

Table of Updates

**** CHANGES ARE IN RED THROUGHOUT THE GUIDE ****

| | |
|------------------------------------|--|
| Change Date: 04-28-2006 | |
| Section of Guide | Change Description |
| 203 – Condominiums | <ul style="list-style-type: none"> Updated with new Condo requirements. |

**** PREVIOUS CHANGES RECENTLY MADE ****

| | |
|---------------------------------|--|
| Change Date: 06-06-2005 | |
| Section of Guide | Change Description |
| State Licensing | <ul style="list-style-type: none"> State-specific licensing information has been removed. Please see Section 200 of Chapter 500 for complete licensing details. |

Table of Contents

| | |
|--|-----------|
| Table of Updates | 1 |
| Table of Contents | 2 |
| 100 – Introduction | 3 |
| 101 – Purpose | 3 |
| 102 – Property | 3 |
| 103 – Appraisal | 3 |
| 104 – Residential Restriction | 3 |
| 105 – Type & Occupancy | 4 |
| 106 – Title | 4 |
| 107 – Land-use Regulations | 4 |
| 108 – Escrow Holdback Accounts | 4 |
| 200 – Property Types | 5 |
| 201 – Single Family Residence (SFR) | 5 |
| 202 – Planned Unit Development (PUD) | 5 |
| 203 – Condominiums | 6 |
| 204 – Leasehold Property | 14 |
| 205 – Rural Property | 14 |
| 206 – Manufactured/Factory Built Housing | 15 |
| 207 – Mixed-Use Property | 16 |
| 208 – In-Law Unit | 16 |
| 209 – Model Home Leaseback | 17 |
| 210 – Unacceptable Property | 17 |
| 300 – Property Condition | 18 |
| 301 – General Information | 18 |
| 302 – Termite Report | 19 |
| 303 – Septic/Well Inspections | 19 |
| 304 – Home Inspections | 19 |
| 305 – Proposed Construction | 19 |
| 306 – Existing Construction | 19 |
| 307 – Disaster Areas | 21 |

Information contained herein is provided to assist real estate professionals and is not an advertisement to extend consumer credit as defined by Section 226.2 of Regulation Z.

100 – Introduction

101 – Purpose

The evaluation of a property is as vital a part of the risk analysis as underwriting the borrower's creditworthiness. The property must undergo as careful an evaluation as was given the borrower. The underwriter's responsibility is to assure that the subject property (as collateral) is adequate for the loan terms requested. Purchaser is responsible for the accuracy of both the appraisal and its assessment of the marketability of the property. Therefore, it is important for underwriters to understand their role in the appraisal process and their relationship to the appraiser.

- The appraiser's role is to provide an accurate, and adequately supported, estimate of value and a complete, accurate description of the property.
- The underwriter's role is to review the appraisal report to assure that it meets the investor's requirements and is of professional quality and is prepared in a way that is consistent with the appraisal standards.

102 – Property

The underwriter's collateral evaluation must ensure that the property's location, condition, price range, and legal status are such that the property will sell in the least amount of time, to the most number of potential buyers, for enough money to repay the loan. Property that is not readily marketable should have more conservative loan terms.

103 – Appraisal

The appraisal provides the underwriter with information about the subject property and an "estimate" of market value. The quality of the appraisal itself is separate from the adequacy of the property. Both the appraisal and the property must be found adequate.

104 – Residential Restriction

All property types must be residential in nature and may have 1, 2, 3, or 4 living units within a single legal description. Property with five or more dwelling units is considered commercial and is not acceptable for financing under residential terms. Some residential units may be located in projects with restricted covenants as to use, such as deed restrictions or homeowner association documents. Generally, a project's documents cannot restrict the unit owner's right to sell, transfer, or convey his or her unit. However, they may provide for limitations that restrict occupancy to persons of certain age groups (i.e., 55 or older) as long as the limitations are legally valid and necessary to maintain the character of the project. Deed restrictions must be reviewed carefully to determine whether the restrictions are acceptable. Financing to the maximum LTV/CLTV is acceptable when property values are stable or increasing. When property values are declining, the LTV/CLTV ratio must be 5% less than the maximum allowed for the product.

105 – Type & Occupancy

The subject property type may be detached, semi-detached, or attached. The dwelling may be located on an individual lot, or a zero lot line unit, in a condominium project, in a PUD project, or in a co-operative project. The occupancy of the dwelling unit may be primary residence (owner occupied), as a second home, or investor (non-owner occupied). Restrictions on financing terms are governed by the risk associated with property type and occupancy. The lowest risk category is owner-occupied, single family (1 unit) detached with fee simple title ownership. The highest risk category is non owner-occupied (investor), 2-4-unit property, or a unit in a high rise condominium or co-operative apartment. Each property type and each occupancy type has an associated risk factor. Special care must be taken to ascertain the correct property type. Check the applicable product guide for the types of property that are acceptable.

106 – Title

Title to the land will be held in fee simple, or as a leasehold interest. Either is acceptable subject to certain restrictions. Condominium, PUD, and co-operative projects on a leasehold estate are not acceptable to all investors. Check the applicable product guide to determine acceptability.

107 – Land-use Regulations

A mortgage secured by a property that is subject to certain land use regulations (such as coastal tideland or wetland laws) that create setback lines or other provisions that prevent the reconstruction or maintenance of the property improvements if they are destroyed or damaged, is generally not acceptable. The intent of these types of land-use regulations is to remove existing land-uses and stop land development (including the maintenance or construction of seawalls) within specific setback lines.

108 – Escrow Holdback Accounts

Escrow holdbacks are an exception, not a rule. When considering making a holdback exception, requirements of both the investor and the Purchaser must be met. Refer to the applicable product guide to determine if permitted. Purchaser must warrant to the investor that the property value, safety and habitability are not affected by the incomplete work. Examples of items that could be considered a safety or habitability issue include heating and air conditioning repairs, roof repairs, repair of termite damage or faulty electrical wiring. Escrow holdbacks are permitted when an item or improvement cannot be completed for valid reasons, such as inclement weather or due to shortages in building materials and does not affect the habitability of the property. Holdbacks should not be done to facilitate major rehabilitation to a property. All holdbacks must be approved by an Underwriter. The holdback must be 1.5 times the cost to complete. The appraiser should indicate the percentage of completion, the cost to complete and list the incomplete items. A completion certificate or inspection is required in order to release the funds.

- If the incomplete item is a minor item or improvement, all work must be completed within 90 days.
- If the incomplete item is a major item or improvement (for example, a swimming pool) all work must be completed within 120 days. The amount escrowed may not exceed 10% of the property value.

200 – Property Types

201 – Single Family Residence (SFR)

A single-family residence is any detached or attached dwelling sharing no ground or facilities with neighboring properties (except possibly driveway easements), and intended for use by one family. Typically, the number of units is assumed to be one unless specified otherwise. Attached residences (row townhouses) are acceptable. "Row townhouse" is an architectural style and not, per se, part of an overall project.

202 – Planned Unit Development (PUD)

A Planned Unit Development is a legal form of horizontal property regime that provides for the ownership, in fee simple, of a lot and the improvements thereon. The project may also contain common grounds or recreational amenities that range from minimal to quite extensive. The exclusive ownership of the lot upon which the dwelling unit sits is the major distinguishing feature that sets a PUD apart from a condominium. A PUD is not an architectural style, though the townhouse form tends to prevail due to the requirement that the lot be owned in fee by the unit owner. It is not possible to determine if a development is a PUD merely by evaluating its architectural styling. The actual dwelling unit on the lot may be attached, semidetached or fully detached. If the subject unit is a fully detached unit within a PUD, the unit is considered a single-family residence even if the complex does contain other units, which are attached.

A PUD is formed when the Declaration is recorded. The Declaration establishes a Homeowner's Association, in which mandatory membership is tied to ownership of the lot, the moment the Declaration is recorded. The Bylaws, another legal document, set forth how the Association will be operated. The Association is responsible for all of the upkeep on all of the common elements, which may include the exteriors of the individual units. All unit owners are required to pay association fees on a schedule established in the Declaration, typically monthly. It is likely that voting control of the Association will remain with the developer for some period of time. This period of developer control is controlled by state statute and typically provides that the developer will relinquish control when either a certain number of units have been conveyed or a prescribed period of time has elapsed, whichever occurs first.

To determine the type of evaluation required, it is important to understand who is in control of the Association. Once the developer turns control of the Association over to the unit owners, the development complies with Type E guidelines. This is the sole qualifying criteria for compliance under Type E guidelines. If the developer is still in control, the project must meet all of the requirements for eligibility under Class III or Type F guidelines which requires a thorough review of the project. The Class III guidelines are somewhat less onerous since completion and percentage of units sold are not requirements. However, in order to make all Class III warranties the Declaration and Bylaws must be reviewed to determine if the legal structure of the project complies with the requirements.

Transactions secured by PUD properties require a PUD Rider to the Mortgage/Deed of Trust, a PUD Endorsement to the title policy, a copy of the master insurance policy (or other acceptable evidence) and enough project due diligence to ensure that a suitable project warranty classification can be made. PUD properties, irrespective of whether the units are attached or not, should be appraised on a 1004/70 URAR or Form 2055.

See Topic "Condo/PUD Insurance Requirements" for further information. Check the applicable product guide for exceptions, additions or special requirements for PUD projects.

203 – Condominiums

As with a PUD property, a condominium is not an architectural style but a legal form of property ownership. The units may be single-family detached, semi-detached, townhouse style, apartment style, duplex etc. Since all of the land is owned as a common element, the condominium form of property ownership lends itself well to verticality and therefore the units may be located within a high-rise.

The term "Condominium" refers to a legal form of property ownership. Property that is owned in a condominium project contains two distinct types of property-"Units" and "Common Elements". Units represent the portion of the development set aside for the exclusive, fee simple ownership by an individual. Common Elements represent the portion of the development not included within the units such as the land, recreational amenities, and those portions of the structures which support, enclose or service the units.

Common Elements take the form of either "General" or "Limited" common elements. Limited Common Elements are those aspects of the development set aside for the exclusive use of a particular unit owner. General Common Elements benefit each unit owner in equal fashion. In addition to ownership of his/her unit, each unit owner owns an "undivided interest" in the common elements. An undivided interest is a fractional or percentage share of ownership of all of the common elements. The ownership of an undivided interest gives the unit owner the right to participate in the control and management of the condominium association, but such ownership carries with it the obligation of each unit owner to pay his/her share of the expenses of operating and maintaining the development. A loan that is secured by condominium property is actually secured by a pledge of the fee simple interest in the unit and the unit owners' undivided interest in the common elements.

A condominium is formed when a "Declaration of Condominium" or "Master Deed" is filed with the appropriate land use office in a particular location. The Declaration or Master Deed establishes the condominium as a legal entity and provides for, among other things, the boundaries of all of the units and a description of all of the common elements. A Declaration also provides for the creation of the Association. The association exists from the moment the declaration is recorded. It is typical for the developer to retain voting control over this association for some period of time. Typically, developer control, which is set by state statute, will terminate once a certain percentage of the units have been sold or a period of time has elapsed. The Bylaws of the Condominium set forth how the condominium association will be managed and sets forth an understanding of the obligations of the parties, namely the unit owner and the association. Each unit owner will be obligated to pay his/her share of expenses in the form of common charges, typically monthly. Non-payment results in a lien in favor of the association and can be foreclosed just like any other real property lien.

All states have a condominium enabling statute, a set of laws that allow for the creation of condominium property regimes. Laws tend to differ from state to state and it is therefore imperative that the nuances of the particular states' condominium law be understood. For example, some statutes allow for the lien for unpaid common charges to be extinguished at the point of foreclosure sale, other states allow for a superior lien equal to six months of unpaid common charges. It is extremely important that the Purchaser, as a secured party, receive notice of any default by the borrower in the payment of these charges to protect our interest in the most cost-effective manner.

(Topic continued on next page...)

(Topic continued from previous page.)

All of our investors have established project standards criteria for the evaluation of a condominium property. The depth of the review is driven by a variety of factors including, but not limited to, the degree of completion of the units and common elements, the loan to value ratio, occupancy type and the particular phase of development within which the subject is located. Many condominiums are developed in legal phases that are provided for in the Declaration.

Transactions secured by condos require a condo Rider to the Mortgage/Deed of Trust, a condo Endorsement to the title policy, a copy of the master insurance policy (or other acceptable evidence) and enough project due diligence to ensure that a suitable project warranty classification can be made. Condo properties, irrespective of whether the units are attached or not, should be appraised on Form 1073/465 or Form 2055.

Check the applicable product guide for exceptions, additions or special requirements for Condo projects.

203.01 – Fannie Mae

Effective May 20, 2005 Fannie Mae changed the project warranty types. The new Codes are listed below:

| Old Code | New Project Type Code | Project Acceptance Review Type |
|-----------------|------------------------------|--|
| B | P | Limited Review – New Project |
| A | Q | Limited Review – Established or Two-to-Four Unit Project |
| B | R | Expedited Review – New Project |
| A | S | Expedited Review – Established or Two-to-Four Unit Project |
| C | T | Fannie Mae Review (“1028”) |
| C | U | FHA Approved Project |

There are four types of reviews available under Fannie Mae guidelines. The recommendation for project review is to see if the project is eligible for Limited Review first. If not, see if it there is an unexpired 1028 or if it is FHA Approved. If none of these apply, go to the Expedited Review process.

(Topic continued on next page...)

(Topic continued from previous page.)

Type P and Q:

Lender Delegated Limited review

Limited Review projects **DO NOT** need to be entered into Fannie Mae's Condo Project Manager ("CPM").

Limited Review Type Codes:

- **Type P – New Project**
- **Type Q – Established or Two-to-Four Unit Project**

For a loan at any LTV/CLTV with a DU Approve/Eligible recommendation, a Limited Review is permitted if the unit is an owner-occupied principal residence or 2nd home. Limited Review is also permitted with a DU Approve/Eligible if the unit is non-owner occupied and the LTV/CLTV does not exceed 75%.

When performing a Limited Review the underwriter must warrant the following:

- Project is not an ineligible project in accordance with Fannie Mae's Selling Guide, Part XII, Section 102, Ineligible Projects; and
- The subject property is not a manufactured home; and
- All units, common areas, and facilities within the subject properties legal phase are 100% complete; and
- The project meets the required insurance guidelines.

Type T:

Fannie Mae Review ("1028")

Fannie Mae Review (typically known as a "1028" Review) DO NOT need to be entered into Fannie Mae's Condo Project Manager ("CPM"). You will go into CPM to verify that a 1028 has been issued and has not expired.

Review Type Codes:

- **Type T – Fannie Mae Review**

Once you validate the project has an unexpired 1028 issued via CPM or www.efanniemae.com website, all you need to obtain to complete the project warranty is the proof of required insurance.

(Topic continued on next page...)

(Topic continued from previous page.)

Type U:

FHA-Approved projects

If the project is on the FHA Approval list and the approval has not expired then you can warrant the project. The FHA Approval list can be reviewed via Fannie Mae's CPM or at <https://entp.hud.gov/idapp/html/condlook.cfm>. The underwriter must put a copy of the printed FHA approval in the loan file.

Review Type Codes:

- **Type U – FHA Approved**

Once you validate the project has an unexpired FHA approval all you need to obtain to complete the project warranty is the proof of required insurance.

Type R and S:

Lender Delegated Expedited review (Requires Mandatory input into CPM)

Expedited Review requires the project be certified using Fannie Mae's Condo Project Manager ("CPM"). You cannot utilize the Expedited Review if the project requires a Fannie Mae review.

Expedited Review Type Codes:

- **Type R – New Project**
- **Type S – Established or Two-to-Four Unit Project**

Enter the project into CPM and answer all questions. CPM may accept the project, decline the project, or prompt the underwriter to contact the Fannie Mae project acceptance team at 626-396-5100 (Pasadena office) or 215-375-1400 (Philadelphia office). The acceptance team will be able to guide you through the input to determine whether the project is acceptable or not. For accepted projects, print the Project Acceptance Certificate and keep it with the loan file. If the project is declined then it cannot be warranted therefore is not eligible for an agency loan product.

Ineligible Projects:

- Houseboats
- Timeshare or segment ownership projects
- Projects with current litigation (can be reviewed with National Underwriting on a case-by-case basis)
- Multi-dwelling projects
- Non-conforming use projects
- Leasehold properties
- Projects that contain manufactured housing

(Topic continued on next page...)

(Topic continued from previous page.)

203.02 – Freddie Mac

Project Class and Review

- Reciprocal Project Review
- Streamlined Project Review (attached Condo units)
- Two-to-Four Unit Review
- Class I Review
- Class II Review
- Class III Review

There are six types of reviews available under Freddie Mac guidelines. The recommendation for project review is to see if the project is eligible for any of the Fannie Mae project Type which meets Freddie Mac's Reciprocal Project Review.

Reciprocal Review:

Freddie Mac will accept a project that meets Fannie Mae project warranties. The following project types are acceptable:

- P-Limited Review – New Project
- Q-Limited Review – Established or Two-to-Four Unit Project
- R-Expedited Review – New Project
- S-Expedited Review – Established or Two-to-Four Unit Project
- T-Fannie Mae Review (“1028”)
- U-FHA Approved Project

For further information about these projects types see Section 203.01.

Streamlined Project Review for Attached Condos:

In order to warrant a project under the Streamline Review the following must be met:

- All common areas and units within the subject's legal phase must be 100% complete; and
- Transaction may be a purchase, rate/term refinance or cash-out refinance; and
- Primary residence's can go to an LTV/CLTV of 100% with an LP accept; and
- 2nd home's can go to 75% LTV/CLTV on cash-out refinances and 90% LTV/CLTV for purchases and rate/term refinances

(Topic continued on next page...)

(Topic continued from previous page.)

Two-to-Four unit Condo Project Review:

A two-to-four unit project consists of a minimum of 2 units and maximum of four units that are individually metered. Comparables sales should support the marketability of this type of project within the market area. The following must be met to warrant this type of project:

- There cannot be any manufactured homes within the project; and
- All common areas and units within the project must be 100% complete; and
- No more than 1-unit can be conveyed as a non-owner occupied property.

Class I Project Review:

Definition of Class I Project:

- Project is not 100% complete
- Project is subject to additional phasing or additions
- Developer is in control of the HOA

Requirements for Class I Projects:

- At least 70% of the units must be sold or under contract to primary resident owners and/or 2nd home owners
- Project can be warranted based on the entire project or the subject properties legal phase
- All common areas for the project or subject phase must be 100% complete
- Review of the HOA's CC&R's, By-Laws and operating budget are required

Class II Project Review:

Definition of Class II Project:

- Project is 100% complete
- Project is not subject to additional phasing or additions
- Developer is not in control of the HOA

Requirements for Class II Projects:

- If the subject property is a primary residence or 2nd home there is no pre-sale or occupancy restrictions for the project
- For non-owner occupied properties at least 50% of the units must be sold or under contract as owner occupied and/or 2nd homes.
- No single entity owns more than 10% of the total units in the project
- No more than 15% of the unit owners are more than one-month delinquent in payment of HOA dues

(Topic continued on next page...)

(Topic continued from previous page.)

Class III Project Review:

Definition of Class III Project:

- Project is 100% complete
- Project is not subject to additional phasing or additions
- Unit owner's have been in control of the HOA for at least 1 year

Requirements for Class II Projects:

- At least 90% of the units have been sold or are under contract except under the following criteria:
 - Owner Occupied or 2nd home purchase or rate/term refinance, AND LTV/CLTV is equal to or less than 90%, at least 60% of the units must have been sold or are under contract as owner occupied and/or 2nd homes
 - Owner Occupied or 2nd home cash-out refinance, AND LTV/CLTV is equal to or less than 75%, at least 60% of the units must have been sold or are under contract as owner occupied and/or 2nd homes
 - Non-owner Occupied purchase, rate/term refinance or ash-out refinance at least 60% of the units must have been sold or are under contract as owner occupied and/or 2nd homes

Ineligible Projects:

- Houseboats
- Timeshare or segment ownership projects
- Projects with current litigation (can be reviewed with National Underwriting on a case-by-case basis)
- Multi-dwelling projects
- Non-conforming use projects
- Leasehold properties
- Projects that contain manufactured housing
- Condotels (Condo Hotels)

203.03 – Site Condo (Detached Unit)

A site condominium is a primary residence located in a condominium project comprised of only detached one-unit dwellings (and does not include manufactured housing units). Site condominiums are generally considered single family residences with minimal, if any project standards.

203.04 – Non-Warrantable Condo's (10 units or greater)

Non-warrantable condominiums are defined as a project that does not meet Fannie Mae or Freddie Mac guidelines. Agency (Fannie Mae and Freddie Mac) does not allow non-warrantable condominium projects. Check the applicable product guides for acceptability and requirements.

(Topic continued on next page...)

(Topic continued from previous page.)

203.05 – Non-Warrantable Condo’s (less than 10 units)

Non-warrantable condominiums are defined as a project that does not meet Fannie Mae or Freddie Mac guidelines. Agency (Fannie Mae and Freddie Mac) does not allow non-warrantable condominium projects. Check the applicable product guides for acceptability and requirements.

203.06 – Condo Conversions

Condominium projects that were originally zoned and taxed as something other than a Condominium and that zoning/tax classification has changed within the past 3 years are defined as a Condo Conversion. If the project was converted to a Condominium over 3 years ago then you can warrant the project under the normal guidelines. When a project has been converted within the past 3 years it must meet Fannie Mae’s condo conversion guidelines.

- Condo Conversions are eligible for Limited Review with an AUS approval that states it is eligible for Limited Review; and
- Subject phase must be 100% complete.

If the project cannot be warranted under Limited Review the following guidelines apply:

- All rehabilitation work required for conversion must be completed in a workmanlike manner and 100% complete.
- File must contain a copy of the engineer’s or architect’s report/certification which must comment favorably on the quality of construction; compliance with code requirements; adequacy of mechanical systems; condition of major project components (roof, elevators, heating systems, etc.); soil characteristics, foundation design and drainage; sound transmission.
- Occupancy ratio will be based on the total number of units sold or under contract to be sold.
- Pre-sale ratio will be based on the total number of units in the entire project or legal phase.
- Project must exhibit acceptable absorption rates. For example, marketing time for available units should not exceed six months.
- Marketing materials which also contain a detailed summary of developer/sponsor’s condominium conversion experience.

Check the applicable product guides for acceptability and requirements.

(Topic continued on next page...)

(Topic continued from previous page.)

203.07 – Condotels (Condo Hotels)

A condo-hotel is a project which has rental or registration desks, short term occupancy, food and telephone service, daily cleaning service and that is generally operated as a commercial hotel even though the units are individually owned. The units are individually owned, but many of the units are rented on a short term basis. Check the applicable product guides for acceptability and requirements.

The definition of a Condotel is:

- Mandatory rentals (daily, weekly, monthly)
- Mandatory maid service
- Mandatory room service
- Hotel or motel used in the legal documents
- Zoned commercial/residential
- Reservation or rental desk is present

203.08 – Coops (Cooperatives)

Due to the unique nature of the Co-operative form of ownership and the lending risk Co-operative Projects are not an eligible property type.

204 – Leasehold Property

A leasehold properties fee simple title ownership of the land belongs to a third party. The purchaser buys only a leasehold estate interest in the property for a period of time. Leasehold property is not an eligible property type.

205 – Rural Property

205.01 – Rural Property General (Site ≤ 10 Acres)

All mortgages must be secured by a property that is residential in nature -- based on the characteristics of the subject property, zoning, and the present land use. Mortgages secured by agricultural-type properties (such as farms, orchards, or ranches), on undeveloped land, or on land development-type properties are ineligible.

Underwriters must give properties with outbuildings special consideration in their underwriting and appraisal review. Properties with minimal outbuildings -- such as a small barn or stable -- which are of relatively insignificant value in relation to the total appraised value of the subject property, are acceptable if they are typical of other residential properties in the subject area. For example, a property that has a small barn or stable is acceptable if the appraiser demonstrates through the use of comparable sales with similar improvements that the improvements are typical of properties for which an active, viable residential market exists. If the outbuildings do not represent typical residential improvements for the location and property type, the typical purchaser in the market would probably recognize minimal, if any, contributory value for them.

(Topic continued on next page...)

(Topic continued from previous page.)

On the other hand, the presence of significant outbuildings -- such as a large barn, a storage area or facilities for farm-type animals, or a silo -- will probably indicate that the property is agricultural in nature. In such cases, the property must be reviewed with great care, regardless of whether the appraiser assigns any value to the outbuildings.

All properties must be readily accessible by roads that meet local standards, and must have adequate utilities available and in service. The appraiser must also consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Because rural properties often have large lot sizes and rural neighborhoods can be relatively undeveloped, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. This means that the appraiser will often need to select comparable sales that are located a considerable distance from the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value for the subject property. The appraiser should include an explanation of why the particular comparables were selected in his or her analysis.

Only a URAR or 2055 form is permitted on a rural property. In the event that a 2055 form is selected, the appraiser must address site value as a dollar amount as well as a percentage of total value. The appraiser's estimate of site value should be typical for the area but generally should not exceed 30% of the total value of the property.

205.02 – Rural Property General (Site > 10 Acres)

Property having excessive acreage - more than 10 acres - will only be considered on a case-by-case basis. In such occurrences, the appraiser must not only establish a probable value, but the marketability of large tracts of land, as well. Value may be established through utilizing a more recent sale more like the subject's improvements, as opposed to its acreage; however, to establish the marketability of large parcels of land, the appraiser must supply at least two comparables with similar acreage. These comparable sales may be farther in distance or have sold more than six months from the date of the appraisal, but must have comparable acreage to that of the subject property.

206 – Manufactured/Factory Built Housing

A manufactured (mobile) home is a single or multi-width unit that is *built on a permanent chassis with axles and wheels*. These properties are ineligible even if the wheels have been removed and the home has been permanently affixed to a foundation and converted to real estate under local law.

Other types of factory-built housing, not on a permanent chassis, such as modular, prefabricated, panelized or sectional housing, are not included in the definition of manufactured housing. Prefabricated, panelized and modular homes are eligible Property types where specifically permitted in the Product Guidelines. For purposes of definition:

Pre-Fabricated Home: Factory-Built housing in which building materials are factory cut to design specifications, transported to the site and assembled. Built to the local building codes of the jurisdiction in which it is permanently assembled.

(Topic continued on next page...)

(Topic continued from previous page.)

Panelized Home: A factory-built home in which panels, such as a whole wall with windows, doors, wiring inside and outside, are transported to the site and assembled. Built to the local building codes of the jurisdiction in which it is permanently assembled.

Modular Home: A factory-built residence composed of modular sections that are transported to a permanent site and erected on a permanent foundation. Built to state building codes where the home will be located.

207 – Mixed-Use Property

Mixed-use property that consists of a business in the home may be acceptable under certain Non-Conforming products provided the following criteria are met:

- The property must be a single family (1-unit) property that the borrower occupies as a primary residence.
- The use must represent a legal, permissible use of the property under local zoning ordinances (typically RO or RP).
- The borrower must be both the owner and operator of the business.
- The property must be primarily residential in nature.

The market value of the property must be primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made (some investors still require that the cost of converting the property back to entirely residential use be deducted from the value-check product guide for specific requirements).

The business use must be in a small space set aside for the operation of a service oriented occupation such as a day care facility, a beauty shop, a lawyer's, doctor's, or accountant's office. Central city mixed-use property, which has commercial zoning, is acceptable only under negotiated terms. Check the applicable product guide for acceptability and requirements.

208 – In-Law Unit

A 1 unit property which contained an illegal second unit such as the type referred to as a mother-in-law unit, or granny unit, is acceptable provided the following criteria are met.

- The property is appraised as a 1 unit property (1004/70 URAR, 1025/72 or Form 2055) according to its legal use.
- No rental income from the illegal unit may be considered in qualifying the borrower.
- The appraiser must report that the improvements represent an illegal use according to zoning (or certificate of occupancy), but that the use is common and customary for the area.
- The appraiser must demonstrate the usage as customary by utilizing as all three comparables only similar dwellings with an illegal accessory unit.
- The illegal usage must not jeopardize any future hazard insurance claims.

209 – Model Home Leaseback

A model home leaseback is the purchase of a model home in a new subdivision or phase by a borrower who has agreed to permit the builder (seller) to lease the property from the buyer after closing for use as a model home. The builder is a recognized regional or national builder with a history of developing new residential communities.

When specifically permitted by the product guide, a model home leaseback may be considered as a purchase of a primary residence if the following conditions are met:

- The borrower intends to occupy the property once the lease has expired. The borrower must sign an affidavit that states they intend to occupy the property.
- The loan is processed as a Full/Alternative or DU documented loan (NIV, No Ratio and NINA loans are not eligible).
- The term of the lease may not exceed six months from the date of closing.
- At least one comparable must be obtained from outside the subdivision of the subject property.
- The value of any furniture, accessories or items that are included in the contract are considered concessions and must be deducted from the sales price.

Note: If the loan requires MI, the MI provider may require that the transaction be treated as an investment property purchase. Pre-approval by the MI provider is required.

210 – Unacceptable Property

The subject property must always be primarily residential in nature. The location, zoning and improvements must support the residential use for the property to be eligible.

Property which is not eligible for residential financing with Purchaser:

- Vacant or unimproved land
- Property which is not suitable for year round use due to lack of heating, seasonal water supply, lack of proper insulation, inadequate electrical or plumbing, inaccessible roads, or any other impairments which would prohibit year-round use.
- Multi-family (commercial) property with more than four dwelling units.
- Commercially zoned property (except when permitted by the product guide e.g., mixed-use property).
- Agriculturally zoned property used primarily for agricultural or orchard farm purposes, even if supporting a single family residence (i.e., working farm).
- Property located directly on, or in immediate proximity to hazardous waste sites.
- Property situated in a flood hazard area that is not eligible for participation in the National Flood Insurance Program.
- Property which has obstructed ingress and egress running with the land.
- Property whose title is encumbered by a life estate.

(Topic continued on next page...)

(Topic continued from previous page.)

- Manufactured homes with wheels and axles.
- Condominiums and PUD projects in litigation (can be handled on a case-by-case basis).
- Condominium hotels (except where clearly indicated). This would include all projects with hotel/motel conveniences. This can be a somewhat gray area with a thin line separating a largely second home/resort project with a lot of short-term renting and a true condo-hotel.
- Time-share or segmented ownership projects.
- Houseboat projects.
- Multi-dwelling unit condos or co-ops wherein an owner may hold title to more than 1 unit utilizing a single deed and mortgage or pledge of stock shares.
- Condos that represent a legal, but non-conforming use of the land when zoning regulations prohibit rebuilding to current density.
- Properties subject to a leasehold.
- All Co-operatives. (Properties located in a co-operative project.).

300 – Property Condition

301 – General Information

The property improvements must be in at least average condition, and the condition of the property must not negatively affect either the habitability or marketability of the property. If the condition of the property is listed as fair or poor it is not an eligible property.

Minor cosmetic deficiencies (minor paint touch-up or carpet cleaning) are not a problem. The condition of major components (a roof, septic systems, electrical systems, etc) may be an issue and require comment by the appraiser if they appear to be nearing the end of their useable life. The remaining life of the component, the effect on marketability or the need to replace the component and the impact on value must all be addressed. Incurable structural factors that are not typical for the market may decrease the value and market acceptance of the property. For example, a room list that is unusual or room location that is not typical ("functional obsolescence").

Property appraised subject to repairs or completion must be re-inspected by the appraiser who must certify that the work has been completed satisfactorily and the value re-certified. See topic "Escrow Holdback Accounts." It is not acceptable for property in need of repairs to be appraised "as is." The value of the property upon which the loan-to-value ratio is based must be based on a property that is in at least average condition.

Depending on the loan product and the condition of the subject property, a variety of inspections may be required. Common inspections include termite report, well report and septic report inspections. When required, a loan should not be closed until the proper reports and inspections have been obtained. All inspections should be completed by a licensed or regulated company/agent.

302 – Termite Report

A termite report is a structural inspection concerned with wood destroying pests. It is often referred to as a structural pest control report. The report must state the property is "free and clear of active infestation" and be less than six months old. Both the original report plus all addenda are required, if applicable.

A termite report is generally not required unless typical for where the property is located, recommended by the appraiser, or warranted by other information in the file addressing the condition of the property.

303 – Septic/Well Inspections

Septic and well inspections are necessary if required by state or local law, the appraiser or as a condition of the sales contract. The report should be provided by a city, county, state official or qualified entity stating that the sewage/well system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or local and/or state health standards do not apply for the sewer/well system, however, it is found to be in proper working order and is adequate for the property.

Any other water sources (such as canal water and catchments) may be acceptable provided they are typical and common for the area, have a filtration system installed at the port of entry to the house, have no restrictions on the quantity of water which may be drawn and meet the above criteria for health standards.

304 – Home Inspections

Home inspections are not required. If any documentation in the file, such as the contract or any subsequent addenda refers to adverse conditions noted on a home inspection and those issues could affect health, safety or soundness of the structure (i.e., cracks in the foundation, environmental issues, etc.); the underwriter must condition for a copy of the home inspection and take appropriate action. This does not apply to minor cosmetic issues or standard types of repairs as required by the appraiser

305 – Proposed Construction

For proposed construction, the appraisal may be based on plans and specifications. A certificate of completion, also known as a Form 442, is required before funding.

306 – Existing Construction

306.01 – General Information

For existing construction, the improvements must be complete when the loan is closed. The appraisal may be based on the "as is" condition of the property if minor conditions that do not affect the habitability of the property exist, such as minor deferred maintenance, as long as the appraiser's estimate of value reflects the existence of these conditions.

Minor items that do not affect habitability may be incomplete. See topic "Escrow Holdback Accounts" for guidelines.

(Topic continued on next page...)

(Topic continued from previous page.)

306.02 – Electrical Systems

If the appraiser rates the electrical system as fair or poor on the appraisal indicating concerns about the adequacy or condition of the system, an electrical certification from a licensed electrician will be required. Any inadequacies must be corrected prior to closing.

306.03 – Heating Systems

If the appraiser indicates that the heating source is inadequate or if the appraisal states a fair or poor rating on the adequacy or condition of the system, a heating certification from a licensed heating contractor will be required. Any inadequacies must be corrected prior to closing.

306.04 – Plumbing

If the appraiser is concerned about the adequacy or condition of the plumbing and gives a fair or poor rating system, a certification from a licensed plumber will be required. Any inadequacies must be corrected prior to closing.

306.05 – Foundation Settlement

Excessive settlement of the foundation noted on the appraisal which denotes structural deficiencies and/ or significant negative impact on value and/or marketability must be corrected prior to closing.

Generally, a structural engineer's report will be required before a loan decision can be made.

306.06 – Environmental Hazards

If the real estate broker, the property seller, the property purchaser, or any other party to the mortgage transaction informs the Purchaser that an environmental hazard exists in or on the property, or in the vicinity of the property, the information must be disclosed to the appraiser. Such information should also be disclosed to the borrower and comply with any state or local environmental laws regarding disclosure.

When the appraiser has knowledge of any hazardous condition on the subject property or on any site within the vicinity of the property, he or she must note the hazardous condition on the appraisal report and comment on any influence that the hazard has on the property's value and marketability. He/she must also make appropriate adjustments in the overall analysis of the property's value and indicate that the comparable market data reveals no buyer resistance to the hazard. For example, when a property is located in a neighborhood that has a relatively high level of radon gas, the appraiser must consider and use comparable market data from the same affected area as the subject property. Sales prices of settled sales, the contract sales prices of pending sales and the current asking prices for active listings will reflect any negative effect on the value and marketability of the subject property.

Environmental hazards include, but are not limited to, the presence of the following: hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, lead paint, and radon gas, etc.

(Topic continued on next page...)

(Topic continued from previous page.)

We do not consider the appraiser to be an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. The appraiser does have a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing an appraisal.

In rare situations, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual impact is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable estimate of market value because there is no comparable market data (such as sales, contract sales, or active listings) available to reflect the impact of the hazard. In such cases, the mortgage must be declined.

306.07 – Insulation

Properties with inadequate insulation or properties containing Urea Formaldehyde Foam Insulation (UFFI) are not eligible.

307 – Disaster Areas

Properties located in federally declared disaster areas must adhere to the following requirements if an appraisal was performed on a property prior to or during a natural disaster and the loan will be closed subsequent to the natural disaster:

- The correspondents must require the appraiser perform an interior inspection of the property and document the inspection on form or letterhead stating the property is in marketable condition and no repairs are required.
- The correspondents must require the borrower execute at closing the “borrower property condition certificate” Exhibit 046 of the Seller Guide.

See Section 102 in Chapter 700 “Representations and Warranties” for additional information.

Follow this link for a list of [current disaster areas](#).