



FHA Information on Water Contamination Crisis in Flint, Michigan Questions and Answers

The Federal Housing Administration (FHA) recognizes the emergency declaration for the residents of the State of Michigan due to water contamination.

As a result of this emergency, FHA has become aware that there are single family housing properties that may be affected by contaminated water in Genesee County, Michigan. Mortgagees and other stakeholders involved with FHA transactions are reminded that to be eligible for FHA insurance, a property must meet FHA's Property Acceptability Criteria as stated in the *Single Family Housing Policy Handbook* (SF Handbook) 4000.1, Section II.A.3.a.ii (F) and (J). The FHA Resource Center's [online knowledge base](#) has been updated to include the Q&As below.

Q: What evidence does FHA require to demonstrate that a property serviced by a public water system with unacceptable levels of contaminants is eligible for an FHA insured mortgage?

FHA requires lenders to ensure that each property has a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses and also to ensure that, each property is free of all known environmental and safety hazards, and adverse conditions that may affect the health and safety of the occupants. Lenders may require evidence that the property meets these requirements such as testing or remediation as required by:

- SF Handbook 4000.1 II.A.3.a.ii (F) (Requirements for Living Units) and (J)(Environmental)
- 24 CFR §200.926d (f) Water supply systems
- 24 CFR §203.52 Acceptance of individual residential water purification equipment

Q: How does a property affected by a contaminated public water system qualify for an FHA insured mortgage?

When public water systems do not meet the basic requirements, the property may qualify for an FHA insured mortgage if the individual water purification system meets all federal, state and local standards for such systems and the additional FHA requirements found in 24 CFR §203.52. Mortgagees underwriting loans on such properties must adhere to strict administrative and ongoing monitoring requirements, and must establish and maintain specific repair and replacement escrow accounts for each such property as required by:

- 24 CFR §203.52 Acceptance of individual residential water purification equipment

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Q: What additional requirements affect an FHA appraiser performing an assignment involving a property serviced by a public water system with unacceptable levels of contaminants?

To be eligible for an FHA insured mortgage, each property must have a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses and also must be free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants. Properties with individual water purification systems may be considered if the water purification equipment is certified by a local or state health authority. If the lender provides evidence of compliance, the appraisal may be completed “as is” and appraiser must include the evidence in the appraisal report. Otherwise, the appraiser must complete the appraisal under a hypothetical condition.

References:

- HUD Handbook 4000.1 II.B.3.c.vii (Minimum Property Requirements and Minimum Property Standards)
- 24 CFR §200.926d (f) Water supply systems
- 24 CFR §203.52 Acceptance of individual residential water purification equipment

Q. If the mortgagee is aware that a property is located in an area serviced by an unacceptable public water system with unacceptable levels of contaminants, must a water test be completed?

Yes. A water test is required for properties located in an area serviced by a public water system with unacceptable levels of contaminants.

Q: Will FHA allow endorsement of mortgages for FHA insurance on properties where a water test shows levels of contaminants are normal for standard drinking water?

Yes.

Q: Does FHA have any policies requiring water testing in Flint, Michigan and its surrounding areas?

A water test is required for properties located in areas serviced by public water systems with unacceptable levels of contaminants, including those contaminated by lead.

Q. What are mortgagees required to do when doing a Streamline Refinance on a property serviced by a public water system with unacceptable levels of contaminants?

Streamline Refinances do not require determination of compliance with HUD’s Minimum Property Requirements/HUD’s Minimum Property Standards.