



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

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

February 5, 2016

Mortgagee Letter 2016-02

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<b>To</b>	<b>All FHA-Approved Single Family Mortgagees</b>
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<b>Subject</b>	<b>Update of Preservation and Protection (P&amp;P) Requirements and Cost Reimbursement Procedures for Title II Forward Mortgages and Home Equity Conversion Mortgages (HECMs)</b>
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<b>Purpose</b>	<p>This Mortgagee Letter consolidates and updates property preservation and protection (P&amp;P) guidance for properties securing FHA-insured mortgages and</p> <ul style="list-style-type: none"><li>• increases the Maximum Property Preservation Allowance and adds, clarifies, and increases other line items;</li><li>• emphasizes FHA's current conveyance condition standards;</li><li>• reminds mortgagees of FHA's inspection requirements; and</li><li>• details claims calculation and documentation requirements for property P&amp;P actions.</li></ul>
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<b>Effective Date</b>	This Mortgagee Letter is effective on February 1, 2016.
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<b>Affected Policy</b>	The policies set forth in this Mortgagee Letter modify or supersede where there is conflict, Mortgagee Letter 2010-18 and its exhibits.
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<b>Conveyance Condition</b>	<p>At the time of conveyance to HUD, the mortgagee must ensure that the property meets all of the following conditions:</p> <ul style="list-style-type: none"><li>• The property is undamaged by fire, flood, earthquake, hurricane, tornado, boiler explosion (if a condominium) and Mortgagee Neglect;</li><li>• The property is secured and, if applicable, winterized;</li><li>• All insured damages including theft and vandalism are repaired per the scope of work indicated on the insurance documents;</li><li>• Interior and exterior debris are removed, with the property's interior maintained in "Broom-swept" Condition;</li></ul>
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- The property’s lawn is maintained, and all vehicles and any other personal property are removed from the property in accordance with state and local requirements; and
- The property has good and marketable title.

The term “Broom-swept Condition” means the condition of a property is, at a minimum, reasonably free of dust and dirt, and free of hazardous materials or conditions, personal belongings, and interior debris.

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**Mortgagee  
Property  
Preservation  
and  
Protection  
Action**

**Definition**

Property Preservation and Protection (P&P) includes property maintenance, security, and repair work required by HUD in order to ensure that the property meets HUD’s conveyance condition standards.

Mortgagee Neglect is the mortgagee’s failure to take actions to preserve and protect a property from the time it is determined (or should have been determined) to be vacant or abandoned, until the time it is conveyed to HUD.

**Standard**

The mortgagee must preserve and protect all vacant properties securing FHA-insured mortgages in default or in foreclosure. The mortgagee is responsible for the management, scheduling, and execution of all activities and actions taken to preserve, secure, maintain and protect the property. Mortgagees may use any qualified individual or business to perform P&P services on properties that were secured by FHA-insured mortgages; however, the mortgagee remains fully responsible to HUD for its actions and the actions of its agents, individuals, and firms that performed such services on its behalf.

Mortgagees are responsible for property damage or destruction to vacant or abandoned properties resulting from Mortgagee Neglect. Such neglect includes, but is not limited to:

- failure to adequately and accurately verify the occupancy status of a property;
  - failure to complete timely and accurate property inspections;
  - failure to promptly and appropriately secure and to continue to preserve and protect all vacant properties according to HUD standards; and
  - failure to promptly notify the Mortgagee Compliance Manager (MCM) of receipt of code violations and demolition notices and/or take appropriate action.
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**Damage to the Property by Borrower** To ensure that the mortgagee is not held liable for damage to the property by waste committed by the borrower, their heirs, successors, or assigns, the mortgagee must document and photograph any damage, resulting from the borrower, identified during the First-time Vacancy inspection.

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**P&P – Required Documentation** The mortgagee must:

- take before and after photographs and upload them into P260 for each claimed property P&P expense; and
- retain in the Claim Review File:
  - all copies of paid invoices or receipts or other documentation supporting all property preservation expenses claimed by the mortgagee; and
  - a chronology of the mortgagee’s property P&P actions.

If documentation is incomplete, inadequate, or not provided, HUD will not accept a mortgagee’s certification of property condition and may:

- re-convey the property to the mortgagee; or
- seek reimbursement from the mortgagee for HUD’s estimate of the cost of the repairs required to repair and restore the property to conveyance condition.

HUD will require the repayment of all or part of any claim reimbursement if it is determined that expenses claimed and paid were unnecessary or excessive; or that services claimed were not performed or were performed improperly or incompletely.

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**P&P – Photograph Requirements** The mortgagee must use digital photography to document:

- the condition of the property at the First-time Vacant (FTV) property inspection and any damage identified; and
- the before and after conditions of the property when performing property P&P actions.

The mortgagee must ensure a date-stamp is printed within each photograph and labeled accordingly describing the contents of the photograph.

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**Claims – Record Retention Period** The mortgagee must retain Claim Review File documentation for at least seven years after the final settlement date or latest supplemental settlement date, when:

- The final settlement date is the date of the last acknowledgement or payment received by the mortgagee in response to the submission of a claim. In certain cases, the acknowledgement may be in the form of a bill.

The supplemental settlement date is the date of the final payment or acknowledgement of such supplemental claim. In certain cases, the acknowledgement may be in the form of a bill. It is important to note that the uploading of documents to P260 does not abrogate the aforementioned requirement(s).

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**Claims – P&P Expenses after Deed has been Recorded**

HUD will not reimburse P&P or property related expenses incurred after the deed has been recorded in HUD’s name, other than payment of certain utility bills or HOA payments.

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**Maximum Property Preservation Allowance**

The Maximum Property Preservation Allowance is \$5,000 per property. The Maximum Property Preservation Allowance is a pre-approved reimbursement for the aggregate of all P&P expenses that do not exceed the line item allowable listed on the Property Preservation Allowances schedule (Appendix A).

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**Line-Item P&P Allowances**

The Property Preservation Allowances’ schedule lists maximum reimbursable amounts for specific property P&P actions.

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**Over-allowable Expense Requests**

**Request**

The mortgagee must request over-allowable approval from the MCM via P260 when:

- the aggregate of all property P&P expenses exceed the Maximum Property Preservation Allowance;
- a property P&P cost will exceed the maximum line-item allowance listed in the Property Preservation Allowances schedule; or
- there is no specific line-item allowable stated in the schedule for the expense.

When the mortgagee is submitting an over-allowable request to exceed the Maximum Property Preservation Allowance, the mortgagee must demonstrate the mortgagee’s incurred P&P costs are at or near \$5,000.

**Required Documentation**

The mortgagee must upload all supporting documentation into P260, including a detailed description of what actions will be or were taken, an itemized list of the repairs and materials that will be or were used, relevant room dimensions, receipts, and photographs, and a chronological listing of all property P&P expenses incurred prior to the submittal of the Over-allowable Expense request.

The following chart details requirements for over-allowable requests and documentation.

<b>If Total P&amp;P Expenses Minus Excluded Line Items Claimed on form HUD-27011, Part C is:</b>	<b>And the Cost of a Single Line Item Expense is:</b>	<b>Need Over-allowable Approval?</b>	<b>Need Documentation?</b>
\$5,000 or less	Greater than Appendix A	Yes	Yes
\$5,000 or less	Less than Appendix A	No	Yes
Greater than \$5,000	Greater than Appendix A	Yes	Yes
Greater than \$5,000	Less than Appendix A	Yes	Yes

**Appeals of Decisions for Over-Allowable Requests**

The mortgagee may submit an appeal of an initial over-allowable decision to the MCM via P260.

The mortgagee may submit an additional appeal via P260 to the MCM, who will review the appeal and, at its discretion, approve or deny the appeal or determine if further review by HUD is needed.

The decision on the second appeal is final and no further appeals will be accepted.

**Authority Having Jurisdiction**

An Authority Having Jurisdiction (AHJ) refers to a state or local government, homeowners association, or other organizations responsible for enforcing the requirements of a property-related code or standard including state law and local ordinance.

**AHJ Property P&P Requirements**

Mortgagees are not exempt by HUD policy from adhering to state and local laws relating to the P&P of properties securing FHA-insured mortgages.

Because HUD intends to sell and market conveyed properties as-is with disclosure of outstanding or inapplicable code compliance conditions or any outstanding violations, the mortgagee must review the AHJ requirements, including those relating to occupancy of the structures, to determine applicability for repair or remediation prior to conveyance of the property to HUD.

<b>Local Property P&amp;P Requirements Exceeding HUD Standards</b>	Where the AHJ requires additional or more extensive P&P actions than required by HUD for conveyance, the mortgagee may submit an over-allowable request via P260. The mortgagee must upload with its request all documentation supporting the proposed additional work requirements and expenses necessary for compliance.
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<b>Claims – Inspections</b>	<p>The mortgagee may request cost reimbursement for:</p> <ul style="list-style-type: none"> <li>• up to 13 inspections per calendar year per property, with one inspection performed for each 30-day cycle in accordance with HUD guidance and any additional inspections approved by the MCM and supported by documentation (see the Vacant Property Inspections – Required Documentation section of the Servicing and Loss Mitigation section in the <i>SF Handbook 4000.1</i>);</li> <li>• reimbursable eviction inspections;</li> <li>• pre-conveyance inspections that do not coincide with the regular inspection schedule; and</li> <li>• additional inspections as otherwise required and approved by HUD.</li> </ul>
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<b>Occupancy Inspections during Bankruptcy</b>	<p>When payments are not submitted as scheduled by a borrower in bankruptcy, the mortgagee must contact either the bankruptcy trustee or the borrower’s bankruptcy attorney for information concerning the occupancy status of the borrower in the property, in order to determine if an occupancy inspection is needed.</p> <p>The mortgagee must continue to perform exterior-only visual inspections until the default is cured, the property is disposed of, or the bankruptcy court has granted approval for the mortgagee to contact the borrower or to take any required property P&amp;P actions.</p> <p>If the mortgagee determines that the property is vacant or abandoned during the period in which the mortgagee is prohibited from contacting the borrower, the mortgagee must:</p> <ul style="list-style-type: none"> <li>• note the date it made its determination in the servicing file; and</li> <li>• contact the bankruptcy trustee or borrower’s attorney to determine whether the mortgagee may begin property P&amp;P actions.</li> </ul>
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<b>First-Time Vacant Property Inspections</b>	<p>The mortgagee must perform the FTV property inspection on the date it takes possession of a vacant or abandoned property. The mortgagee must:</p> <ul style="list-style-type: none"> <li>• secure the property, if possible;</li> <li>• address all imminent and urgent safety hazards and determine what repairs are required to prevent damage to the property;</li> <li>• photograph the primary exterior facades, interior areas of the primary and secondary structures, including any damage found; and</li> </ul>

- document (i.e., in the inspection report) the overall condition and any damage to the grounds and structures.
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**Vacant  
Property  
Inspection  
Cycle**

The mortgagee must perform vacant property inspections every 25-35 days after the First-time Vacant Property Inspection until the default is cured or until conveyance of the property to HUD. At each inspection, the mortgagee must:

- photograph the overall condition of the interior and exterior of the primary and all secondary structures;
  - monitor the security and maintenance of the property;
  - assess and manage damage that requires repair, replacement, or removal;
  - address all emergency repairs; and
  - photograph and document all property P&P activities.
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**Securing the  
Property -  
Emergency  
Contact  
Information**

The mortgagee must ensure that 24-hour emergency telephone contact information is visibly displayed in a weather-tight location on a window or door or as otherwise required by an AHJ.

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**Securing the  
Property -  
Locksets**

**Before Foreclosure Sale**

Where the mortgagee has determined that a property is vacant or abandoned, the mortgagee must re-key or replace the locksets (the totality of all key operated latches, bolts, or other fasteners) on the front or main external entranceway.

**After Foreclosure Sale**

Where the property has been conveyed to the mortgagee, the mortgagee must:

- ensure that the lockset on the main entranceway remains secured; and
- re-key or replace all locksets on all secondary external entranceways and secure interior doorways, including attached garages and basements.

When rekeying, the mortgagee must re-set all locksets at the property to a random identical key code. The key code must be documented in the Mortgagee Comments of the Part A Claim. If locksets cannot be replaced or re-keyed or are antique or architectural locksets, the mortgagee may utilize alternative methods to secure the door and prevent damage to the hardware or door.

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**Securing the Property – Exterior Doors**

The mortgagee must secure all exterior doors. For exterior sliding glass doors, the mortgagee must latch these doors and install or provide slider locks, anti-lift blocks, security bars, or other secondary security mechanism.

The mortgagee must not brace, nail shut, or otherwise block or damage the door. If no other locking mechanism exists, the mortgagee must board/secure access doors, pet doors, and other panels providing access to basements and crawl spaces, where permitted by state or local law.

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**Securing the Property - Garage/Overhead Doors**

The mortgagee must secure the garage or overhead doors by:

- using existing locksets at garage/overhead doors if they can be re-keyed to the random identical key code for the property;
  - securing the garage/overhead doors with a padlock and hasp if no other locking mechanism exists;
  - repairing or replacing inoperable garage doors; and
  - disconnecting automatic garage door openers, if present, and leaving any remote keys or transmitters securely in the property.
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**Securing the Property - Outbuildings**

The mortgagee must secure sheds and outbuildings by:

- re-using and re-keying existing locksets at sheds and outbuildings to the dwelling key code, if possible;
  - securing shed and outbuilding doors with a padlock and hasp if no other locking mechanism exists; and
  - boarding/securing the outbuildings, if no doors or other securing mechanism exists; the mortgagee may convey with boarded/secured outbuildings and sheds without prior approval.
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**Securing the Property – Windows and Glazing**

The mortgagee must secure all windows by:

- employing or installing locking mechanisms on all windows;
- removing all broken glass debris from the interior and exterior of the property; and
- replacing broken or cracked window glazing. Where the AHJ requires replacement of dual-pane, tempered, thermal-sealed or other specialized glazing in kind, the mortgagee must obtain prior overallowable approval from the MCM.

The mortgagee must not brace, nail shut, or otherwise block or damage the windows.

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**Securing the Property – Boarding and Securing of Property Openings**

**Re-Securing due to Vandalism or Unauthorized Property Access**

The mortgagee must re-secure and re-glaze windows, doors, and other access openings when the property has been vandalized or accessed without authorization.

**Boarding/Securing Required by the AHJ**

The mortgagee may secure windows, doors, and other access openings by boarding/securing if required by an AHJ and may convey a property to HUD with such boarding/securing in place.

**Boarding/Securing when Unable to Secure by Other Methods**

The mortgagee may request approval from the MCM to board/secure openings that cannot be protected by a standard method of securing a property, prior to conveying a property to HUD.

All boarding/securing materials that are leased or rented for the mortgagee’s convenience must be removed prior to conveyance of the property to HUD.

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**Claims – Expenses for Re-securing the Property**

If openings must be re-secured due to vandalism or destruction of barricade, the mortgagee must provide documentation for reimbursement of the re-securing expense and all insurance reimbursements and claim information.

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**Securing the Property - In-Ground Swimming Pools, Hot Tubs and Spas**

Mortgagees must secure all in-ground swimming pools, hot tubs, and spas as required by local laws, codes and ordinances. In addition to local requirements, the mortgagee must:

- secure the pool, hot tub, and/or spa with a removable safety cover anchored to the pool deck or, if a cover cannot be anchored to a pool deck, board or otherwise secure the pool, hot tub, and/or spa; and
- secure and repair any fences around the pool, hot tub, and/or spa in order to restrict access.

The mortgagee must not drain operational in-ground pools. If the pool is empty, it is not necessary to re-fill the pool. Hot tubs or spas, located indoors or outdoors, must be drained.

The mortgagee must perform monthly maintenance of and apply chemical treatments to operational pools. Where the mortgagee must repair or drain the pool to mitigate damage or safety hazards, the mortgagee must submit an over-allowable request.

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**Securing the Property - Above-Ground Swimming Pools**

Mortgagees must secure all above-ground swimming pools as required by local laws, codes and ordinances. In addition to local requirements, the mortgagee must:

- drain the pool;
- secure the pool with a removable cover; and
- secure and repair any fences around the pool in order to restrict access.

When an above-ground pool is in poor condition or cannot be secured, the mortgagee must:

- remove the above-ground pool and any built-up decking; and
  - remediate any resulting depression in the ground that may constitute a hazard.
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**Securing the Property - Ponds or Gardens**

The mortgagee must drain, if feasible, or cover any small backyard ponds, water gardens, or other water features.

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**Timeframe and Requirements for Winterization**

The mortgagee must winterize the property, according to the Winterization Schedule.

When earlier or extended winterization is required due to specific micro-climate conditions or other property requirements, the mortgagee must perform such winterization and include in the Claim Review File documentation supporting the mortgagee’s amended winterization timeline.

When the initial winterization is no longer effective, the mortgagee must re-winterize the property and include in the Claim Review File documentation demonstrating the need to re-winterize.

**Water and, Plumbing and Heating Systems**

The mortgagee must:

- shut off or disconnect the domestic water supply at the curb and for private wells, the mortgagee shall turn off the well at the breaker panel and disconnect the water supply line between the property and pressure tank;
- drain all plumbing and heating systems; and
- ensure that all toilets are cleaned and emptied.

When a toilet or other plumbing fixture has been compromised by an unauthorized entry or wastewater backflow, the mortgagee must complete re-winterization and cleaning.

### **Winterization of Swimming Pools and Spas**

During the winterization period, the mortgagee must drain all lines and filters and secure and maintain operational swimming pools to prevent damage.

### **Additional Winterization Requirements for Properties located in Alaska**

All properties located in the state of Alaska must be continuously winterized at all times, and in addition to the winterization requirements described above the mortgagee must ensure that:

- the heat remains on, with the thermostat set at 55 degrees Fahrenheit; and
- all utilities remain connected and in working order, where permitted by state or local law.

### **Responsibility for Damage due to Freezing**

The mortgagee is responsible for any damage to plumbing and heating systems, sump pumps, and wells caused by untimely, inadequate, or improper maintenance or winterization.

HUD will consider any damage caused by freezing and not documented at the FTV Property Inspection to be the responsibility of the mortgagee and not reimbursable by HUD.

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#### **Utilities**

The mortgagee must turn all utilities off unless:

- prohibited by state or local law;
- required to remain on per Homeowners Association (HOA) or condominium association requirements;
- the property is an attached unit or a dwelling with shared systems such as a row house or townhouse;
- required to remain on to protect the property;
- required to operate equipment such as sump pumps, swimming pools, wells, dehumidifiers, or other equipment or systems required to remain in operation; or
- the mortgagee determines that utility disconnection fees and charges make it cost-effective to maintain utility service rather than disconnect such service.

The mortgagee must ensure that active piping and exposed electrical wiring is capped, valved, or otherwise terminated.

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#### **Maintenance of Domestic Water Systems**

The mortgagee must not cut water lines or remove water meters, unless required by the AHJ. Mortgagees must pressure-test all water supply lines at FTV Property Inspection and upload photographs of the results of the test into P260, in order to document condition at first-time vacancy.

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**Maintenance of Propane and Oil Systems**

In those jurisdictions where the heat is required to remain on, the mortgagee must place a “KEEP FULL” contract with a local supplier when the property has a propane or oil heating system. Otherwise, the mortgagee must ensure that active piping is capped, valved or otherwise terminated and all fuel tanks are emptied.

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**Maintenance of Private Wells**

If the water supply is a private well, the mortgagee must:

- turn off the well at the breaker panel;
  - secure the breaker;
  - disconnect and cap, valve, or otherwise terminate the water supply line between the property and pressure tank;
  - install a hose bib on the pressure tank side of the breaker, tagging the hose bib “For Water Testing;”
  - drain all pressure tanks;
  - drain pump housing if the pump is surface-mounted;
  - disconnect the check valve and drain all pump, suction, and discharge pipes, if the pump is submersible; and
  - winterize all fixtures.
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**Roof Assembly Repair**

The mortgagee must ensure that all roof assemblies, including those securing attached garages, porches and patios, detached garages and any secondary structures associated with the origination collateral, and related weatherproofing are free of active leaks or other sources of water intrusion.

When a roof assembly leak is discovered, the mortgagee must immediately repair the roofing system and mitigate further damage. The mortgagee may provide such temporary repairs as tarping or patching until the permanent repair or replacement can be installed. The mortgagee must ensure that permanent repairs or replacements, with materials matching or similar in color and material type, have been completed prior to conveyance to HUD. The mortgagee is not required to obtain prior HUD approval for temporary repairs for which costs do not exceed the temporary roof repair line-item allowable amount.

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**Maintenance of Drainage Systems and Basements**

The mortgagee must re-attach, replace, repair and clear of debris existing roof drainage and foundation drainage systems. If no drainage system exists at the time of the FTV Property Inspection, the mortgagee is not required to provide or install new systems.

The mortgagee must ensure that downspouts provide positive drainage away from the structure and that gutters are cleared and do not prevent drainage.

If the FTV Property Inspection reveals basement flooding, the mortgagee must drain or pump the basement, identify the water sources, and make other such repairs to prevent equipment damage, mold and organic growth, and structural and material damage.

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**Mold, Fungus, Discoloration and Related Moisture Damage and Organic Growth**

When mold or related moisture damage is found in the property during the FTV Property Inspection, the mortgagee must mitigate the source of the moisture to prevent further damage. HUD will not reimburse costs related to mold or organic growth abatement if it determines that such mold or organic growth is due to Mortgagee Neglect.

The mortgagee must thoroughly document the condition and scope of the moisture damage at the FTV Property Inspection.

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**Over-allowable Requests for Mold, Fungus, Discoloration and Related Moisture Damage and Organic Growth**

The mortgagee must submit an over-allowable request to the MCM for approval in the following circumstances:

- Initial efforts to eliminate the mold or organic growth and to remove moisture are ineffective and additional treatments are needed to remove moisture and prevent mold and moisture damage; or
- The mold or organic growth poses a potential health and safety hazard.

Where the mold or organic growth poses a potential health or safety hazard, the mortgagee must provide with its request:

- a written report and/or any lab reports or other testing data supporting the health or safety hazard determination;
  - photographs of the discoloration;
  - dimensions of the affected areas;
  - description of the initial mitigation efforts, including the basis for the selection of the method used;
  - proposed scope of work for the abatement; and
  - at least two bids from licensed or certified mold remediation or hazardous materials contractors.
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**Sump Pumps**

The mortgagee must ensure that all installed or required sump pumps are in-place, operational, and working at all times, where state or local law permits electricity to remain on. The mortgagee must repair or replace any non-functioning or missing equipment.

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**Debris Removal, Cleaning, and Minor Repair**

The mortgagee must ensure that all interior and exterior debris is removed from the property, including attics, basements, barns, storage spaces, and outbuildings, and that the property is in Broom-Swept Condition. The mortgagee may request reimbursement for the storage or disposition of any

personal property removed from the property when such storage and disposition is required by the AHJ.

### **Equipment, Fixtures, and Appliances**

The mortgagee must ensure that all equipment, fixtures, and appliances present at the FTV Property Inspection and associated with origination collateral remain in the property, unless approved by HUD for disposal.

The mortgagee must empty and wipe clean the interior of all refrigerators and freezers. The mortgagee must secure exterior clothes dryer vents and similar openings to prevent entry of pests. The mortgagee must ensure that bathtubs, sinks and toilets are cleaned and emptied.

### **Graffiti**

The mortgagee must remove or cover with similar or matching color all exterior and interior graffiti on all structures and fencing.

### **Exterior Debris**

The mortgagee must ensure that the property is free of external debris by removing all vehicles, boats, trailers, any unsafe or hazardous structures, and other personal property, as allowed and in accordance with state and local law requirements.

The mortgagee may allow to remain in place affixed personal property in sound and usable condition that may add value to the property such as fountains, children's play structures, sheds, ramadas, pergolas, or gazebos.

### **Fences**

The mortgagee must ensure that fences and gates present at the FTV Property Inspection are maintained in secure and upright condition, with no missing panels or sections.

### **Pests**

The mortgagee must ensure that the property is free of animals, vermin, and insect infestation and that any dead animals, vermin, and insects are removed from the property.

When the mortgagee determines the property is infested with pests and that the infestation and removal may constitute a health or safety hazard, the mortgagee may obtain professional pest control services; otherwise, the mortgagee may employ over-the-counter pest control products.

When evidence of live wood boring insects is discovered, the mortgagee must request an over-allowable for an inspection by a professional pest control service, and provide the report and treatment recommendations for over-allowable consideration to abate.

### **Floors and Walkways**

The mortgagee must ensure that interior walking surfaces are safe or otherwise patched, replaced, or repaired to be free of hazards as follows:

- Any floor finishes, including carpeting, sheet vinyl, wood, laminate, ceramic or vinyl tiles, and all tack strips and fittings that are damaged, loose, or otherwise hazardous, must be removed. The mortgagee is not required to replace these finishes once removed.
- Holes or openings in interior walking surfaces must be patched, replaced, or repaired. Weak or spongy flooring must be inspected and, if needed, repaired to address hazardous conditions with an approved over-allowable.

The mortgagee must repair damaged or missing handrails or stair treads on elevated exterior porches, patios, decks, and balconies where the distance from the finished floor to the ground surface is greater than 18 inches. If repair is not feasible, the mortgagee must provide temporary rails, fencing, or other means to prevent or mitigate falls.

### **Regulated Hazardous Materials**

The mortgagee must handle and dispose of hazardous materials regulated by federal, state, or local law in accordance with those laws.

Where removal of hazardous materials exceeds HUD's reimbursable amounts for debris removal, the mortgagee must submit an over-allowable request prior to incurring those costs. The mortgagee must include with the request:

- the relevant code or regulation describing the specific handling or disposal requirements;
- if testing is required to confirm the presence of hazardous materials, detailed reports or test results, with information on the location of the materials, the scope of the work, and recommended methods for removal, abatement or remediation of the materials; and
- at least two bids from licensed or certified hazardous materials contractors.

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### **Claims – Debris Removal**

HUD will reimburse the mortgagee for debris removal amounts up to the maximum amount in the Property Preservation Allowance schedule and up to amounts authorized by the MCM.

The line-item allowable amount for debris removal includes the collection, hauling, and dumping of one cubic yard of interior and/or exterior debris.

If the cost to remove and clean the property exceeds the allowable line-item amount, the mortgagee must request over-allowable approval from HUD's MCM via P260. In the request, the mortgagee must:

- identify the total cubic yards of debris to be removed; and
- provide all supporting documentation, including photos and dump fee receipts if applicable.

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**Conveyance of Properties without Prior HUD Approval** The mortgagee may convey properties without prior written approval if the property is in conveyance condition, with no Surchargeable Damage, and the aggregate of all allowable property P&P expenses does not exceed the Maximum Property Preservation Allowance and claimed P&P costs do not exceed the line-item Property Preservation Allowances.

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**Surchargeable Damage - Conveyance of Damaged Properties where HUD Approval is Required** The mortgagee must request and obtain approval from the MCM before conveyance under any of the following circumstances:

- Conveyance of a property damaged while under the control of the mortgagee or as a result of Mortgagee Neglect;
- Conveyance of a property with unrepaired insurable damage and insurance repair proceeds;
- Conveyance of a property as-is with unfinished renovations, violations, liens, or other outstanding state law and local code compliance issues; and
- Demolition and/or conveyance of a vacant lot.

**Required Documentation**

In its request to convey the property with Surchargeable Damage, the mortgagee must include the following documentation:

- the date of first-time vacancy;
- evidence validating the property condition at first time vacancy;
- supporting documentation including inspection reports, photographs, repair bids, and receipts;
- a chronology of actions performed by the mortgagee to preserve and protect the property;
- for damaged properties with approval to convey with insurance proceeds, all related damage reimbursement funding including insurance deductibles, recoverables, and depreciation; and
- for properties with unfinished renovations, violations, liens, or other outstanding state and local law compliance issues:
  - the Broker Price Opinion (BPO) showing the value of the property as-is and the value with repairs completed;
  - copies of violations, liens, or relevant state or local law;
  - hazard insurance claim information;
  - a detailed description of the reason(s) that the mortgagee cannot feasibly repair or secure the property, proposed actions or actions taken, and a detailed repair estimate of the damages; and
  - a detailed estimate of cost to repair the property.

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**Surchargeable Damage - Demolition** If the mortgagee proposes to demolish or remove a primary dwelling structure, a significant section of the structure or a secondary structure that is associated with the origination collateral, the mortgagee must request approval from the MCM to demolish and convey as a vacant lot.



The mortgagee is not required to request HUD approval to demolish damaged or unusable sheds and outbuildings that were not included in the property value at origination. For requests to demolish a primary dwelling structure, the mortgagee must submit to the MCM:

- a BPO analysis estimating the value of the property as-is and as a vacant lot;
- proposed demolition costs; and
- a detailed chronology of the servicing and property P&P activities related to the property, including all efforts to address any damages or violations.

Where a local jurisdiction mandates demolition of a property after foreclosure, the mortgagee must provide the following to the MCM immediately upon discovery of the demolition order:

- copies of all notices pertaining to demolition orders and hearings; and
  - inspection reports and photographic documentation establishing the condition of the property at First-Time Vacancy.
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**Surchargeable  
Damage -  
Appeals**

The mortgagee may appeal a surchargeable request decision via P260. The mortgagee may submit an additional appeal to HUD via P260. The second appeal decision is final and no further appeals will be accepted.

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**Mortgagee  
Failure to  
Obtain  
Required  
HUD  
Conveyance  
Approval**

If the mortgagee fails to obtain HUD approval when required, prior to conveying a damaged property, HUD may:

- reconvey the property;
  - require a reduction to the claim for insurance benefits by the greater of:
    - the hazard insurance recovery or HUD's estimate of the cost of repairing damage, or
    - the cost to repair and restore the property to required conveyance condition; or
  - take other such action as permitted by regulation.
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**Conveyance of  
Properties**

HUD considers a property conveyed by the mortgagee to HUD when:

- the mortgagee has deeded the property to HUD; and
  - HUD accepts conveyance of the property, as evidenced by the payment of Part A of the Claim from HUD to the mortgagee. When a Part A claim suspends with a Hard Edit Error the mortgagee remains responsible for the property, and any loss or damage thereto, notwithstanding the filing of the deed to the Secretary for record, and such responsibility is retained by the mortgagee until HUD regulations have been fully complied with (24 CFR 203.379).
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**Hazard  
Insurance  
Recovery for  
Vandalism or  
Theft**

**Standard**

If there is evidence of vandalism or theft resulting in damage or missing appliances, equipment, or fixtures, the mortgagee must file a claim to obtain all available insurance proceeds for damages to the property.

The mortgagee must use these insurance proceeds funds or corporate funds to fully repair or replace the structures, appliances, equipment, or fixtures damaged.

**Required Documentation**

The mortgagee must document in the Claim Review File all relevant claim correspondence with the insurance company.

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**Extension to  
the Deadline to  
Convey to HUD**

To request an extension to the deadline to convey the property to HUD, the mortgagee must:

- submit a request for an extension via P260 before the expiration of the timeframe; and
- provide documentation supporting the reason for the request.

The mortgagee may appeal a decision on a request for an extension via P260 for review by the MCM. The mortgagee may submit an additional appeal to HUD via P260, for review. HUD's decision is final and no further appeals will be accepted.

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**Claims –  
Personal  
Property  
Storage**

**Standard**

HUD will reimburse the mortgagee no more than \$300 for the storage and final disposition of personal property, when required by the AHJ. HUD will not approve over-allowable requests or reimburse the mortgagee for costs in excess of the line-item allowable for personal property storage.

HUD considers costs related to the storage and final disposition of personal property to be associated with foreclosure and are not included in calculating the Maximum Property Preservation Allowance. The initial cost of removing the personal property from the property, including personal property eviction, is included in the cubic yard allowance for debris removal line-item of the Property Preservation Allowances schedule.

**Documentation**

The mortgagee may request reimbursement for personal property storage costs in Item 305 of Part D of form HUD-27011.

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**Yard  
Maintenance  
and Snow  
Removal**

The mortgagee is responsible for maintaining lawn and yard areas and trees, shrubs, and vines in compliance with the AHJ requirements by performing grass cutting, weeding, edge trimming, sweeping/blowing of all paved areas, and removal of all lawn clippings, related cuttings, and incidental debris removal.

The mortgagee must ensure that yards are maintained as follows:

- Grass must be cut to a maximum of two inches in height.
- Grass and weeds must be cut to the edge of the property line, and trimmed around foundations, bushes, trees, and planting beds.
- Grass, trees, tree limbs, shrubs, and other vegetation that are obstructing the public right of way must be trimmed or removed.
- Desert, xeriscape, or rock scape landscaping maintenance must be maintained through removal or spraying of weeds, grass trimming or cutting, and the removal of related cuttings and incidental debris.
- Dead trees or tree limbs that pose a safety hazard or may potentially damage the property must be removed or trimmed.

The mortgagee must ensure that the property is safe and accessible throughout the winter season by:

- removing snow from the entryway, public and other front yard walkways, porch and driveway following a minimum three-inch accumulation; and
- complying with local codes and ordinances governing the removal of snow and ice.

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**Grass Cuts**

The mortgagee must complete initial and ongoing grass cuts and desert landscaping according to the timelines set in the Grass Cut Schedule.

Should a property require earlier or more frequent grass-cuts or desert landscaping maintenance due to specific micro-climate conditions or other property requirements, the mortgagee must perform such cuts or landscaping and include in the Claim Review File documentation supporting the mortgagee's amended timeline.

If additional or more frequent grass-cuts are required as a result of code violations or neighbor complaints, the mortgagee must submit to the MCM a request to exceed the allowable amount and documentation supporting the amended timeline.

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**Enforcement**

FHA may pursue surcharges and any applicable enforcement action in the *Enforcement* section of Handbook 4000.1 for failure to comply with FHA's P&P requirements.

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**4000.1 FHA  
Single Family  
Housing  
Policy  
Handbook**

The provisions of this ML will be incorporated into the 4000.1 FHA Single Family Housing Policy Handbook as shown at <http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>.

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**Information  
Collection  
Requirements**

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 2502-0429. 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.

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**Questions**

Any questions regarding this Mortgage Letter may be directed to the HUD National Servicing Center at (877) 622-8525. Persons with hearing or speech impairments may reach this number by calling the Federal Information 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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Attachment