



LETTER FROM OUR IN HOUSE APPRAISER:

OVERVIEW OF NEW FHA CHANGES (effective Sep. 14th)

I have taken the update course, made notes in regards to the new handbook and have made the following observations. The changes, in my opinion, are not as bad as the rumors I have heard from appraisers, however, it will create some additional time and inspections for appraisers. It will also have a lot of changes for the lender as well.

PLEASE NOTE: THIS INFORMATION IS MY INTERPRETATION OF CURRENT CHANGES WITH THE NEW F.H.A. HANDBOOK. I AM NOT AN F.H.A. INSTRUCTOR AND ALL INFORMATION GIVEN SHOULD BE VERIFIED AND THE COMPLETE F.H.A. HUD HANDBOOK 4001.1 SHOULD BE READ BY EVERY INTERESTED PERSON.

1. There is a new portal to communicate with H.U.D. which lenders and third parties will communicate with.
2. H.U.D. is requesting appraisers to begin changing terms from “inspect” to “analyze” or specifically “APPRAISER IS TO ANALYZE THEN REPORT” information and report is not a home inspection.
3. Case numbers are no longer tied to an appraiser however, to transfer a report, must obtain client permission and appraiser permission. After report transfer new lender may not request additional changes and must use existing report. If permission is not obtained or changes are needed, a new report will need to be ordered.
4. Condo form has not been completed by FHA and currently remains unchanged.
5. Appraisers are to: A - **Analyze** the effect on value and marketability of the observed conditions B - **Observe** the property and note property conditions C - **Report** the



observed conditions and the appraisers analysis of the conditions effect on value and marketability. Appraiser is no longer responsible for determining of FHA qualifications.

6. Report issues with safety, soundness and security (reference page 423)
7. **“Observe”** not **“Inspect”** is typical now. Appraiser is to observe readily observable conditions and report on those items.
8. Appraiser still requires conditions for three s’(Safety, Soundness, Security). These are items that you will most likely see ‘subject-to’.
9. Intended use of the appraisal is solely to assist FHA in assessing the risk of the property securing the FHA insured mortgage. Outside the three s’ (safety, soundness and security), appraisers are to only report conditions and lenders may require or waive any items at their discretion. Appraiser may NOT remove or change items listed; it is now the lender’s responsibility. Lenders will have forms to waive items if they desire.
10. All intended users must be included in all appraisal reports. The mortgagee must ensure H.U.D. is listed on the appraisal report as an intended user of the appraisal (reference page 82). FHA and mortgagee are the intended user of the appraisal report. Preprinted intended use on page 4 must be negated and FHA intended use supersedes this. Include this information in additional comment section and move additional info if needed.
11. If an appraiser becomes aware that the property has any former use of meth, whether manufacturing or consumption, the property is ineligible until the property is certified safe for habitation. If certified for safe habitation, please include a copy



of certificate of cleaning. Appraiser to note any long term stigma and comment on any impact on value or marketability from that stigma. This is only when appraiser is made aware of property with meth (reference page 447).

12. If the appraiser finds that the utilities are off, they must: A- render the appraisal 'subject-to' re-observation B- condition the appraisal upon further observation to determine if systems are operational and in proper working order once utilities are restored (extraordinary assumption). C- If systems could not be operated or observed due to weather conditions appraiser must **clearly** note this in report.
13. New condition noted is that water heaters must now have a temperature relief valve.
14. Legible street maps need to include subject, comps, rentals, listing , etc. Dimensions and notation of covered or uncovered, roof or no roof need to be noted for patios, porches, decks, garages, carports and breezeways (reference page 453). Appraiser must show dimensions/GLA and include outbuildings. If functional obsolescence is noted, include interior floor plan.
15. Photos of front, rear, street, sides, living areas and baths are required. Photos of drainage / grade needed if lot for new construction. Photos of contributory items which include or negate value must be included. Street scene to include portion of subject site. Comparable photos should be taken from front with part side when possible. Use of M.L.S. photos to exhibit comparable condition can be used when applicable.
16. Cabinets and appliances must be present and operational and appraiser must inspect these if they are considered real property. Appraiser must also define each



as personal property or real property. Appraiser must operate all conveyed appliances and observe their performance (this includes fridge, dishwasher, range/oven, stovetop, microwaves and could, as per my notes, include washer and dryer if conveyed in the contract). The appraiser must notify mortgagee of the deficiency of MPR or MPS if any conveyed appliances are inoperable. If missing appliance, it does not need replaced by FHA however, client may require it to be replaced or operational.

17. If home inspection is completed and is willingly provided, appraiser may observe and report conditions however, H.U.D. will not require the appraiser obtain or view them.
18. Accessory dwelling units are defined as a habitable living unit that includes kitchen, sleeping area, bathroom, etc. Appraisers are responsible to specify if it is single family or two family dwelling as determined by highest and best use. However, it may or may not be separately metered or have separate means of ingress / egress. The living areas of the accessory dwelling unit must NOT be included in the overall GLA of the primary dwelling as these are subordinate in size, location and appearance to the primary house. More common with today's "man caves" (local zoning will assist in determine adu and if it is legally permissible). Appraiser is to value it separately and attempt to find similar properties for comparison. H.U.D. does not require verification of permits however must be legally permissible; does zoning allow those improvements / can it be rebuilt?
19. Crawl space observation requirements - minimum head and shoulders required for crawl access is defined as: ability to visually observe all areas of the crawlspace.



Floor joists must be sufficient above ground to provide access for maintenance, ductwork, plumbing, etc. The minimum required vertical clearance is 18 inches between grade and bottom of floor joists. If the crawlspace contains any system components, the crawl must be properly vented unless the area is mechanically conditioned. Crawl must be free of trash, debris, vermin, and must not be damp or have pooling water.

- 20.** If there is no access, appraiser is just to state there is no access. There is no requirement to cut open walls, ceilings or floors but the lack of ability to observe may render property ineligible, however, this is NOT the appraiser's call. Attic is the same but the appraiser is to note if there is evidence of any problems; if no problems are noted, there is no requirement. If no evidence, appraisal is as-is and if evidence noted, appraiser to use an extraordinary assumption and label the property as subject-to. If appraiser can safely access these areas they should, however, if there are concerns, the appraiser should not. If there is evidence of a problem, the appraiser should require a professional inspection. Please note - possible older homes or historic homes may have vacant area beneath the flooring not intended to be accessed if mechanical systems are not located in these areas.
- 21.** If power lines go directly over home or related improvements including pools, spas and water features, this is considered unsafe and would be deemed ineligible. Properties within the fall distance are no longer deemed indelible by FHA but lender may deem this a report condition and still label this property ineligible.
- 22.** Oil and gas wells - appraiser to report the distance from the dwelling. These must be 75 feet from boundary of the site, NOT to actual well.



23. Site conditions - appraiser must analyze the degree to which resulting benefits may be impaired i.e. are you aware of effect on property - hazards or nuisances.
24. Appraisers must obtain: complete copy of executed contract if it is a purchase / land lease when applicable for leaseholders, surveys or legal documents contained in the loan file and conditions.
25. Regardless of appraiser suggested repairs, mortgagee needs to make the ultimate decision on any items mentioned in the report. Whatever is in report **must** stay in report however, mortgagee must explain why they waived any items.
26. Mortgagee is the only party to determine eligibility (reference page 85).
27. Concessions are used on a cash equivalent basis on the effect of final price rather than dollar for dollar. (The Appraisal Foundation has new paper regarding this issue please review).
28. Zoning: can property be legally rebuilt, appraiser must add verbiage.
29. Converted space - appraiser is to use an extraordinary assumption (refer to handbook)
30. Winterized pools and built-in hot tubs need to be classified as an extraordinary assumption.
31. The underwriter may request a reconsideration when appraiser did not consider information that was relevant on the effective date. They may provide additional data necessary for a reconsideration. Appraiser may charge additional fee, if relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the borrower, the borrower must not be held responsible for additional costs. Per FHA, the effective date is the date of inspection.



32. **Three year history (rather than a one year) required on all comparable properties as well as subject.**
33. The appraiser must **observe** the physical condition of the plumbing, heating, and electrical systems. The handbook does not require appraiser to inspect, test, or certify anything related to property condition. The appraiser must identify defective conditions and provide photographic documentation in the appraisal report. Specifically, the appraiser must identify defective condition that are curable. This will make property comply with minimum property requirements and appraiser is to provide an estimated cost to cure.
34. Verification requirements: Appraiser to verify characteristics of the transaction, sales price, concessions. Conditions of sale and items related to comparable sale through reliable data source, public records or another verifiable, impartial source. MLS records and property site visit alone are NOT an acceptable verification source.
35. For further information on the changes regarding: Zoning, private roads, additions, converted space, type of sales which can be used, approaches to value required, site value, 203k properties, **please refer to handbook.**



In conclusion, my personal thoughts regarding these changes are as follows:

Lenders - Will now be required to make decisions on property conditions relying on the appraiser provided observations. This may be a difficult change for lenders as they cannot solely rely on the appraisers for these judgment calls.

Appraisers - It may be tricky getting used to the changes however, it appears this will greatly decrease the responsibilities on the appraiser to make decisions regarding FHA eligibility. There will be slight increased in time at inspections, and in the office for each report. However, I believe this is not as bad as the doom and gloom rumors on the street have it.

***** This information is provided at request of many concerned lenders and appraisers. Anyone involved should not rely on my information and read the entire new handbook, take appropriate classes, and come to your own conclusions in regard to all information provided. I have attempted to show some difference in new information, according to my own limited knowledge and understand your interpretation may differ. Please note page reference numbers may vary depending on the handbook copy you read.

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