

RD AN No. 4364 (1980-D)
May 7, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Area Directors, and Area Specialists

FROM: Russell T. Davis *(Signed by Peter Morgan)* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Existing Dwelling Inspection Requirements;
Acceptable Origination Appraisal Forms

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the forms of dwelling inspections acceptable for loans guaranteed under the Single Family Housing Guaranteed Loan Program (SFHGLP).

The intended outcome of this AN is to restate that the SFHGLP accepts appraisals prepared by Federal Housing Administration (FHA) roster appraisers in accordance with Housing and Urban Development (HUD) Handbooks 4150.2 and 4905.1 as meeting the inspection requirements of RD Instruction 1980-D, section 1980.341(b)(1)(i).

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4260 (1980-D) dated March 29, 2007.

EXPIRATION DATE:
April 30, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The basic objective of the SFHGLP is to assist eligible rural households in obtaining adequate, decent, safe and sanitary homes. To this end, an existing dwelling must be inspected to determine that the dwelling meets the current requirements of:

- HUD Handbook 4150.2, *Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings* (Appraisal Handbook), and
- HUD Handbook 4905.1, *Requirements for Existing Housing-One to Four Family Living Units*.

Notes:

- In June 1999, HUD issued Handbook 4150.2 to replace the appraiser requirements of Handbook 4150.1 REV-1, *Valuation Analysis for Home Mortgage Insurance*. The SFHGLP uses HUD Handbook 4150.2 in place of Handbook 4150.1.
- HUD handbooks and forms can be downloaded over the Internet at <http://www.hudclips.org> or obtained by calling 1-800-767-7468.
- FHA roster appraisers can be identified at <https://entp.hud.gov/idapp/html/apprlook.cfm>.

When prepared in accordance with HUD Handbooks 4905.1 and 4150.2, the appraisal constitutes acceptable documentation to comply with existing dwelling inspections made in accordance with RD Instruction 1980-D, section 1980.341(b)(1)(i). The lender should be careful to select an appraiser familiar with and who can certify that the requirements of HUD Handbooks 4905.1 and 4150.2 have been met.

The appraisal forms that must be used for loan origination purposes under the SFHGLP, are:

- Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70) for one unit single family dwellings;
http://www.freddiemac.com/sell/forms/pdf/70_0305.pdf
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1004.pdf>
- Manufactured Home Appraisal Report and addendum (FNMA Form 1004C/FHLMC Form 70B) for all manufactured homes;
http://www.freddiemac.com/sell/forms/pdf/70b_0305.pdf
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1004c.pdf>
- Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465) for all individual condominium units;
http://www.freddiemac.com/sell/forms/pdf/465_0305.pdf
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1073.pdf>

Licensed or certified appraisers that are not FHA roster appraisers can complete these appraisal forms. In such cases, a separate home inspection report prepared by a home inspector deemed qualified by the lender should be obtained. Appraisers who are not on the FHA roster are not approved by FHA to complete appraisals according to HUD Handbooks 4905.1 and 4150.2,

including the appendixes. Nevertheless, lenders may determine that a non-FHA roster appraiser is qualified to perform the home inspection, as long as the lender is assured that the non-FHA roster appraiser is thoroughly familiar with HUD Handbooks 4905.1 and 4150.2. An individual who is not thoroughly familiar with HUD Handbook 4905.1 and 4150.2 should not certify that a property meets all the HUD Handbook standards. Doing so would constitute a misrepresentation. Lenders should be reminded that they are responsible for the acts of their agents, including appraisers.

In any case where the appraiser certifies that the requirements of HUD Handbooks 4905.1 and 4150.2 have been met, they may do so on page three of the appraisal form, in the “comment” section. Alternately, the appraiser may make their certification in an addendum to the appraisal, or they may use the attached optional form.

Regardless of whether the appraisal is completed by an appraiser on the FHA roster or by a licensed or certified appraiser not on the FHA roster, the lender must obtain documentation for an existing dwelling showing that the following requirements have been met:

- If the property is served by an individual water supply system, the local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards.* (see table below).
- If the property is served by an individual septic system, the septic system must be free of observable evidence of system failure. A FHA roster appraiser, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic system evaluation. The separation distances between a well and septic tank, the drain field, and the property line should comply with HUD guidelines or state well codes.
- For any property in which the lender or FHA roster appraiser is in doubt about the operation of septic systems for the dwelling or in the neighborhood (e.g. if the property is vacant), the local health authority or a septic system professional has determined the viability of the system.
- Any repairs necessary for the dwelling to be structurally sound, functionally adequate, and in good repair must have been completed prior to requesting the Loan Note Guarantee, or the escrow account requirements of RD Instruction 1980-D, section 1980.315 have been met.
- If required by the lender, appraiser, inspector, or State law, a pest inspection has been obtained showing that the property is free of active termite infestation.

A property which an appraiser indicates is in average or good condition may generally be considered in good repair, though repairs may still be required by the lender. Regardless of whether the appraisal is performed by an FHA roster appraiser or not, the appraiser must report all readily observable property deficiencies as well as any adverse conditions discovered performing the research involved in completing an appraisal. When lending to low- and moderate-income borrowers under the SFHGLP, lenders are expected to use professional judgment and rely upon prudent underwriting practices in determining when a property condition requires additional inspections or repairs. Conditions that would warrant additional repairs

include those that pose a threat to the safety of the occupants, jeopardize the soundness and structural integrity of the property; or adversely affect the likelihood of a low- to moderate-income borrower from becoming a successful homeowner.

* The Safe Drinking Water Act does not protect private wells. The rules of the Environmental Protection Agency (EPA) only apply to “public drinking water systems” government or privately run companies supplying water to 25 people or 15 service connections. Most states regulate private household wells, and most health departments, environmental offices, and county governments should have a list of state certified testing laboratories.

Also, EPA’s Safe Drinking Water Hotline, (800) 426-4791, can help in many ways. The Hotline can:

- Provide the name and phone number of your state’s Laboratory Certification Officer.
- Provide the phone number of your state drinking water program.
- Provide a listing of contaminants public water systems must test for.
- Provide health advisories prepared for specific drinking water contaminants.
- Explain the Federal regulations that apply to public water systems.
- Compare individual water supply lab results to the federal standards. These standards can be found at www.epa.gov/safewater/mcl.html.

Under RD Instruction 1980-D, section 1980.334, the cost approach section of the appraisal must be completed in its entirety when the dwelling is less than one year old. For dwellings more than one year old, the cost approach section of the appraisal need be completed only to the extent necessary to comply with the site value analysis and requirements of RD Instruction 1980-D, section 1980.313(e). A Marshall and Swift cost approach analysis is not required.

As in the past, updates to HUD Handbooks 4905.1 or 4150.2 will also be effective for Rural Development purposes. Should HUD replace Handbooks 4905.1 or 4150.2 with another publication, the new publication will become effective for Rural Development purposes.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of RD Instruction 1980-D and this AN, Agency field staff reviewing loan files under the SFHGLP are reminded of the following:

- In order to satisfy the requirements of RD Instruction 1980-D, section 1980.341(b)(1)(i), lenders have the option to choose either:
 - An appraisal performed by an FHA roster appraiser; or
 - An appraisal performed by a licensed or certified appraiser not on the FHA roster and a home inspection by a qualified home inspector.
- This AN does not change the appraisal requirements in RD Instruction 1980-D, section 1980.334.
- Even if the appraiser is on the FHA roster, homebuyers may elect to obtain an independent home inspection to assist them in their home purchase decision.

- In all cases, the appraiser must inspect the interior and exterior of the subject property, and an exterior inspection should be performed for all comparable sales.

Anyone with questions regarding this AN should contact Joaquín Tremols or Dave Chaput at (202) 720-1452 or joaquin.tremols@wdc.usda.gov or david.chaput@wdc.usda.gov.

Attachment

EXISTING DWELLING INSPECTION REPORT
(optional form)

Lender's Name/Address _____

Borrower's Name(s) _____

Property Address _____

Yes____ No____ The dwelling meet's HUD's minimum property standards for existing dwellings as outlined in the HUD Handbooks 4150.2 and 4905.1 (available from HUD ordering Desk (1-800-767-7468)).

If no, recommendations:

Date

Signature

Title