

Financing For Foreclosure & REO Properties

Foreclosure & REO Property

Foreclosure or REO (Real Estate Owned) properties represent great opportunities for both investors and first time home buyers. Investors can often buy properties that “cash flow” for the first time in many years, and owner-occupants can buy properties for less than half of what they cost a few years ago.

Experience is key in financing the purchase of REO properties, as many issues can arise:

1. Property condition: the most common and significant issue
2. Proper chain of title
3. Proper powers of attorney



In addition, the rates and terms for financing can vary tremendously, so sourcing the right lender for a buyer's specific needs is especially important.

Investor Financing

Very attractive Fannie Mae 30 year, fixed-rate financing is available for investors who can verify income and put down 25% of the purchase price. Investors can also put down as little as 20%, but the interest rate will be about $\frac{1}{2}$ to $\frac{3}{4}$ of a per cent higher.

Properties with severe condition issues, however, may not be eligible for Fannie Mae financing, as repairs will need to be completed before close of escrow. And, coaxing REO sellers to pay for or to even allow repair-work is often difficult.

Hard Money options are available for investors who are unable to verify income, or who wish to buy properties with severe condition issues that cannot be repaired prior to close of escrow. Such loans require a down payment of at least 25%, with rates close to 11% and fees as high as five points.

The best option for investor financing, for qualified properties, is offered by the **Fannie Mae “Homepath” Program**. Investors can purchase REOs owned by Fannie Mae with only 10% down, no mortgage insurance and no appraisal requirements.

Owner Occupied Financing

For those looking to occupy the property, FHA financing may be the best option for home-buyers:

- Requires 3.5% down payment
- More flexible than Fannie Mae financing with respect to condition and credit issues
- Competitive interest rates

Standard Fannie Mae financing is also available for owner-occupants with a minimum of 10% down in California. Fannie Mae financing with less than 20% down will require mortgage insurance.

Quasi Construction Financing & Short Sales

Quasi “Construction” Financing for Properties with Severe Condition Issues

There remains an excellent alternative for financing the repair and improvements of REO properties with severe condition issues.

FHA 203(k) Loans allow potential owner-occupants to finance repairs and improvements of almost any nature, as long the repairs are for an existing property. 203(k) Loans finance the purchase of the property as well as the cost of the improvements (paid out in installments over time). As with any “construction loan”, 203(k) loans require more paperwork and follow up than standard financing. The process can be made easier via a “Streamline 203(k)” if the improvements will cost less than \$35,000.



The Energy Efficient Mortgage (EEM) Program is not intended for severe condition issues, but it is another excellent opportunity to finance significant improvements. EEM allotments are tacked right on top of FHA Loans at the same rate and terms regardless of the resulting loan-to-value ratio. EEM monies can finance anything that will improve the energy-efficiency of a home, including new doors, windows, insulation, furnaces, etc.

Most lenders cap their EEM allotments at \$8,000, but JVM has access to an EEM program that allows allotments up to 5% of the purchase price irrespective of the resulting loan size. Given that the FHA loan limit is now \$729,750, EEM loans or allotments can exceed \$35,000 in some cases.

Short Sales

A “Short Sale” involves the purchase of a home that has NOT been taken back by the lender. Title remains in the original buyer’s name. The buyer, however, owes more than the home is worth, and is therefore asking the lenders with loans against the home to accept “short pay-offs” (pay-offs in amounts less than the total owed); hence the moniker “short sale”.

The primary problem with short sales is delays. Waiting for valid approvals from short-selling lenders can often take months. Buyers need to also make sure that ALL potential liens are dealt with up front. Often there are other liens over and above a 1st and 2nd mortgage, such as judgment liens, homeowners association liens, or even 3rd mortgage liens. These liens can surface at the 11th hour and collapse a transaction.

The financing options for the purchase of a short sale property are largely the same as they are for REO properties, with the exception of Fannie Mae’s Homepath option. Homepath financing is only available for foreclosed properties owned by Fannie Mae.

