081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 1

U.S. Department of Housing and Urban Development

THE HUD HOME BUYING GUIDE

www.hud.gov espanol.hud.gov

U.S. Department of Housing and Urban Development
Office of Single Family Housing
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Washington, DC 20410-3000

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EQUAL HOUSING OPPORTUNITY

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August 2004

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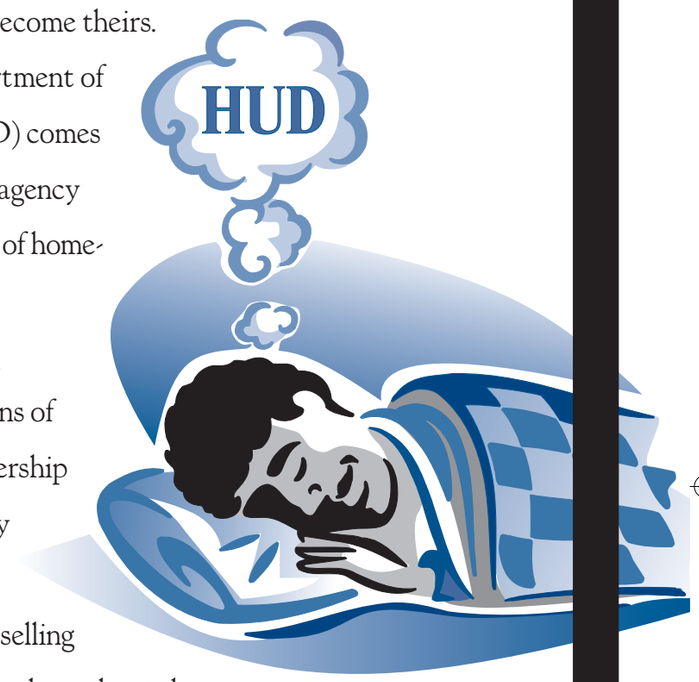
081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 2

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.



That's where the United States Department of Housing and Urban Development (HUD) comes into the picture. HUD is a government agency created to help make the American dream of homeownership a real possibility for everyone.

Since 1934, HUD's Federal Housing Administration (FHA) has helped millions of Americans unlock the door to homeownership and *have a home of their own*. We do it by making homebuying easier and more affordable. One way we can do this is by selling homes HUD owns in many communities throughout the U.S., 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.

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081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 3

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.

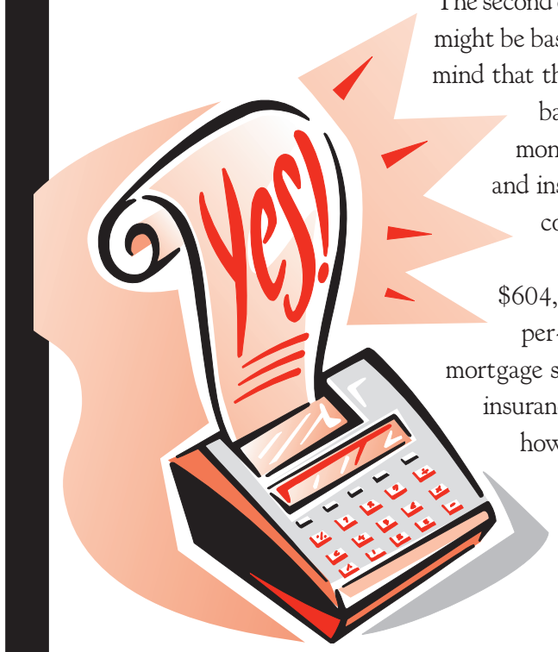
Fortunately, there's a pretty simple formula for coming up with this number. It's the FHA formula that many mortgage lenders use. The FHA has found that most people can afford to budget 29 percent of their gross monthly income to housing expenses, depending on total debt. Buyers with no debt can budget as much as 41 percent 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 percent 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 percent 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 percent 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 Gross Income	Monthly Gross Income	29% of Gross 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 payments for 30-year, fixed rate mortgage.
Monthly taxes, insurance not included.

COST	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
$ 25,000	134	142	150	158	166	175	183	192	201	210	219
$ 30,000	161	170	180	190	200	210	220	231	241	252	263
$ 40,000	215	227	240	253	266	280	293	308	322	336	351
$ 50,000	268	284	300	316	333	350	367	384	402	420	439
$ 60,000	322	341	360	379	399	420	440	461	483	505	527
$ 70,000	376	397	420	442	466	489	514	538	563	589	614
$ 80,000	429	454	480	506	532	559	587	615	644	673	702
$ 90,000	483	511	540	569	599	629	660	692	724	757	790
$ 100,000	537	568	600	632	665	699	734	769	805	841	878
$ 110,000	591	625	660	695	732	769	807	846	885	925	965
$ 120,000	644	681	719	758	798	839	880	923	966	1,009	1,053
$ 130,000	698	738	780	822	865	909	954	1,000	1,046	1,093	1,141
$ 140,000	752	795	839	885	931	979	1,027	1,076	1,126	1,177	1,229
$ 150,000	805	852	899	948	998	1,049	1,101	1,153	1,207	1,261	1,316
$ 160,000	859	908	959	1,011	1,064	1,119	1,174	1,230	1,287	1,345	1,404
$ 170,000	913	965	1,019	1,075	1,131	1,189	1,247	1,307	1,368	1,429	1,492

Source: U.S. Department of Housing and Urban Development: Office of Evaluation

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081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 4

IT'S TIME TO STOP TALKING ABOUT IT AND BEGIN DOING SOMETHING ABOUT IT.

HELP IS AVAILABLE.

You will have lots of questions and countless issues to consider when you buy a home. You'll need someone that can help you through the process. A good real estate agent is a good place to start.

The quality of local schools, neighborhood safety, the number of children in the area, and traffic patterns are just a few of the issues to be considered in shopping for the right home. A real estate professional can be helpful in guiding you to the right source for facts and useful information.

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 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. What's more, your offer is responded to promptly, and if it's accepted, closing on the home usually will occur within 30-60 days.

Finding a HUD-approved selling 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.

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081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 5

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 can 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. HUD Homes are listed in the local multiple listing service (MLS) and on the internet at www.hud.gov. 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 called 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.

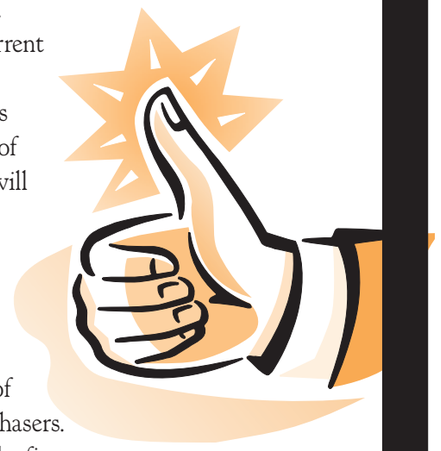
BEGINNING TO MAKE IT YOUR OWN.

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 home inspection. It can also be helpful to find out how long the home has been on the market—if it's been for sale awhile, 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. Your bid will be submitted electronically through a computer, a touch-tone telephone or by real estate broker. 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 if the commission amount is requested as part of the bid.



The initial listing price of each property is HUD's estimate of current fair market value and is based upon an appraisal conducted by an independent real estate appraiser. HUD may accept an offer that is less than the listing price, depending on market conditions and the length of time the property has been on the market. In some instances, buyers will offer more than the listing price if they believe the market conditions demand it or if the home is particularly appealing. It is important for buyers to be aware of the property values established by HUD and submit offers knowingly.

You will generally make your offer for a HUD Home during a designated "Listing Period." With the commencement of the Initial Listing Period, bids may be submitted by all potential purchasers. However, priority will be given to owner-occupant purchasers for the first 10 calendar days as follows: All owner-occupant offers received during the first five days of this10 day period will be considered to have been received simultaneously. On the first business day following the expiration of the five day period, owner-occupant bids are reviewed, at which point the highest acceptable net owner-occupant will be accepted. Should there be no acceptable owner-occupant bids, owner-occupant bids will be reviewed on a daily basis for the remaining five days. At each such daily review, HUD will accept the highest acceptable net owner-occupant bid. At the conclusion of the 10-day owner-occupant priority period, should the property remain unsold, a review of all general public bids (e.g. investor) received during the 10 day period will be conducted.

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.

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081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 6

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 obtain financing through a bank or mortgage lender. Since many HUD Homes are eligible for FHA-insured mortgage loans, this can make 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 percent to 20 percent 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 a low down payment. 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.

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081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 7

HUD BRINGS 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. The typical downpayment is three percent and family members may give a gift to make up the balance of the downpayment.

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 percent or 4 percent of the price of your home, depending on where you purchase it. But when you buy a HUD Home, these costs may be picked up by HUD – if this incentive is offered by HUD and if they are specifically requested, by dollar amount, in the bid offering. If you buy a HUD Home, HUD may pay many of your usual and customary closing expenses plus real estate sales commissions. 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.

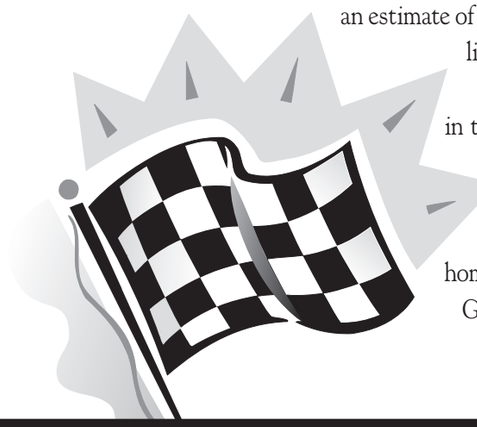
CHECKING IT OUT BEFORE YOU CHECK IN.

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!

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081209.02rev_ HUD Home Buying Guide:GOV HUC C1 1175 3 11/18/09 2:58 PM Page 8

QUESTIONS AND ANSWERS ABOUT HUD HOMES.

What is a HUD Home?
A HUD Home may be a single-family house, a townhome, 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 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 (see page 3).

How does HUD decide how much to charge for a HUD Home?
The listing price of a HUD property is a price based on the appraised value.

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. HUD Homes are listed for sale in the local multiple listing service (MLS), the Internet at www.hud.gov or ask your broker.

A WORD ABOUT LEAD-BASED PAINT.

HUD and the Environmental Protection Agency (EPA) have begun a nationwide effort to alert home buyers to the risk that older homes may contain lead-based paint. Lead exposure can be harmful to young children. If you are making an offer on a home constructed prior to 1978, you should receive a copy of the EPA pamphlet "Protect Your Family from Lead in Your Home" from your broker. You will be required to submit a lead-based paint addendum with your offer on the HUD Home. You will be given the opportunity to conduct a risk assessment or lead-based paint inspection (at your own expense) prior to being obligated under the contract.

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 percent -4 percent of the loan amount. If you're buying a HUD Home, you can request they be paid by HUD, if the sales incentive is offered.*

Contingency. *A condition put on an offer to buy a home; such as the prospective buyer making an offer contingent on his or her sale 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 percent - 20 percent down payment. (HUD 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 or 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 allows for a lower down payment than required by most lenders.*

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 percent of the purchase price, for example on an FHA-insured loan.*

Point. *An amount equal to one percent 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.)*

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