Chapter 4. Property Valuation and Appraisals

1. General Information on Property Valuation and Eligibility

Introduction

This topic contains general information on property valuation and eligibility, including

- the purpose of property valuation
- lender responsibility for appraisals
- appraisal management company (AMC) and third party organization fees
- verification of compliance with property requirements
- determining property eligibility and accuracy of appraised value
- property appraisal and underwriting process
- property eligibility for FHA insurance
- property eligibility under Section 223(e)
- compliance inspection requirements
- appraisal assignment to ensure appraiser competency
- preventing improper influences on appraisers
- who may not order the appraisal
- appraiser independence safeguards
- appraiser selection in the FHA Connection, and
- DE underwriter responsibility for quality of appraisal report.

Change Date

March 1, 2011

4155.2 4.1.a

Purpose of Property Valuation

The purpose of the property valuation process is to

- determine eligibility for mortgage insurance based on the condition and location of a property, and
- estimate the value of the property for mortgage insurance purposes.

The appraisal is the lender’s tool for making this determination.

Continued on next page
1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.b
Lender Responsibility for Appraisals

Lenders, including sponsoring lenders, are equally responsible, along with appraisers, for the quality, integrity, accuracy and thoroughness of appraisals. The lender will be held accountable if it knew, or should have known, that there were problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes. Lenders that submit appraisals to HUD that do not meet FHA requirements are subject to the imposition of sanctions by the HUD Mortgagee Review Board (MRB).

References: For information on
- certification requirements for appraisers, see 4150.2 5-1 A.2
- appraisal assignment to ensure appraiser competency, see HUD 4155.2 4.1.1
- preventing improper influences on appraisers, see HUD 4155.2 4.1.k, and
- appraiser independence safeguards, see HUD 4155.2 4.1.m

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FHA does not require the use of Appraisal Management Companies (AMCs) or other third party organizations for appraisal ordering, but recognizes that some lenders use AMCs and/or other third party organizations to help ensure appraiser independence.

FHA-approved lenders must ensure that:

- an FHA appraiser is not prohibited by the lender, AMC or other third party, from recording the fee he/she was paid for performing the appraisal in the appraisal report
- FHA roster appraisers are compensated at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised
- the fee for the actual completion of an FHA appraisal does not include a fee for management of the appraisal process or any activity other than the performance of the appraisal
- any management fees charged by an AMC or other third party must be for actual services related to ordering, processing or reviewing of appraisals performed for FHA financing, and
- AMC and other third party fees must not exceed what is customary and reasonable for such services provided in the market area of the property being appraised.
As the on-site representative for the lender, the appraiser provides preliminary verification that a property meets the General Acceptability Criteria, which include the Minimum Property Requirements (MPR) or Minimum Property Standards (MPS).

The table below outlines the requirements for FHA financing.

<table>
<thead>
<tr>
<th>To be eligible for FHA financing …</th>
<th>Must comply with HUD’s Minimum Property Standards …</th>
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<tbody>
<tr>
<td>new construction</td>
<td>including 24 CFR 200.926d.</td>
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<tr>
<td>existing construction</td>
<td>contained in HUD 4905.1, Requirements for Existing Housing One- to Four-Family Living Units, Appendix D.</td>
</tr>
<tr>
<td>manufactured homes</td>
<td>contained in HUD 4930.3G, Permanent Foundations Guide for Manufactured Housing.</td>
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The lender is responsible for properly reviewing the appraisal to determine if the appraised value used to calculate the mortgage amount is accurate and adequately supports the value conclusion.

**References**: For more information on property eligibility, see

- HUD 4155.1 4.B
- HUD 4150.2, Valuation Analysis for Single Family One to Four Unit Dwellings, Appendix D, and

Continued on next page
The property appraisal and underwriting process varies by

- stage of construction, and
- type of processing.

References: For more information on
- the property appraisal and underwriting process, see HUD 4150.2,
  *Valuation Analysis for Single Family One- to Four- Unit Dwellings*
- appraisals, see HUD 4155.2 4.4, and
- the underwriting process, see HUD 4155.1 1.A.
1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.g Property Eligibility for FHA Insurance

Only one-to-four unit properties, including a one family unit in a condominium project or a manufactured housing condominium project (MHCP), are eligible for mortgage insurance, except for mortgages insured under Section 220 of the National Housing Act (NHA).

A mortgage insured under Section 220 must be on real estate held

- in fee simple
- on leasehold under a lease for not less than 99 years that is renewable, or
- under a lease having a period of not less than 10 years to run beyond the maturity date of the mortgage.

For properties processed under the Home Equity Conversion Mortgage (HECM) program, the mortgage must be on real estate held

- in fee simple
- on leasehold under a lease for not less than 99 years which is renewable, or
- under a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor.

References: For more information on
- eligible properties, see HUD 4155.1 4.B
- the Section 220 (d)(3)(A), Urban Renewal Mortgage Insurance program, see HUD 4155.2 1.C.7 and
- the Section 220 (h), Insured Improvement Loans-Urban Renewal Areas program, see HUD 4155.2 1.C.8
- the HECM program, see HUD 4155.2 1.C.17 and HUD 4235.1, Home Equity Conversion Mortgages, and
- the Section 203(k), Rehabilitation Home Mortgage Insurance program, see HUD 4240.4, 203K, Rehabilitation Home Mortgage Insurance, and 4155.2 1.C.5.

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A mortgage may be insured pursuant to Section 223(e) for the repair, rehabilitation, construction, or purchase of properties in older, declining urban areas. Eligibility under Section 223(e) is determined by the Homeownership Center (HOC) having jurisdiction over the area in which the property is located.

If the case is being processed under the Direct Endorsement (DE) Lender Program, the lender must submit the case binder to the appropriate HOC for prior approval processing and Section 223(e) consideration. The case binder must be submitted after the appraiser and the lender’s underwriter have determined that the property

- does not meet the location eligibility requirements of Section 203(b), but
- is located in an older, declining urban area that may qualify for Section 223(e).

Reference: For more information on the Section 223(e) program, see HUD 4155.2 1.C.9.
Compliance inspections completed by FHA roster inspectors or local authority with jurisdiction may be required for

- proposed construction or properties under construction
- properties undergoing substantial rehabilitation, and
- existing properties requiring repairs to major systems (for example, structural, or heating).

The number and timing of inspections for new construction depends upon the

- stage of construction (proposed construction, under construction, or new construction less than one year old)
- coverage by an acceptable 10 year warranty plan
- issuance of a building permit and Certificate of Occupancy (CO) by the local jurisdiction
- acceptability of inspections by the local community, and
- the type of construction (stick built, manufactured home, or condominium conversions). Modular homes are treated the same as stick built.

A clear final inspection or, in certain cases, a CO, will be required before FHA will insure the mortgage.

**Part B, Certificate of Completion**, of Fannie Mae Form 1004D/ Freddie Mac Form 442 provides for compliance repair and completion inspections for existing and new construction dwellings.

**References**: For more information on

- compliance inspections, see
  - HUD 4145.1, *Architectural Processing and Inspections for Home Mortgage Insurance*, and
  - HUD 4150.2, *Valuation Analysis for Single-Family One- to Four-Unit Dwellings*
- required inspections on newly-constructed manufactured homes, see 4155.2 4.10.e
- property eligibility, see HUD 4930.3G, *Permanent Foundations Guide for Manufactured Housing*, and
- use of the *Appraisal Update and/or Completion Report* form, see HUD 4155.2 4.4.k, HUD 4155.2 4.4.l and HUD 4155.4.4.m.
An appraiser who is primarily experienced in appraising detached, single family dwellings in one market may lack the knowledge, experience and/or resources for obtaining market data needed to perform quality appraisals on condominiums or manufactured homes in the same market, or on detached, single family homes in another market a short distance away.

The valuation principles for appraising all residential properties are essentially the same, no matter the market in which the property is located. However not all appraisers are knowledgeable and experienced, or have access to sources of data for all markets.

The lender must select an appropriate appraiser for every assignment, one who has knowledge of the market area, or geographic competency.

A lender must not assume, simply because an appraiser is state-certified, that he/she is qualified and knowledgeable in a specific market area or property type. It is incumbent upon the lender to determine if an appraiser’s qualifications, as evidenced by educational training and actual field experience, are sufficient to enable the appraiser to competently perform appraisals before assigning an appraisal to him/her.

Lenders must ensure that the FHA roster appraiser selected to perform an appraisal is listed as active on the FHA Appraiser Roster at the time of selection. FHA will not insure mortgages predicated upon appraisals performed by appraisers who are not current on the FHA appraiser roster at the time of the effective date of the appraisal.
4155.2 4.1.k

Preventing Improper Influences on Appraisers

In order to help FHA roster appraisers avoid conflicts of interest or appearance of conflicts of interest, no member of a lender’s loan production staff or any person who is compensated on a commission basis tied to the successful completion of a loan, or reports, ultimately, to any officer of the lender not independent of the loan production staff and process, shall have substantive communications with an appraiser relating to or having an impact on valuation, including ordering or managing an appraisal assignment.

**References:** For more information on
- communication with appraisers, see 4150.2 1-2C
- lender responsibilities for appraisals, see HUD 4155.2 4.1.b
- prohibition of mortgage brokers and commission based lender staff from the appraisal process, see HUD 4155.2 4.1.l, and
- appraiser independence safeguards, see HUD 4155.2 4.1.m.

4155.2 4.1.l

Who May Not Order the Appraisal

FHA prohibits lenders from accepting appraisal reports completed by an appraiser selected, retained or compensated in any manner by a real estate agent. To ensure appraiser independence, FHA-approved lenders are also prohibited from accepting appraisals prepared by FHA roster appraisers who are selected, retained or compensated in any manner by a third-party sponsored originator or any member of a lender’s staff who is compensated on a commission basis tied to the successful completion of a loan.

**Reference:** For more information on appraiser independence safeguards, see HUD 4155.2 4.1.m.
Lenders, and third parties working on behalf of lenders, are prohibited from:

- withholding or threatening to withhold timely payment or partial payment for an appraisal report
- withholding or threatening to withhold future business from an appraiser
- demoting or terminating, or threatening to demote or terminate, an appraiser
- expressly or impliedly promising future business, promotions or increased compensation for an appraiser
- conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an appraiser
- requesting that an appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of that report
- requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser’s completion of an appraisal report
- providing to the appraiser an anticipated, estimated, encouraged or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase must be provided
- providing stock or other financial or non-financial benefits to
  - the appraiser
  - the appraisal company
  - the appraisal management company, or
  - any entity or person related to the appraiser, appraisal company or management company

Continued on next page
1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.m

**Appraiser Independence Safeguards** (continued)

- allowing the removal of an appraiser from a list of qualified appraisers, or the addition of an appraiser to an exclusionary list of qualified appraisers, used by any entity without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser’s
  - illegal conduct
  - violation of the Uniform Standards of Professional Appraisal Practice (USPAP) standards
  - violation of state licensing standards, or
  - improper or unprofessional behavior or other substantive reason for removal
- ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless
  - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately noted in the loan file
  - such appraisal or automated valuation model is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and
  - the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value, or
- any other act or practice that impairs or attempts to impair an appraiser’s independence, objectivity or impartiality, or violates law or regulation, including, but not limited to the Truth in Lending Act (TILA) and Regulation Z and USPAP.

**Note:** If absolute lines of independence cannot be achieved as a result of the lender’s small size and limited staff, the lender must be able to clearly demonstrate that it has prudent safeguards in place to isolate its collateral evaluation process from influence or interference by its loan production process.

**References:** For more information on
- lender responsibilities for appraisals, see HUD 4155.2 4.1.b, and
- preventing improper influences on appraisers, see HUD 4155.2 4.1.k.

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1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.n
Appraiser Selection in the FHA Connection

Lenders are responsible for ensuring that the appraiser who actually conducted the appraisal is correctly identified in FHA Connection (FHAC). Lenders who fail to ensure that FHAC reflects the correct name will be subject to administrative sanctions.

4155.2 4.1.o
DE Underwriter Responsibility for Quality of Appraisal Report

The DE Underwriter who is responsible for the quality of the appraisal report is allowed to communicate with the appraiser, to request clarifications and discuss components of the appraisal that influence its quality.

The underwriter bears the primary responsibility for determining the eligibility of a property for FHA insurance.
2. General Acceptability Criteria and Property Eligibility

Introduction

This topic contains information on general acceptability criteria and property eligibility, including

- the basis for the determination of MPS and MPR
- minimum property standards for houses and manufactured homes
- site condition standards
- lead-based paint standards
- services and facilities standards
- access standards
- restrictions regarding nonresidential use, and
- rejection of “existing” or newly constructed property.

Change Date

March 1, 2011

4155.2 4.2.a

Basis for Determination of MPS and MPR

The application of HUD’s Minimum Property Standards (MPS) for new construction is determined by

- construction status (proposed construction, under construction, or existing construction less than one year old), and
- construction type (on-site construction or manufactured housing).

A property is considered “new construction” if it was completed less than one year from the date of the Certificate of Occupancy (CO) or its equivalent.

The application of HUD’s Minimum Property Requirements (MPR) for an “existing” property is determined by the date of the CO or its equivalent. To be considered “existing”, a property must be over one year or more from the date of the CO.

References: For additional information on

- minimum property requirements for existing construction, see HUD 4905.1, Requirements for Existing Housing- One- to Four-Family Living Units, as modified by ML 05-48
- proposed construction, see HUD 4910.1, Minimum Property Standards for Housing, 1994 Edition, as modified by ML 05-48, and
- rehabilitation construction, see HUD 4240.4, Section 203(k) Rehabilitation Home Mortgage Insurance.

Continued on next page
2. General Acceptability Criteria and Property Eligibility, Continued

The table below contains the general minimum property standards for houses and manufactured homes to be eligible for FHA insurance.

**References**: For more information on property eligibility, see
- [HUD 4155.1 4.B](#), and
- [HUD 4150.2](#), including the revised Appendix D.

<table>
<thead>
<tr>
<th>Dwelling Type</th>
<th>Property Standards</th>
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</table>
| Housing       | Eligible housing includes  
  • detached or semi-detached dwellings  
  • row houses  
  • multiplex dwellings, and  
  • individual condominium units.  
  **Important**: If **not** detached  
  • the dwelling must be separated from an adjoining dwelling by a party or lot line wall extending the full height of the building, and  
  • each living unit must be individually accessible for use and maintenance without trespass on adjoining properties. |

*Continued on next page*
### Dwelling Type | Property Standards
--- | ---
Manufactured Homes | A manufactured home is a structure that is
- transportable in one or more sections
- designed and constructed to the federal Manufactured Home Construction and Safety Standards (MHCSS), and
- so labeled regarding conformance with the MHCSS.

To be eligible for FHA mortgage insurance, the manufactured home must
- have at least 400 square feet as the minimum floor area
- be constructed after June 15, 1976, in conformance with the MHCSS, as evidenced by an affixed certification label
- be classified as real estate (but need not be treated as real estate for purposes of state taxation)
- be designed to be used as a dwelling with a permanent foundation built to FHA requirements
- be built and must still be remaining on a permanent chassis
- have a mortgage that
  - covers both the unit and its site, and
  - has a term of not more than 30 years from the date of amortization, and
- have a finished grade elevation beneath the home (including the basement) at or above the 100 year flood elevation.

**References**: For additional information on
- manufactured homes, see [HUD 4145.1](#), Architectural Processing and Inspections for Home Mortgage Insurance and
- [HUD 4150.2](#), Valuation Analysis for Single-Family One- to Four-Unit Dwellings
- flood insurance for manufactured homes, see [HUD 4155.2 4.3.g](#)
- property eligibility requirements specific to manufactured homes, see [HUD 4155.2 4.10](#), and
- manufactured housing condominium projects, see [HUD 4155.1 4.B.1.b](#).
2. General Acceptability Criteria and Property Eligibility, Continued

4155.2 4.2.c Site Condition Standards

The property site must be free of health and safety hazards.

4155.2 4.2.d Lead-Based Paint Standards

If the property was built before 1978

- the seller must disclose known information on lead-based paint and/or lead-based paint hazards before selling the house
- the sales contract must include a Disclosure Of Information On Lead-Based Paint And/Or Lead-Based Paint Hazards, and
- the buyer must receive a 10-day opportunity (or mutually agreed upon period) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards.

FHA may insure a mortgage on a house, even with lead-based paint, if defective paint surfaces are treated. However, FHA will not pay the cost to have the lead-based paint removed, treated, or repaired.

Reference: for information on appraisal reporting requirements for lead-based paint on HUD REO properties, see ML 10-17.

4155.2 4.2.e Services and Facilities Standards

Utilities and other facilities should be independent for each unit and must include

- a continuing supply of safe, potable water
- sanitary facilities and a safe method of sewage disposal
- heating adequate for health and comfort
- domestic hot water, and
- electricity for lighting and equipment.

4155.2 4.2.f Access Standards

There must be vehicular access to the property by means of an abutting public or private street.

If private, there must be a permanent recorded easement and provisions for permanent maintenance. Each property must have access to its rear yard.

Continued on next page
2. General Acceptability Criteria and Property Eligibility, Continued

4155.2 4.2.g
Restrictions on Non Residential Use

Nonresidential use must be subordinate to the property's residential use and character, and it may not exceed 25% of the total floor area.

The following nonresidential properties are ineligible for mortgage insurance:

- commercial enterprises
- boarding houses
- hotels/motels
- tourist houses
- private clubs
- bed and breakfast establishments, and
- fraternity/sorority houses.

Exception: Exceptions to this restriction are made for Section 203(k) properties.

References: For more information on
- allowable commercial space on Section 203(k) properties, see HUD 4150.2, Valuation Analysis for Single-Family One- to Four-Unit Dwellings, and
- the Section 203(k) program, see HUD 4155.2 1.C. 5 and HUD 4240.4, Section 203(k) Rehabilitation Home Mortgage Insurance.

4155.2 4.2.h
Rejection of “Existing” or Newly Constructed Property

When examination of “existing” or newly constructed property reveals noncompliance with the General Acceptability Criteria, an appropriate specific condition (repair) to correct the deficiency is required, if correction is feasible.

The lender must reject the property if correction is not feasible, and only major repairs or alterations can affect compliance.

Note: The appraiser must note those repairs necessary to make the property comply with FHA’s General Acceptability Criteria, together with the estimated cost to cure. The lender will determine which repairs for existing properties must be made for the property to be eligible for FHA-insured financing.

Continued on next page
3. Requirements for Properties in Special Flood Hazard Areas (SFHA)

Introduction

This topic contains information on eligibility requirements for properties in special flood hazard areas (SFHA), including:

- responsibility for determining property eligibility in SFHA
- properties in SFHA ineligible for FHA insurance
- eligibility of proposed and new construction in SFHAs
- lender discretion on requiring a flood elevation certificate and/or flood insurance
- flood insurance requirements for existing construction
- flood insurance requirements for condominiums
- flood insurance requirements for manufactured homes
- the required amount of insurance coverage
- properties located within the Coastal Barrier Resource System (CBRS)
- flood zone documentation, and
- appraiser review of the FEMA FIRM.

Change Date

March 1, 2011
3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

The lender is responsible for determining the eligibility of properties in special flood hazard areas (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The lender is required to obtain life-of-loan flood zone determination services for all properties that will be collateral for FHA-insured mortgages, independent of any assessment made by the appraiser.

Prior to closing, lenders must inform borrowers of the requirement to obtain adequate flood insurance for properties where any portion of the dwelling and related structures and equipment are located in a SFHA. Flood insurance premiums must be included in the escrow along with taxes and hazard insurance, only if escrow is required for such items. The actual cost of obtaining flood zone determination services may be passed on to the borrower.

References: For information on
- flood insurance requirements for
  – condominiums, see HUD 4155.2 4.3.f and
  – manufactured homes, see HUD 4155.2 4.3.g, and
A property is not eligible for FHA insurance if a residential building and related improvements to the property are located within a SFHA (Zone A, a “Special Flood Zone Area”, or Zone V, a “Coastal Area”), and insurance under the National Flood Insurance Program (NFIP) is not available in the community.

References: For information on
- properties located within the Coastal Barrier Resource System (CBRS), see HUD 4155.2 4.3.i, and

If any portion of the property improvements (the dwelling and related structures/equipment essential to the value of the property and subject to flood damage) is located within a SFHA, the property is not eligible for FHA mortgage insurance unless the lender obtains from FEMA

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA, or
- if the property is not removed from the SFHA by a LOMA or LOMR, a FEMA NFIP Elevation Certificate (FEMA form 81-31), prepared by a licensed engineer or surveyor, documenting that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria.

Reference: For information on flood zone requirements by property type, see the Appendix to ML 10-43 available at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-43mlappendix.pdf.

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3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

4155.2 4.3.c
Eligibility of Proposed and New Construction in SFHAs
(continued)

Neither flood insurance nor a flood elevation certificate is required if a LOMA or LOMR is obtained that removes the property from the SFHA.

Insurance under the NFIP is required when a flood elevation certificate documents that the property remains located within a SFHA.

Note: The lender must submit the LOMA, LOMR or flood elevation certificate with the case for endorsement.

References: For more information on
• the National Flood Insurance Program criteria, see 44 CFR 60.3 – 60.6
• flood insurance requirements for
  – condominiums, see HUD 4155.2 4.3.f, and
  – manufactured homes, see HUD 4155.2 4.3.g, and
• flood zone requirements by property type, see the Appendix to ML 10-43 available at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-43mlappendix.pdf.

4155.2 4.3.d
Lender Discretion on Requiring a Flood Elevation Certificate and/or Flood Insurance

A lender may require a flood elevation certificate if it is uncertain about whether or not a property is located within a SFHA.

In addition, the lender has discretion to require national flood insurance even if the

• residential building and related improvements to the property are not located within the SFHA, but
• lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.

References: For more information on
• flood insurance requirements for
  – condominiums, see HUD 4155.2 4.3.f, and
  – manufactured homes, see HUD 4155.2 4.3.g, and
• flood zone requirements by property type, see the Appendix to ML 10-43 available at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-43mlappendix.pdf.

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Insurance under the NFIP must be obtained as a condition of closing and maintained for the life of the loan for an existing property when any portion of the residential improvements is determined to be located in a SFHA. Flood insurance will no longer be required if the improvements are subsequently removed from a SFHA by a LOMA or LOMR.

References: For more information on
- flood insurance requirements for
  - condominiums, see HUD 4155.2 4.3.f, and
  - manufactured homes, see HUD 4155.2 4.3.g, and

The Homeowners’ Association (HOA), not the individual condominium owner, is responsible for maintaining flood insurance on buildings located within a SFHA. The lender is responsible for ensuring that the HOA obtains and maintains adequate flood insurance if the FHA appraiser reports that buildings in a condominium project are located within a SFHA. The flood insurance coverage must protect the interest of borrowers who hold title to individual units as well as the common areas of the condominium project.

A LOMA, LOMR or elevation certificate is acceptable evidence if any part of the property improvements is located within the SFHA.

References: For more information on
- LOMA, LOMR and elevation certificate see 4155.2 4.3.c, and

Continued on next page
3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

If any portion of property improvements for both new and existing manufactured home properties are located within a SFHA (Zones A or V), the property is not eligible for FHA mortgage insurance without a(n)

- FEMA-issued LOMA or LOMR, or
- elevation certificate, prepared by a licensed engineer or surveyor on the finished construction, indicating that the finish grade beneath the dwelling or manufactured home is at or above the 100-year return frequency flood elevation.

**Note:** When utilizing an elevation certificate, the property remains in a SFHA and flood insurance is required. Neither an elevation certificate nor flood insurance is required with LOMA or LOMR that removes the property from the SFHA.

**Important:** For manufactured homes with basements, the grade beneath the basement must be at or above the 100-year flood elevation.

**References:** For more information on
- flood insurance requirements for
  - existing construction, see [HUD 4155.2 4.3.e](http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-43mlappendix.pdf), and
  - condominiums, see [HUD 4155.2 4.3.f](http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-43mlappendix.pdf), and
4155.2 4.3.h Required Flood Insurance Amount

National flood insurance is required for the term of the loan and must be maintained in an amount equal to the least of the:

- development cost of the property, less estimated land cost
- maximum amount of the NFIP insurance available with respect to the property improvements, or
- outstanding principal balance of the loan(s).

References: For more information on flood insurance requirements, see
- HUD 4150.2, Valuation Analysis for Single-Family One- to Four-Unit Dwellings, and
- USC 4012a(a).

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3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

4155.2 4.3.i Properties Located Within the Coastal Barrier Resource System (CBRS)

A property is not eligible for FHA mortgage insurance if the improvements are or are proposed to be located within the Coastal Barrier Resource System (CBRS).

The Coastal Barriers Resources Act (CBRA)

- protects areas that serve as
  - barriers against wind and tidal forces caused by coastal storms, and
  - habitat for aquatic species
- protects coastal areas from development by limiting federal financial assistance for development-related activities in designated areas
- restricts federal assistance, including disaster relief assistance provided by FEMA under the Robert T. Stafford Act and the NFIP in order to manage development, limit property damage and preserve wildlife and natural resources, and
- does not prohibit development within the CBRS by owners of such properties.

CBRS boundaries are established by the U.S. Department of the Interior’s Fish and Wildlife Service (FWS). CBRS location maps and additional information regarding the CBRA can be found at: http: www.fws.gov/habitatconservation/coastal_barrier.html.

Reference: For more information on flood zone requirements by property type, see the Appendix to ML 10-43 available at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-43mlappendix.pdf.
3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

4155.2 4.3.j
Flood Zone Documentation

The lender must include in the case binder submitted for endorsement the appropriate flood zone documentation, including:

- Flood zone determination certificate for all properties, and, if applicable
- Final Letter of Map Amendment (LOMA)
- Final Letter of Map Revision (LOMR), or

The flood documentation must be

- placed behind the appraisal report in the stacking order for paper case binders, or
- indexed in the appraisal package for electronic case binders.

Continued on next page
3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

4155.2 4.3.k
Appraiser Review of FEMA FIRM

FHA roster appraisers are required to review the applicable FEMA Flood Insurance Rate Map (FIRM) and make appropriate appraisal reporting form. If the property is located within a **SFHA**, the appraiser must

- attach a copy of the flood map panel to the appraisal report
- enter the FEMA zone designation on the reporting form
- identify the map panel number and map date, and
- quantify the effect on value, if any.

**Note**: The appraiser must enter “not mapped” if the property is not shown on any map.

Appraisers are required to perform due diligence necessary to determine if a property is located within a **CBRS**. The CBRS boundaries are identified on the FEMA **FIRM** by patterns of backward slanting diagonal lines, both solid and broken. The **FWS** mapping database also helps identify CBRS boundaries.

Appraisers must immediately stop work on assignment and return the file to the lender if the property is located within the CBRS boundaries.

**References**: For more information on

- flood insurance requirements, see **HUD 4150.2, Valuation Analysis for Single-Family One- to Four-Unit Dwellings**, and
- properties located within a CBRS, see **HUD 4155.2 4.3.i**.
4. Appraisal Requirements

Introduction

This topic contains information on the requirements for appraisals, including

- the FHA policy on appraisals
- appraisal reporting standards
- appraisal reporting forms
- appraisal validity periods
- the FHA policy on appraisal reuse
- the FHA policy on appraisal extensions
- appraisal and inspection fees
- lender responsibility for providing appraised value documentation to the borrower
- appraisal transfer and change of client name when the borrower switches lenders
- ordering a second appraisal when the borrower switches lenders
- when the appraisal and/or completion report form is used
- when the appraisal and/or completion report form is not used
- who may use the appraisal and/or completion report form
- REO second appraisals to support a higher purchase price
- effective date of the appraisal, and
- converting an appraisal from conventional to FHA lending.

Change Date

March 1, 2011

4155.2 4.4.a

FHA Policy on Appraisals

Except for certain streamline refinance transactions, FHA requires an appraisal of all properties to establish an estimated value for mortgage insurance purposes.

All individual properties, whether proposed construction, under construction, or existing construction, must meet HUD’s Minimum Property Standards (MPS) or Minimum Property Requirements (MPR).

References: For more information on

- streamline refinance transactions, see HUD 4155.1 3.C, and
- appraisal requirements for individual properties, see
  – HUD 4150.2, Valuation Analysis for Single-Family One- to Four-Unit Dwellings, and
  – ML 05-34 and ML 05-48.

Continued on next page
4. Appraisal Requirements, Continued

An appraisal performed for FHA purposes requires that the appraiser

- address all sections of the appraisal form
- complete the form in a manner that clearly reflects the thoroughness of the investigation and analysis of the appraisal findings, and
- ensure that the conclusions about the observed conditions of the property provide rationale for the opinion of market value.

The completed appraisal form utilized, together with the required exhibits, constitutes the reporting instrument to HUD for FHA-insured mortgages.

References: For information on appraisal forms, see

- HUD 4155.2 4.4.c, and
- HUD 4150.2, Appendix D.

Continued on next page
4. Appraisal Requirements, Continued

The appraisal reporting form used depends on the type of property that is being appraised.

The table below lists the appraisal forms used by the appraiser.

**Important:** The appraiser must complete Fannie Mae Form 1004MC, *Market Conditions Addendum to the Appraisal Report* along with the appropriate appraisal form.

**Reference:** For access to these forms, see the HUDCLIPS website at [http://www.hud.gov/offices/adm/hudclips/](http://www.hud.gov/offices/adm/hudclips/).

<table>
<thead>
<tr>
<th>Appraisal Form</th>
<th>Form Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Uniform Residential Appraisal Report</em> (URAR) <em>(Fannie Mae Form 1004, March 2005)</em></td>
<td>Required to report an appraisal of</td>
</tr>
<tr>
<td></td>
<td>• a one-unit property, or</td>
</tr>
<tr>
<td></td>
<td>• a one-unit property with an accessory unit.</td>
</tr>
<tr>
<td><em>Individual Condominium Unit Appraisal Report</em> <em>(Fannie Mae Form 1073, March 2005)</em></td>
<td>Required to report an appraisal of a</td>
</tr>
<tr>
<td></td>
<td>• unit in a condominium project, or</td>
</tr>
<tr>
<td></td>
<td>• condominium unit in a planned unit development (PUD).</td>
</tr>
<tr>
<td><em>Small Residential Income Property Appraisal Report</em> <em>(Fannie Mae Form 1025)</em></td>
<td>Required to report an appraisal of a two to four unit property.</td>
</tr>
<tr>
<td><em>Individual Condominium Unit Appraisal Report</em> <em>(Fannie Mae Form 1073)</em></td>
<td>Required as an addendum to the appraisal report if the property is located in a manufactured housing condominium project (MHCP).</td>
</tr>
</tbody>
</table>

*Continued on next page*
4155.2 4.4.c Appraisal Reporting Forms (continued)

<table>
<thead>
<tr>
<th>Appraisal Form</th>
<th>Form Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Update and/or Completion Report</td>
<td>This is a dual-purpose form.</td>
</tr>
<tr>
<td>(Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005)</td>
<td></td>
</tr>
<tr>
<td>• Part A, Summary Appraisal Update Report</td>
<td></td>
</tr>
<tr>
<td>– provides for updates of existing appraisals</td>
<td></td>
</tr>
<tr>
<td>when the appraiser concurs with the</td>
<td></td>
</tr>
<tr>
<td>original appraisal report, and</td>
<td></td>
</tr>
<tr>
<td>– updates the appraisal by incorporating the</td>
<td></td>
</tr>
<tr>
<td>original appraisal report.</td>
<td></td>
</tr>
<tr>
<td>• Part B, Completion Report, provides for</td>
<td></td>
</tr>
<tr>
<td>compliance repair and completion</td>
<td></td>
</tr>
<tr>
<td>inspections for existing and new</td>
<td></td>
</tr>
<tr>
<td>construction dwellings.</td>
<td></td>
</tr>
</tbody>
</table>

References: For information on the use of
• Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005, Appraisal Update and/or Completion Report, see
  – HUD 4155.2 4.4.k, HUD 4155.2 4.4.1 and HUD 4155.2 4.4.m
  – ML 09-51, and
  – ML 10-13, and
• other required appraisal forms, see HUD 4150.2, Valuation Analysis for Single Family One to Four Unit Dwellings, Appendix D.
The term of the appraisal begins on the day the home is inspected by the FHA-approved appraiser and this date appears on the URAR.

The table below lists appraisal validity periods based on the type of property being appraised.

<table>
<thead>
<tr>
<th>If the…</th>
<th>And the…</th>
<th>Then the appraisal validity period is…</th>
</tr>
</thead>
<tbody>
<tr>
<td>property is existing, proposed or under construction</td>
<td>appraisal is not updated using the Appraisal Update and/or Completion Report</td>
<td>120 days for the original appraisal plus a 30 day extension.</td>
</tr>
</tbody>
</table>

**Important:** The 30 day extension period cannot be used for cases where the original appraisal is updated using the Appraisal Update and/or Completion Report.

FHA will not insure a loan if it is not closed within 150 days from the effective date of the appraisal report.

*Continued on next page*
4. Appraisal Requirements, Continued

4155.2 4.4.d Appraisal Validity Periods (continued)

<table>
<thead>
<tr>
<th>If the…</th>
<th>And the…</th>
<th>Then the appraisal validity period is…</th>
</tr>
</thead>
<tbody>
<tr>
<td>property is existing, proposed or under construction</td>
<td>appraisal is updated using the Appraisal Update and/or Completion Report if a loan has not closed</td>
<td>240 days, and consists of • 120 days for the original appraisal, plus • 120 days for the Appraisal Update Report. Important: FHA will not insure loans that have not closed within the 240 day appraisal validity period.</td>
</tr>
</tbody>
</table>

Continued on next page
4. Appraisal Requirements, Continued

4155.2 4.4.d Appraisal Validity Periods (continued)

<table>
<thead>
<tr>
<th>If the…</th>
<th>And the…</th>
<th>Then the appraisal validity period is…</th>
</tr>
</thead>
<tbody>
<tr>
<td>property is HUD Real Estate Owned (REO)</td>
<td>---</td>
<td>120 days from the effective date of the appraisal.</td>
</tr>
</tbody>
</table>

**Important:** If the buyer is financing the purchase with an FHA-insured mortgage, a valid HUD REO sales contract must be ratified within 120 days of the appraisal effective date or the lender must order a new appraisal or an appraisal update to support the mortgage transaction.

**Reference:** For more information on second appraisals for Real Estate Owned (REO) properties (with the exception of 203(k) as-repaired appraisals which are exempt), see HUD 4155.2 4.4.n.

If the appropriate HOC determines that soft market conditions exist in certain areas or markets, it may shorten the term of appraisals for substantial rehabilitation upon advance notice to lenders.

**Reference:** For more information on FHA policy on appraisal extensions, see HUD 4155.2 4.4.f.
4. Appraisal Requirements, Continued

4155.2 4.4.e
FHA Policy on Appraisal Reuse

Appraisals cannot be reused after the mortgage for which the appraisal was ordered has closed.

A new appraisal is required for each refinance transaction requiring an appraisal.

Example: An appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if six months has not passed.

4155.2 4.4.f
FHA Policy on Appraisal Extensions

If a borrower signs a valid sales contract or is approved for a loan prior to the expiration date of the appraisal, the term of the appraisal may be extended, at the option of the lender, for 30 days to allow for the approval of the borrower and closing of the loan.

Approval of the borrower occurs when the lender’s DE underwriter signs the HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary.

References: For more information on
- appraisal validity periods, see HUD 4155.2 4.4.d, and
- when to use the Appraisal and/or Completion Report, see HUD 4155.2 4.4.k.

4155.2 4.4.g
Appraisal and Inspection Fees

The lender is responsible for collecting the appraisal or inspection fee and promptly paying appraisers and inspectors.

4155.2 4.4.h
Lender Responsibility for Providing Appraised Value Documentation to the Borrower

In accordance with the provisions of the NHA, the lender must provide the borrower with a statement of appraised value at or before loan closing. The borrower may receive a copy of HUD -92800.5B, Conditional Commitment – DE Statement of Appraised Value, or a copy of the completed appraisal report.

Continued on next page
In cases where a borrower has switched lenders, the first lender must, at the borrower’s request, transfer the case to the second lender. FHA does not require that the client name on the appraisal be changed when it is transferred to another lender.

In accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), the second lender is not permitted to request that the appraiser change the name of the client within the appraisal report unless it is a new appraisal assignment. To effect a client name change, the second lender and the original appraiser may engage in a new appraisal assignment wherein the scope of work is limited to the client name change. A new client name should include the name of the client (lender) and HUD.

**References**: For more information on

- transferring case numbers, see [HUD 4155.1 1.D.5](#), and
- ordering second appraisals, see [HUD 4155.2 4.4.j](#) and [HUD 4155.2 4.4.n](#).
4. **Appraisal Requirements**, Continued

4155.2 4.4.j
Ordering a Second Appraisal when the Borrower switches Lenders

FHA prohibits “appraiser shopping”, where lenders order additional appraisals in an effort to assure the highest possible value for the property, and/or the least amount of deficiencies or repairs are noted and required by the appraiser.

However, in the case where a borrower switches from one FHA lender (first lender) to a second lender, and an appraisal was ordered by and completed for the first lender, a second appraisal may be ordered by the second lender if the

- first appraisal contains material deficiencies, as determined by the DE underwriter for the second lender
- appraiser performing the first appraisal is on the second lender’s exclusionary list of appraisers, or
- failure of the first lender to provide a copy of the appraisal to the second lender in a timely manner would cause a delay in closing, posing potential harm to the borrower, which includes events outside the borrower’s control such as
  - loss of interest rate lock
  - purchase contract deadline
  - foreclosure proceedings, and/or
  - late fees.

For the first two scenarios above, the lender must ensure that copies of both appraisals are retained in the case binder. For the third scenario, the appraisal from the first lender must be added to the case binder when it is received.

**Important:** In all cases, the lender must document why a second appraisal was ordered and retain the explanation in the case binder.

**References:** For more information on
- appraisal reuse, see [HUD 4155.2 4.4.e](#)
- appraisal extensions, see [HUD 4155.2 4.4.f](#), and
- second appraisals for HUD REO properties, see [HUD 4155.2 4.4.n](#).

*Continued on next page*
4. Appraisal Requirements, Continued

The FHA appraiser should only use Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report under the conditions described in the table below.

<table>
<thead>
<tr>
<th>When the lender…</th>
<th>Then the appraiser should use …</th>
</tr>
</thead>
<tbody>
<tr>
<td>• needs to extend the validity period of an existing appraisal that is due to expire, and • does not want to order a new appraisal</td>
<td>Part A, Appraisal Update.</td>
</tr>
<tr>
<td>needs to extend the validity period of an existing appraisal for new construction that is incomplete</td>
<td>Part A, Appraisal Update.</td>
</tr>
<tr>
<td>needs to report the • completion of a repair, and/or • satisfaction of requirements and conditions noted on the original appraisal report referenced in the header of the Summary Appraisal Update and/or Completion Report</td>
<td>Part B, Completion Report.</td>
</tr>
</tbody>
</table>

Important: The appraiser
- may only update an original appraisal report one time using the Appraisal Update Report, which limits the use of this form to one time, and
- must include a complete Fannie Mae Form 1004MC, Market Conditions Addendum to the Appraisal Report for the subject property that is reflective of market conditions as of the effective date of the Appraisal Update Report.
# 4. Appraisal Requirements, Continued

## 4155.2 4.4.1 When the Appraisal and/or Completion Report Form Is Not Used

The FHA appraiser may *not* use Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report* under the conditions described in the table below.

<table>
<thead>
<tr>
<th>If ...</th>
<th>Then the appraiser ...</th>
</tr>
</thead>
</table>
| - the property has declined in value  
- the building improvements that contribute value to the property cannot be observed from the street or a public way, or  
- the exterior inspection of the property reveals deficiencies or other significant changes that did not exist as of the effective date of the appraisal report being updated | may not use *Part A, Appraisal Update*. |
| - the property is new construction and manufactured housing, and  
- a form HUD-92051, *Compliance Inspection Report*, is required | may not use *Part B, Completion Report*. |
| the *Appraisal Update Report* was ordered by a lender who is not identified as an intended user in the original appraisal report unless the appraiser incorporates the original report being updated by attachment rather than by reference per Advisory Opinion 3 of the Uniform Standards of Professional Appraisal Practice (USPAP). | may not use *Part A, Appraisal Update*. |

## 4155.2 4.4.m Who May Use the Appraisal Update and/or Completion Report Form

The FHA appraiser who performed the original appraisal, if currently in good standing on the FHA Appraiser Roster, may use *Part A, Summary Appraisal Update Report*, or *Part B, Completion Report*.

Any other FHA appraiser, currently in good standing on the FHA Appraiser Roster, may *only* use *Part B, Completion Report*.

**Reference:** For information on how to use the *Appraisal Update and/or Completion Report* form, see *ML 09-51* and *ML 10-13*. 

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*Continued on next page*
4. Appraisal Requirements, Continued

4155.2 4.4.n
REO Second
Appraisals to
Support a Higher
Purchase Price

With the exception of 203(k) as-repaired appraisals, when a buyer is using FHA financing to purchase a HUD REO property, the appraisal that was used to determine the list price will remain effective for purposes of obtaining the FHA-insured mortgage.

A second appraisal may not be ordered simply to support a purchase price that is higher than the value on the current appraisal.

A second appraisal can only be ordered to support a higher sales price if there are material deficiencies with the current appraisal, or the current appraisal will not be valid on the date of contract ratification.

The DE underwriter is responsible for determining if there are material deficiencies with respect to the current appraisal. In addition, the lender must document why a second appraisal was ordered and retain both appraisal copies in the loan file.

4155.2 4.4.o
Effective Date of Appraisal

The effective date of the appraisal is the date the property was inspected by the appraiser. The effective date cannot be before the case number assignment date unless the appraisal

• was ordered for conventional, HUD REO or government-guaranteed loan purposes
• was performed by an FHA Roster appraiser, and
• is being converted to obtain an FHA-insured mortgage.

The lender must certify the conditions above in the certification field on the Appraiser Logging Screen in FHA Connection (FHAC), and retain documentation in the case binder substantiating conversion of the mortgage to FHA.

Continued on next page
4. Appraisal Requirements, Continued

The lender must ensure that the appraisal was performed in accordance with all FHA appraisal reporting requirements, as specified in HUD 4150.2, CHG-1, Valuation Analysis for Home Mortgage Insurance for Single Family One-to Four-Unit Dwellings and subsequent mortgagee letters, if the appraisal

- was ordered for conventional or government-guaranteed loan purposes
- was performed by an FHA Roster appraiser, and
- is being converted to obtain an FHA-insured mortgage.

Compliance with FHA requirements may entail a re-inspection of the property by the appraiser.
5. Appraisal Repair Requirements

Introduction
This topic contains information on repair requirements, including

- the FHA policy on repair requirements on an appraisal
- types of repairs
- properties with defective conditions, and
- additional required inspections by qualified entities.

Change Date
March 1, 2011

4155.2 4.5.a
FHA Policy on Appraisal Repair Requirements
When performing an FHA appraisal, the appraiser must

- denote any deficiency in the appropriate section(s) of the appraisal report (site issues in the site section, improvement issues in the improvements section, etc.), and
- note those repairs necessary to make the property comply with FHA’s MPR, or MPS, together with the estimated cost to cure.

The lender determines which repairs must be made for an existing property to be eligible for FHA-insured financing.

Reference: For information on compliance inspection requirements, see HUD 4155.2 4.1.i.

Continued on next page
The types of repairs that may need to be made to a property include:

- cosmetic repairs, and
- required repairs.

The table below describes cosmetic and required repairs.

<table>
<thead>
<tr>
<th>Type of Repair</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmetic repairs</td>
<td>Cosmetic repairs are not required, however, they must be considered in the overall condition rating and valuation of the property. Such repairs would include surface treatments, beautification or adornment not required for the preservation of the property. Generally, worn floor finishes or carpets, holes in window screens, or a small crack in a windowpane are examples of deferred maintenance that do not rise to the level of a required repair, but must be reported by the appraiser.</td>
</tr>
<tr>
<td>Required repairs</td>
<td>The physical condition of existing building improvements must be examined at the time of the appraisal to determine whether repairs, alterations or inspection are necessary or essential to eliminating conditions that threaten the continued physical security of the property. Required repairs must be limited to those required to protect the health and safety of the occupants (Safety), protect the security of the property (Security), and correct physical deficiencies or conditions affecting structural integrity (Soundness).</td>
</tr>
</tbody>
</table>
5. Appraisal Repair Requirements, Continued

4155.2 4.5.c Properties With Defective Conditions

A property with defective conditions is unacceptable for FHA insurance until the conditions have been remedied and the probability of further damage has been eliminated. Defective conditions include

- defective construction, and
- other readily observable conditions that impair the safety, security, or structural soundness of the dwelling.

4155.2 4.5.d Additional Required Inspections by Qualified Entities

Typical conditions that would require further inspection or testing by qualified individuals or entities include

- infestation – evidence of termites
- inoperative or inadequate plumbing, heating, or electrical systems
- structural failure in framing members
- leaking or worn-out roofs
- cracked masonry or foundation damage, and
- drainage problems.

References: For more information on compliance inspection requirements, see

- HUD 4155.2 4.1.i
- ML 05-48
- ML 05-34, and
- HUD 4150.2.
6. Satisfying Repair Requirements

Introduction
This topic contains information on satisfying repair requirements, including

- the policy on satisfying repair requirements
- Compliance Inspection Report
- form HUD-92300, Mortgagee’s Assurance of Completion
- the escrow of funds for completion of construction, and
- lender obligation to complete improvements.

Change Date
March 1, 2011

4155.2 4.6.a Policy on Satisfying Repair Requirements
Repair requirements outstanding on the appraisal report must be satisfied before the mortgage is submitted for endorsement. Satisfaction of repair requirements can be submitted by providing

- a Compliance Inspection Report (HUD-92051), as described in HUD 4155.2 4.6.b
- Part B of Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report
- the Mortgagee’s Assurance of Completion (HUD-92300) of escrowed repairs, as described in HUD 4155.2 4.6.e, or
- a certification from a “qualified” professional on their company form or letterhead.

Note: A “qualified” professional may be a professionally licensed
- engineer
- home inspector, or
- trades person.

Reference: For more information on compliance inspection requirements, see HUD 4155.2 4.1.i.
6. Satisfying Repair Requirements, Continued

4155.2 4.6.b
Compliance Inspection Report

Form HUD-92051, Compliance Inspection Report, or Part B of Fannie Mac Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report, are used to certify that repairs have been completed satisfactorily.

Part B of Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report provides for compliance repair and compliance inspections for existing and new construction dwellings.

**Important**: Part B of Fannie Mae Form 1004D/Freddie Mac Form 442 may not be used in lieu of Form HUD-92051, Compliance Inspection Report, for new construction and manufactured housing.

These forms must be prepared, as appropriate, by an
- appraiser, or
- FHA fee inspector, for inspections that require architectural expertise (such as structural or basic system repair).

Such reports must be reviewed by FHA or the lender’s underwriter, as appropriate.

**Note**: A list of FHA-approved inspectors is available via the FHA Connection at https://entp.hud.gov/clas/.

**References**: For more information on
- compliance inspection requirements, see HUD 4155.2 4.1.i
- use of the Appraisal Update and/or Completion Report form, see
  - HUD 4155.2 4.4.k
  - HUD 4155.2 4.4.l, and
  - HUD 4155.2 4.4.m.

4155.2 4.6.c
Form HUD-92300, Mortgagee’s Assurance of Completion

A lender certification HUD-92300, Mortgagee’s Assurance of Completion is acceptable when the required repair items are minor and uncomplicated.

**Note**: If the borrower could complete the work on his/her own as normal maintenance, FHA considers the work to be “minor”.

Continued on next page
6. Satisfying Repair Requirements, Continued

4155.2 4.6.d  
**Escrow of Funds for Completion of Construction**

If adverse weather conditions prevent completion of the repairs, it is not always necessary to complete all new construction items (for example, landscaping) or required repairs (such as exterior painting) before submitting the mortgage for insurance endorsement. In certain situations, funds may be escrowed, and FHA will accept a [HUD-92300](https://www.hud.gov), *Mortgagee’s Assurance of Completion* at the time of endorsement.

The escrow of funds may only be used when

- the dwelling is habitable, safe and essentially complete
- the deferred work cannot be acceptably completed prior to loan closing, but will be completed within six months
- all other conditions of the appraisal have been satisfied by compliance inspections or by an acceptable [HUD-92300](https://www.hud.gov), and
- the lender has not been denied the privilege of using a [HUD-92300](https://www.hud.gov) due to poor follow-up or non-satisfaction of outstanding escrows.

4155.2 4.6.e  
**Lender Obligation to Complete Improvements**

The lender assumes the obligation to satisfactorily complete improvements, regardless of the adequacy of the funds reserved by escrow or letter of credit.

An FHA roster appraiser or inspector must confirm that the work was satisfactorily completed.

**References:**

- For a list of FHA roster appraisers or inspectors, see the HUD website at [www.hud.gov](http://www.hud.gov).
- For more information on the escrow of funds and verification of work completion, see [HUD 4145.1](https://www.hud.gov), *Architectural Processing and Inspections for Home Mortgage Insurance.*
7. Prohibition on Property Flipping

Introduction

This topic contains information on the prohibition on property flipping, including:

- definition of property flipping
- inapplicability of property flipping restrictions to new construction
- requirement that the seller must be the owner of record
- appraiser responsibility for analyzing prior sales of a property
- restriction on resales occurring 90 days or less after acquisition
- required second appraisal on properties sold between 91 and 180 days after acquisition
- resales occurring between 91 days and 12 months following acquisition, and
- exceptions to the 90-day restriction.

Change Date

March 1, 2011

4155.2 4.7.a Definition: Property Flipping

The term property flipping refers to a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a lender’s collusion with an appraiser.

4155.2 4.7.b Inapplicability of Property Flipping Restrictions to New Construction

The restrictions listed in this topic, and in 24 CFR 203.37a do not apply to a builder selling a newly built home or building a home for a borrower wishing to use FHA-insured financing.

Continued on next page
7. Prohibition on Property Flipping, Continued

4155.2 4.7.c
Seller Must Be the Owner of Record

To be eligible for a mortgage insured by FHA

- a property must be purchased from the owner of record
- the transaction may not involve any sale or assignment of the sales contract, and
- the lender must obtain, and submit in the case binder to HUD, documentation verifying that the seller is the owner or record.

Such documentation may include, but is not limited to

- a property sales history report
- a copy of the recorded deed from the seller, or
- other documentation, such as a copy of a property tax bill, title commitment or binder, demonstrating the seller’s ownership of the property and the date it was acquired.

Note: This requirement applies to all FHA purchase money mortgages, regardless of the time between resales.

4155.2 4.7.d
Appraiser Responsibility for Analyzing Prior Sales of a Property

To be in compliance with updated Standard Rule 1-5 of the Uniform Standards of Professional Appraisal Practice (USPAP), appraisers are required to analyze any prior sales of a subject property in the previous three years for one to four family residential properties.

Mortgage lenders may rely on the information provided by the appraiser in the Uniform Residential Appraisal Report (URAR) describing the Date, Price and Data for Prior Sales for the subject property within the last three years.

4155.2 4.7.e
Restriction on ReSales Occurring 90 Days or Less After Acquisition

If a property is re-sold 90 days or fewer following the date of acquisition by the seller, the property is not eligible for a mortgage insured by FHA.

FHA defines the

- seller’s date of acquisition as the date of settlement on the seller’s purchase of that property, and
- resale date as the date of execution of the sales contract by a buyer intending to finance the property with an FHA-insured loan.

Reference: For exceptions to the 90-day restriction, see HUD 4155.2 4.7.h

Continued on next page
7. Prohibition on Property Flipping, Continued

A lender must obtain a second appraisal by another appraiser if

- the resale date of a property is between 91 and 180 days following the acquisition of the property by the seller, and
- the resale price is 100% or more over the price paid by the seller when the property was acquired.

FHA reserves the right to revise the resale percentage level at which this second appraisal is required by publishing a notice in the Federal Register.

Example: If a property is re-sold for $80,000 within six months of the seller’s acquisition of that property for $40,000, the lender must obtain a second independent appraisal supporting the $80,000 sales price. Even if the lender provides documentation showing the cost and extent of rehabilitation that went into the property resulting in the increased value, the second appraisal is still required.

Note: The cost of the second appraisal may not be charged to the borrower.

FHA reserves the right to require additional documentation from a lender to support the resale value of a property if

- the resale date is more than 90 days after the date of acquisition by the seller, but before the end of the twelfth month following the date of acquisition, and
- the resale price is 5% or greater than the lowest sale price of the property during the preceding 12 months.

At FHA’s discretion, such documentation may include, but is not limited to, an appraisal from another appraiser.
4155.2 4.7.h Exceptions to the 90-day Restriction

The only exceptions to the 90-day resale restriction described in HUD 4155.2 4.7.e are for:

- properties acquired by an employer or relocation agency in connection with the relocation of an employee
- resales by HUD under its Real Estate Owned (REO) program
- sales by other United States Government agencies of single family properties pursuant to programs operated by these agencies
- sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions
- sales of properties that are acquired by the seller by inheritance
- sales of properties by state and federally-chartered financial institutions and government sponsored enterprises
- sales of properties by local and state government agencies, and
- sales of properties within Presidentially Declared Disaster Areas.

Any subsequent resales of the properties described above must meet the 90-day threshold in order for the mortgage to be eligible as security for FHA insurance.

Note: Homeownership Centers (HOCs) do not have the authority to waive the 90-day resale restriction because it is a regulatory requirement and not an administrative policy.
8. Seller Concessions and Verification of Sales

**Introduction**
This topic contains information on seller concessions and verification of sales, including

- appraisal requirements for sales concessions
- types of sales concessions, and
- lender requirements regarding sales concessions.

**Change Date**
March 1, 2011

**4155.2 4.8.a Appraisal Requirements for Sales Concessions**
Sales concessions influence the price paid for real estate. For this reason, FHA requires that appraisers identify and report sales concessions and properly address and/or adjust the comparable sales transactions to account for sales concessions in the appraisal of all properties.

**4155.2 4.8.b Types of Sales Concessions**
Sales concessions may be given by the seller or any other party to the mortgage transaction, and may be in the form of any of the following:

- loan discount points
- loan origination fees
- interest rate buy downs
- closing cost assistance
- payment of condominium fees
- builder incentives
- down payment assistance
- monetary gifts, or
- personal property.

*Continued on next page*
FHA requires that lenders comply with the requirements listed below with respect to sales concessions:

- on any real estate purchase transaction, the lender must provide the appraiser with a complete copy of the ratified sales contract, including all addenda, for the subject property that is to be appraised
- lenders must provide appraisers with all financing data and sales concessions for the subject property granted by anyone associated with the transaction (Note: Sales concession information must include gifts and/or down payment assistance, which may or may not be included in the sales contract.), and
- if a lender requests a reconsideration of value, the lender must provide the appraiser with any amendments to the contract that occurred after the effective date of the appraisal.

*Note:* Contributions from sellers or other interested third parties to the transaction that exceed 6% of the sales price or other financing concessions must be treated as inducements to purchase, thereby reducing the amount of the mortgage.

*Reference:* For information on inducements to purchase, see HUD 4155.1 2.A.4.
9. Reporting Requirements for Appraisals in Declining Markets

Introduction

This topic contains information on the reporting requirements for appraisals in declining markets, including

- a description of “declining market”
- required use of comparables for appraisal reporting in declining markets
- specific requirements for reporting comparable listings/pending sales for appraisals in declining markets, and
- requirements regarding market trend data sources.

Change Date

March 1, 2011

4155.2 4.9.a Description of “Declining Market”

While there is no standard industry definition, for purposes of performing appraisals on properties that are to be collateral for FHA-insured mortgages, a “declining market” is considered to be any neighborhood, market area, or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory or extended marketing times.

*Note*: A declining trend in the market must be identified by the conclusions of the Fannie Mae Form 1004MC, Market Conditions Addendum. The appraiser must provide a summary comment and provide support for all conclusions relating to the trend of the current market.

4155.2 4.9.b Required Use of Comparables for Appraisal Reporting in Declining Markets

In order to show recent market activity, appraisals of properties located in declining markets must include at least two comparable sales that

- closed within 90 days prior to the effective date of the appraisal, and
- are as similar as possible to the subject property.

*Note*: A detailed explanation is required for cases where compliance with this requirement is difficult or impossible to meet due to the lack of market data.

Continued on next page
In order to ensure that FHA receives an accurate and thorough appraisal analysis, the inclusion of comparable listings and/or pending sales is required in appraisals of properties that are located in declining markets. Specifically, the appraiser must

- include a minimum of two active listings or pending sales on the appraisal grid of the applicable appraisal reporting form in comparable 4-6 position or higher (in addition to the three settled sales)
- ensure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparables. (*Note*: Reasonable market exposure is reflected by typical marketing times for the neighborhood. The comparable listings should be truly comparable and the appraiser should bracket the listings using both dwelling size and sales price whenever possible.)
- adjust active listings to reflect list to sale price ratios for the market
- adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios
- include the original list price, any revised list prices, and total days on the market (DOM) (*Note*: Provide an explanation for DOM that do not approximate time frames reported in the 1977.56-. section of the appraisal reporting form or that do not coincide with the DOM noted in the Market Conditions Addendum.)
- reconcile the adjusted values of active listings or pending sales with the adjusted values of the settled sales provided (*Note*: The appraiser must determine if a market condition adjustment is appropriate if the adjusted values of the settled comparables are higher than the adjusted values of the active listings or pending sales. The final value conclusion should not be based solely on the comparable listing or pending sales data.), and
- include an absorption rate analysis, which is critical to developing and supporting market trend conclusions, as mandated by the Market Conditions Addendum. (*Example*: Assuming 36 sales during a six-month period, the absorption rate is 6 sales per month (36/6).)
Market trend data is available from a number of local and nationwide sources. Appraisers must be diligent in using only impartial sources of data. The appraiser must

- verify data via local parties to the transaction, such as
  - real estate agents
  - buyers
  - sellers, and
  - lenders, or
- use public records or another impartial data source that can be replicated if a sale cannot be verified.

**Unacceptable Sources:**
Unacceptable data sources include local and national media and other sources considered not readily verifiable. A Multiple Listing Service (MLS) by itself is not considered a verification source.

**Notes:**
- Appraisal results should be able to be replicated.
- Known or reported incentives or sales concessions must be noted in the financing section of the grid for any active or pending comparable used.
10. Property Eligibility Requirements Specific to Manufactured Homes

Introduction
This topic contains information on property eligibility requirements specific to manufactured homes, including

- foundation requirements for manufactured homes
- Engineer’s Certification on Foundation Compliance for Manufactured Homes
- use of the Engineer’s Certification for future loans
- perimeter enclosures for manufactured homes
- required inspections for new construction manufactured homes, and
- termite control for manufactured homes.

Change Date
March 1, 2011

4155.2 4.10.a
Foundation Requirements for Manufactured Homes

All manufactured home permanent foundation systems must follow the FHA guidelines in effect at the time of the certification, which are currently published in the Permanent Foundations Guide for Manufactured Housing (PFGMH).

Reference: For more information on PFGMH, see HUD 4930.3G, or www.huduser.org/publications/destech/permfound.html.

Continued on next page
10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

4155.2 4.10.b
Engineer’s Certification on Foundation Compliance for Manufactured Homes

The lender must submit an *Engineer’s Certification on Foundation Compliance* attesting to compliance with the current *PFGMH*, that must be

- completed by a licensed professional engineer or registered architect licensed/registered in the state where the manufactured home is located
- site-specific, and
- included in both the lender’s loan file and the insuring binder submitted to FHA.

*Note:* The certification must contain the engineer’s or registered architect’s signature, seal, and/or state license/certification number. In states where seals are issued, the seal must be on the certification.

*Reference:* For more information on PFGMH, see [HUD 4930.3G](http://www.huduser.org/publications/destech/permfound.html), or [www.huduser.org/publications/destech/permfound.html](http://www.huduser.org/publications/destech/permfound.html).

4155.2 4.10.c
Use of the Engineer’s Certification on Foundation Compliance for Manufactured Homes for Future Loans

A copy of the foundation certification, showing that the foundation met the *PFGMH* guidelines that were in effect at the time of certification, is acceptable for future FHA loans, provided there are no alterations and/or observable damage to the foundation.

A copy of the foundation certification is not required in the loan file or insuring binder for any

- FHA-to-FHA transaction, provided that no modifications have been made to the foundation or structure from the date of the effective certification, or
- FHA/HUD Real Estate Owned (REO) Division sales.

*Continued on next page*
10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

For the space beneath a manufactured home to be properly enclosed, the perimeter enclosure must

- be a continuous wall (whether bearing or non-load bearing)
- be adequately secured to the perimeter of the unit
- separate the crawl space from backfill
- keep out vermin and water, and
- allow for proper ventilation of the crawl space.

For new construction, the space beneath the home must be enclosed by a continuous foundation-type construction designed to resist all forces to which it is subjected without transmitting forces to the building superstructure. The enclosure shall be constructed of materials that conform to the PFGMH, and to HUD’s Minimum Property Standards (MPS), such as concrete, masonry, or treated wood.

For existing construction, there must be adequate backing, such as concrete, masonry, or treated wood, to permanently attach and support or reinforce the skirting, if the perimeter enclosure is non-load bearing skirting comprised of lightweight material.

References: For more information on
- HUD’s Minimum Property Standards, see HUD 4910.1, and
- PFGMH, see HUD 4930.3G, or www.huduser.org/publications/destech/permfound.html.
10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

For newly-constructed manufactured homes, initial and final inspections must be completed in accordance with the requirements in HUD 4145.1, REV-2, CHG-1, *Architectural Processing and Inspections for Home Mortgage Insurance*, and reported using the *Compliance Inspection Report* form. The inspections must be performed by

- FHA Compliance Inspectors
- licensed engineers
- registered architects, or
- other qualified construction industry professionals, as determined by the lender.

The inspector must have a copy of the FHA-required foundation certification, and related plans and specifications at the time of the inspection.

FHA roster appraisers may use Part B of *Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report*, which provides for compliance repair and completion inspections for existing and new construction dwellings.

*Important:* The FNMA form *Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report* may not be used in lieu of form *HUD-92051, Compliance Inspection Report*, for new construction and manufactured housing.

*References:* For more information on
- inspection requirements, see *HUD 4145.1, Architectural Processing and Inspections for Home Mortgage Insurance*
- the *Compliance Inspection Report*, see form *HUD-92051*
- PFGMH, see *H UD 4930.3G*, or [www.huduser.org/publications/destech/permfound.html](http://www.huduser.org/publications/destech/permfound.html), and
- the use of *Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005, Appraisal Update and/or Completion Report*, see
  - HUD 4155.2 4.4.k, HUD 4155.2 4.4.l, and HUD 4155.2 4.4.m, and
  - ML 09-51 and ML 10-13.

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The steel chassis under a newly-constructed manufactured home unit is not an effective termite barrier. Any one, or a combination of the following methods is required for maximum protection against termites, including:

- chemical soil treatment
- EPA-registered bait treatments
- pressure preservative-treated wood, or
- naturally termite-resistant wood.

Termite protection policies for existing manufactured homes will be handled in the same manner as stick-built homes. State or local requirements are to be followed.

*Reference:* For more information regarding termite protection requirements on existing properties, see ML 05-48.