

The latest updates to SF Handbook 4000.1

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The latest enhancements to the *Single Family Housing Policy Handbook 4000.1 (SF Handbook)* have been published. These changes consist of technical changes for consistency and clarity as well as several policy updates. The SF Handbook was published to eliminate the need for mortgagees and other stakeholders in FHA transactions to search through multiple stand-alone policy documents. The following highlights the revisions to the SF Handbook pertaining to FHA appraisal reporting requirements.

Revision/Effective Date of Appraisal

Handbook Section/Reference	Handbook Changes	Page Number(s)
II.A.1.a.iii(B)(7) Appraisal Effective Date; II.D.1.a Information Required Before Commencement of the Appraisal	Clarifies that the effective date of the appraisal cannot be a date before the FHA case number assignment and provided additional guidance on the use of conventional or other government-guaranteed appraisals performed by FHA Roster Appraisers	126 and 480

Revised Handbook Text Page 126:

(7) Appraisal Effective Date

(a) Standard

“The effective date of the appraisal cannot be before the FHA case number assignment date unless the Mortgagee certifies, via the certification field in the Appraisal Logging Screen in FHAC that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by a FHA Roster Appraiser. The Mortgagee must ensure that the appraisal was performed in accordance with FHA appraisal reporting instructions as detailed in this *SF Handbook* and the Appraisal Report and Data Delivery Guide. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage. Additionally, FHA and the Mortgagee must be indicated as the intended users of the appraisal report.

(b) Required Documentation

The Mortgagee must retain documentation in the case binder substantiating conversion of the Mortgage to FHA.”

Revised Handbook Text Page 480:

a. Information Required before Commencement of Appraisal

“The effective date of the appraisal cannot be before the FHA case number assignment date unless the Mortgagee certifies that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed pursuant to FHA guidelines.

The appraisal must be in full compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), which requires that this be classified as a new assignment. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage. Additionally, FHA and the Mortgagee must be indicated as the intended users of the appraisal report.

If the Appraiser determines that the scope of work is met with regard to MPR, MPS, and USPAP compliance, and further determines that a re-inspection of the Property is not necessary, the effective date of the appraisal may be the date of the original inspection. However, if an FHA-compliant inspection is required, the date of the inspection will become the effective date of the new appraisal.”

Summary: This revision permits an appraiser to change an appraisal originally performed for conventional or VA lending purposes in order to be meet FHA lending requirements and not re-inspect the property if the appraiser’s initial inspection complied with FHA reporting requirements.

Revision/Appliances

Handbook Section/Reference	Handbook Changes	Page Number(s)
II.A.3.a.ii(F) Requirements for Living Unit; II.D.3.e Appliances	Clarified definition, standard, and reporting requirements for appliances.	164, 500 – 501

Revised Handbook Text Page 164:

“The Mortgagee must ensure that appliances that are to remain and that contribute to the market value opinion are operational.”

Revised Handbook Text Page 500:

“Appliances

i. Definition

Appliances refer to refrigerators, ranges/ovens, dishwashers, disposals, microwaves, and washers/dryers.”

Revised Handbook Text Page 501

“Standard

Appliances that are to remain and that contribute to the market value opinion must be operational.

iii. Required Analysis and Reporting

The Appraiser must note all appliances that remain and contribute to the Market Value.”

Summary: Instructs the Mortgagee (lender) to ensure that appliances that are to remain (in the home) and that contribute to the market value opinion are operational. Only appliances that contribute to value have to be inspected by the appraiser.

Revision/Individual Residential Water Purification Systems

Handbook Section/Reference	Handbook Changes	Page Number(s)
II.A.3.a.ii(P) Individual Residential Water Purification Systems; II.D.3.p.vi Individual Residential Water Purification Systems	Added guidance for individual residential water purification systems	170-171, 511

Revised Handbook Text Page 170-171

(1) Definition

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

(2) Standard

Protection Agency (EPA) pursuant to the Safe Drinking Water Act in 40 CFR Parts 141 and 142.

A plan exists that provides for the monitoring, servicing, maintenance, and replacement of the water equipment, and the plan meets the service contract requirements.

If a Property does not have access to a continuous supply of safe and potable water without the use of a water purification system, the Mortgagee must ensure that the Property has an individual residential water purification system as well as a service contract for the ongoing maintenance of the Property, a plan approved by the local or state health authority, and an escrow account.

(a) Approved Equipment for Individual Residential Water Purification Systems

Water purification equipment must be approved by a nationally recognized testing laboratory acceptable to the local or state health authority. The Mortgagee must obtain a certification from a local or state health authority which certifies that:

A point-of-entry or point-of-use water purification system is on the Property. If the system employs point-of use equipment, the purification system must be employed on each water supply source (faucet) serving the Property. Where point-of-entry systems are used, separate water supply systems carrying untreated water for flushing toilets may be constructed.

The system is sufficient to ensure an uninterrupted supply of safe and potable water adequate to meet household needs.

The water supply, when treated by the equipment, meets the requirements of the local or state health authority, and has been determined to meet local or state quality standards for drinking water.

If neither state nor local standards are applicable, then quality must be determined in accordance with standards set by the Environmental Protection Agency (EPA) pursuant to the Safe Drinking Water Act in 40 CFR Parts 141 and 142.

A plan exists that provides for the monitoring, servicing, maintenance, and replacement of the water equipment, and the plan meets the service contract requirements.”

Revised Handbook Text Page 511

Individual Residential Water Purification Systems

Definition

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

Required Analysis and Reporting

If a Property is served by an individual residential water purification system, the Appraiser must indicate which type of system is installed on the Property, either point-of-entry or point-of-use.

The Appraiser must report on the conditions requiring connection of the individual residential water purification system. Page 511

Required Analysis and Reporting

If a Property is served by an individual residential water purification system, the Appraiser must indicate which type of system is installed on the Property, either point-of-entry or point-of-use.

The Appraiser must report on the conditions requiring connection of the individual residential water purification system.”

Summary: FHA now permits individual water purification systems provided the system is in compliance with local and federal requirements. Appraisers should require a test or inspection of the system if there is evidence that the system doesn't operate properly. Appraisers must identify and report if a water purification system is point-of-entry or point-of-use and on the conditions that necessitate installing such a system.

Revision/New Construction less than one year old

Handbook Section/Reference	Handbook Changes	Page Numbers
II.A.8. i.i. New Construction – Definitions	Clarified that Properties less than one-year old subject to a second sale are treated like existing properties.	437

Revised Handbook Page 437:

“FHA treats the sale of an occupied Property that has been completed less than one year from the issuance of the CO or equivalent as an existing Property”

Summary: Clarification of the definition of new construction

Revision/Stationary Storage Tanks

Handbook Section/Reference	Handbook Changes	Page Numbers
II.D.3.c.iii(C) (7) Stationary Storage Tanks	Revised language about stationary storage tanks and MPR/MPS	490

Revised Handbook Text Page 490:

“If the subject property line is located within 300 feet of an aboveground or subsurface stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material, then the Property is ineligible for FHA insurance, and the Appraiser must notify the Mortgagee of the deficiency of MPR or MPS. This includes domestic and commercial uses as well as automotive service station tanks.”

Summary: Reinforced clarification regarding the ineligibility of properties within 300 feet of stationary storage tanks holding 1,000 or more gallons of flammable or explosive material.

Revision/Mechanical Components and Utilities

Handbook Section/Reference	Handbook Changes	Page Numbers
II.D.3.g. Mechanical Components and Utilities	Updated language for appraisal of mechanical components and utilities	501

Revised Handbook Text Page 501:

“Mechanical Components and Utilities

The Appraiser must notify the Mortgagee if mechanical systems do not appear:

to have reasonable future utility, durability, and economy;

to be safe to operate;

to be protected from destructive elements; or

to have adequate capacity.

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance. If the systems appear to be damaged or do not appear to function properly, the Appraiser must condition the appraisal for repair or further inspection.”

Summary: FHA added the word “appear” to preface the word “function” so as to acknowledge that appraisers are not skilled or trained in mechanical components and utilities and are not expected to dismantle or break down mechanical systems for purposes of an inspection and to determine the functionality of a mechanical component or utility. The appraiser is to report on what is easily and readily observable.

Revision/Plumbing Systems

Handbook Section/Reference	Handbook Changes	Page Numbers
II.D.3.g.i.i. Plumbing System	Clarified language for appraisal requirements for inspections of plumbing systems	503

Revised Handbook Text Page 503:

“Plumbing System

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the plumbing system does not function to supply water pressure, flow and waste removal.

The Appraiser must flush the toilets and operate a sample of faucets to observe water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there are no readily observable evidence of leaks or structural damage under fixtures.

The Appraiser must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.

If the Property has a septic system, the Appraiser must examine it for any signs of failure or surface evidence of malfunction. If there are readily observable deficiencies, the Appraiser must require repair or further inspection.”

Summary: FHA added the phrase “readily observable” so as to acknowledge that appraisers are not skilled or trained in plumbing systems and are not expected to dismantle or break down systems for purposes of an inspection and to determine the functionality of a system. The appraiser is to report on what is easily and readily observable.