USDA Underwriting Guide

Chapter 4J USDA Appraisal Requirements

Contents

4J.1 Overview

Only loans secured by properties located in areas designated by USDA as rural are eligible to receive a loan guarantee. An area's rural designation is determined by USDA and may be changed as a result of periodic review or after the decennial census of population. USDA conducts reviews every five (5) years to identify areas that no longer qualify as rural. In areas experiencing rapid growth, and in eligible communities within Metropolitan Statistical Areas (MSAs), reviews take place every three (3) years.

4J.2 Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

Appraiser must be state-licensed or state-certified appraiser, active and in good standing on the ASC registry as of the effective date of the appraisal report. The appraiser must be state-certified when preparing an appraisal for properties with a value greater than or equal to $1 million.

Verification must be provided by one (1) of the following:

- UCDP clearance
- A copy of the National Registry Appraiser Report at http://www.asc.gov/
- A copy of the appraiser's current license (preferred documentation)

The appraiser must:

- Comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision.
- Comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989.
- Be experienced in the appraisal of properties similar to the type being appraised. Be actively engaged in appraisal work.
- Must not be an interested party in the subject transaction.
- Subscribe to a code of ethics that is at least as strict as the requirements set forth in the Ethics Rule of the Uniform Standards of Professional Appraisal Practice (USPAP)
- Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation. Comply with the Appraiser Independence Requirements (AIR).

4J.3 Appraiser Trainees or Licensees

The appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the 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 properties and perform all critical analyses contained in the appraisal report as well as the Market Conditions Addendum to the appraisal form. The appraiser must also inspect the subject property and at least the exterior of the comparable properties.

4J.4 Discontinuance of Appraiser Services

Client must inform Newrez immediately if, for any cause, it discontinues using the services of any appraiser who has made appraisals for loans offered for sale to Newrez.

At any time, Newrez may elect not to purchase loans secured by a subject property appraised by a particular appraiser. Newrez will notify Client of its election, and following such notification, Newrez will have no obligation to purchase loans on properties evaluated by that appraiser, even if the loans have been registered or locked.

4J.5 Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- Creation of comparable sales by combining vacant land sales with the contract price of a home that has been built or will be built on the land.
- Development of a valuation conclusion based either partially or completely on the sex, race, color, religion, handicap, national origin, familial status, or other protected classes of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property.
- Development of or reporting an opinion of market value that is not supportable by market data or is misleading.
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited.
- Development on an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific

result, or the occurrence of a subsequent event in order to receive compensation and/or employment for performing the appraisal and/or in anticipation of receiving future assignments.

- Development of and reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional.
- Appraisal Practice (USPAP) in place as the effective date of the appraisal.
- Failure to comment on negative factors with respect to the subject neighborhood, subject property, or proximity of the subject property to adverse influence.
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales.
- Failure to use comparable sales that are most locationally and physically similar to the subject property. Failure to make adjustments when they are clearly indicated.
- Misrepresentation of the physical characteristics of this subject property, improvements, or comparable sales. Not supporting adjustments in the sales comparison approach.
- Selection and use of inappropriate comparable sales.
- Use of comparable sales in the valuation process where the appraiser has not personally inspected the exterior of the comparable property. Use of adjustments to the comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales.
- Use of data, particularly comparable sales data, 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.

4J.6 Appraisal Report Forms and Exhibits

The appraisal report must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form, and include any information, either as an attachment or addendum to the appraisal report form, needed to support the opinion of market value.

4J.6(a) List of Appraisal Report Forms

Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)	• Use for appraisals of one-unit properties, units in PUDs, (including a one-unit property with an accessory dwelling unit) based on interior and exterior property inspections. • The appraisal report must be UAD compliant.
Individual Condominium Unit Appraisal Report (Fannie Mae Form	• Use for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. • The appraisal report must be UAD compliant.

1073/Freddie Mac Form 465)	
Manufactured Home Appraisal Report (Fannie Mae Form 1004C/Freddie Mac Form 70B)	Use for appraisals of one-unit manufactured homes, including those located in a condominium or PUD project. An interior and exterior property inspection is required.
Appraisal Update/Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442)	• The Appraisal Update and/or Completion Report is used for all appraisal reports. • The appraisal report may be updated only once. • The appraisal report may be expired at the time the appraisal update is required. • When performing an appraisal update, the original appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection of the subject property. However, the use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the effective date of the appraisal report. In addition, the loan file must contain a note explaining why the original appraiser was not used. • The type of inspection required is dependent on the nature of the appraisal conditions or changes to the subject property. • If the appraisal is completed "as is," an interior inspection is not required unless there are known any changes to the subject property that would have an adverse effect on condition or marketability. At a minimum, a front photograph of the subject property is required. Additional photographs of any factors that affect the marketability or value should be provided if not already part of the report being updated. • If the appraisal is subject to completion per plans and specifications, an interior and exterior inspection is required. Interior and exterior photographs are required. • If the appraisal is subject to repairs that affect safety, soundness or habitability, an interior and exterior inspection is required if repairs are required for the interior of the dwelling. Exterior and interior photographs are required. Otherwise, an exterior-only inspection

	with exterior photographs is required.

4J.7 Appraiser Certifications and Limiting Condition

Each appraisal report form includes an appraiser's certification (and, if applicable, a trainee appraiser's certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.

The appraiser may not make changes or deletions to the existing certifications; however, the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:

- Those required by state law.
- Those related to the appraiser's continuing education or membership in an appraisal organization.
- Those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and shortage of an appraisal and the information on which it is based.
- Any additional certifications must be reviewed to ensure they do not conflict with those policies or standard certifications on the appraisal report form. The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

The following additional notice or statement when appraisers believe the lender/client is the only intended user is acceptable:

> "The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the state scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser."

4J.8 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.

Attachments	URAR Forms 1004/70	Condo Forms 1073/465
Exterior photographs-clear, descriptive photographs showing the front, back and street scene of the subject property and the front of each comparable sale. Original photographs, electronic images, copies from MLS, or copies from appraiser's files. Photographs of comparable rentals utilized in Form 1025 are not required.	X	X
Interior photographs must include the following: kitchen, all bathrooms, main living area, examples of any physical deterioration, examples of recent property updates. Basements, including all finished and unfinished rooms. Attic and/or crawl space when it can be safely accessed without disturbing or moving items that obstruct access or visibility; Comparable sales, listings and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized; The HUD Data Plate and HUD Certification Label(s) for manufactured homes. Interior photographs on proposed or under construction properties may be taken by the appraiser at time of final inspection.	X	X
Interior building sketch and calculations (required on Form 1004/70) if floor plan is atypical or functionally obsolete, thus limiting the market appeal)	NA	X
Exterior building sketch and calculation	X	NA
Street map showing the location of the subject property and comparable sales	X	X
Common areas and shared amenities	NA	X
Condominium projects should include photographs of the common areas and shared amenities	NA	x

4J.9 Transferred Appraisals

Transferred appraisals are permitted, however, the Delegated Client remains responsible for compliance with all

Appraisal Independence Rules (AIR) standards.

The file must contain the following documentation:

- Appraiser Independence Certification;
- Color PDF of the appraisal
- Submission Summary Report (SSR)
- Original appraisal invoice submitted when the appraisal was completed for the original lender; and
- Signed and dated Transfer Letter from the original lender to the Client, releasing the appraisal

4J.10 Electronically Transmitted Appraisal Reports

Electronically transmitted appraisal reports are acceptable provided the appraisal report:

- Adequately identifies the appraiser.
- Is created by the appraiser identified on the appraisal report.
- Includes a reproduced signature of the appraiser whose name appears on the report.
- Is the unaltered report submitted by the appraiser.
- Photographs of the subject property and comparable sales are clear.
- The appraiser electronically transmits the electronic appraisal or inspection report directly to Client or any third party specifically authorized by Client, as applicable.

Electronically transmitted appraisal reports must comply with Electronic Verification requirements and must be in a standard format as outlined in Required Appraisal Forms.

4J.11 Appraisal Review

The Client must analyze the:

- Current contract for sale for purchase money transactions;
- Current offering or listing sale for both purchase and refinance transactions when the home was listed for sale;
- Comparable sales for both purchase and refinance transactions; and
- Current ownership for the subject property.

In addition, the Client is responsible for validating that:

- The property meets Newrez eligibility criteria; and
- The appraiser has provided an accurate and reliable opinion of value that reflect the market value, condition, and marketability of the subject property in compliance with Newrez requirements.

4J.12 Site Section

The property site should be of a size, shape, and topography generally acceptable in its market area. It must have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the subject property.

4J.12(a) Subject Property Zoning

The subject property must comply with applicable zoning and restrictions. If an existing property does not comply with all current zoning ordinances but is acceptable by the local zoning authority, the appraiser must report the property as legal non-conforming use. The appraisal must reflect any adverse effect of the legal non-conforming use on the value and marketability of the property.

4J.12(b) Highest and Best Use

Properties must represent the highest and best use for the site. If current improvements do not represent the highest and best use of the property, the property is unacceptable. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as reasonable and probable use that supports the highest present value. For improvement to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible and must provide more profit than any other use of the site would generate.

The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognized that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements contribute to the value of the subject reports so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

4J.12(c) Multiple Parcel Requirements

The subject property may consist of more than one (1) adjoining parcel subject to all of the following requirements:

- Each parcel must be conveyed in its entirety;
- Each parcel must have the same basic zoning (for example; residential, agricultural);
- Only one parcel may have a dwelling unit (limited nonresidential improvements such as a garage are acceptable). An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable;
- The mortgage must be a valid first lien on each parcel; and
- Two separate deeds are not permitted .

Parcels must be adjoined to each other, with the following exception:

- Parcels are divided by a road; and
- Parcel without a residence is non buildable (such as waterfront properties where the parcel without the residence provides access to the water). The entire property will contain only one (1) dwelling but may have non-residential, non- income producing buildings, such as a garage. Loan file must contain evidence from the local municipality that the lot is non-buildable. The appraiser may not supply evidence.

4J.12(d) Adjoining Properties

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

4J.12(e) Site Utilities

The utilities serving the subject property must be supported by adequate utilities and water and wastewater disposal systems and meet community standards.

4J.12(f) Off-site Improvements

Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs, gutters, and streetlights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by the area residents. If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.

The presence of sidewalks, curbs and gutters, streetlights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

4J.12(g) Access to Property

Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area's typical passenger vehicles can pass at all times. A publicly maintained road is automatically assumed to meet this requirement.

4J.12(h) Community Owned or Privately Maintained Streets

Private roads or streets are acceptable provided each property has vehicular or pedestrian access. Private roads or streets must be protected by permanent recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or the street must be maintained by a homeowner's association (HOA).

Shared driveways must also meet these requirements requiring a permanent recorded easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report may be used to evidence the easement. Private streets must have a permanently recorded easement or be owned and maintained by a HOA.

4J.12(i) Topography

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 subject 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.

4J.12(j) 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 subject property must be free of known hazards that may have adverse effects on the health and safety of the occupants.

4J.12(k) 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 or 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.

4J.12(l) Oil or Gas Wells

Operating for Proposed Construction	The dwelling unit must be located more than 75 feet of an operating oil or gas well.
Abandoned Well	If the property contains any abandoned gas or oil wells, the underwriter must obtain a letter from the local jurisdiction or appropriate state agency stating that the subject well was permanently abandoned in a safe manner. If the property contains any abandoned petroleum product wells, a qualified petroleum engineer must inspect the property and assess the risk, and that the appropriate state authorities have concurred on clearance recommendations. The appraiser must assess any impact that the location of the well has on the value and marketability of the property.

4J.12(m) 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.

The appraiser may only complete an appraisal on a property if the underwriter has obtained an inspection by a qualified individual or entity and provides evidence that the minimum clearance has been established.

4J.12(n) 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 toxic materials and the site made safe.

4J.12(o) 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.

4J.12(p) 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.

4J.12(q) 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.

4J.12(r) 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, 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.

The subject 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).

New Construction	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: • A FEMA final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) is obtained that removes the property from SFHA; or • A FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33), prepared by a licensed engineer or surveyor, is obtained. The elevation certificate must document that 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.
Existing Construction	When any portion of the residential improvements is determined to be located within an SFHA, insurance under FHIP must be obtained.
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.
Manufactured Housing	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: • A FEMA issued LOMA or LOMR that removed the property from the SFHA; and • A FEMA National Flood Insurance Program (NFIP) Elevation Certificate ([FEMA Form 086-0-33]) 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.

4J.12(s) Coastal Barrier Resources Systems (CBRS)

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

4J.12(t) Lava Zones

The appraisal must indicate if the subject property is located in a Lava Flow Hazard Zone and provide the Zone Number. Lava Zones 1 and 2 are ineligible.

4J.12(u) 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.

4J.12(v) 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 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.

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	The appraiser must: • 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	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: • Existing Dwellings: The borrower must acknowledge the hazard. • New Construction: The property is ineligible. 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.
Proximity to High Pressure Gas Lines	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. The subject property cannot be located less than ten (10) feet from the nearest boundary of the pipeline easement.
Overhead Electric	Overhead electric power transmission lines refer to electric lines that supply

Power Transmission and Local Distribution Lines	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. 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. 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.
Smoke, Fumes, and Offensive or Noxious Odors	The appraiser considers the effect of the of any of these conditions that exist and do not threaten the occupants or marketability.
Stationary Storage Tanks	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.

4J.13 Improvements

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs, additional features, and modernization, and should provide supporting addenda, if necessary. If the subject has an accessory dwelling unit, the appraisal should describe it.

4J.13(a) Access to Living Unit

The living unit should be accessible 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.

4J.13(a) 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 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.

4J.13(b) Accessory Dwelling Unit (ADU)

An accessory dwelling unit 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.

A single-family residential property with an ADU remains a one-unit property. For any property with two (2) or more units, a separate additional dwelling unit must be considered as an additional unit. More than one (1) ADU located on the subject property is ineligible.

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;
- Must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling; and
- Should support household members and not create potential rental income.

4J.13(c) 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 manufactured housing requirements. See Chapter 4D 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.

4J.13(d) 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.

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: • 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 criteria listed above must 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 on the analysis. 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.

Bedrooms	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.

4J.13(e) 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.

4J.13(f) Swimming Pools

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

- 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.

4J.13(g) 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.

If the utilities are off at the time of the inspection, the appraiser must ask to have them turned on. 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
- 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.

Heating and Cooling Systems	The appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of the heating system must be adequate for healthful and comfortable living conditions, regardless of design, fuel, or heat source. The permanently installed heating system must: • 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. 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.
Electrical System	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.

Plumbing System	The plumbing system must function to supply water pressure, flow, and waste removal.
Hot Water Heater	The appraiser must turn on the hot water heater to ensure that the water heater is operating properly.

4J.13(h) 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. If the roof has less than two (2) years of remaining life a professional roofer must inspect it.

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.

4J.13(i) 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.

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.

4J.13(j) Attic

The appraiser must observe the interiors of all attic spaces. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, or debris that obstructs access or visibility. If unable to safely view the area, the appraiser must reschedule a time when a complete visual observation can be performed or complete the appraisal subject to the inspection.

If access through a scuttle is limited and the appraiser cannot fully enter the attic, the insertion of at least the head and shoulder is acceptable. If there is no access or scuttle, the appraiser must report the lack of accessibility to the area. There is no requirement to cut open walls, ceilings, or floors.

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), reinspection and repairs may be necessary.

4J.13(k) 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.

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).

4J.13(l) 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.

4J.13(m) Sump Pumps

The sump pump must be properly functioning.

The underwriter must:

- Require a qualified third party perform an inspection;
- Require any necessary repairs to the foundation be repaired;
- Confirm the structure of the property will be serviceable for the life of the mortgage; and
- Confirm that all foundations will be serviceable for the life of the mortgage and adequate to withstand all normal loads.

4J.13(n) Crawl Space

The appraiser must visually observe all areas of the crawl space and the crawl space. 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.

4J.13(o) 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.

Ensure that the property value does 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.

4J.13(p) Addition without Permits

If the appraiser identifies addition(s) that do not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

4J.13(q) Properties with Outbuildings

For a property to be deemed as eligible collateral, it cannot be used as a farm or may not be improved with farm service buildings. A farm service is considered a building to be any structures used in farming operation, which may include buildings to house workers, livestock, machinery, or crops. Service buildings can include, but are not limited to, livestock barns and shelters, machinery and storage buildings, buildings and facilities for crop storage and special purpose buildings such as grain silos.

If the property was previously or currently used as a farm, it is deemed ineligible. In addition, whether or not the appraiser has valued any of the above-mentioned service buildings, the property is deemed ineligible.

4J.13(r) 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 dedicated to the local government or appropriate public utility body, it must be confirmed that this information is recorded on the deed record.

The utilities must be located on easements that have been permanently dedicated to the local government or appropriate public utility body, including any of 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.

4J.14 Environmental Hazards

Loans secured by properties affected by environmental hazards may be acceptable if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and the appraiser reflects any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazards.

In some circumstances, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the hazard. In such cases, the loan is not eligible.

4J.15 Infestation, Dampness, Settlement

If the appraiser indicates evidence of wood boring insects, dampness or abnormal settlement, the appraiser must comment on the effect on the subject property's marketability and value. Provide either satisfactory evidence that the condition was corrected or a professionally prepared report, indicating that the condition does not pose any threat of structural damage.

4J.16 Water and Wastewater Disposal Systems

The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections.

Private well and wastewater systems that meet the following requirements in HUD Handbook 4000.1 and/or meet the requirements of local and/or state health authority do not require additional inspections other than water purity tests as discussed in this section. Evidence must be retained in the permanent loan file.

4J.16(a) Water

Water systems, for existing or new construction, that require continuous or repetitive treatment to be safe bacterially or chemically may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority.

4J.16(a)(i) Individual Privately Owned Water Supply System

When an Individual Water Supply System, is owned and maintained by the homeowner and subject to compliance with all requirements of the local and/or State health authority codes. Water quality tests are required as follows:

- The water quality of the well must meet the requirements of the state or local authority. If there are no local (or state) water quality requirements, the maximum contaminant levels established by the EPA, (Environmental Protection Agency) will apply.

- The local health authority or a state certified laboratory must perform a water quality analysis. The Safe Water Drinking Act does not apply to private wells. If needed, contact the EPA's Safe Drinking Water Hotline at (800) 426-4791 for referral to certified labs or other inquiries.

- The water analysis report must be no greater than 180 days old at loan closing. If the Agency is aware of any recent environmental impacts that may render the previous analysis invalid (for example, chemical spills, natural disasters etc.) a new report may be required.

The well location for the individual water supply systems must be measured to establish the distance from the septic system. The separation distance between the well and septic systems must meet the HUD Handbook 4000.1 or be found acceptable by the Local and/or State Health Authority.

Individual water systems/wells should be located on the subject property site. If located on an adjacent property, evidence of water rights and recorded maintenance agreement must be retained in the permanent loan file as acceptance of the well as the primary source of water.

4J.16(a)(ii) Individual Privately Owned Shared Well

If the subject property is served by a shared well or off-site facility, ensure the private system will provide a continuous and adequate supply of safe and potable water. The following requirements must also be met:

- The well serves properties that cannot feasibility be connected to an acceptable public or community water supply system. It is the responsibility of the lender to make this determination.
- A shared well must have a valve on each dwelling.
- The water supply is adequate for all families served. A shared well must service no more than four living units or properties unless approved and enforced by the local code authority.
- The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.
- The well must have an agreement that mees the following requirements:
    - Is binding upon all signatory parties and their successors in title;
    - Is recorded or will be recorded no later than the closing date; and
    - Makes provisions for maintenance and repair of the systems and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair.

4J.16(a)(iii) Community Owned Water System

If the property is served by a community water system operated by a private corporation or nonprofit property owner's association, the following must be met:

- The system and the water supply meet all applicable federal, state, and local requirements;
- The system has the capacity to provide a sufficient water supply during periods of peak demand; and
- The system is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

4J.16(b) Required Inspections and Documentation

Documentation must be obtained that the water quality meets state and local standards as referenced in this section. All documentation must be retained in the permanent loan file.

4J.16(c) Individual Water Systems in Hawaii and the Western Pacific Region

Due to the limited regulation provided by local ordinances and/or regulations of each jurisdiction in Hawaii and the Western Pacific Region regarding individual water systems (IWS) including rain water catchment systems, USDA has determined that an IWS is considered an eligible water system if all of the following conditions are met:

- The property is located in Hawaii or the Western Pacific Region;
- Property does not have an available affordable connection to a public or private community water system;
- The alternative water supply system, rain water catchment system, complies with and/or is not prohibited by ordinances and/or regulations of the local jurisdiction in which the property is located;
- Water quality tests are not required if the state or local authority does not have specific requirements and EPA testing is not available;
- Reliance upon the rainwater catchment system, does not diminish the marketability or value of the property within its marketplace. The system must be typical for the area as described by the appraiser; and
- The borrower is required to acknowledge and certify of their responsibility to maintain the rain catchment system.

4J.17 Wastewater

4J.17(a)(i) Individual Privately Owned Wastewater Systems

A septic evaluation is required to be obtained. A qualified appraiser who certifies the property meets HUD's Single-Family Housing Policy Handbook, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The septic evaluation may require additional inspections as a result of the inspection. The septic system must be free of observable evidence of failure.

Existing dwellings appraised by a qualified appraiser who indicates the dwelling meets the required HUD handbook policy does not require further septic certification; however, water supply systems must be measured to establish the distance from the septic system. The separation distance between the well and septic systems must meet the SF Handbook (HUD Handbook 4000.1) or be found acceptable by the local and/or the State Health Authority.

If the property is served by an individual sewage disposal system, the lender must ensure the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is located entirely on the subject property. If any part of the system is located on an adjacent property (for example leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use; and
- Is operating properly and has capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.

4J.17(a)(ii) Community Owned Wastewater Systems

If the property is served by a community wastewater system operated by a private corporation or nonprofit property owner's association, ensure that the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is licensed, operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health; and
- Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

4J.17(a)(iii) Required Inspections and Documentation

Must obtain documentation that the wastewater system meets state and/or local standards. All documentation must be retained in the permanent loan file.

4J.17(b) Minimum Property Requirements for Existing and New Construction

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

4J.17(c) 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 is acceptable.

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 disposals system is repaired or replaced and complies with local health department standards.

The following is required for all sewage systems:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is located entirely on the subject property. If any part of the system is located on an adjacent property (for example leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use; and
- Is operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.

4J.17(d) Properties Located in a Special Flood Hazard Area

Existing dwellings and newly constructed dwellings located within the Special Flood Hazard Area (SFHA), which are not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. A subject property serviced by an onsite septic or sewage treatment system is eligible, provided one (1) of the following can be met:

- The subject property is served by a publicly provided water supply;
- The subject property is serviced by a private drinking water well/supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well; or
- The subject property is served by a private drinking water well/supply whose opening is located above the base flood elevation of the SFHA. Documentation, such as an elevation certificate, is required to verify this type of property.

4J.18 Development of Market Value

Market Value refers to the most probably price which a property should bring in a competitive and open market under all condition requisite to a for 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.

4J.18(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 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.

4J.18(a)(i) Comparable Sales Selection

Property Characteristics	Comparable sales should be selected based on similar location and physical characteristics, not sales price. 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.
Transaction of Characteristics	An arm's length transaction refers to a transaction between unrelated parties and meet the requirements of market value. 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. 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. The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an arm's length transaction: • REO sale • Transfer from lender to new owner • Short sale/PFS Estate sale • Court ordered sale • Relocation sale • Flip transactions

4J.18(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.

4J.18(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 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.

4J.18(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.

4J.18(a)(v) Bracketing

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

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.

4J.18(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

4J.18(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.

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

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.

4J.18(a)(viii) Changing Markets

The final conclusion must be based on the reconciliation of all data.

Increasing Markets	In an increasing market, positive market condition adjustment should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.
Declining Markets	A declining market refers to any neighborhood, market area or region that demonstrates a decline in prices or deterioration in other market conditions as evidence by an oversupply of existing inventory and extended marketing times. A trend in the housing market is identifiable when it extends for a period of at least six (6) months or two (2) quarters prior to the effective date of the appraisal. In a declining market, negative market condition adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

The appraiser must report market conditions and determine when housing trends are increasing, stable or declining and provide a summary comment as to the continuance of the current trend or if the trend is changing and provide support for all conclusions. If the appraiser bases the adjustment on a published source, the appraiser must include a copy, which must be included in the addendum.

The appraiser must include an absorption rate analysis, at least two (2) comparable sales that closed within 90 days prior to the effective date of the appraisal, a minimum of two (2) active listings or pending sales on the SCA Grid (in addition to at least three (3) settled sales). If the appraiser cannot comply with these requirements due to a lack of market data, a detailed explanation is required to support the market trend conclusion and include all data and analysis used to identify the current forecasted market.

For active listings or pending sales, the appraiser must:

- Ensure they are market-tested and have reasonable market exposure to avoid the use of overpriced properties as comparable sales;
- Use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sales price ratios;
- Include the original list price, any revised list prices, and calculate the total Days on Market (DOM);
- The appraiser must provide an explanation for the DOM that does not approximate periods reported in the "Neighborhood" section of the appraisal;
- Reconcile the adjusted values of active listings or pending sales with the adjusted values of the closed sales provided; and
- If the adjusted values of the closed comparable sales are higher than the adjusted values of the active listings or pending sales, determine if a market condition is appropriate.

4J.18(a)(ix) Effective Age and Remaining Economic Life

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.

The remaining economic life must be stated as a single number or as a rage for all property types, including condominiums. The appraiser must provide an explanation if the remaining economic life is less than 30 years. The mortgage term must be less than or equal to the remaining economic life of the property.

4J.18(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.

4J.18(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.

4J.18(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 appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation.

The appraiser must select the comparable sales and perform all critical analyses contained in the appraisal report as well as the Market Conditions Addendum to the appraisal form. 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.

4J.18(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.

4J.19 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.

4J.20 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.

4J.21 Manufactured Housing

At least two (2) of the comparable sales must be manufactured homes (combining land and some sales is not acceptable).

For 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 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.

4J.22 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 4C FHA Financing, 4C.3 Property Assessed Clean Energy (PACE) for requirements when a PACE or PACE-like loan exists.

Revision History	Dates
Guidelines and required documentation updated as shown in USDA Guide for: Water and Wastewater Disposal Systems • Individually Owned, Individually Privately Owned Shared and Community Shared Removed Individual Water Supply System (Well) as content was duplicated in USDA guidelines identified for this release	03.26.2026
Update the Transfer Appraisal section to refer to the Client, not Newrez	04.23.2026