

THDA First Time Homebuyers: REO Rehabilitation Program

Tennessee Housing Development Agency
Homeownership: Empowering New Buyers

HFA Staff Contact

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Brief Description

Background

THDA has participated in the FHA CWCOT (Claims Without Conveyance of Title) foreclosure auction program since 2016. If staff were unable to complete a home retention option for a THDA homeowner facing financial hardship, the property would be taken to a public foreclosure auction. The properties that do not sell at the public foreclosure auction revert back to THDA and become a Real Estate Owned (REO) property. In the FHA CWCOT program, the REO properties continue to be listed at auction during the eviction and conveyance timeframe, this is called Second Chance Auction. An analysis conducted of THDA's 2021 sales determined 100% of our second chance auction properties were sold to investors. During this same period, staff was searching for opportunities to increase the inventory of homes for first time home buyers in Tennessee. In 2021, the Tennessee single-family inventory was at a drastic low point and housing prices were up 18.7% from the prior year. In 2022, Tennessee home sale prices increased again with a median home sale price of \$325,000. The prices continue to increase with January 2024 median home sale price reaching a new high of \$364,700 in Tennessee.

While FHA took a positive step in mid-2022 to build in an initial 30 day owner occupant bidding timeline into the CWCOT auction, the auction process is still a difficult process for a first time home buyer. Homes sold in a CWCOT auction are sold as-is, with no seller closing cost assistance, are often still occupied by the previous owner and need to go through the courts for eviction after purchasing the home. The homes in the CWCOT program are often neglected as the prior home owner was unable to afford the needed upkeep prior to foreclosure.

Program Description

In January 2022, the servicing team received executive staff approval to launch the THDA REO Rehabilitation and Sales Program. All properties that complete foreclosure and revert back to THDA, undergo an REO Repair analysis instead of following the CWCOT to conveyance path. Staff utilize a Tennessee owed property preservation company to provide a full rehabilitation bid to include new flooring, new appliances, remediate mold and wood rot, paint, safety repairs, new or serviced HVAC unit and water heater, roof and foundation repairs. Local community Real Estate Agents are utilized across the state to provide a repaired Broker's Price Opinion (BPO). No corners are cut to ensure that a safe, sound and fully functioning home is provided to the buyers.

Following completion of the repairs, staff does an analysis to determine the listing price. Using the total debt, including holding costs, and the repaired BPO, an affordable listing price is set. The local community Real Estate Agent lists the property on the MLS (Multiple Listing Service) and includes two contract addendums, a First Time Homebuyer Attestation and an Owner Occupant Attestation. In order for an offer to be reviewed in the first 30 days of the listing period, the offer must include both attestations. After 30 days, staff will review offers only containing the Owner Occupant Attestation. Buyers are encouraged to have an inspection completed, and THDA is agreeable to inspection finding repair requests. All properties that have sold through the REO Rehabilitation program have sold to First Time, Owner Occupant Homebuyers.

The initial funding of the program for the upfront repair and holding costs came from the servicing income generated through late fees and loss mitigation incentives. In 2023, the loss mitigation incentive

income was \$758,000 with an average of \$50,000 per month in late fee collection. THDA is now able to generate income through the program to recycle into the next home repairs. Due to the extensive repair and updates needed in the REO homes, the average repair cost per home is \$50,000. In comparison, if a first time home buyer were to purchase the home at auction they would need to invest \$50,000 in repairs and updates to bring the home to neighborhood quality standards. The REO Rehabilitation Program is **mission driven** and not income driven, so as the home is priced to sell the profit margin is not the key driver. Properties are fully repaired with quality products to ensure a safe home that will not need additional costly repairs in the first few years of homeownership. If the total debt supports a lower listing price than the suggested listing price provided by the local Real Estate Agent, we will list the property below market value.

Success in the Marketplace

The first home sale in the program closed on July 7, 2022 to a Veteran and his family that had been living in a hotel while trying to purchase their first home. After failed offer attempts on other homes, the THDA REO home was fully repaired and updated and listed on the MLS. They won a bidding war with other first-time homebuyers. The difference this time was that the THDA listing was more affordable and the buyer did not have to compete with cash in hand investors. The family used a VA loan with no closing costs to purchase the home and start their homeownership journey.

In total, 30 homes have been repaired and sold to First Time Homebuyers with an average sales price of under \$200,000. In 2023, twelve properties were sold. The first quarter of 2024, seven more properties closed through the THDA REO Rehabilitation and Sales Program to First Time Homebuyers. After repair costs, closing cost assistance, Real Estate commissions, holding costs, and the foreclosure total debt THDA earned \$23,686 of additional income from the program sales in 2023 to recycle into the program for the next property's repairs.

The focus remains with keeping THDA homeowners in their home. If the homeowner does not wish to proceed with a home retention option to cure their delinquency and staff have to proceed to foreclosure, turning that foreclosed property into a safe and sound affordable home is the intent of the program.

THDA encourages other Housing Agencies to complete a full REO Rehabilitation analysis prior to proceeding to the FHA CWCOT auction process and conveyance, or selling Rural Housing or Conventional REOs as-is. Keeping the home in REO for repairs provides the neighborhood with additional stability knowing the home will be quickly repaired and sold to an owner occupant. It also allows for the added requirement to sell to a first time homeowner. Utilize property in the REO portfolio to increase the affordable housing inventory for first time buyers in your state.

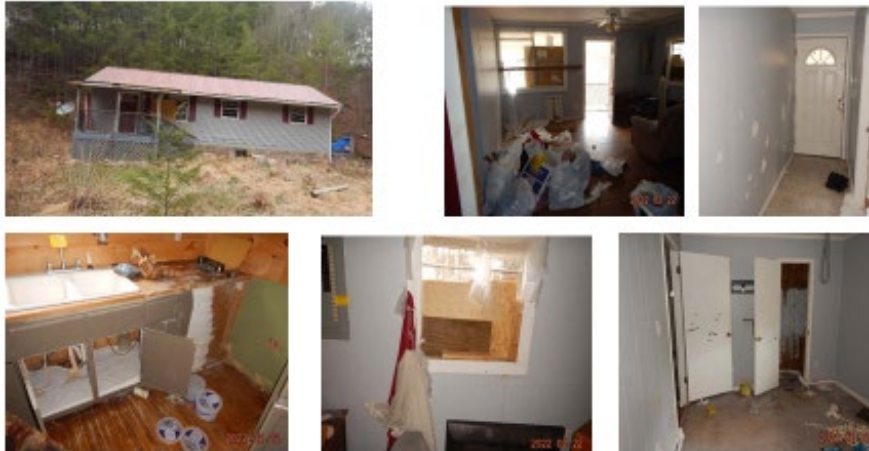
Visual Aids



Tellico Plains, TN: BEFORE



- Debris filled yard & home; multiple broken and boarded windows; damaged walls throughout; missing appliances; stained countertops and cabinets; old worn carpet.



Tellico Plains, TN: AFTER



- Listing Price \$205,000
- Repaired & painted decking; new flooring; painted kitchen cabinets; new bathroom



Realtor Remarks: Private, secluded and peaceful, this home is located on 3.86 acres in the beautiful town of Tellico Plains, just minutes to The [Cherokee Skyway](#), The Cherokee National Forest, and The Foothills of the Smoky Mountains. A waterfall can be heard from the front porch. Extra parking space large enough for a camper or RV, or other vehicles. The home has new carpet in the bedrooms, hall and living room. The kitchen and bathrooms have new linoleum flooring. Minutes from the Tellico River! Don't miss this opportunity.

Kingsport, TN: BEFORE



Unfinished dangerous deck; mold; stained and damaged flooring; dark chipped paint; holes in walls; debris filled yard; missing kitchen drawers



Kingsport, TN: AFTER



- Painted and repaired deck; finished out back deck; all new kitchen; all new bathroom; new flooring, new lights; light paint throughout
- Listing Price \$126,000



Powell, TN: BEFORE



- Missing flooring; plumbing issues; rotten wood; missing insulation; roof & gutter damage; old water heater



Powell, TN: AFTER



- List Price: \$256,500
- Exterior & interior paint; new flooring; replaced all rotted wood including porch flooring & roofing; new water heater, new window screens



CHARLESTON, TN: BEFORE



- Debris filled yard & home; multiple broken and boarded windows; damaged walls throughout; missing appliances; stained countertops and cabinets; old worn carpet.



CHARLESTON, TN: AFTER



- Listing Price \$130,000 SALE PRICE \$156,000
- Repaired & painted decking; new flooring; new kitchen cabinets; new bathroom



Realtor Remarks: 4 BD, 2 BATH DOUBLE WIDE ON A PERMANENT FOUNDATION. GREAT CONDITION. NEW APPLIANCES, NEW HVAC, NEW HOT WATER HEATER, FRESH PAINT. MINUTES FROM CHARLESTON CITY LIMITS AND INTERSTATE 75.