

CHAPTER 3. PROPERTY ANALYSIS

3-1 PURPOSE. This chapter explains the procedures for the lender to follow in submitting the property for valuation analysis. The procedures for the local HUD office to follow in appraising and analyzing the property are also explained. Refer to HUD Handbook 4150.1 for standard valuation analysis procedures. This chapter supersedes that handbook only as noted below.

3-2 ORDERING THE APPRAISAL AND OBTAINING A CASE NUMBER. To order an appraisal and receive a case number, a lender should do the following:

A. Complete Form HUD 92800, Application for Property Appraisal and Conditional Commitment.

1) The form should be completed according to the instructions included on the form.

2) The lender must type "Home Equity Conversion Mortgage" in Block 5 under the name and address of the lender.

B. Follow local HUD office procedures to obtain a case number and an appraisal assignment.

1) The lender should identify the case as a Section 255 mortgage and provide information on the property address and other necessary information.

2) CHUMS will assign the next available case number.

3) Applications will be assigned regular case numbers, and will be distinguished by CHUMS according to separate Section of the Act ADP codes:

---

3-1

4235.1 REV-1

---

(3-2B.)

- a.911 - fixed rate HECM with assignment option
- b.912 - adjustable rate HECM with assignment option
- c.913 - fixed rate HECM with shared premium option
- d.914 - adjustable rate HECM with shared premium option
- e.915 - fixed rate HECM with shared appreciation option

f. 916 - adjustable rate HECM with shared appreciation option

C. Send copies 1, 3 and 4 of the Form HUD 92800 (the lender should retain copy 2), along with a Uniform Residential Appraisal Report (URAR), to the assigned appraiser.

D. Send a Uniform Case Binder to the local HUD office with the case number written in the designated spaces. Refer to HUD Handbook 4165.1 for case binder specifications.

E. Lenders may also utilize the CHUMS Lender Access System (CLAS) in order to request a case number and appraisal assignment for a property. CLAS Receiving and Assignment requests use interactive CHUMS screens and require HUD intervention. See Paragraph 1-15.

3-3 REQUIREMENTS FOR APPRAISALS. The financial soundness of the HECM program requires an accurate determination of property value and property condition. The eventual recovery of the mortgage proceeds is highly dependent on receiving a predictable sum from the sale or refinance of the subject property.

A. The appraisal must be completed on the URAR in accordance with current HUD Valuation policy.

1) When estimating value, the appraiser should carefully analyze the condition of the property and the surrounding neighborhood.

---

3-2

4235.1 REV-1

---

(3-3A.)

2) Repairs required to allow the property to meet Minimum Property Standards for existing properties (see HUD Handbook 4905.1) and the presence of defective paint surfaces should be explicitly noted.

3) A property should not be rejected by the appraiser. If required repairs are estimated to cost more than 30% of the maximum claim amount (see Paragraph 3-8), the Valuation Branch of the local HUD office should review the property to determine if it is acceptable for the program.

4) The appraiser should include estimates of taxes and hazard insurance.

B. At the discretion of the local HUD office, appraisals performed for the Section 203(b) and 234(c) mortgage insurance programs may be used for HECMs.

C.A Certificate of Reasonable Value from the Department of Veterans Affairs (VA-CRV) can not be substituted for an FHA appraisal.

3-4 ELIGIBLE PROPERTIES.

A. Eligible properties are existing, one unit properties.

1) This guideline, which excludes two-, three-, and four-unit properties is imposed by the statute authorizing the program.

2) The classification of the property as a one-, two-, three-, or four-unit property occurs when the property is appraised. In defining the number of units on a property, the appraiser focuses on the viability of each unit as an independent, self-supporting unit. Characteristics such as separate kitchen and bathroom facilities, private entrances and separate legal addresses are all considered in this determination. Whether or not two residences share the same property or simply share a common wall is also a consideration. Therefore, it is important that lenders not rely on the assumptions of the homeowner when advising the homeowner of his or her eligibility for the program. The final decision regarding the classification of the property is made by the appraiser.

---

3-3

4235.1 REV-1

---

(3-4)

B. Provided that a manufactured home complies with Paragraph 3-4 of Handbook 4145.1, it is eligible under the following circumstances:

1) The home must have a floor area of no less than 400 square feet.

2) The home must be constructed in conformance with Federal Manufactured Home Construction and Safety Standards, as evidenced by an affixed certification label, according to 24 CFR 3280.8. Only manufactured homes produced after June 15, 1976, will bear that seal. Consequently, manufactured homes produced prior to that date are ineligible for HECMs.

3) The home must be classified and taxed as real estate.

4) The manufactured unit must not have been installed or occupied previously at any other site or location.

C. Eligible condominiums must be part of a HUD-approved condominium

project (see HUD Handbook 4265.1). Each local HUD office has a list of the condominium projects approved within its jurisdiction and can provide instructions on obtaining HUD approval of a condominium project.

D.Units in cooperative housing developments are not eligible.

E.The mortgage must be on a property held in fee simple, or under a lease for not less than 99 years that is renewable, or under a lease having a remaining term of not less than 50 years beyond the 100th birthday of the youngest borrower.

F.If a property is located in a Planned Unit Development (PUD), the lender must ensure that the development has been approved by HUD (see HUD Handbook 4150.1). The local HUD office maintains a list of approved PUDs within its jurisdiction.

G.A property eligible for mortgage insurance only through HUD's Special Risk Insurance Fund [e.g. pursuant to Section 223(e)] is not eligible for mortgage insurance under this program.

---

3-4

4235.1 REV-1

---

(3-4)

H.Requirements for maintaining flood insurance coverage.

1)Flood insurance requirements must be met if the mortgage is to cover property that:

a.Is located in an area designated by the Federal Emergency Management Agency (FEMA) as a flood plain area having special flood hazards, or

b.Is otherwise determined by the Commissioner to be subject to a flood hazard.

2) No mortgage may be insured on such a property unless:

a.The community in which the area is situated is participating in the National Flood Insurance Program (NFIP), and

b.Such insurance is obtained by the mortgagor.

3)The requirement for flood insurance shall be effective July 1, 1975, or one year after the date of notification by FEMA to the chief executive officer of a flood prone community that such community has been identified as having special flood hazards, whichever is later.

4)The flood insurance shall be maintained during such time as the mortgage is insured, in an amount at least equal to either the outstanding balance of the mortgage, or the maximum amount of NFIP insurance available with respect to the property, whichever is less.

3-5REQUIREMENTS FOR EXISTING HOUSING. The appraisal should designate required repairs which are necessary for the property to meet the minimum acceptable level of quality for existing properties (see Handbook 4905.1).

A.An estimate of the cost of the repairs will be provided by the appraiser.

---

3-5

4235.1 REV-1

---

(3-5A.)

1)If the required repairs are substantial, the appraiser can determine that he or she is not qualified to make an accurate determination of the repairs that are required or to estimate the cost of those repairs. Under these circumstances, the appraiser can request that the lender have an inspection performed by a member of the local HUD office's fee inspector panel. That inspector will then determine what repairs are required and give an estimate of those repairs.

2)If the required repairs are substantial, the borrower may obtain the services of a general contractor to complete the repairs. If the contractor's estimate of repairs differs substantially from the estimate prepared by the HUD fee inspector, then the Valuation staff of the local HUD office must reconcile the two estimates.

3)The lender may have a compliance inspector assigned through CLAS after a case number has been issued. Requests will only be accepted if an inspector has not already been assigned to the case. These requests are processed without HUD intervention.

B.Required repairs that are estimated to cost less than 15% of the maximum claim amount can be completed after closing.

1)When required repairs are to be completed after closing, the lender will certify, through the Repair Rider (Appendix 8) to the Loan Agreement (Appendix 7) to be completed at closing, that repairs will be completed in a satisfactory manner, designed to meet the Requirements for Existing Housing (Handbook 4905.1).

2)The lender's responsibilities under the Loan Agreement and Repair Rider are as follows:

a.The lender must ensure that the property is inspected one or more times by a HUD-approved inspector. The property must be inspected before funds to pay for completed repairs can be disbursed. A Form HUD 92051, Compliance Inspection Report, must be completed and submitted to the HUD Valuation Branch for signature prior to releasing funds.

---

3-6

4235.1 REV-1

---

(3-5B.)

b.The lender must ensure that all mechanics' and materialmen's liens are released of record.

c.The lender may charge a fee not to exceed the greater of one and one-half (1 1/2) percent of the funds used for repairs or \$50 for the administration of this agreement. This fee is paid to the lender and is independent of the fees paid by the borrower for compliance inspections.

3)Money to pay for required repairs will not be held back in an escrow account. At closing, the borrower must establish a repair set aside at least equal to 150% of the cost of repairs, plus the repair administration fee. The borrower may add additional funds to the repair set aside, but the funds cannot be drawn until the repairs are completed.

a.When individual repairs are completed, the necessary funds will be disbursed from the line of credit; and the lender must ensure that all liens are removed.

b.If the repairs are completed without using all of the funds set aside, the lender must transfer the remaining funds to a line of credit and inform the borrower of the amount transferred.

c.If the cost of the repairs exceeds the amount initially set aside for repairs, the borrower must have the required repairs completed. He or she may draw against a line of credit to cover the excess cost. This procedure might require a recalculation of the borrower's payment plan (see Chapter 5 and HUD Handbook 4330.1).

4)If the required repairs are not completed within the time period specified in the Repair Rider to the Loan Agreement,

the lender must discontinue payments on the loan, freezing the loan at a line of credit status, available only to fund repairs, and mandatory items such as property charges and MIP.

---

3-7

4235.1 REV-1

---

(3-5)

C.Required repairs that are estimated to cost more than 15% of the maximum claim amount must be completed before closing.

1)When required repairs are to be completed before closing, the property must be inspected before closing and a Form HUD 92051, Compliance Inspection Report, certifying that required repairs have been completed, must be submitted to the local HUD office.

2)When required repairs are to be completed before closing, the borrower can have the repairs completed with the intention of paying the contractors with the mortgage proceeds. However, any amounts owed must be paid at closing and all liens removed at closing. Therefore, any amounts owed must not exceed the borrower's net principal limit at closing.

D.HUD only requires that the property meet the Requirements for Existing Housing in Handbook 4905.1. Many repairs desired by the borrower, therefore, will not be required by HUD nor will they be included in the Repair Rider to the Loan Agreement. Consequently, their completion will not be a condition of the approval of the mortgage. Furthermore, the lender cannot require that the borrower make repairs not required to meet minimum property standards.

E.In certain situations, the borrower will be required to treat any defective paint surfaces after closing for properties built before 1978, and comply with the Lead-base Paint Poisoning Prevention Act (LPPPA) requirements.

1)When children under the age of seven will be residing in the property, the borrower must treat the defective paint surfaces in accordance with LPPPA requirements.

2)If children under the age of seven will not be residing in the property, the borrower can certify to that fact in writing, and the treatment of defective paint surfaces will not be required. This certification can accompany the appraisal or the approval of the property can be conditioned on the receipt of this certification.

---

3-8

4235.1 REV-1

---

3-6PROTECTIVE COVENANTS IN HOUSING COMMUNITIES FOR THE ELDERLY. The Department's regulations concerning the acceptability of protective covenants in HUD approved condominium projects and planned unit developments (PUDs), required by the Fair Housing Amendments Act of 1988, are applicable for the HECM program. The regulations essentially ban protective covenants based on familial status, but contain certain exemptions. These exemptions allow "retirement" communities to be HUD approved under two sets of circumstances. The housing in the community:

A.Must be intended for, and solely occupied by, persons 62 years of age or older; or

B.Must be intended and operated for occupancy by at least one person 55 years of age or older per unit, and provide significant facilities and services specifically designed to meet the physical or social needs of older persons, or if it is not practicable to provide significant facilities and services designed to meet the physical or social needs of older persons, the housing facility should be necessary to provide important housing opportunities for older persons.

Lenders should refer to the regulations at 24 CFR Parts 100,103, 104 et. seq. before submitting a project for approval.

3-7RECEIPT AND LOGGING OF APPRAISALS. The appraisal should be logged on CHUMS in accordance with standard single family procedures for HUD processed cases. The Valuation staff should follow standard appraisal review procedures to ensure the quality of the work performed by the appraiser.

3-8MAXIMUM CLAIM AMOUNT. The HUD Valuation Branch will determine the maximum claim amount, depending on the appraised value of the property.

A.The maximum claim amount is the maximum dollar amount that HUD will pay on a claim for insurance benefits.

B.The maximum claim amount is the lesser of the appraised value or the maximum principal amount for a one-family residence under Section 203(b)(2) of the National Housing Act that HUD will insure in the area.

---

3-9

4235.1 REV-1



---

(3-8)

C. Neither the estimate of closing costs nor the initial MIP is used in the calculation of the maximum claim amount.

3-9CONDITIONAL COMMITMENT. The HUD Valuation Branch will issue a Conditional Commitment on Form HUD 92800.5B using CHUMS.

A. The commitment will have a term of six months.

B. The commitment will provide an estimate of taxes and hazard insurance.

C. The HUD 92800.5B will be completed in the same manner as for cases insured under the Section 203(b) program.

D. The HUD 92800.5B will indicate the maximum claim amount in the "Specific Commitment Conditions" section.

E. The HUD 92800.5B should always indicate that the property is an existing dwelling.

F. If repairs are required after closing, Condition 3 of the HUD 92800.5B will be completed, indicating information entered on the Appraisal Disposition Screen 2 on CHUMS. The Form HUD 92800.5B will also indicate that Form HUD 92300 will be completed, designating the necessary amount to complete the required repairs. Refer to Chapter 5 of HUD Handbook 4145.1 for repair set-aside procedures.

3-10CASE CANCELLATION. The lender may cancel a case number through CLAS. Requests are processed without HUD intervention.

---

3-10