

# FHA APPRAISAL



## What are the FHA's Appraisal Requirements?

**Note:** With conventional financing, the lender orders an appraisal to determine the market value of the home. However, with an FHA loan, the appraisal serves two purposes. In addition to establishing the value of the property, an FHA appraisal determines whether the home meets the agency's minimum property requirements.

**Note:** An appraisal is a written assessment of a property performed during the mortgage approval process. To determine if the property is eligible for financing, the appraisal accomplishes the following:

- **Estimates the market value of the property.**  
FHA uses the estimate to confirm the home is worth the amount it is guaranteeing.
- **Evaluates the physical condition of the property.**  
The appraiser will complete a Valuation Conditions (VC) form, documenting any necessary repairs.
- **Assesses whether the property is free of hazards, odors, physical defects noise.**
- **Assesses the longevity of the property.**  
The expected life of the property must warrant having a long-term mortgage.
- **Analyzes the site of the property.**  
The appraiser will provide an analysis of the site, which includes the topography of the location, suitability of soil, easements, encroachments and the areas adjacent to the property.
- **Assesses the liability of the home.**  
The appraiser will analyze the above-ground and basement living areas, the overall structure and functionality of the property.

Generally, the appraiser will look for things that may have the following effects:

- adversely affect the physical condition of the property
- endanger the health and safety of occupants
- affect the livability and marketability of the home.

FHA-approved appraisers perform the assessments and follow specific guidelines when evaluating the property. During the appraisal, they will:

- Visually inspect the interior and exterior of the property and complete the VC form.
- Photograph the front, back and side of the property including any improvements that affect the value.



## Does the FHA Require Two Appraisals?

**Note:** There is a common misconception that FHA loans require two appraisals. Only one — which the lender orders — is required.

**Note:** Because the appraisal includes an inspection component, buyers are not required to do a separate inspection. However, keep in mind that an FHA appraisal is formortgage insurance purposesonly and does not guarantee the condition of the home. FHA suggests that buyers independently have an inspection done.



## How Long Does an FHA Appraisal Take and How Long Is It Good For?

**Note:** An FHA appraisal is valid for 120 days. Eligible borrowers may be able to receive a 30-day extension. The FHA appraisal process typically takes the same amount of time as a conventional mortgage. Here is the general timeline for an FHA home appraisal.

- a. Buyer and seller sign a sales contract
- b. Buyer submits the contract to the lender
- c. Lender orders the appraisal
- d. The appraiser does market research and performs the appraisal on-site
- e. The appraiser prepares and submits a report to the lender



## What Happens if the Appraiser Marks Something for "Further Repair"?

**Note:** The appraiser may note that items need to be corrected or may need further inspection. If so, they will mark it "as-repaired" meaning, the value of the home and eligibility for meeting the Minimum Property Requirements is conditionally based on the repair of the item.

**Note:** Some conditions are fixable and can easily be addressed with repairs, in which case, the home will be approved conditionally. But in other instances where significant repairs are necessary, the lender may reject the property.



## What Happens if FHA Appraisal Comes in Low?

**Note:** If your home is appraised for lower than the sales price, then FHA will not insure it. You have three options:

- a. The seller can reduce the asking price to reflect the market value
- b. You can make up the difference with your own funds or another form of financing. In this case, you'll be paying more for the home than it is worth.
- c. You can walk away. If the seller refuses to reduce the price of the home, and you cannot or don't want to come up with the difference, you can choose to walk away from the deal.



## FHA Inspection Checklist

**Note:** During the inspection, the appraiser will address multiple aspects of the property as required by FHA. These items make up the minimum eligibility requirements for an FHA-insured loan. Here's a checklist of what an appraiser will be looking for.

- a. The property must be a single real estate entity **x**
- b. The property must be free of hazards and conditions that pose a risk to the health and safety of the occupants or adversely affect the structural soundness and use of the home
- c. The septic system (if present) must be functional
- d. Property must be free of soil contaminants
- e. No underground storage tanks
- f. Site must adequately drain water away from the perimeter of the walls
- g. Must have an acceptable and sufficient water supply
- h. Must have safe and sanitary sewage disposal
- i. No evidence of termite infestation
- j. Property must have safe and adequate access to cars and pedestrians from a public or private street
- k. Presence of any defective conditions, including but not limited to, poor construction, leaks, decay (A property with any defected conditions is considered unacceptable until the defects are corrected.)
- l. Natural and adequate ventilation of attics and crawl spaces
- m. Foundations must be in good condition
- n. Property must have sufficient access to the crawl space
- o. Roof must be in good condition and prevent moisture from entering the home. (If re-roofing is needed, FHA requires specific guidelines.)
- p. Mechanical systems must be safe, protected from destructive elements, functional, durable and of decent quality
- q. Heating sources must be safe, functional and meet any local requirements
- r. Electricity must be available for lighting and any equipment used **x**
- s. Additional health and safety hazards, including but not limited to, broken windows, blocked doors or steps without a handrail
- t. No presence of lead-based paint

**Note:** The appraiser will note the condition and defects of each item, if applicable, as they complete the VC Form. The lender will use the results of the appraisal and inspection to determine the eligibility of the property.

In addition to the items the appraiser is responsible for observing, the lender has other eligibility criteria that they require:

- a. Adequate space must exist between buildings to allow the maintenance of the exterior walls
- b. If property has multiple units, each living unit must be able to be maintained separately
- c. If property has multiple units, Each living unit must have separate water, sewer, gas, electricity and shut-offs meters
- d. Access to the property must be provided without having to go on to another site