

Appraisal Standards and Guidelines

Overview

Citizens expects all appraisers and the reports they provide to meet Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FNMA, FHLMC, FHA, VA, and Citizens policies and requirements. The value for property pledged as collateral for all loans must be accurately assessed and fully supported. Analyzing property values and appraisal reports is a critical part of ensuring the soundness of loans funded and purchased by Citizens.

All appraisals must be provided by independent, disinterested appraisers licensed or certified in accordance with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989. Appraisals are expected to be completed in accordance with USPAP in addition to any other Citizens product requirements. Any party having an interest in the transaction is prohibited from applying pressure or influence on the appraiser to encourage providing specific results or findings. Citizens is not prohibited from questioning the appraiser's findings or requesting additional information from the appraiser if deemed necessary in Citizens sole judgment.

Citizens continually monitors and evaluates its quality standards and requirements. As a result, Citizens reserves the right to choose to accept, or not, appraisals completed by Appraisers that do not meet its guidelines and standards.

Upon notification to Citizens clients, steps must be taken to ensure that no appraisal or other third-party service is delivered to Citizens if prepared by an appraiser or other provider that is unacceptable. Citizens may take disciplinary action with the appropriate bodies (up to and including legal action) against any appraiser or other third-party vendor.

The property must be appraised as required by agency guidelines including Fannie Mae, Freddie Mac, FHA, VA and USDA as well as Citizens stated guidelines. These guidelines include but are not limited to Appraiser License and Certification, Appraiser Trainee, Knowledge and Experience, Selection of Appraiser, Supervisory Appraiser and all other applicable guidelines. The appraisal forms define the Appraiser as the individual, who personally inspected the property being appraised, inspected the exterior of the comparables, performed the analysis, and prepared and signed the appraisal report as the Appraiser. The Appraiser/Supervisory Appraiser may rely on individuals who are not state-licensed or certified as allowed by agency guidelines. Citizens expects all clients to have adequate business controls in place to ensure employees or other interested parties do not compromise the accuracy and integrity of appraisal reports.

Citizens appraisal standards prohibit the development of a property value that is based on race, color, religion, sex, handicap, familial status, or national origin.

Citizens will consider purchasing conforming and non-conforming first lien mortgages secured by 1-4 family principal residences, 1-4 family investment properties, and single-family second homes, subject to the parameters of the individual loan products.

Citizens reserves the right to review any appraisal and require additional documentation or information on appraisals regardless of the product type or underwriting method.

Accessory Dwelling Units

Conventional Conforming Products

- DU: Follow all requirements per the Fannie Mae Selling Guide.
 - 2-4-unit properties with an accessory unit are not permitted.
 - Rental income from ADU may not be used to qualify.
- LPA: Properties may be 1, 2 or 3-unit that has one ADU.
 - The following are ineligible:
 - 2 or 3 unit property with an ADU that does not comply with zoning and land use requirements (illegal zoning).
 - 1,2 or 3 unit property with two or more ADUs
 - 4 unit property with an ADU
 - Refer to the Freddie Mac Selling Guide for comparable sales and zoning requirements.
 - Rental income from a 1-unit ADU primary residence may not be used to qualify as follows:
 - The ADU complies with zoning and land use regulations
 - The appraisal supports the ADU's marketability and includes at least one comparable sale with an ADU that is rented.
 - ACE appraisal waiver offering may not be accepted
 - The appraiser's rental analysis includes a minimum of three comparable rentals that support the market rent of the ADU.
 - The rental income used does not exceed 30% of the total monthly income used for qualification.
 - At least one qualifying borrower must participate in a landlord education program or have previous landlord experience for a minimum of one year.

If 1-unit ADU primary residence rental income is being used to qualify, Lenders must ensure that the Income Source in the URLA Section 1e Income from Other Sources is completed and reflects "Accessory Unit Income".

Agricultural Properties

Agricultural properties such as farms, ranches, and orchards on undeveloped land or on land-development-type properties, are not eligible for purchase.

Agricultural Exemptions are permitted for all product types as long as the exemption is for open land only.

AIR Requirements

Please refer to the “[Appraiser Independence Requirements](#)” chapter of this manual for detailed requirements.

Appraisal Recertification and Update Requirements

In accordance with changes to USPAP, Citizens is updating its policy with regard to recertification of property valuations. This policy is effective for all conventional loan products.

A recertification of value is normally required on appraisals dated more than 120 days prior to closing. The Form 442 - Satisfactory Completion Certificate has been utilized in the past to provide the recertification of value, but will no longer be acceptable.

Appraisals are effective for 120 days from the date of the initial inspection. The acceptable appraisal form for recertification of a property’s value is a 1004D (Rev 3/05). A full appraisal - using the appraisal form initially required - will be required if the recertification indicates a decline in the property’s value from the initial appraisal. See applicable Product Descriptions for appraisal documentation requirements.

Form 442 or 1004D (Rev 3/05) will be acceptable to certify the completion of work performed on appraisals made “subject to” and completion of escrow holdbacks.

All appraisals must reflect the current transaction information. When using an appraisal for a refinance that was previously used by the current borrowers to purchase the subject property, the Fannie Mae Form 1004D may be used to update the current owner and recent transfer information since the previous appraisal date, as well as other required information in accordance with Fannie Mae guidelines.

A complete new appraisal is required any time the property has declined in value.

Condominiums and Planned Unit Developments

All loans must always comply with the most current Fannie Mae guidelines regardless of DU or LP.

[Citizens Condominium Requirements](#)

[Legal Requirements for CPM/Lender Full Review](#)

Lender Full Review (Bulletin 2015-11, 5/14/2015)

Lenders may utilize Lender Full Review without CPM in accordance with Fannie Mae and Citizens guidelines. The lender will certify the project meets all guidelines. All loans in condominium projects must include the following documents at the time loans are delivered for purchase.

- Condo Questionnaire (must include all questions noted on the Fannie Mae/Freddie Mac Condominium Questionnaire)
- Budget (include the Replacement Reserve Study if needed)
- Evidence all insurance requirements are met
- Underwriter certification and date noted on the 1008. Must be within 180 days of the note date

Condominium Litigation

- A Condominium project (or HOA) which is currently involved in a lawsuit may **NOT** be eligible for financing depending upon the nature of the litigation.

Construction-to-Permanent Financing

2 x Close Transactions - Conventional/FHA/VA/USDA-RD

Construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim financing that the borrower obtained in order to fund the construction of the home.

- All applicable agency guidelines must be met including items as noted below:
 - Property type and occupancy type per the applicable loan product description final Certificate of Completion is required unless the current appraisal indicates subject property is 100% complete
 - Photographs of the completed property must be provided
 - A Certificate of Occupancy or equivalent from the local authority must be provided
 - The loan purpose must meet the applicable Agency requirements. Refer to the applicable Loan Product Description and agency guidelines for complete requirements and allowable parameters.
- Refer below for additional requirements by product type.

Conventional 2 x Close

- Purchase transactions are not permitted
- Lenders are required to ensure that all Citizens and Fannie Mae Selling Guide requirements are met.

FHA 2 x Close

- Lenders are required to ensure that all Citizens and FHA Handbook 4000.1 (including Building on Own Land) requirements are met.

VA 2 x Close

- All applicable requirements outlined in [VA Circular 26-18-7](#) and the VA Lenders Handbook must be followed.

USDA-RD 2 x Close

- Lenders are required to ensure that all Citizens and USDA-RD HB-1-3555 (including Chapter 6 Loan Purpose - Refinance/New Construction) requirements are met.

1 x Close Transactions (with Modification)

- Citizens will only purchase loans when the construction has been fully completed and the loan has been modified
- Delegated underwriting only. Citizens does not underwrite these transactions.
- Loans must be underwritten to Citizens and Agency guidelines.
- Refer to the applicable Loan Product Description and Agency guidelines for additional requirements and limitations.
- Verbal verification of employment at time of modification. If there are any changes, the loan must be re-underwritten and updated credit documentation provided.
- A Certificate of Occupancy or equivalent from the local authority must be provided
- Escrow Holdbacks are not permitted at time of purchase by Citizens.
- The loan documents must reflect the accurate terms of the modified loan.
- An updated title policy reflecting the recorded modification and no outstanding mechanics/construction-related liens is required.
- Refer below for additional requirements by product type.

Conventional 1 x Close

- DU transactions only
- Investment properties are not permitted.
- Purchase and Limited Cash-Out only; Cash-Out transactions are not permitted.
- All credit documents must be no more than four (4) months old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but not exceeding 12 months old at the time of the conversion to permanent financing if all of the following conditions were met at the time of the original closing of the construction loan:
 - The LTV, CLTV, and HCLTV ratios do not exceed 95%.
 - The representative credit score of the loan is greater than or equal to 700.
 - The loan casefile was underwritten through DU and received an Approve/Eligible recommendation.

If any one of the above conditions was not met or an eligible loan term was modified subsequent to the last DU submission, the lender must:

- Obtain updated income, employment, and credit report documents no more than four months prior to conversion; and
- Re-qualify the borrower(s) in accordance with the Requalification Requirements below.

Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification, either of the following applies:

- More reserves are required than were required at the time of original qualification
- The full amount of reserves must then be reverified, or
- The borrower chooses to bring additional funds to the transaction
- The additional funds must come from an eligible source and be documented.
- Impact on Validation through the DU Validation Service
 - If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable. Updated validation reports must be obtained and the loan casefile resubmitted to DU and the loan must convert to permanent financing by the Close By Date stated in the DU validation message in order for validation and the associated waiver of enforcement relief of representations and warranties to apply.
- For all single-closing transactions, the effective date of the appraisal must be no more than four months prior to the note date (that is, the closing date of the construction loan).
 - Additionally, at the time of completion of construction, an Appraisal Update and/or Completion Report (Form 1004D) must be completed in its entirety including the appraisal update and certification of completion.
 - If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio.

Requalification Requirements

- Requalification of the borrower(s) is required at the time of conversion to permanent financing if
 - The LTV ratio increased due to a decline in property value,
 - Updated credit documents were obtained, or
 - As otherwise required per the modified loan term in the table above.
- To be eligible for purchase by Citizens, the loan must retain an Approve/Eligible recommendation after resubmission to DU.
- When requalification is required:
 - The LTV ratio must be adjusted based on the updated appraisal, if applicable;
 - If credit documents exceed the four (or 12) month age of documentation requirement, the updated income, credit, and liability information must be considered; and
 - The loan data at time of purchase must match the data considered in the final requalification of the loan.
- Lenders are required to ensure that all Citizens and Fannie Mae Selling Guide requirements are met.
- Documentation requirements:
 - Loan conversion documentation must meet the requirements of the Fannie Mae Selling Guide.
 - Construction Loan Rider: The Construction Loan Rider may not be used in lieu of the Note/ and or Security Instrument.
 - Note and Security Instrument. Modification Agreement (FNMA Form 3179). The Note indicates the interest rate and date for the beginning of the amortization of the permanent financing.
 - Construction Rider to the original Security Instruments.
 - Closing Disclosure disclosing both the construction and permanent phase of the transaction. This may be disclosed with either the use of combined disclosures or separate disclosures.
 - Appraisal Update (1004D) or Notice of Completion (442) to verify completion of property along with front and rear photographs of the subject property.

FHA 1 x Close

- The loan must be endorsed by FHA prior to purchase by Citizens.
- Lenders are required to ensure that all Citizens and FHA Handbook 4000.1 requirements are met.
- Documentation requirements:
 - Loan conversion documentation must meet the requirements of FHA Handbook 4000.1.
 - Construction Loan Rider: The Construction Loan Rider may not be used in lieu of the Note/ and or Security Instrument.
 - Note and Security Instrument. Modification Agreement (FNMA Form 3179). The Note indicates the interest rate and date for the beginning of the amortization of the permanent financing.
 - Construction Rider to the original Security Instruments.
 - Closing Disclosure disclosing both the construction and permanent phase of the transaction. This may be disclosed with either the use of combined disclosures or separate disclosures.

VA 1 x Close

- All 1 x close process requirements outlined in Chapter 7 of the VA Lenders Handbook must be followed.
- The loan must be guaranteed by VA prior to purchase by Citizens.
- Lenders are required to ensure that all Citizens and VA Lenders Handbook requirements are met.
- Documentation requirements:
 - Loan conversion documentation must meet the requirements of the VA Lenders Handbook.
 - Loan conversion documentation must meet the requirements of FHA Handbook 4000.1.
 - Construction Loan Rider: The Construction Loan Rider may not be used in lieu of the Note/ and or Security Instrument.
 - Note and Security Instrument. Modification Agreement (FNMA Form 3179). The Note indicates the interest rate and date for the beginning of the amortization of the permanent financing.
 - Construction Rider to the original Security Instruments.
 - Closing Disclosure disclosing both the construction and permanent phase of the transaction. This may be disclosed with either the use of combined disclosures or separate disclosures.

USDA-RD 1 x Close

- Loan must be guaranteed by USDA-RD prior to purchase by Citizens.
- Lenders are required to ensure that all Citizens and USDA-RD HB-1-3555 (including Chapter 12, sections 12.12 - 12.26) requirements are met.
- Documentation requirements:
 - Loan conversion documentation must meet the requirements of the USDA-RD HB-1-3555.
 - Loan conversion documentation must meet the requirements of FHA Handbook 4000.1.
 - Construction Loan Rider: The Construction Loan Rider may not be used in lieu of the Note/ and or Security Instrument.
 - Note and Security Instrument. Modification Agreement (FNMA Form 3179). The Note indicates the interest rate and date for the beginning of the amortization of the permanent financing.
 - Construction Rider to the original Security Instruments.
 - Closing Disclosure disclosing both the construction and permanent phase of the transaction. This may be disclosed with either the use of combined disclosures or separate disclosures.

Ineligible Characteristics

- Condominiums
- Borrower is the builder or affiliated with the builder in any manner
- Loans to Builders/Developers
- Non-arm's length transactions
- A construction loan that was cross-collateralized
- A construction loan that exceeded the conforming loan limits posted at the time of the construction loan closing, then modified to current conforming limits is considered ineligible as a conforming product. (the loan amount at the time of the construction loan must be within the conforming limits to be eligible as a conforming product) (1 x Close)
- Including, but not limited to, any other ineligible property or loan type as noted in the product guide or in any other chapter of the Citizens manual, Correspondent Loan Purchase Agreement, etc.

Desktop Appraisals (Conventional Conforming only)

A desktop appraisal reported on the Uniform Residential Appraisal Report (Desktop) (Form 1004 (Desktop)) is permitted for certain transactions. The appraiser relies on data obtained from alternative methods or sources to identify property characteristics and condition. Form 1004 (Desktop) requires the inclusion of a floor plan in addition to other exhibits required for traditional appraisals.

DU

- DU Messaging: For loan casefiles that are eligible for a desktop appraisal option, DU will issue a message informing the lender they can choose to obtain an appraisal reported on Form 1004 (Desktop).
 - DU will also issue messages for other appraisal options.
 - The lender may select from other options presented except:
 - Value Acceptance + PD
 - Hybrid Appraisal
 - Eligible Transactions:
 - 1-unit property (including those with an ADU and units in a PUD)
 - Primary residence
 - Purchase Transactions (including new construction)
 - LTV ratio less than or equal to 90%
 - Ineligible Transactions:
 - 2-4-unit properties
 - Condo units
 - Construction-to-permanent loans (1 x close and 2 x close)
 - Second homes and investment properties
 - All refinance transactions
 - HomeReady or HomeStyle Renovation loans
- LPA
- Community Seconds with subsidized sales price (Citizens currently doesn't offer)

- LPA Messaging: Feedback messaging will be specific to desktop appraisal eligibility.
- Eligible Transactions:
 - 1-unit property (including those with an ADU and units in a PUD)
 - Primary residence
 - Purchase Transactions (including new construction)
 - LTV ratio less than or equal to 90%
- Ineligible Transactions:
 - 2-4-unit properties
 - Condo units
 - Properties subject to resale restrictions with the exception of age based restrictions
 - Construction-to-permanent loans (1 x close and 2 x close)
 - Second homes and investment properties
 - Non-arm's length transactions
 - Purchase transactions when the property seller at time of sale is a lender or a government entity
 - All refinance transactions
 - Home Possible loans
 - CHOICERenovation loans

Escrow Holdbacks

Citizens requires that the improvements for the subject property be complete. Occasionally minor deferred maintenance items that do not affect the livability of the property that may not be completed by the closing date may be postponed and are generally funded through an escrow holdback.

An Escrow Holdback, also known as a work completion escrow, is an escrow account set up to fund the construction and/or completion of interior or exterior improvements that cannot be completed by the closing date for valid reasons including, but not limited to, temporary shortages of building materials, or weather related conditions. Typically, the type of work or repairs involves exterior painting, landscaping, repair of minor plumbing leaks, worn floor finishes or carpet, or other minor items that are typically due to the normal wear and tear from the aging processor occupancy of the property. A new construction property with an escrow holdback may utilize this guideline for a swimming pool as long as all of the applicable agency guidelines are met.

A mortgage subject to an escrow holdback is eligible provided it meets all of the requirements below and the individual [Product Description](#).

- The construction items need to be completed and will not affect the livability of the dwelling.
- The deferred work cannot be acceptably completed prior to loan closing. The incomplete work cannot prevent the issuance of a Certificate of Occupancy, or issuance of applicable mortgage insurance.

ACCEPTABLE WEATHER-RELATED ESCROW HOLDBACKS

Conventional

New or Proposed Construction:

- The cost of the weather-related postponed improvements must be part of the sales contract
- **Delegated Lenders with a minimum net worth of \$1mm only** - An escrow holdback is not required if:
 - The transaction is a purchase
 - The subject property is a 1-unit primary residence or second home
 - The cost to complete does not exceed the lesser of \$6,000 or below 2% of the "as completed" appraised value.
- If any of the above requirements are not met, an escrow account is required. Refer to New Construction - Postponed Improvements Escrow Account Requirements below.
- NOTE: A final Inspection and photos of the completed improvements are still required.

Existing Construction:

- Comply with all agency and Citizens requirements.

FHA and VA

New or Proposed Construction:

- The sales price and appraised value must include any supplemental contracts from subcontractors (i.e. landscaping).
- Not permitted on Energy Efficient Mortgages.

Existing Construction

- Allowed if all conditions in the Escrow Holdback policy are met, the cost to complete minor unfinished work does not pose safety, soundness, or marketability issues.

USDA-RD

New or Proposed Construction:

- The sales price and appraised value must include any supplemental contracts from subcontractors (i.e. landscaping).

Existing Construction

- Allowed if all conditions in the Escrow Holdback policy are met, the cost to complete minor unfinished work does not pose safety, soundness, or marketability issues.

ACCEPTABLE NON-WEATHER-RELATED ESCROW HOLDBACKS

Conventional

New or Proposed Construction & Existing Construction:

- Comply with all agency and Citizens requirements.

FHA

New or Proposed Construction:

- Cost to complete minor unfinished work does not pose safety, soundness, or marketability issues
- Work must be completed prior to insuring
- Not permitted on Energy Efficient Mortgages.

Existing Construction

- Cost to complete minor unfinished work does not pose safety, soundness, or marketability issues
- Work must be completed prior to insuring

VA

Existing and New or Proposed Construction:

- Allowed if they are beyond the control of the builder/seller
- Work must be minor and uncomplicated, such as walkways, driveways, and retaining walls, exterior painting, landscaping, and garages
- Must not involve structural issues

USDA-RD

Existing and New or Proposed Construction:

- Work must be completed prior to LNG
- Interior repairs are permitted on USDA loans. Follow all requirements in the USDA Handbook - 3555 Chapter 12.

UNACCEPTABLE ESCROW HOLDBACKS - All Loan Types

The property must be habitable, safe, and essentially complete. The following repairs are not allowed under an escrow holdback:

- Conditions that affect the safety, livability, or marketability of the property.
- Deficiencies that could affect the soundness or structural integrity of the improvements.
- Existing construction for renovation work
- Structural repairs
- Partially completed renovations or additions
- Incomplete work may not prevent the issuance of a Certificate of Occupancy, if applicable.
- Water seepage
- Foundation work
- Roof repairs not considered minor
- Inadequate electrical service
- Plumbing fixtures
- Termite infestation
- Clean up or correction of environmental hazards
- Any scraping of lead-based paint
- Pool improvements
- Well/Septic Tank repairs not considered minor, refer to Massachusetts Title V if applicable
- Any work deemed unacceptable by Citizens.
- Energy Efficient Mortgages (EEM) on New or Proposed Construction.
- Streamline Refinances
- IRRRLs

PARAMETERS

Loan Purpose

Conventional:

- Purchase, rate/term, and cash out refinances
- New construction and existing properties

FHA and VA:

- Standard: purchases, rate/term, and cash out refinances on new construction and existing properties
- EEM: purchases and rate/term refinances on existing properties

USDA-RD:

- Purchases only

Occupancy

Conventional

- Owner occupied
- Second home
- Investment

FHA, VA, and USDA

- Owner occupied

Source of Funds

- Purchase transactions - Funds may be provided by the borrower, the property seller or split between the two.
- Refinance transactions - Funds to establish the escrow account must come from the borrower's funds and documented as part of the underwriting process.

Mortgage Insurance

All conventional loans with an escrow holdback are subject to current MI availability and acceptance.

Length of Holdback

All work must be completed within the below designated timeframe of closing and a clear final inspection issued by the Appraiser and received by Citizens. See [Documentation Requirements](#).

Weather Related

- Conventional - 180 days
- FHA - 180 days (90 days for EEMs)
- VA - 120 days (including EEMs)
- USDA - 180 days

Non-weather Related

- Conventional - 180 days
- FHA - 30 days (90 days for EEMs)
- VA - 120 days (including EEMs)
- USDA - 30 days

Total Amount of Repairs and Required Escrow Amount

- Conventional New or Proposed Construction -
 - Postponed Improvements - Total Amount of Repairs
 - **Delegated Lenders with a minimum net worth of \$1mm only** - The total amount of repairs may not exceed 15% of the "as completed" value of the property.
 - **All other Lenders** are limited to 10%
 - Postponed Improvements - Amount of Escrow Account
 - The escrow for all incomplete work is 120%
 - The 120% may be reduced to the actual cost for completion of the postponed improvements if the contractor or builder offers a guaranteed fixed price.
 - All incomplete items should be reflected in the sales contract and considered in the appraised value.
 - Third-party contracts are not permitted.
 - The appraisal should reflect an "as completed" value.
 - The postponed items should be due to a valid reason, such as inclement weather or shortage of building materials.
 - The items may not affect the ability to obtain an occupancy permit.
 - The incomplete items may not affect the safety, soundness, or structural integrity of the subject property.
- Conventional Existing Construction
 - Total Amount of Repairs
 - The cost of repairs is limited to 10% of the lesser of the property's cost or appraised value, or a lesser amount as deemed appropriate by the Underwriter.
 - Amount of Escrow Account
 - The escrow for all incomplete work is 120%.
- All Other Loan Types and Products
 - Total Amount of Repairs
 - Per Agency requirements for the applicable loan type.
 - Amount of Escrow Account
 - The escrow for all incomplete work must be 150% of the total estimated cost to complete the work. See [Documentation Requirements](#).
- Non-bank Correspondent lenders may manage the repair escrow funds up to a total of \$1,000. Any amount greater than \$1,000 must be managed by an escrow company. Correspondent Bank lenders may manage the repair escrow funds regardless of the repair amount up to the maximum dollar amount as allowed by Citizens Guidelines.
- The settlement agent may hold the escrow funds. If a fee is charged by the settlement agent, the escrow administration fee must be reasonable and customary and paid by the party providing the escrow funds.

Miscellaneous

The borrower may not be affiliated in any way with the builder, developer, or seller of the subject property on a second home or investment transaction.

DOCUMENTATION REQUIREMENTS

Estimate for Cost to Complete

A certified contractor/vendor/appraiser (not the borrower or property seller) must provide a written estimate itemizing all incomplete work and the cost to complete each item.

Appraisal

Form 1004 is required, regardless of AUS Findings. The appraisal must include all unfinished or incomplete repairs and reflect comparables with similar amenities. Generally, appraisals are subject to completion of the improvements.

Escrow Agreement for Postponed Improvements

An executed Escrow Holdback Agreement is required and must be signed by all parties as appropriate.

Final Inspection

- Conventional loans - Within the maximum allowable days from closing and upon completion of the work, a Final Inspection or Appraisal Update and/or Completion Report (1004D/442) performed by the original appraiser is required.
- FHA loans - Within the maximum allowable days from closing and upon completion of the work, a Compliance Inspection Report (Form 92051) with the DE Underwriter's signature and HUD Inspector's Final Acceptance signature is required.
- VA Loans - VA Final Inspection, Warranty of Substantial Completion, Compliance Inspection Report (26-1839), or Completion Report (1004D/442, Part B)
- USDA-RD - A Final Inspection is required and must state the improvements were completed in accordance with the requirements and conditions in the original appraisal report.

Requirements for EEMs with Escrow Holdback:

- Inspection by the HERS rater or an FHA fee inspection.
- Notification to FHA through FHAC that the improvements have been made and that the escrow has been cleared.
- VA loans - Within the maximum allowable days from closing and upon completion of the work, a Final Inspection or Warranty of Substantial Completion or Compliance Inspection Report (26-1839) performed by the original appraiser is required.
- USDA-RD loans - Within the maximum allowable days from closing and upon completion of the work, a Final Inspection performed by the original appraiser is required.

All follow-up documentation should be delivered to Citizens at eschldbfinal@franklinamerican.com within the maximum allowable days from closing.

MASSACHUSETTS TITLE V

The state of Massachusetts requires that properties with individual sewage disposal systems, new and existing be inspected by a Department of Environmental inspector. Generally, if repairs are indicated, they must be repaired prior to loan closing but weather-related conditions may negatively impact that process.

If weather-related conditions prevent repairs from being completed once a sewage disposal system inspection has been completed, Citizens will allow escrows for repairs for replacement of septic systems subject to the following parameters:

- Existing properties only; new construction not allowed.
- Inspection (valid up to two (2) years from date of inspection) is required on all purchase transactions.
- Subject property must have a fully functioning septic system.
- Two (2) estimates approved by the County Board of Health must be provided along with a copy of the failed test.
- A letter from the township verifying the system is functional and poses no immediate health or safety hazard.

REO Properties

Weather and Non-weather escrow holdbacks are allowed for REO properties, subject to the following parameters:

Conventional

- Follow standard escrow holdback requirements

FHA

- 110% escrow holdback
- Maximum amount of repairs - \$10,000
- Max 180 days for escrow completion

VA

- 150% escrow holdback
- Max 120-day escrow
- Veteran/buyer can pay for costs associated with repairs on REOs
- Repairs must be completed before closing if they effect MPRs

USDA

- Not applicable

Factory-built Housing

Factory-built housing must assume the characteristics of site-built housing and be legally classified as real property. The purchase, conveyance, and financing (or refinancing) of the property, which must be evidenced by a valid and enforceable first lien mortgage or deed of trust that is recorded in the land records, must represent a single real estate transaction under applicable state law.

- Prefabricated, panelized, or sectional housing units must conform to all local building codes in the jurisdiction in which they are permanently located, including industrialized building codes; local zoning requirements; and International Code Council (ICC) building codes
- Modular homes must be built to the state building code requirement of the state in which they are to be installed. There are several state agencies that have adopted a Uniform Building Code for modular homes
- Comply with all Citizens and agency guidelines.

FHA Second Appraisal Requirements

A second appraisal is required if:

- The lender/DE underwriter determines the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency.
 - The lender/DE underwriter must fully document the deficiency and status of the appraisal.
 - The borrower may not be charged for the second appraisal.
- For resales occurring between 91 days and 180 days after acquisition:
 - If the resale price is 100% or more over the price paid by the seller to acquire the property a second appraisal is required.
 - The borrower may not be charged for the second appraisal.
 - The value from the second appraisal must be used for LTV calculation if it exceeds 5% less than the value from the first appraisal. (Only applies for “Property Flipping”)
 - If the second appraisal value is higher than the initial appraisal, the value from the second appraisal may not be used.

Ineligible Properties

Refer to the applicable Loan Product Description for detailed requirements.

Legal Non-Conforming Zoning Requirements

- The appraiser must report the specific zoning class in the appraisal, along with a general statement as to what the zoning permits. The appraisal must indicate whether the subject property presents:
 - A legal conforming use,
 - A legal non-conforming use,
 - An illegal use under the zoning regulations, or
 - That there is no local zoning.
- Properties that constitute a legal, non-conforming use of the land are acceptable as follows:
 - One-to-four-unit dwelling or a unit in a PUD
 - The use of the land and the appraisal analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property.
 - Condominium unit
 - The improvements can be rebuilt to current density in the event of partial or full destruction, and
 - The appraisal analysis reflects any adverse effect that the non-conforming use has on value and marketability of the property.
- Properties subject to coastal tideland, wetlands, or setback laws and/or regulations that prevent the rebuilding of property improvements if they are damaged or destroyed are ineligible.

Manufactured Housing

Not permitted.

Mixed-Use Properties

Mixed-use properties are eligible if it can be determined that the nature, intent, and primary purpose of the property is residential in use. The following should be considered in making this determination:

- Full appraisal is required, regardless of AUS.
- Refer to Fannie Mae, Freddie Mac, and FHA guidelines for additional requirements.

Multiple Parcels and Tax ID Numbers

Noted below are directions for properties with multiple parcels and tax ID numbers.

- Parcels must be adjoined unless they meet the following requirement: Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is on a non-buildable lot. Evidence that the lot is non-buildable must be documented in the file.
- Each parcel must have the same basic zoning.
- The entire property may contain only one dwelling unit. Limited additional non-residential improvements, such as a garage are acceptable.
- The mortgage must be a first lien on each lot/parcel.
- Partial release for any lot/parcel is not allowed.

Property - Appraisal Waivers/Value Acceptance

Citizens currently allows in Fannie Mae and Freddie Mac Value Acceptance/Appraisal Waiver as noted in DU and LPA. The option for an Value Acceptance/Appraisal Waiver must be indicated on the automated findings report to be eligible for purchase by Citizens. Also refer to the applicable product guide in this manual for Value Acceptance and Appraisal Waiver eligibility.

ACE + PDR and Value Acceptance + PD are eligible for delegated transactions.

DU - Hybrid appraisals are ineligible.

Properties Listed for Sale

Refer to the specific product guide for eligibility requirements.

Properties Sold at Auction

Auction transactions are acceptable for owner-occupied and second-home transactions provided the following requirements are met. Parties named on the contract match supporting documentation such as the appraisal, title, condominium project developer, etc.

Eligible Property Types:

- Conventional 1-4-unit properties
- PUDs (attached and detached)
- Condominiums (attached and detached)

Ineligible Property Types:

- Investment properties
- Condominiums located in a resort

Buyer's Premium and Fees

- The auction terms must be included as part of the purchase contract provided to the appraiser for review.
- The amount of the auction buyer's premium along with any other sales and marketing charges or fees may not exceed 12%. Any amount over 12% must be deducted from the sales price.

Determining Purchase Price and Maximum LTV/CLTV

- The auction buyer's premium may be added to the accepted bid to determine total purchase price. No other fees or charges may be included to determine the total purchase amount.
- Maximum LTV/CLTV is calculated from the lesser of the accepted bid plus the auction buyer's premium, or the appraised



value.

Rural Properties

Rural properties may be acceptable for purchase unless otherwise limited by the parameters of the particular loan product. Rural properties must also meet the following requirements:

- The area must generally be a minimum of 25% developed
- The primary use of the property must be residential
- Any income produced must be incidental and non-commercial in nature
- Agricultural type properties such as farms, orchards, or ranches are not allowed
- Comparable sales must be located no more than 20 miles from the subject property and be in the same county and school district. When the comparables provided are outside the subject's county or school district due to the lack of available sales, the appraiser must provide comments on the similarities of the neighborhoods, market appeal, having similar external influences, etc.
- Be accessible by roads that meet local standards
- Have adequate sewage, water, and utilities available and in service
- Land value ratio should be common and typical for the area
- Properties with outbuildings, such as a barn or stable, must be considered in the underwriting process to determine whether or not the property is residential in nature. A property with a small barn or stable may be acceptable if the value of the outbuilding(s) is minimal and the appraiser demonstrates that it is typical for residential properties in the market area. However, if the property has a large outbuilding, such as a large barn or multiple outbuildings, it may indicate that the property is agricultural or non-residential in nature and would therefore be ineligible
- Properties in rural locations often have relatively large sites as compared to other locations. There also may be a lack of comparable sales due to the relatively low number of recent sales transactions in the market area. In such cases, appraisers may have to use comparable sales that are located a considerable distance from the subject property or comparable sales that are not very similar to the subject property. This is acceptable as long as the appraiser can justify the use of the comparable sales and analysis in the appraisal report.

Uniform Appraisal Data (UAD) and Uniform Collateral Data Portal (UCDP) Requirements

Appraisals for all loans must comply with Uniform Appraisal Data (UAD) requirements.

Conventional - Uniform Appraisal Data (UAD)

Appraisals for all conventional loans must comply with UAD requirements.

- Condition ratings include C-1 to C-6.
- Quality ratings include Q-1 to Q-6.
- Properties with a Condition or Quality rating of C5, C6, and/or Q6 are ineligible unless required repairs of all deficiencies that caused the property rating of C5, C6, and/or Q6 are cleared.
- A final inspection by the original appraiser and evidence of completion is required prior to purchase.
- Escrow holdbacks for completion are not allowed.

Conventional - Uniform Collateral Data Portal (UCDP)

All loans submitted to Citizens for underwriting or purchase must include acceptable Fannie Mae and Freddie Mac Submission Status Reports (SSRs). The SSRs must state "Successful" and have no unapproved Hard Stops.

UCDP SSR Message ID Codes

Citizens requires all conventional loan files to be successfully submitted through the Uniform Collateral Data Portal (UCDP) to be eligible for purchase. All loans must include acceptable Fannie Mae and Freddie Mac Submission Status Reports (SSRs). The SSRs must state "Successful" and have no unapproved Hard Stops.

On December 10, 2013 Fannie Mae added new proprietary messages in the UCDP which are reflected on the Fannie Mae SSR. Message ID FNM0193 and FNM0194 are related to the appraiser and supervisory appraiser's quality of work. Effective April 15, 2014 Citizens will not purchase any loan where either of these Message ID codes appears on the Fannie Mae SSR, regardless of whether the loan was run through Desktop Underwriter (DU) or Loan Prospector (LP).

Appendix A – New Fannie Mae Appraisal Messages effective December 10, 2013

Message ID	Message Text	Severity	Applicable Forms
FNM0193	Based on the overall quality of this appraiser's work, Fannie Mae has decided to review 100% of the appraisals prepared by this appraiser for any loans delivered to Fannie Mae.	Warning	1004/2055, 1073/1075
FNM0194	Based on the overall quality of this supervisory appraiser's work, Fannie Mae has decided to review 100% of the appraisals prepared by this appraiser for any loans delivered to Fannie Mae.	Warning	1004/2055, 1073/1075

FHA-Specific UAD Requirements

FHA appraisers must comply with the instructions and requirements in "[FHA Appraisal Report and Data Delivery Guide](#)", except as indicated below:

- All FHA appraisal reporting requirements remain in effect and appraisers must continue to perform the necessary research and exercise due diligence to produce a credible and accurate appraisal.
- The UAD field-specific requirements are not a substitute for and do not exempt FHA appraisers from the requirement to provide adequate explanations in the addendum regarding methodology, anomalies, property deficiencies, and other conditions that may have an impact upon the value of a property and its marketability.
- In all cases, a property's compliance with Minimum Property Standards (new construction) and Minimum Property Requirements (existing construction) must be thoroughly addressed by the appraiser.
- A Statement of Insurability continues to be required for all appraisals performed on HUD REO properties.

VA-Specific UAD Requirements

VA appraisals must continue to comply with the requirements of the VA Lender's Handbook (VA Pamphlet 26-7, Revised) and instruction and guidelines from VA. While the UAD may allow for the use of unsettled sales in the sales comparison grid, VA allows only settled sales.

The appraisal must reflect:

- The lender's name as well as the "Department of Veterans Affairs".
- The address of the lender.
- The name of the veteran in the borrower's section.

USDA/RD-Specific UAD Requirements

All USDA/RD appraisal reporting requirements remain in effect and appraisers must continue to perform the necessary research and exercise due diligence to produce a credible and accurate appraisal. The UAD field specific requirements are not a substitute for, and do not exempt appraisers from the requirement to provide adequate explanations in the addendum regarding methodology, anomalies, property deficiencies, and other conditions that may have an impact upon the value of a property and its marketability.

In all cases, a property's compliance with Minimum Property Standards (new construction) and Minimum Property Requirements (existing construction) must be thoroughly addressed by the appraiser.

FHA

FHA appraisers must comply with the instructions and requirements as per the [FHA Appraisal Report and Data Delivery Guide](#). Refer to the FHA Electronic Appraisal Delivery page for more information.

FHA/VA/USDA/RD - Condition Ratings

Although condition ratings of C5 and C6 are not specifically ineligible for FHA, VA, or USDA/RD loans, the lender must provide documentation to ensure all repairs and corrections needed to meet Minimum Property Standards/Requirements are completed.

Uniform Loan Delivery Dataset (ULDD)

See [Credit and Loan Documentation](#) chapter of this manual.