



FHA Underwriting Guide

Chapter 2J Appraisal Requirements

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2J.1 Appraiser Requirements

2J.1(a) Appraisal Integrity and Conduct

The appraiser must perform all FHA appraisal assignments in a competent, independent, impartial, and objective manner. The appraiser must avoid practices that could affect the reliability of the appraisal report opinions and conclusions. In addition to compliance with USPAP, including the Competency Rule, the appraiser must not:

- Discriminate in developing any part of the appraisal or value conclusion based on characteristics that are protected by federal, state, or local laws;
- Misrepresent the scope of work performed in the completion of the FHA appraisal; or develop or communicate an appraisal report to FHA that is knowingly misleading or fraudulent.

The appraiser's performance must comply with all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local antidiscrimination laws and must adhere to all state and local laws relating to appraisal, licensing, and certification requirements.

2J.1(b) Appraiser Independence

[FHA Appraiser Independence](#) requirements ensure and safeguard appraiser independence and enhance the overall appraisal process to provide a greater level of integrity to the appraisal ordering process and appraiser contact. Compliance with the FHA Appraiser Independence Rules is mandatory.

FHA-approved lenders are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained, or compensated in any manner by a mortgage originator or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan.

See Chapter 1C Representations, Warranties, & Covenants, Section C102, in this Client Guide.

2J.1(c) Nondiscrimination Policy

The appraiser must be knowledgeable of and fully comply with all federal, state, and local laws, including any antidiscrimination laws, rules applicable to the appraisal of the subject property, or any provisions of the Fair Housing Act. No part of the appraisal analysis or reporting may be based on the race, color, religion, sex, actual or perceived sexual orientation, actual or perceived gender identity, age, actual or perceived marital status, disability, familial status, national origin of either the prospective owners or occupants of the



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property, present owners or occupants of the property, or the present owners or occupants of the properties in the vicinity of the property, or on any other basis prohibited by federal, state, or local law.

2J.1(d) Commencement of the Appraisal

The appraiser must be provided with, review and analyze all of the following before beginning an appraisal:

- A complete copy of the executed sales contract for the subject if a purchase;
- The land lease, if applicable;
- Surveys or legal descriptions, if available;
- Any other legal documents contained in the loan file;
- A point of contact and contact information so the appraiser can communicate any noncompliance issues; and
- If new construction, a fully executed [form HUD-92541, Builder's Certification of Plans, Specification, and Site](#), dated no more than 30 days prior to the date of the appraisal order and documents related to new construction, including plans, specifications, and any exhibits provided that will assist the appraiser in determining what is to be built, or if now under construction, what will be built when finished.

All known information regarding any environmental hazard that is in or on the subject property, or in the vicinity of the property, must be disclosed, whether obtained from the borrower, the real estate broker, or any other party to the transaction.

2J.1(e) Appraisal Management Company (AMC)

Ensure all of the following:

- FHA roster appraisers are compensated at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised;
- The fee for the actual completion of an FHA appraisal may not include a fee for management of the appraisal process or any activity other than the performance of the appraisal; and
- Any management fees charged by an AMC or other third party must be for actual services related to ordering, processing, or reviewing of appraisals performed for FHA financing.

2J.1(f) Appraiser Selection

The appraisal must be ordered from an appraiser who:

- Is on the [FHA Appraiser Roster](#);



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- Is on the [Appraisal Subcommittee's \(ASC\) National Registry](#);
- Is not listed on HUD's [LDP](#) list or [CAIVRS](#) or subject to any current loss of standing or suspension as a certified appraiser in any state;
- Is knowledgeable of the Uniform Standards of Professional Appraisal Practice (USPAP);
- Is qualified and knowledgeable in the specific market in which the property is located;
- Is a state-certified residential or state-certified general appraiser in all states in which the appraiser performs an appraisal; and
- Has the appropriate education, training, and actual field experience.

The appraiser who conducted the appraisal must be correctly identified in the FHA Connection. Supervisory appraisers are not permitted.

To avoid conflicts of interest or the appearance of conflicts, no substantive communications with an appraiser relating to or having an impact on valuation, including ordering, or managing an appraisal assignment Correspondent client loan production staff:

- Who is compensated on a commission basis upon the successful completion of a loan; and
- Who reports to any officer of the Correspondent client not independent of the loan production staff and process

All Correspondent clients must demonstrate that the appraisal order was conducted in compliance with these guidelines and that it has established prudent safeguards to isolate its collateral evaluation process from influence or interference from its loan production process.

2J.1(f)(i) Non-Delegated Clients

The FHA appraisal may be ordered through the non-delegated Client's own Appraisal Management Company (AMC).

Non-Delegated Clients must provide paid invoice and XML to Appraisal correspondentunderwritingsupport@newrez.com

If the underwriter approves the appraisal, a Loan Decision Letter will be updated indicating the appraisal cleared and uploaded to Image Central.

If the underwriter requests corrections or additional information, the underwriter will notify the Client.



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The Client is responsible for obtaining the information from the AMC.

If the information cannot be obtained, the appraisal may be rejected.

If the AMC or the appraiser update the appraisal, a new XML file will be required. For transferring an existing appraisal to Newrez, see 2J.5 Transferred Appraisals.

2J.2 Electronic Appraisal Delivery Portal

All FHA appraisal reports must be submitted to FHA's Electronic Appraisal Delivery (EAD) portal in order to be underwritten. Underwriters will not be able to log in appraisal reports in FHA Connection if the appraisal report is not successfully uploaded into EAD. The Appraisal Logging Update screen will have the following statement when the appraisal was successfully submitted to EAD: "Note: Screen loaded from EAD/Electronic Appraisal Data."

2J.3 Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices. Be aware of these deficiencies and address them with the appraiser. If the appraiser is unwilling to resolve the issue, discuss this with the appropriate Home Ownership Center (HOC).

- Failure to:
 - Conduct a complete physical inspection of the subject property or the sales comparable sales.
 - Provide complete appraisal information per USPAP Standards.
 - Obtain timely and suitable comparable data. Report the highest and best use of the property.
 - Report special assessments such as community association fees.
 - Correctly report the form of ownership interest.
 - Accurately report all readily observable property defects and adverse conditions that affect the property marketability. Report major defects which may impair the health or safety of the property occupants.
 - Report conflicts of interest.
 - Report verified sales concession like seller paid points or closing costs.
 - Recognize the property is in a flood zone.
 - Correctly identify public water and sewer versus private systems.
- Incomplete interior and exterior visual inspections of the subject property or lack of a visual inspection for the exterior of the comparable sales.



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- Inconsistencies and calculation errors.
- Incorrectly reporting or analyzing significant physical characteristics.
- Insufficient information included in report to enable users to understand the report properly.
- Lack of required photographs and maps.
- Not providing the cost approach, where applicable.
- Not completing the income approach on a 3-4-unit dwelling.
- Not disclosing that the seller was related to the appraiser.
- Not reporting land use restrictions.
- Not reporting limiting conditions that affect the appraisal, such as but not limited to proximity to a municipal landfill, pending zoning changes, necessary repairs, etc.
- Not verifying the sales information through public records or with a copy of the sales contract.
- Providing incomplete or inaccurate descriptions of the neighborhood.
- Providing inaccurate analysis of the property characteristics.
- Stating neighborhood is primarily residential in nature when it is commercial in nature.
- Use of data, particularly comparable sales data that was provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source. It would be inappropriate for an appraiser to use comparable sales provided by the real estate broker who is managing the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparable sales provided were the best ones available.
- Use of listings instead of actual sales without explanations.
- Use of adjustments to the comparable sales that do not reflect the market's reaction to the differences between the subject property and the comparable sales, or the failure to make adjustments when they are clearly indicated.
- Value conclusions not supported by data and analysis in appraisal report.

2J.4 Appraisal and Case Number Assignment Date

Every FHA appraisal report must correspond to an FHA case number. The case number must be listed on the first page of the appraisal report. The case number assignment date must precede the effective date of the appraisal report, unless the underwriter certifies, via the certification field in the Appraisal Logging Screen in [FHAC](#) that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by an FHA Roster Appraiser.



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The underwriter must ensure that the appraisal was performed in accordance with FHA appraisal reporting requirements. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the subject property securing the loan. FHA and Client must be indicated as the intended users of the appraisal report.

2J.5 Transferred Appraisals

Newrez will accept an appraisal that was transferred from another lender, provided the transfer was completed in compliance with FHA requirements. At the borrower's request, a transfer of the case to the second lender must be completed within five (5) business days. The appraiser is not required to provide the appraisal to Newrez. The Client's name on the appraisal does not need to reflect the new lender.

Newrez may not request the appraiser to re-address the appraisal. If Newrez finds deficiencies in the appraisal a new appraisal must be ordered. If an existing appraisal is used for a different borrower, the new borrower's information must be entered into [FHAC](#). Newrez must collect an appraisal fee from the new borrower and refund the fee to the original borrower.

If a case transfer is involved, the borrower's information must be entered into [FHAC](#). Newrez must collect an appraisal fee from the borrower, and send the fee to the original mortgagee, which, in turn, must refund the fee to the original borrower.

2J.5(a) Non-Delegated Clients

Use the following procedures when transferring an appraisal to NewRez:

- Advise Newrez of request for transfer on Underwriting Submission Checklist
- Provide explanation for assignment and transfer
- Case number must be assigned to NewRez and emailed to CorrespondentUnderwritingSupport@Newrez.com (allow 24 hours for assignment change in [FHAC](#))
- Provide paid invoice and XML to CorrespondentUnderwritingSupport@Newrez.com

The appraiser and AMC may not be on NewRez's Exclusionary List. See Chapter 2A Eligibility, 2A.4 Excluded Parties.

Newrez will upload the appraisal into the [EAD portal](#) and will obtain the SSR and completed appraisal review.

- If the underwriter approves the appraisal, a Loan Decision Letter will be updated indicating the



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appraisal cleared and uploaded to Image Central.

- If the underwriter finds deficiencies with the appraisal, the appraisal will be rejected, and a new appraisal will be required.

2J.6 Ordering a Second Appraisal

Ordering an additional appraisal to achieve an increase in value for the property and/or the elimination or reduction of deficiencies and/or repairs is prohibited.

A second appraisal may be ordered for loans that are in accordance with the requirements of property flipping.

2J.6(a) Second Appraisal by Original Lender

A second appraisal may only be ordered if the Direct Endorsement (DE) underwriter determines the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency. The deficiency must be fully documented and the status of the appraisal in the loan file. The Client must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability or that indicate a potential violation of fair housing laws or professional standards related to nondiscrimination. Material deficiencies include, but are not limited to:

- Appraiser performing the first appraisal is on NewRez's exclusionary list;
- Failure to report readily observable defects that impact the health and safety of the occupancy and structural soundness of the house;
- Reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- Fraudulent statements or conclusions when the appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy or thoroughness or the appraisal.

2J.6(b) Second Appraisal by Second Lender

A second appraisal may only be ordered when:

- The first appraisal contains material deficiencies as determined by the underwriter for the second mortgage;
- The appraiser performing the first appraisal is prohibited from performing appraisals for NewRez; or



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- The first lender fails to provide a copy of the appraisal to NewRez in a timely manner, and the failure would cause a delay in closing and harm to the borrower, including loss of interest rate lock, violation of sales contract deadline, occurrence of foreclosure proceedings and imposition of late fees.

Do not order a new case number, however second appraisal data must be logged in to [FHAC](#).

The second appraisal must be used and both appraisals be in the case binder, except in the case of the first lender failing to provide the appraisal. The DE underwriter must document and retain in the loan file the explanation for why the second appraisal was ordered.

2J.7 Quality of Appraisal

The appraisal must be evaluated to ensure it complies with the requirements in 4000.1 Handbook, [Valuation and Reporting Protocols](#) (IID.4), and any additional appraisal requirements that are specific to the subject property.

2J.8 Appraisal Review

The appraisal must be reviewed to ensure that it is complete, accurate, and provides a credible analysis of the marketability of the Property.

2J.9 Reconsideration of Value

The underwriter may request a reconsideration of value when the Appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the Appraiser with all relevant data that is necessary for a reconsideration of value.

The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the Borrower, the Borrower must not be held responsible for the additional costs. The effective date of the appraisal is the date the Appraiser inspected the Property.

2J.10 Appraisal Report Forms and Exhibits

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders, and must conform to the current Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation.



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Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.

2J.10(a) Conditional Commitment/Direct Endorsement Statement of Appraised Value

The [Conditional Commitment Direct Endorsement Statement of Appraised Value Form, HUD-92800.5B](#), is the underwriter's acceptance of the appraisal. By signing this document, the underwriter is stating that the property is eligible for FHA mortgage insurance.

One copy of the Direct Endorsement Statement of Appraised Value must be provided to the borrower, one copy must be included in the FHA Case binder and one copy is retained in the loan file. The borrower should be advised to read the front and back of this form.

2J.10(b) Appraisal Forms

An FHA approved appraiser must prepare the appraisal form and attachments. The appraisal report must be on the current version of the appropriate appraisal form.

Form	Use
<i>Uniform Residential Appraisal Report</i> (Fannie Mae Form 1004/Freddie Mac Form 70)	Use for appraisals of one-unit properties (including a one-unit property with an accessory apartment) and units in PUD projects.
<i>Individual Condominium Unit Appraisal Report</i> (Fannie Mae Form 1073/Freddie Mac Form 465)	Use for appraisals of one-unit properties in condominium projects, including site condominiums.
<i>Manufactured Home Appraisal Report</i> (Fannie Mae Form 1004C/Freddie Mac Form 70B)	Use for appraisals of one-unit manufactured homes.
<i>Small Residential Income Property Appraisal Report</i> (Fannie Mae Form 1025/Freddie Mac Form 72)	Use for appraisals of two- to four-unit properties.
<i>Compliance Inspection Report</i> (form HUD-92051)	Use for Compliance of Final Inspection for new construction properties and manufactured housing.
<i>Certification of Completion</i> (Fannie Mae Form)	Use for Compliance of Final Inspection for existing



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1004D/Freddie Mac Form 442)	property.
<i>Appraisal Update and/or Completion Report</i> Fannie Mae Form 1004D/Freddie Mac Form 442)	Use for all one- to four-unit appraisal reports.
<i>Opinion of Market Rent</i> (Fannie Mae Form 1007/Freddie Mac Form 1000)	Use for appraisals for inclusion of ADU opinion of market rent

2J.10(b)(i) Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442)

An update to the appraisal may only be ordered if the Client:

- Is the intended user of the original appraisal; or
- Has received permission from the original client and the appraiser.

An appraisal update may be used only if:

- It is performed by an FHA appraiser who is currently in good standing on the FHA Appraiser Roster:
 - If a substitute appraiser is used due to the lack of the original appraiser availability, the substitute appraiser must state they concur with the analysis and conclusions in the original appraisal report. The file must document in the case binder why the original appraiser was not used.
- The subject property has not declined in value;
- The building improvements that contribute value to the subject property can be observed from the street or a public way;
- The exterior inspection of the subject property reveals no deficiencies or other significant changes;
- The appraisal update was performed by the appraiser within one year from the effective date of the initial appraisal being updated; and
- The appraisal update is performed before the disbursement date.

The appraiser must adhere to the Scope of Work and Appraiser's Certification listed on the form.

If the appraiser concurs with the original appraisal report and determines that the value has not declined, they must indicate so and provide any necessary comments. A photo of the front of the



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subject property taken from the public street must be provided.

If the appraiser does not concur with the original data report or the property value has declined, they must indicate so on the form and a photo is not required.

2J.10(b)(ii) Photographs, Exhibits and Map Requirements

The appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

The appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or outbuildings contributing value. The appraiser must show the calculations used to arrive at the estimated GLA. The appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the appraiser’s observation and analysis.

Photograph Exhibit	Minimum Photograph Requirement
Subject Property Exterior	<ul style="list-style-type: none"> • Front and rear of the dwelling. • Improvements with Contributory Value not captured in the front or rear photographs. • Street scene photograph • For Proposed Construction: a photograph that shows the grade of the vacant lot.
Subject Property Interior	<ul style="list-style-type: none"> • Kitchen, main living area, bathrooms, bedrooms. • Any other rooms representing overall condition. • Basement. • Recent updates, such as restoration, remodeling, and renovation.
Comparable Sales,	<ul style="list-style-type: none"> • Front view of each comparable utilized.



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Listings, Pending Sales, Rentals, etc.	
View	Photographs of any negative or position view influences that substantially affect value or marketability
Subject Property Deficiencies	Photographs of the deficiency or condition requiring inspection or repair.

2J.10(b)(iii) Appraisal Attachments

The appraisal attachments must be prepared and signed (if applicable) by an approved appraiser. The appraisal attachments must be on the current version.

- Photographs as required above;
- Location map showing the subject property and the comparable sales;
- Diagram of the floor plan detailing room layout;
- Exterior building sketch;
- Statement of Assumptions and Limiting Conditions and Appraiser's Certification;
- Any other certifications, if applicable (roof, water, etc.);
- Certificate of Occupancy, if applicable; and
- Any state specific forms relating to property.

The appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The appraiser must provide support for conclusions regarding housing trends and overall market conditions reported in the "Neighborhood" section. The appraiser's analysis and conclusions must be based on the information reported on this form. The appraiser's study of the market affecting the subject property include sufficient data for a statistical analysis to be relevant.

If any required data is unavailable or is considered unreliable, the appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas on the for; if it is available, however, the appraiser must include in the analysis.

If data sources provide the required information as an average instead of the median, the appraiser



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must report the available figure and identify it as an average. The appraiser must explain any anomalies in the data, such as seasonal markets, new construction, foreclosures, etc.

Fannie Mae appraisal forms that are used for streamlined appraisal or a qualitative sales comparison analysis, such as Fannie Mae Forms 2055 or 2065, are not permitted.

2J.11 Appraisal Report Review

2J.11(a) DE Underwriter Responsibilities

The DE underwriter:

- Must evaluate the appraisal and any supporting documentation to determine if the property complies with HUD's Property Acceptability Criteria;
- Is responsible for identifying any problems or potential problems with the integrity, accuracy, and thoroughness of an appraisal;
- Will determine which repairs for existing properties must be made for the property to be eligible;
- Must evaluate the appraisal and ensure it complies with the requirements of this chapter and any additional appraisal requirements that are specific to the subject property; and
- Must evaluate the appraisal to ensure the appraisal complies with all federal, state, and local laws, including FHA and other federal, state, or local antidiscrimination laws.

2J.11(b) Appraiser Responsibilities

The appraiser must:

- Observe, analyze, and report that the property meets HUD's Property Acceptability Criteria, including MPR and MPS;
- Provide preliminary verification that HUD's Property Acceptability Criteria have been met;
- Provide an appraised value for the subject property; and
- Provide an explanation if the property seller is not the owner of record.

The appraiser must review and analyze the following and report the results of that analysis in the appraisal report:

- The complete copy of the executed sales contract for the subject,
- Documents related to new construction (plans, specifications, and any exhibits provided), if applicable;



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- The land lease, if applicable;
- Surveys or legal descriptions, if available; and
- Any other legal documents contained in the loan file.

2J.11(c) Minimum Property Requirements (MPR) and Minimum Property Standards (MPS)

Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness, and security of New Construction.

When the Appraiser's observation of a property reveals noncompliance with the Property Acceptability Criteria, the appraiser must note all repairs necessary to make the property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the appraiser cannot determine that the property meets HUD's MPR or MPS, an inspection from a qualified entity should be obtained to make the determination.

Professional judgment must be used in determining when the subject property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the subject property, such that additional inspections and/or repairs are necessary.

2J.11(d) Defective Conditions

The appraisal must be evaluated in accordance with this section to determine if the property is eligible. If defective conditions exist and cannot be remedied, the underwriter must reject the property.

Defective conditions refer to defective constructing, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards, or other conditions affecting the health and safety of occupants, collateral security, or structural soundness of the improvement.

The appraiser must:

- Identify all defective conditions;
- Identify those that are curable and will make the property comply MPRs;



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- Provide an estimate to cure; and
- Provide photographs of the defective conditions.

The underwriter must obtain evidence of completion of any inspections, repairs, or certifications noted on the appraisal or are required by the underwriter. Regardless of the appraiser's suggested repairs, the underwriter will determine which repairs are required. See Required Repairs.

2J.11(d)(i) Inspections by a Qualified Individual or Entity

If the appraiser cannot determine that a property meets FHA's MPR or MPS, an inspection by a qualified individual or entity may be required.

Conditions that require an inspection by a qualified individual or entity include:

- Standing water against the foundation and/or excessively damp basements;
- Hazardous materials on the site or within the improvements;
- Faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- Evidence of possible structural failure (e.g., settlement or bulging foundation wall); unsupported floor joists, cracked masonry walls or foundation);
- Evidence of pest infestation;
- Leaking or worn-out roofs; and
- Any other condition that in the judgment of the appraiser warrants an inspection.

The appraiser may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

2J.11(e) Legal and Land Use Considerations

Party or Lot Line Wall	<p>A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.</p> <p>The appraiser must note if the party or lot line wall does not extend to the roof or beyond.</p>
Non-residential Use of the	The appraiser must calculate the non-residential portion of any residential



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Property	<p>property. Storage areas or similar spaces that are integral parts of the non-residential portion must be included in the calculation of the non-residential area.</p> <p>The appraiser must comment on any non -residential use within the property and state the percentage of the total floor area that is utilized as non -residential. The appraiser must report whether the non-residential use is legal and in compliance with current zoning requirements.</p> <p>Any non-residential use:</p> <ul style="list-style-type: none"> • Must not exceed 49% of the total floor area; • Must be subordinate to its residential use, character, and appearance; • May not impair the residential character or marketability of the property; and • Must be legally permitted and conform to current zoning requirements.
Zoning	<p>The appraiser must determine if current use complies with zoning ordinances.</p> <ul style="list-style-type: none"> • If the property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the appraiser must report the property as "Legal Non-Conforming" and provide a brief explanation; • The appraiser must analyze and report any adverse effect that the non-conforming use has on the property's value and marketability; and • The appraiser must determine whether the property may be legally rebuilt if destroyed. <p>If the property cannot be legally rebuilt, it is not eligible.</p>
Encroachments	<p>Encroachment refers to an interference with an intrusion onto another's property.</p> <p>The appraiser must report the presence of any encroachments affecting the subject property so the underwriter can determine eligibility.</p>



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	<p>The appraiser must identify any encroachments:</p> <ul style="list-style-type: none"> • If the subject's dwelling, garage, or other improvement do not encroach onto an adjacent property, right-of-way, utility easement, or building restriction line; and • By the subject or adjacent property fences is acceptable provided such encroachment does not affect the marketability of the subject property.
<p>Easements and Deed Restrictions</p>	<p>An easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.</p> <p>A deed restriction refers to a private agreement that restricts the use of real estate in some way and is listed in the deed.</p> <p>The appraiser must analyze and report the effect that easements and other legal restrictions, such as deed restrictions, may have on the use, value, and marketability of the property. The appraiser must review recorded subdivision plats when available.</p> <p>If the appraiser notes the presence of any easements and deed restriction, the underwriter must review and determine eligibility. See Chapter 2D Property Types, 2D.1 Deed/Resale Restrictions for acceptable deed restrictions.</p>

2J.11(f) Externalities

Externalities refer to off-site conditions that affect a property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas liens, overhead electric power transmission lines and local distribution lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

The appraiser must report the presence of externalities and consider how externalities affect the marketability and value of the property, report the issues and the market's reaction, and address any



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positive or negative effects on the value of the subject property.

The underwriter must review the appraisal report and determine if there are any positive or negative effects on the value of the subject property due to any externalities as reported by the appraiser.

Externality	Requirement
Heavy Traffic	The appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues.
Airport Noise and Hazards	<p>The appraiser must:</p> <ul style="list-style-type: none"> • Identify if the property is affected by noise and hazards of low flying aircraft because it is near an airport; • Review airport contour maps and analyze accordingly; and • Determine and report the marketability of the property based on this analysis.
Special Airport Hazards	<p>For properties located in Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields the following applies:</p> <ul style="list-style-type: none"> • Existing Dwellings: The borrower must acknowledge the hazard. • New Construction: The property is ineligible. <p>Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible if it is determined that the property complies with Department of Defense guidelines.</p>
Proximity to High Pressure Gas Lines	<p>The appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both above ground and subsurface and determine and report marketability based on this analysis.</p> <p>The appraiser must identify the deficiency of MPR or MPS if the property is located less than ten (10) feet from the nearest boundary of the pipeline easement.</p>
Overhead Electric	Overhead electric power transmission lines refer to electric lines that supply



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<p>Power Transmission and Local Distribution Lines</p>	<p>power from generation stations to local distribution lines. Local distribution lines refer to electric lines that commonly supply power to residential housing developments, similar facilities, and individual properties.</p> <p>The appraiser must identify the deficiency of MPR or MPS if the overhead electric power transmission lines or the local distribution lines pass directly over any dwelling, structure, or related property improvement, including pools, spas, or water features.</p> <p>The appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances and must determine if the guidelines for encroachments apply.</p> <p>The underwriter must confirm:</p> <ul style="list-style-type: none"> • That any overhead electric power transmission lines do not pass directly over any dwelling, structure, or related property improvement, including pools. The power line must be relocated for a property to be eligible; and • That the residential service drop line do not pass directly over any pool, spa, or water feature. <p>If the dwelling or related improvements are located within the easement area or appear to be located within an unsafe distance of any power line or tower, a certification must be obtained from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and local distribution lines conforms to local standards and is safe.</p>
<p>Smoke, Fumes, and Offensive or Noxious Odors</p>	<p>Excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the property. The appraiser considers the effect of the of any of these conditions that exist and do not threaten the occupants or marketability.</p>
<p>Stationary Storage Tanks</p>	<p>Any above ground stationary storage tanks must be more than 300 feet of the subject property line if it has a capacity of 1,000 gallons or more of flammable or explosive material.</p>



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	Any above ground stationary storage tanks within 300 feet of the subject property line with a capacity of 1,000 gallons or more of flammable or explosive material are ineligible.
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2J.11(g) Site Conditions

2J.11(g)(i) Access to Property

Adequate vehicular access to a property refers to an all -weather road surface over which emergency and passenger vehicles can pass at all times.

The property must have safe pedestrian access and adequate vehicular from a public street or private street that is protected by a permanent recorded easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

2J.11(g)(ii) On Site Hazards and Nuisances

On site hazards and nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the property.

The appraiser must:

- Report and comment on the presence of all on site hazards and nuisances;
- Provide photographs of potential problems or issues to assist the underwriter in understanding the problem;
- Report any special conditions that may exist or arise during the construction and necessitate precautionary or hazard mitigation measures for new or proposed construction; and
- Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

The underwriter must require corrective work to mitigate potential adverse effects from any on site hazard or nuisances reported by the appraiser.

2J.11(g)(iii) Topography

The surface and subsurface water should be diverted from the dwelling to ensure drainage away from



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the foundation.

The appraiser must report any danger due to topographic conditions (e.g., earth and mud slides from adjoining properties, falling rocks, and avalanches) to the subject property or the adjoining land.

The property must be inspected by a qualified individual or entity if:

- The purchase contract indicates, or the appraiser observes any dampness because of a foundation issue or surface; and
- If the appraiser notes surface and subsurface water that is not diverted from the dwelling.

2J.11(g)(iv) Grading and Drainage

The subject property must have adequate grading and proper drainage control measures (may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation) and should not have any observable evidence of standing water adjacent to the foundation that indicates improper drainage.

2J.11(g)(v) Suitability of Soil

The appraiser must consider the readily observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formation, and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements.

The appraiser should also consider events published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

2J.11(g)(vi) Land Subsidence and Sinkholes

Land subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

The danger of ground subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes, or settlement problems.



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The underwriter must determine eligibility or the need to require the purchase of subsidence insurance.

2J.11(g)(vii) Oil or Gas Wells

Operating for Proposed	<ul style="list-style-type: none">• The dwelling cannot be located within 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.• If the dwelling is located within 75 feet of an operating oil or gas well, reject the property unless mitigations measures are completed.
Abandoned Well	<ul style="list-style-type: none">• An abandoned gas or oil well on the subject site or an adjacent property is not permitted unless a letter from the local jurisdiction or the appropriate state agency stating that the subject well was permanently abandoned in a safe manner is provided.• A property located near a gas well that emits hydrogen sulfide is acceptable if a petroleum engineer has established the minimum clearance. The appraiser must assess any impact that the location of the well has on the value and marketability of the property.

2J.11(g)(viii) Hydrogen Sulfide Gas Wells (Sour Gas Wells)

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

An inspection by a qualified individual or entity and provides evidence that the minimum clearance has been established is required.

2J.11(g)(ix) Slush Pits

A slush pit refers to a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

If the property has a slush pit, the appraisal must be made subject to the removal of all unstable and



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toxic materials and the site made safe.

2J.11(g)(x) Flood Zones

The appraisal must indicate the FEMA zone designation, the map panel number and map date. If the property is located within a Special Flood Hazard Area (SFHA), a copy of the flood map panel must be attached to the appraisal report.

If the property is not shown on any map and the appraisal indicates “not mapped,” the appraiser must quantify the effect on value, if any, for properties situated within a designated SFHA.

A flood zone determination must be obtained independent of any assessment made by the appraiser to cover Life of Loan Flood Certification.

A property is not eligible if:

- A residential building and related improvements to the property are located within SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- The improvements are, or are proposed to be, located within a Coastal Barrier Resource System (BCRS).

Property	Requirements
New Construction of Site Built Housing or Units in a Condominium Project or Legal Phase	<p>If any portion of the dwelling, related structures, or equipment essential to the value of the property and subject to flood damage is located within an SFHA, the property is not eligible unless one (1) of the following occurs:</p> <ul style="list-style-type: none"> • A FEMA final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) is obtained that removes the property from SFHA. • A FEMA National Flood Insurance Program Elevation Certificate (FEMA Form FF-206-FY-22-152) based on the finished construction, documenting the lowest floor including the basement, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with FHIP criteria, and insurance under NFIP is obtained. • The Mortgagee must ensure that Flood Insurance is obtained when a FEMA Flood Elevation Certificate (FEMA Form FF-206-FY-22-152)



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	<p>documents that the Property remains located with an SFHA.</p> <p>The building permit application submission date, or its equivalent date, will be required on form HUD-92541, Builder’s Certification of Plans, Specifications, and Site. In jurisdictions where the building permits are not issued, an equivalent application submission date represents the request for jurisdictional approval to start construction. The construction start date serves as the equivalent date when no prior application submission date is available.</p>
Existing Construction of Site Built Housing	When any portion of the residential improvements is determined to be located within an SFHA, insurance under FHIP must be obtained.
Existing Construction Condominiums	The homeowners' association (HOA) must obtain insurance under the NFIP on buildings located within the SFHA. The flood insurance coverage must protect the interest of the borrowers who hold title to the individual unit, as well as the common areas of the condo project.
Existing and New Construction Manufactured Housing	<p>The finished grade level beneath the manufactured home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related structures, or equipment essential to the property value and subject to flood damage for both new and existing manufactured homes are located within an SFHA, the property is not eligible unless one (1) of the following is obtained:</p> <ul style="list-style-type: none"> • A FEMA issued LOMA or LOMR that removed the property from the SFHA; or • A FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form FF-206-FY-22-152) prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100-year frequency flood elevation, and insurance under the NFIP is obtained. <p>The Mortgagee must ensure that Flood Insurance is obtained when a FEMA Flood Elevation Certificate (FEMA Form FF-206-FY-22-152) documents that the Property remains located within an SFHA.</p>

See Chapter 5 Insurance & Loan Documents for complete Flood Insurance requirements.



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2J.11(g)(xi) Coastal Barrier Resources Systems (CBRS)

Properties located in a Coastal Barrier Resources System (CBRS) are not eligible.

2J.11(g)(xii) Mineral, Oil and Gas Reservations or Leases

The appraiser must analyze and report the degree to which the residential benefits may be impaired, or the property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The appraiser should consider the following:

- The rights granted by the reservation or lease causes an infringement on the property rights of the fee owner; and
- The hazards, nuisances, or damages that may arise or accrue to the subject property from exercise of reservation or lease privileges on neighboring properties.

2J.11(g)(xiii) Excess and Surplus Land

Excess land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately.

Surplus land refers to land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

The appraisal must indicate the highest and best use analysis in the appraisal report to support the appraiser's conclusion of the existence of excess land. The appraiser must include surplus land in the valuation.

If the subject of an appraisal contains two (2) or more legally conforming platted lots under one (1) legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is excess land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the appraiser must provide a value of only the principal site and improvements under a hypothetical condition.



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2J.11(g)(xiv) Soil Contamination

Soil contamination refers to the presence of manufactured chemicals or other alterations to the natural soil environment.

Conditions that indicate sild contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums, or odors.

2J.11(g)(xv) Residential Underground Storage Tanks

The appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or on-site contamination, the appraiser must require further inspection.

2J.11(h) Characteristics of Property Improvements

2J.11(h)(i) Living Unit

Each living unit must contain one (1) of the following:

- A continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- Sanitary facilities and a safe method of sewage disposal;
- Every living unit must have at least one (1) bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- Adequate space for healthful and comfortable living conditions;
- Heating adequate for healthful and comfortable living conditions;
- Domestic hot water; and
- Electricity adequate for lighting and for mechanical equipment used in the living unit; and
- Every living unit must have at least one (1) area with kitchen facilities, including both a sink with potable running water and a stove utility hookup at a minimum.

Appliances that will remain in the subject property and that contribute to the market value must be operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium



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units.

2J.11(h)(ii) Access to Living Unit

Access to the living unit must be provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

For an attached dwelling, the access may be by means of alley, easement, common area, or passage through the dwelling.

There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present.

The property is ineligible if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

2J.11(h)(iii) Non-Standard House Styles

Non-standard house style refers to unique properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower-than-normal ceiling heights, and other houses that in the appraiser's opinion, are unique.

The appraiser must provide a comment that the non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a property to be fully marketable, the appraiser must demonstrate that it is located in an area of similar types of construction and blend in with the landscape.

2J.11(h)(iv) Accessory Dwelling Unit (ADU) Existing or New Construction

An accessory dwelling unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary single-family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

As part of the highest and best use analysis, the appraiser must make the determination to classify the property as a single family dwelling with an ADU, or a two-unit dwelling. The conclusion of the highest and best use analysis will then determine the classification of the subject property and the analysis and reporting required. More than one (1) ADU located on the subject property is ineligible.



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An Accessory Dwelling Unit:

- Is usually subordinate in size, location, and appearance to the primary dwelling unit;
 - May or may not have separately metered utilities or separate means of ingress or egress; and
 - Must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling and
 - ADU must comply with zoning requirements which may include legal non-conforming use.
-

One-Unit Single Family Dwelling with an ADU

When the highest and best use analysis determines property to be a single-family dwelling with an ADU, the appraiser must provide:

- Description of the ADU characteristics;
- Summarize the ADU's market acceptance;
- Report the Gross Living Area of the ADU separate from primary dwelling;
- State whether the ADU can be legally rented without restrictions; and
- Report the current ADU occupancy and relevant details of any known lease agreements

Market Rental Analysis:

The Appraiser may provide the ADU market rent only if:

- Highest and best use is determined to be a one-unit single family dwelling with an ADU;
- ADU is legally rentable without restrictions;
- The appraiser determines that a non-transient monthly market rent can be credibly developed.

The analysis of the rental data must include support for the ADU comparable rental selections, adjustments applied and the opinion of the ADU market rent. Appraiser must include the ADU opinion of market rent using the Fannie Mae-Form 1007 /Freddie Mac Form 1000 and include following supplement statement:

- This form is completed to provide FHA an opinion of the market rent of the subject's legally rentable Accessory Dwelling Unit (ADU). Sufficient competitive market data exists to develop



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credible results.

Comparable Rent schedule for ADU Market Rent Analysis

- A sufficient number of comparable rents must be included to produce a credible ADU market rent estimate,
 - The comparable sales used to develop the ADU market rent *must not* include properties rented for hotel or transient purposes or for periods less than 30 days.
 - At least one comparable sale must be included that is a single family dwelling with a rented ADU; if this is not available, the appraiser must supplement with the most appropriate rental available and summarize the reason for the selection and how the marketability of the ADU was determined
-

2J.11(h)(v) Additional Manufactured Home on Property

When the primary dwelling is stick-built, a manufactured home on the lot may be considered an ADU and be given value if it meets the highest and best use and all FHA Manufactured Housing requirements. Refer to Chapter [2D](#) Property Types.

Value may be given to a manufactured home on the property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

2J.11(h)(vi) Leased Equipment, Components and Mechanical Systems

The value of leased mechanical systems and components must not be included in the appraised value. This includes furnaces, water heaters, fuel, or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the borrower.

The property value must not include the value of any equipment, including an energy system, which is not fully owned by the borrower. The terms of any leased equipment must be reviewed to ensure they do not contain any Legal Restrictions on Conveyance.



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2J.11(h)(vii) Gross Living Area

The most common comparison for one-unit properties is the above-grade gross living area. The appraiser must be consistent when calculating and reporting the finished above-grade room count and the square footage of gross living area that is above-grade.

Finished basements and unfinished attic areas must not be included in the total GLA and the same measurement techniques for the subject must be used for the comparable sales and report the building dimensions in a consistent manner.

When any part of a finished level is below grade, the appraiser must report all of that level as below-grade finished area and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area.

Additions and Converted Space	Room additions and garage conversions should be included in the GLA of the dwelling, provided that the addition or conversion space: <ul style="list-style-type: none">• Is accessible from the interior of the main dwelling in a functional manner;• Has a permanent and sufficient heat source; and• Was built in keeping with the design, appeal, and quality of construction of the main dwelling. Room additions and garage conversions that do not meet the above criteria are to be addressed as a separate line item in the sales grid, not in the GLA. Any impact of inferior quality garage conversions and room additions on marketability as well as contributory value should be discussed.
Partially Below-Grade Habitable Space	Partially Below-Grade Habitable Space refers to living area constructed partially below grade but has the full utility of GLA. The appraiser must report the design and measurements of the subject property, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has



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	<p>on the analysis.</p> <p>Regardless of the description of the rooms, bedrooms, or baths as above grade or below grade, the appraiser must analyze all components of the subject property in the valuation process.</p>
	<p>A room that cannot accommodate ingress or egress in the event of an emergency cannot be considered as a bedroom, regardless of location above or below grade. There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present.</p>

2J.11(h)(viii) Appliances

Real property refers to the interests, benefits, and rights inherent in the ownership of physical real estate.

Personal property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins, or other collectibles. The value of personal property must not be included in the appraisal.

Cabinets and built-in appliances that are considered real property must be present and operational.

2J.11(h)(ix) Swimming Pools

The appraiser must:

- Report readily observable defects in a non-covered pool that would render the pool inoperable or unstable;
- Must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines and the surrounding land regraded, if necessary; and
- Must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to fully operating condition at normal costs if the pool has been winterized or cannot determine if the pool is in working order.

Empty or non-functioning swimming pools/spas may be acceptable if one (1) of the following requirements is met:

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- The swimming pool/spa is secured by a cover that would be sufficiently sturdy to prevent a person from falling in the pool or through the cover;
- The swimming pool/spa has been filled with dirt;
- A fence surrounds the swimming pool/spa; and
- In addition, the appraiser must comment on the effect on the property's marketability and must not present a health or safety issue.

If the swimming pool does not meet acceptable requirements, confirm that any swimming pools on the property comply with all local ordinances.

2J.11(h)(x) Mechanical Components and Utilities

Mechanical systems must:

- Have reasonable future utility, durability, and economy;
- Be safe to operate;
- Be protected from destructive elements; and
- Have adequate capacity.

The appraiser must:

- Observe the physical condition of the plumbing, heating, and electrical systems;
- Operate the applicable systems and observe their performance;
- Condition for repair or further inspection if the systems are damaged or do not appear to function properly; and
- Note whether the utilities were on or off if the property is vacant.

If the utilities are off at the time of the inspection, the appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

If the utilities are not on at the time of observation and the systems could not be operated, the appraisal must:

- Be subject to re-observation;
- Upon further observation, determine if the systems are in proper working order once the utilities are restored; and



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- Be completed under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

If systems could not be operated due to weather conditions, the appraisal report must clearly note this. The systems should not be operated if doing so may damage equipment or when outside temperature will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the appraiser cannot determine if one (1) or all of these systems are working properly.

System	Requirement
Heating and Cooling Systems	<p>The appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of the heating system design, fuel, or heat source.</p> <p>The permanently installed heating system must:</p> <ul style="list-style-type: none"> • Automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing; • Provide healthful and comfortable heat or is not safe to operate; • Rely upon a fuel source that is readily obtainable within the subject’s geographic area; • Have market acceptance within the subject’s marketplace; and • Operate without human intervention for extended periods of time. <p>Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the appraiser must indicate the level of deferred maintenance, analyze, and report the effect on marketability, and include the cost to cure.</p>
Electrical System	<p>The electrical system must be adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.</p>

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	<p>The appraiser must:</p> <ul style="list-style-type: none"> • Examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amps and panel size are inadequate for the property; and • Operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. <p>The appraiser is not required to insert any tool, probe, or testing device inside the electrical panel or to dismantle any electrical device or control.</p>
Plumbing System	<p>The plumbing system must adequately function to supply water pressure, flow, and waste removal.</p> <p>The appraiser must:</p> <ul style="list-style-type: none"> • Flush the toilets and operate a sample of faucets to observe water pressure and flow, 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 are no readily observable evidence of leaks or structural damage under fixtures; • Examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water; • Examine the septic system (if applicable) for any signs of failure or surface evidence of malfunction; and • Repair or further inspection is required if there are readily observable deficiencies.
Hot Water Heater	<p>The appraiser must turn on the hot water heater to ensure that the water heater is operating properly.</p>

2J.11(h)(xi) Roof

The roof covering must prevent entrance of moisture or provide reasonable future utility, durability, and economy of maintenance and does not have a remaining physical life of at least two (2) years and not present a health or safety hazard.

If the roof has less than two (2) years of remaining life a professional roofer must inspect it.



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When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

Based on the information provided by the appraiser, the underwriter will determine whether a roofing inspection is required.

2J.11(h)(xii) Structural Conditions

The appraiser must perform a visual observation of the foundation and structure of the improvements and report those results. If the appraiser notes any structural issues, the appraiser must address the nature of the deficiency and require inspection.

The underwriter must confirm that the structure of the property is serviceable for the life of the mortgage. All foundations must be serviceable for the life of the mortgage and be adequate to withstand all normal loads imposed.

2J.11(h)(xiii) Attic

The appraiser must visually observe the interiors of all attic spaces to the extent that these areas are safely accessible. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, or debris that obstructs access or visibility.

If the observation reveals evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the appraiser must report this condition subject to inspection or subject to repairs.

The appraiser must report when the attic space is not safely accessible. The appraiser must complete the appraisal subject to inspection by a qualified third party only if further observation of inaccessible attic area(s) is necessary to determine compliance with MPR and MPS.

2J.11(h)(xiv) Foundation

The appraiser must examine the foundation for evidence of safety or structural deficiencies that may require repair. The appraiser must describe any deficiencies and report necessary repairs, alterations or required inspections.



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For manufactured housing, the appraisal must be conditioned upon the certification of an engineer or architect that the foundation follows the [Permanent Foundations Guide for Manufactured Housing](#) (PFGMH).

2J.11(h)(xv) Basement

The basement must be free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.

2J.11(h)(xvi) Crawl Space

The crawl space must satisfy all of the following criteria:

- The floor joist must be sufficiently above ground level to provide access for maintaining and repairing duct work and plumbing;
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists;
- The crawl space must be properly vented unless the area is mechanically conditioned;
- The crawl space must be free of trash, debris, and vermin; and
- The crawl space must not be excessively damp and must not have any water pooling. If moisture problems are evident, a qualified third party must perform an inspection and a vapor barrier and/or prevention of water infiltration must be required.

The appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness, and security of the property.

If access through a scuttle is limited and the appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulder is acceptable.

If there is no access to the crawl space but there is evidence of a deficient condition (such as water-stained sub flooring or smell of mold), the appraiser must report this condition. The appraiser must report the lack of accessibility. There is no requirement to cut open walls, ceilings, or floors.

2J.11(h)(xvii) Utility Services

Utility services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone. If utilities are not located on easements that have been permanently



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dedicated to the local government or appropriate public utility body, it must be confirmed that this information is recorded on the deed record.

Utilities located on easements that have been permanently dedicated to the local government or appropriate public utility body, should comply with the following:

- The subject property is an attached, detached or manufactured single family dwelling and the utilities are not independent for each living unit (not including ADUs);
- The utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body;
- The property contains multiple living units under a single mortgage or ownership (two- to four-family properties) that utilize common services, such as water, sewer, gas, and electricity and is served by one (1) meter in jurisdictions that allow single meter rental properties if separate utility service shut-offs are not provided for each;
- If other facilities are not independent for each living unit, except common services such as laundry, storage space or heating, which may be provided in two- to four-living unit buildings under a single mortgage;
- The property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an easement or covenant and maintenance agreement, if individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities; or
- If a single drain line in the building serves more than one (1) unit, and the building drain clean-outs are not accessible from the exterior.

Whenever possible, connection should be made to a public or community water or sewage system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing on-site systems are acceptable provided they are functioning properly and meet the requirements of the local health department.

2J.11(h)(xviii) Environmental

The appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the property's ability to serve as collateral, and the structural soundness of the improvements.



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Environmental and safety hazards may include defective lead-paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the structure from soil or other differential ground movements, subsidence, flood, and other hazards.

The underwriter must confirm that the property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupancy, the property's ability to serve as collateral, and the structural soundness of the improvements.

Hazard	Requirement
Lead-Based Paint	<ul style="list-style-type: none"> • The appraiser must note the condition and location of all defective paint and require repair. • The underwriter must confirm that the property is free of lead paint hazards on properties built on or before 1978. • If the appraiser does not mention peeling paint in a pre-1978 property, yet the photographs show peeling, the underwriter must follow up with the appraiser. • See Chapter 2A for Lead Based Paint disclosures if the property was built on or before 1978.
Methamphetamine Contamination	<ul style="list-style-type: none"> • If a property is contaminated by the presence of methamphetamine (meth), either by manufacture or consumption, the appraiser must render the appraisal subject to the property being certified safe for habitation. • If the effective date of the appraisal is prior to certification that the property (site and dwelling) is safe for habitation, the appraiser should complete the appraisal subject to certification. • If the effective date of the appraisal is after certification that the property (site and dwelling) is safe for habitation, and the appraiser has been provided a copy of the certification by the certified hygienist, the appraiser must include a copy of the certification with the appraisal report. • The appraiser must analyze and report any long-term stigma caused by the property's contamination and any impact on value or marketability.



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	<ul style="list-style-type: none"> • If the Client/Newrez has knowledge about the potential contamination of a property, the appraiser must be made aware. If the underwriter or appraiser identifies a property as contaminated by meth, the property is ineligible until it is certified safe for habitation.
Wood Destroying Insects/Organism, Termites	<ul style="list-style-type: none"> • When examination of new or existing construction reveals non-compliance with MPR and 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 required repairs. • If compliance can only be affected by major repairs or alterations, the appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal. • For existing properties, it must be confirmed that the property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, an inspection must be obtained and evidence of any required treatment to confirm the property is free of wood destroying insects and organisms. • Soil poisoning is an unacceptable method for treating termites unless satisfactory assurance has been obtained to show that the treatment will not endanger the quality of the water supply.

2J.11(i) Repair Requirements

The underwriter must obtain any evidence of completion of any inspections, repairs, or certifications noted on the appraisal or are required by the underwriter.

If the Appraiser is being utilized to provide evidence of completion or repair(s) or condition(s) noted in the original appraisal report, [Fannie Mae Form 1004D/Freddie Mac Form 442](#) must be used.

Regardless of the appraiser's suggested repairs, the underwriter will determine which repairs or inspections are required and listed on the [Conditional Commitment Direct Endorsement Statement of Appraised Value, form HUD 92800.5B](#). The DE underwriter must make detailed notes on the HUD 92900-LT supporting the omission or addition of repairs or inspections recommended by the appraiser. The appraisal does not have



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to be modified to match the [Conditional Commitment Direct Endorsement Statement of Appraised Value, form HUD 92800.5B](#).

<p>Limited Required Repairs</p>	<p>The appraiser must limit required repairs to those repairs necessary to:</p> <ul style="list-style-type: none"> • Maintain the safety, security, and soundness of the property; • Preserve the continued marketability of the property; and • Protect the health and safety of the occupants.
<p>As-is Condition and Cosmetic Repairs</p>	<ul style="list-style-type: none"> • The appraiser may complete an “as-is” appraisal for existing properties when minor property deficiencies, which result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the property. • Cosmetic or minor repairs are not required, but the appraiser must report and consider them in the overall condition when rating and valuing the property. Cosmetic repairs include missing and rails that do not pose a threat to safety, holes in window screens, cracked window glass, defective interior paint surfaces in housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a dripping faucet), and other inoperable or damaged components that in the Appraiser’s professional judgment do not pose a health and safety issue to the occupants of the house. • If an element is functioning well but has not reached the end of its useful life, the appraiser should not recommend replacement because of age.
<p>Defective Conditions Requiring Repairs</p>	<p>The nature and degree of any noted deficiency will determine whether the appraiser must address the deficiency in the narrative comments area of the report under “condition of the property” or “physical deficiencies” affecting livability or structural soundness.</p>
<p>Conditions Requiring Inspection by a Qualified Individual or Entity</p>	<p>The appraiser must provide notice and make the appraisal subject to an inspection by a qualified individual or entity when the observation reveals evidence of a potential safety, soundness, or security issue beyond the appraiser’s ability to assess. The appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structural system, or other component requiring a repair.</p>



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2J.11(j) Water Supply Systems

2J.11(j)(i) Public Water Supply System

The underwriter must confirm that a connection is made to a public or community water system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing on-site systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

When a public water supply system is present, the water quality is considered to be safe and potable and meet the requirements of the health authority with jurisdiction unless:

- The appraiser indicates deficiencies with the water or that the water is unsafe; or
- The health authority with jurisdiction issues a public notice indicating that the water is unsafe.

2J.11(j)(ii) Community Water Systems

A Community Water System refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners' association.

A Community Water System must comply with local jurisdiction requirements.

If the property is on a Community Water System, the appraiser must note the name of the water company on the appraisal report.

2J.11(j)(iii) Individual Water Supply Systems (Wells)

When an Individual Water Supply System is present, ensure that the water quality meets the requirements of the health authority with jurisdiction.

If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the *National Primary Drinking Water* regulations in 40 CFR §§ 141 and 142.

If the subject property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells or artesian wells, the Property is not eligible for FHA mortgage insurance.



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Requirements for the location of wells are located in CFR § 200.926d (f)(3).

<p>Well Water Testing Requirements</p>	<p>A well water test is required for, but not limited to, the following properties:</p> <ul style="list-style-type: none"> • Newly constructed; • Where an appraiser has reported deficiencies with a well or the well water; • Where water is reported to be unsafe or known to be unsafe; or • Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous waste. <p>All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.</p>
<p>Required Documentation</p>	<ul style="list-style-type: none"> • A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority may perform the well test, when needed. • The report must be within 180 days of the disbursement date.
<p>Appraiser Responsibility</p>	<p>The appraiser must:</p> <ul style="list-style-type: none"> • Report on the availability of connection to a public and/or Community Water System and any jurisdictional conditions requiring connection. When the appraiser obtains evidence that any of the water quality requirements are not met, the appraiser must notify the lender and provide an estimated cost to cure; • Note the deficiency of MPR or MPS if the subject property contains a well located within the foundation walls of an existing dwelling and there is no evidence that: <ul style="list-style-type: none"> ○ The local jurisdiction recognizes and permits such a location; ○ That it is common to for the market area; and



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	<ul style="list-style-type: none">○ Does not adversely affect marketability.● Report when water to a property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site and report whether such systems are readily accepted by the local market.● Note the deficiency of MPR or MPS if the subject property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point, or artesian wells. <p>A pressure tank with a minimum capacity of 42 gallons must be provided. However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equals or exceeds that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.</p> <p>The appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:</p> <ul style="list-style-type: none">● The water supply relies upon a water purification system due to the presence of contaminants;● Corrosion of pipes (plumbing);● Areas of intensive agricultural uses within one quarter mile;● Coal mining or gas drilling operations within one quarter mile;● A dump, junk yard, landfill, factory, gas station, or dry-cleaning operation within one quarter mile; or● An unusually objectionable taste, smell, or appearance of well water. <p>The appraiser must also be familiar with the minimum distance requirements between private wells and sources or pollution and, if discernible, comment on them. The appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building structures but may provide estimated distances if comfortable doing so. When available, the appraiser should obtain from the homeowner or Client/NewRez a copy of a survey or other documents</p>
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	attesting to the separation distances between the well and septic system or other sources of pollution.
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Individual Water Supply for Minimum Property Requirements for Existing Construction	
1	Property line: 10 feet
2	Septic tank: 50 feet
3	Drain field: 100 feet
4	Septic tank drain field reduced to 75 feet is allowed by local authority
5	If the subject property line is adjacent to residential property, the local well distance requirements apply. If the subject property is adjacent to non -residential property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards; state standards apply
3	Connection of public water whenever possible
4	Wells must deliver a continuous water flow of five (5) gallons per minute over at least a four-hour period
Water Wells Minimum Property Standards for Existing Construction	
1	Existing wells must deliver a continuous water flow at a minimum of three (3) gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirement of local jurisdictional or the EPA if no local standard

2J.11(j)(iv) Shared Wells

A shared well refers to a well that services two to four homes where there is a binding shared well agreement between the property owners.

If the subject property has a shared well, the appraiser must report it and note any readily observable deficiencies. The appraiser must also obtain a Shared Well Agreement and include it in the appraisal



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report for Newrez to review the agreement to determine eligibility.

Confirm that a shared well:

- Serves existing properties that cannot feasibly be connected to an acceptable public or community water supply system;
- Is capable of providing a continuous supply of water to all dwelling units so that each existing construction property simultaneously will be assured of at least three (3) gallons per minute (five (5) gallons per minute for proposed construction) over a continuous four-hour period (the well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling unit during construction during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties);
- Provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the ERA's National Interim Primary Drinking Water Regulations;
- Has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling unit without interrupting service to the other properties; and
- Serves no more than four (4) living units or properties.

<p>Well Water Testing Requirements</p>	<p>A well water test is required for, but not limited to, properties:</p> <ul style="list-style-type: none"> • That are newly constructed; • Where an appraiser has reported deficiencies with a well or the well water; • Where water is reported to be unsafe or known to be unsafe; or • Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes. <p>All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority,</p>
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	a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.
Required Documentation	<ul style="list-style-type: none"> • A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority may perform the well test, when needed. • The water well test report must be within 180 days of the disbursement date

For both new and existing construction properties, the underwriter must ensure that the shared well agreement complies with the guidance provided in the following table.

Provisions that must be reflected in any acceptable shared well agreement include the following:	
1	Require that the agreement be binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any lender holding a mortgage on any property connected to the shared well.
2	Permit well water sampling and testing by the local authority ant the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to "supplied" parties if the "supplying" party has no further need for the shared well system. "Supplied" parties normally should assume all costs for their continuing water supply.
5	Prohibit well water usage by a party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: <ul style="list-style-type: none"> • The consent of all parties; • The appropriate amendment of the agreement; and • Compliance with #3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for proposed construction) of the shared well.
8	Establish easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection, and testing.

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9	Specify that no party may install landscaping or improvements that will impair use of the easements.
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection, or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand.
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement, or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.
15	Specify required cost sharing for: <ul style="list-style-type: none"> • The energy supply for the well pump; • System maintenance, including repairs, testing, inspection, and disinfection; • System component replacement due to wear, obsolescence, incrustation, or corrosion; and • System improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: <ul style="list-style-type: none"> • Prompt repair of any detected leak in this water service line or plumbing system; • Repair costs to correct system damage caused by a resident or guest at their property; and • Necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for damage caused by persons other than a resident or

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	guest at a property sharing the well.
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
20	Ensure prompt collection from all parties and prompt payment of system operations, maintenance, replacement, or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally insured or-guaranteed mortgage on any property served, except as provided in items #5 and #11 above.
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. parties to the agreement must equally share arbitration costs.

2J.11(j)(v) Individual Residential Water Purification Systems

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on properties that otherwise do not have access to a continuous supply of safe and potable water.

Individual Residential Water Purification Systems are not permitted.

2J.11(k) Sewage Systems

A sewage system refers to wastewater systems designed to treat and dispose of effluent on the same property that produces the wastewater. When the onsite sewage disposal system is not sufficient and an off-site system is available, connection to the off-site sewage system is required.

The appraiser must inspect the onsite sewage system and require an inspection to ensure that the system is in good working order if there are signs of system failure. The appraiser must report the availability of public sewer.

The underwriter must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing sewage systems are acceptable provided they are functioning properly and meet the requirements of the local health department.



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When the sewage system is not sufficient and an off-site system is available, connection to the off-site system must be confirmed. When the sewage system is not sufficient, and an off-site system is not available, the property must be rejected unless the onsite sewage disposal system is repaired or replaced and complies with local health department standards.

2J.12 Development of Market Value

Market Value refers to the most probable price which a property should bring in a competitive and open market under all conditions requisite to a sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

There are three (3) valuation approaches:

- Sales comparison approach
- Income approach
- Cost approach

The appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant and obtain credible and verifiable data to support the application of the three (3) approaches to value.

2J.12(a) Sales Comparison Approach

The sales comparison approach is required for all appraisals.

If the data from the market area is insufficient to support some of these requirements, the appraiser must provide the best information available and include an explanation of the issue, the data available, the



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conclusions reached, and the steps taken to attempt to meet these guidelines.

The appraisal report must include as many comparable properties are necessary to support the analysis and conclusion. At a minimum, the appraisal report must include:

- The most recent and relevant sales, preferably within the last six (6) months;
- At least three (3) sales that closed no longer than 12 months prior to the effective date of the appraisal; and
- Additional support by including more sales, offerings, offerings under contract, or relevant sales that closed more than 12 months prior to the effective date of the appraisal.

The appraiser must research, report, and analyze the prior three (3) year sales history of the subject property and prior 12-month sales history of the comparable sales.

2J.12(a)(i) Comparable Sales Selection

<p>Property Characteristics</p>	<p>Comparable sales should be selected based on similar location and physical characteristics, not sales price.</p> <p>Comparable sale selection must be based on properties having the same or similar location characteristics, physical characteristics, and the priority of the market assigns to each factor.</p>
<p>Transaction of Characteristics</p>	<p>An arm's length transaction refers to a transaction between unrelated parties and meet the requirements of market value.</p> <p>The appraiser must utilize arm's length transactions for comparable sales except when there is evidence that REO sales or short sale/pre-foreclosure sales (PFS) are so prevalent that normal arm's length transactions are not present or supported by the market trend.</p> <p>A transaction involving a foreclosure transfer to a lender is not evidence of the market value and is not a valid type of comparable sale.</p> <p>The common types of property transfers listed below require investigation and</p>



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	<p>analysis to ensure that they meet the definition of an arm's length transaction:</p> <ul style="list-style-type: none"> • REO sale • Transfer from lender to new owner • Short sale/PFS Estate sale • Court ordered sale • Relocation sale • Flip transactions
<p>Rural and Slow Growth Markets</p>	<p>If insufficient comparable sales have occurred within the previous six (6) months, at least three (3) sales that closed within 12 months prior to the effective date of the appraisal must be used.</p> <p>Where there is a scarcity of recent comparable sales, comparable sales older than 12 months may be used. The most recent and relevant sales must be reported and a thorough explanation of the market conditions, the levels of supply and demand, and a reason for lack of sales data must be included.</p>

2J.12(a)(ii) Comparable Sales Inside and Outside Established Subdivision or Projects

For properties located in established subdivisions or for units in established condominium, or PUD projects, comparable sales from within the subject property's subdivision or project should be used if the project has resale activity.

Arm's length resale activity from within the subdivision or project is the best indicator of value for properties in the subdivision or project. If comparable sales located outside of the subject neighborhood are used, an explanation with the analysis is required.

2J.12(a)(iii) Comparable Sales Inside and Outside New Subdivisions or Projects

For properties located in new subdivisions or for units in new (or recently converted) condominium or PUD projects, the comparable sales from within the subject subdivision or project as well as in the general market area should be used.

Whenever possible, at least one (1) comparable sale from the subject subdivision or project and at



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least one (1) comparable sale from outside the subject subdivision or project or subdivision should be used so that this market acceptance may be directly compared.

2J.12(a)(iv) Sales Concessions

Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustment is necessary for those costs, which are normally paid sellers as a result of tradition or law in a market area; those costs are readily identifiable since the seller pays these costs in all sales transactions. Special or creative financing adjustment can be made to the comparable sale by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction.

Adjustments are not calculated on a dollar-for-dollar cost of the financing or sales concessions. However, the dollar amount of any adjustment should approximate the market's reaction to the sales concessions based on the appraiser's analysis of observable and supportable market trends and expectations. The adjustment should reflect the difference between the sales price with the sales concession and what the property would have sold for without the concessions under typical market conditions.

All comparable sales transactions must be verified for sales concessions and reported in the appraisal. The appraisal must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one (1) of their representatives), the appraiser must report the lack of verification.

Market-based adjustments must be made to the comparable sales for any sales or financing concessions that may have affected the sales price. The sales concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The appraiser must include an explanation of the effect of the sales concessions on the sale price of the comparable.

2J.12(a)(v) Bracketing

Bracketing refers to selecting comparable sales with features that are superior or inferior to the subject.



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Comparable sales must be selected based on the principal of substitution. Comparable sales should not be chosen only because their prices bracket a desired or estimated value.

To determine the best comparable sales, the appraiser must use bracketing techniques when possible and appropriate.

2J.12(a)(vi) Adjustments

The following are the preferred underwriting guidelines for line item, net, and gross adjustments:

- 10% line item adjustments
- 15% net adjustments
- 25% gross adjustments

2J.12(a)(vii) Market Condition (Time) Adjustments

Market condition adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

The comparable sales may be adjusted if they were contracted for sale during a market period different from that of the date of the valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation, when the date of the contract is known.

The appraisal report must provide a summary comment and support for all conclusions relating to the trend of the current market and the adjustment.

An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

2J.12(a)(viii) Market Conditions and Changing Markets

The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the “Neighborhood” section of the appraisal report form.



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The Appraiser must accurately report market conditions and determine when housing trends are increasing, stable or declining. If the appraiser bases the adjustment on a published source, the appraiser must include a copy, which must be included in the addendum.

2J.12(a)(ix) Effective Age

The effective age reflects the condition of a property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant differences between the actual and effective ages requires an explanation.

2J.12(b) Cost Approach

The appraiser may use any of the creditable and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other creditable source that can be duplicated).

If the appraiser uses cost estimates provided by the contractor or builder, the cost estimates must be reasonable and independently verified. The appraiser must estimate the site value. Acceptable methodology used to estimate land value includes sales comparisons, allocation, and extraction analysis.

2J.12(c) Income Approach

The appraiser should apply the income approach to a single-family property when there is evidence of recently rented and then sold data pairs. The appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restriction. If comparable sales do not have rent control restrictions like the subject, an appropriate adjustment should be applied.

2J.12(d) Final Reconciliation and Conclusion

The underwriter must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the property.

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



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performed by the appraiser. A trainee or licensee may accompany the appraiser on the observations but may not perform the observations in place of the appraiser.

The appraiser must select the comparable sales and perform all critical analyses contained in the appraisal report. The appraiser must also inspect the subject property and at least the exterior of the comparable sales.

If another appraiser or trainee appraiser aided or participated in the preparation of the appraisal, the appraiser must disclose the name and role in developing the appraisal report.

2J.12(e) Reconsideration of Value

The underwriter may request a reconsideration of value when the appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the appraiser with all relevant data that is necessary for a reconsideration of value.

The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the borrower, the borrower may not pay the additional costs. The effective date of the appraisal is the date the appraiser inspected the property.

2J.13 Leasehold Interest

The appraiser must be provided with a copy of the lease. The appraiser must analyze and report:

- The terms of the ground lease, including the amount of the ground rent.
- The term of the lease.
- If the lease is renewable.
- If the lessee has the right of redemption (the right to obtain a fee simple title). If the ground rent can increase or decrease over the life of the lease term.

The appraiser must estimate and report the value of the leasehold interest using the calculation below and provide support for the capitalization rate selected.

The appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its leasehold interest.
- In the income approach, the sales used to derive the GRM factor must be based on properties under

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similar ground rent terms (or be adjusted to similar ground rent terms).

- In the sales comparison approach, the comparable sales must be adjusted for their lack of similarity to the subject in the "Ownership Rights" section.

2J.14 Mixed-Use Properties

Mixed-use properties are eligible when:

- A minimum of 51% of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants.

When valuing a mixed-use property, the appraiser must:

- Include all components of the real estate in the analysis;
- Not include business valuation or the value of personal property or business fixtures in the appraisal;
- Provide measurements and calculations of the building area on the building sketch to show what portion of the subject property is allocated to residential use, and what portion is allocated to non-residential use; and
- Provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential property.

2J.15 Manufactured Housing

When valuing a manufactured home, the appraiser must:

- Calculate GLA based on the overall length, including living areas and other projections that are at least seven (7) feet in height;
- Not include bay windows, roof overhangs, drawbars, couplings or hitches in the length and width measurements;
- At least two (2) of the comparable sales must be manufactured homes (combining land and some sales is not acceptable); and
- New construction manufactured homes;
 - Cost approach to value analysis must be completed for new construction units and be cited in the reconciliation discussion section (appraiser to provide name of cost service and reference page numbers (if using paper version) of cost tables or factors. If the retail purchase price, including delivery, installation, and set up costs are available, the appraiser may use this information (copy of invoice(s) showing all costs) and be appended to the report.
 - Appraisal must be conditioned upon the certification of the engineer or architect that the



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- manufactured home foundation is in compliance with PFGMH.
- Appraiser must report the information on the data plate within the appraisal, including the manufacturer name, serial number, model, and date of manufacture, as well as wind, roof load, and thermal zone maps.
- Property tax estimates must be based on the land and improvements.
- For a Manufactured Home certified based on the construction requirements of Fannie Mae’s MH Advantage® or Freddie Mac’s CHOICEHome® program, the appraiser must include:
 - At least two comparable sales with similar certification, when available. If fewer than two comparable MH Advantage® or CHOICEHome® sales are available, the appraiser must use the most appropriate site-built comparable sales available , and
 - provide detailed justification to support the selection of comparable Properties and the adjustments made for dissimilarities to the subject Property.
- The property must have Fannie Mae’s MH Advantage Sticker or Freddie Mac’s CHOICEHome Label affixed near the HUD data plate and the appraiser must include photos in the appraisal report.

2J.16 Property Assessed Clean Energy (PACE)

For purchase transactions, the appraiser must review the sales contract and property tax records and report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

See Chapter [2C](#) FHA Financing, [2C.5](#) Property Assessed Clean Energy (PACE) for requirements when a PACE or PACE-like loan exists.

Revision History	Date
<p>Per FHA Handbook released 11.26.2025 Updates completed:</p> <ul style="list-style-type: none"> ● Added content for Appraisal Review The appraisal must be reviewed to ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the property. ● Removed following requirement shown in section titled Photographs, Exhibits and Map Requirements, which is not shown in FHA 4000.1: The sketch must show “covered” or “uncovered” to indicate a roof or no roof (such as over a patio). 	01.22.2025