

Memorandum

Date: 10 November 2006

To: Faculty of Environmental Law Practicum Course

From: Gino D'Angelo

Subject: Lender requirements for home mortgage loan: inspection of onsite wastewater management systems

Abstract This report describes a survey of home mortgage loan lenders and their requirements regarding inspection of wastewater management systems prior to granting loans. I did not find a mortgage company that required such inspections unless it was mandated by state or local regulations or an obvious wastewater management malfunction was identified by an appraiser.

Methods

I conducted a systematic internet search for information about requirements by individual mortgage lenders regarding inspection of onsite wastewater management systems prior to granting a loan. I used the www.google.com search engine with the following search phrases: mortgage septic inspection, mortgage septic requirement, mortgage inspection wastewater. If the first twenty results for each of these searches yielded no useable information, I conducted similar searches on www.yahoo.com, and www.lexisnexis.com. I then contacted by phone the top ten mortgage companies listed in the 2005 Forbes 500 list to learn their requirements. In phone communication with individual mortgage companies, I inquired, "Does your company require borrowers to have an home inspection conducted including inspection of onsite wastewater management systems-septic systems?".

Results And Discussion

My internet search and phone communications with representatives from mortgage companies failed to identify a lender that required inspection of onsite wastewater management systems in order to grant a mortgage (Table 1). Some law discussion forums indicated that certain unnamed lenders required such inspections, but my search suggested that these claims were unfounded. Such law discussion forums also indicated that the Federal Housing Authority/Department of Housing and Urban Development and the Department of Veterans Affairs required inspection of septic systems for homes purchased through their programs. However, these claims appeared to be incorrect (Appendices A and B). Personal communication with mortgage company representatives and the documents in Appendices A and B suggested that an inspection of wastewater management systems is only required when state or local regulations require it, or when an appraiser detects an obvious malfunction of the system.

Table 1. Listing of top ten mortgage companies from the 2005 Forbes 500 list, which were contacted 10 November 2006 regarding their requirement of a wastewater management system inspection in order to grant a home mortgage loan.

Mortgage Lender	Telephone	Home Inspection Required	Septic Inspection Required	Comments ^a
Citigroup	1-800-667-8424	No	No	
Bank of America	1-888-293-0264	No	No	
Wells Fargo	1-877-937-9357	No	No	
Wachovia	1-800-922-6267	No	No	
BB&T	1-800-226-5228	N/A	N/A	Required personal information.
Golden West Financial	N/A	N/A	N/A	Company acquired by Wachovia in 2005.
Marshall and Ilsley	1-888-464-5463	N/A	N/A	Out of lending area. No information available.
AmSouth Bancorp	1-800-267-6884	N/A	N/A	Required personal information.
Banco Popular	1-888-499-3356	No	No	
Synovus Financial	1-877-656-2675	N/A	N/A	Required personal information.

^a The agent I spoke to required personal information (social security number, address, phone number, salary, etc) probably to start a loan application for me, before they would divulge any information.

Appendix A. Excerpted headings and passage from a letter by the U.S. Department of Housing and Urban Development about inspection of onsite wastewater management systems for Federal Housing Administration home mortgage loans.

Excerpted letter follows:

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000**

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

December 19, 2005

MORTGAGEE LETTER 2005-ML-48

TO: ALL APPROVED MORTGAGEES
ALL APPROVED APPRAISERS

SUBJECT: FHA Repair and Inspection Requirements for existing
properties and revisions to FHA Appraisal Protocol

* Septic: test or inspection required only if evidence of system failure, if mandated by state or local jurisdiction, if customary to the area, or at lender's discretion.

Appendix B. Letter regarding inspection of home onsite wastewater management systems for home loan mortgage applications through the Department of Veterans Affairs. Complete letter follows:

June 19, 1998

In Reply Refer To: 325/262 Information Letter 26-98-05

TO: All Lenders, SARs, Appraisers and Compliance Inspectors

SUBJ: Individual Septic System Inspections

1. This letter is to clarify VA policy requiring health authority approval of individual septic systems.
2. Health authority approval of individual septic systems will only be called for when the fee appraiser (or other source) indicates there is an obvious question as to the operation of the septic system. This can be any available information or comment that indicates there may be a problem, (e.g. detection of a strong odor in the area where the septic system is located, effluent bubbling to the surface, broken pipes, disclosure forms, or areas -- such as a particular subdivision, or county area -- where septic system failures have been known to occur).
3. This policy will become effective as of the date of this letter. If you have any questions, please call Mr. Richard Harris at (216) 522-3595.
4. We appreciate your cooperation and participation in the VA Home Loan Guaranty Program.

/s/

JAMES L. BRUBAKER, JR.
Loan Guaranty Officer
DEPARTMENT OF VETERANS AFFAIRS
Regional Office
1240 East Ninth Street
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