

CHAPTER 6. HUD-OWNED PROPERTIES

6-1. GENERAL. The provisions of this chapter supercede the applicable provisions of Handbook 4310.5 REV-1, Property Disposition Handbook, One to Four Family Properties, Chapter 3, Section XI. Purchasers of HUD-owned properties may finance their purchase with an insured 203(k) mortgage, provided:

- There are lenders in the area that will process the 203(k) application;
- The value of the property plus the cost of rehabilitation make 203(k) financing feasible
 (i.e., Properties for which the "as-is" value plus the cost of rehabilitation does not exceed 110 percent of the after-repaired market value by more than 10 percent; example: as-is value plus cost of rehabilitation = \$70,000, but 110 percent of the after-repaired market value = \$62,000. This makes the property infeasible, because the as-is value plus the cost of rehabilitation is 13 percent higher than 110 percent of the after-repaired market value. To make it feasible, the "as-is" value plus the cost of rehabilitation should not exceed \$68,200; however, the purchaser must realize that the maximum mortgage amount will be limited to \$62,000 plus closing costs. The purchaser must place the difference in cost in the escrow account in cash, out-of-pocket); and
- Sound underwriting principles are followed.

All properties in HUD's inventory (except condominiums) that are not eligible for insured financing under Section 203(b), needing a minimum \$5,000 in major repairs (and/or eligible improvements as listed in paragraph 1-7), are potentially eligible for the 203(k) program, including vacant land where an existing home will be moved to the site.

If the application is HUD processed, the Field Office will provide priority processing to ensure that all reviews are accomplished in a timely manner, thereby, allowing the lender to close the loan within 60 days of bid acceptance. Direct Endorsement Lenders may process these loans if properly trained and approved by the HUD Field Office.

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Investors are allowed to obtain 203(k) insured loans with 85 percent loan-to-value financing. Purchasers who will become owner-occupants of the property can obtain 97/95 percent loan-to-value financing. 97 percent loan-to-value financing is acceptable if the bid price plus the cost of rehabilitation does not exceed \$50,000.

If the HUD Field Office allows a reduced downpayment to owner-occupant purchasers, then no further downpayment is required on the rehabilitation costs of the mortgage. If the PD Sales Contract does not allow a reduced downpayment, then the required downpayment is the same as for a regular loan under the 203(k) program. Non-occupant purchasers (investors) that purchase PD properties are not allowed a reduced downpayment and must have a minimum 15% downpayment.

Prior to closing the loan, the borrower(s) should walk through the dwelling to ensure that no additional damage has occurred due to vandalism, etc. Corrections to the work-writeup may be necessary to ensure that there are sufficient funds to pay for the added repairs; otherwise, the borrower(s) may be required to use their own funds to make the repairs if the work is not considered eligible as a contingency item (see paragraph 1-9.F.).

- 6-2. OFFER TO PURCHASE. Selling brokers must indicate on line 4, Form HUD 9548, that the buyer intends to obtain 203(k) financing.
- 6-3. ACCEPTANCE OF BID. HUD will accept the "highest net offer" on the property. The HUD-accepted bid (contract price) will be considered the "As-is" value of the property. Only one appraisal is required to establish the estimated market value of the property after rehabilitation. The maximum fee a lender may collect for this appraisal is the amount permitted for a 203(b) proposed construction appraisal, as established by the HUD Field Office.
- 6-4. INSPECTION OF UTILITIES. After the bid acceptance by HUD, the selling broker should arrange to have the utilities turned on in the purchasers name to ensure the working condition of the heating, plumbing and electrical systems. If the utilities are not turned on for inspection, a 15 percent contingency reserve will be required. If the utilities are subsequently turned off, the purchaser is responsible to notify the HUD Field Office and rewinterize the dwelling, if necessary. All costs are borne by the purchaser.

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- 6-5. SALES CONTRACT ADDENDUM. Successful bidders will be given 60 calendar days to close the 203(k) insured loan. Sales contracts should include the following addendum:

The purchaser agrees to make all additional improvements required by HUD or the lender, provided the improvements are intended to bring the property into compliance with the Requirements for Existing Housing in HUD Handbook 4905.1. The purchaser must submit the architectural exhibits to HUD or the Direct Endorsement Lender within 15 calendar days of bid acceptance or be subject to forfeiture of the earnest money deposit if the property transaction does not close.

To eliminate the need for double closings, an extension to the sales

contract may occur beyond the 60 day time frame; however, non-refundable fees will be required by the HUD Field Office as a condition for granting an extension. In addition, the earnest money deposit may be forfeited should the transaction not close.

If HUD determines at a later date that the property is not eligible for 203(k) insured financing for reasons beyond the control of the purchaser, the purchaser will have the option to have HUD refund the entire earnest money deposit and any extension fees to the purchaser, or continue the sale without the benefit of any FHA insured financing.

- 6-6. EARNEST MONEY DEPOSIT. The successful bidder must provide a sales deposit according to the instructions in HUD Handbook 4310.5, paragraph 6-4. Architectural exhibits (see Chapter 3) should be completed and submitted for review within 15 days of bid acceptance or the purchaser may be subject to forfeiture of the earnest money deposit if closing on the HUD-owned property does not occur within the contract stated time frame or the approved contract extension date.

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- 6-7. NEWSPAPER NOTICE. Public advertisements of HUD-owned properties should designate which properties are eligible for 203(k) insured financing. The following sample statement should be used in the broker information package:

203(k) Insured Loans
Available on HUD Homes

If you're looking at a HUD home that needs repairs, ask your lender about the FHA 203(k) insured loan program. Through this program a lender can provide in the mortgage, funds to rehabilitate and repair the property. A minimum of \$5,000 in improvements or repairs is required. Condominiums and properties eligible for 203(b) insured financing are not eligible.

- 6-8. SALE TO LOCAL GOVERNMENTS and NON-PROFIT ORGANIZATIONS. Refer to Chapter 7.

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