

Chapter 4. Property Valuation and Appraisals

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Chapter 4. Property Valuation and Appraisals

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Chapter 4. Property Valuation and Appraisals

1. General Information on Property Valuation and Eligibility

Introduction This topic contains general information on property valuation, including

- the purpose of property valuation
- lender responsibility for appraisers
- verification of compliance with property requirements
- lender responsibility for determination of property eligibility and accuracy of appraised value
- variations in the property appraisal and underwriting process
- property eligibility for FHA insurance
- property eligibility under Section 223(e), and
- compliance inspection requirements.

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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.

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1. General Information on Property Valuation and Eligibility, Continued

**4155.2 4.1.b
Lender
Responsibility
for Appraisers**

The lender is equally responsible, along with the appraiser, for the quality, integrity, accuracy and thoroughness of the appraisal. The lender will be held accountable by HUD if the lender 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 Mortgage Review Board.

Note: This applies to both sponsor lenders that underwrite loans and loan correspondent lenders that originate loans on behalf of their sponsors.

References: For information on certification requirements for appraisers, see [4150.2 5-1 A.2.](#)

**4155.2 4.1.c
Verification of
Compliance
With Property
Requirements**

As the on-site representative for the lender, the appraiser provides preliminary verification that a property meets the General Acceptability Standards, which include the Minimum Property Requirements (MPR) or Minimum Property Standards (MPS).

The table below outlines the requirements for FHA financing.

To be eligible for FHA financing ...	Must comply with HUD’s Minimum Property Standards ...
new construction	including 24 CFR 200.926d .
existing construction	contained in HUD 4905.1 , <i>Requirements for Existing Housing One- to Four-Family Living Units</i> , Appendix D.
manufactured homes	contained in HUD 4930.3G , <i>Permanent Foundations Guide for Manufactured Housing</i> .

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1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.d Lender Responsibility for Determination of Property Eligibility and Accuracy of Appraised Value

Lenders are responsible for properly reviewing appraisals and determining if the appraised value used to determine 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
 - [HUD 4930.3G](#), *Permanent Foundations Guide for Manufactured Housing*.
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4155.2 4.1.e Variations in the Property Appraisal and Underwriting Process

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](#)
 - appraisals, see [HUD 4155.2 4.4](#), and
 - the underwriting process, see [HUD 4155.1 1.1](#).
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1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.f Property Eligibility for FHA Insurance

Only one to four unit properties, including a one family unit in a condominium project, are eligible for mortgage insurance, *except* for mortgage insured under Section 220 of the National Housing Act. 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 period of not less than 10 years to run beyond the maturity date of the mortgage.

For properties processed under the 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](#), and
- 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](#).

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1. General Information on Property Valuation and Eligibility,

Continued

**4155.2 4.1.g
Property
Eligibility
Under Section
223(e)**

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 appropriate HOC.

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
- the property *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](#).

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1. General Information on Property Valuation and Eligibility, Continued

4155.1 4.1.h Compliance Inspection Requirements

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, heating, and so on).

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 Certificate of Occupancy, will be required before FHA will insure the mortgage.

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](#), and
 - property eligibility, see [HUD 4930.3G](#), *Permanent Foundations Guide for Manufactured Housing*.
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2. General Acceptability Standards and Property Eligibility

Introduction This topic contains information on General Acceptability Standards 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 non residential use, and
 - rejection of “existing” or newly constructed property.
-

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**4155.2 4.2.a
Basis for
Determination
of
MPS and MPR**

The application of 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 MPR for an “existing” property is determined by the date of the CO or its equivalent. To be considered “existing” property, it must be over one year 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*.
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2. General Acceptability Standards and Property Eligibility, Continued

**4155.2 4.2.b
Property
Standards for
Houses and
MPR for Site
Built and
Manufactured
Housing**

The table below contains the general minimum property standards in order 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.

Dwelling Type	Property Standards
Housing	<p>Eligible housing includes</p> <ul style="list-style-type: none"> • detached or semi-detached dwellings • row houses • multiplex dwellings, and • individual condominium units. <p>Important: If <i>not</i> detached</p> <ul style="list-style-type: none"> • 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.

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2. General Acceptability Standards and Property Eligibility, Continued

4155.2 4.2.b Property Standards for Houses and MPR for Site Built and Manufactured Housing (continued)

Dwelling Type	Property Standards
<p>Manufactured Homes</p>	<p>A manufactured home is a structure that is</p> <ul style="list-style-type: none"> • transportable in one or more sections • designed and constructed to Federal Manufactured Construction and Safety Standards, and • so labeled regarding conformance with the Federal Manufactured Home Construction and Safety Standards (MHCSS). <p>To be eligible for FHA mortgage insurance, the manufactured home must</p> <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> – 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. <p>References: For additional information on manufactured homes, see</p> <ul style="list-style-type: none"> • HUD 4145.1, <i>Architectural Processing and Inspections for Home Mortgage Insurance</i> • HUD 4150.2, <i>Valuation Analysis for Single-Family One- to Four-Unit Dwellings</i> • flood insurance for manufactured homes, HUD 4155.2 4.3.g. • property eligibility requirements specific to manufactured homes, HUD 4155.2 4.10, and • manufactured housing condominium projects, HUD 4155.1 4.B.1.b.

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2. General Acceptability Standards and Property Eligibility, Continued

**4155.2 4.2.c
Site Condition
Standards**

The site conditions of a property 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 lead-based paint hazards before selling the house
- the sales contracts must include a disclosure form about lead-based paint, and
- the buyers have up to 10 days from the date of the signing of the sales contract to check for lead.

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.

**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.

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2. General Acceptability Standards and Property Eligibility, Continued

4155.2 4.2.g Restrictions on Non Residential Use

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

The following non residential 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](#).
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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 Standards, an appropriate specific condition (repair) to correct the deficiency is required, if correction is feasible.

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

Note: The appraiser must note those repairs necessary to make the property comply with FHA’s General Acceptability Standards, 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.

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

Introduction This topic contains information on eligibility requirements for various types of properties in special flood hazard areas (SFHA), including

- responsibility for determining property eligibility
 - properties 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
 - condominiums, and
 - manufactured homes, and
 - the required amount of insurance coverage.
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Change Date October 26, 2009

**4155.2 4.3.a
Responsibility
for
Determining
Property
Eligibility in
SFHA**

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 FHA appraiser is required to review the FEMA Flood Insurance Rate Map, note the FEMA zone designation on the Uniform Residential Appraisal Report (URAR), and, if the property is located in a SFHA, attach a copy of the flood map panel. Lenders are strongly encouraged, however, to obtain a flood zone certification independent of any assessment made by the appraiser, to avoid culpability for regulatory violations or civil claims for damages that may arise from improper determinations.

Lenders must inform borrowers of the requirement to obtain adequate flood insurance as a condition of closing for properties where any portion of the dwelling and related structures and equipment are located in a SFHA. They must require the escrow of flood insurance premiums if escrow is required for other items such as hazard insurance and taxes.

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

4155.2 4.3.b Properties in SFHA Ineligible for FHA Insurance

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.

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

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*

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA is obtained from FEMA, or
- if the property is *not* removed from the SFHA by a LOMA or LOMR, the lender obtains a FEMA National Flood Insurance Program 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.

If a LOMA or LOMR is obtained that removes the property from the SFHA, neither flood insurance nor a flood elevation certificate is required.

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

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

Reference: For more information on the National Flood Insurance Program criteria, see [44 CFR 60.3 – 60.6](#).

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

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

If a lender is uncertain about whether a property is located within a SFHA, it may require a flood elevation certificate. 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
 - the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.
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**4155.2 4.3.e
Flood
Insurance
Requirements
for Existing
Construction**

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. If the improvements are subsequently removed from a SFHA by a LOMA or LOMR, flood insurance will no longer be required.

**4155.2 4.3.f
Flood
Insurance for
Condominiums**

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.

Reference: For more information on LOMA, LOMR and elevation certificate see [4155.2 4.3.c](#).

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

4155.2 4.3.g Flood Insurance for Manufactured Homes

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 FEMA-issued LOMA or LOMR, or
- an 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.

4155.2 4.3.h Required 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 following:

- the development cost of the property, less estimated land cost
- the maximum amount of the NFIP insurance available with respect to the property improvements, or
- the 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*.

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
 - the term of an appraisal
 - the FHA policy on
 - the reuse of appraisals, and
 - 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, and
 - ordering a second appraisal when the borrower switches lenders.
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**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 MPS or MPR.

References: For more information on

- streamline refinance transactions, see [HUD 4155.1 3.C](#), and
 - appraisal requirements for individual properties, see
 - [HUD 4140.1](#), *Land Planning Principles for Home Mortgage Insurance*
 - [HUD 4150.2](#), *Valuation Analysis for Single-Family One- to Four-Unit Dwellings*, and
 - [ML 05-34](#) and [ML 05-48](#).
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4. Appraisal Requirements, Continued

4155.2 4.4.b Appraisal Reporting Standards

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.

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4. Appraisal Requirements, Continued

**4155.2 4.4.c
Appraisal
Reporting
Forms**

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, depending upon the type of property being appraised.

Important: Regardless of which form in the table below is used, the [Fannie Mae Form 1004MC, Market Conditions Addendum](#), must be completed along with the appropriate appraisal form.

Reference: For access to these forms, see the HUDCLIPS Web site at <http://www.hud.gov/offices/adm/hudclips/>.

Appraisal Form	Form Usage
Uniform Residential Appraisal Report (URAR) (Fannie Mae Form 1004 , March 2004)	Required to report an appraisal of <ul style="list-style-type: none"> • a one unit property, or • a one unit property with an accessory unit.
Manufactured Home Appraisal Report (Fannie Mae Form 1004C , March 2005)	Required to report an appraisal of a one-unit manufactured home.
Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 , March 2005)	Required to report an appraisal of <ul style="list-style-type: none"> • a unit in a condominium project, or • a condominium unit in a planned unit development (PUD).
Small Residential Income Property Appraisal Report (Fannie Mae Form 1025)	Required to report an appraisal of a two to four unit property.
Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073)	Required as an addendum to the appraisal report if the property is located in a manufactured housing condominium project (MHCP).

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4. Appraisal Requirements, Continued

4155.2 4.4.d Term of an Appraisal

The validity period for all appraisals on existing, proposed and under construction properties is 120 days.

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.

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.

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*.

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4. Appraisal Requirements, Continued

4155.2 4.4.g FHA Policy on Appraisal and Inspection Fees

The lender is responsible for collecting 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 National Housing Act, the lender must provide to the borrower a Statement of Appraised Value.

The lender accomplishes this by giving the borrower a copy of [HUD - 92800.5B](#), *Conditional Commitment – DE Statement of Appraised Value*, or a copy of the completed appraisal report, at or before loan closing.

4155.2 4.4.i Appraisal Transfer and Change of Client Name when the Borrower Switches Lenders

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](#).
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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 Direct Endorsement 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](#), and
- appraisal extensions, see [HUD 4155.2 4.4.f](#).

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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.
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**4155.2 4.5.a
FHA Policy on
Appraisal
Repair
Requirements**

In the performance of 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, and so on), 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 for existing properties must be made for the property to be eligible for FHA-insured financing.

Reference: For information on compliance inspection requirements, see [HUD 4155.2 4.1.h.](#)

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5. Appraisal Repair Requirements, Continued

4155.2 4.5.b
Types of
Repairs

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.

Type of Repair	Description
Cosmetic repairs	<p>These 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.</p> <p>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.</p>
Required repairs	<p>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.</p> <p>Required repairs must be limited to those required to</p> <ul style="list-style-type: none"> • 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).

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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.

Reference: For more information on compliance inspection requirements, see

- [HUD 4155.2 4.1.h](#)
 - [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 FHA policy on satisfying repair requirements noted on the appraisal report
 - the Compliance Inspection Report
 - the Lender Certification
 - the escrow of funds for completion of construction
 - the lender obligation to complete improvements
-

Change Date December 30, 2009

**4155.2 4.6.a
FHA 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](#)
- the Mortgagee’s Assurance of Completion ([HUD-92300](#)) of escrowed repairs, as described in [HUD 4155.2 4.6.c](#), 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.h](#).

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6. Satisfying Repair Requirements, Continued

4155.2 4.6.b Compliance Inspection Report

Form [HUD-92051](#), *Compliance Inspection Report* is used to certify that repairs have been completed satisfactorily.

The compliance inspection report must be prepared, as appropriate, by

- an appraiser, or
- an 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: An FHA-approved inspector list is available via the FHA Connection, located at <https://entp.hud.gov/clas/>.

References: For more information on compliance inspection requirements, see [HUD 4155.2 4.1.h](#).

4155.2 4.6.c Lender Certification

A lender certification [HUD-92300](#), *Mortgagee's Assurance of Completion* is acceptable in those instances in which 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](#), *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 *Mortgagee's Assurance of Completion*, and
 - the lender has not been denied the privilege of using a *Mortgagee's Assurance of Completion* due to poor follow up or non satisfaction of outstanding escrows.
-

4155.2 4.6.e Lender Obligation to Complete Improvements Regardless of Escrow Reserves

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

An appraiser or an inspector on FHA's Appraiser Roster or FHA's Panel of Inspectors must confirm that the work was satisfactorily completed.

References:

- For lists of such appraisers or inspectors, see the HUD Web site at www.hud.gov.
 - For more information on the escrow of funds and verification of work completion, see [HUD 4145.1](#), *Architectural Processing and Inspections for Home Mortgage Insurance*.
-

7. Prohibition on Property Flipping

Introduction	<p>This topic contains information on the prohibition of property flipping, including the</p> <ul style="list-style-type: none">• definition of <i>property flipping</i>• inapplicability of property flipping restrictions to new construction• requirement that a sale must be by the owner of record• appraiser responsibility for analyzing prior sales of a property• restriction on re-sales occurring 90 days or less after acquisition• required second appraisal on properties sold between 91 and 180 days after acquisition• re-sales occurring between 91 days and 12 months following acquisition, and• exceptions to the 90-day restriction.
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Change Date	December 8, 2009
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4155.2 4.7.a Definition: Property Flipping	The term <i>property flipping</i> 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.
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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 <i>not</i> apply to a builder selling a newly built home or building a home for a borrower wishing to use FHA-insured financing.
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7. Prohibition on Property Flipping, Continued

4155.2 4.7.c Sale Must Be by 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 re-sales.

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 Re-Sales 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
- *re-sale 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 this 90-day restriction, see [HUD 4155.2 4.7.h](#)

Continued on next page

7. Prohibition on Property Flipping, Continued

4155.2 4.7.f Second Appraisal Required on Properties Sold Between 91 and 180 Days After Acquisition

A lender must obtain a second appraisal by another appraiser if

- the re-sale 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 percent 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.

4155.2 4.7.g Resales Occurring Between 91 Days and 12 Months Following Acquisition

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 percent or greater than the lowest sale price of the property during the preceding 12 months.

At FHA's discretion, such documentation may include, but not be limited to, an appraisal from another appraiser.

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7. Prohibition on Property Flipping, Continued

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
- re-sales 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 re-sales 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: 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 FHA requirements regarding seller concessions and verification of sales. It includes information on

- the FHA policy on appraisal requirements for sales concessions
 - types of sales concessions, and
 - lender requirements regarding sales concessions.
-

Change Date May 10, 2009

**4155.2 4.8.a
FHA Policy on
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 sale transactions to account for sales concessions in the appraisal of all properties to be security for an FHA-insured loan.

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

- 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
-

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8. Seller Concessions and Verification of Sales, Continued

**4155.2 4.8.c
Lender
Requirements
Regarding
Sales
Concessions**

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 contract of sale.), 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 percent 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 a “declining market” for purposes of properties that are to be collateral for FHA-insured mortgages
 - the policy requiring the use of closed comparables and active listings/pending sales
 - specific requirements for reporting comparable listings/pending sales for appraisals in declining markets, and
 - requirements regarding market trend data sources.
-

Change Date May 10, 2009

4155.2 4.9.a Description of “Declining Market” for Purposes of Properties That Are Collateral for an FHA-Insured Mortgage 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 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 Policy Requiring 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: In cases where compliance with this requirement is difficult or not possible due to the lack of market data, a detailed explanation is required.

Continued on next page

9. Reporting Requirements for Appraisals in Declining Markets, Continued

4155.2 4.9.c Specific Requirements for Reporting Comparable Listings/ Pending Sales for Appraisals in Declining Markets

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 over priced 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 Neighborhood 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:* If the adjusted values of the settled comparables are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate. 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).

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9. Reporting Requirements for Appraisals in Declining Markets, Continued

4155.2 4.9.d Specific Requirements for Market Trend Data Sources

Data regarding market trends 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
 - agents
 - buyers
 - sellers, and
 - lenders, or
- use public records or another impartial data source that can be replicated if a sale cannot be verified by a party.

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 the requirements for property eligibility 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 December 30, 2009

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.

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, which must be

- completed by a licensed professional engineer or registered architect, who is 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 when 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](#), or www.huduser.org/publications/destech/permfound.html.

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10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

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.
-

4155.2 4.10.d Perimeter Enclosures for Manufactured Homes

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
- keeps out vermin and water, and
- allow for proper ventilation of the crawl space.

For new construction, the space beneath the home shall 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 *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 *Minimum Property Standards*, see [HUD 4910.1](#).
 - PFGMH, see [HUD 4930.3G](#), or www.huduser.org/publications/destech/permfound.html.
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10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

**4155.2 4.10.e
Required
Inspections for
New
Construction
Manufactured
Homes**

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.

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](#), and
- PFGMH, see [HUD 4930.3G](#), or www.huduser.org/publications/destech/permfound.html.

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10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

4155.2 4.10.f Termite Control for Manufactured Homes

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](#).
