

# Vanguard Real Estate Group

## Preparing your Home for an FHA Appraisal

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# fha appraisals

What is a home worth? This is a basic question that a lender will ask when considering a loan for a potential mortgage borrower and it plays a fundamental role in the mortgage process. Determining the value of a home to be financed limits a lender's risk associated with a loan because that property that will provide the means of recovery for the lender should the borrower default on the loan.



For example, XYZ Mortgage Co. loans Joe Borrower \$120,000 against a property that is worth \$150,000. If Joe Borrower does not pay his mortgage, the lender will have to sell the property at foreclosure (which is a costly and time-consuming process). If the home sells for \$100,000 (or any value less than the remaining balance on the loan plus the foreclosure expenses), the XYZ Mortgage Co. will have a loss on the transaction. However, having a solid, objective opinion about the value of the home will help the lender in assessing any potential risk associated with the loan and prevent a loss due to foreclosure.

A residential real estate appraisal is generally required for all mortgage transactions to assist in limiting such risks. It is a supportable estimate of property value, drawing its conclusions from data obtained from the market and the subject property. In addition, the mortgage company hires the appraiser (the licensed individual that conducts the appraisal), rather than the buyer or the seller, in order to provide a clear and objective statement of a property's value.



The Department of Housing and Urban Development (HUD) requires appraisals for all FHA insured loans. Though the qualifications of an appraiser will vary, HUD requires a minimum standard to be met by all FHA approved appraisers to include additional education and training, state licensing or certification, and approval by the lender to conduct FHA appraisals.

FHA emphasizes that an appraisal is not a home inspection and it does not guarantee that a home is without flaws. This is called the "HUD No-Warranty" policy. However, FHA does take steps to try to see that the home is in a safe, sound and sanitary condition. For that reason, the FHA appraiser is expected to require repair or replacement of anything that may affect the safe, sound and sanitary habitation of the house. If repairs are required, the buyer will receive a list from the lender (see VC sheets) and the seller (in most cases) is ultimately responsible for seeing that the repairs are taken care of according to set local and FHA guidelines.

The value that an FHA appraiser places upon a property is more than just the value of bricks and mortar. In this section, we will look at the various factors that influence the FHA appraiser's opinion on value, the FHA guidelines for appraisals, and explanations for many of the terms and forms associated with FHA appraisals.

# the appraisal process

## 1. sales comparison

In the sales comparison approach, the FHA appraiser determines value by comparing the property being appraised (i.e. subject property) against properties that have recently sold in the area and are similar in size, age, construction, and amenities. These properties are also known as comparable properties (or comps).

The goal of the sales comparison approach is to determine market value. As stated before, market value is the most probable price that a property should bring in a sale under normal market conditions. Essentially, the sales comparison approach establishes market value under the premise that a buyer will not pay more for a property than a cost to purchase another similar property in the area (i.e. a comparable property).

The key to successfully determining value under the sales comparison approach is for the appraiser to identify three to five properties that have recently sold (generally no more than six months since the sale of the property) and are similar to the subject property. Though it is rare that an appraiser will find exact carbon copies of the subject property, he/she notes any dissimilar features and makes an adjustment for each by using the following formula:

Sales Price of Comp + or - Adjustments = Adjusted Value

These adjustments may increase or decrease the indicated value as determined by the comparable. For example, if a comparable property has a heated swimming pool and the subject property does not, the adjusted value would be decreased since the comparable has a positive feature that the subject property does not. This rule works both ways. For example, if the subject property has a two car garage and the comparable property has a one car carport, the adjusted value would be increased. Most adjustments include those made for **physical features** such as a fireplace, parking, or a pool, **locational influences** such as proximity to a freeway, greenbelt in the backyard, or located in an exclusive and highly desirable country club, **conditions of the sale** such as the seller facing foreclosure and had to liquidate the property, and **time from the date of the sale** (the more recent, the more accurate).

As a rule of thumb, comparable properties are always adjusted (up or down) to make it as similar to the subject property as possible. A comparable property that has features or characteristics more valuable than the subject property must be adjusted downward. A comparable property that has features or characteristics less valuable than the subject must be adjusted upward.

Example:

House A, the subject property, has air-conditioning and a two car garage. House B, a comparable property, sold recently for \$100,000 and has a garage but not air-conditioning (valued at \$3,000). House C, another comparable property, recently sold for \$95,000 and has air-conditioning but not a two car garage (valued at \$7,000). House D, another comparable property, recently sold for \$114,000 and has the identical amenities and features to House A except that it is located in a better neighborhood. A summary of the adjustments are as follows:

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Comparable:	B	C	D
Sales Price:	\$100,000	\$95,000	\$114,000
Location:			-\$10,000
Garage:		+\$7,000	
Air-Conditioning:	+\$3,000		
Adjusted Value:	\$103,000	\$102,000	\$104,000

It is important to note that the accuracy of this approach is dependent upon the appraiser's use of reliable adjustment values. These values will vary from region to region, amenity to amenity. Also, large differences in value might suggest that the properties used are not similar enough to be considered comparable.

## 2. cost approach

In the cost approach, the FHA appraiser estimates the current market value of the home by estimating the cost of reconstructing the home (to include any improvements) plus the value of the land minus the estimated depreciation of the home since the home was first built.

Depreciation is the loss in value from any cause such as physical deterioration, functional obsolescence and external obsolescence. Deterioration is the loss in value resulting from average wear and tear over time (such as exposure to the sun, peeling paint, . Functional obsolescence is the loss in value caused by deficiencies within the property such as poor room layout or design and inadequate mechanical equipment (such as a home with only an evaporative cooler instead of an air-conditioner). External obsolescence is a loss in value caused by negative conditions outside of the property such as a change in zoning or excessive noise and traffic.

The concept behind this approach is that a knowledgeable buyer will not pay more for a house than the cost of reconstructing a substitute house on a similar lot in a similar condition. It is calculated as follows:

Cost of reconstruction - Depreciation + Value for land = Property Value

Example:

The subject house is similar in size, design and quality of construction to a new house that cost \$150,000 to build. The subject house has depreciated by ten percent due to normal wear and tear and is on a lot valued at \$40,000. Using the cost approach, the estimated value of the home is:

$\$150,000 - (10\% \times \$150,000) + \$40,000 = \text{Property Value}$

$\$150,000 - \$15,000 + \$40,000 = \$175,000$

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### 3. income approach

The income approach is rarely used to determine the value of a home that will be financed by an FHA insured loan unless it is an income producing property (such as a triplex or four-plex). The income approach is an analysis based on the relationship of value as related to the market rent that a property can be expected to earn.

Market rent is the rental income that a property would most likely receive on the open market as indicated by current rentals paid for comparable space. In addition, the appraiser will analyze the sales prices of comparable properties in order to determine the **gross rent multiplier (GRM)** that represents the relationship between market rent and market value. This ratio is calculated by:

Sales Price divided by Gross Rent = GRM

The following illustrates how to calculate a monthly gross rent multiplier:

Comparable	Sales Price	Monthly Rent	Gross Rent Multiplier
1	\$90,000	\$750	120.00
2	85,000	690	123.19
3	87,000	715	121.68
4	95,000	800	118.75
5	89,000	730	121.92

Average: 121.11

Based upon this analysis, the appraiser can use this estimated GRM and apply it to the projected gross rents of the subject property. For example, if the appraiser had determined that the market rent for the subject property is \$700 per month, the estimated value of the subject property would be:

Gross Rent x GRM = Market Value

\$700 x 121.11 = \$84,777

### comparison of approaches

All three methods used to determine market value, the sales comparison approach, the cost approach, and the income approach, are market oriented and must reflect market data and the market behavior of buyers.

Using the sales comparison approach, the market value is determined by adjusted the sales prices of recently sold similar properties (comparables). The sales prices of the market comparables reflect the behavior of typical buyers in the marketplace.

With the cost approach, market value is determined by calculating the replacement cost of an identical home plus the cost of the land underneath the home minus any depreciation over the years since the

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home was first constructed.

The income approach analyzes the market rents of comparable properties and applies the gross rent multiplier in relation to expected rents from the subject property to determine the market value.

As a general rule of thumb, the sales comparison approach has the most weight when determining the market value of a home that is to be insured by an FHA loan. The cost approach is calculated and often supports the conclusions that the FHA appraiser calculated using the sales comparison approach. The income method is only used when the borrower is financing a triplex or a four-plex under FHA guidelines.

### **fha vc sheets**

Effective September 10, 1999 all FHA insured loans will require the appraiser to include the Valuation Conditions (VC) sheet (HUD Form 92564-VC) with the standard FHA appraisal. The purpose of the VC sheet is to insure that the appraised property meets HUD's minimum property standards.

The form outlines several areas in and around the property that may require repairs to be completed before a borrower can close on his/her loan. Areas covered include site hazards and nuisances such as excessive noise from traffic, property considerations such as soil contamination, drainage and termites, structural conditions such as significant cracks in the foundation, the roof, mechanical systems such as the furnace, AC, the electrical system and the plumbing, as well as health and safety issues such as the potential for lead based paint.

It is important to note that the VC sheet is not an inspection. A home inspection gives the home buyer/seller more detailed information about the entire house. The VC sheet details the minimum property standards required by FHA and does not include everything. Furthermore, the conditions are evaluated by a licensed appraiser, not a home inspector. The level of detail only involves readily observable conditions of necessary repairs.

If any deficiencies are noted on the VC sheet, the home buyer must receive within five days prior to closing a copy of the Homebuyer Summary (HUD Form 92564-HS). Any repair items indicated must be completed before the close of escrow. If a home buyer receives the Homebuyer Summary in relation to an FHA loan, it is within his/her rights to request a copy of the VC Sheet and the appraisal. It is the lender's responsibility to coordinate the repairs on the home (though not necessarily responsible for the cost of repairs).

Refer to HUD handbook 4150.2 for more information about the site and property considerations for an FHA insured property.

You can download a copy of the following forms from this website:

[HUD Form 92564-VC Valuation Conditions](#)

[HUD Form 92564-HS Homebuyer Summary](#)

(Please note that these forms are in the Microsoft Word 95/6.0 Format)

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### home inspections

When applying for an FHA insured home loan, the borrower(s) must sign a disclosure that details the importance of a home inspection.

In previous sections, we learned that FHA offers a detailed home appraisal that covers many items often included in a home inspection. However, an FHA appraisal is not a home inspection. An appraisal is only an estimate of the market value of a property. Furthermore, FHA does not guarantee the value or the condition of the home. If a home buyer finds problems or defects after the closing, FHA will not give the home owner money for repairs or buy back the property.

A home inspection gives the buyer more detailed information than an appraisal--information you need to make a wise decision. In a home inspection, a qualified inspector takes an in-depth, unbiased look at your potential new home to:

evaluate the physical condition: structure, construction, and mechanical systems

identify items that need to be repaired or replaced

estimate the remaining useful life of the major systems, equipment, structure, and finishes

A home inspection gives the buyer an impartial, physical evaluation of the overall condition of the home and items that need to be repaired or replaced. The inspection gives a detailed report on the condition of the structural components, exterior, roofing, plumbing, electrical, heating, insulation and ventilation, air conditioning, and interiors.

The cost for a home inspection is only a few hundred dollars (which the seller may be willing to pay for). Most importantly, hire only home inspectors that have the American Society of Home Inspectors (ASHI) designation. These are inspectors that have met the rigorous standards of education, professionalism and expertise set by ASHI in order to attain that designation.

## fha appraisals - what to look for

The appraisal and property condition assessment is used to determine the market value and acceptability of the property for FHA mortgage insurance purposes. The value serves as a basis for determining the maximum FHA insurable mortgage loan.

The appraisal is performed for the use and benefit of HUD, and the lender involved in an FHA transaction. In addition to providing an estimate of value, the appraisal provides an examination of the property for any visible, obvious and/or apparent deficiencies that may affect the livability of that property in terms of basic needs, health and safety of the property's occupants.

**HUD/FHA MAKES NO WARRANTIES AS TO THE VALUE AND/OR CONDITION OF ANY FHA-**

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**APPRAISED PROPERTY**, therefore buyers/borrowers must determine for themselves that the price of the property is "reasonable" and that its condition is "acceptable".

The following are the general guidelines required for a property. Any condition not met by the list below may require the property to be repaired in order to meet FHA appraisal guidelines. Refer the HUD handbook 4150.2 for more information.

## **1.     *roofs and attics***

The roof must prevent moisture from entering the home and provide reasonable future utility, durability and economy of maintenance. The roof should have a remaining physical life of **two years**. If the roof has less than two years remaining life, the appraiser must call for re-roofing or repair.

FHA will accept a maximum of three layers of existing roofing. If more than two layers exist and repair is necessary, all of the old roofing must be removed as part of the re-roofing.

Roofing on slopes of 2.5/12 pitch or less must be installed by a licensed roofer using built-up roofing that meets the Uniform Building Code.

**All flat roofs require a roof inspection.** If the subject property is part of a large multifamily building (i.e. condo), no roof inspection is needed. If the building is a small 4 unit building or townhouse type unit covered by a condo association with the subject property having its own roof, then a roof inspection is required.

The FHA appraisers are required to inspect the attic area unless the property is a mobile home or dwelling with little or no attic (due to the interior roof slope).

The appraiser will note any evidence of holes in the roof/ceiling, the condition of the support structure, any significant water damage that is visible from within the interior and evidence of ventilation by vent, fan or window.

## **2.     *kitchens and bathrooms***

A property must have adequate water supply and fixtures to support its use. This guideline requires an appraiser to check:

the function of toilets and observe any evidence of leaks

for structural damage under fixtures and the presence of puddles

for any obvious evidence of malfunction of the sewer system

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the sinks and pipes for leaks

if the home has running water

any significant drop or limitation in water pressure

An appraiser may require the repair or replacement of countertops and flooring wherever underlayment is exposed or damaged.

### **3.     *basements***

Basements must be examined by the FHA appraiser for dampness or wetness, any obvious structural problems and the condition of the furnace, hot water heater, and/or other components located there.

Sump pumps are acceptable to HUD/FHA guidelines provided that they are properly functioning at the time of appraisal. The sump pump may be hard wired by an acceptable wiring method or may have a factory electrical cord that is connected to a receptacle suitable for such use. Use of an extension cord for the sump pump is not acceptable. Though the sump pump is not a cure-all for water problems, the appraiser may still elect to reject the property if there is significant incurable ponding of water in the basement.

Property owners must insure that there adequate access to the property's crawl space, clear of debris, and is properly vented. The appraiser must enter the crawl space with a minimum entry of his/her head and shoulders (unless access is not possible, could damage the property, or an adverse situation is suspected). HUD guidelines recommend a minimum height of 18 inches from the bottom of the joists in order to provide adequate space for maintenance and repair. Furthermore, the crawl space must not be excessively damp and not have any water ponding.

### **4.     *electrical & heating***

The FHA appraiser should examine the electrical box to ensure that there are no frayed or exposed wires. Electrical boxes may be either circuit breakers or fuses. Existing 60-amp service is acceptable if it appears that this is adequate amperage for the appliances present in the property, or those considered "standard" if the present appliances appear to be less than found in the "standard" home. Knob and tube wiring is acceptable if found to be in good condition and a minimum of 60-amps. For all electric homes and those with electric heat, 200-amps is recommended

In general, all habitable rooms must have a heat source. This does not mean that each room must contain a heating device but that each room must receive sufficient heat. In some situations where it is not feasible to extend the capacity of the main system, an electric and thermostatically controlled baseboard unit is acceptable provided it is permanently installed with concealed wiring.

Heating must be adequate for healthful and comfortable living conditions. This is defined as providing and maintaining a temperature of at least 50 degrees Fahrenheit in all living areas and areas containing plumbing systems. Further more, all permanent primary heating systems must be thermostatically controlled and properties with electric heat sources must have an acceptable electric service that meets the general requirements of the local municipal standards.

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**Wood stoves and solar systems:** Homes with wood burning stoves or solar systems as the primary heat source must have permanently installed conventional heating systems that can maintain at least 50 degrees Fahrenheit in all living areas and those containing plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations.

**Wall heaters:** Wall heaters are acceptable as long as they are installed to code and designed to heat the size and layout of the entire house.

**Floor heaters:** Due to the inherent dangers of a floor heater, it is highly recommended that floor heaters in need of repair be replaced with another permanent heat source. They are acceptable as long as they are properly functioning and meet current code.

**Non-conventional heating systems:** All non-conventional heating systems, such as space heaters and others, must comply with local jurisdictional guidelines. Often these are not acceptable as the primary source of heat.

Finally, propane tanks must be a safe distance from the property. Leased tanks are acceptable when not offered for sale. Propane fired furnaces located in a crawl space area is not acceptable.

Electrical, plumbing and/or heating certifications may be called for by the appraiser when he/she cannot determine if one or all of these systems are working properly. However, the appraiser should not arbitrarily call for such certifications as they are still responsible for checking on the adequacy of these systems at the time of appraisal. If an inspection is required, it must be done by a home inspector, an inspector from the local building department, an FHA compliance inspector, a professional in the specific field (e.g. electrician, plumber) or any individual deemed qualified by the lender's underwriter.

### **5. sewer system**

Public, Community and Individual Sewer Systems:

**Public Sewer Systems:** Public sewer systems are owned, operated and maintained by the city, county or local unit of government with the power of taxation or assessment. No certification is required by the appraiser.

**Community Sewer Systems:** In general, the appraiser must note on the appraisal the name of the community system(s). However, the lender must ensure that the community sewer system is in compliance with the requirements of the Health Authority having jurisdiction for satisfactory operation of the sewage treatment plant and discharge of treated wastes.

**Individual Sewage Systems:** For properties that cannot connect to a public system and are served by an individual sewage system that is acceptable to the local health authority, the system is then acceptable to HUD/FHA. This includes numerous types of sewage systems including cesspools, individual pit privies and mound systems.

Certifications are only required if the appraiser suspects a problem with the system, or problems are customary in the area. The appraiser will require certification by the local health authority, a licensed sanitarian or an individual determined to be qualified by the lender. Certifications obtained within three months prior to the appraisal may be acceptable if the appraiser and other parties in the transaction do

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not detect or know of possible existing problems.

The following types of systems are not acceptable:

Individual septic tank/drain field on a neighboring property

Individual lagoon-type or other "open" systems

The property should be rejected if it, or neighboring houses show indications of, and/or have had unsatisfactory operation of the sewage disposal system.

The property should be rejected if inspection reveals repetitive failure of the subject system and/or neighboring systems, or in an area subject to flooding or seasonal high ground water tables.

Improvements such as driveways, parking areas, patios, etc. covering the drainfield are unacceptable due to the inability for future servicing and should be removed or the drainfield relocated.

For distances between water sources and sewage, see the water / plumbing section.

### **6. *water & plumbing***

Public, Community, and Individual Water Systems and Shared Wells:

Public water systems are owned, operated and maintained by the city, county or local unit of government with the power of taxation or assessment. These systems do not require certification.

Community water systems are a central system that is owned, operated and maintained by a private corporation or a non-profit property owners association. It is the lender's responsibility to ensure that the community system is licensed and adequate to service the property.

Individual water supply systems (i.e. wells) may be acceptable when connection to a public or community water system is not available and there is assurance of a continuing adequate supply of safe potable water for domestic needs (to include auxiliary uses for lawn and garden maintenance). The appraiser may condition for certifications of water quality and quantity such as the appropriate Health Authority approval and pump test.

Individual water wells are owned and maintained by the homeowner, and are subject to compliance with all water quality requirements of the local and/or State Health Authority having jurisdiction.

As of June 19, 1988, new construction shall have lead-free water piping. Solder and flux shall not contain more than 0.2% lead and pipe fittings shall not contain more than 8.0% lead.

Whenever the property lacks a connection to public water, water testing is required. If the local authority is unable to perform the water quality analysis in a timely manner, a private, commercial testing laboratory acceptable to the local authority may take and test water samples. Certification obtained within three months prior to the appraisal is acceptable if the appraiser<sup>4</sup> and other parties in the transaction do not detect or know of possible existing problems.

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**Well Location:** Individual water wells should be checked to establish the distance from the septic system. See below

A well located within the foundation walls of a dwelling is not acceptable. Water which comes from any soil formation which may be polluted, contaminated, fissured, creviced or less than 20 ft. below the natural ground surface is not acceptable, unless it is acceptable to the local health authority (certification is required for such cases). Individual water wells are not acceptable for individual lots in areas where chemical soil poisoning has been or is practiced if the overburden of soil between the ground surface and the water bearing strata is coarse grained sand, gravel, or porous rock, or is creviced in a manner which will permit the recharge water to carry the toxicants into the zone of saturation.

The following shall be used in establishing the minimum acceptable distance between wells and sources of pollution located on either the same or adjoining lots. These distances may be increased by either the health authority having jurisdiction or HUD:

Source of Pollution	Supplemental requirements	Minimum Horizontal Distance (ft)
Property line		10 ft
Septic Tank		50
Absorption Field	SUP1	100
Seepage Pit	SUP1	100
Absorption Bed	SUP1	100
Sewer lines (w/ perm. watertight joints)		10
Other Sewer Lines		50
Chemically Poisoned Soil	SUP3	25
Dry Well		50
Other	SUP2	

SUP1: This clearance may be increased or decreased depending upon soil and rock penetrated by the well and aquifer conditions. The clearance may be increased in creviced limestone and permeable strata of gravel and sand. The clearance may be reduced to 50 ft. only where the ground surface is effectively separated from the water bearing formation by an extensive, continuous and impervious strata of clay, hardpan, or rock. The well shall be constructed so as to prevent the entrance of surface water and contaminants.

SUP2: The recommendations or requirements of the local health authority shall apply.

SUP3: This clearance may be reduced to 15 ft. only where the ground surface is effectively separated from the water bearing formation by an extensive, continuous and impervious strata of clay, hardpan, or rock.

Individual water wells should be located on the subject property. If not, they must be on an adjacent property, and evidence of water rights and ongoing maintenance must be provided for acceptance of the well.

Also, possible sources of water pollution from the subject and adjoining properties must be considered.

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**Quantity of Water:** Water quantity is to be certified by either the local health authority or a licensed well driller/engineer. The pump test must evidence that for new well construction the system is capable of delivering a flow of 5 gallons per minute over at least of 4 hour period, and 3 gallons per minute over at least a 4 hour period for existing. Systems should be checked to establish that adequate amount of water pressure is present and can be sustained.

**Holding Tanks:** The use of holding tanks are not considered to be normally acceptable as the sole source of water unless there is no other available source of acceptable water, the use of holding tanks is "typical" for the market area, the dependence of a holding tank does not adversely affect the marketability of the property, there are readily available sources of hauled water to serve the property, fire insurance is available at reasonably affordable rates, tanks are equipped with a clean-out plug at the lowest point and a suitable pressure relief valve, and the tank has a minimum capacity of 500 gallons or larger.

**Misc:** Wells must be drilled no less than 20 feet deep and cased with steel or other durable, leak-proof, and acceptable casing material.

If any of the following items may cause the property to be rejected or conditioned for certified compliance:

Mechanical chlorinators are not acceptable

Hand-dug wells, "bored" wells, and/or "sandpoint" wells are not acceptable

Individual water systems utilizing springs, cisterns, lakes, or rivers are not acceptable.

**Shared Wells:** Shared wells may serve existing properties which cannot feasibly be connected to an acceptable public or community water supply system. A shared well shall have a valve on each dwelling service line as it leaves the well. A shared well shall service no more than four properties. A shared well must have a shared well agreement and shall be binding upon signatory parties and their successors in title. The agreement shall also be recorded in local Deed Records.

### **7. *water heaters***

All water heaters must have a non-adjustable temperature and pressure-relief valve. It must comply with local building codes regardless of its location. Rental water heaters are not acceptable.

### **8. *pest control***

FHA requires maximum assurances that a home is free of any infestation. A pest inspection is always required for and structure that is ground level or any structure where the wood touches the ground. However, structures in a geographic area with no active termite infestation may not require a pest inspection. Arizona is not one of those areas. In most cases, a wood infestation report (aka termite inspection) is required.

**New Construction:** The builder of a new home, proposed construction, a home under construction and a home less than one year old must provide a warranty against termite infestation in a new home for a

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minimum of on year.

All chemical soil treatments, bait systems, and chemical wood treatments must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA label instructions. In some cases where these methods are not feasible, pressure treated wood may be used as a measure of termite protection. Also, the use of post-construction soil treatment where the chemicals are applied only around the perimeter of the foundation is not acceptable in new construction.

Termite inspections are not required for streamline refinances with or without an appraisal.

### **9. *security bars & smoke detectors***

**Security bars:** Security bars are acceptable if they comply with local fire codes.

**Smoke detectors:** At least one operating UL-approved smoke detector, acceptable to the local building and fire codes must be installed in each hallway adjacent to the bedrooms. On levels of the home that do not include bedrooms, at least one operating smoke detector must be centrally located.

### **10. *property location***

The property may not be eligible for FHA financing when it is subject to hazards, environmental contaminants, noxious odors, offensive sights, or excessive noises to the point of endangering the physical improvements or affecting the livability of the property, its marketability, or the health and safety of its occupants and cannot be acceptably mitigated.

**Airports:** Locations near an airport may be subject to the noise and hazard of low flying aircraft. Existing properties are not to be rejected solely based upon the property's proximity to an airport unless there is indication that adverse changes in market attitude is taking place in the area (such as declining market values due to the noise). Existing homes more than one year old are acceptable in a Runway Clear Zones if the buyer acknowledges awareness of such location. Homes less than one year old are not eligible.

**Railroad tracks and other high noise sources:** If the home is over one year of age, noise exposure will not result in automatic rejection unless the environmental noise is a marketability factor. A site exceeding an average day-night sound level of 56 decibels is normally unacceptable, though measures may be taken to reduce these levels. Anything over 75 decibels is not acceptable. The loan may not close until certification has been made that the average day-night sound level is within acceptable levels.

**Flood areas:** Homes located in zones "A" and "V" (as stated on the FHA appraisal) will require flood insurance. Homes located in zones "B" and "C" do not require flood insurance. Homes that require flood insurance and are not located in an area where the National Flood Insurance Program is in force are not eligible for FHA financing. New and proposed construction is not eligible if any part of the home that is essential to the property's value and subject to flood damage are located within the 100 year flood plain. Properties subject to frequently recurring flooding, subject to any potential hazard to life and safety or where escape to higher ground would not be feasible during flooding conditions are not eligible for FHA financing. For more information on flood areas, [click here](#).

**Overhead high voltage transmission towers and lines:** High voltage lines are those that carry 60

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kilovolts or greater. Distribution lines are the common lines used for supplying power to housing developments and similar facilities that often carry 12 kilovolts or less. No home may be located within the designed fall distance of any pole, tower or support structure of a high-voltage transmission line, radio/TV transmission tower, microwave relay dish or tower or satellite dish (radio, TV cable, etc.). Neither high voltage nor distribution lines shall pass directly over any structure on the property (this does not include service lines that deliver power to the house).

### **11. oil and gas wells and tanks:**

**Operating wells:** No existing home may be located closer than 300 feet from an active or planned drilling site. If an operating well is located in a single family subdivision, no new or proposed house may be built within 75 feet of the operating well.

**Abandoned wells:** Assuming a letter from the responsible authority in the state government that states the subject well was safely and permanently abandoned, a home may be located no closer than 10 feet from the abandoned well. If no such letter is provided, the home must be located at least 300 feet from the abandoned well.

**Underground tanks:** If an underground tank has been abandoned, its removal or proper abandonment is required (subject to applicable requirements and guidelines for removal).

### **12. environmental issues**

**Lead based paint:**

For all properties built before January 1, 1978, the FHA appraiser must inspect all interior and exterior surfaces, such as walls, stairs, deck, porch, eaves, windows, doors, fences, etc. for defective paint surfaces (i.e. chipping, peeling or flaking paint).

If the paint is cracking, scaling, peeling, or loosening on any interior or exterior surfaces, the affected areas must be thoroughly washed, sanded, scraped or wire-brushed to remove all of the defective paint (machine sanding or use of a blow torch is not acceptable). A ground cloth should be used to catch particles of paint and surface removed and a thorough clean up should be accomplished after the surface has been prepared for painting. All materials cleaned up should be removed from the possibility of ingestion by humans. The treated surface must be repainted by a paint that closely matches the existing color, using a minimum of two coats of paint unless the affected areas are covered, when appropriate, by a material such as plywood, plaster or other suitable material.

**Radon:** HUD does not require radon testing of homes to be insured by FHA financing.

**Asbestos:** Asbestos used as roof shingles or siding on a house does not pose a danger. When used as a wrap for hot water pipes, it is usually covered and poses no danger. When the material is deteriorating into a fine powder and can be inhaled, it may pose a danger to one's health. Asbestos should be removed by an expert only in those cases where the deterioration poses a serious health threat; otherwise the appraiser may condition for repair of the puncture or other damage.

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### **13. private roadways**

Each property shall be provided with vehicular and pedestrian access by a public or private street. Private streets shall be protected by permanent easements.

Existing or proposed streets at the site shall connect to private or public streets and shall provide all-weather access to all buildings for essential and emergency use, including access needed for deliveries, service, maintenance and fire equipment.

FHA defines all-weather surface as a road surface over which emergency and the area's typical passenger vehicles can pass at all times.

Private streets must be protected by permanent recorded easements and have joint maintenance agreements.

### **14. zoning**

To be eligible for FHA insurance, a property is to be legal and free of health and safety hazards and major structural problems. If the use is not legal, the property is not eligible for FHA mortgage insurance until it becomes legal.

### **15. personal property**

Items such as ranges, refrigerators, dishwashers, washers/dryers and microwaves may be considered as part of the real estate and included as part of the sale. No other appliances or chattel should be considered part of the real estate.

A dollar for dollar reduction to the mortgage amount for items not considered part of the real estate is required unless the item has no monetary value and left to the buyer's discretion to dispose of the property.

## how to prepare for an fha appraisal

This section is not designed to give a home seller advice on "fooling" an FHA appraiser. Rather, the following information is provided to point out common areas that FHA appraiser condition on an appraisal and the means to stay one step ahead of the process. Most of these items should be repaired anyways.

An appraiser is required to inspect for chipping, peeling, or flaking paint on a home (see environmental issues). If you notice any deficiencies, take the initiative to scrape, sand and apply two coats of paint on those areas that need attention. This includes the inside of the house and most notably the inside of the window frames.

Check all electrical switches to make sure all lights come one. If any have burned out light bulbs, replace

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the bulb with a working one. If any switches don't work, replace them. Check all electrical outlets to see if they work.

Turn on your AC to see if it blows cold air. Check to see if the heater blows hot air. If not, an appraiser will probably condition for these items to be serviced.

In the bathroom, re-caulk the tubs and basins. Repair any holes in the tile, tub or sinks. Fix all leaks and clean any water stains from dripping faucets.

Repair any holes, tears or rips in the flooring.

Most importantly, make sure the house is neat and clean. Vacuum the carpets, clean the kitchen, scrub the tub. Be sure that the appraiser has clear access to the all areas of the house. Remove the clutter and properly dispose of any hazards that may present a problem.