

Questions and Answers to Pre-submitted questions for August 10<sup>th</sup>, 2021 presentation of:  
FHA Appraisal Policies, Principles, and Practices

*\*Items in **RED** ink notate guidance directly from the 4000.1 FHA Handbook.*

Q: “In the field, it appears that there is ‘zero tolerance’ for this but in practice, it seems that, for example, a peeling fence or peeling shed should not mean that the property is entirely disqualified. My question is, what has changed regarding the tolerance of this issue that is prevalent in many homes that are appraised? “

A: The FHA Handbook states the following concerning Defective Paint:

From 4000.1:

If the dwelling or related improvements were built after 1978, the Appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements.

The key here is that if surfaces are exposed to the elements such as wind, rain, snow, etc. then it produces a situation that can lead to faster deterioration of the structure or improvements and can also create issues with deferred maintenance.

If the dwelling or related improvements were built on or before 1978, the Appraiser must note the condition and location of all defective paint and require repair and also any applicable Environmental Protection Agency (EPA) requirements. For this, refer to the section on Lead-Based Paint.

The Mortgagee must confirm that the Property is free of lead paint hazards.

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Q: “Can you clarify if repair items need a photograph and comments?”

A: The answer to this is yes, the appraiser needs to include photographs of the repair items. Additionally, according to the FHA guidance:

From 4000.1:

When items do not meet MPR or MPS, the Appraiser must report the repairs necessary to make the Property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for the required repairs.

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Q: “If another party assisted with the development of the appraisal, must they be named on the report?”

A: First of all, the FHA Roster appraiser must be the one to inspect the property and to perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the report but may assist with the appraisal as long as the opinions and analysis are still performed by the FHA

Roster appraiser. Additionally, the trainee or licensee may not perform the observations in place of the roster appraiser.

If another appraiser or trainee appraiser did provide assistance or participate in the preparation of the appraisal, the FHA Roster Appraiser must disclose the name of the appraiser or trainee appraiser in the report and their role in developing the appraisal.

**From 4000.1:**

The FHA Roster Appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report. A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the FHA Roster Appraiser. A trainee or licensee may accompany the FHA Roster Appraiser on the observations but may not perform the observations in place of the FHA Roster Appraiser.

If another appraiser or trainee appraiser provided assistance or participated in the preparation of the appraisal, the FHA Roster Appraiser must disclose the name of the appraiser or trainee appraiser in the report and their role in developing the appraisal.

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**Q: “Can you clarify the flipping rules?”**

**A: 4000.1:**

**\*Restriction on Resales Occurring 90 Days or Fewer After Acquisition:**

A Property that is being resold 90 Days or fewer following the seller’s date of acquisition is not eligible for an FHA-insured Mortgage.

**\*For Resales Occurring Between 91 Days and 180 Days After Acquisition**

The Mortgagee must obtain a second appraisal by another Appraiser if:

- the resale date of a property is between 91 and 180 Days and
- the resale price is 100 percent or more over the price paid by the seller to acquire the Property.

If the second appraisal supports a value of the Property that is more than 5 percent lower than the value of the first appraisal, the lower value must be used.

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**Q: “If a quitclaim deed is recorded to remove parties from title, is it subject to the flipping rules?”**

**A: No.** If there is a partial continuity of ownership, a quit claim deed transaction is not a sale and is not subject to the rules prohibiting property flipping. The use of a quit claim will not be deemed a flip

as long as at least one of the original owners retains an ownership interest in the property after the quitclaim is recorded.

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**Q: “Do appraisers have to consider the prior sales history of a property?”**

**A:** Yes, USPAP requires appraisers to analyze all prior sales of the subject property within the past 3 years for all types of real property if such information is available in the normal course of business. In addition to that, appraisers, if you know the type of transaction, that is also helpful information to help the lender in determining if the property flipping rules will apply.

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**Q: “What date is used to determine the seller’s date of acquisition in property flipping?”**

**A:** For this date, you will go by the date that the deed was signed and notarized and not the actual recording date of the deed. There is often a delay from the day the deed was signed to the day it was recorded in the court records.

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**Q: “What is the appraisal validity period for a damaged property located in a Disaster Area?”**

**A:** From 4000.1: For mortgages that are not closed prior to the Incident Period, and that is defined by FEMA, where a damage inspection report reveals property damage, the appraisal validity period is extended from 120 days to a maximum of one year from the effective date of the original appraisal.

**In no instance will an appraisal be acceptable for a mortgage closing that has an effective date beyond one year. Beyond a year will require a new appraisal.**

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**Q: “Will HUD provide notification of Presidentially-Declared Major Disaster Areas?”**

**A:** HUD no longer issues separate Mortgagee Letters for each disaster declaration. HUD may continue to issue guidance documents related to disasters, however, when the President declares a disaster, the lender must check with the Federal Emergency Management Agency (FEMA) to obtain the specific affected counties and corresponding declaration dates. This information can be obtained from FEMA’s website.

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**Q: “Can the 203(k) program be used to purchase a HUD REO property?”**

**A:** A HUD Real Estate Owned (REO) property may be eligible under the 203(k) program. The property is identified as eligible for 203(k) financing in the sales contract or addendum; however, Investor purchases of HUD REO properties are not eligible for 203(k) financing.

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**Q: “What are the requirements when a buyer purchases a HUD Real Estate Owned (REO) property as an Owner-Occupant?”**

**A: An Owner-Occupant Buyer is a buyer who intends to use the Property as their Principal Residence.**

**A buyer may purchase HUD REO Properties as an Owner-Occupant Buyer if:**

- they certify that they will occupy the Property as their Principal Residence for at least 12 months; and
- they have not purchased a HUD-owned Property within the past 24 months as an owner occupant.

**The selling broker must not knowingly submit the offer on behalf of a person or Entity that is not an Owner-Occupant Buyer and must discuss the penalties for false certification with the buyer. The buyer and selling broker must sign an Exclusive Listing Period Purchase Addendum for Individual Owner-Occupant Buyers certifying to the above conditions.**

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**Q: Can an appraisal ordered for conventional or government guaranteed loan purposes be used for an FHA transaction?**

**A: The effective date of the appraisal cannot be before the FHA case number assignment date unless the Mortgagee certifies in the logging screen that the appraisal was ordered for conventional lending or government guaranteed loan purposes. The Mortgagee must retain documentation in the case binder substantiating conversion of the mortgage to FHA.**

**The Mortgagee must ensure that the appraisal was performed**

- by an FHA Roster Appraiser; and
- in accordance with FHA appraisal reporting requirements as detailed in Handbook 4000.1 and the *Appraisal Report and Data Delivery Guide*.

**The appraisal must be in full compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), which requires that this be classified as a new assignment. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage. Additionally, FHA and the Mortgagee must be indicated as the intended users of the appraisal report.**

**If the Appraiser determines that the scope of work is met with regard to Minimum Property Requirements, Minimum Property Standards, and USPAP compliance, and further determines that a re-inspection of the Property is not necessary, the effective date of the appraisal may be the date of the original inspection. However, if an FHA-compliant inspection is required, the date of the inspection will become the effective date of the new appraisal.**