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*Excellence & Integrity – Principles To Live By*



# HUD HOME BUYER'S GUIDE



## **Introduction**

Over time, I have found that prospective buyers of HUD homes often miss their opportunity to purchase a HUD home because they are unaware of the overall process by which HUD homes can be purchased. That process differs substantially from the process used for purchasing privately owned homes or bank owned homes, and I want to help you position yourself for success in the HUD real estate market.

***The purpose of this HUD Home Buyer's Guide is an educational tool to provide you with an introduction to that process and help you to be more successful in the bidding process.***

## **Let's Start with a Little Background**

HUD homes are managed in this area by 3 Broad Listing Brokers. Each Broad Listing Broker utilizes a number of Local Listing Brokers to manage the listing process for these properties on a local basis – 1<sup>st</sup> Choice, Realtors is a Local Listing Broker.

## **Definition of a “HUD Home”**

- A HUD home is a 1-to-4 unit residential property.
- When the loan on the residence is insured by FHA (Federal Housing Administration) and goes into default, and is subsequently foreclosed on, the lender may submit a claim against the FHA Insurance Fund and transfer ownership of the property to HUD.
- HUD homes are purchased “as is.”

## **Who Can Buy a HUD Home?**

The short answer is “nearly anyone,” if you have the cash or can qualify for a loan.

## **HUD's “As Is” Policy**

- HUD makes no representation or warranty to the condition of the property.
- The purchaser is responsible for taking the necessary steps to determine the condition of the property.
- Initial property inspections (discussed later) are conducted and available on the HUD web site, but these are preliminary and not meant to replace traditional home inspections.
- Buyers do not acquire any liens or bills from the previous owner.

## **Finding a HUD Home**

Well, there are a couple of ways to find a HUD home:

- Use a real estate agent. Based on your needs, I will search available properties, set up a web site (called a *MySite*) for you to view those homes, then set up showings as you wish.

- Look for yourself and then use a real estate agent. Two ways of looking for yourself:
  - Most any online real estate site; however, the problem is, when it comes to HUD homes, these sites are usually not up-to-date.
  - Go to the HUD web site – [www.HUDHomeStore.com](http://www.HUDHomeStore.com). This site is updated daily by HUD. Here, you are able to search by state, county, city, specific address, or even specific HUD/FHA Case #. Only those homes which are currently **NOT** under contract will show.

When you find a home, you will need a real estate agent to set up a showing for you and/or submit a bid.

*(NOTE: By HUD rules, only a licensed real estate agent who is registered with HUD may show and submit offers on behalf of buyers.)*

### **Listing Periods**

Offers for a HUD home are submitted during what is called a “Listing Period.” During this listing period, any potential purchaser can submit an offer, owner-occupant or investor alike; however, *ONLY* owner-occupant purchasers are given priority in the first 30 calendar days of the listing period. Owner-occupant bids received in the first ten days of the listing period are held until the beginning of first business day following the initial ten days (i.e., day 11), at which time all owner-occupant bids are opened, and the highest HUD-acceptable bid will be accepted. If there are no HUD-acceptable bids, owner-occupant bids are opened on a daily basis for days 11-30. If, after day 30, there are no owner-occupant HUD-acceptable bids, then HUD looks at all bids (including investor bids) on a daily basis until a HUD-acceptable bid is found.

### **Property Condition Codes**

- IN-Insured: Eligible for FHA financing.
- IE-Insured with Escrow Repairs: Buyers may qualify for FHA with a repair escrow not to exceed \$5,000.
- UI-Uninsured: Repairs or improvements exceeding \$5,000 are required.
- F: Flood Insurance may be required to obtain a loan.
- HOA: Requires HOA fees and dues.
- Lead-Based Paint: Property built prior to 1978 – requires LBP Addendum

### **Financing a HUD Home**

HUD does not provide direct financing to buyers. Buyers must obtain their own. If you need a lender, please check my web site at [www.JerryLCotner.com](http://www.JerryLCotner.com) for a current list of folks I have worked with in the past. (Click on the **Resources** tab, then the **Lenders** bullet in the text.

If you choose to talk with one of these folks, mention that I referred you. They will get you qualified and send me a pre-qual letter, and then we can go from there.

You are, of course, welcome to bring your own financial resource into the process as well.

Earnest money is \$500 for a sales price of \$50,000 or less or \$1,000 for a sales price of \$50,001 or more. All earnest money checks must be in the form of a cashier's check or money order, payable to "HUD or (you, the buyer)."

### **Submitting an Offer/Bid on a HUD Home**

All HUD homes are sold by means of an online electronic bidding process. The overall process, however, is both a paper and electronic process. (Please see the Listing Periods above regarding when bids are opened.) On the bid deadline, all offers are reviewed and then accepted, rejected or countered. Winning bids are usually posted at noon the day after the close of bidding; back up offers are posted along with the winning bid; a bid confirmation number is sent via email to your real estate agent. (If two acceptable bids are the exact same amount, there is a random electronic drawing.) If you are bidding an amount higher than the appraised value of the property, and are planning on using FHA financing, you will be required to pay the difference between the bid amount and the approved value. This difference would be an additional down payment and must be verifiable in the documentation proving cash to close – i.e., proof of funds.

***The HUD sales contract must be completed in its entirety prior to submitting a bid. Your signature is your permission for me to place a bid on your behalf.***

### **Your Preparation**

Aside from your offer amount, you will need to gather your pre-qual letter (if obtaining a loan) or proof of funds (if cash), your driver's license, your social security card, and your earnest money check.

### **The Contracting Process**

**Step 1:** I will need . . .

- Copies of the driver's license(s) and social security cards of all those signing the contract. This is how your name will be shown on the deed.
- Your address, phone number, and email address.
- Your offer amount.
- Your pre-qual letter.
- Your earnest money check

**Step 2:** We need to meet (all parties to the offer) to prepare and sign the offer.

- You will sign 2 sets (1 for you, 1 for my office) of two State of Colorado documents defining and outlining our relationship and duties.
- You will sign 4 sets of HUD contract documents – 2 for HUD and, 1 set for you, and 1 set for my office.

*(NOTE: Document signing cannot be done remotely/electronically because HUD requires all signatures to be original and in blue ink.)*

When your bid is accepted, we will be notified by email. At that point, I have two business days to submit the entire contract package (most are sent to Texas, overnight).

The effective date of the contract is the date it is accepted (signed) by HUD.

*Falsifying information on any HUD form is a felony. It is punishable by a fine not to exceed \$250,000 and/or a prison sentence of not more than two years.*

## **Inspections**

You are strongly encouraged to complete an inspection. Properties have been winterized unless located within a multi-family community in which the water is managed by the HOA. If you look at the property on HUD web site, click on the **Addendums** tab, then **Property Condition Report** or **PCR** in list of addendums. The PCR is like a mini-inspection (but should never be mistaken for an inspection). If it states "Water Conditions Unsatisfactory," the water cannot be turned on and an air pressure test must be performed. All inspections must happen within a 15-day due diligence period and may be conducted only after you receive permission from the Field Service Manager – which requires us to complete and submit another form. You will be given 48 hours to conduct the inspection. All utilities must be turned on in your name during that period and must be turned off after inspection. You are also responsible for the cost of de-winterization and re-winterization of the property for inspection purposes – approximately \$150, in the form of certified funds or a money order and which must be submitted with the utility activation request form.

If your inspection yields unacceptable results for you, we must cancel your offer within that 15-day window.

A home inspection, again at your expense, is an inexpensive way to gain peace of mind, and guard your pocket book. A proper inspection will cover all areas of the house including foundation, electrical, heating, plumbing, floors, walls, ceilings, attic, roof, siding and trim, porches, patios, decks, garage and drainage. A professional inspector can give you an objective view of the property, with a written report, indicating the present condition and items that will need repair.

For a current list of home inspectors, again please see my web site [www.JerryLCotner.com](http://www.JerryLCotner.com), click on the **Resources** tab, and click on **Inspectors** in the bulleted text.

As with lenders above, you are welcome to bring your own inspector into the process.

## Closing Costs

HUD allows up to 3% of the purchase price to go towards closing costs. However, this may work against you if there is an identical bid which does not ask for closing costs – HUD selects the bid which is of greatest benefit to HUD.

These closing costs **ARE** automatically paid by HUD (thus not requiring a specific request):

- Condo or HOA transfer fees
- Costs to provide condo docs to purchaser
- Recording fees
- Settlement or Closing agent fees for HUD's designated closing agent. If purchaser chooses an alternative closing agent, then it is at the purchaser's cost.)

These costs **MAY** be paid by HUD (Max 3%):

- Appraisal Fees
- Credit Report
- Flood Certification
- Loan Discount Points
- Loan Origination Fees
- Recording Fees or Transfer Taxes
- Survey (if required by lender)
- Title Insurance coverage for Lender and Owner
- Home Inspection (including mold, radon, and lead-based paint)

These costs are **NOT** paid by HUD:

- Prepaid Escrows/Reserves for Association Dues
- Prepaid Homeowners Insurance or Property Taxes
- Prepaid Flood Insurance

## After Closing

- You may now de-winterize and occupy the property. (Prior to closing, you may not access the property without your real estate agent. In addition, no repairs may be done prior to closing.)
- You should, at your expense, have the property re-keyed.
- You will not receive garage door openers, mailbox keys, etc.

**Thank you** for choosing *1<sup>st</sup> Choice, Realtors* as your brokerage and Jerry Cotner as your real estate agent.

Here are some things I would like you to know about....

***1<sup>st</sup> Choice, Realtors***

**We . . .**

- Provide “Old fashioned service with up-to-date results.”
- Presently have 3 listing agents, 6 buyer’s agents, and provide a property management service.
- Pride ourselves on being an honest, hard-working, and dynamic real estate team.

Check out our web site at <http://www.lovelandhomesales.com>. Our inventory includes not only privately-owned homes but bank-owned and HUD-owned homes, as well.

***Jerry Cotner***

**My Background . . .**

- Colorado Resident since 1967
- Loveland Resident since 1975
- UNC Graduate – BS in Business Management
- Vietnam Veteran
- Volunteer with the Boys Scouts of America - 34 years service (currently inactive)
- Eastman Kodak, Kodak Colorado Division – 34 years service (retired)
- Active in my Church