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Coming Next Issue –

- Fannie Mae and Freddie Mac's Uniform Appraisal Dataset
- Appraising Properties for HECM loans

Welcome to the second Federal Housing Administration Appraiser Roster Newsletter. We hope you will find it informative.

INTERAGENCY APPRAISAL and EVALUATION GUIDELINES

On December 10, 2010, the Interagency Appraisal and Evaluation Guidelines were published in the Federal Register, as final guidance, by the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (FRB), Federal Deposit Insurance Corporation (FDIC), Office of Thrift Supervision (OTS), and the National Administration (NCUA). The 2010 Guidelines

update and replace the 1994 Guidelines and are applicable to all federally related transactions (any real estate related transaction that requires the services of an appraiser). The following provisions, among others within the 2010 Guidelines, are either new or reaffirmations and clarifications of existing guidance:

- The result of an Automated Valuation

Model (AVM) "by itself or signed by an appraiser, is not an appraisal, because a state certified or licensed appraiser must perform an appraisal in conformance with USPAP and the Agencies' "minimum appraisal standards."

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FHA SPOTLIGHT – INSPECTION PROTOCOLS

The last issue featured the primary elements of Minimum Property Requirements (MPR): safety, soundness and security, also known as the three Ss. The "head and shoulders" test, another icon of FHA appraisal protocols, is the level of due diligence that must be performed by the appraiser in order to properly assess the three Ss. An integral part of the inspection of the home, the head and shoulders test simply means that the appraiser must inspect the attic and basement/crawl

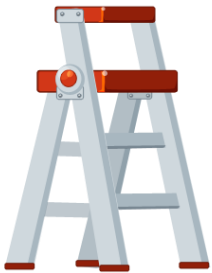
space by entering the access point, at minimum, to the head and shoulders level to enable the appraiser to visually get a sense of the condition of the space and note any deficiencies. The appraiser should have a flashlight or other device to illuminate the space being inspected and should always provide photographs of problem areas to document required repairs and/or inspections. Typically, entry to attics can be achieved via a pull down stairway or scuttle located

in the ceiling. Entry to most basements is straight forward while access to crawl spaces can be problematic. If the means of entry are secured or blocked in such a way as to prevent entry, the appraiser must contact the lender and re-schedule an inspection when such entry ports are unblocked and accessible. The appraiser is not required to move items such as furniture, equipment or debris that may block entry and it is the responsibility of the lender to ensure that such

FHA Spotlight – Inspection Protocols, cont'd



“Be Careful on the Ladder”!!!



access ports are freely accessible. If access is not feasible and/or places the appraiser in physical danger, the appraisal must be conditioned upon a satisfactory inspection by a qualified third party. The appraiser may want to provide photographic documentation to the lender to support a claim of inaccessibility. If the design of the home does not permit inspection of an area (such as the attic in cases of flat roofs), the appraiser must comment on this within the report.

Attics should always be ventilated and any evidence of water or fire damage, structural problems, exposed and frayed wiring or other hazards in either the attic or basement/crawl space must be noted and the appraisal must be conditioned on their repair/correction. Standing water in a basement/crawl space or bulging foundation walls are clear signs of deficiencies that require correction. Water collecting on the interior

side of roof sheathing is a clear sign of leakage or system failure and the condition must be corrected.

A corollary to the "head and shoulders" test is functionality testing of a home's mechanical, electrical and plumbing systems, which cannot be accomplished without the utilities being on. If the utilities are not operational at the time of inspection, the appraiser must notify the lender and reschedule an inspection at a time that the utilities are operational. In the course of the home inspection, the appraiser must operate a representative sampling of lighting fixtures, switches and receptacles and note any anomalies or problem areas. Flushing the toilets while simultaneously turning on water faucets (both hot and cold) can reveal water pressure issues as well as other deficiencies. Unless weather or other conditions preclude safe operation, the HVAC

systems (heat and cooling) must be operated to detect any unusual noises or signs of smoke and/or odors.

The "head and shoulders" test and functionality testing do not assume any special expertise or skills on the appraiser's part, nor are they technically exhaustive. FHA appraisers are to report on what is readily observable and must have access to all improvements. Being alert and conscientious during the course of the property inspection will increase the probability that deficiencies or other adverse conditions that can pose a threat to the health and safety of the occupants or adversely impact the value and marketability of the property are noted and accounted for in the appraisal.

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- In the selection of appraisers, the institution should develop criteria that ensure the appraiser selected for the assignment has the requisite education, expertise and experience to competently complete the appraisal. This goes beyond just ensuring that appraiser's credentials are current.
- Institutions should develop criteria that ensure reviewers of appraisals are independent of the transaction; have no financial interest in the property or transaction and possess the requisite education, expertise and competence to perform the review.
- Reviews of 1-to-4 unit residential properties should reflect a risk based approach that is commensurate with the size, type and complexity of the credit transaction.
- Reviewers cannot change the value conclusion in an appraisal.
- Appraisers must consider the impact that sales concessions (cash or non-cash contributions provided by a party to the transaction and reduces the purchaser's cost) have upon the market value of the property.
- Institutions that rely upon third parties to perform collateral valuation functions (such as Appraisal Management Companies) should provide on-going oversight over that third party and ensure that the third party will perform its services in compliance with the Agencies' appraisal regulations and guidance.



Access the Guidelines [here](#)

New FAQs

- Can FHA Roster Appraisers use foreclosures, short sales and other distressed sales?
- Is re-inspection of the property a new assignment?

FHA added new [FAQs](#) to the Valuation Protocol FAQs this quarter—see them on pages 25 and 26.

Findings from actual FHA appraisal reviews

The following sanctions/actions are the results of actual appraisal reviews conducted by the Philadelphia Homeownership Center.



Comparable Sale Selection

In FHA Case No. xxx-xxxxxx, the appraiser's value estimate of the subject 7 year old condo was \$295,000 based upon 4 comparable sales, three of which were located in a nearby condo project with superior characteristics and amenities that translated to higher prices paid for similar units (comparable sale prices ranged from \$305,000 to \$337,000). The comparable sale from the subject project sold for \$255,000. A field review uncovered 3 similar comparable sales in the subject project ranging from \$225,000 to \$258,900. The appraisal misrepresented the

proximity of the comparable sales in the nearby project by stating distances of 2 to 3 times less than the actual distance. Approximately 8 months after the appraisal was completed (2 months after the field review), the subject property was listed for sale for \$249,000. Based on this review and the results of another field review that revealed overvaluation and repair issues, the Homeownership Center recommended removal of the appraiser from the Roster for submitting a misleading report. The removal is subject to an appeal hearing and includes a requirement for the appraiser to complete education prior to reinstatement.

Failure to Report Condition Deficiencies and Properly Condition the Appraisal

In FHA Case No. xxx-xxxxxx, the appraisal made no mention of chipping and peeling paint on a pre-1978 home and failed to disclose rotted and damaged exterior wood trim and deteriorated siding. A proposed removal with education sanction was

appealed by the appraiser who contended that the condition deficiencies did not exist at the time of the inspection but offered no plausible explanation. As a result of the appeal finding, the appraiser was removed from the Roster for a period of not less than 3 months with a requirement to complete education prior to reinstatement. After reinstatement to the Roster, the appraiser was

again targeted for review and the reviewer determined that an appraisal, made "As Is", was not properly conditioned due to deficiencies which required repair, necessitating conditioning the appraisal "Subject to the following Repairs or Alterations". Final disposition on this case is pending.

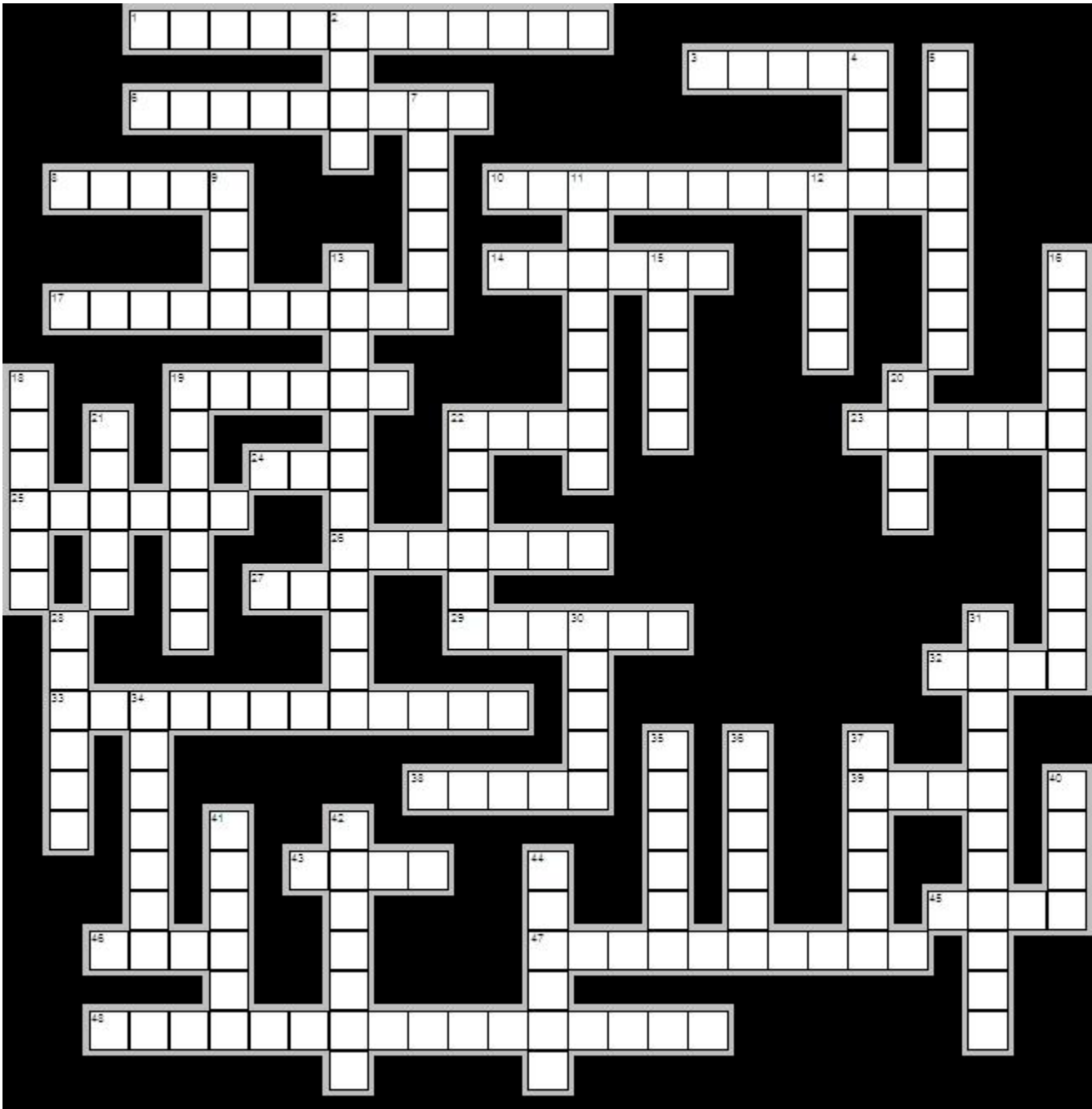
Coastal Barriers Resources Act

The Coastal Barriers Resources Act of 1982 prohibits any Federal Financial Assistance to benefit development on properties located on coastal barriers. Coastal barriers are a succession of long narrow islands that usually run parallel to a coastline which protect the coastline from erosion and property damage due to coastal storms. They are generally located along the East Coast, Gulf Coast and Great Lakes in the United States. Financial Benefits are defined as including any Federal Insurance, including flood insurance and mortgage insurance.

Therefore, properties within a Coastal Barrier Resource Area (CBRA) are ineligible for FHA-insured financing. Since 1983, these properties have been ineligible for flood insurance and if the property is destroyed by a flood, insurance already in place will not be renewed. FHA has a short [training](#) guide available on its website for appraisers who might be assigned a property located on a Coastal Barrier. Refer to [Mortgagee Letter 2010-43](#) for further information. FHA Roster appraisers should immediately notify the lender if a property is located within a CBRA.



New Puzzle



Houses and Values and Sites, Oh My

Across

1. area that contains houses and services, Mr. Rogers had one
3. entry of house
6. public services to sites
8. room over garage, sometimes
10. trespass on another's property
14. simple representation of a house, report exhibit
17. having the expertise to perform an appraisal
19. shoe storage
22. backyard amenity
23. issuer of credit to a borrower
24. turf
25. keeps bugs away
26. dated,____,dissimilar
27. second living space (and only 1 allowed on URAR), abbr.
29. _____, soundness and security
32. more or less than market value but doesn't necessarily equal value
33. your granddad may still call this an ice box
38. a level, supporting surface in any structure
39. edge of roof beyond the wall
43. private source of water
45. sightline
46. organization that establishes flood zones
47. tot lot
48. FHA inspection requirement for attics and crawl spaces, 3 words

Down

2. attic infestation mammals
4. fixed or adjustable
5. ____ District, where all the old homes are
7. net value of property to its owner
9. land improved so that it is ready for a specific purpose
11. appraisal worthy of belief
12. tree, bright in fall
13. the client or FHA, for appraisals written for FHA insured mortgages, 2 words
15. channel for boat traffic
16. a measure of area (length x width), 2 words
18. accounting of number of citizens in the US
19. style of house, 1.5 stories, 2 words
20. component in paint before 1978
21. properties away from towns and far apart from one another
22. appraisal report exhibits
28. boat apartment
30. mathematical or analytical, results in less reliable report
31. amounts paid to induce a buyer to purchase
34. central heater
35. low lying area between hills
36. keeps water away
37. value of the middle item
40. white precipitation, annoyance or delight, depending on age
41. number of buyers in a market, economic principle
42. point reference that allows your GPS to find a destination
44. number of goods available in a market

ANSWERS TO LAST QUARTER'S PUZZLE

