

## FHA Transactions – Determining Stage of Construction:

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year.

- 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.

FHA treats the sale of an occupied Property that has been completed less than one year from the issuance of the CO or equivalent as an existing Property. CMG does not permit new construction manufactured homes.

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## Summary of Requirements for Proposed Construction

*(approved prior to the beginning of construction by either a Conditional Commitment, Early Start Letter or Building Permit for High Ratio loan)*

### **Low Ratio loan (90% and lower)**

1. Subterranean Termite Treatment Report – NPMA-99a & 99b (Termite Area)
2. Builders Certification (HUD 92541)
3. Final inspection by fee inspector (HUD 92051) or Local Authority.
4. Local Health Authority Approval on Well & Septic, if needed.
5. Flood insurance, if needed (Elevation Certification)

### **High Ratio loan (90.01% and higher)**

1. Subterranean Termite Treatment Report –NPMA-99a & 99b (Termite Area)
2. Builders Cert. (HUD 92541)
3. 1-year warranty (HUD 92544)
4. 10 year warranty & final inspection by fee inspector (92051) or local authority  
**Or**  
\*\*\*3 inspections by fee inspector (HUD 92051) or local authority  
**Or**  
\*\*\*Early Start letter & 3 inspections by fee inspector (92051) or local authority  
**Or**  
Building Permit and C.O. (or equivalent).
5. Local Health Authority Approval on Well & Septic, if needed.
6. Flood insurance, if needed (Elevation Certification)

**\*\*Only 2 inspections are required on a Modular home.**

**\*\*\*Early Start Letter – Mortgagee approved prior to construction. The Local Authority issued building permit and case number assigned before Mortgagee issues Early Start letter.**

## Summary of Requirements for Under Construction:

*Note: If early start letter is in file – treat as proposed*

### **Low Ratio loan (90% and lower)**

1. Subterranean Termite Treatment Report – NPMA-99a & 99b (Termite Area)
2. Builders Certification (HUD-92541)
3. Final inspection by fee inspector (92051) or Local Authority
4. Local Health Authority Approval on Well and Septic, if needed.
5. Flood insurance, if needed (Elevation Certification)

### **High Ratio loan (90.01% and higher)**

1. Subterranean Termite Treatment Report – NPMA-99a & 99b (Termite Area)
2. Builders Cert. (HUD 92541)
3. 1-year warranty (HUD 92544)
4. 10-year warranty & Final inspection by fee inspector (92051) or Local Authority  
Or  
Building Permit and C.O. (or equivalent)
5. Local Health Authority Approval on Well and Septic, if needed.
6. Flood insurance, if needed (Elevation Certification)

## Summary of Requirements Existing (New) less than 1 year never occupied (100% Complete)

*Note: If early start letter is in file – treat as proposed*

### **Low Ratio loan (90% and lower)**

1. Subterranean Termite Treatment Report – NPMA-99a & 99b (Termite Area)
2. Builders Certification
3. Appraisal 100% Complete
4. Local Health Authority Approval on Well and Septic, if needed.
5. Flood insurance, if needed (Elevation Certification)

### **High Ratio loan (90.01 % and higher)**

1. Subterranean Termite Treatment Report – NPMA-99a & 99b (Termite Area)
2. Builder cert. (HUD 92541)
3. 1-year warranty (HUD 92544)
4. 10-year warranty & Appraisal 100% Complete  
Or  
Building Permit and C.O. (or equivalent)
6. Local Health Authority Approval on Well and Septic, if needed.
7. Flood insurance, if needed (Elevation Certification)

## FHA FAQs on New Construction

From <https://portal.hud.gov/hudportal/HUD?src=/FHAFAQ> as of 3/6/2017.

### **Airport: Is a new construction property located within an Airport Runway Clear Zone eligible for FHA?**

If a proposed or newly constructed 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. A proposed or newly constructed property located in Accident Potential Zone I at military airfields may be eligible for FHA mortgage insurance provided that the mortgagee determines that the property complies with Department of Defense guidelines.

### **Appraisal: What new construction documents must the mortgagee provide the appraiser at assignment?**

The Mortgagee must provide the appraiser with 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.

For properties 90 percent completed or less, the Mortgagee must provide a copy of the floor plan, plot plan, and any other exhibits necessary to allow the appraiser to determine the size and level of finish of the house they are appraising.

For properties greater than 90 percent but less than 100 percent completed, the Mortgagee must provide the appraiser with a list of components to be installed or completed after the date of inspection.

For additional information see Handbook 4000.1 II.A.8.i.v. and II.D.1.b. available at [https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/handbooks/hsg](https://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg)

### **Construction Docs: What new construction documents must be in the case binder for site-built housing and condominiums?**

For a mortgage on a new construction site-built housing or condominium with an LTV greater than 90 percent, the mortgagee must obtain and include the following documents in the case binder:

- Form HUD-92541, Builder's Certification of Plans, Specifications, and Site;
- Form HUD-92544, Warranty of Completion of Construction;
- Evidence that the Property was pre-approved or the 10-year warranty plan:
  - Evidence of pre-approval is the Early Start Letter or copy of building permit issued by local authority prior to start of construction.
  - For a 10-year warranty plan, evidence of acceptance or enrollment in the plan is required; the application alone is not acceptable.
- Required inspections;
- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's "Termite Treatment Exception Areas" list:
  - Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.

Updated 3/6/2017. All FHA 4000.1 Handbook and CMG guideline requirements must be met. This is a supplemental reference document only.

- Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record, is required when the proposed Property is treated with a soil chemical termiticide. The Mortgagee must reject the use of post-construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

For a mortgage on a new construction site-built housing or condominium with an LTV of 90 percent or less, the mortgagee must obtain and include the following documents in the case binder:

- Form HUD-92541, Builder's Certification of Plans, Specifications, and Site;
- Final inspection or appraisal, if the Property is 100 percent complete;
- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's "Termite Treatment Exception Areas" list:
  - Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
  - Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record, is required when the proposed Property is treated with a soil chemical termiticide. The Mortgagee must reject the use of post-construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

**Inspections & Maximum Financing: What inspections are required for maximum financing of new construction site-built housing and condos?**

*As a reminder: CMG does not permit Manufactured Housing new construction.*

Inspection or Warranty requirements for maximum financing on site-built housing or condominiums are based on the status of construction.

**PROPOSED CONSTRUCTION** - The Mortgagee must obtain one of the following:

- copies of the building permit and Certificate of Occupancy (or equivalent);
- three inspections (footing, framing and final) performed by an FHA Roster Inspector on form HUD-92051, Compliance Inspection Report (for Modular Housing, footing and final only);
- three inspections (footing, framing and final) performed by the local authority with jurisdiction over the Property (for Modular Housing, footing and final only); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the Property or an FHA Roster Inspector.

**UNDER CONSTRUCTION** - The Mortgagee must obtain:

- copies of the building permit and Certificate of Occupancy (or equivalent); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the Property or an FHA Roster Inspector.

EXISTING FOR LESS THAN ONE YEAR (100 Percent Complete) - The Mortgagee must obtain:

- copies of the building permit and Certificate of Occupancy (or equivalent); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the Property or an FHA Roster Inspector; or
- an appraisal evidencing Property is 100 percent complete.

### **Termite / Pest: What is required to document termite treatment for new construction properties?**

New Construction Required Inspections:

- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's *Termite Treatment Exception Areas* list:
  - Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
  - Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record, is required when the proposed Property is treated with a soil chemical termiticide. The Mortgagee must reject the use of post-construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required

The *Termite Treatment Exception Areas* list is available on HUD's Single Family Housing Policy Handbook 4000.1 (SF Handbook) Supplemental Documents web page at [https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/handbook\\_references](https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_references)

### **Warranty / Early Start: When is a 10-year warranty or an Early Start Letter required?**

For maximum financing on new construction the property must be pre-approved or the borrower must be enrolled in a 10-year warranty plan.

Properties that are Under Construction or Existing for Less than One Year are limited to a 90 percent LTV unless they meet the Pre-Approval requirements or are covered with a HUD-accepted insured ten-year warranty, and they meet the Required Documentation for Maximum Financing found in Handbook 4000.1 II.A.8.i.iii. Pre-Approval refers to properties that are less than one year old and meet one of the following requirements:

- the property was appraised and the mortgagee issued form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value, before construction started;
- a building permit or its equivalent has been issued by a local jurisdiction (not applicable to Manufactured Housing); or
- the mortgagee issued an Early Start Letter.

Updated 3/6/2017. All FHA 4000.1 Handbook and CMG guideline requirements must be met. This is a supplemental reference document only.

The Early Start Letter refers to the document issued by the mortgagee in response to a builder's request to start construction before the appraisal is completed. The Early Start Letter indicates the mortgagee's approval of the property before issuance of form HUD 92800.5B and without affecting the maximum mortgage amount. The mortgagee can issue the Early Start Letter if local jurisdiction has issued a building permit and a case number has been assigned.

Ten-year warranty refers to an agreement between the borrower and a plan issuer which contains warranties regarding the construction and structural integrity of the borrower's dwelling securing the FHA-insured mortgage. The plan must be a HUD-accepted insured ten-year protection plan. Evidence of acceptance or enrollment in the plan is required; the application alone is not acceptable.

**Well / Septic: Is there any rule specifying the distance between a well and septic tank?**

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

**EXISTING CONSTRUCTION**

- Property Line – 10 feet
- Septic Tank – 50 feet
- Drain field – 100 feet
- Septic tank drain field reduced to 75 feet if allowed by local authority
- If the subject Property line is adjacent to residential Property then local well distance requirements prevail.
- If the subject Property is adjacent to non-residential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.

NOTE: Distance requirements of local authority prevail if greater than stated above.

**NEW CONSTRUCTION**

- Property Line – 10 feet
- Septic Tank – 50 feet
- Absorption Field – 100 feet
- Seepage pit or cesspool – 100 feet
- Sewer lines with permanent water tight joints – 10 feet
- Other sewer lines – 50 feet
- Chemically poisoned soil – 25 feet (reduced to 15 feet where ground surface is protected by impervious strata or clay, hardpan or rock)
- Dry well – 50 feet
- Other – refer to local health authority minimums

NOTE: Distance requirements of local authority prevail if greater than stated above.