

CHAPTER 9. REVIEWS OF APPRAISAL REPORTS

SECTION 1. THE DESK REVIEW

9-1. PURPOSE:

A. The review has three major purposes:

- 1) To examine, correct and modify reports to obtain accuracy, consistency and soundness of conclusions.
- 2) To determine quality and efficiency of work completed by appraisers, and to aid in training and supervision.
- 3) During the post endorsement technical review of Direct Endorsement cases, to determine the accuracy of the appraisal report and the quality of the Direct Endorsement Underwriter's appraisal review.

B. Cases Requiring Special Attention. The following types of cases require special attention by the reviewer:

- 1) Proposed Construction Cases and newly constructed properties with HUD-approved ten-year warranties.
- 2) Complex or unusual cases.
- 3) Reports of newly appointed panel members or those known to require close supervision.
- 4) Cases involving special or new programs.
- 5) Cases that may establish precedents in the new areas.

C. REVIEW PROCEDURES:

- 1) Whether under the Direct Endorsement procedure or HUD processing, every appraisal received is desk reviewed to determine whether or not the appraiser's conclusions are acceptable prior to the issuance of the statement of appraised value or conditional commitment. The review consists of the following:
 - a. Verification (from available data) that the factual information submitted is correctly reported.
 - b. Determination of the plausibility and consistency of the conclusions based upon data presented in the report.

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- c. Determination of the consistency of the reported conclusions by comparison with other data conclusions reported in similar cases recently processed.
 - d. Compliance with HUD underwriting instructions.
- 2) The reviewer uses, among others, the following sources of data:
- a. Mortgagee's Application.
 - b. Recorded Sales Data.
 - c. Subdivision Binder.
 - d. Sales contract and other evidence of acquisition cost.
 - e. For newly constructed properties refer to HUD Handbook 4145.1.

The reviewer shall determine which cases require field review based upon doubts he/she may have as to the validity of the conclusions found in the report.

- 3) Signature of Reviewer. Each reviewer must sign and date the report (initials are not satisfactory) and is fully responsible for the quality of the review of the report.

9-2 Review of the Appraisal Report.

- A. It is incumbent upon the reviewer to carefully analyze the report for reasonableness and a logical conclusion of value. Large adjustments should suggest that a comparable may not be suitable, and in such a case the reviewer should check the office data for other comparables which the appraiser could have used. The pictures of the comparables will aid the reviewer in confirming information in the appraisal report. The reviewer must also be aware of the values of central air conditioning, storm windows, and other such items which affect market value.
 - B. If found to be acceptable, and the property is eligible for mortgage insurance, the reviewer signs and dates the report and computes the maximum mortgage amount for the property.
 - C. If the reviewer concludes that the appraisal report findings are inconsistent, or are otherwise unacceptable, the reviewer must contact the appraiser or return the case to the appraiser for reconsideration. The reviewer may also modify or amend the report in any manner which can be supported by
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- (9-2) HUD valuation policy adequately documented. This includes the adjusting of value, the removal or addition of repair requirements, and the overall determinations of property approval and rejection.
- D. The reviewer must determine if the appraiser has provided a fully documented report about the subject property and if the judgments rendered by the appraiser are reasonable.
- E. The reviewer should review the front page of the appraisal report which encompasses the neighborhood, typical age, values, rents, etc. This provides a broad picture of the environment in which the subject property is located. The required photos and map help to enhance the reviewer's understanding of the type of property being appraised. Of primary concern to the reviewer in examining this front page of the appraisal report is:
- 1) Is the information consistent?
 - 2) Is the property in a "Special flood hazard area?"
 - 3) Has the appraiser inserted the FEMA map and zone, if available?
- F. On the back page of the Appraisal Report, the reviewer should check the perimeter dimensions shown in the building sketch for consistency with the gross living area shown in the sales comparison analysis.
- G. To the right, although the appraiser is not required to complete the cost analysis for a single family existing dwelling, the estimated site value must be shown.
- H. When reviewing the sales comparison analysis, the reviewer must carefully examine each critical area, as mentioned previously, for anything which appears unreasonable. Taking each critical area in order, the reviewer examines:
- 1) The distance between the comparables and the subject, and if one of them is a conventional sale, if available. In an urban area, ten or fifteen blocks may appear reasonable, whereas anything over that could constitute an entirely different neighborhood and environment.
 - 2) The comparable sales data should not be over six months old. Anything over six months may reflect a different market. If a comparable is seven or eight months old, the reviewer should expect an explanation for its use and possibly an adjustment relating to any upward or downward

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- (9-2) trend in the marketplace, if appropriate. Any comparable a year or more old is unacceptable, except in those rare cases where there are no comparables within a reasonable distance which were recent sales. This may occur in certain rural areas.
- 3) The comparables should be reasonably equal to the subject in size, age and design. The reviewer must recognize that it is not always possible to find three comparables very close in similarity to the subject. If the subject is a Cape Cod, and no recent sales of Cape Cods can be found, then the reviewer would expect the appraiser to use a one and a half story home, and make the necessary adjustments. If the subject contained fifteen hundred square feet of finished living area (not including a finished basement) the reviewer would expect the comparables to range in size from twelve hundred to eighteen hundred square feet, so that a reasonable adjustment could be made.
- 4) The reasonableness of the adjustments is examined. This is the most important part of the appraisal report, since the total adjusted values of the comparables bracket the market value of the subject. The reviewer must be familiar with the neighborhood and what the market is willing to pay for differences such as central air conditioning, energy-saving features, screened and unscreened porches, patios, etc. Also, an adjustment may be necessary for a larger or smaller home, or perhaps an extra bedroom, even if it is small. In reviewing these adjustments the reviewer looks for consistency. For example, if the appraiser uses an adjustment of fifteen hundred dollars for central air conditioning for one comparable, the same amount of adjustment would be expected to be used for the other comparables in the report; or if ten dollars per square foot is used for a size adjustment, this same amount would be expected to be used for the other comparables, considering of course, that they were of approximately the same age and construction. The reviewer should calculate the dollar amount per square foot which the appraiser used to adjust for size keeping in mind what a new house of that type would cost in accordance with cost figures found in the Marshall and Swift Cost Handbook. This is an area which has been much abused. The reviewer should know what the market in a particular area is willing to pay for size difference and such figures should not be exceeded without a clear explanation from the appraiser. The reviewer should, in such cases, refer to the Marshall and Swift Cost Handbook to

- (9-2) determine what the basic cost per square foot would be for a new, like dwelling before contacting the appraiser. Also, adjustments for very small differences are questionable.
- 5) Along these same lines, the reviewer should look for consistency in land values. There should not be adjustments for lot sizes in a neighborhood of similarly sized lots. A corner lot which may be considerably larger and more desirable might call for some adjustment. The typical buyer does not take into consideration a few feet difference. If the location of a lot in a given subdivision were at the edge of a golf course and considered prime in the area, then a reasonable adjustment would be acceptable.
- 6) The reviewer must analyze the final adjusted value of each comparable. If good comparables were used, the final adjusted value of each comparable should be very close to one another, perhaps within ten to fifteen percent. The reviewer then checks to see if the appraiser has selected the comparable most similar to the subject in arriving at the final estimate of value.

SECTION 2. THE FIELD REVIEW

- 9-3. GENERAL. The field review measures the quality of the appraiser's performance. Field reviewers must be professional and unbiased to assure that the appraiser has followed accepted appraisal techniques and arrived at a logical conclusion. Adjustments for location, site/view, design/appeal and age/condition are judgmental factors, and where such adjustments do not appear appropriate, the reviewer should comment about these items on the Field Review form. A quality field review should contain full comments about every aspect of the appraisal report in a constructive manner so that the appraiser will understand those areas of the report which are good and others which may need improvement.

Field offices must field review a minimum percentage (as established by HUD Headquarters), of selected appraisals and repair inspections

performed by appraisers. This includes each fee and DE staff appraiser's cases. A minimum percentage (as established by HUD Headquarters) of these field reviews must also include an interior inspection of the property.

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9-4. TIME FRAME AND DOCUMENTS REQUIRED FOR FIELD REVIEWS.

- A. The goal for performance of field reviews of HUD processed cases is thirty days from the date the HUD review appraiser issues a conditional commitment or rejects the property. The time limit for performance of field reviews of DE cases is thirty days after receipt of the URAR copy and the HUD-92800. To perform a thorough field review on DE cases, Field Offices may require more than the Copy of the URAR and 92800, e.g., photocopies of the photographs and other documentation from appraisers, at the Field Office's discretion.
- B. Timeliness is essential to ensure quality field reviews. Moreover, meeting the thirty-day goal will result in a more even distribution of field reviews throughout the fiscal year. If the properties are a great distance from the Field Office and meeting the thirty day goal would impose a hardship, this timeframe may be extended to sixty days.

9-5. SELECTING CASES FOR FIELD REVIEWS.

- A. The following types of cases should be selected for review:
- 1) Cases performed by Appraisers who have recently received poor ("1 or 2") ratings. (CHUMS report F17FOCA, Field Review Report identifies appraisers who have received poor ratings.)

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- (9-5) 2) Cases performed by new appraisers.
- 3) Cases on which complaints are received.
- 4) Cases underwritten by new DE Mortgagees.

- 5) Cases involving property in older, declining areas.
- 6) Cases identified through the desk review process. The following may be reasons for setting certain appraisals aside for field reviews:
 - a. Pictures do not match description of subject or a comparable. (Says slab but pictures show crawl.)
 - b. Picture of subject shows had roof, missing shingles, or peeling paint, etc., but no requirements--or comparables appear in bad condition and no adjustments made.
 - c. Adjustments made for location but comparables all within close proximity--or unreasonable location adjustments.
 - d. No repair requirements for an older home in average condition.
 - e. Appraiser suggests 223(e) and Reviewer is not sure. (No pictures of street scene or vacant or boarded-up properties.)
 - f. Complaint or second reconsideration request.
 - g. Former PD property with appraised value in excess of 10 percent of PD sales price.
 - h. Appraiser fails to check off any kitchen equipment. (Need to do interior review.)
 - i. All comparables a mile or more away. (Except in rural areas, check data for closer-in comparables.
 - j. Pictures indicate house may be considerably smaller than square footage shown. (Basement may have been included.)
 - k. Cases involving property in areas of high foreclosure or declining values.

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9-6. FIELD REVIEW OF MORTGAGOR COMPLAINTS.

Mortgagor complaints involving existing properties should be routed to the Valuation Section for field review if the complaint involves major mechanical items or an extensive list of deficiencies.

9-7. COMPLETION OF THE FIELD REVIEW FORM 1038v (See exhibits 1-5 at end

of chapter).

- A. All field reviews must be completed on form HUD 1038v. Reviewers should provide useful comments on the review form. The Field Reviewer should either concur with the appraiser's judgement or non-concur and explain why. Interior reviews are an important part of the field review since a serious oversight by the appraiser of a noticeable defect in the property could affect the health and safety of the occupants or the continued marketability of the property. Small cracks in windows, dripping faucets, torn screens and other small homeowner-type repairs should be obvious to the buyer and not detrimental to the overall value of the property. However, a noticeable crack in the basement foundation wall, water standing in the basement or crawl space, a bubbled roof or stains on the ceiling indicating a possible leak in the roof are obvious items which the appraiser is expected to report and require correction.
- B. The Field Review form is the Review Appraiser's Report to the Field Office of the facts concerning the appraisal reviewed. Once a field review is complete and the Form 1038v is submitted to the Field Office, HUD is responsible for all following actions. The rating of the field review report is HUD's responsibility, not the individual field review appraiser. The copy of the field review form that will be sent to the fee appraiser will not include the field review appraiser's name.
- C. THE RATING OF THE APPRAISAL REPORT.
 - 1) The Chief Appraiser (or designee) must review each field review report and rate the fee or DE staff appraiser using the 1-5 numerical rating system (see Appraisal Evaluation Matrix, Exhibit #4 at end of chapter). Each appraisal must be rated on its own merit, not on past performance of the appraiser. A "3" rating should be assigned if the appraiser has made errors and/or omissions, but such errors and/or omissions have a minimal effect on the final value. Errors and/or omissions which lead to value determinations which are an unacceptable underwriting risk to the Department should lead to "2 or 1" ratings. Any appraisal which indicates that the appraiser did not visit the subject property or the

(9-7) comparables, should result in a "1" rating. Any appraiser who is found to knowingly provide false information in an appraisal report should be removed from the panel by Limited Denial of Participation as set forth in HUD Handbook 4020.1 Rev-1.

- 2) After each review, the Chief Appraiser must send the original of the Form 1038v to the fee appraiser informing the appraiser of the results of the field review. Copy 2 of the form should be retained as a tickler to make sure the fee appraiser responds by the required date and may be destroyed upon receipt of original from the appraiser. The fee appraiser will be instructed on the form to come in for a personal meeting with the Chief Appraiser for a "2 or 1" rating. After three "2 or 1" ratings, the Chief Appraiser must:
 - a. Institute short term (30-day) training, during which time the appraiser should be given only a limited number of cases that can be monitored closely; or,
 - b. Remove the individual from the Fee Appraiser Panel by LDP or other appropriate means.
- 3) Documentation of each fee appraiser's performance is important. Files must be updated regularly. Copies of all field review ratings along with a record of disciplinary meetings, training sessions, and phone calls must be documented in each fee appraiser's file. Without this documentation it is difficult to justify action against a problem fee appraiser.
- 4) Selected field review reports which show deficient performances will be used as an additional basis for continued training for the entire staff.
- 5) In the case of DE staff appraisers, field review requirements are set forth in HUD Handbook 4000.4, REV.1.

9-8. MONITORING OF FIELD REVIEWERS.

- A. Five percent of every field reviewer's work must be reviewed by the Chief Appraiser (or designee). If the field reviewer is a HUD staff person, the quality of the field review will be reflected in the employee's work performance evaluation rating.
- B. If the Field Office assigns a rating of "3" or less to a field review fee appraiser, the Chief Appraiser will inform the field review fee appraiser by sending an official letter of warning. (A copy should be retained in the field review fee appraiser's

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(9-9) file.) The letter will inform the field review fee appraiser to either respond in writing for a "3" rating or come in for a

personal meeting for a "2 or 1" rating. Additional cases should not be assigned to field review fee appraisers until they respond to the "2 or 1" rating. After more than one "2 or 1" rating, the Chief Appraiser must remove the individual from the Field Review Appraiser Panel by LDP or other appropriate means.

- C. Documentation of each field review fee appraiser's performance is important. Copy 2 of the Form 1038v should be used to rate the performance of the field reviewer and this copy should be placed in the personnel file of the field reviewer. Files must be updated regularly. Copies of all field review appraiser's ratings along with a record of disciplinary meetings, training sessions, and phone calls should be included in each field review appraiser's file. Without this documentation it is difficult to justify action against a problem field review appraiser.

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Appraisal Field Review
Report

Exhibit 1.

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Exhibit 2.

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Exhibit 5.

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Exhibit 4.

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Exhibit 3.

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