

**FHA Appraisal
Using Handbook 4000.1 and the
Electronic Data Delivery (EAD)
Portal**



Bill King
206-409-5017
bill.king@wka-inc.com
bill.king@billknowsdirt.com

**FHA Appraisal
Using Handbook 4000.1 and the
Electronic Data Delivery (EAD)
Portal**



Bill King
President, Chief Valuation Officer
<http://www.real-info.com>



Bill King
206-409-5017
bill.king@wka-inc.com

FHA Appraisal – Handbook 4000.1 & EAD

What's New?

- In the MPR (minimum property requirements) discussions, an added bullet point is "Required Analysis and Reporting". This was expected and implied before, but is not explicitly stated.
 - This adds teeth to the disciplinary process and to enforcement of FHA appraisal standards
- Many "shoulds" were replaced with "musts"
- When a word is capitalized in the SF Handbook, it means what it says in the SF Handbook Glossary – not its common definition.
- Appraisal Report and Data Delivery Guide are *supplemental* to the SF Handbook 4000.1

 William King & Associates

May 10, 2017 • 7

FHA Appraisal – Handbook 4000.1 & EAD

What's New?

- Properties with a Legal Non-Conforming Use require appraiser to comment if improvements can be rebuilt *by right*.
- Accessory Dwelling Units – emphasizes Highest & Best Use to determine property classification.
- Attic & Crawl Space Inspection requirements – clarifies that FHA requires an inspection – more than just a "head & shoulders" if possible.
- General Acceptance Criteria, Property Eligibility, Non-residential Use – making sure that mixed use properties comply with zoning.

 William King & Associates

May 10, 2017 • 8

FHA Appraisal – Handbook 4000.1 & EAD

What's New?

- Cost & Income Approaches to Value – Clarifies that ALL appropriate approaches must be utilized when applicable.
- Photograph Requirements – spells out all requirements in one place. (Pages 497-498)
- Sales History of Comps – back to one year, but requires due diligence by the appraiser for analyzing all relevant prior sales of comparable properties.
- Energy efficient building components, solar systems, etc. – contributory value of building components that enhance energy efficiency or energy savings must be analyzed and reported.

 William King & Associates

May 10, 2017 • 9

FHA Appraisal – Handbook 4000.1 & EAD

What's New?

- Electronic Appraisal Delivery Guide revised November 5, 2015
- Handbook called for 3-year comp history, Guide called for 1-year comp history
 - Changed Guide to match Handbook because changing Handbook is monumental.
- Contract Section: Refi option conflicted with UCDP (was "N/A", now just leave it blank)
- Case number must be 3 x 7, numbers only, 3 x 6 for REOs, but REOs don't go through EAD and are not acceptable for new loans.

William King & Associates Real Estate Services May 10, 2017 • 10

FHA Appraisal – Handbook 4000.1 & EAD

Basic Appraisal Process

Observe → **Analyze** → **Report**

William King & Associates Real Estate Services May 10, 2017 • 11

FHA Appraisal – Handbook 4000.1 & EAD

Explain what you see

Explain what you think

William King & Associates Real Estate Services May 10, 2017 • 12

FHA Appraisal – Handbook 4000.1 & EAD

The mortgagee (lender) is responsible, but WE are their eyes and ears – they don't visit the property, we do.

William King & Associates

May 10, 2017 • 13

FHA Appraisal – Handbook 4000.1 & EAD

Intended Use

- The intended use of the appraisal is **solely** to assist FHA in assessing the risk of the property securing the FHA-insured mortgage
 - (24 CFR § 200.145(b))
- FHA and the Mortgagee (lender) are the intended users of the appraisal report.
 - The mortgagee (lender) performs the intended use on behalf of FHA

William King & Associates

May 10, 2017 • 14

FHA Appraisal – Handbook 4000.1 & EAD

Intended Use

The FHA Appraiser does *not* guarantee that the property is free from defects. The appraisal establishes the value of the property *for mortgage insurance purposes only.*

The FHA appraisal (and appraiser) does not *certify* that the property or its *systems and equipment* is free from defects.

William King & Associates

May 10, 2017 • 15

FHA Appraisal – Handbook 4000.1 & EAD

FHA Underwriting

The diagram shows two boxes connected by a right-pointing arrow. The left box is titled 'Underwrite Property' and contains a list: '• Condition' and '• Eligibility'. The right box is titled 'Underwrite Collateral' and contains a list: '• Value' and '• Appraisal'.

• May 10, 2017 • 16

FHA Appraisal – Handbook 4000.1 & EAD

Overriding Themes:

A central blue box labeled 'Overriding Themes:' is connected by a bracket to three stacked blue boxes: 'Health and Safety of Occupants', 'Security & Soundness of the Structure', and 'Credible Appraised Value'.

• May 10, 2017 • 17

FHA Appraisal – Handbook 4000.1 & EAD

Q: Where Does Appraisal QC Begin?

A: The Engagement Agreement

• May 10, 2017 • 18

FHA Appraisal – Handbook 4000.1 & EAD
Engagement Agreement

- **Master Services Agreement**
 - Service Level Agreement (SLA)
 - USPAP Compliance
 - Competence
 - Professionalism
 - Appearance
 - Conduct
 - Timeliness

William King & Associates Real Estate Services May 10, 2017 • 19

FHA Appraisal – Handbook 4000.1 & EAD
Engagement Agreement

- **Assignment Specific Engagement Agreements**
 - Property details
 - Contact information
 - Lender-specific requirements
 - Assignment specific requirements
 - Appraiser to show ID
 - Multiple tax parcels
 - Plans & Specifications

William King & Associates Real Estate Services May 10, 2017 • 20

FHA Appraisal – Handbook 4000.1 & EAD
Engagement Agreement

- **The appraiser must be competent**
 - Cannot invoke Competency Rule for obtaining competency after acceptance of the assignment
 - Applies to all GSE, FHA and VA appraisal assignments
 - **MUST understand client specific requirements**
 - Acceptance of client requirements brings those requirements under USPAP

William King & Associates Real Estate Services May 10, 2017 • 21

FHA Appraisal – Handbook 4000.1 & EAD
Engagement Agreement

TRID


 Consumers: Know Before You Owe


 Appraisers: Know Before You Quote


May 10, 2017 • 22


FHA Appraisal – Handbook 4000.1 & EAD
Know Before You Quote




May 10, 2017 • 23


FHA Appraisal – Handbook 4000.1 & EAD

The Appraiser must obtain all of the following from the Mortgagee *before* beginning an appraisal:


May 10, 2017 • 24

FHA Appraisal – Handbook 4000.1 & EAD


- Purchase Contract {
 - a complete copy of the **executed** sales contract for the subject, if a purchase transaction;
- Land Lease {
 - the land lease, if applicable;
- Legal Description {
 - surveys or legal descriptions, if available;
- Other Documents {
 - any other legal documents contained in the loan file; and
- Point of Contact {
 - a point of contact and contact information for the Mortgagee so that the Appraiser can communicate any **noncompliance** issues.

 May 10, 2017 • 25

FHA Appraisal – Handbook 4000.1 & EAD

New Construction

- The Appraiser must obtain, from the Mortgagee, a fully executed form **HUD-92541, Builder's Certification of Plans, Specifications, and Site**, dated no more than 30 Days prior to the date of the appraisal order; and, documents related to New Construction, including:
 - Plans
 - Specifications
 - any exhibits that will assist the appraiser in determining what is to be built, or,
 - If now Under Construction, what will be built when finished

 May 10, 2017 • 26

FHA Appraisal – Handbook 4000.1 & EAD

Must be a Single, Marketable Real Estate Entity

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and

Property Address _____ City _____

Borrower _____ Owner of Public Record _____

Legal Description _____

Assessor's Parcel # _____ Tax # _____

Neighborhood Name _____ Map _____


Occupant Owner Tenant Vacant _____ Special Assessments \$ _____

Property Rights Appraised Fee Simple Leasehold Other (describe) _____

Assignment Type Purchase Transaction Refinance Transaction Other (describe) _____

Lender/Client _____ Address _____

Is the subject property currently offered for sale or has it been offered for sale in the twelve month Report data source(s) used, offering price(s), and date(s). _____

 May 10, 2017 • 27

FHA Appraisal – Handbook 4000.1 & EAD

Must be a Single, Marketable Real Estate Entity

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and

Property Address	City
Borrower	Owner of Public Record
Legal Description	
Assessor's Parcel #	Tax *
Neighborhood Name	Map
Occupant <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant	Special Assessments \$
Property Rights Appraised <input type="checkbox"/> Fee <input checked="" type="checkbox"/> Simple <input type="checkbox"/> Lease <input checked="" type="checkbox"/> Hold <input type="checkbox"/> Other (describe)	
Assignment Type <input type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)	
Lender/Client	Address

Is the subject property currently offered for sale or has it been offered for sale in the twelve month Report data source(s) used, offering price(s), and date(s).

William King & Associates

May 10, 2017 • 28

FHA Appraisal – Handbook 4000.1 & EAD

Must be a Single, Marketable Real Estate Entity

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and

Property Address	City
Borrower	Owner of Public Record
Legal Description	
Assessor's Parcel #	Tax *
Neighborhood Name	Map
Occupant <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant	Special Assessments \$
Property Rights Appraised <input type="checkbox"/> Fee <input checked="" type="checkbox"/> Simple <input type="checkbox"/> Lease <input checked="" type="checkbox"/> Hold <input type="checkbox"/> Other (describe)	
Assignment Type <input type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)	
Lender/Client	Address

Is the subject property currently offered for sale or has it been offered for sale in the twelve month Report data source(s) used, offering price(s), and date(s).

William King & Associates

May 10, 2017 • 29

FHA Appraisal – Handbook 4000.1 & EAD


Samples Conditions Requiring Immediate Notification to Mortgage

- Zoning Non-Compliance**
 - Illegal Zoning
 - Legal Non-Conforming & CANNOT be rebuilt
- Non-Residential Use**
 - Non-Residential Use Exceeds 49%
 - Non-Residential Use is NOT subordinate
- Encroachment**
 - Encroachment *by* Subject Property
 - Encroachment *on to* Subject Property
- Abandoned Oil or Gas Well**
 - Abandoned Oil or Gas Well on Subject Property
 - Abandoned Oil or Gas Well on Adjacent Property

William King & Associates

May 10, 2017 • 30


FHA Appraisal – Handbook 4000.1 & EAD
Common Externalities



Power Lines



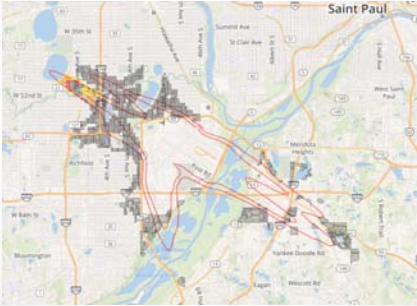
Train Tracks



Airport Noise

William King & Associates Real Estate Services May 10, 2017 • 31

FHA Appraisal – Handbook 4000.1 & EAD
Externalities



William King & Associates Real Estate Services May 10, 2017 • 32

FHA Appraisal – Handbook 4000.1 & EAD
Externalities
Seatac Airport

EXISTING (2013) NOISE EXPOSURE CONTOUR				
CONTOUR BAND	CONTOUR AREA (SQUARE MILES)	HOUSING UNITS	ESTIMATED POPULATION	NOISE SENSITIVE FACILITIES
DNL 65-70 dBA	3.7	1,887	4,879	9
DNL 70-75 dBA	1.3	0	0	0
DNL 75+ dBA	0.9	0	0	0
DNL 65+ dBA	5.9	1,887	4,879	9

FUTURE (2018) NEMMCP NOISE EXPOSURE CONTOUR				
CONTOUR BAND	CONTOUR AREA (SQUARE MILES)	HOUSING UNITS	ESTIMATED POPULATION	NOISE SENSITIVE FACILITIES
DNL 65-70 dBA	4.4	3,771	9,712	9
DNL 70-75 dBA	1.8	0	0	0
DNL 75+ dBA	1.1	0	0	0
DNL 65+ dBA	7.3	3,771	9,712	9

William King & Associates Real Estate Services May 10, 2017 • 33

FHA Appraisal – Handbook 4000.1 & EAD
Planned Unit Development (PUD)

Definition

A Planned Unit Development (PUD) refers to a residential development that contains, within the overall boundary of the subdivision, common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments. A unit in a PUD consists of the fee title to the real estate represented by the land and the improvements thereon plus the benefits arising from ownership of an interest in the HOA.

William King & Associates
Real Estate Services

May 10, 2017 • 34

FHA Appraisal – Handbook 4000.1 & EAD
Planned Unit Development (PUD)

A Planned Unit Development (PUD) is NOT:

- 1.) A consequence of zoning
- 2.) Voluntary
- 3.) Eternal
 - a.) PUDs are corporations that must be maintained

William King & Associates
Real Estate Services

May 10, 2017 • 35

FHA Appraisal – Handbook 4000.1 & EAD
Highest & Best Use

Four Tests:

- Legally Permissible
- Physically Possible
- Financially Feasible
- Maximally Productive

Properties with a Legal Non-Conforming Use: requiring the appraiser to comment if improvements can be rebuilt by right.

Accessory Dwelling Units: emphasizing Highest and Best Use to determine property type of classification.


William King & Associates
Real Estate Services

May 10, 2017 • 36


FHA Appraisal – Handbook 4000.1 & EAD
Highest & Best Use


Non-residential Use of Property: ensuring that mixed-use properties comply with zoning.


Cost and Income Approach for Value: clarifying that ALL appropriate approaches must be utilized when applicable.

 May 10, 2017 • 37

FHA Appraisal – Handbook 4000.1 & EAD
Excess & Surplus Land


 **Excess Land** refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. **Excess Land may have the potential to be sold separately.**

 **Surplus Land** refers to land that is not currently needed to support the existing improvement but **cannot be separated from the Property and sold off**. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

 May 10, 2017 • 38

FHA Appraisal – Handbook 4000.1 & EAD
Excess & Surplus Land

- The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser’s conclusion of the existence of Excess Land.
- The Appraiser must include Surplus Land in the valuation.

 May 10, 2017 • 39

FHA Appraisal – Handbook 4000.1 & EAD

Excess & Surplus Land

- If the subject of an appraisal contains two or more legally conforming platted lots under one legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land.
- The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

William King & Associates

May 10, 2017 • 40

FHA Appraisal – Handbook 4000.1 & EAD

Accessory Dwelling Unit (ADU)

Definition

- An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate.
- It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

Handbook 4000.1, Page 485

William King & Associates

May 10, 2017 • 41

FHA Appraisal – Handbook 4000.1 & EAD

Accessory Dwelling Unit (ADU)


- An ADU is usually subordinate in *size, location* and *appearance* to the primary Dwelling Unit and may or may not have separately metered utilities or separate means of ingress or egress.
- The Appraiser must not include the living area of the ADU in the calculation of the Gross Living Area (GLA) of the primary dwelling.

William King & Associates

May 10, 2017 • 42

FHA Appraisal – Handbook 4000.1 & EAD
Accessory Dwelling Unit (ADU)

- The Appraiser may consider a Manufactured Home to be an ADU if it meets the highest and best use and FHA requirements.
- The Appraiser may value a Manufactured Home on the Property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

•  May 10, 2017 • 43


FHA Appraisal – Handbook 4000.1 & EAD
Accessory Dwelling Unit (ADU)
 Municipality of Anchorage

Guide to Accessory Dwelling Units:
<http://www.muni.org/Departments/OCPD/development/bsd/Policies/policyag37.pdf>

ADU Permitted Sizes:
<http://www.muni.org/departments/ocpd/development/bsd/policies/cp-2%20size%20of%20accessory%20structures.pdf>

Accessory Buildings (garages, sheds, greenhouses, barns)
<http://www.muni.org/Departments/OCPD/Planning/zoning/Pages/AccessoryBldg.aspx>

Affidavit of Owner-Occupancy (Recorded)
<http://www.muni.org/Departments/OCPD/Planning/Forms%20and%20Applications/ADU%20Affidavit%20Form.pdf>


•  May 10, 2017 • 44

FHA Appraisal – Handbook 4000.1 & EAD
Accessory Dwelling Unit (ADU)
 Borough of Juneau

Guide to Accessory Apartments:
http://www.juneau.org/cddftp/documents/AccessoryAptHandout_06252015.pdf

Accessory Apartment Ordinance:
http://www.juneau.org/clerk/Notices/documents/Ord2015-07b-am_Final_Amending_Land_Use_re_Accessory_Apartments.pdf

Accessory Apartment Application:
http://www.juneau.org/cddftp/documents/Accessory-Apartment_Application_2015.pdf

•  May 10, 2017 • 45

FHA Appraisal – Handbook 4000.1 & EAD

Appliances

The Standard:

- Cabinets and built-in appliances that are considered Real Property must be present and operational.

Required Analysis and Reporting:

- The Appraiser must note appliances present in the house at the time of observation and indicate whether that appliance is considered Personal Property or Real Property. The **Appraiser must operate all conveyed appliances and observe their performance.**

FHA Appraisal – Handbook 4000.1 & EAD

Swimming Pools

- The Appraiser must report readily observable defects in a non-covered pool that would render the pool inoperable or unusable.
- If the pool water contains algae and is aesthetically unappealing, but the Appraiser has no evidence that the pool is otherwise contaminated, no cleaning is required.
- Swimming pools must be operational to provide full Contributory Value.

FHA Appraisal – Handbook 4000.1 & EAD

Swimming Pools

- The Appraiser must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines, and the surrounding land re-graded if necessary.
- If the swimming pool has been winterized, or the Appraiser cannot determine if the pool is in working order, the Appraiser must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to full operating condition at normal costs.
- The **Mortgagee** must confirm that any swimming pools comply with all local ordinances (4000.1, Page 159 (g))

FHA Appraisal – Handbook 4000.1 & EAD
Mechanical Systems

Old - 4150.2 **New - 4000.1**

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 local code*.

No Similar Requirement

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance.

Check 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.

William King & Associates May 10, 2017 • 49

FHA Appraisal – Handbook 4000.1 & EAD
Lead-Based Paint Hazard

January 1, 1978

- If the manufactured home was built before 1978, this may indicate a lead paint hazard. For all FHA-insured properties correction is required to all defective paint in or on Structures and/or property improvements built before January 1, 1978 in accordance with 24 CFR Part 35.

All Interior & Exterior Surfaces

- Observe 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**).

Provide Photographs

- Note any areas affected (be specific), provide photographs, and condition the appraisal on repair

William King & Associates May 10, 2017 • 50

FHA Appraisal – Handbook 4000.1 & EAD
Attic

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

William King & Associates May 10, 2017 • 51

FHA Appraisal – Handbook 4000.1 & EAD

Attic

- If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the Appraiser must report this condition, and render the appraisal subject to inspection and repairs if necessary.
- If there is no access or scuttle, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.
- An observation performed in accordance with these guidelines is visual and is not technically exhaustive.
- FHA requires an inspection. Head and Shoulders inspection is NOT an alternative to a full inspection when a full inspection is practical and feasible.

William King & Associates

May 10, 2017 • 52

FHA Appraisal – Handbook 4000.1 & EAD

Crawl Space Observation Requirements

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

The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.

If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.

The crawl space must be properly vented unless the area is mechanically conditioned.

The crawl space must be free of trash, debris, and vermin.

The crawl space must not be excessively damp and must not have any water pooling.

William King & Associates

May 10, 2017 • 53

FHA Appraisal – Handbook 4000.1 & EAD

Wood Destroying Insects/Organisms/Termites

- The Appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests.
- The Appraiser's observation is not required to be at the same level as a qualified pest control specialist.
- If there is evidence or notification of infestation, including a prior treatment, the Appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal and make the appraisal subject to inspection by a qualified pest control specialist.


William King & Associates

May 10, 2017 • 54

FHA Appraisal – Handbook 4000.1 & EAD
Wood Destroying Insects/Organisms/Termites

Seller Disclosure Statement (Form 17 in Washington)
 Page 3 of 6, Question 4-G and 4-H

<input type="checkbox"/> Storage Rooms	<input type="checkbox"/> Stairways	<input type="checkbox"/> Stairs	140
<input type="checkbox"/> Wood Stoves	<input type="checkbox"/> Elevators	<input type="checkbox"/> Incline Elevators	140
<input type="checkbox"/> Stairway Chair Lifts	<input type="checkbox"/> Wheelchair Lifts	<input type="checkbox"/> Other	141
*G. Was a structural pest or "whole house" inspection done?			
If yes, when and by whom was the inspection completed?			
.....			
H. During your ownership, has the property had any wood destroying organism or pest infestation?			
I. Is the attic insulated?			
J. Is the basement insulated?			


 May 10, 2017 • 55

FHA Appraisal – Handbook 4000.1 & EAD
Wood Destroying Insects/Organisms/Termites

Termite Treatment Exception Areas:

- Washington
- Idaho
- Oregon
- Alaska


Full list at:
http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_POL_I_TERMITTE.pdf

 May 10, 2017 • 56

FHA Appraisal – Handbook 4000.1 & EAD
Requirements for Living Unit

The Mortgagee must confirm that each living unit contains:

- o a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- o sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- o adequate space for healthful and comfortable living conditions;
- o heating adequate for healthful and comfortable living conditions;
- o domestic hot water; and
- o electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

 May 10, 2017 • 57

FHA Appraisal – Handbook 4000.1 & EAD

Plumbing System

- **The Appraiser** must flush the toilets and operate a sample of faucets to check water pressure and flow, 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.
- **The Appraiser** must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.
- If the Property has a septic system, **the Appraiser** must examine it for any signs of failure or surface evidence of malfunction. If there are deficiencies, **the Appraiser** must require repair or further inspection.

William King & Associates

May 10, 2017 #58

FHA Appraisal – Handbook 4000.1 & EAD

Well & Hot Water Tank

- A pressure tank with a minimum capacity of 42 gallons must be provided.
- However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equal or exceed that of a 42-gallon tank.
- Hot Water Tanks must be equipped with a **clean-out plug** at the lowest point and a suitable **pressure relief valve**.

William King & Associates

May 10, 2017 #59

FHA Appraisal – Handbook 4000.1 & EAD

Hot Water Tank

A pressure tank with a minimum capacity of 42 gallons must be provided. However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equal or exceed that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.

William King & Associates

May 10, 2017 #60

FHA Appraisal – Handbook 4000.1 & EAD

Water Supply - Wells

Required Analysis and Reporting

The Appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:

- the water supply relies upon a water purification system due to the presence of contaminants;
- corrosion of pipes (plumbing);
- areas of intensive agricultural uses within one quarter mile;
- coal mining or gas drilling operations within one quarter mile;
- a dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile; or
- an unusually objectionable taste, smell, or appearance of well water.

William King & Associates

May 10, 2017 • 61

FHA Appraisal – Handbook 4000.1 & EAD

Cost Approach to Value

William King & Associates

May 10, 2017 • 62

FHA Appraisal – Handbook 4000.1 & EAD

Cost Approach to Value



William King & Associates

May 10, 2017 • 63

FHA Appraisal – Handbook 4000.1 & EAD
Cost Approach to Value

The Cost Approach must be from a credible source *that can be duplicated* by the reader.

William King & Associates Real Estate Services May 10, 2017 • 64

FHA Appraisal – Handbook 4000.1 & EAD
Cost Approach to Value

Estimate Site Value

- Sales Comparison
- Allocation
- Extraction
- Land Residual
- Rent Capitalization

William King & Associates Real Estate Services May 10, 2017 • 65

FHA Appraisal – Handbook 4000.1 & EAD
Cost Approach to Value

Must include a summary of the supporting documentation and analysis

- Appraiser must maintain comparable land sales data and analysis or other supporting information in the file and include it by reference in the appraisal.

For properties with Excess Land, the appraiser must include all comparable land sale data and analysis in the report.

William King & Associates Real Estate Services May 10, 2017 • 66

FHA Appraisal – Handbook 4000.1 & EAD
Cost Approach to Value

- State Method Used (Reproduction or Replacement)
- Must use Current version of a published cost data source recognized by the industry
- Must report the Quality rating used
- Must identify the source of the data
- Must identify the publication and/or effective date of the cost data
- Specific requirements for manufactured housing

William King & Associates Real Estate Services May 10, 2017 • 67

FHA Appraisal – Handbook 4000.1 & EAD
Remaining Economic Life

The appraiser must enter the remaining economic life of the improvements

This is required for all FHA appraisals whether the cost approach is completed or not.

William King & Associates Real Estate Services May 10, 2017 • 68

FHA Appraisal – Handbook 4000.1 & EAD

Sales Comparison Approach to Value

William King & Associates Real Estate Services May 10, 2017 • 69

FHA Appraisal – Handbook 4000.1 & EAD
Sales Comparison Approach

- The Appraiser must:
 - present the data, points of comparison, and analysis;
 - provide support for the Appraiser’s choice of comparable properties, and the adjustments for dissimilarities to the subject; and
 - include sufficient description and explanation to support the facts, analyses and the Appraiser’s conclusion.

William King & Associates Real Estate Services May 10, 2017 • 70

FHA Appraisal – Handbook 4000.1 & EAD
Sales Comparison Approach

- If the data from the market area is insufficient to support some of these requirements, the Appraiser must:
 - provide the best information available and include:
 - ✓ an explanation of the issue,
 - ✓ the data available,
 - ✓ the conclusions reached, and
 - ✓ the steps taken by the Appraiser to attempt to meet the guidelines.

William King & Associates Real Estate Services May 10, 2017 • 71

FHA Appraisal – Handbook 4000.1 & EAD
Sales Comparison Approach
Comparable Sale Selection

Comparable sale selection must be based on properties have the same or similar:

- Locational characteristics
- Physical characteristics

Sales Price is *NOT* a factor

William King & Associates Real Estate Services May 10, 2017 • 72

FHA Appraisal – Handbook 4000.1 & EAD
Sales Comparison Approach

Comparable Data Pool

Top of Page 2: *Comparable* Listings and Sales

Unlike the neighborhood price data, which includes all sales, this section focuses only on those properties that are *comparable to the subject*, not the universe of properties.

William King & Associates Real Estate Services May 10, 2017 • 73

FHA Appraisal – Handbook 4000.1 & EAD

Sales Comparison Grid

William King & Associates Real Estate Services May 10, 2017 • 74

FHA Appraisal – Handbook 4000.1 & EAD
Sales Comparison Grid

Verification Source(s)

The Information provided must permit the reader of the report to locate the data *from the sources cited*.

Do not use, as market data, sales that are not verified and *adjusted to reflect the terms and conditions of sale*.

William King & Associates Real Estate Services May 10, 2017 • 75

FHA Appraisal – Handbook 4000.1 & EAD

Always make the five “transactional” adjustments first, before making property feature adjustments.

FHA Appraisal – Handbook 4000.1 & EAD



FHA Appraisal – Handbook 4000.1 & EAD

Sales Comparison Grid

Factual Data and Value Adjustments in Direct Sales Comparison

- Adjustments are made for price influencing dissimilarities
- Not all dissimilarities require an adjustment
- All adjustments must be extracted from and supported by the actions of the market
- Ensure that descriptions are readily recognizable by the intended users

FHA Appraisal – Handbook 4000.1 & EAD

Time Adjustments

Fannie Mae Selling Guide **FHA SFH Guide**

The comparable sales must be analyzed to determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal. Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the report.

Time adjustments must be calculated using the contract date (meeting of the minds) rather than the date of settlement.

Explanation is required for any time adjustments.

William King & Associates May 10, 2017 • 79

FHA Appraisal – Handbook 4000.1 & EAD

Quality of Construction

Old - 4150.2 **New - 4000.1**

Enter "Good", "Average", "Fair", etc. using the quality rating from your cost service subscription or provider.

Enter Q1-Q6 as appropriate, using the quality rating as defined in the UAD Quality Description Table.

Adjustments may also be warranted for interior construction quality and *should* be explained. For example, the second floor of a 1-½ story home finished with lower grade materials and finish compared to first floor.

Adjustments may also be warranted for interior construction quality and if so, they *must* be explained. For example, the second floor of a one-and a half-story house finished with lower grade materials and finish compared to the first floor.

William King & Associates May 10, 2017 • 80

FHA Appraisal – Handbook 4000.1 & EAD

Quality of Construction

Differences in **quality** resulting in adjustments must be explained. The explanation must be specific. It is not sufficient to simply state that "adjustments for quality are based on observations" or "based on descriptions provided in MLS."

William King & Associates May 10, 2017 • 81

FHA Appraisal – Handbook 4000.1 & EAD

Condition

Old - 4150.2

New - 4000.1

Ratings to be used are: "New", "Good", "Average", "Fair" and "Poor" or a combination if more accurate.

Enter C1-C6 as appropriate using the condition rating as defined in the UAD Condition Description Table below.

Consider required repairs or alterations, to the subject, completed when determining the need for adjustments to the comparable sales.

If the appraisal is completed "subject to repairs," the subject's condition rating, and corresponding adjustments, must be based on the repairs as completed.

William King & Associates

May 10, 2017 • 82

Horizontal lines for notes

FHA Appraisal – Handbook 4000.1 & EAD

Condition

Differences in condition resulting in adjustments must be explained. The explanation must be specific. It is not sufficient to simply state that "adjustments for condition are based on observations" or "based on descriptions provided in MLS."

William King & Associates

May 10, 2017 • 83

Horizontal lines for notes

FHA Appraisal – Handbook 4000.1 & EAD

Room & GLA Adjustments

Old - 4150.2

New - 4000.1

- The first line is for bathroom count differences. A deficiency or surplus in the number of baths should be adjusted first.
• The second line adjustment is for room count.
• The third is for a difference in square footage.
• The first line is for bedroom and/or total count differences (if appropriate)
• The second line adjustment is for bathroom count differences (if appropriate).
• The third is for a difference in GLA (if appropriate).

William King & Associates

May 10, 2017 • 84

Horizontal lines for notes

FHA Appraisal – Handbook 4000.1 & EAD

Basement

In some jurisdictions, the total square footage of the property improvements below grade and/or the finished square footage of the property improvements below grade may not be available to the appraiser within the normal course of business.

UAD Appendix D

FHA Appraisal Guide

An appraiser may report the estimated total square footage of the property improvements below grade and the finished area below grade for the comparable properties and disclose within the appraisal report that the size is an estimate and report the source and basis for the estimate.

If the appraiser does not have a credible data source for the quantity of finished basement area, enter a 1 for finished area and explain in the addendum.

FHA Appraisal – Handbook 4000.1 & EAD

Basement

Because the adjustments for multiple basement characteristics may be combined, it is important to include clear explanations of each adjustment factor or amount.

FHA Appraisal – Handbook 4000.1 & EAD


Adjusted Sale Price of Comparables

Preferred underwriting guidelines indicate that adjustments must not exceed 10% for line items, 15% for net adjustments, and 25% for gross adjustments.

If any adjustments exceed stated guidelines, an *explanation must be provided.*

FHA Appraisal – Handbook 4000.1 & EAD


Income Approach to Value


May 10, 2017 • 88

FHA Appraisal – Handbook 4000.1 & EAD

Income Approach


FHA follows USPAP and *its own guidance* in requiring the appraiser to consider all approaches to value necessary for credible results.


May 10, 2017 • 89

FHA Appraisal – Handbook 4000.1 & EAD

Income Approach

- Did you really check for rentals and rental/sale pairs, or did you autofill the canned comment “not applicable due to insufficient data”?
- When conducting research, check every time to see if there is data available rather than just assuming it is not.
- The research should be in your work file.


May 10, 2017 • 90

FHA Appraisal – Handbook 4000.1 & EAD
Report Conclusion

There is/are no repair(s), alteration(s) or inspection condition(s) noted by the Appraiser.

Establishing the As-Is Value for a 203(k).

“As-is” The Property is being recommended for rejection.

Intended use is for Pre-Foreclosure Sale (PFS)

Intended use is for Real Estate Owned (REO)

William King & Associates Real Estate Services May 10, 2017 • 91

FHA Appraisal – Handbook 4000.1 & EAD
Report Conclusion

Proposed Construction where construction has not started.

“Subject to completion per plans and specifications” Under Construction but not yet complete (less than 90%).

Certain Section 203(k) Rehabilitation Mortgages depending on scope of work.

William King & Associates Real Estate Services May 10, 2017 • 92

FHA Appraisal – Handbook 4000.1 & EAD
Report Conclusion

Repair or Alteration Condition(s) noted by the Appraiser to:

- protect the health and safety of the occupants;
- protect the security of the Property;
- correct physical deficiencies or conditions affecting structural integrity.

“Subject to the following repairs or alterations” Certain Section 203(k) Rehabilitation Mortgages depending on scope of work.

Under Construction, more than 90% complete with only minor finish work remaining (buyer preference items e.g., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for plans and specifications.

William King & Associates Real Estate Services May 10, 2017 • 93

FHA Appraisal – Handbook 4000.1 & EAD
Report Conclusion

“Subject to the following required inspection”

Required inspection(s) to meet HUD’s Minimum Property Requirements and Minimum Property Standards as noted by the Appraiser.

William King & Associates Real Estate Services May 10, 2017 • 94

FHA Appraisal – Handbook 4000.1 & EAD
Reconciliation

*“This is the number one, most critical and most often missing element of appraisals we see today. The appraiser should be reconciling each approach and then reconciling all of the facts and approaches into a conclusion. This is almost never done. **This is the point of an appraisal.**”*

William King & Associates Real Estate Services May 10, 2017 • 95

FHA Appraisal – Handbook 4000.1 & EAD
Reconciliation

*We can buy numbers and value estimates from many sources, we can even get assessor numbers free. None of these are an appraisal that tells us the results of a trained professional who observes, analyzes and reports. If that trained professional does not analyze and report, then we do not really have an appraisal – just some numbers that may be no more credible than a free AVM or assessed value. **This is the final exam – the appraisal does not graduate without it.**”*

William King & Associates Real Estate Services May 10, 2017 • 96

FHA Appraisal – Handbook 4000.1 & EAD

Manufactured Homes

William King & Associates
Real Estate Services

May 10, 2017 • 97

FHA Appraisal – Handbook 4000.1 & EAD

Manufactured Homes

Useful Definitions

William King & Associates
Real Estate Services

May 10, 2017 • 98

FHA Appraisal – Handbook 4000.1 & EAD

Manufactured Homes

“Site-Built”

Refers to homes fabricated primarily on the job site, and may include wall panels and components fabricated elsewhere.

The design and construction of these homes must abide by the building code adapted by the local jurisdiction where the home is located.

Generally local builders construct site built homes. However many are also built by larger regional or national builders.

William King & Associates
Real Estate Services

May 10, 2017 • 99

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes

**“Factory-Built”
(Modular)**

Refers to homes built in a factory in modules. They are normally built using the same materials as site-built homes, and delivered to a permanent destination.

At the job site, the builder generally installs the foundation (either a crawlspace or a basement), water, sewer, and will have utilities connected to the home.

The builder will generally need to use a crane to hoist the sections together for assembly.

William King & Associates Real Estate Services May 10, 2017 • 100

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes

“Manufactured”

Refers to a house built off-site in a factory or construction yard on a permanent chassis with a HUD label (United States Department of Housing and Urban Development).

These homes are built to HUD code under the Federal Manufactured Housing Construction & Safety Standards (FMHCSS) established in 1976.

Local building authorities do not inspect the construction of these homes; instead, third party in-plant inspectors inspect them.

Prior to 1976 people often referred these homes as “mobile homes” or “trailers.”

William King & Associates Real Estate Services May 10, 2017 • 101

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes

To be Eligible, a Manufactured Home Must:

Have floor area not less than 400 square feet	Be constructed after June 15, 1965	Have affixed certification label (HUD Seal)	Evidence that MH & Land are classified as Real Property
---	------------------------------------	---	---

William King & Associates Real Estate Services May 10, 2017 • 102

FHA Appraisal – Handbook 4000.1 & EAD

Manufactured Homes

HUD Tag (Seal)



William King & Associates
Real Estate Services

May 10, 2017 • 103

FHA Appraisal – Handbook 4000.1 & EAD

Manufactured Homes

- HUD does not reissue tags for manufactured homes. However, the Department can issue a letter of label (tag) verification for units for which it can locate the necessary historical information.
- The label numbers can be found on a data plate inside the home in one of three locations:
 1. on or near the main electrical panel
 2. in a kitchen cabinet
 3. in a bedroom closet

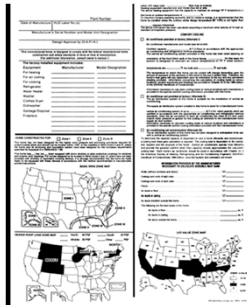
The data plate has a map of the United States to let the consumer know the Wind Zone, Snow Load, and Roof Load for which their home was built.

William King & Associates
Real Estate Services

May 10, 2017 • 104

FHA Appraisal – Handbook 4000.1 & EAD

Manufactured Homes - Dataplate



William King & Associates
Real Estate Services

May 10, 2017 • 105

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes

Missing Data Plate

- If the data plate is missing and/or the appraiser is unable to locate it, the appraiser only needs to report this fact and is not required to secure the data plate information from another source.

Missing HUD Tag (HUD Seal)

- If unable to locate the HUD certification label (HUD seal) the appraiser must report this in the appraisal.

William King & Associates May 10, 2017 • 106

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes

- *The Client* may request letters of label verification from the Institute for Building Technology and Safety (IBTS), by visiting IBTS' website at <http://www.ibts.org/services/services-in-the-public-good/cert-label-verification.html>.
- *The Client* may also contact IBTS' Label Department at (703) 481-2010 or via fax at: (703) 437-6894.

William King & Associates May 10, 2017 • 107

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes

"Site-Built"

Refers to homes fabricated primarily on the job site, and may include wall panels and components fabricated elsewhere.

The design and construction of these homes must abide by the building code adapted by the local jurisdiction where the home is located.

Generally local builders construct site built homes. However many are also built by larger regional or national builders.

William King & Associates May 10, 2017 • 108

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes – Cost Approach

Fannie Mae **FHA 4000.1**

Fannie Mae requires a detailed and supported cost approach to value for **all** manufactured homes which must, at a minimum, contain the information indicated on the Form 1004C.

Whatever format the appraiser chooses to report the cost approach, the information must be sufficient to allow the lender to replicate the cost figures and calculations.

The appraiser is only required to complete the cost approach if the manufactured home is new construction (initial sale from manufacturer).

If the manufactured home is New Construction Less than One Year Old but the title has been re-conveyed after the initial sale, or if the manufactured home is over a year old, the cost approach is **not** required.

William King & Associates May 10, 2017 • 109

FHA Appraisal – Handbook 4000.1 & EAD
Manufactured Homes – Cost Approach

For cost estimates, the appraiser must rely upon a nationally published cost service such as the National Automobile Dealers Association (N.A.D.A.) Manufactured Housing Appraisal Guide, the Marshall & Swift Residential Cost Handbook or other published data.

William King & Associates May 10, 2017 • 110

FHA Appraisal – Handbook 4000.1 & EAD
Condominiums

The risk in condominium properties includes the viability of the project as well as the condition and appeal of the individual unit.

FHA Approved Condominium List:
<https://entp.hud.gov/idapp/html/condlook.cfm>

William King & Associates May 10, 2017 • 111

FHA Appraisal – Handbook 4000.1 & EAD

FHA 203(k) Rehab Loans

Homeowner/Contractor Agreement

- o Unacceptable Description:
 - 10 Cherry Wood Kitchen Cabinets: \$2,500
- o Acceptable Description:
 - 10 Solid Medium Color Cherry Wood Kitchen Cabinets (door and entire cabinet), manufactured by Kitchen Maid
 - Style: Country French
 - Model Number: 1234567
 - Top Cabinets, 5 Cabinets, dimensions 18” x 36”
 - Lower Cabinets, 5 Cabinets, dimensions 18” x 36”
 - All cabinets include one shelf with four adjustment levels

William King & Associates

May 10, 2017 • 112

FHA Appraisal – Handbook 4000.1 & EAD

FHA 203(k) Rehab Loans

Appraiser Responsibilities

- Complete appraisal “subject to completion per plans and specifications”.
- Must receive all cost estimates and the list of work items (work write-up) for a Standard 203(k) or a contractors bid for a Streamlined 203(k)
- Provide lender with an after-improved value
- Notify lender of repair conditions not listed in the work write-up
- Perform final inspection at lender’s request to assure that work is completed as submitted, if applicable.

William King & Associates

May 10, 2017 • 113

FHA Appraisal – Handbook 4000.1 & EAD

HUD/FHA Resources

FHA Roster Appraisers’ Page

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/appr

FHA Single Family Housing Policy Handbook 4000.1

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

Mortgage Letters – All Years

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee

William King & Associates

May 10, 2017 • 114

FHA Appraisal – Handbook 4000.1 & EAD


EAD Resources

Electronic Appraisal Delivery (EAD) Resource Page
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/orignation/ead

EAD Appraisal Report and Data Delivery Guide
http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_POLI_APPR_RPT_FIN_PDF

EAD Hard Stops and Error Messages
http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_EAD_HardStopsES.pdf

EAD: Common Appraisal Errors
http://portal.hud.gov/hudportal/documents/huddoc?id=EAD_Appraisal_Data_FS.pdf

 May 10, 2017 • 115


FHA Appraisal – Handbook 4000.1 & EAD

GSE Resources

Freddie Mac Seller/Servicer Guide and Appraisal Reporting Requirements
<http://www.freddiemac.com/singlefamily/guide/?tab=1&toq=other>

Fannie Mae Selling Guide
<https://www.fanniemae.com/content/guide/selling/index.html>

Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification
https://www.fanniemae.com/content/technology_requirements/uad-specification-appendix-d.pdf

 May 10, 2017 • 116

Thank You!

 May 10, 2017 • 117
