



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

December 6, 2013

MORTGAGEE LETTER 2013-44

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<b>To</b>	<b>All Approved Mortgagees All FHA Roster Appraisers</b>
<b>Subject</b>	<b>HUD Single Family Real Estate Owned (REO) Properties: Updates on Ordering New Appraisals and Clarification on Comparables Used for Appraisals</b>
<b>Purpose</b>	This Mortgagee Letter includes changes to HUD's policies on: <ul style="list-style-type: none"><li>• The use of an FHA-insured mortgage in the purchase of HUD REO properties; and</li><li>• The use of distressed properties in determining the market value of REO properties.</li></ul>
<b>Effective Date</b>	Mortgagees must implement these policies no later than 60 days from the publication date of this Mortgagee Letter.
<b>Affected Policy</b>	The policies set forth in this Mortgagee Letter modify or supersede, where there is conflict: <ul style="list-style-type: none"><li>• Mortgagee Letter 2010-08, <i>HUD REO Appraisal Validity Period and Second Appraisals</i>, and</li><li>• Section A-2 (Sales Comparison Approach) of Mortgagee Letter 2006-09, <i>Revisions to Appendices A and C to Handbook 4150.2 Change 1, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings</i>.</li></ul>
<b>Ordering New Appraisals for REO Properties</b>	Mortgagees must order a new appraisal <sup>1</sup> that is valid for a HUD REO property financed with an FHA-insured mortgage if any of the conditions in the following chart exists.

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<sup>1</sup> A new appraisal is a full appraisal of a HUD REO property that must meet the requirements of Mortgagee Letter 2006-09 and any superseding policy.

<b>Condition</b>	<b>Maximum FHA insurable mortgage amount (subject to underwriting requirements for down payments, financing of closing costs, etc.) will be:</b>
There are material deficiencies with the current HUD REO appraisal, as determined by the Direct Endorsement (DE) Underwriter.	Based on the value of the property as determined by the new appraisal.
The purchaser of a HUD REO property is applying for a 203(k) loan, and an “as-repaired” appraisal is required.	Based on the value of the property as determined by the new appraisal.
The REO sales contract was not ratified within 120 days of the HUD-REO appraisal’s effective date.	Based on the value of the property as determined by the new appraisal.
The appraisal ordered by HUD is no longer valid.	Based on the value of the property as determined by the new appraisal.
The contract sales price on a property securing the FHA-insured loan is greater than the value of the appraisal ordered by HUD and/or the “as-is” appraised value is not available.	Limited to the lesser of (a) the contract sales price, (b) the new appraisal value, or (c) the initial list price <sup>2</sup> of the HUD REO property.

If a new FHA appraisal is ordered, then:

- The original appraisal ordered by HUD may not be used to underwrite the loan;
- HUD will not reimburse the mortgagee for the cost of the new appraisal. Consequently, the borrower/purchaser can be charged for the expense of the new appraisal as part of the borrower’s closing costs on the Form HUD-1, Settlement Statement;
- The mortgagee must provide a written justification for ordering a new appraisal; and
- The mortgagee must retain copies of all appraisals available to the mortgagee in its loan file.

**Establishing Market Value for REO Properties**

To ensure that HUD REO properties are sold at or near market value, mortgagees and appraisers are reminded of FHA’s definition of market value. A “market value” price should reflect the price appropriate for properties sold in a competitive and open market, under all conditions requisite to a fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this characterization is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;

<sup>2</sup> The initial list price is available on the Multiple Listing Services (MLS) listing and/or through the listing broker.

- Both parties are well-informed/well-advised and acting in what they consider their own best interests;
  - A reasonable time is allowed for exposure in the open market;
  - Payment is made in terms of cash in U.S. dollars or in terms of a financial arrangement comparable thereto; and
  - The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
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**Comparables  
for Appraisals**

When considering sales to be used as comparables, the appraiser must note the conditions of sale and the motivations of the sellers and purchasers. If REO sales and pre-foreclosure sales (PFS)/short sales are part of the market competing with the subject property, the appraiser must analyze the effect that these types of sales transactions have on the market and specifically on the subject property.

In some markets, REO and PFS sales may constitute the majority of recent transactions of similar properties and, thus, are significant in the analysis of the property for which financing is sought. However, in developing an opinion of market value, REO sales and PFS sales transactions should not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the appraiser must provide an additional explanation on the appraisal form.

Transfers to a mortgagee or entity owning the mortgage loan by deed of trust through foreclosure sale or sheriff's sale are not acceptable as comparable sales under any circumstances.

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**Information  
Collection  
Requirements**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2502-0538. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

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**Questions**

Any questions regarding this Mortgagee Letter may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number by calling the Federal Information Relay Service at (800) 877-8339. For additional information on this Mortgagee Letter, please visit [www.hud.gov/answers](http://www.hud.gov/answers).

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**Signature**

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