

## "RED FLAG" ITEMS ON FHA INSURED LOANS

- 1 - **Rolled Composition Roofing** May be acceptable if complies with local building authority.
- 2 - **Third Roof** If existing , may be acceptable if complies with local building authority. If two roofs exist, they must be removed before installation of a new layer.
- 3 - **Roof Condition** Appraiser must certify that the roof has at least two years remaining life or he must require a new roof. If the roof appears questionable, agent or homeowner should obtain roof certification from roofing contractor. Installation of composition shingle over wood shingle is not acceptable. Flat roofs require roof inspection from a roofing contractor.
- 4 - **Detached Garages and Outbuildings** All improvements on the property must be included in the pest report. All active infestation must be treated. Likewise, any item which may pose a threat to the health and safety of the occupants or to the property must be corrected. Minor repairs to outbuildings can sometimes be waived if these criteria are met and if the outbuilding has minimal value as determined by the appraiser. FHA feels that if the structure has no value, it should be removed.
- 5 - **Wood Decks** Wood decks with wood to earth contact or with minimal clearance from the dwelling can be a problem especially if they cannot be cleared by the pest company. Decks usually need to meet the same criteria as outbuildings. See #4 above.
- 6 - **Encroachment** Improvements that encroach on property lines must have an easement for maintenance purposes from the adjacent property owner. Some yard improvements may have to be excluded from value, removed, or moved if they encroach on the property lines or setbacks.
- 7 - **Mechanical Equipment** All mechanical, plumbing, and electrical equipment must be in good working order. To facilitate this requirement, the gas and electrical service should be on to allow the appraiser to make a thorough inspection. The equipment must have at least two years remaining life. Automatic garage door units must have an automatic stop/reverse safety feature.
- 8 - **Standing Water** The property will be rejected for FHA insured financing if there is standing water under the house. Additionally, the lot grading must slope away from the dwelling to prevent puddling.
- 9 - **Exterior Paint** Any portion of the dwelling with loose and scaling paint is required to be scraped and repainted. Wood exteriors are typically more of a problem than stucco.
- 10 - **Interior Paint** Other than holes which must be patched, interior paint is often considered a cosmetic item and not required to be repainted, however, if the house was built prior to 1978, the lender must provide information to the buyer on Lead Paint Poisoning.
- 11 - **Code Compliance** A Code Compliance inspection by the local building authorities may be required on room additions, conversions, or on apparent substandard improvements. Code Compliance is required in specially designated Code Compliance areas as determined by FHA.
- 12 - **Foundations** All homes must have a permanent, concrete, perimeter foundation. Brick foundations may be acceptable if in good condition.
- 13 - **Floor Furnaces** Often unacceptable unless the intake is in the floor and the output is in the wall. Buyer must sign acknowledgment of inherent dangers. Floor furnaces cannot be repaired or replaced; rather, they must be replaced with some other permanent source.
- 14 - **Wood Stoves** Cannot be accepted as the sole heat source. A separate, permanent, mechanical system must also be present.

15 - **Wall Air Conditioning Units** Unacceptable if installed in the firewall between the house and garage.

16 - **Electrical Service** Older fuse type service box is unacceptable unless it can be shown to be typical and adequate. In most cases, these must be updated to at least 100 Amp service with breaker switches.

17 - **Water Heater** Pressure relief valve and overflow pipe must be connected and properly drained. All water heaters must also have a double earthquake safety strap installed upon sale of the home or upon installation of a new water heater.

18 - **Concrete Flatwork** Walkways, porches, patios, and driveways must not have large cracks and uneven settling which would pose safety hazards or drainage problems.

19 - **Attic and Crawl Space** Adequate access must be provided to the appraiser so that the attic can be inspected for insulation, ventilation, substandard electrical or plumbing, water stains under the roof sheathing, structural considerations, termites, and dry rot. The crawl space under the home must be inspected for insulation, ventilation, substandard electrical or plumbing, standing water, structural considerations, termites, and dry rot.

20 - **Wells and Septic Systems** Private wells and septic systems always require inspection by the local Health Department or proper authority. Wells must be at least 50 feet from a septic tank, at least 100 feet from the septic tank's leach field, and at least 10 feet from the property line. The proximity of the neighbor's well, septic tank, and leach field must also be considered. Hookup to public water and sewer may be required if feasible. FHA has guidelines regarding this matter.

21 - **Manufactured Housing** These homes must have been built after 1976, must have HUD tags attached, and must have permanent foundations. The units cannot have been relocated from another site; only from the factory. The minimum size requirement is 400 square feet of living area.

22 - **Transfer Disclosure Statement** FHA requires that a copy of the TDS be provided to the appraiser at the time the appraisal is ordered. The appraiser must review the TDS prior to inspection of the property and the TDS must be attached to the appraisal report with a statement made by the appraiser that it has been reviewed.

23 - **Pest Inspections** Santa Ana HOC requires a pest clearance on homes over 1-year old.

24 - **Home Inspections** Also referred to as "Whole House Inspections" by many Realtors, these inspections are rapidly becoming very popular. The salesperson is now required to have a Form HUD-92564-CN "For Your Protection: Get a Home Inspection" signed by a potential buyer before a purchase contract is signed. The buyer must be made aware of the right to obtain a Home Inspection via this form. The buyer may arrange to obtain the inspection prior to signing the contract, or may obtain the inspection after signing the contract as long as the sale of the home depends on the inspection. The home inspection is also important and helpful to the appraiser. If the report is available, it can often assist the appraiser in making favorable determinations on otherwise unfavorable repair requirements.

25 - **Notice To The Homebuyer** Form HUD-92564-HS (aka Homebuyer Summary) This is a new form filled out by the appraiser, which outlines all repair requirements documented on the VC Sheets (Form HUD-92564-VC). This form must then be delivered to the homebuyer at least 5 days prior to loan closing. The Homebuyer Summary is for the Homebuyer; the VC Sheets are for the Lender.