

RD AN No. 3933 (1980-D)
February 10, 2004

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing
Specialists, Rural Development Managers, and Community
Development Managers

FROM: Arthur A. Garcia *(Signed by Arthur A. Garcia)*
Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)
Existing Dwelling Inspection Requirements

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the forms of dwelling inspections acceptable for loans guaranteed under the SFHGLP.

The intended outcome of this AN is to establish that the Rural Housing Service (RHS) strongly encourages the use of Valuation Condition (VC) Forms prepared in accordance with HUD Handbook 4150.2 for compliance with the inspection requirements of RD Instruction 1980-D.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 3829 (1980-D) dated February 28, 2003, and has the following clarification:

In HUD Mortgagee Letter 2003-18 dated October 16, 2003, the Federal Housing Administration (FHA) announced changes to Form HUD-92564-VC, "Notice to the Lender" (Valuation Condition/VC form). The changes modified the Site Consideration and Property Considerations sections of the form, including a new category for Manufactured Housing. If you have not already done so, you should become familiar with HUD Mortgagee Letter 2003-18 and the new form, which became effective November 15, 2003.

EXPIRATION DATE:
February 28, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The basic objective of the SFHGLP is to assist eligible rural households in obtaining adequate, decent, safe and sanitary homes.

To this end, an existing dwelling must be inspected to determine that the dwelling meets the current requirements of:

- HUD Handbook 4150.2, *Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings* (Appraisal Handbook), and
- HUD Handbook 4905.1, *Requirements for Existing Housing-One to Four Family Living Units*.

Notes:

- In June 1999, HUD issued Handbook 4150.2 to replace the appraiser requirements of Handbook 4150.1 REV-1, *Valuation Analysis for Home Mortgage Insurance*.
- The SFHGLP uses HUD Handbook 4150.2 in place of Handbook 4150.1. We are in the process of updating SFHGLP regulations to refer to the new handbook.
- HUD handbooks and forms can be downloaded over the Internet at <http://www.hudclips.org> or obtained by calling 1-800-767-7468.
- FHA appraisers can be located at <https://entp.hud.gov/idapp/html/apprlook.cfm>.

COMPREHENSIVE VALUATION PACKAGE:

At the same time HUD Handbook 4150.2 was introduced, HUD introduced the Comprehensive Valuation Package (CVP) as Appendix D to this handbook. The CVP has three parts.

Part I is the “Uniform Residential Appraisal Report” (URAR) and required attachments.

Part II is the “Valuations Conditions-Notice to the Lender, HUD-92564-VC” (VC Form). A home inspection is not required to complete the VC Form. The physical condition of existing building improvements is examined at the time of appraisal to determine whether repairs, alterations or additions are necessary or essential to eliminate conditions threatening the continued physical security of the property. The VC Form clearly shows the items needed to meet HUD’s Minimum Property Standards or Requirements (MPS/MPR). Required repairs are limited to necessary requirements commonly referred to as the three S’s Rule:

- Preserve the continued marketability of the property (**Salability**)
- Protect the health and safety of the occupants (**Safety**)
- Protect the security of the property (**Security**)

Part III is the disclosure to FHA homebuyers titled “Homebuyer Summary-Notice to the Homebuyer, HUD-92564-HS” (Homebuyer Summary).

Note: RHS does not require Part III for loans guaranteed under the SFHGLP.

COMPLIANCE WITH PROPERTY INSPECTION REQUIREMENTS:

The VC Form specifically:

- addresses the repairs that must be completed in order for the property to be acceptable under the SFHGLP, and;
- addresses the requirements related to individual water supply and sewage disposal systems.

A VC Form prepared in accordance with HUD Handbook 4150.2 by an appraiser designated on the FHA register is an acceptable form of documentation to comply with:

- Existing Dwelling Inspections made in accordance with RD Instruction 1980-D, Section 1980.341(b)(1)(i), and
- Water and water/waste disposal (septic) system inspections made in accordance with RD Instruction 1980-D, Sections 1980.313(c) and 1980.341(c).

HUD Handbook 4150.2 and the VC Form include the following guidance when individual water supply and/or water/waste disposal (septic) systems serve the subject property:

- If the property is served by an individual water supply system, the local health authority must perform a water quality analysis. If the local authority is unable to perform the water quality analysis in a timely manner, a private commercial testing laboratory or a licensed sanitary engineer acceptable to the authority may take and test water samples. The water supply system must meet the requirements of the local health authority with jurisdiction.
- The appraiser must note whether the separation distances between the well and the septic tank, the drain field, and the property line comply with HUD guidelines.
- If the property is served by a private sewage system, the appraiser must determine whether the sewage system shows observable evidence of system failure. If in doubt about the proper operation of septic systems for the dwelling or in the neighborhood, the appraiser must condition the appraisal on further inspection and prepare the appraisal “as-repaired” subject to satisfaction of the condition. The lender must contact the local health authority or a professional to determine the viability of the septic system.

As an alternative to the VC Form, a home inspection report prepared by a home inspector deemed qualified by the lender may be obtained. A home inspection report that contains information substantially similar to that covered by the VC Form and that meets the following requirements is adequate to ensure compliance with RD Instruction 1980-D, Section 1980.341(b)(1)(i). The home inspection report must address:

- the physical condition of the structure including the roof surface and foundation;
- the condition of major mechanical systems such as plumbing, electrical, heating and cooling;
- any readily observable site hazards;
- any readily observable property considerations such as drainage problems or evidence of wood infestation; and
- any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair.

In addition to the VC Form or home inspection report, the lender must obtain documentation for an existing dwelling showing that the following requirements have been met:

- The existing dwelling meets the thermal standards per RD Instruction 1980-D, Section 1980.313(f).
- If the property is served by an individual water supply system, the local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards. *
- If the property is served by an individual septic system, the septic system must be free of observable evidence of system failure. A FHA-designated appraiser using the VC Form, a government health authority, or a licensed septic system professional may perform the septic system evaluation.
- For any property in which the lender or FHA-designated appraiser is in doubt about the operation of septic systems for the dwelling or in the neighborhood, (e.g., if the property is vacant), the local health authority or a septic system professional has determined the viability of the system.
- Any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair have been completed prior to requesting the Loan Note Guarantee, or the escrow account requirements of RD Instruction 1980-D, Section 1980.315 have been met.
- If required by the lender, appraiser or inspector, a pest inspection has been obtained showing that the property is free of active termite infestation.

* The Safe Drinking Water Act does not protect private wells. The rules of the Environmental Protection Agency (EPA) only apply to “public drinking water systems”—government or privately run companies supplying water to 25 people or 15 service connections.

Most states regulate private household wells, and most health departments, environmental offices, and county governments should have a list of state certified testing laboratories.

Also, EPA’s Safe Drinking Water Hotline, (800) 426-4791, can help in many ways. The Hotline can:

- Provide the name and phone number of your state’s Laboratory Certification Officer.
- Provide the phone number of your state drinking water program.
- Provide a listing of contaminants public water systems must test for.
- Provide health advisories prepared for specific drinking water contaminants.
- Explain the federal regulations that apply to public water systems.
- Compare individual water supply lab results to the federal standards. These standards can be found at www.epa.gov/safewater/mcl.html.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of this Administrative Notice, RHS field staff reviewing loan files under the SFHGLP are reminded of the following:

- The lender has the option to choose either the most recent version of the VC Form, or a home inspection prepared in accordance with this AN, in order to satisfy the requirements of RD Instruction 1980-D, Section 1980.341(b)(1)(i).
- The lender has the option to choose either the VC Form, or obtain an inspection performed by a government health authority or a licensed septic system professional, in order to satisfy the water/waste disposal system inspection requirements of RD Instruction 1980-D, Section 1980.341(c).
- This AN does not change the appraisal requirements in RD Instruction 1980-D, Section 1980.334.
- The VC Form does not require that a home inspection be completed. Homebuyers may elect to obtain an independent home inspection to assist them in their home purchase decision.
- Properties that meet HUD's Minimum Property Standards or Requirements should be considered to be in compliance with the repair requirements in RD Instruction 1980-D, Section 1980.313(h).
- RHS requires only those repairs necessary to ensure that the dwelling is structurally sound, functionally adequate, and in good repair under RD Instruction 1980-D, Section 1980.313(h). Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.
- A completed VC Form should be accepted for compliance with RD Instruction 1980-D, Sections 1980.341(b)(1)(i), 1980.341(c), and 1980.313(c).

State Offices having questions regarding this AN should contact Robert Keyes or Joaquin Tremols by calling (202) 720-1452 or by emailing to Robert.Keyes@usda.gov or Joaquin.Tremols@usda.gov.