FHA vs. VA Financing: What Property Conditions Can Prevent a Home Sale?

Understanding FHA and VA appraisal requirements can help buyers and sellers avoid surprises, reduce delays, and keep a real estate transaction moving toward closing.

When buying or selling a home, the type of financing a buyer uses can make a difference in how the property is evaluated. Two popular mortgage options are Federal Housing Administration (FHA) loans and Department of Veterans Affairs (VA) loans.

Both programs help eligible buyers purchase homes, but they also have property condition requirements designed to protect the buyer and the lender. A home that needs repairs may still qualify for FHA or VA financing, but certain defects must be corrected before the transaction can close.

For sellers in San Diego County, understanding these requirements before listing a property can help prevent unexpected repair requests and closing delays.

1. FHA Financing: What Are the Property Requirements?

FHA loans are insured by the Federal Housing Administration and are often used by buyers seeking a home loan with a relatively low down payment.

For an FHA-insured mortgage, the property generally must meet HUD's minimum property requirements. The home must be **safe, sound, and secure.**

During the appraisal, the FHA-approved appraiser evaluates the property's market value and observes readily apparent conditions that could affect its eligibility for FHA financing.

Common areas of concern include:

- **Roof and structural condition:** The roof must provide adequate protection, and significant structural defects must be addressed.
- **Electrical systems:** Exposed wiring, unsafe electrical conditions, or other apparent hazards may require correction.
- **Plumbing and water supply:** Significant leaks, inadequate water service, or unsanitary conditions can be problems.
- **Heating:** The property must meet applicable heating requirements.
- **Health and safety hazards:** Conditions that threaten occupants' health or safety must be addressed.
- **Pest damage:** Evidence of wood-destroying organisms or resulting structural damage may require further evaluation or repairs.
- **Access and drainage:** Unsafe access, serious drainage problems, or conditions that threaten the home's stability may affect eligibility.
- **Paint condition:** Deteriorated paint in homes built before 1978 can raise lead-based paint concerns and may require corrective action.

FHA requirements are not intended to make every home look brand-new. Normal wear and tear, dated finishes, and many cosmetic imperfections do not automatically disqualify a property.

The key question is whether the condition creates a safety, soundness, security, or other eligibility concern under current FHA policy.

2. VA Financing: What Are the Property Requirements?

VA loans help eligible veterans, service members, and other qualifying borrowers purchase homes. The Department of Veterans Affairs establishes minimum property requirements (MPRs) intended to ensure the home is safe, structurally sound, and sanitary.

VA financing is not limited to newly renovated homes. Older properties can qualify, provided they meet the applicable requirements.

Conditions that may create problems include:

- **Roof defects:** Significant leaks, deterioration, or a roof that does not adequately protect the home.
- **Structural problems:** Major foundation cracks, unstable structures, or apparent structural deterioration.
- **Unsafe electrical conditions:** Exposed wiring, dangerous electrical defects, or other apparent hazards.
- **Plumbing and sanitation issues:** Serious leaks, inadequate water supply, or malfunctioning sewage disposal.
- **Heating deficiencies:** A lack of heating that meets applicable VA requirements.
- **Water intrusion and drainage:** Conditions that threaten the structure or create unsanitary living conditions.
- **Wood-destroying organisms:** Evidence of infestation or damage that compromises the structure.
- **Access and property hazards:** Unsafe access or other property-related conditions that violate applicable requirements.

VA requirements can also address matters beyond the home's interior, including access, utilities, water supply, sewage disposal, drainage, and certain location-related hazards.

Like FHA financing, VA financing does not automatically require a home to be cosmetically updated. Minor wear and tear or dated decor alone generally will not prevent approval.

3. Property Conditions That May Cause Problems With Either Loan

The following examples are useful for buyers and sellers to recognize early.

Property Condition	Potential Financing Concern
Active roof leak	Water intrusion and inadequate protection
Major foundation or structural damage	Structural safety and stability
Exposed or hazardous wiring	Fire or electrical safety risk
Significant plumbing leaks	Damage, sanitation, or water supply concerns
Nonfunctioning required heating	Failure to meet applicable heating requirements
Broken windows or hazardous doors	Security and occupant safety
Peeling or deteriorated paint in an older home	Potential lead-based paint hazard
Active termite infestation or structural wood damage	Structural integrity and pest-related concerns
Standing water or severe drainage problems	Water intrusion, health, or structural risks
Unsafe stairs, missing required handrails, or serious trip hazards	Occupant safety
Inadequate water or sewage facilities	Sanitation and habitability concerns

Important: These examples do not mean every listed condition automatically disqualifies a property. The appraiser's findings, the applicable program guidelines, the severity of the defect, and the lender's underwriting decision all matter.

4. FHA vs. VA: Are the Requirements Different?

FHA financing

- Follows HUD's property acceptability requirements.
- Requires attention to safety, soundness, security, and applicable program standards.
- May require repairs or additional documentation before the lender can approve the property.

VA financing

- Follows VA's minimum property requirements.
- Emphasizes a safe, structurally sound, sanitary property and applicable access, utility, and site requirements.
- May require repairs before the VA loan can be completed.

Neither program automatically rejects a home simply because it is old, needs cosmetic updates, or has dated flooring and cabinets.

The property's actual condition matters more than its age or decorating style.

5. Does an FHA or VA Appraisal Include a Home Inspection?

No. This is one of the most important distinctions for buyers to understand.

An appraisal is primarily used to estimate market value and evaluate the property under the applicable loan program's requirements. It is not a substitute for a comprehensive home inspection.

An appraiser may identify visible concerns, but the appraisal generally does not involve testing every appliance, operating every system, or evaluating every concealed component.

Buyers should strongly consider obtaining an independent home inspection, even when the lender's appraisal does not identify major problems.

A home can meet FHA or VA minimum property requirements and still have maintenance issues or defects that a buyer should investigate.

6. What Happens if Repairs Are Required?

If an appraiser identifies a condition that does not meet applicable requirements, the lender may require corrective action before closing.

Depending on the circumstances, the parties may be able to:

- Negotiate for the seller to complete the required repairs.
- Agree on another acceptable repair arrangement, subject to lender approval and program rules.
- Obtain qualified documentation or additional evaluations when required.
- Reassess the transaction if the necessary repairs cannot be completed or the property cannot qualify.

Not every repair can simply be deferred until after closing. Serious deficiencies may have to be corrected before the loan can be approved. Repair escrows or other alternatives are available only in circumstances permitted by the applicable program

and lender.

Buyers and sellers should consult the loan officer before agreeing to a repair strategy.

7. How Sellers Can Prepare Before Listing

If you plan to sell a home that may attract FHA or VA buyers, a little preparation can help reduce the risk of appraisal-related delays.

Before listing, consider:

- Checking for visible roof damage or active leaks.
- Repairing known plumbing leaks.
- Addressing obvious electrical hazards.
- Confirming that required heating equipment is present and in serviceable condition.
- Correcting hazardous broken windows, doors, stairs, or handrails.
- Addressing deteriorated paint where lead-based paint rules may apply.
- Looking for visible wood damage, pest activity, or significant water intrusion.
- Making sure the property has appropriate access and functioning water and sewage facilities.
- Keeping receipts, permits, and repair documentation when available.

A seller does not necessarily need to renovate the kitchen, replace dated flooring, or modernize the bathrooms to attract FHA or VA buyers. Focus first on conditions that could affect safety, structural integrity, sanitation, or loan eligibility.

8. What This Means for San Diego County Homeowners

San Diego County has a wide variety of properties, from older homes and condominiums to rural properties with private wells, septic systems, outbuildings, and larger parcels.

For these properties, it is especially helpful to identify potential concerns early. A rural property may require closer attention to water supply, sewage disposal, access, drainage, or other site-specific requirements.

The best approach is to evaluate each property individually rather than assume that all FHA or VA transactions follow the same repair checklist.

The Bottom Line

FHA and VA financing can open the door to homeownership for many buyers. A property does not have to be perfect or newly remodeled, but it must meet the applicable program requirements.

For sellers, addressing obvious safety and maintenance concerns before listing can help avoid surprises. For buyers, understanding the difference between an appraisal and a home inspection is essential to making an informed decision.

If you are preparing to buy or sell a home in San Diego County, a real estate professional can help you anticipate potential issues and coordinate with your lender when questions arise.

Thinking About Selling Your Home?

Contact Steve Cardinalli with Century 21 Affiliated, Fine Homes & Estates to discuss your property, prepare for the market, and develop a strategy for reaching qualified buyers.

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Disclaimer: This article provides general educational information and is not a guarantee of loan approval or property eligibility. FHA and VA requirements may change, and lenders may impose additional conditions. Consult your mortgage lender and the current applicable program guidelines for a determination regarding a specific property.

Additional Resources

HUD: FHA Single Family Housing Policy Handbook

U.S. Department of Veterans Affairs: VA Home-Buying Process