Examples of New Protocols - FHA Handbook 4000.1

- **New Construction Property Type**
  - Handbook 4000.1 includes a new category for new construction, termed, “Existing Less Than One Year.” This refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the Certificate of Occupancy (CO) or equivalent.

- **Point of Contact for Appraiser**
  - The Appraiser MUST be Provided with a Point of Contact by the Mortgagee so that the Appraiser can communicate any noncompliance issues.

- **Non-Residential Uses**
  - Handbook 4000.1 requires analysis and reporting of Non-Residential Uses, and a requirement for the appraiser to contact the Mortgagee if the Non-Residential Use is more than 49 percent of the property.

- **Accessory Dwelling Units (ADU)**
  - With the release of *Handbook 4000.1*, FHA now instructs the Appraiser to answer that question exclusively in the analysis of highest and best use. In contrast, prior guidance directed the Appraiser to classify the subject Property as one or the other (A one-unit residence with an ADU or a two-unit dwelling) based on a combination of current physical characteristics and utilization of the Property. Of note is that if the Appraiser’s highest and best use analysis conclusion is as a two-unit dwelling, then, by definition, there is no ADU.

- **Operating or Proposed Oil and Gas Site**
  - Reduction from 300 feet to 75 for when an appraiser is to notify the Mortgagee.

- **Appliances**
  - 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).
  - **Note:** The Appraiser is not “testing” 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.

- **Additions and Converted Space**
  - Room additions and garage conversions are encountered frequently in the practice of residential appraisal. In general, HUD wants the Appraiser to treat them as part of the GLA — with some stipulations. B. *Handbook 4000.1* confirms that “[t]he Appraiser must treat room additions and garage conversions as part of the GLA of the dwelling, provided that the addition or conversion space: f. is accessible from the interior of the main dwelling in a functional manner; f. has a permanent and sufficient heat source; and f. was built in keeping with the design, appeal, and quality of construction of the main dwelling.” (Sec. II.B.3.d.iii)

- **Vacant Properties**
  - When a subject Property is vacant, FHA requires that the Appraiser report whether the utilities were on or off at the time of the appraisal observation. Further, when the utilities were not on at the time of observation (i.e., the system(s) could not be operated), *Handbook 4000.1* directs that … “the Appraiser must: 1. render the appraisal as subject to re-observation; 2. condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and 3. complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.” (Sec. II.B.3.g, 4th para.) Additionally, the HUD protocol is that “[t]he Appraiser must note that the reobservation may result in additional repair
requirements once all the utilities are on and fully functional." (Sec. II.B.3.g, 5th para.) As a practical matter, this should be placed prominently in the report so that the Mortgagee doesn’t miss it.

- **Crawl Space Observation Requirements**
  - Just as with attics, FHA expects that an Appraiser will fully enter and observe the crawl space unless it would be dangerous to do so. *Handbook 4000.1* clearly describes the expectations of the Appraiser when viewing a crawl space, as well as some unacceptable conditions that may be discovered, in the guidance.

- **Methamphetamine Contaminated Property**
  - *Handbook 4000.1* contains the following specific guidance: “If the Mortgagee notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Appraiser must render the appraisal subject to the Property being certified safe for habitation.” (Sec. II.B.3.n.ii).

- **Bracketing**
  - *Handbook 4000.1* provides a definition of bracketing, displayed next. Bracketing: … “refers to selecting comparable properties with features that are superior to and inferior to the subject features.” (Sec. II.B.4.c.iii,(E),(3),(h),(i))
  - Comparable properties should not be chosen only because their prices bracket a desired or estimated value. There is a common misconception that HUD wants one comparable that sold for more than the subject, one that sold for less, and one that sold at about the same price. This is not suggested by the guidance in *Handbook 4000.1*.

- **Zoning Compliance**
  - “Determine whether the current use complies with the zoning ordinances. Mark whether it is ‘Legal,’ ‘Legal Non-Conforming’ (Grandfathered Use), ‘No Zoning,’ or ‘Illegal Use.’ If the existing property does not comply with all of the current zoning regulations (use, lot size, improvement size, off-street parking, etc.,) but is accepted by the local zoning authority, enter ‘Legal Non-Conforming,’ provide a brief explanation, and state whether the property may legally be rebuilt if destroyed.

- **Manufactured Homes**
  - The subject property sales/transfer history must be analyzed for the three years prior to the effective date of the appraisal. Analysis is more than just reporting the facts. In analysis, the facts are studied to arrive at an indication or conclusion.

- **Sales History Section**
  - Report and analyze prior sales or transfers of the subject property for the three years prior to the effective date of the appraisal and one year for comps.

- **Prior Sale History Section**
  - Report and analyze prior sales or transfers of the subject property for the three years prior to the effective date of the appraisal and one year for comps.