

Highlights of [GAO-04-462](#), a report to congressional requesters

**Why GAO Did This Study**

In the 1990s, the Department of Housing and Urban Development’s (HUD) Federal Housing Administration (FHA) dealt with a series of instances where buyers had not been notified of serious problems revealed by their appraisals. This led to several reforms, some of which allegedly may have caused some buyers to forgo home inspections, confusing that service with appraisals.

Advocates of mandating home inspections claim that FHA will benefit from fewer foreclosures, and buyers will benefit by avoiding homes with costly problems. GAO was asked to assess (1) how many recent FHA homebuyers got home inspections and what were the perceived benefits, (2) whether homebuyers understand the differences between appraisals and home inspections, (3) whether inspections are associated with loan performance, and (4) the implications of mandating home inspections.

**What GAO Recommends**

GAO is not making any recommendations. We observed, and HUD agreed, that there appears to be little value to making home inspections mandatory. Many buyers already get them, there is no significant link with loan performance, and the resources to enforce an inspection requirement may well outweigh the benefits.

[www.gao.gov/cgi-bin/getrpt?GAO-04-462](http://www.gao.gov/cgi-bin/getrpt?GAO-04-462).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas J. McCool at (202) 512-8678 or [mccoolt@gao.gov](mailto:mccoolt@gao.gov).

**HOME INSPECTIONS**

**Many Homebuyers Benefit from Inspections, but Mandating Their Use is Questionable**

**What GAO Found**

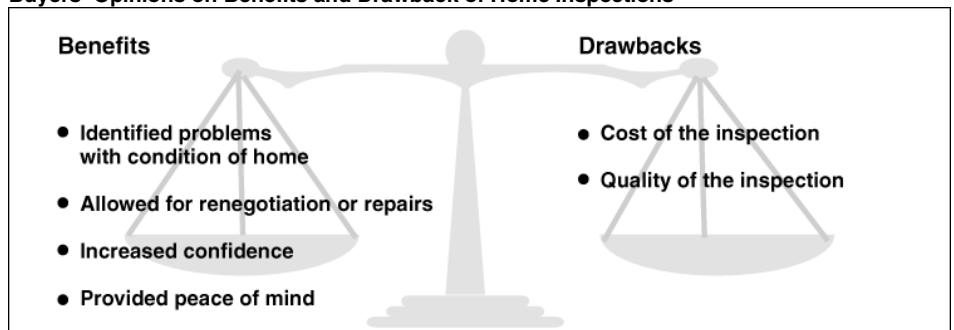
From its survey of recent homebuyers, GAO estimates 86 percent of those using FHA-insured mortgages in 2002 got home inspections. These buyers frequently reported the inspections to be positive and beneficial, but occasionally said the inspections had drawbacks, mainly related to their cost and quality. Home inspections do not appear to be associated with loan performance; other factors, such as borrowers’ credit scores, are stronger predictors of how FHA-insured loans perform. Because of this, and because mandating inspections for all homebuyers could pose serious resource challenges for FHA, the marginal benefit of requiring inspections is questionable.

One of the reasons often cited for getting a home inspection was to ensure there were no serious problems with the house. Homebuyers reported that two-thirds of inspections uncovered problems with homes. As a result, they benefited by being able to renegotiate their purchases. Buyers also reported inspections were worth as much or more than they cost and increased their confidence in their decisions to buy homes.

Inspections are a more in-depth review of property condition than FHA appraisals, take longer, and more often give buyers the option to back out of a purchase. GAO estimates 36 percent of FHA homebuyers understand the differences between FHA’s mandatory home appraisal and its recommended home inspection. For most of the remaining buyers, GAO was not able to determine definitively the extent to which they understood the differences.

Finally, FHA officials believe mandating home inspections would be difficult to enforce because the agency lacks the human capital and other resources to do so effectively. FHA also might see its pool of higher risk borrowers grow, as some buyers go elsewhere for non-FHA financing options available to lower income buyers. Benefits experienced by survey respondents might carry over to all homebuyers, but a mandatory inspection could put them at a disadvantage in highly competitive markets.

**Buyers’ Opinions on Benefits and Drawback of Home Inspections**



Source: GAO analysis of survey respondent data.