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October 3, 2014

The Honorable Carol Galante
Assistant Secretary for Housing – Federal Housing Commissioner
US Department of Housing and Urban Development
Washington, DC 20410

Dear Commissioner Galante:

I am writing on behalf of the one million members of the National Association of REALTORS® (NAR) in response to HUD's Office of the Inspector General Report on the Single Family Housing Program property flipping waiver and the Federal Housing Administration's (FHA) plans to reassess the need for the waiver. NAR urges FHA to retain the property flipping waiver.

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

Over the past four years, FHA has provided a waiver of its regulation 24 CFR 203.37a(b)(2) that prohibits the use of FHA financing to purchase single family properties that are being resold within 90 days of the previous acquisition. This waiver, which was first issued in January 2010, was implemented to encourage investors to renovate foreclosed and abandoned homes to increase the availability of affordable homes and stabilize communities that have had high foreclosure activity. NAR has seen the positive effects of the waiver where property rehabilitation and resale of these homes in partnership with legitimate contractors has increased the availability of safe and affordable homes.

The recent HUD Inspector General (IG) report describes a random sampling of loans with a lack of adequate monitoring and oversight of lenders for compliance with the requirements of the waiver. The IG recommends that HUD either discontinue the waiver or strengthen controls over the waiver requirements. NAR strongly recommends that FHA more closely monitor its lenders rather than discontinue the waiver. The IG notes that some of the transactions in the report add risk to the Mutual Mortgage Insurance Fund (MMI Fund); however, none of the eight loans that the IG highlighted as having missing documentation or appraisals are in default or in imminent default. While NAR concurs that it is important that lenders properly document and monitor these loans, it is not clear from the report that the waiver exposes the MMI fund to additional risk.

Reinstating a restriction for properties being resold within 90 days does not provide added protection for the MMI fund. Imposing an arbitrary time period does not improve the property's condition, it just makes for an extended timeline, which increases the cost to the buyer due to increased costs incurred by the entity turning the property around. In many communities, inventory is low and buyers



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are being quickly priced out of the market. Removing the waiver will further compound the problem. Homes that are often appropriate for first-time homebuyers will be eliminated from eligibility and FHA buyers will have significantly less inventory to choose from.

The IG's report suggests that lenders do not fully understand the additional underwriting conditions for 90-day property flips and do not enter accurate information into HUD's system. The report's findings contradict with the feedback I have received from NAR members in the field. Most REALTORS® report that lenders are looking critically at properties that are purchased and resold within a 12-month period, which is more conservative than the 90-day timeframe. Lenders are requiring at least two appraisals, sometimes more, on flipped properties. NAR members believe that the existing lender scrutiny and appraisal requirements on flipped properties protect FHA borrowers from predatory lending practices while balancing the legitimate business concerns of investors. FHA is currently developing and implementing an Electronic Appraisal Delivery (EAD) portal. When fully implemented, the portal will offer mortgagees a system to submit electronic appraisal data to FHA. The FHA EAD portal will bring efficiencies when delivering appraisal reports and data for FHA review and analysis. The EAD could flag any properties that have sold in the previous 90-days and produce an automatic protocol, such as a second appraisal.

The National Association of REALTORS® urges you to retain the property flipping waiver. Our nation's housing market is still recovering. Many communities continue to have high numbers of homes that were damaged or not maintained during the crisis. FHA borrowers should be permitted to purchase these homes, after they have been renovated and repaired, and their current value is well established. Eliminating the waiver at this time will hurt home values and the economic recovery in many areas of our country.

Thank you for your time and consideration of this timely issue. We look forward to working with you. If I may be of any assistance to you, please do not hesitate to contact me or our Regulatory Policy Representative, Sarah Young, at (202) 383-1233 or scyoun@realtors.org.

Sincerely,

A handwritten signature in blue ink that reads "Steve Brown". The signature is fluid and cursive, with a long horizontal line extending from the end.

Steve Brown

2014 President, National Association of REALTORS®

cc: Kathleen A. Zadareky
Deputy Assistant Secretary for Single Family Housing