

Section 1.25 - Properties Purchased at Auction

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Properties Purchased at Auction, Continued

Guideline Summary

- These guidelines apply to any transaction in which the borrower is purchasing a property by auction method, either through an online auction, live on-site auction, or commissioner's sale (foreclosure auction or courthouse steps auction.)
- These guidelines **do not apply to** properties purchased by investment/management companies then resold to the borrower.
- It is imperative that the property sold at auction meet certain criteria in order for SunTrust to purchase the loan.
- Guidelines not addressed in this document will follow the applicable first mortgage program guidelines.
- **Agency Loan Programs**
 - Follow the appraisal requirements outlined in this document for all Agency and Agency Plus transactions.
 - All other guidelines outlined in this document do not apply to Agency and Agency Plus transactions.
- **Government Loan Programs**
 - Follow the applicable first mortgage program guidelines.

Related Bulletins

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- [2018](#)
- [2016](#)

Note: No bulletins were published in 2017.

Properties Purchased at Auction, Continued

Maximum Loan-to-Value

- The auction terms must be included as part of the purchase contract provided to the appraiser for review.
- The underwriter should review the purchase contract to ensure the buyer's premium or auction fee is clearly disclosed and not greater than 10% of the sales price.
- The LTV for auctioned properties must meet the specific first mortgage program requirements.
- For ALL eligible loan programs, if the subject property is located in a declining market, the maximum LTV must be reduced by 5%.

Note: A property shall be deemed to be located in a declining market if either of the following apply:

- The appraiser marked the appraisal report that property values are declining or referenced that values are declining in the appraisal comments, or
 - the [SunTrust Declining Market Index](#) indicates a declining market.
- The LTV is calculated by using the *lesser* of the "Final Purchase Price" or the current appraised value.

Notes:

- The "Final Purchase Price" is the total of the amount of the bid ("Bid Price") PLUS the Buyer's Premium (typically 5-10% of the bid price).
- Any fees paid by the borrower (i.e. commission fees), including the buyer's premium, must be added to the purchase price and reflected on the sales contract for a final purchase price.
- Fees paid by the borrower in addition to the final purchase price are not acceptable.

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Properties Purchased at Auction, Continued

Eligible Transactions

- Eligible for purchase transactions (traditionally underwritten and AUS processed) ONLY.
- At the conclusion of the auction, the borrower pays a percentage (typically 5%) of the final purchase price as earnest money deposit.
- These guidelines only apply to properties purchased by our borrower at auction and is not applicable to properties purchased in bulk by an investment/management company then resold to the borrower.

References:

- See the “Eligible Loan Programs” topic subsequently presented in this document for additional information regarding eligible loan programs.
 - See the applicable first mortgage program product description in the *Correspondent Seller Guide* for additional information regarding AUS eligibility.
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Buyer’s Premium Paid by Seller

- In addition to the commission paid by the Seller to an Auction Company for the sale of their property, a “Buyer’s Premium” may be imposed.
 - The amount of the “Buyer’s Premium” is calculated as a percentage, set by the auction company, of the “Final Bid Price.”
 - The Buyer’s Premium is added to the “Final Bid Price” creating the “Purchase Price” that appears on the sales contract.
 - Because the “Buyer’s Premium” is financed by the Purchaser/Borrower, the amount owed to the Auction Company may be deducted from the proceeds of the sale being paid to the Seller at closing as reflected on the Settlement statement.
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Ineligible Transactions

- Refinance transactions
 - Construction lending (One-time and two-time closings)
 - Rehabilitation lending
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Eligible Loan Programs

Except as outlined below, all SunTrust full documentation first mortgage loan programs are eligible in conjunction with auctioned property transactions.

Notes:

- All transactions involving auctioned properties are subject to SunTrust’s Declining Markets Guidelines.
 - A property shall be deemed to be located in a declining market if either of the following apply:
 - The appraiser marked the appraisal report that property values are declining or referenced that values are declining in the appraisal comments, or
 - the [SunTrust Declining Market Index](#) indicates a declining market.
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Properties Purchased at Auction, Continued

Secondary Financing

Secondary financing is NOT allowed in conjunction with auctioned property transactions.

Eligible Occupancy/Property Types

All eligible occupancy/property types must meet the specific first mortgage program eligibility guidelines. Eligible occupancy/property types in conjunction with auctioned property transactions include:

- Primary residences
- Second Homes
- Investment properties
- Single family dwellings (attached and detached)
- 2-4 unit properties
- PUDs, and
- Condominiums, including condo conversions.
 - Condominiums purchased at auction must meet the following additional requirements:
 - The condominium must be warrantable.

Reference: See [Section 1.06: Condominium and PUD Approval Requirements](#) located under the General Section of the *Correspondent Seller's Guide* for additional information.

- The auction sales price must be at least half of the last known listing price of the subject property.
 - If the Developer is selling the property at auction, the sales contract must contain an adjustment clause that provides for price reduction based on values established at subsequent auctions for all transactions where the loan closing is pending.
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Ineligible Occupancy/Property Type

The following occupancy/property types are ineligible for auctioned property transactions:

- condotels, and
 - cooperatives
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Properties Purchased at Auction, Continued

Appraisal Requirements

The following guidelines apply to properties purchased at auction for ALL eligible loan programs including Agency and Agency Plus.

- Obtain an appraisal per the applicable product description.
- The property must meet the specific first mortgage program guidelines regarding minimum property standards.
- The appraiser must indicate the following conditions of the property:
 - the property must be in livable condition (not subject to extensive renovations or rehabilitation), and
 - utilities must be turned on and functioning.
- The appraiser must notate if any comparables used were sold by the auction method.
- The appraisal should not use ONLY comparables sold by the auction method.
- Mortgage Electronic Registration System (MERS) must be pulled on the subject property within 15 days of closing to verify history of ownership and document lien activity against the subject property.
- If MERS is not pulled within 15 days of closing, it must be pulled again prior to closing with satisfactory results.
- The CoreLogic HistoryPro Report should be closely evaluated to determine market volatility and any trends on the subject property, such as flipping.

UNoteU: In the event of a foreclosure auction, be aware that CoreLogic could potentially fire a "Prior 3 year Sale Gain" indicating an alert of a possible flip within the last three (3) years because the property may have been deeded back to the original mortgage company, then could be deeded to a trustee before the auction takes place. In this situation, the flip alert should be acceptable.

UReferenceU: See [HUSection 1.07 Appraisal Guidelines](#) ^{UH}of the *Correspondent Seller Guide* for additional information concerning property flipping guidelines and general appraisal requirements.

Notes:

- All transactions involving auctioned properties are subject to SunTrust's Declining Markets Guidelines.
- A property shall be deemed to be located in a declining market if either of the following apply:
 - The appraiser marked the appraisal report that property values are declining or referenced that values are declining in the appraisal comments, or
 - the [SunTrust Declining Market Index](#) indicates a declining market.

Cash Reserve Requirements

- The borrower MUST meet the specific first mortgage program reserve requirements following traditional underwriting (non-AUS) guidelines, regardless if the transaction is processed through an AU system.
- Loan programs that are only eligible for AUS processing will follow the cash reserve requirements as evidenced on the AUS findings/feedback.

UReferenceU: See the applicable first mortgage program guidelines for cash reserve requirements.

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Properties Purchased at Auction, Continued

Auction Company Requirements

- The auction company representing the subject property must be licensed, bonded and insured if required by state law.
 - A copy of the auctioneer's license and insurance documentation *must* be included in the loan file.
 - In states where an auctioneer's license is not required, the auction company must meet the licensing requirements for real estate professionals in that state and evidence must be in the file.
 - The auction company may NOT hold any funds in escrow on behalf of the borrower.
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Additional Auction Company Guidelines

- The auction company or auctioneer cannot have ownership interest in the subject property,
 - the seller may not work for the auction company, and
 - the purchase contract must be reviewed and the requirements for all parties must be reasonable and in line with industry standards, including but not limited to:
 - Services rendered and fees charged must be reasonable and standard for the transaction.
 - If it is determined that fees and charges are NOT reasonable and standard, or
 - If the Correspondent Client is not able to determine if the fees and charges are reasonable and standard,
 - The loan must be referred to an Underwriting Manager, for review.
 - If the fees and charges are not reasonable and standard, the loan is not eligible for financing at SunTrust
 - no price guarantee is allowed aside from establishment of a minimum bid or reserve price, and
 - parties named on the contract must match supporting documentation such as the appraisal, title, etc.
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Properties Purchased at Auction, Continued

Documentation Requirements

- In addition to the documentation required by the specific first mortgage program, all auctioned property transaction loan files must contain the following:
 - a full appraisal (i.e., 1004),
 - a copy of the report of sale (Real Estate Purchase Agreement or sales contract),
 - a copy of the title binder,
 - a copy of the warranty deed with full title insurance (short form title policy is NOT acceptable), and

Note: *Bargain and Sale* and *Quit Claim* deeds are NOT acceptable for auctioned property transactions

- a closing protection letter.
 - The title binder must be reviewed by the Correspondent lender PRIOR to closing to ensure all outstanding liens are released.
 - The Correspondent lender must review the Settlement statement in accordance with the Real Estate Purchase Agreement (sales contract) and the final underwriting approval.
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