



To: All Customers **From:** Flagstar Lending
Date: 03/31/20 – Updated 12/31/20 **Memo #:** 20037
Subject: **FHA, VA and USDA Updated Appraisal Guidance Due to COVID-19**

FHA TRANSACTIONS

The appraisal guidance in the [Mortgagee Letter 2020-05](#) is effective immediately for appraisal inspections completed on or before May 17th, 2020 and have been extended until February 28, 2021

Appraisal Forms and Amended Certifications

The optional Exterior-Only and Desktop-Only appraisals must be reported on the existing Acceptable Appraisal Reporting Forms by Property and Assignment Type. These forms will require amended certifications and clear scope of work disclosures. Mortgagees are reminded that Exterior Appraisal forms Fannie Mae 2055 and Fannie Mae 1075 are not FHA approved forms and are not compatible with FHA’s Electronic Appraisal Delivery (EAD) portal.

The appraisal report must include a signed certification indicating whether the Appraiser did or did not personally inspect the subject property and the extent of the inspection. FHA has provided [model certifications](#) for the Exterior-Only and Desktop-Only scope of work. **FHA is discontinuing the use of Desktop-Only Appraisal inspections for most Single Family Purchases, Rate and Term and Simple Refinances of properties. The updated appraisal guidance scope of work is effective on November 1, 2020 and is applicable to appraisals with an effective date on or before February 28, 2021.**

Loan Purpose	Permissible Appraisals (in order of preference)
Purchase Transaction ¹	Exterior-Only Appraisal or Desktop-Only Appraisal
Rate and Term and Simple Refinance transactions ²	Exterior-Only

1. The options may not be used for: New Construction, Construction-To-Perm, Building on Own Land and 203(k) Purchase transactions.
2. No appraisal flexibilities are permitted for Cash-out Refis or for 203(k) Refis

Exterior-Only Option

The required protocols and exhibits under the Exterior-Only Option are:

- Appraiser will observe the Property and Improvements from the street.
- The Appraisal will be completed “AS IS” unless Minimum Property Requirements (MPR) related deficiencies are observed from the street or otherwise known.
- The Appraiser may utilize extraordinary assumptions when necessary.
- No sketch, or interior photos are required.
- **At a minimum, the exterior photos must include the front and sides of the dwelling (rear photo is required);**
- **Front view of each comparable utilized is required. Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable conditions at the time of sale; however, Appraisers must include their own photographs as well, to document compliance; and**
- **The Map Reference field of the appraisal form must be reported as “Exterior”**

Desktop-Only Option

The required protocols and exhibits under the Desktop-Only Option are:

- Appraiser will not physically observe the Property and Improvements
- The Appraisal will be completed “AS IS” unless MPR related deficiencies are known.
- The Appraiser may utilize extraordinary assumptions when necessary.
- No sketch, interior photos, exterior photographs are required.
- No comparable viewing nor photos are required.

Repair Completion Reports

When an Appraisal Update or Completion Report (Form 1004D) is required to document completion of the repairs, FHA will permit the lender to accept a letter signed by the borrower stating that the work was completed along with evidence which may include:

- Photos of the completed work;
- Paid invoices;
- Occupancy permits; or
- Other substantially similar documentations

VA TRANSACTIONS

The VA circular 26-20-11 outlines changes to the appraisal process due to COVID-19. This circular is effective immediately and applies to all loans closed on or after last Friday (March 27th).

Refer to the [FHA, VA and USDA Updated Appraisal Guidance Due to COVID-19 announcement for updated VA appraisal guidance.](#)

The appraiser will continue to gain access to view the interior property in the instances outlined below.

INTERIOR INSPECTION REQUIREMENTS

- Purchase Transaction (vacant property) - (assuming no mandatory quarantine or shelter in place requirements)
- Purchase or Refinance Transaction (property occupied)
 - Assume no mandatory quarantine or shelter in place requirements
 - All parties must agree to interior and meet the following:
 - Neither party has been instructed by health officials to stay home or social distancing
 - Does not have flu-like symptoms; or
 - Has not been quarantined under direction of public health authorities; and
 - No parties are within the CDC guidelines of high risk found at: <https://www.cdc.gov/coronavirus/2019-ncov/specific-groups/high-risk-complications.html>
 - If either party does not want an interior inspection or meet the criteria above, appraiser may perform Exterior-only with enhanced conditions.
 - Lender cannot direct appraiser to conduct interior inspection on an occupied property.

EXTERIOR-ONLY APPRAISAL W/ ENHANCED ASSIGNMENT CONDITIONS OR IN LIMITED INSTANCES DESKTOP APPRAISALS

- On Page 1 of URAR, mark “Map Reference” as either “Exterior Only” or “Desktop”
- Procedures are temporary until after the national emergency
- Use FNMA 2055/1075 URAR form
 - For multi-unit properties use the 1004C or 1025 form
 - Appraisers must state on the form the following
 - Per Department of Veterans Affairs, no interior inspection was provided due to COVID-19”
 - Exterior-only appraisal are limited to 2020 Freddie Mac Conforming Loan Limits for one-unit properties.
 - Enhanced assignments conditions
 - Appraiser will review full exterior of property
 - Provide photos of all sides of the property with detailed notes of exterior

REPAIR INSPECTION

Due to the lack of verification of completion by the appraiser or inspector that repair items have been completed, lenders have one of the two following options to supply to VA.

- Lenders have the authority and are encouraged to certify repairs, especially repairs performed by licensed personnel, instead of an appraiser certification as outlined in the VA Pamphlet 26-7, Chapter 10 Appraisal Process (NEW), Section 23, Topic b. Repair certifications which may involve lead-based paint must still be completed by a fee appraiser; however, the lender can escrow for future inspection and costs with a third-party. Lenders may hold funds in escrow for repairs to be completed after closing.
- All repairs must be completed and escrowed funds distributed before the loan may be guaranteed by VA as outlined in the VA Pamphlet 26-7, Chapter 12 Minimum Property Requirements (NEW), Section 44, Topic e. In addition, there must be adequate assurance that the work will be completed timely and satisfactorily (up to 180 days).

USDA TRANSACTIONS

USDA announced changes to its appraisal, repair inspection and income verification requirements due to the COVID-19 crisis. These changes are in effect from March 27th, 2020 and have been extended until February 28, 2021 and apply to the requirements in the program handbook [HB-1-3555](#).

Appraisals - Existing Dwellings

- **For purchase and non-streamlined refinance transactions when the appraiser is unable to complete an interior inspection of an existing dwelling due to concerns associated with COVID-19:**
 - Exterior-Only Inspection (Fannie/Freddie 2055) will be accepted
 - Appraiser not required to certified property meets HUD Handbook 4000.1 standards
 - Appraisal must be done in accordance with USPAP and the Uniform Appraisal Dataset (UAD)
 - Temporary exception not eligible for new construction or construction to permanent loan



- **Repair inspections**

- It is permitted that borrower can sign letter that work was completed
- Lender must provide evidence of completion (e.g. photographs or **paid** invoices)
all completion documentation must be retained in the loan file
- Temporary exception is not applicable to rehab/repair loans

Above are only the listed highlights please review the FHA, VA and USDA announcements in their entirety:

- [Mortgage Letter \(ML\) 2020-05](#)
- [VA Circular 26-20-11 & Exhibit A & FSB Memo #20052](#)
- [USDA Announcement](#)
- [USDA Extension Announcement](#)
- [Mortgagee Letter \(ML\) 2020-37](#)
- [Mortgagee Letter \(ML\) 2020-47](#)

If you have questions, please email underwritingsupport@flagstar.com or call the underwriting support desk at (866) 945-9872.