



Lender Q&A



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1.0 Introduction

This Lender Q&A, presented by BLB Resources, Inc. (DBA BLB Resources), is intended to answer frequently asked questions by lenders concerning U.S. Department of Housing and Urban Development (HUD) Real Estate Owned (REO) Homes. This document provides general information regarding:

- The definition of a HUD Home
- The selling process of HUD homes, and
- The lending process for HUD homes.

Information contained herein applies to HUD Homes in all contract areas managed by BLB Resources, and is subject to periodic review and change.

1.1 Who is BLB Resources, Inc.?

BLB Resources is a woman-owned small business, with its corporate office in Irvine, California. BLB Resources' principals, Rod and Susie Gaston, each have over 28 years of successful HUD REO sales and marketing experience, with over 5,600 personal HUD Home sales, and have overseen more than **102,000 HUD Home listings** and 10,000 Bank Owned listings.

This depth of experience and knowledge enables us to better understand your HUD selling opportunities and challenges. We care about your success, appreciate your business, and strive to simplify the HUD Home buying process. Let us know what we can do to better serve you by contacting us at csrdept@blbresources.com.

HUD awarded BLB Resources three separate contracts to provide Asset Management (AM) services for HUD Homes throughout the country, in the following areas:

- 1P: Michigan
- 1S: Arizona, Nevada, and Idaho
- 2S: California, Oregon, Washington, Alaska, Hawaii, Guam, Northern Mariana Islands and American Samoa

1.2 What is a HUD home?

A home that has gone into mortgage default with a loan that is insured by the Federal Housing Administration (FHA) is referred to as a HUD Home. When this occurs, the lender takes possession of the property and conveys ownership to HUD. HUD then sells the home through their Asset Management (AM) contractor, such as BLB Resources. A HUD Home may be a single-family house, townhouse, condominium, mobile home or a multiple family attached home up to 4 units.

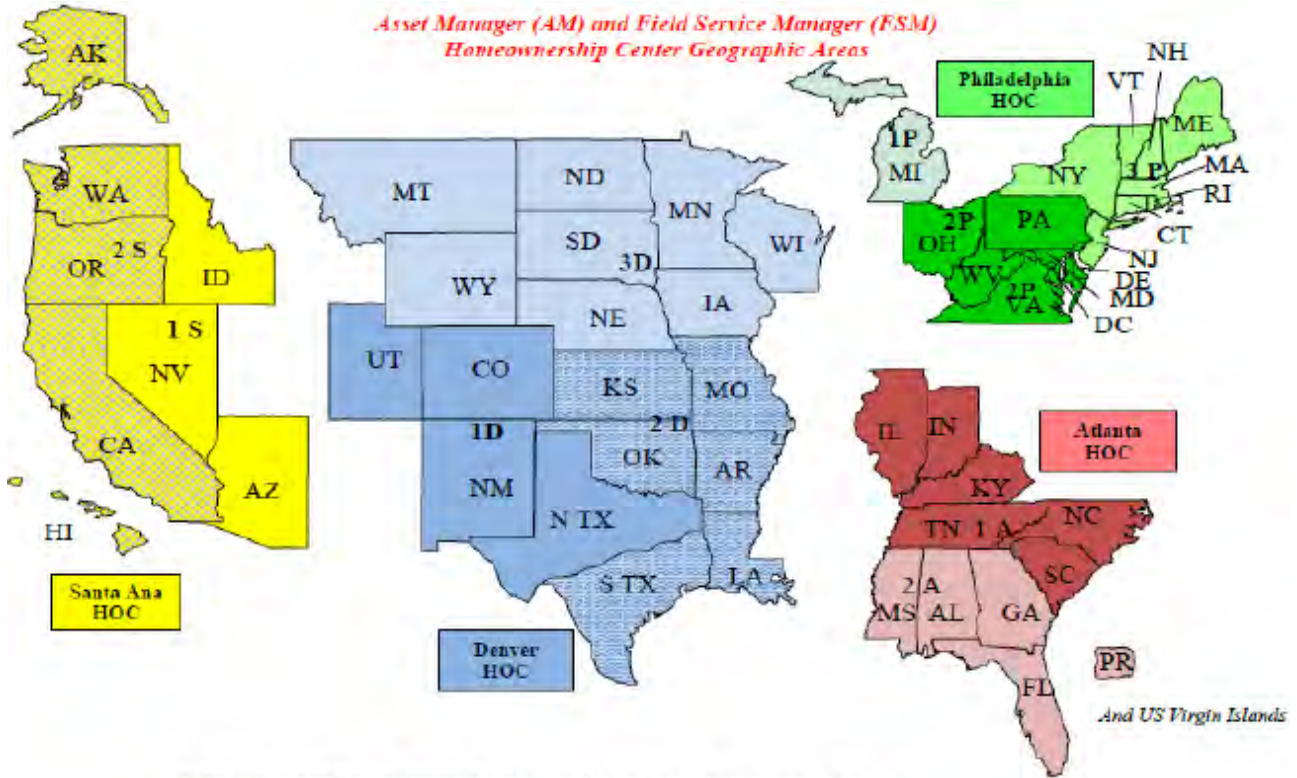


1.3 BLB Resources handles the marketing and sale of HUD Homes. Who handles the property preservation and protection services?

Field Service Managers (FSM) are companies that provide property preservation and protection services consisting of, but not limited to, inspecting and securing the property, performing cosmetic enhancements/repairs, and providing ongoing maintenance. Each HUD Home is assigned to one FSM, and there are multiple FSMs in each contract area. If you are looking for FSM contact information for a particular property, please locate that property at www.HUDHomestore.com, then click on the "Agent Info" tab.

The following map shows the location of BLB Resources' 1S, 2S, and 1P HUD AM contract areas, and the subsequent table highlights these contracts and the corresponding FSM Contractors.

**Asset Manager (AM) and Field Service Manager (FSM)
Homeownership Center Geographic Areas**



HI*** Consists of Hawaii, Guam, the Northern Mariana Islands, and American Samoa

| Color Code | Area | States | AM Contractors | FSM Contractors |
|----------------------------|---------|--------------------------------|---|--|
| Yellow | Area 1S | AZ, ID, NV | • BLB Resources | • First Preston • SIGMA Construction |
| Yellow with dots | Area 2S | AK, CA, HI, OR, WA | • BLB Resources • PEMCO | • Asset Management Specialists • Cityside Management |
| Blue | Area 1D | CO, NM, No. TX, UT | • HomeTelos • Matt Martin Real Estate • PEMCO | • Asset Management Specialist • SIGMA Construction |
| Blue with wavy lines | Area 2D | AR, KS, LA, MO, OK, So. TX | • HomeTelos • Matt Martin Real Estate • PEMCO | • A2Z Field Services • Asset Management Specialists • Cityside Management |
| Blue with horizontal lines | Area 3D | IA, MN, MT, ND, NE, SD, WY, WI | • BestAssets | • Asset Management Specialists • First Preston |
| Green with dots | Area 1P | Michigan | • BLB Resources • Cityside/HHN | • Asset Management Specialists • A-Sons Construction • IEL-Tidewater • SIGMA Construction |
| Green | Area 2P | DC, DE, MD, OH, PA, VA, WV | • HomeTelos • Matt Martin Real Estate • Ofori | • A2Z Field Services • Cityside Management • Innotion Enterprises |
| Light Green | Area 3P | CT, MA, ME, NH, NJ, NY, RI, VT | • Cityside/HHN • Ofori | • Asset Management Specialists • A-Sons Construction • Cooper-CitiWest |
| Red | Area 1A | IL, IN, KY, NC, SC, TN | • HomeTelos • Ofori • PEMCO | • A2Z Field Services • Asset Management Specialists • Cityside Management • Cooper-CitiWest • Innotion Enterprises |
| Light Red | Area 2A | AL, FL, GA, MS, PR, VI | • HomeTelos • Ofori • PEMCO | • Cityside Management • Cooper-CitiWest • CWIS LLC • Innotion Enterprises • PK Management Group |



1.4 Who can purchase a HUD Home?

HUD Homes may be purchased by any individual, company, HUD-approved non-profit organization, or government entity that can secure financing or pay cash for the property. Interested buyers must submit bids through a HUD-registered real estate agent. A pre-qualification letter from a lender is required for buyers obtaining financing. Cash buyers are required to provide proof of funds for at least the amount of the purchase price. HUD will award the winning bid to the purchaser with the highest acceptable net to HUD. Up to 3 back-up offers may be selected as well. Back-up offers will be honored until the property closes. Winning bids are subject to completion and receipt of all required documentation by BLB Resources.

1.5 What is an Owner Occupant?

An owner occupant purchaser is a person who plans to live in the property as their primary residence for at least 1 year, and has not purchased another HUD Home as an owner occupant within the past 2 years.

1.6 What is an Investor?

An investor purchaser is someone who buys the property as a second home or as an investment, or who does not qualify as an owner occupant.

1.7 May more than one bid be submitted?

A buyer (Owner Occupant or Investor) may submit bids on as many properties as they choose, but can only submit **one** bid per property. Please note that an Owner Occupant purchaser can only be awarded **one** Owner Occupant bid, therefore if one award is made, any other Owner Occupant bids by that purchaser would be disqualified. Contrary to this, Investors can be awarded **multiple** Investor bids, provided they can prove adequate financing or pay cash.

For clarification purposes of this process, bids are submitted during the open bidding time period, and the last day of that period is the deadline. The following day is called the "bid opening date," and on that day BLB Resources selects and awards the bid that is in the best interest of HUD.

Prior to the bid deadline, a bid may be modified or canceled by the agent. After the bid opening date, the bid cannot be modified, but the agent can cancel it and then submit a new bid if the property is relisted.

1.8 Will HUD pay for any closing costs and the selling agent's commission?

HUD will pay up to 3% of the purchase price in closing costs that are considered to be reasonable and customary in the jurisdiction where the property is located. Closing



costs should be entered on Line 5 of the Sales Contract. HUD will pay the lesser of the amount requested on either Line 5, or the actual closing costs. Any funds remaining after the allowable closing costs have been paid will not be credited to the buyer at closing. Review the “Forfeiture and Extension Policy” addendum to the sales contract package for the list of closing costs that will be paid by HUD.

HUD also allows, and will pay, up to 3% of the purchase price (or \$1,250, whichever is greater) for the selling agent’s commission, which should be entered on Line 6a of the Sales Contract. Line 6b denotes the Local Listing Broker’s commission, which is 3% of the purchase price or \$1,250, whichever is greater.

Note that higher closing costs and commissions will reduce the net to HUD, and may affect the competitive bidding ratio. Only the selling agent may choose to reduce his/her commission; the LLB commission may not be reduced.

HUD does not pay any closing costs or commissions on Good Neighbor Next Door (GNND) properties. Please note that even though GNND participants are required to utilize a real estate agent to submit their bids, HUD will not pay the selling agent commission; however, if FHA financing is used, the purchaser may add closing costs and commissions to their loan.

1.9 When can the buyer get a home inspection done?

All HUD Homes are sold “As Is.” HUD does not make any repairs to the property. Therefore it is important that the buyer do a visual inspection of the property prior to submitting a bid. The buyer is also encouraged to have a professional home inspection performed with the utilities activated, **AFTER** the contract has been accepted and signed by HUD. The buyer has a 15 day period after contract ratification to activate utilities and complete the home inspection. All inspections, tests, and risk assessments are performed at the purchaser’s expense. Please note that the buyer must request permission to activate the utilities with the FSM assigned to the property, which may require an additional fee from the buyer to the FSM. Please also be advised that the utility activation deposit may be non-refundable.



2.0 Important Information about HUD Homes

2.1 HUD's "As Is" Policy

HUD Homes are sold in "As Is" condition, and without warranty. BLB Resources and HUD make no representation or warranties, expressed or implied, concerning the condition of the property, and will not make repairs to the property. Since the new owner will be responsible for making any needed repairs, HUD strongly urges every potential homebuyer to get a professional inspection. As stated in paragraph 1.9, purchasers have 15 days from the date the contract is accepted by HUD to conduct an inspection. All inspections, tests, and risk assessments are performed at the purchaser's expense.

2.2 Occupancy, Repairs, or Improvements Prior to Closing

The following activities are strictly prohibited and will be grounds for cancellation of an accepted bid/contract, including forfeiture of the earnest deposit in favor of the Seller:

1. Any work performed on the property prior to close of escrow except for those repairs to be performed by Seller, as expressly provided for in the applicable Purchase Agreement, and only if approved in writing in advance by BLB Resources. At a minimum, this includes all repairs, improvements, lock changes, and landscape modifications, including such activity as planting trees or plants.
2. Depositing personal property in the home, yard, garage, or anywhere on the property prior to close of escrow.
3. Parking vehicles in the driveway, garage, or anywhere on the property prior to close of escrow.

Under no circumstances may buyers occupy the property prior to closing of escrow and notification of the deed recording.

3.0 Financing Types

HUD Homes may always be purchased using cash, conventional, or other special financing. However, FHA offers financing options that are tailored to HUD Homes. There are many variables that are taken into consideration when the disposition of a property is created. The condition of the property as reflected in the FHA-approved appraisal and the Property Condition Report (PCR) weigh heavily in determining its insurability. Once the disposition of the property has been established, the property is initially listed at the as-is appraised value and will reflect the financing acronym that is appropriate. It is vital that real estate agents and lenders have a clear understanding of the FHA financing types, and the corresponding acronyms.

3.1 (IN) Insurable, FHA 203(b)

Properties listed as Insurable (IN) qualify for FHA 203(b) financing. This disposition represents properties that do not have obvious Minimum Property Standard (MPS) repairs. Please note that properties with MPS repairs totaling \$250 or less will be listed as IN and will not include those MPS repairs.

3.2 (IE) Insurable with Escrow, FHA 203(b) with Repair Escrow

Properties listed as Insurable with Escrow (IE) qualify for FHA 203(b) with Repair Escrow. This disposition represents properties that have MPS repairs which must be addressed post closing. The MPS repairs cannot total more than \$5,000, except in cases where the 10% contingency causes the increase in escrow, and is the financial responsibility of the buyer.

The repair escrow is never a credit to the buyer. The purchaser must finance the repair escrow with the lender writing the FHA loan. The lender holds the money for repairs in an escrow account until they are completed. FHA allows up to 90 days after closing for MPS repairs to be completed. Once the repairs have been completed for the property, the lender will inspect the contractor's work and disburse the funds to the appropriate parties.

The repair escrow only applies to FHA 203(b) financing. The repair escrow does not apply to financing outside of 203(b) or to cash purchases.

3.3 (UI) Uninsurable

Properties listed as Uninsurable (UI) do not qualify for FHA 203(b) financing. Typically, these properties have MPS repairs exceeding \$5,000 or may not meet the guidelines for FHA financing for other reasons.

Non-FHA financing and cash purchases are most often used for properties with the disposition of UI.



3.4 (UK) Uninsurable – 203(k) Eligible

Properties listed as Uninsurable – 203(k) Eligible (UK) also do not qualify for FHA 203(b) financing. However, these properties may qualify for FHA 203(k) financing. The 203(k) option is a rehabilitation loan for owner-occupants only. Most lenders offer both the standard FHA 203(k) and the 203(k) streamlined loan.

3.5 Over-Bidding with FHA Financing and 2nd Appraisals

If a buyer is securing FHA financing, their lender will be **required** to use HUD's FHA "As-Is" Appraisal, unless HUD's Appraisal is over 4 months old at the time of contract acceptance. A second appraisal may not be ordered to facilitate support of a higher purchase price. In the event the appraisal is over 4 months old at the time of Acceptance, the buyer will be required to obtain a new FHA "As-Is" appraisal at the buyer's expense. If a buyer's bid is accepted, and their bid amount is in excess of the HUD appraised value, **the purchaser must pay the difference between the bid amount and the appraised value in cash**. FHA will not approve a loan amount that is greater than the appraised value of the property.

If a buyer is securing a loan that does not involve FHA financing, then the buyer's lender will always order a new appraisal on the property at the buyer's expense, regardless of whether they overbid the property or not.

4.0 Appraisal Questions

4.1 What is the validity period for a HUD REO FHA appraisal?

The Asset Manager may utilize the appraisal for up to 180 days.

4.2 What do we do if the appraisal is due to expire before we are able to close?

While the loan is still valid, the lender can extend the validity period of the appraisal for up to 30 days in order to close. Please reference HUD Handbook 4155.2, Chapter 4, page 18.

4.3 Per Mortgagee Letter 10-08, HUD REO appraisals are only valid for 4 months, but BLB Resources states 6 months. What is the difference?

For Asset Manager purposes, the appraisal is valid for 6 months, but if the lender states that they cannot use it after 4 months plus the 30 day extension, then the buyer will be responsible for obtaining a new appraisal at their expense.

4.4 What if the new appraisal comes in at a lower appraised value than the purchase price?

HUD will not lower the price. The buyer must come up with the difference in cash, or terminate the transaction.

4.5 We are using FHA financing but would like to obtain our own appraisal. Can we do this?

No. If the HUD appraisal is still in good standing, then it must be used in the transaction.

4.6 We would like to request corrections to the appraisal. To whom do we send these?

Please send any requests for appraisal corrections to the Appraisal Department of your contract area, shown as follows:

- Requests for properties in Michigan:
1Pappraisalrequests@blbresources.com
- Requests for properties in Arizona, Nevada and Idaho:
1Sappraisalrequests@blbresources.com
- Requests for properties in California, Oregon, Washington, Alaska, Hawaii, Guam, American Samoa and the Northern Mariana Islands:
2Sappraisalrequests@blbresources.com

5.0 Repair Questions

5.1 The repair amount on the appraisal differs from the escrow amount that was listed on the addendum to the listing. Why?

BLB Resources will only list Minimum Property Requirements (MPR) items on the addendum for the repair escrow. Cosmetic repairs or other items to bring the property to average condition will not be included.

5.2 What are MPR repairs?

MPR repairs are repairs for any items that affect the safety, security or soundness of the property. Please refer to HUD Handbook 4150.2, Appendix D, as well as Mortgagee Letter 05-48 for further detail.

5.3 We found other repairs during our home inspection that the lender would like included in the escrow. Will these be added to the appraisal?

No. Per Handbook 4150.2, the lender does have final say on what is included in the repair escrow. BLB Resources would require submission of our “Request to Change Financing Type” form, found in the forms section on our website, www.blbresources.com, to increase the repair escrow, along with supporting documentation, for review and approval. This is also the correct procedure if the property was listed as insurable with no repairs.

5.4 Our repair estimate for the items listed as MPR differ from the appraiser’s estimate. How do we proceed?

Please complete the “Request to Change Financing Type” form, and include bids for the repair items as supporting documentation.

5.5 The underwriter is requiring certain repairs be completed prior to close of escrow. How do we handle this?

Please note that all HUD Homes are sold “As Is” and no repairs may be done at any time prior to close of escrow. If the transaction cannot close due to this issue, please submit a “Cancellation Request” form, along with a lender denial letter as supporting documentation.

If BLB Resources discovers that repairs were completed prior to close of escrow, it can be grounds for termination of the transaction.



5.6 The underwriter is requiring the pool to be filled and tested prior to close of escrow. Can we complete this inspection?

No, pools are not to be filled at any time. HUD REO properties do not require pools to be filled, which differs from front-end FHA transactions. Pools are also not required to be covered as long as there is a secure fence surrounding the backyard. HUD directive states that the lender is to obtain an “as is” statement from the buyer accepting the pool in “as is” condition.

If the underwriter will not accept this method, the transaction must be cancelled. Please submit a “Cancellation Request” form, along with a lender denial letter as supporting documentation.

Please note that if BLB Resources discovers that the pool has been filled, it is grounds for cancellation of the transaction.



6.0 Inspection Questions

6.1 Will the Seller provide a copy of the Property Condition Report (PCR)?

Yes, a copy of the PCR has already been posted on www.HUDHomestore.com. Please click on the “Addendums” tab on the Property Details, then click the “PCR” link.

6.2 Will the Seller provide a termite inspection?

Yes. BLB Resources will order a termite inspection from the FSM at contract ratification if the property meets the following requirements:

1. Property must be located in an area where Wood Destroying Organism (WDO) inspections are mandated by state or local jurisdictions.
2. The property is being sold with FHA mortgage insurance and the property is located in an FHA designated Termite Probability Zone. More information on these zones can be found at: <http://www.hud.gov/offices/hsg/sfh/ref/sfh-23a.cfm>.

6.3 Will HUD complete the termite clearance?

Yes, the FSM will issue the clearance work order upon receipt of a completed inspection showing active infestation. All Section 1 items will be treated.

6.4 If a termite inspection is required, can the buyer close without it, or include it in the escrow holdback?

No, if a termite inspection/clearance is required, it must be completed prior to close of escrow. This cannot be included in the escrow holdback. There will be no exceptions.

6.5 Will HUD provide a Lead Based Paint (LBP) Inspection for homes built prior to 1978?

LBP inspections will only be provided if FHA insured financing is being used. This includes 203b, 203b repair escrow and 203k financing types. If the purchaser is paying cash or obtaining non-FHA insured financing (convention, VA, Rural Development, etc.), a LBP inspection will not be provided.

6.6 If the inspection reveals LBP that needs to be stabilized, will HUD pay for the stabilization?

HUD will pay for the LBP stabilization and clearance, not to exceed \$4,000.



6.7 How do we proceed if the stabilization costs exceed \$4,000?

The buyer has two options:

1. Cancel the transaction and receive a full EMD refund, or
2. Proceed with 203k financing and include the stabilization costs in the rehab costs. If the buyer is using 203b or 203b repair escrow financing, the buyer will need to submit a Request to Change Financing Type, changing to 203k financing.
 - a. Please note that if purchaser is using 203k financing and stabilization costs exceed \$4,000, HUD will credit **up to** \$4,000 to the buyer at closing.

6.8 If an LBP inspection/clearance is required, can the buyer close without it, or include it in the escrow holdback?

No, if an LBP inspection/clearance is required, it must be completed prior to close of escrow. This cannot be included in the escrow holdback. There will be no exceptions.



7.0 Condo Questions

7.1 The condo is not on the approved list even though BLB Resources listed it as Insured. How is this possible?

Per Mortgagee Letter 09-19, HUD REO condos no longer require approval.

7.2 The occupancy rate is below 51% Owner Occupied. How do we proceed?

Since the condo no longer requires approval, the occupancy rate does not matter. The condo may still use FHA financing.



8.0 FHA Connection Questions

8.1 We are obtaining a new FHA loan and need a new case number. How do we proceed?

Please log into FHA Connection to request a new case number for the new FHA loan.

8.2 The case number that BLB Resources provided is missing the last digit. I cannot assign the new case number without it. How do I obtain the missing digit?

The last digit is dropped off the number for security purposes as it belongs to the previous sale. BLB Resources does not have access to the last digit. However, we recommend trying numbers 0-9 or the letter X. One of those entries will work.



9.0 Conclusion

We hope that this handbook has provided answers to the most commonly asked questions regarding HUD Homes and the lending process. If you have any additional questions, please contact our office. We are available to assist you Monday through Friday 7:00 a.m. – 6:00 p.m. PST (closed on Federal Holidays):

For properties in AK, AZ, CA, HI, ID, NV, OR and WA, please contact:

BLB Resources, Inc.
16845 Von Karman Avenue, Suite 100
Irvine, CA 92606
Phone: (800) 960-2526
www.blbresources.com

For properties in Michigan, please contact:

BLB Resources, Inc.
400 Galleria Officentre, Suite 212
Southfield, MI 48034
Phone: (877) 877-5822
www.blbresources.com

We appreciate your business. Best of success with your transaction.