




United States Department of Agriculture  
Rural Development  
Committed to the Future of Rural Communities

SEP 14 2015

TO: State Directors  
Rural Development

ATTN: Program Directors  
Single Family Housing

FROM: Tony Hernandez   
Administrator  
Housing and Community Facilities Programs

SUBJECT: Requiring a Whole House Inspection on an Existing Dwelling  
Section 502 Direct Loan Program

**PURPOSE:**

The purpose of this memorandum is to require an applicant to obtain a whole house inspection when requesting financing to purchase an existing dwelling in lieu of obtaining separate inspections on the dwelling's major systems.

**BACKGROUND:**

The use of a whole house inspection is typical in the home buying process for the benefits it provides the home buyer. Through this service:

- A certified and/or licensed professional identifies problems with the condition of the dwelling.
- The buyer is in a better position to negotiate with the seller on the terms of the purchase.
- The buyer is more informed and confident in their home buying decision.

EXPIRATION DATE:  
September 30, 2016

FILING INSTRUCTIONS  
Housing Programs

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## **IMPLEMENTATION RESPONSIBILITIES:**

**The following implementation responsibilities will go into effect on October 1, 2015.**

Applications received on or after the effective date are subject to the requirements contained within. Applications received prior to the effective date are also subject to the requirements contained within provided that on the effective date the seven items outlined in Handbook-1-3550, Paragraph 3.7 A have yet to be provided and the disclosures have yet to be issued.

### **Processing Sequence**

With the effective date, Loan Originators are to inform applicants wishing to purchase an existing dwelling about the whole house inspection requirement. Ideally, this requirement should be relayed to the applicant prior to them submitting a purchase agreement so that they can possibly negotiate with the seller on matters related to the cost of the inspection and contingencies resulting from the inspection findings. Applicants should also be informed that:

- The whole house inspection, which they should attend, will help them be an informed home buyer and will be used to determine if the property meets the program's minimum property standards. It should be made clear to them that if problems with the home should arise after loan closing, they are liable as the homeowner.
- The cost of the inspection can be included in the loan provided they have repayment ability for the amount and the appraisal allows it.
- Should the purchase agreement fall through for whatever reason, they will remain responsible for paying the inspection fee unless the seller agreed to cover the expense.

After the applicant submits a purchase agreement and prior to having the applicant hire a whole house inspector, Loan Originators should perform an appropriate level of review to ensure that the dwelling appears to meet the program's property requirements. They should thoroughly review the purchase agreement and related materials such as the property's Multiple Listing Service sheet, tax bills, etc. They should also ensure that the dwelling is located in an eligible area and is no more than 1,800 square feet (unless an exception through the State Director was granted).

A copy of the entire whole house inspection report must be provided to the Agency. The Agency will thoroughly review the report, determine any needed repairs, and then one of the following actions:

- Deny the loan request if the subject property is not decent, safe, and sanitary; and using loan funds to make the property program eligible is not reasonable or feasible.
- Order the as-is or as-improved appraisal, whichever is applicable.

### **Whole House Inspection**

According to Handbook-1-3550, Paragraph 5.7 A:

*Existing dwellings must be structurally sound and functionally adequate, and be in good repair or be placed in good repair with loan funds.*

*To verify that all major systems are adequate, the applicant must engage the services of State-licensed inspectors to inspect and certify that the dwelling meets the Agency's standards with respect to: (1) termites and other pests; (2) plumbing, water and sewage; (3) heating and cooling; (4) electrical systems; and (5) structural soundness. When a State does not license inspectors, a qualified, independent, third-party inspector may provide these certifications. Though not required, inspectors may use Attachments 5-A and 5-B as guides when completing their inspection reports.*

A whole house inspection must cover all of these items with perhaps the exception of the termite inspection. Given certain state laws and/or the service provided by the whole house inspector, the termite inspection may need to be separate and performed by another party. If a state's probability of termite infestation is slight to none, and state law does not require one, a State Office may clear through the National Headquarters a state supplement. The supplement removes the need for a termite inspection provided a dwelling shows no signs of active infestation.

To advocate high standards of practice among home inspectors, many states have licensing requirements and/or many home inspectors are members of professional home inspector associations such as the American Society of Home Inspectors, the International Association of Certified Home Inspectors, and the Independent Home Inspectors of North America.

The inspection report must be a comprehensive document that meets the minimum standards of the professional home inspector associations.

### **Settlement Service Providers and Mortgage Loan Application Related Disclosures**

While the Field Office will provide a list of home inspectors on Attachment 3-I, the applicant can shop around and chose a home inspector that is not on the list provided the home inspector has the proper credentials.

Questions regarding this memorandum should be directed to Christopher Ketner of the Single Family Housing Direct Loan Division at (202) 690-1530.

Sent by Electronic Mail on September 15, 2015, at 1:40 p.m. by Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.