



To All Correspondent Clients

May 17, 2010

## FHA Requirements for Resale of Properties Owned Less Than 90 Days

With certain exceptions, FHA has prohibited insuring a mortgage on a home owned by the seller for less than 90 days. This restriction was imposed in 2003 to prevent property flipping (reselling for profit with an artificially inflated value). On January 15, 2010, HUD announced a temporary (1 year) waiver of the prohibition with strict conditions to ensure against predatory practices.

Effective April 1, 2010, Correspondent Lending will allow the 90-day waiver for all property sellers, including private sale transactions on Bond FHA loans, but prohibits FHA financing for properties owned less than 90 days if the sales price is greater than or equal to a 20% increase over the seller's acquisition cost. The 90-day period is calculated from the seller's acquisition date to the purchase contract date of the new transaction.

Regardless of who the property seller is, if the resale occurs within 0 to 90 days, the following requirements must be met:

1. All transactions must be arms-length; no identity of interest between buyer, property seller, or third parties. Specific ways to ensure an arms-length transaction include:
  - Property seller currently holds title to the property.
  - LLCs, corporations, or trusts serving as property sellers must meet all applicable state and federal law.
  - No pattern or previous flipping activity exists on the property (as evidenced by multiple title transfers within 12 months).
  - The property was marketed openly and fairly (any sales contracts with "assignment of contract of sale" may be a red flag).
2. Transactions with sales price greater than or equal to a 20% increase over seller's acquisition cost are not allowed.

Section 12.01 of the Client Guide will be updated with this change on April 5, 2010.