

External Circular

FHA 203K – Report Completion Requirements

Circular No.: 2012-38-E

Date: December 19, 2012

Distribution: Fee Panel Appraisers
Vendor Management Companies
Staff Appraisers/Reviewers

Effective: December 19, 2012

This circular provides an overview of completion requirements that are currently in effect for 203K appraisal assignments.

Reconciliation

The appraisal report will contain a statement next to the final value that the appraisal being performed is a **"203(k) as improved per repairs and alterations"**.

Purchase

- **Purchase Appraisal Made "Subject To"** — The purchase appraisal is **always** made **"Subject To"** the completion of the proposed repairs or renovations. "As-Is" value is not required. In the Reconciliation Section, the appraisal is made **"subject to the following repairs or alterations on the basis of a hypothetical condition that the improvements have been completed"**.
- **List of Proposed Rehabilitation Repairs or Improvements** — The appraiser must obtain from LandSafe a copy of the list of proposed repairs or improvements and must include the following in the appraisal report Improvement Section or addendum comments: *"To avoid delay, review immediately and advise scheduler if any items are missing or incomplete."*
 - List of proposed repairs or proposed improvements
 - The cost to complete each item or a contractors bid; include the name of the contractors, if available
 - When the rehabilitation is completed, the property will meet FHA's Minimum Property Requirements (MPR)/Standards. If there are any MPRs, repairs or inspection items that have not been included in the 203K Work Write-Up (WWU) or Specification of Repairs (SOR), the appraiser must itemize separately in the appraisal and include an estimate of the cost to complete.

Example: Required Repairs to Meet FHA MPR — Not included in WWU or SOR:

1. Water damage interior ceiling \$1,000 for sheetrock, texture and paint
2. Evidence of termites; termite inspection and required repairs

Refinance

As-Is Value Statement on Refinances – On refinances, in addition to the "Subject To" value, the appraiser is to provide an "**As-Is**" opinion of market value in the additional comments or the Reconciliation Section of the appraisal. The appraiser is also to provide support for the "**As-Is**" value and may include additional comparables in a supplemental addendum. When an "As-Is" value is provided, it needs to be supported.

Utilities and Smoke Detectors

Utilities — For 203K transactions, it is not necessary that utilities be turned on at the time of inspection. Use the appropriate text below to describe the situation. If utilities are not turned on, **do not** make turning them on a "Subject To" condition.

State if utilities were on or off:

ON: *As of the time of the inspection, utilities were on and a representative sample of plumbing, electrical and heating system was tested and appeared to be working properly.*

OFF: *As of the time of the inspection, utilities were NOT on. A representative sample of plumbing, electrical and heating system will NEED TO BE tested to confirm utilities working properly.*

Smoke Detectors — Comment on whether or not smoke detectors are located in or adjacent to bedrooms. If smoke detectors are not so located, add installing them to the list of "Subject To" conditions.

Sales Contract

Reporting on the Subject Contract Sale Price:

- If the property is being purchased, **do not** rely on the sales price stated in the appraisal order. Instead, the appraiser **must** obtain a copy of the fully executed signed contract and report the sales price from the contract.
- If the contract price is not a reasonable reflection of the "As-Is" opinion of market value, please address this in the appraisal report.

Resources

Click on the following link to review the [LandSafe 203K Training Guide](#).

For more information regarding **HUD/FHA** and property inspection requirements refer to:

- www.hud.gov
- [HUD FHA 4150.2 Appendix D:Valuation Protocol](#)

Questions

Please contact the LandSafe Resolution and Customer Service Team at 1.800.341.6033.