



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

Office of Housing

Special Attention of:

All Homeownership Center Directors
All Real Estate Owned Directors
All Processing and Underwriting Directors
All Management and Marketing Contractors

NOTICE 05-17

Issued: September 23, 2005

Expires: September 30, 2006

Cross Reference: HUD Handbook 4150.2

SUBJECT: Update to FHA Appraisal Protocol for Fannie Mae Appraisal Forms

This Notice is to advise of the upcoming revision to the current procedures in place for the performance of FHA appraisals. The current procedures do not address the newly revised industry standard appraisal forms introduced by Fannie Mae on March 24, 2005. These procedures are found in the Valuation Analysis for Home Mortgage Insurance for Single Family One-to Four Unit Dwellings, HUD Handbook 4150.2, Appendix D: Comprehensive Valuation Package Protocol.

These existing procedures were established with the introduction of the Homebuyer Protection Plan that included the three-part Comprehensive Valuation Package (CVP). Part one was the appraisal reporting form itself. The two supplemental forms included the Valuation Conditions Form (form HUD-92564-VC), part II; and the Notice to The Homebuyer (form HUD-92564-HS), also known as Homebuyer Summary, part III. Upon FHA's implementation of the four revised Fannie Mae appraisal reporting forms detailed below, the Valuation Conditions Form and Notice to The Homebuyer will be retired and are not to be submitted as part of an appraisal valuation package. Upon elimination of these two forms, all valuation conditions, including repairs, alterations and/or required inspections, must be reported within the appropriate Fannie Mae appraisal reporting form. After receiving the completed appraisal report, the Mortgagee must note any valuation condition upon which the appraisal is predicated on form HUD-92800.5B (Conditional Commitment Direct Endorsement Statement of Appraised Value) and provide a copy of the completed form to the mortgagor at least five business days prior to loan closing. Mortgagee Letter 2005-34 reminds mortgagees to advise mortgagors of their right to request and receive a copy of the completed appraisal report.

Revisions made to the Fannie Mae appraisal forms have presented FHA with the opportunity to standardize the reporting requirements by adopting property specific forms and eliminating redundancy in the reporting protocols. As indicated in Mortgagee Letter 2005-34, FHA will be adopting four of the revised Fannie Mae appraisal reporting forms. For all appraisals of properties that are to be security for FHA-insured mortgages, and which are performed on or after January 1, 2006, the appraisal must be reported on the following Fannie Mae forms as per property type and cited below.

The revised Appendix D: Valuation Protocol of HUD Handbook 4150.2 (attachment to Mortgagee Letter 2005-34) addresses the updated FHA residential appraisal requirements and provides specific instructions for completing Fannie Mae appraisal report forms. The appraisal reporting guidance contained in Handbook 4150.2, CHG-1 remains in effect with the exception of any instruction(s) or policy that is in conflict with that provided in Revised Appendix D, in which case Revised Appendix D shall prevail. Any and all references to a Valuation Condition (VC) item addressed in Chapters 2 and 3 of Handbook 4150.2 are to be addressed in the appropriate section of the applicable appraisal reporting form. For example, Chapter 2, section 2-2-E, entitled “Slush Pits” instructs: “If there is any readily observable evidence of slush pits, mark the “yes” column in VC-1”. The new protocol will require the appraiser to address this condition in the site section of the appraisal report and note that the property may not be eligible for FHA financing, referencing the information contained in Chapter 2.

The appraisal reporting form to be used will depend on the property type that is being appraised. The appraiser must select the appropriate appraisal form for reporting an FHA appraisal from the following:

1. Uniform Residential Appraisal Report (Fannie Mae Form 1004 March 2005) – Required to report an appraisal of a one-unit property or a one-unit property with an accessory unit.
2. Manufactured Home Appraisal Report (Fannie Mae Form 1004C March 2005) – Required to report an appraisal of a one-unit manufactured home.
3. Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 March 2005) – Required to report an appraisal of a unit in a condominium project or a condominium unit in a planned unit development (PUD).
4. Small Residential Income Property Appraisal Report (Fannie Mae Form 1025) – Required to report an appraisal of a two- to four-unit property.

These forms are available online at: <http://www.efanniemae.com/index.jsp> and copies are contained within the Revised Appendix D: Valuation Protocol of HUD Handbook 4150.2.

An appraisal performed for HUD/FHA purposes requires that all sections of the appraisal form be addressed. The appraiser must complete the form in a manner that clearly reflects the thoroughness of the investigation and analysis of the appraisal findings. The conclusions about the observed conditions of the property provide the rationale for the opinion of market value. The completed appraisal form utilized, together with the required exhibits, constitutes the reporting instrument to HUD for FHA-insured mortgages.

If you have questions regarding this Notice, you may contact Joyce Richardson, Director, Home Valuation Policy Division, at (202) 708-0614, extension 2507.

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner