



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: June 27, 2025

Mortgagee Letter 2025-18

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All FHA-Approved Title I Lenders
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Rescission of Outdated and Costly FHA Appraisal Protocols

Purpose This Mortgagee Letter (ML) eliminates outdated and costly FHA appraisal requirements.

Effective Date The provisions of this ML are effective immediately.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Affected Programs The provisions of this ML apply to FHA-insured Single Family Title II forward mortgage and Home Equity Conversion Mortgage (HECM) programs.

Background FHA has historically imposed more extensive property appraisal protocols and more stringent procedures than those required for other mortgage lending purposes. As a result, FHA appraisals are often perceived as significantly more complex and time-consuming and are more costly compared to conventional appraisal assignments.

Mortgagee Letter 2025-18, Continued

Many of these requirements have remained in place despite significant evolution in industry practices and advancements in collateral risk management. Current appraisal standards no longer support the need for certain FHA-specific protocols, rendering them outdated and misaligned with broader industry norms. In addition, FHA's internal collateral valuation technology and data capabilities have significantly improved, further reducing the necessity of these duplicative and antiquated appraisal requirements.

In alignment with the Administration's efforts to reduce costs and remove unnecessary regulatory burdens, the U.S. Department of Housing and Urban Development (HUD) is rescinding several outdated FHA Single Family appraisal requirements. These changes represent a significant step in modernizing FHA appraisal policy, improving program accessibility, and enhancing clarity around the Appraiser's role.

Summary of Changes

This ML:

- removes Economic Life/Section 223(e) (II.A.3.a.ii(I)) and renumbers subsequent sections to remove requirements for the underwriter to use the Appraiser's opinion of remaining economic life;
- removes photograph requirements that exceed industry standards in Photograph, Exhibits, and Map Requirements (II.D.4.a);
- removes the remaining economic life reporting requirement in Effective Age (II.D.4.c.iii(D));
- removes the redundant requirement for additional comparable sales and listings in FHA Appraisal Requirements for Market Conditions and Changing Markets – Required Analysis and Reporting (II.D.4.c.iii(F)(3)); and
- removes Additional Appraisal Requirements for 223(e) Mortgages (II.D.8).

The Handbook 4000.1 sections impacted by this ML are provided in [Attachment 1](#), with changes tracked in redline to help users clearly identify the policy requirements being revised or removed from the Handbook.

FHA Single Family Housing Policy Handbook 4000.1

The policy changes will be incorporated into Handbook 4000.1 as follows:

Valuation and Reporting Protocols (II.D.4)

a. Photograph, Exhibits, and Map Requirements [Text was deleted in this section.]

The Appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals,

Mortgagee Letter 2025-18, Continued

Origination through Post-closing/Endorsement

listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or outbuildings contributing value. The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser’s observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	Minimum Photograph Requirements
Subject Property Exterior	<ul style="list-style-type: none"> • Front and rear of the dwelling • Improvements with Contributory Value not captured in the front or rear photographs • Street scene • For Proposed Construction, a photograph that shows the grade of the vacant lot
Subject Property Interior	<ul style="list-style-type: none"> • Kitchen, main living area, bathrooms, and bedrooms • Any other rooms representing overall condition • Basement • Recent updates, such as restoration, remodeling, and renovation
Comparable Sales, Listings, and Pending Sales	<ul style="list-style-type: none"> • Front view of each comparable utilized
View	<ul style="list-style-type: none"> • Photographs of any negative or positive view influences that substantially affect value or marketability
Subject Property Deficiencies	<ul style="list-style-type: none"> • Photographs of the deficiency or condition requiring inspection or repair

Valuation Development (II.D.4.c.iii)

(D) Effective Age [Text was deleted in this section.]

Standard

The effective age reflects the condition of a Property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation.

FHA Appraisal Requirements for Market Conditions and Changing Markets (II.D.4.c.iii(F))

(3) Required Analysis and Reporting [Text was deleted in this section.]

The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the “Neighborhood” section of the appraisal report form.

The Appraiser must accurately report market conditions and determine when property value trends are increasing, stable, or declining. If the Appraiser bases the adjustment on a published source, the Appraiser must include a copy of which must be included in the addendum.

**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to a collection of information unless the collection displays a currently valid OMB control number.

Feedback or Questions

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Frank Cassidy
Principal Deputy Assistant Secretary for Housing

Attachment 1
Handbook 4000.1 Pages Impacted by this Mortgage Letter

The Handbook 4000.1 sections impacted by this Mortgage Letter (ML) are provided in this attachment, with changes tracked in redline, to help users clearly identify the policy requirements being revised or removed from the Handbook.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

3. Underwriting the Property

The Mortgagee must confirm that all foundations will be serviceable for the life of the Mortgage and adequate to withstand all normal loads imposed.

~~(I)~~ **Economic Life/Section 223(e)**

~~The Mortgagee must confirm that the term of the Mortgage is less than or equal to the remaining economic life of the Property.~~

~~If the Property is located in an older, declining urban area and the remaining economic life produces an unreasonably short mortgage term by reason of its location, the Property may be acceptable under Section 223(e), provided:~~

- ~~• the area is reasonably able to support adequate housing and living conditions for families of lower income levels;~~
- ~~• the location features adversely affecting the desirability and usefulness of the Property do not endanger the health and safety of its occupants;~~
- ~~• the Property is marketable to the typical occupant of the area;~~
- ~~• the physical life of the Property is greater than or equal to the term of the Mortgage; and~~
- ~~• the Mortgage represents an overall acceptable risk as determined by the Jurisdictional HOC.~~

~~All Mortgages to be insured under Section 223(e) must be submitted to the Jurisdictional HOC for prior approval.~~

~~(J)~~(I) **Environmental**

The Mortgagee must confirm that the Property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

~~(K)~~(J) **Lead-Based Paint**

The Mortgagee must confirm that the Property is free of lead paint hazards.

~~(L)~~(K) **Methamphetamine Contamination**

If the Mortgagee or the Appraiser identifies a Property as contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Property is ineligible due to this environmental hazard until the Property is certified safe for habitation.

~~(M)~~(L) **Repair Requirements**

The Mortgagee must determine which repairs must be made for a Property to be eligible for FHA-insured financing.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

4. Valuation and Reporting Protocols

vii. Individual Residential Water Purification Systems

(A) Definition

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on Properties that otherwise do not have access to a continuous supply of safe and potable water.

(B) Required Analysis and Reporting

If a Property is served by an individual residential water purification system, the Appraiser must indicate which type of system is installed on the Property, either point-of-entry or point-of-use.

The Appraiser must report on the conditions requiring connection of the individual residential water purification system.

p. Onsite Sewage Disposal Systems (09/14/2015)

i. Definition

An Onsite Sewage Disposal System refers to wastewater systems designed to treat and dispose of effluent on the same Property that produces the wastewater.

ii. Required Analysis and Reporting

The Appraiser must note the deficiency of MPR or MPS and notify the Mortgagee if the Property is not served by an off-site sewer system and any living unit is not provided with an Onsite Sewage Disposal System adequate to dispose of all domestic wastes in a manner that will not create a nuisance, or in any way endanger the public health.

The Appraiser must visually observe the Onsite Sewage Disposal System and its surrounding area. The Appraiser must require an inspection to ensure that the system is in proper working order if there are readily observable signs of system failure. The Appraiser must report on the availability of public sewer to the site.

The Appraiser must note the deficiency of MPR or MPS and notify the Mortgagee if the Appraiser has evidence that the Onsite Sewage Disposal System is not sufficient.

4. Valuation and Reporting Protocols

a. Photograph, Exhibits, and Map Requirements **Text was deleted in this section.**

The Appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

4. Valuation and Reporting Protocols

The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or outbuildings contributing value. The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser's observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	Minimum Photograph Requirements
Subject Property Exterior	<ul style="list-style-type: none"> • Front and rear at opposite angles to show all sides of the dwelling • Improvements with Contributory Value not captured in the front or rear photographs • Street scene photograph to include a portion of the subject site • For New Construction, include photographs that depict the subject's grade and drainage • For Proposed Construction, a photograph that shows the grade of the vacant lot
Subject Property Interior	<ul style="list-style-type: none"> • Kitchen, main living area, bathrooms, and bedrooms • Any other rooms representing overall condition • Basement, attic, and crawl space • Recent updates, such as restoration, remodeling, and renovation • For two- to four-unit Properties, also include photographs of hallways, foyers, laundry rooms and other common areas
Comparable Sales, Listings, and Pending Sales	<ul style="list-style-type: none"> • Front view of each comparable utilized • Photographs must be taken at an angle to depict both the front and the side during the required exterior viewing of the comparable from the street when possible • Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, Appraisers must include their own photographs as well, to document compliance
View	<ul style="list-style-type: none"> • Photographs of any negative or positive view influences that substantially affect value or marketability
Subject Property Deficiencies	<ul style="list-style-type: none"> • Photographs of the deficiency or condition requiring inspection or repair
Condominium Projects	<ul style="list-style-type: none"> • Additional photographs of the common areas and shared amenities of the Condominium Project

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

4. Valuation and Reporting Protocols

The Appraiser must perform a highest and best use of the Property, using all four tests and report the results of that analysis.

(C) FHA Data Requirements for the Subject and Comparable Properties

The Appraiser must verify the characteristics of the transaction (such as sale price, date, seller concessions, conditions of sale) and the characteristics of the comparable property at the time of sale through reliable data sources.

The Appraiser must verify transactional data via public records and the parties to the transaction: agents, buyers, sellers, Mortgagees, or other parties with relevant information. If the sale cannot be verified by a party to the transaction, the Appraiser may rely on public records or another verifiable impartial source.

MLS records and property site visits alone are not acceptable verification sources.

(D) Effective Age and Remaining Economic Life [Text was deleted in this section.]

~~(1) Standard~~

~~The effective age reflects the condition of a Property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation.~~

~~(2) Required Analysis and Reporting~~

~~The Appraiser must state the remaining economic life as a single number or as a range for all property types, including condominiums. The Appraiser must provide an explanation if the remaining economic life is less than 30 years.~~

~~The Appraiser must apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.~~

(E) Approaches to Value

The Appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant.

(1) Cost Approach to Value

The Appraiser may use any of the credible and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other credible source that can be duplicated by the reader).

If the Appraiser uses cost estimates provided by the contractor or builder of the Property, the cost estimates must be reasonable and independently verified.

II. ORIENTATION THROUGH POST-CLOSING/ENDORSEMENT

D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

4. Valuation and Reporting Protocols

a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(b) Decreasing Markets

In a Decreasing Market, negative Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(3) Required Analysis and Reporting **[Text was deleted in this section.]**

The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the “Neighborhood” section of the appraisal report form.

The Appraiser must accurately report market conditions and determine when property value trends are increasing, stable, or declining. ~~The Appraiser must provide a summary comment as to the continuance of the current trend or if the trend appears to be changing, and provide support for all conclusions.~~ If the Appraiser bases the adjustment on a published source, the Appraiser must include a copy of which must be included in the addendum.

~~In changing markets with Increasing Market or Decreasing Market property value trends, the Appraiser must include an absorption rate analysis, at least two comparable sales that closed within 90 Days prior to the effective date of the appraisal, and a minimum of two active listings or pending sales on the SCA Grid (in addition to at least three settled sales). If the Appraiser cannot comply with these requirements due to the lack of market data, a detailed explanation is required to support the market trend conclusion and include all data and analysis used to identify the current and forecasted market.~~

~~For active listings or pending sales, the Appraiser must:~~

- ~~• ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable properties;~~
- ~~• use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sale price ratios;~~
- ~~• include the original list price, any revised list prices, and calculate the total Days on Market (DOM). The Appraiser must provide an explanation for the DOM that does not approximate periods reported in the “Neighborhood” section of the appraisal reporting form;~~

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT
D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages
4. Valuation and Reporting Protocols

- ~~• reconcile the Adjusted Values of active listings or pending sales with the Adjusted Values of the settled sales provided; and~~
- ~~• if the Adjusted Values of the settled comparable properties are higher than the Adjusted Values of the active listings or pending sales, determine if a Market Condition Adjustment is appropriate.~~

(G) Final Reconciliation and Conclusion

(1) Definition

Final Reconciliation refers to the process by which an Appraiser evaluates and selects from among alternative conclusions to reach a final value estimate, and reports the results of the analysis.

(2) Standard

After the approaches to value are completed, the Appraiser must check the data, calculations and conclusions. The Appraiser must reconcile each approach to value, and must reconcile all approaches into a final estimate of value for the Property.

(3) Required Analysis and Reporting

If the appraisal has no conditions, the Appraiser must render an as-is value opinion.

If the Appraiser must conclude the report under a hypothetical condition or extraordinary assumption, the Appraiser must report the issues and requirements as one of the following:

- “subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed;”
- “subject to the following repairs or alterations (list them) on the basis of a hypothetical condition that the repairs or alterations have been completed;” or
- “subject to a required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair.”

(H) Signature

(1) Standard

The FHA Roster Appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

7. Additional Appraisal Requirements for 223(e) Mortgages

7. Valuation of Leasehold Interest

a. Definitions (09/14/2015)

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

b. Standard (09/14/2015)

Eligible Leasehold terms must meet the requirements included in [Leasehold Interest](#).

c. Required Analysis and Reporting (01/24/2022)

The Appraiser must obtain a copy of the lease from the Mortgagee. The Appraiser must analyze and report the terms of the ground lease, including the amount of the Ground Rent, the term of the lease, if the lease is renewable, if the lessee has the right of redemption (the right to obtain a Fee Simple title by paying the value of the Leased Fee to the lessor, thereby canceling the Ground Rent), and if the Ground Rent can increase or decrease over the life of the lease term.

The Appraiser must estimate and report the value of the Leasehold Interest.

In valuing the Leasehold Interest, the Appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its Leasehold Interest.
- In the GRM income approach, the sales used to derive the GRM factor must be based on properties under similar Ground Rent terms (or be adjusted to similar Ground Rent terms).
- In the sales comparison analysis, the comparable sales must be adjusted for their lack of similarity to the subject in the “Ownership Rights” section of the Sales Comparison Approach (SCA) Grid.

~~8. Additional Appraisal Requirements for 223(e) Mortgages (09/14/2015)~~

~~Section 223(e) is a mortgage insurance program for Properties located in older, declining urban areas. The program allows for the acquisition, repair, and/or renovation or construction of a residential Property.~~

~~The Appraiser must provide a remaining physical life in addition to the remaining economic life if the Mortgagee orders an appraisal for a Property to be insured under the 223(e) program.~~