
CHAPTER 4. LOCATION ANALYSIS

SECTION 1 - NEIGHBORHOOD CHARACTERISTICS

- 4-1. PURPOSE OF LOCATION ANALYSIS. The purpose of Location Analysis is to identify the characteristics of location which affect the value and economic life of a specific property.
- 4-2. GENERAL. The analysis of location requires a determination of desirability and utility of the site and the degree and extent to which the site, by reason of its environmental influences, shares in the market for comparable and competitive sites in the community. The analysis of location requires a forecast of the changes likely to be experienced at the site due to probable future trends. An appraisal of the present situation and knowledge of the trends which affect the valuation of real property is necessary to properly analyze the location. The principle of change is fundamental to real estate appraising and to the analysis of a location. Value is created and modified by economic, social and governmental changes which occur outside of the property itself. It is necessary to predict the direction of the trend and determine the future effect it will have on property values.
- 4-3. COMPETITIVE LOCATIONS. Locations are competitive when they are improved with, or appropriate for, residential properties that are approximately similar in accommodations, and are within a sales price range or rental range that proves acceptable to typical residents or prospective occupants.
- 4-4. THE METHOD OF ANALYSIS. Each feature of the location is compared with the same feature of competitive locations in the community. An acceptable location must be related to the needs of the prospective occupants and to the alternatives available to them in other competitive locations.
- 4-5. CONSIDERATION IN THE ANALYSIS OF LOCATION. In the analysis of location, no cognizance is taken of the character or quality of the building improvements which exist on the site or which are proposed in the application for mortgage insurance. A vacant site will, therefore, have the same location evaluation of quality as an improved site under similar environmental influences.
- 4-6. ECONOMIC TRENDS. Consideration must be given to economic trends of the neighborhood, such as:
- A. Industrial, commercial, agricultural and retail sales activity.
 - B. Price and wage levels - purchasing power of individuals.

- (4-6) C. Employment.
- D. Supply and demand for living units.
- E. Taxation levels.
- F. Mortgage interest rates.
- G. Building costs.
- H. Population change.
- I. Activity in the real estate sales market.
- 4-7. LAND USES. Location Analysis involves a determination of the effect of actual and potential neighborhood land uses upon the subject location. A location which contains the proper balance of land usage such as residential, commercial, parks, schools and playgrounds, enhances the value and the economic security of a property. The following are factors which form the pattern for present and future land uses:
- A. Zoning. Appropriate and well drawn zoning ordinances and land use controls which receive public approval and are strictly enforced will provide one of the means of protecting residential locations from adverse influences that diminish the desirability of sites.
- B. Protective Covenants. Properly drawn protective covenants have proved more effective than zoning ordinances in providing protection from adverse environmental influences; and, when combined with proper zoning, provide maximum legal protection to assure that a developed residential area will maintain desirable characteristics, or that a proposed, or partially built-up neighborhood will develop in a desirable manner. The protective covenants should be superior to any mortgage and should be binding on all parties and all persons claiming under them.
- C. Identification of Inharmonious Land Uses. Inharmonious land uses in the neighborhood must be identified. The present and long term effect such uses will have on the market value and economic life of the subject property must be defined. The market value and remaining economic life must reflect these influences. In situations where the inharmonious land uses represent a serious detriment to either the health or safety of the occupants or to the economic security of the property, the application for mortgage insurance must be rejected.

- (4-7) D. Natural Physical Features and Landscaping. Few, if any, homeowners are oblivious the favorable topographic and site features such as pleasing view, wooded lots, broad vistas, and climatic advantages. Attractive street layouts and preservation of natural attractiveness are characteristics of good neighborhood design. Streets which have been laid out with proper regard to drainage, land contours and traffic flow increase the desirability of the neighborhood.
- E. Attractiveness of Neighborhood Buildings. The appeal of a location is strengthened if the buildings in a neighborhood are attractive as a group and harmonize with one another and with their physical surroundings. A pleasing variety that results in harmoniously blended properties without monotonous repetition is desirable. It has been demonstrated that a pleasing variety in dwelling design need not be sacrificed in neighborhoods composed of low-cost housing.
- F. Neighborhood Character. Mobility and economic growth have combined to alter neighborhood patterns. Shopping, recreation, places of worship, schools and places of employment should be reached with comparative ease. The lessened disparity between income of professions and trades and of management and skilled labor has contributed to a mingling of such families in stable neighborhoods.
- G. Character of Neighborhood Structures. In the analysis of this element, the age, quality, obsolescence, and appropriateness of typical properties in a neighborhood must be carefully studied. These characteristics affect the stability and attractiveness of the properties in the neighborhood. The analysis must take into account the attitude of the user group as well as the alternative choices available to the specific market under consideration.
- H. Effect of Age of Structures. Age of neighborhood structures is not as important as the condition and maintenance of the buildings, and the amount of rehabilitation which has taken place or is taking place in the neighborhood. In any case, age of structures in an area is not a cause for rejection of a property.
- 4-8. COMMUNITY SERVICES. Community Services include commercial, civic and social centers. For a neighborhood to remain stable and retain a high degree of desirability it should be adequately served by elementary and secondary schools, neighborhood shopping centers, churches, playgrounds, parks, community halls, libraries, hospitals, and theaters. Areas occupied by low income families will ordinarily

4150.1 REV-1

- (4-8) require easier and less expensive access to these facilities. Analysis of this feature gives consideration to: quality and accessibility of schools; quality and accessibility of shopping centers and quality and accessibility of community facilities such as churches and recreation centers.
- 4-9. TRANSPORTATION. Ready access to places of employment, shopping districts and centers, civic and social centers as well as to adjacent neighborhoods in the area is a requisite of neighborhood stability. The transportation requirements of all members of the family must be considered. No single method of transportation should be considered to the exclusion of all others:
- 4-10. UTILITIES AND SERVICES. Utilities and neighborhood services to be considered are police and fire protection, telephone service, electric, gas, garbage disposal, street lighting, water supply, sewage disposal, drainage, street improvements and maintenance. Some neighborhoods may not have all services, yet acceptability of this feature may be warranted if the occupants do not consider the lack of such services a deficiency too great to be acceptable. In most metropolitan areas, subdivisions typically have hard surfaced streets, concrete curbs, gutters and walks. Locations not having these improvements would be at a competitive disadvantage. On the other hand, in small communities the predominant street improvements may be found to be gravel streets, grass swales, and no walks. If improvements of this type have no adverse effect on marketability they will be acceptable. In judging this feature a comparison is made of the extent and quality of utilities, street improvements, and other services available with those available in all other competitive neighborhoods. The charges for utilities and services are considered only when they produce advantages or disadvantages in the location as compared with all other competitive locations in the area. The cost is not considered when it is substantially the same for all competitive neighborhoods. The cost of maintaining individual sewage treatment and water systems will usually offset the advantage of lower monthly cost of utilities.
- 4-11. SINGLE INDUSTRY COMMUNITIES.
- A. In communities whose economy is dependent on a single industry, proper underwriting requires a careful evaluation of the long-term economic prospects of the industry, since a finding of long-term economic soundness or a degree of risk acceptable to HUD is required for all Title II programs. This problem may be particularly acute in new communities whose single dominant industry is based on the exploitation of a natural resource, e.g., natural gas, oil, coal, etc., the supply of which may be limited and, in particular, may not be sufficient to support the economy of the area for a period at least as long as that of a
-

- (4-11) typical HUD-insured mortgage. In such areas, there must be a careful economic evaluation of the industry's prospects and probable housing market impacts by EMAD and Valuation Branches staff.
- B. Handbook 4010.1, Definitions, Policy Statements and General Rulings, "Conditions Leading to Surplus Housing" is applicable to these situations.
- C. While Headquarters' referral procedure described for marginal military installations is not required for single-industry locations, market considerations are pertinent in single family industry market areas.

4-12. STUDY OF FUTURE UTILITY OF PROPERTY.

A. The study of future utility includes:

- 1) Selection of possible uses;
- 2) Determination of uses in terms of alternative kinds of possible typical buyers and differing motives of these buyers; and
- 3) Rejection of uses which are obviously lower or higher than the most probable uses.

B. The study of the future uses and utility of a particular property will lead the appraiser to its highest and best use.

4-13. NEIGHBORHOOD CHANGE. Residential areas in any city change in desirability with the passage of a substantial period of time. Population growth has been one of the main causes of the change which residential districts experience.

- (4-13) Infiltration of commercial, manufacturing, industrial enterprises and other nonconforming uses in residential sections, and the physical deterioration of buildings in these sections are other obvious and common causes. Consideration must be given to any such factors that cause decline in

desirability and utility of residential districts in order to develop the greatest accuracy in valuation estimates.

- A. Gentrification. There is a phenomenon which affects some older declining neighborhoods which have not experienced heavy commercial or industrial encroachment and which reverses the decay and decline in values. This is known as "Gentrification." It is brought about by the immigration of people into a deteriorating or renewed city area. In recent years many people have recognized the craftsmanship and artisanship in some older homes which cannot be found in new modern homes. Because of the desirability of these features and the advantage of living in town close to their places of employment, they have purchased and restored them to their original classic beauty. As more and more people follow suit, the neighborhood desirability and values gradually increase to a point whereby the neighborhood becomes once again viable and desirable.
- B. Covenants and Zoning. Another area of concern to the appraiser is the adequacy of existing covenants and zoning. Residential neighborhoods in which zoning or covenants are lacking or are not effectively enforced are often subject to a decline in desirability.

-
- 4-14. MARKETABILITY. The demand for homeownership in a neighborhood is directly related to the marketability of the homes within the neighborhood or competitive neighborhoods. Data regarding percentages of homeownership, vacancies and the marketing time of the dwellings in a neighborhood helps the appraiser to determine the strength of the demand and the extent of supply.
 - 4-15. SMALL COMMUNITIES. There is no particular formula for use in appraising properties in small communities. The factors affecting mortgage risk and value are basically the same as those in large cities, but there are also important differences which must be recognized by the appraiser to avoid making errors. It is important to understand that real estate patterns in small communities include social and economic preferences which are dissimilar to those encountered in larger towns and cities. Certain services and conveniences desired by the urban dweller are not necessary or desired by the homeowner who lives in a small community.
 - A. Small Community Market Preferences. The small town may have its own set of standards. Architectural design, livability, style of mechanical equipment, lot size and placement of structure, nature of street improvements, and all features of the physical property and environment must be judged in the light of local acceptance of local standards and local preferences.

- B. Rate of Marketability. The rate of marketability must be judged by local standards. Market depth may be partially dependent upon the number of farmers, ranchers, or pensioners who retire and look to the community for homes, and a limited number of merchants and professional persons. This total, combined with the second generation populace, may increase the demand or serve to maintain it at a fairly constant level. The sum total may be

2/90

4-7

4150.1 REV-1

-
- (4-15) a numerically small annual demand for housing. However, typically this demand may be on the market for a much longer time before it sells than would be expected in the city, and no modest price reduction would cause a quicker sale.
- C. Mobility of People. Another factor is the mobility of people. Industry sometimes moves to the small community and draws its employees from other small communities in the surrounding area. Improved highways and modern vehicles permit commuting distances once considered unthinkable. Shopping facilities in attractive centers outside the congested urban areas are as convenient to the small town resident some miles distant as may be the central business district to the urban resident. This widens the market for small town properties. The purchaser may not be confined to the few categories mentioned above, but may appear from any point within the commuting radius. Thus, properties within these towns may then be competitive, and market transactions in one may be applicable to others.
- D. Stagnant or Declining Growth. The small town in which all semblance of former industrial or commercial activity is gone presents different aspects. Its residences may be occupied by retired persons, or families commuting to employment who live in the town because of the low cost of housing. Current transactions may involve repair or remodeling plans which will produce a housing facility at far less than current replacement costs of equivalent properties. Proposed construction may not be economically feasible as long as existing properties are available at very low prices.
- 4-16. OUTLYING LOCATIONS AND ISOLATED SITES. Areas outside of towns and cities have shared in residential construction activity to a considerable degree. The segment of the market interested in buying in outlying locations compares the advantages and disadvantages of other outlying locations. In many localities the rather strong appeal of these outlying locations is evidenced by the activity of the market for properties so located. In most instances, the sites of outlying properties are larger than the sites of nearby town or city properties. Some dwellings in outlying locations are

constructed on wooded sites or on land where the topography is such that some natural protection is afforded against encroachment by value destroying uses or influences; others are constructed on sites taken from agricultural land. The presence of normal agricultural use of land in the vicinity of an outlying site will not of itself constitute a valid reason for finding the property ineligible as mortgage security.

2/90

4-8

4150.1 REV-1

- (4-16) Many people prefer outlying locations for the purpose of raising horses or having a small hobby farm. Provided that the use of the property such as raising horses or farming does not constitute the primary income of the occupants, such locations are usually acceptable under Section 203(b) rather than 203(i). Such sites may be ten acres or more but are still considered in relation to the typical size lots in the area.

However, if the size of the site is excessive, such as 30 acres in an area where only ten acres is typical for that purpose, the excess land is not considered in the appraisal nor included in the mortgage.

- 4-17. ACCEPTABLE LOCATIONS PURSUANT TO SECTION 223(e). Any older existing community which is found unacceptable because of certain features adversely affecting its location may be eligible pursuant to Section 223(e). (See HUD Handbook 4260.1 for a complete discussion.)

Special funds have been appropriated by the Congress for this program since the insurance of mortgages in such areas constitutes a higher risk than other localities. Therefore, the Chief Appraiser in each field office should become acquainted with and be aware of such neighborhoods so as to assure that the special high risk funds are used for properties in such areas.

This is not to be confused with "redlining." To redline is to withhold home loan funds or insurance from neighborhoods considered poor economic risks. HUD does not withhold insurance but rather designates the insurance fund program which must be used in connection with the insuring of loans in these areas.

- A. The purpose of Section 223(e) is to permit the use of HUD mortgage insurance in older, declining urban areas, in order to provide housing for low- and moderate-income families and to contribute to the upgrading or stabilization of such areas.
- B. Environmental factors which render a property unacceptable because of conditions which constitute a danger to the health and safety of the occupants or to the preservation of the property are not subject to waiver under Section 223(e).

- C. The physical life of the property must be sufficient to permit the long-term mortgage. The substitution of physical life for economic life is justified because the Section 223(e) special risk provisions compensate for those environmental factors which adversely affect the property, thus permitting a mortgage of up to 30 years (See paragraphs 2-7 and 2-8). At the same time, HUD should not be insuring loans on homes that have a high degree of certainty of failure due to any circumstances.

2/90

4-9

4150.1 REV-1

- 4-18. CONSIDERATION OF GENERAL TAXES AND SPECIAL ASSESSMENTS. General real estate taxes related to specific locations are a recurring periodic expense in the ownership of taxable real property and must always be taken into account in the estimate of value. Also, special assessments of various types are frequently an additional expense to the ownership of certain property and when encountered must similarly be taken into account.
- A. General Taxes. In most communities general tax levels are fairly well equalized and sales prices and rentals reflect the effect of the burden. In other areas, and occasionally because of differences in contiguous taxing jurisdictions, wide variations in the level of assessments for similar properties are encountered.
- 1) In such cases the effect on the cost of ownership and upon net income expectancy must be recognized and all market data should be carefully scrutinized to ascertain the differences in prices and rentals which are attributable to the varying level of assessments.
 - 2) Where the general tax levels are not equalized and market data do not reflect uniformly the effect of general taxes, the data must be adjusted to compensate for the differences.
- 4-19. LEVEL OF TAXES AND ASSESSMENTS. A determination is made as to the relative effect of the tax and special assessment burden upon the desirability of the location. The elements considered are:
- A. The Tax Burden. The only concern is to determine the relative advantages or disadvantages of the tax burden on the subject location in comparison with all other competitive locations. The weight of the general tax burden does not influence the conclusion if the tax burden on a location is substantially the same as that borne by competitive locations.
- 1) The basis of assessment for taxation purposes, and often

the tax rate itself, may vary for different neighborhoods within a community.

- 2) If the location is in a neighborhood which is receiving preferential treatment with respect to assessments or tax rates and it is believed that the condition will continue, the beneficial effect will be recognized regardless of the reasons for the condition.

B. Unassessed Properties. Where the tax burden is unknown, as with a proposed new building or a newly constructed building not yet listed for tax purposes, an estimate is made of the probable tax.

2/90

4-10

4150.1 REV-1

(4-19) The estimate is accomplished by comparison with known tax assessments for recently assessed similar properties, adjusted for visible differences in the properties, and by taking into account any pending change in the general level of assessed values or of tax rates.

C. Special Assessments. Special assessments are usually imposed to provide the taxing jurisdiction with funds to pay for, or to provide a sinking fund to liquidate bonds issued to pay for street improvements, sidewalks, sewers or other utilities which are for the benefit of the property so assessed. Such improvements will usually have the effect of increasing the value of the benefited property in a sum at least equal to their cost. If special assessments exist, or if they are in immediate prospect, the length of time such assessments continue as well as the total payment required are considered. Even though special assessment payments may be required for only a few years, they must be given consideration. A few years of high special assessments may seriously affect desirability for home ownership. A distinction must be made, however, between general assessments and prepayable assessments which specifically benefit the properties assessed. The latter are rarely objectionable, since they usually enhance the properties in proportion to their amount. In some communities each individual property is made security for an entire bond issue and the property cannot be freed from the special assessment lien until the bond issue has been entirely retired.

Because favorable financing is usually obtained when special assessments are used, the formation of these Districts should not be discouraged. HUD does not require that where assessments are prepayable, they must always be prepaid. Based on the bond financing, current interest rates, etc., it may be to the purchaser's advantage not to prepay. This is a decision which should be left to the purchaser.

Since market data may not uniformly reflect the effect of these

assessments, it may be necessary to adjust the comparables to compensate for the differences. The estimate of value is to be predicated on fee simple title unencumbered by the assessment. Accordingly, where necessary, an adjustment to reflect the amount of the special assessment remaining unpaid will have to be made. For example:

Indicated Value Without Special Assessment	\$50,000
Unpaid Amount of Special Assessment	5,000
	<hr/>
Estimated Market Value	\$45,000

Where this type of adjustment is made, an appropriate notation should be made on the URAR.

2/90

4-11

4150.1 REV-1

- (4-19) D. Non-prepayable Assessment and Benefit Bonds. It has become customary in some taxing jurisdictions to finance by the issuance of bonds, installations of street improvements, utilities, public water, or sewage disposal systems. These bonds differ from the usual special assessment bonds and more nearly resemble general obligation bonds. Obligations of this type are variously known as Front Foot Benefit Bonds, Revenue Bonds, or similar titles. Payments by property owners of principal and interest into sinking funds for retirement of Front Foot Benefit Bonds are usually spread over a long term of years and are collected semi-annually or annually with general taxes. Payments for retirement of Revenue Bonds are customarily chargeable to users of water and sanitary facilities; they are usually based upon water consumption, calculated as a percentage of the water used and collected with water bills. Bonds of these types usually do not constitute prior liens against properties in a lump sum amount but only become a lien for the amounts of any delinquent payments. Such assessments are usually nonprepayable in fact or because of prohibitive or costly penalties attached to prepayment privileges. For these reasons it is considered unnecessary to reflect the total amounts of such assessments in Estimates of Value for insured mortgage loan purposes. The annual payments will be treated in the appraisal process as costs of ownership or operation.
- E. Imminent Assessments Not Yet Levied. Occasionally, at the time of appraisal, public work is imminent or has been authorized but the amount of the impending special assessment is not definitely known and there is reasonable certainty that at the time of closing the loan the assessment will not have been spread upon the tax roll. If, in such instances, it is deemed advisable to predicate the appraisal upon the assumption of completion of the proposed work, the amount of its costs will be estimated and

reflected in the Estimate of Value in accordance with the instructions of Paragraph 4-19c above. The amount of the estimated assessment will be noted in the appropriate space so it can be dealt with upon the assumption that the assessment will not be paid off from the proceeds of the settlement, but will continue as a lien.

2/90

4-12

4150.1 REV-1

SECTION 2 - SPECIAL NEIGHBORHOOD HAZARDS AND NUISANCES

- 4-20. UNACCEPTABLE LOCATIONS. The rejection of a location is warranted only in instances where the property being appraised is subject to hazards, noxious odors, offensive sights or excessive noises to the point of endangering the physical improvements or seriously affecting the livability of the property, its marketability or the health and safety of its occupants. Rejection may also be appropriate if the future economic life of the property is so shortened by obvious and compelling pressure to a higher use as to make a fairly long term mortgage loan impractical. These considerations are applicable on an individual case basis, however, taking into account the needs and desires of the user group to which the property will appeal. There is no policy which categorically causes rejection of any property because of proximity to adverse influences. For example, properties should not be rejected simply because they abut commercial use. Some commercial uses may be entirely inoffensive to a specific market segment while other commercial uses may be intolerable. The decision to accept or reject a property affected by any of the above-cited conditions, or any other conditions must be made on a case-by-case basis by the appraiser who inspects the property and its environment to determine if the property meets the eligibility criteria, the objectives of the MPS and the location criteria.
- 4-21. PHYSICAL ATTRACTIVENESS. The features listed below are analyzed to determine the physical conditions of the neighborhood that affect the physical improvements and the health and safety of the occupants or influence their pleasure in the appearance of the environment. The elements considered in this analysis are:
- A. Hazards and Nuisances. Physical conditions may be found in some neighborhoods that are a hazard to the personal health and safety of the occupants or may endanger the physical improvements. Such conditions include unusual topography, subsidence, flood, unstable soils, traffic hazards, and various kinds of grossly offensive nuisances.
 - 1) Topography. Special hazards are sometimes found to result from the peculiar topography of a neighborhood. Marketability is often adversely affected in hillside areas

by the hazards caused by denuded slopes, soil erosion, and land slippages. Earth and mud slides from an adjoining property, falling rocks, etc., are some of the hazards associated with steep grades and must be considered in the evaluation of the location.

- 2) Subsidence. Danger of subsidence is a special hazard that may be encountered under a variety of circumstances. The

2/90

4-13

4150.1 REV-1

-
- (4-21) danger may exist when buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as organic material. It may be present in certain areas where the subsoil is unstable and subject to slippage or expansion. In mining areas consideration must be given to the depth or extent of mining operations, and the location of operating or abandoned shafts or tunnels in order to reach a conclusion as to whether the danger is imminent, probable, or negligible. In locations where the danger of subsidence exists, a specific site will be deemed ineligible unless complete and satisfactory evidence can be secured that will establish the probability that any threat of subsidence is negligible.

- 4-22. OPERATING AND ABANDONED OIL OR GAS WELLS. Both operating and abandoned oil and gas wells pose several potential hazards to housing. Hazards include potential fire, spray or other pollution, and explosion. Accordingly, no dwelling may be located closer than 300 feet from an active or planned drilling site; this applies to the site boundary, not to the actual well location.
- A. Operating Wells. When operating wells are located in single family subdivisions, it is required that no housing be built within 75 feet of an actual operating well unless mitigation measures are taken. This is to avoid nuisance during maintenance, to diminish noise levels caused by pumping and to reduce the likelihood of contamination by potential petroleum spills. Field Offices should require that operating wells be fenced and permanently screened by appropriate tall and dense landscaping.
 - B. Abandoned Wells. Most petroleum producing States have specific required well abandonment practices, but some wells have been abandoned in the past without necessary precautionary actions. Since it is infeasible for HUD personnel to verify the adequacy or safety of an abandoned well, a letter from the responsible authority within the State government should state that the specific well in question was safely and permanently abandoned. Where such a letter is provided housing may be located no closer

than ten feet from an abandoned well.

Hazards from improperly abandoned wells include blowout and potential fire. Where a State does not issue a letter as described, housing must be located at least 300 feet from an abandoned well.

- C. Special Case -- Proposed, Existing or Abandoned Wells. In some geographic areas (Wyoming is one) hydrogen sulfide gas may be emitted from petroleum product wells. It is considered a major

2/90

4-14

4150.1 REV-1

-
- (4-22) hazard since it is highly toxic and a threat to life and health. It is heavier than air and tends to flow downslope, through valleys and canyons and can cause deaths before people become aware of the problem and can escape. Minimum clearances from sour gas wells may be established only after a petroleum engineer's assessment of risk and clearance recommendations are obtained and concurred with by State authorities responsible for petroleum industry regulation and for public health and safety.

- D. Slush Pits. A slush pit is a basin, in which drilling "mud" is mixed and circulated. The mud is circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings. Drilling mud normally contains large quantities of bentonite, which is a very expansive soil material, and results in a site with great soil volume change potential, which may be very damaging to buildings. Whenever a building is proposed near an active or abandoned well, the old slush pit location should be determined. After it is located, either all unstable and toxic materials should be removed from it and the pit filled with compacted selected materials or no dwelling construction may be accepted on a lot that includes any part of a slush pit.

4-23. FLOOD HAZARD AREAS.

General. When a property, including any portion of the site, is located in an area designated as a special flood hazard area, or is otherwise determined to be subject to a flood hazard, it shall be required by special condition on the conditional or firm commitment or DE approval that the mortgagor and mortgagee must obtain and maintain, where available, NFIP (National Flood Insurance Program) flood insurance coverage on the property during such time as the mortgage is insured. Such insurance is required by law under the Flood Disaster Protection Act of 1973 with respect to mortgages on properties insured by HUD. However, if the Office Manager determines that the improvement on a property is located at such a high elevation that there is no risk of flooding, even though a portion of the property is located within a special flood hazard

area, be may exempt the property from the flood insurance requirement. This determination shall only be made in those cases where the building site grade is substantially above the 100-year frequency water surface elevation and where it is obvious, because of the location of the property in relation to other properties in the designated flood hazard area, that there is no risk of flooding involved. The Manager shall place the burden on the mortgagee and mortgagor of establishing the facts necessary to make this determination.

2/90

4-15

4150.1 REV-1

- (4-23) Properties should be rejected if they are subject to frequently recurring flooding, or if there is any potential hazard to life or safety, or if escape to high ground would be infeasible during severe flood.
- A. Extent of Flood Insurance Coverage Required. The flood insurance to be maintained shall be in an amount at least equal to either the outstanding balance of the mortgage less estimated land value or the maximum amount of NFIP insurance available with respect to the property, whichever is less.
 - B. Designation of Special Flood Hazard Areas. The Federal Emergency Management Agency (FEMA) is responsible for determining special flood hazard areas on a nationwide basis. The designation of these areas within a community is accomplished by the issuance by FEMA of a Flood Hazard Boundary Map. An area of special flood hazard may be designated as Zones A, AO, AH, AI-30, AE, A99, VO, or VI-30, VE or V. Only those properties within zones "A" and "V" require flood insurance. Zones "B" or "C" do not require flood insurance because FEMA designates only "A" and "V" zones as "Special Flood Hazard Areas."
 - C. Availability of Flood Insurance. Flood Insurance is available for all eligible buildings located within participating communities.
 - D. HUD instructions for property appraisals require identification of whether a property is in a FEMA-mapped flood hazard area. An Appraisal Report with positive indication of a property location in a flood hazard area will trigger a commitment requirement for flood insurance coverage. Under the Direct Endorsement Program, the mortgagee must impose the flood insurance requirement. Mortgagees are responsible for checking negative indications of flood hazard areas.

Appraisers must be careful to identify special flood hazard area, and make a requirement for flood insurance where

applicable because:

- 1) The mortgagee may be surcharged on its mortgage insurance claim if the default is due to flood damage or destruction and there is no flood insurance to cover the cost of repair or replacement.
- 2) The mortgagee may lose its FHA approval.
- 3) The mortgagee may be subject to an action by a mortgagor against the mortgagee for negligence.

2/90

4-16

4150.1 REV-1

-
- (4-23) 4) The property and the mortgagor may become ineligible for Federally-administered disaster assistance loans or grants.
- 5) The fee appraiser may be removed from the fee panel because of his negligence.

E. Distribution of FEMA Maps. Field Office Managers must contact the Federal Emergency Management Agency, Flood Map Distribution Center 6930 (A-F) San Tomas Road, Baltimore, MD., 21227-6227 for copies of Flood Hazard Boundary Maps and Flood Insurance Rate Maps. Community eligibility information can also be obtained from this same source. Maps may also be ordered by calling 1-800-333-1363.

F. Special Flood Hazard Requirements.

- 1) Proposed construction, located or to be located within a Special Flood Hazard area, is unacceptable regardless of whether or not the property is, or will be, covered by Flood Insurance because HUD does not wish to encourage development in such areas unless mitigation measures are adopted. In such cases, Field Offices should implement procedures contained in Executive Order 11988.
- 2) The eligibility of existing properties located in an area designated as a special flood hazard area by FEMA will be determined by market attitude and acceptance. Flood insurance will be required of those properties accepted for mortgage insurance within the designated flood hazard areas as determined by FEMA.
- 3) In a condominium, the Homeowners Association is responsible for maintaining flood insurance on the project as a whole rather than each individual unit owner being responsible for their own unit.

- 4) Obtaining NFIP Flood Insurance. Persons seeking advice as to the availability of NFIP flood insurance should be directed to any State-licensed property insurance broker or agent in the community, or to the NFIP servicing company at (800) 638-6620 or to any participating "write your own" company (W.Y.O.).

4-24. OVERHEAD HIGH VOLTAGE TRANSMISSION LINES. No dwelling may be located within ten feet of the outer boundary of a High Voltage transmission line easement nor may the site be any closer than the fall distance of a structural tower supporting the lines.

2/90

4-17

4150.1 REV-1

4-25. HEAVY TRAFFIC. Location on streets having heavy or fast traffic lessens desirability because of noise and danger and often affect's the value. Sites backing to freeways or other thoroughfares which are heavily screened or where traffic is well below grade and sufficient distance from the property may not be adversely affected. If the appraiser feels that there is sufficient noise to affect the marketability of the property, it should be rejected and a clear explanation provided. Distance alone is not sufficient to reject the property.

4-26. AIRPORT NOISE & HAZARDS. Locations near an airport may be subjected to the noise and hazard of low-flying aircraft. Therefore, consideration must be given to the desirability of an affected location in comparison with unaffected locations that are improved with or are appropriate for competitive structures.

A. Proposed Residential Properties - Noise Zones.

- 1) If proposed housing locations lie in an area in which the noise factor exceeds 75 decibels, the site should be rejected and no new residential development should be considered in this zone.
- 2) If proposed housing locations lie in an area in which the noise factor exceeds 65 decibels but not 75 decibels, while normally not acceptable, may be mitigated by appropriate sound attenuation measures such as soundproofing, year around air conditioning, or other treatment.
- 3) Where the proposed location lies within an area in which noise levels are 65 decibels or less, noise should not be a factor in considering residential development.

B. Existing Properties. Existing properties are not to be rejected solely because of airport influences if there is evidence of acceptance in the market. HUD's position is that since the

dwellings are in use and are expected to continue so in the foreseeable future, their marketability should be the strongest indicator of their acceptability.

- 1) Market Survey. When it appears that significant and substantial changes are occurring, or are likely to occur, in the marketability of properties near an airport, a comprehensive in-depth market survey will be initiated by the Chief Appraiser for the information and guidance of the Director of Housing/Housing Development. This market survey will be directed to such facts and opinions as:

2/90

4-18

4150.1 REV-1

-
- (4-26)
 - a. Selling prices and rentals of homes, as compared with similar homes in other areas not subject to this influence.
 - b. Length of time properties sold were on the market, as compared with the exposure of similar properties sold in unaffected areas.
 - c. Length of time rental properties were unoccupied, as compared with those in unaffected areas.
 - d. Number of properties for sale or for rent, as compared with other unaffected areas.
 - e. Increase or decrease in sales since previous survey.
 - 2) This survey should tap any informed sources of information, and should be recorded block by block. It should include opinions of former owners who have moved from the affected area, or their attorneys, brokers, etc., if the owners are not available. The reports of the HUD Area Economist will be useful in determining the potential market demand created by the airport and related industries.
 - 3) In the event that these market reports indicate adverse changes in market attitudes, one copy of the report of the survey and any supporting data must be forwarded upon completion to Headquarters, Office of Insured Single Family Housing, Valuation and Technical Support Branch, for review, and one copy to the Assistant Regional Administrator.
 - 4) Continuing Marketability. The value of individual properties and their continuing marketability will depend to a great degree upon the type of planes, the frequency and timing of flights, the intensity of noise, and other

factors. There will be varying reactions with distance from the airport, and these variances will be recognized in value in accordance with demonstrated market reaction and evidence of trend. Also, there will be wide variances in the attitudes of different communities or localities, since some will be much less sensitive to particular types of disturbance than will others. This is not peculiar since similar attitudes are found with respect to certain industrial plants, types of highway installation, etc.

- 5) Location Analysis. After giving consideration to the determinations previously mentioned involving existing construction, the basic principles of location analysis will

2/90

4-19

4150.1 REV-1

-
- (4-26) be applied in accordance with outstanding instructions. Consideration should be given to the following:
- a. Plans for future expansion of airport facilities and services.
 - b. Prospective or probable increases in the number of jet or other flights using the field or specific runways.
 - c. The timing of the volume of the flights, (day, night, etc.).
 - d. Other factors that may increase the annoyance in given locations in the future.
- 6) If such changes are in reasonable prospect, as in the case of plans to lengthen or relocate runways, to enlarge the airport and build new runways, to increase the number of flights or the weight of planes used, etc., the appraisal must anticipate any adverse effect that is likely to result.

Each case will be judged on its own merits. The effect of aircraft activity on the desirability of a particular location shall be compared with other locations that are improved with or appropriate for structures which are competitive with those that are typical of the neighborhood of the subject site.

C. Airport Hazards.

- 1) HUD will not accept proposed construction cases and existing dwellings less than one year old if the property

is located within Runway Clear Zones at Civil Airports or Clear Zones or Accident Potential Zone I at Military Airfields.

- 2) Existing dwellings more than one year old are acceptable provided the prospective purchaser acknowledges awareness that the property is located in a Runway Clear Zone/Clear Zone. This acknowledgment "Notice to Prospective Buyers of Properties Located in Runway Clear, Zones and Military Airport Clear Zones" must be used in every instance where applicable and should be used without change. A signed acknowledgment must accompany the application for firm commitment. See suggested format on pages 4-24a and 4-24b.

2/90

4-20

4150.1 REV-1

-
- (4-26)
- 3) Applications are not acceptable for existing dwellings if major modernization or rehabilitation is involved. Any project which significantly prolongs the physical life of existing units or increases the density or number of people at the site will render the property unacceptable.
 - 4) Approved Appraisers, Direct Endorsement mortgagees and approved HUD lenders must all be made aware of these requirements and be provided copies of appropriate maps. Appraisers are responsible for identifying properties affected and must condition acceptance on notification being provided to the prospective purchaser. Mortgagees are responsible for inserting the property address and the name of the airport on the Notice. Mortgagees must also ensure that the prospective purchaser receives the notification at the time loan application is initiated. Copies of the completed notification with the case number included should be distributed as follows:
 - a. HUD;
 - b. Mortgagees' records;
 - c. Purchaser; and
 - d. Real Estate Agent (if appropriate).

For cases being processed by HUD, the Notice must accompany the application for Firm Commitment.

- 4-27. FIRE AND EXPLOSION. The storage or manufacture of volatile or explosive products, and other conditions that constitute extraordinary exposure to the danger of explosion or conflagration from nearby industry, gas lines, or contiguous brush or grass land, are hazards that adversely affect value of the dwellings in the neighborhood.

- A. Locations Near High Pressure Gas and Liquid Petroleum Transportation Pipelines. No part of any residential structure shall be located less than ten feet from the outer boundary of the pipeline easement of high pressure gas and liquid petroleum transmission lines. When new construction or subdivision land planning is proposed in areas outside the ten foot limit, but within an area that extends 220 yards on either side of the centerline of such high pressure transmission line, the developer shall be required to comply with the following procedure prior to HUD acceptance of applications for commitment on individual properties.

2/90

4-21

4150.1 REV-1

-
- (4-27) B. The developer must provide HUD with a statement from an authorized official of a gas pipeline company certifying compliance with each of the following paragraphs of Title 49, Transportation, of the Code of Federal Regulations.
- 1) 192.607 - Initial determination of class location and confirmation or establishment of maximum allowable operating pressure.
 - 2) 192.609 - Required study for change in class location.
 - 3) 192.611 - Change in class location; confirmation or revision of maximum allowable operating pressure.
 - 4) 192.613 - Continuing surveillance practices (identification and operating methods used by survey team.)
- C. For liquid petroleum, certifying that the pipeline complies with CFR-195 and all amendments thereto.
- D. Pipeline companies maintain records of the above, per agreement with the Department of Transportation as recorded in Federal Register, Volume 35, Number 161, dated August 19, 1970, which has been previously distributed to all Field Offices.
- E. The above statements obtained by the developer shall be retained in the subdivision file.
- 4-28. SMOKE, FUMES, OFFENSIVE NOISE AND ODORS, AND FAILING SEWAGE SYSTEMS. Smoke, fog, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage and excessive dampness may exist to a degree that is hazardous to the health of neighborhood occupants. Offensive noises and unsightly neighborhood features such as stables, kennels, and malfunctioning sewage disposal systems adversely affect the appeal of the neighborhood.

Sewage System Failure. Where individual sewage disposal systems are involved, an analysis of the location must be made to assure that the area is free from conditions which adversely affect the operation of the systems. Consideration will be given to the type of systems, topography, depth to ground water, soil permeability and the type of soil to a depth of several feet below the surface. A check of other, septic systems in the neighborhood must be made to assure that failures within the neighborhood will not adversely affect the subject property. Whenever there are instances of doubt concerning the operation of sewage disposal systems in a neighborhood, the services of the local health authority should be obtained.

2/90

4-22

4150.1 REV-1

(4-23) *NOTE: More detailed information and instructions concerning many of the foregoing special hazards and nuisances may be found in HUD Handbooks 1390.2, 1390.4, 4135.1, 24 CFR Part 51 and 24 CFR Part 200.926.

4-29. TERMITES. Termites can cause serious problems in the wood structural components of a home and in many cases go undetected for a long period of time. Because the structural integrity of a building can be seriously affected, and the marketability of an infested home questionable, the Department requires assurance, to the extent possible, that a home is free of any infestation.

A. PROPOSED CONSTRUCTION:

To protect against decay and termite infestation, builders must follow the requirements in HUD-approved local, state or CABO building codes. The builder must specify the type of treatment to be used. See USDA Forest Service Home and Garden Bulletin 64, Subterranean Termites-Their Prevention and Control in Buildings. If soil treatment is used, submit Form HUD 92052, Termite Soil Treatment Guarantee as required by the Conditional Commitment/Direct Endorsement Statement of Appraised Value, Form HUD 92800.5B.

B. EXISTING CONSTRUCTION:

In those parts of the country susceptible to termite infestation, appraisers must look in areas of the property which have a potential for termite infestation such as the bottoms of outside doors and frames, wood siding in contact with the ground and crawl spaces. They should also look for mud tunnels running from the ground up the side of the house. If there is any evidence or potential for termite infestation, the appraiser must make a requirement for an inspection by a reputable, licensed termite company.

NOTICE TO PROSPECTIVE BUYERS OF PROPERTIES LOCATED IN

RUNWAY CLEAR ZONES AND MILITARY AIRPORT CLEAR ZONES

(In accordance with 24 CFR 51.303(a)(3), notice must be given to anyone interested either in buying an existing HUD property, or using HUD assistance to buy an existing property, which is located in either a Runway Clear Zone at a civil airport or Clear Zone at a military installation.)

The property which you are interested in purchasing at _____

is located in the Runway Clear Zone/Clear Zone for _____

_____.

Studies have shown that if an accident were to occur it is more likely to occur within the Runway Clear Zone/Clear Zone than in other areas around the airport/airfield. Please note that we are not discussing the chances that an accident will occur, only where one is most likely to occur.

You should also be aware that the airport/airfield operator may wish to purchase the property at some point in the future as part of a clear zone acquisition program. Such programs have been underway for many years at airports and airfields across the country. We cannot predict if or when this might happen since it is a function of many factors, particularly the availability of funds, but it is a possibility.

We wanted to bring this information to your attention. Your signature on the space below indicates that you are now aware that the property you are interested in is located in a Runway Clear Zone/Clear Zone.

Signature of prospective buyer

Date

Type or print name of prospective buyer

(This notice must be maintained as part of the HUD file on this action.)
