11/6/2026

The Honorable Joseph M. Gormley
Acting Assistant Secretary for Housing-Federal Housing Commissioner
Department of Housing and Urban Development
451 7th Street SW, Room 9007
Washington, DC 20410

RE: Modernizing and Strengthening Minimum Property Requirements

Dear Acting Assistant Secretary Gormley,

On behalf of the undersigned organizations representing real estate appraisal professionals across the country, we appreciate the opportunity to comment on FHA's proposed updates to its Minimum Property Requirements and related provisions of Handbook 4000.1.

We support efforts to make FHA's property requirements clearer, more consistent, and easier to apply while preserving protections for borrowers and the Mutual Mortgage Insurance Fund. Consistent with our earlier response to FHA's Request for Information, modernization should reduce unnecessary procedures and documentation while maintaining meaningful identification and reporting of material property deficiencies.

While greater consistency with Fannie Mae and Freddie Mac standards can provide important benefits, FHA should also recognize the distinct risks associated with its mortgage insurance program. FHA-insured loans often involve borrowers with limited equity and fewer financial resources to address significant property deficiencies. In addition, FHA's responsibility to protect the Mutual Mortgage Insurance Fund warrants careful consideration of changes that could weaken existing property protections. Accordingly, alignment with GSE standards should not, by itself, justify eliminating FHA requirements that serve important safety, soundness, or collateral protection purposes.

The proposal appropriately recognizes distinctions between appraisal services and home inspections, engineering determinations, and other specialized services. However, greater reliance on professional judgment must be accompanied by clear expectations for appraisers, Mortgagees, and reviewers. Otherwise, procedural simplification could produce greater uncertainty, inconsistent decisions, and additional disputes.

Condition and Quality Ratings

A common rating vocabulary across FHA and the Enterprises can improve consistency. Using those ratings as property-acceptability thresholds, however, increases the consequences of differences in professional judgment, particularly near the C4/C5 boundary.

FHA should ensure that its definitions remain consistent with UAD 3.6 and clearly identify supplemental guidance. The final Handbook should explain how the requirement to assign a C5/C6 rating for qualifying deficiencies in any portion of the improvements operates alongside the direction to assess properties

holistically. Practical examples would help distinguish material deficiencies from ordinary wear and cosmetic conditions.

Appraisers should report supported condition and quality opinions, with Mortgagees responsible for eligibility determinations. Material safety, soundness, and security deficiencies must remain subject to appropriate reporting and corrective action. Requests to change ratings should respect appraiser independence and identify specific supporting evidence.

Observation Responsibilities

We support removing requirements that extend beyond a reasonable appraisal observation or expose appraisers to unnecessary safety risks. FHA should clearly define “readily observable,” including the limits on accessing concealed areas, moving furnishings, and operating mechanical systems.

Guidance should explain how appraisers should report observation limitations when utilities are off and when further inspection is warranted. Reviewers should evaluate findings based on conditions reasonably observable at the time of the appraisal. These changes should preserve the integration of property observations with valuation analysis.

Repair Costs and Highest and Best Use

FHA should reconcile the removal of general cost-to-cure language with provisions that continue to require appraiser repair estimates, including for HECMs. Where specialized repair estimates are needed, FHA should identify acceptable sources, such as qualified contractors, and distinguish those estimates from the appraiser’s valuation responsibilities.

We also support clearer highest and best use guidance. The final policy should preserve the appraiser’s obligation to reach a credible conclusion even when the existing use does not support property eligibility. Such a conclusion should be treated as an underwriting consideration rather than an appraisal deficiency. Examples should illustrate appropriate analysis for both typical and complex properties, with assignment scope, fees, and completion expectations reflecting the work required.

Other Property Requirements

We support greater flexibility in comparable selection for nonstandard construction, including rural, agricultural, and unique properties. FHA guidance should recognize the challenges posed by limited comparable sales, geographic distances, larger tracts of land, and multiple or nontraditional improvements. Appraisers should retain appropriate professional judgment in selecting and analyzing comparables when market data is limited. FHA should also ensure that its property observation and acceptability requirements account for the unique characteristics of rural properties

Consolidated site, utility, and environmental standards should retain practical examples of material hazards. Responsibilities for determining compliance with local utility-connection and pool-enclosure requirements should be clearly distinguished from the appraiser’s observation and reporting duties.

For manufactured housing, technical installation and structural determinations should remain with appropriately qualified professionals. FHA should reconcile the related certification and inspection provisions so that streamlining does not inadvertently transfer engineering responsibilities to appraisers. Changes to lead-based paint requirements should likewise be reflected consistently in the applicable observation, reporting, and repair provisions.

Implementation

FHA should provide sufficient preparation time, coordinate implementation with the UAD 3.6 transition, and issue updated appraiser and reviewer guidance together. Training and practical examples will be essential to achieving consistent application.

We appreciate FHA's consideration and welcome continued engagement on standards that improve efficiency while preserving credible valuations and borrower protections.

Sincerely,

Appraisal Institute
American Society of Appraisers
American Society of Farm Managers & Rural Appraisers
MBREA