

# Policies & Procedures

## DOCs & Funding

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Owner: Funding Manager

## Termite Report Review and Clearance Policy

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### Overview

A termite report and clearance is required on Conventional, FHA, and USDA transactions if the Purchase Contract indicates in Section 4a, Item 1, that the buyer or seller shall pay for an inspection. VA requires a termite report and clearance on all transactions except the IRRRL.

If the contract is NOT marked and the buyer does not sign the Wood Destroying Pest Inspection and Allocation of Cost Addendum, the termite report and/or clearance will not be required.

If the purchase contract is marked "yes" and both the buyer and seller agree to waive the termite report, and have done so by executing either a purchase contract addendum or an escrow amendment, MWF will allow it to be waived as long as a termite report has not been provided to MWF or a termite report fee does not appear on the Closing Disclosure.

A termite report cannot be waived once MWF has seen the report at any point in the transaction including funding, regardless of whether the contract calls for it or not. A termite clearance will be required and Underwriting may request that all of SECTION I and II items be corrected.

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**Note:** A termite report is always required if the Purchase Contract **and/or** Appraiser conditions for it.

**Note:** A Termite Report is not a standard requirement in the State of Colorado including VA loans.

**Note:** Any work identified must be completed PRIOR to closing

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### Basic Review Process

The termite report will be reviewed in detail by the underwriter who will condition accordingly at time of Loan Underwriting.

1. The termite report must be a COMPLETE report with all pages. If it is a supplemental report or re-inspection, we will require the original report to determine if all items have been addressed.
2. A termite report is good 6 months from the report date on Conventional and USDA and is good for 90 days from the report date on FHA & VA.

3. The property address on the report must match the appraisal, contract and preliminary title report.
4. The underwriter will READ ALL VERBIAGE throughout the report including any comments or NOTES to assure all items on the report grid are addressed in the body of the report.
5. **SECTION I:** Contains items where there is evidence of active infestation, infection, or conditions that have resulted in or from infestation or infection.
6. **SECTION II:** Items are conditions deemed likely to lead to infestation or infection, but where no visible evidence of such was found. The Structural Pest Control Board has advised that SECTION II items will probably be major items that have not become infestations or infections, but possibly will become in the future
7. If a condition of the termite report is waived the underwriter is to address the item and document why based on contact with the appraiser to determine the impact on the value.
8. The underwriter will condition for clearance of:
  - Major infestation, dry rot, fungus or termites that affect the soundness of the security of the property will be required to be corrected **whether or not it is a SECTION I or II item.**
  - **Both SECTION I and II** items to be corrected on **VA transactions**
  - **All** SECTION I items.
  - SECTION II items if it has to do with plumbing, water stains, roof leaks, or health and safety. Peeling pain, and those items leading to structural unsoundness (earth to wood contact, dry rot, excessive moisture, etc. should not be waived.
    - Any reference to water stains on the ceiling or roof will require a Roof Cert or licensed contractor certification: 1 year for conventional or 2 years for FHA and VA. **Note:** Review the appraisal and floor plan diagram. If the water stains on the ceiling are in a room that has no other rooms above it may be a roof issue other wise it could be a plumbing issue.
    - Fascia roof damage does not require a roof cert.
    - Patio and/or carports that share the same roof as the house must be included in the roof cert/licensed contractor cert.
    - Patio and/or carport that **do not** share the same roof as the home, a roof cert/ licensed contractor cert **is not required** unless it is a condition of sale or a condition of the appraisal.
    - If the termite company completes the work, an additional roof cert/licensed contractor cert is not required.
    - Any reference to water stains on the walls, baseboards, doors, under sinks, under water heaters, etc., requires a licensed contractor or tradesman to inspect and comment on whether the water stain is old and the cause has been previously remedied or if the problem needs to be corrected.
    - Loose toilets need to be repaired. The work can be performed by a handyman.
    - If Earth to wood contact impacts the structural integrity of the structure, its correction should be conditioned for.
    - Faulty grade must be corrected on all FHA loans.
    - Cracked tile in kitchen and bathroom should be repaired due to potential for mold, fungus and termites.
    - Cellulose debris in small amounts does not need to be cleared.
  - Other SECTION II items that could impact the value.

- Items in the report calling for a licensed contractor to further review. The item is to be reviewed and corrected by a licensed contractor and the bill must be provided to MWF
- Repairs other than electrical, plumbing, roof can be completed by a handyman.

## **VA Transactions**

Repairs may be paid by the buyer or seller. If buyer agrees to pay for repairs, additional monies must be verified to cover the additional repairs.

The Veteran must sign the report and the following verbiage must be typed on both the 1st page of the report and the clearance, "I have received, read and approved a copy of the Termite Report and hereby certify that it was ordered at no cost to me"

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**Note:** The Borrower (Veteran) cannot pay for the termite report. The veteran can pay for the required repairs.

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## **Condominiums**

A condominium is subject to the same inspection requirements as a Single Family or PUD. The inspection is to include the unit, attached and/or detached garage, and other structures that are a part of the subject.

Limited reports are acceptable on a condominium due to the homeowner associations being responsible for the common areas. The termite company will only inspect the interior of the unit.

## **Conventional & FHA**

If a Termite Report reveals problems with sections of the condo held in common with other owners, the work will need to be completed by the Homeowners Association. If the work cannot be completed by the close of escrow, a letter from the Homeowners Association detailing the following is required prior to closing:

- Date of the scheduled repairs ( not to exceed 30 days from the close of escrow)
- Name of contractor awarded the work.
- Acknowledgment that the funds necessary to pay for the repairs have been budgeted.

## **VA**

VA no longer requires the Underwriter to condition for a Pest Inspection on Condominiums. If the Appraisal or Purchase Contract requires an inspection to be performed, MWF will also require the Pest Inspection as a condition of approval. If a Termite Report reveals problems with sections of the condo held in common with other owners, the work will need to be completed by the Homeowners Association.

## **New Construction**

There are specific and detailed requirements for new construction. If the property meets requirements in the International Residential Code (IRC) by the International Code Council (ICC) on protection against subterranean termites (specifically Sections R317 and R318), it is generally considered acceptable. Acceptable treatment methods for protection include chemical soil treatment, pressure preservative treated wood, naturally termite resistant wood, bait systems, or any combination of these methods.

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**Note:** Refer to specific HUD/VA bulletins for more details on new construction.

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## **Standard Clearance Verbiage Requirements**

The following verbiage should appear in the clearance:

“THIS IS TO CERTIFY THAT THE ABOVE PROPERTY IS NOW FREE FROM EVIDENCE OF ACTIVE TERMITE INFESTATIONS AND INFECTION WITH THE COMPLETION OF THE ABOVE WORK. THE PROPERTY MEETS WITH THE STRUCTURAL PEST CONTROL BOARD AND ITS RULES AND REGULATIONS.”

If the termite company states the work was done by someone other than the termite company and those items required a licensed contractor or tradesman, we will need a certification from the licensed contractor or tradesman verifying the completion of the repair and the license of that company.

If there is more than one termite report in the file, we will require a clearance on all termite reports.