Modernizing and Strengthening FHA's Minimum Property Requirements (MPR)

Clean Handbook Style Version (Draft) with Summary

Minimum Property Requirements (MPR) are designed to ensure that all FHA-insured mortgages are collateralized by properties that are safe, sound, and secure, thereby protecting borrowers and the fiscal integrity of the Mutual Mortgage Insurance Fund (MMIF). On May 29, 2026, FHA issued a Request for Information (RFI) in the Federal Register (FR-6609-N-01) seeking public input regarding the benefits and barriers of its Minimum Property Requirements (MPR) as they apply to FHA Single Family Mortgage Programs. The goal of the RFI was to help inform future policy modernization that supports sustainable homeownership opportunities. The feedback provided practical recommendations to strengthen access to safe and sound housing while improving program access, operational efficiencies, affordability and stakeholder experience.

FHA recognizes the benefit of modernizing and streamlining its MPRs to balance risk and operational burden. This document includes updates to FHA MPRs to reorganize, refine, and align policies, as practicable, with industry practices and transform the legacy MPR references into more direct and intuitive descriptions. These updates are incorporated into this draft version of the FHA Single Family Housing Policy Handbook (Handbook 4000.1). The updates are made on the version of the Handbook dated 11/26/2025 and include only the sections and section headings necessary to maintain the context of the changes.

A new section II.D includes content that was primarily moved from other sections including II.A, II.B, and the renumbered II.E. The new section consolidates redundant content related to Property Eligibility and Acceptability.

Summary of Changes

The changes are grouped and ordered as follows:

New Content	Modified Content	Technical Edits	Moved Content	Removed Content

New Content: This table lists newly added sections that include new content.			
Section	**Heading Title**	**Updates**	**Rationale**
II.D	Property Eligibility and Acceptability for Title II Forward and Reverse Mortgages	Property Eligibility and Acceptability Criteria for Title II Forward and Reverse Mortgages consolidates all of these requirements across programs into a new hierarchy structure.	A new section is updated in its entirety. Reorganization provides a more concise way to identify property related policies.

New Content: This table lists newly added sections that include new content.

Section	Heading Title	Updates	Rationale
II.D.2.a.iii(B)	Property Condition and Quality of Construction	Added GSE Condition and Quality Rating standards for property acceptability based on Freddie Mac policy with examples and applicability to post-closing escrow.	GSE condition ratings allow for a holistic view of the property condition to determine property acceptability. Condition ratings range from C1-C6. A minimum of C4 is required for FHA acceptability. Quality ratings range from Q1-Q6 with a minimum required quality rating of Q5.
II.E.3.a.i	Appraisal Condition and Quality of Construction Ratings and Level of Updating Definitions	Added GSE Condition and Quality Rating definitions for appraisers. These ratings are based on the Uniform Appraisal Dataset (UAD) 3.6 and include the additional guidance aligned with Freddie Mac policy.	GSE condition rating definitions include examples and guidance on the application of these ratings.
II.D.2.a.iii(F)	Highest and Best Use	Added guidance clarifying that the highest and best use is as improved or as proposed per plans and specification. Also added Appraiser Protocols with Standard and Required Analysis and Reporting.	Aligns with GSEs. Expanded policy, plus adding Appraisal Protocols Standard, and Required Analysis and Reporting provides guidance and clarification to resolve an existing policy gap.

Modified Content: This table includes existing sections where substantive policy has been modified.

Section	Heading Title	Updates	Rationale
II.D.2.a.iii(D)	Lead-Based Paint	Modified to reduce the scope of required repair	Removes ancillary structure and improvements that

Modified Content: This table includes existing sections where substantive policy has been modified.			
Section	**Heading Title**	**Updates**	**Rationale**
		from the entire property to the dwelling structure.	generate significant repairs with limited value added.
II.E.3.k.i	Lead-Based Paint	Modifies appraiser guidance to remove ancillary property improvements.	Provides a more practical approach that aligns with the industry.
II.D.2.c.i	Foundation Systems	Revised the skirting requirement to adopt the HUD model manufactured housing installation standard.	The current standard is outdated, costly, and frequently cited required repair. This new standard aligns with modern industry practice and materials.
II.D.1.c.vii	Manufactured Housing	Replaces the PFGMH with the HUD model manufactured housing installation standard.	The current standard is outdated, costly and frequently cited required repair. This new standard aligns with modern industry practice and materials.
II.D.1.c.vii(C)(2)	Certification of Structural Modifications	Replaces the required PFGMH engineer certification with the Certification of Structural Modifications.	Removes mandatory foundation inspection and replaces with an observation-based standard that aligns with the GSEs.
II.E.3.b.v	Nonstandard House Construction	Adopts a more flexible approach for comparable selection and support of marketability.	This aligns with the VA and GSE approach to unique housing
II.D.2.a.ii(F)(1)	Public Water Supply System	Removes requirement for Mortgagee to confirm connection to public or community water system whenever feasible at a reasonable cost for existing properties. Added: If public water is available,	Aligns FHA with the industry and removes an operationally challenging requirement which potentially removes

Modified Content: This table includes existing sections where substantive policy has been modified.

Section	Heading Title	Updates	Rationale
		connection is required when mandated by local authority.	a barrier to affordable housing.
II.D.2.a.ii(F)(3)	Requirements for Well Water Testing	Removes minimum distances between wells and sources of pollution for existing properties.	Aligns FHA with the industry and relies on the local authority to regulate well water location.
II.D.2.a.ii(J)	Sewage System	Removes requirement for Mortgagee to confirm connection to public or community sewage disposal system whenever feasible at a reasonable cost for existing properties. Added: If public sewer is available, connection is required when mandated by local authority.	Aligns FHA with the industry. Removes an operationally challenging requirement which removes a barrier to affordable housing.
II.D.2.a.ii(L)	Swimming Pools	Resets the mortgagee responsibility from compliance with all local ordinances to ensure that enclosures meet local requirements.	Aligns with VA and provides a more practical standard which is more operationally reasonable.
II.E.3.d.	Utilities – Mechanical Components	Modifies appraiser guidance to remove requirement to have utilities turned on and operated.	Aligns with VA and industry standards to an observation-based approach. Provides a more practical standard which is operationally reasonable.

Technical Edits: This table lists changes that are considered minor or technical edits. These types of changes include instances where previous references to Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) have been updated to Property Eligibility and Acceptability Criteria.

Section	Heading Title	Updates
II.A.1.a.iii(B)(10)	Ordering an Update to an Appraisal	Replaced MPR and MPS reference with Property Acceptability Criteria.

Technical Edits: This table lists changes that are considered minor or technical edits. These types of changes include instances where previous references to Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) have been updated to Property Eligibility and Acceptability Criteria.

Section	Heading Title	Updates
II.A.1.b.iv	Property Valuation	Replaced MPS reference with Property Acceptability Criteria.
II.A.1.b.iv(C)	Verifying Property Acceptability Criteria	Replaced MPS and MPR reference with Property Acceptability Criteria.
II.A.2.a.v(A)	Appraiser Required Repairs	Replaced MPR reference with Property Acceptability Criteria.
II.A.3	Underwriting the Property	Added reference to Property Eligibility and Acceptability Criteria. Added link to Appraiser and Property Requirements for Title II Forward and Reverse Mortgages. Removed a Property Acceptability Criteria paragraph that contained reference to MPR and MPS.
II.A.3.a	Defective Conditions	Clarifying edit, removed requirement that Mortgagee may only approve Property after Mortgagee confirms all defects reported by Appraiser have been corrected.
II.A.8.a.xiv(B)	Required Documentation for Standard 203(k) Only	Replaced MPS and MPR reference with Property Acceptability Criteria.
II.A.8.i.vi	Property Considerations	Replaced MPR and MPS reference. Added: Property Eligibility and Acceptability. Added: Property Eligibility and Acceptability and Property Requirements for Title II Forward and Reverse Mortgages.
II.A.9.b.ii	Consultant Inspection	Replaced MPR and MPS reference with Property Acceptability Criteria.
II.B.2.b.iii(B)	Property Valuation	Replaced MPR and MPS reference with Property Acceptability Criteria.
II.B.4.a.	Property Acceptability Criteria	Removed MPR and MPS reference
II.B.4.a.ii(B)	Minimum Required Repairs	Replaced MPR and MPS reference
II.B.6.a.xiv(A)(2)(a)	Seasoning Requirements for Existing Non-HECM Liens – Standard	Replaced MPR and MPS reference with Property Acceptability Criteria.

Technical Edits: This table lists changes that are considered minor or technical edits. These types of changes include instances where previous references to Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) have been updated to Property Eligibility and Acceptability Criteria.

Section	Heading Title	Updates
II.B.8.a.vi(D)	Property Considerations	Replaced MPR and MPS reference with Property Acceptability Criteria.
II.B.8.a.vii	Completion of Construction	Replaced MPR and MPS reference with Property Acceptability Criteria.
II.E.	Appraiser and Appraisal Requirements for Title II Forward and Reverse Mortgages	Revised Appraiser and Property Requirements to Appraiser and Appraisal Replaced MPR reference
II.E.2	General Appraiser Requirements	Replaced MPR and MPS reference with Property Acceptability Criteria.
II.E.3.a.ii(B)	Defective Conditions Requiring Repair	Removes Cost to cure
II.E.3.b	Property Acceptability Criteria	Replaced MPR and MPS reference with Property Acceptability Criteria.
II.D.1.a.vi(B)	Nonresidential Use of Property (Mixed Use)	Added clarifying language that property must be residential in nature.
II.D.1.a.ii	Property Location	Merged with forward and HECM with consistent standard.

Moved Content: This table lists content that was moved to reorganize Property Eligibility and Acceptability Criteria.

Section	Heading Title	Prior Location in Handbook 17
II.D.1.	Property Eligibility	II.A.1.b.iv
II.D.1.a.	General Property Eligibility	II.A.1.b.iv(A)
II.D.1.a.ii	Property Location	II.B.2.b.iii(A)(2)
II.D.1.a.iii(A)	Real Estate Entity	II.D.3.b.i(A)
II.D.1.a.iv	Property Rights	II.D.3.b.i(B)
II.D.1.a.v	Leasehold Interest	II.D.3.b.i(D)
II.D.1.a.vi.(B)	Nonresidential Use of Property (Mixed Use) (previously Mixed Use of Property)	II.A.1.b.iv(A)(5) II.B.2.b.iii(A)(5) II.E.3.b.ii(B)
II.D.1.a.vii	Special Flood Hazard Areas	II.A.1.b.iv(A)(1) II.B.2.b.iii(A)(4)

Moved Content: This table lists content that was moved to reorganize Property Eligibility and Acceptability Criteria.

Section	**Heading Title**	**Prior Location in Handbook 17**
II.D.1.a.viii	Seller Must Be Owner of Record	II.A.1.b.iv(A)(2)
II.D.1.a.ix	Restrictions on Property Flipping	II.A.1.b.iv(A)(3)
II.D.1.a.x	Restriction on Investment Properties for Hotel and Transient Use	II.A.1.b.iv(A)(4)
II.D.1.a.xi	Property Assessed Clean Energy	II.A.1.b.iv(A)(6) II.B.2.b.iii(A)(7)
II.D.1.a.xii	Dwelling Unit Limitation	II.A.1.b.iv(A)(7)
II.D.1.b.i	Lava Zones	II.D.3.b.iv(K)
II.D.1.c	Property Type Eligibility	II.A.1.b.iv(B)
II.D.2.a.ii(A)	Encroachment	II.A.3.a.ii(A) II.B.4.a.ii(B)(1)
II.D.2.a.ii(B)	Access to Property	II.A.3.a.ii.(C) II.B.4.a.ii.B(3) II.D.3.b.iv(A)
II.D.2.a.ii(C)	Onsite Hazards and Nuisances	II.A.3.a.ii(D) II.B.4.a.ii.(B)(4) II.D.3.b.iv(B)
II.D.2.a.ii(C)	Onsite Hazards and Nuisances (previously Overhead Electric Power)	II.A.3.a.ii(B) II.B.4.a.ii(B)(2) II.D.3.b.iii(C)(5)
II.D.2.a.ii(C)	Onsite Hazards and Nuisances (previously Abandoned Gas and Oil Well)	II.A.3.a.ii(E) II.B.4.a.ii(B)(5)
II.D.2.a.ii(D)	Environmental	II.A.3.a.ii(I) II.A.8.i.vii(A)(1) II.B.4.a.ii(B)(9)
II.D.2.a.ii(E)	Utility Services	II.A.3.a.ii(M)
II.D.2.a.ii(F)	Water Supply Systems	II.A.3.a.ii(N)
II.D.2.a.ii(G)	Shared Wells	II.A.3.a.ii(N)(3)
II.D.2.a.ii(H) II.D.2.a.ii(I)	Individual Residential Water Purification Systems Required Documentation	II.A.3.a.ii.(O)
II.D.2.a.ii(J)	Sewage System	II.A.3.a.ii(P)
II.D.2.a.ii(K)	Airport Hazards	II.A.3.a.ii(R)
II.D.2.a.ii(L)	Swimming Pools	II.A.3.a.ii(G) II.B.4.a.ii.B(7)
II.D.2.a.iii(A)	Requirements for Living Unit	II.A.3.a.ii(F)
II.D.2.a.iii(C)	Structural Conditions	II.A.3.a.ii(H)
II.D.2.a.iii(D)	Lead-Based Paint	II.A.3.a.ii(J)
II.D.2.a.iii(E)	Termites	II.A.3.a.ii(Q) II.B.4.a.ii.(B)(18) II.D.3.m.iii

Moved Content: This table lists content that was moved to reorganize Property Eligibility and Acceptability Criteria.		
Section	**Heading Title**	**Prior Location in Handbook 17**
II.A.8.i.vi	Property Considerations	II.A.8.i.vi II.B.8.a.vi(D)
II.D.2.a.ii	Site Considerations	IIII.B.8.a.vi(E)(1)
II.D.2.b.iv	Completion of Construction	II.B.8.a.vii
II.B.8.a.vi(E)	Sales Comparison Approach: Comparable Selection	II.A.8.i.vii(B)
II.B.4.a.i	Definitions	II.B.2.b.iii(A)(1)
II.D.1.a	General Property Eligibility	II.A.1.b.iv(A)

Removed Content: This table displays content and sections that were removed, including those which have been incorporated within another standard.		
Section	**Heading Title**	**Rationale**
II.A.3.a.ii(F) II.B.4.a.ii(B)(6) II.D.3.d II.D.3.f	Minimum Requirements for Living Unit Minimum Requirements for Living Unit Appliances Utilities – Mechanical Components	Removed the observation requirement and standards for kitchen appliances. Aligns with VA and GSEs. Requirements were an unnecessary burden and did not impact criteria that all homes be safe, sound and secure.
II.A.3.a.ii.(K) II.B.4.a.ii(B)(12)	Methamphetamine Contamination	Incorporated under a broader standard - Onsite Hazards and Nuisances
II.B.4.a.ii(B)(11)	Defective Exterior Paint Surfaces	Eliminated unnecessary repair requirement and defers to general standards of structural integrity and UAD condition ratings to determine acceptability.
II.D.2.a.iii(B)	Heating and Cooling	Eliminated as unnecessary due to the guidance in the UAD condition rating
II.D.3.b.i(C)	Planned Unit Development	Eliminated as unnecessary since FHA no longer requires approval of PUDs
II.D.3.b.ii(A)	Party or Lot Line Wall	Eliminated as unnecessary due to the guidance in the UAD condition rating
II.D.3.b.iii(C)(4)	Proximity to High Pressure Gas Lines	Incorporated under a broader standard – Environmental
II.D.3.b.iii(C)(5)	Overhead Electric Power Transmission and Local Distribution Lines	Incorporated under a broader standard – Onsite Hazards and Nuisances

Removed Content: This table displays content and sections that were removed, including those which have been incorporated within another standard.		
Section	**Heading Title**	**Rationale**
II.D.3.b.iii(C)(7)	Stationary Storage Tanks	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.iv(C)	Topography	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.iv(D)	Grading and Drainage	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.iv(E)	Suitability of Soil	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.iv(F)	Land Subsidence and Sinkholes	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.iv(G)	Oil or Gas Wells	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.iv(H)	Slush Pits	Incorporated under a broader standard – Environmental
II.D.3.b.iv(M)	Soil Contamination	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.iv(N)	Residential Underground Storage Tanks	Incorporated under a broader standard – Onsite Hazards and Nuisances
II.D.3.b.vi	Excess and Surplus Land	Aligns with VA. Replaced outdated policy with Real Estate Entity, Multiple Parcels
II.D.3.b.viii	Characteristics of Property Improvements	Removed header Characteristics of Property Improvements and kept Requirements for Living Unit
II.D.3.g.	Roof Covering	Eliminated as unnecessary due to the guidance in the UAD condition rating
II.D.3.j.	Attic Observation Requirements	Aligns with VA and GSEs. Removes specific requirement for Appraiser to complete an attic observation. Incorporated under broader standard that Appraiser must identify readily observable defective conditions.
II.D.3.l	Crawl Space Observation Requirements	Aligns with VA and GSEs. Removes specific requirement for Appraiser to complete a crawl space observation. Incorporated under broader standard that Appraiser must identify readily observable defective conditions.
II.D.5.e	Perimeter Enclosure	Unnecessary as the key requirement of proper enclosure has been incorporated to the Manufactured Housing Property Acceptability foundation guidance.

HUD Handbook 4000.1
FHA Single Family Housing Policy Handbook

USER QUICK GUIDE

Below are some helpful tips for using HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1):

1. Handbook 4000.1 is organized in the sequence of a life cycle of a mortgage.
2. Effective dates are shown at the end of heading titles, at the 4th level (e.g., I.A.1.a) in parentheses.
3. Yellow highlighted text indicates the most recent updates to Handbook 4000.1.
4. Capitalization of words in Handbook 4000.1 generally denotes terms that are defined in the Glossary.
5. Hyperlinks are included in Handbook 4000.1 for easy navigation to a referenced section. Hyperlinks are indicated by blue, underlined text. Users can jump to the hyperlinked reference by clicking on the text. To navigate back to the hyperlink last used, click ALT+←.
6. Use Ctrl+F to search on words or phrases.

FHA Single Family Housing Policy Handbook
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(6) Ordering Appraisals

(7) Appraisal Effective Date

(8) Transferring Existing Appraisals

(9) Ordering Second Appraisal

(10) Ordering an Update to an Appraisal (changes in this section)

The Mortgagee may only order an update if (1) it is a Mortgagee listed as an intended user of the original appraisal or (2) it has received permission from the original client and the Appraiser. The Appraiser incorporates the original appraisal report being updated by attachment rather than by reference per Advisory Opinion 3 of USPAP.

The Mortgagee may use an appraisal update only if:

- it is performed by an FHA Appraiser who is currently in good standing on the FHA Appraiser Roster;

  - if a substitute Appraiser is used due to the lack of the original Appraiser availability, the substitute Appraiser must state they concur with the analysis and conclusions in the original appraisal report, and the Mortgagee must document in the case binder why the original Appraiser was not used;
- the Property has not declined in value;
- the building improvements that contribute value to the Property can be observed from the street or a public way;
- the Property meets Property Acceptability Criteria based on the original appraisal conditions;
- the appraisal update was performed by the Appraiser within one year from the effective date of the initial appraisal being updated; and
- the appraisal update is performed before the Disbursement Date.

(11) Appraisal Delivery – Electronic Appraisal Delivery (03/14/2022)

b. General Mortgage Insurance Eligibility (06/27/2025) (changes under this section)

i. Mortgage Purpose

ii. Borrower Eligibility

iii. Occupancy Types

iv. Property Valuation (changes in this section)

The Mortgagee is responsible for obtaining an appraisal to verify the value of the Property and the Property's compliance with Property Acceptability Criteria.

(A) Integrity of Valuation Process: Communications with Mortgagees

(B) Communications with Third Parties

(C) Verifying Property Acceptability Criteria (changes in this section)

As the on-site representative for the Mortgagee, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria.

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with Property Acceptability Criteria.

v. Legal Restrictions on Conveyance (Free Assumability)

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iv. Calculating Maximum Mortgage Amounts on Purchases

v. Additions to the Mortgage Amount for Repair and Improvement

(A) Appraiser Required Repairs (changes in this section)

A Mortgagee may add repair costs to the sales price before calculating the mortgage amount if:

- the repairs are required by the Appraiser to meet Property Acceptability Criteria;
- the repairs are paid for by the Borrower; and
- the sales contract or addendum identifies the Borrower as the party responsible for payment and completion of the repairs.

The maximum amount of repair costs that may be added to the sales price is the lesser of:

- the amount by which the value of the Property exceeds the sales price;
- the Appraiser's estimate of repairs; or
- the amount of the contractor's bid.

(B) Energy-Related Weatherization Repairs and Improvements

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b. Loan-to-Value Limits (02/16/2021)

c. Required Investment (09/14/2015)

d. Maximum Mortgage Term (09/14/2015)

e. Mortgage Insurance Premiums (09/14/2015)

3. Underwriting the Property (changes in this section)

The Mortgagee must underwrite the completed appraisal report to determine if the Property provides sufficient collateral for the FHA-insured Mortgage. The appraisal and Property must comply with the requirements in Property Eligibility and Acceptability Criteria and Appraiser and Property Requirements for Title II Forward and Reverse Mortgages. The appraisal must be reported in accordance with Acceptable Reporting Forms and Protocols.

a. Defective Conditions (changes in this section)

The Mortgagee must evaluate the appraisal in accordance with the requirements for Defective Conditions. When defective conditions exist and correction is not feasible, the Mortgagee must reject the Property.

b. Required Repairs (changes in this section)

When the appraisal report or inspection from a qualified entity indicates that repairs are required to make the Property meet Property Acceptability Criteria, the Mortgagee must determine which repairs must be made for a Property to be eligible for FHA-insured financing.

If repairs for Existing Construction cannot be completed prior to closing, the Mortgagee may establish an escrow account in accordance with Repair Completion Escrow Requirements.

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x. Maximum Mortgage Amount for Refinance

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xiii. Mortgage Insurance Premium

xiv. Underwriting

(A) Required Documentation Standard 203(k) and Limited 203(k)

(B) Required Documentation for Standard 203(k) Only

(1) Consultant Final Work Write-Up and Cost Estimate (changes in this section)

The Mortgagee must obtain the final Work Write-Up and Cost Estimate from the Consultant. The final Work Write-Up must include all required repairs and improvements to meet Property Acceptability Criteria and the Borrower's electives.

The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

(2) Architectural Exhibits

(3) Consultant/Borrower Agreement

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New Construction must meet Property Eligibility and Acceptability and Appraiser and Property Requirements for Title II Forward and Reverse Mortgages.

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b. Consultant Duties (04/18/2023) (changes under this section)

i. Feasibility Study

ii. Consultant Inspection (changes in this section)

The Consultant must personally conduct an on-site property inspection to ensure:

- there are no rodents, dry rot, termites and other infestation on the Property;
- there are no defects that will affect the health and safety of the occupants;
- there exist adequate structural, heating, plumbing, electrical and roofing systems; and
- there are upgrades to the Structure's thermal protection (when necessary).

The Consultant must prepare a report on the current condition of the Property that categorically examines the Structure utilizing the 35 point checklist. The report must address any deficiencies that exist and certify the condition of all major systems: electrical, plumbing, heating, roofing and structural.

The Consultant must determine the repairs and improvements that are required to meet the Property Acceptability Criteria and local requirements.

B. TITLE II INSURED HOUSING PROGRAMS REVERSE MORTGAGES

1. Origination/Counseling Requirements

2. Origination/Processing

a. Applications and Disclosures (03/19/2025)

b. General HECM Insurance Eligibility (05/25/2025) (changes under this section)

i. HECM Purpose

ii. Borrower Eligibility

iii. Property Eligibility and Acceptability Criteria (changes in this section)

The Property must meet FHA's definition of a HECM Property.

In order to obtain FHA-insured financing, the Property must comply requirements in Property Eligibility and Acceptability and Appraiser and Property Requirements for Title II Forward and Reverse Mortgages and must meet the eligibility criteria in this section.

(A) General Property Eligibility

(1) Hazard Insurance

The Borrower must insure all improvements on the HECM Property, whether in existence at the time of origination or subsequently erected, against any hazards, casualties, and contingencies, including fire and flood, for which the Mortgagee requires insurance. Hazard Insurance must be maintained in the amount and for the period of time that is necessary to protect the Mortgagee's investment. Refer to the Condominium product sheet of this section of Handbook 4000.1 for additional insurance requirements.

(2) Homeowners' and Condominium Associations

For Properties that are located within a Homeowners' Association (HOA) or Condominium Association, the Mortgagee must conduct a review of the recorded Declaration and/or recorded Covenants, Conditions, and Restrictions (CC&R) which are in place for the association. When conducting the review, the Mortgagee must determine whether the recorded Declaration and/or CC&Rs require prior approval by the association of any non-purchase money mortgage that will encumber the Property. In those situations where such a requirement exists, the Mortgagee must obtain the approval of the association in writing prior to origination of the HECM. Documentation concerning this approval must be maintained by the Mortgagee and made available to HUD upon request.

(B) Property Valuation (changes in this section)

The Mortgagee is responsible for obtaining an appraisal to verify the value of the Property and the Property's compliance with Property Acceptability Criteria.

(1) Integrity of Valuation Process: Communications with Mortgagees

(2) Communications with Third Parties

(3) Verifying Property Acceptability Criteria (changes in this section)

As the onsite representative for the Mortgagee, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria.

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with Property Acceptability Criteria.

iv. Legal Restrictions on Conveyance (Free Assumability)

3. Allowable Mortgage Parameters

4. Underwriting the Property (changes in this section)

The Mortgagee must underwrite the completed appraisal report to determine if the Property provides sufficient collateral for the FHA-insured HECM.

a. Property Acceptability Criteria (04/10/2025) (changes in this section)

i. Definitions

HECM Property refers to a Property that is either Existing Construction or New Construction which will serve as collateral for the HECM.

ii. Standard

The Mortgagee must evaluate the appraisal and any supporting documentation to determine if the Property complies with Property Acceptability Criteria.

(A) Defective Conditions

The Mortgagee must evaluate the appraisal in accordance with the requirements for defective conditions. When defective conditions exist and correction is not feasible, the Mortgagee must reject the Property. The Mortgagee may only approve a Property after the Mortgagee confirms that all defects reported by the Appraiser have been corrected or a Repair Set-Aside is established in accordance with HECM Repair Set-Aside Requirements.

(1) Repair Requirements

The Mortgagee must determine which repairs must be made for a HECM Property to be eligible for an FHA-insured HECM.

(B) Minimum Required Repairs (changes in this section)

When the appraisal report or inspection from a qualified entity indicates that repairs are required to make the Property meet Property Acceptability Criteria, the Mortgagee must comply with Repair Requirements. Where major property deficiencies threaten the health and safety of the homeowner and/or jeopardize the soundness and security of the Property, all repairs must be completed prior to closing.

If repairs for the HECM Property can be completed after closing, the Mortgagee may establish a Set-Aside account in accordance with HECM Repair Set-Aside Requirements.

(1) Estimate of Required Repairs

An estimate of the cost of required repairs must be provided by the Appraiser. If the Appraiser cannot determine that a Property meets Property Acceptability Criteria, an inspection by a qualified individual or entity may be required. For more information, see Inspection by a Qualified Individual or Entity.

The Borrower may obtain the services of a general contractor to complete the repairs.

(2) Repair Set-Aside Requirements

(a) Definition

Repair Set-Aside refers to an amount withheld from the HECM proceeds to fund repairs required to bring the mortgaged Property into compliance with Property Acceptability Criteria.

(b) Standard

(3) Required Repairs Estimated to Cost No More Than 15 Percent of Maximum Claim Amount

(4) Required Repairs Estimated to Exceed 15 Percent of the Maximum Claim Amount

(C) Leased Equipment

(D) Appraisal Review

(E) Quality of Appraisal

(F) **Opinion of Market Value**

(G) **Reconsideration of Value**

b. Required Documentation for Underwriting the Property (08/19/2024)

c. Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value* (08/19/2024)

5. Performing the Financial Assessment of the Borrower

6. Closing

a. Mortgagee Closing Requirements (04/10/2025) (changes under this section)

i. Title

ii. Legal Restrictions on Conveyance (Free Assumability)

iii. Closing in Compliance with Mortgage Approval

iv. Principal Limit Calculation at Closing

v. Establishing the Note Rate

vi. Assignment Insurance Option

vii. Closing in the Mortgagee's Name

viii. Required Forms

ix. HECM Borrower, Non-Borrowing Spouse, and Non-Borrowing Owner Certifications

x. Designation of Alternate Individual

xi. Principal Residence Verification

xii. Required Closing Certifications

xiii. Inspection and Repair Requirements for HECMs Pending Closing in Presidentially-Declared Major Disaster Areas

xiv. Closing Costs and Fees

(A) Standard

(1) Mandatory Obligations

(2) Seasoning Requirements for Existing Non-HECM Liens

(a) Standard (changes in this section)

The Mortgagee must determine the age of the lien and, if necessary, the amount of funds provided to the Borrower. The Mortgagee may use HECM proceeds to pay off existing non-HECM liens if:

- the liens have been in place for longer than 12 months prior to the date of the HECM closing;
- the lien resulted in the Borrower receiving $500 or less in cash, whether at closing or through cumulative draws prior to the date of the HECM closing; or
- the lien has been in place for 12 months or less prior to the date of the HECM closing, but funds were used exclusively for the purpose of making required repairs needed to satisfy Property Acceptability Criteria.

For a Home Equity Line of Credit (HELOC) that does not meet the seasoning requirements above, the Mortgagee may pay off the Borrower's HELOC using Borrower funds, the HECM proceeds, or a combination of HECM proceeds and Borrower funds, as long as the Initial Disbursement Limit or Borrower's Advance remains at or under 60 percent of the Principal Limit.

(b) Required Documentation

(3) Third-Party Fees

(4) Property Assessed Clean Energy

(5) Prohibition on Non-Mandatory Obligations

(6) Collecting Customary and Reasonable Fees

(7) Loan Origination Fees

(B) Required Documentation

xv. Payment of Initial Mortgage Insurance Premium

xvi. Annual Mortgage Insurance Premium

xvii. Closing Date

xviii. Disbursement Date

xix. Upload of Marriage Documentation in HERMIT for Eligible Non-Borrowing Spouse

xx. Right of Rescission and Interest Accruals

xxi. Signatures

xxii. Use of Power of Attorney at Closing

xxiii. Use of Court-Appointed Conservator or Guardian

b. Mortgage and Note (04/29/2024)

c. Adaptation of Loan Documents (04/29/2024)

d. Disbursement of HECM Proceeds (04/29/2024)

7. Post-closing and Endorsement

8. Programs and Products

a. HECM For Purchase (04/10/2025) (changes under this section)

i. Definition

ii. Initial Application Processing

iii. Principal Residence Requirements

iv. Initial Mortgage Insurance Premium Amount

v. Maximum Claim Amount

vi. Property Eligibility and Acceptability Criteria

(A) Types of Eligible Properties

(B) Construction and Inspection Requirements for New Construction HECM Properties

(C) Documents to be Provided to Appraiser at Assignment

(D) Property Considerations (changes in this section)

New Construction must meet Property Acceptability Criteria.

(E) Sales Comparison Approach: Comparable Selection

(F) Seller Must Be Owner of Record

(G) Restrictions on Property Flipping

vii. Completion of Construction (changes in this section)

Regardless of the inspection process used, the Mortgagee must certify on form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* that the Property is 100 percent complete and meets Property Acceptability Criteria.

viii. Minimum Required Repairs

ix. Sales Contract and Supporting Documentation

x. HUD Required Disclosures

xi. Underwriting the Property

xii. Performing the Financial Assessment

xiii. Closing

xiv. Post-closing and Endorsement

b. HECM Refinance (04/29/2024)

c. Condominiums (04/10/2025)

C. CONDOMINIUM PROJECT APPROVAL

D. PROPERTY ELIGIBILTY AND ACCEPTABLITY FOR TITLE II FORWARD AND REVERSE MORTGAGES [Section is Updated in its Entirety.]

1. Property Eligibility

a. General Property Eligibility

i. Definitions

Property refers to the real estate entity that will serve as adequate security for a specific FHA-insured Mortgage.

Existing Construction refers to a Property that has been 100 percent complete for over one year or has been completed for less than one year and was previously occupied.

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

ii. Property Location

The Property must be located within a U.S. state, District of Columbia, Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa.

iii. Legal Requirements

(A) Real Estate Entity

The subject Property must be a single, readily marketable real estate entity.

(B) Multiple Parcels

The Property may include more than one parcel or lot when all the parcels are contiguous and legally marketable. Each parcel must be conveyed in its entirety. The Mortgage must be a valid first lien that includes each parcel.

(C) Exception for Non-Contiguous Parcels or Lots

Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the divided parcel does not have a residence and is a non-buildable lot (for example, waterfront Properties where the parcel provides access to the water). The non-buildable parcel may include non-residential improvements, such as a garage or dock. The Mortgagee must provide evidence in the case binder that the non-buildable parcel(s) that meet this exception cannot be improved with a dwelling.

iv. Property Rights

(A) Definitions

Fee Simple refers to an absolute ownership that is broadest property interest allowed by law, without durational limitation.

Leasehold refers to the right to hold or use Property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

(B) Standard

The Property must be held in Fee Simple or as a Leasehold that complies with HUD's requirements below.

v. Leasehold Interest

(A) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(B) Standard

(1) Forward Mortgage Requirements

A Leasehold Interest securing a forward Mortgage must have a renewable lease with a term of not less than 99 years, or a lease that will extend not less than 10 years beyond the maturity date of the Mortgage. Subleasehold estates are not eligible for FHA mortgage insurance.

(2) Reverse Mortgage (HECM) Requirements

A Leasehold Interest securing a reverse mortgage, or Home Equity Conversion Mortgage (HECM), must have a renewable lease with a term of not less than 99 years, or a lease with the actuarial life expectancy of the Mortgagor. Subleasehold estates are not eligible for FHA mortgage insurance.

vi. Legal and Land Use Considerations

(A) Zoning

(1) Standard

FHA requires the Property to comply with all applicable zoning ordinances.

(B) Nonresidential Use of Property (Mixed Use)

(1) Definition

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office, or parking space.

Total Floor area refers to all Residential Space and Commercial/Nonresidential Space.

(2) Standard

The nonresidential portion of the Total Floor Area may not exceed 49 percent.

Mixed Use one- to four-unit Single Family Properties are eligible for FHA insurance, provided:

- a minimum of 51 percent of the Total Floor Area is for residential use; and
- the nonresidential use will not affect the health and safety of the occupants of the residential Property.

The Property must be primarily residential in nature based on the characteristics of the property. Any nonresidential use of the Property must be subordinate to its residential use, character, and appearance. Nonresidential use may not impair the residential character or marketability of the Property. The nonresidential use of the Property must be legally permitted and conform to current zoning requirements.

vii. Special Flood Hazard Areas

The Mortgagee must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Mortgagee must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within any SFHA Zone beginning with the letter A, an SFHA, or any Zone beginning

with the letter V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- the improvements are, or are proposed to be, located within the Coastal Barrier Resources System (CBRS).

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the NFIP and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(A) Flood Insurance

(1) Definitions

Flood Insurance refers to insurance provided by an NFIP or a Private Flood Insurance (PFI) policy that covers physical damage caused by floods.

An NFIP policy refers to insurance managed by the Federal Emergency Management Agency (FEMA) that covers physical damage by floods.

A PFI policy refers to insurance provided by a private insurance carrier that covers physical damage by floods.

(2) Standard

(a) Eligible Properties

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in an SFHA and NFIP insurance is available in that community, the Mortgagee must ensure the Borrower obtains and maintains Flood Insurance.

(b) Required Flood Insurance Coverage

For Properties located within an SFHA, Flood Insurance must be maintained for the life of the Mortgage in an amount at least equal to the lowest of the following:
- 100 percent replacement cost of the insurable value of the improvements, which consists of the development or project cost less estimated land cost;
- the maximum amount of NFIP insurance available with respect to the particular type of Property; or
- the outstanding principal balance of the Mortgage.

(c) Requirements for PFI

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the Property to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the state or jurisdiction where the Property to be insured is located;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of Property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar non-applicability provisions, as under a standard Flood Insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or nonrenewal of Flood Insurance coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;
- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(3) Private Flood Insurance Policy Compliance Aid

(a) Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: “This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages.”

(b) Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. In the absence of the PFI Policy Compliance Aid within the policy, a Mortgagee may review the policy to determine if it meets FHA requirements or rely on the insurance agent or carrier to separately provide the PFI Policy Compliance Aid language.

(4) Required Documentation

For Properties located within an SFHA, the Mortgagee must include in the case binder:

- a Life of Loan Flood Certification for all Properties;
- if applicable, include a:
  - FEMA Letter of Map Amendment (LOMA);
  - FEMA Letter of Map Revision (LOMR); or
  - FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152); and
- a copy of the certificate of Flood Insurance or complete copy of the Flood Insurance policy, if required.

(5) Required Reporting

The Mortgage must report the required Flood Insurance information in the insurance application screen in FHAC.

(B) Eligibility for New Construction of Site Built Housing or Units in Condominium Project or Legal Phase in SFHAs

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in an SFHA, the Property is not eligible for FHA mortgage insurance, unless the Mortgagee:

- obtains a FEMA-issued final LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152). The Elevation Certificate must document that the lowest floor of the residential building, including the basement, and all related Structures or equipment essential to the Property Value are built above the 100-year flood elevation in compliance with the NFIP criteria; and
- ensures the Borrower obtains Flood Insurance.

(C) Eligibility for Existing Construction of Site Built Housing in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, Flood Insurance must be obtained.

(D) Eligibility for Existing Construction Condominiums in SFHAs

The Mortgagee must ensure the Condominium Association obtains Flood Insurance on buildings located within the SFHA. The Flood Insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

(E) Eligibility for Existing and New Construction Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling and related Structures or equipment essential to the Property Value for both new and existing Manufactured Homes is located in an SFHA, the Property is not eligible for FHA mortgage insurance, unless the Mortgagee:

- obtains a FEMA-issued LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation; and
- ensures the Borrower obtains Flood Insurance.

(F) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the Coastal Barrier Resources Act, a Property is not eligible for FHA mortgage insurance if the improvements are or are proposed to be located within the Coastal Barrier Resources System.

viii. Seller Must Be Owner of Record

(A) Standard

To be eligible for a mortgage insured by FHA, a Property must be purchased from the owner of record. The transaction may not involve any sale or assignment of the sales contract.

(B) Required Documentation

The Mortgagee must obtain documentation verifying that the seller is the owner of record.

Such documentation may include, but is not limited to:

- a property sales history report;
- a copy of the recorded deed from the seller; or
- other documentation, such as a copy of a property tax bill, title commitment, or binder, demonstrating the seller's ownership of the Property and the date it was acquired.

This requirement applies to all FHA purchase money Mortgages, regardless of the time between resales.

ix. Restrictions on Property Flipping

Property Flipping is indicative of a practice whereby recently acquired Property is resold for a considerable profit with an artificially inflated value.

(A) Definition

Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

(B) Standard

(1) Time Restriction on Transfers of Title

The eligibility of a Property for a Mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the Property and the resale date.

The Seller's Date of Acquisition refers to the date the seller acquired legal ownership of that Property. The Resale Date refers to the date all parties have executed the sales contract that will result in the FHA-insured Mortgage for the resale of the Property.

(2) Restriction on Resales Occurring 90 Days or Fewer after Acquisition

A Property that is being resold 90 Days or fewer following the seller's date of acquisition is not eligible for an FHA-insured Mortgage.

(3) Resales Occurring between 91 Days and 180 Days after Acquisition (Forward only)

A Mortgagee must obtain a second appraisal by another Appraiser if:

- the resale date of the Property is between 91 and 180 Days following the acquisition of the Property by the seller; and
- the resale price is 100 percent or more over the price paid by the seller to acquire the Property.

If the second appraisal supports a value of the Property that is more than 5 percent lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value.

The cost of the second appraisal may not be charged to the Borrower.

(4) Exceptions to Time Restrictions on Resale

Exceptions to time restrictions on resale are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- resales by HUD under its REO program;
- sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies;
- sales of Properties by nonprofits approved to purchase HUD-owned Single Family Properties at a discount with resale restrictions;
- sales of Properties that are acquired by the seller by inheritance;
- sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSE);
- sales of Properties by local and state government agencies; and
- sales of Properties within PDMDAs, only upon issuance of a notice of an exception from HUD.

The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

(C) Required Documentation

The Mortgagee must obtain a 12-month chain of title documenting compliance with time restrictions on resales.

x. Restriction on Investment Properties for Hotel and Transient Use

(A) Standard

The Mortgagee must obtain the Borrower's agreement that Investment Properties using FHA-insured financing will not be used for hotel or transient purposes, or otherwise rented for periods of less than 30 Days.

(B) Required Documentation

The Mortgagee must obtain a completed form HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property*, for each Mortgage secured by:

- a one-unit Single Family dwelling with an Accessory Dwelling Unit (ADU);
- a two- to four-unit dwelling; or

- a Single Family dwelling that is one of a group of five or more dwellings owned by the Borrower within a two block radius.

xi. Property Assessed Clean Energy

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements for residential properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax; it is collected by the local government rather than paid directly by the Borrower to the party providing the PACE financing.

Generally, the PACE obligation is also secured in the same manner as a special assessment tax against the Property. In the event of a sale, including a foreclosure sale, of the Property with outstanding PACE financing, the obligation will continue with the Property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished.

Properties which will remain encumbered with a PACE obligation are not eligible for FHA mortgage insurance.

xii. Dwelling Unit Limitation

(A) Standard

If the Mortgage will be secured by an Investment Property, including Mortgages for Governmental Entities or nonprofit Borrowers, the Borrower may not have a financial interest, regardless of the ownership or financing type, in more than seven Dwelling Units within a two block radius. In determining the number of Dwelling Units owned by the Borrower, the Mortgagee must count each Dwelling Unit in a two-, three-, and four-family Property.

(B) Required Documentation

If the Borrower owns six or more units within a two block radius, a map must be provided disclosing the locations of the units as evidence of compliance with FHA's seven unit limitation.

b. Additional Property Eligibility Requirements

i. Lava Zones

A Property located in Lava Zones 1 and 2 in Hawaii is ineligible for FHA mortgage insurance.

c. Property Type Eligibility

FHA's programs differ from one another primarily in terms of what types of Properties and financing are eligible. Except as otherwise stated in this Handbook 4000.1, FHA's Single Family programs are limited to one- to four-family Properties that are owner-occupied Principal Residences. FHA insures Mortgages on Real Property secured by:

- detached or semi-detached dwellings
- Manufactured Housing
- townhouses or row houses
- individual units within FHA-Approved Condominium Projects

FHA will not insure Single Family Mortgages secured by:

- commercial enterprises
- boarding houses
- hotels, motels and condotels
- tourist houses
- private clubs
- bed and breakfast establishments
- other transient housing
- Vacation Homes
- fraternity and sorority houses

i. One-Unit

A one-unit Property is a Single Family residential Property with a single Dwelling Unit, or with a single Dwelling Unit and a single ADU.

ii. Two-Unit

(A) Definition

A two-unit Property is a Single Family residential Property with two individual Dwelling Units.

(B) Standard

The Mortgagee must obtain a completed form HUD-92561.

iii. Three- to Four-Unit

(A) Definition

A three- to four-unit Property is either:

- a Single Family residential Property with three or four individual Dwelling Units; or

- a Single Family residential Property with two individual Dwelling Units and one ADU or three individual Dwelling Units and one ADU.

(B) Standard

The Mortgagee must obtain a completed form HUD-92561.

(C) Self-Sufficiency Rental Income Eligibility

(1) Definition

Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).

(2) Standard

The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit Properties.

(3) Calculation

Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent of the fair market rent.

iv. Accessory Dwelling Unit

(A) Definition

An Accessory Dwelling Unit (ADU) refers to a single habitable living unit with means of separate ingress and egress that meets the Requirements for Living Unit. An ADU is a private space that is subordinate in size and can be added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate.

(B) Standard

A Single Family residential one-unit Property with a single ADU remains a one-unit Property. For any Single Family residential Property with two or more units, a separate additional Dwelling Unit must be considered as an additional unit.

v. Condominium Unit

(A) Definitions

Condominium Unit (Unit) refers to real estate consisting of a one-family Dwelling Unit in a Condominium Project.

A Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

(B) Standard

A Condominium Unit must be either located within an FHA-approved Condominium Project, meet FHA's definition of a Site Condominium, or have completed the FHA Single-Unit Approval process before a Mortgage can be insured.

vi. Site Condominiums

(A) Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of Single Family detached or horizontally attached (townhouse-style) dwellings where the Unit consists of the dwelling and land;
  - does not contain any Manufactured Housing Units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

Manufactured Housing condominium units may not be processed as Site Condominiums.

(B) Standard

The Unit owner must be responsible for all required insurance and maintenance costs associated with the Unit dwelling, excluding landscaping, of the Site Condominium.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

vii. Manufactured Housing

(A) Definition

Manufactured Housing is a Structure that is transportable in one or more sections. It may be part of a Condominium Project, provided the project meets applicable FHA requirements.

(B) Standard

To be eligible for FHA mortgage insurance as a Single Family Title II Mortgage, all Manufactured Housing must:

- be designed as a one-family dwelling;
- have a floor area of not less than 400 square feet;
- have the HUD Certification Label affixed or have obtained a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the Federal Manufactured Home Construction and Safety Standards;
- be classified as real estate (but need not be treated as real estate for purposes of state taxation);
- be designed to be erected as a dwelling with a permanent site-built foundation:
    - permanently anchored to and supported by permanent footings and shall have permanently installed utilities that are protected from freezing
    - installed in accordance with the Model Manufactured Home Installation Standards 24 CFR Part 3285; or
    - if the permanent foundation was installed prior to October 20, 2008, the foundation must be designed for the site conditions, home design features and loads the home was designed to withstand in accordance with the manufacturer's instructions or with a design by a licensed (registered) professional engineer; and
- have been directly transported from the manufacturer or the dealership to the site.

(C) Required Documentation

(1) HUD Certification Label

The Structure must have a HUD Certification Label or the Mortgagee must obtain label verification from the Institute for Building Technology and Safety (IBTS).

(2) Certification of Structural Modifications

Any structural modifications to an Existing Manufactured Home must be verified as approved by a licensed professional engineer or the local, State or federal authority.

2. Property Acceptability Criteria

a. General Property Acceptability

The Mortgagee must evaluate the appraisal and any supporting documentation to determine if the Property complies with Property Acceptability Criteria.

i. Defective Conditions

The Mortgagee must evaluate the appraisal in accordance with the requirements for Defective Conditions. When defective conditions exist and correction is not feasible, the Mortgagee must reject the Property.

The Mortgagee must confirm that the Property complies with the following eligibility criteria. If the Mortgage is to be insured under the 203(k) program, the Mortgagee must confirm that the Property will comply with the following eligibility criteria upon completion of repairs and improvements.

ii. Site Considerations

(A) Encroachment

The Mortgagee must ensure the subject's dwelling, garage, or other improvements do not encroach onto an adjacent Property, right-of-way, utility Easement, or building restriction line. The Mortgagee must also ensure a neighboring dwelling, garage, or other improvements do not encroach onto the subject Property. Encroachment by the subject or adjacent Property fences is acceptable provided such Encroachment does not affect the marketability of the subject Property.

(B) Access to Property

The Mortgagee must confirm that the Property is provided with a safe pedestrian access and Adequate Vehicular Access from a public or private street. Streets must either be dedicated to public use and maintenance, or retained as private streets protected by permanent recorded Easements.

Private streets, including shared driveways, must be protected by permanent recorded Easements, ownership interest, or be owned and maintained by an HOA. Private streets and shared driveways do not require a joint maintenance agreement.

(C) Onsite Hazards and Nuisances

The Mortgagee must require corrective work to mitigate unsafe conditions from any onsite hazards or nuisances. These hazards may include unsafe electrical power lines, abandoned gas or oil wells, or pipeline easements.

(D) Environmental

The Mortgagee must confirm that the Property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants.

(E) Utility Services

The Property must have utilities that meet community standards.

If utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body, the Mortgagee must confirm that this information is recorded on the deed record.

(F) Water Supply Systems

(1) Public Water Supply System

When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or
- the health authority with jurisdiction issues a public notice indicating that the water is unsafe.

(2) Individual Water Supply Systems (Wells)

When an Individual Water Supply System is present, the Mortgagee must ensure that the water quality meets the requirements of the health authority with jurisdiction.

If public water is available and the local authority mandates connection, connection is required.

If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141–142.

If the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells, or artesian wells, the Property is not eligible for FHA mortgage insurance.

(3) Requirements for Well Water Testing

A well water test is required for Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

The following provides the minimum requirements for water wells:

Water Well Requirements for Existing Construction	
1	No exposure to environmental contamination
2	Continuing supply of safe and potable water
3	Domestic hot water
4	Water quality must meet requirements of local jurisdiction or the EPA if no local standard

(4) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(G) Shared Wells

The Mortgagee must confirm that a Shared Well:

- serves Properties that cannot feasibly be connected to an acceptable public or Community Water supply System;
- is capable of providing a continuous supply of water to involved Dwelling Units so that each Existing Construction Property simultaneously will be assured of at least three gallons per minute (five gallons per minute for

Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);

- provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;
- has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other Properties; and
- serves no more than four living units or Properties.

(1) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

For both New and Existing Construction, the Mortgagee must ensure that the shared well agreement complies with the guidance provided in the following table.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any Mortgagee holding a Mortgage on any Property connected to the Shared Well.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
2	Permit well water sampling and testing by the local authority at the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to “supplied” parties if the “supplying” party has no further need for the shared well system. (“Supplied” parties normally should assume all costs for their continuing water supply.)
5	Prohibit well water usage by any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: • the consent of all parties; • the appropriate amendment of the agreement; and • compliance with item 3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for Proposed Construction) of the Shared Well.
8	Establish Easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection, and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the Easements.
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection, or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand.
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved Property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement, or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
15	Specify required cost sharing for: • the energy supply for the well pump; • system maintenance, including repairs, testing, inspection, and disinfection; • system component replacement due to wear, obsolescence, incrustation, or corrosion; and • system improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: • prompt repair of any detected leak in this water service line or plumbing system; • repair costs to correct system damage caused by a resident or guest at their Property; and • necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a Property sharing the well.
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement, or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured or -guaranteed Mortgage on any Property served, except as provided in items 5 and 11 above.
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

(2) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(H) Individual Residential Water Purification Systems

(1) Definition

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on Properties that otherwise do not have access to a continuous supply of safe and potable water.

(2) Standard

If a Property does not have access to a continuous supply of safe and potable water without the use of a water purification system, the Mortgagee must ensure that the Property has an individual residential water purification system as well as a service contract for the ongoing maintenance of the system, a plan approved by the local or state health authority, and an escrow account.

(3) Approved Equipment for Individual Residential Water Purification Systems

Water purification equipment must be approved by a nationally recognized testing laboratory acceptable to the local or state health authority. The Mortgagee must obtain a certification from a local or state health authority which certifies that:

- A point-of-entry or point-of-use water purification system is on the Property. If the system employs point-of use equipment, the purification system must be employed on each water supply source (faucet) serving the Property. Where point-of-entry systems are used, separate water supply systems carrying untreated water for flushing toilets may be constructed.
- The system is sufficient to ensure an uninterrupted supply of safe and potable water adequate to meet household needs.
- The water supply, when treated by the equipment, meets the requirements of the local or state health authority, and has been determined to meet local or state quality standards for drinking water. If neither state nor local standards are applicable, then quality must be determined in accordance with standards set by the Environmental Protection Agency (EPA) pursuant to the Safe Drinking Water Act in 40 CFR Parts 141–142.
- A plan exists that provides for the monitoring, servicing, maintenance, and replacement of the water equipment, and the plan meets the service contract requirements.

(4) Borrower Notice of Water Purification System

The Mortgagee must provide written notification to the Borrower that the Property has a hazardous water supply that requires treatment in order to remain safe and acceptable for human consumption. The notification to the Borrower must identify specific contaminants in the water supply serving the Property, and the related health hazard arising from the presence of those contaminants.

The Mortgagee must ensure that the Borrower has received a written estimate of the maintenance and replacement costs of the equipment necessary to ensure continuous safe drinking water.

(5) Service Contract for Individual Residential Water Purification Systems

Before mortgage closing, the Mortgagee must ensure that the Borrower has entered into a service contract with an organization or individual specifically approved by the local or state health authority to carry out the provisions of the required plan for the servicing, maintenance, repair, and replacement of the water purification equipment.

(6) Approved Plan for Individual Residential Water Purification Systems

An approved plan is a contract entered into by the Borrower and Mortgagee and approved by the local or state health authority, and that sets out conditions as described below that must be met by the parties as a condition to insurance of the Mortgage by HUD.

The plan must set forth the respective responsibilities to be assumed by the Borrower and the Mortgagee, as well as the other entities who will implement the plan, such as the health authority and the service contractor. In particular:

- The plan must set out the responsibilities of the health authority for monitoring and enforcing the performance of the service contractor, including any successor contractor that the health authority may later have occasion to name. By its approval of the plan, the health authority documents its acceptance of these responsibilities, and the plan should so indicate.
- The plan must provide for the monitoring of the operation of the water purification equipment, as well as for servicing (including disinfecting) and repairing and replacing the system as frequently as necessary, taking into consideration the system's design, anticipated use, and the type and level of contaminants present. Installation, servicing, repair, and replacement of the water purification system must be performed by an individual or organization approved for this purpose by the local or state health authority and identified in the plan. The plan must refer to specific terms and conditions of the required service contract.
- Under the plan, responsibility for monitoring the performance of the service contractor and for ensuring that the water purification system is properly serviced, repaired, and replaced rests with the local or state health authority that approved the plan. The plan must confer on the health authority all powers necessary to effect compliance by the service contractor. The health authority's powers must include the authority to notify the Borrower of any noncompliance by the service contractor. The plan must provide that upon any notification of noncompliance received

from the health authority, the Borrower may discharge the service contractor for cause and appoint a successor organization or individual as service contractor.

- The Mortgagee must ensure that any plan developed in accordance with this section must provide that an analysis of the water supply must be obtained from the local or state health authority no less frequently than annually, but more frequently if determined at any time to be necessary by the health authority or by the service contractor.

The plan must provide that if the dwelling served by the water purification system is refinanced, or is sold or otherwise transferred with a HUD-insured Mortgage, the plan will:

- continue in full force and effect;
- impose an obligation on the Borrower to notify any subsequent purchaser or transferee of the necessity for the water purification system and for its proper maintenance, and of the obligation to make escrow payments; and
- require the Borrower to furnish the purchaser with a copy of the plan before any sales contract is signed.

(7) Escrow for Maintenance and Replacement of Individual Residential Water Purification Systems

The Mortgagee must establish and maintain an escrow account to ensure proper servicing, maintenance, repair, and replacement of the water purification equipment. To the extent permitted under RESPA, the amount to be collected and escrowed by the Mortgagee must be based upon information provided by the manufacturer for the maintenance and replacement of the water purification equipment and for other charges anticipated by the service contractor. The initial monthly escrow amount must be stated in the plan. Disbursements from the account will be limited to costs associated with the normal servicing, maintenance, repair, or replacement of the water purification equipment. Disbursements may only be made to the service contractor or its successor, to equipment suppliers, to the local or state health authority for the performance of testing or other required services, or to another entity approved by the health authority. The Mortgagee must maintain the escrow account as long as water purification remains necessary and the Mortgage is insured by HUD.

The Mortgagee must provide the Borrower with the Water Purification Equipment Rider for signature.

(I) Required Documentation

(1) Borrower Notice of Water Purification System

A copy of the notification statement (including cost estimates), dated before the date of the sales contract and signed by the prospective Borrower to acknowledge its receipt, must accompany the submission for insurance endorsement. If a sales contract is signed in advance of the disclosure required by this paragraph, an addendum must be executed after the information is provided to the prospective Borrower and after they have acknowledged receipt of the disclosure.

(2) Borrower's Certification of Water Purification System

At the time the application is signed, the Borrower must sign a certification acknowledging that the Property has a water purification system that must be maintained.

(3) Approved Plan for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the approved plan is provided to HUD.

(4) Service Contract for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the service contract signed by the Borrower is provided to HUD.

(5) Water Purification Equipment Rider for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the Water Purification Equipment Rider is provided to HUD.

(J) Sewage System

An existing Onsite Sewage Disposal System is acceptable provided it is functioning properly and meets the requirements of the local health department.

When the Onsite Sewage Disposal System is not sufficient and an off-site system is not available, the Mortgagee must reject the Property unless the Onsite Sewage Disposal System is repaired or replaced and complies with local health department standards.

If public sewer is available, connection is required when mandated by the local authority.

(K) Airport Hazards

If a Property is Existing Construction and is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must obtain a Borrower's acknowledgment of the hazard.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

(L) Swimming Pools

The Mortgagee must confirm that any swimming pools are secured with required fencing, enclosures, or barriers in accordance with any local requirements.

iii. Property Improvements

(A) Requirements for Living Unit

The Mortgagee must confirm that each living unit is suitable for year-round occupancy and contains:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a commode, sink and a bathtub or shower;
- space adequate for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions with market acceptance within the subject's marketplace;
- domestic hot water;
- electricity adequate for lighting and for mechanical equipment used in the living unit; and
- kitchen facilities adequate for the preparation and cooking of food. Every living unit must have at least one area with kitchen facilities, which must include, at a minimum, a sink with potable running water and a stove utility hookup.

FHA does not have a minimum size requirement for one- to four-family dwellings and Condominium Units. For Manufactured Housing requirements, see the Manufactured Housing section.

(B) Property Condition and Quality of Construction

The appraisal report must contain an accurate description of the improvements and describe any factors that may affect the market value or marketability of the subject property. The appraiser is responsible for reporting the condition and quality that best describe the overall condition and quality of the subject property.

For appraisal reports that are required to be completed using the Uniform Appraisal Dataset (UAD), the appraiser must use the condition and quality ratings and the level of updating definitions identified in Appraisal Condition and Quality of Construction Ratings and Level of Updating Definitions. For appraisal reports that are not required to be completed using the UAD, the UAD specifications may be used to the extent they are applicable to the particular appraisal report form.

(1) Property Deficiencies with a C5 or C6 Condition Rating

A Property with deficiencies consistent with a C5 or C6 condition rating is not acceptable collateral unless all issues that caused the property to be rated with a C5 or C6 condition rating are cured before Closing Date. In such cases, the appraisal report must be completed “subject to” and the reported condition rating must reflect the hypothetical condition that would exist if the repairs or alterations were completed.

Examples of deficiencies that are consistent with C5 or C6 rating include, but are not limited to:

- Active roof leak(s)
- Incomplete construction or remodel (including missing or severely damaged cabinets or countertops, missing plumbing fixtures in the kitchen or bathroom(s), etc.)
- Missing or damaged exterior components that would allow water or other elements to enter the dwelling
- Missing or severely damaged interior drywall or plaster such that the wall framing is exposed (excluding basements)
- Standing water in the property, water seepage/intrusion or significant plumbing leaks
- Uncapped wiring
- Curled, cupped or missing roof shingles
- Missing or severely damaged floor coverings in the majority of the living area (excluding basements)
- Damaged or failing foundations
- A mechanical system that is non-functional, or
- A sanitary system with evidence of failure

Exceptions

Deficiencies that caused the property to have a C5 condition rating may be cured after the Closing Date for:

- Mortgages secured by properties with incomplete improvements that meet the requirements in Repair Completion Escrow Requirements; or

- 203(k) Mortgages that meet the applicable program requirements when the deficiencies are cured as part of the completion of the renovations.

Deficiencies that caused the property to have a C6 condition rating may be cured after the Closing Date for:

- 203(k) Mortgages that meet the applicable program requirements when the deficiencies are cured as part of the completion of the renovations.

(2) Properties with a Q6 Quality Rating

A Property consistent with a Q6 rating is not acceptable collateral unless all issues that caused the property to be rated with a Q6 quality rating are cured before closing. In such cases, the appraisal report must be completed "subject to" and the reported quality rating must reflect the hypothetical condition that would exist if the repairs or alterations were completed.

Examples that are consistent with a Q6 quality rating include, but are not limited to:

- Quality such that the property is not habitable as a year-round residence
- Minimal or non-existent electrical, plumbing and/or other mechanical systems
- Substandard additions to the original structure
- Other quality related deficiencies that make the property unacceptable to typical purchasers in the Market Area

(3) Existing Properties with Minor Needed Repairs or Cosmetic Deferred Maintenance

An appraisal report may be completed "as is" for an existing property when there are minor needed repairs or cosmetic deferred maintenance. The appraisal report must reflect adjustments for these conditions in the appraisal report, when necessary.

Examples of acceptable minor needed repairs or cosmetic deferred maintenance items include, but are not limited to:

- Worn floor finishes or coverings
- Minor cracks in windows
- Minor damage to interior walls
- Damaged or missing interior doors
- Damaged or missing window screens or cabinetry doors
- Missing handrails
- Damaged or deteriorating countertops
- Missing hardware (such as handles)
- Missing light fixtures, electrical panel/breaker box covers, electrical switches or faceplates

- Damaged or missing trim
- Minor plumbing leaks that do not cause damage (such as dripping faucets)
- Deteriorated sidewalks

(C) Structural Conditions

The Mortgagee must confirm that the Structure of the Property will be serviceable for the life of the Mortgage.

The Mortgagee must confirm that all foundations will be serviceable for the life of the Mortgage and adequate to withstand all normal loads imposed.

(D) Lead-Based Paint

For Structures built before 1978, defective paint surfaces to the dwelling require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements unless the Mortgagee obtains testing results to confirm that it is not lead-based paint or a previous abatement is documented.

(E) Termites

For existing Properties, the Mortgagee must confirm that the Property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, the Mortgagee must obtain such inspection and evidence of any required treatment to confirm the Property is free of wood destroying insects and organisms.

Soil poisoning is an unacceptable method for treating termites unless the Mortgagee obtains satisfactory assurance that the treatment will not endanger the quality of the water supply.

(F) Highest and Best Use

The highest and best use of the subject property as improved (or as proposed per plans and specifications) must be the present use.

b. New Construction Property Acceptability

i. New Construction

(A) Definition

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.

- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The Property must have never been occupied.

In addition to General Property Acceptability Criteria, the Property must also comply with these additional New Construction requirements, including Minimum Property Standards (MPS) in [24 CFR §§ 200.926a–200.926e](#).

ii. Site Considerations

(A) Operating Oil or Gas Wells

If a New Construction dwelling is located within 75 feet of an operating oil or gas well, the Mortgagee must reject the Property unless mitigation measures are completed.

(B) Special Airport Hazards

If a New Construction Property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must reject the Property for insurance.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

(C) Flood Hazard Areas

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in a Special Flood Hazard Area (SFHA), the Mortgagee must reject the Property, unless the Mortgagee:

- obtains a Federal Emergency Management Agency (FEMA)-issued final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA; or
- obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form FF-206-FY-22-152) that documents that the lowest floor of the residential building, including the basement, and all related Structures or equipment essential to the Property Value are built above the 100-year flood elevation in compliance with the NFIP criteria; and
- ensures that the Elevation Certificate is completed based on finished construction.

The Mortgagee must include the LOMA, LOMR, or FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) with the case when it is submitted for endorsement.

The Mortgagee must ensure that Flood Insurance is obtained when a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) documents that the Property remains located within an SFHA.

(D) Individual Water Supply Systems (Wells)

The Mortgagee must ensure that new wells are drilled and are no less than 20 feet deep and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.

A well located within the foundation walls of New Construction is not acceptable except in arctic or subarctic regions.

(1) Requirements for Well Water Testing

A well water test is required for all newly constructed Properties.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

The following tables provide the minimum distance required between wells and sources of pollution:

Water Well Location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*****	
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum standards for Individual Water Supply Systems (wells):

Individual Water System Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) and (2)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

(2) Required Documentation

The Mortgagee must submit a valid water test from the local health authority or qualified lab.

The report may not be more that 180 Days old from the Disbursement Date.

iii. Property Improvements

(A) Utility Services

(1) Definition

Utility Services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone.

(2) Multiple Living Units Under Single Ownership

A Property may contain multiple living units under a single Mortgage or ownership (two- to four-family Properties) that utilize common services, such as water, sewer, gas and electricity and is served by one meter in jurisdictions that allow single meter properties. In such cases, separate utility service shut-offs must be provided for each living unit.

(3) Living Units Under Separate Ownership

Utility services shall be independent for each living unit, except that common services such as water, sewer, gas and electricity may be provided for living units under a single mortgage or ownership. Separate utility service shut-off for each unit shall be provided.

For living units under separate ownership, common utility services may be provided from the main to the building line when protected by an easement or covenant and maintenance agreement, but shall not pass over, under or through any other living unit.

Individual utilities serving a living unit may not pass over, under or through another living unit under the same mortgage unless provision is made for repair and maintenance of utilities without trespass or when protected by an easement or covenant providing permanent access for maintenance and repair of the utilities. Building drain cleanouts shall be accessible from the exterior where a single drain line within the building serves more than one unit.

iv. Completion of Construction

Regardless of the inspection process used, the Mortgagee must certify on form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, that the Property is 100 percent complete and meets Property Acceptability Criteria.

c. Manufactured Housing Property Acceptability

i. Foundation Systems (02/16/2021)

(A) Existing Construction for Manufactured Housing

(1) Definition

Existing Construction for Manufactured Housing refers to a Manufactured Home that has been permanently installed on a site for one year or more prior to the case number assignment date.

(2) Standard

The space beneath the house must be properly enclosed to ensure the crawl space is free from exposure to the elements and free from vermin, trash, and debris. If the perimeter enclosure is non-load bearing skirting comprised of lightweight material, the entire surface area of the skirting must be rigid, weather-resistant materials or provided with protection against weather deterioration.

(B) New Construction for Manufactured Housing

(1) Definition

New Construction for Manufactured Housing refers to a Manufactured Home that has been permanently erected on a site for less than one year prior to the case number assignment date.

(2) Standard

The space beneath the house must be enclosed by a continuous foundation type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. The enclosure must be adequately secured to the perimeter of the house and be constructed of materials that conform, accordingly, the HUD Model Manufactured Home Installation Standards

ii. Running Gear (09/14/2015)

(A) Definition

Running Gear refers to a mechanical system designed to allow the Manufactured Housing unit to be towed over public roads.

(B) Standard

The towing hitch and Running Gear must be removed.

iii. HUD Certification Label (09/14/2015)

(A) Definition

HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four inch aluminum plate permanently attached to Manufactured Housing.

(B) Standard

Manufactured Homes must have an affixed HUD Certification Label located at one end of each section of the house, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the house as practicable. Etched on the HUD Certification Label is the certification label number, also referred to as the HUD label number. Label numbers are not required to be sequential on a multi-section house.

iv. Data Plate (09/14/2015)

(A) Definition

Data Plate refers to a paper document located on the interior of the Property that contains specific information about the unit and its manufacturer.

(B) Standard

Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to the electric service panel, the utility room or within a cabinet in the kitchen.

v. Additions to Manufactured Housing (09/14/2015)

If the Appraiser observes additions or structural changes to the original Manufactured Home, the Mortgagee must obtain an inspection by the state or local jurisdiction administrative agency that inspects Manufactured Housing for compliance, or a licensed structural engineer may report on the structural integrity of the manufactured dwelling and the addition if the state does not employ inspectors.

d. Additional Program Specific Property Acceptability

i. HECM

(A) Lead-Based Paint

For properties built before 1978 with lead-based paint hazards, the Mortgagee must confirm whether any child under six years of age resides or is expected to reside in the home and comply with the following:

If a child under six years of age resides or is expected to reside in the home, the Mortgagee must confirm that the Property is free of lead-based paint hazards in accordance with the requirements of the Lead-Based Paint Poisoning Prevention Act (LPPPA).

If no children under six years of age resides or is expected to reside in the home, the Mortgagee must obtain certification from the Borrower that no child under six years of age resides, or is expected to reside, in the home. In accordance with the requirements of the LPPPA, the mitigation of defective lead-based paint surfaces will not be required. The Mortgagee must notify the Appraiser of the LPPPA exemption, provide a copy of the Borrower certification, and ensure the appraisal reflects the "As-Is" value of the subject Property's defective lead-based paint surfaces.

E. APPRAISER AND APPRAISAL REQUIREMENTS FOR TITLE II FORWARD AND REVERSE MORTGAGES

The appraisal process provides the Mortgagee with necessary information to determine if a Property meets the minimum requirements and eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage and will serve as adequate security for a specific FHA-insured Mortgage. Mortgagees bear primary responsibility for determining eligibility and the sufficiency of collateral; however, the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met and an appraised value for the property.

1. Commencement of the Appraisal

2. General Appraiser Requirements (03/19/2025) (changes in this section)

The Appraiser must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when completing appraisals of Property used as security for FHA-insured Mortgages. The Appraiser must observe, analyze, and report whether the Property meets HUD's Property Acceptability Criteria.

Every Property must be safe, sound, and secure so that the Mortgagee can determine eligibility. The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with Property Acceptability Criteria, or they must clearly state when no deficiencies with Property Acceptability Criteria have been observed or are known.

When performing an appraisal, the Appraiser must review and analyze all the documents under the Information Required before Commencement of Appraisal. For new construction assignments, the Appraiser must also review and analyze all the documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built or, if now Under Construction, what will be built when finished.

The Appraiser must report the results of their analysis in the appraisal report.

In a purchase transaction, if the seller is not the owner of record, the Appraiser must include an explanation in the appraisal report.

3. Acceptable Reporting Forms and Protocols (04/10/2025)

a. Application of Property Acceptability Criteria (changes in this section)

i. Appraisal Condition and Quality of Construction Ratings and Level of Updating Definitions

The appraisal report must contain an accurate description of the improvements and describe any factors that may affect the market value or marketability of the subject property. The appraiser is responsible for reporting the condition and quality that best describe the overall condition and quality of the subject property.

For appraisal reports that are required to be completed using the Uniform Appraisal Dataset (UAD), the appraiser must use the condition and quality ratings and the level of updating definitions identified in Condition and Quality Ratings and Level of Updating Definitions. For appraisal reports that are not required to be completed using the UAD, the UAD specifications may be used to the extent they are applicable to the particular appraisal report form.

The condition and quality ratings must be based on a holistic view of the property and any improvements. When selecting the condition and quality ratings, the appraiser must:

Consider all improvements to determine overall condition and quality ratings and select the ratings that best reflect a holistic view of the property

If any portion of the improvements has a quality of construction consistent with the Q6 quality rating, the property must be identified with a Q6 quality rating

If any portion of the improvements is impacted by one or more deficiencies that are consistent with a C5 or C6 condition rating, the property must be identified with a C5 or C6 condition rating

Describe the subject property on an absolute basis as of the effective date of the appraisal report, meaning the property must be rated on its own merits.

Ratings should not be selected on a relative basis, meaning a rating is not selected based on how the property relates or compares to other properties. The condition and quality ratings for comparable properties must be made on an absolute basis and reflect the condition and quality of the comparable property as the date of sale of the comparable property.

As necessary, provide additional commentary, descriptions and explanations to enable the intended users of the appraisal report to understand the property condition and quality

The following definitions adopt the UAD 3.6 Condition and Quality Ratings, published in Appendix F-1: URAR Reference Guide on March 29, 2023, and are incorporated herein.

(A) Condition and Quality Rating Definitions

(1) Condition Rating Definitions

Condition Ratings describe the physical condition of a property as of the effective date of the appraisal on an absolute basis, not on a relative basis or how a property relates to other properties.

Condition Rating definitions are used for Overall Condition, Exterior Condition, and Interior Condition.

Rating	**Condition Rating Definition**	**Criteria**
C1	The dwelling is 100% newly constructed, completed within the past 12 months, has never been occupied, and exhibits no signs of wear or use.	A dwelling in C1 condition: • Has a foundation that must be 100% original to the new construction. • May include non-structural components composed of “like new” recycled materials (e.g., reconditioned or refinished barn wood). • Is a 100% newly constructed dwelling that does not exhibit physical depreciation.
C2	The dwelling exhibits like-new condition. It has been recently constructed or entirely remodeled within 36 months prior to the appraisal date, while retaining portions of the pre-existing structure. The dwelling may have been occupied but features no deferred maintenance and requires no repair.	A dwelling in C2 condition: • Has been recently constructed (within the past 36 months), and otherwise exhibits virtually no wear and tear, but is no longer new due to occupancy or use (e.g., • model home), or • Has been fully remodeled "to the studs" including new major components; a new dwelling built utilizing the footprint or façade of a pre-existing dwelling; or a newly converted condo/co-op in a pre-existing building.
C3	The dwelling has been well-maintained and exhibits only minimal wear and tear. The dwelling may exhibit only minor age-related physical depreciation; or, most components, but not every major building component, has been updated or renovated.	A dwelling in C3 condition will likely have: • Components or rooms that are older but have been very well maintained or experienced minimal use, and show little or no physical depreciation, or • Major components or rooms that have been recently updated, but which do not

Rating	Condition Rating Definition	Criteria
		constitute a full home renovation/remodel. Examples of major components include but are not limited to a combination of (one or more): • Newer roof • Some newer mechanicals • New / newer floor coverings • Remodeled kitchen or bathroom(s)
C4	The dwelling has been adequately maintained and exhibits moderate wear and tear resulting from occupancy and exposure to elements. The dwelling may feature some updating, but otherwise contains deferred maintenance items that are generally minor or cosmetic in nature.	A dwelling in C4 condition may have experienced some periodic updating but most components are near the middle of their life cycle. Common deferred maintenance resulting from typical use is apparent but presents no immediate impact. Examples include, but are not limited to: • Minor damage to walls or trim (interior or exterior) • Worn floor finishes or carpet that shows age • Kitchen or bathrooms that are dated but fully functional
C5	The dwelling exhibits significant wear and tear resulting from inadequate maintenance, but the soundness and structural integrity are sufficient to support occupancy. Some components may be missing or near the end of their useful life, but major components are still functional.	A dwelling in C5 condition has items that will need to be repaired, rehabilitated or replaced in the near future for the dwelling to remain useable and functional. Examples include, but are not limited to: • Roofing that is significantly worn, cupped or curled but with no apparent active leaks • Severely worn, damaged, or missing floor coverings • Functional kitchen or bathroom that may be in

Rating	Condition Rating Definition	Criteria
		disrepair (e.g., damaged or missing cabinets or countertops)
C6	The dwelling features an extreme lack of maintenance, resulting in severe damages, deficiencies, or defects that impact the soundness or structural integrity, and the dwelling is not suitable for occupancy. There are major components that may be missing, no longer functional, or otherwise require immediate correction.	A dwelling in C6 condition is not useable or functional in its current state, and will require immediate repairs, rehabilitation, or replacement of key components. Examples include, but are not limited to: • Active roof leaks • Damaged or missing exterior components that allow weather intrusion into the dwelling with resultant structural impact or damage • Damaged or failing foundation • No functional kitchen or bathrooms

(2) Quality Rating Definitions

This chart shows the definitions for:

- Overall Quality rating;
- Interior Quality, including room size, ceilings, trim, floor material, kitchen, and bathrooms; and
- Exterior Quality, including doorways, fenestration, architectural details, roof design, and exterior walls.

Quality ratings describe the quality of a property as of the effective date of the appraisal on an absolute basis, not on a relative basis or how a property relates to other properties.

Quality Rating Definitions

In each category, the property must meet the majority of the criteria listed but does not have to meet all criteria.

Rating	**Overall Quality Rating**	**Interior Quality Rating**	**Exterior Quality Rating**
Q1	The dwelling is an individually designed, one-of-a-kind structure built to exacting standards. Q1 features exceptional quality materials and luxury amenities, and exhibits the highest quality of workmanship and complexity in architectural design. The dwelling features a high degree of refinement and ornamentation that requires specialized construction or installation. A Q1 dwelling is recognized as being very rare or even non-existent in some communities.	Spacious rooms with high ceilings featuring extensive use of treatments (e.g., coved, barrel, cupola, coffered, beamed) and exceptional grade trim and custom millwork throughout. Exceptional grade, often rare or imported flooring materials, frequently featuring inlay work or other customization. Spacious kitchens featuring top-grade materials, extensive cabinetry, and countertop surface area; appliances and fixtures are frequently state of the art, custom-designed, built-in, or commercial grade. Luxury bathrooms, often oversized and featuring exceptional quality materials and multiple ornate or state-of-the-art fixtures and features.	Custom fenestration and doorways using exceptional grade materials and engineering; featuring keystones or detailed moldings throughout. Roof designs using premium materials designed for longevity and resistance to weather; often featuring large ornamental overhangs, multiple hips and valleys, or steep pitches. Exterior walls constructed using exceptional grade materials, often featuring multiple corners, unique angles and shapes, and extensive use of trim or decorative adornments.
Q2	The dwelling is a high-quality structure, often using customized or complex, commercially	Spacious rooms with higher ceilings that may have custom design elements (e.g., coved, barrel, cupola, coffered, beamed), high-end built-ins, moldings and wall	Multiple windows and doorways constructed with high-end materials, featuring custom design particularly at

Quality Rating Definitions

In each category, the property must meet the majority of the criteria listed but does not have to meet all criteria.

Rating	**Overall Quality Rating**	**Interior Quality Rating**	**Exterior Quality Rating**
	available plans. The materials and amenities have extended life expectancy, high energy efficiency, and greater detail, ornamentation, or custom finishes. A Q2 dwelling can contain a mixture of upgraded, high-end and luxury materials, constructed with high-quality workmanship.	treatments in communal areas and the main bedroom. High-grade floor coverings designed for the highest level of durability and occasionally featuring inlays or other customization. Large kitchens featuring high-end appliances, extensive cabinetry, and countertops. Large bathrooms specifically dedicated to certain bedrooms as well as at least one common bathroom; containing high-end countertops, cabinetry, and plumbing fixtures.	the front and rear entry and often featuring keystones or other decorative adornments. Roof designs using high-end roof materials; typically featuring ornamental overhangs, steep pitches, and multiple ridges, hips and valleys, and gables. Exterior walls constructed using high-end materials and featuring multiple corners with angled walls, unique shapes, and custom trim at focal points.
Q3	The dwelling represents housing that can be reproduced from standard plans, featuring a higher than standard degree of complexity and some customization in the structural design, amenities,	Large general living areas or main bedroom with all other rooms sufficiently sized. Some rooms may have vaulted ceilings, and custom design elements such as built-ins, upgraded trim, finishes, moldings and wall treatments.	Windows and doorways constructed of standard-grade material. Simple roof designs using standard-grade roof materials with moderate pitch and could have more than one ridge; may feature some simple

Quality Rating Definitions

In each category, the property must meet the majority of the criteria listed but does not have to meet all criteria.

Rating	Overall Quality Rating	Interior Quality Rating	Exterior Quality Rating
	and finishes. A Q3 dwelling can contain a mixture of premium and standard level materials or amenities. They are often characterized as "semi-custom" new construction, or as pre-existing dwellings that are upgraded using some premium materials or amenities.	Upgraded or high-grade floor coverings that exceed the quality and durability of standard-grade. Moderately sized kitchens featuring upgraded appliances, cabinetry and countertops or a mix of upgraded and high grade elements. Multiple bathrooms of moderate size with some bathrooms specifically dedicated to certain bedrooms as well as at least one common bathroom; containing upgraded cabinetry and plumbing fixtures or a mixture of upgraded and high-end elements.	decorative elements such as gables or overhangs. Exterior walls constructed using standard grade materials and featuring multiple corners; but basically rectangular in shape or footprint.
Q4	The dwelling is constructed using standard building plans and designs that can be reproduced multiple times with minimal customization or style variations. The materials and amenities are widely available and can contain a	Sufficiently sized rooms typically with flat ceilings and some vaulted ceilings in larger rooms, some trim or finishes of basic design. Standard floor coverings that exceed the quality and durability of economy grade. Moderately sized kitchens featuring standard-grade appliances, cabinetry and	Windows and doorways constructed of standard-grade material. Simple roof designs using standard-grade roof materials with moderate pitch and could have more than one ridge; may feature some simple decorative elements

Quality Rating Definitions

In each category, the property must meet the majority of the criteria listed but does not have to meet all criteria.

Rating	**Overall Quality Rating**	**Interior Quality Rating**	**Exterior Quality Rating**
	mixture of some standard and economy-level materials.	countertops or a mix of economy and upgraded elements. Usually featuring multiple bathrooms of moderate size containing standard-grade cabinetry and plumbing fixtures or a mixture of economy and upgraded elements.	such as gables or overhangs. Exterior walls constructed using standard grade materials and featuring multiple corners; but basically rectangular in shape or footprint.
Q5	The dwelling is basic in design and meets minimum building standards. Dwellings rated Q5 are designed for efficiency in installation and construction representing basic housing. Q5 dwellings have minimal refinements or upgrades but are not considered substandard.	Small rooms typically with flat ceilings, minimal trim or finishes of basic design. Economy floor coverings that meet minimum standards. Small kitchens featuring economy-grade appliances, cabinetry, and countertops or a mix of standard and economy grade. Bathrooms that are limited in size and number, and feature economy-grade cabinetry and plumbing fixtures or a mixture of economy and standard-grade elements.	Limited windows and doorways, constructed of economy grade materials, simple in shape and design, and featuring basic trim and finish. Basic roof design, usually low-pitch and single roofline; features economy or standard-grade roof materials. Exterior walls constructed using economy or standard-grade materials and featuring minimal corners; usually a basic rectangular shape.

Quality Rating Definitions

In each category, the property must meet the majority of the criteria listed but does not have to meet all criteria.

Rating	**Overall Quality Rating**	**Interior Quality Rating**	**Exterior Quality Rating**
Q6	The dwelling is a structure constructed in a manner reflecting a lack of basic architectural designs and may not meet local building standards. The materials and amenities are often low quality, alternate, or non-customary; or whose construction or installation reflects unskilled workmanship and may not be adequately equipped to support year-round occupancy. Q6 dwellings may be rare or even non-existent in many communities.	Small rooms often with low ceilings, limited closet or storage space, and little or no trim or finishes. Low grade or non-existent floor coverings. Small kitchens featuring only the minimum requirements for function; with limited cabinetry and countertop space; and low grade or non-existent appliances. Bathrooms that are limited in size and number and feature only the minimum requirements for function; limited or no cabinetry; and low-grade plumbing fixtures.	Limited windows and doorways, constructed of lower-grade materials and featuring minimal or no trim and finish. Basic roof design, usually low-pitch and single roofline; may possess inconsistent rooflines if additions are present; features low-grade or alternate roof materials. Exterior walls constructed using economy or low-grade materials and featuring minimal corners; usually a basic rectangular shape.

1

ii. Determination of Defective Conditions

(A) Definition

(B) Standard

The Appraiser must identify readily observable defective conditions.

Defective Conditions Requiring Repair

The Appraiser must identify defective conditions that are curable and will make the Property comply with Property Acceptability Criteria when cured.

iii. Inspection by a Qualified Individual or Entity

If the Appraiser cannot determine that a Property meets Property Acceptability Criteria, an inspection by a qualified individual or entity may be required.

Conditions that require an inspection by qualified individuals or entities include:

- standing water against the foundation and/or excessively damp basements;
- hazardous materials on the site or within the improvements;
- faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation);
- evidence of possible pest infestation;
- leaking or worn-out roofs; or
- any other condition that in the professional judgment of the Appraiser warrants inspection.

Appraisers may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

Required Analysis and Reporting

The Appraiser must observe, analyze and report defective conditions and must also provide photographic documentation of those conditions in the appraisal report.

If inspection is required, the Appraiser must cite the reason for requiring an inspection.

b. Property Acceptability Criteria (08/19/2024) (changes in this section)

Property Acceptability Criteria forms the basis for identifying the deficiencies of the Property that the Appraiser must note within the appraisal report.

i. Legal Property Requirements

(A) Zoning

(B) Highest and Best Use

(1) Standard

The highest and best use of a site represents the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate.

(2) Required Analysis and Reporting

The highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

(C) Encroachments

(D) Easements and Deed Restrictions

ii. Externalities

(A) Definition

(B) Standard

(C) Required Analysis and Reporting

(1) Heavy Traffic

(2) Airport Noise and Hazards

(3) Special Airport Hazards (changes in this section)

The Appraiser must identify if the Property is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield and consider the effect of the airport hazards on the marketability when valuing the subject Property.

For Properties located in an Accident Potential Zone 1 (APZ 1) at military airfields, including New Construction, the Appraiser must report the hazard and consider the effect on the marketability when valuing the subject Property and must require compliance with the Department of Defense (DoD) Guidelines.

If the Property is New Construction and is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield, the Appraiser must note that the Property is ineligible for FHA insurance.

(4) Smoke, Fumes, and Offensive or Noxious Odors

The Appraiser must notify the Mortgagee if excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the Property.

The Appraiser must consider the effect of the condition in the valuation of the Property if the conditions exist but do not threaten the occupants or marketability.

iii. Site Conditions

(A) Property Eligibility in Special Flood Hazard Areas

The Appraiser must review the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM) and make appropriate notations on the applicable appraisal reporting form. If the Property appears to be located within a Special Flood Hazard Area (SFHA), the Appraiser must attach a copy of the flood map panel to the appraisal report.

The Appraiser must enter the FEMA zone designation on the reporting form, and identify the map panel number and map date. If the Property is not shown on any map, the Appraiser must enter “not mapped.” The Appraiser must quantify the effect on value, if any, for Properties situated within a designated SFHA.

(B) Coastal Barrier Resources System (changes in this section)

The Appraiser must stop work and notify the Mortgagee of the deficiency of Property Acceptability Criteria if the Property is located within a Coastal Barrier Resources System (CBRS) designated area.

The Appraiser must review the FEMA FIRM to determine if a Property is located within a CBRS. The FIRM will identify CBRS boundaries through patterns of backward-slanting diagonal lines, both solid and broken. If it appears that the Property is located in a CBRS, the Appraiser must review CBRS location maps to confirm.

(C) Mineral, Oil, and Gas Reservations or Leases

The Appraiser must analyze and report the degree to which the residential benefits may be impaired or the Property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The Appraiser should consider the following:

- the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease; and
- the hazards, nuisances, or damages that may arise or accrue to the subject Property from exercise of reservation or lease privileges on neighboring properties.

iv. New Construction Site Analysis

The Appraiser must obtain a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, signed and dated no more than 30 Days prior to the date the appraisal was ordered, before performing the appraisal on Proposed Construction, Properties Under Construction or Properties Existing Less than One Year.

The Appraiser must review the form and analyze and report any discrepancies between the information provided by the builder and the Appraiser's observations.

v. Nonstandard House Construction (changes in this section)

(A) Definition

Nonstandard House Construction refers to Properties that are unique or nontraditional in the market area, including log houses, earth sheltered housing, dome houses, or exhibit nonstandard characteristics such as houses with larger than typical living area or with lower than normal ceiling heights.

(B) Required Analysis and Reporting

The Appraiser must provide a comment on any nonconformity and analyze the market impact. Nonstandard housing is eligible provided the appraiser has adequate information to develop a reliable opinion of market value. A comparable of the same design and appeal as the Property being appraised is required unless the Appraiser provides adequate justification for the lack of similar comparable with adequate support for the relevance of the comparable sales selected.

The Appraiser may require additional education, experience, or assistance for these types of Properties.

vi. Modular Housing

vii. Accessory Dwelling Unit

viii. Additional Manufactured Home on Property

ix. Leased Equipment, Components, and Mechanical Systems

c. Gross Living Area (changes under this section)

i. Definition

ii. Required Analysis and Reporting

The Appraiser must:

- identify noncontiguous living area and analyze its effect on functional utility;
- ensure that finished basements and unfinished attic areas are not included in the total GLA; and
- use the same measurement techniques for the subject and comparable sales, and report the building dimensions in a consistent manner.

When any part of a finished level is below grade, the Appraiser must report all of that level as below-grade finished area, and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

In the case of nonstandard Properties and floor plans, the Appraiser must provide a comment on any nonconformity and analyze the market impact.

The Appraiser may apply a supplemental measurement standard if it does not conflict with these requirements and the Appraiser discloses the use of the standard.

iii. Additions and Converted Space

iv. Partially Below-Grade Habitable Space

v. Bedrooms

d. Utilities – Mechanical Components (02/16/2021) (changes in this section)

The Appraiser must notify the Mortgagee if mechanical systems do not appear:

- to have mechanical systems that meet community standards;
- to have reasonable future utility, durability, and economy;
- to be safe to operate;
- to be protected from destructive elements; or
- to have adequate capacity.

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. If the systems appear to be damaged or do not appear to function properly, the Appraiser must condition the appraisal for repair or further inspection.

e. Heating and Cooling Systems (changes in this section)

The Appraiser must observe the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of design, fuel or heat source.

f. Electrical System (changes in this section)

The Appraiser must observe the electrical system and notify the Mortgagee of the deficiency of Property Acceptability Criteria if there is readily observable evidence the electrical system is not adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.

g. Plumbing System (changes in this section)

The Appraiser must observe the plumbing system and notify the Mortgagee of the deficiency of Property Acceptability Criteria if there is readily observable evidence the plumbing system does not function to supply water pressure, flow and waste removal.

If the Property has a septic system, the Appraiser must visually observe it for any signs of failure or surface evidence of malfunction. If there are readily observable deficiencies, the Appraiser must require repair or further inspection.

h. Roof Covering (09/14/2015) (changes in this section)

The Appraiser must notify the Mortgagee of the deficiency of Property Acceptability Criteria if the roof covering does not prevent entrance of moisture.

The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard. The Appraiser must identify the roofing material type and the condition observed in the "Improvements" section of the report.

When the Appraiser is unable to view the roof, the Appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

i. Structural Conditions (09/14/2015)

The Appraiser must report on structural conditions so that the Mortgagee can determine if the foundation and Structure of the Property will be serviceable for the life of the Mortgage.

The Appraiser must perform a visual observation of the foundation and Structure of the improvements and report those results. If the Appraiser notes any structural issues, the

Appraiser must address the nature of the deficiency in the appraisal where physical deficiencies or adverse conditions are reported and require inspection.

j. Foundation (04/10/2025) (changes in this section)

The Appraiser must examine the foundation for readily observable evidence of safety or structural deficiencies that may require repair. If a deficiency is noted, the Appraiser must describe the nature of the deficiency and report necessary repairs, alterations or required inspections in the appraisal where physical deficiencies or adverse conditions are reported.

i. Basement

The Appraiser must notify the Mortgagee of the deficiency of Property Acceptability Criteria if the basement is not free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the Structure.

k. Environmental and Safety Hazards (01/24/2022) (changes in this section)

The Appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants.

Environmental and safety hazards may include defective lead-based paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the Structure from soil or other differential ground movements, subsidence, flood, and other hazards.

i. Lead-Based Paint

(A) Improvements Built Before 1978 (changes in this section)

The Appraiser must note the condition and location of all defective paint on the Structure and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements. The Appraiser must observe all interior and exterior surfaces, including common areas, stairs, deck, porch, railings, windows and doors, for defective paint (cracking, scaling, chipping, peeling, or loose).

(B) Condominium Units Built Before 1978

The Appraiser must observe the interior of the unit, common unit and exterior surfaces and appurtenant Structures of the specific unit being appraised; and address the overall condition, maintenance and appearance of the Condominium Project. The Appraiser must note the condition and location of all defective paint in the unit, common area and exterior, and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements.

l. Repair Requirements (09/14/2015) (changes in this section)

When observation of New or Existing Construction reveals noncompliance with, Property Acceptability Criteria the Appraiser must report the repairs necessary to make the Property comply, provide descriptive photographs, and condition the appraisal for the required repairs.

If compliance can only be effected by major repairs or alterations, the Appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal, within the reporting form.

Regardless of the Appraiser's suggested repairs, the Mortgagee will determine which repairs are required.

i. Limited Required Repairs (changes in this section)

The Appraiser must limit required repairs to those repairs necessary to comply with Property Acceptability Criteria

ii. As-Is Condition and Cosmetic Repairs (changes in this section)

The Appraiser may complete an as-is appraisal for existing Properties when minor property deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the Property. Cosmetic or minor repairs are not required, but the Appraiser must report and consider them in the overall condition when rating and valuing the Property.

If an element is functioning well but has not reached the end of its useful life, the Appraiser should not recommend replacement because of age.

iii. Defective Conditions Requiring Repair

iv. Conditions Requiring Inspection by a Qualified Individual or Entity

4. Valuation and Reporting Protocols

a. Photograph, Exhibits, and Map Requirements (06/27/2025)

b. Intended Use and Intended Users of Appraisal (09/14/2015)

c. Development of the Market Value (06/27/2025) (changes under this section)

i. Value Required

ii. Appraisal Conditions

(A) Definition

(B) Standard

(C) Required Analysis and Reporting (changes in this section)

The Appraiser must state in the appraisal report whether repairs, alterations or inspections are necessary to comply with the Property Acceptability Criteria applicable to the assignment.

The following table illustrates property conditions under which an Appraisal Condition must be made.

Report Conclusion	Appraisal Condition
1. There is/are no repair(s), alteration(s) or inspection condition(s) noted by the Appraiser. 2. Establishing the As-Is Value for a 203(k). 3. The Property is being recommended for rejection. 4. Intended use is for Pre-Foreclosure Sale (PFS) in accordance with 24 CFR § 203.370 or Claims Without Conveyance of Title (CWCOT) in accordance with 24 CFR § 203.368. 5. Intended use is for Real Estate Owned (REO) in accordance with 24 CFR § 291.100.	"As-is"
1. Proposed Construction where construction has not started. 2. Under Construction but not yet complete (less than 90%). 3. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work.	"Subject to completion per plans and specifications"

Report Conclusion	Appraisal Condition
1. Repair or Alteration Condition(s) noted by the Appraiser necessary to comply with the applicable Property Acceptability Criteria. 2. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work. 3. Under Construction, 90% or more complete with only minor finish work remaining (buyer preference items e.g., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for plans and specifications.	"Subject to the following repairs or alterations"
Required inspection(s) to meet Property Acceptability Criteria, as noted by the Appraiser.	"Subject to the following required inspection"

When New Construction is less than 90 percent complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.

When New Construction is 90 percent or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.

iii. Valuation Development

(A) Standard

(B) Required Analysis and Reporting

(C) FHA Data Requirements for the Subject and Comparable Properties

(D) Effective Age

(E) Approaches to Value

(1) Cost Approach to Value

(a) Land Valuation

***(i)* Standard**

If the cost approach is applicable, the Appraiser must estimate the site value. Acceptable methodology used to estimate land value include sales comparison, allocation, and extraction.

***(ii)* Required Analysis and Reporting (changes in this section)**

The Appraiser must include a summary of the supporting documentation and analysis in the appraisal. The Appraiser must maintain comparable land sales data and analysis or other supporting information in the Appraiser's file and include it by reference in the appraisal.

(b) Estimate of Cost New for Housing

(2) Income Approach to Value for Residential Properties

(3) Sales Comparison Approach

(a) Adjusting Comparable Properties

(b) Comparable Selection in Diverse Real Estate Markets

(c) Comparable Sale Selection in Rural and Slow Growth Markets

(d) Comparable Sale Selection in New Subdivisions (changes in this section)

The selected comparable sales must include at least one sale outside the subdivision or project and at least one sale from within the subdivision or project, when available, or comment on the lack of sales.

(e) Sales Concessions

(f) Bracketing

(g) Market Condition (Time) Adjustments

(F) FHA Appraisal Requirements for Market Conditions and Changing Markets

(G) Final Reconciliation and Conclusion

(H) Signature

d. Reporting Prior Sales (04/10/2025)

e. Remote Observation (08/19/2024)

5. Appraisal of Manufactured Housing for Title II Insured Mortgages (changes in this section)

a. Definitions (09/14/2015)

b. HUD Certification Label (09/14/2015)

c. Data Plate (09/14/2015)

d. Flood Zone (09/14/2015)

e. Measurement Protocols (09/14/2015)

f. Sales Comparison Approach for Manufactured Housing (11/02/2023)

g. Estimate of Cost for New Construction for Manufactured Housing (02/16/2021)

6. Condominium Projects

7. Valuation of Leasehold Interest

8. Unimproved Property Appraisal

9. Update of Appraisal (09/14/2015)

10. RESERVED FOR FUTURE USE

11. Programs and Products

12. Mixed Use One- to Four-Unit Single Family Properties

F. TITLE I INSURED PROGRAMS

G. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE I LOANS