

# HUD Homes

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## HUD Homes

The prospect of buying a home can be daunting. Most of us dream of owning our own home -- a house, a condo, or a townhouse -- but the thought of finding the right place, wading through reams of paperwork, and taking out a mortgage can be overwhelming.

Actually, it's not as bad as it may seem, especially when there's help available. A good place to start is with a new publication from the U.S. Department of Housing and Urban Development, The HUD Home Buying Guide.

One of the first things to do is figure out what you can afford. Most of us can't snap off a check for the total price -- we'll need a loan, a mortgage. And that means knowing how much we can afford to pay on that loan each month.

No two people are in the exact same financial situation, but a good rule of thumb is 25% to 29% of your gross monthly income can go toward housing, depending on the size of your down payment and whether you purchase mortgage insurance. Keep in mind that this has to cover not only your mortgage payment, but all housing costs, such as taxes, insurance, and any homeowners association fees.

Determining 29% of what you gross is pretty simple. Let's say you earn \$2,500 a month (remember, this is before taxes). Multiply that by .29, and you'll see that you can probably spend about \$725 a month on housing.

O.K., that's the easy part. But if you have \$725 a month to put towards housing, what exactly does that mean when you're looking at the total selling price of a home? And since the interest rate on the loan affects your monthly payment, you have to consider that as well.

Fortunately, The HUD Home Buying Guide includes an easy-to-read mortgage payment chart based on a 30-year, fixed rate mortgage. With it, you'll have a pretty good idea of the selling price you can afford, at a particular interest rate, given your monthly income. Data is provided for interest rates ranging from 6% to 10%, and for homes with selling prices up to \$170,000.

Knowing what you can afford is just the first step; there's still a way to go before realizing the dream of owning a home. But you don't have to do it all yourself; a real estate agent can help.

After discussing the kind of home you want, the areas you're interested in, and the various features you're looking for, an agent can show you those places within your price range. You may not be able to find a 3-bedroom house on the north side of town with a fireplace and finished basement just by driving through neighborhoods. But if there's one on the market, your agent probably can.

Most people only buy a house once or twice in their lives. Real estate agents do it every day. They'll help you decide between mortgages, handle the seemingly endless paperwork, and be there to answer any questions you may have. Just remember, the agent's commission is usually paid by the seller, not the buyer. Which means when it comes to negotiating the sales price, the agent is normally working for the seller.

Before making what could possibly be the biggest investment of your life, learn as much as you can about the home buying process, including some terms you may not be familiar with. Do you know what's meant by "earnest money"? What about "assumable loan"? You will with The HUD Home Buying Guide. You'll also learn more about homes sold through HUD (see below), find out about various types of mortgages, and much more.

### A WORD ABOUT HUD HOMES

HUD owns homes in communities across the country, and sells them at attractive prices and economical terms. Some may be "fixer-uppers," but many are in very good condition

and located in fine neighborhoods. HUD homes are sold "as is," so you'll want a trained home inspector to check the structure before you buy.

One of many advantages to buying a home from HUD is the reduced down payment, usually only 3% instead of 10% to 20%.

Unlike buying a home on the private market, to purchase a home from HUD you must submit a sealed offer through a real estate broker. HUD sets an asking price, and bids for that amount are opened immediately. All others are opened after a 10-day offer period. The home generally goes to the highest acceptable bid.

You'll learn more about buying a home from HUD in The HUD Home Buying Guide. For specific information on HUD homes available in your area, check the newspaper classifieds or talk to a real estate agent.

#### OWNING A HOME OF YOUR OWN

Your dream home could be a HUD Home. Almost everybody has a dream home. A place they like to wander through in their thoughts, choosing imaginary wallpaper and putting in imaginary skylights. But for too many people, dream homes remain just that-dreams. The reality of owning their own home never seems to become theirs.

HUD would like to help. HUD, short for the U.S. Department of Housing and Urban Development, is a government agency created to make the American dream of home ownership a real possibility for everyone. And that includes you.

Since 1934, they've been putting Americans, millions of them, through the doors of their own homes. They do it by making home buying easier and more affordable. You see, HUD owns homes in many communities throughout the U.S., and offer them for sale at attractive prices and economical terms.

So that home you've been dreaming about just may be one you buy from HUD. But whether you decide on a HUD Home or not, you can use this guide to take you step by step through each stage of finding and buying your own home.

#### HOW MUCH HOME CAN YOU AFFORD?

Before you start shopping for a home, you need to know what kind of home to shop for. To determine that, of course, you've got to figure out how much you can afford to pay each month.

Fortunately, there's a pretty simple formula for coming up with this number. It's the Federal Housing Administration (FHA) formula that many mortgage lenders use. The FHA has found that most people can afford to budget 29% of their gross monthly income to housing expenses, depending on total debt. Buyers with no debt can budget as much as 41% of monthly income to housing.

No need to reach for your calculator—we've done the math for you. The two charts on the opposite page should tell you everything you need to know.

The first chart tells you how much 29% of your monthly income is. Find your annual income, or a figure close to it, in the column at the left. Then read across to find out how much your monthly gross income is, and finally, what 29% of that figure amounts to. This is approximately how much you can spend on total housing costs each month.

The second chart tells you how much your monthly mortgage might be based on a home's selling price. Remember to keep in mind that the monthly figure from this second chart is based on a 30-year fixed mortgage and includes monthly principal and interest payments only. Taxes and

insurance - which vary from community to community - are not included.

So if 29% of your gross income is, say, \$604, that doesn't mean you can pay a \$604-per-month mortgage. You need to look at a mortgage somewhat below that, to leave room for taxes and insurance. Be sure to ask your lender to help you estimate how much your total costs will be.

Annual	Monthly	29%
Gross	Gross	of Gross
Income	Income	Income
\$15,000	\$1,250	\$363
20,000	1,667	483
25,000	2,083	604
30,000	2,500	725
35,000	2,917	846
40,000	3,333	967
45,000	3,750	1,088
50,000	4,167	1,208

MORTGAGE PAYMENT CALCULATOR

Monthly principal, interest payment for 30-year, fixed rate mortgage. Monthly taxes, insurance not included.

Cost	6%	6.5%	7 %	7.58	8%	8.58	9%	9.5%	10%
25,000	150	158	166	175	183	192	201	210	219
30,000	180	190	200	210	220	231	241	252	263
40,000	240	253	266	280	293	308	322	336	351
50,000	300	316	333	350	367	384	402	420	439
60,000	360	379	399	420	440	461	483	505	527
70,000	420	442	466	489	514	538	563	589	614
80,000	480	506	532	559	587	615	644	673	702
90,000	540	569	599	629	660	692	724	757	790
100,000	600	632	665	699	734	769	805	841	878
110,000	660	695	732	769	807	846	885	925	965
120,000	719	758	798	839	880	923	966	1009	1053
130,000	780	822	865	909	954	1000	1046	1093	1141
140,000	839	885	931	979	1027	1076	1126	1177	1229
150,000	899	948	998	1049	1101	1153	1207	1261	1316

160,000 959 1011 1064 1119 1174 1230 1287 1345 1404

170,000 1019 1075 1131 1189 1247 1307 1368 1429 1492

It's time to stop talking about it and begin doing something about it.

Help is available.

You'll need someone to help you through the process of buying a home. That person should be someone you trust, someone who understands what you want.

A good real estate agent is all of these things. He or she will be well-acquainted with all the important things you'll want to know about a neighborhood you may be considering. The quality of the schools, the number of children in the area, the safety of the neighborhood, traffic volume: a real estate expert will be aware of these factors and more.

And all the financial details that can seem so mind-boggling to first-time home buyers are something the agent deals with every day. He or she will help you figure the price range you can afford, explain the advantages and disadvantages of different types of mortgages, guide you through the paperwork, and be there to answer last-minute questions when you sign the final papers at closing.

If you're buying a HUD Home, you're required to use a real estate agent. While purchasing a HUD Home may be easier than many private real estate transactions, there are still some requirements which must be met, certain forms that must be used, and procedures that must be followed. But these requirements are clearly stated in advance, and the real estate agent will be there to help you through it all.

There are no negotiations between buyer and seller when you buy a HUD Home. This can be a real advantage. There's no haggling about price-everything is spelled out in black and white. In some areas, a HUD office may accept a counter-offer from you, but if your counter-offer is not accepted, the home goes back on the market. What's more, HUD responds promptly to your offer, and if it's accepted, closing on the home will usually occur within 30 to 60 days.

Finding a HUD broker is not difficult, especially since so many real estate brokers are happy to sell HUD Homes. All you need to do is to call a few brokers who work in the area you're interested in and you'll find someone willing and experienced. Some brokers specifically advertise their desire to sell HUD Homes in the real estate sections of newspapers.

Best of all, the valuable help you'll receive from the real estate agent is usually free! In most instances, agents get their sales commission from the home seller, not you, the buyer. Even if you're buying a HUD Home, HUD will pay the broker's commission.

THERE'S A HUD HOME WITH YOUR NAME ON IT

Out of all the homes for sale in your area, there is likely to be one that has everything you want. The trick is simply to find it.

Of course, your real estate agent is going to be a big help. But even the agent will need to know what your priorities are. Is a short commute important to you? Or are schools your biggest concern? How many bedrooms do you think you need?

Before you begin looking at homes, try to decide in advance exactly what you want. This can save you and the agent a lot of time. It's a good idea to actually write down your wishes, and share the list with your agent. This is helpful because he or she

will usually have lists of the properties for sale in your area, including all the HUD Homes. In some cities, newspapers carry listings of HUD Homes, but this is not always the case. A broker should have all the information you need.

Almost any home you look at will have room for improvement. But the more that needs to be done to a home, the less you're going to have to pay for it. HUD Homes, because they're sold in "as-is" condition, can often be a great, affordable opportunity for the fixer-upper. Many are in fine neighborhoods and offer outstanding values. And while some HUD Homes do qualify as "handyman specials," many are in very good condition.

HUD does not warrant the condition of its properties, but will give you the information it has about the condition of the property you're interested in. You can use this information in formulating your bid.

There's even a HUD loan program available, the 203(k), where buyers can borrow money to make repairs on some properties. You repay these funds later, as part of your mortgage. Just be aware that 203(k) funds aren't available for all houses in all areas. Ask the real estate agent you're working with about 203(k) availability in your area.

#### BEGINNING TO MAKE IT ON YOUR OWN

Once you've found the home of your dreams, it's time to make an offer to buy it. Before deciding how much to offer, HUD urges you to get a professional inspection. It can also be helpful to find out how long the home has been on the market-if it's been for sale a while, the seller may be more willing to bargain.

After you and the agent have prepared your offer, he or she will present it to the seller. It may be accepted or rejected, or the seller may counter your offer by asking for a higher price or by making changes in the sales contract.

Making an offer to buy a HUD Home is often much easier than the process of buying a home on the private market. You'll submit your offer through a real estate broker, in the form of a sealed bid using the HUD contract form. The person making the highest acceptable bid is generally awarded that HUD Home.

Offers for HUD Homes can only be made through a licensed real estate broker. This way, HUD requirements are met and buyers get the help they need. HUD will pay real estate commissions of up to 6% if the commission amount is requested as part of the bid.

Sometimes HUD accepts an offer that's less than the listing price, depending on market conditions and the length of time the property has been on the market. Sometimes buyers make bids higher than the listing price, if they believe the market conditions demand it, or if the home is particularly appealing.

You will generally make your offer for a HUD Home during a designated "Offer Period." At the end of the 10-day offer period, all the bids received on the home will be opened at a public event which you may attend. (Full-price offers are often opened immediately.) If your offer is accepted, your broker will be notified, generally within 48 hours.

**Earnest money** When you make an offer on a home, the seller will usually require an "earnest money" deposit as proof that your offer is serious. If the offer is accepted, your earnest money deposit will become part of your down payment or closing costs. If your offer is rejected, the broker will return your earnest money to you.

You're almost home.

## DIFFERENT LOANS FOR DIFFERENT HOME BUYERS

Just as there is more than one kind of home, there is more than one way to finance it. Mortgage lenders have come up with many different methods of helping you pay for a home - each one with its own advantages and disadvantages.

First of all, you should know that HUD itself does not provide financing. You can obtain financing through a bank or mortgage lender. And since many HUD Homes are eligible for FHA-insured mortgage loans, this often makes financing easier to obtain. However, you are not required to get an FHA loan to buy a HUD Home.

**Fixed-Rate Mortgage** With a fixed-rate mortgage, your interest rate stays the same for the term of the mortgage, which is usually 30 years. Your principal and interest payment remains stable, making it easier to plan a monthly budget. However, initial interest rates tend to be higher than with other types of loans.

**Adjustable-Rate Mortgage** With an ARM, your interest rate and monthly payments start out lower than with a fixed-rate, but your rate and payments can change either up or down, depending on where interest rates in general are going. (If they're going up, your monthly payments will probably go up as well, sometimes significantly.)

**FHA-Insured Mortgage** In this type of loan, the Federal Government insures the lender against loss in case the home buyer defaults on the loan. This program was set up so that Americans who can't afford the 10% to 20% down payment required by most lenders can still buy a home. Many HUD Homes can be bought with FHA-insured mortgages, which allow you to purchase the home with as little as 3% down. You do not have to be a first-time buyer in order to qualify for an FHA loan.

**VA Loan** Under this program, the Department of Veterans Affairs guarantees the lender against loss. HUD Homes may be purchased with a VA loan or any other loan.

**Assumable or Non-Assumable** You may find a home with a mortgage loan you can "assume" from the previous owner. This means that the lender is willing to transfer the old loan on the home to you. These loans can be wonderful bargains, and the paperwork is usually not very complicated.

Before you decide which loan is right for you, talk to your loan officer. You'll get information that will help you figure out which option best suits your needs.

## HUD BRINGS YOUR UP FRONT COSTS DOWN

The costs of buying a home are more than just the price you agree to pay for it. Before you move in, you'll have to pay various charges, which we explain below. The good news is, with HUD Homes these costs may be lower than they are with other homes.

**Down Payment** Most people know that a down payment is a percentage of the price of the home that must be paid up front, in cash. Many people don't know that HUD can reduce that down payment from the normal 10% to 20% to a much more agreeable figure of 3%, or even less! On a \$50,000 home, that means \$1,500 versus \$5,000 or \$10,000.

**Closing Costs** This term covers various fees your lender charges for providing your loan, and other expenses. Closing costs typically add up to about 3% or 4% of the price of your home, depending on where you purchase it. But when you buy a HUD Home, these costs are often picked up by HUD-if they are specifically requested, by dollar amount, in the sealed bid offering. If you buy a HUD Home, HUD may pay many of your usual and customary closing expenses plus real estate sales commissions up to 6%. Just remember that closing costs and sales commissions are deducted from the bid amount in making the decision as to which offer brings the greatest return to HUD. Since bidding is competitive, you may, in order to offer a more competitive bid, pay your own

closing costs. This makes HUD's net return greater, making your bid more favorable and increasing the likelihood that HUD will accept your offer.

Commissions These are paid to the broker by the seller, and usually amount to 6% or 7% of the cost of the house. When you buy a HUD Home, the selling agent's commissions are usually paid by HUD. HUD will pay a total sales commission of up to 6%.

#### CHECKING IT OUT BEFORE YOU CHECK IN

Before you buy anything, you'll want to know exactly what it is you're getting. With something as important as your home, you can't know too much. That's why it's a good idea to get a professional inspection of your home—even before you make the offer. HUD strongly urges every home buyer to get a professional inspection, whether you're buying a HUD Home or not. HUD Homes are sold in "as-is" condition. That means you agree, if you buy the home, to accept it in its present condition. HUD does not pay for the correction of defects in existing homes that it sells or on homes purchased with FHA-insured mortgages. The owner of the home will be responsible for needed repairs. Therefore, be sure of the condition of the home before you submit your offer.

#### THE FINISH LINE

The day you finally close on your new home will probably be one of the most exciting in your life. Finally, the long, tedious process of finding a home and getting a loan is over, and by the time the day is done, you'll be the proud and happy owner of your new home.

Before that day ends, you will be asked to sign a seemingly endless number of forms, but the closing agent will go over each one with you. It's all necessary, but you can make it a little easier by asking the real estate agent about it before the big day comes. Also, when you apply for your loan, your lender is required to give you a booklet explaining closing costs, an estimate of how much cash you'll have to supply at the closing, and a list of all the documents you'll need.

If you have any questions, perhaps they are answered in the "Q and A" section that follows. If not, why not go straight to the phone right now, and call a real estate agent and ask about HUD Homes? It's a small, first step. But the journey could eventually end at the door to a home you call your own. Good luck and have fun!

#### QUESTIONS AND ANSWERS ABOUT HUD HOMES

What is a HUD Home?

A HUD Home may be a single-family house, a town home, condominium or other type of residence. The properties were deeded to HUD/FHA by mortgage companies who had foreclosed on FHA-insured mortgage loans. Now HUD must sell these homes—as quickly as possible at market value—in order to obtain the maximum financial return on its mortgage insurance funds.

Who can buy a HUD Home?

Anyone who has the money or can qualify for the necessary amount of mortgage financing can purchase a HUD Home. You do not have to be low-income or meet any other such limitations.

Can I get a HUD Home for free, or for one dollar?

No. HUD acquires its properties through the foreclosure of FHA insured mortgages. One of HUD's many missions is to maximize return to the FHA insurance fund, which it does by selling the properties at fair market value.

How do I buy a HUD Home?

Our policy is to market acquired properties on a competitive basis with sealed bid offers being submitted through any participating licensed real estate broker. Local brokers will assist you in the transaction. They can show the property to prospective buyers, as well as answer questions and provide information on the location of parks, schools, shopping, and employment centers.

Are HUD Homes meant for low income people?

HUD Homes come in a variety of price ranges, though most are affordably priced, making them accessible to low and moderate income Americans.

What are the income requirements?

If you make a cash purchase, there are no income requirements. Otherwise, you must be able to qualify for a particular type of mortgage financing based on established mortgage lending criteria.

How does HUD decide how much to charge for a HUD Home?

The listing price of a HUD property is HUD's estimate of its fair market value. HUD established value by comparing HUD properties to similar properties sold within the community in the previous six-month period.

Can investors purchase HUD Homes?

Yes. However, HUD offers its properties to owner/occupants for a period before making them available to investors.

What happens if I can't close the sale within the time permitted by HUD?

You'll probably have to pay fees for an extension of time, usually in increments of 15 days.

Is there any way for me to get advanced notice about homes that will be coming up for sale?

No. The only way to find out about HUD Homes for sale is to look in the listings in your newspaper (if it carries HUD listings), or ask your broker.

#### A WORD ABOUT LEAD-BASED PAINT

HUD has initiated a nationwide effort to alert home buyers with young children to the hazards of older homes that may contain lead-based paint. If you are making an offer on a home constructed prior to 1978, you should be aware that there may be lead-based paint on the premises. The broker will give you a copy of an information brochure entitled "Watch Out For Lead Paint Poisoning." You must also submit a lead-based paint addendum with your offer on the HUD Home.

#### TERMS YOU NEED TO KNOW

Adjustable Rate Mortgage (ARM). A type of mortgage rate loan whose interest rate changes periodically up or down, usually once or twice a year.

Annual Percentage Rate (APR). Everything financed in your mortgage loan package (interest, loan fees, points or other charges) expressed as a percentage of the loan amount (usually slightly above the actual interest rate alone.)

Assumable Loan. A loan in which the lender is willing to "transfer" from the previous owner of the home to the new owner, sometimes at the same interest rate, sometimes at a new rate. An assumable loan can make your home more attractive to buyers when you want to sell.

Closing Costs. Costs the buyer must pay at the time of closing in addition to the down payment: including points, mortgage insurance premium, homeowners insurance, prepayments for property taxes, etc. Closing costs average 3%-4% of the loan amount. If you're buying a HUD Home, you can request they be paid by HUD.

Contingency. A condition put on an offer to buy a home; such as the prospective buyer making an offer contingent on his or her sales of a present home.

Conventional Mortgage. A type of mortgage not insured by either the Federal Housing Administration (FHA) or the Department of Veterans Affairs (VA), and thus usually requiring a 10%-20% down payment. Homes may be purchased with a conventional mortgage.

Earnest Money. Funds submitted with an offer to show "good faith" to follow through with the purchase. Earnest money is placed by the broker

in an escrow/trust account until closing, when it becomes part of the

down payment of closing costs. (HUD generally requires an earnest money deposit of \$500-\$2,000.)

Escrow. A procedure in which documents or transfers of cash and property are put in the care of a third party, other than the buyer or seller.

FHA Financing. Financing for a loan which will be insured against loss by the Federal Housing Administration—a part of the U.S. Department of Housing and Urban Development (HUD). Such financing only requires a 3%-5% down payment.

Homeowners Insurance. Insurance that protects the homeowner from "casualty" (losses or damage to the home or personal property) and from "liability" (damages to other people or property). Required by the lender and usually included in the monthly mortgage payment.

Loan Origination Fee. A fee charged by the lender for evaluating, preparing, and submitting a proposed mortgage loan.

Mortgage Insurance Premium (MIP). A charge paid by the borrower (usually as part of the closing costs) to obtain financing, especially when making a down payment of less than 20% of the purchase price, for example on an FHA-insured loan.

Point. An amount equal to 1% of the principal amount being borrowed. The lender may charge the borrower several "points" in order to provide the loan.

Property Taxes. Taxes (based on the assessed value of the home) paid by the homeowner for community services such as schools, public works, and other costs of local government. Paid as a part of the monthly mortgage payment.

Title Insurance. Protects lenders and homeowners against loss of their interest in property due to legal defects in the title.

VA Loan. A loan guaranteed by the Department of Veterans Affairs against loss to the lender, and made through a private lender. (HUD Homes may be purchased with a VA loan.)