

FHA Appraisal Protocol

Excerpts from December 19, 2005 U.S. Dept. of Housing and Urban Development letter

In a continuing effort to reform and standardize its appraisal requirements, FHA has shifted from its historical emphasis on the repair of minor property deficiencies and now only requires repairs for those property conditions that rise above the level of cosmetic defects, minor defects or normal wear and tear. FHA Roster Appraisers are reminded to report **all** readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completing the appraisal, within the appraisal reporting form. Lenders should use professional judgment and rely upon prudent underwriting practices in determining when a property condition poses a threat to the safety of an occupant and/or jeopardizes the soundness and structural integrity of the property, such that additional inspections and/or repairs are necessary.

Examples of minor property conditions that no longer require automatic repair for existing properties include, but are not limited to:

- Missing handrails
- Cracked or damaged exit doors that are otherwise operable
- Cracked window glass
- Defective paint surfaces in homes constructed post 1978
- Minor plumbing leaks (such as leaky faucets)
- Defective floor finish or covering (worn through the finish, badly soiled carpeting)
- Evidence of previous (non-active) wood destroying insect/organism damage where there is no evidence of unrepaired structural damage
- Rotten or worn out counter tops
- Damaged plaster, sheetrock or other wall and ceiling materials in homes constructed post 1978
- Poor workmanship
- Trip hazards (cracked or partially heaving sidewalks, poorly installed carpeting)
- Crawl space with debris and trash
- Lack of an all weather driveway surface

Examples of property conditions that may represent a risk to the health and safety of the occupants or the soundness of the property for which FHA will continue to require automatic repair for existing properties include, but are not limited to:

- Inadequate access/egress from bedrooms to exterior of home
- Leaking or worn out roofs (if three or more layers of shingles on leaking or worn out roof, all existing shingles must be removed before re-roofing)
- Evidence of structural problems (such as foundation damage caused by excessive settlement)
- Defective paint surfaces in homes constructed pre-1978
- Defective exterior paint surfaces in homes constructed post 1978 where the finish is otherwise unprotected

Inspection Requirements

- Wood destroying insects/organisms: if evidence of active infestation, if mandated by state or local jurisdiction, if customary to area, or at lender's discretion
- Well (individual water system): if mandated by state or local jurisdiction, if there is knowledge that well water may be contaminated, when the water supply relies upon a water purification system due to presence of contaminants or when there is evidence of:
 - Corrosion of pipes (plumbing)
 - Areas of intensive agriculture within ¼ mile
 - Coal mining or gas drilling operations within ¼ mile
 - Dump, junkyard, landfill, factory, gas station or dry cleaning operation within ¼ mile
 - Unusually objectionable taste, smell or appearance of well water
- Septic: if evidence of system failure, if mandated by state or local jurisdiction, if customary to area or at lender's discretion

If the appraiser reports a potential property deficiency that may pose a threat to the safety of the occupants or the security and soundness of the property, the lender will require an inspection of the condition to determine whether repairs are necessary to mitigate or resolve the problem. Examples of conditions that will continue to require automatic inspections include, but are not limited to:

- Standing water against the foundation and/or excessively damp basements
- Hazardous materials on the site or within the improvements
- Faulty or defective mechanical systems (electrical, plumbing or heating)
- Evidence of possible structural failure (e.g., settlement or bulging foundation wall)