



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

January 28, 2005

MORTGAGEE LETTER 2005-06

TO: ALL APPROVED MORTGAGEES

SUBJECT: Lender Accountability for Appraisals

This Mortgagee Letter is to remind mortgagees of their responsibilities to obtain high quality appraisals for properties that will be security for FHA-insured mortgages. These responsibilities are contained in an amendment to 24 CFR 203.5 that was published in the Federal Register on July 20, 2004 and which became effective August 19, 2004. This rule also amended 24 CFR 25.9 to make submission of, or causing to be submitted, documentation relating to an appraisal that does not satisfy FHA requirements a ground for administrative action by the Mortgage Review Board. As explained in the preamble to this final rule, HUD is imposing a standard of accountability to which lenders, sponsor lenders, and loan correspondent lenders will be held that is the same as the standard used to impose civil money penalties for program violations. That standard is one of knowing (actual knowledge) or had reason to know.

HUD handbooks and mortgagee letters specify certain actions that a mortgagee should take to help ensure that appraisals comply with FHA requirements. However, the fact that a mortgagee has taken such actions does not automatically mitigate the standard imposed by this final rule if despite compliance with the requirements, the lender is found to have known or had reason to know about the deficient appraisal.

Background

Since 1991, when passage of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) created systemic state licensure and certification requirements for appraisers, FHA has reiterated the responsibility of lenders to critically review and analyze FHA appraisals. The direction and guidance provided to lenders in previous mortgagee letters included the following:

- “A DE lender that selects its own appraiser must accept responsibility, equally with the appraiser, for the integrity, accuracy and thoroughness of the appraisal and will be held accountable by HUD for the quality of the appraisal.”

- “Lenders are reminded that if the appraiser they selected provides a poor or even fraudulent appraisal which leads the Department to insure a mortgage at an inflated amount, the lender is held equally responsible with the appraiser for the violation.”
- “Lenders accept responsibility, equally with the appraisers, for the integrity, accuracy and thoroughness of the appraisals, and will be held accountable by HUD”

Handbook 4060.1 REV-1, Change 1, Mortgagee Approval Handbook, dated November 24, 2003, revised and updated the Department’s requirements for maintaining and implementing a Quality Control Program for the origination and servicing of HUD/FHA insured mortgages. Chapter 6 contains detailed explanations for quality control plans including appraisal review.

Highlights of Final Rule

The final rule:

- a) codifies FHA’s requirement that mortgagees are accountable, along with appraisers, for the quality of appraisals on properties securing FHA-insured mortgages;
- b) specifically provides that lenders that submit appraisals to HUD which do not meet FHA requirements are subject to the imposition of sanctions by the HUD Mortgagee Review Board;
- c) applies to both sponsor lenders that underwrite loans and loan correspondent lenders that originate loans on behalf of their sponsors; and
- d) is designed to ensure that lenders are aware of their responsibilities with respect to appraisals and provide homeowners with an accurate statement of the appraised value of their home as well as help assure homeowners that the condition of the home meets FHA standards.
- e) clarifies that the standard of accountability to which lenders, sponsor lenders, and loan correspondent lenders will be held is the same as the standard used to impose civil money penalties for program violations, and that standard is one of knowing (actual knowledge) or had reason to know.

Purpose of the Rule

The success of the FHA single family mortgage insurance program, and HUD’s ability to safeguard the FHA Insurance Fund, depends significantly on the quality of appraisals on properties that are to be security for insured mortgages. Section 203(b)(2) of the National Housing Act (12 U.S.C. 1709(b)(2)) provides the method for calculating the maximum mortgage amount that FHA can insure. The calculations required by statute are based on the appraised value of the property that is security for the mortgage. If a mortgagor defaults and the mortgagee conveys title to the property in exchange for payment of the mortgage insurance benefits, FHA must then manage and sell the property in order to recoup its insurance loss. If the appraisal was accurate, the loss to FHA will be minimal. If the appraisal was inaccurate, or the appraiser was negligent in reporting readily observable defects, HUD’s return on any sale of a property that was overvalued or in poor condition could be significantly reduced, thereby increasing the loss to the FHA Insurance Fund.

If you have any questions concerning this Mortgagee Letter, please contact your local Homeownership Centers in Atlanta (888) 696-4687, Denver (800) 543-9378, Philadelphia (800) 440-8647, or Santa Ana (888) 827-5605 (these are all toll free numbers).

Sincerely,

John C. Weicher
Assistant Secretary for Housing-
Federal Housing Commissioner