



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**August 26, 2015**

**Mortgagee Letter 2015-17**

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**To** All FHA Approved Mortgagees  
All FHA Roster Appraisers

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**Subject** HUD REO Purchasing

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**Purpose** This transmits the following sections of HUD Handbook 4000.1, *Single Family Policy Handbook*:

- Section II.A.8.o, HUD REO Purchasing,
- Section II.B.12.e.iv, Appraisals for HUD REO Properties Purchased with a New FHA-Insured Mortgage;
- a revised Section II.A.8.a.ix revising the Maximum Mortgage Amount for HUD REO 203(k) purchases; and
- revised Glossary definitions of a HUD REO Property and Adjusted As-Is Value, and As-Is Property Value to remove the variance in the definitions specific to HUD REO.

Additionally, this Mortgagee Letter rescinds the changes to the calculation of the maximum mortgage amount for the purchase of HUD REO property established in Mortgagee Letter 2013-44 (i.e., the requirement to use the initial list price).

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**Effective Date** The elimination of use of the list price of the HUD REO property in determining the maximum mortgage amount is effective for endorsements on or after September 14, 2015, including pipeline applications.

The revision to Section II.A.8.a.ix and the revisions to the definition of Adjusted As-Is Value and As-Is Property Value are effective for case numbers assigned on or after September 14, 2015.

Section II.A.8.o, HUD REO Purchasing, Section II.B.12.e.i, Definition and Section II.B.12.e.iv, Appraisals for HUD REO Properties are effective for case numbers assigned on or after March 14, 2016.

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**4000.1 FHA Single Family Housing Policy Handbook**

The provisions of this ML are incorporated into the 4000.1 and can be viewed separately on the [FHA Single Family Housing Policy Handbook Information Page](#).

**Superseded Policy**

Below is a list of Mortgagee Letters containing content related to these sections of Handbook 4000.1 that are hereby superseded in their entirety and are canceled. These Mortgagee Letters will continue to remain available for informational purposes only on HUD’s web site.

<b>ML Number</b>	<b>Mortgagee Letters Superseded in Whole</b>
1995-56	Single Family Property Disposition Insured Sales with Repair Escrow
2000-27	Appraising and Financing HUD Real Estate Owned (REO) Properties with FHA-Insured Financing – Single Family Loan Production
2011-19	Financing of Transaction Costs for Real Estate Owned (REO) Properties Purchased Under FHA \$100 Down Sales Incentive
2013-44	HUD Single Family Real Estate Owned (REO) Properties: Clarification on Comparables used for Appraisals

**Summary of Changes**

The new section of the Handbook and the revised Handbook changes are incorporated into Handbook 4000.1. The following is a summary of the changes in policy being made and are provided for informational purposes only:

<b>Summary of Insured REO Sales Policy Changes</b>		
<b>Policy</b>	<b>Existing Requirements</b>	<b>Revised Requirements</b>
REO Appraisal	<ul style="list-style-type: none"> <li>Used to establish REO list price <i>and</i></li> <li>Used to calculate maximum mortgage amount</li> </ul>	Used to establish list price only

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**Summary of Changes**  
(continued)

<b>Summary of Insured REO Sales Policy Changes</b>		
Ordering a new appraisal	Permitted only when <ul style="list-style-type: none"> <li>• REO appraisal not available <i>or</i></li> <li>• REO appraisal expired <i>or</i></li> </ul> REO appraisal has material deficiencies	Required for all FHA-insured REO sales transactions
Responsibility for determination of compliance of property with Minimum Property Requirements	<ul style="list-style-type: none"> <li>• REO Asset Manager <i>and</i></li> </ul> underwriting mortgagee	Underwriting mortgagee only
Loan-To-Value ratio for investment properties	<ul style="list-style-type: none"> <li>• 1 Unit – 75%</li> <li>• 2-4 Units – 85%</li> </ul>	75% for all 1-4 unit investment properties
Maximum mortgage amount	Based on lesser of <ul style="list-style-type: none"> <li>• appraised value <i>or</i></li> <li>• sales price <i>or</i></li> <li>• original REO list price</li> </ul>	Based on adjusted value
Financing Upfront Mortgage Insurance Premium on \$100 Down loans	Only if total loan amount does not exceed appraised value	Upfront Mortgage Insurance Premium may be financed with no restriction

**Information Collection**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

**Questions**

Please address any questions about the topics addressed in this Mortgage Letter to the FHA Resource Center at (800) 225-5342. Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at (800) 877-8339. For additional information on this Mortgage Letter, please visit [www.hud.gov/answers](http://www.hud.gov/answers)

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**Signature**

Edward L. Golding  
Principal Deputy Assistant Secretary for Housing

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