Frequently Asked Questions

HUD Handbook 4000.1 (Effective September 14, 2015)

Handout for Denver Homeownership Center Appraiser Training

(Issued June 15, 2015)

Q. What is the definition of "Highest and Best Use?"
A. Highest and best use is a basic tenet of appraisal practice and includes four things: the legal, permissible use of the property; the physical possibility of the property use; the financial feasibility and maximally productive use of the property.
All of these things come into play when determining what is the Highest and Best Use for a particular property. The analysis is quite extensive, but those four things cover the basics of Highest and Best Use. Probably the issue when determining Highest and Best Use is the legal permissible use of the property.
The next thing would typically be to assess the financially feasible or maximally productive use of the property – what would bring the highest return on the investment. For example, if a property is in a residential area and it's zoned residential, and it is a house, chances are the Highest and Best Use is residential.

Q. Are un-permitted spaces allowed? For example a garage that is turned into a bedroom but no building permit was obtained for the renovation. Is that acceptable?
A. A borrower can convert parts of their home to anything, whether it is their garage to a beauty salon, or converting their garage to another bedroom. But to answer the question, the appraiser would need to determine the Highest and Best Use. For that determination the appraiser would look at the jurisdiction, zoning and legality of that addition. The appraiser would determine if the bedroom in question is legally permissible. If permits are required, and you cannot build on the property without getting a permit, it would not be legally permissible. Other factors could include whether or not the bedroom has a heat source, or if the space is insulated. Does the change to a bedroom from a garage look acceptable to the structural integrity of the property? Is the appeal of the home affected by it positively, or negatively?

Q. What is a scuttle?
A. A scuttle is usually an area that is cut out of the ceiling to give access into the attic. Normally a scuttle to an attic or access to an attic is located in either a large walk in closet or in the hallway someplace.

Q. Is daycare in the home allowed?
A. This would fall under mixed-use properties and would depend on how much of the residence is used for commercial space. That has to be analyzed by the appraiser and the underwriter. The Borrower may have only two kids that come over every day, and daycare may be properly with the Borrower filing a Schedule C, but the main issue to be addressed from is whether or not the house has been converted from primarily residential use to commercial. If the house was not converted it's still a residential home. So the entire situation must be examined by both underwriter and appraiser to make a judgment on that.

Q. If the appraiser cannot access the attic, would the appraiser call for an inspection of the attic from a qualified entity? If not, why not?
A. They appraiser absolutely should call for inspection. Anytime the appraiser believes that there is something to be looked at and they can't observe, they should call for an inspection. The inspection does not have to be by an appraiser. It could be by a home inspector or some other qualified entity. Even the underwriter can inspect that if they want.

Q. Does the appraiser have to note on the appraisal that an inspection of the attic was completed or is it acceptable for the appraiser to only state that the property meets minimum property standards and it is assumed the inspection was completed?
A. None of those are required. The appraiser does not have to say whether or not they inspected the attic or crawl space. Since the appraiser is required to include pictures of the attic or crawl space, the inspection is assumed when pictures are provided. The appraiser also does not have to state that the property meets minimum property requirements.
The appraiser does have to report any deficiencies, but they don't have to report everything that's good about the property.

Q. Regarding the valuation of solar components not being limited – Does that mean that appraisers can use a cost approach? And if so, do we define a way for them to use the cost approach.
A. Solar components are not limited to the paired sales analysis. For example, the property has a roof solar system, and if one of the comparable projects has one, the two properties can be compared on the basis of having solar systems.
However, maybe there may not be any other properties within the neighborhood that have solar systems. Trends show that the solar systems could add value to the property. So in this case, there are other methods to determine that value, such as return on capital costs investments. Chances are that the solar system is adding value to the property, so the appraiser has other tools to determine just how much value the system is contributing other than direct comparison methods.

Q. What are the requirements when there are two or more parcels on a tax assessment?
A. HUD allows the mortgage to be made on multiple parcels provided that they appear to be a single marketable entity. If it appears to the general public that two parcels are in fact, one, then they can both be combined on a single mortgage.

Q. What if a property has two separate parcels taxed separately? Does the home need to be on both parcels to be okay?
A. No. Both parcels have to appear to be one marketable entity, even though there are two separate parcels, if both are contributing to that site and to the improvements, then it can be placed on one mortgage. Examples where multiple parcels could not be viewed as a single, marketable entity could include the parcels being physically by any distance – from another parcel owned by a third party, to the parcels being several miles away from each other, or even across the street. In those situations, a property with multiple parcels could not be viewed as one marketable entity.

Q. What exactly are we looking for in the inspection of a manufactured house addition? Do we just need a statement that the addition did not take the unit out of compliance?
A. Any time that there is an attachment made to a manufactured home, a certification has to be received from the state agency that controls or monitors manufactured housing for that state to ensure that that addition was permitted and is in compliance with the state regulations.

Q. Regarding a separate legal description for surplus land not being required – Surplus land is a vague term. Are we talking about four acres? Are we talking about rural property?
A. Surplus land can be described as "extra elbow room." It gives the owner space but may not necessarily have any contributory value. For example, in the case of a "gentleman's farm" where there is no production being done on the land, no commercial farming, no crops, no animals, and no livestock. The surplus land isn't *needed* for anything.
Another example would be a property in an area that is properties typically have three acres or five acres, and the subject property has eight acres. That extra land is over what is typical in that area would be surplus land.
In other cases there may be zoning regulations that say a property can't be less than five acres. If the subject property has eight acres, it would have three acres more than just about everybody else. Because of zoning, the property can't be subdivided or sold because the surplus land is only three acres. Since the surplus land isn't necessarily contributing to the value, it's just surplus land.

Q. For new construction HUD requires international energy conservation code standards, is it the appraiser's job to know whether the home complies with that? Or is it the mortgagee's responsibility?
A. It is the appraiser's responsibility to understand if the property is legally compliant. If the area requires permits, the appraiser can follow local jurisdictional authority and assume that that property complies if the permits were issued.
Otherwise the property has to be in a workman like manner. The appraiser does not have to reference specific codes, however the appraiser must assess whether or not the property is marketable, was it build in a workmanlike manner, and is it accepted for the local area? This is another example where the appraiser will look at the Highest and Best Use in the analysis of the property.

Q. What does UAD stand for?
A. UAD stands for the Uniform Appraisal Dataset that's established by Fannie Mae and Freddie Mac. UAD requires specific field input in the appraisal by the appraisers.

Q. What does MISMO stand for?
A. MISMO stands for Mortgage Industry Standards Maintenance Organization. The organization is made up of representatives from the major mortgage lenders, Fannie Mae, Freddie Mac and includes representatives from FHA, USDA and VA. MISMO governs the information technology standards used by the industry.

Q. Can a loan officer or realtor discuss an appraisal with the appraiser?
A. No. Only the underwriter may discuss the appraisal with the appraiser.

Q. What is the appropriate way for a lender to notify HUD they rejected an appraisal from a FHA roster appraiser?
A. Use the comment box on the FHA Connection Credit Reject screen to indicate the reason for rejecting the case file.

Q. If a property is identified as a “meth” house, does this automatically establish a defective condition and is the property ineligible?
A. Yes. However, if the underwriter or the mortgagee provides to the appraiser a certification that the “meth” issues has been remediated by an authorized jurisdictional entity, then that property may be insured. Until the site is remediated, the property is ineligible. In addition, the appraisal must address marketability – Does the general public know this property was a meth house? Chances are they do. The appraiser needs to know this and address it in the report.

Q. If the appraisal is transferred to a new lender and the appraiser is on the new lender's exclusionary list, can the new lender charge the borrower for a new appraisal?
A. Yes. The choice to change lenders was made by the borrower, not the lender. So the borrower is responsible for paying for an appraisal that is acceptable to the new lender.

Q. When does FHA actually require a second appraisal?
A. A second appraisal is required to detect flipping when a purchase price is more 100% greater than the seller's acquisition cost of the property within 91 to 180 days on a resale. A second appraisal would also be required if the underwriter determines the first appraisal has material deficiencies to order a second appraisal. Finally, a second appraisal would be required if the first appraisal has expired.

Q. If the appraisal is within 30-days of the expiration date, does the mortgagee have to use the 30-day extension, or is it their choice to ahead and order a new appraisal?
A. If there are no material deficiencies on the first appraisal, the underwriter has two options. First they can grant a 30-day extension to meet a closing deadline. Second, as long as the first appraisal is not expired yet, the underwriter can order a 1004-D Appraisal Update. This would give an additional 120 days on top of the 120 days for the first appraisal they have for the appraisal for total of 240 days.

Q. Is a new FHA number issued for a second appraisal?
A. A new case number is only ordered if the original case number has expired. In the event a new case number is ordered, it would need its own appraisal, not a second or updated appraisal from the original case number, but a whole new appraisal.

Q. If a second appraisal is required for flipping or because of material deficiencies; can the lender charge the borrower for the second appraisal?
A. No. If the underwriter deems a second appraisal as required due to material deficiencies, the borrower cannot be charged for this appraisal. Also, if a property is being resold within 91 to 180 days and a 100% or greater increase in value has occurred, a second appraisal is required, but the cost cannot be charged to the borrower.

Q. When would a second appraisal be entered into FHA Connection?
A. A second appraisal must be entered into FHA Connection if

- the first appraisal indicates flipping;
- there are material deficiencies in the first appraisal; or
- If the first appraisal was expired.

Q. Can the borrower be charged for the cost of an appraisal reconsideration of value?
A. No the borrower cannot be charged for a reconsideration of value request. If the mortgagee requests a reconsideration of value because some data comes to them that suggests a higher value, the underwriter can forward the data to the appraiser and ask them do a reconsideration of value. The appraiser may or may not charge a fee to the mortgagee, but it cannot be passed on to the borrower.

Q. Does an appraisal with material deficiencies need to be included in the case binder?
A. Yes. Every appraisal performed on a property under a case number should be in the binder along with comments why more than one appraisal was ordered.

Q. If fraud is suspected in an appraisal, is the underwriter supposed to take any additional steps?
A. As long as the loan has not closed, and the property is not yet collateral for FHA insurance, it would be appropriate for the mortgagee to report suspected fraud per their company's policies and procedures to the state regulatory agency's division of real estate or board of real estate appraisers. If the loan has already closed and insurance was issued right; the FHA underwriter would follow the procedures for reporting suspected fraud.

Q. Can underwriters still adjust the value on an appraisal?
A. Underwriters are no longer allowed to change the value on an appraisal. They can't decrease it or increase it. However, they're still required to make sure that the appraisal is accurate, that it meets guidelines, and that it's eligible for FHA insurance. The comments that they could have written on this form regarding the property can be written on the loan transmittal, the HUD-92900-LT or their Conditional Commitment, HUD form 92800.5 B. Although underwriters cannot change the value anymore, comments are still required if there are concerns or issues with that property.

Q. Regarding the appraised value and the lender not being able to adjust the actual appraised value – How would the lender complete the 92800 to reflect the Adjusted Value?
A. While underwriters are not allowed to change the value on an appraisal this should not be confused with determining the "Adjusted Value" used for the maximum mortgage calculation. When determining the Adjusted

Value, the underwriter is not changing the value, but is using the lower of the appraised value or the contract sales price. For more information, see the Handbook for Adjusted Value.

Q. When a photo is not legible can the underwriter ask the appraiser to redo the photo?
A. Yes, but keep in mind a bad photo is not the same as a material deficiency in the appraisal. The appraiser can and should fix that.

Q. Does the appraiser have to note on the appraisal that an inspection of the attic was completed or is it acceptable for the appraiser to only state that the property meets minimum property standards and it is assumed the inspection was completed?
A. None of those are required. The appraiser does not have to say whether or not they inspected the attic or crawl space. Since the appraiser is required to include pictures of the attic or crawl space, the inspection is assumed when pictures are provided. The appraiser also does not have to state that the property meets minimum property requirements.
The appraiser does have to report any deficiencies, but they don't have to report everything that's good about the property.

Q. What's importance of the date of the contract? Which date do you use for underwriting – the offer date, the date everyone signs, or the date of the final addendum?
A. It is the date that all parties agree to the major provisions of the sale, but not all the addendums or changes that may happen afterwards, but the date the contract was ratified.

Q. Does a cistern require a waiver?
A. There is no requirement for a waiver for a cistern. The new handbook addresses the requirements for acceptability of holding tanks. Basically, the mortgagee verifies no other potable water is available for the property; they're common in the immediate market area and accepted by market participants; and the local health department indicates the holding tank meets standards.

Q. Who is responsible for determining the feasibility of attaching public utilities – the underwriter or the appraiser?
A. It's the underwriter's responsibility to look at the borrower's profile and the appraisal and determine whether even a public hookup to water or sewer is available. Even if available, it's no necessarily feasible. The old 3% of the value rule is not in the new handbook. The decision is to be made based on the borrower's profile and the appraisal.

Q. Are properties with sinkholes acceptable?
A. HUD does not have any specific rules regarding sinkholes. HUD has issues regarding the acceptability of the property, structural integrity. There may be local jurisdictional rules that are peculiar to certain areas, but HUD doesn't have anything absolute on that. The property has to comply. So it would depend on whether or not the sinkhole has been mitigated.
The appraiser is going to have to analyze if there are any structural integrity issues with the property, or call for an inspection by an engineer.

Q. Is the appraiser required to identify defective conditions and provide a photo of the defective condition in the appraisal report?
A: Yes. Depending on the severity of the defective condition, the appraiser may assign a cost to cure the deficiency or recommend that the mortgagee have a more qualified inspector, such as an electrician, engineer, or other professional assess the defect and cost to cure.

Q. If the appraiser says “As Is”, and provides a picture that clearly shows he should have contacted the mortgagee to ask if he should proceed, or mark the property “Subject To”, how should the underwriter handle that?
A. When the underwriter knows something about the property whether through a photo that the appraiser provided, or from information in the case file, and the underwriter feels the appraiser may have misjudged and incorrectly marked the appraisal “As Is”; then the underwriter has the ability to call that appraiser and discuss the appraisal report. The underwriter and appraiser can review the report together and discuss what is correct. If the appraiser will not work with that underwriter, the underwriter can condition for an inspection.

Q. If there is a view adjustment that the underwriter can't accept; can the underwriter reject that property and order a second appraisal to back it up?
A. Yes. The underwriter could order a second appraisal. Also, many companies have other tools they might use, such as a field review. Either way, it is the underwriter’s responsibility to do their due diligence to ensure that the value is supported.

Q. If the appraiser decides that his analysis on the appraisal for days on market was right, do we require a letter or any other statement?
A. If the appraiser has stated the days on market already in the appraisal, there would be no reason for the appraiser to submit anything else. It's up to the underwriter to accept that or not.

Q. Can the appraiser reject a property if he sees things that he knows does not meet our standards; or does he say “As Is?”, or subject to repairs, and list the things and the underwriter's responsibility to do it? How should that go?
A. The appraiser cannot reject a property. That is the underwriter’s responsibility. However, if the appraiser observes conditions that could make the property uninhabitable or otherwise not meet FHA’s minimum standards, the appraiser can contact the mortgagee to communicate right away anything that they notice might be a problem so that the mortgagee can weigh in on the situation. For example, a mortgagee may have information that they already know about that property and could accept or cure the condition at the mortgagee's discretion. If the mortgagee tells the appraiser to stop the process, the appraiser should follow that direction.

Q. In the old days, when property was declined by an underwriter, the underwriter went into FHA Connection and entered the reason the property was declined so the next underwriter would be able to see why. Is that still the case?
A. When an underwriter rejects a loan they are required to go into FHA Connection and put their reason for rejecting the loan in the comment box to alert other lenders. Keep in mind the borrower has the right to go to another lender for a loan. So we have a responsibility to make sure they're aware of the concerns the first underwriter had.

Q. When reviewing the contract that calls for property inspections, or termite inspections, do we want to see the inspection reports?
A. If the appraiser notes that there's a termite infestation, whether the contract has a requirement for a termite inspection or not, the underwriter must require an inspection.
However, if the contract states that a termite inspection will be provided or done, that could be just agreed upon between buyer and seller and the underwriter would not need to see the inspection.
On the other hand, if the appraisal comes in and no infestation is noted, there is no reason the underwriter needs to require further inspection.

Q. Regarding inspections by qualified individuals or entity – Who determines the appropriate professional, the appraiser or the underwriter?
A. The underwriter would determine who is the most qualified. A good example would be an appraiser completes an appraisal subject to electrical repairs. Well, the appraiser is not an electrician, and they're not hired to be an electrician. So maybe the appraiser can go back out and see that the breaker box or other things were done, but they have no real clue professionally if it was done correctly.
So the proper entity would be an electrician. And there are other methods that can be done to perform that. The same as a roof or roofer or plumber, or foundation, structural engineers, are good examples of things where you may not really expect an appraiser to have that professional competence to give you the best answer.

Q. For legal non-conforming zoning it's typical to state if a property is a certain percent destroyed whether or not a variance will be required to rebuild. Is that acceptable?
A. The appraiser has to state whether it can be rebuilt if destroyed. This is another example where the appraiser will look at the Highest and Best Use in the analysis of the property.

Q. Can we require the appraiser to put the GPS coordinates on property in a rural area?
A. No. GPS coordinates are not a requirement. We're looking for addresses.

Q. Is a mortgagee required to request a new case number on a HUD real estate owned (REO) loan transaction? What about an appraisal?
A. Yes. A new case number must be assigned. The previous case number applies to the old loan. So a new case number would be ordered for the purchase of the REO property. The HUD REO appraisal is no longer being given by Asset Management to the mortgagee. So mortgagees now have to order a new appraisal. Regardless, when a

new case number is assigned for a HUD REO transaction, there is a field to input the previous case numbers in that screen.

Q. For properties that will have a 203-k loan and the appraiser finds defective conditions – Does the appraiser still need to provide a photo if those defective conditions are listed for repair?
A. On the 203-k, the appraiser needs to be provided with all the planned improvements, including the contractor's write up. If the appraiser finds something different in their inspection, then the appraiser needs to make that known.