



Property Criteria for FHA Loans

General Acceptability Criteria

Minimum Property Requirements

These minimum requirements for existing housing apply to existing buildings and to the sites on which they are located. The buildings may be:

- detached
- semidetached
- multiplex
- row houses
- individual condominium units

These requirements also cover the immediate site environment for the dwelling, including streets, other services and facilities associated with the site.

1. Subject Property

The subject property must be adequately identified as a single, marketable real estate entity. However, a primary plot with a secondary plot for an appurtenant garage or for another use contributing to the marketability of the property will be acceptable if the two plots are contiguous and comprise a readily marketable real estate entity.

2. Hazards

The property must be free of all known hazards and adverse conditions that:

- may affect the health and safety of the occupants
- may affect the structural soundness of the improvements
- may impair the customary use and enjoyment of the property

These hazards include toxic chemicals, radioactive materials, other pollution, hazardous activities, potential damage from soil or other differential ground movements, ground water, inadequate surface drainage, flood, erosion, excessive noise and other hazards on or off site.

- ▶ If the condition is clearly a health and safety violation, contact the lender for further instructions before completing the appraisal. The lender must clear the condition and may require an inspection or reject the property. If there is any doubt as to the severity, report the condition and submit the completed report.

3. Soil Contamination

a. Septic and Sewage

If a septic system is part of the subject property, the appraiser must determine whether the area is free of conditions that adversely affect the operation of the system. Consider the following:

- the type of system
- topography
- depth to ground water
- soil permeability
- the type of soil to a depth several feet below the surface

If in doubt about the operation of sewage disposal systems in the neighborhood, condition the appraisal on further inspection and prepare the appraisal subject to satisfaction of the condition.

The lender will contact the local health authority or a professional to determine the viability of the system.

b. Other Soil Contaminants

The following conditions may indicate unacceptable levels of soil contamination: pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

- ▶ If any of these conditions exist, require further inspection. Note the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes. Condition the appraisal on further inspection and prepare the appraisal subject to the satisfaction of condition.

c. Underground Storage Tanks

During the site inspection, the appraiser must walk the property and search for readily observable evidence of underground storage tanks. Evidence would include fill pipes, pumps, ventilation caps, etc.

- ▶ If there is evidence of leakage from underground storage tanks, require further analysis in the site section of the report. Condition the appraisal on that requirement and prepare the appraisal subject to the satisfaction of the condition.

4. Drainage

The site must be graded to provide positive drainage away from the perimeter walls of the dwelling and to prevent standing water on the site. Signs of inadequate draining include standing water proximate to the structure and no mitigation measures such as gutters or downspouts.

If the grading does not provide positive drainage from the improvements, make a repair requirement.

- ▶ Note any readily observable evidence of standing water near the property that indicates improper drainage. If the standing water is problematic, make a repair requirement in the site section of the report.

5. Water Supply And Sewage Systems

Each living unit must contain the following:

- domestic hot water
- a continuing and sufficient supply of potable water under adequate pressure and of appropriate quality for all household uses
- sanitary facilities and a safe method of sewage disposal

The appraiser is also required to report on the availability of connection to public and/or community water/sewer systems. If available, connection must be made to public or community water/sewage disposal system if connection costs are reasonable. The lender is responsible for the determination of the feasibility for requiring connection.

a. Individual Water Supply and Sewage Disposal Systems

If water and sewer systems are not connected to public systems, the water well and/or septic system must meet the requirements of the local health authority with jurisdiction. If the local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. If the authority is unable to perform the water quality analysis in a timely manner, a private commercial testing laboratory or a licensed sanitary engineer acceptable to the authority may take and test water samples.

- Each living unit must be provided with a sewage disposal system that is adequate to dispose of all domestic wastes and does not create a nuisance or in any way endanger the public health.
- Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal and, if they are installed in accordance with the recommendations of the local Department of Health.
- ▶ If there is a well or septic system on the property, condition the appraisal on further inspection by the lender and prepare the appraisal subject to satisfaction of the condition.

A domestic well must be a minimum of 50 feet from a septic tank, 100 feet from the septic tank's drain field and a minimum of 10 feet from any property line.

- ▶ Clearly show the location of private wells and septic systems on the site sketch and note the distance between the two.

b. Unacceptable Conditions

The following water well conditions are unacceptable and must be noted:

- mechanical chlorinators
- water flow that decreases noticeably when simultaneously running water in several plumbing fixtures (the well may not be able to provide a continuous, adequate supply of water)
- properties served by dug wells unless a complete survey conducted by an engineer was delivered to the lender and subsequently given to the appraiser
- properties served by springs, lakes, rivers or cisterns (3-6)

To be considered acceptable, the engineer's survey must include these items:

- a health report with no qualifications
- indication that an inoperative well was cased, sealed and capped with concrete to a depth of at least 20 feet
- a pump test indicating a flow of at least 3-5 gallons per minute supply for an existing well, and 5 gallons per minute for a new well
- an acceptable septic report
- no indication of exposure to environmental contamination, mechanical chlorination or anything else that adversely affects health and safety

- ▶ If these requirements for individual wells or septic tanks are not met, note them in the site section and prepare the appraisal subject to further inspection.

The lender will require the engineer's follow-up report and will arrange for any required corrective measures.

6. Wood Structural Components: Termites

Termites can cause serious problems in the wood structural components of a house and may go undetected for a long period of time. FHA requires maximum assurances that a home is free of any infestation. A pest inspection is always required for:

- any structure that is ground level
- any structure where the wood touches ground

Structures in a geographic area with no active termite infestation may not require a pest inspection. However, the appraiser must always note:

- any infestation
- any damage resulting from previous infestation
- whether damage from infestation has been repaired or is in need of repair

Observe all areas of the property that have potential for termite infestation, including the bottoms of exterior doors and frames, and wood siding in contact with the ground and crawl spaces. Examine mud tunnels running from the ground up the side of the house for possible evidence of termite infestation.

- ▶ If there is any evidence of termite infestation, require an inspection by a reputable licensed termite company. Condition the appraisal on the requirement and prepare the appraisal subject to the satisfaction of the condition.

7. Streets

Each property must be provided with safe and adequate pedestrian and vehicular access from a public or private street. Private streets must be protected by permanent recorded easements and have joint maintenance agreements or be owned and maintained by a HOA.

All streets must provide all-weather access to all buildings for essential and emergency use, including access for deliveries, service, maintenance and fire equipment. FHA defines all-weather surface as a road surface over which emergency vehicles can pass in all types of weather. Streets must either be:

- dedicated to public use and maintenance
- OR
- retained as private streets protected by permanent recorded easements (when approved by HUD)

- ▶ If these requirements are not met, prepare the appraisal subject to the correction of this deficiency.

8. Defective Conditions

A property with defective conditions is unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated. Defective conditions include:

- defective construction
- poor workmanship
- evidence of continuing settlement

- excessive dampness
- leakage
- decay
- termites
- other readily observable conditions that impair the safety, sanitation or structural soundness of the dwelling

These items are readily identifiable characteristics that could indicate one of the defective conditions.

9. Ventilation

Natural ventilation of structural space - such as attics and crawl spaces - must be provided to reduce the effect of excess heat and moisture that are conducive to decay and deterioration of the structure. All attics must have ventilation to allow moisture and excessive heat to escape. The appraiser must check the attic areas to determine whether the ventilation is adequate.

- ▶ If ventilation is not provided, make a condition for repair, and prepare the appraisal subject to the satisfaction of the condition.

10. Foundations

All foundations must be adequate to withstand all normal loads imposed. Stone and brick foundations are acceptable if they are in good condition. The appraiser must inspect the foundation for evidence of conditions that could indicate safety or structural deficiencies that may require repair.

- ▶ Report any evidence of dampness or settlement by noting such under the foundation section of improvements description. Describe the nature of the deficiency and recommend repairs, alterations or required inspections, if any, in the improvements section under physical deficiencies/adverse conditions.

11. Crawl Space

To ensure against conditions that could cause the property to deteriorate and seriously affect the marketability of the property, it is required that:

- There must be adequate access to the crawl space; the appraiser must be able to access the crawl space for inspection. Access is defined as ability to visually examine all areas the crawl space. Specifically, the minimum recommended distance is 18 inches.
- The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.
- The crawl space must be clear of all debris and trash and must be properly vented.
- The crawl space must not be excessively damp and must not have any water ponding.

- ▶ If these requirements are not met, prepare the appraisal subject to repair of the deficiency.

12. Roof

The covering must prevent moisture from entering and must provide reasonable future utility, durability and economy of maintenance. When re-roofing is needed for a defective roof that has three layers of shingles, all old shingles must be removed before re-roofing. The details of the process are provided in the protocol.

The appraiser must observe the roof to determine whether the deficiencies present a health and safety hazard or do not allow for reasonable future utility. The appraiser is only required to note readily observable conditions.

- ▶ If the roof is deficient, prepare the appraisal subject to the repair of the deficiency.

Flat roofs typically have shorter life spans and therefore require inspection.

- ▶ If there is a flat roof prepare the appraisal subject to further inspection.

13. Mechanical Systems

These are the requirements for mechanical systems:

- must be safe to operate
- must be protected from destructive elements
- must have reasonable future utility, durability and economy
- must have adequate capacity and quality

The appraiser must observe the mechanical systems and determine if any of the conditions do not meet the above stated criteria.

- ▶ If the systems require repair, condition the appraisal on the repair or further inspection.
- ▶ If systems could not be operated due to weather conditions, explain that and condition the appraisal on assumed functionality.

14. Heating

Heating must be adequate for healthful and comfortable living conditions:

- Dwellings that use wood-burning stoves or solar systems as a primary heat source must have permanently installed conventional heating systems that can maintain a temperature of at least 50 degrees F. in areas containing plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations.
- Properties with electric heating sources must have an acceptable electric service that meets the general requirements of the local municipal standards.
- All water heaters must have a non-adjustable temperature and pressure-relief valve. If the water heater is in the garage, it must comply with local building codes.
- All non-conventional heating systems - space heaters and others - must comply with local jurisdictional guidelines.

15. Electricity

Electricity must be available for lighting and for equipment used in the living unit. This examination includes the following:

- Examine the electrical system to ensure that there is no visible frayed wiring, or *exposed wires in living areas* and note if the amperage appears adequate for the property.
- Operate a representative number of lighting fixtures, switches and receptacles inside the house, garage and on the exterior walls and note any deficiencies. If the appliances present at the time of the inspection do not appear to be reasonable (undersized), determine if there is adequate amperage to run "standard" appliances, as per local code.
- The appraiser is not required to insert any tool, probe or testing device inside the panels or to dismantle any electrical device or control.

16. Other Health And Safety Deficiencies

The appraiser must note and make a repair requirement for any health or safety deficiencies as they relate to the subject property, including:

- broken windows, doors or steps
- inadequate or blocked doors
- steps without a handrail
- others

The appraiser must operate a representative number of windows, interior doors and all exterior and garage doors, as well as verify that the electric garage door operator will reverse or stop when met with resistance during closing.

If conditions exist that require repair, prepare the appraisal subject to the satisfaction of the condition.

17. Lead-Based Paint And Other Hazards

If the home was built before 1978, the appraiser should note the condition and location of all defective paint in the home. Inspect all interior and exterior surfaces - walls, stairs, deck porch, railing, windows and doors - for defective paint (chipping, flaking or peeling). Exterior surfaces include those surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.

- ▶ If there is evidence of defective paint surfaces, condition the appraisal on their repair.

For condominium units, the appraiser needs to inspect only the exterior surfaces and appurtenant structures of the unit being appraised and address the overall condition, maintenance and appearance of the condominium project.

- ▶ If the condominium project was built before 1978 and shows signs of excessive deferred maintenance or defective paint, prepare the appraisal subject to the satisfaction of the condition.

To Repair or Not Repair

In the performance of an FHA appraisal, the appraiser must denote any deficiency in the appropriate section(s) (site issues in the site section, improvement issues in the improvements section) of the appraisal report. The appraiser is to note those repairs necessary to make the property comply with FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) together with the estimated cost to cure. The lender will determine which repairs for existing properties must be made for the property to be eligible for FHA-insured financing.

Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property. Cosmetic repairs are not required; however, they are to be considered in the overall condition rating and valuation of the property, and they must be reported by the appraiser.

These are some examples of deferred maintenance that do not rise to the level of a required repair:

- A wood floor's finish that has worn off to expose the bare wood must be sanded and refinished. However, a wood floor that has darkened with age but has an acceptable finish does not need polishing or refinishing.
- Peeling interior paint and broken or seriously cracked plaster or sheetrock require repair and repainting, but paint that is adequate though not fresh does not need to be redone.
- Missing shrubbery or dead grass on an existing property does not need to be replaced.
- Cleaning or removing carpets is required only when they are so badly soiled that they affect the livability and/or marketability of the property.
- Installing paved driveways or aprons should not be required if there is an otherwise acceptable surface.
- Installing curbs, gutters or partial street paving is not required unless assessment for the same is imminent.

- Complete replacement of tile floors is not necessary if some tiles do not match, etc.
- Holes in window screens
- A small crack in a windowpane

The physical condition of existing building improvements is examined at the time of the appraisal to determine whether repairs, alterations or inspections are necessary - essential to eliminate conditions threatening the continued physical security of the property.

Required repairs will be limited to necessary requirements to:

- protect the health and safety of the occupants **(Safety)**
- protect the security of the property **(Security)**
- correct physical deficiencies or conditions affecting structural integrity **(Soundness)**

A property with defective conditions is unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated. Defective conditions include:

- defective construction
- other readily observable conditions that impair the safety, sanitation or structural soundness of the dwelling.

Typical conditions that would require further inspection or testing by qualified individuals or entities:

- infestation – evidence of termites
- inoperative or inadequate plumbing, heating or electrical systems
- structural failure in framing members
- leaking or worn-out roofs
- cracked masonry or foundation damage
- drainage problems

To perform this analysis, the appraiser must have full access to all property improvements. If unable to visually evaluate the improvements in their entirety, contact the lender and reschedule a time when a complete visual inspection can be performed. This includes access to the crawl space and attic. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, plant life, soil, snow, ice or debris that obstructs access or visibility.