

# FORSYTHE FLASH

Appraisal Insights for the Real Estate Professional



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## FHA Appraisals

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Lenders frequently ask me how the appraisal process differs for an FHA loan. One of the biggest differences is that an FHA appraisal includes a separate checklist of specific elements of the property. An important aspect of the FHA program is to protect relatively new home buyers who may not be able to pay for major repairs in the first few years of ownership.

The appraiser must inspect and report any deficiencies listed on the HUD-92564-VC addendum. (VC stands for "Valuation Conditions") This form states that "all required repairs must be completed in a professional manner prior to closing, and in compliance with the HUD guidelines." The VC sheet, as we refer to it, contains a summary of repairs needed and an estimate cost. We are looking for at least a three year life span on major components.

The VC sheet has 14 sections:

- |   |  |
|---|--|
| 1) Site hazards and nuisances                 | 8) Foundation                            |
| 2) Soil contamination                         | 9) Roofing                               |
| 3) Grading                                    | 10) Mechanical systems                   |
| 4) Individual water supply and sewage systems | 11) Other health and safety deficiencies |
| 5) Wood destroying insects                    | 12) Lead-based paint hazard              |
| 6) Private road access                        | 13) Condominiums                         |
| 7) Structural conditions                      | 14) Manufactured housing                 |

This list gives an idea of what the appraiser is required to examine for deficiencies. A few categories exhibit a higher rate of deficiency than others. Common items in need of repair are: significant cracks or water damage in the floor support systems, framing, walls, ceiling, attic, basement, crawl space or slab, or deterioration of the roof. Flat roofs must be noted. It is required that the appraiser test the furnace, central air conditioner, electrical and plumbing systems, as well as look for problems with the sewer system. The appraiser must note any broken or missing windows and doors, as well as test for proper reversal of mechanical garage doors when met with resistance. The appraiser must disclose the presence of peeling or chipping paint on both the interior and exterior of all structures built prior to 1978. This may be a sign of exposure to lead based paint. The VC sheet also states that any water supply that is not "public water" must be tested.

This is a brief overview of some of the critical areas the appraiser must note when performing an FHA appraisal inspection. For anyone involved in an FHA loan, we recommend a review of HUD's website: [www.hud.gov](http://www.hud.gov).

## Frequently Asked Questions

**Q: Why does the appraisal state that my house is smaller than what my realtor says?**

**A:** On a typical 1004 (Full) appraisal form, appraisers calculate the square footage per floor or level, above grade. This is reported on the first page under the "Description of Improvements" and on the second page under Gross Living Area in the "Sales Comparison". Again, for appraisers, gross living area is defined as square footage above grade, based on exterior measurements. Basements or lower levels of a house (finished or unfinished) are considered but are noted separately on the report. It is not uncommon for realtors to express the size of a home using total square footage, both above and below grade, and thus create confusion.

## Mortgage Rates As of October 21st

30 Year Fixed: **5.69%**

15 Year Fixed: **5.07%**

1- year ARM: **4.02%**

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