



# FHA's Office of Single Family Housing

Appraisal Institute Annual Conference, Charlotte, NC

## Update from FHA: The *Single Family Housing* *Policy Handbook 4000.1* and Other Initiatives

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# Today's Presentation

Follow up and discussion of:

- *Single Family Housing Policy Handbook 4000.1 (SF Handbook) Appraisal and Property Requirements Section*
- *FHA Single Family Housing Appraisal Report and Data Delivery Guide*
- Electronic Appraisal Delivery Portal





# Overview of SF Handbook



# SF Handbook Overview

FHA's *Single Family Housing Policy Handbook* 4000.1 (SF Handbook) is a:

- **Consolidated;**
- **Consistent; and**
- **Comprehensive** single source for FHA Single Family Housing policy.





# Appraiser & Property Requirements

- Focus of the Section for Appraisers:  
OBSERVE, ANALYZE, and REPORT.
- Revisions to language and terminology so that requirements are clear and consistent.
- Use of the word “MUST” is careful and deliberate.





# Reminders and Discussion of Appraisal and Property Requirements



# Appraiser & Property Requirements

- Appraisers must have the full contract and any other pertinent property related documents prior to starting the appraisal process.
- Appraisers will be provided with a contact name and number by the lender for working through eligibility issues (this provides the contact information if the guidance says: “the Appraiser must stop work and notify the Mortgagee.”)



# Appraiser & Property Requirements

- If subject includes additional parcels or a larger than typical site, the Highest and Best Use (HABU) analysis determines whether this is excess or surplus land.
  - Reminder: All FOUR tests of HABU must be applied.
  - A separate legal description for the surplus land is not required.





# Appraiser & Property Requirements

- Leasehold Valuation
  - Reminder that appraiser must analyze terms of ground lease and lender must ensure that appraiser has a copy.
- Appraiser must check to see if the Condominium Project is listed on FHA List of Approved Condominiums.
  - <https://entp.hud.gov/idapp/html/condlook.cfm>



# Appraiser & Property Requirements

- Properties with a Legal Non-Conforming Use: requiring the appraiser to comment if improvements can be rebuilt by right (based on the zoning ordinance).
- Accessory Dwelling Units: emphasizing that Highest and Best Use analysis determines property type of classification.





# Appraiser & Property Requirements

- Non-residential Use of Property: ensuring that mixed use properties comply with zoning.
- Identify the percentage of the property that is non-residential.
- Cost and Income Approach for Value: clarifying that ALL appropriate approaches must be utilized when applicable.





# Appraiser & Property Requirements

- Attic and Crawl Space Inspection Requirements: clarifying that FHA requires an inspection. Head and Shoulders is the **alternate** to a full inspection.
- If unable to observe the entire attic or crawl space area, the appraiser must report the scope of the observation, what was observed, and based on this, whether the appraiser recommends further inspection.





# Appraiser & Property Requirements

- Energy Efficient Building Components, Solar Systems, etc.: requiring that contributory value of building components that enhance efficiency or energy savings must be analyzed and reported.
- FHA requires that the appraiser utilize all appropriate methods of valuation, and does not restrict this to only a matched pairs analysis.





# Contributory Value of Components

- If mechanical systems and kitchen appliances are considered part of the real estate rights conveyed:
  - The appraiser must form an opinion as to the condition and adequacy of the components; and
  - The appraiser must analyze whether they contribute to the value, or conversely, detract from the value.





# Comparison of 4150.2 and 4000.1

## 4150.2

The appraiser must make a complete visual inspection of the subject property – interior and exterior – and complete the VC form.

## 4000.1

The Appraiser must identify defective conditions. **Defective Conditions Requiring Repair [SME to check reference]**. The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD's MPR, and provide an estimated cost to cure.



# Comparison of 4150.2 and 4000.1

## 4150.2

The appraiser must analyze the site to:

- Consider all easements, restrictions or encroachments and their impact on the market value of the subject property and list them on the appraisal.
- These factors are often discovered during the survey and title report once the appraisal has begun. Perform limited due diligence to verify the existence of these types of significant limiting factors. Also record these items in the URAR which were considered in the value estimate.

## 4000.1

The Appraiser must identify any Encroachments of the subject's dwelling, garage, or other improvement onto an adjacent Property, right-of-way, utility Easement, or building restriction line.

The Appraiser must also identify any Encroachments of a neighboring dwelling, garage, other physical Structure or improvements onto the subject Property. The Appraiser must notify the Mortgagee if, upon observation, it appears that an Encroachment affects the subject Property.





# Comparison of 4150.2 and 4000.1

## 4150.2

## 4000.1

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The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property. The Appraiser must review recorded subdivision plats when available through the normal course of business.





# Comparison of 4150.2 and 4000.1

## 4150.2

Deferred Maintenance: Any operable or useful element that will have reached the end of its useful life within two years should be replaced.

With respect to such deferred maintenance items, exercise good judgment in requiring repair.

Replacement Because of Age:

If an element is functioning well, do not recommend replacement simply because of its age.

## 4000.1

The Appraiser must operate the applicable systems and observe their performance. If the systems are damaged or do not function properly, the Appraiser must condition the appraisal on its repair or further inspection.





# Comparison of 4150.2 and 4000.1

## 4150.2

The appraiser must always note:

- any infestation
- any damage resulting from previous infestation

whether damage from infestation has been repaired or is in need of repair.

Observe all areas of the property that have potential for termite infestation, including the bottoms of exterior doors and frames, and wood siding in contact with the ground and crawl spaces. Examine mud tunnels running from the ground up the side of the house for possible evidence of termite infestation. The appraiser must check the attic areas to determine whether the ventilation is adequate.

## 4000.1

The Appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests. The Appraiser's observation is not required to be at the same level as a qualified pest control specialist.

If there is evidence or notification of infestation, including a prior treatment, the Appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal and make the appraisal subject to inspection by a qualified pest control specialist.



# Comparison of 4150.2 and 4000.1

## 4150.2

The appraiser must be able to access the crawl space for inspection. Access is defined as ability to visually examine all areas the crawl space. Specifically, the minimum distance is 18 inches.

## 4000.1

The Appraiser must visually observe all areas of the crawl space and notify the Mortgagee of the deficiency of MPR and MPS when the crawlspace does not satisfy any of the following criteria:

- The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.
- The crawl space must be properly vented unless the area is mechanically conditioned.
- The crawl space must be free of trash, debris, and vermin.

# Comparison of 4150.2 and 4000.1

## 4150.2

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The appraiser must be able to access the crawl space for inspection. Access is defined as ability to visually examine all areas the crawl space. Specifically, the minimum distance is 18 inches.

## 4000.1

The crawl space must not be excessively damp and must not have any water pooling. If moisture problems are evident, a vapor barrier and/or prevention of water infiltration must be required.

The Appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness and security of the Property.

In cases where access through a scuttle is limited, and the Appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulders of the Appraiser will suffice.

# Comparison of 4150.2 and 4000.1

## 4150.2

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The appraiser must be able to access the crawl space for inspection. Access is defined as ability to visually examine all areas the crawl space. Specifically, the minimum distance is 18 inches.

## 4000.1

If there is no access to the crawl space but there is evidence of a deficient condition (such as water-stained subflooring or smell of mold), the Appraiser must report this condition and the Mortgagee must have a qualified third party perform an inspection.

If there is no access, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

Not all houses (especially historic houses) with a vacant area beneath the flooring are considered to have a crawl space; it may be an intentional void, with no mechanical systems and no intention or reason for access.

# Comparison of 4150.2 and 4000.1

## 4150.2

The appraiser must observe the roof to determine whether the deficiencies present a health and safety hazard or do not allow for reasonable future utility. The appraiser is only required to note readily observable conditions.

## 4000.1

The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility. The Appraiser must identify the roofing material type and the condition observed in the “Improvements” section of the report.

The Appraiser must report if the roof has less than two years of remaining life, and make the appraisal subject to inspection by a professional roofer.

When the Appraiser is unable to view the roof, the Appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.



# Comparison of 4150.2 and 4000.1

## 4150.2

Attic - Enter the attic and observe the interior roofing for insulation, deficient materials, leaks or readily observable evidence of significant water damage, structural problems, previous fire damage, FRT sheathing, exposed and frayed wiring and adequate ventilation by vent, fan or window. If any of these deficiencies exist, condition the appraisal on their repair and prepare the appraisal "subject to repairs" and/or "subject to inspection".

The attic must be entered, at a minimum, by head and shoulders, whether access is by pull-down stairway or scuttle. Size of the scuttle and accessibility of the attic dictate the level of entry.

## 4000.1

The Appraiser must observe the interiors of all attic spaces.

The Appraiser is not required to disturb insulation, move personal items, furniture, equipment or debris that obstructs access or visibility. If unable to view the area safely in their entirety, the Appraiser must contact the Mortgagee and reschedule a time when a complete visual observation can be performed, or complete the appraisal subject to inspection by a qualified third party. In cases where access through a scuttle is limited and the Appraiser cannot fully enter the attic, the insertion of at least the head and shoulders of the Appraiser will suffice.





# Comparison of 4150.2 and 4000.1

## 4150.2

Attic - Enter the attic and observe the interior roofing for insulation, deficient materials, leaks or readily observable evidence of significant water damage, structural problems, previous fire damage, FRT sheathing, exposed and frayed wiring and adequate ventilation by vent, fan or window. If any of these deficiencies exist, condition the appraisal on their repair and prepare the appraisal "subject to repairs" and/or "subject to inspection".

The attic must be entered, at a minimum, by head and shoulders, whether access is by pull-down stairway or scuttle. Size of the scuttle and accessibility of the attic dictate the level of entry.

## 4000.1

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the Appraiser must report this condition, and render the appraisal subject to inspection and repairs if necessary.

If there is no access or scuttle, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

An observation performed in accordance with these guidelines is visual and is not technically exhaustive.



# So, What About that Dishwasher?

Things we hear:

- Too much trouble to check the plumbing and dishwasher.
- Doesn't matter.
- Appraiser is not qualified to check to see if plumbing and appliances are operational.
- **On the other hand, what if there was something wrong and the Appraiser did follow the SF Handbook 4000.1?**

Here's an appraisal prepared by a random FHA Roster Appraiser...





# Appraiser's Observation and Report

“At the time of observation the built-in dishwasher was not functional. Furthermore, the hot water valve underneath the kitchen sink was leaking water when the hot water is turned on.”

“This appraisal is being written “subject to” the built-in dishwasher being fully functional, hot water being present in the kitchen and bathrooms, and repair of the hot water valve underneath the kitchen sink. The subject will meet all FHA/HUD minimum property requirements as outlined by Handbook 4000.1.”



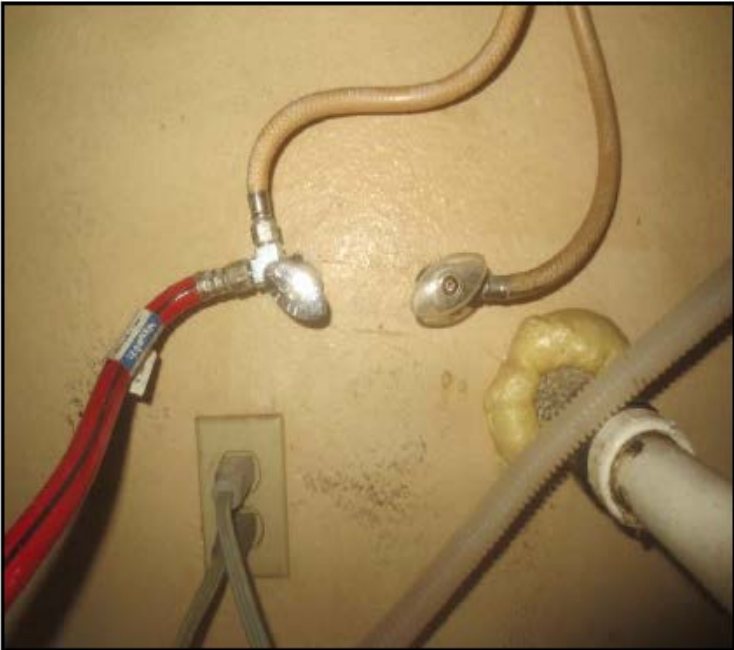


# 1004D Inspection Report

<input checked="" type="checkbox"/> <b>CERTIFICATION OF COMPLETION</b>
<b>INTENDED USE:</b> The intended use of this certification of completion is for the lender/client to confirm that the requirements or conditions stated in the appraisal report referenced above have been met.
<b>INTENDED USER:</b> The intended user of this certification of completion is the lender/client.
<b>HAVE THE IMPROVEMENTS BEEN COMPLETED IN ACCORDANCE WITH THE REQUIREMENTS AND CONDITIONS STATED IN THE ORIGINAL APPRAISAL REPORT?</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If No, describe any impact on the opinion of market value.
At the time of observation the <u>built-in dishwasher was fully functional, hot water was present in the kitchen and bathrooms, and the hot water valve underneath the kitchen sink had been repaired.</u> The subject meets all FHA/HUD <u>minimum property requirements as outlined by Handbook 4000.1.</u>
<b>APPRAISER'S CERTIFICATION:</b> I certify that I have performed a visual inspection of the subject property to determine if the conditions or requirements stated in the original appraisal have been satisfied.
<b>SUPERVISORY APPRAISER'S CERTIFICATION:</b> I accept full responsibility for this certification of completion.



# So, What About that Dishwasher?



Repaired Valve



Dishwasher



# *FHA Single Family Housing Appraisal Report and Data Delivery Guide*





# Appraisal Report and Data Delivery Guide

- Posted online—works as supplement to the SF Handbook.
- Contains FHA requirements for:
  - Completion of appraisal forms (UCDP and FHA-specific data).
  - Lender delivery of appraisal data and reports to FHA.
  - Format is MISMO 2.6 GSE or Errata 1 depending on form type.
- Mortgagee Letter 2015-08\* announced the Electronic Appraisal Delivery (EAD) portal for Federal Housing Administration (FHA) Insured Single Family Mortgages.

\*Mortgagee Letter 2015-08 was superseded in full by the SF Handbook on June 30, 2016.





# Electronic Appraisal Delivery Portal







# Electronic Appraisal Delivery

- Mandatory for case numbers assigned on or after June 27, 2016.
- Hard Stops are related to formatting required by FHA legacy systems.
- Software companies participated in the development.
- Make sure you use the latest updated version from your software company and deploy the FHA Specific Rules.





# The FHA Resource Center

- [www.hud.gov/answers](http://www.hud.gov/answers) : **1600+ Qs and As** addressing 90% of our phone calls **and** announcements of policy changes and training opportunities.
- *FHA INFO* emails: Frequent email notifications of new policies and training opportunities for anyone who signs up.
- Email: **answers@hud.gov** .
- Phone: Monday-Friday, 8 a.m. to 8 p.m., ET.  
Toll Free: **(800) CALL-FHA** or (800) 225-5342.





**Thank You!**

