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FHA APPRAISAL VS HOME INSPECTION

What is the difference between an FHA appraisal and a home inspection?

When Congress created the Federal Housing Administration, part of the mission was to ensure that Americans had access to safe housing. For this reason, any home purchased using an FHA loan must meet minimum property standards. FHA appraisers check that a property meets these standards when performing their appraisal. An inspection performed by a home inspector is quite different. It is a complete inspection of the home, followed by a detailed report of the home's current condition.

FHA Appraisals

A licensed appraiser approved by the FHA performs FHA appraisals. The primary purpose of an appraisal is to establish the fair market value of a home so that the lender knows the home is worth at least the purchase price. An appraiser does not look at the home from top to bottom. They do a general inspection only, but mainly focuses on the size of the home and the purchase price of comparable homes in the area which have sold within the prior six months. Their secondary concern is the condition of the home in reference to very specific issues.

FHA Standards

FHA-insured properties must be safe, sanitary and structurally sound to meet minimum property standards set out in FHA guidelines. If a home does not meet FHA minimum property standards, the FHA will not supply mortgage insurance for the loan. Since the loan is contingent on the FHA supplying insurance, the lender will not approve the mortgage until the seller brings the home up to FHA standards, the appraiser reinspects it and it passes. Unless a home has a major issue that makes it unsafe, unsound or unsanitary, the FHA is unconcerned with the condition of the house. (see specific FHA standards section below)

Home Inspectors

A home inspector has an obligation to inform his customer, the potential buyer, everything about the condition of the home, from simple things like ripped carpet or leaky faucets to major roofing or plumbing issues. Just because minor issues may not affect the safety of a home it does not mean they are not costly to repair. A potential buyer could find out from an inspection report that the home is not in the condition she believed it was in, and she may change her mind about continuing with the purchase. For this reason, many home purchase contracts contain special language that makes the contract contingent on the findings of a home inspection and allow for negotiation of repair costs or purchase price.

Performance

A home inspector also inspects major systems like heating and air systems or hot water heaters and appliances for their condition. To do this, a home inspector goes up on the roof, crawls through crawl-spaces and goes into attic spaces. If an inspector finds that the roof of a home or an air compressor is not performing to a minimum standard they note it in a written report. At that point, the potential buyer could decide not to purchase the home at the negotiated price.

Specific FHA Standards

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In December 2005 FHA made a number of changes to their requirements, allowing for "As Is" appraisals, even if minor defects to the property condition exist. FHA appraisals occurring on or after January 1, 2006 now only require repairs for conditions that rise above cosmetic defects, minor defects, or normal wear and tear. Appraisers must report ALL deficiencies but lenders can use professional judgment and prudent underwriting practices to determine when a property's condition is a threat to safety or jeopardizes structural integrity.

This is a list of examples that no longer require automatic repair to existing properties, but are not limited to:

- Missing handrails
- Cracked or damaged exit doors that are otherwise operable
- Cracked window glass
- Defective paint surfaces in homes built after 1978
- Minor plumbing leaks such as faucets
- Worn or soiled floor coverings or finish
- Rotten or worn out counter tops
- Damaged plaster or sheet rock or other wall and ceiling material on homes constructed after 1978
- Poor workmanship
- Trip hazards such as sidewalks or badly installed carpet
- Lack of all-weather driveway surface

Examples of conditions that may be of risk to health and safety of occupants or soundness of property that continues to require automatic repair, but are not limited to:

- Inadequate access/egress from bedrooms to exterior of home
- Leaking or worn out roofs
- Structural problems such as foundation damage caused by settlement
- Defective paint surfaces in homes built before 1978
- Defective exterior paint on homes built after 1978 where finish is unprotected

FHA also no longer mandates automatic inspections for the following items and or conditions in existing properties:

- Wood Destroying insects: only required if there is evidence of active infestation or appraiser states a need for one, mandated by state or local jurisdiction, or at lenders discretion.
- Well (individual water system): It is required if mandated by state/local jurisdiction, if suspect of contamination or requires purification system, or when there is evidence of: pipe corrosion, intensive agriculture, coal mining/gas drilling, dump, junk yard, land fill, gas station or dry cleaning operation within 1/4 mile, or if there is a bad smell, taste, or appearance
- Septic: only required if evidence of failure, mandate, or lenders discretion
- Flat or unobservable roof

Examples of conditions that still require automatic inspection, but not limited to:

Standing water against foundation, or excessively wet basement, Hazardous materials on site, Faulty mechanical systems: electrical, plumbing, or heating, Structural failure: settlement or bulging foundation walls