

# Buying Foreclosed Homes: Simplifying a Complicated Process

**The Complications of  
Seller Concessions When  
the Seller is a Bank**

**4 Things That a  
Foreclosed Home  
Could Be Missing**

**How Do I Finance  
a Foreclosure  
and the Repairs?**

**FHA 203k: The  
Before & After  
Story of a Remodel**

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This Guide Produced by:

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## So You Want to Buy a Foreclosure

Foreclosures are [down in 2013 compared to the last 5 years](#) or so.

However, foreclosed homes continue to exist and home buyers still find them in the housing market for sale. Since these properties often come at a price significantly lower than occupied homes for sale, a lot of home buyers consider them “good deals.”

The goal of this guide is to offer tips and information on what it means to buy a foreclosed home and deal with the issues that generally come up when buying a foreclosure. You will read about some of the things that can go wrong when looking at foreclosed homes. You will also find some solutions to these issues.

Keep in mind, we’re offering one point of view.

Sometimes the best option may be to move on from that property, or to use cash to purchase and renovate the house without a financial institution. At the end of the day, that’s your decision to make as the buyer.

Our goal is to help you sift through the issues and information about buying a bank-owned property so that you’re better prepared to make that decision. The information in this guide is meant as a starting point. As with any major decision, it’s a best practice to speak directly with a licensed professional about your particular situation. A real estate professional and a mortgage consultant licensed in your state is a good place to start.



**OUR GOAL IS TO HELP YOU SIFT THROUGH THE ISSUES AND INFORMATION ABOUT BUYING A BANK-OWNED PROPERTY SO THAT YOU’RE BETTER PREPARED TO MAKE THAT DECISION.**

## Foreclosures: Vacant Homes Without Caretakers

Many foreclosed homes sit vacant for some period of time. It could be a couple months or it could be several years. The point to take away is that the house has no one to care of maintenance issues. If a “big bank” owns the home because of foreclosure, it rarely has a company taking care of things like winterization, leaks that may occur or critter infestations.

If a personal seller lists a house, they’re likely to keep up on cleaning the gutters to avoid water in the roof or in the basement. Someone selling a house likely maintains the yard and keeps mice or other pests out of the house. If a furnace or water heater has a problem, the seller will fix it before listing the house most of the time.

As a potential buyer of a foreclosed home, you’re looking at a house that could possibly have water damage, broken windows, raccoons in the ceiling or peeling paint inside and out. Since no one is taking care of the house, no one will make these repairs.

Renovations, repairs and other remodeling is left up to the buyer. Most foreclosed homes sell “as-is.” This means you buy it, no matter the condition. Be prepared for an interesting time.



**IF A “BIG BANK” OWNS THE HOME BECAUSE OF FORECLOSURE, IT RARELY HAS A COMPANY TAKING CARE OF THINGS LIKE WINTERIZATION, LEAKS THAT MAY OCCUR OR CRITTER INFESTATIONS.**

## Challenges Associated with Buying a Foreclosure

Yes, buying a foreclosed home can come with a unique set of challenges. This section is not meant to scare you off from your decision. Instead, we want to prepare you for some of the issues you may face, the solutions available and the information needed to help you decide whether this purchase is worth it in the end.

### It's Complicated – Seller Concessions

Because the seller in a foreclosure deal is a bank you may find yourself dealing with jargon and terms that seem nitpicky to the average buyer. For instance, an accepted practice in real estate



deals is for the seller (a private seller) to cover “closing costs.” This often can include pre-pays like an escrow account. However, pre-pays are not technically called closing costs. So if your purchase agreement with the bank calls for concessions on closing costs, the bank can – and may – come back with bad news at the closing table and say it won’t pay for pre-pays. At the last minute, you may find yourself stuck with a large bill to pay. Renegotiating at the closing table could get sticky, but a trusted mortgage consultant might be able to get the bank to agree to the terms that include the pre-pays. Every situation is different of course, this is just one example.

Another financial issue that may arise is title policies. In a traditional home purchase deal, the seller pays for the owner’s title policy. Once that’s handled, the buyer takes care of the mortgage title policy. However, in a foreclosure deal the seller is the bank, and it often will not cover the owner’s policy. Instead, the buyer gets hit with both expenses, which could run in the thousand-dollar range.

### Time Delays and Doing Business Remotely

Adding to the complicated process is the fact that a bank selling a property is often removed from the local community. Real estate-owned (REO) properties are often owned by a national bank headquartered in a major city in another state. The bank will not come to the closing table as a private seller would. Instead, the paperwork must be mailed to an office, looked over by committee and eventually signed & delivered. This all takes time, so REO deals often take longer than traditional deals.

### Repairs

Finally, repairs. We’ll cover this in more detail in the next section, “The House is Missing What?” but we need to mention repairs and repair escrows. Many foreclosures are in need of repair for



various reasons. Banks selling REO properties won't let buyers go in before closing the deal in order to fix what needs fixing. Most lenders financing the purchase won't close on the loan until certain things get fixed. We're at a standstill at this point. However, a specialty lender like AmeriFirst Home Mortgage has more flexibility, and can offer options like short-term repair escrows.

A short-term repair escrow allows you as the buyer to put money into an account in order to make repairs and renovations after the closing. You can then close the loan, and you have a short period of time (approximately 2 weeks or so) to get the work done for a re-inspection. This allows you to buy the home, close on the loan and get the repairs done in a relatively quick time period, rather than starting from scratch.

## The House is Missing What?

Whether it's a homeowner who's losing their home and is angry at the bank, or thieves casing a vacant home, a foreclosed house may have several key items missing or severely damaged. We've heard the horror stories of homes with kitchens damaged beyond recognition with missing sinks and cabinets; bathrooms with toilets and tubs destroyed; and living rooms with smashed windows and graffiti painted on the walls. While these issues aren't necessarily the norm (they're more worst-case scenario) they do happen to foreclosed homes often enough that you should be aware of them.

Vacant homes are prime targets for thieves. You'll often see news reports that show thieves stealing copper pipes, wiring, air conditioning units and other appliances for copper, scrap metal and other black-market activity. You might find a great deal on a foreclosed home only to find it's missing the furnace and some vital wiring.



**So, what happens when the house you fall in love with is missing vital components like a furnace, a water heater and wiring; or it's sporting broken windows and graffiti?**

### The Bottom Line: Equity

The question to ask during all of this is: "Is it worth it?" Buying a foreclosure can lead to you as a homeowner gaining instant equity. After the process, the paperwork and the renovations – after the dust is settled – this home you bought just may have thousands of

dollars in equity. If you're buying a house at a low price and put time and money into it, you're raising the value. Not only does this help you in your home, but it helps your new neighbors by potentially raising property values in your community.

## How Do I Finance a Foreclosure and the Repairs?

Now that you've read the worst-case scenarios, you may be thinking it's a better idea to go for a non-foreclosed home. It's up to you, but don't run away just yet. You can solve many of the issues you've read about so far with something called a renovation mortgage.

### HomePath Renovation Mortgage

If the home is a Fannie Mae-owned property, it may be eligible for HomePath financing. If Fannie Mae deems it necessary, it may also be eligible for a HomePath Renovation mortgage loan. Let's take a look at some information about the HomePath mortgage option.

Why does Fannie Mae have properties for sale? While Fannie Mae works with its partners to help homeowners avoid foreclosure, sometimes foreclosures are unavoidable. When they do occur on mortgages in which Fannie Mae is the investor, the goal is to sell those properties in a timely manner in order to minimize the impact on the neighborhood.

How does Fannie Mae sell its homes? Fannie Mae uses local real estate professionals to prepare, maintain and list our properties for sale. All of its properties are listed on Fannie Mae's website. Most have photographs, property descriptions and other details like school and neighborhood information.

Do I have to use a special real estate agent? No. You may work with any real estate sales professional to submit an offer on Fannie Mae properties. However, Fannie Mae only accepts offers through its own real estate listing agents. Also, it's a good idea to pick an agent who has some experience with foreclosure sales.

### HomePath<sup>®</sup> mortgage

#### HomePath Mortgage features:

- Low down payment starting at 3%
- Flexible mortgage terms
- Available to owner occupants and investors
- Down payment may be funded by your savings, a gift, a grant or a loan from a nonprofit organization, state/local government or employer
- No appraisal required
- No monthly mortgage insurance (ask a mortgage consultant for cost details on loans without mortgage insurance)

### HomePath<sup>®</sup> renovation mortgage

#### HomePath Renovation Mortgage features:

- Financing to fund purchase and renovations in one loan
- Light to moderate repairs up 35% of "as-improved value," not to exceed \$35,000
- Low down payment starting at 5%
- Flexible mortgage terms
- Down payment funding can come from your savings, a gift, a grant or a loan from a non profit organization, state/local government or employer
- No monthly mortgage insurance (ask a mortgage consultant for cost details on loans without mortgage insurance)

## HomeStyle Renovation Mortgage

The HomeStyle Renovation mortgage enables you as the borrower to buy a house with a mortgage or get a limited cash-out refinance mortgage and receive funds to cover the costs of repairs, remodeling, renovations, or energy improvements to the property.

There are no required improvements or restrictions on the types of repairs allowed or a minimum dollar amount for the repairs. Repairs or improvements, however, must be permanently affixed to the real property and add value to the property.

The house must be a one-to-four unit principal residence (you must live there), a one-unit second home (like a vacation cottage) or a one-unit investment property (you can be a landlord). Manufactured homes are not eligible for HomeStyle Renovation mortgages.

The borrower can be an individual person living in the home, a for-profit investor, a non-profit investor or a local government agency that buys existing homes for renovation. A 10% down payment is required – which includes the cost of the repairs as well as the purchase price.

## FHA 203k

One of the most flexible renovation mortgages is the option from FHA called the 203k loan. This covers a Full 203k and the Streamline 203k, depending on the scope of the repairs and the kind of renovations you may finance. The 203k loan is more flexible on the kinds of repairs a home buyer can finance, as well as the kind of house. The property doesn't have to be a Fannie Mae-owned property as it does with HomePath Renovation.

With the 203k, a buyer like you can use the funds for simple upgrades to your home like a kitchen or bath improvement, or for more in-depth rehabilitation like rebuilding a house that is presently unlivable. You can even use a 203k rehabilitation loan to tear down an existing structure and build a new one using some portion of the existing foundation. Buyers can borrow up to 96.5% of the after-improved appraised value. One of the requirements is that you use the 203k for primary, owner-occupied homes. Within the FHA 203k are 2 options for home buyers: the Full (or Standard) 203k and the 203k Streamline.

### *Full 203k*

The Full 203k covers repairs of more than \$35,000 including structural work. This can include moving a load-bearing wall, adding a room or replacing the sill plate (due to insect damage). A Full 203k requires a HUD-approved 203k consultant to help in the process.

### Eligible Improvements for the Full 203k

Homeowners can use the 203k program to finance “desired” repairs or upgrades such items as painting, room additions, decks and other items even if the home does not need any other improvements. Eligible improvements can range from relatively minor (must exceed \$5,000 in cost) to virtual reconstruction: a home has been demolished or will be razed as part of



rehabilitation is eligible, for example, provided that the existing foundation system remains in place.

The types of improvements borrowers may make using the Full 203k include:

- All of the improvements listed below in the eligible improvements for a Streamlined 203k.
- Structural alterations and reconstruction, like room additions, repair of termite damage, major remodeling of kitchens and bathrooms, finishing an attic or basement, adding a second story to a home, etc.
- Major landscaping and site improvement including correction of grading and drainage problems, tree removal and repair of sidewalks and driveway, if they are a safety hazard to the property.

### *Streamline 203k*

When you need to make limited repairs of less than \$35,000 the Streamline 203k comes into play. Replacing carpet, repainting the house or buying new appliances fall under the Streamline 203k. You do not need to have a HUD consultant in a Streamline 203k (although it's often a good idea to have one running the show for you).

### Eligible improvements for a Streamline 203k include:

- Repair/Replacement of roofs, gutters and downspouts
- Repair/Replacement/upgrade of existing HVAC systems
- Repair/Replacement/upgrade of plumbing and electrical systems
- Repair/Replacement of flooring
- Minor renovation, such as kitchens & baths, which do not involve structural repairs
- Painting, both exterior and interior
- Weatherization, including storms windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens
- Septic system and/or well repair or replacement
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair/replace/add exterior decks, patios, porches
- Basement waterproofing, finishing and renovation with does not involve structural repairs
- Window and door replacements and exterior wall re-siding

### **Ineligible Improvements include:**

- Renovation involving structural changes, like moving a loadbearing wall, or new construction, like adding rooms
- Landscaping or Fencing
- Work that will not start within 30 days of loan closing or will cause the borrower to be displaced from the home for more than 30 days or renovations that will take more than 6 months to complete
- Luxury items like swimming pools, hot tubs, tennis courts, etc

## FHA 203k: A Before & After Story

In an article titled [Before and After an FHA 203k: The Real Story](#) we talked to a home buyer about her experience, showing pictures of the projects she financed with the 203k loan. Below is the article in its entirety to help show how a home can go from average to amazing.



Before and after photos can tell a great story. This is especially true of home remodeling projects. You don't really see the impact of a bathroom remodeling project unless you see how bad it was before. That's why so many home buyers don't really see the power of the [FHA 203k](#) home improvement loan.

With the 203k loan, you can roll the cost of this new bathroom (and so much more) directly into the mortgage that's paying for the house itself. Let's take a look at one story, and how an Ohio home buyer used the **FHA 203k** to buy a home and remodel most of it - turning the house someone else decorated, into the home of her dreams.

Laura H, the buyer, bought this southwest Ohio home in February. About 5 months later, she has a new home - after a \$64,000 renovation project. This property received many updates including a new roof with a new gable, a new rear deck that had to be replaced, a substantial amount of drywall repair and painting, a new kitchen and appliance package, new flooring throughout, a new hauled-in water system, an additional exercise room built on the lower level and more.

[Joe Daly](#), AmeriFirst Home Mortgage renovation program manager (and [licensed FHA 203kmortgage specialist](#)) handled this particular deal. He says, "This house seemed to go on and on, looking bigger than the time I had walked through it originally with my borrower and their choice contractor last November. It's just amazing."

These pictures speak for themselves. They are a true example of what the 203k is! A living, breathing mortgage product that allows home buyers to actually participate in the renovation of our current housing stock (with foreclosed homes and vacant houses in need of some TLC), one home at a time.

Laura is excited, too. "Every time I look at the photos I am amazed at the transformation," she tells us. "Not having done this type of project before and never thinking of myself as much of an interior designer, I am very proud of how it all turned out. Thanks go out to Joe Daly and everyone who contributed at AmeriFirst to help make this dream come true!"



Joe says this kind of project really helps show real estate agents, builders and buyers what the FHA 203k can do for all of them. "The property was a Fannie Mae foreclosure," Joe says. "The borrower chose the **FHA 203k** due to its low down payment option. We spoke of refinancing their current mortgage to a lower rate and the possibility of going conventional if the appraisal comes in high enough. A true real-life success story!"

Laura's Realtor - [Lori Pike of Sibcy Cline Realtors](#) - says the FHA 203k is a great option for a lot of homes in today's market. Lori says a lot of agents avoid the 203k like the plague because of bad past experiences. However, after attending a [Realtor CE class on the 203k](#), she realized it didn't have to be so bad. "People don't understand the process of the 203k," Lori told us. "Most Realtors shied away from them - they're too much work and you can never seem to get the deal closed. But people are inspired by this project (with Laura). It went smoothly and it looks great. Plus the house is now worth a whole lot more than what they paid for it. It's a win-win for everyone."

Joe gets excited about the benefits of this renovation loan program. "In summary, a great win-win-win for everyone involved – Fannie Mae, Fannie Mae's Listing Broker, the Realtor, buyer, buyer's Realtor, the general contractor and the myriad of subcontractors who also benefitted from someone utilizing private dollars (**FHA 203k** mortgage monies) for their renovations, the community, the surrounding property owners, etc., etc.....I could go on and on." Click the link to see the full collection of [FHA 203k projects before and after photos](#).



### [How Much Does the FHA 203k Cost?](#)

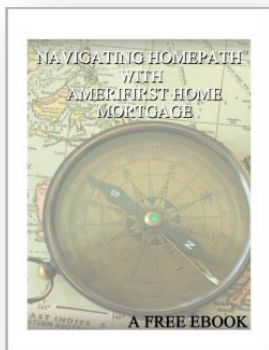
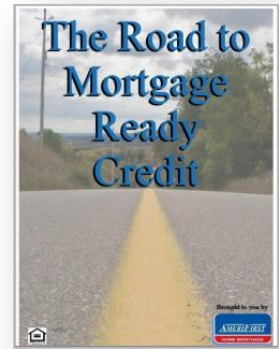
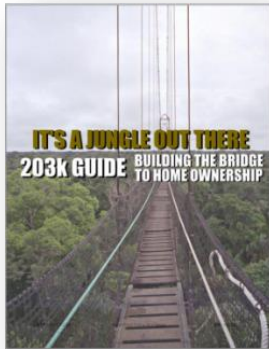
That's a good question. Of course, much of the answer depends on what you buy the house for, and how much remodeling you choose to finance. But keep this number in mind: \$6 per \$1,000. For every thousand dollars in renovations you finance with the 203k loan, you'll add about \$6 to your monthly house payment.

So this \$64,000 remodeling project added about \$380 dollars to the house payment. But if you're buying a home at far below the market value - as is often the case when [buying a foreclosed home](#) - and you're adding value with the remodeling, then your home is going to increase in value by simply finishing the work. In other words, you'll have more home than what your payment indicates. It's a winning situation.



## More Home Buying Guides

At AmeriFirst Home Mortgage we believe in [educating home buyers](#) and homeowners. Whether it's home improvement loans like the FHA 203k or a first home buyer's guide, we offer several free eBooks. You can click one of the pictures below to find the eBook that's right for you!



## How to Find a Mortgage Consultant

For 30 years, AmeriFirst Home Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, USDA Rural Development or a 203k mortgage loan, the team at AmeriFirst is here to find the right mortgage for you. AmeriFirst is licensed for mortgage lending in: Michigan, Minnesota, Wisconsin, Illinois, Indiana, Ohio, Kentucky, Tennessee, North Carolina and Florida. There is sure to be an office near you. You can find the [AmeriFirst office locator here.](#)

### We're easy to find.

The website: [AmeriFirst.com](http://AmeriFirst.com)

We're on other social media sites as well.



Read the blog and keep up with the industry so you can be an informed borrower.



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