

# WSRAR Appraisal Task Force

**Do you have a question or issue for the newly formed WSRAR Appraisal Task Force?**

If so, please email Susan Jester, [sjester@wsrar.com](mailto:sjester@wsrar.com). The primary objectives of this task force are to improve communication between the two professions and to educate brokers about the appraisal process and issues that affect the appraisal industry.

## FHA Appraisals By Michael R. Leamon

FHA appraisals have changed significantly over the last twenty years. They used to be very detailed reports including specific lists of repairs performed by a very tightly controlled panel of appraisers. The requirements on who could perform FHA appraisals have changed several times over the past ten years. Under the current system, any certified appraiser can register with HUD to be eligible to perform FHA appraisals. HUD leaves it up to the appraiser and the lender who eventually hires them to perform appraisals to make sure the appraiser is properly trained.

The appraisal process and the content of the FHA appraisal reports have also changed significantly. The basic premise has remained the same. FHA wants all properties to be in at least average condition, have no significant flaws which would affect the marketability and they must pose no health or safety risks to the inhabitants. HUD's exact terminology speaks to the safety, security and soundness of the property.

The FHA appraisal process is governed by two HUD Handbooks, 4905.1 and 4150.2 which can be found on the HUD website ([www.hud.gov](http://www.hud.gov)). These handbooks have been supplemented and clarified by numerous Mortgagee Letters issued by HUD over the years. The most recent significant guidance was provided December 19, 2005 through Mortgagee Letter 2005-ML-48. In this document HUD issued new guidance on repair requirements. At first glance this guidance document appears to be a relaxation of HUD rules. In reality, it simply moves the responsibility for requiring repairs from the appraiser to the mortgage loan underwriter. Prior to this change, an FHA appraiser was required to require repair on any property defect including minor cosmetic and maintenance issues. Under the current policy, the appraiser is required to "report all readily observable property deficiencies". The appraiser no longer automatically requires repairs on minor items. The appraiser still requires repairs on major items like leaking roofs, structural issues, defective paint surfaces including lead paint issues on dwellings built before 1978 and cumulative conditions which result in the property being in below average condition. Once the appraisal is submitted to the lender, the mortgage loan underwriter reviews the appraisal report and decides if additional repairs are required based on the property condition as reported by the appraiser. In most cases the eventual repair list is very similar to what it would have been ten years ago. The important thing to remember is despite changes in the process and terminology FHA does not accept properties "as is" unless they are in at least average condition with no significant defects.

In breaking news, FHA issued a mortgagee letter on September 18, 2009 announcing a new policy concerning assigning FHA appraisals. Effective January 1st 2010, FHA will not allow anyone who is compensated based on proceeds from a loan closing to order an FHA appraisal or choose the appraiser. Bankers and mortgage bankers can still order FHA appraisals but that function must be designated to an employee who is not paid based on the successful closing of the loan. Mortgage brokers will not be allowed to order FHA appraisals at all. This is a partial voluntary implementation by HUD of the HVCC which all conventional lenders have been operating under since the spring of 2009. I would advise everyone to contact their favorite lenders to see how this change will be implemented.

