

FHA UPDATE

Charlotte Regional REALTOR[®] Association

March 2, 2017

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Pat Kelly

Pat Kelly is a certified residential appraiser with nearly 18 years of appraisal experience and has been teaching appraisal courses for well over 10 years. Pat simply is a great teacher who sincerely cares about the success of his students.



You can find Pat arriving early or staying late to work with a student who needs a little extra help in a particular area. He has the ability to weave his broad experience, real world application of appraisal concepts, and a strong understanding of the academic side of appraisal theory into an effective, enjoyable method of learning appraisal methodology and application. He is a master of using just the right real life example to give you that “Ah-ha” moment when the theory makes sense. Pat is well known for his ability to take a classroom of new students who have never taken an appraisal class and lead them through a successful trainee series to allow them to form the foundation for a successful career. Pat’s influence on the appraisal profession is immense and growing as he is now teaching a second generation of appraisers. So many trainee students have been recommended by former students. Pat has a state-wide following and a group of trainee students created a Facebook page titled Kelly’s Appraisal Scholars.

Mel Black

2016 Larry Outlaw Excellence in Education Award – NC Real Estate Education: 2016 Educator of the Year – NC Real Estate Commission. BrightPath’s lead instructor, Mel consistently earns rave reviews from students. He “knows his stuff” and has the unique ability to deliver it in an engaging, easy-to-understand manner.



Mel’s background (2 graduate degrees in education) and experience (15 years teaching in high school and college) add to his teaching ability to the real estate classroom. Mel’s other job is as an attorney at Mel Black Law. Having 11 years of combined experience as Director of the NC Appraisal board and as an Officers with the NC Real Estate Commission, Mel regularly handles matters before those agencies. He is also retained by companies, individuals and users of appraisal and brokerage services to advise on compliance matters and to answer questions on daily practice. Mel has co-authored a book on teaching real estate topics and most recently was acknowledged as a contributor to the Real Estate Commission’s “North Carolina Real Estate Manual 2011-2012 Edition” for revising the chapter on Real Estate Valuation.

BrightPath Education Services

Handling Issues With FHA Appraisers/Realtors/Lenders Closing The Communication Gap

As FHA financing has become the “product of choice” for many lenders. It appears that we are seeing more issues in regards to appraisers and lenders with the FHA home requirements. It is true that FHA/HUD has tightened the belt on some Minimum Property Requirements and Minimum Property Standards.

HUD is working to lower the risk on the collateral as it seems to increase the risk by requiring minimum down payment and credit approval criteria.

The good news is that it allows more potential buyers to be able to participate in the market, the downside that it eliminates a portion of the housing inventory due to deficiencies in the property.

We have a slight disconnect in the communication of property and inspection requirements that results in delayed closings, cancellation of closings and even spending months on a transaction only to “lose the deal” over a property condition.

Let’s work together to summarize a solution to borrower’s and in some case Realtors® being required to pay additional fees for multiple inspections by the Appraiser.

Property owners and property buyers for the most part have no idea what Minimum Property Requirements criteria is expected. Therefore, they are advised to let the appraiser come out and “do their thing” and then we will know what to do.

This is a less than perfect process, as sometimes the inspection can not even take place due to something as simple as the utilities not being on when the appraiser arrives.

Current FHA/USDA guidelines are provided in a document that is over 800 pages of fine print, known as HUD Handbook 4000.1.

We would like to break down FHA Guidelines in a summarized format.

3 main categories are given priority in this document.

- Safety (Occupants)
- Security (Occupants)
- Soundness (Structural Integrity)

As we walk through the process we will identify some “hot button” issues.

As the Realtor® prepares to list the property or make a decision on listing the property and determining if it is FHA insurable, observation of the property the three S criteria would

include obvious “readily observable” issues present on the property.

Safety: Flaking/Chipping Paint located on property built prior to January 1, 1979. Yes 1979. Although, Realtor contracts are very clear about lead based paint issues to 1978, FHA has determined that criteria for flaking/chipping include “all of 1978”.



OK, we are good with this one have the windows scraped and repainted and sent the appraiser back to the property for an inspection that typically is a minimum of \$100. The appraiser returns to find one issue cured and two new issues created.

The fresh paint was applied while the windows were closed and now the paint has dried and the windows will not open. FHA requires that the windows must open and close properly for safety issues to include the occupants have proper egress in case of fire, etc.

The second common issue is that the paint that was scraped is on the ground below the window or door. FHA requires that the chips be removed from the property.

Security requirements are that the doors and windows have functioning locks.

Additional safety issues that are common include “debris” in the crawl space. What is debris? It could be something as simple as construction debris from the original construction that may be wood (which may result in wood destroying insects), vinyl, paint cans, etc. gas powered tools are a safety issue (lawn mowers, chain saws, weed eaters) to name a few. The crawl space must be accessible to appraiser at time of inspection.



Attic area must be accessible to appraiser. Closet storage areas must allow appraiser to enter into the attic for at least a “head and shoulders” observation.



Appraiser's often arrive to find a scuttle attic access door that has been sealed or is not accessible due to shelving or personal property blocking the access, or a broken or inoperable drop stair.

All utilities must be on and functioning to allow the appraiser to check the functionality of the plumbing system, mechanical systems (HVAC) and determine if water pressure is adequate ...3-5 gallons per minute.



Appliances are not required to be present, but if present, must function properly.



The inspection goes beyond the dwelling. The appraiser is required to determine if the well and septic are functioning properly and are adequate distances from each other. (Well to septic drain field 100') Public water has no distance requirement.



Flaking paint and structural integrity issues extend to storage buildings, barns, fences swimming pools etc.,



No electrical lines must extend over dwelling, buildings or swimming pool.
Decking, porches and steps and stairs must include safety railing and a safety hand rail for steps/staircases. (Interior and Exterior)





Something as simple as improperly installed carpeting or vinyl floor coverings, or tree roots causing a concrete or asphalt drive to be considered a “trip hazard”. (Safety)



As most Realtors and Appraisers are not structural engineers, the requirement is to use “common sense approaches” of due diligence to note and photograph any “readily observable” issues of structural integrity problems, such as, foundation cracks/settlement.



Issues often come from water heaters being located in crawl and basement areas with no elevation from floor or ground by some type block/platform.





FHA Inspection Form

Property Address _____

Inspection Date _____ FHA Case # _____ Lender _____

(R) REQUIRED – Analysis/Testing/Repairs

(T) Testing Recommended

(L) Local Codes/Regulations

(NA) Not Acceptable

Detailed Comments/Photos/Limiting Conditions/Analysis required for all responses marked “YES”

1. **LEAD BASED PAINT HAZARD (R) (L)**

Construction prior to 1979, chipping, scaling, peeling or defective paint surfaces?

YES NO

2. **HEALTH/SAFETY ISSUES (L)**

Handrails/Stairs broken or missing?

YES NO

Functionally Inadequate/Blocked Entrances/Exits (Windows/Doors)?

YES NO

Absence of/Broken Exterior doors/windows?

YES NO

Active infestation organisms/wood destroying insects?

YES NO

Any issues NOT described above?

YES NO

3. **ROAD ACCESS (PRIVATE) (L)**

NOT Accessible by all-weather surface (gravel)?

YES NO

Property access by private drive or road?

YES NO

Property inaccessible by vehicle or foot?

YES NO

4. **DRAINAGE/GRADING (R)**

Does grading result in drainage toward structures?

YES NO

5. **SEWAGE/WATER SUPPLY SYSTEMS (L)**

Observable evidence of sewage system failure?

YES NO

No connection to public water/sewer?

YES NO

Compliance with HUD Guidelines in regard to distance between well/septic?

YES NO UNKNOWN

Compliance with HUD Guidelines distance between well/drain field?

YES NO UNKNOWN

Compliance with HUD Guidelines distance between well and property line?

YES NO UNKNOWN

NOTE: *Connection should be to public or community water/sewage system.*

Appraiser shall indicate if public water/sewer is available/feasible.

6. **SITE(L)**

Hazardous Materials on site?

YES NO

Towers - Dwelling/Related improvements/Structures located within easement.designed fall distance for overhead transmission lines, cell phone towers, TV cable, etc.?

YES NO

7. **CONTAMINATED SOIL & UNDERGROUND STORAGE TANKS (L)**

Is Subject in close proximity to landfills, dumps, hazardous/explosive sites?

YES NO

Surface evidence of sinking soil/slush pit?

YES NO

Observable evidence of leakage from underground/above ground storage tank?

YES NO

8. **OIL/GAS WELLS (L)**

Subject dwelling/improvements within 75 feet of operating oil/gas well?

YES NO

Active/Planned oil/gas drilling site within 300 feet of subject dwelling/improvements?

YES NO

Excessive hazard from fumes, smoke odors or offensive noises?

YES NO

9. **ROOFING**

Deterioration of materials?

YES NO

Flat or unobservable roof? (Snow/Leaf Covered)

YES NO

Evidence of leaking?

YES NO

Less than 2 years life expectancy remaining?

YES NO

Underwriter to determine if roofing inspection required based upon information provided by appraiser.

10. **ATTIC** – Complete inspection required by appraiser. Scuttle head/shoulder.

Inadequate Access?

YES NO

Evidence of water damage, previous fire damage, leaks, moisture, material deficiencies, structural issues?

11. **Towers** - Dwelling/Related improvements/Structures located within easement. ~~fall distance~~ for overhead transmission lines, cell phone towers, TV cable, etc.?
YES NO

12. **Appliances** – Determine if appliances are functioning. DW, Stove, Refrigerator

13. **FOUNDATION** – *Head & Shoulders inspection required (unless entry may damage property)*

14. **CRAWL SPACE – View in entirety (if possible) Head/Shoulders Minimum**

Inadequate ventilation?

YES NO

Standing water/excessive dampness or pooling?

YES NO

Propane fired furnace (NA)

YES NO

Damaged or unstable support beams?

YES NO

18” Minimum clearance earth to joist

YES NO

15. **BASEMENT**

Standing water against foundation/excessive dampness?

YES NO *If Yes, may affect furnace or water heater.*

Structural problems?

YES NO

Evidence of horizontal cracks/settlement or structural integrity issues?

YES NO

Lowest finished grade above 100 year flood plain?

YES NO

Sump pump connected to permanent wiring without extension cord?

YES NO

16. **ELECTRICAL SYSTEM (L)**

Switches/Outlets do NOT Work or spark/smoke?

YES NO

Exposed, frayed or unconnected wiring? **YES NO**

17. **PLUMBING SYSTEM (L)**

Decreased water pressure when multiple fixtures utilized?

YES NO

No hot water?

YES NO

Water heater does NOT have pressure relief/non-adjustable temperature valve?

YES NO

Plumbing fixtures (toilets, bathtubs, showers) do NOT work?

YES NO

18. **HEATING/CENTRAL AIR CONDITIONING SYSTEMS**

Deterioration of/damage to units?

YES NO

Unit does NOT turn on?

YES NO

NO warm/cool air is dispensed?

YES NO

Foul odors, smoke, strange noises?

YES NO

If utilities (gas, electric, water) are NOT turned on, Appraiser is required to mention that additional repairs may be needed when utilities are working?

19. Cabinets/Drawers

Permanently attached cabinets and drawers functioning properly?

YES NO

Condominiums must be on the FHA approved condominium list and be at a minimum 51% owner occupied.

Manufactured Housing must be taxed as real property, meet HUD definition of manufactured housing and discussion of modification or additions must be described in report.

ADDITIONAL NOTES/REMARKS:

