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What are the minimum property standards for an FHA Mortgage?

There are quite a few reasons why FHA mortgages are popular among home buyers and refinancing households.

FHA loans allow for a smaller down payment than many other loan programs available in the marketplace. FHA will allow a 3.5% down payment whereas most conventional loans require a five percent down payment, at minimum.

FHA mortgage rates can be lower than comparable mortgages. Conventional loans often have risk adjustments which increase their interest rates based on Credit Score, Loan To Values, the type of property, etc. FHA does not issue standard risk based adjustments to price for FICO, cash out refinances, 2-4 unit properties, condominium properties, loan to value, etc.

It can also be easier to qualify for a FHA mortgage. FHA credit guidelines are considered more flexible than the guidelines for other types of mortgages.

However, there is one area in which FHA remains stricter with its rules and this is with respect to property condition. Prospective borrowers wishing to use FHA-backed financing should keep this in mind. There are minimum standards to which all FHA homes are held.

In the most general terms, FHA property requirements all derive from:

- Safety: The home should protect the health and safety of the occupants.
- Security: The home should protect the security of the property (as explained in the previous section).
- Soundness: The property should not have physical deficiencies or conditions affecting its structural integrity.

FHA requires that an FHA Certified Appraiser must be used to complete the Appraisal Report. The FHA Certified Appraisers are educated and certified to complete these reports while Appraisers who do not hold this certification are not. FHA Certified Appraisers are trained to understand the requirements of the FHA guidelines and will complete the report in accordance with those guidelines.

FHA Minimum Property Standards

A "marketable", livable home

The property must be similar to comparable sales within the market area. Comparable sales should have similar physical and legal characteristics when compared to the property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparables within the market area must be identical to the property, but they should be competitive and appeal to the same market participants that would also consider purchasing the subject property. The property must be complete and must have all that is required to meet safety, soundness and sanitary requirements for the homeowners.

Access to the property

The property must be accessible without having to access an adjoining property. If the property is not directly accessible via public ways, an easement must be associated with the property to provide direct access. This is something that should be obtained through your title company for the lender.

Safe access to the property

The property must be accessible for a person or vehicle from a public or private roadway with an all-weather surface. If the access street is privately owned, it must be maintained by a homeowners association or via agreement with other homeowners who owns property on that street.

Absence of hazards

FHA requires that a property be free of health and safety hazards. This may include pollution, radioactive materials, among other hazards. If hazards exist, evidence that the risks have been mitigated must be submitted for approval.

Property drainage

Properties must be graded so that water drains away from building perimeter walls..

Sound construction

Properties must be free of defective construction, poor workmanship, evidence of continuing building settlement, excessive dampness, leakage, decay, termites or any other condition that impairs its safety, sanitation or structural soundness.

Roofing

Properties must have a roof that is water tight, does not show evidence of excessive missing tiles, shingles or flashing or shows signs of leakage.

Room count

The property must have adequate living space, sleeping, cooking and dining. A refrigerator and stove are required appliances. The property must also have sanitary functions. These include but are limited to, bathrooms with showers and/or bathtubs, running water, toilets, etc.

Sanitation

A continuing supply of safe drinking water, safe sewage disposal, an adequate heat source that can generate heat throughout the property, indoor hot water and electricity are all required. These systems must be up to code. If the water is derived from a private water source, a water test will be required and must meet FHA standards for testing.

Utilities

Water, gas, electric and sewer services must be independent for the property with no dependence on another property. In a multi-unit building of two to four units where these services are shared among the unit owners, each unit must maintain a separate shut-off switch for it's own utilities.

Attics and crawl spaces

The attics and crawl spaces must have proper natural ventilation to reduce excess heat or moisture that can lead to structural decay or deterioration. Crawl spaces must be accessible and clear of debris.

Items requiring repair

FHA requires that repairs be made to items that would affect the soundness, safety and sanitation of the home. These items must be repaired prior to loan closing and include but are not limited to

- Inadequate access/egress from each bedroom to the exterior of the home. Also, a minimum of one window per room should open
- Leaking or worn out roofs
- Evidence of structural problems
- Defective interior/exterior paint surfaces in homes constructed prior to 1978
- Defective exterior paint surfaces in home constructed post 1978
- Missing/inoperable cook top or wall oven
- Exposed electrical outlet covers
- Broken glass
- Garage door, if electric, must open/close properly

FHA does not require the repair of cosmetic or minor defects, deferred maintenance and normal wear if they do not affect the safety, security or soundness of the property.

If you would like to know more about FHA's property standards or have specific questions, please contact a Loan Officer for assistance. A Certified Mortgage Professional (CMP) would be happy to help you!

This information has been provided by the Mortgage Bankers and Brokers Association of New Hampshire (MBBA-NH) in conjunction with the New Hampshire Union Leader. Any questions about the content should be directed to the MBBA-NH at 6 Garvin Road, Suite 106 Concord, NH 03301, email at info@mbba-nh.org, website mbbanh.org. Article written by: J.J Sawicki, CMP, AVP of Third Party Lending, Merrimack Mortgage Company NMLS#2561, Licensed by the New Hampshire Banking Department, 1045 Elm Street, Manchester NH. J. J. is on the Board of Governors and Education Chair for the Mortgage Bankers and Brokers Association of New Hampshire.