, 6B, and under Sales or Financing Concession in the protocol section on Value Adjustments, appraisers are required to verify and analyze all sales on a cash-equivalent basis (interest rate buy downs, below market financing, owner financing, etc).

As stated in the Appraisal of Real Estate, Eleventh Edition:

In cash equivalency analysis, an appraiser investigates the sales price of comparable properties that appear to have been sold with non-market financing to determine whether adjustments to reflect typical market terms are warranted. First, sales with non-market financing are compared to other sales transacted with market financing to determine whether and adjustment for cash equivalency can be made. *Market evidence is always the best indicator of such an adjustment.* However, buyers rarely, if ever, rely on strict dollar for dollar cash equivalency adjustments.

The appraiser must verify all sales transactions for seller concessions and report those findings on the URAR. The amount of the negative adjustment to be made to each comparable with sales or financing concessions is equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. It should be noted that the need to make negative adjustments and the amount of the adjustments to the comparables for sales and financing concessions are not based on how typical the concession might be for a segment of the market (large sales concessions can be relatively typical in a particular segment of the market and still result in sales prices that reflect more than the value of the real estate). The adjustment must reflect the difference between what the comparables actually sold for with the sales concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions. In the case where the subject has a sales concession, and the comparable(s) did not, the appraiser does not add nor deduct for the subject's sales concessions (comparables are never adjusted upward or a sales concession).

The appraiser should be discussing the purchase agreement, including any sales concessions for the subject; on page two of the URAR in the section marked "analysis of any current agreement of sale".

Item 5 of the Definition of Market Value, (which is included with every residential appraisal) as shown above the Statement of Limiting Conditions and Appraiser's Certification states: "The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale."

*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by the sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or

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creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of financing or concessions but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment. Verification of sales date and confirmation of seller concessions, if any, provides the lender client and FHA with a more thorough and accurate report on which to rely for mortgage lending and insurance decisions.

4. What exhibits are required to be submitted with the appraisal in order to be in compliance with HUD's reporting requirements?

An appraisal performed for HUD/FHA purposes requires that all sections of the Comprehensive Valuation Package (CVP) must be completed. The CVP constitutes the reporting instrument to HUD for FHA-insured mortgages. It consists of three parts. Part 1 is the fully completed URAR with the required attachments (addenda, maps, building sketch, photos, certifications, limiting conditions, etc.). Part 2 is the completed Valuation Condition Form (HUD-92564-VC), and Part 3 is the Notice to the Homebuyer report called the Homebuyer Summary (HUD-92564-HS). Appendix D of the Handbook 4150.2 explains the data requirements for the forms. The appraiser provides the lender/client with one original report plus one copy (containing original signature and photos).

Exceptions to these reporting requirements include new or proposed construction and some refinances. The Valuation Condition Form (Part 2) and the Homebuyer Summary Form (Part 3) are not required for proposed or under construction properties, however, both forms are required for existing homes that are less than one year old. The VC Form and the Homebuyer Summary are not required for the 230(k) appraisals, as the repairs should be addressed in the Plan Review/Specifications of Repairs. For Streamline refinances, the Homebuyer Summary is not required.