HUD Handbook 4150.2 FHA Property Guidelines During Inspection

3 PROPERTY ANALYSIS

3-0 INTRODUCTION

The FHA guidelines for property analysis include specific requirements to which appraisers must adhere for the appraisal to reflect an accurate valuation that win:

o denote any deficiencies in the subject property
o protect HUD's interest in that property

The property analysis includes General Acceptability Criteria for conducting the appraisal to address FHA minimum property requirements.

3-1 APPRAISAL REQUIREMENTS

o The appraiser must make a complete visual inspection of the subject property - interior and exterior - and complete the VC form.

o The appraiser must take photographs that show the sides, front and rear of the subject property and all improvements on the subject property with any contributory value. A photograph of the street frontage is also required.
o The appraiser is required to submit a single photograph of each comparable sale transaction in the addenda to the appraisal report.

o The map of proposed construction must clearly show proposed roadways.

o The appraiser must provide a copy of a local street map that shows the location of the property and each comparable sale.
o If the subject property is proposed construction and the improvement has not started, the appraiser should take a photograph that shows the grade of the vacant lot.

3-2 ANALYSIS OF SITE

For both proposed and existing construction, the appraiser must determine the present highest and best use for the site, disregarding improvements that may exist or are proposed for the site. This conclusion serves as the basis of comparison for estimating the market price of the land and discloses the extent to which the existing or proposed building improvements are appropriate or inappropriate for the site. This also forms the basis for selecting comparable land sales.

The appraiser must analyze the site to:

o establish the basis for comparing the market estimates of sites in the estimate of replacement cost of the property o determine suitability for the existing or proposed use

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Carefully consider the topography, suitability of soil, off-site improvements, easements, restrictions or encroachments.

A. TOPOGRAPHY

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Proper topography and site grading can be important elements in preventing wet basements, damp crawl spaces, erosion of soils, and overflowing sewage disposal systems. To ensure proper protection, the appraiser must analyze the relationship of street grades, floor elevations, and lot grades. If the foundation or its bearing soils may be affected by seepage or frost, the dwelling is unacceptable unless the surface and subsurface water is diverted from the structures to ensure positive drainage away from the foundation.

B. SUITABILITY OF SOIL

Consider the readily observable soil and subsoil conditions of the site including the type and permeability of the soil, the location of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site or its suitability for development. Also observe the effects of the adverse features of the adjoining land.

C. OFF-SITE IMPROVEMENTS

Consider the off-site improvements adjoining the subject property, including street surface, curbs, sidewalks, curb cuts, driveways, aprons, etc., that are not contained within the legal boundaries of the site but enhance the market acceptance and the use and livability of the property. Also consider these situations:

o Compare the subject property with the immediate neighborhood to determine the dominant off-site improvements required by the market. Note any necessary off-site improvements that are not in existence or are proposed for the subject property and adjust for them in the market value.

o Any proposals for installing off-site improvements and levying assessments by the local governing body in the near future may affect value. These proposals will necessitate a commitment condition that requires the installation of improvements and the payment of the assessment before or immediately after insurance endorsement.

D. EASEMENTS, RESTRICTIONS OR ENCROACHMENTS

Consider all easements, restrictions or encroachments and their impact on the market value of the subject property and list them on the appraisal. These factors are often discovered during the survey and title report once the

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appraisal has begun. Perform limited due diligence to verify the existence of these types of significant limiting factors. Also record these items in the URAR which were considered in the value estimate.

E. ENCROACHMENTS

As a general rule, an encroachment will cause a property to be ineligible for FHA mortgage insurance. However, there are exceptions to this rule and further information can be found by calling the lender. The appraiser should identify any of these conditions:

o encroachment of a dwelling, garage, another physical structure or other improvement onto an adjacent property, right-of-way or utility easement

o encroachment of a dwelling, garage, another physical structure or improvements on the subject property

o encroachment of a dwelling, garage or another physical structure into the setback requirement

An encroachment may be acceptable if the adjoining landowner or the local governing authority provides a perpetual encroachment easement that is filed in the County Clerk and Recorder's Office. The Direct Endorsement under-writer will handle this issue under the General Waiver guidelines.

3-3 ANALYSIS OF PHYSICAL IMPROVEMENTS

Analysis of the physical improvements results in conclusions as to the desirability, utility and appropriateness of the physical improvements as factors in determining mortgage risk and the ultimate estimate of value.

A. GROSS LIVING AREA

Gross Living Area is the total area of finished, above-grade residential space. It is calculated by measuring the outside perimeter of the structure and includes only finished, habitable, above-grade living space. Finished basements and unfinished attic areas are not included in total gross living area. The appraiser must match the measurement techniques used for the subject to the comparable sales. It is important to apply this measurement technique and report the building dimensions consistently because failure to do so can impair the quality of the appraisal report.

B. BASEMENT BEDROOMS, BASEMENT APARTMENTS

As a rule basement space does not count as habitable space. If the bedroom does not have proper light and ventilation, the room can not be included in the gross living area. The following requirements apply to the valuation of below-grade rooms:

o The windowsill may not be higher than 44 inches from the floor.

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o The windowsill must have a net clear opening (width x height) of at least 24 inches by 36 inches.

o The window should be at ground level; however, compensating factors may allow less.

In all cases, use reasonable care and judgment. If these standards are not substantially met, the basement area cannot be counted as habitable space.

C. DESIGN

Design is the cohesive element that blends the structural, functional and decorative elements of a property into a whole. With good design, the property's parts will be in harmony (each part with all the other parts). The whole property,

in turn, will be in harmony with its immediate site and environment. Because good design is recognized and desired, the economic life of properties and neighborhoods will be extended and prices will typically exceed those for properties offering the same number of rooms and area but lacking good design. This competitive advantage usually continues through the entire economic life of the property.

The appraiser must recognize this demonstrable price differential and reflect it in the comparative adjustments of market data and the final finding of value.

D. CONFORMITY OF PROPERTY TO NEIGHBORHOOD

A residential property with good physical characteristics may not necessarily be good security for a mortgage loan, even if it is situated in a good location. The property may be entirely appropriate at another location, but not in its actual location. The property may be displeasing when viewed in relation to its surroundings, and it may not conform in other respects to the most marketable use in the particular neighborhood. When determining the effect of property-neighborhood relationships to marketability, consider elements other than similarity of physical characteristics.

Analysis of the Elements of Conformity. Analysis of Conformity requires consideration of Suitability of Use- Type, Appropriateness of Functional Characteristics, Harmony of Design and Relation of Expense of Ownership to Family Income Levels.

o Suitability of Use-Type. The term Use-Type refers to the use for which a dwelling is designed - single- family, two-family, etc. In most neighborhoods only one use-type is suitable. In some neighborhoods, however, because of their heterogeneous development, several use-types may be found suitable.

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o Appropriateness of Functional Characteristics. Functional Characteristics refer to the living facilities provided in a residential property. They relate to site use and to arrangement, number and size of rooms. Usually well-defined neighborhood market preferences are observable.

Nonconformity may exist because of the placement of the house on the site. Carefully consider any deviation from the accustomed or accepted placement to determine whether it adversely affects desirability.

If a site is substantially smaller than the size typical in the neighborhood, marketability may be limited. The shape or topography of a particular lot may make it less desirable than those typical of the area.

The number, arrangement and size of rooms frequently conform to definite preferences in given neighborhoods. In some localities where one-story dwellings dominate, a two-story dwelling may meet considerable market resistance.

o Harmony of Design. Conformity of the exterior design of a structure with other structures in the immediate neighborhood is not important unless it contrasts inharmoniously with them. There may be considerable variety in the exterior design of dwellings in a neighborhood and yet each may present a pleasing appearance when viewed in relation to its surroundings. On the other hand, a dwelling may be without any architectural faults and yet clash so violently with the design of neighboring properties that marketability may be seriously limited.

o Relation of Ownership Expense to Family Incomes. Families usually select homes in neighborhoods where typical occupants have financial means similar to their own. A home that is too costly for these families to purchase or maintain will have limited marketability.

3-4 REMAINING ECONOMIC LIFE OF BUILDING IMPROVEMENTS Because a building is subject to physical deterioration and obsolescence, its period of usefulness is limited. As a building deteriorates or becomes obsolete, its ability to serve useful purposes decreases and eventually ends. This may occur gradually or rapidly.

A. ECONOMIC LIFE VS. PHYSICAL LIFE

o The total physical life of a building is the period from the time of completion until it is no longer fit or safe for use or when maintaining the building in a safe, usable manner is no longer practicable.

o The total economic life of a building is the period of time from

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its completion until it can no longer produce services or net returns over and above a return on the land value.

Economic life can never be longer than the physical life, but may be and frequently is shorter. A structure that is sound and in good physical condition with many years of physical life remaining may have reached the end of its economic life - if its remaining years of physical usefulness will not be profitable.

B. ESTIMATION OF REMAINING ECONOMIC LIFE
In predicting the remaining economic life of a building, consider these factors:

o the economic background of the community or region and the need for accommodations of the type represented
o the relationship between the property and the immediate environment the architectural design, style and utility from a functional point of view and the likelihood of obsolescence attributable to new inventions, new materials and changes in tastes

o the trends and rate of change of characteristics of the neighborhood and their effect on land values

o workmanship, durability of construction and the rate with which natural forces cause physical deterioration
o the physical condition and probable cost of maintenance and repair, the maintenance policy of owners and occupants and the use or abuse to which structures are subjected

C. END OF USEFUL LIFE OF BUILDING IMPROVEMENTS The useful life of a building has come to an end:
o when the building can no longer produce annual income or services sufficient to offset maintenance expense, insurance and taxes to produce returns on the value of the land

AND

o when rehabilitation is not feasible

The improvements on the lot at the time have no more value than the amount obtainable from a purchaser who will buy them and remove them from the site.

3-5 CODE ENFORCEMENT FOR EXISTING PROPERTIES
Local municipalities design local housing code standards; therefore, enforcement of such housing standards rests with the local authority. HUD does not have the authority or the responsibility for enforcing local housing codes except for mortgages on properties to be insured under Section 221(d)(2)-a program with mortgage limits at $36,000. Loans insured under Section 221(d)(2) of the National Housing Act require code

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enforcement. The appraiser should contact the lender for further instructions if the mortgage is to be insured under Section 221(d)(2).

3-6 GENERAL ACCEPTABILITY CRITERIA FOR FHA-INSURED MORTGAGES
These criteria define standards for existing properties to be eligible for FHA mortgage insurance. Underwriters bear primary responsibility for determining eligibility; however, the appraiser is the on-site representative for the lender and provides preliminary verification that these standards have been met. Many of the requirements are technical and beyond the expertise of the appraiser. They are presented here for reference, and the appraiser's responsibility is noted by category.

These criteria form the basis for identifying the deficiencies of the property that the appraiser must note in the VC form and that must be addressed by the lender before closing. When examination of existing construction reveals noncompliance with the General Acceptability Criteria, an appropriate specific condition to correct the deficiency is required if correction is feasible. If correction is not feasible and compliance can be effected only by major repairs or alterations, the lender will reject the property. The appraiser is only required to note conditions that are readily observable.

As-Repaired Appraisal. The appraiser prepares the valuation "as repaired" subject to the conditions noted on the VC form. Those items not listed on the VC will form the basis of comparison to comparable properties for physical conditions.

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Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants.

Deferred Maintenance. Any operable or useful element that will have reached the end of its useful life within two years should be replaced. With respect to such deferred maintenance items, exercise good judgment in requiring repair.

Replacement Because of Age. If an element is functioning well, do not recommend replacement simply because of its age.
> If the septic system shows evidence of failure because of age, recommend a specific inspection.

Valuation Conditions. The Valuation Conditions Form and its protocol help the appraiser evaluate the standards required by the General Acceptability Criteria. The criteria are described below. The appraiser must ascertain if the condition called for

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exists and mark yes if it does.

> If the observed deficiencies exist, mark "YES" in the appropriate location on the Valuation Conditions Form, condition the appraisal on the requirement for repair or further inspection and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

The following guidelines are HUD's General Acceptability Criteria for existing properties. They provide general guidance for determining the property's eligibility for FHA mortgage insurance. For instructions on filling out the VC form, see the protocol in Appendix D.

A. GENERAL ACCEPTABILITY CRITERIA

These minimum requirements for existing housing apply to existing buildings and to the sites on which they are located. The buildings may be:

- o detached
- o semidetached
- o multiplex
- o row houses
- o individual condominium units

These requirements also cover the immediate site environment for the dwelling, including streets, other services and facilities associated with the site.

1. Subject Property

The subject property must be adequately identified as a single, marketable real estate entity. However, a primary plot with a secondary plot for an appurtenant garage or for another use contributing to the marketability of the property will be acceptable if the two plots are contiguous and comprise a readily marketable real estate entity.

(3-6) 2. Hazards

The property must be free of all known hazards and adverse conditions that:

- o may affect the health and safety of the occupants
- o may affect the structural soundness of the improvements
- o may impair the customary use and enjoyment of the property

These hazards include toxic chemicals, radioactive materials, other pollution, hazardous activities, potential damage from soil

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or other differential ground movements, ground water, inadequate surface drainage, flood, erosion, excessive noise and other hazards on or off site.

> If the property meets the acceptability guidelines in the VC protocol (Appendix D), quantify the deficiency's impact in the property valuation.
> If the property does not meet the acceptability guidelines, note the appropriate hazard in VC-1 and explain.

In the appraisal of new and proposed construction, special conditions may exist or arise during construction that were unforeseen and necessitate precautionary or hazard mitigation measures. HUD will require corrective work to mitigate potential adverse effects from the special conditions as necessary. Special conditions include:

- o rock formations
- o unstable soils or slopes
- o high ground water levels
- o springs
- o other conditions that may have a negative effect on the property value

The builder must ensure proper design, construction and satisfactory performance when any of these issues are present.

For specific instructions about noting this information in the VC form, see VC-1 in the protocol (Appendix D).

3. Soil Contamination

a. Septic and Sewage

If a septic system is part of the subject property, the appraiser must determine whether the area is free of conditions that adversely affect the operation of the system. Consider the following:

- o the type of system
- o topography
- o depth to ground water
- o soil permeability
- o the type of soil to a depth several feet below the surface

If in doubt about the operation of sewage disposal systems in the neighborhood, mark "YES" in VC-2, condition the appraisal on further inspection and prepare the appraisal "as-repaired" subject to satisfaction of the condition.

The lender will contact the local health authority or a professional

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to determine the viability of the system.

b. Other Soil Contaminants
The following conditions may indicate unacceptable levels of soil contamination: pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

> If there is evidence of hazardous substances in the soil, require further inspection. Mark "YES" in VC-2, condition the appraisal on further inspection and prepare the appraisal "as-repaired" subject to the satisfaction of condition.

c. Underground Storage Tanks During the site inspection, the appraiser must walk the property and search for readily observable evidence of underground storage tanks. Evidence would include fill pipes, pumps, ventilation caps, etc.

> If there is evidence of underground storage tanks, require further analysis. Mark "YES" in VC-2, condition the appraisal on that requirement and prepare the appraisal "as- repaired" subject to the satisfaction of the condition.

4. Drainage
The site must be graded to provide positive drainage away from the perimeter walls of the dwelling and to prevent standing water on the site. Signs of inadequate draining include standing water proximate to the structure and no mitigation measures such as gutters or downspouts.

For specific instructions about noting this information in the VC form, see VC-3 in the protocol (Appendix D).
> If drainage is inadequate and needs improvement, mark "YES" in VC-3, make a repair requirement, condition the appraisal on that requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

(3-6)5. Water Supply And Sewage Systems
Each living unit must contain the following:
o domestic hot water
o a continuing and sufficient supply of potable water under adequate pressure and of appropriate quality for all household uses
o sanitary facilities and a safe method of sewage disposal

Connection must be made to a public water/sewer system or a community water/sewer system, if connection costs to the public or community system are reasonable (3% or less of the estimated value of the property). If connection costs exceed 3%, the existing on-site systems will be acceptable provided they are functioning properly and meet the requirements of the local

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health department.

> If the correction is feasible, require connection. Mark "YES" in VC-4, condition the appraisal on the requirement and prepare the appraisal "as repaired" subject to the satisfaction of the condition.

a. Individual Water Supply and Sewage Disposal Systems
If water and sewer systems are not connected to public systems, the water well and/or septic system must meet the requirements of the local health authority with jurisdiction. If the local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. If the authority is unable to perform the water quality analysis in a timely manner, a private commercial testing laboratory or a licensed sanitary engineer acceptable to the authority may take and test water samples.

o Each living unit must be provided with a sewage disposal system that is adequate to dispose of all domestic wastes and does not create a nuisance or in any way endanger the public health.

o Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal and, if they are installed in accordance with the recommendations of the local Department of Health.

> If there is a well or septic system on the property, mark "YES" in VC4, condition the appraisal on further inspection by the lender and prepare the appraisal "as-repaired" subject to satisfaction of the condition.

A domestic well must be a minimum of 50 feet from a septic tank, 100 feet from the septic tank's drain field and a minimum of 10 feet from any property line.

> Clearly show the location of private wells and septic systems on the site sketch and note the distance between the two.

b. Unacceptable Conditions
The following water well conditions are unacceptable and must be noted in VC-4:

o mechanical chlorinators

o water flow that decreases noticeably when simultaneously running water in several

plumbing fixtures (the well may not be able to provide a continuous, adequate supply of water)

o properties served by dug wells unless a complete survey conducted by an engineer was delivered to the lender and subsequently given to the appraiser

o properties served by springs, lakes, rivers or cisterns (3-6)

To be considered acceptable, the engineer's survey must include these items:

o a health report with no qualifications
o indication that an inoperative well was cased, sealed and capped with concrete to a depth of at least 20 feet

o a pump test indicating a flow of at least 3-5 gallons per minute supply for an existing well, and 5 gallons per minute for a new well
o an acceptable septic report
o no indication of exposure to environmental contamination, mechanical chlorination or anything else that adversely affects health and safety

> If these requirements for individual wells or septic tanks are not met, note them in VC-4 and prepare the appraisal "as-repaired" subject to further inspection.

The lender will require the engineer's follow-up report and will arrange for any required corrective measures.

6. Wood Structural Components: Termites
Termites can cause serious problems in the wood structural components of a house and may go undetected for a long period of time. FHA requires maximum assurances that a home is free of any infestation. A pest inspection is always required for:

(3-6) o any structure that is ground level
o any structure where the wood touches ground
Structures in a geographic area with no active termite infestation may not require a pest inspection. However, the appraiser must always note:

o any infestation
o any damage resulting from previous infestation o whether damage from infestation has been repaired or is in need of repair

Observe all areas of the property that have potential for termite infestation, including the bottoms of exterior doors and frames, and wood siding in contact with the ground and crawl spaces. Examine mud tunnels running from the ground up the side of the house for possible evidence of termite infestation.

> If there is any evidence of termite infestation, require an inspection by a reputable licensed termite company. Mark "YES" in VC-5, condition the appraisal on the requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

For specific instructions on noting this information in the VC Form, see VC-5 in the protocol (Appendix D).

7. Streets

Each property must be provided with safe and adequate pedestrian and vehicular access from a public or private street. Private streets must be protected by permanent recorded easements and have joint maintenance agreements or be owned and maintained by a HOA.

All streets must provide all-weather access to all buildings for essential and emergency use, including access for deliveries, service, maintenance and fire equipment. FHA defines all-weather surface as a road surface over which emergency vehicles can pass in all types of weather. Streets must either be:

- dedicated to public use and maintenance

OR

- retained as private streets protected by permanent recorded easements (when approved by HUD)

> If these requirements are not met, mark "YES" in VC-6 and prepare the appraisal "as-repaired" subject to the correction of this deficiency.

(3-6) 8. Defective Conditions

A property with defective conditions is unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated.

Defective conditions include:

- defective construction
- poor workmanship
- evidence of continuing settlement
- excessive dampness
- leakage
- decay
- termites
- other readily observable conditions that impair the safety, sanitation or structural soundness of the dwelling

The items outlined in VC-7: Structural Conditions, are meant to alert the appraiser and the lender to the possibility of defective conditions. These items are readily identifiable characteristics that could indicate one of the defective conditions.

9. Ventilation

Natural ventilation of structural space - such as attics and crawl spaces - must be provided to reduce the effect of excess heat and moisture that are conducive to decay and deterioration of the structure. All attics must have ventilation to allow moisture and excessive heat to escape. The appraiser must check the attic areas to determine whether the ventilation is adequate.

> If ventilation is not provided, make a condition for repair, mark "YES" in VC7 and prepare the appraisal 'as-repaired" subject to the satisfaction of the condition.

10. Foundations
All foundations must be adequate to withstand all normal loads imposed. Stone and brick foundations are acceptable if they are in good condition. The appraiser must review the conditions in VC-8 for evidence of conditions that could indicate safety or structural deficiencies that may require repair.

> If the foundation is deficient, mark "YES" in VC-8 and prepare the appraisal "as-repaired" subject to the repair of the deficiencies.

11. Crawl Space
To ensure against conditions that could cause the property to deteriorate and seriously affect the marketability of the property, it is required that:
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(3-6) o There must be adequate access to the crawl space; the appraiser must be able to access the crawl space for inspection. Access is defined as ability to visually examine all areas the crawl space. Specifically, the minimum distance is 18 inches.
o The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.

o The crawl space must be clear of all debris and trash and must be properly vented.

o The crawl space must not be excessively damp and must not have any water ponding.

> If these requirements are not met, mark 'YES" in VC-8 and prepare the appraisal "as-repaired" subject to repair of the deficiency.

12. Roof
The covering must prevent moisture from entering and must provide reasonable future utility, durability and economy of maintenance. When re-roofing is needed for a

defective roof that has three layers of shingles, all old shingles must be removed before re-roofing. The details of the process are provided in the protocol.

The appraiser must observe the roof to determine whether the deficiencies present a health and safety hazard or do not allow for reasonable future utility. The appraiser is only required to note readily observable conditions.

> If the roof is deficient, mark "YES" in VC-9 and prepare the appraisal "as repaired" subject to the repair of the deficiency.

Flat roofs typically have shorter life spans and therefore require inspection.

> If there is a flat roof mark "YES" in VC-9 and prepare the appraisal "as repaired" subject to further inspection.

13. Mechanical Systems

These are the requirements for mechanical systems:

o must be safe to operate

o must be protected from destructive elements o must have reasonable future utility, durability and economy

o must have adequate capacity and quality

(3-6) The appraiser must observe the systems in VC-10 and determine if any of the conditions do not meet the above stated criteria.

> If the systems require repair, mark "YES' in VC-10, condition the appraisal on the repair or further inspection and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

> If systems could not be operated due to weather conditions, explain that in VC-10, condition the appraisal on assumed functionality, and make a note of this condition on the Homebuyer Summary - Part 3 of the Comprehensive Valuation Package.

14. Heating

Heating must be adequate for healthful and comfortable living conditions:

o Dwellings that use wood-burning stoves or solar systems as a primary heat source must have permanently installed conventional heating systems that can maintain a temperature of at least 50 degrees F. in areas containing plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations.

o Properties with electric heating sources must have an acceptable electric service that meets the general requirements of the local municipal standards.

o All water heaters must have a non-adjustable temperature and pressure-relief valve. If the water heater is in the garage, it must comply with local building codes.

o All non-conventional heating systems - space heaters and others - must comply with local jurisdictional guidelines.

Solar energy systems are discussed in Appendix B.

15. Electricity

Electricity must be available for lighting and for equipment used in the living unit. Refer to the specific instructions in the protocol (Appendix D) for determining adequate electricity.

16. Other Health And Safety Deficiencies The appraiser must note and make a repair requirement for any health or safety deficiencies as they relate to the subject property, including:

o broken windows, doors or steps
o inadequate or blocked doors
o steps without a handrail
o others

The appraiser must operate a representative number of windows, interior doors and all exterior and garage doors, as well as verify that the electric garage door operator will reverse or stop when met with resistance during closing.

If conditions exist that require repair, mark "YES" in VC-11 and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

17. Lead-Based Paint And Other Hazards If the home was built before 1978, the appraiser should note the condition and location of all defective paint in the home. Inspect all interior and exterior surfaces - wars, stairs, deck porch, railing, windows and doors - for defective paint (chipping, flaking or peeling). Exterior surfaces include those surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.

> If there is evidence of defective paint surfaces, condition the appraisal on their repair, mark "YES" in VC-12 and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

For condominium units, the appraiser needs to inspect only the exterior surfaces and appurtenant structures of the unit being appraised and address the overall condition, maintenance and appearance of the condominium project.

> If the condominium project was built before 1978 and shows signs

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of excessive deferred maintenance or defective paint, mark "YES" in VC-13 and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

B. OTHER CRITERIA

There are other eligibility criteria that are not part of the VC form. The lender bears primary responsibility for these; however, they are provided here so that the appraiser may reference them if questions arise during the property inspection.

1. Party Or Lot Line Wall

There must be adequate space based upon market acceptability between buildings to permit maintenance of the exterior walls for detached homes.

2. Service And Facilities

Trespass. Each living unit must have the capacity to be maintained individually without trespassing on adjoining properties.

Utilities. Utilities must be independent for each living unit except that common services - water, sewer, gas and electricity - may be provided for living units under a single mortgage or ownership.

o Each unit must have separate utility service shut offs.

(3-6) o Each unit must have individual meters.

o For living units under separate ownership, common utility services may be provided from the main service to the building line when protected by an easement or covenant and maintenance agreement acceptable to HUD.

o Individual utilities serving a unit must not pass over, under or through another unit, unless:

- Provisions have been made for repairing and maintaining those utilities without trespassing on adjoining properties.

OR

- An easement of covenant is made for permanent right of access for maintenance and repair of utilities.

o If a single drain line in the building serves more than one unit, the building drain clean-outs must be accessible from the exterior.

o Other facilities must be independent for each living unit, except common services, such as laundry and storage space or heating, may be provided for two-to-four-living-unit buildings under a single mortgage.

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Dedication. Utilities must be located on easements that have been permanently dedicated to the local government or appropriate public utility body. This information must be recorded on the deed record so that the utility services match the easement.

3. Non-Residential Use Design Limitations

A qualified property must be predominantly residential in use and appearance. Any nonresidential use of the property must be subordinate to its residential use, character and appearance. A property, any portion of which is designed or used for nonresidential purposes, is eligible only if the type or extent of the nonresidential use does not impair and/or remove the property's residential character and appearance.

4. Access Onto Property

Access to the living unit must be provided without passing through any other living unit. Access to the rear yard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by an alley, easement or passage through the dwelling.

(3-6)5. Space Requirements

Each living unit must have the space necessary to ensure suitable living, sleeping, cooking and dining accommodations and sanitation facilities.

6. Bedroom Egress

All bedrooms must have adequate egress to the exterior of the home. If an enclosed patio (solid walls) covers the bedroom window, it is possible that the bedroom won't qualify as a habitable bedroom. Security bars are acceptable if they comply with local fire codes. Occupants of a bedroom must be able to get outside the home if there is a fire.

7. Energy Efficiency

For new and proposed construction and properties less than one year old, all detached one- and two-family dwellings and one-family townhouses not more than three stories in height must comply with the CABO Model Energy Code, 1992 Edition, Residential Buildings, except for sections 101.3.1, 101.3.2, 104 and 105. These sections remain:

- Section 101.3.2.2, Historic Buildings
- The Appendix
- HUD Intermediate MPS Supplement 4930.2 Solar Heating and

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Domestic Hot Water Systems, 1989 edition

Valuation procedures for solar energy systems can be found in Appendix B.3.

C. CONDITIONS NOT REQUIRING REPAIRS

Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.

These are some examples:

o A wood floor's finish that has worn off to expose the bare wood must be sanded and refinished. However, a wood floor that has darkened with age but has an acceptable finish does not need polishing or refinishing.

o Peeling interior paint and broken or seriously cracked plaster or sheetrock require repair and repainting, but paint that is adequate though not fresh does not need to be redone.

o Missing shrubbery or dead grass on an existing property does not need to be replaced.

o Cleaning or removing carpets is required only when they are so badly soiled that they affect the livability and/or marketability of the property.

o Installing paved driveways or aprons should not be required if there is an otherwise acceptable surface.

o Installing curbs, gutters or partial street paving is not required unless assessment for the same is imminent.

o Complete replacement of tile floors is not necessary if some tiles do not match, etc.

Avoid unnecessary requirements because they increase housing cost without adding any basic amenities to the property.

D. REPAIR CONDITIONS FOR NEW/PROPOSED CONSTRUCTION The appraiser must develop the cost approach for new or proposed construction and the normal site development costs must be included in the lot value. Where unusual cuts, fills, retaining walls, etc. are necessary to prepare the site for the proposed building improvements, estimate the amount by which the cost of the work exceeds the cost of preparing typical sites for similar structures from the Marshall and Swift Cost Handbook. This estimate supplements the estimate of the replacement cost of building improvements.

o When estimating the market price of a site with unusual site characteristics that must be corrected, assume that the site is in the

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condition that will exist after the corrective work is completed. Disregard the cost of the treatment, but use the value of the improved site in the estimate of the replacement cost of the property.

o Use the supplemental cost estimate to:

- determine the extent to which the replacement cost of the property will exceed the cost of a substitute property produced by constructing identical improvements on a typical site
- indicate the extent to which value may be less than the replacement cost for that part in excess of the cost of preparing the typical site

o Do not include the cost of treating unusual site characteristics in the estimate of replacement cost of building improvements. It is necessary to avoid including both the effect of site treatment and the cost of the work in the estimate of replacement cost of the property.