



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

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

Date: June 30, 2021

Mortgagee Letter 2021-17

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 HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Revisions to Property and Appraisal Quality Control Review Requirements

Purpose This Mortgagee Letter updates Federal Housing Administration (FHA) Single Family Quality Control (QC) requirements for appraisal field reviews and evaluation of property and appraisal documentation, and it announces the expiration of the temporary waiver of Single Family QC requirements for appraisal field reviews issued December 4, 2020.

Effective Date The [temporary waiver](#) remains in effect and applicable to Mortgages selected for QC review through June 30, 2021. The updated guidance in this Mortgagee Letter applies to Mortgages selected for Property and Appraisal QC review on or after July 1, 2021.

All Single Family policy updated by this Mortgagee Letter will be incorporated into a forthcoming revision of the Department of Housing and Urban Development (HUD) Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1).

Public Feedback HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

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Affected Programs

This guidance applies to all FHA Title II Single Family programs.

Background

Handbook 4000.1 Section V.A.3.c.ii(C)(1)(b) requires Mortgagees to perform appraisal field reviews on all Early Payment Defaults (EPDs). This Mortgagee Letter decreases the appraisal field review requirement for EPDs from 100 percent to 10 percent, and reinforces appraisal field review requirements for discretionary targeting and other specific risk factors. It also clarifies property and appraisal review guidelines for all Mortgages selected as part of a Mortgagee's origination and underwriting QC sample to emphasize that QC reviews must evaluate all information used to support the property value and eligibility for FHA insurance.

In recognition of the unique challenges posed by the COVID-19 National Emergency, FHA issued a temporary partial waiver of existing field review requirements in June 2020, which provided Mortgagees with flexibility to use third-party valuation tools as an alternative to field reviews. A subsequent waiver was issued in December 2020, which extended the field review flexibility until further notice. This Mortgagee Letter serves as notice that the temporary waiver will expire on June 30, 2021, remaining in effect for Mortgages selected for QC review through June 30, 2021.

Summary of Changes

Changes to FHA Loan Level Quality Control Program Requirements in Handbook 4000.1, Section V.A.3 include:

- Updating the title of subsection V.A.3.c.ii(C) to better align with the content of this subsection;
 - Clarifying Quality Control review requirements to align with Property Acceptability Criteria (Section II.A.3.a) and Appraiser and Property Requirements for Title II Forward and Reverse Mortgages (Section II.D);
 - Decreasing the number of EPDs that require an appraisal field review from 100 percent to 10 percent; and
 - Clarifying other appraisal field review selection criteria.
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**Single Family
Housing Policy
Handbook
4000.1**

Section V.A.3.c.ii(C) of Handbook 4000.1 will be amended as follows:

(C) Property and Appraisals

(1) Standard

(a) Property and Appraisal Reviews

For all FHA-insured Mortgages selected by the Mortgagee for origination and underwriting QC review, the Mortgagee must evaluate all Property documentation and the appraisal report used to support the Property value and eligibility for FHA insurance.

At a minimum, the Mortgagee must review all Property documentation and the appraisal report for completeness, technical accuracy and overall quality in compliance with [Property Acceptability Criteria](#) (II.A.3.a) and [Appraiser and Property Requirements for Title II Forward and Reverse Mortgages](#) (II.D).

(b) Field Reviews

The Mortgagee must obtain appraisal field reviews on at least 10 percent of FHA-insured Mortgages selected for origination and underwriting QC review.

The Mortgagee's appraisal field review sample must include the following, even if inclusion of these Mortgages results in a field review sample that exceeds 10 percent of FHA-insured Mortgages selected for origination and underwriting QC review:

- At least 10 percent of [Early Payment Defaults \(EPDs\)](#) (V.A.3.a.iv(B)) underwritten by the Mortgagee, which must be randomly selected from the overall EPD population;
- All Mortgages selected by the Mortgagee for QC review based on a Property or appraisal-related [discretionary sample](#) (V.A.3.a.iv(C));
- All Mortgages for which the Mortgagee has received a Property complaint from the Borrower(s); and
- All Mortgages with unaddressed red flags, discrepancies, inconsistencies, or valuation issues found by the Mortgagee through its QC review of the Property documentation and appraisal report.

The Mortgagee may include [random sample](#) (V.A.3.a.iv(A)) selections in its appraisal field review sample if necessary to meet the overall 10 percent requirement.

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Single Family Housing Policy Handbook 4000.1, *cont'd*

Field reviews must be performed by Appraisers listed on the [FHA Appraiser Roster](#) and must be reported on the applicable Residential Appraisal Field Review Report form.

(2) Exceptions

Mortgagees are not required to perform the Property and Appraisal QC review required by subsection (C)(1)(a), including any appraisal field review required by subsection (C)(1)(b), for Streamline Refinances where the Mortgagee was not required to order a new appraisal for a Property financed with an FHA-insured Mortgage.

Appraisal field reviews are not required for pre-closing Property and Appraisal QC reviews.

(3) Required Documentation

The Mortgagee must retain all results from the Property and Appraisal QC reviews required by this section, including appraisal field reviews. Results include all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

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 of 1995 (44 U.S.C 3501 – 3520) and assigned OMB Control Numbers 2502-0005 and 2502-0600. In accordance with the Paperwork Reduction Act, 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.

Questions

Any questions regarding this Mortgagee Letter may be directed to the FHA Resource Center at 1-800-CALL-FHA. Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

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