

FHA Appraisal Exam Questions with References to Probable Answers

1. VC requirements limit required repairs to those items necessary to:

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

PAGE D-22 and 23

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.

PAGE 3-7

2. If unable to view inspection and improvement in its entirety, the appraiser must:

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.

PAGE D-23

3. VC-1 asks if there are "Overhead high voltage transmission lines within engineering (designed) fall distance." For the purposes of VC-1, what is an acceptable distance from the base of the tower?

If the property is located in the fall zone (tower height) of high voltage transmission lines, the location is ineligible.

PAGE D-24

4. When a property lacks connection to a public water supply, the appraiser must condition the appraisal on connection to a public supply, assuming:

--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.

PAGE D-26

- 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.

5. Which of the following is NOT a requirement under VC-6 (Private Road Access and Maintenance)?

- 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.

PAGE D-28

6. If the floor support system shows evidence of damage the appraiser will:

- 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.

PAGE D-29

7. To ensure against conditions that could cause the building to deteriorate, all of the following are true EXCEPT:

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.

PAGE 3-13

8. In order to examine the roof, the appraiser should at a minimum:

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.

PAGE 3-14

9. Based on Handbook 4150.2, if a dwelling's primary heat source is a wood-burning stove:

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.

PAGE 3-14

10. During the summer, examination of the heating system must include:

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.

PAGE D-31

Inoperable systems due to weather conditions (Handbook Chapter 3-6 A.13)

- 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.

11. It is a requirement that there is an installed heat or cool-air source:

Heating must be adequate for healthful and comfortable living conditions:

PAGE 3-14

See question 9 for wood burning and solar only heating.

12. The appraiser must flush toilets and run faucets to:

- 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.

PAGE D-32

13. The appraiser's observation of the plumbing system must include all of the following EXCEPT:

Required items to check include
flush the toilets

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

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.

septic system: inspect it for any signs of failure such as odor, rust or surface evidence of malfunction.

PAGE D-32

14. In observing the electrical system the appraiser must:

Electrical System (Handbook Chapter 3-6 A.13)

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.

PAGE D-31

15. Which of the following statements is true regarding garage doors?

Verify that the electric garage door operator will reverse or stop when met with resistance during closing.

PAGE 3-15

Operate a representative number of windows, interior doors and all exterior and garage doors.

PAGE D-32

16. In checking for health and safety deficiencies, the appraiser must operate:

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.

PAGE 3-15

17. Because of potential lead paint hazards, if the house was built before 1978, the appraiser should:

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.

PAGE 3-15

18. What is the owner-occupancy standard in a condominium project?

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.

PAGE D-33

19. What is the completion standard for a condominium project?

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.

PAGE D-33

20. A HUD/FHA Section 203 (k) mortgage CANNOT be used to:

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

PAGE B-2

21. The minimum threshold for required repairs under the Section 203 (k) program is:

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. PAGE B-2

22. For HUD/FHA appraisals, a Section 203 (k) appraisal requires:

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.

PAGE B-3

23. "Eligible improvements" on a Section 203 (k) loan would NOT include: required items are:

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

PAGE B-2

24. A Section 203 (k) Consultant does NOT:

required items are:

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.

25. Which property type is NOT eligible for Section 203 (k) financing:

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

<u>Type of Property</u>	<u>Eligibility</u>
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: (these are the change 1 numbers)
- One story building 25 % (these are the change 1 numbers)
- 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

PAGE B-1

26. The subject property for a HUD/FHA Section 203 (k) mortgage:

PAGE B-1 and question 25

27. In addition to the Uniform Residential Appraisal Report (URAR), the following documents must be submitted with EVERY FHA appraisal:

When the appraisal is completed, submit the Comprehensive Valuation Package (CVP) and all required attachments – maps, photographs, sketches, etc. to the lender.

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.

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:
A.: UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)
B.: VALUATION CONDITIONS FORM
C.: HOMEBUYER SUMMARY
PAGES 5-1 to 5-4

28. Appraisers should NOT require repair items that:

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.

PAGE 3-18

See question #1

29. Which of the following would NOT be considered a required repair item:

Missing shrubbery or dead grass on an existing property does not need to be replaced.

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.

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.

PAGE 3-7

See question #1 and #28

30. On a 10-year-old, two-living-unit property, HUD/FHA requires as a minimum the following approach to value:

Generally, the Income Approach is NOT developed for one- or two-family REO properties.

PAGE A-5

INCOME APPROACH

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

PAGE 4-14

COST APPROACH: Such situations include the following for single family one- to four-unit dwellings:

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

PAGE 4-5

31. Before performing an appraisal on a property involving new or proposed construction, the appraiser must have the following documents:

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.

32. A fully completed Builder's Certification form:

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.

PAGE 4-4

33. What repair items are required on a streamline refinance?

Could not find in 4051.2 ? But this came from an FHA Chatroom

Posted by Tony Perez from HUD on September 16, 1999 at 15:49:38:

In Reply to: [VC sheet & FHA streamline](#) posted by Renee J. Kelly on September 15, 1999 at 02:20:43:

Response: Renee, the VC sheet and summary are required on all FHA appraisals. You would do the appraisal as a sale, except you would not condition for repairs. (except for Lead Base Paint)

You would indicate N/A on the VC sheet and no conditions on the summary. Indicate on both forms (upper margin) hat this is a streamline refinance.

34. The minimum floor area for a manufactured home is:

at least 400 square feet

PAGE 8-1

35. After what construction date is a manufactured home acceptable?

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.

PAGE 8-2

36. Which road surface is NOT acceptable for HUD/FHA purposes?

Dirt is not acceptable. 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)

PAGE 3-12 (gravel is acceptable) PAGE D-28

37. HUD's requirements for a private road include:

Property accessible only by private road or drive (Handbook Chapter 3-6 A.7)

- 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).

PAGE D-28

38. What type of septic system is NOT acceptable?

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.

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.

PAGE 3-10

Property lacks connection to public/community sewer system (Handbook Chapter 3-6 A.5)

- If connection to a public system 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.

PAGE D-27

39. What is the minimum distance between the private well and the septic tank for new construction?

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:

- 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

PAGE 3-11

40. The cost approach should be used in which of the following circumstances:

Property Age Cost-Approach	Requirement
Proposed Construction	Required
<u>New Construction</u>	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.

PAGE 4-5

41. The cost approach for the HUD appraisal must be completed for:

Property Age Cost-Approach	Requirement
Proposed Construction	Required
New Construction	Required
Existing, less than one year	Required

PAGE 4-5

The cost approach can not be performed for a condominium unit.

PAGE 9-3

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.

PAGE A-7

42. Excess land is:

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.

PAGE 4-7

43. The appraisal of a property with excess land should:

Describe the excess land but do not appraise it with the primary 1 - 4 family residential building that is subject to a mortgage.

PAGE 4-7 See question 42

44. The appraiser can be removed from the FHA register for six months to one year for square footage calculation errors of more than what percentage:

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.

PAGE 7-6 Chart on PAGE 7-9

45. HUD does not discriminate in the selection of the appraiser on the basis of:

A. NON-DISCRIMINATION POLICY

The Department's regulations on choosing appraisers state that there shall be no discrimination on the basis of race, color, religion, national origin, sex, age or disability.

HUD expects lenders to comply with anti-discrimination requirements and affirmatively select female and minority appraisers for a fair share of appraisals commensurate with their representation on the FHA Register. HUD will monitor lenders' choice of appraisers by their sex and race.

PAGE 1-3

46. Ways to avoid discrimination, or to not encourage discrimination by others, include all of the following, EXCEPT:

The Department's regulations on choosing appraisers state that there shall be no discrimination on the basis of race, color, religion, national origin, sex, age or disability.

PAGE 1-3

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.

PAGE D-21

47. Appraisers must be aware of Fair Housing regulations because:

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.

PAGE 4-1

48. A lender may request a reconsideration of the appraised value when:

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.

PAGE 4-14

49. Who is authorized to send additional comparables to the appraiser in HUD's reconsideration of an appraisal?

The lender (underwriter) can select new comparables and request a re-appraisal.

PAGE 4-14 see question 48

50. A vapor barrier for a crawl space is required when:

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.

PAGE 3-13

51. HUD requires repair of:

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. D-25

52. An existing property MUST always be rejected when:

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.

PAGE 2-11

53. Functional obsolescence is more likely to be present when the subject property:

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.

PAGE D-16

54. An interior floor plan drawing is required when:

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

PAGE A-1

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).

PAGE D-10

Please see PAGE 5-5: makes it sound as though the appraiser's records should have a floor plan.

55. An appraisal performed under HUD general acceptable criteria for existing dwellings are to be done:

Sales Comparison approach is generally acceptable.

PAGE 3-7 (Please Note: more info PAGE 3-7 to 3-19 on specific criteria)

56. Which of the following properties would not require a termite inspection

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.

PAGE D-28

57. A defective roof with _____ layers of all old shingles must be removed before re-roofing.

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.

PAGE 3-14 (3-6)

58. If observed deficiencies exist in the property the appraiser must note them on this:

The Valuation Conditions Form must accurately reflect any locational, structural or mechanical deficiencies.

PAGE 7-4

59. Required repairs are limited to those necessary to preserve:.

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.

PAGE 3-7

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
- PAGE D-22 and 23

60. All homes built prior to 19__ may contain lead paint

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."
PAGE D-13

61. The _____ has the primary responsibility to determine if general acceptability criteria have been met prior to a loan.

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.
PAGE 3-6

62. A site must be graded to provide positive, rapid drainage away from perimeter walls of the dwelling and prevent:

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.
PAGE 3-9

63. Which of the following is NOT a Health and Safety deficiency?

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.

PAGE D-32

64. FHA requires a minimum living area for all types of homes, other than manufactured housing: (True or False Question)

FALSE, only for mobile homes

PAGE 3-3

65. The Cost Approach is required on FHA appraisals:

COST APPROACH: Such situations include the following for single family one-to four-unit dwellings:

Property Age	Cost-Approach Requirement
New Construction	Required
Proposed 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.

PAGE 4-5

66. HUD's "3-S" Rule means:

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)

PAGE D-22

67. Which of the following, if any, properties are not eligible for the program?

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

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

PAGE B-1 (See in Grid format on B-1)

68. Which of the following, are eligible property improvements under the 203K program for the first \$5000 in repairs?

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

PAGE B-2

69. A 203K mortgage may be originated on a mixed-use residential property, provided:

- The percentage floor area used for commercial purposes follows these standards:

*Please encourage product development by paying the \$20.00 per user fee to:
Tom Jeffcoat, 2037 Pinion Springs Drive, Henderson NV 89014
Email: tjeffcoat@bigfoot.com*

- 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 PAGE B-1

70. What is the maximum percentage of commercial use permitted for a two-story building under the 203k program?

- The percentage floor area used for commercial purposes follows these standards:
 - One story building 25 %
 - Two story building 49 %
 - Three story building 33 %
- PAGE B-1

Our book has these numbers BUT it would appear it should read this way:

- Two story building **33** %
- Three story building **49** %

71. The Income Approach is always required if the property:

For three- and four-unit properties, always use the income approach.
PAGE A-5

72. Which of the following is important for the HUD reviewer to keep in mind?

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

PAGE 6-1

73. An interior floor plan drawing is necessary.

For REOs: A building sketch is required, but a floor plan or room layout of the property is not required
PAGE A-1

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).
PAGE D-10

Please see PAGE 5-5: makes it sound as though the appraiser’s records should have a floor plan. FHA Chatrooms indicate a floor plan with rooms would be required if functional obsolescence exists.

74. What should the appraiser do if at the time of inspection if repairs are in process?

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.

PAGE 4-3

75. Based on HUD’s Handbook 4150.2, the verification process of comparable sales includes:

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. Data should be confirmed with parties to the sale if possible

PAGE A-3

76. Which of the following conditions is not a consideration?

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.

PAGE 5-3

77. A comparable sale sold for \$ 108,000 with a FHA mortgage of \$100,000. The seller verified that "they paid 3 points" to the lender. What is the " net sale price" price?

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.

PAGE 4-12

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.

PAGE 4-11

78. The most similar income property comparable sale had a sale price of \$110,000. It had rents of \$500 for each unit. The \$110,000 comparable is similar to the duplex style of the subject, but the subject's rents are slightly lower (\$475 per month) because they are smaller units. What is the indicated value for the subject, using a GRM? (rounded).

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 .

PAGE D-17

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.

PAGE 4-14

79. When the appraiser completes the cost approach for proposed construction, a marketing expense ratio of ___% is required.

SIX PERCENT—No reference other word-of-mouth.

80. The valuation condition segment sheet includes all but one of the following:

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

PAGE D-22, D-23

81. HUD defines Gross Living Area as :

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.

PAGE 3-3

82. According to HUD 4150.2 which square foot method is the most applicable for estimating replacement cost new:

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.

PAGE 4-8

83. Which of the following complete and make the following statement correct: "All flat roofs require _____?"

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

PAGE 3-14

84. Any departure from HUD requirements should:

Any departure from these requirements must be explained in the URAR or as an attachment to the appraisal.

PAGE 5-1

85. Which is the preferred method for developing the cost new of the existing subject improvements?

Replacement cost is the preferred method for developing the Cost New of the subject improvements. PAGE 4-8

86. The appraiser must certify that the appraised value is based on the following:

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

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.

PAGE 5-1

87. When an appraiser finds a property in a condominium project that was not approved he/she should:

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 (Home Owners Center) or by a 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.

PAGE 9-2

88. New single family construction requires:

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.

PAGE 4-4

89. Three and four family new construction requires:

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.

PAGE 4-4

90. The building sketch must show:

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).

PAGE D-10

91. FHA requires the land value:

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.

PAGE 8-3

1. Land Value Estimate

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.

PAGE 4-7

92. Final reconciliation is:

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.

PAGE 4-1

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.

PAGE 4-14

*Please encourage product development by paying the \$20.00 per user fee to:
Tom Jeffcoat, 2037 Pinion Springs Drive, Henderson NV 89014
Email: tjeffcoat@bigfoot.com*

93. An appraisal reporting violation which has a square footage error of more than 10%, as a first offense will result in:

Notice of Appraisal Deficiency on File
PAGE 7-8

94. Failing to accurately report defects that costs over \$5,000 to repair will result in (as a repeated offense):

Removal from FHA Register and/or LDP/Debarment SEE GRID
PAGE 7-11

95. Failing to recognize property in a special flood hazard area could result in:

Removal from register for 3-6 months up to Removal from FHA Register, debarment, Civil penalties, criminal Penalties

PAGE 7-10

96. Security bars on bedroom windows are acceptable if:

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.

PAGE 3-17

97. In the Site section of the sales comparison grid section the appraiser must enter which of the following as a response:

Site

- 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

PAGE D-15

98. In the condition section of the Sales Comparison Grid section, the appraiser should make an adjustment for:.

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.

PAGE 4-12

99. Comparable sales used in the appraisal must not be older than:

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.

PAGE 4-10

100. Adjustments to comparable sales must be:

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.

PAGE 4-14

101. Generally, a single line item adjustment on the URAR should not exceed:

An individual line item adjustment should not exceed +/- 10%.

PAGE 4-12

102. A dwelling located in proximity to an underground high-pressure gas line is:

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.

PAGE 2-10

103. If appraising a single family home as a HUD real estate owned (REO), the appraiser must:

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.

PAGE A-1

104. The "effective date" of an appraisal is:

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

PAGE A-1

105. For the typical HUD real estate owned (REO) property, the preferred "approach" to value is the:

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

*Please encourage product development by paying the \$20.00 per user fee to:
Tom Jeffcoat, 2037 Pinion Springs Drive, Henderson NV 89014
Email: tjeffcoat@bigfoot.com*

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.

PAGE A-3

106. On a FHA streamline refinance, which would not be considered a required repair? ONLY LEAD BASED PAINT

107. When appraising a manufactured house, the appraiser cannot find the Federal Manufactured Home Construct & Safety Standard labels (tags) because the manufactured house (mobile home) has been bricked on the exterior veneer. The appraiser must:

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.

PAGE 8-1

OR

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.

PAGE 8-2

108. Upon completion of the exam, the appraiser is placed on the FHA register for:

The FHA Register lists appraisers who are eligible to perform FHA single-family appraisals. To conduct an appraisal for FHA insurance endorsement, the appraiser must be on the FHA Register.

PAGE 1-1 (more details on FHA Register, same PAGE)

109. The selection of the appraiser is made by the:

The success of the FHA insurance program and HUD's ability to protect its financial interest begins with selecting qualified and knowledgeable appraisers. This chapter presents the minimum requirements that appraisers must meet to be placed on the FHA Register.

PAGE 1-1

OR

When the lender selects an appraiser from the FHA Register, the FHA Connection processes a case number for the lender.

PAGE 1-3

110. The fee paid for the appraisal is:

D. APPRAISAL FEES

The appraiser and the lender will negotiate the price and due date. HUD does not establish fees or due dates. The fee is paid for market value estimate based on guidelines consistent with HUD policy and procedure established in this Handbook. The fee is not based on a requested minimum valuation, a specific valuation or the approval of a loan.

Lenders may charge the borrower only what is customary and reasonable in the area to obtain an appraisal.

Appraisal management firms may charge the mortgagor a fee for the appraisal that may encompass fees for services performed by the firm as well as fees for the appraisal itself.

However, the total of these fees is limited to the customary and reasonable fee for an appraisal in the market area where the appraisal is performed.

PAGE 1-4

111. The fee for a real estate appraisal must NOT include:

Such arrangements must comply with all aspects of the Real Estate Settlement Procedures Act (RESPA) and its implementing regulations, including restrictions against:

- kickbacks and referral fees
 - charges for settlement services that were not actually performed
 - payments in affiliated business arrangements other than return on ownership
- PAGE 1-4

112. Under HUD guidelines, the fee for an appraisal is based upon:

The fee is paid for market value estimate based on guidelines consistent with HUD policy and procedure established in this Handbook
PAGE 1-4

113. The appraiser is required to state the full market assessed value in the:

- The addenda include a provision for current market assessed value and a summary of estimated repair costs.

PAGE 5-3

114. The subject property is located in an area that is subject to hazards, which can not be cured. The appraiser must:

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.

PAGE 2-6

115. Assuming the current assessment does not represent the full market assessed value, the appraiser must have which of the following to estimate the full market assessed value.:

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”.

PAGE 2-5 (?)

116. During the site visit the appraiser finds a property located next to a highly traveled roadway. The traffic noise is considerable yet several homes have sold on this same street. Access and the traffic flow are generally considered safe. According to HUD’s Handbook 4150.2 the appraiser must:

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. 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.

PAGE 2-8

117. Typically high-voltage power transmission lines are characterized as;

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.

PAGE 2-10

118. This type of property is not permitted within the 100-year floodplain.

Note that the lowest floor (including basement) for new construction must be at or above the 100-year flood elevation.

PAGE A-11

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

Page 2-11

119. The following photographs are required for an appraisal.

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.

PAGE 3-1

120. The appraiser must consider easements in the appraisal by:

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.

PAGE 3-2

121. According to HUD handbook 4150.2, gross living area includes the following types of space:

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.

PAGE 3-3

122. According to HUD's Handbook 4150.2, the analysis of conformity to the neighborhood for appraisal purposes requires:

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.

PAGE 3-4 (Addl. Description PAGE 3-4)

123. The remaining economic life must:

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.

PAGE B-4

124. The appraiser is responsible to determine the municipal zoning codes in order to:

Zoning Classification

- 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

- 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.
- Grid on D-5

125. Signs of soil contamination include the following:

Conditions that could indicate soil contamination include pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

PAGE D-25

126. According to HUD's Handbook 4150.2, the water supply for each living unit must contain the following:

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

PAGE 3-9

127. The location of a domestic well must be:

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.

PAGE D-27

128. Defective conditions in a property are characterized as:

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

PAGE 3-12

129. If the roof must be repaired and there are already too many layers of shingles:

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.

PAGE 3-14

130. According to HUD's Handbook 4150.2 , the minimum distance between single family detached homes is:

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.

PAGE 3-16

131. HUD permits security bars in the windows of bedrooms under the following conditions:

Security bars are acceptable if they comply with local fire codes.

PAGE 3-17

132. One unit of a two-unit property is currently leased through the valuation date, while the remaining unit, which is much smaller, is owner occupied. The property rights appraised are:

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.
PAGE 4-2 (Also see grid on same PAGE)

*Please encourage product development by paying the \$20.00 per user fee to:
Tom Jeffcoat, 2037 Pinion Springs Drive, Henderson NV 89014
Email: tjeffcoat@bigfoot.com*

133. During the site visit the appraiser notes several items which need to be repaired. Correcting all of the deficient items would require a major rehabilitation and repair costs are too extensive to estimate. The appraiser should:

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.

PAGE 4-4

133. What criteria does HUD permit the use of comparable listing in the sales comparison approach?

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.

PAGE 4-10

135. The fee for a real estate appraisal must not include:

- kickbacks and referral fees
- charges for settlement services that were not actually performed
- payments in affiliated business arrangements other than return on ownership

PAGE 1-4

136. The fee for an appraisal is based upon:

The appraiser and the lender will negotiate the price and due date. HUD does not establish fees or due dates. The fee is paid for market value estimate based on guidelines consistent with HUD policy and procedure established in this Handbook. The fee is not based on a requested minimum valuation, a specific

valuation or the approval of a loan. Lenders may charge the borrower only what is customary and reasonable in the area to obtain an appraisal.

PAGE 1-4

137. The selection of comparable sales is based upon the verification of the conditions of sale. The most applicable sales are generally:

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

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. 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.

PAGE 4-9

138. The proper order of adjustments is:

FOR TRIBAL LAND ONLY:

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

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.

PAGE A-8

IN GENERAL:

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.

PAGE 4-11-13

139. The Income Approach is NOT required for the following property type.

Generally, the Income Approach is NOT developed for one- or two-family REO properties.

PAGE A-5

INCOME APPROACH

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

PAGE 4-14

140. The Income approach used for HUD relies upon the Gross Rent Multiplier (GRM). Which component is NOT required to calculate this multiplier?

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.

PAGE 4-14

141. The final analytical step is to reconcile the different approaches to value. According to HUD's Handbook 4150.2, the reconciliation must:

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.

PAGE 4-14 (same PAGE A-5)

142. The Comprehensive Valuation Package (CVP) consists of the following three parts:

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:

- Uniform Residential Appraisal Report (URAR),
- Valuation Conditions Form and the
- Homebuyer Summary.

PAGE 5-1

143. The purpose of the Home Buyer Summary is to:

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.

PAGE 5-4

144. The appraisal file must include all of the following items, EXCEPT:

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.

PAGE 5-4 (Also a grid on PAGE 5-5)

145. HUD will monitor appraiser's performance using:

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.

PAGE 6-1

146. According to HUD's Handbook 4150.2, appraisal performance measures will include:

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

PAGE 7-4

147. According to FIRREA the threshold for requiring state-certified appraisers is \$250,000. Therefore HUD requires all appraisals performed for FHA to

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. PAGE 7-2

148. Under the competency rule, HUD will permit all FHA Register Appraisers to perform appraisals for manufactured homes under which one of the following conditions:

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.

PAGE 8-1 and 8-2.

149. All appraisers on the FHA Register must have a current state appraisal license. HUD also requires all appraisers to:

To be eligible to perform appraisals for FHA, the appraiser must also pass a HUD/FHA test on appraisal methods and reporting, which focuses on applied knowledge of the new Handbook 4150.2. PAGE 1-1

150. The four tiers of sanctions are:

HUD will impose sanctions on four tiers:

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

PAGE 7-4

151. A residential development should be processed as a Planned Unit Development (PUD) if it has one of the following minimum characteristics.

A residential development should be processed as a PUD if it has these minimum characteristics:

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

PAGE 9-1

152. The approved list of condominium projects are available from the:

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 (Home owners Center) or by a DE underwriter who has performed a spot condominium approval.

PAGE 9-2

153. The appraiser is required to state the exposure period on the appraisal. The exposure period is defined as:

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. PAGE A-2

154. The previous sales history for a residential property must be considered and disclosed in the appraisal for _____ prior to the valuation date.

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.

PAGE A-2

USPAP Standards Rule 1-5: Analyze any prior sales of property that occurred within the following minimum time periods: One year for one to four family residential property, Three years for all other property types. (USPAP page 17)=(12 months)

155. In developing the cost approach for properties on tribal trust lands:

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 up front 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.

PAGE A-7

156. In developing an appraisal for a single family home located on tribal trust land, HUD permits the appraiser to:

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.

PAGE A-6

157. According to HUD's Handbook 4150.2, the appraiser may increase the value of a new or existing home by ___ for solar energy systems, assuming a full conventional back-up system.

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.

PAGE B-4

158. The appraisal file must include all of the following items, EXCEPT:

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.

PAGE 5-4 Also see Grid 5-5

159. HUD will monitor appraisers performance using:

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.

PAGE 6-1

160. According to HUD's handbook 4150.2, performance measures used to measure appraisers will include:

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

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

PAGE vii

161. The subject property has an assessment and taxes well above comparable properties in the local market. The appraiser is required to:

In the site section of the URAR under comments:

- 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.

PAGE D-6

162. If there is no method to relate the assessment to a full assessed market value or there is not a current assessment for properties such as new construction, then the appraiser must enter _____ on the VC form.

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".

PAGE 2-5

163. A letter may be obtained from a state authority stating that an oil or gas well on the subject property has been safely and permanently abandoned. If such a letter is not provided, the dwelling must be located at least ___ from the abandoned well.

- When a letter is not provided, the dwelling must be located at least 300 feet from the abandoned well.

PAGE 2-7

164. Evidence of sinkholes or subsidence can include the following:

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

PAGE 2-6

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.

PAGE 2-7

165. Flood maps are available from FEMA and Special Flood Hazard Areas (SFHA) have the following designations.

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."

PAGE 2-11

166. During the site visit, the appraiser walks the property line and sees that a garage and fence from an adjacent property has been built extending on to the subject property. The appraiser must:

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.

PAGE 3-2, 3-3

167. The appraiser is required to access the attic to visually examine for:

The appraiser must access the attic to check for adequate ventilation and defective conditions.

PAGE 3-13

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.

PAGE D-11

Attic (Handbook Chapter 3-6 A.8)

-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.

PAGE D-29

168. According to HUD's Handbook 4150.2, the requirements for mechanical systems include:

These are the requirements for mechanical systems:

- must be safe to operate
- must be protected from destructive elements
- must have reasonable future utility, durability

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.

PAGE 3-14

There is NOT a 10 year remaining life requirement.

169. According to HUD's Handbook 4150.2, the requirements for mechanical systems include all of the following, EXCEPT:

These are the requirements for mechanical systems:

- must be safe to operate
- must be protected from destructive elements
- must have reasonable future utility, durability

PAGE 3-14

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.

PAGE 3-14

170. Conventional heating systems are required to maintain at least ___ in areas containing plumbing systems.

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.

PAGE 3-14, 3-15

*Please encourage product development by paying the \$20.00 per user fee to:
Tom Jeffcoat, 2037 Pinion Springs Drive, Henderson NV 89014
Email: tjeffcoat@bigfoot.com*

171. According to HUD's Handbook 4150.2, utility service must have all of the following , EXCEPT:

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.

PAGE 3-16

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.

PAGE 2-4

172. According to HUD's Handbook 4150.2, the following classifications of properties must comply with CABO Model Energy Code concerning energy efficiency standards and insulation.

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.

PAGE 3-17

173. In the property address section the appraiser is required to list the:

Provide the property street number and name, city, state and zip code for the property being appraised.

PAGE D-1

174. In the neighborhood section of the URAR the appraiser is required to list the:

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.

PAGE D-2

175. In the neighborhood section of the URAR the appraiser is required to list the:

DUPLICATE QUESTION!

176. The subject property has a private well, the appraiser is required to check "yes" for VC-4 (Sewer & Water Supply) and require a:

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.

PAGE 3-10

177. The subject property has a community sewer system, the appraiser must always check ___ for VC-4 (Sewer & Water Supply).

If property is already connected to a public system, mark "NO" in the VC form.

PAGE D-27

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.

- If the correction 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.

PAGE 3-10

178. According the HUD's Handbook 4150.2, evidence of termite infestation includes\ all of the following, EXCEPT:

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. 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.

PAGE D-28

179. Evidence that a private road or drive is required for VC-6. Evidence can be one of the following:

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).

PAGE D-28

180. During the site visit, the appraiser finds a negative physical condition that does not require repair or inspection. Therefore, the appraisal must be based upon the:

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.

PAGE 5-3

181. For each specific item marked "YES" for VC-2 through VC-11 indicates a:

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.

PAGE 5-3

182. The homebuyer must receive a copy of the Homebuyer Summary Form that the _____ prepares and the _____ submits to the buyer.

Answer: 1. Appraiser
2. Lender

Mortgage Letter 99-18 part 3

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.

PAGE D-34

183. If a supervisory appraiser and the appraisal trainee both prepare an appraisal report:

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

PAGE 7-1

184. If an appraiser is sanctioned by HUD for an action that also violates USPAP, HUD will refer the administrative record to:

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

PAGE 7-5

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.

PAGE 7-6

185. The FHA reviews appraiser performance and has four tiers of sanctions. Optional actions can include all of the following , EXCEPT:

The Department may impose civil money penalties or other sanctions for minor violations if the Department determines that circumstances warrant.

PAGE 7-6

186. The appraiser has a contractual responsibility to the:

The appraiser is hired by the lender, and therefore has a contractual responsibility to the lender. However, the appraiser provides services for HUD programs, and therefore, has an obligation to perform these services commensurate with the standards and requirements of HUD. This dual responsibility of the appraiser is recognized in the review and reporting requirements of HUD. The lender and the appraiser must meet their respective obligations as prescribed by HUD/FHA. Therefore, the intended user of the appraisal report is also HUD. These contractual obligations to the lender and HUD/FHA are in addition to the appraiser's legal obligations to his or her credentialing state.

PAGE 1-3

187. The appraiser is required to identify the following intended users:

Therefore, intended users include the lender and HUD.

PAGE 4-3

The appraiser is hired by the lender, and therefore has a contractual responsibility to the lender. However, the appraiser provides services for HUD programs, and therefore, has an obligation to perform these services commensurate with the standards and requirements of HUD. This dual responsibility of the appraiser is recognized in the review and reporting requirements of HUD. The lender and the appraiser must meet their respective obligations as prescribed by HUD/FHA. Therefore, the intended user of the appraisal report is also HUD. These contractual obligations to the lender and HUD/FHA are in addition to the appraiser's legal obligations to his or her credentialing state.

PAGE 1-3

188. Basement apartments can be included in the gross livable area if the following requirements are met, EXCEPT:

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.

PAGE 3-3

189. The standard used to describe the extent of the appraiser's inspection procedure for compliance with minimum property standards; is:
?

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.

PAGE 5-1

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.

PAGE 4-3

190. Section 223(E) is a mortgage insurance program specifically designed for:

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.

PAGE B-4

191. HUD waives the following requirement for loans under the Section 223(E) mortgage insurance program:

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.

PAGE B-4

192. The appraiser is required to state the current owner on the URAR. If the dwelling is not occupied by the current owner, the appraiser must provide the:

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.

PAGE D-1

193. The borrower selects a HUD approved 203K Consultant to do all of the following, EXCEPT:

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

PAGE B-3

194. A conflict of interest can included one of the following situations:

?

In compliance with USPAP, unacceptable practices include:

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

PAGE 7-2

195. The URAR prepared for HUD is considered a _____ report and a _____ analysis, under USPAP standards.

All findings must be reported consistent with Standard 2 of USPAP for a summary report.

PAGE 5-1

? PROPERTY analysis?

196. The levels of severity for all of the levels of violations listed in HUD's Handbook 4150.2 include the following, EXCEPT:

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

PAGE 7-4

197. Appraisal questions and comments can be directed to:

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.

PAGE ix

198. According to HUD's Handbook 4150.2, the special assessment is calculated:

A special assessment can be calculated in two ways:

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

PAGE 2-5

199. New and proposed construction within Runway Clear Zone is:

- 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.

PAGE 2-9

200. According to HUD's Handbook 4150.2, the subject dwelling or related property improvement must be at least ___ feet from the outer boundary of the pipeline easement.

- Mark "YES" in the VC. page D-24 (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.

PAGE 2-10

Dear Appraiser:

Thank you for showing your interest in my research project. I hope you find it useful. I tried to find the best possible references for each question and provide you with partial text from the referenced page. Please realize that I am not an appraiser and remember that I cannot guarantee that any of my references will be tested.

Should any of you find better reference and care to forward the information to me, I will, free of charge, update the list and re-post it on our web server at WWW.SUNAPP.COM/FHA.HTM. I offer a special thanks to Danny Wiley of the WWW.WILEYGROUP.NET for his team's assistance.

Finally, I thank you for ordering my project. The WWW is a wonderful tool and I encourage you to share my work with your appraiser friends. I would also like to think they would be willing to pay a small amount for the nearly 250 hours of work I performed for them (my Dad says I was slow and you would have only taken a 100 hours to finish it, heck I was on vacation!)

Good luck on test!

Sincerely,

Sam