



Lender and Appraiser Responsibilities Related to Environmental Hazards

Appraising Properties in Flint, Michigan and other areas similarly impacted Frequently Asked Questions

- Q1. Fannie Mae policy (*Selling Guide*, B4-1.4-08, Environmental Hazards Appraisal Requirements) requires the lender to make the final decision about the need for a water or plumbing inspection. Are inspections required in this scenario?**

It has been widely reported that the city of Flint's public water supply is unsafe for residents. For that reason, it may not be necessary to obtain a water inspection to confirm the problem. More recently, it has been reported that other municipalities face water contamination issues. The lender will need to determine when to rely on local reports to confirm the possibility of contamination or require an inspection to confirm the status of the subject property.

However, depending on the age of the property and materials used in the home's plumbing, it may be necessary to obtain a plumbing inspection to determine the impact the contamination has had on the pipes located on the property.

- Q2. What if the inspection determines the home's pipes are unsafe?**

If a plumbing inspection reveals that the damage to the plumbing on the property is severe enough to affect the safety of the property, the property is in C6 condition and ineligible for Fannie Mae financing until the issue has been remediated. There is one exception: properties in C6 condition remain eligible "as is" for High Loan-to-Value Refinance Options (*Selling Guide*, [B5-7: High Loan-to-Value Refinance Options](#)).

- Q3. What if the inspection determines the home's pipes are safe?**

If the plumbing inspection determines that the property's pipes are safe, the policies in [B4-1.4-08, Environmental Hazards Appraisal Requirements](#), apply. In that case, the appraiser would have to acknowledge the hazardous condition (the water contamination), note any remediation, address any impact on value and marketability, and make appropriate adjustments.

- Q4. What if the appraiser reports the impact on value is not measurable based on the market data available?**

It's likely the impact on values is reflected in recent comparable sales in the Flint area that are connected to the city's water supply. If the appraiser uses similarly impacted properties as comparable sales, the appraiser will most likely not be required to make further adjustments for the hazard. For the mortgage to be eligible for delivery to Fannie Mae, the appraiser must be able to develop an opinion of value for the subject property.



Q5. **Can water filtration systems be an acceptable form of remediation (for example, point-of-entry and/or point-of-use filters)?**

If the lender can determine that the installation of a water filtration system effectively remediates the safety concern, the property will be eligible for Fannie Mae financing. Fannie Mae policy requires lenders to disclose environmental hazards to the appraiser and determine whether inspections are needed and whether the property provides adequate security for the mortgage. Appraisers must determine a value and report any adverse impact the environmental hazards have on value and marketability. The appraiser must note the hazardous condition in the appraisal report, comment on any influence on value and marketability, and make appropriate adjustments in the overall analysis of the property's value. For more information, see the questions and answers below.