

How to Finance Bank Owned or HUD Home Properties

When you're on the hunt for a home you will come across Bank Owned (REO), HUD and Homepath (Gov't Owned) properties. These properties are vacant and most likely in disrepair. Because of this, you will face challenges when financing these money saving properties.

Banks lend money on properties that are in "insurable" condition. Anytime a bank lends money to a buyer in the form of a mortgage, the home in question needs to pass a minimum set standard of its **condition** and **mechanical** function which is preset by their mortgage guidelines.

Let me give you an example. If a home's hot water tank does not work, that's a **mechanical** issue. If it's missing floor covering in one of the bedrooms or there's peeling exterior paint, that's a **condition** issue. These issues will stop the mortgage process in its tracks, because HUD for instance will not fix the issue(s) and won't let you either. The bank needs them fixed prior to closing in order to proceed. **However there is a work-around...**

Enter the Rehab Loan

A rehab loan is the perfect solution for these underperforming homes. Here's how it works. First, you identify what needs to be done to the home in order to meet the banks minimum standard. Then, get an itemized estimate from a contractor for the work needed. After that go to the bank with estimate in hand and begin the loan process. What they will do is take your base sticker price of the home, for example \$100,000 and add to it the estimate of repairs, say \$20,000. You will then get a loan for \$120,000. After the closing your contractor will get to work. When the repairs are completed, the bank will inspect the repairs and then release the \$20,000 and everyone will be happy.

Not All Banks Have a Rehab Loan

That's right your local bank or lender might not have the type of loan you need. Here are the types of rehab loans or names they go by that you can ask your lender for.

- Rehab loan
- FHA 203k
- Construction loan
- Conventional mortgage with an escrow holdback

If your bank does not have any of these mortgages, here are 6 local lenders who do:

FHA 203k Loan

M&T Bank (315) 424-4582
Fulton Savings Bank (315) 592-4201

Conventional Rehab Loan

Seneca Savings Bank (315) 638-0233
Pathfinder bank (315) 207-8019
Americu Credit Union (800) 388-2000
Fulton Savings Bank (315) 592-4201

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After speaking with a lender, your next step is to call Adolphi R.E. at
(315) 695-6434 to schedule an appointment to begin viewing properties.