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Appraisal Insights for Busy Real Estate Professionals



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Insights & Perspectives of FHA's Final Rule on Lender Accountability.

Kent Smith, Branch Manager, Forsythe Appraisals, LLC – Columbus, OH

Lenders that submit appraisals to Housing & Urban Development (HUD) which do not meet the Federal Housing Administration's (FHA) requirements are subject to *civil monetary penalties* imposed by HUD's Mortgagee Review Board (MRB). The final rule applies to both sponsor lenders that underwrite loans and loan correspondent lenders that originate loans on behalf of their sponsor.

FHA's final rule addressing lender accountability which took effect August 19, 2004:

- 1) Achieves full compliance with FHA appraisal standards and the Uniform Standards of Professional Appraisal Practice.
- 2) Insures the homebuyers receive an accurate statement of the appraised value of their home.
- 3) Protects the FHA insurance fund which depends on accurate and reliable appraisal reports.

The final rule does not impose new requirements on lenders. Rather, the changes made by this final rule clarify the existing HUD policy regarding lenders' responsibility for appraisals and impose potential civil penalties for violators.

The Appraisal Institute, the leading appraisal organization, hails the new rule stating "HUD has taken a positive step in terms of recognizing a problem and attempting to address it through codified regulations. Good and honest lenders want good and honest appraisers; this rule should help continue that tradition."

The trend is for higher loan to value ratios for FHA insured properties. There is pending legislation introduced by Rep. Pat Tiberi (R-Ohio) which would eliminate the downpayment requirement for FHA loans. Default rates typically increase when downpayments are minimized or eliminated. Additionally, appreciation rates in many areas have stalled or are slowing significantly as interest rates rise and housing inventories increase due to reduced purchasing power. Therefore, accurate and reliable appraisals will become even more of an important tool in helping lenders with property and market risk analysis.

In summary, whether warranted or not, the best way for a lender to avoid potential *civil monetary penalties* is to choose a reputable and knowledgeable appraiser.

The full final rule document can be found in the Federal Register www.gpoaccess.gov/fr/index.html.

Frequently Asked Question

Q: Is the VC (Valuation Conditions) form required for existing properties (over one year old)?

A: Yes, The VC form is also required for existing properties less than one year old. The form is not required for proposed construction and properties under construction.

Mortgage Rates As of September 23rd

30 Year Fixed: **5.70%**

15 Year Fixed: **5.10%**

1- Year ARM: **4.00%**

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