

June 9, 2016

The Honorable Edward L. Golding
Assistant Secretary for Housing – FHA Commissioner
451 Seventh Street, SW, Room 9100, Mail Code H
Washington, DC 20410

Dear Commissioner Golding:

On behalf of the largest professional association of real estate appraisers in the United States, we write in relation to recent concerns expressed about the *Single Family Housing Policy Handbook, 4000.1*.

We have had several months to review and analyze the new Handbook, while also receiving feedback on the new Handbook through our highly regarded classroom and online seminars focusing on the Handbook changes. Overall, outside of a couple of areas that can be resolved with additional clarification, the response of students and instructors has been positive to the new Handbook. In fact, in some respects, the Handbook has *lessened* burdens on FHA appraisers by organizing the requirements in one document, as opposed to being scattered across numerous Mortgagee Letters and outdated manuals.

The language found in the new 4000.1 Handbook now emphasizes the phrase ‘readily observable conditions’ when defining the inspection protocols for a FHA Roster appraiser. The former handbook emphasized a ‘complete visual inspection’ of the property, which is the exact language found in the scope of work and the appraiser’s certification preprinted on the Fannie Mae/Freddie Mac appraisal report form used by all residential lending appraisers. Technically, all lending assignments require a *complete visual inspection of the interior and exterior of the appraised property*. The critical difference in the new 4000.1 Handbook is FHA’s emphasis that an appraiser’s observation is limited to readily observable conditions. In fact, the phrase ‘complete visual inspection’ is not found in the new 4000.1 Handbook. This distinction between the old ‘complete visual inspection’ and the new ‘readily observable conditions’ has been well received by students. Appraisers that have not taken current and thoroughly developed education may not understand this difference, or others, found in the new Handbook.

We do have ongoing concerns with process and procedural issues that extend beyond the Handbook itself. We encourage FHA to provide additional clarification on the Handbook, and to focus energy and attention to address several outstanding process and procedural issues outlined below.

Public Confusion over Existing FHA Policy and 4000.1

We have seen some misinformation published about the Handbook. For example, one industry commentator recently tried to contend that performing an appraisal to FHA requirements would somehow constitute a violation of the Uniform Standards of Professional Appraisal Practice (USPAP). This ignores the fact that valuation observations are an essential component to understanding how a house works and evaluating any material impacts on value.

Others appear confused by new references to the term “analyze” in the FHA terminology, when analysis of value impacts goes straight to fundamental USPAP requirement. For example, STANDARD 1 of USPAP uses the word “analyze” 17 times while the Uniform Residential Appraisal Report form adopted by the FHA utilizes the word in 5 different locations. Beyond these particulars, it is the job of appraisers to analyze value. If the attic area observation in a residence reveals structural or other problems such as mold or moisture infiltration, that affects value. If the furnace, air conditioning, or built-in kitchen appliances don’t work, that also affects value. The required observations are all value-related conditions. By comparison, Fannie Mae and Freddie Mac guidelines are not “light” by any means when it comes to the requirements of observe, *analyze* and report. The reporting form itself states (since 2005) that the appraiser “perform a complete visual inspection of the interior and exterior areas of the subject property.”

Inspections are another area of apparent confusion. Upon review, the FHA inspection requirements are largely unchanged from the prior 4150.2 Handbook. They are more thorough than a typical conventional mortgage appraisal, but FHA has different requirements. FHA observation requirements are directly connected to valuation conditions. What the appraiser observes and reports, based on FHA protocols, impacts the value of the property. If the appraiser neglects or abandons these inspection protocols, FHA takes on greater risk for the mortgages it insures. Many of these issues may appear “new” to some lenders, appraisers and other stakeholders who were not current on the long-standing FHA requirements scattered across the old Handbook and various Mortgagee Letters.

Short Term Clarifications

There are a couple of areas of the Handbook that would benefit from clarification by the agency. The greatest good would come from clarification of requirements to operate appliances where Handbook 4000.1 includes analysis and reporting relative to appliances. The Handbook states,

The Appraiser must note appliances present in the house at the time of observation and indicate whether that appliance is considered Personal Property or Real Property. The Appraiser must operate all conveyed appliances and observe their performance.” (Sec. II.B.3.e.iii). Further, “[t]he Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if any conveyed appliances are inoperable.” (Sec. II.B.3.e.iii).

It is our view that the appraiser is not to “test” the appliances. FHA’s guidance suggests that the appraiser should *operate* the appliances in the same manner that a homeowner would. For example, that may mean turning on the cooktop’s burners and switching on the disposal in the sink to observe whether the appliances work. If any appliances that are to be conveyed are inoperable, the Mortgagee must be notified.

We encourage FHA to provide clarification to confirm the protocol for operation and that such observations do not apply to appliances in the unit that are not included in the real estate transaction.

Additionally, we believe further clarification relative to attic and crawl space observations would be helpful. For an attic that is accessible through a scuttle opening in the ceiling, we believe an adequate observation can be made from a chest-high (or head-and-shoulders) perspective while staying in the opening. We have concerns with appraisers stepping off a ladder to enter the attic space. There are simply too many potential dangers created for the appraiser by physically entering the attic area with little benefit or enhancement to the inspection process that offsets the risk. If the access to the attic is via stairs or a drop-stair, and the attic is floored—then yes, the appraiser should fully enter. Otherwise, the observation should be from the opening only.

For crawlspace access, we also believe that head-and-shoulder entry is sufficient unless there are mechanical systems (i.e., a furnace) located in the crawl space. Too much risk to the appraiser is created by fully entering the space. We do not believe the lender or FHA is getting a better appraisal observation by having the current requirements for full entry. Observation from the attic or crawlspace opening is sufficient for valuation purposes.

Macro/Long Term Issues

Separate from issues relating to the Handbook itself, AI professionals have expressed concerns with operations and work flow issues with FHA appraisals. One significant outstanding problem is that Direct Endorsement (DE) Underwriters have been given authority over appraisal underwriting. FHA appraisers are to report issues with Minimum Property Requirements (MPRs) and Minimum Property Standards (MPSs) and the DE Underwriter, in theory, is supposed to make the decision. AI professionals report that many DE Underwriters flat out refuse to make that decision and refer it back to the appraiser. FHA appraisers were assured that DE Underwriters were fully trained on this responsibility, but there appear to be significant weaknesses on this front.

Single Family Housing Policy Handbook, 4000.1
June 9, 2016

A related concern is that 4000.1 states that the appraiser is to be given a “point of contact” to discuss MPR’s and MPS’s and other valuation issues with the lender / DE Underwriter. AI Professionals have reported that some lenders and DE Underwriters are refusing to provide points of contact; thus some loans are reportedly being delayed because the appraiser cannot talk the aforementioned point of contact and is typically cast off to an intermediary that is not properly trained.

FHA appraisers were also assured that there would be one central clearinghouse for answers to questions about the Handbook. We have heard of conflicting answers to questions on the Handbook being given by Homeownership Centers (HOCs). We were pleased to hear that a central source of information may be forthcoming with the new Handbook, but thus far, AI professionals have reported an ongoing lack of consistent interpretation and messaging amongst the HOCs.

Lastly, we remain concerned that FHA has fallen short of its Congressional mandate for FHA appraisers to have verifiable education in FHA appraisal requirements. In reaction to a persistent lessening in FHA appraiser qualifications criteria during the financial crisis, Congress enacted several changes to FHA appraiser qualifications criteria. One provision required the use of “certified” appraisers and another provision required all FHA appraisers to demonstrate verifiable education in FHA appraisal requirements. We remained concerned with the FHA decision to equate the Appraiser Qualifications Board criteria for satisfying the verifiable education requirement. In fact, we believe many of the complaints that the agency is hearing from appraisers exist because many are not aware of the previous or current FHA appraisal requirements.

We believe FHA should reexamine its position to allow any certified appraiser to be eligible for the FHA Appraiser Roster and to consider a requirement for FHA appraisers to demonstrate verifiable education on FHA appraisal requirements, as is authorized by the [Housing and Economic Recovery Act] Act of 2008.

Finally, when preparing the Appraisal Institute’s seminar, the AI Education Committee prepared a thorough analysis and comparison of 4000.1 with the previous Handbook. We have identified roughly 15 “new” obligations for FHA lenders and appraisers, with each of these identified in our seminar. Overall, we do not see these as outside the realm of traditional appraisal practice, but these are new obligations that FHA lenders and appraisers must familiarize themselves with.

To the extent that this may result in an increase in appraisal fees due to the need for more education, increased scope of work, or liability, we believe appraisers should be free to charge customary and reasonable fees for the services they are providing, which in the end serve to protect lenders, taxpayers and the public at large. Certainly, FHA should not attempt to suppress appraisal fees on the basis of promoting liquidity or homeownership, as some have implied. On these points, we believe appraisal plays a fundamental risk management role on behalf of the FHA insurance fund and typically represents one of the smallest fees involved in the lending transaction.

We encourage FHA to challenge lenders, reviewers and appraisers to become sufficiently familiar with FHA appraisal requirements and the new Handbook. For too long, too many market participants - including lenders and appraisers - have assumed that the FHA program is much the same as the conventional market, when many of the requirements being questioned today have been in existence for many years. Education can resolve many of the issues that FHA is confronted with today. We stand ready to assist the FHA in this endeavor. Should you have any questions or need additional information, please contact Bill Garber, Director of Government and External Relations at 202-298-5586 or bgarber@appraisalinstitute.org or Brian Rodgers, Manager of Federal Affairs at 202-298-5597 or brodgers@appraisalinstitute.org.

Sincerely,

Appraisal Institute

CC: Ms. Elissa O. Saunders, Director of Single Family Program Development
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