



SUCCESS STORY
The Hernandezes (inset) and their new home.

Foreclosure Finesse

What it takes to buy and renovate a foreclosed home.

by LAURIE A. SZPOT

When Alex and Yamilka Hernandez started house-hunting in March 2009, they didn't set out to buy a foreclosed home. Their goal, like most, was to find something that fit their budget.

But after looking at several houses and having one offer fall through, a foreclosure fit the bill. With guidance and funding from the Milwaukee Homeownership Consortium through the city of Milwaukee's NSP Homebuyer Assistance Program and U.S. Bank, the newlyweds bought a four-bedroom, 2.5-bath, 1935 Lannon stone two-story home near the airport for \$140,000.

Buying a foreclosure – especially for first-time homebuyers like the Hernandezes – has potential pitfalls. Unlike standard sales in which owners must disclose any problems the house may have, you won't get this eye-opener on a foreclosed property, explains Colleen Resendiz, a real estate agent and foreclosure expert with Brendy Realty Inc.

"You're pretty much buying as it is," she says. Meaning buyer beware.

In order to assess the house's overall condition, a home inspection is a must-have for every foreclosure, says Resendiz. And the city's Neighborhood Stabilization Program (NSP) mandates them. The Hernandezes obtained three. On the city's dime, one inspector checked for household hazards and another hunted for structural issues. Additionally, the couple footed the bill for a primary home inspection required for their loan from U.S. Bank.

"For a foreclosure, the house was in very good condition," Yamilka says. Excessive renovations would have been a deal-breaker for the newlyweds. In the end, there were only a few fixes necessary to bring the house up to code. On top of these, the Hernandezes redid the driveway and front steps, spending about \$15,000 total.

Luckily, the couple qualified for \$10,000 from the city, which got \$25 million from the 2009 American Recovery and Reinvestment Act to help address the foreclosure crisis.

To apply, participants must take eight hours of homebuyer counseling and provide an accepted offer on a house as well as preapproval for a loan. Homebuyers must also agree

to live in the house for five years (or 10, depending on the amount of the loan). Moreover, their income level must meet the program's criteria, and the property must fall within mapped NSP areas. But it's worth the effort. If the Hernandezes fulfill the commitment, they won't repay a penny of that \$10,000.

"It's like a second mortgage, but if you meet the covenant of living there for that period of time, it's forgiven," says Suzanne Dennik, foreclosure consultant to the city of Milwaukee. "You never make a payment on the city's loan."

Of course, there are some exceptions to the five- or 10-year requirement, such as job transfer, loss of employment, illness, etc., says Dennik. "The city structured it so that people wouldn't purchase and then turn the property over for profit," she explains. "It's really a part of a longer-term neighborhood stabilization plan."

Buying a foreclosure through the program can take up to three months, but the Hernandezes placed their offer in June and closed by July 30. This was due, in part, to their diligence. They not only fulfilled the program's requirements by getting inspections and contractor bids done promptly but also placed regular calls to check on paperwork. Also, since the house was deemed safe, they could move in before repairs were complete.

"You need to have patience," says Resendiz, who has rehabbed a half-dozen foreclosed homes. "Be prepared for a roller-coaster ride of emotions. It can be long, drawn-out and frustrating."

One thing that enabled the Hernandezes to buy the foreclosure was U.S. Bank's American Dream Program, which offered a low fixed rate of 5.1 percent, no mortgage insurance and required just a 3 percent down payment.

"Sixty to 70 percent of NSP transactions" have been financed by the bank, says Melissa Borino, U.S. Bank's vice president of community affairs. "Milwaukee is one of the top markets for U.S. Bank, and we want to help revitalize the city and offer our products to do that."

The Hernandezes are happy to join that effort – and thrilled with their home. ■

