CHAPTER 10. VALUATION PROCESSING

10-1. APPLICABILITY. This Chapter describes valuation processing to be accomplished by personnel of the Single Family Mortgage Insurance Branch (in an Area Office) for appraisals of the following kinds of condominium properties:

a. Units In An Operating Condominium (11 or Less Units) Not Previously Insured Under Any Section Of The Housing Act. An operating condominium project is defined as one which has been substantially filled with occupants who have had title to the units they occupy, for sufficient time to demonstrate the common expense experience in the last accounting year. (A project with 11 or less units which is not an operating condominium must be processed by the Assistant Director Technical Services Branch (ADTSB) under multifamily instructions.)

b. Reappraisal For Sale Of An Individual Unit In A Condominium Project Previously Approved by HUD/FHA For Insured Condominium Mortgages. Since the owner of a condominium unit has a mortgage separate from mortgages on other units, resale of a unit to a subsequent purchaser may be financed by a new insured mortgage.

c. Simplified Procedures For Insurance Upon Completion Cases With A Presale Condition (No Unit Extending Over or Under Another.) When the sponsor has requested the use of simplified administrative procedures (described in paragraphs 7-1. and 10-4.) and when the project is composed of detached, semi-detached, row (townhouse), or walk-up apartment structures in which no part of a living unit extends over or under another living unit, the project may be processed by Section 203 underwriting procedures.

10-2. VALUATION ANALYSIS FOR OPERATING CONDOMINIUMS (11 OR LESS UNITS NOT PREVIOUSLY INSURED). When a request is received to insure a mortgage on a unit located in an operating condominium of 11 or less units, which was not constructed with a HUD-FHA insured project mortgage, application for appraisal will be made on FHA Form 2800. Legal documents organizing the condominium (e.g. Enabling Declaration, By-Laws, Regulatory Agreement, etc.) are to be reviewed and a determination of acceptability made before processing is begun. Amendments thereof may be necessary for these operating condominiums to be eligible. If it is found that condominium owners are unwilling to be subjected to a Regulatory
Agreement or required amendments cannot be made, for instance, because of the inability to obtain approval of the present unit owners, further processing of the case will not be made.

a. Data Needed From Project. For processing purposes, the valuator must be familiar with certain essential data which should be retained in data files after processing:

(1) A plan of the entire project which shows the relationship of the subject unit to the project as a whole and a precise delineation of all the commonly owned property and facilities.

(2) The legal and property description of the fee interest in the subject unit.

(3) A copy of the Articles of Incorporation, By-Laws, etc., or other documents of the Owners' Association or other identity which controls the common facilities.

(a) From these, he determines all the rights and benefits accruing from ownership of a unit and all the obligations incurred therewith for the maintenance of the common property and facilities.

(b) The expenses involved and the liability for assessment must be ascertained.

(4) A statement of common expense experienced in the last accounting year, and a budget of common expense for the current year.

(5) Unit ratios in the legal documents for subject and other units.

(6) The condition of the subject unit and of common areas in the entire property since the association of owners is responsible for maintaining all common elements such as plumbing, electrical wiring, roofs, halls, stairways, structural elements, etc.

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(a) The association must assess each member for the cost of this maintenance in proportion to the unit ratio contained in the legal documents.

(b) An appraiser who is doubtful of the condition of the property, or who wishes assistance in determining the extent of repairs necessary to place the property in an acceptable condition without deferred maintenance may request the assistance of the
Architectural Section.

(c) Required repairs shall be made a condition of the commitment.

(7) Information from the sponsor sufficient to complete parts A, B and D of FHA Form 2264-B, and also evidence of adequate working capital.

b. Approach to Value. The approach to value of a single unit in a condominium project is similar to that for other home mortgage programs. As in other home mortgage appraisals, the estimates of replacement cost and market price will both establish upper limits of value and the estimate of capitalized income will serve as a guide or indicator, but not as an upper limit. Closing costs are added to the value estimate to arrive at the total on which the mortgage is based as in other HUD-FHA home mortgage appraisals. Special considerations which must be taken into account are outlined below under the three approaches to value:

(1) Estimate of Market Price by Comparison. Data on the sales of any other units in the subject projects should be obtained; and sales in other competitive condominium projects must also be obtained, and given consideration in the comparative analysis.

(a) Condominiums have an attraction to many purchasers by reason of freedom from some of the responsibilities of maintenance coupled with the advantages of semi-private use of community recreational facilities. Off-setting these advantages are usually some loss of privacy and the cooperative aspects of ownership of the commonly owned land and facilities.

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also be made for differences in physical improvements within the dwelling unit which have been made by the owner-occupant.

c) When the comparison is made with a similar unit in another condominium project, adjustments are required to reflect the differences between the projects.

d) If there are no similar condominiums, comparisons can be made with similar units in planned-unit developments that may be of the same general structural type as the subject. Market comparisons with units in cooperatives should be made only when the terms for financing are fully known and the differences in sales prices can be adjusted. Common expenses, however, in a cooperative unit may be used to establish the monthly cost of ownership.

e) In the comparative analysis, consideration will be given to the relative cost of ownership in other projects of various types, and the cost of renting or buying similar units. Market comparisons with the comparables may be shown on FHA Form 2800 or on FHA Form 2019, as desired.

(2) Estimates of Replacement Cost. Although an application will be received on a FHA Form 2800 and a conditional commitment will be issued on a FHA Form 2800-5, the appraiser will process on FHA Form 2264-B. This form is used as a worksheet so that the appraiser has a means of recording necessary costs and expenses. Estimated

Replacement Cost will be computed to the extent that is necessary to establish an upper limit of value. Detailed cost estimates should be made in a project where replacement cost will have a direct effect on value. Carrying Charges, Financing and other costs would reflect those amounts which would be used if the project were being built as a condominium under a commitment for insurance upon completion. (In cases where replacement cost has little relationship to value, a lump sum square foot cost estimate may be used.) Cost estimates of improvements will be furnished by the cost analyst.

(a) The present market price of the project site is then found by the usual appraisal method and this amount is added to the current project replacement cost to arrive at Total Replacement Cost of the project including the land.
Next, the proration factor applicable to the unit under appraisal is obtained from the legal documents of the project and is applied to the current replacement cost of the project to obtain the current replacement cost of the unit under appraisal.

Estimate of Capitalized Income. An indicated value by capitalization will be found as in Section 203(b) by application of a gross rent multiplier to the estimated gross monthly rental value of the unit. If any of the units are rented on an unfurnished basis, they would provide excellent comparisons. Otherwise, rentals in other projects, either condominium or rental projects, may be used and adjustments made to reflect the difference in benefits.

Personal Benefit Expense. Estimate and record personal benefit expense on FHA Form 2264-B.

Common Expense. Estimate and record common expense on FHA Form 2264-B.

c. Estimate of Value. The final valuation estimate must be appropriate relationship to:

1. The cost of acquiring a similar unit with similar maintenance costs in a substitute condominium or planned-unit development of similar characteristics.

2. The cost of renting a substitute dwelling unit offering similar benefits and utility.

3. The rental value of the subject unit.

4. The cost of acquiring and maintaining a dwelling unit offering similar benefits and utility in any other type of amenity income dwelling.

5. The replacement cost of the subject unit.

d. Commitment. The valuator's estimates will be entered on FHA Forms 180 and 2800-3 and the Conditional Commitment completed by the Authorized Agent in the usual manner. Mortgage amount, loan to value ratios and term are the same as those prescribed for Section 203(b) existing properties more than one year old. However, Section of the Act must be shown as 234(c).

e. Pre-Sale Requirement. In an existing condominium of 11 units or less, care should be exercised to prevent accepting a unit
in a building that is not fully sold out. If sell out is imminent, a pre-sale requirement may be used as a commitment requirement on the unit under consideration.

f. Data Files. When the first unit is processed in a condominium project, a valuation project data file will be set up and maintained so that future applications can be processed based on the information found in the initial file. FHA Form 180, Condominium Analysis and Appraisal Form, will be used to record the final results of the analysis prepared on FHA Form 2264-B. All columns of FHA form 180 will be completely filled out for subject units. For other units, only certain columns are required: 1, 2, 3, 4, 5, 8, 13, 16, 17, 18 and 19. Any sale data received should be entered in Column 25. If subsequent cases are received, they may be processed on FHA Form 2800 only with the aid of the data recorded in the data file.

10-3. REAPPRAISAL OF A UNIT IN A PROJECT PREVIOUSLY APPROVED BY HUD/FHA FOR CONDOMINIUM MORTGAGE INSURANCE. With the aid of the data file on this condominium project, including a copy of FHA Form 180 as originally processed, the appraiser accomplishes all processing on FHA Form 2800-3, as follows:

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(10-3) a. Market Comparison. Section 34 is completed in accord with basic instructions using sales in the subject-and other condominium projects, PUDs, and cooperative units, if possible.

b. Estimated Replacement Cost. This estimate is made in the remarks section as follows: "Original R.C. $18,284 (Form 180) x 1.11 cost adj. factor = $20,295." The cost adjusting factor adjusts for cost changes from the date of original processing to the present and is obtained from the cost analyst. The total, $20,295, includes land and is entered on the bottom line of box 32.

c. Common Expense. From the common expense data in the project data file, and from the annual budget of the association of owners, the appraiser estimates (in whole dollars) the monthly amount which the association will charge the owner of subject unit for common expense and, fixed charges. In Item 7 of FHA Form 2800, "Maintenance and Repairs" is lined out, and the entry made as follows:

"Common Expense ... $ 45 "

d. Personal Benefit Expense. Those expense items to be paid directly by an owner (rather than passing through the association) other than real estate taxes, insurance, and mortgage payments, are called personal benefit expense. From personal benefit expense data in the project data file (FHA
Forms 2264-B and 180) and from more recent data from project occupants and from the data bank, the appraiser estimates the nearest monthly whole dollar amount for personal benefit expense. After lining out "Heat and Utilities in Item 7 of FHA Form 2800, he enters the monthly personal benefit expense estimate, as follows:

"Pers. Ben. Exp. $ 28   "

e. Completing Appraisal. The remainder of the FHA Form 2800 is completed as in Section 203(b).

f. Commitment. FHA Form 2800-5 is used for commitment as in Section 203(b), but Section 234(c) is entered. Firm commitment at a later time, uses FHA Form 3275.

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10-4. SIMPLIFIED PROCEDURES FOR INSURANCE UPON COMPLETION OF CASES WITH A PRESALE CONDITION. This procedure may be used where the sponsor is able to complete construction of a condominium project composed of detached, semi-detached, row or walk-up apartment structures without the need for HUD/FHA insured construction advances on the project and without need for a dual commitment. Individual units may be of the horizontal town-house or vertical configuration in which all or part of a living unit extends over another unit. No structure shall be over three stories in height, excluding garages. A three story structure will only be acceptable if there are no more than two flights of stairs from grade and there is no elevator. The units involved are essentially single family dwelling units.

a. Simplified Procedures

Step 1: Developer submits the following with related exhibits to the Field Office.

1. Application for Environmental Review Form HUD 92250.
2. Location map.
3. Preliminary condominium sketch plan.
5. Affirmative Marketing Plan.
6. Evidence that A-95 Clearinghouse(s) have been contacted.
7. Form FHA 2530, Previous Participation Certification (2 copies)

Step 2: Single Family Valuation Branch sets up card file, assigns control number and acknowledges receipt of preliminary exhibits on Form HUD 92251. Forwards Form FHA 2530,
Previous Participation Certification to Participation Control Officer, c/o Assistant Secretary for Housing in Washington, DC (For details see 24 CFR 200.210 et seq.)

Step 3: Subdivision Appraiser conducts environmental review (ECO 2/3) and notifies VA of results.

Step 4: Subdivision Appraiser notifies the developer that the proposal is:


2. Environmentally acceptable or conditionally acceptable. The Subdivision Appraiser notifies the developer that the proposal is acceptable or conditionally acceptable in the Environmental Review Letter (see Handbook 4135.1 Appendix 7) and requests the developer to submit certified plans and specifications on the land improvements together with whatever requirements are necessary to mitigate any * environmental problems. Form HUD 92256, Exhibits Required for Certification, is sent with the Environmental Review Letter to guide the developer in preparing exhibits. Plans and specifications for single family units and the legal documents are not required at this stage. The developer must be notified of the 70% presale requirement and of the Davis-Bacon Act on prevailing wage rates.

NOTE A requirement of this procedure is that configuration of the condominium must be similar to single family detached, semi-detached, row or walk-up apartment units. Simplified procedure is not to continue if the proposal is not of this type.

Step 5: Developer submits all required exhibits as requested on Form HUD 92256. Subdivision Appraiser reviews submission to assure that all required exhibits and proper certifications have been submitted. The Subdivision Appraiser issues Form HUD 92257, Acknowledgment of Receipt of Certified Exhibits to notify the developer that submission is incomplete or that the submission is acceptable and processing has begun.

Step 6: Subdivision Appraiser prepares Form HUD 92258 (Letter of Acceptance) and delivers it to the developer. This form shall be modified as necessary to include solicitation for application for project mortgage insurance. At this time the Service Office Supervisor/Director notifies the Wage Requirement Officer to conduct a preconstruction conference for determining
the developer's compliance with Davis-Bacon Act.

Step 7: The developer is requested to sign the concurrence on the Form HUD 92258 and submit request for project mortgage insurance from his/her mortgagee by returning the signed Form HUD 92258 and submitting the application fee. The submission will include:

1. Schedule of Units (Form FHA 3280-A) (2 copies)
2. Application for Project Mortgage Insurance (Form FHA 3201) (2 copies) modified as follows:
   a. Items in Sec. L need not be submitted except for Form HUD 93240, Budget.
   b. Section F, H, J, K need not be completed.
   c. Section E, Estimate of Annual Common Expenses, will include only the items that would be chargeable to the unit owners by the condominium associations.
3. Three sets of unit plans and specifications on each type of property. Also three sets of plans and specifications of any planned community facilities.

Step 8: 1. The Subdivision Appraiser forwards plans and specifications of units and community facilities to the Architectural staff to review for compliance with HUD's Minimum Property Standards (MPS).

2. Legal documents are forwarded to Area Counsel for review, if documents were not certified by mortgagee's attorney.

3. Operating budget and the management plan, if any, are forwarded to Property Management section for review.

Step 9: The Architectural Staff reviews the plans and specifications for compliance with the MPS. The plans and specifications are then forwarded to the designated fee appraiser along with pertinent project information. HUD notifies the mortgagee of the identity of the appraiser.

1. The fee appraiser appraises the unit.
   a. The fee appraiser makes appraisal of land per instructions for Planned Unit Developments
(See Chapter 7 of Reference 9) The appraiser shall document the approach used to arrive at land value.

b. Replacement Cost. Appraiser makes cost estimate of building improvements for each basic case on HUD 92800, adds land value and completes replacement cost estimate which is entered on HUD 92800. The appraiser shall use the Marshall and Swift Residential Cost System to arrive at the replacement cost of building improvements.

c. Market Price. Appraiser uses Form FHA 2019 to arrive at estimated market price. Form FHA 2019 may be amended to reflect adjustments for condominium fees and other condominium features not listed.

d. Monthly Estimates. The monthly estimate must include a common expense estimate. To arrive at this estimate, the appraiser must include both replacement reserve and operating reserves. The sum of the estimated replacement cost of improvements is derived by dividing the life expectancy of an item into its total cost to arrive at an annual replacement reserve. The sum of all common expenses exclusive of the operating reserve, multiplied by .03 is the annual operating reserve. Complete Item 18 of FHA Form 180.

Step 10: The fee appraiser completes Form FHA 180 and Schedule of Units, Form FHA 3280-A. Do not make an entry for Column 5.

Step 11: The fee appraiser returns the appraisal package to HUD for review and sends an invoice for payment to mortgagee. HUD prepares and issues Form FHA 3284-A* Commitment to Insure Upon Completion when the following documents are on hand:

1. Application fee deposited and recorded.
2. Previous Participation Certificates (Form FHA 2530).
3. Legal documents accepted.
4. Operating budget accepted.
5. Management plan accepted.
6. Agreement and Certification Form FHA 3305 A is properly executed.
7. Contractor's Certification concerning Labor Standards and Prevailing Wage Requirements properly executed (Form FHA 2482).
8. Subcontractor's certification concerning labor Standards and Prevailing Wage Requirements (2482-A).
9. Forms FHA 180 and 3280A.

* The commitment will contain as an additional condition, the requirement for replacement reserves and operating reserves prescribed by HUD.
Step 12: Copies of Forms FHA 180, 3284-A and 3280-A are sent to VA.

Step 13: With delivery of the commitment to the lender and approval of Form FHA 3305-A, Agreement to Cost Certify, construction may begin. Assignment is made to a fee inspector.

Step 14: Staff/Fee inspector conducts the wage surveys and inspects subdivision improvements. Fee inspectors will inspect construction of dwellings and community facilities, if any. Field Offices will refer to appropriate fee schedules for determining allowable inspection fees.

Step 15: File containing Form FHA 180 is sent to Mortgage Credit with necessary processing binders each containing a copy of the Schedule of Units (Form FHA 3280-A) and Underwriting Report Form HUD 92800-3).

Step 16: Mortgage Credit maintains a record of presale approvals and enters actual sale price (excluding closing costs) in column 25 of Form FHA 180.

Step 17: When project is 100 percent complete, the staff inspector completes final Project Inspection Report, (HUD Representative's Trip Report, Form HUD 5379) and Permission to Occupy (Form FHA 2485).

Step 18: Upon completion of the project and the submission of acceptable evidence of firm sales to bonafide purchasers, the mortgagee may request insurance endorsement of project mortgage. The evidence of firm sales shall be entered on the Schedule of Family Unit Sales, Form FHA 3282 and contain sales of not less than 70 percent of value of the units. Simultaneously, the mortgagee must submit a request for termination of project mortgage insurance.

10-5. VA GUARANTEE OF LOANS ON HUD-FHA CONDOMINIUM UNITS.

a. Purpose. This section describes ways in which HUD-FHA Field Offices will cooperate with the Veterans Administration so that VA offices may guarantee loans on condominium units which have been processed for commitment by HUD-FHA Field Offices.

b. General Information. The Veterans Housing Act of 1970 permits the VA to guarantee "a loan to an eligible veteran to purchase
a one-family residential unit to be owned and occupied by him as a home in a condominium housing development or project as to which the Secretary of Housing and Urban Development has issued, under Section 234 of the National Housing Act, as amended, evidence of insurance on at least one loan for the purchase of a one family unit."

(10-5) (1) Under this limitation, the VA may guarantee a condominium loan only after the determination has been made that HUD has in fact insured a mortgage under Section 234 for the purchaser of a condominium unit.

(2) The fact that HUD-FHA may have insured a mortgage on the project under Section 234 is not sufficient to qualify unit loans in a project for VA guarantee or insurance.

(3) Certificates of Reasonable Value in connection with the original sale of a condominium unit will be based on Form FHA 180, Condominium Analysis and Appraisal.

c. Documents for The Veterans Administration. When the firm commitment for project mortgage is issued, copies of the commitment forms, FHA 3280-A and FHA 180, will be sent to the Veterans Administration office which guarantees loans in that area.

(1) Copies from feasibility or conditional commitment stage processing should not be sent to VA as it is desired to send only valuations which are not likely to be changed.

(2) When the condominium unit sales program begins, VA purchasers may be issued CRVs based on FHA Value, but each CRV will contain a requirement for evidence that at least one mortgage on a condominium unit has been insured by the Secretary for Housing and Urban Development.

d. Resale of Condominium Units. In projects where HUD-FHA has in the past, insured a mortgage on at least one condominium unit, the VA will appraise for reasonable value and issue CRVs for resale purposes.

(1) The VA valuation procedures involve estimation of the current unit share of condominium unit replacement cost by multiplying the Unit Share of Condominium Replacement Cost for that unit in Column 8 (as shown in the original Form FHA 180) by the cost index factor necessary to adjust costs from that date to the present.

(2) For that reason, Field Offices will supply copies of Forms FHA 180 concerning previously processed condominium projects whenever the VA office requests it in
order to appraise condominium units for resale.

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(10-5) e. Notice of First Insurance. When the first condominium unit mortgage is insured by HUD-FHA in a project, the Chief Appraiser will prepare a memorandum to be signed by the Director, informing the VA that an identified unit mortgage in that project was endorsed for mortgage insurance on a particular date.