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TO: Office of the Assistant Secretary for Housing
Federal Housing Commission & the Department of Housing and Urban Development
451 7th Street SW, Room 10276
Washington, DC 20410-0500
http://www.regulations.gov

RE: Docket No. FR-6609-N-01 - Request for Information Regarding Single Family Minimum Property Requirements (MPR)

The National Association of Appraisers (NAA) appreciates the opportunity to provide input regarding FHA's Minimum Property Requirements (MPRs.) The following comments are respectfully submitted for your consideration. For ease of reading, our comments correspond with the specific questions outlined in the RFI.

1. What are the advantages and/or disadvantages of MPRs compared with the property safety and soundness requirements of other governmental and non-governmental financing programs/options?
NAA Response: The obvious purpose of FHA's MPRs is to protect borrowers from potentially costly repairs they are unable to absorb which can lead to delinquency or foreclosure. At the same time, MPRs which exceed GSE requirements create barriers to borrowers seeking an FHA insured mortgage compared to those utilizing conventional financing. In some instances, sellers will not even consider FHA offers due to an inability or unwillingness to complete MPR repairs. NAA encourages FHA to evaluate whether there is any evidence that MPRs exceeding GSE requirements meaningfully mitigate risks to borrowers and the MMIF or whether they simply create transaction delays and increase costs without materially improving borrower protection or loan performance.

2. Do the current MPRs adequately protect borrowers utilizing FHA programs to purchase or refinance a home? Do the current MPRs adequately protect FHA's Mutual Mortgage Insurance Fund (MMIF) through reduced collateral risk?
NAA Response: The current MPR framework provides some protection to both borrowers and the MMIF. However, it must be recognized that appraisers are valuation experts. They are not home inspectors, contractors, engineers or code officials, and many borrowers, lenders and the FHA erroneously rely on appraisers to identify property defects they are not qualified to detect.

This begs the question, are borrowers and the MMIF really being protected when appraisers are relied upon rather than the professionals most qualified to detect defects? For example, observing the reasonable future utility, durability and economy of plumbing, heating and electrical systems is beyond the expertise of appraisers. Other examples include observing whether heating systems automatically heat living areas to a minimum of 50 degrees or determining the suitability of soil and subsoil conditions.

3. What specific MPRs are no longer applicable or necessary to ensure properties are habitable, safe and sound for FHA borrowers?

NAA Response: We encourage FHA to align MPRs with GSE requirements and eliminate the following requirements:

1. Remediation of defective paint surfaces exceeding those required by the GSEs
2. Observing whether appliances are operational
3. Any MPR that is already regulated by another entity or local municipality such as wells, septic systems, fall distances, proximity to off-site fuel tanks, etc.

4. Are there opportunities to expand post-closing repair flexibility while still protecting borrowers and the MMI Fund?

NAA Response: This question is better answered by the lending community, however, NAA encourages additional flexibility for certain repairs that do not pose immediate safety hazards, perhaps by expanding the use of repair escrows. This would reduce closing delays while still providing protections to borrowers and the MMIF.

Similarly, NAA encourages exercising existing flexibility in verifying completion of MPR repairs utilizing virtual inspections and allowing photographic evidence of completion by third parties. All parties benefit in terms of time and money expenditure by requiring fewer on-site re-inspections by appraisers. We also encourage empowering underwriters to waive repair conditions that appraisers deem necessary when they appear to the underwriter exceed MPRs.

5. Are there important factors FHA should consider generally when modernizing policies to balance the safeguarding function of MPRs relative to any additional burdens that MPRs may impose?

NAA Response: Modernization of policies should focus on balancing legitimate risks. As stated earlier, an example is the current requirement to remediate chipping or peeling paint on pre-1978 components, particularly those such as exterior fences or outbuildings.

6. Are the MPRs communicated clearly enough in FHA policies for borrowers, Mortgagees, and appraisers to understand the requirements? For example, is there a clear distinction between safety and habitability concerns that necessitate pre-closing repairs versus cosmetic repairs?

NAA Response: MPRs on their own are often not the issue; it is the vast differences in interpretation by appraisers, Mortgagees and even HOCs themselves that cause friction. NAA applauds FHA's efforts to better communicate MPR policy in the 4000.1 and we understand that not every possible scenario can be outlined in FHA policy, but additional detail, specific definitions and illustrations would be beneficial.

7. How could FHA streamline and/or simplify MPR policies for Mortgagees and appraisers to better interpret and apply MPR policies consistently?

NAA Response: Aligning MPR policies with those of the GSEs would allow appraisers to better interpret and apply MPR policies consistently.

8. Is the FHA Appraiser's scope of work to identify MPR deficiencies aligned with modern appraisal practice or are there other more appropriate approaches?

NAA Response: As stated in our response to question #2, appraisers are valuation experts, not home inspectors. Ideally, MPRs would align with GSE requirements which are more universally known and understood.

9. Please provide any general suggestions for improvement or comments on modernizing FHA's approach to MPRs.

NAA Response: As stated previously, NAA encourages aligning FHA's MPRs with GSE requirements. If FHA MPRs remain unchanged, NAA recommends requiring specific, uniform bi-annual training for appraisers, underwriters and HOC staff, and making such training available remotely to ensure consistency.

NAA sincerely appreciates the opportunity to provide feedback on this RFI and for your consideration of our input.

Respectfully,

Laurie Egan, MNAA on Behalf of NAA
Association Manager/Chair, Government Affairs Committee
National Association of Appraisers