

FHA Announces HUD REO Appraisal Validity Period and Second Appraisal Changes (ML 2010-08)

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Notable Date:

Validity period changes: Effective for appraisals used to establish REO list prices April 1, 2010 or after
Second appraisal changes: Effective immediately

Industry Participants Affected:

All FHA Approved Lenders

Synopsis:

HUD obtains an appraisal to establish a list price for REO properties that are marketed for sale. If the buyer of the REO property is financing the purchase with an FHA loan, the lender must use the HUD appraisal as long as it is still valid. Effective with appraisals performed April 1, 2010 or after, the validity period has been reduced from six months to 120 days.

If a contract of sale is not ratified within 120 days of the appraisal the lender must order a new appraisal or an appraisal update. The appraisal update must be performed by the original appraiser and the appraiser must make an exterior inspection of the subject property. The appraiser must certify that the property has not declined in value based on research and analysis of current market data. The appraiser must also take pictures of the exterior of the property and certify that the property inspection does not reveal any deficiencies or significant changes since the original inspection.

With the exception of 203(k) as-repaired appraisals for REO properties, a second appraisal may not be ordered unless it is no longer valid as of the date the contract of sale was ratified, or if there are material deficiencies with the current appraisal. The DE underwriter is responsible for determining if there are material deficiencies. If a second appraisal is ordered, the DE underwriter must document the deficiencies and both appraisals must be retained in the case binder.

How does it change or benefit the industry:

This change is consistent with the guidance provided in Mortgagee Letter 2009-51 regarding appraisal validity periods for non-HUD REO transactions. The reduction in the appraisal validity period also reflects the current market conditions and protects HUD, the lender, and the buyer against the possibility that the market value of the subject property has declined.

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