

# Lending Guide

## Chapter 12 | FHA Property and Appraisal Requirements Lending Guide

Cardinal originates FHA loans; all FHA loans must be documented, processed, and closed in accordance with Cardinal and FHA's eligibility requirements. These guidelines are to be used in conjunction with the FHA guidelines outlined in the HUD Handbook 4000.1, Mortgagee Letters, HUD Notices, Federal Register Updates, and the Cardinal Product Snapshots.

**This chapter details Property and Appraisal Requirements for FHA loans.** Refer to [Chapter 12 Credit](#) for Credit, Income and Asset requirements for FHA loans.

### Documentation Requirements

#### Age of Documents

#### Appraisal

The appraisal is valid for 180 days from the effective date of the appraisal for both new and existing construction.

#### Appraisal Updates

An appraisal update may be used to extend the validity period of the initial appraisal report. Where the initial appraisal is subsequently updated, the updated appraisal is valid for a period of one year after the effective date of the initial appraisal report that is being updated.

The Mortgagee may only order an update if (1) it is a Mortgagee listed as an Intended User of the original appraisal or (2) it has received permission from the original client and the Appraiser. The Appraiser incorporates the original report being updated by attachment rather than by reference per Advisory Opinion 3 of USPAP.

The Mortgagee may use an appraisal update only if:

- It is performed by an FHA Appraiser who is currently in good standing on the FHA Appraiser Roster;

- if a substitute Appraiser is used due to the lack of the original Appraiser availability, the substitute Appraiser must state they concur with the analysis and conclusions in the original appraisal report, and the Mortgagee must document in the case binder why the original Appraiser was not used;
- The Property has not declined in value;
- The building improvements that contribute value to the Property can be observed from the street or a public way;
- The Property meets Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) based on the original appraisal conditions;
- The appraisal update was performed by the Appraiser within one year from the effective date of the initial appraisal being updated; and
- The appraisal update is performed before the Disbursement Date

Refer to the [Appraisal Extension - Form 1004D](#) section for additional information related to appraisal extensions.

## Appraisal

The specifics in this section are in addition to Cardinal's standard Property and Appraisal requirements. If there is a conflict between the two policies, the more restrictive guidance applies.

### Purchases in Excess of Appraised Value

For Purchase transactions, the borrower must acknowledge in writing of his/her/their intent to proceed when the purchase price exceeds the appraised value.

### General Information

HUD/FHA and Cardinal require the subject property and the FHA appraisal comply with all applicable requirements in the Appraiser and property Requirements for Title II Forward and Reverse mortgage section published in the FHA Single Family Housing Policy Handbook (HUD 4000.1).

FHA appraisals must be reported in accordance with "Acceptable Appraisal Reporting Forms and Protocols." HUD's required property Acceptability Criteria includes FHA's MPR and MPS and provides the requirements for Appraisers to establish a credible appraised value for a subject property.

These criteria apply to both existing and new construction for 1-4 unit residential properties, individual condominium units, manufactured housing units, and related improvements, and site considerations. Cardinal will review the appraisal for accuracy and completeness and will also:

- Determine whether subject property meets HUD's property Acceptability Criteria including HUD's MPR/MPS, and may require inspections, certifications, or repairs by appropriate qualified professionals to demonstrate compliance with these criteria.
- Evaluate if the appraisal complies with the requirements in HUD's Valuation and Reporting Protocols, and any additional appraisal requirements specific to the subject property, and complies with all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local anti discrimination laws.
- Determine if the appraisal provides a credible analysis of the subject's marketability and value. Determine if the property's market value is sufficiently supported and the property will serve as adequate collateral for the FHA loan.

### **Nondiscrimination Policy**

The Appraiser must be knowledgeable of and fully comply with all federal, state, and local laws, including any anti discrimination laws, rules applicable to the subject appraisal of the Property, or any provisions of the Fair Housing Act.

No part of the appraisal analysis or reporting may be based on the race, color, religion, sex (including sexual orientation or gender identity), age, actual or perceived marital status, disability, familial status, national origin of either the prospective owners or occupants of the Property, present owners or occupants of the Property, or the present owners or occupants of the properties in the vicinity of the Property, or on any other basis prohibited by federal, state, or local law.

### **Compliance with FHA Guidelines and USPAP**

The Appraiser must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when completing appraisals of Property used as security for FHA-insured Mortgages. The Appraiser must observe, analyze, and report whether the Property meets HUD's

Property Acceptability Criteria, including Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

MPR refers to general requirements that all homes insured by FHA be safe, sound, and secure. MPS refers to regulatory requirements relating to the safety, soundness, and security of New Construction.

Every Property must be safe, sound, and secure so that the Mortgagee can determine eligibility. The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with HUD's MPR and MPS, or they must clearly state when no deficiencies with HUD's Property Acceptability Criteria have been observed or are known.

When performing an appraisal, the Appraiser must review and analyze the following and report the results of that analysis in the appraisal report.:

- The land lease, if applicable; and
- Surveys or legal descriptions, if available; and
- Any other legal documents contained in the loan file

### **Appraiser Conduct**

The Appraiser must perform all FHA appraisal assignments in a competent, independent, impartial, and objective manner. The Appraiser must avoid practices that could affect the reliability of the appraisal report opinions and conclusions. In addition to compliance with USPAP, including the Competency Rule, the Appraiser must not:

- Discriminate in developing any part of the appraisal or value conclusion based on characteristics that are protected by federal, state, or local laws;
- Misrepresent the scope of work performed in the completion of the FHA appraisal; or
- Develop or communicate an appraisal report to FHA that is knowingly misleading or fraudulent

### **Appraisal Effective Date**

The effective date of the appraisal cannot be before the FHA Case Number Assignment date unless the Mortgagee certifies, via the certification field in the Appraisal Logging Screen in FHAC, that the appraisal



was ordered for conventional lending, or other government-guaranteed loan purposes and was performed by a FHA Roster Appraiser, or the previous case number was canceled.

### **Appraisal Form Requirements**

Cardinal's Appraisal Management Company vendors are required to ensure that all appraisals are:

- UAD Compliant
- Prepared in accordance to the most recently published FHA Single Family Housing Appraisal Report and Data Delivery Guide

The Appraiser must utilize all appropriate approaches to value when applicable. The Sales Comparison Approach is required for all appraisals.

### **Comparable Sales Selection**

Characteristics of the Property Comparable sale selection must be based on properties having the same or similar locational characteristics, physical characteristics and the priority the market assigns to each factor, including:

- Site
- Site view
- Location
- Design
- Appeal
- Style
- Age
- Size
- Utility
- Quality
- Condition; and
- Any other factor that in the Appraiser's professional judgment is recognized as relevant in the subject market

### **Required Analysis and Reporting**

The Appraiser must include as many comparable properties as are necessary to support the Appraiser's analysis and conclusion. At a minimum, the Appraiser must include the most recent and relevant sales,

preferably within the last six months. The Appraiser must include at least three sales that settled no longer than 12 months prior to the effective date of the appraisal. The Appraiser must provide additional support by including more sales, offerings, offerings now under contract, or relevant sales that settled more than 12 months prior to the effective date of the appraisal.

The Appraiser must analyze the whole market, including when there are a number of sales that may or may not be classified as arm's length sales or may not be classified as directly similar to the Property.

### **Cost Approach**

The cost approach is required for new construction, manufactured homes (new and existing), unique properties, and may be requested at the discretion of the underwriter.

### **Minimum Photograph Requirements**

- Subject Property Exterior
  - Front and rear at opposite angles to show all sides of the dwelling
  - Improvements with Contributory Value not captured in the front or rear photograph
  - Street scene photograph to include a portion of the subject site
  - For New Construction, include photographs that depict the subject's grade and drainage
  - For Proposed Construction, a photograph that shows the grade of the vacant lot
- Subject Property Interior
  - Kitchen, main living area, bathrooms, bedrooms
  - Any other rooms representing overall condition
  - Basement, attic, and crawl space
  - Recent updates, such as restoration, remodeling and renovation
  - For two-four unit Properties, also include photographs of hallways, foyers, laundry rooms and other common areas

- Comparable Sales
  - Front view of each comparable utilized
  - Photographs taken at an angle to depict both the front and the side when possible
  - Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, Appraisers must include their own photographs as well, to document compliance
  
- View
  - Photographs of any negative or positive view influences that substantially affect value or marketability
  
- Subject Property Deficiencies
  - Photographs of the deficiency or condition requiring inspection or repair
  
- Condominium Projects
  - Additional photographs of the common areas and shared amenities of the Condominium Project

**Other Property Type Forms**

The requirements noted above for single family appraisals are applicable to all form types.

Form	Property Type
1004C	Manufactured Housing
1073	Attached Condominiums
1025	2-4 unit Properties

## **Market Conditions Addendum**

FHA has updated their guidance to no longer require Form 1004MC Market Conditions Addendum.

## **Rental Income Forms**

Either FNMA Form 1007 or FHLMC **Form 1000** are required when qualifying with rental income for a 1-unit property. These exhibits verify and document the proposed rental income showing the fair market rent, and if available, the prospective lease.

## **Appraisal Extension - Form 1004D**

Appraisers may perform an update of a previously completed appraisal using the Fannie Mae Form 1004D/Freddie Mac Form 442 when requested by the Mortgagee.

The Appraiser must adhere to the Scope of Work and Appraiser's Certification listed on the form, which includes an exterior inspection of the subject Property from, at least, the street; and research, analyze and verify current market data to determine whether the Property has or has not declined in value since the effective date of the appraisal report being updated.

If the Appraiser concurs with the original appraisal report and determines that the value has not declined, the Appraiser must indicate this on the form, provide any necessary comments, and provide a photo of the front of the subject Property taken from the public street.

The updated form may not be used if the property has declined in value, building improvements that contribute to value to the property cannot be observed from the street or a public way, or the exterior property inspection reveals deficiencies or other significant changes that did not exist as of the original appraisal effective date

## **Certificate of Completion - Form 1004D**

Part B of 1004D may be used for an existing property to report completion of a repair and/or the satisfaction of requirements and conditions noted in the original appraisal report. It may be completed by the original appraiser or another FHA appraiser currently in good standing on the FHA appraiser

roster if the original appraiser is not available and the new appraiser is furnished with a copy of the original report.

### **1004D Repair / Completion Inspection**

Cardinal Financial strives to streamline our settlement process to assure timely closing and funding of our loan transaction. To achieve that, we strongly urge that any repair or completion inspection be provided to the underwriter as a PTA condition prior to “clear to close”.

In instances where timing precludes obtaining the inspection prior to closing, the underwriter can move the 1004D for new construction and existing properties to PTF. The following steps should be followed to accomplish moving the document from PTA to PTF:

- If a 1004D was provided Prior to Approval but it is not a clear inspection with all work completed, the underwriter will Approve the 1004D document. Proceed to the Transaction screen > Tags and affix uw\_need\_appraisal\_1004D\_PTF, then press Force Update.
- If a 1004D isn't provided Prior to Approval, the underwriter will note EXCLUDE with a reason that the document is moving to PTF and Save. This will waive the document Prior to Approval. Proceed to the Transaction screen > Tags and affix uw\_need\_appraisal\_1004D\_PTF, then press Force Update.
- Since the loan will not fund without the underwriter reviewing the 1004D, there is no additional escalation or approval needed in order for the underwriter to move this document to Prior to Funding.

### **HUD Form 92800.5B / Conditional Commitment**

Must be completed by the DE Underwriter where a Statement of Appraised Value is required. A copy is delivered to the borrower(s).

A Statement of Value is not required in connection with:

- HUD REO sales;
- FHA 203(k) loan program;

- Sales in which the borrower will not be an owner-occupant (e.g. nonprofit agencies);
- Sales in which the Seller is:
  - Fannie Mae
  - Freddie Mac
  - VA
  - USDA Rural Housing Services
  - Other federal, state, or local government agencies
  - Investor disposing of REO assets
  - A Seller at a foreclosure sale

## **Transferred Appraisals**

- If the original lender has not been reimbursed for the cost of the appraisal, the original lender is not required to transfer the appraisal until it is reimbursed
- The original lender must, at the borrower's request, transfer the appraisal to the second lender within five (5) business days. The appraiser is not required to provide the appraisal to the new lender
- FHA appraisals are tied to the FHA case number assignment and must be transferred to Cardinal along with the case number in FHA connection
- If, prior to case transfer, the original lender uploaded an appraisal for the case, Cardinal (new lender) will be unable to view the appraisal in the EAD Portal
- FHA transferred appraisals require:
  - A copy of the XML

- A first-generation appraisal PDF from the current lender in order for Cardinal to upload into the EAD portal
- The original lender must first transfer the case number to Cardinal in the FHA Connection (FHAC) before Cardinal may submit the appraisal to the EAD portal
- Upon completion of the case transfer and allowing for an overnight update in FHAC, Cardinal will proceed with submitting the appraisal so the case transfer information can be updated into the EAD portal
- FHA appraisals must comply with FHA guidelines for appraisal portability and must have been ordered by an approved HUD lender and the appraiser must be listed on FHA's Approved Appraiser roster as provided by HUD
- The lender name, buyer name or any transaction details do not need to be updated and should not be requested.
  - Cardinal may not request the Appraiser to re-address or modify the appraisal. If the second lender finds deficiencies in the appraisal, the lender must order a new appraisal in accordance with the [Ordering a Second Appraisal](#) section below.
  - In the event the transferred appraisal is subject to completion or repairs, Cardinal will make an effort to re-engage the original appraisal to render services for the final inspection, however, an alternative FHA appraiser may be used as needed.
- In the case of a property flip and two appraisals have been completed by another lender, both appraisals can be transferred to Cardinal.
- Where a Mortgagee uses an existing appraisal for a different Borrower, the Mortgagee must enter the new Borrower's information in [FHAC](#) prior to being scored by the TOTAL scorecard. The Mortgagee must collect an appraisal fee from the new Borrower and refund the fee to the original Borrower.

For guidance on Appraisal Conversions, refer to [Chapter 2 Documentation Standards](#).

## Ordering a Second Appraisal

The Mortgagee is prohibited from ordering an additional appraisal to achieve an increase in value for the property and/or the elimination or reduction of deficiencies and/or repairs required.

A second appraisal may be ordered for mortgages that are in accordance with requirements on [Property Flipping](#) located in Chapter 12 Credit | FHA | Lending Guide and outlined below.

### Property Flipping: Restrictions on Resales Occurring Between 91 Days and 180 Days After Acquisition

A second appraisal is required by another Appraiser if:

- The resale date of a property is between 91 and 180 days following the acquisition of the property by the seller; and
- The resale price is 100 percent or more over the price paid by the seller to acquire the property.

If the second appraisal supports a value of the property that is higher than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.

- Note: When the second appraisal report (defined as the appraisal completed on a date greater than or equal to the first appraisal date) effective value is higher than the first appraisal report, the higher value is prohibited from being used to determine the property value.

If the second appraisal supports a value of the property that is more than 5 percent (5%) lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.

If the second appraisal supports a value of the property that is less than 5 percent (5%) lower than the value of the first appraisal, the higher value of the first appraisal may be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.

Refer to [Property Flipping](#) for additional information.



## **Second Appraisal by Original Mortgagee**

A second appraisal may only be ordered if the underwriter determines the first appraisal is materially deficient and the Appraiser is unable or uncooperative in resolving the deficiency. The Mortgagee must fully document the deficiency and status of the appraisal in the mortgage file. The Mortgagee must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. Material deficiencies include, but are not limited to:

- Failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
- Reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- Fraudulent statements or conclusions when the Appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy and/or thoroughness of the appraisal submitted to the client.

## **Second Appraisal by Second Mortgagee**

A second appraisal may only be ordered by the second Mortgagee under the following limited circumstances:

- The first appraisal contains material deficiencies as determined by the underwriter for the second Mortgagee;
  - The Mortgagee must rely only on the second appraisal and ensure that copies of both appraisals are retained in the case binder
- The Appraiser performing the first appraisal is prohibited from performing appraisals for the second Mortgagee; or

- The Mortgagee must rely only on the second appraisal and ensure that copies of both appraisals are retained in the case binder
- The first Mortgagee fails to provide a copy of the appraisal to the second Mortgagee in a timely manner, and the failure would cause a delay in closing and harm to the Borrower, including loss of interest rate lock, violation of purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.
  - The first appraisal must be added to the case binder if it is received

### **Use of Second Appraisal**

For the first two cases outlined above, the Mortgagee must rely only on the second appraisal and ensure that copies of both appraisals are retained in the case binder. For the third case above, the first appraisal must be added to the case binder if it is received.

### **Required Documentation**

The Mortgagee must document why a second appraisal was ordered and retain the explanation and all appraisal reports in the case binder.

### **Appraisal Reporting Requirements**

The Appraiser must report as instructed in the HUD 4000.1 so that Cardinal may determine whether the subject property complies with FHA's minimum property requirements and standards. The guidelines in this section are provided to assist in the analysis of the appraisal, Cardinal's property and appraisal requirements noted in the guide section property and Appraisal must also be considered. If there is a conflict between Cardinal requirement and HUD's property/appraisal standards the more restrictive of the two apply.

### **Highest and Best Use**

As part of the highest and best use analysis ("HABU") analysis of the subject property, the Appraiser must determine whether the property's current use complies with the zoning ordinances as well as whether it is legal or legal non-conforming use.

For legal non-conforming (e.g. use, lot size, improvement size, off-street parking, etc.), the Appraiser must provide an explanation and state whether the property may be legally rebuilt if destroyed along with noting the verification source.

### **Prior Sales and Transfers**

The appraiser must report and analyze the prior sales/transfers history of the subject property and each comparable that occurred within three (3) years of the appraisal effective date. Any prior transfer regardless of conveyance type or consideration amount must be reported.

The appraiser must describe the difference between recent transfers versus the current sale or offering and the effect on the appraisal. He/she must evaluate the relevance of prior transfers to the current sale or offering of the subject or comparable.

### **Access to Property**

The property must be provided with safe pedestrian access and adequate vehicular access from a public or private street. Streets must either be dedicated to public use and maintenance, or retained as private streets protected by permanent recorded easements.

### **Site Size**

There is no specific limitation to the size/acreage of the site. The appraiser must provide an explanation in the addendum of the appraisal to explain adjustments to comparable properties and how the subject compares to other properties in the area, etc.

### **Private Roads**

Private roads, including shared driveways, must be protected by permanent recorded easements, ownership interest, or be owned and maintained by the HOA. Private roads and shared driveways do not require a joint maintenance agreement. Where applicable, a recorded easement must be reflected on the title commitment and reviewed by the underwriter.

The Appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane. A copy of the road maintenance agreement does not need to be obtained for the file.

## **Easements and Deed Restrictions**

The appraiser must note the presence of any easements and deed restrictions and analyze the effect these legal restrictions have on the subject's use, value and marketability.

The appraiser must also review recorded subdivision plats, if available and report any encroachment of the subject dwelling, garage, or other improvements onto an adjacent property, right-of-way, utility easement, or building restriction line. Encroachments of a neighboring dwelling, garage, other structure or improvement onto the subject property must also be noted.

## **Externalities**

The report must identify and consider how externalities will affect the subject's marketability by reporting the issue and market reaction, as well as to address any positive or negative effects on the subject's value within the approaches to value.

## **Storage Tanks**

If the subject property line is located within 300 feet of an aboveground, stationary storage tank with a capacity of more than 1,000 gallons or more of flammable or explosive material, then the Property is ineligible for FHA insurance, and the Appraiser must notify the Mortgagee of the deficiency of MPR or MPS.

## **High Voltage Transmission Lines**

The power line must be relocated for the property eligibility if:

- Any overhead electric power transmission line that pass directly over any Dwelling Structure or related property improvements including pools; or
- Any local distribution line may not pass directly over any pools, spas, or water features.

A certification must be obtained from the appropriate utility company or local regulatory agency stating the relationship between the improvements and the local distribution lines conform to local standards and is safe. If the Dwelling or related property improvements are located within an easement area; or if

Dwelling/related improvements appear to be located within an unsafe distance of any power line or tower.

### **Methamphetamine**

Methamphetamine contaminated properties have potentially significant environmental risk due to the use/storage of dangerous chemicals on the property.

Any party related to the transaction (Mortgage Broker, Seller, Realtors, Buyers) must inform Cardinal and the appraiser if the property is contaminated by the presence of methamphetamine (meth), either by its manufacture or consumption.

- Appraiser must render the appraisal subject to the property being certified safe for habitation by licensed, qualified professional/entity.
- Appraisers must also analyze and report any long-term stigma caused by the property's meth contamination and the impact to marketability.

### **Attic, Basements and Crawl Spaces**

The Appraiser is required to inspect the subject's attic, basement and/or crawl space. He/she must provide photos and address all visible deficiencies.

- The appraiser is required to observe the interiors of all attic spaces (not just "head and shoulders"). If unable to view improvements safely in their entirety, the appraisal will be made subject to inspection by the Appraiser or a licensed, qualified professional.
- If observation of the attic, basement or crawl space reveals evidence of a deficient condition, the appraiser must report this condition and render the appraisal subject to repairs.
- The Appraiser is required to observe all areas of the crawl space and notify Cardinal of a MPR/MPS deficiency when the crawl space does not comply with any of the following:
  - Floor joists must be sufficiently above ground level to provide access for maintenance and repair of ductwork and plumbing;

- 18 inches minimum vertical clearance between grade and the bottom of the floor joists if crawl space contains any system components;
- Crawl space must be properly vented unless the area is mechanically conditioned;
- Crawl space must be free of debris, trash and vermin;
- Crawl space must not be excessively damp and may not have water pooling.
- Any evidence that may indicate a structural support issue or any deficiency evidence (water stained subflooring, smell of mold).
- The appraiser should report if the crawl space is an intentional void (historic houses) with no mechanical systems and no intention or reason for access.

### **Utilities-Mechanical Components**

The Appraiser must notify the Mortgagee if mechanical systems do not appear:

- To have reasonable future utility, durability, and economy;
- To be safe to operate;
- To be protected from destructive elements; or
- To have adequate capacity

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance. If the systems appear to be damaged or do not appear to function properly, the Appraiser must condition the appraisal for repair or further inspection.

If the Property is vacant, the Appraiser must note in the report whether the utilities were on or off at the time of the appraisal.

If the utilities are off at the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the

utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

If the utilities are not on at the time of observation and the systems could not be operated, the Appraiser must:

- Render the appraisal as subject to re-observation;
- Condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
- Complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order

The Appraiser must note that the re-observation may result in additional repair requirements once all the utilities are on and fully functional.

If systems could not be operated due to weather conditions, the Appraiser must clearly note this in the report. The Appraiser should not operate the systems if doing so may damage equipment or when outside temperatures will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the Appraiser cannot determine if one or all of these systems are working properly.

The property must be habitable at time of closing. The borrower must occupy the property within 30 days and all work must be completed within 45 days of closing.

## **Appliances**

HUD/FHA considers built-in appliances as Real property. The Appraiser must indicate which appliances are considered Personal property or Real property. He/she must operate and observe the performance of all conveyed appliances. Any inoperable conveyed appliance is considered a MPR/MPS deficiency.

## **Heating and Cooling Systems**

The Appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of design, fuel or heat source.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the permanently installed heating system does not:

- Automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;
- Provide healthful and comfortable heat or is not safe to operate;
- Rely upon a fuel source that is readily obtainable within the subject's geographic area;
- Have market acceptance within the subject's marketplace; and
- Operate without human intervention for extended periods of time

Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the Appraiser must indicate the level of deferred maintenance, analyze and report the effect on marketability, and include the cost to cure.

### **Carbon Monoxide and Smoke Detector Standards**

Cardinal Financial will rely on the information provided in the residential appraisal report completed by a state-licensed appraiser regarding compliance with any applicable city, county, state, or other local jurisdiction laws or requirements. If a compliance issue regarding missing or nonfunctional carbon monoxide detectors or smoke detectors is indicated by the appraiser, the following requirements must be met depending on the status of the appraisal. If the Appraiser does not indicate that these items are not installed but completes the appraisal as meeting minimum property standards, we will assume that the items required to comply with state or local laws are in place.

### **As-Is' Property Appraisal for Newly Constructed Properties**

Newly Construction Properties with an 'As-Is' property appraisal requires **one** of the following documentation options to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from the builder verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Copy of receipt, confirming the purchase of smoke detector(s)



- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed

### **As-Is' Property Appraisal for Existing Properties**

Existing Properties with an “As-Is’ property appraisal requires **one** of the following documentation options along with an executed Certification and Indemnification Agreement to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from a licensed contractor, handyman or similar vendor confirming that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Copy of receipt, confirming the purchase of smoke detector(s)
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed

AND

- An executed Certification and Indemnification Agreement

**Note:** The Certification and Indemnification Agreement may be signed by the borrower, real estate agent or property seller on a purchase transaction. The Certification and Indemnification Agreement must be signed by the borrower on a refinance.

### **'Subject-To' Property Appraisal**

- A 1004D (provided by the appraiser) must be provided to verify that the functioning detector(s) have been installed to ensure compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.

## Description of Property and Location

A legible location map must be included in the appraisal report that shows the location of the subject and each comparable, including sales, listings and rentals, and other data points utilized. Additional legible maps must be provided if there exists substantial distance between the subject and comparables.

The building sketch must include the GLA calculations, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or out buildings with contributing value. “Covered” or “uncovered” must be indicated in the sketch for patio, decks, etc. An interior sketch or floor plan is also required for a property exhibiting the functional obsolescence attributable to the floor plan design.

Any physical deterioration and/or functional or external depreciation noted in or on the property. A conclusion as to the overall condition of the improvements must be provided that is supported by the previous descriptive sections. If the roof is covered with snow, the appraisal must explain why the roof is unobservable and report the results of assessment of the underside of the roof, the attic and the ceilings.

## Excess and Surplus Land

Excess Land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. Excess Land may have the potential to be sold separately.

Surplus Land refers to land that is not currently needed to support the existing improvement but cannot be separated from the Property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

## Required Analysis and Reporting

- The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser’s conclusion of the existence of Excess Land.
- The Appraiser must include Surplus Land in the valuation.
- If the subject of an appraisal contains two or more legally conforming platted lots under one legal description and ownership, and the second vacant lot is capable of being divided and/or

developed as a separate parcel where such a division will not result in a nonconformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land.

- The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

### **Accessory Dwelling Unit (ADU)**

An Accessory Dwelling Unit (ADU) refers to a single habitable living unit with means of separate ingress and egress that meets the minimum requirements for a living unit. An ADU is a private space that is subordinate in size, location and appearance to the primary dwelling unit and may or may not have separately metered utilities. The unit must conform with zoning requirements, which may include a legal nonconforming use.

A Single Family residential one-unit Property with a single ADU remains a one-unit Property. For any Single Family residential Property with two or more units, a separate additional Dwelling Unit must be considered as an additional unit.

### **One-Unit Single Family Dwelling with an Accessory Dwelling Unit**

When the highest and best use analysis determines the Property to be a Single Family dwelling with an ADU, the Appraiser must:

- Provide a description of the ADU characteristics;
- Summarize the ADU's market acceptance;
- Report the Gross Living Area of the ADU separate from the primary dwelling;
- State whether the ADU can be legally rented without restrictions; and
- Report the current ADU occupancy and the relevant details of any known lease agreements

### **Optional Accessory Dwelling Unit Market Rent Analysis**

An opinion of the ADU market rent may be requested in the scope of work. The Appraiser may provide the ADU market rent only if:

- The highest and best use is determined to be a one-unit Single Family dwelling with an ADU;
- The ADU is legally rentable without restrictions; and

- The Appraiser determines that a non-transient monthly market rent can be credibly developed

The analysis of the rental data must include support for the ADU comparable rental selections, the adjustments applied, and the opinion of the ADU market rent. The Appraiser must include the ADU opinion of market rent on Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule, as an attachment to the appraisal and include the following supplemental statement:

*“This form is completed to provide FHA an opinion of the market rent of the subject’s legally rentable Accessory Dwelling Unit (ADU). Sufficient competitive market data exists to develop credible results.”*

Appraisers completing the optional ADU market rent analysis must comply with FHA’s Appraiser Competency Requirement.

The Appraiser must contact the Mortgagee if unable to fulfill a request for ADU market rent analysis.

### **Comparable Selection for Optional Accessory Dwelling Unit Market Rent Analysis**

The Appraiser must include a sufficient number of comparable rents to produce a credible ADU market rent estimate. The comparables used to develop the ADU market rent must not include properties rented for hotel or transient purposes, or for periods less than 30 Days. The Appraiser must include at least one comparable rental that is a Single Family dwelling with a rented ADU. If a Single Family dwelling with a rented ADU is not available, the Appraiser must supplement with the most appropriate rental available and summarize the reason for the selection and how the marketability of the ADU was determined.

### **Additional Manufactured Home on Property**

The Appraiser may consider a manufactured home to be an ADU if it meets the highest and best use as an Accessory Dwelling Unit and meets all FHA requirements for manufactured housing.

The Appraiser may value a manufactured home as a storage unit if it physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence on the property.

### **Three-to Four-Unit Property**

- A three-to four-unit property can be either

- A Single Family residential Property with two individual Dwelling Units and one ADU, or
- Three individual Dwelling Units and one ADU

### **Age-Restricted Properties (55+ Senior Communities)**

For age-restricted properties, such as 55+ senior communities, the following must be met:

- The appraisal must reflect the impact that the restrictions have on the property's value and marketability
- The appraisal must be supported by comparables with similar restrictions
- The borrower(s) must acknowledge the restriction terms by signing a Resale Restriction Notice at Closing

### **Condominiums**

Cardinal provides financing for condominiums under the following approval types:

- FHA Approved Condominium Units
- Units approved in accordance with Single-Unit Approval effective for Case Numbers assigned on or after October 15th, 2019

### **HUD Approved Condominium Project Requirements**

The Mortgagee must verify the following requirements for individual units located in an Approved Condominium Project or Legal Phase.

- Condominium Project Approval Status. The Underwriter must confirm the Condominium Project is on the list of FHA Approved Condominium Projects at the time of case number assignment and must enter the FHA Condo ID in the Federal Housing Administration Connection (FHAC) Case Assignment screen, and
- The Underwriter must
  - Complete [Form HUD-9991](#) FHA Condominium Loan Level/Single-Unit Approval Questionnaire. Sections 1 through 3 must be completed and the form signed and dated.

### **Approval Expiration**

If the FHA condominium project approval expires after a case number is assigned, the loan may close when the following criteria is met:

- The loan level certifications are executed when the loan is approved (property and credit) and only minor conditions may be satisfied at closing; and
- All other FHA requirements are met.

### **Single-Unit Approval Project**

Single-Unit Approval refers to approval of a single unit in a Condominium Project that is not an Approved Condominium Project. The Mortgagee must verify the following requirements for Single-Unit Approval. This type of approval is effective for Case Numbers assigned on or after October 15th, 2019.

### **Condominium Project Approval Status**

The Mortgagee must confirm the Condominium Project is not on the list of FHA Approved Condominium Projects at the time of Case Number Assignment.

To search the status of a Condominium Project, the Mortgagee must search the FHA-condominiums database <https://entp.hud.gov/idapp/html/condlook.cfm>.

If a Condominium Project is listed in the lookup screens but has any of the following “Status”, it is currently not FHA-approved and the Mortgagee may request a case number under the Single-Unit Approval process:

- Expired
- Rejected, including “Register Single-Unit”
- Withdrawn

### *Borrower Eligibility*

To be eligible for Single-Unit Approval, the Mortgagee must verify that the mortgage application receives an Accept from TOTAL Mortgage Scorecard, or has a maximum Loan-to-Value (LTV) of 90 percent.

### *Submission Process for Single-Unit Condo Approval*

Approval for a Single-Unit Condo is a two step process as outlined below.

#### Step 1

- The Transaction Coordinator is responsible for the initial unit eligibility determination:
  - Follow standard process in FHA Connection for obtaining a case number for a condominium loan
  - Select the associated Condo ID if one exists in the "PUD/Condo ID" field
  - Select "Single Unit Approval" from drop-down menu within "Site Condo" field
  - Single Unit Approval request will default into "Holds Tracking" requiring data submission to Resource Center
  - Complete the below listed sections of the [FHA Condominium Loan Level/Single Unit Approval Questionnaire \(HUD 9991\)](#) and email the form to Resource Center at [answers@HUD.gov](mailto:answers@HUD.gov), subject line of the email must read "SUA Holds Tracking". A fillable PDF form is available under the Resources page on the HUB.
    - (1.a) Mortgagee information
    - (2.a) Condominium project information (must be completed by association or management company)
    - (2.b.) Condominium Association information

- (3.a) Occupancy Requirements by Construction Type, including, Total Number of Units in the Condominium Project only
- The Homeownership Center will process the information to determine if a case number can be issued, and if approved will provide a response (and advise when the Holds Tracking is removed). Anticipated response is 3 business days (but is subject to change).

## Step 2

- Once the case number has been issued, the Transaction Coordinator will upload the following documents to Octane for review by Cardinal's Collateral Department:
  - The [FHA Condominium Loan Level/Single Unit Approval Questionnaire \(HUD 9991\)](#) with all sections completed (1-4 as applicable) and all required documentation as outlined in the questionnaire.
    - Current Budget for the project is required in order to answer the financial condition questions on the Questionnaire.
- The Cardinal Project Review team will review the documentation and issue the Single-Unit Approval if the project meets FHA requirements.

## Appraisals

All FHA requirements for Appraisal Reports must be met. In addition, the appraisal must contain additional photos of the Project's common areas and shared amenities.

## Property Eligibility

The Mortgagee must confirm that the Condominium Project:

- Has a CO or equivalent for all units in the Complete Condominium Project or Complete Legal Phase;
- Has a CO or equivalent for the subject Unit that was issued at least one year ago or has been occupied;



- Has at least five Units;
- Is not a manufactured home
- Does not have Ineligible Characteristics; and
- Is not located in an Approved Condominium Project or unapproved phase of a Condominium Project with an approved Legal Phase.

### *Requirements for Eligible Properties*

#### *FHA Insurance Concentration*

Standard FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project when the FHA Insurance Concentration exceeds 10 percent of the total number of Units in the Condominium Project for Condominium Projects with 20 or more Units. For Condominium Projects with less than 20 Units, the number of FHA-insured Mortgages cannot exceed two.

#### *Owner Occupancy Percentage*

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation. The Mortgagee must determine that the Condominium Project has an Owner Occupancy Percentage of at least 50 percent of the total number of Units. The Mortgagee must report the Owner Occupancy Percentage in FHAC.

- For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units are included in the numerator of the calculation:
  - Any Unit that is occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;

- Any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- Any Unit sold to an owner who intends to occupy the Unit as his or her place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year

**Note:** A Unit owned by the builder/developer is not an owner-occupied Unit.

### *Recorded Documents*

- Recorded Documents refer to the Condominium Project's legal, project and governing documents that are required to operate legally as required by state and local law. The Condominium Project's Recorded Documents must be recorded in accordance with applicable state and local laws to ensure the Condominium Project can be legally operated in the local jurisdiction.
- Evidence must be provided that the Recorded Documents have been recorded.

### *Transfer of Control*

- Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners. Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify or veto any action of the Condominium Association.
- Evidence must be provided that Control of the Condominium Association has been transferred to the Unit owners and the Covenants, Conditions, and Restrictions (CC&R) have been recorded.

### *Financial Condition*

The Mortgagee must verify the Financial Stability of the Condominium Project and that:

- The Condominium Association maintains separate accounts for operating and reserve funds;

- A reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate of 12 months of Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study; and
- No more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses). Units in Arrears refer to each Unit with Condominium Association dues or any special assessments that are more than 60 Days past due.

### *Financial Distress Event*

A Financial Distress Event refers to a Condominium Project or builder/developer that has:

- Sought protection under bankruptcy laws;
- Been placed into receivership (mandated or voluntary);
- Been subject to foreclosure or any seizure of assets by creditors; or
- Offered a Deed-in-Lieu (DIL) of Foreclosure
- The Mortgagee must verify that a Condominium Project has not experienced a Financial Distress Event within the last three years.

### *Individual (Single) Owner Concentration*

Individual Owner Concentration refers to the percentage of Units owned by a single owner or a Related Party. Related Party includes any individual or Entity related to the Unit owner, including but not limited to:

- An individual serving as the Unit owners' officer, director, or employee; or
- A Unit owner's direct parent, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.

For Condominium Projects with 20 or more Units, the Individual Owner Concentration must be 10 percent or less. For Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

### Exception

Affordable housing Units owned by an eligible governmental or nonprofit program defined in 24 CFR § 203.41 are not subject to the Individual Owner Concentration requirements. The affordable housing Units must be identified by recorded legal documents.

For the Individual Owner Concentration Calculation:

- On a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- For a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut-Rehab to calculate the Individual Owner Concentration.

### Commercial/Non-Residential Financial Independence

- Commercial/Non-Residential Financial Independence refers to the ability of the Residential Space and Commercial/Non-Residential Space of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.
- The Mortgagee must document Commercial/Non-Residential Financial Independence. For Condominium Projects with Commercial/Non-Residential Space, the Mortgagee must submit:
  - A current year budget approved by the board(s);
  - A year-to-date income and expense statement dated within 90 Days if the prior year to date actuals are more than 90 Days old;
  - An income and expense statement for the previous year's actual year end results; and

- A current balance sheet dated within 90 Days prior to the date of submission.

### *SUA Insurance Requirements*

The Condominium Project where the Single Unit is located must be insured to FHA standards as well as any applicable state and local condominium requirements.

#### *Walls-In (HO-6)*

- Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.
- The Borrower must obtain a Walls-In policy (HO-6) if the master or blanket policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the Borrower may have made to the Unit.

#### *Hazard Insurance*

- Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, natural occurrences, or other events outside of the Condominium Project's control.
- The Condominium Association must have a master or blanket Hazard Insurance policy in place for the entire Approved Condominium Project in an amount equal to at least 100 percent of the insurable replacement cost of the Approved Condominium Project, including the individual Units in the Approved Condominium Project.
- The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement or selection of the agreed value option, or an amount of coverage equal to at least 100 percent of the insurable replacement cost.
- The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.
- The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of

the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

### *Liability Insurance*

- The Condominium Association must maintain comprehensive Liability Insurance for the entire Condominium Project, including all Common Elements and areas, public ways, and other areas that are under its supervision, in the amount of at least \$1 million for any single occurrence.

### *Fidelity Insurance*

- For all Condominium Projects with more than 20 Units, the Condominium Association must maintain Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.
- Insurance coverage must be the greater of:
  - Three months of aggregate (12 month) assessments on all Units plus reserve funds (up to the maximum permitted by state law); or
  - The minimum amount required by state law.
- If the Condominium Project engages a management company, it must have a policy that covers both or separate policies. The policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

### *Flood Insurance*

- The Condominium Association must have Flood Insurance in place for buildings in the Condominium Project that are located within Special Flood Hazard Areas (SFHA) including “A” or “V” zones, which are determined by the Federal Emergency Management Agency (FEMA).
- The Condominium Association must have Flood Insurance under the National Flood Insurance Program (NFIP) for all Units in buildings that are located in an SFHA.

- The Condominium Project must be located in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Condominium Association obtains NFIP coverage. Coverage must be equal to the replacement cost of the covered improvements or the NFIP maximum per Unit multiplied by the number of Units, whichever is less.

The following documentation must be submitted:

- Documentation of the verification of compliance with the Flood Insurance coverage requirements;
- FEMA flood map with the Condominium Project location clearly marked;
- If applicable, the certificate of insurance or a complete copy of the NFIP policy; and
- If applicable, the FEMA-issued Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or elevation certificate.

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is not eligible for FHA project approval.

#### ***Exception for FHA Insurance Requirements***

The Mortgagee must verify that the Unit owners and Condominium Association or HOA comply with FHA insurance coverage requirements.

#### ***Detached Condominium Housing Project (DCHP) Eligibility***

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the DCHP Condominium Association or HOA is not required to maintain:

- A blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance (Walls-In);
- A Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and

- A Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

### *Common Interest Housing Development Project*

If the governing documents require the Unit owners of the detached Single Family homes, Site Condominiums, duplex, or two- to-four units within the project to maintain and carry property insurance for the dwelling, site area, and any Personal Property contained therein, the Condominium Association or HOA is not required to maintain:

- A blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- A Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- A Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance

The Condominium Association or HOA must maintain and carry master/blanket Hazard, Liability, and Flood Insurance for the Structures that contain the attached units and the common areas of the project.

### *Required Documentation*

The Mortgagee must submit form HUD-9991 and certificates of insurance or complete copies of the insurance policies.

### *Projects in Coastal Barrier Resources System or Special Flood Hazard Areas*

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is not eligible for FHA Single-Unit Approval.



If any portion of the Structures or equipment essential to the value of the Condominium Project is located within a SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project meets the Special Flood Hazard Areas requirements.

### **Commercial/Non-Residential Space**

Commercial/Non-Residential Space refers to floor area allocated to:

- Retail and commercial square footage (excludes Live/Work Units);
- Multi-level parking garage square footage that is separate from multi-level parking garage square footage allocated to residential Unit owners;
- Building common areas not reserved for the exclusive use of residential Unit owners; and
- Any square footage that is owned by a private individual or Entity outside of the Condominium Association

Residential Space refers to floor area allocated to:

- All Unit square footage;
- All building common area square footage exclusively for the use of residential Unit owners; and
- All parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/NonResidential Space. Total Floor Area refers to all Residential Space and Commercial/NonResidential Space.

The Mortgagee must verify that the Condominium Project's Commercial/Non-Residential Space does not exceed 35 percent of the Condominium Project's Total Floor Area. The Mortgagee must document the percentage of Commercial/NonResidential Space and submit the following documentation:

- Recorded Site Condominium plans; and
- Recorded CC&Rs

### *Live/Work Unit*

The Mortgagee must verify that the Condominium Project governing documents allow Live/Work arrangements. The Mortgagee must verify that the individual Live/Work Unit does not contain more than 49 percent Commercial/Non-Residential Space.

### *Leasehold Interest*

The Mortgagee must determine if Condominium Projects with Units or Common Elements owned under a Leasehold Interest are eligible and meet the following requirements:

- The Condominium Association must be the lessee under the lease.
- The lease of the Common Elements provides that a default of the Condominium Association does not result in a disturbance of any rights of the Unit owners.
- The lease provides that the Mortgagee receives notice of any monetary or Non-Monetary Default by the Condominium Association and is given the right to cure any defaults on behalf of the Condominium Association.
- The lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements.
- The lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of lease rents.
- The Condominium Project must comply with the Title II Leasehold guidance as applicable.

### *Litigation*

Litigation refers to current or pending lawsuits or proceedings in a court, arbitration, or mediation involving the Condominium Project or Condominium Association, or those concluded within 12 months of the application date. Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to Litigation that relates to the safety, structural soundness, habitability, or functional use of the

Condominium Project. The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

The Mortgagee must document if the Condominium Project or Condominium Association are subject to pending litigations or any other litigation risk.

### **Site Condominiums**

A Site Condominium refers to:

- a Condominium Project that consists entirely of single family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land;
  - does not contain any Manufactured Housing units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

The unit owner must be responsible for all insurance and maintenance costs, excluding landscaping, of the Site Condominium. Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

The Mortgagee must provide the following documentation:

- Condominium Rider;
- Appraisal completed on Fannie Mae Form 1073/Freddie Mac Form 465, Individual Condominium Unit Appraisal Report, evidencing that all Units satisfy the Site Condominium definition;
- Certificate of Hazard Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling; and

- If required, Flood Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling.

### **Units Not Requiring Approval**

- HUD Real Estate Owned (REO) Mortgage transactions do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.
- Streamline Refinances do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.
  - Although review of the property is not required, all applicable insurance requirements for properties located in a Condominium project must be met
- Site Condominiums meeting the above [Site Condominiums](#) requirements.

### **Insurance**

The Condominium Project must be insured to FHA standards as well as any applicable state and local condominium requirements.

The insurance policies must list the Condominium Association as the named insured, or in the case of an affiliated Condominium Project or Condominium Association, the name of the affiliated Condominium Project or Condominium Association may be listed as a named insured.

### ***Hazard Insurance***

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, or natural occurrences. The Condominium Association must have a master or blanket Hazard Insurance policy in place for the entire Condominium Project. The Condominium Association's master or blanket Hazard Insurance policy must be in an amount equal to at least 100 percent of the insurable replacement cost of the Condominium Project, including the individual Units in the Condominium Project.

Any policy with a coinsurance clause must include an agreed amount endorsement, selection of the agreed value option, or an amount of coverage equal to at least 100 percent of the insurable replacement cost.

Any pooled insurance policy must satisfy the insurance coverage standard for each Condominium Project insured under the policy.

### ***Required Documentation***

The following documentation must be submitted:

- Form HUD-9992 (where applicable);
- Certificate of insurance or a complete copy of the insurance policy; and
- If applicable, acceptable evidence of the replacement cost value

### ***Liability Insurance***

Liability Insurance refers to insurance that protects against legal claims. The Condominium Association must maintain comprehensive Liability Insurance for the entire Condominium Project, including all Common Elements and areas, public ways, and other areas that are under its supervision, in the amount of at least \$1 million for any single occurrence.

### ***Required Documentation***

The following documentation must be submitted:

- Form HUD-9992 (where applicable); and
- Certificate of insurance or a complete copy of the insurance policy

### ***Fidelity Insurance***

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime, or other fraudulent acts conducted by one or more employees. For all Condominium Projects with more than 20 Units, the Condominium Association must maintain Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

This insurance coverage must be the greater of either:

- Three months of aggregate (12-month) assessments on all Units plus reserve funds (up to the maximum permitted by state law); or
- The minimum amount required by state law

If the Condominium Project engages a management company, it must have a policy that covers both or separate policies. The policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company

### *Required Documentation*

The following documentation must be submitted:

- Form HUD-9992 (where applicable); and
- Certificate of insurance or a complete copy of the insurance policy from the Condominium Association and/or from the management company

### *Flood Insurance (Existing Construction)*

Standard Flood Insurance for Condominiums must meet FHA requirements for Flood Insurance. The Condominium Association must have Flood Insurance in place for property improvements in the Condominium Project that are located within Special Flood Hazard Areas (SFHA) including “A” or “V” zones, which are determined by the Federal Emergency Management Agency (FEMA).

The Condominium Association must have Flood Insurance for all Condominium Units in buildings that are located in an SFHA.

The Condominium Project must be located in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Condominium Association obtains NFIP coverage. Coverage must be equal to the replacement cost of the covered improvements or the NFIP maximum per Condominium Unit multiplied by the number of Condominium Units, whichever is less.

### *Required Documentation*

The following documentation must be submitted:

- Form HUD-9992 (where applicable);
- FEMA flood map with the Condominium Project location clearly marked;

- If applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or FEMA NFIP Elevation Certificate (FEMA Form 086-0-33); and
- If applicable, the certificate of insurance or a complete copy of the Flood Insurance policy

### *Exception for FHA Insurance*

This exception applies to Manufactured Home Condominium Projects, Detached Condominium Housing Projects, and Common Interest Housing Developments unable to satisfy the current insurance requirements. The Unit owners and Condominium Association or HOA of the Condominium Project must comply with FHA insurance coverage requirements.

#### *Manufactured Housing Condominium Project (MHCP)*

MHCPs are eligible for this exception if the:

- Governing documents designate the insurance coverage maintained by the Unit owners and the Condominium Association; and
- MHCP is unable to satisfy FHA insurance requirements

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the MHCP is not required to maintain:

- A blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- A Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- A Flood Insurance policy, provided that the governing documents require the Unit owners to maintain individual Flood Insurance if the Unit has been identified as located in a Special Flood Hazard Area (SFHA)

#### *Detached Condominium Housing Project (DCHP)*

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area and any Personal Property contained within, the DCHP Condominium Association or HOA is not required to maintain:

- A blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- A Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- A Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site

### *Common Interest Housing Development*

If the governing documents require the Unit owners of the detached Single Family homes, Site Condominiums, duplex, or two- to-four units within the project to maintain and carry property insurance for the dwelling, site area and any Personal Property contained therein, the Condominium Association or HOA is not required to maintain:

- A blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- A Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- A Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance

The Condominium Association or HOA must maintain and carry master/blanket Hazard, Flood, and Liability Insurance for the Structures that contain the attached units and the common areas of the project

### **Required Documentation**

The Condominium Project must have form HUD-9992 (where applicable) and certificates of insurance or complete copies of the insurance policies from the Unit owners and Condominium Association.



## Projects in the Coastal Barrier Resources System and Special Flood Hazard Areas

### *All Projects in the Coastal Barrier Resources System*

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is not eligible for FHA project approval.

### *Special Flood Hazard Areas*

#### *Complete Condominium Project*

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project:

- Obtains a final LOMA or final LOMR from FEMA that removes the Property from the SFHA; or
- Obtains a FEMA NFIP Elevation Certificate (FEMA Form 086-0-33). The Elevation Certificate must document that the lowest floor, including the basement of the residential building(s), and all related improvements/equipment essential to the value of the Property is built at or above the 100-year flood elevation in compliance with the NFIP criteria, and Flood Insurance is obtained.

#### *Manufactured Housing*

If any portion of the Structures or equipment essential to the value of the Manufactured Housing Condominium Project for both new and existing Manufactured Homes is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the following is submitted:

- A FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- A FEMA NFIP Elevation Certificate (FEMA Form 086-0-33) showing that the finished grade beneath the Manufactured Home is at or above the 100- year return frequency flood elevation, and
- Flood Insurance is obtained

#### *Required Documentation*

The following documentation must be submitted:

- If applicable, FEMA LOMA;
- If applicable, FEMA LOMR; or
- If applicable, FEMA NFIP Elevation Certificate FEMA Form 086-0-33

### **Declining Market**

Generally, a housing market is identified as declining if the values are trending downward for a period of at least six (6) months prior to the appraisal effective date. The Appraiser must provide a summary comment as to whether the current trend will continue or if the trend appears to be changing. The Appraiser must also support for all conclusions including any published sources referenced

### **Leased Equipment, Components, and Mechanical Systems**

The Appraiser must not include the value of leased mechanical systems and components in the Market Value of the subject Property. This includes furnaces, water heaters, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the property owner. The Appraiser must identify such systems in the appraisal report.

### **Legal Restrictions on Conveyance**

A Property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible for FHA-insured financing, but only when such agreements are free of restrictions that prevent the Borrower from freely transferring the Property.

### **Transmittals Electronic Appraisal Delivery (EAD)**

Cardinal's approved AMCs will submit loans to the FHA Catalyst: EAD Portal, and return the SSR's with the appraisal. In the event an appraisal is transferred to Cardinal for processing the SSR's, Appraisal in XML format must be submitted for upload to the EAD Portal.

### **Mixed Use**

Mixed Use refers to a Property suitable for a combination of uses including any of the following:

- Commercial,

- Residential,
- Retail,
- Office, or
- Parking space

Mixed Use one- to four-unit Single Family Properties are eligible for FHA insurance, provided:

- The property is not ineligible per the Ineligible Property section;
- Non-residential use is legally permitted;
- A minimum of 51 percent of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants of the residential property

Any nonresidential use of the Property must be subordinate to its residential use, character and appearance. Nonresidential use may not impair the residential character or marketability of the Property. The nonresidential use of the Property must be legally permitted and conform to current zoning requirements.

### **Multiple Units with Designated Commercial Use**

FHA has provided the following clarification and direction as it relates to 2-4 units containing [Mixed Use](#) characteristics.

If the subject is a 2-4 unit property in which one of the units is being used for commercial purposes, the property would be designated as Mixed Use and the commercial space/area would not be considered in the residential unit count.

For example:

- A 3-unit property with 2-units designated for residential use and the third unit used for commercial purposes would be considered a 2-unit with Mixed Use. The property would not be subject to the Net Self-Sufficiency Rental Income calculation.

- A 4-unit property with 3-units designated for residential use and the fourth unit used for commercial purposes would be considered a 3-unit with Mixed Use. The property would be subject to the Net Self-Sufficiency Rental Income calculation.

### **Required Analysis and Reporting**

The Appraiser must include all components of the real estate in the analysis. The Appraiser must not include business valuation or the value of Personal Property or business fixtures in the appraisal.

The Appraiser must provide measurements and calculations of the building area on the building sketch to show what portion of the Property is allocated to residential use, and what portion is allocated to non-residential use.

The nonresidential portion calculation must include the storage areas or similar spaces that are integral parts of the non-residential use(s). The subject value may not include the business valuation, personal property, or business fixtures.

### **Rental Income from Commercial Space**

Rental income derived from the commercial space of a mixed use property may be considered as effective income as long as the following requirements are met:

- The borrower must have a documented two year history of receipt of income from the property (not eligible on purchase transactions);
- The appraisal for the mixed use property must be performed by an FHA appraiser who possesses a commercial appraisal professional designation/license; and
- FHA guidelines for the use of [Rental Income](#) must be followed

### **Minimum Property Requirements (MPRs)**

The Appraiser provides preliminary verification that a property meets the property acceptability criteria, which includes HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS). The DE underwriter must use professional judgment in determining when inspections are necessary to determine that a property meets MPR or MPS.

Professional judgment must be used in determining when a property condition poses a threat to the health and safety of the occupancy and/or jeopardizes the soundness and structural integrity of the property, such that additional inspections and/or repairs are necessary. The appraiser must report any evidence indicating issues that may affect the safety, soundness and security of the property.

HUD/FHA requires the Appraiser to report any readily observable defective conditions and/or lack of compliance with MPS or MPR. The appraiser must also provide photographic documentation of the defective conditions in the appraisal report.

Minimum Property Requirements (MPR) refer to general requirements that all homes with FHA insurance be safe, sound and secure.

Minimum Property Standards (MPS) refer to the regulatory requirements relating to safety, soundness and security of New Construction.

The Appraiser must promptly communicate any noncompliance issues to the Cardinal's AMC's designated point of contact information. If the property has a defective condition(s) and upon evaluation of the appraisal it is determined the correction is not feasible, Cardinal must reject the property.

Defective conditions refer to defective construction, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards or other conditions affecting the health and safety of occupants.

The Appraiser may require an inspection by a qualified individual or entities if he/she cannot determine the property meets FHA's MPR or MPS. The Appraiser must cite the reason for requiring an inspection.

Conditions that require an inspection by a qualified individual or entities include:

- Standing water against the foundation and/or excessively damp basements;
- Hazardous materials on the site or within the improvements;
- Faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- Evidence of possible structural failure (e.g. settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls, or foundation);

- Evidence of possible pest infestation;
- Leaking or worn-out roofs; or
- Any condition that in the Appraiser's professional judgment warrants inspection

Cardinal will require corrective work to mitigate any condition that arises which may affect the health and safety of the occupants, the property's ability to serve as adequate Collateral, or the structural soundness of the improvements.

### **Repairs not required to meet Minimum Property Requirements**

Below is a sample list of items which may not require repairs to meet HUD's MPRs. Please note, any items which may cause a health and safety issue must be repaired:

- Free standing stoves/ovens and refrigerators are not required
- Air conditioning is not required; however, if a window unit is installed it must be functional or removed
- Floor covering is not required as long as the flooring does not cause a health or safety issue
- Cracked glass is not required to be repaired; however, broken glass that is a health hazard must be removed and the opening closed to the weather

### **Condition and Quality**

FHA does not require a minimum Condition (C) or Quality (Q) rating, however, the property must meet Minimum Property Requirements as indicated above.

## **Minimum Requirements for Living Unit**

The Mortgagee must confirm that each living unit contains:

- A continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- Sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;

- Adequate space for healthful and comfortable living conditions;
- Heating adequate for healthful and comfortable living conditions;
- Domestic hot water;
- Electricity adequate for lighting and for mechanical equipment used in the living unit; and
- Kitchen facilities adequate for the preparation and cooking of food. Every living unit must have at least one area with kitchen facilities, which must include, at a minimum, a sink with potable running water and a stove utility hookup

The Mortgagee must ensure that Appliances that are to remain and that contribute to the market value opinion are operational.

## **New Construction**

The following property types are eligible for New Construction financing:

- Site Built Housing (one-unit, one-unit with an Accessory Dwelling Unit (ADU), or two- to four-units);
- Condominium units in Approved Projects or Legal Phases;
- Manufactured Housing (one-unit or one-unit with an ADU)

FHA defines three (3) stages of New Construction as follows.

### **Proposed Construction**

- No concrete or permanent material has been placed at the property site
- Digging of footing and placement of rebar are not considered permanent

### **Under Construction**

- FHA considers Under Construction as the period from the first placement of other permanent material to 100% completion without issuance of the Certificate of Occupancy (CO) or equivalent

### Existing Construction Less than One Year

- Refers to a property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent
- The property must have never been occupied
- FHA treats the sale of an occupied property that has been completed less than one year from the issuance of the CO or equivalent as an existing property

### Units in Condominium Project or Legal Phase (Existing Less Than One Year)

The Mortgagee must obtain a CO or its equivalent.

### Required Inspections for New Construction Financing

Inspection Requirements		
<i>Note: FHA has consolidated New Construction requirements, regardless of LTV. Maximum financing is now permitted up to program limits</i>		
Stages of Construction	Site Built Housing and Condominiums	Manufactured Housing (By Construction Status at Time of Appraisal)
Proposed Construction	<p>The Mortgagee must obtain one of the following:</p> <ul style="list-style-type: none"> <li>• Copies of the building permit and CO (or equivalent); or</li> <li>• Three inspections (footing, framing and final) performed by an ICC certified RCI, or CI<sup>1</sup> (for Modular Housing, footing and final only); or</li> <li>• In the absence of such ICC certified RCI or CI, obtain three inspections (footing,</li> </ul>	<p>The Mortgagee must obtain one of the following:</p> <ul style="list-style-type: none"> <li>• Copies of the building permit, (or equivalent) and CO (or equivalent); or</li> <li>• Two inspections (initial and final) performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI<sup>1</sup>; or</li> <li>• In the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, obtain two</li> </ul>



	<p>framing and final) performed by a disinterested third party, who is a registered architect, a structural engineer or a qualified trades person or contractor, and has met the licensing and bonding requirements of the State in which the property is located</p>	<p>inspections (initial and final) performed by a disinterested third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the State in which the property is located</p>
<p>Under-Construction</p>	<p>The Mortgagee must obtain:</p> <ul style="list-style-type: none"> <li>● Copies of the building permit and CO (or equivalent); or</li> <li>● A final inspection issued by the local authority with jurisdiction over the Property or an ICC certified RCI, or CI<sup>1</sup>, or</li> <li>● In the absence of such ICC certified RCI or CI, obtain a final inspection performed by a disinterested third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the State in which the property is located</li> </ul>	<p>The Mortgagee must obtain</p> <ul style="list-style-type: none"> <li>● Copies of the building permit, (or equivalent) and CO (or equivalent); or</li> <li>● A final inspection issued by the ICC certified RCI, or CI<sup>1</sup>, or;</li> <li>● In the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, obtain a final inspection performed by a disinterested third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the State in which the property is located</li> </ul>

Existing for Less than One Year (100 Percent Complete) Never Occupied	The Mortgagee must obtain: <ul style="list-style-type: none"> <li>• A copy of the CO (or equivalent); or</li> <li>• A final inspection issued by the local authority with jurisdiction over the Property or an ICC certified RCI, or CI<sup>1</sup>, or</li> <li>• In the absence of such ICC certified RCI or CI, obtain a final inspection performed by a disinterested third-party, who is a registered architect, a structural engineer, or a qualified tradesperson or contractor, and has met the licensing and bonding requirements of the State in which the property is located</li> </ul>	The Mortgagee must obtain: <ul style="list-style-type: none"> <li>• A Copy of the CO (or equivalent); or</li> <li>• A final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI<sup>1</sup>; or</li> <li>• In the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, obtain a final inspection performed by a disinterested third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the State in which the property is located</li> </ul>
<sup>1</sup> International Code Council (ICC), Residential Combination Inspector (RCI), Combination Inspector (CI)		

Documentation Requirements	
Financing LTV Limit	Required Documentation
Maximum Financing Permitted Per Program Guidelines	The Mortgagee must obtain and include the following documents in the case binder: <ul style="list-style-type: none"> <li>• Form HUD-92541, Builder's Certification of Plans, Specifications, and Site;</li> </ul>

	<ul style="list-style-type: none"> <li>● Form HUD-92544, Warranty of Completion of Construction;</li> <li>● Required inspections, as applicable;</li> <li>● Inspections performed by ICC certified RCI or CI or a third-party, who is a registered architect, a structural engineer, or a qualified tradesperson or contractor, must be reported on form HUD-92051, Compliance Inspection Report (CIR) or on an appropriate State sanctioned inspection form</li> <li>● Wood Infestation Report, unless the Property is located in a county listed as not required on HUD's <a href="#">Termite Treatment Exception Areas</a> list:       <ul style="list-style-type: none"> <li>○ Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.</li> <li>○ Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record, is required when New Construction is treated with one of the following: Termite Bait System, Field Applied Wood Treatment, soil chemical termiticide, or Physical Barrier System is installed, as reflected on the HUD-NPMA-99-A. The Mortgagee must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.</li> </ul> </li> <li>● Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority</li> <li>● When a third-party, who is a registered architect, a structural engineer, or a qualified tradesperson or contractor, is relied upon for required inspections due to the absence of ICC certified RCI or CI, include certification</li> </ul>
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	from such inspector that they are licensed and bonded under applicable state and local laws
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Documents to be Provided to Appraiser at Assignment	
Form HUD-92541	The Appraiser must be provided with a fully executed form HUD-92541, signed and dated no more than 30 Days prior to the date the appraisal was ordered.
Properties 90 percent completed or less	For Properties 90 percent completed or less, the Mortgagee must provide a copy of the floor plan, plot plan, and any other exhibits necessary to allow the Appraiser to determine the size and level of finish of the house they are appraising.
Properties greater than 90 percent but less than 100 percent completed	For Properties greater than 90 percent but less than 100 percent completed, the Mortgagee must provide the Appraiser with a list of components to be installed or completed after the date of inspection.

### Flood Hazard Areas

If any portion of the property improvements (the dwelling and related Structures/equipment essential to the value of the Property and subject to flood damage) is located within a Special Flood Hazard Area (SFHA), the Mortgagee must reject the Property, unless:

- A FEMA-issued final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA is obtained from the Federal Emergency Management Agency (FEMA); or

- The Mortgagee obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33), that documents that the lowest floor (including the basement) (Line C2.a) of the residential building and all related structures/improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation (Line B9) in compliance with the NFIP criteria. The Mortgagee must ensure that the flood elevation certificate is prepared by a licensed engineer or surveyor and completed based on finished construction.
- The Mortgagee must include the LOMA, LOMR, or flood elevation certificate with the case when it is submitted for endorsement.
- The Mortgagee must ensure that insurance under the NFIP is obtained when a flood elevation certificate documents that the Property remains located within an SFHA.

### **Appraisal Requirements**

The Appraiser is required to provide the following comment for an “as-is” appraisal: “property was built in accordance with submitted plans and specifications.”

All New Construction properties must comply with the following requirements:

- 2000 International Energy Conservation Code (aka Model Energy Code by CABO) that can be accessed at the U.S. Department of Energy’s website for Building Energy Codes Program
- FHA minimum property Standards for New Construction
- Property location cannot be within 75 feet of an operating or proposed oil or gas well; measured from the dwelling to the site boundary, not the actual well site
- Property location cannot be within Runway Clear Zones (aka Runway Protection Zones) at civil airports, or within Clear Zones at military airfields
- Accident Potential Zone 1 (APZ1) at military airfield may be eligible if the property is compatible with DOD guidelines
  - Buyer(s) must acknowledge notification that the property is located in a Runway Clear Zone and the implications associated with this site

- The Appraiser must provide the following for all New Construction Properties:
  - Two (2) comparable sales from competing builders and at least one (1) comparable sale outside the subject subdivision/project
  - Completed cost approach and gross rent multiplier for 3-4 unit properties, if applicable
  - Comment grading and drainage are adequate
  - Comment the utilities were on and functional at the time of final inspection when not noted on the original appraisal report

## Properties Listed for Sale

- Properties that were previously listed for sale are eligible for refinance provided the listing expired or was canceled prior to final loan approval (CTC).
- Borrower(s) must certify intent to continue to reside in the subject property as a Principal Residence.

## Termite Inspections

Form NPMA-99-A is required form, indicating the type of termite treatment unless the subject property is located in an area of no to slight infestation.

Please refer to HUD's [Termite Treatment Exception Areas](#) for listed state's requirements.

No treatment is required if the dwelling is constructed with steel, masonry, or concrete building components with only minor interior wood trim and roof sheathing. The Builder must note on the form NPMA-99-A that the construction is masonry, steel, or concrete.

Form NPMA-99-B is only required when soil chemical termiticide is used to treat the property. It is unacceptable for termiticide to be applied only around the perimeter of the foundation as a post-construction soil treatment.

Existing Homes may require soil or termite treatment.

## Well and Septic

The appraiser is not required to report well, septic, and property line distances. The appraiser is only required to report the availability of public services.

The DE Underwriter must address feasibility for hook up to the public services. If any deficiencies were noted at the time of inspection the appraiser will complete the appraisal “subject to”.

## Septic Tanks

If the property has a septic system, or onsite sewage disposal system, and there is a public or community system available to the property, a connection should be made to the public system whenever feasible and available at a reasonable cost; see [Determining Connection Feasibility](#) below. If connection costs to the public or community system are not reasonable, the existing septic systems are acceptable provided they are functioning properly and meet the requirements of the local health department.

When the septic system is not sufficient and an off-site system is available, the Mortgagee must confirm connection to an off-site sewage system. If the septic system is not sufficient and an off-site system is not available, the property is ineligible unless the system is repaired or replaced and complies with local health department standards.

This guidance is applicable to both Purchase and Refinance transactions.

### Determining Connection Feasibility

Documentation supporting the cost to connect to a public system must be provided; this can come from the appraiser, or an independent third party such as the county’s public utility department.

The underwriter will review the documentation against the individual loan file to determine if the connection is feasible and available at a reasonable cost, i.e. sufficient funds verified beyond funds to close to cover the cost, sufficient cash out proceeds in the event of a refinance to cover the cost, or the availability of financing that would not adversely impact the borrower's ability to qualify for the loan. The cost to connect should not cause any undue burden on the borrower.

The loan must then be submitted to Credit Committee for review.

If it is determined that the cost to connect to a public system is feasible, a repair escrow may be established to allow for completion of the connection.

### **Septic Inspections**

The appraiser will inspect the age of the system, the land around the house, the type of system, ascertain the distance between the septic system/well (if applicable) and how deep the septic tank is in relation to the ground water. If the appraiser observes or suspects a problem with the septic system, a formal septic inspection by a specialist may be required, but is only required if the appraiser recommends this extra step.

A septic inspection will only be required if the appraiser requires a test or inspection based on any observable deficiencies or appraiser indicates a state or local jurisdiction requires a septic inspection. The appraiser's affirmation that states property meets HUD minimum property standards according to the HUD 4000.1 is sufficient.

If an inspection is required, a certification must be provided by a health authority or approval from the local municipality or a licensed sanitarian that the system meets state or local requirements.

### **Public Water Supply System**

The Mortgagee must confirm that a connection is made to a public or Community Water System whenever feasible and available at a reasonable cost; see [Determining Connection Feasibility](#) below. If connection costs to the public or community system are not reasonable, the existing onsite systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or
- the health authority with jurisdiction issues a public notice indicating that the water is unsafe



The Appraiser must:

- report any readily observable or known deficiencies with the water;
- notify the Mortgagee when water is determined to be unsafe, report, and provide a cost to cure; and
- address any impact on value and marketability, and make the appropriate adjustments

### **Determining Connection Feasibility**

Documentation supporting the cost to connect to a public system must be provided; this can come from the appraiser, or an independent third party such as the county's public utility department.

The underwriter will review the documentation against the individual loan file to determine if the connection is feasible and available at a reasonable cost, i.e. sufficient funds verified beyond funds to close to cover the cost, sufficient cash out proceeds in the event of a refinance to cover the cost, or the availability of financing that would not adversely impact the borrower's ability to qualify for the loan. The cost to connect should not cause any undue burden on the borrower.

The loan then must be submitted to Credit Committee for review.

If it is determined that the cost to connect to a public system is feasible, a repair escrow may be established to allow for completion of the connection.

### **Community Water Systems**

A Community Water System refers to a central system that is owned, operated and maintained by a private corporation or a nonprofit property owners' association.

A Community Water System must comply with local jurisdiction requirements. If the Property is on a Community Water System, the Appraiser must note the name of the water company on the appraisal report.

### **Individual Water Supply Systems (Wells)**

When an Individual Water Supply System is present, it must be ensured that the water quality meets the requirements of the health authority with jurisdiction. If there are no local (or state) water quality

standards, then water quality must meet the standards set by the EPA, as presented in the [National Primary Drinking Water regulations in 40 CFR §§ 141 and 142](#).

### **Required Analysis and Reporting**

The Appraiser must report on the availability of connection to a public and/or Community Water System and any jurisdictional conditions requiring connection. When the Appraiser obtains evidence that any of the water quality requirements are not met, the Appraiser must notify the Mortgagee and provide an estimated cost to cure.

The Appraiser must note the deficiency of MPR or MPS if the subject Property contains a well located within the foundation walls of an existing dwelling, unless there is evidence that:

- The local jurisdiction recognizes and permits such a location;
- It is common for the market area; and
- It does not adversely affect marketability.

A well located within the foundation walls of a dwelling is not acceptable for New Construction except in arctic or subarctic regions.

A pressure tank with a minimum capacity of 42 gallons must be provided. However, pre-pressurized tanks and other pressurizing devices are acceptable if delivery between pump cycles equal or exceed that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.

### **Dug Wells, Cisterns or Holding Tanks**

The appraiser must report when water to a property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site. The Appraiser must report whether such systems are readily accepted by local market participants. The appraiser must also:

- Comment on the availability of connection to a public and/or Community Water System and any jurisdictional conditions requiring connection,
- Note the deficiency of MPR or MPS if the subject Property has a water source that includes a mechanical chlorinator, or is served by springs, lakes, rivers, sand-point or artesian wells

Additionally,

- The location shall be at a point free from flooding with the top of the cistern at an elevation higher than any potential source of pollution that is within 50 feet. The bottom is to be at least 5 feet above the highest water table.
- A cistern located under a house, garage or carport or other parking space for motor vehicles is not acceptable. There must be adequate access to allow for maintenance.
- The system is able to provide each living unit with a continuing and sufficient supply of safe water under adequate pressure and of appropriate quality for all household uses (24 CFR 200.926d(f)).

### **Requirements for Well Water Testing**

The Appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:

- The water supply relies upon a water purification system due to the presence of contaminants;
- Corrosion of pipes (plumbing);
- Areas of intensive agricultural uses within one quarter mile;
- Coal mining or gas drilling operations within one quarter mile;
- A dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile;
- An unusually objectionable taste, smell, or appearance of well water
- A well water test is required for all newly constructed Properties

The Appraiser must also be familiar with the minimum distance requirements between private wells and sources of pollution and, if discernible, comment on them. The Appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building Structures but may provide estimated distances where they are comfortable doing so. When available, the Appraiser should obtain from the homeowner or Mortgagee a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the

local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

A valid water test must be obtained from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

### **Shared Wells**

If the Property has a Shared Well, the Appraiser must:

- Report it and note any readily observable deficiencies;
- Obtain a Shared Well Agreement and include it in the appraisal report so that the Mortgagee may review the agreement to determine eligibility;
- Require an inspection and water testing under the same circumstances as an individual well

The Mortgagee must confirm that a Shared Well:

- Serves Properties that cannot feasibly be connected to an acceptable public or Community Water supply System;
- Is capable of providing a continuous supply of water to involved Dwelling Units so that each Existing Construction Property simultaneously will be assured of at least three gallons per minute (five gallons per minute for Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);
- Provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;

- Has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other Properties; and
- Serves no more than four living units or Properties

### **Requirements for Well Water Testing**

A well water test is required for, but not limited to, properties:

- That are newly constructed;
- Where an Appraiser has reported deficiencies with a well or the well water;
- Where water is reported to be unsafe or known to be unsafe;
- Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

A valid water test must be obtained from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority.

### **Distance Between Septic System and Water Well**

The appraiser must comment that both the septic and well, if applicable, meet HUD standards and if they are unable to confirm that the distance is acceptable, a survey may be required by the appraiser to verify and add the required language regarding the distances to the appraisal. The survey takes the form of a professional surveyor's sketch showing the location and distance between the property line, septic tank, drainage field, and well.

The appraiser is required to comment on the below specified distance(s), a blanket statement verifying the property meets FHA Minimum Property Requirements without detailing the required distance(s) is not acceptable.

### **Distances for Existing Construction**

- Property line – 10 feet
- Septic tank – 50 feet
- Drain field – 100 feet
- Septic tank drain field reduced to 75 feet if allowed by local authority

If the subject property line is adjacent to residential property, then local well distance requirements prevail.

If the subject property is adjacent to non-residential property or roadway, there needs to be a separation distance of at least 10 feet from the property line.

**Note:** Distance requirements of local authority prevail if greater than stated above.

### **Distances for New Construction**

- Property line – 10 feet
- Septic tank – 50 feet
- Absorption field – 100 feet
- Seepage pit or cesspool – 100 feet
- Sewer lines with permanent water tight joints – 10 feet
- Other sewer lines – 50 feet

**Note:** Distance requirements of local authority prevail if greater than stated above.

## Disaster Re-inspections

Please follow the directive in the [Natural Disaster Operations Policy](#) for information on inspection requirements for affected properties.

## Property

### Eligible Property Types

- Attached/detached SFRs
- Attached/detached PUDs
- FHA-approved Condos
- 2–4 Units
- HUD-owned properties underwritten to HUD guidelines
- Manufactured Housing
  - Cardinal will lend on manufactured homes (double-wide or single-wide) on all transaction types.

### Ineligible Properties

Ineligible properties are properties that are not residential in nature based on the property characteristics of the property or the market area. The following property types are ineligible:

- Properties that do not meet the FHA's minimum property standards
- Properties located in Airport Noise Zone 3
- Condominiums that are not FHA approved
- PUD's that do not meet FHA requirements
- Manufactured homes not classified as real estate

- Properties that do not meet Cardinal's general property requirements (see property and appraisal guidelines for more information)
- Properties defined as ineligible in Cardinal's property and appraisal guidelines

### **Special Airport Hazards**

If a Property is Existing Construction and is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must obtain a Borrower's acknowledgement of the hazard.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.



## Manufactured Housing

Cardinal offers Purchase, Rate and Term, Cash-out and Streamline Refinance transactions where the subject property is a Manufactured Home if the property complies with applicable requirements detailed below; underwriting criteria for borrowers' assets, credit, debts, employment, and income remain the same as previously described in this Guide.

### Title II Eligibility Requirements

A Manufactured Home (MH) is constructed to the Federal Code, Model Manufactured Home Installation and Safety Standards. The dwelling is built on a steel chassis, assembled in units at the factory and then transported in one or more sections to the property site. To be eligible for financing, all manufactured homes must comply with the following:

- The Manufactured home must have a total floor area of not less than 400 square feet
- The home must be constructed after June 15, 1976, in conformance with the Federal Manufactured Home Construction and Safety Standards (HUD Code), as evidenced by an affixed certification label in accordance with 24 CFR
- The home must be classified and treated as real estate by local authority
- The mortgage must cover both the manufactured home and its site
- The subject property must be designed for occupancy as a principal residence
- The property must be designed to be used as a dwelling with a permanent foundation built in accordance with the Permanent Foundation Guidelines for Manufactured Housing (PFGMH)
- A Fee simple title and title commitment with Alta 7 endorsement is required with the land and property titled together
- Manufactured homes must not have been installed or occupied previously at any other location or site, they may only have been transported from the manufacturer or the dealership to the site

- If there were two existing titles at the time the Manufactured Home unit was purchased, all state/local requirements for purging of the title (chattel or equivalent debt instrument) have been met, and subject Manufactured Home is classified as real estate prior to endorsement
- The running gear must be removed

### **Modifications to the Manufactured Home**

Room additions, attached carports, or other structural modifications may put the home at risk if changes were not performed in accordance with the HUD Manufactured Home Construction and Safety Standards (MHCSS) and local and state code.

If the Appraiser observes additions or structural changes to the original Manufactured Home, the Appraiser must condition the appraisal upon inspection by the state or local jurisdiction administrative agency that inspects Manufactured Housing for compliance, or a licensed structural engineer may report on the structural integrity of the manufactured dwelling and the addition if the state does not employ inspectors.

Modifications must be verified as having been completed in compliance with state/local regulations. Refer to the [Foundation Certification](#) section for additional guidance.

### **Titling a Manufactured Home as Real Property**

All manufactured home units and land must be classified as real property and taxed as such by the local authority. When the land is purchased separately from the unit, there may be two deeds:

- A property deed for the land, and
- A chattel deed or motor vehicle deed for the unit

The land and unit must be deeded as one and the title policy must specifically state and validate that the manufactured home and land are classified as real estate and taxed as one parcel.

The loan is not eligible if the original chattel deed or title is not purged and the property does not have marketable real estate title.

Properties still in the conversion process from personal property or chattel status to real estate are not eligible. In these cases, the Deed of Trust or Mortgage (security instrument) would include a complete legal description that includes land and manufactured unit details regarding Manufacturer Name, Model, Year, Serial #, size and any other information required by state law to identify a manufactured home. This may indicate that the manufactured unit is still being considered chattel and not real property.

The Preliminary Title Report or Final Title Policy must reflect the commitment or issuance of the appropriate ALTA Endorsement (e.g. ALTA 7.1-06) required to validate that home is treated as real property.

### **Cash-out Refinance**

If the property is a Manufactured Home, it must have been permanently installed on a site for more than 12 months prior to Case Number assignment. FHA has provided additional clarification regarding the documentation that is eligible to confirm the manufactured home was permanently installed and affixed to a permanent foundation in a way that makes it part of the real property:

- Inspection | Structural that provides the date of installation,
- Manufactured Home Installation Certification (HUD-309),
- Appraisal Report,
- Certification by a licensed engineer or architect or an inspection by the state administrative agency that inspects Manufactured Homes for compliance,
- Title affixture documentation or title company certification

Refer to [Chapter 12 | Credit | FHA Lending Guide](#) Cash-out Refinances for additional credit requirements related to manufactured housing.

### **Appraisal Requirements**

Manufactured home appraisals must be completed on Form 1004C and the appraiser must satisfy all the following requirements:

- At least two (2) of the comps must be manufactured homes
- Combining Land and Home Sales is not acceptable

- A description of any additions/modifications made to the MH since its initial site placement is required. The appraiser must provide comments if it is suspected that any addition/modification poses a risk to the structural integrity of the home.
- A legible photo of the data plate is required, if the data plate is missing the appraiser must complete the appraisal “subject to” confirmation of the HUD label.
- The home must be constructed for the geographic area where it is located.
- The home-site must meet local standards for site suitability and has adequate water supply and sewage disposal facilities.
- If the home was purchased less than one year ago from the dealer/manufacturer, the appraiser must complete the cost approach.
- Invoices for the total costs: the retail purchase price, delivery, installation and setup costs should be included if available.
- The appraiser must analyze the manufacturer’s invoice and any other documents that pertain to what the sale included such as:
  - Payoff of personal debt
  - Land included in the contract;
  - If Personal property was included in sale
- If the property is serviced by well and/or septic, the appraiser must comment on whether the distances meet with HUD/FHA requirements.

### ***Appraisal Comparable Selection Requirements***

The comparable selection for manufactured housing appraisal is as follows:

- The appraiser must select comparable sales of similar manufactured homes to address the marketability and comparability of a manufactured home, for example, single-width homes to multi-width homes. The appraiser must use a minimum of two comparable sales of similar

manufactured homes. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and make and support appropriate adjustments.

- An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the sales comparison analysis and determine sound adjustments to reflect the differences between comparable sales that are available and the subject property.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

#### ***Fannie Mae MH Advantage or Freddie Mac CHOICEHome***

- For a Manufactured Home certified based on the construction requirements of Fannie Mae's MH Advantage® or Freddie Mac's CHOICEHome® program, the Appraiser must include at least two comparable sales with similar certification, when available.
- If less than two comparable MH Advantage® or CHOICEHome® sales are available, the Appraiser must use the most appropriate site-built comparable sales available and must provide detailed justification to support the Appraiser's selection of comparable Properties and the adjustments made for dissimilarities to the subject Property.
- A Manufactured Home certified based on the construction requirements of Fannie Mae's MH Advantage® or Freddie Mac's CHOICEHome® programs must have Fannie Mae's MH Advantage® Sticker or Freddie Mac's CHOICEHome® Label affixed near the HUD data plate. The Appraiser must include photos of the Fannie Mae's MH Advantage® Manufacturer Sticker or Freddie Mac's CHOICEHome® Label in the appraisal report for the Manufactured Home to meet the documentation requirement.

### *Appraisal Cost Approach Requirements*

A detailed and supported cost approach to value is required for all newly constructed manufactured homes. The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion. A property developed and detailed cost approach will provide the information necessary for an appraiser to:

- Recognize differences in manufactured home construction quality
- Understand the difference between the comparable sales and the subject property
- Extract from the market appropriate adjustments for the sales comparison analysis, and
- Identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

### *Foundation Certification*

The loan file must contain a certification by an engineer or architect, who is licensed/registered in the state where the Manufactured Home is located, attesting to compliance with the Permanent Foundations Guide for Manufactured Housing (PFGMH).

A foundation certification from a previous FHA loan can be used provided the foundation met the guidelines of the Permanent Foundation for Manufactured Homes in effect at the time of the certification, if the certification was completed by a state licensed engineer, and provided there were no alterations and/or observable damage to the foundation since the original certification. A structural engineer must complete a new foundation compliance certification when the previous foundation certification does not address the additions/alterations (if applicable) or a state agency did not inspect the property for compliance.

### *Perimeter Enclosure (Skirting)*

The space beneath manufactured homes must be properly enclosed and therefore must:

- Be a continuous wall (whether bearing or non-load bearing), and

- Be adequately secured to the perimeter of the unit, and
- Separate the crawl space from the backfill, and
- Keep out vermin and water, and
- Allow for property ventilation of the crawl space

If the perimeter enclosure is non-load bearing skirting comprised of lightweight material, there must be adequate backing (such as concrete, masonry, or treated wood) to permanently attach and support or reinforce the skirting.

### **HUD Label “Red Tags”**

The manufactured home must have a HUD label or verification of the HUD label. The HUD label provides certification that the property was built to all applicable Federal Manufactured Home Construction and Safety Standards in force at the time of manufacture and the HUD label gives information on when/where the home was manufactured. All manufactured homes have a HUD label (commonly known as the “Red Tag”), a metal tag affixed on the outside of each transportable unit.

- A multi-wide unit has multiple HUD tags – one for each transported section/unit.
- When the HUD labels are missing, verification of the HUD tag is required. The Institute for Building Technology (IBTS) maintains data regarding HUD certification labels and data plates. IBTS can provide verification information.
  - A HUD Label Verification letter includes: label number, serial number, date of manufacture, manufacturer name and plant location, location of the first destination (usually the retailer)

### **HUD Data Plate/Compliance Certificate HUD Data Plate**

The [Data Plate](#) is a paper label affixed inside the home and is the size of a standard sheet of paper (8 ½” x 11”). The Data Plate can be found in a kitchen cabinet, an electrical panel, or a bedroom closet. The Data Plate has maps of the United States to inform the owner of the [Wind Load, Roof Load and Thermal Zones](#) of the home; the Data Plate will contain the following information:

- The name and address of the manufacturing plant in which the manufactured home was manufactured
- The serial number and model designation of the unit, and the date the unit was manufactured
- The statement: This manufactured home is designed to comply with the Federal Manufactured Home Construction and Safety Standards in force at the time of manufacture
- A list of the certification label(s) number(s) that are affixed to each transportable manufactured section under §3280.8
- A list of major factory-installed equipment, including the manufacturer's name and the model designation of each appliance
- Reference to the roof load zone and wind load zone for which the home is designed and duplicates of the maps. This information may be combined with the heating/cooling certificate and insulation zone map.

The paper data plate contains the HUD Certification Label number which will assist in ordering the HUD Label verification letter from IBTS.

### *Wind Load, Roof Load and Thermal Zones*

Each manufactured home must be designed according to the Federal Manufactured Home Construction and Safety Standards at 24 CFR 3280, commonly called the HUD Code. The HUD Code stipulates that the home shall be designed and constructed to conform to one of three wind load, roof load and thermal zones.

The appraiser is responsible for verifying whether the subject meets Minimum Property Requirements (MPRs), however, it is the responsibility of the DE Underwriter to review the Data Plate and verify that the property is in the correct zone for which it was manufactured. If the home is installed in the incorrect zone, the property does not meet HUD's Minimum Property Requirements.

Data Plate/ HUD Compliance Certificate sample displaying the wind load, roof load and thermal zones:



Date of Manufacture \_\_\_\_\_ HUD label No.(s) \_\_\_\_\_

Manufacturer's Serial Number(s) and Model Unit Designation \_\_\_\_\_

Design Approval by (D.A.P.I.A.) \_\_\_\_\_

This manufactured home is designed to comply with the federal manufactured home construction and safety standards in force at time of manufacture.

(For additional information, consult owner's manual.) \_\_\_\_\_

**The factory installed equipment includes:**

Equipment	Manufacturer	Model Designation
For Heating		
For Cooking		
Refrigerator		
Water Heater		
Washer		
Clothes Dryer		
Dishwasher		
Fireplace		
Microwave		
Air Conditioner		

HOME CONSTRUCTED FOR \_\_\_\_\_ ZONE I \_\_\_\_\_ ZONE II \_\_\_\_\_ ZONE III \_\_\_\_\_ EXP. "D"

This home has not been designed for the higher wind pressure and anchoring provisions required for ocean/coastal areas and should not be located within 1500' of the coastline in Wind Zones II and III, unless the home and its anchoring and foundation system have been designed for the increased requirements specified for Exposure D in ANSI/ASCE 7 - 88.

This home has ( ) has not ( ) been equipped with storm shutters or other protective coverings for windows and exterior door openings. For homes designed to be located in Wind Zones II and III, which have not been provided with shutters or equivalent covering devices, it is strongly recommended that the home be made ready to be equipped with these devices in accordance with the method recommended in manufacturers printed instructions.

**BASIC WIND ZONE MAP**



Design roof load zone map: \_\_\_\_\_ North 40 psf \_\_\_\_\_ South 20 psf  
\_\_\_\_\_ Middle 30 psf \_\_\_\_\_ Other \_\_\_\_\_ psf



**COMFORT HEATING**

This manufactured home has been thermally insulated to conform with the requirements of the federal manufactured home construction and safety standards for all locations within Uo value Zone \_\_\_\_\_ (See map at bottom)

Heating equipment manufacturer and model (See list at left).

The listed heating equipment has the capacity to maintain an average 70 degrees Fahrenheit temperature in this home at outdoor temperatures of \_\_\_\_\_ degrees Fahrenheit. To maximize furnace operating economy, and to conserve energy, it is recommended that this home be installed where the outdoor winter design temperature (97 1/2%) is not higher than \_\_\_\_\_ degrees Fahrenheit.

The above information has been calculated assuming a maximum wind velocity of 15 mph at standard atmospheric pressure.

**COMFORT COOLING**

Air conditioner provided at factory (Alternate I)

Air conditioner manufacturer and model (see list at left).  
Certified capacity \_\_\_\_\_ B.T.U./hour in accordance with the appropriate air conditioning and refrigeration institute standards.

The central air conditioning system provided in this home has been sized assuring an orientation of the front (hitch end) of the home facing \_\_\_\_\_. On this basis the system is designed to maintain an indoor temperature of 75°F when outdoor temperatures are \_\_\_\_\_ °F dry bulb and \_\_\_\_\_ °F wet bulb.

The temperature to which this home can be cooled will change depending upon the amount of exposure of the windows of this home to the sun's radiant heat. Therefore, the home's heat gains will vary dependent upon its orientation to the sun and any permanent shading provided. Information concerning the calculation of cooling loads at various locations, window exposures and shadings are provided in Chapter 22 of the 1989 edition of the ASHRAE Handbook of Fundamentals.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this home.

Air conditioner not provided at factory (Alternate II)

The air distribution system of this home is suitable for the installation of central air conditioning. The supply air distribution system installed in this home is sized for a manufactured home central air conditioning system of up to \_\_\_\_\_ B.T.U./hr. rated capacity which are certified in accordance with the appropriate air conditioning and refrigeration institute standards, when the air circulators of such air conditioners are rated at 0.3 inch water column static pressure or greater for the cooling air delivered to the manufactured home supply air duct system.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this manufactured home.

To determine the required capacity of equipment to cool a home efficiently and economically, a cooling load (heat gain) calculation is required. The cooling load is dependent on the orientation, location and the structure of the home. Central air conditioners operate most efficiently and provide the greatest comfort when their capacity closely approximates the calculated cooling load. Each home's air conditioner should be sized in accordance with Chapter 22 of the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE) Handbook of Fundamentals 1989 edition, once the location and orientation are known.

**INFORMATION PROVIDED BY THE MANUFACTURER NECESSARY TO CALCULATE SENSIBLE HEAT GAIN**

Walls (without windows and doors).....	_____ °F
Ceiling and roofs of light color.....	_____ °F
Ceilings and roofs of dark color.....	_____ °F
Floors.....	_____ °F
Air ducts in floor.....	_____ °F
Air ducts in ceiling.....	_____ °F
Air ducts installed outside the home.....	_____ °F

The following are the duct areas in this home:

Air ducts in floor.....	_____ sq. ft.
Air ducts in ceiling.....	_____ sq. ft.
Air ducts outside the home.....	_____ sq. ft.

**U/O VALUE ZONE MAP**



### **Wind Load Zone**

The appropriate wind zone used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Wind Zone can be installed in a lower Wind Zone (a Wind Zone III home can be installed in a Wind Zone I or II location). However, a Wind Zone I home cannot be installed in either a Wind Zone II or III area.

### **Roof Load Zone**

The appropriate roof load used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Roof Load Zone can be installed in a lower Roof Load Zone (a home designed to a North Zone can be installed in a Middle or South Roof Load Zone). However, a South Roof Load Zone home cannot be installed in either a Middle or North Roof Load Zone.

### **Thermal Zone**

The appropriate thermal zone value used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Thermal Zone can be installed in a lower Thermal Zone (a home designed to a Thermal Zone 3 can be installed in a Thermal Zone 1 or 2). However, a Thermal Zone 1 home cannot be installed in either a Thermal Zone 2 or 3 area.

### ***Eligibility for Manufactured Housing in Special Flood Hazard Areas***

A life of loan flood certification is required on each transaction. If the subject or any portion of the dwelling, related structures, or equipment essential to the property value is located in Flood Zones A or V, an elevation certificate or verification that the property is not in the flood zone is required.

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related Structures, or equipment essential to the Property Value and subject to flood damage for both new and existing Manufactured Homes are located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the Mortgagee obtains:

- A FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation, and insurance under the NFIP is obtained
  - If the manufactured home has a basement, the basement floor must be at or above the 100-year return frequency flood elevation
- Alternatively, a FEMA issued Letter of Map Revision (LOMR) or Letter of Map Amendment (LOMA) may be used as proof that the property is not in a flood zone; the letter must be furnished to the flood certification provider for amendment of the certification.

### ***Manufactured Housing Condominium Projects***

Individual manufactured housing units in condominium projects are eligible for FHA insurance.

The appraiser must report the appraisal on Fannie Mae Form 1004C / Freddie Mac Form 70-B, Manufactured Home Appraisal Report.

In addition to the requirements for analysis and reporting of the manufactured home, the appraiser must inspect the condominium project and provide the project information data as an addendum to the appraisal report. Required data includes all data elements as found in the Project Information Section of Fannie Mae Form 1073 / Freddie Mac Form 465.

The condominium project must meet all FHA requirements for an approved project.

### ***Ineligible Manufactured Homes***

The following types of manufactured homes are not eligible for financing by Cardinal:

- New construction / proposed construction transactions in which the property is not already titled as real property prior to closing
- Co-Op
- Homes located in parks where the lot is rented not owned

- Leasehold
- Multiple manufactured units on the same lot
- Single family home with an Accessory Dwelling Unit Manufactured Home unless storage only use, or appraiser comments that unit meets the highest and best use and FHA requirements, refer to [Additional Manufactured Home on Property](#) section
- Homes with missing HUD Label (Red Tags) and HUD certification cannot be verified
- Repair escrows are not permitted on manufactured homes

### ***New Construction***

New construction manufactured homes are Ineligible unless the property is titled as real property prior to closing.

New construction manufactured homes are those sold from a manufacturer or a manufactured home dealer to the borrower(s). The appraiser must develop the cost approach on new construction manufactured homes and must include documentation to support the retail purchase price including the Manufactured Home unit bill of sale and all delivery, installation, and setup costs as copies in the appraisal report.

The appraisal must include the name of the retailer or distributor who sold the Manufactured Home unit.

The cost approach is not required if the Manufactured Home is “New (< 1-year-old)” construction but the title has been re-conveyed after the initial sale from the Manufactured Home dealer.

### ***Lot Equity***

If using lot equity, the appraiser must describe the method used to estimate the site value and provide a detailed summary and analysis of the land sales data to support his/her opinion.

### ***Proposed Construction Manufactured Homes***

Proposed construction manufactured homes are Ineligible unless the property is titled as real property prior to closing.

The following guidelines apply to manufactured homes being built/delivered with Cardinal providing the financing, these are in addition to the appraisal and sales contract requirements.

Refer to the [New Construction](#) section for inspection and documentation requirements.

### **Hazard Insurance Requirements**

The minimum amount of coverage is determined by the Insurer.

### **Title Commitment Requirements**

The preliminary title binder must reference that an Alta 7 endorsement will be included in the final policy.

The title binder for manufactured homes must include verification that:

- The title to the manufactured home has been surrendered or purged in accordance with the jurisdictional requirements (relinquished Department of Motor Vehicles).
- Reflecting the manufactured home will be recorded as real property.
- Must detail the “Improvement Tax” showing what the real estate taxes will be once the manufactured home is classified and taxed as real estate.

If the above three Title Binder requirements are met, then the survey requirement is to be removed from the Final Title. [\*Survey to show the Manufactured Home is attached to the land.]

- The borrower must execute an Affidavit of Affixation at closing.

### **Trade-In**

If the borrower is selling or trading in an existing manufactured home as part of their down payment for the new manufactured home, document ownership (manufacturer/model, year, size) along with validation of the value with a 3rd party appraisal. In addition, the appraisal must confirm the removal of the home.

The sale proceeds or the trade-in value is the lesser of the 3rd party appraisal or the sale/trade-in value.

Document the sale by obtaining a notarized bill of sale with the seller's contact information, receipt of the sale proceeds, and evidence of deposit, and if applicable, evidence existing MH loan has been paid in full.

Document the trade-in by obtaining a copy of the trade-in payment, and evidence the trade proceeds have been deposited with the settlement agent.

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds. Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

## **Modular Housing**

Modular Housing refers to Structures constructed according to state and local codes off-site in a factory, transported to a building lot, and assembled by a contractor into a finished house. Although quality can vary, all of the materials – from framing, roofing and plumbing to cabinetry, interior finish, and electrical – are identical to what is found in comparable quality conventional “stick-built” housing.

If the unit had axles, wheels, tow hitch, or other hardware to facilitate ease of transportation to the site, all such hardware must be removed and the home must be affixed to a permanent foundation prior to loan closing.

## **Required Analysis and Reporting**

The Appraiser must treat Modular Housing the same as stick-built housing, including reporting the appraisal on the same form. The Appraiser must select and analyze appropriate comparable sales, which may include conventionally built housing, Modular Housing, or Manufactured Housing.

## Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record..

Date	Version	Description	Approver
3.11.24	V118	Added clarification surrounding the use of a second appraisal on a property flip resale occurring between 91 - 180 days after acquisition. This change is a clarification and effective immediately	Ellen Clayson
2.14.24	V117	Added requirements for Carbon Monoxide and Smoke Detector Standards depending on property construction and appraisal type	Ellen Clayson
1.9.24	V116	Added definition of Accessory Dwelling Unit (ADU). . Added Optional Accessory Dwelling Unit Market Rent Analysis and Comparable Selection for Optional Accessory Dwelling Unit Market Rent Analysis sections providing guidance for appraisal requirements when rental income is derived from an ADU	Kristen Bellon
11.7.23	V115	Updated guidance for comparable home sales under the Fannie Mae MH Advantage or Freddie Mac CHOICEHome section	Kristen Bellon
10.23.23	V114	Added guidance for cash-out refinance transactions when the property is a Manufactured Home	Kristen Bellon
10.19.23	V113	Added guidance for Determining Connection Feasibility when the subject property Water or Septic is not connected to a public system	Kristen Bellon
9.12.23	V112	Added guidance under Single Unit Approval Project Submission Process to specify a project Budget is required in addition to the HUD 9991 form	Ellen Clayson
8.31.23	V111	Added guidance under Transferred Appraisals for an existing appraisal completed for a different Borrower	Kristen Bellon
8.31.23	-	Added additional guidance under Stationary Storage Tanks to specify tank capacity of <i>more than</i> 1,000 gallons	Kristen Bellon
8.31.23	-	Added Insurance section for Condominium Projects	Kristen Bellon

8.31.23	-	Added Exception for FHA Insurance Requirements under SUA Insurance	Kristen Bellon
8.25.23	V110	Updated Individual Water Supply System section with additional guidance related to Requirements for Water Well Testing. Updated Dug Wells, Cisterns or Holding Tanks section to provide clarification related to MPR's	Kristen Bellon
8.22.23	V109	Added Wind Load, Roof Load and Thermal Zones section which provides details of zones displayed on the HUD Data Plate. Added requirement that the zone must be verified as acceptable by the DE Underwriter	Kristen Bellon
6.30.23	V108	Added Multiple Units with Designated Commercial Use section providing direction related to self-sufficiency rental income calculations	Kristen Bellon
5.16.23	V107	Updated section Appraisal Extension - Form 1004D with clarification regarding form requirements	Kristen Bellon
5.1.23	V106	Created Chapter 12   Property and Appraisal Requirements   FHA Lending Guide. Removed guidance for Credit and included in Chapter 12   Credit   FHA Lending Guide	Kristen Bellon
2.24.23	V105	Added Minimum Requirements for Living Unit section	Kristen Bellon
2.24.23	-	Removed requirement for a well water test where the distance between a well and a septic system is less than 100 feet	Kristen Bellon
2.24.23	-	Clarified guidance to provide that when a well test is required, the report may be up to 180 Days old at the Disbursement Date	Kristen Bellon
2.24.23	-	Updated Appraisal Nondiscrimination Policy to align with HB 4000.1	Kristen Bellon
2.24.23	-	Added Compliance with FHA Guidelines and USPAP section	Kristen Bellon
2.24.23	-	Updated Market Conditions Addendum section to show Appraisal Form 1004MC is no longer required	Kristen Bellon
2.24.23	-	Added additional clarification under Attics, Basements and Crawl Spaces	Kristen Bellon
2.24.23	-	Added Community Water System section	Kristen Bellon



2.24.23	-	Updated Individual Water Supply System section to include: requirements for the appraiser to note any observable deficiencies, requirements for a pressurized tank and additional guidance surrounding well water testing	Kristen Bellon
2.24.23	-	Added clarification under Appraisal Updates section for when a mortgagee may use an appraisal update	Kristen Bellon
12.2.22	V95	Updated Condominium section with requirement for Form HUD-9991 to be completed along with evidence of FHA Condo Project Approval status	Kristen Bellon
11.7.22	V90	Updated Septic System section regarding the connection to a public or community septic system	Kristen Bellon
11.2.22	V89	Added Excess and Surplus Land section and removed guidance for Manufactured homes with excess land to value ratios	Kristen Bellon
7.15.22	V70	Updated guidance for appraisal validity dates	Kristen Bellon
4.15.22	V61	Added additional guidance under Shared Wells section	Kristen Bellon
1.26.22	V52	Added Site Size section	Kristen Bellon
1.13.22	V46	Added New Construction requirements	Kristen Bellon
10.21.21	V38	Added Heating and Cooling Systems section	Kristen Bellon
7.30.21	V22	Added Modular Housing section	Kristen Belon