



MICHIGAN MUTUAL, INC.  

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YOUR HOME LOAN PARTNER

# HUD REO Guidelines

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## *Overview*

Through the Property Disposition Insured Sales Program, HUD offers its Real Estate Owned (REO) properties for sale with FHA-insured financing available. Properties must meet the intent of the FHA's Minimum Property Standards (MPS) for existing properties to be eligible for this program.

## *Eligibility Requirements*

### **Maximum Loan Amount**

Varies by County. Check HUD website at <https://entp.hud.gov/idapp/html/hicostlook.cfm>

### **Maximum Loan-To-Value**

- 96.50% LTV
- 99.9% for \$100 Down program (see below - not available in all states)

### **Borrower's Minimum Cash Investment**

3.5% of the sales price, which must be all down payment (with FHA Case number assignments on/after January 1, 2009 can no longer include down payment plus closing costs)

### **Loan Terms**

- 15 years
- 30 years

### **Mortgage Insurance**

Refer to FHA Mortgage Insurance Chart

### **Qualifying Ratios**

31%/43%. Qualifying ratios may exceed guidelines with AUS Approve recommendation, or with compensating factors

### **Property Types**

- Single-family dwellings
- 2-4 units
- Planned Unit Developments (PUDs)
- Condominiums (must be approved by FHA)

### **Borrowers**

Individuals only. Nonprofit organizations and government agencies are **not** eligible.

### **Occupancy**

Owner-occupied only. Non-occupying co-borrowers not permitted.

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## **Underwriting**

All FHA HUD REO loans will be underwritten according to standard FHA guidelines. Loans must be run through Total Scorecard using Fannie Mae's Desktop Originator/Underwriter or Freddie Mac's Loan Prospector.

## *HUD Marketing Approaches*

Each HUD REO property will be offered for sale using one of the approaches listed below.

### **Insurable**

Properties marketed as "Insurable" are those that meet FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction at the time of the appraisal in their "as-is" condition without repairs being necessary.

### **Insurable with Repair Escrow**

A property that requires no more than \$5,000 for repairs to meet FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) as estimated by the Property Condition Report (PCR) and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its "as-is" condition with FHA mortgage insurance under the 203(b) repair escrow program, provided the purchaser(s) establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in their mortgage an amount equal to 110 percent of the estimated cost of the repairs.

### **Uninsurable**

Properties offered for sale "Uninsurable" do not meet, in their "as-is" condition, FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) and the cost of repairs identified by the appraiser to meet MPR or MPS are estimated to exceed \$5,000.

**Uninsurable properties are not eligible for financing by MMI.**

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## *Review of the HUD Sales Contract*

The "Radon Gas and Mold Notice and Release Agreement" must be included with sales contract and be fully executed by all purchasers of the subject property.

In order to qualify for FHA-insured financing, the first block on Line 4 of the sales contract, as well as the applicable block for the FHA program (203(b) or 203(b) with Repair Escrow) must be checked. REO properties that are condominiums which are offered for sale with FHA mortgage insurance should be processed under Section 234(c), even though Section 203(b) is specified on the sales contract. A specific down payment and mortgage amount is no longer required to be established on Line 4 of the sales contract. The purchaser(s) must, however, continue to indicate the type of financing being sought.

The amount on Line 5 of the sales contract represents actual borrower financing and closing costs to be paid on their behalf by HUD (the seller) out of the sales proceeds. It does not represent an amount which the borrower may finance in the mortgage. Only the actual amount of closing and financing costs will be paid by HUD at settlement. The borrower will not be credited at settlement for any unused portion.

Specified on Line 8 of the sales contract will be the percentage discount, if any, that will be applied to the sales price at settlement. Where the price will be discounted, the mortgage amount will be based on that discounted sales price, not the contract sales price.

Specified on Line 9 of the sales contract will be the number of days, normally 45 or 60, in which the sale must be closed.

If the contract is not complete, if there are questions about the terms or conditions or if the contract must be amended as a condition of loan approval, contact the M&M contractor.

## *Additional Sales Incentives*

From time to time, for particular properties or in particular areas, HUD may authorize additional sales incentives. Where additional incentives are authorized, they will be noted in writing on either the HUD Sales Contract or on a cover letter accompanying the HUD sales contract.

MMI will not apply other incentives based on oral instructions from borrowers, realtors or any other parties.

Where a discount on the sales price is being provided, the mortgage amount shall be based on the lesser of the "as-is" value or the discounted sales price, not the contract sales price. HUD offers various incentives in conjunction with properties acquired through foreclosure. The incentives may include but are not limited to the following:

- \$100 down payment when using FHA financing (see \$100 down program page 10 below)
- Sales allowances that can be used for closing costs, down payment or to make repairs to the property.
- Broker (Realtor) bonuses for owner-occupied sales.

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## Case Number Processing

A new FHA case number must be obtained for loan applications with FHA-insured financing involving REO properties. The Property Disposition Program Sales Contract (purchase agreement) will indicate the current FHA Case Number; however, it will be short the last number. In order to properly obtain a new FHA Case Number assignment the complete 10 digit FHA Case Number will have to be obtained by performing a "Case Query" of the property address on the FHA Connection. If you are unable to obtain the complete 10 digit Case Number contact the M&M contractor or the field office where the property is located.

**NOTE:** The HUD sales contract indicates Section 203(b); however, when obtaining the FHA Case Number Assignment, input the proper ADP code in FHA Connection for the appropriate Section of the National Housing Act (ex: 703 for fixed rate, 734 for condominiums, 729 for ARMs, etc).

When entering the new case information in FHA Connection, select "Real Estate Owned without appraisal" for **processing type** if the M&M contractor has supplied the HUD appraisal and do not complete the appraiser assignment information. If the HUD appraisal is not available and a new appraisal is ordered select "Real Estate Owned with appraisal" and complete the appraiser assignment information. (See "appraisals" under inspections below).

When processing, the Computerized Homes Underwriting Management System (CHUMS) will require a response to the following question, "Was this case previously sold as a Property Disposition?"

- Always check **YES** when processing a loan application for FHA-insured financing on an REO property.
- The mortgagee should complete the "Previous Case Number" field with the 10 digit FHA Case Number obtained from the Case Query. This field is designed to track REO properties sold with FHA-insured financing and whether they are subsequently sold by the individuals who purchased them from HUD.
- If entry of the previous case number triggers an error message, the mortgage broker should request that the processing and underwriting division of their Homeownership Center (HOC) post the number in the CHUMS property disposition file.

Note that the appraisal fields in the FHA Connection should be left blank when obtaining a new case number for REO loans unless in rare instances where a new appraisal is required. (see "appraisals" under inspections below).

If the property is a condominium, data entry of the condo identification number is required. For the property to be FHA insured, the condominium project must be approved (by MMI) and in compliance with FHA policies on condominiums.

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## Inspection Requirements

### **Appraisals**

Upon conveyance of properties to HUD's REO inventory, HUD's Management and Marketing (M&M) contractor's obtain an **as-is appraisal** (not as-repaired) for each HUD REO property to determine the listing price. HUD's REO appraisal is made available to the mortgage broker or purchaser(s) at no charge when a current appraisal is available. This is done to reduce out of pocket expenses by the purchaser(s). The mortgage broker should contact the M&M contractor to obtain a copy of the current appraisal. HUD requires this appraisal to be utilized for the underwriting process.

### ***Ordering Updated Appraisals***

Mortgage brokers/lenders may not order an updated appraisal from a roster appraiser because the sales price exceeds the as-is value specified on the M&M contractor's appraisal. Mortgage brokers may order and the borrower may be charged for an updated appraisal only under the following circumstance:

- **Appraisals Over 120 Days Old**: For existing construction, appraisals have a validity period of 120 days. A valid HUD REO sales contract must be ratified within 120 days of the appraisal effective date. As long as the sales contract is executed by HUD prior to the expiration of the appraisal, the validity period may be extended an additional 30 days (in total, a 150-day validity period). **The original appraisal obtained by the M&M contractor must be used, provided the mortgage lender has approved the purchaser(s) or a valid HUD sales contract was executed prior to the expiration date of the appraisal.** In those instances where the M&M contractor's appraisal is more than 120 days old and a valid HUD sales contract was not executed prior to the expiration date of the appraisal, the mortgage broker must order, and the purchaser(s) may be charged for, an updated appraisal. Mortgage brokers should instruct appraisers to perform an as-is appraisal, not an as-repaired appraisal, in accordance with the procedures outlined in Appendix A-1 of HUD Handbook 4150.2. If mortgage brokers request a copy of the M&M Contractor's appraisal and such copy is not available, mortgage brokers should order a new appraisal.

If the updated appraisal results in a **lower** as-is value of the property, the purchaser(s) will be given the opportunity to proceed with the transaction with no adjustment made to the sales price, requiring an additional cash investment by the purchaser(s) or the purchaser(s) may withdraw their offer to purchase the property and receive a full refund of the earnest money deposit.

Should the updated appraisal result in a **higher** as-is value, the sales price will not be adjusted. In these situations, the mortgage amount will be based upon the value established by the updated appraisal. The mortgage amount, however, cannot exceed the sales price indicated on the sales contract.

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## **FEMA Declared Disaster Area Policy**

If the subject property has had an appraisal completed prior to a declared disaster, prior to the end date of a declared disaster, or after a declared disaster with no comments addressing the post-disaster condition of the property from the appraiser, a 1004D with photos will be required to recertify the value/condition of the subject property.

## **Utility Issues**

Utilities should be on at the time the appraisal is conducted, unless there are documented extenuating circumstances. In the event of extenuating circumstances, the appraiser should note the following:

- On the Uniform Residential Appraisal Report (URAR), the appraiser will annotate "The following utilities were not on at the time the appraisal was conducted (e.g., electric, gas, and/or water) -- Unable to verify their functionality."
- In the appraisal report, it also should be clearly noted that "The following utilities were not on at the time the appraisal was conducted (e.g., electric, gas, and/or water). -- Unable to verify their functionality." However, the appraiser should note any readily observable condition that is evident. If comments are not reflected in the appraisal report (or the appraisal report is not available) then the Property Condition Report (PCR) must be provided.
- HUD's M&M contractor shall permit entry to the purchaser(s) during the contract period to activate the utilities for the purposes of conducting a home inspection. If the HUD REO appraisal was completed without the utilities being activated, the mortgage broker/lender or purchaser(s) must complete the systems check while the utilities are activated. A complete copy of this report must be provided to MMI Underwriting if the HUD REO appraisal was completed without the utilities being activated. The report may identify a need for repairs which were not identified on the appraisal. In such cases the underwriter will address such issues. Section 203(b) financing will not be automatically approved simply based on the terms of the sales contract.

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## **Home Inspection**

The borrower has the right to have the house inspected by a professional home inspector. HUD's M&M contractor shall permit entry to the purchaser(s) during the contract period to activate the utilities for the purposes of conducting a home inspection. If the HUD REO appraisal was completed without the utilities being activated, the mortgage broker or purchaser(s) must complete the systems check while the utilities are activated.

Additionally, where FHA-insured financing is specified on the sales contract, a form HUD-92564-CN, "For Your Protection: Get a Home Inspection," must be provided to prospective homebuyers at first contact, be it pre-qualification, preapproval, or *no later than* initial application. If the form is incorporated within the executed sales contract in its entirety, then the homebuyer need not separately be provided with form HUD-92564-CN.

In the event the home inspection or the systems check reveals that repairs are needed which no longer makes the property eligible for an FHA-insured 203(b) mortgage, the mortgage broker should contact the M&M contractor to discuss alternatives to allow the sale to continue. The M&M contractor may allow the modification of the sales contract, as needed, to reflect an insured with repair escrow or 203(k) sale. The sales contract must be revised to include this revision and initialed by both the purchaser and the M&M contractor.

**NOTE:** *MMI only offers 203(k) Streamlines at this time.*

## **Termite/Pest Inspection**

A termite inspection is required on existing property when:

- called for in the sales or purchase agreement, or
- the appraiser recommends the inspection in the appraisal report.

A termite inspection is no longer an automatic inspection requirement (Mortgagee Letter 2005-48). Contact the M&M contractor to determine if an inspection report has been performed, and if it has, to obtain a copy of it.

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## **Well and Septic System Inspection**

If the HUD REO property has a well and/or septic tank, contact the M&M contractor to determine if an inspection has been performed, and, if it has, to obtain a free copy of this inspection report.

### ***When a Septic Test or Inspection is Required on Existing Property:***

- When called for in the sales or purchase agreement, or
- When the appraiser recommends the inspection in the appraisal report, or
- When mandated by the state or local jurisdiction, if customary to the area, or
- If there is evidence of system failure.

### ***When a Well Test or Inspection is Required on Existing Property:***

- When called for in the sales or purchase agreement, or
- When the appraiser recommends the inspection in the appraisal report, or
- When mandated by the state or local jurisdiction, if customary to the area, or
- If there is knowledge that well water may be contaminated, or
- When the water supply relies upon a water purification system due to presence of contaminants, or
- When there is evidence of:
  - Corrosion of pipes (plumbing)
  - Areas of intensive agriculture within 1/4 mile
  - Coal mining or gas drilling operations within 1/4 mile
  - Dump, junkyard, landfill, factory, gas station, or dry cleaning operation within 1/4 mile
  - Unusually objectionable taste, smell or appearance of well water.

***NOTE:*** Arrangements should be made with the M&M contractor for any required testing to be completed.

## ***Repair Escrows***

Properties that need less than \$5,000 worth of repairs to meet the intent of the MPS will be offered for sale with insured financing available, provided a cash escrow is established to ensure the completion of repairs.

### **Repair Escrow Financing**

The repair escrow must be financed in the FHA loan, and is not to be taken from HUD proceeds at closing.

### **Repair Escrow Account**

Equal to 110 percent of the estimated cost of repairs and must be established for properties sold under the Property Disposition Sales Program. Since the maximum cost of repairs is \$5,000, the maximum escrow amount may not exceed \$5,500. The escrow account must be administered by MMI. A 10% overage is also calculated into the costs so the actual amount given on any repair escrow can be as high as \$5500.

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### **Cost of Repairs**

Repair escrow amount is taken from line 4 of the sales contract. In addition, if additional repairs are revealed during the loan process (i.e. as a result of a home inspection) then 2 bids will be required with a list of the repairs needed to make the property insurable and the estimated cost of repairs and the underwriter will determine the additional required escrow amount.

### **Completion of Repairs**

Generally, all repairs are to be completed by the borrower within 90 days of closing.

Upon satisfactory completion of repairs, the broker must arrange for a HUD fee inspector to inspect the property. A lookup for a fee inspector in your area may be found at HUD's website ([https://entp.hud.gov/idapp/html/insplook.cfm?in\\_fha=No](https://entp.hud.gov/idapp/html/insplook.cfm?in_fha=No)). The broker must provide a copy of HUD's list of required repairs to the inspector prior to the inspection. The fee inspector is to provide a 1004D indicating all on site repairs have been completed. The fee inspector will be paid from the proceeds of the repair escrow account. MMI will disburse the escrow to compensate the borrower or the contractor, as appropriate.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be applied to reduce the outstanding principal balance of the mortgage.

If the escrow is inadequate, or if additional items of repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost.

If the borrower fails to complete the required repairs within 90 days of closing or such additional time as is determined reasonable or the repairs are unsatisfactory, we must apply the escrow amount to reduce the outstanding principal balance of the mortgage.

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## *Closing Costs/Prepaid Expenses*

For HUD-paid closing costs, HUD has authorized as a sales incentive, purchasers to specify in Item 5 on the HUD sales contract an amount which HUD, as seller, may pay on the borrower's behalf at settlement.

This amount may be applied to the **actual cost** of closing costs and/or prepaid expenses. If the total of actual costs of such closing costs and/or prepaid expenses is less than the amount specified in Item 5, the balance may not be credited to the borrower.

Depending upon the amount of closing costs that HUD pays for the borrower, the maximum mortgage amount may have to be reduced in order for the borrower to meet the minimum cash investment required. Closing costs and prepaid expenses may not be included in the mortgage amount.

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# FHA \$100 Down Program

The FHA \$100 Down HUD Repo program is a purchase-money loan offered in limited geographic areas to purchasers of HUD REOs. Buyers are only required to make a \$100 down payment and may be eligible for sales incentives provided by HUD.

The incentives vary from State to State, but may include the following:

- \$100 down payment when using FHA financing (see \$100 down program below)
- Sales allowances that can be used for closing costs, down payment or to make repairs to the property.
- Broker (Realtor) bonuses for owner-occupied sales.

HUD's program also includes additional borrower incentives in some markets that may be as high as \$2,500 that can be used toward closing costs and prepaid expenses and/or toward repair escrows, if any. In more limited markets, selling real estate agents may also be eligible for up to \$500 in sales incentives when borrowers choose certain FHA financing. These incentives are provided by HUD, not by MMI, and may be changed or discontinued by HUD at any time.

HUD may authorize additional sales incentives. Where additional incentives are authorized, they will be noted in writing on either the HUD Sales Contract or on a cover letter accompanying the HUD sales contract. MMI will not apply other incentives based on oral instructions from borrowers, realtors or any other parties.

Where a discount on the sales price is being provided, the mortgage amount shall be based on the lesser of the "as-is" value or the discounted sales price, not the contract sales price. HUD offers various incentives in conjunction with properties acquired through foreclosure.

To learn about the incentives in your area and find eligible properties in your state use the website as follows: <http://www.hud.gov/salesincentives/>

**NOTE:** *The \$100 Downpayment Incentive is not available unless it is on the executed sales contract.*

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## *Eligibility Requirements*

### **Maximum Loan Amount**

Varies by County. Check HUD website at <https://entp.hud.gov/idapp/html/hicostlook.cfm>

### **Maximum Loan-To-Value**

The LTV may exceed 100%, up to 110%, **only** if funding a repair escrow included in the sales contract. The cost of repairs may not exceed \$5,000. Otherwise, buyers who have been approved by FHA to acquire HUD REO properties under an authorized \$100 minimum cash investment initiative may finance the cost of the UFMIP through their FHA-insured loan product provided the total mortgage amount including the UFMIP does not exceed 100 percent of the 'as is' appraised value. Approved borrowers acquiring HUD REO properties under any such initiative are not eligible to finance prepaid expenses and financing/closing costs through their FHA-insured mortgage. See below:

#### ***Example***

The current appraisal used to determine the original listing price is \$100,000. After 90 days, FHA reduces the listing price of the unsold unit to \$90,000. FHA accepts a bid from an eligible homebuyer for \$95,000. The homebuyer qualifies for both FHA financing and participation in the \$100 down payment program. Closing costs and prepayments equal \$2,375 and the UFMIP is \$949 {(1.0 percent of the (\$95,000 - \$100))}.

In this example, the maximum FHA loan amount the homebuyer can receive is \$95,849 (\$94,900 in remaining principal, plus UFMIP (\$94,900 x 1.0%, or \$949). If the homebuyer receives no other subsidies, cash at settlement required from the homebuyer is \$2,475 (\$100 down payment + \$2,375 in closing and prepayment costs) in order to purchase the property.

### **Borrower's Minimum Cash Investment**

All loans require borrowers to make a \$100 down payment. The standard FHA policy requiring that borrowers make a 3.5% investment is not required for the FHA \$100 HUD Repo program. Borrowers may not receive any cash back at loan closing. The sales allowance and contributions received, if any, can only be used toward closing costs/prepaid expenses, repairs to the property or to reduce the mortgage amount. If the real estate agent writes the sales contract as a 203(b) with a repair escrow then the entire repair value up to \$5,000 can be included in the loan amount and escrowed. The LTV cannot exceed 110% of "as is" appraised value with repair escrow included.

### **Loan Terms**

15 year term and 30 year term

### **Mortgage Insurance**

Refer to FHA Mortgage Insurance Chart

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## **Qualifying Ratios**

31%/43%. Qualifying ratios may exceed guidelines with compensating factors.

## **Property Types**

- Single-family dwellings
- Planned Unit Developments (PUDs)
- Condominiums (must be prior approved by FHA)
- 2-4 units

## **Borrowers**

Individuals only. Nonprofit organizations and government agencies are **not** eligible.

## **Occupancy**

Owner-occupied only. Non-occupying co-borrowers not permitted.

## **Underwriting**

All FHA HUD REO loans will be underwritten according to standard FHA guidelines. Loans must be run through Total Scorecard using Fannie Mae's Desktop Originator/Underwriter or Freddie Mac's Loan Prospector however loan may receive an "Ineligible" for mortgage amount calculation if utilizing \$100 down.

See above Property Disposition Sales for Case Processing and Inspection Requirements which are the same for the FHA \$100 Down Program.

## *Calculating Maximum Mortgage on \$100 Down Program*

To calculate the FHA maximum mortgage amount for a HUD home being sold with just a \$100 down payment, take the sales price minus the \$100 down payment. This will be the new base loan amount. Calculate the UFMIP accordingly to determine total loan amount. See [Maximum Loan-to-Value](#) above.

## *Calculating Maximum Mortgage with Repair Escrow included in the Loan Amount*

To calculate the FHA maximum mortgage amount for a HUD home being sold with just a \$100 down payment **and** a repair escrow (included in the loan amount), take the sum of the sales price and the repair escrow, and subtract the \$100 down payment. This will be the new base loan amount. These calculations should be shown in the remarks section of the FHA Loan Underwriting and Transmittal Summary. Calculate the UFMIP accordingly to determine total loan amount. See [Maximum Loan-to-Value](#) above.

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