



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

January 4, 2005

MORTGAGEE LETTER 2005-02

TO: ALL APPROVED MORTGAGEES
ALL APPROVED APPRAISERS

SUBJECT: Seller Concessions and Verification of Sales

This Mortgagee Letter reiterates and clarifies Federal Housing Administration (FHA) policy regarding the responsibilities of mortgagees and appraisers in reporting sales concessions and verification of sales data. FHA requires mortgagees to provide appraisers with all financing data and sales concessions for properties to be security for an FHA-insured loan. Appraisers are required to identify and report sales concessions and properly address and/or adjust the comparable sale transactions to account for sales concessions in the appraisal of all properties to be security for an FHA-insured loan. Sales concessions influence the price paid for real estate. Sales concessions may be in the form of loan discount points, loan origination fees, interest rate buy downs, closing cost assistance, payment of condominium fees, builder incentives, down payment assistance, monetary gifts or personal property given by the seller or any other party involved in the transaction. The Department of Housing and Urban Development's Handbook 4150.2, "Valuation Analysis for Home Mortgage Insurance for Single Family One-to Four- Unit Dwellings", Chapter 4, provides appraisal instructions. This Mortgagee Letter reiterates and further clarifies that guidance.

Mortgagee Requirements

1. On any real estate purchase transaction, the mortgagee must provide the appraiser with a complete copy of the ratified sales contract, including all addenda, for the subject property that is to be appraised.
2. The mortgagee must provide the appraiser with all financing data and sales concessions for the subject property granted by anyone associated with the transaction. Sales concession information must include gifts and/or down payment assistance, which may or may not be included in the contract of sale.
3. If the mortgagee requests a reconsideration of value, the appraiser must be provided with any amendments to the contract that occurred after the effective date of the appraisal.
4. In accordance with HUD Handbook 4155.1 Rev-5, "Mortgage Credit Analysis for Mortgage Insurance, One to Four Family Properties", Chapter 1 section 2 (1-7A), contributions from sellers or other interested third parties to the transaction that exceed six (6) percent of the sales price or other financing concessions are to be treated as inducements to purchase, thereby reducing the amount of the mortgage. Each dollar exceeding the six percent limit must be subtracted from the property's sale price before applying the appropriate loan to value (LTV) ratio.

5. The dollar-for-dollar reduction to the sales price also applies when gift funds do not meet FHA requirements. Acceptable sources of gift funds down payment assistance are outlined in HUD Handbook 4155.1 Rev-5, Chapter 2, section 3 (2-10C).

Appraiser/Appraisal Requirements

1. The appraiser must report the total dollar amount of the loan charges and/or concessions to be paid by any party on behalf of the borrower and describe which party provided the concession in the Subject Section of the appraisal report. Use of an addendum with the heading "Loan Charges/Sales Concessions" may be required due to limited space provided in the appraisal reporting form.
2. The appraiser must also verify all sales transactions for seller concessions and report those findings in the appraisal. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (i.e., buyer, seller or one of their representatives), the appraiser must clearly state how the sale was verified and explain to what extent.
3. In the Sales Comparison Analysis, Sales or Concession Section, the appraiser must report the type and the amount of sales or financing concessions for each comparable sale listed. If no concessions exist, the appraiser must note "none."
4. The appraiser is required to make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price. The adjustment for each comparable sale must reflect the difference between the sales price with the sales concessions and what the property would have sold for without the concessions. In the Sales Comparison Analysis, Sales or Financing Concessions Section, the appraiser must report the adjustment applicable to each comparable sale listed.
5. The appraiser must provide an analysis of the current agreement of sale, contract, option or listing for the subject property and an analysis of all prior transfers of the subject property that occurred within three (3) years prior to the effective date of the appraisal. If the contract of sale for the subject property is not provided to the appraiser, the appraiser must report the steps or efforts taken to obtain the current agreement of sale.
6. In the Sales Comparison Analysis, Sales or Financing Concessions Section, the appraiser must provide analysis of all prior transfers of the comparable sales that occurred within one (1) year prior to the effective date of the appraisal. If the data is unavailable, the appraiser must note what steps were taken during the normal course of business to obtain and report the information.

If you have any questions regarding this Mortgagee Letter, please contact your local Homeownership Center (HOC) in Atlanta (888) 696-4687, Denver (800) 543-9378, Philadelphia (800) 440-8647, or Santa Ana (888) 827-5605, (these are toll-free numbers).

Sincerely,

John C. Weicher
Assistant Secretary for Housing-
Federal Housing Commissioner