

Misconceptions on FHA & VA Property Condition Requirements

Many agents and home-buyers incorrectly assume that FHA and VA property condition requirements are much more strict than those for conventional loans. This has caused some agents to shy away from offers using FHA and VA financing. This could be causing many sellers to be passing over perfectly valid purchase offers. The truth is, FHA and VA loans are solid, government insured, and their appraisal requirements are basically the same as conventional financing requirements.

In the past, FHA and VA appraisals have been known for being more strict than conventional loans. But in December 2005, FHA changed their requirements making FHA property condition requirements almost identical to conventional requirements by using the same form, requiring only one HUD form in the appraisal and limiting the number of additional requirements needed to be fixed to only those that violated health and safety regulations.

“When this change in property condition requirements was made, FHA loan limits were too low in regard to home sales prices,” says Rochelle J. Cox, Sr. Loan Consultant at Broadview Mortgage Upland. “This means that FHA loans were not commonly used, and the change went unnoticed by many in the industry.”

The misconception that FHA and VA property condition requirements are more scrupulous than conventional requirements is common among home-buyers, home-sellers and some real estate agents, but the only major difference is the underwriting requirements for FHA and VA calls for the appraisers to look within the structure of the home for issues that violate health and safety regulations such as structural failure, hazardous materials, or faulty mechanical systems. Previously, appraisers were required to inspect many more prospective problem areas such as the septic tanks and water wells, but now examination of these areas is only needed if there is evidence that there have been previous issues with them.

Although FHA requires appraisers to report all deficiencies within the subject property, they allow lenders to choose which repairs need immediate action and which are considered merely cosmetic. And normally the underwriter will require the same health and safety conditions to be met regardless of the type of loan.

There may be a rise in the misconception that FHA and VA loans cause more issues than conventional financing due to many houses being damaged in the process of foreclosure. Previous homeowners have, in some cases, left the home with health and safety issues. This can be resolved by fixing the damage causing the health and safety issue prior to closing.



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