

September 26, 2014

Kathleen Zadareky  
Deputy Assistant Secretary for Single Family Housing  
U.S. Department of Housing and Urban Development  
451 7th Street, S.W.  
Washington, D.C. 20410

**Re: FHA Single-Family Housing Policy Handbook 203(k) Sections**

Dear Deputy Assistant Secretary Zadareky:

The undersigned associations applaud the Department of Housing and Urban Development (HUD) for its efforts to develop a new comprehensive Federal Housing Administration (FHA) Single-Family Housing Policy Handbook (Handbook) and to seek input during the drafting process to ensure its accuracy and completeness. When it is complete, the Handbook will be the single authoritative source for HUD's single-family policies. We greatly appreciate the effort that HUD has already put into creating the draft Handbook and we look forward to working with HUD to implement the Handbook once it is finalized.

Working together over the past month, with our respective members, we have developed a list of issues and clarifications which HUD should address before releasing the final version of the *203(k) Rehabilitation Mortgage Insurance Program* and *203(k) Consultant* draft sections. The 203(k) program plays an integral role in providing American families access to safe and sustainable financing to renovate older and damaged homes. The 203(k) program also benefits communities nationwide through revitalizing properties that might otherwise continue to deteriorate.

Each association has submitted or will submit its feedback on these sections through the appropriate channel established by FHA. We also appreciate the changes that FHA made in the draft Handbook to clarify that the 203(k) program may be used for certain flood mitigation projects. As we describe below, we urge FHA to make several changes to the draft sections to ensure the continued viability and vitality of the 203(k) program. In the coming months, as HUD works to finalize the Handbook, we would like to continue to work with HUD staff to ensure that any changes to the 203(k) program reflect stakeholder input.

**Maintain Current Appraisal Requirements**

Under changes proposed in the 203(k) draft Handbook section, FHA would require that each loan have two separate appraisal reports, an as-is appraisal and an after-improved appraisal. Currently, only one appraisal is required for the 203(k) loan program. We do not understand why FHA is proposing to require another appraisal, as we have not heard from FHA or our members about problems with the current appraisal process. Requiring another appraisal will double the appraisal cost for borrowers with no apparent benefit to consumers or FHA.

**Implement a Flexible Consultant Fee Schedule**

The proposed fees for Feasibility Studies, Work Write-ups, Draw Inspection Fees, Change Order Fees, and Re-inspection Fees have been set far too low and do not reflect geographic disparities in pricing. Lenders report that the number of consultants interested in participating in

the 203(k) program—already low in many areas—will decline even further and will threaten the viability of the 203(k) program. We recommend that FHA implement a "reasonable and customary" standard for these fees similar to its policies on FHA appraisal fees. In order to ensure that the borrower is fully informed regarding the fees they will be responsible for, we suggest requiring consultants to disclose their fees schedule prior to starting work.

### **Reinstate the Investor 203(k) Program**

We believe that there would be significant benefits from allowing individual investors to participate in the 203(k) program. Communities would benefit from investors buying bank owned properties (REO), renovating them through the 203(k) program and selling or renting them. Investors could help stabilize home prices, reduce vacancies and abandoned properties in neighborhoods, create affordable rental housing, and provide job opportunities. FHA originally placed a moratorium on investor participation in 1996 because of some reported fraud and adverse risk to the FHA insurance fund that was experienced at that time. Since then, FHA has implemented numerous quality control measures as well as policy reforms that address issues that led to the moratorium. Consequently, we believe allowing investors back into the program warrants new consideration with the understanding that appropriate safeguards will be put in place such as higher required downpayments or a limit on the number of properties an investor may own at one time.

### **Seek Regular Stakeholder Input on the 203(k) Program**

FHA previously met regularly with industry stakeholders regarding the 203(k) program. Our members report these forums were a useful and appreciated method for industry to provide feedback on the 203(k) program. We strongly recommend that FHA reinstate these periodic meetings to gather stakeholder feedback on this important program.

### **Conclusion:**

Again, we greatly appreciate HUD's work to develop the Handbook and HUD's efforts to seek needed input. We look forward to working with HUD to successfully implement the new Handbook.

Should you have questions or wish to discuss any aspect of these comments further, please contact any of the undersigned associations

Sincerely,

Mortgage Bankers Association  
National Association of Home Builders  
National Association of REALTORS®