

**NRMLA Q & A**  
**HUD's New Appraisal Guidelines**

- 1) Is a well located in the basement okay? If not allowed by FHA, what if local laws permit it?
  - A. *Typically, a well located within the foundation walls of a dwelling is not acceptable except in arctic or sub-arctic regions; however, if local law permits a well to be located within the foundation walls request a waiver from the HOC having jurisdiction.*
  
- 2) Is it mandatory for a well/septic report to show distance to lot lines?
  - A. *The appraiser is not required to sketch the distances between the well and septic but should note in the appraisal if the distances appear to be such that there could be potential for contamination as well as note any adverse site conditions that might warrant further inspections or due diligence. It is the lender's decision as to whether a qualified third party should map out these distances.*
  
- 3) If we received an appraisal on the old form in 2005 but the loan is still in underwriting in 2006, do the various inspections outlined on the appraisal (e.g. WDI, Well Water Testing, Flat Roof, etc.) still have to be performed?
  - A. *The effective date of the appraisal determines which protocol to follow, not the date it was received. Appraisals performed on the old forms prior to January 1, 2006, require both the appraiser and lender follow the protocol in effect at that time which would include all required automatic tests and/or certifications.*
  
- 4) Does the appraiser determine what inspections are required or does the lender determine that?
  - A. *Mortgagee Letter 2005-48 provides examples of property conditions that will continue to require automatic inspections. The appraiser should be noting what inspections, if any, are customary for the area, required by state or local law, or that they recommend based on observed property conditions. Lenders must review the appraisal to determine whether the appraiser has reported any property conditions that will affect the health and safety of the occupants or the security and the soundness of the property and must require immediate repair where the property condition poses a threat to these criteria.*
  
- 5) Can the old appraisal form be used in 2006 or is the new form mandatory?
  - A. *The old appraisal forms expired on December 31, 2005. Use of the new forms and protocol is required for all appraisals performed on or after January 1, 2006.*
  
- 6) Is an engineer's report still required for manufactured homes?
  - A. *Yes, the engineer's certification is required for all manufactured homes.*

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- 7) Are termite reports for homes located in the South still automatically required?
- A. *FHA no longer mandates automatic inspections for wood destroying insects or organisms in **existing** properties. However, pest inspections are required if there is evidence of active infestation, it is mandated by the state or local jurisdiction, it is customary to area, or at the lender's discretion. Prudent underwriting would dictate an inspection in termite prone areas.*
- 8) If a water test is required, what tests are included? FHA required five water tests (pre-2006). If local/state does not require five water tests, can we just do what the state/local authorities require?
- A. *If a well test is required because of conditions noted by the appraiser, or at the lender's discretion, the well water test should comply with the local jurisdiction's standards and if absent, then EPA requirements for drinking water recommendations.*
- 9) Since there is no notice of homebuyer summary, what is the requirement for a borrower to get a copy of 92800.5b?
- A. *Mortgagee Letter 2005-34 instructed the mortgagee to provide a copy of the completed form HUD-92800.5B (Conditional Commitment Direct Endorsement Statement of Appraised Value) to the mortgagor at least five business days prior to loan closing. The five-business day delivery date prior to loan closing of the Conditional Commitment form was rescinded by Mortgagee Letter 2005-48 and lenders are now instructed to ensure that the mortgagor receives either a completed copy of HUD 92800.5B, or a copy of the completed appraisal report, at or before loan closing.*
- 10) Does the appraiser still have to put the distances on the sketch addendum or does he only have to address the distances in the comments section of the URAR?
- A. *The appraiser is not required to sketch the distances between the well and septic but should note in the appraisal, if readily observable, if the distances appear to be such that there could be potential for contamination as well as note any adverse site conditions that might warrant further inspections or due diligence. The appraiser should ask the homeowner or borrower for a copy of a plat or survey that might show the distances.*
- 11) Will repairs that are now considered "minor" also be considered "minor" if listed on the termite report? Can the underwriter waive those conditions listed on the termite report to coincide with the URAR?
- A. *The appraiser will report what is readily observable during their visit to the property. Waiving any repairs noted on a termite report, which may or may not have been noted in the appraisal, should be evaluated on a*

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*case by case basis by the underwriter based on the nature and degree of deterioration noted in the termite report.*

- 12) Are CIR's still going to be used for verification that repairs have been completed? Since the appraiser is commenting on the condition of the property, and the lender is the one calling for the repairs, please clarify what will be used for evidence that work has been completed?
- A. The Compliance Inspection Report (CIR), form HUD-92051, will be used by the appraiser to report whether or not required repairs have been completed. If the lender required a repair as the result of an inspection, or through information obtained other than the appraisal, the lender may use whatever they deem appropriate to document compliance with inspection or certification requirements.*
- 13) Can you please provide a definition of Accessory Dwelling Unit?
- A. The accessory unit is defined as a habitable living unit added to, created within, or detached from a single-family dwelling that provides the basic requirements for living, sleeping, eating, cooking, and sanitation. Accessory Dwelling Units (ADUs) are commonly understood to be a separate additional living unit, including separate kitchen, sleeping, and bathroom facilities, attached or detached from the primary residential unit, on a single-family lot. ADUs are usually subordinate in size, location, and appearance to the primary unit and may or may not have separate means of ingress or egress. Attached units, contained within a single-family home, known variously as "mother-in-law apartments," are the most common type of accessory dwelling unit. Accessory units usually involve the renovation of a garage, basement, or small addition to a single-family home. If they generate income, they are not considered accessory units, but a 2<sup>nd</sup> unit.*
- 14) If the Accessory Dwelling is on a separate meter, does it then become a 2-unit property?
- A. An accessory apartment must be connected to the utilities. It may or may not have separate services. That is to say, if the second unit is rented it would be considered a 2-unit dwelling. The determination of whether or not an ADU is a second unit will be made by the appraiser in the site analysis section of the report where zoning, highest and best use, and legal use are addressed.*
- 15) Does FHA review appraisals on HECMs differently than "regular" FHA loans?
- A. No, the appraisal reporting requirements are the same for the HECM as they are for regular FHA loans.*

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- 16) Does the appraiser need to state the remaining economic life or just effective age?
- A. *As noted in Appendix D, the appraiser is required to state the Remaining Economic Life as a single number or as a range. It must be provided for every FHA appraisal whether or not the cost approach is completed. An explanation is required if the remaining economic life is less than 30 years. The effective age reflects the condition of a property relative to similar competitive properties. The effective age may be greater than, less than or equal to the actual age. The appraiser is instructed to enter the effective age of the improvements as a range or a single number.*
- 17) It was stated that handrails and trip hazards are cosmetic. I don't understand why these items wouldn't be health and safety issues with senior citizens?
- A. *The appraiser must always be mindful of health and safety issues and report what is readily observable. The missing handrails or trip hazards are property conditions that no longer require automatic repair for existing properties but should be reported by the appraiser. In these instances, lender discretion and prudent underwriting will determine whether or not a repair is advisable. For example, an exterior stairwell comprised of 8 or 9 risers without a handrail would probably pose a safety risk.*
- 18) If hook-up to public water is available, must the homeowner do it?
- A. *The appraiser is required to report on the availability of connection to public and/or community water/sewer systems. The lender is responsible for the determination of the feasibility for requiring connection.*
- 19) If conditions/physical deficiencies are found, are repair estimates still required on all items?
- A. *Repair estimates are required for those items that may represent a risk to the health and safety of the occupants, the soundness or structural integrity of the property. The appraiser must indicate the extent of repairs and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum. The estimated cost to cure is noted together with the required repairs.*
- 20) If an individual water test is no longer required, is it necessary for the appraiser or other third party to give locations of well and/or septic systems as located on the property?
- A. *The appraiser is required to note any readily observable deficiencies regarding the well and/or septic systems including those that are apparent or they become aware of during research in performing the appraisal. The appraiser would note in the site section of the report that he/she suspects that the separation distances are below HUD standards. The lender, using professional judgment and prudent underwriting practices in*

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*determining when a property or condition poses a threat to the health and safety of the occupants, would determine whether any tests or surveys are necessary.*

- 21) Dug wells are currently unacceptable. Any changes in this guideline with the new rules?
- A. *Properties served by dug wells are unacceptable unless a complete survey conducted by an engineer is delivered to the lender. To be considered acceptable, the engineer's survey must include these items:*
- i. A health report with no qualifications*
  - ii. Indication that an inoperative well was cased, sealed and capped with concrete*
  - iii. 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.*
  - iv. No indication of exposure to environmental contamination, mechanical chlorination or anything else that adversely affects health and safety*
- 22) One of my reverse mortgage customers has two elderly applicants whose houses required a lot of minor repairs under the old system. Now, he is hopeful of having their FHA appraisal revised to take advantage of the new rules as outlined in mortgagee letter 2005-48. My question is how to go about this if it is permitted. Typically, FHA does not take Appraisal Updates (1004-D). Would it be advisable to do a whole new appraisal?
- A. *Use of the new appraisal forms for FHA assignments was optional between November 1 and December 31, 2005. If the new forms were used, then the revised appendix D issued as an attachment to Mortgagee Letter 2005-34 should be followed. Beginning January 1, 2006, FHA required the use of the appropriate new form for any appraisal performed for HUD following the guidance provided in Mortgagee Letter 2005-48. Bear in mind that the underwriter may also add comments or corrections to modify or amend the appraisal report (HB 4000.4 REV-1). Comments or corrections must be supported by HUD valuation policy and adequately documented. This includes the adjusting of value, the removal or addition of repair requirements, and the overall determinations of property approval and rejection. In short, it isn't necessary to order a new appraisal.*
- 23) In Hawaii and Florida it is quite common to have two-unit properties where there are two single family (unattached) homes on one property? We have been told that HUD denies this type of property even though they have a high value. Will HUD start to consider these types of properties with regard to HECM loans?

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- A. *FHA does accept two unit properties comprised of two detached or unattached dwellings on one property provided it is a single real estate entity having a legal use.*
- 24) If there is a manufactured home on the property, does it have to meet FHA standards if it is only being used for storage or has a family member is living in it, but is NOT paying rent? I have had a few occasions where there was a mobile on the property that used to be occupied by the property owner BEFORE they built their existing home that is on the same piece of property. They have kept the original mobile on the property to use for storage or as a place for someone to stay in for a period of time without paying rent.
- A. *If the manufactured home is not in compliance with FHA requirements; does not pose any health and safety issues by its continued presence on the property; is in compliance with the regulations of local jurisdiction and the appraiser attributes no value to the unit, then the property could be eligible for FHA-insured financing, assuming all other site and property improvements are in compliance with FHA standards. If the appraiser places value on the manufactured home, it must be in compliance with FHA standards for Manufactured Homes, including the Permanent Foundations Guide for Manufactured Housing.*
- 25) How would shared well agreements be treated? It has been my experience that a homeowner who is looking into doing a reverse mortgage that is sharing a well, will opt out of the process if they have to go to their neighbor to get a new well agreement drawn which will generally incur an expense by both parties, not to mention the added expense of bringing the shared well into compliance with HUD requirements. Would this be a case where the local governing authority requirements would prevail?
- A. *Wells shared by up to four properties are acceptable provided that there is an acceptable legal agreement between the property owners, the quality of the water is found acceptable, there is sufficient capacity, and it is in accordance with local well codes. A shared well must have a shared well agreement and shall be binding upon signatory parties and their successors in title. More information on this agreement can be referenced in HUD Handbook 4150.1 Rev-1, section 12-17.*
- 26) I had an inspection done in December using the NEW form that asked for a handrail, which is no longer required. Does that mean that I do NOT need to require them to put in the handrail? It is on a front door that is not used, and is for two steps going down to the walkway.
- A. *Use of the new appraisal forms for FHA assignments was optional between November 1 and December 31, 2005. If the new forms were used, then the revised appendix D issued as an attachment to Mortgagee Letter 2005-34 was to be followed. The underwriter may also add comments or corrections to modify or amend the appraisal report (HB 4000.4 REV-1).*

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*Comments or corrections must be supported by HUD valuation policy and adequately documented. This includes the adjusting of value, the removal or addition of repair requirements, and the overall determinations of property approval and rejection. Prudent underwriting and lender discretion should be used when removing repair requirements.*

- 27) Please discuss the ongoing treatment of garage door openers that don't reverse with pressure. What about the sensor beam that stops the door when something breaks down?
- A. *FHA requires that the dwelling and related property improvements be free of adverse conditions that rise to a level affecting the livability, soundness or structural integrity of the property. A garage door opener not reversing when meeting with resistance does not rise to that level, however, both the appraiser and lender must be aware of local requirements and call for repair in those instances.*
- 28) In a forward FHA mortgage, no out structures such as rabbit cages and chicken coops or a deck around a pool are addressed, only the house itself and of course living quarters. Now for a reverse mortgage they are asking for the rabbit and chicken coops to be rebuilt because of the legs of wood touching the dirt and the portable pool decks are in the same mold. Will this still be the same?
- A. *FHA's automatic inspection requirements have been updated to coincide with industry practices. While a pest inspection or water test is no longer automatic, prudent underwriting will dictate the circumstances where a lender determines it is advisable to require a test, inspection or certification based on information contained in the appraisal, their own experience, or market knowledge. Market knowledge includes familiarity with tests or inspections required by local or state law, what is customary for an area and prudent underwriting practices.*