



U.S. Department of Housing and Urban Development

Special Attention of:

Directors, Home Ownership Centers
Directors, Processing and Underwriting
Divisions, Home Ownership Centers
Direct Endorsement Lenders

TRANSMITTAL Handbook No. 4150.2Issued: July 1, 1999

1. This transmits

Change 1 to Handbook 4150.1 REV-1, Valuation Analysis for Home Mortgage Insurance. The new Handbook number is 4150.2. This Handbook is intended to replace and supersede in its entirety the provisions of Handbook 4150.1 except as provided below under the heading "Filing Instructions."

2. Explanation of Materials

This handbook reflects policy changes enacted since March 15, 1990 on valuation requirements for existing, proposed and new construction of one- to four-family units for mortgage insurance purposes. This Handbook incorporates and updates the sections of Mortgagee Letters and other HUD Handbooks that are relevant to appraisals. The following section identifies those letters and Handbooks.

MORTGAGEE LETTERS

These Mortgagee Letters have been incorporated in part or in full into the Handbook:

- 97-46 Appraisal Management Firms
- 97-41 Clarification of 97-22 Regarding New Construction in Flood Plains
- 97-22 FHA New Construction, Inspection and Appraisal Requirements Sections: Cost Approach, Valuation Conditions, Appraisal Form
- 96-29 Paperwork Reduction, Lead-Based Paint Disclosure Section: Lead-based Paint
- 96-26 Appraiser Standards
- 96-5 Elimination of the Fee Panel and Mortgagee Staff Appraiser Designations
- 95-40 Revisions to the 203(k) Rehabilitation Mortgage Insurance Program
- 95-34 Testing of and On-Site Well/Septic System Inspections (Web)
- 94-54 Procedures for Lenders to Use to Select Their Own Appraisers Sections III and IV
- 94-36 Clarification of ML 92-18: Testing of Individual Wells
- 94-26 HUD Reorganization
- 94-11 Revisions to the 203k Rehabilitation Insurance Program Item 18
- 94-6 Processing Sec 248 - Indian Reservations Item 1-10
- 94-3 Revised Appraisal Report Forms
- 92-18 Single Family Loan Production - Acceptance of Individual Residential Water Purification Equipment; Section 3.6.1.6
- 91-1 Implementation of Certain Provisions of the 1990 Housing Legislation Section X

HANDBOOKS

The following Handbook chapters have been incorporated into the new Handbook 4150.2. The information has been updated to reflect the newest policies and procedures. Because these handbooks were written primarily for lenders, builders or HUD staff, the instruction relevant to the appraiser has been extracted.

4000.2 Mortgagee's Handbook

- Chapter 2-8—General Acceptability Standards for Property
- Chapter 2-12—The Appraisal Package
- Chapter 2-15—Review of the Appraisal
- Chapter 2-18—Compliance Inspection
- Chapter 2-19—Satisfying Repair Requirements
- Chapter 2-20—Section 223(e)
- Chapter 2-23—Delivery of Statement of Appraised Value
- Chapter 4-3—Reconsideration: Changes Involving Property
- Chapter 6-5—Section 203(k)

4000.4 Guide for Single Family Direct Endorsement Program

- Chapter 1-6 Minimum Property Standards
- Chapter 1-7—Eligibility of Condominium Projects
- Chapter 3-3—Property Valuation Procedures
- Chapter 3-14—Lead-Based Paint Hazard
- Chapter 4-9 D—Post-Endorsement Technical Review

4020.1 Underwriting Analysis

- Chapter 1-8—Instruction for the Selection and Approval of Fee Personnel
- Chapter 1-11—Training
- Chapter 3-6—Differentiation between Valuation and Mortgage Risk Analysis
- Chapter 4—Eligibility Requirements

4125.1 Underwriting - Technical Direction for Home Mortgage Insurance

- Chapter 1-13—Underwriting - Technical Direction for Home Mortgage Insurance: Field Review
- Chapter 3-3 F—Processing Procedures

4240.2 Rehabilitation Home Mortgage Insurance, Section 203(k)

- Chapter 3-2—Step-by-step Procedures: Appraiser Responsibilities
- Chapter 2-2—Valuation Procedures

4260.1 Section 223 (a) (d) (e) Mortgage Insurance

- Chapter 3-1 e—Administrative Instructions
- Chapter 4-4—Insurance in Older Declining Urban Areas

4265.1 Home Mortgage Insurance for Condominium Units

- Chapter 10-2 A—Data Needed for Valuation
- Chapter 10-2 B—Approach to Value
- Chapter 12-12 D—Processing the Unit

**4910.1 Minimum Property Standards for Property which is not Multifamily or
Care Type Property**
Appendix K—Minimum Property Standards

3. Filing Instructions

Remove:

Handbook 4150.1 REV-1 except for these paragraphs and/or chapters:

- Paragraphs 4-12 (a) and (b), 6-29 through 6-33, 8-4, 10-5, 10-6, 10-9, 12-3, 12-5 through 12-8, 12-11, 12-12, 12-16 through 12-19
- Chapter 11

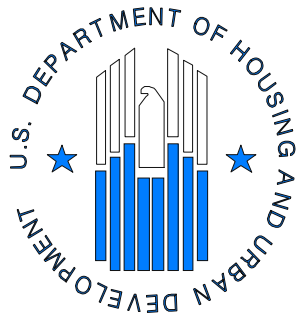
The above Chapters remain for lender instruction as outstanding policy and procedure for valuation analysis.

Insert:

Handbook 4150.2 dated July 1, 1999

Assistant Secretary for
Housing-Federal Housing Commissioner

Distribution: W-3-1, R-1, R-2, R-3-1 (H) (RC), R-3-2, R-3-3, R-6, R-6-2, R-7, R-7-2, R-8, ASC



HANDBOOK 4150.2

**Valuation Analysis for
Home Mortgage Insurance**

**for Single Family
One- to Four- Unit Dwellings**

July 1, 1999

TABLE OF CONTENTS

1 SELECTION OF APPRAISER..... 1-1

1-0 INTRODUCTION..... 1-1

1-1 FHA REGISTER..... 1-1

A. Appraiser Credentials..... 1-1

B. Register Application Process..... 1-1

C. Applicant Review..... 1-2

D. Designation to the FHA Register..... 1-2

1-2 LENDER SELECTION OF THE APPRAISER..... 1-3

A. Non-Discrimination Policy..... 1-3

B. Contractual Responsibility of Appraisers..... 1-3

C. Communication with Appraisers..... 1-4

D. Appraisal Fees..... 1-4

2 LOCATION ANALYSIS 2-1

2-0 INTRODUCTION..... 2-1

2-1 LOCATION REQUIREMENTS 2-1

A. Neighborhood Definition..... 2-1

B. Competitive Locations..... 2-1

C. Definitions – Construction Status..... 2-1

D. Economic Trends..... 2-2

E. Land Use Restrictions..... 2-2

 1. Zoning..... 2-2

 2. Protective Easement/Covenants..... 2-2

 3. Inharmonious Land Uses..... 2-2

 4. Natural Physical Features..... 2-3

 5. Attractiveness of Neighborhood Buildings..... 2-3

 6. Neighborhood Character..... 2-3

 7. Character of Neighborhood Structures..... 2-3

F. Community Services..... 2-3

G. Transportation..... 2-3

H. Utilities and Services..... 2-4

I. Neighborhood Change Considerations..... 2-4

J. Marketability..... 2-4

K. Small Community Market Preferences..... 2-4

L. Outlying Locations and Isolated Sites..... 2-4

M. Study of Future Utility..... 2-4

N. Consideration of General Taxes and Special Assessments..... 2-5

 1. Assessment..... 2-5

 2. Special Assessment..... 2-5

2-2 SPECIAL NEIGHBORHOOD HAZARDS AND NUISANCES..... 2-5

A. Unacceptable Locations..... 2-6

B. Topography..... 2-6

C. Subsidence..... 2-6

D. Operating and Abandoned Oil or Gas Wells..... 2-7

 1. Existing Construction..... 2-7

 2. New or Proposed Construction..... 2-7

 3. Abandoned Well..... 2-7

 4. Special Case - Proposed, Existing or Abandoned Wells..... 2-8

E. Slush Pits..... 2-8

F. Heavy Traffic..... 2-8

G. Airport Noise and Hazards..... 2-9

H. Special Airport Hazards..... 2-9

 1. New and Proposed Construction 2-9

 2. Existing Construction..... 2-9

I. Proximity to High Pressure Gas..... 2-10

J. Overhead High-voltage Transmission Lines..... 2-10

K. Smoke, Fumes, Offensive Noises and Odors 2-10

L. Flood Hazard Areas..... 2-11

 1. New and Proposed Construction 2-11

 2. Existing Construction..... 2-12

 3. Condominium 2-12

M. Stationary Storage Tanks..... 2-12

3 PROPERTY ANALYSIS..... **3-1**

 3-0 INTRODUCTION..... 3-1

 3-1 APPRAISAL REQUIREMENTS 3-1

 3-2 ANALYSIS OF SITE..... 3-1

A. Topography..... 3-2

B. Suitability of Soil..... 3-2

C. Off-Site Improvements 3-2

D. Easements, Restrictions or Encroachments 3-2

E. Encroachments..... 3-2

 3-3 ANALYSIS OF PHYSICAL IMPROVEMENTS..... 3-3

A. Gross Living Area 3-3

B. Basement Bedrooms, Basement Apartments..... 3-3

C. Design..... 3-3

D. Conformity of Property to Neighborhood..... 3-4

 3-4 REMAINING ECONOMIC LIFE OF BUILDING IMPROVEMENTS..... 3-5

A. Economic Life vs. Physical Life 3-5

B. Estimation of Remaining Economic Life..... 3-5

C. End of Useful Life of Building Improvements..... 3-6

 3-5 CODE ENFORCEMENT FOR EXISTING PROPERTIES 3-6

 3-6 GENERAL ACCEPTABILITY CRITERIA FOR FHA-INSURED MORTGAGES..... 3-6

A. General Acceptability Criteria..... 3-7

 1. Subject Property 3-7

 2. Hazards 3-7

 3. Soil Contamination..... 3-8

 a. Septic and Sewage..... 3-8

 b. Other Soil Contaminants..... 3-9

 c. Underground Storage Tanks 3-9

 4. Drainage..... 3-9

 5. Water Supply And Sewage Systems 3-9

 a. Individual Water Supply and Sewage Disposal Systems..... 3-10

 b. Unacceptable Conditions..... 3-10

 6. Wood Structural Components: Termites..... 3-11

 7. Streets 3-12

 8. Defective Conditions..... 3-12

 9. Ventilation 3-13

 10. Foundations..... 3-13

 11. Crawl Space 3-13

 12. Roof..... 3-14

 13. Mechanical Systems..... 3-14

 14. Heating..... 3-14

 15. Electricity 3-15

 16. Other Health And Safety Deficiencies 3-15

 17. Lead-Based Paint And Other Hazards..... 3-15

| | |
|---|------------|
| <i>B. Other Criteria</i> | 3-16 |
| 1. Party Or Lot Line Wall | 3-16 |
| 2. Service And Facilities | 3-16 |
| 3. Non-Residential Use Design Limitations | 3-17 |
| 4. Access Onto Property | 3-17 |
| 5. Space Requirements..... | 3-17 |
| 6. Bedroom Egress | 3-17 |
| 7. Energy Efficiency | 3-17 |
| <i>C. Conditions Not Requiring Repairs</i> | 3-18 |
| <i>D. REPAIR CONDITIONS FOR NEW/PROPOSED CONSTRUCTION</i> | 3-18 |
| 4 THE VALUATION PROCESS | 4-1 |
| 4-0 INTRODUCTION..... | 4-1 |
| 4-1 MARKET VALUE ESTIMATES | 4-1 |
| <i>A. Definition of Market Value</i> | 4-1 |
| <i>B. Property Rights Appraised</i> | 4-2 |
| <i>C. Purpose</i> | 4-2 |
| <i>D. Intended Use of Appraisal/Function</i> | 4-3 |
| <i>E. Use of the Appraisal</i> | 4-3 |
| <i>F. Effective Date of Value</i> | 4-3 |
| <i>G. Scope</i> | 4-3 |
| <i>H. Special Limiting Conditions and Assumptions</i> | 4-3 |
| 4-2 HUD/FHA REQUIREMENTS..... | 4-3 |
| 4-3 NEW AND PROPOSED CONSTRUCTION REQUIREMENTS | 4-4 |
| <i>A. New Construction</i> | 4-4 |
| <i>B. Proposed Construction</i> | 4-4 |
| 4-4 UNIQUE PROPERTY APPRAISALS | 4-5 |
| 4-5 COST APPROACH | 4-5 |
| <i>A. Cost Approach Methodology</i> | 4-7 |
| 1. Land Value Estimate | 4-7 |
| 2. Excess Land | 4-7 |
| 3. Sales Comparison Approach For Land Value..... | 4-7 |
| 4. Allocation..... | 4-7 |
| 5. Extraction | 4-8 |
| <i>B. Improvement Cost Estimate</i> | 4-8 |
| <i>C. Typical Replacement Cost</i> | 4-8 |
| <i>D. Unusual and Non-Typical Costs</i> | 4-8 |
| <i>E. Recommended Methodologies</i> | 4-8 |
| <i>F. Remaining Economic Life</i> | 4-9 |
| 4-6 SALES COMPARISON APPROACH | 4-9 |
| <i>A. Data Requirements</i> | 4-9 |
| 1. Sales Data vs. Comparable Sale | 4-9 |
| 2. Selection of Comparable Sales for Analysis | 4-9 |
| 3. Excluded Sales Transactions..... | 4-10 |
| 4. Current Offerings and Listings Analysis..... | 4-10 |
| 5. Sales in Escrow | 4-10 |
| 6. Distressed Sales..... | 4-10 |
| 7. Relocation Sales..... | 4-10 |
| 8. Confirmation of Sales and Transaction Information | 4-11 |
| <i>B. Adjustment Process</i> | 4-11 |
| 1. Support for Adjustments | 4-14 |
| 2. Explanation of Adjustments | 4-14 |
| 3. Reconciliation of Adjusted Sale Prices | 4-14 |
| 4-7 INCOME APPROACH | 4-14 |
| <i>A. Data Requirements</i> | 4-15 |

| | |
|---|------------|
| 1. Confirmation Of Leases And Transaction Information | 4-15 |
| 2. Adjustment Process | 4-15 |
| 3. The Income Projection | 4-15 |
| <i>B. Development of Rates</i> | 4-16 |
| 4-8 FINAL RECONCILIATION | 4-16 |
| 4-9 RECONSIDERATION OF APPRAISED VALUE | 4-16 |
| 5 REPORTING THE APPRAISAL | 5-1 |
| 5-0 INTRODUCTION | 5-1 |
| 5-1 REPORTING THE APPRAISAL | 5-1 |
| <i>A. Part 1: Uniform Residential Appraisal Report (URAR)</i> | 5-1 |
| 1. Departure from HUD Requirements | 5-1 |
| 2. Certification | 5-1 |
| 3. Statement of Limiting Conditions | 5-2 |
| <i>B. Part 2: Valuation Conditions Form</i> | 5-2 |
| <i>C. Part 1: Homebuyer Summary</i> | 5-4 |
| 5-2 ACCESS TO FORMS | 5-4 |
| 5-3 RECORD KEEPING | 5-4 |
| <i>A. Minimum Term for Record Keeping</i> | 5-4 |
| <i>B. Documentation File Requirements</i> | 5-4 |
| <i>C. Sample Documentation File</i> | 5-5 |
| 6 APPRAISAL AND APPRAISER MONITORING | 6-1 |
| 6-0 INTRODUCTION | 6-1 |
| 6-1 MONITORING AND STATISTICAL ANALYSIS | 6-1 |
| 6-2 PERFORMANCE CATEGORIES | 6-1 |
| 6-3 APPRAISAL REVIEW PROCESS | 6-2 |
| 7 REGULATORY ENVIRONMENT, ENFORCEMENT AND SANCTIONS | 7-1 |
| 7-0 INTRODUCTION | 7-1 |
| 7-1 REGULATORY ENVIRONMENT | 7-1 |
| <i>A. Financial Institutions Reform, Recovery, Enforcement Act of 1989 ("FIRREA")</i> | 7-1 |
| <i>B. Federal Financial Institution Regulatory Agencies</i> | 7-2 |
| <i>C. False, Fictitious or Fraudulent Claims (18 U.S.C. §287, 1001) – Criminal Penalties and Fines</i> | 7-2 |
| <i>D. False, Fictitious or Fraudulent Claims on HUD (18 U.S.C. 1010, 1012) – Criminal Penalties and Fines</i> | 7-3 |
| <i>E. Federal False Claims Act (31 U.S.C. §3729) – Civil Fraud</i> | 7-3 |
| <i>F. 24 CFR Part 28 – Program Fraud Civil Remedies Act (PFCRA)</i> | 7-3 |
| <i>G. 24 CFR Part 30 – Civil Money Penalties</i> | 7-3 |
| <i>H. 24 CFR Part 24 – Administrative Sanctions</i> | 7-3 |
| <i>I. State Laws and Professional Organizations</i> | 7-3 |
| 1. State Certifications | 7-3 |
| 2. Professional Organizations | 7-4 |
| 7-2 ENFORCEMENT | 7-4 |
| <i>A. State Certification Boards</i> | 7-4 |
| <i>B. Professional Organizations</i> | 7-4 |
| 7-3 APPLICABLE REMEDIES AND SANCTIONS | 7-4 |
| <i>A. Notice of Appraisal Deficiencies and Remedial Education</i> | 7-5 |
| <i>B. Administrative Sanctions</i> | 7-5 |
| <i>C. Civil Sanctions</i> | 7-6 |
| <i>D. Criminal</i> | 7-6 |
| <i>E. Performance Violations and Level of Sanction</i> | 7-6 |
| 7-4 PERFORMANCE AND SANCTION MATRIX | 7-7 |

| | |
|--|------------|
| 8 MANUFACTURED HOMES | 8-1 |
| 8-0 DEFINITION..... | 8-1 |
| 8-1 PROPERTY STANDARDS FOR TITLE II MORTGAGE INSURANCE | 8-1 |
| 8-2 PROPERTY DESCRIPTION..... | 8-2 |
| 8-3 APPRAISER QUALIFICATIONS FOR MANUFACTURED HOMES CLASSIFIED AS PERSONAL PROPERTY | 8-2 |
| 8-4 MANUFACTURED HOME LOT APPRAISALS | 8-3 |
| <i>A. Manufactured Home Lot Locations.....</i> | <i>8-3</i> |
| <i>B. How to Perform a Manufactured Home Lot Appraisal</i> | <i>8-3</i> |
| 9 PLANNED UNIT DEVELOPMENTS AND CONDOMINIUMS..... | 9-1 |
| 9-0 PLANNED UNIT DEVELOPMENT (PUD)..... | 9-1 |
| <i>A. Approach To Value.....</i> | <i>9-1</i> |
| <i>B. Estimate of Market Price</i> | <i>9-1</i> |
| 9-1 CONDOMINIUMS..... | 9-2 |
| <i>A. Definitions.....</i> | <i>9-2</i> |
| <i>B. Approach to Value</i> | <i>9-3</i> |
| 1. Sales Comparison Approach..... | 9-3 |
| APPENDIX A: VALUATION OF OTHER PROPERTIES | A-1 |
| A-1 REAL ESTATE OWNED (REO) | A-1 |
| A-2 APPRAISAL OF SINGLE FAMILY HOMES ON NATIVE AMERICAN LANDS..... | A-4 |
| APPENDIX B: SPECIAL PROGRAMS | B-1 |
| B-1 203(K) REHABILITATION HOME MORTGAGE INSURANCE..... | B-1 |
| B-2 SECTION 255: HOME EQUITY CONVERSION MORTGAGES (REVERSE MORTGAGES)..... | B-3 |
| B-3 SECTION 223(E)..... | B-3 |
| B-4 TITLE I PROPERTY IMPROVEMENT AND MANUFACTURED HOME LOAN PROGRAM | B-4 |
| B-5 SOLAR ENERGY | B-4 |
| APPENDIX C: VALUATION REFERENCES..... | C-1 |
| C-1 RULES OF ROUNDING | C-1 |
| C-2 THE VALUATION PROCESS | C-3 |
| APPENDIX D: COMPREHENSIVE VALUATION PACKAGE PROTOCOL | D-1 |
| D-1 RESIDENTIAL APPRAISAL REQUIREMENTS..... | D-1 |
| D-2 VALUATION CONDITION REQUIREMENTS | D-22 |
| D-3 HOMEBUYER SUMMARY..... | D-34 |

FORMS AND REPORTS REFERENCED IN HANDBOOK 4150.2

HUD-92005: Description of Materials

HUD-92541: Builder's Certification

HUD-92544: Builder's Warranty

HUD-92563: Roster Appraiser Designation Application (to be updated)

HUD-92802: Application and Request for Manufactured Home Lot and/or Site Preparation

Homebuyer Summary and Valuation Conditions Form

Marshall and Swift Form 1007

Freddie Mac 704 Form: Second Property Value Analysis and Report

R.S. Means & Company Repair and Modeling Cost Data Book or the Home-Tech Remodeling and Renovation Cost Estimator

Use of Materials Bulletin No. 100, Subject: HUD Building Product Standards & Certification Program for Solar Water Heating Systems—August 15, 1993

Marshall & Swift Cost Handbook – New & Proposed Construction

Marshall & Swift Guide to Construction Costs

Form FW 68: Land Appraisal Report

Uniform Standards of Professional Appraisal

Permanent Foundation Guide for Manufactured Housing

CABO Model Energy Code, 1992 Ed., Residential Buildings

FOREWORD

PURPOSES OF HANDBOOK

These are the purposes of this Handbook:

- Provide guidance for appraisers on how to appraise existing, proposed and new construction of one- to four-family homes for which mortgages are to be insured by FHA.
- Introduce appraisers to the environment of greater accountability associated with recent HUD reforms.

HOME BUYER PROTECTION PLAN

On June 1, 1998, HUD launched the *HomeBuyer Protection Plan*. The Plan reforms the appraisal process to ensure that home buyers seeking FHA-insured mortgages receive accurate and complete appraisals of the homes they seek to purchase. If homebuyers do not receive adequate appraisals, they may have to make extensive repairs to make their homes habitable. As a result of the additional financial burden, they may default on their FHA-insured mortgages.

THE NEW HUD VALUATION CONDITIONS FORM

As part of the *HomeBuyer Protection Plan*, HUD has revised the Valuation Conditions (VC) Form. This new form:

- Requires submission of valuation condition information for all appraisals
- Transforms the former VC form into a series of "yes-or-no questions" based on readily observable physical conditions of the subject property
- Summarizes the information on the physical condition of the property for the Homebuyer

THE PERFORMANCE MEASUREMENT FRAMEWORK

Another significant change reflected in this Handbook is the introduction of performance measures for appraisers. The performance measurement framework is designed to achieve improvements in the performance and professionalism of appraisers on the FHA Register.

HUD will measure appraiser performance in the following five performance categories:

- Appraisal process
- Appraisal reporting
- Valuation conditions
- Maintaining state licensure
- Responsiveness to field review

As part of this new framework, HUD will develop statistical

indicators to identify poor appraisals and appraisers, and will inform appraisers of its enforcement efforts.

**ENFORCEMENT
AND SANCTIONS**

In addition to providing clear sanctions, HUD has enhanced enforcement efforts by creating an Enforcement Center. The Enforcement Center will provide administrative support for the management of the sanction process.

RESOURCES

Questions and comments can be sent electronically to REAC's Internet website at reacone@hud.gov

The Help Desk will be available beginning on May 5, 1999 Monday through Friday from 7:30 a.m. to 8:00 p.m. EST for questions. The telephone number is (888) 245-4860.

2 LOCATION ANALYSIS

2-0 INTRODUCTION

This Chapter addresses the location requirements for FHA-insured mortgages. Before the valuation process can begin, subject properties must meet specific location requirements. The appraisal process is the lender's tool for determining if a property meets the minimum requirements and eligibility standards for a FHA-insured mortgage. In addition, these standards provide a context for the appraiser in performing the physical inspection of the property.

2-1 LOCATION REQUIREMENTS

The purpose of location analysis is to identify the various location characteristics that affect the marketability and the value of the subject property. Location analysis requires the following:

- determining the desirability and utility of the site
- determining the degree and extent to which the site, because of external influences, shares in the market for comparable and competitive sites in the community
- forecasting the likely changes at the site because of justifiable future trends
- appraising the current situation and knowledge of the various trends that could affect the valuation of the real property

The principal of change is fundamental to appraising real estate and to properly analyzing a location. Value is created and modified by economic, social and governmental changes that occur outside the property. Evaluate the direction of these trends and determine their effect, if any, on the current value of the subject property.

A. NEIGHBORHOOD DEFINITION

The appraiser must clearly define the boundaries – north, south, east and west – of the subject neighborhood. By defining the neighborhood, the appraiser can extract pertinent information on which to base valuation conclusions.

B. COMPETITIVE LOCATIONS

Locations are competitive when they are improved with, or appropriate for, residential properties that are similar in accommodations and sales price or rental range for similar residents or prospective occupants. Compare features of the subject location with the same features of competitive locations within the community. An acceptable location must be related to the needs of the prospective occupants and to the alternatives available to them in other competitive locations.

C. DEFINITIONS – CONSTRUCTION STATUS

Proposed – No concrete or permanent material has been placed. Digging of footing and placement of re-bar is not considered permanent.

Under Construction – From the first placement of concrete (permanent material) to 100% completion. Finalized and ready to occupy.

Existing – 100% complete and has occupancy permit.

(2-1)

Existing less than one year – Appraisal performed less than one year since receipt of final occupancy permit issued. For model homes, age begins with issuing of permit to use as a model.

For any home less than 2 years old, list month and year completed in the age box on the URAR.

D. ECONOMIC TRENDS

The appraiser must give consideration to, and include in the value analysis, the economic trends of a neighborhood and the general area, including:

- price and wage levels (the purchasing power of community occupants)
- employment characteristics
- the current supply and demand for residential dwellings, including projects under construction
- taxation levels
- building costs
- population changes
- activity of real estate sales market and mortgage interest rates

E. LAND USE RESTRICTIONS

Location analysis determines the effects of actual and potential neighborhood land use on the subject location. The following factors form patterns for present and future land uses:

1. Zoning

The appraiser should consider the effect on the value of appropriate and well-drawn zoning ordinances. Land-use controls that receive public approval and are strictly enforced protect residential locations from adverse influences that diminish the desirability of sites. This must be noted on the URAR, and its effect must be quantified in the valuation analysis.

2. Protective Easement/Covenants

Properly drawn protective covenants have proven more effective than zoning regulations in providing protection from adverse environmental influences. When combined with proper zoning ordinances, these covenants provide the maximum legal protection to ensure that a developed residential area will maintain desirable characteristics or that a proposed or partially built-up neighborhood will develop in a desirable manner. Protective easements and covenants should be superior to any mortgage and should be binding to all parties and all persons claiming under them. These must be noted on the URAR and its effect must be quantified in the Valuation Analysis.

3. Inharmonious Land Uses

The appraiser must identify all inharmonious land uses in a neighborhood that affect value. Clearly define the current and long-term effect that inharmonious uses will have on the market value and the economic life of the subject property. If inharmonious land use represents a serious detriment to either the health or

safety of the occupants or to the economic security of the property, clearly note this on the VC and URAR. Recommend that the property be rejected by the Lender.

(2-1)

4. Natural Physical Features

The appraiser must consider favorable and underlying topography and site features, including pleasing views, wood lots, broad vistas and climatic advantages. Streets that are laid out with proper regard to drainage, land contours and traffic flow show good design and increase the desirability of the neighborhood. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

5. Attractiveness of Neighborhood Buildings

The overall appeal of a neighborhood is strengthened if the buildings in a neighborhood harmonize with each other and their physical surroundings. A pleasing variety that results in harmoniously blended properties is desirable but not mandatory. The age of the structure is not in itself an important consideration; however, the maintenance of the structure over time has an important impact. Consider the amount of rehabilitation that has taken place or is taking place in a neighborhood. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

6. Neighborhood Character

Mobility and economic growth can alter neighborhood patterns. Shopping, recreation, places of worship, schools and places of employment should be easily accessible. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

7. Character of Neighborhood Structures

The appraiser must carefully analyze the age, quality, obsolescence and appropriateness of typical properties in a neighborhood. Take into account the attitude of the user group as well as the alternative choices available to the specific market under consideration. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

F. COMMUNITY SERVICES

Community services include commercial, civic and social centers. For a neighborhood to remain stable and retain a high degree of desirability, it should be adequately served by elementary and secondary schools, neighborhood shopping centers, churches, playgrounds, parks, community halls, libraries, hospitals and theaters. A lack of services in the community should be noted and quantified in the valuation analysis. The appraiser must note a change in these services and quantify the effect on value.

G. TRANSPORTATION

Ready access to places of employment, shopping, civic centers, social centers and adjacent neighborhoods is a requisite of neighborhood stability. The appraiser must

take into consideration the transportation requirements of the typical family and quantify the effect on value.

(2-1)

H. UTILITIES AND SERVICES

The appraiser must consider these utilities and neighborhood services: police and fire protection, telephone services, electricity, natural gas, garbage disposal, street lighting, water supply, sewage disposal, drainage, street improvements and maintenance. Public services and utilities can affect value and must be quantified. A lack of these services should be noted and quantified in the valuation analysis.

I. NEIGHBORHOOD CHANGE CONSIDERATIONS

As time passes, desirability changes residential areas in any location . Therefore, give special consideration to the following:

- infiltration of commercial, industrial or nonconforming use
- positive and negative effect on value of gentrification
- changes in the mobility of people (employment shifts)
- weakly enforced zoning regulation or covenants

J. MARKETABILITY

The demand for home ownership in a neighborhood is directly related to the marketability of the homes in the neighborhood or in competitive neighborhoods. Home ownership rates, vacancies and the marketing time of dwellings in a neighborhood help the appraiser determine the strength of market demand and the extent of supply.

K. SMALL COMMUNITY MARKET PREFERENCES

A small town may have its own set of standards in architectural design, livability, style of mechanical equipment, lot size, placement of structures, nature of street improvements and in all features of the physical property and environment. Judge each in light of local standards and preferences.

L. OUTLYING LOCATIONS AND ISOLATED SITES

The segment of the market interested in purchasing homes in these locations compares the advantages and disadvantages of other outlying or isolated locations.

M. STUDY OF FUTURE UTILITY

The study of future utility is typically covered in the appraiser's Highest and Best Use Analysis and includes:

- selecting possible uses
- rejecting uses that are obviously lower or higher than the most probable use
- analyzing differing motives of those buyers

The study of the future uses and utility of a particular property will lead the appraiser to the property's Highest and Best Use.

N. CONSIDERATION OF GENERAL TAXES AND SPECIAL ASSESSMENTS

When estimating value, account for general taxes and special assessments:

- General real estate taxes related to specific locations are a recurring periodic expense in the ownership of taxable real property and must be accounted for in the value estimate.
- Special assessments of various types are frequently an additional expense of ownership and must similarly be accounted for in the value estimate.

(2-1)

Determine the relative effect of the real estate tax and/or special assessment's burden on the desirability of the location. Enter this information on the URAR.

1. Assessment

The real estate tax liability is computed by multiplying the assessed value by the tax/millage rate, which is typically expressed in dollars per hundred or dollars per thousand of assessed value. In the addendum to the VC, state the assessment, real estate tax liability and tax year. State the assessed market value of the subject property in the addenda.

- If there is no method to relate the assessment to market value, such as new construction where reasonable assessment may not exist, mark the assessed market value response as "N/A".

2. Special Assessment

A special assessment can be calculated in two ways:

- the same way as real estate taxes, or
- on a pro-rated basis

Determine how the special assessment is calculated and report the special assessment liability on the URAR.

- If the property does not have special assessment, mark the URAR "N/A".

For example: An organization that services a community creates an annual operating budget. Each property becomes liable for its percentage of that budget based on the percentage of front feet their property has compared to the total amount of front feet as a special assessment in this community.

2-2 SPECIAL NEIGHBORHOOD HAZARDS AND NUISANCES

Physical conditions in some neighborhoods are hazardous to the personal health and safety of residents and may endanger physical improvements. These conditions include unusual topography, subsidence, flood zones, unstable soils, traffic hazards and various types of grossly offensive nuisances.

When reporting the appraisal, consider location hazards and nuisances.

- If location hazards exist and cannot be corrected but do not meet the level of unacceptability, the appraisal must be based upon the current state.
- If the hazard and/or nuisance endangers the health and safety of the occupants or the marketability of the property, mark "YES" in VC-1 and return the unfinished appraisal to the lender.

(2-2) The lender, who is ultimately responsible for rejecting the location, relies on the appraiser's location analysis to make this determination. Guidelines for determining location acceptability follow. The appraiser is required to note only those *readily observable* conditions.

A. UNACCEPTABLE LOCATIONS

FHA guidelines require that a location be rejected if the property being appraised is subject to hazards, environmental contaminants, noxious odors, offensive sights or excessive noises *to the point of endangering the physical improvements or affecting the livability of the property, its marketability or the health and safety of its occupants*. Rejection may also be appropriate if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical.

These considerations for rejection apply on a case-by-case basis, taking into account the needs and desires of the purchaser. For example, a location should not be considered unacceptable simply because it abuts a commercial use; some commercial uses may not appeal to a specific market segment while other commercial uses may.

If the condition is clearly a health and safety violation, reject the appraisal and return it to the lender. If there is any doubt as to the severity, report the condition and submit the completed report. The lender must clear the condition and may require an inspection or reject the property. For those conditions that cannot be repaired, such as location factors, the appraised value is based upon the existing conditions.

B. TOPOGRAPHY

There are special hazards caused by unique topography. For example, denuded slopes, soil erosion and landslides often adversely affect the marketability of hillside areas. When evaluating the location, consider earth and mud slides from adjoining properties, falling rocks and avalanches. These occurrences are associated with steep grades and must be considered in the location analysis.

C. SUBSIDENCE

Danger of subsidence is a special hazard that may be encountered under a variety of circumstances:

- where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as organic material
- where the subsoil is unstable and subject to slippage or expansion

In mining areas, consider the depth or extent of mining operations and the location of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable or negligible.

(2-2)

The appraiser must note any readily observable conditions, which indicate potential problems. Signs include fissure or cracks in the terrain, damaged foundations, sinkholes or settlement problems.

If there is a danger of subsidence, the specific site will be deemed ineligible unless complete and satisfactory evidence can be secured to establish that the probability of any threat is negligible.

- If there is evidence of subsidence, the property is ineligible. Mark the "YES" column in VC-1 under subsidence.

D. OPERATING AND ABANDONED OIL OR GAS WELLS

Operating and abandoned oil and gas wells pose potential hazards to housing, including potential fire, explosion, spray and other pollution.

1. Existing Construction

No existing dwelling may be located closer than 300 feet from an active or planned drilling site. Note that this applies to the site boundary, not to the actual well location.

2. New or Proposed Construction

If an operating well is located in a single-family subdivision, no new or proposed construction may be built within 75 feet of the operating well unless mitigation measures are taken. This measure is designed to:

- avoid nuisance during maintenance
- diminish noise levels caused by pumping
- reduce the likelihood of contamination by potential spills

The appraiser must examine the site for the existence of or any readily observable evidence of a well.

3. Abandoned Well

A letter may be obtained from the responsible authority in the state government stating that the subject well was safely and permanently abandoned.

- When such a letter is provided, a dwelling may be located no closer than 10 feet from the abandoned well.
- When a letter is not provided, the dwelling must be located at least 300 feet from the abandoned well.

The lender is responsible for obtaining the letter; the appraiser must note the location of the well and verify the existence of the letter.

(2-2)

4. Special Case - Proposed, Existing or Abandoned Wells

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

- If there is readily observable evidence that the conditions exist, mark the "YES" column in VC-1 under operating and abandoned wells.
- If an inspection by a qualified person verifies that the condition exists and is acceptable based on the standards defined above, account for the presence of wells in the valuation of the property.

E. SLUSH PITS

A slush pit is a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings. Drilling mud normally contains large quantities of bentonite – a very expansive soil material. This results in a site with the potential for great soil volume change and, therefore, damage to structures.

To be eligible for FHA mortgage insurance, all unstable and toxic materials must be removed and the pit must be filled with compacted selected materials.

- If a property is proposed near an active or abandoned well, call for a survey to locate the pits and their impact on the subject property.
- If there is any readily observable evidence of slush pits, mark the "YES" column in VC-1.

F. HEAVY TRAFFIC

Close proximity to heavily traveled roadways can have a negative effect on the marketability and value of locations because of excess noise and danger. Properties backing to freeways or other thoroughfares that are heavily screened or where traffic is well below grade and at a sufficient distance from the property may not affect value. For detailed noise acceptance levels, reference 24 CFR 51.103.

- If there is significant noise or unsafe traffic conditions that endanger the occupants or affect the marketability of the property, mark "YES" in VC-1.

Typically, traffic hazards cannot be corrected. Therefore, the appraiser must quantify the effect on value if the property is marketable. This adjustment should be supported by comparable transactions. This condition could be the reason that a lender ultimately rejects the property. Do not reject existing properties only because of heavy traffic if there is evidence of acceptance within the market and if use of the dwelling is expected to continue.

(2-2)

G. AIRPORT NOISE AND HAZARDS

Locations near an airport may be subjected to the noise and hazards of low-flying aircraft. Appraisers must identify affected properties, review airport contour maps and condition the appraisal accordingly.

Do not reject existing properties only because of airport influences if there is evidence of acceptance within the market and if use of the dwelling is expected to continue. HUD's position is that because the properties are in use and are expected to be in use into the near future, their marketability should be the strongest indicator of their acceptability. Marketability should account for the following considerations:

- plans for future expansion of airport facilities
- prospective increases in the number of planes or flights using the field or specific runways
- the timing and frequency of the volume of flights
- any other factors that may increase the annoyance of having the airport nearby
- excessive noise

If changes are likely, the appraiser must anticipate any adverse effect that these changes are likely to have on the marketability of the property. The appraiser should judge each situation on its merits. Compare the effect of aircraft activity on the desirability of a particular location with other locations that are:

- improved with similar structures
- considered competitive with those located in the subject neighborhood

H. SPECIAL AIRPORT HAZARDS

HUD requires that the buyer of a property located in a Runway Clear Zone/Clear Zone is advised that the property is located in such a zone and of the implications associated with that location. This includes the possibility that the airport operator could acquire the property in the future.

1. New and Proposed Construction

New and proposed construction within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields are ineligible for home mortgage insurance.

Properties located in Accident Potential Zone I at military airfields may be eligible for FHA insurance provided that the property is compatible with Department of Defense guidelines. For more information, see 24 CFR 51.303(b).

If new or proposed construction lies within these zones, mark "YES" in VC-1.

2. Existing Construction

Existing dwellings more than one year old are eligible for FHA mortgage insurance if the prospective purchaser acknowledges awareness that the

property is located in a Runway Clear Zone/Clear Zone. The lender will furnish this disclosure form to the buyer. For a sample of the buyer's acknowledgment certification, see HUD Handbook 4150.1, REV-1, Chapters 4-26 (a) and (b).

(2-2)

- Note whether the property is in a Clear Zone and condition the appraisal on the buyer's acknowledgment.

I. PROXIMITY TO HIGH PRESSURE GAS

A dwelling or related property improvement near high-pressure gas, liquid petroleum pipelines or other volatile and explosive products – both above ground and subsurface – must be located outside of the outer boundary of the pipeline easement.

- If the property is less than ten feet away, mark "YES" in VC-1.

J. OVERHEAD HIGH-VOLTAGE TRANSMISSION LINES

No dwelling or related property improvement may be located within the engineering (designed) fall distance of any pole, tower or support structure of a high-voltage transmission line, radio/TV transmission tower, microwave relay dish or tower or satellite dish (radio, TV cable, etc). For field analysis, the appraiser may use tower height as the fall distance.

For the purpose of this Handbook, a High-Voltage Electric Transmission Line is a power line that carries high voltage between a generating plant and a substation. These lines are usually 60 Kilovolts (kV) and greater, and are considered hazardous. Lines with capacity of 12 -60 kV and above are considered high voltage for the purpose of this Handbook. High voltage lines do not include local distribution and service lines.

Low voltage power lines are distribution lines that commonly supply power to housing developments and similar facilities. These lines are usually 12 kV or less and are considered to be a minimum hazard. These lines may not pass directly over any structure, including pools, on the property being insured by HUD.

- If the property is within the unacceptable distance, mark "YES" in VC-1.

K. SMOKE, FUMES, OFFENSIVE NOISES AND ODORS

Excessive smoke, fog, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage and excessive dampness are hazardous to the health of neighborhood occupants and adversely affect the market value of the subject property.

- If these conditions threaten the health and safety of the occupants or the marketability of the property, mark "YES" in VC-1. If, however, the extent of the hazard is not dangerous, account for its effect in the valuation of the property.
- Include other factors that may affect valuation such as offensive odors and unsightly neighborhood features such as stables or kennels.

L. FLOOD HAZARD AREAS

Designation of Special Flood Hazard Areas

(2-2)

The Federal Emergency Management Agency (FEMA) determines Special Flood Hazard Areas nationwide, (SFHA). FEMA issues Flood Hazard Boundary Maps to designate these areas in a community. A special flood hazard may be designated as Zone A, AO, AH, A1-30, AE, A99, VO or V1-30, VE or V.

- Only those properties within zones 'A' and 'V' require flood insurance.
- Zones 'B' or 'C' do not require flood insurance because FEMA designates only zones 'A' and 'V' as "Special Flood Hazard Areas."

An appraisal report with a positive indication in a Special Flood Hazard Area (SFHA) activates a commitment requirement for flood insurance coverage. The appraiser must quantify the effect on value, if any, for properties within a designated flood map.

A lender shall reject a property in any of these circumstances:

- if the property is subject to frequently recurring flooding
- if there is any potential hazard to life or safety
- if escape to higher ground would not be feasible during severe flooding conditions

FEMA Maps

For copies of FEMA's Flood Hazard Boundary Maps and Flood Insurance Rate Maps, contact:

Federal Emergency Management Agency (FEMA)
 FEMA Map Service Center
 P.O. Box 1038
 Jessup, MD 20794-1038
 Phone: 1-800-358-9616
 Fax: 1-800-358-9620

Eligibility of Properties for FHA Insurance

The lender is responsible for determining the eligibility of properties in Flood Zones, and relies on the appraiser's notation on the URAR.

1. New and Proposed Construction

If any part of the property improvements essential to the property value and subject to flood damage are located within the 100-year floodplain, then the entire property, improved and otherwise, is ineligible for FHA mortgage insurance unless a Letter of Map Amendment (LOMA) or a Letter of Map Revision (LOMR) is submitted with the case for endorsement. Proposed construction where improvements are located, or to be located, within a designated Special Flood Hazard Area (SFHA) is ineligible for FHA insurance. This is true regardless of whether the property is covered or will be covered by

flood insurance unless the lender can furnish evidence of a LOMA, a LOMR or evidence that the property is not in a SFHA.

(2-2)

For existing properties located in a SFHA, make the appropriate notation in the URAR.

- If the proposed improvements are located in a SFHA and there is no LOMA or LOMR mark "YES" in VC-1 and return the unfinished appraisal to the lender until these documents are retrieved.

2. Existing Construction

Market attitude and acceptance determine the eligibility of existing properties located in a designated SFHA. Flood insurance is required for properties accepted for mortgage insurance in a FEMA-designated SFHA.

3. Condominium

The Homeowners Association is responsible for maintaining flood insurance on the project as a whole, not each individual unit. The appraiser must verify the location of a condominium in the floodplain and make the correct notation in the URAR.

M. STATIONARY STORAGE TANKS

Stationary Storage tanks containing flammable or explosive material pose potential hazards to housing, including hazards from fire and explosions.

- If the property is within 300 feet of a stationary, storage tank containing more than 100 gallons of flammable or explosive material, the location is ineligible. Mark "YES" in VC-1 and return the unfinished appraisal to the lender.

3 PROPERTY ANALYSIS

3-0 INTRODUCTION

The FHA guidelines for property analysis include specific requirements to which appraisers must adhere for the appraisal to reflect an accurate valuation that will:

- denote any deficiencies in the subject property
- protect HUD's interest in that property

The property analysis includes General Acceptability Criteria for conducting the appraisal to address FHA minimum property requirements.

3-1 APPRAISAL REQUIREMENTS

- The appraiser must make a complete visual inspection of the subject property – interior and exterior – and complete the VC form.
- The appraiser must take photographs that show the sides, front and rear of the subject property and all improvements on the subject property with any contributory value. A photograph of the street frontage is also required.
- The appraiser is required to submit a single photograph of each comparable sale transaction in the addenda to the appraisal report.
- The map of proposed construction must clearly show proposed roadways.
- The appraiser must provide a copy of a local street map that shows the location of the property and each comparable sale.
- If the subject property is proposed construction and the improvement has not started, the appraiser should take a photograph that shows the grade of the vacant lot.

3-2 ANALYSIS OF SITE

For both proposed and existing construction, the appraiser must determine the present highest and best use for the site, disregarding improvements that may exist or are proposed for the site. This conclusion serves as the basis of comparison for estimating the market price of the land and discloses the extent to which the existing or proposed building improvements are appropriate or inappropriate for the site. This also forms the basis for selecting comparable land sales.

The appraiser must analyze the site to:

- establish the basis for comparing the market estimates of sites in the estimate of replacement cost of the property
- determine suitability for the existing or proposed use

Carefully consider the topography, suitability of soil, off-site improvements, easements, restrictions or encroachments.

(3-2)

A. TOPOGRAPHY

Proper topography and site grading can be important elements in preventing wet basements, damp crawl spaces, erosion of soils, and overflowing sewage disposal systems. To ensure proper protection, the appraiser must analyze the relationship of street grades, floor elevations, and lot grades. If the foundation or its bearing soils may be affected by seepage or frost, the dwelling is unacceptable unless the surface and subsurface water is diverted from the structures to ensure positive drainage away from the foundation.

B. SUITABILITY OF SOIL

Consider the readily observable soil and subsoil conditions of the site including the type and permeability of the soil, the location of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site or its suitability for development. Also observe the effects of the adverse features of the adjoining land.

C. OFF-SITE IMPROVEMENTS

Consider the off-site improvements adjoining the subject property, including street surface, curbs, sidewalks, curb cuts, driveways, aprons, etc., that are not contained within the legal boundaries of the site but enhance the market acceptance and the use and livability of the property. Also consider these situations:

- Compare the subject property with the immediate neighborhood to determine the dominant off-site improvements required by the market. Note any necessary off-site improvements that are not in existence or are proposed for the subject property and adjust for them in the market value.
- Any proposals for installing off-site improvements and levying assessments by the local governing body in the near future may affect value. These proposals will necessitate a commitment condition that requires the installation of improvements and the payment of the assessment before or immediately after insurance endorsement.

D. EASEMENTS, RESTRICTIONS OR ENCROACHMENTS

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.

E. ENCROACHMENTS

As a general rule, an encroachment will cause a property to be ineligible for FHA mortgage insurance. However, there are exceptions to this rule and further information can be found by calling the lender. The appraiser should identify any of these conditions:

- encroachment of a dwelling, garage, another physical structure or other improvement onto an adjacent property, right-of-way or utility easement

- encroachment of a dwelling, garage, another physical structure or improvements on the subject property
- encroachment of a dwelling, garage or another physical structure into the setback requirement

An encroachment may be acceptable if the adjoining landowner or the local governing authority provides a perpetual encroachment easement that is filed in the County Clerk and Recorder's Office. The Direct Endorsement underwriter will handle this issue under the General Waiver guidelines.

3-3 ANALYSIS OF PHYSICAL IMPROVEMENTS

Analysis of the physical improvements results in conclusions as to the desirability, utility and appropriateness of the physical improvements as factors in determining mortgage risk and the ultimate estimate of value.

A. GROSS LIVING AREA

Gross Living Area is the total area of finished, above-grade residential space. It is calculated by measuring the outside perimeter of the structure and includes only finished, habitable, above-grade living space. Finished basements and unfinished attic areas are not included in total gross living area. The appraiser must match the measurement techniques used for the subject to the comparable sales. It is important to apply this measurement technique and report the building dimensions consistently because failure to do so can impair the quality of the appraisal report.

B. BASEMENT BEDROOMS, BASEMENT APARTMENTS

As a rule basement space does not count as habitable space. If the bedroom does not have proper light and ventilation, the room can not be included in the gross living area. The following requirements apply to the valuation of below-grade rooms:

- The windowsill may not be higher than 44 inches from the floor.
- The windowsill must have a net clear opening (width x height) of at least 24 inches by 36 inches.
- The window should be at ground level; however, compensating factors may allow less.

In all cases, use reasonable care and judgment. If these standards are not substantially met, the basement area cannot be counted as habitable space.

C. DESIGN

Design is the cohesive element that blends the structural, functional and decorative elements of a property into a whole. With good design, the property's parts will be in harmony (each part with all the other parts). The whole property, in turn, will be in harmony with its immediate site and environment.

Because good design is recognized and desired, the economic life of properties and neighborhoods will be extended and prices will typically exceed those for properties

offering the same number of rooms and area but lacking good design. This competitive advantage usually continues through the entire economic life of the property.

(3-3)

The appraiser must recognize this demonstrable price differential and reflect it in the comparative adjustments of market data and the final finding of value.

D. CONFORMITY OF PROPERTY TO NEIGHBORHOOD

A residential property with good physical characteristics may not necessarily be good security for a mortgage loan, even if it is situated in a good location. The property may be entirely appropriate at another location, but not in its actual location. The property may be displeasing when viewed in relation to its surroundings, and it may not conform in other respects to the most marketable use in the particular neighborhood. When determining the effect of property-neighborhood relationships to marketability, consider elements other than similarity of physical characteristics.

Analysis of the Elements of Conformity. Analysis of Conformity requires consideration of Suitability of Use-Type, Appropriateness of Functional Characteristics, Harmony of Design and Relation of Expense of Ownership to Family Income Levels.

- *Suitability of Use-Type.* The term Use-Type refers to the use for which a dwelling is designed – single-family, two-family, etc. In most neighborhoods only one use-type is suitable. In some neighborhoods, however, because of their heterogeneous development, several use-types may be found suitable.
- *Appropriateness of Functional Characteristics.* Functional Characteristics refer to the living facilities provided in a residential property. They relate to site use and to arrangement, number and size of rooms. Usually well-defined neighborhood market preferences are observable.

Nonconformity may exist because of the placement of the house on the site. Carefully consider any deviation from the accustomed or accepted placement to determine whether it adversely affects desirability.

If a site is substantially smaller than the size typical in the neighborhood, marketability may be limited. The shape or topography of a particular lot may make it less desirable than those typical of the area.

The number, arrangement and size of rooms frequently conform to definite preferences in given neighborhoods. In some localities where one-story dwellings dominate, a two-story dwelling may meet considerable market resistance.

- *Harmony of Design.* Conformity of the exterior design of a structure with other structures in the immediate neighborhood is not important unless it contrasts inharmoniously with them. There may be considerable variety in the exterior design of dwellings in a neighborhood and yet each may present a pleasing appearance when viewed in relation to its surroundings. On the other hand, a dwelling may be

without any architectural faults and yet clash so violently with the design of neighboring properties that marketability may be seriously limited.

- *Relation of Ownership Expense to Family Incomes.* Families usually select homes in neighborhoods where typical occupants have financial means similar to their own. A home that is too costly for these families to purchase or maintain will have limited marketability.

3-4 REMAINING ECONOMIC LIFE OF BUILDING IMPROVEMENTS

Because a building is subject to physical deterioration and obsolescence, its period of usefulness is limited. As a building deteriorates or becomes obsolete, its ability to serve useful purposes decreases and eventually ends. This may occur gradually or rapidly.

A. ECONOMIC LIFE VS. PHYSICAL LIFE

- The *total physical life* of a building is the period from the time of completion until it is no longer fit or safe for use or when maintaining the building in a safe, usable manner is no longer practicable.
- The *total economic life* of a building is the period of time from its completion until it can no longer produce services or net returns over and above a return on the land value.

Economic life can never be longer than the physical life, but may be and frequently is shorter. A structure that is sound and in good physical condition with many years of physical life remaining may have reached the end of its economic life – if its remaining years of physical usefulness will not be profitable.

B. ESTIMATION OF REMAINING ECONOMIC LIFE

In predicting the remaining economic life of a building, consider these factors:

- the economic background of the community or region and the need for accommodations of the type represented
- the relationship between the property and the immediate environment
- the architectural design, style and utility from a functional point of view and the likelihood of obsolescence attributable to new inventions, new materials and changes in tastes
- the trends and rate of change of characteristics of the neighborhood and their effect on land values
- workmanship, durability of construction and the rate with which natural forces cause physical deterioration
- the physical condition and probable cost of maintenance and repair, the maintenance policy of owners and occupants and the use or abuse to which structures are subjected

C. END OF USEFUL LIFE OF BUILDING IMPROVEMENTS

The useful life of a building has come to an end:

- when the building can no longer produce annual income or services sufficient to offset maintenance expense, insurance and taxes to produce returns on the value of the land

AND

- when rehabilitation is not feasible

The improvements on the lot at the time have no more value than the amount obtainable from a purchaser who will buy them and remove them from the site.

3-5 CODE ENFORCEMENT FOR EXISTING PROPERTIES

Local municipalities design local housing code standards; therefore, enforcement of such housing standards rests with the local authority. HUD does not have the authority or the responsibility for enforcing local housing codes except for mortgages on properties to be insured under Section 221(d)(2)—a program with mortgage limits at \$36,000. Loans insured under Section 221(d)(2) of the National Housing Act require code enforcement. The appraiser should contact the lender for further instructions if the mortgage is to be insured under Section 221(d)(2).

3-6 GENERAL ACCEPTABILITY CRITERIA FOR FHA-INSURED MORTGAGES

These criteria define standards for existing properties to be eligible for FHA mortgage insurance. Underwriters bear primary responsibility for determining eligibility; however, the appraiser is the on-site representative for the lender and provides preliminary verification that these standards have been met. Many of the requirements are technical and beyond the expertise of the appraiser. They are presented here for reference, and the appraiser's responsibility is noted by category.

These criteria form the basis for identifying the deficiencies of the property that the appraiser must note in the VC form and that must be addressed by the lender before closing. When examination of existing construction reveals noncompliance with the General Acceptability Criteria, an appropriate specific condition to correct the deficiency is required if correction is feasible. If correction is not feasible and compliance can be effected only by major repairs or alterations, the lender will reject the property. The appraiser is only required to note conditions that are readily observable.

As-Repaired Appraisal. The appraiser prepares the valuation "as-repaired" subject to the conditions noted on the VC form. Those items not listed on the VC will form the basis of comparison to comparable properties for physical conditions.

Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants.

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.

(3-6)

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

- If the septic system shows evidence of failure because of age, recommend a specific inspection.

Valuation Conditions. The Valuation Conditions Form and its protocol help the appraiser evaluate the standards required by the General Acceptability Criteria. The criteria are described below. The appraiser must ascertain if the condition called for exists and mark yes if it does.

- If the observed deficiencies exist, mark "YES" in the appropriate location on the Valuation Conditions Form, condition the appraisal on the requirement for repair or further inspection and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

The following guidelines are HUD's General Acceptability Criteria for existing properties. They provide general guidance for determining the property's eligibility for FHA mortgage insurance. For instructions on filling out the VC form, see the protocol in Appendix D.

A. GENERAL ACCEPTABILITY CRITERIA

These minimum requirements for existing housing apply to existing buildings and to the sites on which they are located. The buildings may be:

- detached
- semidetached
- multiplex
- row houses
- individual condominium units

These requirements also cover the immediate site environment for the dwelling, including streets, other services and facilities associated with the site.

1. Subject Property

The subject property must be adequately identified as a single, marketable real estate entity. However, a primary plot with a secondary plot for an appurtenant garage or for another use contributing to the marketability of the property will be acceptable if the two plots are contiguous and comprise a readily marketable real estate entity.

2. Hazards

The property must be free of all known hazards and adverse conditions that:

- may affect the health and safety of the occupants

- may affect the structural soundness of the improvements
- may impair the customary use and enjoyment of the property

(3-6)

These hazards include toxic chemicals, radioactive materials, other pollution, hazardous activities, potential damage from soil or other differential ground movements, ground water, inadequate surface drainage, flood, erosion, excessive noise and other hazards on or off site.

- If the property meets the acceptability guidelines in the VC protocol (Appendix D), quantify the deficiency's impact in the property valuation.
- If the property does not meet the acceptability guidelines, note the appropriate hazard in VC-1 and explain.

In the appraisal of new and proposed construction, special conditions may exist or arise during construction that were unforeseen and necessitate precautionary or hazard mitigation measures. HUD will require corrective work to mitigate potential adverse effects from the special conditions as necessary. Special conditions include:

- rock formations
- unstable soils or slopes
- high ground water levels
- springs
- other conditions that may have a negative effect on the property value

The builder must ensure proper design, construction and satisfactory performance when any of these issues are present.

For specific instructions about noting this information in the VC form, see VC-1 in the protocol (Appendix D).

3. Soil Contamination

a. Septic and Sewage

If a septic system is part of the subject property, the appraiser must determine whether the area is free of conditions that adversely affect the operation of the system. Consider the following:

- the type of system
- topography
- depth to ground water
- soil permeability
- the type of soil to a depth several feet below the surface

If in doubt about the operation of sewage disposal systems in the neighborhood, mark "YES" in VC-2, condition the appraisal on further

inspection and prepare the appraisal “as-repaired” subject to satisfaction of the condition.

(3-6)

The lender will contact the local health authority or a professional to determine the viability of the system.

b. Other Soil Contaminants

The following conditions may indicate unacceptable levels of soil contamination: pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

- If there is evidence of hazardous substances in the soil, require further inspection. Mark “YES” in VC-2, condition the appraisal on further inspection and prepare the appraisal “as-repaired” subject to the satisfaction of condition.

c. Underground Storage Tanks

During the site inspection, the appraiser must walk the property and search for readily observable evidence of underground storage tanks. Evidence would include fill pipes, pumps, ventilation caps, etc.

- If there is evidence of underground storage tanks, require further analysis. Mark “YES” in VC-2, condition the appraisal on that requirement and prepare the appraisal “as-repaired” subject to the satisfaction of the condition.

4. Drainage

The site must be graded to provide positive drainage away from the perimeter walls of the dwelling and to prevent standing water on the site. Signs of inadequate draining include standing water proximate to the structure and no mitigation measures such as gutters or downspouts.

For specific instructions about noting this information in the VC form, see VC-3 in the protocol (Appendix D).

- If drainage is inadequate and needs improvement, mark "YES" in VC-3, make a repair requirement, condition the appraisal on that requirement and prepare the appraisal “as-repaired” subject to the satisfaction of the condition.

5. Water Supply And Sewage Systems

Each living unit must contain the following:

- domestic hot water
- a continuing and sufficient supply of potable water under adequate pressure and of appropriate quality for all household uses
- sanitary facilities and a safe method of sewage disposal

Connection must be made to a public water/sewer system or a community water/sewer system, if connection costs to the public or community system are reasonable (3% or less of the estimated value of the property). If connection costs exceed 3%, the existing on-site systems will be acceptable provided they are functioning properly and meet the requirements of the local health department.

(3-6)

- If the connection is feasible, require connection. Mark "YES" in VC-4, condition the appraisal on the requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

a. Individual Water Supply and Sewage Disposal Systems

If water and sewer systems are not connected to public systems, the water well and/or septic system must meet the requirements of the local health authority with jurisdiction. If the local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. If the authority is unable to perform the water quality analysis in a timely manner, a private commercial testing laboratory or a licensed sanitary engineer acceptable to the authority may take and test water samples.

- Each living unit must be provided with a sewage disposal system that is adequate to dispose of all domestic wastes and does not create a nuisance or in any way endanger the public health.
 - Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal and, if they are installed in accordance with the recommendations of the local Department of Health.
- If there is a well or septic system on the property, mark "YES" in VC-4, condition the appraisal on further inspection by the lender and prepare the appraisal "as-repaired" subject to satisfaction of the condition.

A domestic well must be a minimum of 50 feet from a septic tank, 100 feet from the septic tank's drain field and a minimum of 10 feet from any property line.

- Clearly show the location of private wells and septic systems on the site sketch and note the distance between the two.

b. Unacceptable Conditions

The following water well conditions are unacceptable and must be noted in VC-4:

(3-6)

- mechanical chlorinators
- water flow that decreases noticeably when simultaneously running water in several plumbing fixtures (the well may not be able to provide a continuous, adequate supply of water)
- properties served by dug wells unless a complete survey conducted by an engineer was delivered to the lender and subsequently given to the appraiser
- properties served by springs, lakes, rivers or cisterns

To be considered acceptable, the engineer's survey must include these items:

- a health report with no qualifications
 - indication that an inoperative well was cased, sealed and capped with concrete to a depth of at least 20 feet
 - a pump test indicating a flow of at least 3-5 gallons per minute supply for an existing well, and 5 gallons per minute for a new well
 - an acceptable septic report
 - no indication of exposure to environmental contamination, mechanical chlorination or anything else that adversely affects health and safety
- If these requirements for individual wells or septic tanks are not met, note them in VC-4 and prepare the appraisal "as-repaired" subject to further inspection.

The lender will require the engineer's follow-up report and will arrange for any required corrective measures.

6. Wood Structural Components: Termites

Termites can cause serious problems in the wood structural components of a house and may go undetected for a long period of time. FHA requires maximum assurances that a home is free of any infestation. A pest inspection is always required for:

- any structure that is ground level
- any structure where the wood touches ground

Structures in a geographic area with no active termite infestation may not require a pest inspection. However, 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

(3-6)

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.

- If there is any evidence of termite infestation, require an inspection by a reputable licensed termite company. Mark "YES" in VC-5, condition the appraisal on the requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

For specific instructions on noting this information in the VC Form, see VC-5 in the protocol (Appendix D).

7. Streets

Each property must be provided with safe and adequate pedestrian and vehicular access from a public or private street. Private streets must be protected by permanent recorded easements and have joint maintenance agreements or be owned and maintained by a HOA.

All streets must provide all-weather access to all buildings for essential and emergency use, including access for deliveries, service, maintenance and fire equipment. FHA defines *all-weather surface* as a road surface over which emergency vehicles can pass in all types of weather. Streets must either be:

- dedicated to public use and maintenance

OR

- retained as private streets protected by permanent recorded easements (when approved by HUD)

- If these requirements are not met, mark "YES" in VC-6 and prepare the appraisal "as-repaired" subject to the correction of this deficiency.

8. Defective Conditions

A property with defective conditions is unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated. Defective conditions include:

- defective construction
- poor workmanship
- evidence of continuing settlement
- excessive dampness
- leakage
- decay
- termites
- other readily observable conditions that impair the safety, sanitation or structural soundness of the dwelling

(3-6)

The items outlined in VC-7: Structural Conditions, are meant to alert the appraiser and the lender to the possibility of defective conditions. These items are readily identifiable characteristics that could indicate one of the defective conditions.

9. Ventilation

Natural ventilation of structural space – such as attics and crawl spaces – must be provided to reduce the effect of excess heat and moisture that are conducive to decay and deterioration of the structure. All attics must have ventilation to allow moisture and excessive heat to escape. The appraiser must check the attic areas to determine whether the ventilation is adequate.

- If ventilation is not provided, make a condition for repair, mark "YES" in VC-7 and prepare the appraisal “as-repaired” subject to the satisfaction of the condition.

10. Foundations

All foundations must be adequate to withstand all normal loads imposed. Stone and brick foundations are acceptable if they are in good condition. The appraiser must review the conditions in VC-8 for evidence of conditions that could indicate safety or structural deficiencies that may require repair.

- If the foundation is deficient, mark “YES” in VC-8 and prepare the appraisal “as-repaired” subject to the repair of the deficiencies.

11. Crawl Space

To ensure against conditions that could cause the property to deteriorate and seriously affect the marketability of the property, it is required that:

- There must be adequate access to the crawl space; 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.
 - The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.
 - The crawl space must be clear of all debris and trash and must be properly vented.
 - The crawl space must not be excessively damp and must not have any water ponding.
- If these requirements are not met, mark ‘YES” in VC-8 and prepare the appraisal “as-repaired” subject to repair of the deficiency.

(3-6)

12. Roof

The covering must prevent moisture from entering and must provide reasonable future utility, durability and economy of maintenance. When re-roofing is needed for a defective roof that has three layers of shingles, all old shingles must be removed before re-roofing. The details of the process are provided in the protocol.

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.

- If the roof is deficient, mark “YES” in VC-9 and prepare the appraisal “as-repaired” subject to the repair of the deficiency.

Flat roofs typically have shorter life spans and therefore require inspection.

- If there is a flat roof mark "YES" in VC-9 and prepare the appraisal “as-repaired” subject to further inspection.

13. Mechanical Systems

These are the requirements for mechanical systems:

- must be safe to operate
- must be protected from destructive elements
- must have reasonable future utility, durability and economy
- must have adequate capacity and quality

The appraiser must observe the systems in VC-10 and determine if any of the conditions do not meet the above stated criteria.

- If the systems require repair, mark “YES” in VC-10, condition the appraisal on the repair or further inspection and prepare the appraisal “as-repaired” subject to the satisfaction of the condition.
- If systems could not be operated due to weather conditions, explain that in VC-10, condition the appraisal on assumed functionality, and make a note of this condition on the Homebuyer Summary – Part 3 of the Comprehensive Valuation Package.

14. Heating

Heating must be adequate for healthful and comfortable living conditions:

- Dwellings that use wood-burning stoves or solar systems as a primary heat source must have permanently installed conventional heating systems that can maintain a temperature of at least 50 degrees F. in areas containing

plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations.

- Properties with electric heating sources must have an acceptable electric service that meets the general requirements of the local municipal standards.
- All water heaters must have a non-adjustable temperature and pressure-relief valve. If the water heater is in the garage, it must comply with local building codes.
- All non-conventional heating systems – space heaters and others – must comply with local jurisdictional guidelines.

(3-6)

Solar energy systems are discussed in Appendix B.

15. Electricity

Electricity must be available for lighting and for equipment used in the living unit. Refer to the specific instructions in the protocol (Appendix D) for determining adequate electricity.

16. Other Health And Safety Deficiencies

The appraiser must note and make a repair requirement for any health or safety deficiencies as they relate to the subject property, including:

- broken windows, doors or steps
- inadequate or blocked doors
- steps without a handrail
- others

The appraiser must operate a representative number of windows, interior doors and all exterior and garage doors, as well as verify that the electric garage door operator will reverse or stop when met with resistance during closing.

- If conditions exist that require repair, mark “YES” in VC-11 and prepare the appraisal “as-repaired” subject to the satisfaction of the condition.

17. Lead-Based Paint And Other Hazards

If the home was built before 1978, the appraiser should note the condition and location of all defective paint in the home. Inspect all interior and exterior surfaces – walls, stairs, deck porch, railing, windows and doors – for defective paint (chipping, flaking or peeling). Exterior surfaces include those surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.

- If there is evidence of defective paint surfaces, condition the appraisal on their repair, mark “YES” in VC-12 and prepare the appraisal “as-repaired” subject to the satisfaction of the condition.

For condominium units, the appraiser needs to inspect only the exterior surfaces and appurtenant structures of the unit being appraised and address the overall condition, maintenance and appearance of the condominium project.

- If the condominium project was built before 1978 and shows signs of excessive deferred maintenance or defective paint, mark “YES” in VC-13 and prepare the appraisal “as-repaired” subject to the satisfaction of the condition.

(3-6)

B. OTHER CRITERIA

There are other eligibility criteria that are not part of the VC form. The lender bears primary responsibility for these; however, they are provided here so that the appraiser may reference them if questions arise during the property inspection.

1. Party Or Lot Line Wall

There must be adequate space based upon market acceptability between buildings to permit maintenance of the exterior walls for detached homes.

2. Service And Facilities

Trespass. Each living unit must have the capacity to be maintained individually without trespassing on adjoining properties.

Utilities. Utilities must be independent for each living unit except that common services – water, sewer, gas and electricity – may be provided for living units under a single mortgage or ownership.

- Each unit must have separate utility service shut-offs.
 - Each unit must have individual meters.
 - For living units under separate ownership, common utility services may be provided from the main service to the building line when protected by an easement or covenant and maintenance agreement acceptable to HUD.
 - Individual utilities serving a unit must not pass over, under or through another unit, unless:
 - Provisions have been made for repairing and maintaining those utilities without trespassing on adjoining properties.
- OR
- An easement of covenant is made for permanent right of access for maintenance and repair of utilities.
 - If a single drain line in the building serves more than one unit, the building drain clean-outs must be accessible from the exterior.

- Other facilities must be independent for each living unit, except common services, such as laundry and storage space or heating, may be provided for two-to-four-living-unit buildings under a single mortgage.

Dedication. Utilities must be located on easements that have been permanently dedicated to the local government or appropriate public utility body. This information must be recorded on the deed record so that the utility services match the easement.

3. Non-Residential Use Design Limitations

(3-6)

A qualified property must be predominantly residential in use and appearance. Any nonresidential use of the property must be subordinate to its residential use, character and appearance. A property, any portion of which is designed or used for nonresidential purposes, is eligible only if the type or extent of the nonresidential use does not impair and/or remove the property's residential character and appearance.

4. Access Onto Property

Access to the living unit must be provided without passing through any other living unit. Access to the rear yard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by an alley, easement or passage through the dwelling.

5. Space Requirements

Each living unit must have the space necessary to ensure suitable living, sleeping, cooking and dining accommodations and sanitation facilities.

6. Bedroom Egress

All bedrooms must have adequate egress to the exterior of the home. If an enclosed patio (solid walls) covers the bedroom window, it is possible that the bedroom won't qualify as a habitable bedroom. Security bars are acceptable if they comply with local fire codes. Occupants of a bedroom must be able to get outside the home if there is a fire.

7. Energy Efficiency

For new and proposed construction and properties less than one year old, all detached one- and two-family dwellings and one-family townhouses not more than three stories in height must comply with the CABO Model Energy Code, 1992 Edition, Residential Buildings, except for sections 101.3.1, 101.3.2, 104 and 105. These sections remain:

- Section 101.3.2.2, Historic Buildings
- The Appendix
- HUD Intermediate MPS Supplement 4930.2 Solar Heating and Domestic Hot Water Systems, 1989 edition

Valuation procedures for solar energy systems can be found in Appendix B.3.

C. CONDITIONS NOT REQUIRING REPAIRS

Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.

(3-6)

These are some examples:

- A wood floor's finish that has worn off to expose the bare wood must be sanded and refinished. However, a wood floor that has darkened with age but has an acceptable finish does not need polishing or refinishing.
- Peeling interior paint and broken or seriously cracked plaster or sheetrock require repair and repainting, but paint that is adequate though not fresh does not need to be redone.
- Missing shrubbery or dead grass on an existing property does not need to be replaced.
- Cleaning or removing carpets is required only when they are so badly soiled that they affect the livability and/or marketability of the property.
- Installing paved driveways or aprons should not be required if there is an otherwise acceptable surface.
- Installing curbs, gutters or partial street paving is not required unless assessment for the same is imminent.
- Complete replacement of tile floors is not necessary if some tiles do not match, etc.

Avoid unnecessary requirements because they increase housing cost without adding any basic amenities to the property.

D. REPAIR CONDITIONS FOR NEW/PROPOSED CONSTRUCTION

The appraiser must develop the cost approach for new or proposed construction and the normal site development costs must be included in the lot value. Where unusual cuts, fills, retaining walls, etc. are necessary to prepare the site for the proposed building improvements, estimate the amount by which the cost of the work exceeds the cost of preparing typical sites for similar structures from the Marshall and Swift Cost Handbook. This estimate supplements the estimate of the replacement cost of building improvements.

- When estimating the market price of a site with unusual site characteristics that must be corrected, assume that the site is in the condition that will exist after the corrective work is completed. Disregard the cost of the treatment, but use the value of the improved site in the estimate of the replacement cost of the property.
- Use the supplemental cost estimate to:
 - determine the extent to which the replacement cost of the property will exceed the cost of a substitute property produced by constructing identical improvements on a typical site

- indicate the extent to which value may be less than the replacement cost for that part in excess of the cost of preparing the typical site
- Do not include the cost of treating unusual site characteristics in the estimate of replacement cost of building improvements. It is necessary to avoid including both the effect of site treatment and the cost of the work in the estimate of replacement cost of the property.

4 THE VALUATION PROCESS

4-0 INTRODUCTION

This Chapter addresses the development of the three approaches to value:

- Sales Comparison Approach
- Income Capitalization Approach
- Cost Approach

It also addresses their impact in arriving at a final value conclusion that reflects the conditions denoted on the Valuation Conditions (VC) Form. These approaches form the foundation for developing a value and lead to the final reconciliation for an estimated market value.

The VC form identifies key components of the property analysis and requires the appraiser to:

- describe the results of the visual inspection
- identify known conditions, if any
- reconcile their findings with the approaches to value

This Chapter conforms to the current Uniform Standards of Professional Appraisal Practice (USPAP) and the requirements of the URAR. In developing and coming to a conclusion about value, the appraiser must be aware of and comply with all state and federal laws and requirements. Furthermore, strict compliance with USPAP is required for all FHA appraisals.

4-1 MARKET VALUE ESTIMATES

In accordance with HUD/FHA requirements, an appraiser must do the following:

- define the type of value being considered for the property appraisal
 - ascertain the definition of market value appropriate for the appraisal
 - indicate whether the estimate is the most probable price that the property will sell for on the open market
- Follow the standards of USPAP. Key sections that are most applicable are provided below.

A. DEFINITION OF MARKET VALUE

The definition of market value that applies to HUD/FHA is cited from the Uniform Standards of Professional Appraisal Practice. This is the definition of value which must be used for all appraisals performed for FHA-insured mortgages.

“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.”

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. The buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and each is acting in what they consider their best interest.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash in United States Dollars or in terms of a financial arrangement comparable thereto.
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions.

(4-1)

B. PROPERTY RIGHTS APPRAISED

Identifying property rights to be valued determines the criteria for selecting market data and for comparable transactions. The following table is an example of property rights.

| Property Type | Occupancy | Property Rights Appraised |
|----------------------|---|----------------------------------|
| Single-family | Owner | Fee Simple |
| Two-to-Four family | One unit owner-occupied, other units rented | Leased Fee |
| All property types | Ground lease | Leasehold Estate |

The appraiser examines property rights to determine what rights, if any, the property owner has conveyed to others. The conveyance of rights to others impacts the value of the property. For example, a single-family owner-occupied property has fee simple property rights that are absolute and unencumbered – unlike a leasehold estate where property rights are specified to use and occupancy for a stated term. The appraiser must determine to what extent, if any, the transfer of property rights impacts the property's value.

Fee Simple is defined as absolute ownership unencumbered by any other interest or estate.

Lease Fee is defined as an ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; usually consists of the right to receive rent and the right to repossession at the termination of lease.

Leasehold Estate is defined as the right to use and occupy real estate for a stated term and under certain conditions that have been conveyed by a lease.

C. PURPOSE

The purpose of an appraisal is the stated reason for performing an appraisal assignment. The purpose is typically stated as the basis for an underwriting decision. For HUD, the purpose is to determine market value for mortgage insurance purposes.

(4-1) D. INTENDED USE OF APPRAISAL/FUNCTION

The intended use or function for all appraisals prepared for FHA is to support the underwriting requirements for an FHA-insured mortgage.

E. USE OF THE APPRAISAL

The use of the appraisal is to support FHA's decision to provide mortgage insurance on the real property that is the subject of the appraisal. Therefore, intended users include the lender and HUD.

F. EFFECTIVE DATE OF VALUE

The effective date of value is either the date when the appraiser physically inspects the subject property or another date specifically defined by the lender.

- If another date is used as the effective date, indicate the alternative date and the date on which the subject property was physically inspected.

G. SCOPE

The appraiser must perform a complete appraisal as defined by USPAP, considering all of the applicable approaches to value and developing the appropriate approaches identified in this Handbook. Departure is not allowed.

H. SPECIAL LIMITING CONDITIONS AND ASSUMPTIONS

The appraiser must adequately identify, report and quantify any extraordinary assumptions or limiting conditions that directly impact the valuation. Examples include:

- a negative external influence (proximity to a municipal landfill, for example)
- proposed road improvements
- a pending zone change

4-2 HUD/FHA REQUIREMENTS

HUD/FHA requirements for market value estimates are as follows:

- The appraiser must appraise the property to determine market value under the requirements detailed in Chapter 4-1 of this Handbook.
- The appraiser must evaluate the physical condition of the property and note it on the Valuation Conditions (VC) Form of the Comprehensive Valuation Package. Note any necessary repairs. If repairs are in process, disclose the extent or status of those repairs at the time of the appraisal. Always base the value on the completion of repairs and include this as a special limiting condition when repairs are required and expected to be completed.
- The appraiser must evaluate whether the property is free of hazards, noxious odors, grossly offensive sights or excessive noises that may:

- endanger the physical improvements
 - affect the livability of the property or its marketability
 - affect the health and safety of its occupants
- If any of these conditions exist, recommend correction of the problem or rejection of the property and explain.

(4-2)

For more information, see Chapter 2-2 of this Handbook.

- The appraiser must determine if the subject property possesses sufficient remaining economic life to warrant a long-term mortgage, assuming a reasonable level of continued maintenance. If the property does not warrant a long-term mortgage it will be ineligible for FHA mortgage insurance.
- The appraiser must indicate if the property conforms to applicable Minimum HUD/VA Property Requirements detailed in Chapter 3.
 - If the property does not conform to the Minimum Property Requirements, note it in the VC section of the appraisal report and require correction of the deficiency or rejection of the property and explain.
 - If there are so many necessary repairs that an “as-repaired” value cannot be determined, or if correcting the deficiencies would require major rehabilitation/alterations, return the appraisal to the lender with a detailed explanation.

4-3 NEW AND PROPOSED CONSTRUCTION REQUIREMENTS

Before performing an appraisal for new or proposed construction, the appraiser must have the plans and specifications and a fully completed Builder’s Certification. The lender must provide this information to the appraiser prior to issuing the assignment. Without these items, the property will not be acceptable for FHA insurance purposes.

A. NEW CONSTRUCTION

The appraiser must develop the cost approach for new construction less than one year old. Appraise new construction in the same way that existing properties are valued under the specifications outlined in this chapter of the Handbook. Also, consider using the Gross Rent Multiplier method when developing the income approach for three- or four-unit buildings.

B. PROPOSED CONSTRUCTION

Appraise proposed construction consistent with the methodology presented in this chapter. USPAP requires that the appraiser be provided with written specifications of the proposed structure. Specifically, the Lender must provide the appraiser with these documents:

- builder’s plans, specifications and construction documents
- completed builder’s certification (Form HUD-92541)
- Builder’s Warranty (Form HUD-92544)

- the 10-year Warranty, when required (the Secretary has proposed a 1-year Home-Owner Warranty period)
 - all reports and information available (i.e. sales agreement, title report, environmental assessments or studies and inspection reports)
- If these documents are not provided, return the incomplete appraisal to the lender. Check the box stating that the valuation is subject to completion and that the value is contingent on the structure receiving a certificate of occupancy.

4-4 UNIQUE PROPERTY APPRAISALS

Appraisers are sometimes faced with unique properties: a log home, an extra small home, lower than normal ceiling heights, etc. Eligibility of these properties depends on whether or not the property is structurally sound and readily marketable. If a property meets these criteria, the appraiser estimates market value. However, depending on the uniqueness of a property, the final determination to accept or reject the property is made by the lending institution's underwriter.

Excess land is another area in which to exercise caution. Land is considered to be excess if it is:

- larger than what is typical in the neighborhood

AND

- capable of a separate use
- If there is excess land, describe it but do not value it. In this instance, the appraisal is based upon a hypothetical condition. A legal description of the portion being appraised is required.

4-5 COST APPROACH

The cost approach is an indication of value based on the premise that a buyer would not pay more for a property than the cost to construct a property of equal utility. The cost approach is not necessarily the best indication of market value for many properties, but it is often applicable for new(er) or proposed construction and special use properties. Such situations include the following for single family one- to four-unit dwellings:

| Property Age | Cost-Approach Requirement |
|------------------------------|--|
| Proposed Construction | Required |
| New Construction | Required |
| Existing, less than one year | Required |
| Existing, regardless of age | Market acceptability of cost as an indication of pricing and value |

Unless the cost approach is deemed reliable on the above table or considered applicable in the appraiser's judgment, developing this approach is not required for a HUD/FHA appraisal. The

reporting requirement of USPAP known as the departure rule does not apply because the appraiser must always use the cost approach to value when considered applicable.

USPAP Requirements

Strict compliance with USPAP standards is required for all FHA appraisals.

Reporting Requirements

- If the cost approach was excluded, report it in the reconciliation and insert the rationale for its exclusion.

A. COST APPROACH METHODOLOGY

1. Land Value Estimate

(4-5)

Standard Rule 1-3(b) of USPAP requires appraisers to “recognize that land is appraised as though vacant ...”. The appraiser estimates the value of the land because it is generally considered to be a permanent, non-depreciating asset. There are exceptions to this generally agreed upon premise, but the exceptions will rarely be a factor in FHA/HUD related appraisals. Exceptions may include land with an erosion problem or a polluted property.

2. Excess Land

Excess Land is defined as the area by which the plot exceeds the area of a readily marketable real estate entity. This occurs when the subject lot is considerably larger than typical lots in the neighborhood and the excess is capable of separate use. Generally, the defining characteristic is an excess portion that can be subdivided and marketed as an individual parcel. However, in small communities and outlying areas, appraisers must use different criteria because the market may accept a wide variance in lot sizes. This segment of the market may show wide differences in lot use.

- If the plot contains excess land, delineate and appraise separately the readily marketable real estate entity and the existing or proposed improvements. Describe the excess land but do not appraise it with the primary 1 - 4 family residential building that is subject to a mortgage.

The lender will require that the value of excess land be excluded from the maximum mortgage amount that will be calculated only on a reasonable amount of land and improvements.

3. Sales Comparison Approach For Land Value

In areas with an active real estate market, the sales comparison approach is generally the primary method used. This method allows for collecting, verifying and analyzing recent and similar land sales to be compared with the subject land. Before a conclusion is reached, the comparable land sales are adjusted for differences between the sales and the subject property.

4. Allocation

In areas with a significant lack of comparable sales to develop the sales comparison approach, use the allocation method, which assumes a market-accepted ratio between land value and property value. Although the value estimate from this method is inherently less accurate than that of the sales comparison approach, it is still an acceptable approach.

(4-5)

- The appraiser must document, support and justify the chosen allocation ratio.

5. Extraction

Extraction is a method to deduct the depreciated contribution of the subject's improvement from the total sales price of the property. The remainder represents an estimate of land value. This approach is also inherently less accurate than the sales comparison approach.

- The appraiser must document, support and justify the estimate of the depreciated contribution of the improvements.

B. IMPROVEMENT COST ESTIMATE

Replacement cost is the preferred method for developing the Cost New of the subject improvements. Typically the appraiser uses the Replacement Cost New and quantifies all forms of depreciation, except obsolescence. An alternative is the reproduction cost. HUD does not require a specific method.

The replacement cost of property is estimated to enable the application of the substitution principle. Estimates of the replacement/reproduction cost of property are not estimates of value, although they indicate the possibility that value, in an equivalent amount, may exist. Value depends entirely upon usefulness, not on the cost. Value tends to conform to cost, but this is not to imply that it is always equivalent to cost.

C. TYPICAL REPLACEMENT COST

The replacement cost estimate must reflect the costs typically found in an area - not necessarily the costs of a particular builder or owner. This method is typically preferred to the reproduction cost.

D. UNUSUAL AND NON-TYPICAL COSTS

Some of the items or allowances in the cost estimate may not represent equivalent value in a particular case. An owner might erect a house that would cost more than the houses that generally characterize the neighborhood, but the value of the home to the typical prospective owner in that neighborhood might be less than the replacement cost of the property. The cost of construction also may be in excess of value at a given time. Under some circumstances, a reduction in cost may be in prospect. If construction costs decline, value may also decline if it was originally equal to cost.

E. RECOMMENDED METHODOLOGIES

Generally, the Marshall and Swift square foot method is the most applicable method for estimating the Replacement Cost New. This is a simplified procedure and all appraisers must have the knowledge and skill to apply this methodology. This method may not be used for custom-built homes or unique buildings that require the segregated cost method.

- (4-5) Typical residential construction with which HUD is involved should be rated "fair," "average" or "good" quality. Mass produced, tract-built homes are rated either "fair" or "average," meeting only the minimum construction requirements of lending institutions, mortgage insurance agencies and building codes. Appraisers must review the basic description to determine the correct construction type.

The appraiser will complete the cost approach for each proposed construction case based on the construction type and quality rating of the property as shown in the Marshall and Swift Cost Handbook.

- Reference on the form the pages and revision date where the figures were obtained (usually two pages).
- Include a marketing expense with the replacement cost of improvements and all applicable current multipliers.

F. REMAINING ECONOMIC LIFE

Remaining economic life is an estimate of the remaining time period in which the improvements continue to contribute value to the property (building and improvements). The appraiser must consider the effect, if any, of modifications or renovations on the improvements. This effect is typically expressed in years.

4-6 SALES COMPARISON APPROACH

This is often the most applicable approach in estimating the market value of a single-family one- to four-unit property. This approach relies on:

- the availability of sales data
- the volume of transactions
- the reliability of reporting the transaction data confirmed and developed under this approach

When developing a value indication by the sales comparison approach, always include the assumptions and data from the other approaches on the VC form.

A. DATA REQUIREMENTS

1. Sales Data vs. Comparable Sale

Any transaction in the market is a sale, but not all sales are *comparable*. Consider the type of transaction and physical characteristics of any sale before considering the sale a *comparable*.

2. Selection of Comparable Sales for Analysis

Identify the relevant market based on the area in which the property competes and the forces/dynamics that affect the comparable sale properties. This is necessary in relating the sales to the subject.

Consider the amount of time that has elapsed between the sale date and the effective date of the appraisal. Sales data should not exceed six months between the date of the appraisal and the sale date of the comparable, and must not exceed twelve months. An explanation is required for sales dates in excess of six months.

(4-6)

Consider neighborhood and other external factors that influence property value, including real estate and non-real estate influences. For example, when most of the neighborhood's residents are employed by one major employer who is relocating out of the region, the neighborhood may experience a decline in values. The term "non-real estate influenced", however, must never include racial composition.

Consider the quality and quantity of data available for the given assignment. A lack of quality data in a market may force reliance on data in a similar market – not necessarily the subject's immediate market area. However, clearly explain and justify any sales from outside the subject's immediate market area.

3. Excluded Sales Transactions

When using conventional sales data, the appraiser must be aware of the terms of the sale and adjust the conventional sales price to reflect any unusual terms. For example, there are sales that must be excluded; however, some transactions may be included but adjusted for factors such as below-market financing to provide a cash equivalent sales price.

4. Current Offerings and Listings Analysis

Using these types of sales are discouraged. However, under certain slow market conditions or in markets with rapidly increasing pricing, it may be acceptable to include properties offered for sale. Proceed with caution when analyzing and adjusting these offerings. Recognize the inherent negotiability in price between an offering and a consummated sale. Clearly label these comparables as offering, listing, under agreement, etc., but present them as additional comparable data only.

5. Sales in Escrow

If a bona fide transaction is imminent, sales in escrow are considered to be reliable indications of market pricing. Exercise care in identifying the planned date of closure for the sale and any extraneous circumstances that may impede the closing on the projected date.

6. Distressed Sales

Using distressed sales is strongly discouraged because of the special circumstances surrounding these transactions.

7. Relocation Sales

Using relocation sales from a corporate seller at a below market value is strongly discouraged when the purchaser is the relocation company because of the unusual circumstances surrounding these transactions.

(4-6)

Both distressed and relocation sales are strongly discouraged because they fail to meet the test of “market value,” particularly item No. 1: “The buyer and seller are typically motivated.” However, these sales can exceed normal market transaction and affect market values.

8. Confirmation of Sales and Transaction Information

The appraiser must verify all market and comparable information used in the appraisal process and is accountable for any information presented as “fact” used to develop the subject property’s value estimate. Verification ensures that the information is accurate and meaningful and provides the appraiser with a firm understanding of market motivations and trends. The goal of the verification process is to ensure that only information that accurately reflects current market conditions and trends is presented and that meaningful conclusions can be reached from this information.

During the verification process, it is necessary for the appraiser to gain an understanding of the motivations surrounding the sale in order to:

- determine if the sale was arm’s length and not distressed
- understand current market conditions that influence value

Whenever possible, interview a party to the sale to determine the expectations and motivations for purchasing the property. Also, determine whether significant capital expenditures funded by the seller were made shortly after the transaction occurred. If so, determine whether the expenditure needs to be added back into the sale price to reflect the actual conditions surrounding the sale.

The appraiser must verify sale information with the buyer, the seller or one of their representatives (broker, lender, lawyer, etc.). If the sale cannot be verified with someone who has first-hand knowledge of the transaction, use public records. However, the appraiser must clearly state how the sale was verified and to what extent. Do not use or rely heavily on any sale that was not verified with an involved party or one of their representatives because concessions have become more common in the market.

B. ADJUSTMENT PROCESS

Other factors that affect the use of comparable sales must be considered. Account for differences between the subject property and each comparable sale. The analysis of sales includes both quantitative and qualitative factors. *Remember that the comparable data is adjusted to the subject property.* Present these adjustments as dollar amount figures and justify and explain the rationale for all adjustments. This information must be contained in the appraiser file. The sequence of adjustments should follow this format:

The sequence of adjustments are part of the URAR. All FHA appraisers should be familiar with the adjustment grid within the URAR. Adjustments are indicated as a dollar amount. If an adjustment is not necessary, the appraiser can either enter “equal” or \$0 as the adjustment.

- (4-6) An individual line item adjustment should not exceed +/- 10%. The total adjustments to the comparables should not exceed 15% net and 25% gross of the sales price. If adjustment exceeds a parameter, the appraiser must explain why as part of the appraisal report.

Adjustments to the sales include:

- **Property Rights Conveyed.** Refer to the property right appraised section of this chapter. This adjustment is always the first adjustment made to all sales.
- **Sales or Financing Concessions.** Account for and adjust for any special sale or financing terms, including sales concessions, non-market financing terms, points, buy downs, closing terms and swaps/exchanges. The most common scenario involves the seller paying points in the form of settlement help to the buyer. To reflect the amount, adjust the sales price of the comparable sale downwards. Typically this amount will not exceed six percent of the sales price for typical transactions.
- **Condition of Sale.** Account for the conditions surrounding the sale, including foreclosure/distressed sale, purchased by an adjoining owner, sold between family members, auctioned or any unusual factor that could be reflected in the price paid.
- **Market Conditions.** Account for changes that have occurred or are occurring from the date of sale of the comparable transaction to the date of appraisal, including appreciation, new development, availability of financing, loan terms, supply and demand.
- **Property Adjustments.** These are required if the difference between the sale and the subject is quantifiable and supported by the market.

Location – Account for location considerations.

Physical Characteristics – Account for physical differences between the comparables and the subject, including condition, view, design/appeal and quality of construction. These are typically entered as individual categories.

Economic Characteristics – Account for economic characteristics between the comparables and the subject, including occupancy, rent level, lease structure or terms.

- Non-realty items. Non-realty items, such as personal property, may be included in value. These items are deducted from or added to the total consideration to reflect the cash equivalent price paid for the real property only.
- Other adjustments. Include physical characteristics that can be based on a dollar amount. The quality and quantity of market data should guide the selection of the most applicable method.

1. Support for Adjustments

Adjustments must be supported by the market. The appraiser must use caution in developing adjustments; not all differences between the sale properties and the subject property are recognized as price-influencing factors in the marketplace. Only those factors that are accepted as value-influencing factors warrant adjustments.

2. Explanation of Adjustments

The appraiser must explain why an adjustment was made. If adjustments are made, the appraiser must explain the differences that support the adjustments made to each of the comparables as they relate to the subject property.

- Report the explanation on the URAR and maintain it in the work papers.

3. Reconciliation of Adjusted Sale Prices

The appraiser must consider the strengths and weaknesses of each of the comparable sales and develop this data into an indication of value by the sales comparison approach.

- Report the final reconciled value indication by the sales comparison approach on the URAR .

4-7 INCOME APPROACH

When the motivations of the buyer and the marketability of the property are based on its income-producing potential, the income approach must be developed. This approach applies when the entire property or one or more of the units is leased, regardless of the rental amount and occupancy. The ability of the property to be attractive to a renter and/or investor supports the development of the income approach. Situations where the income approach applies are presented on the following chart.

| Property | Occupancy | Applicability Test |
|----------------------|--|---|
| Single-family | Owner-occupied | Market indication of highest and best use as improved (either for rental or for owner-occupancy) |
| Single-family | Vacant | Market indication of highest and best use as improved (either for rental or for owner-occupancy) |
| Two-family | One unit is owner- occupied; the other is vacant. | Optional, depending on the availability and reliability of market data |
| Two-family | One unit is owner-occupied; the other is rented. | Required if the property is located in a neighborhood with other rental properties; otherwise, optional, depending on the availability and reliability of market data |
| Three-to-four Family | One unit is owner- occupied; other units are rented. | Required |
| One-to-four Family | Leasehold Estate | Required |
| One-to-four Family | Leased Fee Estate | Required |

(4-7)

A. DATA REQUIREMENTS

The appraiser must choose similar market rentals to compare to the subject property. Consider the transaction and physical characteristics of a rental before considering the rental as *comparable*.

1. Confirmation Of Leases And Transaction Information

The appraiser must verify all comparable information used in the appraisal process. The appraiser is liable and accountable for any information presented as a “fact” in developing the value estimate. This ensures that the information is accurate and meaningful and provides the appraiser with an understanding of market motivations and trends. The goals of the verification process are to ensure:

- that only the information that accurately reflects current market conditions and trends is presented
- that meaningful conclusions can be reached from this information

If possible, interview the lessee or the lessor to determine their expectations and motivation for entering into the lease.

Verify lease information with the lessor/lessee or one of their representatives (broker, agent, lawyer, etc.). If this verification is not possible, clearly state how the lease was verified and to what extent. Do not rely heavily on any lease that was not verified with an involved party or one of their representatives.

2. Adjustment Process

The appraiser must consider other factors that affect the use of comparable leases. The appraiser must account for differences between the subject property and the comparable leases to reconcile the actual lease income. This selection of comparable rentals is significant because the gross income multiplier should not be adjusted, only the comparable rental rate. These adjustments are typically presented as percentage or dollar amount figures. The appraiser must be able to justify and explain the rationale behind all adjustments. The sequence of adjustments should follow the same format as that presented in the sales comparison approach section; however, tailor the categories to the comparable rentals.

3. The Income Projection

In developing the projected gross rent for the subject, the appraiser needs to review and analyze the leases in place on the effective date of the appraisal. Also, consider leases that will commence or terminate around the effective date of the appraisal and the impact, if any, on the property.

The appraiser must take appropriate steps to ensure that the development of the income approach reflects the actual conditions at the subject property. If the

subject is new, consider when the property income will stabilize. Include the justification for any assumption made – lease up time, for example. The income approach is typically based upon the “as stabilized” premises. Support this approach appropriately and clearly state the date when stabilized income will be achieved.

B. DEVELOPMENT OF RATES

The Gross Rent Multiplier (GRM) is the ratio between the sales price of a property and its gross rental income. This method is used to develop indications of a property value. The appraiser must consider the strengths and weaknesses of each comparable rental and develop an estimated multiplier that adequately reflects the income-generating ability of the subject property. This ratio is applied to the estimated income for the subject to conclude an indication of value by the income approach.

4-8 FINAL RECONCILIATION

The final analytical step in the valuation process is to reconcile value indicators. In this step, the appraiser must measure the strengths and weaknesses of each of the applicable approaches performed and develop this data into a single value estimate.

4-9 RECONSIDERATION OF APPRAISED VALUE

The underwriter may request reconsideration of the appraised value when new market data exists that may not have been reflected in the appraisal. The lender can select new comparables and request a re-appraisal. This request from the lender must be in writing and maintained in the appraiser’s work file. The appraiser must decide whether to use the new comparables and perform the re-appraisal. If the comparables were available when the initial appraisal was performed, the lender may not offer pay for the reconsideration.

5 REPORTING THE APPRAISAL

5-0 INTRODUCTION

Accurate and thorough appraisal reporting is critical to the accuracy of underwriting for the mortgage insurance process. The need for accuracy is greater for FHA-insured mortgages because buyers tend to have more limited income and lower equity in the properties. This chapter presents the requirements for reporting complete and accurate appraisal information to HUD. An appraisal performed for HUD/FHA purposes requires that all sections of the Comprehensive Valuation Package (CVP) must be completed. The CVP constitutes the reporting instrument to HUD for FHA-insured mortgages.

5-1 REPORTING THE APPRAISAL

When the appraisal is completed, submit the CVP and all required attachments – maps, photographs, sketches, etc. to the lender. Also, for new and proposed construction, submit the plans, specifications, construction documents and the completed builder’s certification (Form HUD-92541). Submit the original package and a complete copy to the lender.

The CVP is required for reporting the appraisal findings, analyses and conclusions about the observed conditions of the property. A complete HUD appraisal package includes three parts: the Uniform Residential Appraisal Report (URAR), the Valuation Conditions Form and the Homebuyer Summary. These are described below.

A. PART 1: UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)

The URAR is the standard appraisal reporting form available through all lenders. The following are required in reporting appraisal findings on the URAR:

- All information must be reported consistently with the HUD protocol in Appendix D of this Handbook.
- All findings must be reported consistent with Standard 2 of USPAP for a summary report.
- All boxes must be filled in and relevant factual data included, unless specifically noted.
- All calculations must be verified.
- Consistency between the sections must be verified.

1. Departure from HUD Requirements

HUD requirements are presented in this Handbook. Any departure from these requirements must be explained in the URAR or as an attachment to the appraisal. Present the reasoning, the result of such departure and any additional limitations to the use of the appraisal or the reported value as a result of this departure. Departure from USPAP is not permitted for an appraisal submitted to HUD.

2. Certification

Within the URAR, the appraiser must certify that the reported value is an unbiased, independent valuation of the subject property. This certification is

consistent with that required by USPAP. Of particular importance is the certification that the appraisal is not based on any of the following:

- a requested minimum value
- a specific value
- the approval of a loan as indicated

(5-1)

If the appraiser is subject to additional certifications in developing and reporting the appraisal, include them in the URAR report. Such additional certifications may be the result of state certification requirements in certain jurisdictions or of relationships with professional appraisal and real estate organizations.

The assigned appraiser is required to sign the report making him/her fully and wholly accountable for the information presented on the URAR and in developing the appraisal findings. If any party provided significant professional assistance, name this party on the certification and note the contribution.

3. Statement of Limiting Conditions

For each appraisal, the URAR includes the standard limiting conditions. The appraiser must confirm these limiting conditions and strike any that do not apply.

Also, if there are additional limiting conditions, clearly state them. If the limiting conditions differ or are contrary to the limiting conditions stated on the URAR, fully disclose those limiting conditions and make them known in the value estimate. Cite any value-influencing limiting conditions with the report of the estimate of market value.

The repair conditions reported in the VC segment of the report constitute a limiting condition for the development of the appraisal because HUD appraisals estimate value “as-repaired.” The reported estimate assumes that the noted deficiencies have been corrected. It is, therefore, important that the appraiser certify to testing specific systems and examining all areas of the house to note the deficiencies.

B. PART 2: VALUATION CONDITIONS FORM

The Valuation Conditions (VC) Form specifically addresses physical conditions of the property that may render the property uninhabitable or cause health and safety concerns. Note the conditions observed during the walk-through on the VC form as of the date of appraisal. A home inspection is not required to complete the VC. The VC form is divided into Location and Property Analysis as well as other property related information.

- VC-1 identifies the location hazards and nuisances that may render a location ineligible for FHA insurance.

- VC-2 through VC-11 identify the basic structural and mechanical components of the property and are the bases for determining if the property is habitable and eligible for FHA-insured financing.
- VC-12 and VC-13 provide further information on the property.
- The addenda include a provision for current market assessed value and a summary of estimated repair costs.

(5-1)

Each section must be completed entirely, based on the instructions in the protocol in Appendix D of this Handbook.

The appraiser must observe the property's components, test certain basic operations, view areas of the home that may include adverse conditions and report on readily observed adverse conditions. In all instances, the observations are as of the effective date of value, as identified in the VC and appraisal segments.

- For each item in VC-1, a "YES" renders the property ineligible for FHA mortgage insurance.
- For each specific item in VC-2 through VC-11, "YES" indicates a limiting condition on the appraisal subject to the repair of the deficiency or further inspection.
- For each specific item in VC-2 through VC-11, "NO" indicates that the appraiser did not observe a deficient condition.

The appraiser may encounter a negative physical condition that does not require repair or inspection. In this instance the appraisal is based upon the existing condition.

"NO" is not a substitute for a home inspection by a qualified professional home inspector, but merely indicates that the appraiser did not observe the condition during the property inspection for valuation purposes.

For both "YES" and "NO" responses, exercise care and judgment in reporting the extent and the magnitude of the observed condition. The mere presence of an item may not require an inspection or repair. Likewise, depending on the condition observed, a minor observation may prove to be significant to the soundness of the property. The property analysis relies heavily on the appraiser's judgment. It is important to note all considerations as comments for each Valuation Condition.

For detailed instruction regarding the Valuation Conditions Form, please see the protocol in Appendix D of this Handbook.

Appraisals performed for HUD/FHA are not intended to protect the buyer: they protect HUD. Many homebuyers mistakenly believe that a HUD appraisal and subsequent inspection is a guarantee that the property is free from defects when, in fact, the appraisal only establishes the value of the property for mortgage insurance purposes. Buyers need to secure their own home inspection through the services of a qualified inspector and satisfy themselves about the condition of the property. If available in a

timely manner, home inspection reports should be sent to the appraiser; this affords the appraiser the opportunity to make valuation adjustments as needed.

C. PART 1: HOMEBUYER SUMMARY

This part summarizes required repairs from the appraiser's observation of the physical condition. The Homebuyer Summary intends to protect the homebuyer by informing him/her of any material conditions that typically make the property ineligible for FHA mortgage insurance.

- If any of the VC's are marked "YES" in the VC form, the appraiser must denote it in the appropriate box of the Homebuyer Summary and explain, in detail, the nature of the problem.

The summary also includes a notice to the homebuyer regarding the value of securing a home inspection, by a qualified inspector.

5-2 ACCESS TO FORMS

The Homebuyer Summary and Valuation Conditions Form are available electronically from the HUD Internet website: <http://www.hudclips.org/subscriber/html/forms.html>.

5-3 RECORD KEEPING

HUD reserves the right to request and review the appraiser's work files supporting an FHA-insured mortgage at any time and without prior notice. Appraisers on the FHA Register must comply with the record-keeping and inspection requirements as a condition of performing appraisals for FHA-insured mortgages.

A. MINIMUM TERM FOR RECORD KEEPING

The appraiser is required to keep supporting documentation in addition to a copy of the CVP. These files must be maintained for five years after the date of preparation or at least two years after final disposition of any judicial proceeding in which testimony was given, whichever expires last. This is consistent with the Record Keeping Rule of USPAP.

B. DOCUMENTATION FILE REQUIREMENTS

Although there is no prescribed file format or content, the appraiser's work files must include information to support all findings, observations and conclusions supporting the value estimate. The files must indicate the rationale for adjustments and the market data analyzed in the development of the appraisal report. The files must include documentation of the acceptance of the assignment and historical and factual information, such as photographs and maps. A sample documentation file index is provided below. This is not a comprehensive list of information.

C. SAMPLE DOCUMENTATION FILE

| Section | Supporting Data |
|------------------------------------|---|
| Acceptance of assignment | File memorandum |
| Property Description | Legal description Photographs Floor plans Tax map and information Field notes from inspection Listing information Offer to purchase |
| Neighborhood | Notes from the field visit Photographs Demographic data |
| Cost Approach (if applicable) | Relevant Marshall Swift Valuation information Calculations performed Land Sales detail |
| Sales Comparison Approach | Sale details and photographs Transaction information Derivation of adjustments Interview notes |
| income approach (if applicable) | Market rent comparable information Cap rate justification Historical financial statements |
| VC Conditions Noted | Photograph of condition Field notes Support for any assumed repairs Calculation of cost to repair a VC condition |
| Additional Information | Surveys Relevant market data Other sources of data |

6 APPRAISAL AND APPRAISER MONITORING

6-0 INTRODUCTION

The review process is a critical quality control and performance monitoring mechanism for HUD. FHA will monitor appraisals and appraisers using statistical analysis and field reviews. Through analysis of performance measures, FHA will identify candidates for field reviews. By performing statistical analysis as well as field reviews, HUD maintains the capability to broadly track its portfolio and investigate it in greater depth.

6-1 MONITORING AND STATISTICAL ANALYSIS

The Real Estate Assessment Center (REAC) will conduct statistical analysis to track the performance of appraisers and properties and to identify problematic appraisals for review. If the review and subsequent analysis indicate behavior that is out of compliance with FHA guidelines, FHA may take enforcement action. The performance categories below will guide the monitoring and enforcement efforts.

6-2 PERFORMANCE CATEGORIES

The following performance categories allow FHA to monitor each aspect of the appraiser's performance. The table below lists examples of performance measures for each category.

| Performance Category | Performance Measure |
|---------------------------------------|---|
| Appraisal Process | Transaction quality Proof of analysis Relevance of data |
| Appraisal Reporting | Completeness Mathematical Accuracy |
| Valuation Conditions | Identified repairs |
| Maintenance of Professional Standards | Maintenance of state licensure Disciplinary actions |
| Field reviews | Supported findings Required record keeping Responsiveness to field review |

HUD expects a high level of professionalism, customer service, technical expertise and record keeping from appraisers. The above measures demonstrate HUD's focus on:

- complete, justifiable and accurate appraisals
- qualified and competent appraisers
- professionalism
- accuracy

6-3 APPRAISAL REVIEW PROCESS

The oversight process includes statistical analysis of appraisals and field reviews. The reviews will be used to determine the reliability of the appraisal supporting FHA financing as well as the performance of the appraiser. To gauge an appraiser's performance, REAC will review a sample of appraisals performed for FHA over a specified time period and/or a specified number of appraisals performed.

7 REGULATORY ENVIRONMENT, ENFORCEMENT AND SANCTIONS

7-0 INTRODUCTION

This chapter describes the regulatory environment in which FHA single-family appraisals are performed and the enforcement and sanctions that are available to HUD and other government entities in that environment. Appraisers are subject to:

- federal laws and regulations
- state licensing laws and regulations
- the requirements associated with any professional appraisal designations

This chapter enumerates these requirements and explains their connection to HUD's enforcement and sanctions processes.

7-1 REGULATORY ENVIRONMENT

A. FINANCIAL INSTITUTIONS REFORM, RECOVERY, ENFORCEMENT ACT OF 1989 (“FIRREA”)

FIRREA instituted reform and regulation of real estate appraising through Title XI, the Real Estate Appraisal Reform Amendments. The amendments achieved the following:

- established the Appraisal Foundation, comprising the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB):
 - The AQB determines the minimum education, examination and experience requirements for state-certified and state-licensed appraisers.
 - The ASB promulgates the Uniformed Standards of Professional Appraisal Practice (USPAP).
- required that only a state-certified or state-licensed appraiser may perform appraisals for federally related transactions
- established that an appraiser trainee can sign an appraisal if a state-certified or state-licensed appraiser closely supervises the trainee, signs the appraisal report and inspects the property
- established the definition of a “state-certified real estate appraiser” as someone who has satisfied the requirements in a state or territory whose criteria for certification meets the minimum criteria for certification by the Appraiser Qualification Board of the Appraisal Foundation
- established the state agencies to license, certify and supervise appraisers

All appraisers performing services for FHA-insured mortgages must comply with USPAP in developing and reporting appraisals. Key aspects of USPAP include:

| Standard | Citation |
|-----------------------------|---|
| Ethics Rule | Conduct management, confidentiality and record-keeping |
| Competency Rule | Full responsibility of appraiser to have the knowledge and experience to complete the assignment competently or disclose any discrepancy before acceptance and take all necessary steps to correct |
| Departure Rule ¹ | Permits limited departures from acceptable portions of USPAP reducing the reliability of the valuation |
| Jurisdictional Exception | Individual portions of USPAP can be superseded by law or public policy |
| Standard 1 | In developing a real estate property appraisal, an appraiser must be aware of, understand and correctly employ the recognized methods and techniques that are necessary to produce a credible appraisal |
| Standard 2 | In reporting the results of a real estate property appraisal, an appraiser must communicate each analysis, opinion and conclusion in a manner that is not misleading |

In compliance with USPAP, unacceptable practices include:

(7-1)

- estimating a specified (predetermined) value determined by the lender
- fee splitting between lenders and appraisers
- other practices that do not comply with HUD's standards

Also, USPAP contains statements on appraisal standards that have the full weight of USPAP. These statements were issued to clarify the existing standards. The ASB has also issued advisory opinions that currently do not establish new standards but offer advice on complex technical issues.

B. FEDERAL FINANCIAL INSTITUTION REGULATORY AGENCIES

The Federal Financial Institution Regulatory Agencies issued a final rule on appraisals in June 1994. In general, the threshold for requiring state-certified appraisers to perform appraisals on federally related transactions was raised to Two Hundred Fifty Thousand Dollars (\$250,000). However, FHA requires an appraisal for all applications for single-family mortgage insurance, regardless of transactional value.

C. FALSE, FICTITIOUS OR FRAUDULENT CLAIMS (18 U.S.C. §287, 1001) – CRIMINAL PENALTIES AND FINES

These statutes prescribe criminal penalties for any person who knowingly files a false claim on or against any department or agency of the United States Government.

¹ FHA does not permit departure from USPAP.

D. FALSE, FICTITIOUS OR FRAUDULENT CLAIMS ON HUD(18 U.S.C. 1010, 1012) – CRIMINAL PENALTIES AND FINES

(7-1) These statutes prescribe criminal penalties for any person who knowingly files a false claim on or against HUD.

E. FEDERAL FALSE CLAIMS ACT (31 U.S.C. §3729) – CIVIL FRAUD

The Federal False Claims Act defines the civil monetary damages imposed on any person who knowingly presents or files a false claim that was paid or approved by the United States Government.

F. 24 CFR PART 28 – PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA)

These regulations define the administrative procedures for imposing civil penalties and assessments by HUD officials against any person who makes or submits false claims or false statements to Federal authorities or to their agents.

G. 24 CFR PART 30 – CIVIL MONEY PENALTIES

These regulations define the money penalties that HUD may levy for submission of a false certification by another person – for example, an appraiser who makes a false certification at the bottom of the USPAP appraisal form about the truth/correctness of the appraisal data.

H. 24 CFR PART 24 – ADMINISTRATIVE SANCTIONS

These regulations define the administrative sanctions available to HUD officials for any person determined to have violated HUD regulations and policies.

I. STATE LAWS AND PROFESSIONAL ORGANIZATIONS

The appraiser must adhere to all state and local laws relating to appraisal, licensing and certification requirements. Also, as a voluntary member of an appraiser's professional organization, the FHA appraiser should adhere to that organization's guidelines on appraiser conduct. However, HUD has no enforcement powers in private organizations.

1. State Certifications

Appraisers on the FHA Register must be licensed, certified-residential or certified-general appraisers. To perform appraisals for FHA, appraisers must maintain and be able to prove that they are so certified. While some states do not require an appraiser to be certified, they provide a licensing program so appraisers can meet federal guidelines.

Appraisers must comply with the practices of their state unless the requirements of the state contradict those of the federal government; federal requirements preempt any and all state requirements.

The appraiser must report to HUD any action or pending action that relates to appraisal reports prepared by the appraiser two years subsequent to the date on which the action was initiated. After disposition of any disciplinary action or adjudication of the action, the appraiser must provide HUD with the documentation and official findings within 14 days.

2. Professional Organizations

The appraiser may be a member or hold designations in professional organizations. Such involvement is encouraged, but not required. If the appraiser is a member, candidate or associate of any organization, the appraiser must report any adjudicated actions resulting in the suspension of the appraiser to HUD within 14 days of such action. On disposition of the action or adjudication of the action, the appraiser must provide HUD with documentation and official findings. HUD reserves the right to suspend any appraiser found guilty of professional misconduct as adjudicated by the professional organization.

7-2 ENFORCEMENT

FHA intends to hold appraisers accountable for valuations that are inconsistent with USPAP or this Handbook. The Valuation Conditions Form must accurately reflect any locational, structural or mechanical deficiencies. FHA recognizes that most appraisals are properly valued and do not indicate improper action. Accordingly, HUD emphasizes quality assurance, but will take enforcement action when necessary.

A. STATE CERTIFICATION BOARDS

HUD will enforce actions against appraisers through existing state certification and licensing boards. HUD is required by law to refer appraisers to these boards if HUD considers the actions to be of such magnitude or frequency as to warrant such referral.

B. PROFESSIONAL ORGANIZATIONS

HUD will cooperate with and refer cases to the enforcement arms of all applicable professional organizations.

7-3 APPLICABLE REMEDIES AND SANCTIONS

FHA will review appraiser and appraisal performance data. In making any determination, the following will be considered:

- the seriousness and extent of the non-compliant action
- the degree to which the appraiser is responsible for that action
- the frequency of the action(s)
- any mitigating factors

HUD will impose sanctions on four tiers:

- 1 Notice of Appraisal Deficiencies and Remedial Education
- 2 Administrative Sanctions
- 3 Civil Sanctions
- 4 Criminal Sanctions

- (7-3) HUD expects that all appraisers performing appraisals for FHA are knowledgeable of HUD's policies and procedures. If, however, minor appraisal errors indicate lack of knowledge, HUD may require remedial education and training. For offenses arising from unethical behavior or for repeated offenses, HUD will apply more serious sanctions. All sanctions will be reported to the state regulatory agencies.

The following sections generally define the actions taken under each tier. Generally, these penalties will be expunged after three years. A table providing examples of offenses and possible sanctions is included at the end of this chapter.

A. NOTICE OF APPRAISAL DEFICIENCIES AND REMEDIAL EDUCATION

Education and training directives will be managed internally by HUD. If the evidence indicates that the appraisal deficiency is a matter of training, then the appraiser must undergo professional training. HUD will notify the appraiser and inform the appraiser of:

- the appraisal's deficiencies
- the findings that support the recommended training
- the recommended training
- the appraiser's right to refute the findings of the notice

The appraiser must appeal within 20 days from receipt of the notice if he or she disagrees with the findings. If the findings are adequately refuted, no action will be taken against the appraiser and the circumstances surrounding that particular incident will be noted in the appraiser's file. However, if the findings hold, the appraiser must comply with HUD's requirements for improved performance, including the type of training required and the time-frame for completion. This action will go on record in the appraiser's file.

B. ADMINISTRATIVE SANCTIONS

Administrative sanctions will be managed internally by HUD and consist primarily of removal from the FHA Register for a specified time. Removal from the FHA Register can be imposed for non-compliance with FHA policies and requirements on appraisals. HUD will consider the seriousness of the appraiser's acts or omissions and any mitigating factors.

HUD/FHA will notify the appraiser of the alleged violation and pending sanction in writing. If the appraiser believes that removal from the FHA Register is unwarranted, the appraiser must appeal in writing within 20 days and may arrange a meeting or conference call with FHA at a mutually acceptable time. If there is evidence and documentation of unacceptable performance, appraisers will be removed from the FHA Register at HUD/FHA's sole discretion.

Upon any legally effected removal, HUD will notify the state licensing or certification agency in writing that such appraiser has been removed from the FHA Register. HUD will provide the state agency with:

- the state license or certification number of the appraiser

- the reason for removal
- a copy of the original appraisal(s)
- a copy of the review report

(7-3)

In addition to removal from the FHA Register, administrative sanctions include sanctions under 24 CFR Part 24, Debarment, Suspension and Limited Denials of Participation (LDP) from HUD and government-wide programs.

C. CIVIL SANCTIONS

HUD will pursue civil sanctions by initiating an investigation of the alleged non-compliant action. A report containing the findings and conclusions of the investigation will be submitted to HUD's Office of the General Counsel or The Enforcement Center. If the Office of General Counsel or The Enforcement Center determines that the investigation report supports an action, the respective office will submit a written request to the Department of Justice for approval to pursue civil sanctions. Civil sanctions are pursuant to Part 24 CFR 28—PFCRA and are described in Chapter 7-1.

D. CRIMINAL

If the non-compliant action is so egregious as to violate criminal law, HUD's Office of General Counsel or the Inspector General will refer the case to the Attorney General at the U.S. Department of Justice.

E. PERFORMANCE VIOLATIONS AND LEVEL OF SANCTION

The following chart outlines the type of sanction to be levied by the type of performance violation. For example, the appraiser may receive a Notice of Appraisal Deficiencies for a square footage error of less than 10% as a first offense. However, repeatedly making this mistake will result in removal from the FHA Register. If the violation is repeated so that it constitutes a pattern of misconduct, it may be considered gross negligence. The offense could also be considered gross negligence if the offense is so obvious that it could not have reasonably been the result of simple error. In this example, the sanction for gross negligence includes removal from the FHA Register and may include a Limited Denial of Participation or Debarment.

Violations of intent include knowing and willful non-compliance with FHA/HUD requirements, as well as extensive or repeated intentional violations. In this example, the appraiser is guilty of intentional misconduct if he or she chooses to disregard the requirement. Sanctions at this level may include debarment and civil and/or criminal penalties. The Department may impose civil money penalties or other sanctions for minor violations if the Department determines that circumstances warrant.

7-4 PERFORMANCE AND SANCTION MATRIX

This is not an exhaustive list of violations. It is meant to highlight the ramifications for non-compliant performance. This does not preclude the Department from pursuing other remedies or related sanction(s); the Department reserves the right to take any such other actions and remedies in accordance with applicable law. Time frames are included for illustration and can vary depending on the degree of violation.

| | Violation | Ordinary Negligence | | Gross Negligence | Willingly or Knowingly | Maliciously or Repeatedly |
|---|---|--|--|--|---|---|
| | | First Offense | Repeated Offense | | | |
| A P P R A I S A L P R O C E | Failure to obtain timely and suitable comparable data | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| | Failure to correctly report form of ownership interest | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| | Failure to provide complete appraisal as per USPAP Standard 1 | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |

| | <i>Violation</i> | <i>Ordinary Negligence</i> | | <i>Gross Negligence</i> | <i>Willingly or Knowingly</i> | <i>Maliciously or Repeatedly</i> |
|---|---|--|--|--|---|---|
| | | <i>First Offense</i> | <i>Repeated Offense</i> | | | |
| SS | Failure to visit the subject property or comparable | | | | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| A P P R A I S A L | Failure to report accurate appraisal as per USPAP Standard 2 | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| | Value conclusion not supported by data and analysis in appraisal report | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| REP O R | Sq. footage error of less than 10% | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 6 m) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |

| | Violation | Ordinary Negligence | | Gross Negligence | Willingly or Knowingly | Maliciously or Repeatedly |
|-------------------------|--|---|--|--|---|---|
| | | First Offense | Repeated Offense | | | |
| TITLING | Sq. footage error of more than 10% | Removal from FHA Register (6 m to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| APPRAISAL REPORT | Overvaluation >5% | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| | Incomplete or inaccurate description of neighborhood | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| | Appraisal has inconsistencies and calculation error | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |

| | Violation | Ordinary Negligence | | Gross Negligence | Willingly or Knowingly | Maliciously or Repeatedly |
|--|--|--|--|--|---|---|
| | | First Offense | Repeated Offense | | | |
| R T I N G | Incorrectly reports significant physical characteristics | Notice of Appraisal Deficiencies on file | Removal from FHA Register (3 to 6 m) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| R E P A I R | Failure to recognize termite, fire or flood damage | Notice of Appraisal Deficiencies on file | Removal from FHA Register (1 to 6 m) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| | Failure to recognize property in Flood Plain | Removal from FHA Register (3 to 6 m) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| C O N D I | Failure to correctly identify public sewer vs. septic system | Removal from FHA Register (1 to 3 m) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |

| | <i>Violation</i> | <i>Ordinary Negligence</i> | | <i>Gross Negligence</i> | <i>Willingly or Knowingly</i> | <i>Maliciously or Repeatedly</i> |
|--|--|---|--|--|---|---|
| | | <i>First Offense</i> | <i>Repeated Offense</i> | | | |
| TI O N S | Failure to identify housing type | Removal from FHA Register (6m to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| REPAI R | Failure to accurately report defects that adversely effect property and cost under \$5,000 to repair | Removal from FHA Register (6 m to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| C O N D I T | Failure to accurately report defects that adversely effect property that cost over \$5,000 to repair | Removal from FHA Register (6 m to 1year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |

| | Violation | Ordinary Negligence | | Gross Negligence | Willingly or Knowingly | Maliciously or Repeatedly |
|----------------------------|---|---|--|--|---|---|
| | | First Offense | Repeated Offense | | | |
| I O N S | Failure to report major defects which may impair the health or safety of the property occupants | Removal from FHA Register (up to 6 m) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| PROFE | Failure to maintain files | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| SS IO N | Conflict of interest undisclosed | Removal from FHA Register (6 m to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |

| | <i>Violation</i> | <i>Ordinary Negligence</i> | | <i>Gross Negligence</i> | <i>Willingly or Knowingly</i> | <i>Maliciously or Repeatedly</i> |
|------------------------|--|--|--|--|---|---|
| | | <i>First Offense</i> | <i>Repeated Offense</i> | | | |
| AL I SM | Failure to maintain good standing with appraisal licensing board | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register and/or Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |
| | Performing an appraisal in a jurisdiction where not licensed | Notice of Appraisal Deficiencies on file | Removal from FHA Register (up to 1 year) | Removal from FHA Register and/or LDP/Debarment | Removal from FHA Register Debarment Civil Penalties | Removal from FHA Register Debarment Civil Penalties Criminal Penalties |

Note: The Department may apply Civil Money Penalties for these violations.

8 MANUFACTURED HOMES

8-0 DEFINITION

A Manufactured Home is a structure that is transportable in one or more sections. In traveling mode, the home is eight feet or more in width and forty feet or more in length. A Manufactured Home is designed and constructed to the Federal Manufactured Construction and Safety Standards and is so labeled. When erected on site, the home is:

- at least 400 square feet
- built and remains on a permanent chassis
- designed to be used as a dwelling with a permanent foundation built to FHA criteria

The structure must be designed for occupancy as a principal residence by a single family.

8-1 PROPERTY STANDARDS FOR TITLE II MORTGAGE INSURANCE

The appraiser should be aware of the primary standards in this Handbook to prepare an appraisal for underwriting purposes. These are the key standards:

- The site must be served by permanent water and sewer facilities approved by the local municipal authority, if available at the site.
- An all-weather roadway must serve the site.
- The entire property must be taxed as real estate.
- The towing hitch or running gear must have been removed. The towing hitch or running gear must also have been removed for properties greater than one year.
- No part of the finished grade level under the home is below the 100-year flood level.
- Structural integrity must have been maintained during transportation and sufficient anchoring, support and stability must be evident.

All manufactured homes must have an affixed HUD seals(s) located on the outside of the home. If the home is a multi-wide unit, each unit must have a seal. These seals will be numbered sequentially. If the tags are missing from the property, the appraiser must recommend rejection of the property and notify the lender.

In some states, a manufactured home may not be resold without a seal and homes without a HUD seal must be rejected. In states where resale without a HUD seal is permissible, a manufacture's certification must be obtained verifying the date of the sale.

The certification label/seal shall be located at the tall-light end of each transportable section of the manufactured home approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the manufactured home unit as practicable. The roadside is the right side of the manufactured home when one views the manufactured home from the tow bar end of the manufactured home. (24 CFR 3280.11 (d))

- The home must be erected on a permanent foundation in compliance with the Permanent Foundation Guide for Manufactured Housing. All proposed or newly constructed manufactured homes must meet the standards set forth in the Permanent Foundation

Guide. A licensed professional engineer's seal and signature (certification) is required to indicate compliance with the Foundation Guide. The lender should furnish the appraiser with a design engineer's inspection of the foundation prior to the appraisal.

- Existing manufactured homes in place over one year are to be inspected by the appraiser for evidence of permanent concrete footings with tie-downs anchored to the footings.
- The appraiser must inspect the crawl space for the following: poured in place concrete footings placed below the frost line supporting the manufactured home carriage frame, tie-downs anchored to the footings, protection from the elements and enclosed with material imperious to rot and infestation and perimeter foundation-type construction with footings extended below the frost line. The appraiser must require an engineering inspection if there is evidence of structural defects or other problems relating to the foundation or set-up of the home.
- The manufactured home must not have been constructed before June 15, 1976. The unit must have been built to the manufactured housing construction safety standards as evidenced by having a small, red metallic label attached to it. Any unit without this label is unacceptable. If it has been removed, it cannot be reattached to make it acceptable for FHA insurance.
- New, never occupied homes that are transported directly from the manufacturer or directly from the dealership to the site are eligible for insurance. For an existing manufactured home, evidence must be provided to verify that the home was assembled in accordance with the above paragraphs and has not been moved from its initial installation location.
- Additions or structural modifications may put the home at risk if changes were not performed in accordance with the HUD Manufactured Home Construction Safety and Standards. If the appraiser observes changes to the original home, an inspection by the State Administrative agency, which inspects manufactured homes for compliance, must be required. If there is no agency willing or able to inspect existing homes for compliance to the Manufactured Home Construction and Safety Standards, the manufactured home is unacceptable and should be rejected.

8-2 PROPERTY DESCRIPTION

Measurement is based on the overall length, including living areas and other projections that are at least seven feet in height. Length and width should not include bay windows, roof overhangs, drawbars, couplings or hitches. Each manufactured home must have a data plate with the name of the manufacturer and the construction date.

8-3 APPRAISER QUALIFICATIONS FOR MANUFACTURED HOMES CLASSIFIED AS PERSONAL PROPERTY

For all appraisals of manufactured homes classified as personal property, lenders must engage independent fee appraisers who have successfully completed a specialized course in manufactured home valuation based on the N.A.D.A. appraisal system. These independent fee appraisers must be knowledgeable in the business of manufactured home retail sales. Appraisal services may be obtained from an appraisal company if their appraisers meet these qualifications.

8-4 MANUFACTURED HOME LOT APPRAISALS

A manufactured home lot appraisal may be requested to estimate land value in determining the maximum loan proceeds allowable for a manufactured home lot loan or a combination loan (home and lot). A lot appraisal may also be requested to establish value for claim purposes on a foreclosed lot or manufactured home-and-lot combination.

When appraising manufactured housing, appraisers should use normal single-family residential appraisal techniques (see Chapter 4 of this Handbook). Give special consideration to other manufactured homes as comparables in appraising manufactured homes. This will provide a comparable value indication from which to make justifiable conclusions. Therefore, make all efforts to obtain such comparables even though their distance from the subject may be greater than normally desirable.

If there are no manufactured housing sales within a reasonable distance from the subject property, use conventionally built homes. Make the appropriate and justifiable adjustments for size, location, construction materials, quality, etc. As a point of reference, sales data for manufactured homes can usually be found in local transaction records.

A. MANUFACTURED HOME LOT LOCATIONS

A manufactured home lot may consist of:

- an interest in a manufactured home condominium project (including an undivided interest in the common areas)

OR

- a share in a cooperative association that owns and operates a manufactured home park

The lot may be located within Native American Trust Lands if the borrower owns or leases the lot.

B. HOW TO PERFORM A MANUFACTURED HOME LOT APPRAISAL

In addition to the single-family residential appraisal techniques (see Chapter 4 of this Handbook), the appraiser must take the following steps when performing manufactured home lot appraisals:

- The appraiser must obtain Form HUD-92802, Application and Request for Manufactured Home Lot and/or Site Preparation and the FHA case number from the mortgagee.
- The appraiser must receive a copy of the design engineer's inspection of the foundation from the mortgagee.
- The appraiser must estimate the value of the lot by comparison with other lots offering similar amenities.
- When the appraisal is complete, the appraiser must send the original and one copy of the appraisal report, a photograph of the lot and one photograph of each comparable to the lender for review.

9 PLANNED UNIT DEVELOPMENTS AND CONDOMINIUMS

9-0 PLANNED UNIT DEVELOPMENT (PUD)

A PUD is defined as a mixed-use residential development of single-family dwellings in conjunction with rental, condominium, cooperative or town house properties. A residential development should be processed as a PUD if it has these minimum characteristics:

- a homeowner association that holds either title in fee or a lease of prescribed length on the common area
- mandatory membership of all unit owners (or units) in the association
- the right of all unit owners to participate by vote in the operation of the association
- lien supported assessment of the members to meet the association's budgeted operating costs (special assessments may be handled differently)

To be eligible for insurance endorsement, PUDs must be approved by HUD. The lender is responsible for obtaining a case number from HUD to ensure that the PUD is already approved. The appraiser should note whether there is a case number.

A. APPROACH TO VALUE

The approach to value for a PUD is the same as the approach to value for other types of developments (see Chapter 4 of this Handbook). Frequently, however, no valid comparisons are available that estimate market value. In these instances, appraisers should use the replacement cost estimate in valuation. Estimate the replacement cost of improvements, miscellaneous allowable costs and marketing expenses the same as any Section 203(b) case. If properties in similar developments in the area have been sold, then direct comparisons are possible and the Comparative Approach would be valid and should be used.

B. ESTIMATE OF MARKET PRICE

Estimating the market price of an equivalent site requires consideration of these factors not usually encountered in ordinary appraisals:

- Consider the size of individual sites when approaching the use of common areas and recreational facilities.
- If there are similar developments in the neighborhood, consider a comparison of common areas, including recreational amenities.
- If there are no similar developments, place more emphasis on the cost to produce a similar site with similar facilities and benefits.
- Distribute the pro rata supportable cost to maintain the common improvements, facilities and land owned by the homeowner's association to each site in the development (subdivision) and add it to the estimated value.
- To reflect additional amenities to the common areas, include an estimate on the Marshall and Swift Form 1007. On line 32, cross out "landscaping cost" and enter "additional amenities".

- Consider maintenance charges regarding cluster arrangements. For example, note whether the advantages of cluster arrangements are negated by high maintenance charges.
- Before performing the assignment, check with the lender to ascertain that the project is on an approved list maintained by the Home Ownership Center (HOC). Check the URAR item indicating that the property is within a PUD project.

9-1 CONDOMINIUMS

A condominium is a form of fee ownership or long-term leasehold of separate units or portions of multi-unit buildings that provides for formal filing and recording of a divided interest in real property. In contrast to a PUD, a joint share in ownership of the common area is part of the mortgaged property, and therefore, constitutes a measure of the security backing the mortgage loan. FHA's interest is therefore more immediate and direct with respect to the common areas of condominiums than those of PUDs.

Before performing the assignment, the appraiser must check with the lender to ascertain that the project is on an approved list maintained by the HOC or by a DE underwriter who has performed a spot condominium approval. The appraiser must check the URAR item indicating that the property is within a condominium project, and therefore, eligible for FHA endorsement.

A. DEFINITIONS

Mortgage: a lien covering a fee interest or eligible leasehold interest in a one-family unit in a project, together with an undivided interest in the common areas and facilities serving the project.

Family Unit: a one-family unit including the undivided interest in the common areas and facilities and such restricted common areas and facilities as may be designated.

Common Areas and Facilities: areas that are for the use and enjoyment of the owners of family units located in the project, including the land, roof, main walls, elevators, staircases, lobbies, halls, parking spaces and community and commercial facilities.

Restricted or Limited Common Areas and Facilities: areas and facilities restricted for use by a particular family unit or number of family units.

Project: a structure or structures containing four or more units.

Conversion: the creation of the condominium as of the date when all of the documents necessary to create a condominium regime have been recorded under state and/or local law.

Tenant: the occupant named in the lease or rental agreement of a housing unit in a project on the date when:

- the condominium conversion documents are properly filed for the project, or
- on the date when the occupants are notified by management of intent to convert the project to a condominium, whichever is earlier.

Bona fide Tenants' Organization: an association formed by the tenants to promote their interest in a particular project whose membership is open to each tenant and whose requirements apply equally to each tenant.

Condominium Fee (Assessment): the apportionment of common expenses that are to be charged to a unit owner in a manner to be determined in the declaration or by-laws. The charge may include costs for utilities on individual units and on common use buildings, security requirements, salaries for employees of the association and repairs to common facilities.

(9-1)

B. APPROACH TO VALUE

The approach to value for a single unit in a condominium project is similar to that for other home mortgage programs. As in other home mortgage appraisals, value indications from the Sales Comparison and Income Capitalization Approaches are developed and considered (see Chapter 4 of this Handbook). The cost approach can not be performed for a condominium unit.

1. Sales Comparison Approach

The appraiser should obtain sales data from any other units in the project and from other competitive condominium projects, including adjustments because of location factors, such as:

- differences in views from the unit
- proximity to recreation areas (swimming pools, clubhouses, tennis courts, etc.)
- proximity to odors and the nuisance of incinerators
- proximity to garbage chutes or refuse areas
- proximity to noisy pumps or boiler rooms

Adjustments must also be made for the following:

- differences in physical improvements within the dwelling that have been made by the owner-occupant
- differences in preferences of purchasers between upper and lower floors and all other location factors

APPENDIX A: VALUATION OF OTHER PROPERTIES

A-1 REAL ESTATE OWNED (REO)

HUD's Real Estate Owned (REO) properties are a result of paying a claim to a lending institution and the lender transferring ownership of the property to HUD. Typically, REO properties were owned by the lender because the borrower defaulted on the mortgage.

The appraiser must coordinate a specific time for a full site inspection of the property with the property manager. Generally, REO property is secured with the utilities turned off. However, the appraiser should attempt to have the utilities turned on to examine all building systems during the appraisal.

A. Appraiser Requirements

Requirements for appraisers who perform REO appraisals are the same as for appraisers of any other property. An appraiser of REO property must be state licensed and be a current member of the FHA Register.

B. Appraisal Requirements - "As-Is" Value

REO properties are to be appraised "as-is". *The Dictionary of Real Estate Appraisal*, third edition, defines "as-is" market value as follows:

"The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to that which physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible reasoning."

The "as-is" value is the market value for the property as it exists **on** the date of the appraisal.

The appraisal shall consist of the Uniform Residential Appraisal Report (URAR) and the Valuation Conditions (VC) form. The appraiser shall indicate on the appraisal or an addendum to the appraisal if the property can be sold with FHA mortgage insurance (meets FHA minimum property requirements) either (1) in its as-is condition without repairs or (2) in its as-is condition with repairs costing \$5,000 or less. If the property can be sold with FHA mortgage insurance by making \$5,000 or less in repairs, the appraiser shall provide a list of the repairs and their estimated cost. If the property needs more than \$5,000 in repairs to make it eligible for FHA mortgage insurance, the appraiser needs only to list the general areas of repairs and provide a statement that such repairs will exceed \$5,000.

C. Effective Date of Value

The effective date of value is the date when the appraiser performs the site visit for the subject property. If another date is used as the effective date, the appraiser must specifically indicate:

- the alternative date
- the date when the subject property was physically inspected

(A-1) D. Scope

The appraiser must perform the complete appraisal process, which includes considering all applicable approaches to value and developing appropriate approaches identified in this Handbook.

E. Purpose

The purpose of the REO appraisal is to help establish the sales price for the subject property. REO appraisals will estimate the “as-is” value of a foreclosed property owned by HUD.

F. Intended Use of Appraisal/Function

The intended use or function of a REO appraisal is to provide the “as-is” value of foreclosed property for marketing and bidding purposes. Great reliance will be placed on the as-is value of the property for future sale. The as-is value supports FHA’s sales price for the disposition of the property. The extent of repairs needed to the property will determine if it is offered for sale with FHA-insured financing or without insured financing. If the property meets minimum FHA property requirements without repairs, or meets FHA minimum property requirements with \$5,000 or less of repairs, the property will be offered with FHA insured financing. If required repairs exceed \$5,000, the property will be offered without Section 203(b) insured financing, but eligible for Section 203k insured financing.

G. Additional Requirements

The appraiser must value the subject property from the information gathered and arrive at an estimated market value of the subject property based on the requirements detailed in Chapter 4—Valuation Analysis—of this Handbook.

Include all transaction data of the previous homeowner, date of that transaction and sale prices based on USPAP requirements. This provides a benchmark or frame of reference for the property and neighborhood market conditions.

For properties where the interior cannot be inspected because of adverse occupants or other reasons, estimate the value based on an exterior inspection of the property. *Use the Freddie Mac 704 form, Second Mortgage Property Value Analysis Report, in conducting exterior estimates of value.* Prepare a narrative report on the outside condition and the apparent maintenance of the property in contrast to the neighborhood properties. Include the estimate of value and include photographs of the exterior, as well.

A building sketch is required, but a floor plan or room layout of the property is not required.

The appraiser must consider and note the exposure period and estimate how long the property is expected to remain on the market. The exposure period differs from the marketing period. The exposure period estimates the length of time the property interest would have been offered on the market before the effective date of the appraisal. The concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effect. The Valuation

Analysis must be based upon a Reasonable Exposure Period.

When appraising REO properties, the appraiser must adhere to all other valuation and appraisal requirements discussed in previous chapters.

A-1.1 Approaches To Value

A. Cost Approach

Generally, the Cost Approach is not developed for REO properties. If the Cost Approach is justified, follow the specifications outlined in Chapter 4: Valuation Analysis. The appraiser is required to quantify repair costs in depreciation for an “as-is” value.

B. Sales Comparison Approach

Often, the Sales Comparison Approach is the most applicable approach to estimate the market value of a REO property. Appraisers must utilize sales comparables from other REO transactions from HUD, the Department of Veterans Affairs, Fannie Mae, Freddie Mac, or a conventional lender, as long as they include the following requirements:

- in the subject neighborhood or reasonable proximity
- comparable property subject to reasonable adjustment
- sold with a willing buyer and seller
- exposed to the market for a reasonable period

If comparables such as these are not available, regular market comparables may then be used.

Do not use distressed sales such as Sheriff Sales in the Sales Comparison Approach. These sales do not involve a willing seller nor are they exposed to the market under normal conditions. The resulting value indication derived from the use of such sales is not consistent with the definition of market value. Always use the sales comparison approach for one- and two- unit properties.

This approach relies on:

- the availability of sales data
- the volume of transactions
- the mirroring of Sales Comparison Approach
- the market
- the ability to observe and report the most recent market trends

Data confirmed and developed under this approach has direct application to the other approaches used and should be considered therein. At least three comparable sales must be used with this approach. At all times, the appraiser must carry forth the assumptions and data from the other approaches and the VC form in developing a value estimate by the Sales Comparison Approach.

C. Income Approach

Generally, the Income Approach is not developed for one- or two-family REO properties. If the market indicates that the Income Approach is justified, follow the specifications outlined in Section 5: Valuation Analysis. For three- and four-unit properties, always use the income approach.

A.1.2 Reporting Requirements

An REO appraisal must be performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP).

Other reporting requirements are as follows:

- With each appraisal, the appraiser must provide a list of any buyer incentives that would enhance the marketability of the property to provide an incentive to buy the property un-repaired as opposed to repaired.
- For all property constructed before 1978, the appraiser must condition the appraisal on the completion of a lead-based paint test.
- For appraisals of vacant lots (land), complete Form FW 68, Land Appraisal Report, or an equivalent form.

A-1.2 Reconciliation

The final analytical step in the valuation process is to reconcile value indicators. In this step, the appraiser must measure the strengths and weaknesses of each applicable approach and develop this data into a single value estimate.

A-2 APPRAISAL OF SINGLE FAMILY HOMES ON NATIVE AMERICAN LANDS

For purposes of this appraisal guidebook, if a lender specifically needs an appraisal under HUD/FHA's Section 248 program on Tribal Trust land or for HUD's Office of Native American Program (HUD/ONAP) Section 184 on Tribal Trust, allotted (which is also known as individual trust) and fee simple lands, these guidelines will apply. If the property is on allotted (or individual) trust or fee simple land located on Native American Reservations and it will be mortgaged under HUD/FHA's Section 203(b), the appraiser must use the basic appraisal methodology addressed in this handbook.

Within designated Native American Reservations, treaties and tribal laws have created a variety of ownership patterns. Some parcels may be unrestricted fee simple, other parcels restricted tribal trust or allotted trust land. The appraiser must be familiar with the different restrictions and develop a reasonable value for the subject property. Following are the general designations.

A. FEE SIMPLE UNRESTRICTED

Fee simple unrestricted ownership is ownership real property which may be bought, sold and transferred between Native American or non-Native American purchasers without review by the Tribe or Bureau of Indian Affairs, (BIA). For the HUD/ FHA

Section 203(b) program, appraisals must conform to all other standard HUD appraisal policies. For the HUD/ONAP Section 184 program, fee simple land on a reservation, the procedures utilized for tribal trust and allotted trust may be followed.

Restricted Trust Land is land held by an individual Indian or Tribe which is subject to Federal restriction against alienation or encumbrance. Before any lien can be placed against restricted land, the transaction must be approved by the Bureau of Indian Affairs (BIA). All HUD loans must comply with this requirement and provide evidence in the HUD loan file. Lenders are encouraged to make contact with the appropriate BIA and Tribal realty officers early in the loan processing.

B. TRIBAL TRUST

Tribal trust lands are held in trust for the tribe by the United States government. Tribes may lease portions of the tribal trust land for the use of specific individuals, but ownership, through the Federal trust, remains with the tribe.

C. ALLOTTED (OR INDIVIDUAL) TRUST LAND

Land owned by individual tribal members but held in trust by the United States government. It is common for allotted trust lands to be owned by several individuals. If a prospective borrower proposes to use all or a portion of a fractionated property, all other owners must indicate acceptance of this arrangement by becoming parties to the mortgage or subdividing the subject parcel out to the individual for undivided ownership.

A-2.1 PROPERTY RIGHTS APPRAISED

A. TRIBAL TRUST LAND

HUD/FHA's Section 248 insures mortgages and HUD/ONAP's Section 184 guarantees mortgages on homes that are located on Native American Tribal Trust Land. For these properties, leased ownership of the underlying land remains with the tribe and will be subject to a long-term 50 year ground lease (or a 25 year lease with a 25 year renewable term). Determining the value for the leasehold estate is the purpose of the appraisal and the subsequent use is to provide supporting documentation for a HUD insured or guaranteed mortgage. Mortgages on tribal trust sites must include an acceptable lease signed by the mortgagor and Tribal authority and approved by the BIA.

B. ALLOTTED (OR INDIVIDUAL) TRUST LAND

Mortgages on allotted (or individual) trust sites do not involve a lease, but a specific mortgage rider is required. All HUD loans must have a Deed of Trust Rider attached approving the mortgage pursuant to 25 USC 483 (a) and approved by the BIA.

HUD/ONAP's Section 184 guarantees mortgages on allotted trust land. Allotted trust land is held in trust by the federal government for individual Native Americans. The land is owned by the individual and value is given for the land. When appraising allotted trust land for Section 184, appraisers may follow the method given for Tribal Trust Land.

HUD/FHA insures mortgages on homes that are located on allotted trust land under Section 203(b). The appraiser can use this data for background information, but must use the typical appraisal practices for FHA Section 203 addressed in Chapters 3 and 4 of this handbook.

The appraiser must perform the complete appraisal process according to current USPAP and HUD/FHA standards. This includes consideration of all applicable approaches to value and complete development of all applicable approaches, as identified herein.

A-2.2 APPROACHES TO VALUE

The appraiser must be familiar with the different restrictions and develop the appropriate value for the subject property. The supply of comparable sales and rental transactions vary by location and by tribes. Until sufficient sales exist on a reservation or within the specific Native American area to provide a reasonable sales comparison approach for determining the value of tribal trust leaseholds or allotted land sales, the appraiser must rely on other value indicators. The appraisal process must be documented more thoroughly than a typical market appraisal. USPAP Standards #1 and # 2 are effective to allow the appraiser to “correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.” And “in reporting the results of a real property appraisal an appraiser must communicate each analysis, opinion and conclusion in a manner that is not misleading.” An appraisal on trust land may rely more on the cost approach, or data developed from other tribes. HUD will accept the report if the appraiser has documented the search, information developed and conclusions clearly for the intended users to understand.

A. Cost Approach

The cost approach is often the primary indication of value based on the unique nature of the reservation setting. In conjunction with the completion of this approach on tribal trust sites, the value of the site as vacant does not apply. On the cost approach addenda to the URAR the value of the site is zero or a small leasehold value. If the land lease is at market and there was no upfront payment the lease-fee value is equivalent to the leasehold value, which is zero. This is the typical scenario and no value exists for the underlying land. The appraiser should enter the statement “subject is on Tribal Trust Land with annual rent not capitalized” in comments. If a market exists and the land was purchased, the value is estimated via traditional methods.

1. New Construction

Due to the flexibility allowed by law, HUD permits the inclusion of development costs for new construction, which can exceed market value, to be used in both Section 248 and Section 184. Following are instructions specific to new construction on tribal lands. The basic appraisal methodology is addressed in Chapter 4 of this handbook.

In addition to including the cost of water, septic, and any other on-site costs in the cost approach, for lands within the reservation, the appraiser may provide an allowance for off-site development costs. The lesser of actual pro-rated costs or up to 10% of the cost of the construction of the subject house may be added for

off-site infrastructure associated with development of the subject lot. This policy applies principally to new construction where such charges are assessed by tribally approved entities such as housing entities or housing authorities, or agreements with other federal or local government bodies for providing power, utilities, sewer/water and/or road construction. The costs to bring utilities; including public water, sewer, electricity, and telephone represent significant development costs. The traditional tract development of residential homes may not be a part of the local culture. Therefore, the utility costs to hook-up to any form of a public system in a more rural area can exceed local standards.

(A-2.2)

In remote areas, the construction costs in the Marshall & Swift guide or related cost manuals may have to be adjusted for transportation, labor or other costs not included in the basic estimate. Architect fees are not typically reflected in the base building costs. Due to special circumstances the normal allocation for this fee may not automatically reflect the above actual cost. The appraiser must provide a supporting explanation in the adjustments to the construction costs.

2. Existing Construction

Where market sales are limited, HUD requires the cost approach to be completed on all tribal trust appraisals, including a credible estimate of depreciation.

B. Sales Comparison Approach

Native American communities are developing economies at varying rates and degrees. It is important for the lender and HUD to understand the economic factors which affect value. Therefore the appraiser must communicate the local tribal housing market. The sales comparison approach will generally be completed, and in remote areas may involve sales up to 18 months old. Where no credible comparables are available, a narrative justification that discusses the market, and provides any sales, rental or vacancy information pertinent to the subject will be acceptable to support value developed from the cost approach. In addition to the typical data sources the appraiser may obtain sales information from the local tribal or Bureau of Indian Affairs (BIA) realty office. Sales from other reservations within the region may be considered. Each situation will have unique factors and the appraiser should explain deviations from the sales comparison approach instructions outlined in Chapter 4 of this Handbook. The order of selection preferences for sales would depend on the type of land being appraised.

- Tribal Trust Leasehold sales (market sales between tribal members)
- Sales of allotted land trust between tribal members
- Fee Simple within the Reservation (residual value of the improvements by adjusting out the land contribution)
- Fee Simple proximate to the Reservation

For comparable sales that include land value, an adjustment is required to back-out the raw land value. This adjustment is required when comparing a fee simple comparable sale to a Native American trust sale transaction.

Enter adjustments on the form under "Other" and label as 'Raw Land Value,' which is determined separately for each of the comparable sales.

C. Income Approach

The income approach is generally not developed with regard to Native American Trust Land. If the property includes a rental unit(s), the appraiser must provide an estimate of monthly rent for each unit and note whether or not the rent is limited to the tribal sub-market. If the appraiser determines that this approach is justified, the appraiser should complete the income approach according to the specifications outlined in Chapter 4 of this Handbook.

A-2.3 Reconciliation of Value

The appraiser must determine the market value for the restricted trust properties from the limited data available. Value determination on trust land is an exception to typical HUD/FHA instructions; value is not limited to the lower of cost or market. Where market information is limited, greater weight may be given to the replacement cost approach. Document the decision process and the value.

A-2.4 HUD/FHA REQUIREMENTS

On loans involving restricted trust land, with either Section 184 or Section 248, HUD waives the requirement of a strict interpretation of market value and will accept loans based on the above market cost approach. All other HUD health, safety, access, and property condition issues must conform to FHA requirements.

The appraiser must indicate if the property is in need of, or in the process of receiving any repairs. Make appropriate requirements for repairs to-be-completed and appraise the property “as repaired.”

The appraiser must indicate if the property conforms to the applicable Minimum Property Requirements of this Handbook. If it does not, the appraiser must recommend correction of the deficiency or rejection of the loan and explain. Tribally owned and maintained streets and utilities are considered publicly owned. Appraisers must require easements and a maintenance agreement for non-public, common ownership situations.

HUD accepts tribal enforcement of building codes and inspections to the extent they are standard and enforced. At the point tribal support is not available, review and certification that the work complies with an appropriate national standard must be contracted out to a licensed or certified specialist. Example, a tribe issues building permits, but has no provisions for inspections. The lender/borrower must contract with a lender approved qualified specialist such as an engineer, architect or inspector. Inspection/approval by the Indian Health Service is acceptable for individual or community water and sewer systems.

The remaining economic life must be estimated and reported but does not limit the mortgage. The subject property must possess sufficient remaining physical life to warrant a long-term mortgage. The mortgage term may not exceed the remaining physical life of the property.

A. HUD/FHA Section 248 and HUD/ONAP Section 184 Requirements

For both Section 248 and Section 184 programs, the property must be free of hazards, noxious odors, grossly offensive sights or excessive noises which might endanger the physical improvements, affect the livability of the property, its marketability, or the

health and safety of its occupants. If any of these conditions exist, the appraiser must recommend correction of the problem or rejection of the loan and explain.

For both programs, the appraiser will make appropriate requirements to correct any observed or potential environmental problems. Many reservations have not been mapped for the 100-year flood plain. If the appraiser observes a possible flood plain problem, they are to require flood insurance on existing properties. The Underwriter may waive the flood insurance requirement if the borrower or the tribe provides an elevation certificate from a licensed engineer that the property is not at risk from flooding. Note that the lowest floor (including basement) for new construction must be at or above the 100-year flood elevation.

B. REPORTING REQUIREMENTS

The appraiser must report if an approach was not developed and insert the rationale for exclusion of the approach. The appraiser must attach an addendum complete with the assumptions supporting the indication of value by the cost approach. The cost approach is reconciled to the other values, if any, on the URAR. The appraiser will indicate any work requirements or VC pursuant to outstanding instructions. The DE underwriter/lender must assure acceptable completion of any work requirements pursuant to existing instructions.

A-2.5 INSTRUCTIONS FOR ASSISTED APPRAISAL PROCESSING IN APPRAISAL HIGH COST AREAS

To accommodate the special conditions associated with remote locations on Native American lands, the following assisted appraisal process is allowed.

The assigned appraisers may network with local personnel where the high cost of real estate appraisals is a concern for underwriting single family mortgages in Native American communities. To minimize this problem, FHA and ONAP will allow the use of trained local personnel to perform the inspection, provide current analysis of the local market, and draft the appraisal report. The report must be forwarded to the assigned appraiser who will review the report, provide additional documentation, sign the URAR and forward the report to the lender.

Using the Assisted Appraisal Process is restricted to remote areas where licensed appraisers are not readily available. It may be used when the cost of transportation and/or time increases the cost of the appraisal to twice the cost of typical appraisals in the local urban areas. The process must be monitored and acceptable to the DE underwriter/lender. The assigned appraiser may use local subcontractors who:

- Have general real estate skills (construction, lending, sales, management) acceptable to the appraiser (such as Housing Authority staff, Tribal Designated Housing Entities (TDHE) staff or BIA realty personnel, local real estate professionals).
- Must comply with the Conflict of Interest limitations (have no personal or financial interest with the buyers or sellers of the property).

- An appraiser who signs a real property appraisal report prepared by another, even under the label of “review appraiser” must accept full responsibility for the contents of the report, USPAP Standard 2-5.
- The assigned appraiser is responsible for the entire appraisal and signs the URAR. The individual assisting in the report must document the extent of help provided and certify no conflict of interest exists in the certification.
- The assigned appraiser must be familiar with the Competency Rule in the USPAP. This includes key issues such as the unique property rights conveyed, the local market involved and market conditions. It is assumed the remote area markets will change slowly. If conditions have changed, an updated analysis is required. The assigned appraiser assumes all responsibility that the appraisal meets all HUD/FHA and ONAP program requirements.

APPENDIX B: SPECIAL PROGRAMS

B-1 203(K) REHABILITATION HOME MORTGAGE INSURANCE

The Section 203(k) program is HUD's primary program for rehabilitating and repairing single-family properties. A Section 203(k) mortgage provides financing for the acquisition and rehabilitation construction of a property. The mortgage is funded by a HUD-approved lender and insured by HUD/FHA. A Section 203(k) mortgage may be used to perform the following:

- Purchase a property and repair/renovate it.
- Purchase a dwelling on another site, move it onto a new foundation and repair/renovate it.
- Refinance existing indebtedness and repair/renovate a property.
- Repair/renovate a presently owned property.

The following table summarizes which properties are eligible under Section 203(k).

| Type of Property | Eligibility |
|---|------------------|
| Condominiums | Yes ² |
| Mobile homes | Yes |
| Cooperatives | No |
| Non-residential being converted to single family (1-4 unit) | Yes |
| Single family (over 1 year old) | Yes |

A 203(k) mortgage may be originated on a "mixed use" residential property provided that:

- The percentage floor area used for commercial purposes follows these standards:
 - One story building 25 %
 - Two story building 49 %
 - Three story building 33 %
- The commercial use will not affect the health and safety of the occupants of the residential property

² Condominiums are eligible only if they meet the following requirements:

- FHA/VA approved
- Maximum loan does not exceed 100%
- Improvements are only within the unit walls
- Condominium is complete with no ongoing or anticipated addition of any units or common areas
- Unit owners have had control of the common area for at least one year
- The condominium association has proof of hazard, liability and flood insurance coverage
- Unit is owned fee simple
- There are no restrictive covenants or provisions restricting conveyance of the unit
- A minimum of 90% of the units in the project have been sold
- 51% or greater of the units in the project are owner occupied
- No single entity owns more than 10% of the units in a project with more than 30 units.
- No single entity owns more than 20% of the units in a project with less than 30 units.

- The rehabilitation funds will only be used for the residential functions of the dwelling and areas used to access the residential part of the property.

A. ELIGIBLE IMPROVEMENTS

(B-1) A minimum of \$5,000 must be used in part for renovation and/or repair of an existing property. Minor or cosmetic repairs or new fixtures alone, such as stoves and refrigerators, are not acceptable. The repair or renovation may include:

- making structural alterations such as repair or replacement of structural damage, additions to structure and finished attics and/or basements
- eliminating health and safety hazards that would violate HUD's Minimum Property Standards
- installing wells and/or septic systems and reconditioning plumbing
- making changes for improved functions and modernization
- making changes for aesthetic appeal and eliminating obsolescence
- repairing or adding roofing, gutters and downspouts
- making energy conservation improvements
- landscaping, grading, repairing patios and terraces that improve the property equal to the dollar amount spent on the improvements
- creating accessibility for the handicapped

B. INELIGIBLE IMPROVEMENTS

Any luxury item and/or improvement that does not become a permanent part of the subject property is not eligible, including:

- additions or alterations to support commercial use or to equip or refurbish space for commercial use
- recreational or luxury improvements, such as swimming pools, hot tubs, whirlpool baths and saunas
- barbecue pits, bath houses, tennis courts, satellite dishes or tree surgery

C. BORROWER, PLAN REVIEWER AND APPRAISER

The borrower must have the following items prepared before an application, review or appraisal can occur:

- an existing plan of the structure
- a proposed plan detailing where structural or planning changes are contemplated
- inspection reports from a qualified engineer or inspection service denoting the presence of rodents, dry rot or termites and evaluating the adequacy of the existing structural, heating, plumbing, electrical and roofing systems
- specifications of repairs
- for site improvements, a plot plan denoting the location of the structure, walkways, drives and other relevant details

- description of materials (HUD Form 92005 or similar form)

203k Consultant: The borrower selects a HUD approved 203(k) Consultant to do the following:

- visit the site
- prepare work write-up that specifies a description and cost of each work item
- review the architectural exhibits for compliance with HUD's Minimum Property Standards
- inspect any of the property's health and safety items noted on the drawings

In comparing the cost estimates with others projects, the consultant can use R.S. Means & Company Repair and Remodeling Cost Data Book or The Home-Tech Remodeling and Renovation Cost Estimator. When the consultant has reviewed the property and respective plans, an appraisal can be requested.

The lender will hire the same or another 203(k) Consultant to inspect the rehabilitation during construction and sign off on all draw requests.

Appraiser: The appraiser is required to perform an "as-repaired" appraisal and to report it on the URAR. When performing an "as-repaired" appraisal, appraise the subject property at its expected market value when the proposed rehabilitation and/or improvements are complete.

Also, a lender may request an "as-is" appraisal to be recorded on a separate URAR. Under an "as-is" appraisal, the subject property is appraised in its present condition to establish the value before rehabilitation. Repair requirements or VC conditions are not included in the "as is" valuation.

The appraiser must visit the property, review the architectural exhibits showing the proposed work and review the proposal for standard valuation conditions that may have been overlooked. If conditions exist that impact the safety and health of the occupants, discuss these items with the plan reviewer to correct them in the architectural exhibits.

B-2 SECTION 255: HOME EQUITY CONVERSION MORTGAGES (*REVERSE MORTGAGES*)

A Reverse Mortgage allows a borrower aged 62 and older to borrow against the equity in a property that has limited outstanding debt. A subject property under this program must be a one- to four-unit dwelling in which the mortgagor occupies one of the units. The appraiser must perform the appraisal with the same standards and forms expected in an FHA single-family appraisal. It may be a unit in an approved condominium or Planned Unit Development (PUD). Manufactured homes are eligible if the home complies with outstanding FHA guidance. The same deficiencies and repair items must be noted on the URAR forms. In certain instances, the borrower is not required to treat any defective paint surfaces after closing for properties built before 1978.

B-3 SECTION 223(E)

Section 223(e) is a mortgage insurance program for properties located in older, declining urban areas. The program allows for the acquisition, repair and/or renovation or construction of a residential property. Under this program, FHA waives the requirement that the subject property have a Remaining economic life of at least five years if the property is in a reasonably viable location where there is a need for affordable housing.

Appraisal: The property must comply with HUD's Minimum Property Requirements of , and the appraisal must denote any deficiencies on the VC form. When conducting an appraisal on a subject property eligible for this program, the appraiser must determine the remaining economic life by examining the pattern of recent changes in the adjacent sites' land use strategies that would be incompatible with single-family use. If the remaining economic life is less than five years, prepare a plan of the subject property denoting the land use patterns surrounding it.

The physical life of the property must be sufficient to permit a long-term mortgage. Under this program, the physical life of a property can be substituted for the economic life because of the special risk provisions that compensates for the economic factors that adversely affect the property.

B-4 TITLE I PROPERTY IMPROVEMENT AND MANUFACTURED HOME LOAN PROGRAM

Title I is two loan programs, one for property improvements and one for the purchase of manufactured homes and/or lots on which the manufactured homes are to be placed. No appraisal is needed for a property improvement loan; however, an appraisal of any real property involved in a manufactured home is required or for any existing home. This would be:

- a manufactured home lot loan
- the lot portion of a combination loan for the purchase of a lot and manufactured home
- a used manufactured home

If a loan defaults, the lender repossessing the manufactured home under the Uniform Commercial Code or through judicial processes must request an N.A.D.A. appraisal. Appraisals of repossessed manufactured homes should be made before removal by the lender.

B-5 SOLAR ENERGY

To encourage the use of solar energy in homes, HUD will insure a mortgage up to 20 percent above the maximum allowable insurable amount in a geographical area if such increase is necessary to account for the increased cost of the residence due to the installation of a solar energy system which may not exceed 20 percent of the value of the property.

An eligible solar energy system is defined as any addition, alteration, or improvement to an existing or new structure which is designed to utilize wind or solar energy to reduce energy

requirements obtained from other sources. Active, passive and photovoltaic solar energy systems are permitted in this program, provided they are accompanied by operational 100 percent back-up conventional systems.

The solar energy system's contribution to value will be limited by its replacement cost or by its effect on the market price of the dwelling. In the event that market data is not available to indicate the additional amount which would be paid for a property containing a solar energy system, the amount of increase would be the lesser of the actual cost of the solar system installed in the subject house or 20 percent of the market value of the property. The difference in added value contributed by the solar system in comparison to the conventional system must represent a reasonable proportion of the total value of the property and may never exceed 20 percent of the market value of the property without a solar energy system.

A. Appraisal Procedure

The appraiser shall reflect in value the local market acceptance of solar heating equipment. Solar collectors must be located where they will be free from natural or man made obstructions to the sun.

1. Solar Hot Water Systems

Acceptability. When such systems are proposed to be installed, they must comply with the provisions of Use of Materials Bulletin Number 100, Subject: HUD Building Product Standards and Certification Program for Solar Water Heating Systems, issued August 15, 1993. [Use of Materials Bulletins are available for public inspection during regular business hours in the Office of Consumer and Regulatory Affairs, Department of Housing and Urban Development, Room 9156, 451 7th Street S.W., Washington, DC 20410. They will soon be available on the HUD Web Page.] When such a system is already installed in an existing home, the appraiser may request an inspection by a qualified solar system inspector/contractor for recommendations as to acceptability in operations, maintenance and life expectancy.

2. Photovoltaic Systems [In Preparation]

3. Limits to Value

The solar heating or hot water system's contribution to value will be limited by its replacement cost and by its effect on the market price of the dwelling. In estimating market value by comparing a subject property that has a solar heating system to a recently sold comparable property with a fossil fuel system only, increased the sale price of the comparable by the amount typically paid in the market for the solar heating system.

4. Temporary Procedure

Lack of Market Data. In the event that market data is not available to indicate the additional amount which would be paid for a property which does include solar heating or hot water system, then the amount of the increase shall be the difference in cost between all heating equipment, including solar installed in the

subject house, less the cost of all heating equipment installed in the comparable property without a solar installation.

However, in making this adjustment based on differences in cost, the appraiser shall consider the ratio between the value added by a solar heating system and the value of the property with a conventional heating system only, to ensure that the contribution of a solar heating system to the total value represents a reasonable proportion of the total value of the property.

5. Responsibility for Temporary Limit

The HOC will consider the costs of acceptable solar energy systems for homes of several sizes, and will consider the market prices of typical homes of these several sizes (without solar energy systems) in order to set a limit on the amount which a solar energy system can add to the estimated value of the subject property. This limit shall be expressed as a percentage of the market value of the subject property (before consideration of the solar energy system) and this limit shall not exceed 20 percent of the market value of the subject property (without a solar energy system).

APPENDIX C: VALUATION REFERENCES

C-1 RULES OF ROUNDING

A. PRECISION IN ROUNDING

Precision in calculating value estimates is critical to obtaining consistent valuations. Because the final estimate is a result of several calculations, the degree of precision used in the calculations could alter the final value. Therefore, it is important to remain consistent throughout the calculations. Also, consistency in rounding across appraisals is important for HUD to remain fair in determining insurance eligibility. Each value that HUD considers must be the result of the same rounding process so that values are not altered.

B. RULES OF ROUNDING

Numbers are rounded to the least precise number used in calculations. For example, $\$55,156 \times 3.2 = \$176,499$, is rounded to $\$180,000$ because the least precise number contained two digits (3.2). The number, $\$176,499$, was rounded by counting two places to the right of the beginning of the number.

Significant digits determine the precision of the numbers used in calculations. Significant numbers determine precision because precision is the closeness of the measurement, not the degree of accuracy. The following rules define significant numbers:

| Rules of Rounding | Examples |
|--|--|
| All nonzero digits are counted. | 345 has three significant digits. |
| Zeros that precede the first nonzero digit are not counted. | 002 has one significant digit and .0001 has one significant digit. |
| Zeros surrounded by nonzero digits are counted. | 30005 has five significant digits. |
| Zeros that follow the last nonzero digit are sometimes counted. | 32.0 contains three significant digits because the zero is holding a place and could only serve that function. However, 300 may have one or three significant digits. Note that 300 has three significant digits because the decimal holds the precision to the decimal place. |
| All zeros at the end of a number are ignored when counting significant digits. | 139,000 has three significant digits counting from left to right and ignoring all trailing zeros. Trailing zeros after a decimal are considered significant because it is assumed that a person placed the trailing zeros after a number to define the degree of precision. |

C. RULES OF ROUNDING EXAMPLE

The series of calculations used when deriving the adjusted base cost and value under the cost approach demonstrate where the rules of rounding would apply.

| | <u>Not applying rules</u> | <u>Rules of Rounding</u> |
|-----------------------------------|--------------------------------------|-------------------------------------|
| Square footage single family home | 1,800 | 1,800 |
| Good quality Class D | \$68.87 | 68.87 |
| No air conditioning | (2.02) | -2.02 |
| | <hr/> \$66.85 <hr/> | <hr/> 66.85 <hr/> |
| Height Adjustment for 10 ft. | 1.06 | 1.06 |
| Floor area/shape multiplier | 0.982 | 0.982 |
| | <hr/> 1.041 <hr/> | <hr/> 1.04 <hr/> |
| Adjusted Base Cost | <hr/> 69.59 <hr/> | <hr/> 69.52 <hr/> |
| Current Cost Multiplier | 1.01 | 1.01 |
| | <hr/> 70.28 <hr/> | <hr/> 70.22 <hr/> |
| Local Area Multiplier | 1.21 | 1.21 |
| | <hr/> 85.04 <hr/> | <hr/> 84.966 <hr/> |
| | <hr/> <hr/> \$153,073 <hr/> <hr/> | <hr/> <hr/> \$153,000 <hr/> <hr/> |

C-2 THE VALUATION PROCESS

Definition of Problem
 Identification of Real Estate
 Identification of Property Rights to be Valued
 Date of Value Estimate
 Use of Appraisal
 Definition of Value

PRELIMINARY ANALYSIS, DATA SELECTION AND COLLECTION

General
 Social
 Economic
 Governmental
 Environmental

Specific
 (Subject and Comps)
 Sales
 Cost
 Income/Expense
 Site Improvements

HIGHEST AND BEST USE ANALYSIS
 Land as though Vacant
 Property as Improved

LAND VALUE ESTIMATE

Application of the Three Approaches
 Sales Comparison Income Capitalization Cost

**RECONCILIATION OF VALUE
 INDICATIONS AND FINAL VALUE ESTIMATE**

REPORT OF DEFINED VALUE

APPENDIX D: COMPREHENSIVE VALUATION PACKAGE PROTOCOL

D-1 RESIDENTIAL APPRAISAL REQUIREMENTS

This section provides specific instructions to complete the Uniform Residential Appraisal Report (URAR).

Section 1 - Subject

This section provides the factual data to identify the property and the parties to the appraisal process. Information should be supplied by the client who engages the appraiser and other qualified parties, through public records and from local government records.

| Field | Protocol |
|---------------------------|---|
| File Number | <ul style="list-style-type: none"> Insert the FHA Case Number at the top right corner of the page. |
| Property Address | <ul style="list-style-type: none"> Provide the property street number and name, city, state and zip code for the property being appraised. |
| Legal Description | <ul style="list-style-type: none"> Enter the legal description of the property and its county. If the property address has not clearly been identified, enter a legal description. The four types of legal descriptions are: lot and block system, geodetail survey, government survey system and metes and bounds system. Attach this information as an addendum if the space provided is insufficient. |
| Property Tax Information | <ul style="list-style-type: none"> Enter the assessor's parcel number, tax year, the total amount of real estate taxes, including all relevant taxes (school district tax, fire district tax, etc.) and special assessment information. For newly constructed properties that have not been assessed, mark "N/A". Special assessments can include municipal bond debt for off-site improvements. The assessment can be expressed as a percentage of the assessor's opinion of market value. |
| Ownership Information | <ul style="list-style-type: none"> Enter the name of the current owner. The borrower may not be the current owner. Indicate who occupies the property: the owner, an occupant (if there is not an executed lease and owner does not live there), a tenant or if the property is vacant. Indicate if it is a HUD REO (real estate owned) property, in which case the property was foreclosed and HUD is the current owner. |
| Property Rights Appraised | <ul style="list-style-type: none"> Select the appropriate ownership rights for the subject property as of the date of appraisal. For HUD/VA mortgages, indicate the project type. Is it a Planned Unit Development or a Condominium? If there are monthly association dues to cover common property, enter this information in the HOAS/Mo. space. If the subject is a form of condominium ownership and maintained by an association, report the monthly fees in this space. |

| Field | Protocol |
|------------------------------|---|
| Neighborhood or Project Name | <ul style="list-style-type: none"> A neighborhood is defined as a group of complementary uses. Use judgment in describing the boundaries. Provide the factual information for the location of the property. Include the name of the subdivision, if applicable, or the local neighborhood designation. If the subject property is in a planned development, provide the name of the development. Provide map reference and census tract information. For properties located in an area without tract numbers, enter "N/A." The map reference is optional. Census tract numbers have ten digits. To reach the US Census Bureau, call 301-457-4608 Monday through Friday from 8:30 a.m. to 5:00 p.m. EST. |
| Transaction Data | <ul style="list-style-type: none"> Provide the agreed-on sales price, (accepted offer) date of sale, and all financial terms implicit in the offer and the pending sales contract. If unable to obtain this information, document all efforts to obtain it. If sales concessions are indicated, comment on any consequent effect on value. |
| Lender/Client | <ul style="list-style-type: none"> Enter the name and address of the individual and firm who engaged the appraisal. Generally, it is assumed that the lender is also the client. If the client is not the same person as the lender, include the client's name. If the client is the owner, enter "Client is Owner". |
| Appraiser | <ul style="list-style-type: none"> Enter the name and address of the appraiser(s) signing the certification of appraisal. |

Section 2 - Neighborhood

This section should reflect the area surrounding the subject property and all changes in the neighborhood. The appraiser must inspect the location characteristics and surrounding properties and make determinations that will be incorporated into the valuation of the subject property. In all instances, the appraiser must check the most appropriate box for each line and characteristic. Failure to note conditions that may adversely affect the value of the property is poor appraisal practice and may violate the Uniform Standards of Professional Appraisal Practice.

| Field | Protocol |
|-------------|--|
| Location | <ul style="list-style-type: none"> Enter the type of area surrounding the subject property. When both "urban" and "declining" are checked, consider making a recommendation that the mortgage encumbering the property be insured under Section 223(e). |
| Built-up | <ul style="list-style-type: none"> Enter the built-up percentage – the percentage of available land that has been improved. Land such as a state park would not be considered available. |
| Growth Rate | <ul style="list-style-type: none"> Enter the growth rate. If many lots are available, the growth rate may be rapid, stable or slow, but if the neighborhood is fully developed, select the "stable" box. |

| Field | Protocol |
|---|---|
| Property Values | <ul style="list-style-type: none"> Check off the box describing the current trend in property values in the community. Comparing houses that have been sold and resold in recent years is an effective way to determine the market trends. Appraisers who use this method, however, should make sure to factor in any adjustments made to the property between sales. |
| Demand/Supply | <ul style="list-style-type: none"> Mark the appropriate demand/supply value. To determine the equilibrium status of supply and demand in the neighborhood, compare the number of houses sold to the number of houses listed for sale in a recent time period. The similarity or difference between the number of houses sold and listed, not the absolute numbers, should determine the demand/supply level. |
| Marketing Time | <ul style="list-style-type: none"> Mark the appropriate marketing time – the typical length of time a property similar to the subject property would have to stay on the market before being sold at a price near its market value. |
| Predominant Occupancy | <ul style="list-style-type: none"> Enter whether the neighborhood's predominant occupants are tenants or homeowners. The transient nature associated with tenants tends to decrease the property value of a given neighborhood. Also, check off the appropriate percentage to indicate the percentage of the properties in the neighborhood that are vacant. |
| Single Family Housing | <ul style="list-style-type: none"> Indicate the high and low neighborhood prices and ages, and what would be the predominant value and age. |
| Present Land Use | <ul style="list-style-type: none"> Estimate each type of land usage in the neighborhood. If there is no land in the neighborhood with one of the classifications, enter a “0” or a “-“. If a portion of the land consists of parks or other unspecified classifications, enter * and enter the actual percentages on the first line of the ‘Neighborhood Characteristics’ section. |
| Land Use Change | <ul style="list-style-type: none"> Select whether the land use is not likely, likely or in the process of changing. If a change is imminent or likely, detail what the future use will be. Changes in land use refer to conversion from one developed parcel use to another developed use and not for the development of previously vacant land. Explain any impact on value resulting from likely or in-process land use changes. |
| Neighborhood Boundaries and Characteristics | <ul style="list-style-type: none"> Provide a description of neighborhood boundaries and characteristics. Details regarding bordering street names and both physical and economic characteristics typical of the neighborhood will provide substantial details and understanding regarding neighborhood composition. A location map indicating subject location and comparables will also shed light on the neighborhood. NOTE: Race and the racial composition of the neighborhood are not appraisal factors. |

| Field | Protocol |
|-----------------------------------|---|
| Factors that Affect Marketability | <ul style="list-style-type: none"> • Discuss factors that would attract residents or cause them to reject the neighborhood. These are typical factors important to discuss: • Proximity to employment and amenities, including travel distance and time to local employment sources and community amenities • Employment Stability, in terms of variety of employment opportunities and industries • Appeal to Market regarding the overall appeal of the neighborhood as compared to competitive neighborhoods in the same market • Convenience to Shopping with respect to distance, time and required means of transportation • Convenience to School in terms of the distance and time for travel to school |
| Market Conditions | <ul style="list-style-type: none"> • Discuss market conditions in the subject neighborhood that may have an effect on appraisal value. |

Section 3 – Planned Urban Development (PUD)

The appraiser must complete this section if the subject property is a part of a Planned Unit Development. Otherwise, strike the section. A PUD is a project that includes common property and improvements owned and maintained by an owners' association for the use and benefit of the individual units in the subdivision.

| Field | Protocol |
|------------------------------------|---|
| Project Information | <ul style="list-style-type: none"> • Select whether or not the developer/builder is in control of the Home Owners' Association (HOA). |
| Number of Units in Subject Project | <ul style="list-style-type: none"> • Enter the approximate total number of units in the subject project and the number of units currently for sale. |
| Common Elements/ Recreation | <ul style="list-style-type: none"> • Describe the common areas and recreational facilities of the PUD, including all areas accessible for use by PUD owners. |

Section 4 - Site

This information provides the description of the land underlying the subject property. Insert factual information on each of the lines provided and report the conclusions as directed. Consider all aspects of the physical description and reconcile them in the estimate of market value.

| Field | Protocol |
|------------|---|
| Dimensions | <ul style="list-style-type: none"> • List all dimensions of the site. If the shape of the site is irregular, show the boundary dimensions (85' X 150' X 195' X 250') and attach a sketch or legal description of the site. |
| Site Area | <ul style="list-style-type: none"> • Enter the site area in square feet or acres. |
| Corner Lot | <ul style="list-style-type: none"> • Enter "YES" or "NO". |

| Field | Protocol |
|-----------------------|---|
| Zoning Classification | <ul style="list-style-type: none"> Enter the zoning type used by the local municipality and describe the majority of uses permitted. For example: "Residential-Single Family" or "Residential One to Four Units" IMPORTANT: Do not use abbreviations; they vary among different communities. |
| Zoning Compliance | <ul style="list-style-type: none"> Determine whether the current use is in compliance with the zoning ordinances. Check whether it is Legal, Legal Non-Conforming, Illegal or No Zoning. Use "Historic," if applicable. If there is a non-conforming use, enter "Non-Conforming" and state whether it is a legal use that has been approved by the local zoning authority. 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". If the use is not legal, the property is not eligible for HUD mortgage insurance. |
| Highest and Best Use | <ul style="list-style-type: none"> This entry represents the highest and best use of the site in relation to the neighborhood and current market conditions. If current use represents the highest and best use, check "present use". If it does not, check "other use" and provide a detailed explanation. |
| Utilities | <ul style="list-style-type: none"> Check either the "Public" box or explain under "Other." Public utilities mean governmentally supplied and regulated. Public does not include any community systems sponsored, owned or operated by the developer or a private company not subject to government regulation or financial assistance. For individual and/or community systems, check "Other". If the electricity is underground, please state this on the form. |
| Off-site Improvements | <ul style="list-style-type: none"> Briefly describe the off-site improvements under "Type" and check Public or Private. The appraiser must state the type of all off-site improvements – streets, curbs, gutters, sidewalks, alleys and streetlights – and indicate whether they are publicly or privately maintained. For example: "Street-Asphalt; Public." Public refers to an improvement dedicated to and accepted by a unit of government – not including Home Owner's Associations. |
| Topography | <ul style="list-style-type: none"> Enter whether the lot is level or sloped. If the lot is sloped, estimate the slope degree. |
| Size | <ul style="list-style-type: none"> Enter descriptions such as typical, small or large. Compare the size of the structure to the typical size of competitive properties in the neighborhood. Explain all deficiencies, significant inadequacies and potential super adequacies and consider them in the estimate of value. |
| Shape | <ul style="list-style-type: none"> Enter the site configuration: triangular, square, rectangular or irregular. This entry must be consistent with the dimensions provided on the Dimensions Field. |

| Field | Protocol |
|------------------------|---|
| Drainage | <ul style="list-style-type: none"> • Enter whether Adequate or Inadequate. If Inadequate, be sure to explain and make requirement for correction on the VC form. • Explain all deficiencies that do not require repair and consider them in the estimate of value. |
| View | <ul style="list-style-type: none"> • Briefly describe the view from the property. Identify a view with a significant positive or negative influence on the value. Include a photograph if feasible. |
| Landscaping | <ul style="list-style-type: none"> • Enter whether adequate or inadequate, relative to neighborhood. • Explain all inadequacies and super adequacies and consider them in the estimate of value. For new construction, include a description of any landscaping included in the sale price. |
| Driveway Surface | <ul style="list-style-type: none"> • Enter surface type such as concrete, asphalt or gravel. • An all-weather surface is required. If it does not exist, mark it as a repair requirement on the VC. • Explain all deficiencies that do not require repair (extreme slope, etc.) and consider them in the estimate of value. |
| Apparent Easements | <ul style="list-style-type: none"> • Describe any apparent easements. Consider easements affecting the functional utility of the property in the conclusions of both the highest and best use and market value. • If an easement adversely affects the subject property, note the effect in the Adverse Conditions field. Consider surface, sub-surface and overhead easements. |
| FEMA Flood Hazard Area | <ul style="list-style-type: none"> • FEMA (Federal Emergency Management Agency) is responsible for mapping flood hazard areas. If any of the improvements on the property are within a Special Flood Hazard Area, mark "YES". Otherwise, mark "NO". • Attach a copy of the flood map panel for properties located within flood plains. |
| FEMA Zone | <ul style="list-style-type: none"> • If the property is in a FEMA Flood Hazard Area, enter the FEMA Zone and map date. Only properties within Special Flood Hazard Areas, such as zones "A" and "V", require flood insurance. Zones "B" and "C" do not. |
| FEMA Map Number | <ul style="list-style-type: none"> • Enter the FEMA Map number and page number. If it is not shown on any map, enter "Not on FEMA Maps." |
| Comments | <ul style="list-style-type: none"> • Enter any comments related to the site. For example, discuss apparent adverse easements, encroachments, special assessments, slide areas, illegal or non-conforming zoning use, etc. • Discuss the observations with direct relationship to value and consider them in the final estimate of value. |

Section 5 - Description of Improvements

This section describes the subject improvements. Enter factual information on each of the lines provided and report the conclusions. Consider all aspects of the physical description and reconcile them in the estimate of market value.

General Description

| Field | Protocol |
|--------------------------|---|
| Number of Units | <ul style="list-style-type: none"> Enter the number of units being valued. The URAR is designed for 1 to 4 units. Otherwise, use the multi-family form. |
| Number of Stories | <ul style="list-style-type: none"> Enter the number of stories <i>above grade</i>, including half stories. Do not include the basement. |
| Type (Detached/Attached) | <ul style="list-style-type: none"> Fill in the Type, "Det" (Detached), "Att" (Attached), "S/D" (Semi-Detached) or "R" (Row). |
| Design (Style) | <ul style="list-style-type: none"> Enter a brief description of the house design style using historical or contemporary fashion. For example: Cape Cod, bi-level, split level, split foyer, town house, etc. Do not use builder's model name. Avoid generic descriptions such as Traditional or Conventional. |
| Existing / Proposed | <ul style="list-style-type: none"> Enter "E" (existing), "P" (proposed) or "UC" (under construction). A "P" or "UC" requires plans and specifications for the appraiser to review. If Rehabilitation, enter "REHAB" instead of "E" or "P". |
| Age (Years) | <ul style="list-style-type: none"> Enter the actual age, date of completion of the construction. Construction records may be helpful if available. If the property is less than two years old, include both the month and year completed. If it is over two years old, insert the completed year only. |
| Effective Age (Years) | <ul style="list-style-type: none"> Enter the effective age of the site. A range is acceptable. The effective age reflects the condition of the property relative to similar competitive properties. The effective age may be greater than, less than or equal to the actual age. Note any significant difference between the actual and effective ages and explain in the Comments section. |

Exterior Description

The appraiser must address all visible deficiencies. Deferred maintenance and physical obsolescence must be considered in the valuation process.

| Field | Protocol |
|------------------------|---|
| Foundation | <ul style="list-style-type: none"> Specify the type of material used for the foundation: poured concrete, concrete block, wood, etc. |
| Exterior Walls | <ul style="list-style-type: none"> Enter the type of construction material: aluminum, wood siding, brick veneer, porcelain, log, stucco, etc. If a combination of materials, show the predominant portion first. |
| Roof Surface | <ul style="list-style-type: none"> Enter material type used for roof surface: composition, wood, slate, tile, etc. |
| Gutters and Downspouts | <ul style="list-style-type: none"> Enter type: galvanized, aluminum, wood or plastic. If partial, state the location. |
| Window Type | <ul style="list-style-type: none"> Describe the type: double-hung, casement or sliding. Also, identify the window frame material: wood, aluminum, steel, vinyl, etc. |

| Field | Protocol |
|--------------------|--|
| Storm/Screens | <ul style="list-style-type: none"> State if there are storm screens or not. Enter "YES", "NO" or "PARTIAL". |
| Manufactured House | <ul style="list-style-type: none"> Enter manufactured home (MH) or modular (MOD), or answer "NO" if neither. A manufactured mobile home must have the seal that signifies compliance with the Federal Manufactured Home Construction and Safety Standards. |

Foundation

The appraiser must address all visible deficiencies and may require a recommendation for an inspection. Consider deferred maintenance and physical obsolescence in the valuation process. This statement links to the VC report, the valuation and the need for a full inspection.

| Field | Protocol |
|-------------|--|
| Slab | <ul style="list-style-type: none"> Enter "YES" or "NO". Indicate its percentage of total foundation. |
| Crawl Space | <ul style="list-style-type: none"> Enter "YES" or "NO". If partial, include percentage of floor area. Indicate its percentage of total foundation. |
| Basement | <ul style="list-style-type: none"> Enter "Full", "Partial" or "None". Indicate its percentage of total foundation. |
| Sump Pump | <ul style="list-style-type: none"> Enter "YES" or "NO". |
| Dampness | <ul style="list-style-type: none"> Enter "YES" or "NO". If damp, make requirement for correction in the VC segment. |
| Settlement | <ul style="list-style-type: none"> Enter "YES" or "NO". Provide a detailed explanation and check for cracks. |
| Infestation | <ul style="list-style-type: none"> Enter "YES" or "NONE APPARENT". Look for evidence of any type of insects and related damage. If there is any, require insect infestation inspection in the VC segment. |

Basement

The appraiser is required to inspect the basement. Address all visible deficiencies which may require a recommendation for an inspection. Consider deferred maintenance and physical obsolescence in the valuation process. This statement links to the VC report, the valuation and the need for a full inspection.

| Field | Protocol |
|---------------|---|
| Area Sq. Feet | <ul style="list-style-type: none"> Enter square feet of basement area. |
| % Finished | <ul style="list-style-type: none"> Enter the percentage of basement square footage (figure above) that is finished. This is a percentage of total basement area that is finished, not a percentage of the ground floor area. |
| Ceiling | <ul style="list-style-type: none"> Enter material type: drywall, lath and plaster or celotex ceiling panels. |
| Walls | <ul style="list-style-type: none"> Enter material type: drywall, wood panel or cinder block. |
| Floor | <ul style="list-style-type: none"> Enter floor type: asphalt, tile or concrete. Comment if any part is earth. |
| Outside Entry | <ul style="list-style-type: none"> Enter "YES" or "NO". If "YES", use blank line below to describe what type of entry exists. |

Insulation

If access is available, the appraiser must inspect the following components and note the observations. Note all irregularities in the type or presence of insulation in the Comments section .

| Field | Protocol |
|---------|---|
| Roof | <ul style="list-style-type: none"> • Make every effort to determine if insulation is present and the type. Enter R-factor or show depth and location. If the type cannot be determined, enter “Unknown”. Do not guess. • Comment whether the insulation is (G)ood, (A)verage, (F)air, (P)oor or (U)ndetermined. |
| Ceiling | <ul style="list-style-type: none"> • Make every effort to determine the type. Enter R-factor or show depth and location. If the type cannot be determined, enter “Unknown”. Do not guess. • Comment whether the insulation is (G)ood, (A)verage, (F)air, (P)oor or (U)ndetermined. |
| Walls | <ul style="list-style-type: none"> • Make every effort to determine the type. Enter R-factor or show depth and location. If the type cannot be determined, enter “Unknown”. Do not guess. • Comment whether the insulation is (G)ood, (A)verage, (F)air, (P)oor or (U)ndetermined. |
| Floor | <ul style="list-style-type: none"> • Make every effort to determine the type. Enter R-factor or show depth and location. If the type cannot be determined, enter “Unknown”. Do not guess. • Comment whether the insulation is (G)ood, (A)verage, (F)air, (P)oor or (U)ndetermined. |
| None | <ul style="list-style-type: none"> • Check this line if there is no insulation anywhere in the house. |
| Unknown | <ul style="list-style-type: none"> • Check this line if unable to determine the presence of insulation. |

Room List (General Information)

| Field | Protocol |
|-----------|---|
| Room Grid | <ul style="list-style-type: none"> • Enter the appropriate square footage for each designated room area. |

Comments about room design and count should reflect local custom. A dining area built as an L-shape off the kitchen may or may not be considered a room depending on the size. To determine whether one or two rooms should be counted, hypothetically insert a wall to separate the two areas that have been built as one:

If the residents can use the resulting two rooms with the same or more utility without increased inconvenience, count the room as two.

If the hypothetical wall would result in a lack of utility and increased inconvenience, count the room as one.

This represents a hypothetical condition that must be reported in accordance with USAP.

The room count typically includes a living room (LR), dining room (DR), kitchen (KT), den (DN), recreation room (REC) and one or more bedrooms (BR). Typically, the foyer, bath and laundry room are not counted as rooms. A room is a livable area with a specific use.

The following definitions and terms may be useful as a guide:

Basement: generally, *completely below* the grade. (Do not count the basement in the finished gross living area at the grade level. Insert the size of the basement . The information must be consistent with the description in the Basement section.)

Foyer: the entrance hall of a house

Level 1: includes all finished living areas at grade level

Level 2: includes all finished living areas above the first level

| Field | Protocol |
|------------------------------------|---|
| Finished Area Above Grade Contains | <ul style="list-style-type: none"> To complete this section, enter the total <i>number</i> of each room type at each level. DO NOT enter the dimensions. |

Enter total number of rooms, bedrooms, baths and square feet of Gross Living Area (above grade).

Attach a building sketch showing the Gross Living Area Above Grade, including all exterior dimensions of the house, patios, porches, garages, breezeways and other offsets. State “covered” or “uncovered” to indicate a roof or no roof (such as over a patio).

Interior Materials/Condition

Enter the types of Materials and the Condition of the Materials (Good, Average, Fair, and Poor). Make every effort to describe accurately and explain "Fair" and "Poor" rating on Line 103. The rating must relate to the habitability of the house given local standards.

| Field | Protocol |
|---------------|---|
| Floors | <ul style="list-style-type: none"> Enter floor type — tile, hardwood, carpet — and note the condition. |
| Walls | <ul style="list-style-type: none"> Enter type of walls — plaster, drywall, paneled — and note the condition. |
| Trim/Finish | <ul style="list-style-type: none"> Enter type of molding — wood, metal, vinyl — and note the condition. |
| Bath Floor | <ul style="list-style-type: none"> Enter floor type - ceramic tile, vinyl, carpet. and note the condition. |
| Bath Wainscot | <ul style="list-style-type: none"> Enter type that protects walls from moisture — ceramic tile, fiberglass, etc. — and note the condition. |
| Doors | <ul style="list-style-type: none"> Enter type — wood, metal, etc. — and note the condition. |

Heating

| Field | Protocol |
|-------|---|
| Type | <ul style="list-style-type: none"> Enter type of heating system: hot water, steam, forced warm air, gravity warm air or radiant. |

| Field | Protocol |
|-----------|--|
| Fuel | <ul style="list-style-type: none"> Enter type of fuel used: coal, gas, oil or electric. |
| Condition | <ul style="list-style-type: none"> Enter condition of system. For example, enter Good, Average, Fair or Poor. If Fair or Poor rating, describe in Comments section. |

Cooling

| Field | Protocol |
|-----------|---|
| Central | Enter "YES" or "NO" to signify the status of central air-conditioning in the house. |
| Other | Describe any other permanent means of cooling in the house, except for central air conditioning: permanently affixed fans, zoned air-conditioning, etc. |
| Condition | Describe any adverse or irregular conditions of the cooling system in Comments section . |

Kitchen Equipment

Make an entry [X] in the boxes to indicate that these items exist. An entry in a box means that the item was considered part of the real estate and is included in the value. If an item is personal property, put a "P" in the box and do not include it in the estimate of value. Treat non-functioning equipment as existing, but as deferred maintenance in the valuation process.

| Field | Protocol |
|--------------|--|
| Refrigerator | Enter "X" if this item exists. Enter "P" if personal property. |
| Range/Oven | Enter "X" if this item exists. Enter "P" if personal property. |
| Disposal | Enter "X" if this item exists. Enter "P" if personal property. |
| Dishwasher | Enter "X" if this item exists. Enter "P" if personal property. |
| Fan/Hood | Enter "X" if this item exists. Enter "P" if personal property. |
| Microwave | Enter "X" if this item exists. Enter "P" if personal property. |
| Washer/Dryer | Enter "X" if this item exists. Enter "P" if personal property. |

Attic

Describe any additional space - an attic, room above the garage, etc. - in terms of how it can actually be used. The essential question is whether it can be included in the above-grade living area. State the means of access and if it is heated and finished. Enter "X" if any of these items exist.

| Field | Protocol |
|------------|---|
| None | Enter "X" if none of the following items exist. |
| Stairs | Enter "X" if this item exists. |
| Drop Stair | Enter "X" if this item exists. |
| Scuttle | Enter "X" if this item exists. |
| Floor | Enter "X" if this item exists. |
| Heated | Enter "X" if this item exists. |
| Finished | Enter "X" if the attic is finished. |

Amenities

| Field | Protocol |
|----------------------|---|
| Number of Fireplaces | Enter "X" if this amenity exists and the Provide a specific number, if more than one. |
| Patio | Enter "X" if this amenity exists. |
| Deck | Enter "X" if this amenity exists. |
| Porch | Enter "X" if this amenity exists. |
| Fence | Enter "X" if this amenity exists. |
| Pool | Enter "X" if this amenity exists. Specify whether in-ground or above-ground. Above-ground pools are typically considered personal property and are not included in the value. |

Car Storage

| Field | Protocol |
|--------|---|
| None | If the property does not have a garage, carport or driveway, check "NONE". |
| Garage | <ul style="list-style-type: none"> • If there is a garage, designate whether it is "Attached", "Detached" or "Built-in" and indicate on the corresponding line the number of cars that may be parked. • If there is a carport, enter the number of cars on the corresponding line. Also indicate whether it is attached to or detached from the home. • If there is no garage or carport, but there is a driveway, state "YES" and enter the number of cars that can be reasonably parked in the driveway. |

Comments

The completion of this section is critical to the estimate of market value. The appraiser must discuss all adverse conditions and observed physical and functional deficiencies noted above. If necessary, attach additional discussion in the addendum.

| Field | Protocol |
|-------------------------------|--|
| Additional Features | <ul style="list-style-type: none"> • Enter any additional features such as a pool size, special energy-efficient items, special fireplace features, other features not shown above or any other comments. • Please elaborate on any special or unusual aspects of items. |
| Condition of the Improvements | <ul style="list-style-type: none"> • Describe any physical, functional or external depreciation noted at the property. • Provide a conclusion as to the overall condition of the improvements that is supported by the previous descriptive sections. • Discuss any deficiencies or notable observations on attached pages, if necessary. |

| Field | Protocol |
|----------------------------------|---|
| Adverse Environmental Conditions | <ul style="list-style-type: none"> • List any adverse environmental conditions, including hazardous wastes, toxic substances and others. • If the property was built before 1978 and there is evidence of cracking, chipping, peeling or loose paint, make this statement on lead-based paint: "Property built before 1978, lead-based paint corrective measures are required." • Also, check the appropriate lead-based paint requirement in the VC Form. |

Section 6 - Approaches to Value

Cost Approach

If the subject property is new construction or the cost approach is recognized in the market as a basis for pricing, the appraiser must complete the cost approach and attach the following conclusions:

- land value
- cost new
- estimates of depreciation (curable and incurable)
- an estimate of value

Consider the value by the cost approach in the reconciliation of market value .

Sales Comparison Analysis

In selecting comparables, use the bracketing method. Ideally, one of the comparables should be a little larger (200 sq. ft. to 300 sq. ft.); another a little smaller; and the third should be approximately the same size — generally within a hundred square feet of the subject. If this is not possible, the appraiser should explain why.

DO NOT SELECT COMPARABLES BY SALES PRICE. All adjustments must be extracted from the market. Do not make an adjustment unless it has a material effect on value. Explain the reason for making any adjustments for location, site/view or design/appeal. Avoid using three builder sales from the same subdivision, if possible.

In some areas of the country it is customary for the builder or seller to pay closing costs for the buyer and include them in the sales price of the property. In other areas, this may occur occasionally or not at all. In those rare market areas where closing costs are the responsibility of the seller and are always paid by the seller and included in the sales price, the appraiser must note this under "Special Limiting Conditions of the Appraisal" in the Reconciliation Block.

Do not use as market data sales that are not verified and adjusted to reflect the terms and conditions of sale. Always select the most similar comparables. Use older sales only if more recent ones are not available and be sure to explain in the "Comments" section why any comparable over six months old was used. The appraiser must always use sales within one year of the valuation date.

The value factors of Location, Site, View, Design/Appeal, Quality of Construction, Age, Condition and Functional Utility are all subjective factors that require subjective adjustments. Be careful that adjustments are reasonable and not excessive. If a property is overvalued, there is a high probability that the reason can be traced to an excessive adjustment somewhere in this section. Make adjustments only if the dissimilarity has a noticeable effect on the value. Small differences do not usually require adjustments. Always explain subjective adjustments.

Transaction Data

The appraiser must verify the following information with one of the following sources:

- buyer
- seller
- broker
- other parties involved and fully knowledgeable about the sale
- available public records

Enter factual data in each line. Before making adjustments, the appraiser must be knowledgeable and must have inspected the sale property.

| Field | Protocol |
|------------------------------------|--|
| Address | <ul style="list-style-type: none"> • Enter the address that can be used to locate each property. Enter community, if needed, to identify property. For rural properties, list location by road name, nearest intersection and side road. |
| Proximity to Subject | <ul style="list-style-type: none"> • Enter proximity of straight-line distance in miles; for example, "one tenth of a mile west of subject". If comparable distance from the subject is more than a generally accepted distance, be sure to explain why the sale is applicable in the "Comments" section. |
| Sales Price | <ul style="list-style-type: none"> • Enter total amount paid by buyer, including extra cost. |
| Price/Gross Livable Area | <ul style="list-style-type: none"> • Enter price per square foot for living area above grade. |
| Data and/or Verification Source(s) | <ul style="list-style-type: none"> • Enter data and verification source name(s) or others: tax stamps, MLS, etc. This is the data source for the price and property information. • Also show type of financing such as Conventional, FHA or VA. |

Adjustments to Sales Price

Adjustments are made to the prices of the sale properties for price-influencing dissimilarities between each sale and the subject property. Not all dissimilarities require adjustment because not all dissimilarities achieve price differentials in the market. All adjustments must be supported by the actions of the market.

Value Adjustments

| Field | Protocol |
|-------------------|---|
| Value Adjustments | <ul style="list-style-type: none"> • For each adjustment item, enter the description of the adjustment and whether it is an upward or downward adjustment. |

| Field | Protocol |
|--------------------------------|---|
| Sales or Financing Concessions | <ul style="list-style-type: none"> Enter adjustment for sales concessions, if needed. Be sure to explain in "Comments" section and use Addendum if appropriate. Analyze all sales on a cash equivalent basis. |
| Date of Sale/Time | <ul style="list-style-type: none"> State the date of sale and enter the adjustment for changes in market conditions. |
| Location | <ul style="list-style-type: none"> Enter "Good", "Average" or "Fair", when compared to the subject and using the same standard as the subject. An adjustment for location in the same neighborhood is seldom justified. |
| Leasehold/Fee Simple | <ul style="list-style-type: none"> State whether the property was sold as fee simple or as a Leasehold Estate. An adjustment is required if the estate differs from the rights appraised for the subject property, and the difference is recognized by the local market. |
| Site | <ul style="list-style-type: none"> Enter the size of the lot. Make adjustments only for measurable differences. Small differences in lot sizes do not usually call for an adjustment if the size is typical. If necessary, consider the possibility of excess or surplus land. |
| View | <ul style="list-style-type: none"> Make adjustments only if the view is superior or inferior to the subject. A quality rating of (G)ood, (F)air or (P)oor is given here. If the subject has a superior view and adjustments are made, a photograph would be helpful. |
| Design and Appeal | <ul style="list-style-type: none"> Enter the style according to a description used by local custom and show appeal as (G)ood, (F)air or (P)oor. Adjustments are necessary for differences between the sale and the subject property. |
| Quality of Construction | <ul style="list-style-type: none"> Enter "Good", "Average" or "Fair" and the construction type: aluminum siding, wood siding, brick, etc. If a combination, show the predominant material first, such as brick/frame if it is mostly brick. Adjustments may also be warranted for interior construction quality and should be explained and justified. |
| Age/Condition | <ul style="list-style-type: none"> Enter the age of the subject and each comparable sale. Enter the condition of the subject and comparable The adjustment for condition is typically required. Consider an adjustment in either age or condition. There is the tendency to duplicate the required adjustment when applied in each category. Consider any assumed repairs to the structure and the roof when determining the need for adjustments to the sales. Consider the conditions reported on the VC Form in making any adjustments. |

| Field | Protocol |
|--|--|
| Above Grade Room Count | <ul style="list-style-type: none"> • Enter room count, consistent with the description of improvements on the front of the URAR . Commonly, three adjustments may be entered: <ul style="list-style-type: none"> – The first may be an adjustment for "expendable space", such as a bath. A deficiency in the number of baths should be adjusted first. – The second is a separate adjustment for a difference in square feet. – The third is an adjustment for room count. • These can be individual or separate adjustments that have been combined. All should be extracted from the market. But room count and bath adjustments should be on one line and square foot adjustment for size on another line. • Explain any property that has an adjustment in both square feet and room count. • Break down combination adjustments in the "Comments" section. |
| Gross Living Area | <ul style="list-style-type: none"> • Enter the total square footage of the above grade living areas. |
| Basement & Finished Rooms Below Grade | <ul style="list-style-type: none"> • Enter the type of improvements in the basement: bedroom, recreation room, laundry, etc. Include other fully or partially below grade improvements found in the subject property or comparables. • Make appropriate adjustments to reflect differences between the comparables and the subject property. • Explain any special features. • Show number of square feet of <i>finished</i> area. |
| Functional Utility | <ul style="list-style-type: none"> • Enter "Equal", "Superior" or "Inferior" as a total of the items rated in the Improvement Analysis compared to the subject. Use the "Comments" section frequently and explain special features. • The category of functional utility typically is the place to deduct for functional obsolescence observed in the subject, recorded on Page 1 and not found in the comparables. • Extract dollar adjustments from the market. For example, a poor floor design that includes two bedrooms so that the entrance to one is gained by passing through the other typically requires a negative adjustment for functional obsolescence. In such a case, the second bedroom would not be counted as a bedroom. |
| Heating/ Cooling | <ul style="list-style-type: none"> • Enter an adjustment for differences in building systems or condition. |
| Energy Efficient Items | <ul style="list-style-type: none"> • Enter an adjustment for any energy efficient items: storm windows and doors, solar installations, replacement windows, etc. |
| Garage/ Carport | <ul style="list-style-type: none"> • Enter an adjustment for car storage. Calculate adjustments in accordance with market acceptance of carport value versus garage and size (one car, two cars, etc.). |
| Porch, Patio, Deck, Fireplace(s), etc. | <ul style="list-style-type: none"> • Enter an adjustment for these features. Base any adjustments on local market expectations. If a lump sum adjustment is offered for multiple amenities, break it down in the "Comment" section. |

| Field | Protocol |
|---|---|
| Fence, Pool, etc. | <ul style="list-style-type: none"> Enter appropriate adjustments. For example, a pool located in an area that expects pools might bring a dollar premium in comparison to a comparable without a pool. |
| Net Adjusted (Total) | <ul style="list-style-type: none"> Check either [+] or [-] box to indicate if the total net adjustments will increase or decrease the value and note by how much. If any adjustment is excessive, review the comparables to determine if the best ones were selected. If the total adjustments appear excessive in relation to the sale price ; the appraiser should reexamine the comparability of that sale. Explain any adjustment that appears to be excessive. |
| Adjusted Sale Price of Comparable | <ul style="list-style-type: none"> Total all of the adjustments and add them to or subtract them from the sales price of each comparable. Generally, adjustments should not exceed 10% for line items, 15% for net adjustments and 25% for gross adjustments. |
| Comments on Sales Comparison | <ul style="list-style-type: none"> Please comment on the Sales Comparison section, including the subject property's compatibility to the neighborhood, specific characteristics of the sales that affect the adjustment process, etc. The analysis must be reported and the effect concluded. |
| Date, Price and Data for Prior Sales Within One Year of Appraisal | <ul style="list-style-type: none"> This is in accordance with USPAP standards, which requires the appraiser to consider and analyze any prior sales of the property being appraised and the comparables that occurred within one year of the date of appraisal. |
| Further Analysis | <ul style="list-style-type: none"> Provide an analysis of any current agreement of sale, option or listing of the subject property and analysis of any prior sales of subject and comparables within one year of the date of appraisal. |
| Indicated Value by Sales Comparison Approach | <ul style="list-style-type: none"> Upon the basis of the adjusted data, enter the indicated value of the subject. DO NOT arbitrarily select the adjusted sales price that is midway between the lowest and highest adjusted sales price. DO NOT average the comparable sale prices to arrive at an Indicated Value. The final estimate of market value must be supported by the actions of the market. |

Income Approach

In a single-family residential property, the income approach is generally not recognized as a basis for buying by the market. The approach typically provides minimal applicability in the estimate of market value.

If a three- or four-unit building is being appraised, the appraiser has attached the valuation by the income approach to the addenda of this report. When used, show the gross rent from each of the comparables at the bottom of the form under "Final Reconciliation."

For example:

Comp. #1 Gross Rent = \$1,000 (GRM 110); Comp. #2 Gross Rent = \$1,200 (GRM 108), ...

To determine the appropriate gross rent multiplier to use, follow the same procedure as in the market approach. Select a GRM based upon comparable rentals. Be sure to explain the information.

The appraiser must also analyze and report on current market conditions and trends that will affect projected income or the absorption period to the extent these conditions affect the value of the subject property. This information should be consistent with the neighborhood information on the front of the URAR .

| Field | Protocol |
|------------------------------------|--|
| Indicated Value by Income Approach | <ul style="list-style-type: none"> Select and enter the indicated value by the income approach. |

Section 7 - Reconciliation

The appraiser must consider all appropriate approaches and all information relevant to the subject property and the market conditions in the estimate of market value.

| Field | Protocol |
|---|---|
| Market Value "As Is" or "Subject to Completion per Plans" | <ul style="list-style-type: none"> Check the box marked "as is" or "subject to completion per plans and specifications". Use the "as is" value only if there are no repairs required or if the property is being rejected. If the property is being rejected, the appraiser must provide an "as is" value. The value "subject to completion per plans and specifications" must be consistent with the expected date of completion of the construction. State any assumptions that affect the premise of completion and the resulting value. |
| Market Value, "Subject to Repairs" | <ul style="list-style-type: none"> The value "subject to repairs, alterations, inspections or conditions listed" must reflect consistency between the development of the approaches to value and the final estimate of value. The appraisal is completed "as repaired". The appraiser must indicate the extent of repairs and also note this in the Valuation Condition Form of the appraisal. Only required repairs will be completed, and the market value must reflect the existing physical characteristics. Report any special circumstances or unique agreements and consider them in the reported value estimate. |

| Field | Protocol |
|-------------------------|---|
| Conditions of Appraisal | <ul style="list-style-type: none"> In addition to any comments that the appraiser wants to make, the appraiser should enter taxes and insurance expenses and condominium or PUD common expenses as appropriate. The appraiser must also enter any Limiting Conditions. |
| Final Reconciliation | <ul style="list-style-type: none"> This entry should contain the appraiser's reasoning for arriving at the final value. |
| Date of Value | <ul style="list-style-type: none"> Enter the date when the property was inspected. |
| Appraiser Signature | <ul style="list-style-type: none"> The appraiser who performed the appraisal must sign the form. |
| Appraiser Name | <ul style="list-style-type: none"> The appraiser who performed the appraisal must print his or her name. |
| Date Report Signed | <ul style="list-style-type: none"> Enter the date when the appraiser signed the report. |
| State Certification | <ul style="list-style-type: none"> Enter the appropriate and valid State Certification number. |
| State License | <ul style="list-style-type: none"> Enter the appropriate and valid State License number and state. |
| Supervisory Appraiser | <ul style="list-style-type: none"> The FHA Register appraiser must use this portion of the form for all required information and is always required to inspect the property. |

Attachments

The appraiser must do the following:

- State in the space provided in the Final Reconciliation section: "See attached appraiser's certification and Statement of Limiting Conditions."
- Attach a copy of these certifications and limiting conditions to all copies of the appraisal report, or the report is not valid for HUD use.
- Clearly and distinctly discuss any additional or different limiting conditions to those provided in this Handbook.
- Attach any valuation detail and support for estimates of value by the Cost and Income approaches.
- Provide attachments for any observations of the physical aspects of the property that lead to a recommendation for a physical inspection.

Attach the following to the URAR :

- the appraiser's certification
- the statement of limiting conditions that HUD has adopted
- the certification number or license number and expiration date

Then forward the complete appraisal package to the lender.

| Field | Protocol |
|----------------------------|--|
| Definition of Market Value | "The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus." |

Statement of Limiting Conditions and Appraiser's Certification - Contingent and Limiting Conditions

The appraiser's certification that appears in the appraisal report is subject to the following conditions: If the appraisal is based on a condition different or contrary to the conditions listed below, full disclosure of the differing limiting condition must be inserted and made known in the value estimate. Any value-influencing limiting conditions must be cited with the reporting of the estimate of market value.

| Field | Protocol |
|----------------------------|---|
| Matters of a Legal Nature | The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it. The appraiser assumes good and marketable title and responsible ownership. If applicable, the appraiser must specifically change this limiting condition and address the limitations in the reconciliation of market value. |
| Sketch of Improvements | A sketch showing the approximate dimensions of the improvements has been provided in the report. If a sketch is not provided, the appraiser must report the lack of information to develop the sketch. Additional visual aides, such as photographs and brochures, are recommended as attachments. |
| Special Flood Hazard Area | The appraiser has examined available flood maps and has noted whether the property is located in a Special Flood Hazard Area. A copy of the flood map is attached to the appraisal report for any properties in a floodplain. |
| Court Testimony | The appraiser is not required to give testimony or appear in court because he/she performed the appraisal unless specific arrangements have been made beforehand. |
| Adverse Conditions | The appraiser has noted in the report any adverse conditions he/she has found. In addition, the appraiser has no knowledge of hidden conditions that would decrease the value of the property. Any observation or knowledge of adverse conditions must be reported and made apparent to the reader of the appraisal report. |
| Highest and Best Use Value | The appraiser has estimated the value of the land in the cost approach at its highest and best use and the improvements at their contributory value. These separate valuations of the land and improvements must not be used in conjunction with any other appraisal and are invalid if they are so used. |

| Field | Protocol |
|--------------------------------------|---|
| True and Correct Sources | The information that the appraiser used in the report was all from sources that he/she considers true and correct. |
| Disclosure of Contents | The appraiser will disclose the contents within the appraisal only as provided for in the USPAP. |
| Subject to Completion of Repairs | The appraiser has based his/her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that completion of the improvements will be performed in a workmanlike manner. |
| Distribution of the Appraisal Report | The appraiser must provide his/her prior written consent before the lender/client may distribute the appraisal report to anyone other than those that are outlined in the URAR . |

Appraiser's Certification

The appraiser must sign and certify that the following statements are true in the development and reporting of market value in this appraisal report. The appraiser must attach additional certification, if applicable, to meet specific reporting requirements for professional organizations and state certification and licensing.

| FIELD | Protocol |
|--|---|
| Sales Comparison Analysis | The statement affirms the process in which the appraiser performed the Sales Comparison Analysis. After comparing properties to the subject, the appraiser certifies that he/she made financial adjustments based on the market to determine an appropriate price for the subject property. |
| Factors that Impact Value | The appraiser has considered all factors that impact value and has not knowingly withheld any significant information from the report. The appraiser has reported true and correct information for all factors. |
| Personal, Professional Analysis | All stated information in the report is the personal, unbiased and professional analysis, opinions and conclusions of the appraiser. |
| Interest in the Property/ Discrimination Clause | The appraiser has no interest in the property and has not performed the appraisal in any way on the basis of the race, color, religion, sex, handicap, familial status or national origin of either the prospective owners or occupants of the subject property or those properties in the vicinity of the subject. |
| Present or Future Interest in the Property | The appraiser has no present or contemplated future interest in the subject property, and neither employment nor compensation is contingent on the appraised value of the property. |
| Predetermined Value | The appraiser was not required to report a predetermined value and was not encouraged to report a value that favors the cause of the client or any related party. |

| FIELD | Protocol |
|---|--|
| USPAP Conformity | The appraisal was conducted in conformity with the Uniform Standards of Professional Appraisal Practice. An estimate of reasonable time for exposure in the open market is a condition in the definition of market value and is consistent with the reported estimate of Exposure Period on the URAR . |
| Interior and Exterior Inspection | The appraiser has inspected both the interior and exterior of the subject property and the exterior of all comparable sales analyzed and has noted any apparent adverse conditions in the report. |
| Professional Assistance | If the appraiser had significant professional assistance in the performance of the appraisal or the preparation of the report, he/she must name the individuals providing significant professional assistance and disclose the tasks performed by these people. |
| Professional Assistance | The appraiser must note any individual providing significant professional assistance in the reconciliation. |
| Appraiser Signature | In regards to certification and agreement with the Appraiser's Certification, the appraiser who performed the appraisal must sign in this field. |
| Appraiser Name | The appraiser must print his/her name. |
| Date Signed | The date that the appraiser certifies and agrees to the Appraiser's Certification should be entered in this field. |
| State Certification Number | The appraiser must enter the appropriate and valid State Certification number. |
| State License Number | The appraiser must enter the appropriate and valid State License number (if applicable) |
| Expiration Date of Certification or License | Enter the date State Certification or License Number expires. |

D-2 VALUATION CONDITION REQUIREMENTS

This section describes the specific conditions of the subject property that the appraiser must review and note in the Valuation Conditions Form of the Comprehensive Valuation Package. The physical condition of existing building improvements is examined at the time of appraisal to determine whether repairs, alterations or additions are necessary - essential to eliminate conditions threatening the continued physical security of the property. Required repairs will be limited to necessary requirements commonly referred to as the three S's Rule:

- preserve the continued marketability of the property (**Saleability**)
- protect the health and safety of the occupants (**Safety**)
- protect the security of the property (**Security**)

These are typical conditions that require repairs or replacements:

- termite damage

- damaged, inoperative or inadequate plumbing, heating or electrical systems
- broken or missing fixtures
- rotten or worn-out counter tops
- any structural failure in framing members
- leaking or worn-out roofs
- defective paint surfaces
- masonry and foundation damage
- drainage problems
- damaged floors worn through to the finish
- broken plaster or sheetrock

The appraiser must review each of the conditions specified below and note "YES" if any of the deficiencies exist and "NO" if they do not exist, except for VC-1. Unlike the other VC's, where a "YES" mark indicates a limiting condition on the appraisal, in VC-1, "YES" renders the property ineligible and the appraisal must be returned to the lender. Guidelines are set forth below to assist in the examination of the property. To perform this analysis, the appraiser must have full access to all areas listed.

If unable to visually evaluate the improvement in their entirety, return the appraisal to the lender until a complete visual inspection can be performed. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, plant life, soil, snow, ice or debris that obstructs access or visibility.

An inspection done in accordance with the guidelines listed below is visual and is not technically exhaustive. These guidelines are applicable to buildings with four or less dwellings units and their garages or carports. This inspection does not offer warranties or guarantees of any kind.

LOCATION CONSIDERATIONS

This section considers the evidence of hazards. Hazards, as defined below, endanger the health and safety of the occupants and/or marketability of the property.

VC-1 Location Hazards And Nuisances

The appraiser must note and comment on all hazards and nuisances affecting the subject property. These hazards endanger the health and safety of the occupants and/or the marketability of the property, including subsidence/sink holes, slush pits, heavy traffic areas, airport noise and hazards, proximity to high-pressure gas or petroleum lines, immediate proximity to overhead high-voltage transmission lines, smoke, fumes, offensive noises and odors.

For detailed descriptions of these hazards, see Chapter 2-2, Special Neighborhood Hazards and Nuisances, in this Handbook. These hazards will render a property ineligible, and the appraisal should be returned to the lender.

| Field | Protocol |
|-------|----------|
|-------|----------|

| Field | Protocol |
|---|---|
| Subsidence/Sink holes (Handbook Chapter 2-2 C) | <ul style="list-style-type: none"> • If there is surface evidence of subsidence, the location is ineligible. • Mark "YES" in the VC. |
| Operating oil or gas wells within 300 feet of existing construction (Handbook Chapter 2-2 D) | <ul style="list-style-type: none"> • If the property is located closer than 300 feet from an active or planned drilling site, the location is ineligible. • Mark "YES" in the VC. |
| Operating oil or gas wells within 75 feet of new construction (Handbook Chapter 2-2 D) | <ul style="list-style-type: none"> • If the property is built within 75 feet of an operating well, the location is ineligible. • Mark "YES" in the VC. |
| Abandoned oil or gas wells within 10 feet of new or existing construction without a letter from State agency (Handbook Chapter 2-2 D) | <ul style="list-style-type: none"> • If the property is located closer than 10 feet from an abandoned well, the location is ineligible. • Mark "YES" in the VC. |
| Slush Pits (Handbook Chapter 2-2 E) | <ul style="list-style-type: none"> • If a property is proposed near an active or abandoned well, call for a survey to locate the pits and their impact on the subject property. • If there is any readily observable evidence of a slush pit, the location is ineligible. • Mark "YES" in the VC. |
| Excessive noise or hazard from heavy traffic area (Handbook Chapter 2-2 F) | <ul style="list-style-type: none"> • If there is excessive noise or unsafe traffic conditions that endangers the occupants or affects the marketability of the property the location may be ineligible. • Mark "YES" in the VC. |
| New and proposed construction in Runway Clear Zone (Handbook Chapter 2-2 I) | <ul style="list-style-type: none"> • If the property is proposed construction or construction existing less than one year and located within a Runway Clear Zone, (Runway Protection Zone), for civil airports or a Clear Zone at military airfields, the location is ineligible. • Mark "YES" in the VC. |
| High-pressure gas or petroleum lines within 10 feet of property (Handbook Chapter 2-2 I) | <ul style="list-style-type: none"> • If the property is less than ten feet from the outer boundary of a pipeline easement, the location is ineligible. • Mark "YES" in the VC. |
| Overhead high-voltage transmission lines within engineering (designed) fall distance (Handbook Chapter 2-2 J) | <ul style="list-style-type: none"> • If the property is located in the fall zone (tower height) of high voltage transmission lines, the location is ineligible. • Mark "YES" in the VC. |
| Excessive hazard from smoke, fumes, offensive noises or odors (Handbook Chapter 2-2 K) | <ul style="list-style-type: none"> • If excessive smoke, fog, chemical fumes or noxious odors result in hazards to the occupants, the location is ineligible. • Mark "YES" in the VC. |

| Field | Protocol |
|---|---|
| New and proposed construction in Special Flood Hazard Area (Handbook Chapter 2-2 L) | <ul style="list-style-type: none"> • If any portion of new or proposed construction is located within the 100-year floodplain, the location is ineligible unless a LOMA or LOMR is submitted. • Mark "YES" in the VC. |
| Stationary storage tanks containing more than 100 gallons of flammable or explosive material (Handbook Chapter 2-2 M) | <ul style="list-style-type: none"> • If the property is within 300 feet of a stationary, storage tank containing more than 100 gallons of flammable or explosive material, the location is ineligible. • Mark "YES" in the VC. |

PROPERTY CONSIDERATIONS

Any deficiency noted as "YES" is a limiting condition in the appraisal. Each condition requires repair or further inspection. The appraisal is prepared "as-repaired" and the valuation is limited by those noted conditions. For the mortgage to be eligible for FHA insurance, these conditions must be satisfied before closing.

VC-2 Soil Contamination

| Field | Protocol |
|--|--|
| On-site septic system shows readily observable evidence of system failure (Handbook Chapter 3-6 A.3) | <ul style="list-style-type: none"> • Visually inspect the septic system and its surrounding area. • If there are obvious or readily observable signs of system failure, require further inspection to ensure that the system is in proper working order. • Mark "YES" in the VC, condition the appraisal on the inspection or repair and prepare the appraisal "as-repaired" subject to satisfaction of the condition. |
| Surface evidence of an Underground Storage Tank (UST) on site (Handbook Chapter 3-6 A.3) | <ul style="list-style-type: none"> • If there is any readily observable evidence of underground storage tanks, make a requirement for further analysis. • Mark "YES" in the VC, condition the appraisal on that requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |
| Proximity to dumps, landfills, industrial sites or other locations that could contain hazardous materials (Handbook Chapter 3-6 A.3) | <ul style="list-style-type: none"> • Note the proximity to dumps, landfills, industrial sites or other locations that could contain hazardous wastes. • If there is readily observable evidence of hazardous substances in the soil, make a requirement for further analysis. Conditions that could indicate soil contamination include pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors. • If any of these conditions exist, the appraiser should call for an environmental assessment. • Mark "YES" in the VC, condition the appraisal on an environmental assessment and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

| Field | Protocol |
|--|---|
| Presence of pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors (Handbook Chapter 3-6 A.3) | <ul style="list-style-type: none"> • If there is readily observable evidence of on-site contamination, make a requirement for further inspection. • Mark "YES" in the VC, condition the appraisal on the inspection or repair and prepare the appraisal "as-repaired" subject to satisfaction of the condition. |

VC-3 Grading and Drainage

| Field | Protocol |
|--|---|
| Grading does not provide positive drainage from structure (Handbook Chapter 3-6 A.4) | <ul style="list-style-type: none"> • Examine the subject property to determine if there is proper grading and drainage. Proper drainage may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation. • If the grading does not provide positive drainage from the structure, make a repair requirement. • Condition the appraisal on the requirement, mark "YES" in the VC and prepare the appraisal "as repaired" subject to satisfaction of the condition. |
| Standing water proximate to structure (Handbook Chapter 3-6 A.4) | <ul style="list-style-type: none"> • Note any readily observable evidence of standing water near the property that indicates improper drainage. • If the standing water is problematic, make a repair requirement, condition the appraisal on the requirement, mark "YES" in the VC and prepare the appraisal "as repaired" subject to this condition. |

VC-4 Well, Individual Water Supply and Septic

| Field | Protocol |
|---|---|
| Property lacks connection to public water (Chapter 3-6 A.5) | <ul style="list-style-type: none"> • Note the source of domestic water. • If the property is already connected to a public system, mark "NO" in the VC form. • If the property is equipped with a well, determine whether connection to a public system is feasible. • If connection is feasible (3% or less of the estimated value of the property), hookup is MANDATORY. Condition the appraisal on connection to hookup, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of that condition. • For wells, condition the appraisal on the water-testing requirement. |

| Field | Protocol |
|--|---|
| Property lacks connection to public water (Chapter 3-6 A.5) | <ul style="list-style-type: none"> • If a dug well serves the property, mark "YES" in the VC, condition the appraisal on further inspection by the lender and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. • Note the distance between any source of pollution and a domestic well. A domestic well must be a minimum of 50 feet from a septic tank, 100 feet from the septic tank's drainfield and a minimum of 10 feet from any property line. • If the above conditions do not hold, condition the appraisal on inspection and/or repair and prepare the appraisal "as-repaired" subject to satisfaction of the condition. • If there are mechanical chlorinators or water-flow that decreases noticeably while running simultaneous plumbing fixtures, mark "YES" in the VC, condition the appraisal on further inspection and prepare the appraisal "as-repaired" subject to satisfaction of the condition. |
| Property lacks connection to public/ community sewer system (Handbook Chapter 3-6 A.5) | <ul style="list-style-type: none"> • Note the sewage connection—public/community or septic. • If property is already connected to a public system, mark "NO" in the VC form. • Determine whether connection to a public system is feasible. • If connection is feasible, hookup is MANDATORY. Condition the appraisal upon its hookup, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. • If the property is served by dug wells, springs, lakes, cisterns or rivers, it is ineligible. Mark "YES" in the VC and explain. |

VC-5 Wood Destroying Insects

| Field | Protocol |
|--|--|
| Structure and accessory buildings are ground level and/or wood is touching ground (Handbook Chapter 3-6 A.6) | <ul style="list-style-type: none"> • If yes, require a pest inspection, mark "YES" in VC-5, condition the appraisal on that requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

| Field | Protocol |
|--|---|
| The house and/or other structures within the legal boundaries of the property indicate evidence of active termite infestation (Handbook Chapter 3-6 A.6) | <ul style="list-style-type: none"> • Examine the subject property for readily observable evidence of wood boring insect infestation and excessive dampness or large areas where the vegetation is dead. • Indications that a licensed pest control professional should be required for an inspection of the subject property include mud tunnels running from the ground up the side of the house, swarms around wood structures and small piles of wings around windows. • If the above conditions exist, make the requirement for a termite inspection from a licensed pest control contractor, condition the appraisal on the requirement, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. • Do not require a pest inspection based solely on the age of a property. Inspections are necessary whenever there is evidence of decay, pest infestation, suspicious damage or when it is customary to the area or required by state law. |

VC-6 Private Road Access and Maintenance

| Field | Protocol |
|--|--|
| Property inaccessible by foot or vehicle (Handbook Chapter 3-6 A.7) | <ul style="list-style-type: none"> • All roads must have vehicular and pedestrian access. • If the property is inaccessible by foot or by vehicle, mark "YES" in the VC, make a repair requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |
| Property accessible only by private road or drive (Handbook Chapter 3-6 A.7) | <ul style="list-style-type: none"> • In all cases where a private road exists, submit evidence that the road is protected by a permanent recorded easement (non-exclusive, non-revocable roadway, driveway easement without trespass from the property to a public street/road) and that there is an acceptable maintenance agreement recorded on the property or that is owned and maintained by a Home Owners Association (HOA). • If there is no such easement, mark "YES" in the VC, condition the appraisal on attaining the easement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |
| Property is not provided with an all-weather surface (gravel is acceptable) (Handbook Chapter 3-6 A.7) | <ul style="list-style-type: none"> • FHA defines all-weather surface as a road surface over which emergency vehicles can pass in all types of weather. • If the property is not provided with an all-weather surface, condition the appraisal on its repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to satisfaction of the condition. |

VC-7 Structural Conditions

This chapter addresses the structural components of the subject property and the effect that their condition may have on the habitability and enjoyment of the property (Chapter 3-6). An appraiser must examine the flooring, framing, walls, ceiling, attic and roofing for structural soundness. The appraiser will examine the following conditions:

| Field | Protocol |
|---|---|
| Floor Support Systems (Handbook Chapter 3-6 A.8) | <ul style="list-style-type: none"> Examine the flooring/joists for any signs of water leakage or damage, holes, large cracks in concrete slabs, leakage and readily observable evidence of rodent or termite infestation/damage, temporary supports or jacks or piers. If these conditions exist, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |
| Framing/ Walls/Ceiling (Handbook Chapter 3-6 A.8) | <ul style="list-style-type: none"> Examine all framing, walls and ceilings for soundness, significant cracks that are visible in the exposed portions of the walls and could effect structure, gaping holes and significant water damage. If these conditions exist, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |
| Attic (Handbook Chapter 3-6 A.8) | <ul style="list-style-type: none"> 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, RFT 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, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

VC-8 Foundation Basement

| Field | Protocol |
|--|---|
| Foundation/ Basement (Handbook Chapter 3-6 A.10) | <ul style="list-style-type: none"> Examine the foundation/basement for inadequate access, dampness or readily observable evidence of significant water damage and readily observable cracks or erosion that effect structural soundness. The foundation/basement must have a vapor barrier. If these deficiencies exist, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

| Field | Protocol |
|--|---|
| Crawl Space (Handbook Chapter 3-6 A.11) | <ul style="list-style-type: none"> • Examine the crawl space for inadequate access, distance from floor joists to ground, insulation, ventilation and any other structural problems. • Access to the space should be clear. Enter the crawl space to observe conditions except when access is obstructed, when entry could damage the property or when dangerous and adverse situations are suspected. Access should be provided by the homeowner/seller. • The space should be adequate for maintenance and repair, typically greater than 18 inches. • The support beams should be intact and of structural soundness. • The space must not have excessive dampness or ponding of water. In houses where moisture is present, the problem must be corrected by installing a sump pump, correcting the exterior drainage or by providing proper cross-ventilation. • If any of these inadequacies exist, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

VC-9 Roofing

| Field | Protocol |
|--|---|
| Condition of Roofing (Handbook Chapter 3-6 A.12) | <ul style="list-style-type: none"> • View the roof from ground level to determine if the integrity of the roof is sufficient. • Observe roof coverings, roof drainage systems, flashing, skylights, chimneys and roof penetrations and readily observable evidence of leakage or abnormal condensation on building components. • It is not necessary to observe attached accessories, including but not limited to solar systems, antennae and lightning arrestors. • Note if the roof covers the entire home, if the roof has been repaired or patched substantially, if the material used on the roof was suitable for the subject property and any other visible signs of deterioration resulting in holes, puddles, leakage, clogged or inadequate drains or missing sections. • If the subject property has a flat roof, note that an inspection is required, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. • Note any warranties still in effect and if the remaining physical life is at least two years. • If the roof will last less than two years, call for a new roof. • If a roof is completely snow-covered, re-inspect it later when weather permits. • Condition the appraisal on repair of any of the roof items, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

VC-10 Mechanical Systems

An appraiser must examine all mechanical, plumbing and electrical systems in the subject property to ensure that they are in proper working order. This examination entails turning on the applicable systems and observing their performance.

| Field | Protocol |
|---|---|
| Inoperable systems due to weather conditions (Handbook Chapter 3-6 A.13) | <ul style="list-style-type: none"> • Explain in VC-10 • Condition the appraisal on repair and assumed functionality, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition |
| Furnace/Heating System and Air Conditioning (central) (Handbook Chapter 3-6 A.14) | <ul style="list-style-type: none"> • Turn on the furnace/heating/air conditioning system to observe whether the system performs appropriately and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. • Note significant holes/deterioration on the unit • Determine whether there is an installed heat or cool-air source in each room by using the system's normal operating controls. It is not necessary to observe the uniformity of heat or cool-air to various rooms. • Unit shuts down prior to reaching desired temperature • In most instances it will be possible to activate the air conditioner in the winter and the heater in the summer. However, do not operate the systems if doing so may damage equipment or when outside temperatures will not allow system to operate. • Note any non-compliance with this condition and explain it in the VC form. • Turn on the hot water to ensure that the hot water heater is operating appropriately. • If these conditions exist, condition the appraisal on the repair of the condition, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to satisfaction of the condition. |
| Electrical System (Handbook Chapter 3-6 A.13) | <ul style="list-style-type: none"> • Examine the electrical box to ensure that there are circuit breakers with no visible frayed wiring or exposed wires in living areas and that there is adequate amperage for the appliances present in the property. • If the appliances present at the time of the inspection do not appear to be reasonable (undersized), determine if there is adequate amperage to run "standard" appliances, as per municipal code. |

| Field | Protocol |
|---|--|
| Electrical System (Handbook Chapter 3-6 A.13) | <ul style="list-style-type: none"> • Ensure that the electrical switches and outlets operate properly. Operate a representative number of installed smoke detectors, lighting fixtures, switches and receptacles inside the house, garage and on exterior walls. Note presence of sparks or smoke from outlets. • It is not required to insert any tool, probe or testing device inside the panels, to test or operate any overcurrent or to dismantle any electrical device or control. • It is not required to observe telephone, security, cable TV, intercoms or other ancillary wiring. • If any of the above deficiencies exist, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |
| Plumbing System (Handbook Chapter 3-6 A.5) | <ul style="list-style-type: none"> • Flush the toilets and turn on all faucets to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run and that there is no readily observable evidence of leaks or structural damage under fixtures. • Turn on several cold water faucets in the house to check water pressure and flow. Flushing a toilet at the same time will also reveal any weaknesses in water pressure. • If the property has a septic system, inspect it for any signs of failure such as odor, rust or surface evidence of malfunction. • If any of the above deficiencies exist, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

VC-11 Other Health and Safety Deficiencies

This chapter addresses the interior components of the subject property and the effect that their condition may have on the habitability and enjoyment of the property. The appraiser is not required to observe storm windows, storm doors, screens, shutters, awnings and similar seasonal accessories, fencing, garage door remote control transmitters, wallpaper, carpeting, draperies, blinds, household appliances or recreational facilities.

| Field | Protocol |
|---|---|
| Other Health and Safety Deficiencies (Handbook Chapter 3-6 A.14) | <ul style="list-style-type: none"> • Operate a representative number of windows, interior doors and all exterior and garage doors. • Verify that the electric garage door opener will automatically reverse or stop when met with reasonable resistance during closing. • Note and make a repair requirement for any health or safety deficiencies as they relate to the subject property, including broken windows/doors/steps, inadequate/blocked doors and steps without a handrail. • If any of the conditions exist, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

VC-12 Lead-Based Paint Hazard

| Field | Protocol |
|---|--|
| Lead-Based Paint (Handbook Chapter 3-6 A.15) | <ul style="list-style-type: none"> • If the home was built before 1978, note the condition of all defective paint surfaces and their location in the home. • Comment on the deterioration of painted surfaces of the subject property. • Inspect all interior and exterior surfaces, such as walls, stairs, deck porch, railing, windows or doors for defective (chipping, flaking or peeling) paint. (Exterior surfaces include surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.) • If there is evidence of defective paint surfaces, condition the appraisal on their repair, mark "YES" in the VC and prepare the appraisal "as-repaired" subject to the satisfaction of the condition. |

VC-13 Condominiums and Planned Urban Developments (PUD)

If the subject property is located in a Planned Unit Development or condominium setting, it must be on FHA's approval list or accepted through reciprocity. The property should meet the owner-occupancy standards and completion standards defined below.

| Field | Protocol |
|--|---|
| This project is not on FHA's approval list | <ul style="list-style-type: none"> • Verify that the approval number exists. The lender must supply the approval number on the appraisal. • If the project is not approved, mark "YES" in the VC and condition the appraisal on this information. |
| The property does not meet owner-occupancy standards | <ul style="list-style-type: none"> • The project must be at least 51% owner-occupied. • If owner-occupancy rates are less than 51%, mark "YES" in the VC and condition the appraisal on this information. |
| This property does not meet completion standards | <ul style="list-style-type: none"> • The project must be at least 2/3 complete. • If completion rate is less than 2/3, mark "YES" in the VC and condition the appraisal on this information. |

Radon. Currently, HUD does not require radon testing of homes that are to be insured by this agency.

Addenda

| Field | Protocol |
|---------------------------|---|
| A. Assessed Market Value | <ul style="list-style-type: none"> Enter the assessed market value in the VC addenda. (It varies by municipality but is entered only when the value is represented as current.) The total of all taxes should be included. Excessive taxes can have a negative effect and must be reflected in the value. If there is no method to relate the assessment to market value, such as for new construction, mark the assessed market "N/A". |
| B. Estimated Repair Costs | <ul style="list-style-type: none"> Quantify the costs associated with the repairs in the VC. These costs relate strictly to repair and not marketability. Use standard cost information, such as Marshall and Swift, in preparing the estimate. |

D-3 HOMEBUYER SUMMARY

The Homebuyer Summary intends to protect the homebuyer by informing him/her of any material conditions that typically make the property ineligible for FHA mortgage insurance. If any of the VC's are marked "YES" in the VC form, the appraiser must denote it in the appropriate box of the Homebuyer Summary and explain, in detail, the nature of the problem. The lender is legally bound to address these problems before closing on the property.

| Field | Protocol |
|---|--|
| Location Hazards | Mark "Y" under problem if any of the sections in VC-1 are marked "yes". |
| Soil Contamination | Mark "Y" under problem if any of the sections in VC-2 are marked "yes". |
| Grading and Drainage Problems | Mark "Y" under problem if any of the sections in VC-3 are marked "yes". |
| Well, Individual Water Supply and Septic Problems | Mark "Y" under problem if any of the sections in VC-4 are marked "yes". |
| Wood Destroying Insects | Mark "Y" under problem if any of the sections in VC-5 are marked "yes". |
| Private Road Access and Maintenance Problems | Mark "Y" under problem if any of the sections in VC-6 are marked "yes". |
| Structural Deficiencies | Mark "Y" under problem if any of the sections in VC-7 are marked "yes". |
| Foundation Deficiencies | Mark "Y" under problem if any of the sections in VC-8 are marked "yes". |
| Roofing Deficiencies | Mark "Y" under problem if any of the sections in VC-9 are marked "yes". |
| Mechanical Systems Problems | Mark "Y" under problem if any of the sections in VC-10 are marked "yes". |
| General Health and Safety Deficiencies | Mark "Y" under problem if any of the sections in VC-11 are marked "yes". |
| Deteriorated Paint | Mark "Y" under problem if any of the sections in VC-12 are marked "yes". |

Glossary of Terms

Component: A readily accessible and observable construction element of a system, including a floor, wall, framing or roof construction that can be considered individually - but not individual pieces such as boards or nails.

Dangerous or Adverse Situations: Situations that pose a threat of injury and/or require the use of special protective clothing or safety equipment.

Dismantle: To take apart or remove any component, device or piece of equipment that is bolted, screwed or fastened by other means and that would not be taken apart by a homeowner for normal household maintenance.

Household Appliance: Kitchen and laundry appliances, room air conditioners and similar appliances.

HVAC: Heating, ventilation and air-conditioning system - one combined system or separate systems.

Normal Operating Controls: Devices used by homeowner in the operation of a system, such as a thermostat, wall switch or safety switch.

Observe: The act of making a visual examination.

Operate: To cause systems or equipment to function.

Recreational Facilities: Spas, saunas, steam baths, swimming pools, tennis courts, playground equipment and other exercise equipment, entertainment or athletic facilities.

Representative Number: For multiple identical components such as windows and electrical outlets, one such component per room. For multiple identical exterior components, one such component on each side of the building.

Roof Drainage Systems: Components used to carry water off a roof and away from a building such as gutters, downspouts, leaders, splashblocks.

System: A combination of interacting or interdependent components, assembled to carry out one or more functions.