



# Lender Q&A

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## A Guide to Lending on HUD Homes in California

Revised 9-30-13



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## 1.0 Introduction

This Lender Q&A, presented by BLB Resources, Inc. (DBA BLB Resources), is intended to answer frequently asked questions by lenders concerning U.S. Department of Housing and Urban Development (HUD) Real Estate Owned (REO) Homes. This document provides general information regarding:

- The definition of a HUD Home,
- The selling process of HUD homes, and
- The lending process for HUD homes.

Information contained herein applies to HUD Homes in California managed by BLB Resources, and is subject to periodic review and change.

We encourage lenders to remain abreast of changes with the HUD Home process by periodically reviewing the Selling Broker Handbook and other information found on our website, [www.blbresources.com](http://www.blbresources.com), and by attending training and outreach events conducted by our Outreach Managers and Local Listing Brokers (LLBs).

### 1.1 Who is BLB Resources?

BLB Resources was incorporated in 2002 and is a woman-owned business. Our corporate office is located in Irvine, California, and we maintain a branch office in Southfield, Michigan. Susie Gaston, President and sole Owner, has over 30 years of successful HUD REO sales and marketing experience, with over 1,200 personal HUD Home sales. The management team includes Rod Gaston, CEO and Broker of Record, who also has over 30 years of experience, and has personally sold over 4,400 HUD Homes.

This depth of experience and knowledge enables us to better understand your HUD selling opportunities and challenges. We care about your success, appreciate your business, and strive to simplify the HUD Home buying process. Let us know what we can do to better serve you by contacting us at [CSRDept@blbresources.com](mailto:CSRDept@blbresources.com).

HUD awarded BLB Resources three separate contracts to provide **Asset Management (AM)** services for HUD Homes throughout the country, in the following areas:

- Michigan
- Arizona, Idaho, and Nevada
- Alaska, California, Hawaii, Oregon, Washington, Northern Mariana Islands and American Samoa

### 1.2 What is a HUD Home?

A home that has gone into mortgage default with a loan that is insured by the Federal Housing Administration (FHA) is referred to as a HUD Home. When this occurs, the lender takes possession of the property and conveys ownership to HUD. HUD then sells the home through their Asset Management (AM) contractor, such as BLB Resources. A HUD Home may be a single-family house, townhouse, condominium, mobile home or a multiple family attached home up to 4 units.

### 1.3 Who handles the property preservation and protection services?

**Field Service Managers (FSMs)** are companies that provide property preservation and protection services consisting of, but not limited to, inspecting and securing the property, performing cosmetic enhancements and/or repairs, and providing ongoing maintenance. Each HUD Home is assigned to one FSM, and there may be multiple FSMs in each contract area. If you are looking for FSM contact information for a particular property, please locate that property at [www.HUDHomestore.com](http://www.HUDHomestore.com), and then click on the “Agent Info” tab.

The FSMs for the contract areas that BLB Resources currently serves are as follows:

Area	State(s)	AM Contractor(s)	FSM Contractor(s)
3S	AZ	BLB Resources	CWIS
4S	ID, NV	BLB Resources	PK Management Group
5S	CA, HI	BLB Resources PEMCO	Sentinel Field Services
6S	AK, OR, WA	BLB Resources PEMCO	Sentinel Field Services
1P	MI	BLB Resources Cityside/HHN	Asset Management Specialists A-Sons Construction IEI-Tidewater Sigma Construction

### 1.4 Who can purchase a HUD Home?

HUD Homes may be purchased by any person, company, HUD-approved nonprofit organization, or government entity that can secure financing or pay cash for the property.

Please note that Local Listing Brokers (LLBs), their affiliates, owners, managers, employees, sales agents, brokers, and family members and business partners of the aforementioned are prohibited from purchasing any HUD Homes. Employees of any HUD contractor (such as the AM, FSM, or HUD Designated Closing Agent) or sub-contractor (such as the FSM’s vendors, the appraiser, or other AM vendors), and their family members, are also prohibited from purchasing a HUD Home.

### 1.5 What are the different purchaser types?

There are five purchaser types: Owner Occupant, Investor, Good Neighbor Next Door participants, Government Entities, and Nonprofit Organizations.

An **owner occupant** is a person who plans to live in the property as their primary residence for at least one (1) year, and has not purchased another HUD Home as an owner occupant within the past two (2) years.

An **investor** purchaser is someone who buys the property as a second home or as an investment, or who does not qualify as an owner occupant.

A **GNND participant** is a qualifying officer, teacher, firefighter, or emergency medical technician (EMT). Please see the “Good Neighbor Next Door (GNND) Sales Program” section of the Selling Broker Handbook for eligibility and other program requirements.



**Government entities**, including counties, cities, and townships, foster housing opportunities by purchasing HUD Homes at a discount, making any necessary repairs, and then reselling the homes to low to moderate income families. Only government entities can purchase Dollar Homes (please see the “Dollar Home Program” section of the Selling Broker Handbook).

HUD-approved **nonprofit organizations** may also purchase homes for rehabilitation and resale to first-time homebuyers and low to moderate income families. Nonprofits may not bid on Dollar Homes, and will only receive a discount if the property is purchased during the Lottery period. Please see the “Programs for Approved Nonprofits” section of the Selling Broker Handbook for details.

## 1.6 Can residents of other countries (such as Canada or Mexico) purchase a HUD Home?

Yes, HUD homes may be purchased by residents of other countries (referred to as foreign nationals), provided they can secure financing or pay cash for the property. Please note that when a bid for a foreign national is submitted, a valid identification number **must** be entered in the Social Security Number field. If the purchaser does not have or is not able to obtain a Social Security Number, they must contact the IRS to obtain a Tax Identification Number prior to submitting a bid. Also, if the foreign national is intending to purchase a HUD Home as an owner occupant, the purchaser may be required to show proof of ability to live in the U.S. in order to satisfy the minimum one (1) year occupancy requirement (e.g., permanent residency card, work visa, etc.).

## 1.7 Will HUD pay for any closing costs and the selling agent’s commission?

HUD will pay up to 3% of the gross purchase price in closing costs that are considered to be reasonable and customary in the jurisdiction where the property is located, if submitted in the bid. Closing costs should be entered on Line 5 of the Sales Contract and must match the electronic bid. HUD will pay the lesser of either the amount requested on Line 5 or the actual closing costs. Any funds remaining after the allowable closing costs have been paid will not be credited to the purchaser at closing. Please refer to the most recent HUD Housing Notices for additional information regarding closing costs.

HUD also allows, and will pay, up to **3%** of the purchase price for the selling agent’s commission, which should be entered on Line 6a of the Sales Contract. Line 6b denotes the Local Listing Broker’s commission, which is 3% of the purchase price.

Selling and Listing Brokers are eligible to receive a \$1,250 commission on select HUD Homes, regardless of the list price and purchase price. These properties are notated in the MLS listing and are also identified on [www.HUDHomestore.com](http://www.HUDHomestore.com) with a symbol of a person and a dollar sign in a little bubble (like this: ) in the status column of the Property Search results. Please be advised that the commission on these properties is established from the list price, not the purchase price.

The submitted bid is the final determination of the selling agent commission amount, and may not be modified after bid acceptance under any circumstances. Note that higher closing costs and commissions will reduce the net to HUD, and may affect the competitive bidding ratio. Only the selling agent may choose to reduce his/her commission; the LLB commission may not be reduced.

HUD does not pay any closing costs or commissions on Good Neighbor Next Door (GNND) properties. Please note that even though GNND participants are required to utilize a real estate agent to submit their bids, HUD



will not pay the selling agent commission; however, if FHA financing is used, the purchaser may add closing costs and commissions to their loan. Please also note that HUD does not pay closing costs or commissions on Dollar Homes or properties sold to nonprofit organizations or government entities.

## 1.8 When can the purchaser get a home inspection done?

**All HUD Homes are sold “As Is.”** HUD does not make any repairs to the property, and does not guarantee or make any representations or warranties as to the condition of the property. Therefore it is important that the purchaser do a visual inspection of the property prior to submitting a bid. The purchaser is also encouraged to have a professional home inspection performed with the utilities activated, **AFTER** the contract has been accepted and signed by HUD. All inspections, tests, and risk assessments are performed at the purchaser’s expense.

Please note that the purchaser must request permission to activate the utilities with the FSM assigned to the property, which may require a non-refundable deposit. The purchaser will be responsible for any damage that occurs as a result of the inspection. Please contact the assigned FSM directly with any questions regarding the utility activation process and to obtain the necessary forms. Submission of the request form does not guarantee that the FSM will grant permission for the purchaser to activate utilities. If the FSM denies the request, the purchaser may still obtain an inspection but may not activate utilities.

Please note that pools are not to be filled at any time. HUD REO properties do not require pools to be filled, which differs from front-end FHA transactions. Pools are also not required to be covered as long as there is a secure fence surrounding the backyard. HUD directive states that the lender is to obtain an “as is” statement from the purchaser accepting the pool in “as is” condition. If the underwriter will not accept this method, the transaction must be cancelled. In this situation, please submit a “Cancellation Request” form, along with a lender denial letter as supporting documentation. Please be advised that if BLB Resources discovers that the pool has been filled, it is grounds for cancellation of the transaction.

## 2.0 Important Information about HUD Homes

### 2.1 HUD's "As Is" Policy

HUD Homes are sold in "As Is" condition, and without warranty. BLB Resources and HUD make no representation or warranties, expressed or implied, concerning the condition of the property, and will not make repairs to the property. Since the new owner will be responsible for making any needed repairs, BLB Resources and HUD strongly urges every potential homebuyer to get a professional inspection. As stated in [paragraph 1.10](#) of this Handbook, purchasers have 15 days from the date the contract is accepted by HUD to conduct an inspection. All inspections, tests, and risk assessments are performed at the purchaser's expense.

### 2.2 Occupancy, Repairs, or Improvements Prior to Closing

The following activities are **strictly prohibited** and will be grounds for cancellation of an accepted bid/contract, including forfeiture of the earnest deposit in favor of the Seller:

1. Any work performed on the property prior to close of escrow except for those repairs to be performed by Seller, as expressly provided for in the applicable Purchase Agreement, and only if approved **in writing in advance** by BLB Resources. At a minimum, this includes all repairs, improvements, lock changes, and landscape modifications, including such activity as planting and/or removing trees or plants.
2. Depositing personal property in the home, yard, garage, or anywhere on the property prior to close of escrow.
3. Parking vehicles in the driveway, garage, or anywhere on the property prior to close of escrow.

**Under no circumstances may purchasers occupy the property prior to closing of escrow.**

Please note that the purchaser may not occupy, rekey, or make repairs/improvements to the property until close of escrow has been confirmed (deed has been recorded and wire transfer is complete). Purchaser is responsible for rekeying the property AFTER the close of escrow for their own safety. Neither the LLB nor the selling broker or agent may give out the keys, copies of the keys, or lockbox codes to purchasers, inspectors, appraisers, contractors, lenders, or any other parties at any time. Selling agents and LLBs will facilitate access to the property for purchasers to complete inspections and/or perform their rekey. Please note that the LLB will return to the property after close of escrow has been confirmed to retrieve their lockbox(es) and signage. On behalf of the LLB, we respectfully request that these items are not discarded. If escrow has closed and the LLB has not picked up these items, please contact the LLB for immediate pickup.

Please also be advised that the FSM and its contractors may perform maintenance and/or repairs on the HUD Homes. Agents, purchasers, and their contractors may not interfere with or influence the work being performed. For example, if the FSM is replacing a broken window, the purchaser may not instruct the FSM to use a specific type of window.

Inspections are routinely performed by the FSM, its contractors, and the LLBs to ensure compliance with this policy. Any violation of any part of this policy may cause cancellation of the sale, forfeiture of the earnest money deposit, and suspension of the selling broker's NAID and bidding privileges.

## 3.0 Financing Types

HUD Homes may always be purchased using cash, conventional, or other special financing. However, FHA offers financing options that are tailored to HUD Homes. There are many variables that are taken into consideration when the disposition of a property is created. The condition of the property as reflected in the FHA-approved appraisal and the Property Condition Report (PCR) weigh heavily in determining its insurability. Once the disposition of the property has been established, the property is initially listed at the as-is appraised value and will reflect the financing acronym that is appropriate. It is vital that real estate agents have a clear understanding of the FHA financing types, and the corresponding acronyms.

### 3.1 (IN) Insurable, FHA 203(b)

Properties listed as Insurable (IN) qualify for FHA 203(b) financing. This disposition represents properties that do not have obvious Minimum Property Requirements (MPR) repairs.

### 3.2 (IE) Insurable with Escrow, FHA 203(b) with Repair Escrow

Properties listed as Insurable with Escrow (IE) qualify for FHA 203(b) with Repair Escrow financing. This disposition represents properties that have MPR repairs which must be addressed post closing. The MPR repairs cannot total more than \$5,500 (\$5,000 repair limit + 10% overage allowance). The necessary repairs and corresponding cost estimates are itemized in the disclosures found on the “Addendums” tab of the Property Details on [www.HUDHomestore.com](http://www.HUDHomestore.com).

The repair escrow amount is the financial responsibility of the purchaser. The repair escrow is **never** a credit to the purchaser. The lender holds the money for repairs in an escrow account until the repairs are completed. FHA allows up to 90 days after closing for MPR repairs to be completed, however some lenders may have different MPR repair deadlines.

The repair escrow **only** applies to FHA 203(b) financing. The repair escrow does not apply to financing outside of 203(b) or to cash purchases. If the purchaser is using non-FHA financing (e.g. conventional, USDA, VA, etc.) or paying cash, the repair escrow is not applicable.

Please refer to Mortgagee Letter 00-27 for more information.

### 3.3 (UI) Uninsurable

Properties listed as Uninsurable (UI) do not qualify for FHA 203(b) financing. Typically, these properties have MPR repairs exceeding \$5,000 or may not meet the guidelines for FHA financing for other reasons. Non-FHA financing and cash purchases are most often used for properties with the disposition of UI.

### 3.4 (UK) Uninsurable – 203(k) Eligible

Properties listed as Uninsurable – 203(k) Eligible (UK) also do not qualify for FHA 203(b) financing. However, these properties may qualify for FHA 203(k) financing. The 203(k) option is a rehabilitation loan for owner occupants only. Many lenders offer both the standard FHA 203(k) and the 203(k) streamlined loan.



### 3.5 Over-Bidding with FHA Financing and 2nd Appraisals

We encourage purchasers to submit their bid based on what they believe to be the appropriate market value for the property. However, please be aware that the purchase price for all financed transactions must be supported by the FHA as-is appraised value of the property. Please note that this differs from standard real estate sales, in which the purchaser may renegotiate the purchase price based on the appraised value. If the purchaser wishes to renegotiate the purchase price of a HUD Home, the contract must be cancelled and the property may then be offered to back up bidders or placed back on the market, available for all bidders in accordance with the listing period to which the property returns.

If a purchaser is securing FHA financing, their lender will be **required** to use HUD's FHA "As-Is" Appraisal to determine financing limits, unless HUD's appraisal is over four (4) months old at the time of contract acceptance. A second appraisal may not be ordered to facilitate support of a higher purchase price. In the event the FHA appraisal is over four (4) months old at the time of acceptance, the purchaser's lender will be required to obtain a new FHA "As-Is" appraisal at the purchaser's expense. If a purchaser's bid is accepted, and their bid amount is in excess of the FHA appraised value, **the purchaser must pay the difference between the bid amount and the appraised value in cash.** FHA will not approve a loan amount that is greater than the appraised value of the property.

Please note that there may be situations where the list price will be less than the FHA as-is appraised value (for example, if we have processed a price reduction on the property). The purchaser's bid amount might be more than the list price yet less than the FHA as-is appraised value. In this situation, the purchaser would not be required to come up with the difference between the purchase price and the list price, because the purchase price is still less than the FHA as-is appraised value. The requirement to pay the difference in cash only applies if the purchaser overbids the FHA as-is appraised value (which the purchaser may do even if the list price has been reduced), so **please be mindful of the FHA as-is appraised value vs. the actual list price.**

If a purchaser is securing a loan that does not involve FHA financing, then the purchaser's lender will always order a new appraisal on the property at the purchaser's expense, regardless of whether they overbid the property or not.

### 3.6 Gift Funds

There are many options for financing the purchase of a HUD Home, including gift funds. If a purchaser is utilizing gift funds as any portion of the down payment, certain guidelines must be met for the funds to be considered acceptable. Gift funds may be provided by the purchaser's family, employer, friend, or charitable organization, but there must be no expected or implied repayment of the funds. Also, the gift cannot be received from a person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, lender or any other associated person or entity.

Additional information on the gift fund requirements may be found by viewing the following link on HUD's website. Please also contact the purchaser's lender for any other requirements, as the lender is responsible for verifying that the closing agent received the funds and that the funds were from an acceptable source.

[HUD Handbook 4155.1, Chapter 5, Section B, Topic 4 Page 5-B-10](#)

When the purchaser is utilizing gift funds, a Gift Letter must accompany the sales contract package submitted to BLB Resources, as part of the purchaser's proof of funds. The "Gift Letter Template" found on the [BLB Resources Agent Resources page](#) includes the following 10 items as required by HUD:

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1. The dollar amount of the gift
2. Name of the donor
3. The donor's signature
4. Address of the donor
5. Telephone number of the donor
6. Donor's relationship to the recipient/purchaser
7. Name of the purchaser
8. The purchaser's signature
9. A statement that no repayment is required
10. A statement asserting that the funds were not provided by any person or entity with an interest in the sale of the property.

Please ensure that the Gift Letter also references the FHA Case Number and Property Address. In addition to the Gift Letter, the purchaser must also include a copy of the gift check or bank statement from the donor reflecting the gift withdrawal, as well as a copy of the deposit receipt or purchaser's bank statement evidencing receipt of funds.

## 4.0 Important HUD Policies and Information

There are several policies and guidelines unique to HUD REO Homes. This section will provide a brief overview of important information that may affect the lending process.

### 4.1 Closing Costs

HUD will pay up to 3% towards a buyer's closing costs, if negotiated in the bid and contract. All closing costs will be paid in accordance with the guidelines provided in HUD Notice H 2003-02.

A number of closing costs are automatically paid by HUD. These include:

- Proration of property taxes and any special assessments such as HOA fees, utility bills, etc.
- Recording fees and charges for the deed (i.e., normal amount charged per page for recordation)
- Document fee – HUD will not pay for a lender's certification

### 4.2 Importance of Timely Closing

Line 9 of the HUD Sales Contract Form 9548 states: "Time is of the essence as to closing." It is vital that all of the HUD vendors, the selling and listing agents, the purchaser, and the lender work together to facilitate a smooth, quick closing. If the transaction does not close within 45 days (or 60 days for 203(k) loans), the sale may be subject to cancellation. Please note that loan documents being sent to the closing agent is not considered a closed sale.

BLB Resources may grant a closing date extension if the purchaser is an owner occupant and the lender has a conditional loan commitment signed by an underwriter. However, please note that extensions of time to close the sale are entirely within the Seller's discretion, and the granting of one extension does not obligate the Seller to approve additional extensions. Extension requests must follow established procedures as outlined in the Selling Broker Handbook.

### 4.3 HUD's As-Is Policy

Please remember that HUD makes no representations or warranties concerning the condition of the property and will make **no repairs** to the property prior to close of escrow.

### 4.4 "Buyer Select" Closing Agent Program

Effective September 30, 2013, HUD implemented a "Buyer Select" closing agent program in California. All buyers whose contracts are executed on or after this date in the State of California will be required to select their own escrow company. The selling agent will be required to complete an addendum providing the name and contact information of the selected escrow company. This addendum must be submitted with the contract package at the time of bid acceptance. Escrow company contact information should be obtained from the buyer or their real estate agent.

### 4.5 Pre-qualification / Pre-approval Letters

The purchaser must submit proof of funds with their contract package. For financed transactions, that means they must submit either a pre-qualification or a pre-approval letter. Please note that BLB Resources requires a



valid pre-qualification letter from a lender for purchasers obtaining financing. However, HUD's earnest money deposit forfeiture policy requires a pre-approval letter. The letter must be printed on lender's letterhead, be dated within the past 30 days, and include the following information:

- Purchaser's name
- Amount of loan pre-qualification / pre-approval
  - Note: if pre-qualification / pre-approval amount is less than the purchase price, the purchaser must provide proof of funds for the difference
- Type of loan
  - If 203(b) repair escrow, must include repair escrow amount
- Lender's contact information (including email address) and signature

## 5.0 Appraisal Questions

### 5.1 What is the validity period for a HUD REO FHA appraisal?

The Asset Manager may utilize the appraisal for up to 180 days.

### 5.2 Per Mortgagee Letter 10-08, HUD REO appraisals are only valid for 120 days, but BLB Resources states 180 days. What is the difference?

For Asset Manager purposes, the appraisal is valid for 180 days, but if the lender states that they cannot use it after 120 days plus the 30 day extension (see next question), then the buyer will be responsible for obtaining a new appraisal at their expense.

### 5.3 What do we do if the appraisal is due to expire before we are able to close?

While the appraisal is still valid, the lender can extend the validity period of the appraisal for up to 30 days in order to close. Please reference HUD Handbook 4155.2, Chapter 4, section 4.4.f FHA Policy on Appraisal Extensions.

### 5.4 What if the new appraisal comes in at a lower appraised value than the purchase price?

HUD will not lower the price. The buyer must come up with the difference in cash, or terminate the transaction.

### 5.5 Can we obtain our own appraisal if we are using FHA financing?

No. If the HUD appraisal is still in good standing, then it must be used in the transaction.

### 5.6 How do we request a copy of the appraisal?

Please complete the [Appraisal Report Request Form](#) and submit to [2Sappraisalrequests@blbresources.com](mailto:2Sappraisalrequests@blbresources.com). Our Closing Department will review the request and respond appropriately.

### 5.7 How do we handle C4 vs. C5 Condition Ratings?

Many HUD homes are in C5 condition or lower due to deferred maintenance or MPR repairs (if uninsurable). The appraisal reports are completed "As-Is" per HUD Handbook 4150.2 Appendix A. This means that the report cannot change and the Condition Rating as indicated in the report will remain as-is. Many lenders or investors are unable to lend on properties with a Condition Rating of C4 or lower.

To resolve this issue, with authorization from BLB Resources, the lender may consult with the DE Underwriter and review the deferred maintenance and MPR repairs in the original appraisal report. The DE Underwriter has the discretion and authority to identify any additional repair items that would satisfy lender or investor requirements for lending purposes. When ordering a FHA Compliance Inspection report from the appraiser, identify: 1) the MPR repair items to be cleared, and 2) any additional repair items required by the lender or investor to be cleared. Additional repair items are not included in the Escrow Holdback.

## 6.0 Repair Questions

### 6.1 Why does the repair amount on the appraisal differ from the escrow amount that was listed on the addendum to the listing?

BLB Resources will only list Minimum Property Requirements (MPR) items on the addendum for the repair escrow. Cosmetic repairs or other items to bring the property to average condition will not be included.

### 6.2 What are MPR repairs?

MPR repairs are repairs for any items that affect the safety, security, or soundness of the property. Please refer to HUD Handbook 4150.2, Appendix D, as well as Mortgagee Letter 05-48 for further detail.

### 6.3 Will other repairs during our home inspection that the lender would like included in the escrow be added to the appraisal?

No, other repairs may not be added to the appraisal, but they may be added to the escrow repair amount if buyer utilizes 203(b) Repair Escrow Financing. Per Handbook 4150.2, the lender does have final say on what is included in the repair escrow. BLB Resources would require submission of our “Request to Change Financing Type” form, found in the forms section on our website, [www.blbresources.com](http://www.blbresources.com), to increase the repair escrow, along with supporting documentation, for review and approval. Please remember to add the 10% overage in the escrow repair amount grand total.

### 6.4 How do we proceed if our repair estimate for the items listed as MPR differ from the appraiser’s estimate?

Please complete and submit to BLB Resources the “Request to Change Financing Type” form, include bids for the repair items as supporting documentation, and remember to include the 10% overage in the escrow repair amount grand total.

### 6.5 The underwriter is requiring certain repairs be completed prior to close of escrow. How do we handle this?

Please note that all HUD Homes are sold “As Is” and no repairs may be done at any time prior to close of escrow. If the transaction cannot close due to this issue, please submit a “Cancellation Request” form, along with a lender denial letter as supporting documentation.

If BLB Resources discovers that repairs were completed prior to close of escrow, it can be grounds for termination of the transaction.

### 6.6 The underwriter is requiring the pool to be filled and tested prior to close of escrow. Can we complete this inspection?

No, pools are not to be filled at any time. HUD REO properties do not require pools to be filled, which differs from front-end FHA transactions. Pools are also not required to be covered as long as there is a secure fence surrounding the backyard. HUD directive states that the lender is to obtain an “as is” statement from the buyer accepting the pool in “as is” condition.



If the underwriter will not accept this method, the transaction must be cancelled. Please submit a “Cancellation Request” form to BLB Resources, along with a lender denial letter as supporting documentation.

Please note that if BLB Resources discovers that the pool has been filled, it is grounds for cancellation of the transaction.

**6.7 When utilizing 203(b) Repair Escrow financing, is money held by the lender or is the closing agent sending a check to the lender to hold for the buyer?**

The lender is creating the escrow holdback account. No money is held in escrow.

**6.8 On offers accepted with FHA 203(b) financing, can the buyer change to FHA 203(k) financing?**

Yes, subject to approval by BLB Resources, the buyer may change financing type by submitting a “Request to Change Financing Type” form to BLB Resources, along with proof of 203(k) loan approval and property condition documentation.



## 7.0 Inspection Questions

### 7.1 Will the Seller provide a copy of the Property Condition Report (PCR)?

Yes, a copy of the PCR has already been posted on [www.HUDHomestore.com](http://www.HUDHomestore.com). Please click on the “Addendums” tab on the Property Details, and then click the “PCR” link. A copy of the PCR is also provided with the appraisal.

Please contact our Customer Service Department if the PCR cannot be located.

### 7.2 Will the Seller provide a Termite Inspection?

Yes. BLB Resources will order a termite inspection from the FSM at contract ratification if the property meets both of the following requirements:

- 1) Property must be located in an area where Wood Destroying Organism (WDO) inspections are mandated by state or local jurisdictions.
- 2) The property is being sold with FHA mortgage insurance and the property is located in an FHA designated Termite Probability Zone. More information on these zones can be found at the following link: <http://www.hud.gov/offices/hsg/sfh/ref/sfh1-23a.cfm>.

If the purchaser is paying cash or obtaining non-FHA insured financing (conventional, VA, Rural Development, etc.), a termite inspection will NOT be provided. In addition, if the appraisal report indicates the presence of termites or other WDO, but inspections are not mandated by state or local jurisdiction and the property is not being sold with FHA financing, a termite inspection will not be ordered. In this situation, this information will be disclosed to the purchaser, who has the right to order an inspection and treatment at their own expense.

### 7.3 Will HUD complete the termite clearance?

Yes, if the inspection report indicates active WDO infestation, BLB Resources will issue a Work Order Notification to the FSM for treatment of the active infestation. However, please note that the FSM will only clear the active infestation, not all Section 1 items will be included. If the lender requires additional Section 1 repairs completed that were not part of the active infestation, they can be included in the repair escrow. Note: repair escrow cannot exceed \$5,000.

### 7.4 If a termite inspection is required, can the buyer close without it, or include it in the escrow holdback?

No, if a termite inspection is required, it must be completed prior to close of escrow. The inspection cannot be included in the escrow holdback. However, any unresolved items after active infestation has been cleared may be included in the escrow holdback.



## **7.5 Will HUD provide a Lead Based Paint (LBP) inspection for homes built prior to 1978?**

LBP inspections will only be provided if FHA insured financing is being used. This includes 203(b), 203(b) repair escrow, and 203(k) financing types. If the purchaser is paying cash or obtaining non-FHA insured financing (conventional, VA, Rural Development, etc.), a LBP inspection will not be provided.

## **7.6 If the inspection reveals LBP that needs to be stabilized, will HUD pay for the stabilization?**

HUD will pay for the LBP stabilization and clearance, not to exceed \$4,000.

## **7.7 How do we proceed if the stabilization costs exceed \$4,000?**

The buyer has the following options:

- 1) Cancel the transaction and receive a full EMD refund
- 2) Proceed with 203(k) financing and include the stabilization costs in the rehab costs. If the buyer is using 203(b) or 203(b) repair escrow financing, the buyer will need to submit a Request to Change Financing Type, changing to 203(k) financing.
  - a) Please note that if purchaser is using 203(k) financing and stabilization costs exceed \$4,000, HUD will credit up to \$4,000 to the buyer at closing.
  - b) Please also note that both the purchaser(s) and the lender will be required to sign Form HUD-9548-G: 203(k) Rehabilitation Financing Lead Agreement, which incorporates the LBP stabilization plan into the 203(k) repair.
- 3) Proceed with cash or non-FHA financing.

## **7.8 If an LBP inspection/clearance is required, can the buyer close without it, or include it in the escrow holdback?**

No, if an LBP inspection/clearance is required, it must be completed prior to close of escrow (except for 203(k) financing). This cannot be included in the escrow holdback. There will be no exceptions.

## **7.9 What happens if the buyer changes from FHA financing to non-FHA financing and the termite and/or LBP inspections and/or clearances have already been conducted?**

The buyer will be responsible for any and all costs incurred in obtaining the following:

- Termite inspections,
- Termite treatment and clearance,
- LBP inspections, and
- LBP stabilization and clearance.



## **8.0 Condo Questions**

### **8.1 The condo is not on the approved list even though BLB Resources listed it as insured. How is this possible?**

Per Mortgagee Letter 09-19, HUD REO condos no longer require approval.

### **8.2 How do we proceed if the occupancy rate is below 51% Owner Occupied?**

Since the condo no longer requires approval, the occupancy rate does not matter. The condo may still use FHA financing.



## 9.0 FHA Connection Questions

### 9.1 How do we proceed if we need a new case number for a new FHA loan?

Please log into FHA Connection to request a new case number for the new FHA loan.

### 9.2 The case number that BLB Resources provided is missing the last digit. I cannot assign the new case number without it. How do I obtain the missing digit?

The last digit is dropped off the number for security purposes as it belongs to the previous sale. BLB Resources does not have access to the last digit. However, we recommend trying numbers 0-9 or the letter X. One of those entries will work.



## 10.0 Other Questions

### 10.1 Is the \$100 Down Payment Program still available?

No, that program was discontinued in the M&M III Contract in our contract areas. However, please note that if a GNND purchaser qualifies for and uses any FHA-insured mortgage program [i.e., 203(b), 203(b) repair escrow, or 203(k) financing], the down payment is only \$100, and closing costs and pre-paid expenses may be financed.

### 10.2 Will an engineer certification be needed on a manufactured home?

No, engineer certifications are not needed for HUD REOs per Mortgagee Letter 09-16.

### 10.3 If an extension is necessary, will BLB Resources waive the fee?

Extension fee waivers are granted on a case-by-case basis. The extension fee is required to be submitted with all extension requests. BLB Resources will review the request to determine if the fee may be waived. If the fee is waived, it will be refunded to the buyer at close of escrow. Please note that granting of one extension and/or waiving fee does not obligate Seller to approve additional extensions or waive additional extension fees. Extension requests must follow established procedures as outlined in the Selling Broker Handbook available on the [Agent Resources](#) page of our website.

### 10.4 Who is responsible for approving the final HUD-1 settlement statement?

BLB Resources is responsible for approving the final HUD-1 and notifying the buyer's selected escrow company (in Southern California) or the designated closing agent (in Northern California) of approval.

### 10.5 Who is responsible for sending the final HUD-1 settlement statement to the lender?

The buyer's selected escrow company or the designated closing agent will send the final HUD-1 to the lender.

### 10.6 What do we do if the buyer has changed lenders due to rate or lack of performance?

Please notify the Closing Department at BLB Resources as soon as possible if any changes occur.

### 10.7 Who pays the escrow fee?

HUD will pay HUD's designated Closing Agent in Northern California.

In Southern California (counties of Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura), the escrow fee is a buyer expense. HUD will only pay a portion of the closing fees if the buyer includes closing costs on Line 5 at the time of bid submission and there are sufficient funds remaining to allow for this fee to be paid. If there are no closing costs included in the bid, the buyer will be required to pay all escrow and closing fees.

In all cases, the buyer is responsible for the cost of title (unless included in the 3% closing cost request in the bid/contract).



## 11.0 Conclusion

We hope that this handbook has provided answers to the most commonly asked questions regarding HUD Homes and the lending process. If you have any additional questions, please contact our office. We are available to assist you Monday through Friday 7:00 a.m. – 6:00 p.m. PST (closed on Federal Holidays):

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16845 Von Karman Avenue, Suite 100  
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[www.blbresources.com](http://www.blbresources.com)

We appreciate your business. Best of success with your transaction.