



## **Appraisal Guidelines for HUD-Owned Inventory Area 3A – Illinois Area 1P – Michigan M&M 3.7 Bridge**

***ALL REPORTS MUST BE IN UNIFORM DATASET APPRAISAL (UAD) FORMAT IN .PDF FILE FORMAT***

**WORK ORDER NOTIFICATION** – Approved appraisers will receive an emailed work order notification through K.M. Minemier & Associates' system of record (SOR). Work orders must be accepted through the platform within 24 hours of assignment. The work order notification will also include a pre-authorized invoice fee approved for the completed appraisal of the subject property.

**TURNAROUND REQUIREMENTS** – Completed appraisals are required to be uploaded into KMM's SOR with attachments no later than 7 days from work order acceptance.

**ACCESS** – HUD-owned homes can be accessed with a full set of HUD keys. Quick-set key codes will be supplied to appraiser by K.M. Minemier & Associates. It is appraiser responsibility to be able to access the subject property. Lock box codes may not be available. If subject property accesses through a common area door key, or a gated community, special access instructions will be provided in work order notification.

**APPRAISAL COVER PAGE** - Please include a cover page for all appraisal reports that includes address, appraiser name, effective date and photo of the subject property.

**PAGE 1** - All information on page 1 should, as with all pages be complete and accurate. Information on page 1 should match the sketch and sales grid for the subject. Please pay particular attention to Address, Legal Description, and Parcel number. HUD/K.M. Minemier & Associates, LLC will be the listed client and the assignment type will be indicated as "Other" - HUD REO Appraisal and the PUD information must be complete if needed and any further necessary comments clarifying any aspect of PUD or Condo included in the report.

- **Flood Zone** - If a property is noted in a FEMA Special Flood Zone area, then it must be noted in the 100 year flood plain on the ECR. Properties in a flood zone **MUST** contain a flood map. The report and ECR should indicate the same flood information.
- **Septic/Well** - Private Septic and Well systems require a comment about the system's effect (negative or not) on the subject's marketability. Location should be noted on the sketch (noted estimate is acceptable.) If location is unknown, a comment is required that includes a description of efforts made to obtain this information.

**COMPARABLE SALES** - Provide at least two comparable sales sold within 6 months from the effective date of appraisal. If subject is noted as declining, provide at least two comparable sales that have sold within 90 days and 2 current listings/pending. Note, over supply and over 6 month marketing times are indications of a declining market. It is acceptable to expand your search for more similar comps. Overall, use the best and most similar comparable sales available, and if it is necessary to expand parameters, please make thorough comments.

Specific comments addressing the particular comp should be used for comparables over 6 months and over 1 mile. Detailed explanation as to why it was necessary.

Explain in the sales Comparison Comments each instance of: **a) any LINE ITEM adjustment in excess of 10% of the comparable sales price b) any NET adjustments in excess of 15% of the comparable sales price and c) and GROSS adjustments in excess of 25% of the comparable sales price.** Refrain from using generic comments.

Use of REO comparable sales, listings and pending sales may be used to demonstrate the subject market. Please note, it is not the intent of HUD for only REO comparables to be utilized. For **EVERY** REO comparable utilized, the appraiser should provide a non-REO comparable, and sufficient weighting should be applied.

**OPINION OF VALUE** - Appraisals completed for HUD are, first and foremost, **used for marketing and listing purposes only**. Therefore, an opinion of value statement should be included in the additional comments section. Be sure to include how the value was derived and if comparable weighting was utilized. This comment is important as it gives K.M. Minemier & Associates, HUD, Lenders, and Buyers insight into the appraiser's valuation process. An appraised value of \$100,000 with comps ranging from \$80,000-110,000 without a comment is only going to cause questions and require additional information from the appraiser. Make sure to verify that the value indicated by Sales Comparison corresponds to the Final Opinion of Value, and that **EVERY APPRAISAL IS INDICATED AS "AS IS"**.

**SALES HISTORY** - Include a comment on the sales history of both the subject and the comparables. The comment should include whether the sale was a market sale, REO, short sale, etc. and the impact on the market value. Verify that the correct box is indicated for the subject and comparables.

**PROPERTY CONDITION REPORT (PCR)** - The appraiser must review the PCR and detail in the additional comments section or, on an attached addendum, any discrepancies and/or inconsistencies that conflict with appraiser's conclusions. Access and download of the PCR can be obtained from P260. Login credentials into P260 will be issued to appraiser by K.M. Minemier & Associates. The date of the PCR must also be referenced in the appraiser's comments. The PCR with photos must be added as an attachment and uploaded into SOR (KMM's System of Record) for each completed appraisal submission.

**PCR STATEMENT** - **The following statement must be included in every appraisal report: (Included on MPR Addendum attached to PCR)**

*"A property condition inspection was completed by the PCR inspector on [date]. The Property Condition Report (PCR) was provided to the appraiser by the client and is included within this appraisal. The report has been retained by the appraiser and is part of the appraiser's work file."*

**MECHANICAL SYSTEMS STATEMENT** - **The following statement must be included in every appraisal report: (Included on MPR Addendum attached to PCR)**

*"The mechanical systems were not checked for functionality by the appraiser; however, a visual*

*inspection was performed. The PCR indicated that all systems were listed in satisfactory condition unless otherwise noted below. If this proves to be false, the appraiser has the right to change opinion or estimated value of this report."*

**INSURABILITY STATEMENT** - The statement of insurability should be provided in **bold** type, should be worded **EXACTLY** as referenced in [HUD 4150.2, Appendix A](#) and refer directly to the subject property.

- **INSURABLE** - Properties marketed as "insurable" are those that meet FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction at the time of the appraisal in their as-is condition without repairs being necessary.

**Subject property is insurable in its "as-is" state without repairs.**

- **INSURABLE WITH ESCROW REPAIR** - A property that requires no more than \$10,000 for repairs to meet FHA's MPR or MPS as estimated by the PCR and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its "as-is" condition with FHA mortgage insurance available, provided the purchaser(s) establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in the mortgage an amount equal to 110% of the estimated cost of the repairs.

**Subject property is insurable in its "as-is" state with repairs costing \$10,000 or less with repair escrow.**

- **UNINSURABLE** - Properties offered for sale "Uninsured" do not meet, in their as-is condition, FHA's MPR or MPS and the cost of repairs identified by the appraiser, to meet MPR or MPS, are estimated to exceed \$10,000. Uninsurable properties can qualify for FHA's Section 203(k) rehabilitation program and, depending upon the scope and extent of repairs needed, the Streamlined (k) Limited Repair Program.

Indicate one or more of the following statements as they pertain to the subject property.

- Subject property is **Uninsurable** due to repairs exceeding \$10,000.
- Subject property is **Uninsurable** due to garage conversion without a permit.
- Subject property is **Uninsurable** due to an addition without a permit.
- Subject property is **Uninsurable** due to the subject's REL being under 30 years, also making the subject property ineligible for 203(k) financing.
- Subject property is **Uninsurable** due to the subject's project not being on HUD's approved condominium list.

**MINIMUM PROPERTY REQUIREMENTS (MPR)** - Any MPR in the PCR must be discussed in the addendum and must state "according to the PCR dated..." with the date of the PCR identified. Itemize MPR items with estimated cost to cure for each item regardless of

recommended insurability. Items are to be specific with location, defect, and action required. Make sure to clearly separate MPR items from non-MPR items (Cosmetic.)

**HUD REO LBP APPRAISAL REPORTING REQUIREMENTS** - If observations of defective paint in a property built before 1978, in the physical deficiencies or adverse conditions section of the appraisal report, the appraiser must enter an "X" in the "Yes" box, and note all areas affected. However, if the appraiser does not observe defective paint in a home that was built before 1978, an explanation is not required in the physical deficiencies or adverse conditions section of the appraisal report. (Per Mortgage Letter 2010-17)

**1004MC-MARKET CONDITION ADDENDUM** - The market trend indicated on Page 1 of the URAR must be consistent with the data on the 1004MC form. If information is unavailable or misleading, thorough comments must be made explaining research and findings. Provide supportive comments in the summary section of the 1004MC to detail all information on all boxes indicated. Make sure condominium information including a screen print from the HUD Condo look-up screen is included, if needed.

**APPRAISAL PHOTO REQUIREMENTS** – All photos in the submitted appraisal report must be clear and in SOR, in appropriate viewing orientation and clearly labeled.

- All listed MPR items must be accompanied by photos with a label of MPR item.
- Any file photos used for comparables should include a comment as to the source of the file photo and reason for its use.
- Every interior room must be photo documented in appraisal report.

**APPRAISAL CERTIFICATION AND STANDARDS** – The Appraisal Certification must be provided as an attachment to the appraisal and refer directly to the subject property as referenced below.

**INVOICING** – Upon timely completion of the appraisal submit appraisal invoice as an attachment and upload into the SOR. K.M. Minemier's staff will review, approve and submit for payment. Vendor invoices are processed every two weeks to ensure prompt payment of services rendered.

**REPORT SUBMISSION REQUIREMENTS** - Due to the number of appraisal reports and selection of appraisers, it is imperative that each and every appraiser provide their reports in the following sequence of pages.

- Appraisal Cover Page
- Report (1004, 1004C, 1073, etc.)
- Additional Comparables and Listings
- Text Addendum
- 1004MC
- Public Record
- Sketch
- Dimension Sheet (Not Applicable If Dimensions Are On Sketch)

- MPR Addendum
- All Photos of the Subject Property (Interior, Exterior And All MPR Items)
- Comparable Photos
- Maps (Location and Flood Map)
- Environmental Compliance Record (ECR)
- Inspection Sheet Photo
- Appraiser's License
- Appraiser's E & O Insurance
- Property Condition Report (PCR)
- Appraisal Invoice

### **ACKNOWLEDGEMENT AND AGREEMENT**

This is to acknowledge that I have received, read, and understood the HUD REO APPRAISAL GUIDELINES for Area 3A - Illinois & Area 1P – Michigan and understand that it sets forth the terms, conditions, responsibilities, and obligations with the client HUD/K.M. Minemier & Associates. I understand and agree that it is my responsibility to abide by the guidelines set forth.

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Date

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Appraiser Signature

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Appraiser Name [printed]

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Company Name

## **4150.2 APPENDIX A: VALUATION OF REAL ESTATE OWNED PROPERTIES**

### **A-1 REAL ESTATE OWNED (REO)**

FHA's Real Estate Owned (REO) properties are a result of paying a claim to a lending institution and the lender transferring ownership of the property to HUD. Typically, title to REO properties is held by the lender prior to transfer to HUD due to the borrower's default on the mortgage.

The appraisal process is HUD's primary tool for determining the listing price of FHA REO properties. FHA appraisers provide preliminary verification that FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction have been met for properties evaluated as "insurable" or "insurable with repair escrow" prior to being listed for sale.

#### **A. Appraiser Requirements for REO properties**

Requirements for appraisers who perform REO appraisals are the same as for appraisers of any other property type. An appraiser of REO property must be state licensed or certified in the state in which the property is located and listed on the FHA Appraiser Roster.

#### **B. Appraisal Requirements for REO properties** Per Mortgagee Letter 2005-34 and Revised Appendix D to Handbook 4150.2, the appraiser must report the appraisal on the applicable property specific revised Fannie Mae appraisal reporting form.

Under “Assignment Type” in the Subject Section of the applicable property specific appraisal reporting form, the appraiser is to mark the box labeled “other” and indicate that the property being appraised is a HUD Real Estate Owned (REO) property. If the appraiser is performing a land only appraisal which is not reported on a Fannie Mae appraisal reporting form, the appraisal must note, in bold font, that the property being appraised is a REO property in the section of the report providing information on the subject property.

The guidance provided in Appendix D, Appraisal Protocol, to Handbook 4150.2, applies equally to REO properties, unless otherwise indicated in the guidance presented in this appendix.

REO properties are to be appraised "as-is". The Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute defines an "as-is" value as follows: "The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning."

The "as-is" value is the market value for the property as it exists on the effective date of the appraisal.

The appraisal report shall consist of the applicable property specific appraisal reporting form, all required exhibits and a copy of the Property Condition Report (PCR). A-1 5/06 4150.2 M&M contractors are required to complete a PCR prior to ordering an appraisal of a REO property. The PCR contains information specific to the condition and functionality of the property. Prior to performing a site visit of a REO property, the appraiser must be provided a copy of the PCR by the M&M contractor.

The appraiser must coordinate a specific time for a full site inspection of the property with the property manager. Generally, a REO property is secured with the utilities de-activated. The appraiser should request that the M&M contractor make sure the utilities, including the mechanical systems, are activated at the time the appraiser makes the property inspection. If an appraisal is completed without the utilities turned on and/or the mechanical systems functioning, the appraiser must note this in the appraisal report and must rely upon the information provided by the M&M contractor in its Property Condition Report (PCR); reference the PCR in the applicable sections of the appraisal report (condition of property or physical deficiencies) as well as append a copy of the PCR to the appraisal report.

There will be occasions when the appraisal of a REO property may involve extraordinary conditions which dictate additional research, documentation and due diligence on the part of the appraiser. For example, a single family property that features a second unit which is an illegal use due to non-compliance with the local zoning code/regulations, the appraiser must provide an estimate of the costs necessary to bring the property into compliance. The appraiser should provide documentation for such conclusions, such as a copy of the pertinent portion of the zoning code and a summary of any discussions with local authorities. When appraising a REO property that is impacted by complex or extraordinary circumstances, the appraiser must contact the M&M Contractor for guidance and clarification before completing the appraisal. The M&M Contractor may, in turn and in cases of problematic appraisals, seek additional guidance from the Homeownership Center that has jurisdiction over the locality where the property is located. Any discrepancies between the information contained in the PCR and what the appraiser observed during the inspection of the property must be noted and highlighted in the appraisal report.

A land appraisal may be warranted when the improvements are in such deteriorated condition as to provide no contributory value to the property or when condemnation proceedings by the local authority have acquired the improvements in part or in their entirety. In such cases, when the supporting land represents the value of the property, the appraiser must report the appraisal on a form or in a narrative format that must address, at minimum, the following:

- Detailed information similar in scope to the Subject section of Fannie Mae Form 1004 March 2005 (Uniform Residential Appraisal Report) including, but not limited to, property address, legal description, owner of record, occupancy, assessment/tax information, and property rights appraised.
- Detailed information similar in scope to the Site section of Fannie Mae Form 1004 March 2005 (Uniform Residential Appraisal Report) including, but not limited to, size, zoning, highest and best use, shape, topography, drainage, utility availability, and location in a FEMA designated Special Flood Hazard Area. A-2 5/06 4150.2
- A sales grid similar in scope to that presented in the Sales Comparison Approach section of Fannie Mae Form 1004 March 2005 (Uniform Residential Appraisal Report) including, but not limited to, detailed information on three comparable sales, attributes, number of comparable unimproved sale properties and offered/listed for sale properties.

Form FW 68, Land Appraisal Report, is an acceptable reporting format.



The appraiser must adjust the sales of comparable, unimproved building lots/sites for differences in location, size, zoning, utility connection and/or availability, site improvement and any other pertinent factors. Any costs incurred in razing the existing improvements and/or clean up should be extracted from the value of the supporting land to arrive at a final conclusion of value.

### **C. Scope**

The appraiser must develop and report the appraisal in accordance with the scope of work requirements established by USPAP and HUD/FHA.

### **D. Contractual Responsibility of Appraisers**

The appraiser is hired by the M&M contractor and, therefore, has a contractual responsibility to the M&M contractor. Additionally, as with any appraisal performed for a HUD/FHA program, the appraiser has an obligation to perform appraisal services commensurate the standards and requirements of HUD/FHA.

### **E. Intended Use of Appraisal**

The intended use for an REO appraisal is to estimate the "as is" market value of the property in order to provide a basis for determining the listing price of the property for marketing purposes.

### **F. Intended User**

The intended user of a REO appraisal is the M&M contractor, the lender (under certain circumstances) and HUD/FHA.

### **G. Statement of Insurability**

The following definitions shall apply to the insurability of a REO property:

Insurable: Properties marketed as "insurable" are those that meet FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction at the time of the appraisal in their as-is condition without repairs being necessary. Insurable With Repair Escrow: A property that requires no more than \$10,000 for repairs to meet FHA's MPR or MPS as estimated by the PCR and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its as-is condition with FHA A-3 5/06 4150.2 mortgage insurance available, provided the purchaser(s)

establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in the mortgage an amount equal to 110% of the estimated cost of the repairs.

Uninsurable: Properties offered for sale "Uninsured" do not meet, in their as-is condition, FHA's MPR or MPS and the cost of repairs identified by the appraiser, to meet MPR or MPS, are estimated to exceed \$10,000. Uninsurable properties can qualify for FHA's Section 203(k) rehabilitation program and, depending upon the scope and extent of repairs needed, the Streamlined (k) Limited Repair Program.

A Statement of Insurability, in bold font, must be included in the Comment section of the appraisal report. This Statement of Insurability shall indicate if the property can be sold with FHA mortgage insurance (meets MPR if existing construction or meets MPS if new construction) either (1) in its "as-is" state without repairs or (2) in its "as-is" state with repairs costing \$10,000 or less with repair escrow or (3) uninsurable. In appraising REO properties, as with the performance of any FHA appraisal, a FHA Roster appraiser must denote any deficiency to the supporting site or improvements in the appraisal report. The appraiser is to note those repairs necessary, together with a cost to cure, to bring the property into compliance with either MPR or MPS.

The marketing categorization, "Insurable with conditions", introduced in Mortgagee Letter 2000-27 and defined under "HUD REO Marketing Approaches" is no longer available. All other instructions and requirements outlined in Mortgagee Letter 2000-27 remain unchanged except where updated by the guidance and requirements provided in Mortgagee Letters 2005- 34 and 2005-48.

## **H. Effective Date of Value**

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 (with detailed explanation of why)
- the date when the subject property was physically inspected

## **I. Additional Appraisal Requirements**

The appraiser must value the subject property from the information gathered and arrive at an estimated market value of the subject property based on the

requirements detailed in the Appraisal Protocol, issued as an attachment to Mortgagee Letter 2005-48.

A building sketch is required, but a floor plan or room layout of the property is not required unless there is evidence of functional obsolescence. Representative interior photos are required in cases where there is significant interior repair (in excess of \$10,000 repair costs) required.

## **A-2 SALES COMPARISON APPROACH**

Typically, the Sales Comparison Approach is the most applicable approach to estimate the A-4 5/06 4150.2 market value of a REO property. Appraisers may utilize sales comparables from other REO transactions only when such sales are deemed to be the best available for the market area and they meet all of the following criteria:

- located 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

Appraisers are reminded that an explanation, as well as support, must be provided for any adjustments to the sales price of comparable sales that exceed the guidelines set forth in Revised Appendix D: Appraisal Protocol, pages D-31, D-68, D-98 and D-127, attachment to Mortgagee Letter 2005-48.

Inclusion of vacancy rates, rates of foreclosure and a discussion of foreclosure sales in the subject's market area may be used as additional support for reliance on sales of other REO transactions.

Do not use distressed sales such as Sheriff Sales. These sales do not involve a willing seller nor are they exposed to the market under normal conditions. The resulting value indication derived from the use of such sales is not consistent with the definition of market value.

## **A-3 REPORTING REQUIREMENTS**

As with any appraisal performed by a FHA Roster Appraiser, an REO appraisal must be performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP).

Other reporting requirements are as follows:

- With each appraisal, the appraiser must provide a list of any buyer incentives that would enhance the marketability of the property to provide an incentive to buy the property unrepaired as opposed to repaired.

- For all property constructed before 1978, the appraiser must condition the appraisal on the completion of a lead-based paint test.
- For appraisals of vacant lots (land), complete a land appraisal report form.

## **APPRAISER CERTIFICATION OF TERMS AND STANDARDS OF ENGAGEMENT**

The undersigned, an authorized representative of the below named appraiser, appraisal company, or appraisal management company (the "Appraiser") hereby acknowledges and certifies that the Appraiser has knowledge and experience in appraising this type of property in this market area and accepts this engagement to conduct an appraisal of the Subject Property in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and in full compliance FHA appraisal guidelines, specifically HUD Handbook 4150.2 and all Mortgagee Letters pertaining to appraising HUD REO properties and all applicable state and federal laws and regulations.

### **APPRAISER CERTIFICATION**

Regarding Appraisal of Subject Property located at:

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The undersigned, and authorized representative of the below named appraiser, appraisal company, or appraisal management company (the "Appraiser") conducting the appraisal of the Subject Property and preparing the Appraisal Report, hereby certifies that:

1. The Appraiser conducted the appraisal and prepared the Appraisal Report in full compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), FHA Appraisal Guidelines and all applicable state and federal laws and regulations.
2. The appraisal of the Subject Property was conducted, and the Appraisal Report was prepared, by one, or more, qualified and duly licensed or certified real estate appraisers in compliance with applicable state and federal law.
3. The Appraiser conducting the appraisal of the Subject Property has knowledge and experience in appraising this type of property in the market area within which the Subject Property is located.
4. The originating appraiser certifies they are on the FHA Roster of approved appraiser.

This Certification of Compliance is cumulative of any other or additional certifications that may be set forth in the Appraisal Report and does not revoke, amend or modify the terms or standards of engagement with respect to the Appraisal Report.

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Appraiser Name

Date

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Appraiser Signature

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Company Name