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CHAPTER 6. PRINCIPAL SALES APPROACHES

SECTION I - POLICY

- 6-1 Objectives. The disposition approach selected for each acquired property must consider the objective of reducing the inventory in a manner that ensures maximum net return to the mortgage insurance funds while complying with Secretarial initiatives, preserving and maintaining residential areas and communities, and applicable environmental, legal and policy requirements.
- 6-2 Sales Approach. As a general rule, properties are sold on an "as is" basis without repairs or warranties. The principal method of sale is the competitive sales procedure described in Chapter 10 of this handbook. Other sales methods may be considered in accordance with the priorities outlined in this chapter.
- 6-3 Appraisals. An independent examination and valuation of the real property must be obtained prior to establishing a property's fair market value. Appraisals must be prepared by appraisers currently licensed or certified under state law, if applicable, in the state where the property is located.
- 6-4 List Price. In all cases, properties will be given a list price based upon the fair market value. The initial list price is subject to approval by the Chief Property Officer. This value will reflect the highest and best use in the current market, competitive with properties being offered by other sellers.
- 6-5 Special Marketing Tools. Special marketing tools may be used to maintain consistent turnover, boost slow markets, or stimulate sales in problem areas. Field Offices should be alert to all reasonable alternatives for reducing inventory consistent with the objective of providing a maximum return to the insurance funds.
- 6-6 Warranty. No warranty whatsoever shall be provided regardless of the method of sale.
- 6-7 Underwriting Standards. In general, HUD underwriting standards apply to all insured sales except as noted.
- 6-8 Environmental Requirements and Standards. Single Family Property Disposition activities are subject to the requirements of 24 CFR Part 50, where applicable.

SECTION II - INTERNAL CONTROL OBJECTIVES

- 6-9 Individual Property Disposition Programs. Individual property disposition programs which optimize proceeds to the Department are developed, authorized and promptly executed. Initial list prices are based on fair market value as determined by an independent appraisal, approved by the Chief Property Officer, and documented in the case file.

- 6-10 Segregation of Duties. There is a separation of duties between development and approval of the disposition program.
- 6-11 Auction Procedures. The use of auction procedures to sell multiple properties simultaneously must have the prior approval of the Regional Office and Headquarters.

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SECTION III - PROPERTY APPRAISALS

- 6-12 Appraisal Reports. All new acquisitions must be appraised by an appraisal source who is either a state licensed or state certified appraiser, if applicable, in the state where the property to be appraised is located. Appraisals are not to be ordered for properties the Department does not yet own.

All one-to-four unit single family residential property appraisals shall be presented on the Uniform Residential Appraisal Report (URAR), Fannie Mae Form 1004, and shall be prepared in accordance with the Uniform Standards of Professional Appraisal Practices as issued by the Appraisal Foundation which are in effect at the time the appraisal is prepared. The sales comparison approach is to be used for one- and two-unit properties and the income approach to value is to be used on three to four-unit properties. Land appraisals may be completed on a Forms and Worms 68 (F&W-68) Land Appraisal Report or equivalent. Appropriate addenda as necessary to comply with appraisal guidelines must also be prepared and provided.

- A. Selection Criteria. An appraiser's qualifications and ability to provide a high-quality product in a timely manner are the primary selection criteria. Nevertheless, because several well-qualified appraisers may be available, every effort should be made to ensure that a fair and reasonable price is paid for every appraisal. Field Offices may contract with qualified local appraisers, or order appraisals under the national contract, if available. Field Office Managers may, in emergency situations, contract with fee panel appraisers to do PD appraisals. This must not be done routinely, as Field Offices must have other established sources of appraisals. The national contractor may subcontract with a REAM who is an appraiser and is state licensed or state certified, if applicable, in the area where the property is located. The REAM may not, however, perform appraisals in areas for which the REAM is the property manager.
- B. Appraisals Within 10 Business Days. The original appraisal and addenda are to be delivered to the ordering office, Property Disposition Branch, no later than 10 business days from the day the order was placed. The Field Office may opt to accept

delivery of the appraisal by FAX. If the Field Office opts for delivery by FAX, the original report must be received by the CPO at the ordering office by the end of the next business day. Field Offices must place appraisal orders daily upon acquisition of new properties; do not hold appraisals to accumulate a batch prior to ordering. Each Field Office is to have developed a tracking system to verify delivery of completed appraisals within 10 business days.

- C. Specifications Required to Order. Orders for appraisals are to be made by the CPO or designee. Include the following information on your order: Telephone and FAX number; CPO (or designee) name; FHA case number; property address including zip code and county; Revitalization Area Estimate Required (Y/N); phone number and name of entry contact (usually, the REAM); type of order (Single, condo/townhouse, 2-4 unit, 5-11 unit, vacant lot, exterior estimate of value); and occupancy status (Y/N) (from the Single Family Application for Insurance Benefits (claim), Form HUD-27011) (Appendix 11).

The REAM is required to provide access within 48 hours, as shown in paragraph 3-14 B. Ensure that the appraiser will not be delayed in gaining access to the property and that the REAM cooperates with the appraiser's need for prompt access to avoid a delay in preparation of the appraisal.

- D. Occupied Properties. The national contractor will not normally perform an appraisal of a property where the Field Office has indicated it is vacant but it is actually occupied. If the appraiser notifies the Field Office of such occupancy, the Field Office must take

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immediate action to investigate the circumstances of the occupancy. If occupancy was not approved pursuant to Occupied Conveyance guidelines, the Field Office must take action to have the occupants removed.

If requested by the Field Office, the national contractor will provide an exterior estimate of value using the Freddie Mac Form 704, Second Mortgage Property Value Analysis Report, and the required addendum. Where Field Offices obtain exterior estimates of value from local sources, the appraiser should be instructed to complete the Form 704 and the required addendum. The URAR is not to be used for exterior estimates of value as these are not considered true appraisals..

6-13 Appraisal Recommendation and Initial Pricing.

- A. Fair Market Value. In all cases, properties are to be priced

based upon fair market value for comparable properties. The value must reflect the highest and best use in the current market, considering the priority of sale within 90 days.

The appraisal will provide a fair market value. The Department expects that the use of professional appraisers will result in the use of the appraised value for the initial list price. The Field Office Valuation Branch performs a technical review to determine the quality, accuracy and soundness of the appraiser's conclusions and opinions; the CPO or designee, however, establishes the initial list price. If the appraiser's conclusions are not deemed accurate, the CPO shall estimate value based upon the following factors to arrive at an appropriate initial list price, considering the objective of disposing of the property within a 90-day time frame.

1. In-house data.
2. Local conditions or trends of real estate sales.
3. Opinions of brokers as to the value of the property.
4. The risk of vandalism.
5. HUD's ability to dispose of the property within a 90-day time frame.

- B. Pricing Within Subdivisions. Where newly-acquired properties are similar to other HUD acquired properties already on the market, the initial list price must be consistent with those properties currently listed for sale. If comparables supplied with the appraisal would tend to support a different price, the CPO must document the case file to indicate that the initial list price was established based upon similar (comparable) listed properties as opposed to the comparables provided with the appraisal.

6-14 Contents of the Appraisal. A completed appraisal (URAR) must be clear, concise and understandable, and must contain:

- A. Estimated "as is" and "repaired" values. Values which will facilitate a sale within 90 days of making the property available for sale, taking into consideration factors such as property and market conditions and comparable sales.
- B. A list of recommendations to enhance the marketability of the property. These may be repairs and/or buyer incentives. Wherever repairs or buyer incentives are recommended, either to bring the property to the intent of Minimum Property Standards (MPS) (described at paragraphs 6-19 A and 10-7) or to enhance marketability, a list of repairs and their estimated cost are required, along with the appraiser's estimate of return (sales price) if any or all of the repairs are approved.
- C. An indication as to whether the property can be sold with FHA insurance in its present "as is" condition without repairs.

D. Comparables.

1. Properties. The appraisal must contain a description of at least three comparable properties not over six-months old, along with acceptable photographs. Comparables are to be selected from various methods of sales. Pricing based upon comparables taken solely from any one category of sale is not acceptable. Any differences, plus or minus, in the comparables from that of the subject property must be noted on a copy of the appraisal and should be fully documented.
2. Vacant Lots. When razing is required or the improvements have already been removed as a result of fire or the action of the local government, the appraisal must provide comparable vacant lot data to support the recommended vacant lot price.

E. A Certification of Inspection for Defective Paint Surfaces (Appendix 56), if required by the Field Office.

F. Revitalization Area. Field Offices may choose to have the appraiser make the initial determination as to whether repairs needed to make a property in a revitalization area insurable exceed \$5,000. If the appraiser is to provide this service, the appraisal is completed in the normal manner and the appraiser contacts the REAM or specification writer/fee inspector designated by the Field Office, within two days of the appraisal inspection if the property requires more than \$5,000 in repairs to make the property insurable. The appraiser is not to wait until the URAR and required addenda are completed to advise the designated party that repairs exceed \$5,000.

6-15 Review of Appraisals. The Field Office Valuation Branch or qualified appraisers under contract with the Valuation Branch will conduct review of appraisals. PD and Valuation should jointly agree on the methodology to determine which appraisals are to be reviewed and copies of the selected appraisals are to be provided to Valuation for this purpose within one workday of receipt from the appraiser. The original appraisal stays in the case file.

Review appraisers must understand that when the appraisal indicates a single family property can be sold in its present "as is" condition with FHA insurance, it means the property, based upon a visual inspection, must be structurally sound, free of roof leaks, and have operable mechanical systems.

A. Desk Review. The Valuation Branch must desk review a minimum of 20 percent of all appraisals. The actual level of desk reviews is to be determined jointly by the Valuation and Property Disposition Branches. Whatever level is agreed upon must be confirmed in writing and be sufficient to ensure

quality appraisals.

Within 30 days from assignment of an appraisal to Valuation, a report is to be issued to PD on the results of the desk review. If the review indicates no significant findings, inconsistencies, inaccuracies, opinions, etc., the reviewer will complete and sign the Reviewer's Analysis of Appraisal. Otherwise, the reviewer must provide PD with a report citing the findings, inconsistencies, inaccuracies, opinions, etc. The format for such reports is to be determined by the Field Office.

- B. Field Review. In addition to the desk reviews, the Valuation Branch, or appraisers under contract with the Valuation Branch, must field review at least 10 percent of all appraisals. PD must place the copy of the appraisal, after it has been desk reviewed, and the Form HUD-1038v Field Review, in the case file.

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- C. Timely Preparation of the Disposition Program. PD staff may not wait for receipt of a review appraisal before preparing the Disposition Program, which must be completed, reviewed and approved by the CPO within three days of receipt of the appraisal. PD must, however, maintain records of the number of appraisals sent to Valuation for desk review and the number of field reviews performed by Valuation.

The review appraisals prepared by Valuation are intended to be for PD's use only. The review appraisals provided by Valuation, and other related data, are to be used to monitor and assess the individual appraiser's performance under the appraisal contract. Serious and/or ongoing problems and patterns of poor performance involving appraisers under the national contract must be reported to the Government Technical Representative in the Single Family Property Disposition Division in Headquarters. Field Office administered appraisal contracts are to be bandied locally in accordance with applicable policies.

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6-16 General. While the PD program is to be based on full and current data from the most appropriate sources, it shall remain flexible and be revised as needed to ensure rapid turnover and the greatest return to HUD's insurance funds. Reanalyze properties that do not sell quickly, revising disposition programs and correcting sales problems as warranted.

6-17 Disposition Program Processing Sequence.

The SAMS CM DS C3 functions as the Approved Disposition Program. Complete the Disposition Program following instructions in the SAMS User Handbook.

The Disposition Program must be completed, reviewed, and approved within three business days of receipt of the appraisal and the list of repairs needed to meet the intent of MPS (described at paragraphs 619 A and 10-7) where appropriate. Recording of approval of the Disposition Program moves the case to Step 3. If the CPO does not approve the Disposition Program, the case must be modified. Following modification by the Realty Specialist, the review and approval process is repeated until the Disposition Program is approved.

6-18 Environmental Compliance. Single Family Property Disposition is subject to the environmental policy and procedures shown at 24 CFR Part 50, where applicable. An Environmental Compliance Record must be completed for each acquired property prior to listing for sale and the results considered in the Disposition Program. A suggested format for documentation of the review is shown at Appendix 18. The compliance record is to be maintained in the case file.

A. Preparing the Compliance Record.

1. Source Documents. To document the results of compliance findings, use copies of the appropriate floodplain and airport runway maps, and the National Register of Historic Places, in order to identify those properties which are subject to these three requirements. The Field Office Valuation Staff and Environmental Officer maintain these documents and should be contacted for this information.
2. Responsibility. The PD staff must prepare the compliance record. This task must not be assigned to a REAM.

B. Instructions for Completing the Environmental Compliance Record. Instructions for completing the compliance findings on the Environmental Compliance Record are:

1. Historic Preservation. The National Register of Historic Places identifies specific properties and historic districts which are subject to historic preservation requirements. If a HUD-owned property is listed on the register, or the district in which it is located is listed, a deed restriction must be prepared. Consult with Field Office counsel for appropriate language to be included in the deed.

2. Floodplain. Based on the floodplain map, properties located in Special Flood Hazard Areas (SFHA) which are being sold with HUD-insured mortgages or with buydowns or cash rebates, are required to have flood insurance. At the time of assignment of a case to the closing agent, the closing agent must be alerted to this requirement and must ensure that the purchaser obtains flood insurance. Such insurance may be purchased from any state licensed agent. If a property is located in a SFHA in a community which is suspended from or is not participating in the National Flood Insurance Program, the property must be offered on an uninsured basis and without a buydown or cash rebate. Advertising such properties must be in accordance with paragraph 9-14.

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3. Airport Runway Clear Zones.
  - a. Based on airport clear zone maps, properties located within the runway clear zone must be offered to the airport operator before the public listing. Property will be sold to the airport in accordance with the policy on sales to local governments. A decision by the airport operator not to purchase must be documented in the file, preferably in the form of a letter from the airport operator. In the absence of such a letter, a note to the file documenting the verbal response by the airport operator is sufficient.
  - b. Bidders on properties located in runway clear zones must provide a signed Notice to Prospective Buyers of Properties Located in Runway Clear Zones and Clear Zones (Appendix 13). In those few jurisdictions which have properties in runway clear zones, sales brokers must be provided with copies of this notice and be advised that it must be included when submitting a bid on a property which is located in a runway clear zone.
- C. Listing for Sale. Any property which is subject to these historic, floodplain, or airport clear zone requirements must be so identified when listing the property for sale.

6-19 Programming Priorities. Properties are to be sold on an "as-is" basis, without repairs or warranties. The principal method of sale is the competitive sales procedure. Using the following programs, plan disposition in the order of priorities shown below.

- A. Insured. A property that HUD believes, in its present



condition, meets the intent of the Minimum Property Standards (MPS) described in Handbook 4905.1, Requirements for Existing Housing, One to Four Living Units. "Intent" is defined as: Based upon a visual inspection the property is structurally sound, free of roof leaks, and has operable mechanical systems. Properties meeting the intent of MPS shall be offered in their as-is condition with mortgage insurance available. The insured program is described at paragraph 10-7.

- B. Insured with Repair Escrow. Properties which need less than \$5,000 worth of repairs to meet the intent of the MPS, will be offered for sale with mortgage insurance available, provided a cash escrow is established to ensure the completion of repairs. The insured with repair program is described at paragraph 10-8.
- C. Section 203(k) Financing. The 203(k) program may be used in connection with as-is, uninsured listings. The program allows a buyer to obtain one mortgage loan to finance acquisition and repair, provided the amount of repairs required makes financing feasible. The Section 203(k) program is described at paragraph 10-9.
- D. Uninsured. Properties which in their present condition fail to qualify for the foregoing types of financing are to be made available for sale without mortgage insurance. The uninsured program is described at paragraph 10-10.

6-20 Alternative Programming Approaches. If the sales programs shown above are impractical, excessive inventories exist in an area, or when the inventory becomes aged (more than 12 months in the inventory), select the disposition program from the following alternatives in the priority shown:

- A. Repaired Sales. Field Office may undertake limited repairs prior to selling certain properties. Repairs should be limited to minimum essential items to comply with HUD mortgage insurance criteria, or otherwise comply with actively enforced local codes. This

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technique should not be used routinely and only on an exception basis. The repair sales program is described at paragraph 10-11.

- B. Razing for Lot Sale. Some properties are so dilapidated that their repair is not feasible. Such properties may be razed for sale of the vacant lots. The razing for lot sale program is described at paragraph 10-12.
- C. Auctions. Auctions may be conducted for any property whose

current value is \$10,000 or less, any property which has received six or more months of market exposure, or upon approval of the Regional Office and Headquarters. Auctions are described at paragraph 10-13.

- D. All Cash Bulk Sales. Bulk sales may be used to boost sales in weak markets. Properties will be made available on an all cash, "as-is" basis, without warranty and without FHA mortgage insurance. All cash bulk sales are described beginning at paragraph 10-14.

6-21 Approval Authority. Final approval authority of the Disposition Program rests with the Field Office Manager or designee. However, where locally deemed appropriate, approval of the Disposition Program may be delegated in writing to the CPO but will not be approved without assurance that the Environmental Compliance Record, indicating compliance with 24 CFR Part 50, has been completed. Each approved Disposition Program is to be retained in the individual case file.

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#### SECTION V - SPECIAL MARKETING TOOLS

6-22 Special Marketing Tools. Field Office initiatives to stimulate sales are not limited to marketing tools in this chapter and Field Offices are expected to be alert to all reasonable alternatives for reducing inventory with maximum return to the insurance funds. However, authority to utilize special marketing tools other than those noted here must be approved by Headquarters. Many of the marketing tools identified herein are tied to hard-to-sell properties.

- A. Definition of Hard-to-Sell Properties. A concentration of homes in a specific market area (not jurisdiction wide) that remain unsold after six or more months in inventory and are characterized by one or more of the following:
  - a. Large numbers of non-HUD vacant properties.
  - b. Declining neighborhoods.
  - c. Severely depressed economy.
  - d. Other, equally good cause.
  - e. New acquisitions, similar to those mentioned above, may be immediately approved for such incentives when they are first listed.
- B. Implementation. Field Offices may authorize the use of

multiple marketing tools on each property, however, the total cost should not exceed \$2,500. This restriction is only applicable to those additional marketing tools which are not included in the amount specified in Line 5 of the Sales Contract. Sales and market data and recommendations from appraisers will be considered in the decision to implement particular incentives. The case file must contain documentation for the choice of marketing tool, revocation, or amendment.

C. Available Marketing Tools:

1. Bonuses.

- a. Cash Bonus to Selling Brokers. Consider for hard-to-sell properties described in this paragraph and when there has been little interest by brokers. Cash bonuses of up to \$500 per property may be initially offered, however, bonuses must not be offered so routinely that they become expected by selling brokers.
- b. Bonus for Early Closing. As an incentive for closing prior to the established closing date, a credit may be issued to either the purchaser, lender, and/or broker at closing a flat bonus determined as follows:

1. Properties Purchased with a Sales Price Greater Than \$25,000:

- a. \$900 if sale closes within 15 days of contract acceptance.
- b. \$600 if sale closes within 16 to 30 days of contract acceptance.
- c. \$300 if sale closes within 31 to 45 days of contract acceptance.
- d. \$100 if sale closes within 46 to 50 days of contract acceptance.

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2. Properties Purchased with a Sales Price Less Than \$25,000:

- a. \$450 if sale closes within 15 days of contract acceptance.
- b. \$300 if sale closes within 16 to 30 days of

contract acceptance.

- c. \$150 if sale closes within 31 to 45 days of contract acceptance.
- d. \$50 if sale closes within 46 to 50 days of contract acceptance.

Please note: The format described above is based on a Field Office closing time frame of 60 days. Should the closing time frame be less than 60 days, only the first two bonuses of each category apply.

c. Terminating Bonus.

- (1) Notice to Selling Brokers. A notice to selling brokers must be published in the listing 10 days before terminating or reducing offers of bonuses to brokers.
- (2) For Concentration of Properties. For concentrations of properties, the bonus shall be terminated when it has sufficiently stimulated sales or otherwise outlived its usefulness.
- (3) For individual, Remote, or Isolated Properties. The bonus shall be terminated if the property is unsold after 60 days. The PD approach for the particular property shall be reevaluated in light of a new on-site inspection by PD staff; review of pricing relative to current market, and advisability of upgrading.

- d. Payment. The selling broker must add any bonus to the normal sales commission in Item 6 on Form HUD-9548, Sales Contract (Appendix 39).

- 2. Cash Rebate. To promote sales of properties whose current value is \$40,000 or less, particularly those located in proven hard-to-sell areas, a cash rebate of up to five percent of the actual sales price, not to exceed \$2,000, may be offered to owner occupant purchasers, for use as deemed appropriate by the purchaser. Flood insurance is required for properties in Special Flood Hazard areas that are sold with a cash rebate.

Eligible purchasers will receive a credit at the time of settlement in the amount of up to five percent of the actual sales price, not to exceed \$2,000. This amount is to be shown on the HUD-1, Settlement Statement, as a credit to the purchaser and as a charge to HUD. Field Offices must notify the closing agent of each property that is entitled to a cash rebate.

3. Financing and Loan Closing Expenses.

- a. Purchaser's Financing/Closing Costs. Purchasers may

specify on Line 5 of the Sales Contract (HUD 9548, Appendix 39) the dollar amount they are asking HUD to pay towards the purchasers' financing and/or closing costs. Under normal market conditions, the amount requested may not exceed five percent of the purchase price (Line 3 of the Sales Contract). For proven hard-to-sell properties (described at 6-22 A), this amount may

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be increased up to six percent of the purchase price. Field Offices shall determine, on an individual market or property basis, the appropriate level, up to the five and six percent maximum. In some instances, it may be that a lower percentage is sufficient. The fee for HUD's contracted closing agent is not to be included in Line 5 or considered in the best net calculation. Any notification to brokers shall advise that offers to purchase may be enhanced by claiming less than the maximum for either financing and/or closing costs and the sales commission.

- b. Payment of Financing/Closing Costs. By acceptance of the Sales Contract (Appendix 39), HUD contracts to pay the amount specified in Line 5 of the Sales Contract. It is not necessary nor expected that either a listing of allowable items or a price listing for those items will be provided to sales brokers or closing agents. Under any circumstances, actual closing and financing costs, as verified by the closing agent, must not exceed reasonable and customary costs, regardless of which method of sale is used. Where actual costs exceed the deduction amount specified by the buyer on Line 5 of the Sales Contract, this amount must be borne by the buyer. The responsibility of the closing agent and the CPO is to ensure that the Line 5 allowance is not exceeded at settlement. Regional Offices should oversee the limits established by each office to ensure that financing and/or closing expenses are appropriate and are not exceeded for any jurisdiction or market.
- c. Broker Notification of Field Office Financing/Closing Cost Policy. Selling brokers should be kept informed of any changes to the financing and/or closing expenses authorized by the Field Office. A means of notifying the selling brokers would be through the Broker's Information Release (BIR) and real estate

industry meetings.

4. Inclusion of Prepaid and Financing/Closing Costs in Mortgage for Owner-Occupant Purchasers Only.
  - a. Prepaid. In those instances where prepaid and escrow items are unduly large, such as when taxes are paid in advance, the mortgage may be increased by the amount of such items. This may be used in connection with insured sales only. Homeowners insurance is not to be included as a prepaid in the mortgage.
  - b. Financing/Closing Costs. In addition to inclusion of prepaid items in the mortgage, owner-occupant purchasers of insured sales may elect to have financing and/or closing costs included in the mortgage, provided the total mortgage amount, including all add-ons, does not exceed the local maximum amount.
  - c. MIP. The MIP may continue to be funded into the mortgage, over and above any prepaid and financing/closing costs, without regard to the downpayment.

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5. Lease with Option to Purchase. Selected properties in soft market areas may be offered with a one year Lease with Option to Purchase Agreement. For these leases, use the Lease With Option to Purchase form shown in Appendix 35.
    - a. Properties selected are listed at HUD's estimate of fair market value in a separate category headed "Available for Owner-Occupants - Lease with Option to Purchase." The listing shall include the sales price and the market rent. Competing bids will be submitted and accepted in the same manner as properties listed for sale. The successful bidder/purchaser may receive credit towards the downpayment and purchase price for up to 50 percent of the fair market rent paid during the lease term.
    - b. The successful bidder/purchaser must have sufficient monthly income to support the rent payment.
    - c. The purchaser will not be required to submit an earnest money deposit with the sales contract.
    - d. Sales commissions are paid to selling brokers at the

sales closing.

- e. Sixty days prior to expiration of the lease, the tenant should be contacted to determine whether he/she intends to purchase the property. If the tenant is currently unable to purchase but would be able to at a later date, the lease may be extended for up to six months. Otherwise, the tenant may be permitted to remain as a tenant under the standard lease agreement or may be required to vacate the property. In the latter case, the property will be offered for sale under HUD's normal bidding procedure.
  - f. The requirements of the lead-based paint regulation must be followed. Prior to occupancy, any defective paint must be removed and, following exercise of the option to purchase, and prior to closing of the sale, the requirements regarding testing of children for elevated blood lead level and possible treatment of properties for removal of lead-based paint must be followed. (See Chapter 13.)
6. Move-in or Moving Expense Allowance. In an effort to assist with the moving expenses related to the purchase of a home that has been determined to be "hard to sell", a credit may be allowed to owner-occupant purchasers at the time of settlement an amount not to exceed \$300. This amount is to be shown on the Form HUD-1, Settlement Statement, as a credit to the purchaser and as a charge to HUD. Note: The cost of this marketing tool is not to be reflected in determining the net to HUD on the form HUD-9548, Sales Contract.
7. Multiple Listing Services (MLS). To ensure greater exposure for the sale of properties, Field Offices are to meet with their local National Association of Realtors (NAR) boards, or similar organizations, to discuss participating in the MLS or other listing service. The NAR encourages cooperation with government agencies in marketing properties, but provides that information concerning HUD-owned properties may not be included in any MLS compilation unless the property has been exclusively listed with an MLS participant.

NAR Boards can, however, publish separate listings of HUD-owned properties provided the information is clearly distinguished from the MLS. We encourage the publication of separate listings so that HUD-owned properties obtain greater

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market exposure. Unless HUD has entered into an exclusive listing arrangement with a participating broker, sales will continue on an open listing basis.

8. Open House.
  - A. Conducting a well-planned open house often generates more interest and sales appeal on certain properties than normally could be expected under standard advertising procedures. In particular, areas with high numbers of HUD-owned properties and slow sales, and properties that show well, may benefit by the additional exposure an open house creates. The Field Office should routinely advise and encourage brokers that they may request permission to hold an open house on any property available for sale. Although the broker cannot be given an exclusive right to sell, and must make this fact known to the public, there is an incentive for the broker resulting from contact with potential buyers.
  - B. Field Offices may also consider coordinating a concept of conducting a large scale open house on a number of properties at the same time. Generally, this will require the participation and cooperation from several brokers who will be stationed at each property. Field Offices will have to develop certain procedures in order to successfully carry out this concept. For example, advertising strategies must be developed to publicize the event and utilities may need to be turned on in some properties. Such properties may be removed from the market for up to three days prior to the scheduled open house. Brokers should be advised that this procedure has worked well in the past and that the increased exposure and sales interest that is often created produces an overall benefit in a given market.
9. Pre-Qualification. To reduce the number of sales cancellations and to expedite sales closings, Field Offices are encouraged to require potential purchasers to be pre-qualified prior to the submission of an offer to purchase. Prequalification would provide information to both HUD and the purchaser on the mortgage amount; reduce holding costs the Department would incur; reduce extension requests and expedite loan approval.

To implement this procedure, purchasers would be required to submit a letter from a lending institution indicating that an in-house credit report and other information from the purchaser qualifies the individual(s) for a specific mortgage amount. This letter should accompany the sales contract.

Although purchasers would be "pre-qualified" should a sale



still fail to close, the standard earnest money forfeiture policy would apply.

10. Property Inspection Service. Potential buyers should be encouraged to have the properties inspected to their satisfaction prior to submitting offers to purchase. The manner and extent of such inspections generally should be the decision of the potential buyer. If the buyer wishes the utilities to be activated so that a live test may be performed, this should be permitted unless there is good cause to deny such a request. Inspections of this nature should be handled through the selling broker who must coordinate the action with the REAM. The selling broker must agree to accept responsibility for costs associated with the inspection and for ensuring that the property is left in its pre-inspection condition. In some cases, this may mean rewinterization of the system.

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On those properties eligible for insured financing, an alternative property inspection procedure may be adopted. Under the alternative procedure, which is available only to owner-occupant purchasers, rather than potential purchasers having to expend the funds and effort to have systems tested prior to submitting an offer to purchase, they may be permitted to have the systems tested following HUD's acceptance of the Form HUD-9548, Sales Contract. Should the test disclose defects to the systems, the Field Office may:

- a. Correct the defect. Such repair expenditures shall be limited to the lesser of (a) \$500, or (b) the estimated cost for the time that would be lost if the transaction did not close as a result of the defect. The repairs may be performed or a credit issued to the purchaser at closing; or,
- b. Reduce the sales price. The reduction is subject to the same dollar limitation indicated in 1. above; or,
- c. The office may elect not to repair the property or reduce the sales price or, if the purchaser is unsatisfied with the level of repairs or price reduction, the purchaser may terminate the contract and receive a full refund of the earnest money deposit.

To further promote the thought that potential buyers should conduct a thorough inspection, the actual cost of

the above mentioned professional inspection, up to a maximum of \$200, may be financed in the mortgage. If such cost is being financed in the mortgage, the inspector must provide a written report to the home buyer and the home buyer must provide HUD's closing agent with a paid receipt for the inspection service.

11. Repair of Properties.

- a. Spruce-Up/Limited Repairs. Spruce-up or limited repair programs may be undertaken in order to make properties more readily saleable, combat adverse market conditions, meet competition, or to meet enforced code requirements.
  - (1) Types of improvements or repairs include painting, landscaping, general cleaning, carpeting, systems (electrical, plumbing, heating) and appliances.
  - (2) Total expenditure for spruce-up/limited repairs shall not exceed \$5,000 per property.
  - (3) Contractors performing repair or replacement under this program must provide certifications or warranties, as appropriate, which are to be passed on to HUD's buyer.
  - (4) Properties selected for spruce-up/limited repairs must be insurable after such upgrading.
- b. Repair Authority. The Spruce-Up Program does not replace existing authority to perform limited repairs on properties. See paragraph 10-8 for repairs under the Insured Sales with Repair Escrow program.
- c. More Extensive Repairs.
  - (1) Where deemed appropriate, to significantly improve market appeal and on a case-by-case basis, repairs of a more extensive

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nature than provided for by the spruce-up/limited repair program may be performed. The repair program is intended to prevent further decline of property values in the community and to produce a higher price on the repaired property.

In addition to more involved repairs to the items referenced in the spruce-up/limited repair program, consideration may also be given to limited remodeling, roofing, and foundation and structural work.

- (2) Properties selected for this repair program must be eligible for insurance after upgrading. In selecting a property for this program, the office must be of the opinion that a greater price will be obtained following repairs and that most, if not all, of the repair expenditure will be recouped.
  - (3) Properties may be programmed for repair only when necessary staff and contractor resources are available to complete the repairs in an expeditious manner. In general, it is not expected that repair programs will be so extensive that significant delays in listing the properties for sale will be experienced. The case file should contain a brief statement justifying the decision to repair. Documentation should be maintained in the Field Office indicating the procedure used for identifying soft market areas and the method used in selecting properties to be repaired. Repaired sales shall not include a HUD warranty except as passed on to the buyer by the contractor.
- d. Repairs that Delay Closings (applicable to any type of sale). In those instances where a sales closing is delayed due to a requirement by the lending institution that minor repairs be completed prior to settlement, the repairs may be performed by the Field Office. However, the purchaser must assume responsibility for the cost of the repairs at the time of sales closing. Minor repairs are defined as those which do not exceed \$500.
12. Upgrading Allowances. Selected properties may be offered for sale with upgrading allowances. The allowances may not exceed the lesser of the Field Office estimate of accomplishing the work or five percent of the list price. In deciding whether to offer the upgrading allowances, the Field Office must (1) make certain that the work is actually needed and (2) the salability of the property will be enhanced if the allowances are offered. The allowances must be available to both owner-occupants and investor buyers.

Purchasers will be required to provide a list of repairs they will undertake to upgrade the property. Types of improvements which may be considered include painting, carpeting, systems (electrical, plumbing, heating), energy conservation items such as storm windows, storm doors,

insulation, etc., and replacement or installation of appliances.

Potential purchasers must be informed that:

- A. Commencement of any work covered by the allowances must be after sales closing.

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- B. The buyer has 90 days from the closing date to complete the work covered by the allowances (An extension may be approved only under circumstances beyond the buyer's control, e.g. severe weather conditions which may delay painting).
  - C. HUD will not reimburse the buyer for any costs in excess of the allowances. The buyer is solely responsible for any payments due a contractor or supplier for work completed.
  - D. The allowances will only be paid upon satisfactory completion of all authorized work as verified by an inspection by the Field Office staff, an inspector under contract to HUD, or the REAM (for a reasonable fee).

Upon satisfactory inspection, the Field Office should process payment using normal voucher processing procedures. Payment shall not exceed the amount of the authorized allowances regardless of the costs to the buyer.

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#### SECTION VI - REANALYSIS

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- A. Price Reduction on Unsold Properties. Reanalyze as follows:

1. The use of the SAMS Report, DM Inventory by Current Step (DM RP CS), is suggested as a means of identifying properties listed for 30 days or more. Do not remove properties from the market in anticipation of being reanalyzed.
  2. As an alternative to reducing the price, consider the use of other sales incentives such as spruce-up or repair.
  3. Do not reduce the price by any predetermined amount on a routine basis.
  4. If reduction in price or change of terms will be proposed as a result of reanalysis, the basis of the reduction must be documented in the case file.
    - a. Reductions of ten percent or less of the current price must be supported by documentation showing the property's current condition. Acceptable documentation may be an inspection performed within the past two months or, for example, a telephone report from the REAM to confirm the property's condition. A change in condition may result from, for example, vandalism or storm damage. Provided this documentation is in the case file, no further documentation or justification is required or expected for price reductions of 10 percent or less of the current price.
    - b. If reanalysis indicates that a reduction greater than 10 percent of the current list price is justified, the reasons therefore shall be fully documented in the case file. In addition to a report of an inspection performed within the past two months or other information which reflects the property's current condition as discussed in a above, additional written justification is required. This may be any legitimate reason for the recommended reduction, such as lack of market appeal or a soft real estate market.
- B. Approval Authority. The CPO is the official authorized to approve all reductions in price and/or changes in terms to the Disposition Program.
- C. Change in Price or Terms. Any reanalysis which results in a change of either the price or terms of sale requires a new Disposition Program and must be treated as a new listing.
- D. Ensuring Marketability of Properties and Attaining Highest Price in Strong Market Areas. In strong market areas, Field Offices will systematically review disposition programs to see that prices are as high as can be expected without sacrificing salability.
1. Where listings bring an unusually large number of multiple

offers, the CPO will review the appraisal as well as order on-site staff inspections to reaffirm recommended pricing. In such instances, the CPO must make this review prior to acceptance of an offer. The CPO may determine that the property should be

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withdrawn from the market in order to perform a full review to ensure that HUD is receiving full value.

2. Where the opposite occurs, and few or no offers are received, the CPO will perform the same type review to assure that properties are not being overpriced.
3. Based upon the findings from 1 or 2 above, all properties in the area affected will be reviewed and prices adjusted accordingly.

SECTION V - PROCESSING REQUIREMENTS FOR SAMS

6-24 General. See the SAMS User Handbook for specific data entry requirements for the development and approval of disposition program.

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