



MSF FHA GUIDELINES

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FHA

- **FOR ANY GUIDELINES NOT SPECIFICALLY ADDRESSED, PLEASE REFER TO**
 - HUD 4000.1 in [Allregs](#) or [HUD Online Handbook](#) for case numbers issued on or after September 14, 2015

4506T

- A fully executed IRS Form 4506T must be included in all loan files except for non-credit qualifying streamline/IRRRL refinance transactions
- Transcripts are required to verify all W-2's, 1099's and/or tax returns submitted and/or used for qualifying per published guideline
 - If non-taxable income is a source of income, and cannot be validated through 4506T transcripts, then the following must be provided:
 - Tax transcript(s) showing "No Record of Return Filed", and,
 - Alternative validation documentation such as, but not limited to, 1099 transcripts, award letters or bank statements
- If corporate or partnership business income is used for qualifying, a separate fully executed IRS Form 4506-T for that business must be included in all loan files except for non-credit qualifying streamline refinance transactions
 - Transcripts are required to verify all income submitted and/or used for qualifying per published guideline
 - Transcripts are required to verify business tax returns and subsequent amendments
- If transcripts reflect any tax amount due and owing, evidence paid in full or payment plan to include in debt ratios may be required at underwriter discretion
- If a loan is closed between January 1st and May 31st of the calendar year AND the most recent year tax return is being used to qualify BUT the tax transcripts are not yet available, the following must be provided:
 - Most recent year tax transcript showing "No Record of Return Filed" and,
 - Copy of the most recent year tax return, and,
 - Evidence of e-filing or stamped tax returns for most recent year, and,
 - Copy(s) of W-2's/1099's (as applicable), and,
 - Previous year(s) transcripts per published guidelines
 - NOTE: If a loan closes on or after June 1st of the calendar year, transcripts must be received by MSF
- If the borrower has filed an extension
 - If an extension has been filed for the current tax year and the loan is closing prior to the extension deadline (October 15th for most taxpayers), all of the following must be provided:
 - Evidence of filed extension (IRS Form 4868) & of tax payment made (if applicable),
 - Most recent year tax transcript showing "No Record of Return Filed" and,
 - One of the following:
 - Previous year(s) transcripts per published guidelines, or
 - Evidence of e-filing or stamped tax returns for most recent year
 - Loans with an extension filed that are closing after the extension deadline (October 15th for most taxpayers) for the current tax year, must provide evidence of filed tax returns
 - NOTE: If a loan closes after December 1st of the calendar year, transcripts are required for all loans
- If the borrower has filed their most recent year tax returns and the transcripts are flagged for limitations, the following must be provided:
 - Request tax transcripts through normal means and acquire documentation showing the transcripts are not available due to the above IRS privacy/identity theft issues and,
 - Borrower orders the tax transcripts directly and provides them to MSF, and,
 - The file contains the most recent W-2(s), and,
 - A verbal verification of employment is performed to confirm the W-2 and income used for qualifying

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Age of Documents

Type of Document	Length of Validity to Note Date
• Ownership & Encumbrances (O&E)	• 14 days
• Payoff Statement FHA Streamer	• 30 days
• Survey	• 180 days

Appraisal Requirements

- All new appraisals, must be ordered through Mercury Network. To access Mercury Network, please click [here](#)
 - Not applicable for Correspondent
 - Not applicable for Retail
- For properties requiring a second appraisal:
 - appraisal must be completed by an FHA approved roster appraiser and completed as a FHA appraisal

Borrower Eligibility

- Eligible
 - U.S. Citizens with a valid U.S. Social Security Number
 - Lawful permanent or non-permanent residents of the United States with a valid U.S. Social Security Number
- Ineligible, including but not limited to
 - Any individual without a valid U.S. Social Security Number
 - Individuals with a U.S. Individual Taxpayer Identification Number (ITIN) – An ITIN is formatted like a SSN but begins with “9”
 - No valid SSN begins with “9”
 - Currently Incarcerated
 - Foreign Nationals
- Non-Occupant Co-Borrowers
 - Maximum number of non-occupying co-borrower(s) is one; “one” being defined as a single household such as a mother and father living together

CAIVRS (Credit Alert Interactive Voice Response System) Number(s)

- Results must be obtained through [FHA Connection](#)
- All files must have clear CAIVRS prior to closing
- Not required on non-credit qualifying streamlines
- Defaulted CAIVRS Numbers
 - If the borrower is currently delinquent on any federal debt, VA mortgage, Title I Loan, Federal student loan, SBA loan, Federal taxes or has a lien against the property for debt owed to the United States, the borrower is ineligible until the delinquent account is brought current or satisfied

Case Warnings

- Credit Alert Sanctions
 - Any case number with “Credit Alert Sanction Warning” must be cleared

Credit

- Alternative Credit Requirements
 - Any alternative credit must be reporting on a credit report or on a credit supplement
- Short Refinances
 - Short refinances/short payoffs for the subject property currently owned by borrower are ineligible
- Frozen Credit
 - All bureaus must be active and reporting; frozen credit is not permitted

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Departure Residence

- Applies to properties vacated within 60 days of loan application

Disaster Areas

- Any property area located in a FEMA declared disaster area requiring individual assistance or as determined by MSF
 - Specific property search see <http://www.disasterassistance.gov/>
- The disaster policy should be followed during an ongoing disaster and up to 90 days from the FEMA declaration date
- Properties with an appraisal effective date after the date of the disaster require no further documentation
- Properties with an appraisal effective date prior to the date of the disaster, appraiser to provide a 1004D update report, prepared by a certified FHA Roster Appraiser to verify home is not affected
- The inspection report must, at a minimum, include:
 - Disaster Type
 - Loan Number
 - Borrower Name
 - Property Street Address, County, City, State, and Zip
 - Date of Certification
 - Order Number
 - Name of person inspecting
 - Signature
 - License number of appraiser/inspector
 - Address the specific disaster and indicate any apparent damage
- The inspector must indicate whether:
 - He or she was able to view the property
 - Property has obvious damage that is visible as viewed from the street
 - There are damaged properties on the street/neighborhood
 - There is roof damage there is structural damage
- Any damage identified during a disaster inspection:
 - Appraiser must provide a damage inspection report with interior and exterior photos
 - New appraisal is required supporting loan amount if value has declined since effective date of original appraisal
- The following photo requirements apply to all disaster inspection types:
 - Front of subject
 - Address verification (house number and street sign)
 - Subject property visible damage
 - Street scene
- For condos, a photo of the lobby is required in addition to a photo of the building. If the inspector cannot enter the building for any reason (such as, safety, extensive damage, etc.), other options are available in lieu of a photo of the lobby. The inspector may take a photo of the lobby through the front window or take a photo of the lobby from as close as possible. If these options are not available, the inspector can comment about what is visible from the outside of the building and whether it was likely that any damage may have occurred to the interior.
- If multiple disasters have occurred the inspection must be dated after the most recent event
- Obtain an updated Certificate of Insurance to ensure coverage is:
 - Adequate to protect against future loss to property, and
 - Obtained or maintained with respect to affected property
- Disaster inspections are not required on new FHA transactions endorsed by FHA prior to the disaster date
- Disaster inspections are not required for FHA Streamline without Appraisal transactions

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Down Payment Assistance Programs (DPA)

- Down Payment Assistance and/or Grants acceptable if [Homeownership Assistance Program](#) is FHA approved for the property state and if MSF is approved with the DPA provider (if required by provider)
 - Manufactured homes are ineligible
 - Manual underwrites are ineligible

Electronic Signatures

- Electronic signatures are permitted on all origination documents, including purchase contracts, with the exception of the borrower's authorization form

Escrow Holdback/Repair Escrows

- The property must be in average condition at the time of closing
- Payment to the contractors will be made by MSF after the following has occurred:
 - Invoices have been provided to and approved by MSF
 - An appraiser/inspector engaged by MSF has verified the completion of the repair work
- Repairs must be completed within 60 days (extensions may be granted on a case by case basis)
- If the work is not completed within 60 days, all remaining funds will be applied to the principal balance of the new loan
 - Should the funds be applied to the principal balance the homeowner will be responsible for paying all contractors for any work performed out of his or her own funds, as the escrow funds will no longer be available to pay for the repairs
- Fully executed escrow agreement required in closing package
- Required after repairs are completed
 - [Fannie Mae Form 1004D](#) with photos
- One draw permitted
- After all repairs have been completed and inspections performed any excess funds will be disbursed in the following manner
 - Financed escrow funds will be applied to the principal balance of the new loan
 - Non-financed escrow funds will be refunded to the original payor
- Underwriter to complete [HUD-92300](#) to indicate that the repair escrow has been established
- HUD REO Properties
 - Follow FHA guidelines
- Non-HUD REO Properties
 - Repair escrows are allowed only for property repairs that cannot be completed due to inclement weather:
 - Underwriter approval required on a case-by-case basis
 - Holdback is 150% amount of highest bid
 - Dwelling must be habitable, safe and essentially complete
 - The holdback cannot be for any MPR (minimum property requirement) issue
 - Not allowed for structural repairs and foundation work
 - New Construction Repair escrows permitted for exterior repairs that cannot be completed due to inclement weather – for new construction properties, items such as landscaping, pools, decks, sod, etc. may remain incomplete due to weather-related situations
 - Appraiser must indicate "subject to" on appraisal and list all required repairs
 - For Escrow Holdback amounts up to \$500, one bid for each repair required for existing construction from an appropriate licensed, bonded tradesperson or copies of paid receipts for material used
 - For Escrow Holdback amounts above \$500, two bids for each repair required for existing construction from an appropriate licensed, bonded tradesperson

Gift Funds

- Not applicable to retail
- For all credit qualifying loans with a qualifying credit score of 640 or below AND using gift funds, the following requirements apply:

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- No 30 day or greater late payment reported for the most recent 12 month period
- No collection accounts reported open in the most recent 12 month period
 - o Excludes medical collections
- Verification of Rent required
- Maximum payment shock of 150%
- 2 months seasoned reserves
 - o 'Seasoned' defined as 60 days

Higher Priced Mortgage Loans (HPML/Section 35)

- Any additional agency guidelines must be followed accordingly
- HPML (section 35) applies only to transactions on a primary residence
- Higher priced mortgage loans under 12 C.F.R. Section 1026.35 are subject to the following:
 - An escrow account for taxes and insurance must be established for a five (5) year minimum
 - o For projects such as condominiums and PUD's where the property insurance is collected as part of the borrowers homeowners association fee and remitted by the homeowners association to the insurance provider, the escrow account must be established for taxes and if applicable any mortgage insurance and any individual homeowners insurance policy
 - A second appraisal is required in the following instances
 - o Seller acquired property 91-180 days prior to the date of the new purchase contract and new sales price exceeds the previous sale price by more than 20%
 - If the seller acquired property 90 days or less prior to the date of the new purchase contract and new sales price exceeds the previous sale price by more than 10%, the loan is ineligible for HPML
 - The second appraisal cannot be charged to the borrower
 - o Transaction is exempt from the second appraisal requirement if borrower is purchasing the property from any of the following:
 - A local, state, or federal government agency
 - A person who acquired title on the property via foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure through that person's exercise of rights as the holder of a defaulted loan
 - A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who itself acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or nonjudicial procedure
 - A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets
 - An employer or relocation agency in connection with an employee relocation
 - A service member, as defined in 50 U.S.C. appendix 511(1), who received a deployment or permanent change of station order after purchasing the property
 - o The second appraisal requirement may also be waived if the property is located in any of the following:
 - A federal disaster area if and for as long as the requirements of title XI of FIRREA have been waived by the federal financial institutions regulatory agencies
 - A rural county, as published by the CFPB
- The following requirements apply to a loan subject to the HPML Appraisal Rule:
 - o A disclosure is required within three business days of receiving an application that the borrower is entitled to a free copy of any appraisal the creditor orders and can also hire their own appraiser at their own expense for their own use
 - o A written appraisal must be performed by a certified or licensed appraiser in conformity with USPAP and Title XI of FIRREA and its implementing regulations (see Appendix N Safe Harbor)
 - o An interior inspection of the property must be performed by the appraiser
 - o Copies of appraisals must be delivered to the borrowers no later than three business days before closing

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- Business Day defined - Business day for purposes of this Final Rule is defined as when “the creditor’s offices are open to the public for carrying on substantially all of its business functions.”
- Points and fees may be reduced to a level so the loan is no longer a HPML

Inducements to Purchase

- Expenses paid by the seller above and beyond reasonable and customary closing costs and pre-paid expenses are considered an inducement to purchase and result in a dollar-for-dollar reduction to the sales price before applying the appropriate LTV ratio
- Personal property items such as cars, boats, riding lawn mowers, furniture, televisions, etc., given by the seller to consummate the sale result in a reduction to the mortgage
 - The value of the item(s) must be deducted from the sales price and the appraised value of the property (if not already done so by the appraiser) before applying the LTV ratio
 - Value of items must be established and cannot reflect zero value
 - Either garage sale value or if new, a receipt for the cost must be provided
- Inducements to purchase include but are not limited to the following:
 - Seller-paid closing costs and pre-pays in excess of the allowed amount based on program or in excess of the actual closing costs and pre-paid expenses
 - Repair allowances
 - Excess rent credit

Ineligible Income

- Mortgage Credit Certificates (MCC)
- Projected/Expected Income

Ineligible Programs

- Section 184 Indian Housing Guarantee Program
- Home Equity Conversion Mortgage (HECM)
- Standard and Streamline 203k programs on Wholesale
- Standard 203k program on Retail
- **Streamline 203k on Retail is Temporary suspended (see announcement 29-17R)**
- Condos that are not DELRAP or HRAP approved
- FHA Refinance of Borrowers in Negative Equity Positions (aka short refinance)
- FHA HAWK (Homeowners Armed with Knowledge)
- Purchase of a second home
- Sweat Equity as down payment
- Disaster Victims 203(h)
- Texas 50(a)(6)

Ineligible Properties

- Manufactured housing in a flood zone
- Property that was previously a ‘meth house’, even if cleaned
- Working farms, ranches and orchards
- Hero/Pace liens
- Cooperative projects

Insurance

- All borrowers on loan and subject property address must be listed on proof of insurance form
- Term of coverage:
 - Purchase Loans: Policy must extend for minimum twelve months from the date of closing
 - Refinance Loans: Existing policy will be accepted provided:
 - Expiration date of the policy is clearly stated
 - Sufficient impounds are collected to renew coverage at the due date

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- Existing coverage extends a minimum of 45 days beyond the note date
 - If the policy will expire within 45 days, MSF requires evidence of renewal for one year
- Hazard Insurance
 - Dwelling coverage amount must be sufficient to cover loan amount, rebuild cost/cost-new per appraisal, or replacement cost per agent
 - Coverage on out buildings may not be included in determining/calculating sufficient coverage
 - Excluding land value from the appraised value is not permitted in determining/calculating sufficient coverage
 - Manufactured Homes:
 - The modified sub-total listed on the appraisal, less any outbuildings, may be used for determining sufficient coverage
 - A replacement cost endorsement is acceptable to compensate for the required amount of coverage
- Mortgagee Clause
 - Mortgage Solutions of Colorado LLC, ISAOA
5455 North Union Blvd
Colorado Springs, CO 80918
Loan Number _____
 - Not applicable for Correspondent

Loan Terms

- Standard Balance Fully Amortizing Fixed Rate
 - 15, 20, 25, & 30 year terms
- High Balance Fully Amortizing Fixed Rate
 - 15 & 30 year terms
- Standard Balance Fully Amortizing Three Year Adjustable Rate Mortgage (3/1 ARM)
 - 30 Year Term
 - Fully Amortizing
 - 2.25% Margin
 - 1 Year Constant Maturity Treasury Index
 - 1/1/5 Cap
- Standard Balance Fully Amortizing Five Year Adjustable Rate Mortgage (5/1 ARM)
 - 30 Year Term
 - Fully Amortizing
 - 2.25% Margin
 - 1 Year Constant Maturity Treasury Index
 - 1/1/5 Cap
- Buydowns ineligible

Manufactured Home

- No single-wides
- One unit only
- At least 3 comparables must be manufactured and support value
- Comparable sales must have closed within the last six months
 - Sales may exceed six months, but never exceed twelve months
 - Appraiser must provide acceptable comment(s) for comparable(s) that exceed six months
- Documentation Requirements
 - Appraiser to verify home is attached to permanent foundation
 - Title policy to include manufactured housing endorsement
 - Affixation affidavit signed by borrower at closing
 - Purchase transaction title to be purged prior to closing
 - All refinance transactions title must be purged prior to closing

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Pre-Closing Requirements

- All credit qualifying loans require a pre-closing soft pull credit report
 - Pre-closing soft pull credit report is not required for non-borrowing spouse credit report in community property states
 - Any significant debt load increases and/or substantial payment increases may require a new credit report per underwriting discretion
 - Additional derogatory credit reporting will require a new credit report
 - Any new disputed account or a dispute now reflected on an existing trade line must meet product specific guidelines for disputed accounts
 - If requirements cannot be met, a new credit report and AUS with dispute removed may be required
 - Any new inquiry reflected on the soft pull credit report must be explained in writing
 - If a new inquiry is reflected from the originating entity, the new credit report must be provided and used for qualifying purposes as typically soft pull updates and credit supplementing do not result in new inquiries
 - Documentation will be required to ascertain that no new credit report was obtained
 - If the inquiry results in a new debt and not reflected on credit, provide documentation of current payment and balance to be included in DTI
 - The soft pull credit report must be no more than 14 calendar days before Note date
- **For Applications on or after September 22, 2017**
 - All credit qualifying loans require UDM (undisclosed debt monitoring)
 - UDM monitoring is not required for a non-borrowing spouse in community property states
 - Any significant debt load increases and/or substantial payment increases may require a new credit report per underwriting discretion
 - Additional derogatory credit reporting will require a new credit report
 - Any new disputed account or a dispute now reflected on an existing trade line must meet product specific guidelines for disputed accounts
 - If requirements cannot be met, a new credit report and AUS with dispute removed may be required
 - Any new inquiry reflected on the UDM reporting must be explained in writing
 - If the inquiry results in a new debt and not reflected on credit, provide documentation of current payment and balance to be included in DTI
 - (Wholesale Only) If a new inquiry is reflected from the originating entity (BP), the new credit report must be provided and used for qualifying purposes
 - Documentation will be required to ascertain that no new credit report was obtained
- All credit qualifying loans require a pre-closing MERS verification
 - The pre-closing MERS verification must be no more than 14 calendar days before Note date

Property Taxes

- New Construction
 - Property taxes for new construction properties must be calculated based on 0.75% of the fully assessed property value or sales price, whichever is greater
 - New construction properties in California calculate based on 1.25% of the sales price
 - In addition to any Mello-Roos taxes or other special assessments as applicable
 - New construction properties for attached townhomes in Colorado calculate based on 0.50% of the sales price
 - New construction properties in Texas calculate based on 2.25% of the sales price
 - New construction properties in Michigan calculate based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
 - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
 - Evidence of the actual SEV either from title or from the Michigan Tax assessor
 - Borrowers must sign new construction tax estimate disclosure at closing
 - In lieu of using the percentage calculation above, other acceptable documentation that may be used to calculate the property taxes are:

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- A statement of the estimated property taxes from the county assessor, or
- A statement of the estimated property taxes from the title/escrow agent handling the transaction
- Existing Construction
 - Purchases in California are calculated based on 1.25% of the sales price
 - In addition to any Mello-Roos taxes or other special assessments as applicable
 - Other acceptable documentation that may be used to calculate the property taxes are:
 - A statement of the estimated property taxes from the county assessor, or
 - A statement of the estimated property taxes from the title/escrow agent handling the transaction
 - Purchases in Michigan are calculated based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
 - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
 - Evidence of the actual SEV either from title or from the Michigan Tax assessor
 - All other states would use the amount listed on the tax certificate or title commitment

Septic Inspections

- For all properties, a septic test or inspection is required if any of the following apply:
 - Property has been vacant for over one year
 - Not required for HUD REO properties unless required by local jurisdiction
 - Evidence of system failure
 - Septic inspections are mandated by state or local jurisdiction

Termite Inspections

- Will be required if the loan file indicates a termite/pest inspection has been ordered, requested, required, and/or completed (even if the borrower may have elected to have a termite/pest inspection completed)
- Termite inspection must be signed by the borrower(s)
- Refinances
 - For existing properties greater than one year old, termite inspection on NPMA-33 or [approved state form\(s\)](#) and/or treatment is only required if:
 - The appraiser indicates there may be active infestation
 - Not required on a FHA Streamline refinance without an appraisal
- Purchases
 - New construction requires a termite soil treatment certification (Forms NPMA-99A & NPMA-99B)
 - Unless the Property is located in an area of no to slight infestation as indicated on HUD's "[Termite Treatment Exception Areas](#)" list
 - For existing properties greater than one year old, termite inspection on NPMA-33 or [approved state form\(s\)](#) and/or treatment is only required if any of the following apply:
 - The appraiser indicates there may be active infestation
 - It is required per the sales contract

Well Inspections

- For all properties, a water test or well inspection is required if any of the following apply:
 - Property has been vacant for over one year
 - Not required for HUD REO properties unless required by local jurisdiction
 - Tests and/or inspections are mandated by state or local jurisdiction
 - Knowledge that well water may be contaminated or well is not functioning properly
 - Water supply relies on a water purification system due to the presence of contaminants
 - There is evidence of the following:
 - Corrosion of pipes
 - Areas of intensive agriculture within ¼ mile
 - Coal mining or gas drilling operations within ¼ mile
 - A dump, junkyard, landfill, factory, gas station, or dry cleaning operation within ¼ mile

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- Objectionable taste, smell or appearance of well water
- Water tests must include all microbiological and chemical tests required by the municipality
 - Water quality for an individual water supply must meet the requirements of the health authority having jurisdiction
 - The testing must also include any other contaminants of local concern
- If the health authority is unable to perform the water quality analysis in a timely manner, a commercial testing laboratory or a licensed sanitary engineer acceptable to the health authority may take and test the water sample