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Repair Conditions

Chapter 1 Appraisal & Property Requirements Page 1-22

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1: Home Inspections: Borrowers are encouraged to obtain a detailed home inspection of the property. Borrowers should research home inspector's qualifications and designations to ascertain that they feel comfortable with the individual they hire. HUD does not maintain lists of approved Home Inspectors.

2: Repairs and Alterations: Deficiencies, required repairs, alterations and/or required inspections must be reported within the appropriate section of the applicable appraisal reporting form. (See Mortgagee Letter 2005-48 and 2005-34)

- **Required Repairs:** Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants, A.K.A. the three S's:
 - **Safety:** protect the health and safety of the occupants
 - **Security:** protect the security of the property (security for the FHA insured mortgage.)
 - **Soundness:** correct physical deficiencies or conditions affecting structural integrity

- **Properties in Poor Condition:** If the subject property is in such poor condition that it may be cost prohibitive or impractical to bring it up to FHA's minimum property requirements, the appraiser should recommend rejecting the property and contact the Lender before continuing with the assignment. If continuing:
 - **Complete the appraisal** on an "AS IS" basis, clearly marking the report as recommended for rejection for Section 203(b) and provide reasons for the rejection;
 - **Provide a list of all major deficiencies** and state that the list should not be considered all-inclusive. Additional items may be required before acceptable for FHA Insurance; and
 - **Provide photographs of deficiencies** to support recommended action.

3. Code Enforcement for Existing Properties: As stated in HUD Handbook 4150.2 HUD has neither the authority nor responsibility for enforcing code. This rests with the local municipalities.

4. Clearing Conditions on Existing Homes

- **All repair items** required by the appraiser or underwriter must be inspected and the clearance documented.

A professionally licensed, bonded, registered engineer, licensed home inspector or appropriately registered/licensed trades person, as applicable, must provide documentation that all deficiencies have been acceptably corrected upon completion of repairs. "As applicable" has been determined to mean any individual who the lender deems to be qualified, which might be the appraiser.

Professionals as defined above may use their company's forms and letterhead to make the certifications. Appraisers and Compliance Inspectors are to use the Compliance Inspection Report, form HUD-92051. The individual signing Section II must be the person who actually performed the inspection. Section III or IV, as appropriate, is to be signed by the Direct Endorsement Underwriter.

- **Mortgagee Certification:** When a Mortgagee Certification is used to clear minor conditions the HUD-92051 is not required.
- **Mechanical Certifications:** Please see: Heating & Electrical section of this manual.

5. Refinances: Standard refinances require a complete appraisal with deficiencies and repair conditions reported. Although HUD does not require completion of the repairs on a streamline refinance, except lead-based paint repairs, the lender may require completion of repairs. A streamline refinance may be insured with or without an appraisal. Please see: Handbook 4155.1, Rev. 4 Chapter 1

6. Appliances: The Valuation Protocol (page D-26 of Appendix D, Handbook 4150.2) requires the appraiser to note the appliances that are present in the home at the time of inspection and whether the appliance is considered personal property or part of the real estate. The protocol further directs the appraiser to treat non-functioning appliances/equipment as deferred maintenance in the valuation process.

The manner in which an appliance is attached to the dwelling would determine whether or not an appliance should be considered part of the real estate. In some real estate markets, it may be typical and customary for certain appliances to convey with the real estate. In these situations, those appliances should be considered real estate and treated as such in the valuation of the property.

In some cases, such as that of REO properties, all or some of the appliances may be missing and there may be damage to the floor, wall or ceiling finish as a result of the removal. Depending upon the magnitude of the damage, the appraiser is expected to treat the damage to the home as deferred maintenance and reflect such in the conclusion of value. Missing appliances must be addressed by the appraiser in the valuation process, particularly when the comparable sales included a full complement of working appliances.

In cases where appliances are missing and minor repairs may also be needed, lenders are encouraged to have the borrower take advantage of the Streamlined 203(k) loan product, which has no minimum repair cost threshold and is designed to cover such improvements/replacements.

Content current as of 5 August 2008

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