

Dollars for distressed homes

By LYNN UNDERWOOD, Star Tribune

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Plenty of home buyers are sold on a home because they love the kitchen. Jeanna Sabers wanted to buy a home because it didn't have one. Last summer, Sabers purchased an almost 100-year-old fixer-upper in south Minneapolis. The vacant, bank-owned property needed a host of repairs -- and a kitchen. All that was left in what was once the kitchen was a sink and a cabinet. With the help of an FHA Streamlined 203(k) rehab loan, she bought the foreclosed house at a low price and obtained a mortgage and fix-up money rolled into one loan with one monthly payment.

Sabers paid \$107,000 for the two-bedroom house, which had previously sold for \$169,850 in 2003, and added in \$10,000 to pay for improvements. But there was a catch: To meet the rehab loan requirements, Sabers had to hire a licensed contractor and bring the home up to FHA standards within six months.

Two months later, Sabers had a new sunflower-yellow kitchen with white enameled cupboards, black laminate countertops, new appliances and refinished hardwood floors. There were new light fixtures throughout the house and the basement boasted a new washer and dryer, which were also missing when Sabers closed. Her house now has an appraised value of \$135,000.

"With the loan I got a finished kitchen the way I want it," said Sabers of her first home. "And it helped me budget my house payment."

Popular tool

The FHA-backed Streamlined 203(k) rehab loan is a hot home-buying tool in today's market. That's because there's a large number of foreclosed and short-sale houses that can't pass property inspections or meet mortgage financing standards. The banks that now own the houses aren't in the business of repairing homes, many of which are damaged or stripped. So it's up to new homeowners to make them safe, comfortable and energy-efficient.

"It's one of the few games in town for buyers to get financing to fix up a lot of bank-owned, foreclosed properties," said Randy Cullen, branch manager at Fairway Independent Mortgage in Bloomington, who handled Sabers' loan. "FHA provides a low down payment option coupled with renovation dollars all rolled up into one loan at a competitive interest rate."

With money from the Streamlined 203(k) rehab loan, new homeowners can carry out improvements such as a new roof, appliances, furnace, carpet, cabinets and energy-efficient windows. Typically they can borrow up to \$35,000 and have up to six months to get the work done. However, if they need to do more complex major renovations or foundation repairs, they have to apply for a standard 203(k) loan, which offers higher loan amounts.

First-time home buyers, who are driving the majority of home sales, are snapping up the