

## Guidance on NSP Appraisals – Voluntary Acquisitions

Acquisitions financed with NSP grant funds are subject to the URA, and its implementing regulations at 49 CFR Part 24, and the requirements set forth in the NSP Notice that was published in the Federal Register on October 6, 2008. HUD anticipates that most of these transactions will qualify as voluntary acquisitions under the applicable regulations of 49 CFR 24.101(b). The URA regulations do not specifically require appraisals in connection with voluntary acquisitions under 49 CFR 24.101(b). However, the NSP Notice requires appraisals to be performed with respect to the NSP funded acquisition of foreclosed upon homes and residential properties, even though they may be considered voluntary under the URA. In those cases, the URA appraisal requirements of 49 CFR 24.103 must be met. The following guidance on appraisals pertains to acquisitions of foreclosed upon homes and residential properties which meet the applicable voluntary acquisition requirements of 49 CFR 24.101(b) and reflects applicable URA requirements and the NSP requirements, including the URA appraisal requirements of 49 CFR 24.103.

1. The NSP grantee must ensure that the owner is informed in writing of what the grantee believes to be the market value of the property; and that the NSP grantee will not acquire the property if negotiations fail to result in an amicable agreement (see 49 CFR 24.101(b)(1) & (b)(2)).
2. If NSP funds are to be used to acquire a foreclosed upon home or residential property (other than through donation), the grantee must ensure that the purchase price includes a discount from the value established by an appraisal that meets the following requirements:
  - a. The appraisal must have been completed within 60 days of the offer made for the property (we have advised that an initial offer can be made, subject to the completion of the appraisal within 60 days of a final offer).
  - b. The appraisal must meet the URA definition of an appraisal (see 49 CFR 24.2(a)(3) and the five following requirements (see 49 CFR 24.103(a)(2)):
    - i. An adequate description of the physical characteristics of the property being appraised (and, in the case of a partial acquisition, an adequate description of the remaining property), including items identified as personal property, a statement of the known and observed encumbrances, if any, title information, location, zoning, present use, an analysis of highest and best use, and at least a 5-year sales history of the property.
    - ii. All relevant and reliable approaches to value. If the appraiser uses more than one approach, there shall be an analysis and reconciliation of approaches to value used that is sufficient to support the appraiser's opinion of value.

- iii. A description of comparable sales, including a description of all relevant physical, legal, and economic factors such as parties to the transaction, source and method of financing, and verification by a party involved in the transaction.
    - iv. A statement of the value of the real property to be acquired and, for a partial acquisition, a statement of the value of the damages and benefits, if any, to the remaining real property, where appropriate.
    - v. The effective date of valuation, date of appraisal, signature, and certification of the appraiser.
  - c. The appraiser shall disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired or by the likelihood that the property would be acquired for the project, other than that due to physical deterioration within the reasonable control of the owner.
  - d. If the owner of a real property improvement is permitted to retain it for removal from the project site, the amount to be offered for the interest in the real property to be acquired shall be not less than the difference between the amount determined to be just compensation for the owner's entire interest in the real property and the salvage value (defined at §24.2(a)(24)) of the retained improvement.
3. The NSP grantee has a legitimate role in contributing to the appraisal process, especially in developing the scope of work and defining the appraisal problem. The scope of work and development of an appraisal under these requirements depends on the complexity of the appraisal problem. HUD's guide to preparing an appraisal scope of work under the URA is available in HUD Handbook 1378-Appendix 19 or through the following link:  
  
<http://www.hud.gov/offices/adm/hudclips/handbooks/cpdh/1378.0/1378x19CPDH.pdf>
4. The NSP grantee shall establish criteria for determining the minimum qualifications and competency of appraisers. Qualifications shall be consistent with the scope of work for the assignment. The NSP grantee shall review the experience, education, training, certification/licensing, designation(s) and other qualifications of appraisers, and use only those determined by the NSP grantee to be qualified.
5. If the NSP grantee uses a contract (fee) appraiser to perform the appraisal, such appraiser shall be State licensed or certified in accordance with title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (12 U.S.C. 3331 *et seq.* ).

Questions:

**1. Can the lender's appraisal be used if it is reviewed for compliance with the URA requirements?**

Yes, if it meets the requirements in 2-5 above.

**2. Must appraisals for the voluntary acquisition of NSP funded foreclosed upon homes and residential properties have a review appraisal performed?**

No. Although the URA criteria for appraisals refer to qualifications for review appraisers, the NSP grantee is not required to have a review appraisal performed in connection with voluntary acquisitions under 49 CFR 24.101(b).

**3. Must a scope of work be developed?**

Yes, if the NSP grantee is procuring the services of an appraiser (or requires someone else to procure those services) or is relying on a lender's (the owner of the foreclosed upon property) appraisal that is determined by the NSP grantee to meet above requirements. No, if the appraisal is performed by otherwise qualified in-house appraisal staff, although it is still advisable in such cases.