



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: May 1, 2024

Mortgagee Letter 2024-07

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Appraisal Review and Reconsideration of Value Updates

Purpose This Mortgagee Letter (ML) adds Borrower-Initiated Reconsideration of Value (ROV) requirements to the ROV process.

Effective Date The provisions of this ML may be implemented immediately but must be implemented for FHA case numbers assigned on or after September 2, 2024.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Affected Programs The provisions of this ML apply to FHA Single Family Title II forward and Home Equity Conversion Mortgage (HECM) programs.

Background The U.S. Department of Housing and Urban Development (HUD) is committed to strengthening safeguards against unlawful discrimination in the valuation of residential properties. The Action Plan to Advance Property Appraisal and Valuation Equity (PAVE) (“the Action Plan”) identifies discrete actions that the federal government can take to root out racial, ethnic, or national origin bias in residential property valuations. The Action Plan identified the lack of consistent, industrywide policies and guidelines

related to the ROV process as an obstacle to borrowers accessing an ROV when warranted. It also cited a need for greater awareness of the ROV process for these consumers.

Over the past few years, HUD has strengthened its Nondiscrimination Policy, Appraiser Conduct, and other Federal Housing Administration (FHA) Roster Appraiser requirements in Handbook 4000.1 to promote equity in the appraisal process and ensure appraisals for insured Mortgages are performed in a competent, independent, impartial, and objective manner, free of discrimination and compliant with Uniform Standards of Professional Appraisal Practice (USPAP), including the Competency Rule. Under these requirements, the Appraiser must comply with applicable laws including anti-discrimination laws and the Fair Housing Act, among others. The Appraiser is prohibited from basing any part of the appraisal analysis or reporting on certain factors, including race or other protected characteristics of the prospective or current homeowner, prospective or current occupants of the home, or occupants of properties in the vicinity of the property. FHA requires that a potential Fair Housing violation or instance of discrimination must be reported to HUD's Office of Fair Housing and Equal Opportunity (FHEO) immediately. Fair housing violations and complaints may be reported online using form [HUD-903.1, Report Housing Discrimination](#), contacting HUD's local FHEO Regional Office, or by calling the Fair Housing Complaint Hotline at 1-800-669-9777.

In addition, following HUD's commitments to the Action Plan, FHA placed a [draft Mortgagee Letter on its Single Family Drafting Table in January 2023](#), titled Borrower Request for Review of Appraisal Results. This included guidance to improve the established process by which FHA program participants may request an ROV if the initial valuation is lower than expected. FHA received, and thoughtfully considered, extensive stakeholder feedback. The feedback desired more specificity and consistently stressed the need for industry collaboration and alignment of the agencies. Since then, FHA has actively engaged with stakeholders and other agencies to identify policies that would support a consistent, industrywide framework of minimum standards.

FHA is now enhancing its current policy with these additional and clarified standards for appraisal reviews, including the second appraisal and ROV processes. This includes revising material deficiencies and clarifying when an underwriter may proceed directly to a second appraisal after identifying a material deficiency in an appraisal. Also, this includes a requirement for Mortgagees to establish and disclose their process for reviewing and responding to borrower-initiated ROV requests. The new policy also includes elevating the importance of the Direct Endorsement (DE) underwriter's appraisal review, including the ROV processes, within the Mortgagee's Quality Control (QC) Plan.

**Summary of
Changes**

This ML:

- revises appraisal material deficiencies to include potential violations of fair housing laws and professional standards related to nondiscrimination in Ordering a Second Appraisal (II.A.1.a.iii(B)(9));
- adds language about forgoing communication with an Appraiser about a material deficiency and reporting an appraisal replaced due to a material deficiency in Ordering a Second Appraisal (II.A.1.a.iii(B)(9));
- adds specific expectations regarding the underwriter's training and identification of deficiencies in Appraisal Review (II.A.3.a.vi);
- moves ROV content from II.A.3.a.viii to its own section renamed General Reconsideration of Value Requirements (II.A.3.a.ix) and rennumbers subsequent sections;
- adds Borrower-Initiated ROV processing requirements in Reconsideration of Value (II.A.3.a.ix(A));
- adds Quality Control standards (II.A.3.a.x) for the Appraisal Review and the Reconsideration of Value;
- revises appraisal material deficiencies to include potential violations of fair housing laws and professional standards related to nondiscrimination in HECM Ordering a Second Appraisal (II.B.2.a.iii(B)(10)(b));
- adds language about forgoing communication with an Appraiser about a material deficiency and reporting an appraisal replaced due to a material deficiency in HECM Ordering a Second Appraisal (II.B.2.a.iii(B)(10)(b));
- adds specific expectations regarding the underwriter's training and identification of deficiencies in HECM Appraisal Review (II.B.4.a.ii(E));
- revises HECM General Reconsideration of Value Requirements (II.B.4.a.ii(H)) and adds Borrower-Initiated ROV processing requirements (II.B.4.a.ii(H)(1));
- adds HECM Quality Control standards (II.B.4.a.ii(I)) for the Appraisal Review and the Reconsideration of Value; and
- adds Appraiser standards for responding to the DE underwriter requests (II.D.2.e).

**FHA Single
Family Housing
Policy
Handbook
4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Ordering a Second Appraisal (II.A.1.a.iii(B)(9))

(a) Second Appraisal by Original Mortgagee

A second appraisal may only be ordered if the Direct Endorsement (DE) underwriter (underwriter) determines the first appraisal is materially

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Origination through Post-closing/Endorsement deficient and the Appraiser is unable or uncooperative in resolving the deficiency. The Mortgagee must fully document the deficiency and status of the appraisal in the mortgage file. The Mortgagee must pay for the second appraisal.

Title II Insured Housing Programs Forward Mortgages Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability or that indicate a potential violation of fair housing laws or professional standards related to nondiscrimination. Material deficiencies include, but are not limited to:

- failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
- reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal;
- fraudulent statements or conclusions when the Appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy, and/or thoroughness of the appraisal submitted to the client; and
- statements related to characteristics of a protected class unless fair housing laws permit consideration of the characteristic, such as age-restricted housing or housing with certain accessibility features.

When the underwriter considers the Appraiser unable to resolve material deficiencies due to the nature of the deficiency, they may forgo communication with the Appraiser before obtaining a second appraisal.

The Mortgagee must report appraisals replaced due to material deficiencies to the applicable State Appraiser Regulatory Agency.

Property Acceptability Criteria (II.A.3.a)

Title II Insured Housing Programs Forward Mortgages

vi. Appraisal Review

The Mortgagee must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the Property. The Mortgagee must ensure that the underwriter is trained to identify appraisal deficiencies, including prohibited discriminatory practices, through the appraisal review process. The review process must include protocols for remediating deficiencies by:

- requesting a general correction, explanation, or substantiation from the Appraiser;
- requesting a Reconsideration of Value (ROV); and
- obtaining a second appraisal. See Ordering a Second Appraisal.

The review process and all communication with the Appraiser must conform with the [Safeguards for Appraiser Independence](#) (I.B.1.e.v(B)).

**Title II Insured
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Programs
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Property Acceptability Criteria (II.A.3.a)

ix. General Reconsideration of Value Requirements

A Reconsideration of Value (ROV) refers to a request from the Mortgagee's underwriter to the Appraiser to re-assess the appraisal report based upon information that may affect the value conclusion. The underwriter's communication with the Appraiser must:

- include a description of the area(s) in the appraisal report and all the additional information that require the Appraiser's response;
- provide detailed information, data, or relevant comparable sales as available;
- only include relevant comparable sales as of the effective date of the appraisal; and
- not include more than five alternative comparable sales.

The Appraiser's response must be included in a revised version of the appraisal, which must be logged in FHA Connection (FHAC). All documentation associated with an ROV must be retained in the case binder including all written communication among the Mortgagee, the Borrower, the Appraiser, and any other parties involved in the ROV process.

No costs associated with an ROV may be charged to the Borrower.

A request for general correction, explanation, or substantiation of valuation from the Appraiser is part of the Direct Endorsement (DE) underwriter's appraisal review process but is not considered a request for an ROV.

The resolution of the ROV must be completed prior to loan closing.

(A) Borrower-Initiated ROV

The Mortgagee must establish an appeal process that includes steps for the Borrower to receive a copy of the appraisal report and request an ROV when the Borrower believes the appraisal report is inaccurate or deficient. The underwriter must thoroughly assess all borrower-initiated ROV requests to determine the applicability of an ROV and the relevance and appropriateness of information before communicating with the Appraiser. The Mortgagee is responsible for confirming the borrower-initiated ROV complies with all general ROV requirements before submission to the Appraiser.

At a minimum, the Mortgagee's borrower-initiated ROV process must:

- provide an easy-to-understand disclosure at mortgage loan application and upon delivery of the appraisal report to the Borrower

with instructions that explain the borrower-initiated ROV process, the expected ROV processing times, and the process for requesting clarifications or corrections unrelated to the value conclusion;

- specify in the disclosure the process for submitting the ROV request, what information will be required from a borrower, and any limitations on the information allowed, including:
 - up to five alternative comparable sales for consideration; and
 - only one borrower-initiated ROV request is permitted per appraisal; and
- establish protocols for communication with the Borrower, including the following communications, which must be in writing:
 - acknowledging receipt of the ROV request;
 - how to correct an incomplete ROV request;
 - updates on the status of the ROV request; and
 - the results of the ROV request.

If the borrower-initiated ROV request is unclear, deficient, or requires additional information, the Mortgagee must remediate with the Borrower, as applicable.

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Property Acceptability Criteria (II.A.3.a)

x. Mortgagee Quality Control Plan

Standards for the appraisal review and the ROV process must be clearly defined in the Mortgagee's Quality Control (QC) Plan.

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Ordering a Second Appraisal (II.B.2.a.iii(B)(10)(b))

(i) Second Appraisal by Original Mortgagee

A second appraisal may only be ordered if the Direct Endorsement (DE) underwriter (underwriter) determines the first appraisal is materially deficient and the Appraiser is unable or uncooperative in resolving the deficiency. The Mortgagee must fully document the deficiency and status of the appraisal in the mortgage file. The Mortgagee must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability or that indicate a potential violation of fair housing laws or professional standards related to nondiscrimination.

Material deficiencies include, but are not limited to:

- failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
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Property Acceptability Criteria – Standard (II.B.4.a.ii)

(E) Appraisal Review

The Mortgagee must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the Property. The Mortgagee must ensure that the underwriter is trained to identify appraisal deficiencies, including prohibited discriminatory practices, through the appraisal review process. The review process must include protocols for remediating deficiencies by:

- requesting a general correction, explanation, or substantiation from the Appraiser;
- requesting a Reconsideration of Value (ROV); and
- obtaining a second appraisal. See Ordering a Second Appraisal.

The review process and all communication with the Appraiser must conform with the [Safeguards for Appraiser Independence](#) (I.B.1.e.v(B)).

When there are multiple appraisals, the underwriter must confirm the appraisal selected by the HECM collateral risk assessment is used to complete form [HUD-92800.5B](#).

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Property Acceptability Criteria – Standard (II.B.4.a.ii)

(H) General Reconsideration of Value Requirements

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At a minimum, the Mortgagee's borrower-initiated ROV process must:

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 - the results of the ROV request.

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Property Acceptability Criteria – Standard (II.B.4.a.ii)

(I) Mortgagee Quality Control Plan

Standards for the appraisal review and the ROV process must be clearly defined in the Mortgagee's Quality Control (QC) Plan.

**Appraiser and
Property
Requirements
for Title II
Forward and
Reverse
Mortgages**

General Appraiser Requirements (II.D.2)

e. Underwriter Requests for a Reconsideration of Value

In the event the underwriter requests a Reconsideration of Value (ROV) and provides additional information material to the value of the Property, the Appraiser must:

- review all information and market data received from the underwriter; and
- summarize the analysis of all information provided by the underwriter within a revised version of the appraisal report regardless of whether the Appraiser determines that changes are not needed to address the issues identified in the ROV.

**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

**Feedback or
Questions**

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Julia R. Gordon
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FHA Commissioner
