



April 17, 2023

The Honorable Julia Gordon
Assistant Secretary for Housing and Federal Housing Commissioner
Federal Housing Administration
U.S. Department of Housing and Urban Development
451 7th Street, S.W., Washington, DC 20410

Dear Commissioner Gordon:

The National Association of REALTORS® (NAR) and Community Home Lenders of America (CHLA) thank you for your commitment to addressing financing opportunities for rehabilitated homes through the Federal Housing Administration's (FHA) 203(k) loan program (Docket number FR-6366-N-01). FHA's 203(k) rehabilitation mortgage insurance creates an opportunity for homebuyers to finance both the purchase and renovations of a home through a single mortgage. Alternatively, existing homeowners can use this program to finance renovations of their current homes. In a tight-inventory environment, 203(k) loans create an opportunity for low to moderate income and first-time buyers to participate in homeownership by facilitating the financing of homes in need of rehabilitation.

Together, our organizations oversee crucial components of the real estate transaction, including financing, construction, and sale of a property. Our members' clients have experience utilizing the 203(k) program and we believe there are measures FHA can take to make it more attractive to consumers. Current policy requires buyers to use an FHA-certified 203(k) consultant to oversee the renovation process. Many buyers experience difficulties locating consultants, and we recommend FHA expand its current pool to allow a wider range of professionals to qualify as consultants, especially in areas where they are not readily available. In addition to increasing the pool of allowable consultants, many consumers and professionals indicate a lack of understanding in the program itself. For example, some have cited instances where transactions have failed due to a lack of understanding in FHA's program. Following any changes to the program's requirements, we encourage FHA to engage with the real estate industry to increase awareness of 203(k) loans. Our organizations will gladly work with you to facilitate this opportunity for essential feedback.

FHA's Limited 203(k) rehabilitation program allows buyers and sellers to finance renovations more quickly without necessitating an FHA-endorsed consultant. As the cost of labor and supplies increase over time, our organizations recommend FHA increase the amount available to buyers and owners from \$35,000 (or \$50,000 if located within a Qualified Opportunity Zone) to match the market standard needed to facilitate renovations.

Another aspect for HUD's consideration is to provide greater flexibility on the advancing of renovation costs, at loan closing, for FHA's Standard 203(k) program. While FHA allows some costs to be advanced, the requirements for making initial advances are overly burdensome, preventing most homebuyers from selecting the Standard 203(k) loan. Fannie Mae and Freddie Mac allow for up to 50% of the estimated renovations costs to be advanced at the loan closing, with far fewer constraints. FHA's restrictions here is one complaint from homebuyers and contractors, and a significant reason why the FHA Standard 203(k) program

is not often sought after. The FHA 203(k) consultant (along with the lender) is charged with following HUD's guidance for the benefit and security of all parties, and our view is the program will not be compromised if HUD considers amending guidance for such cost advances.

Our organizations commend FHA and the Administration for addressing America's housing supply shortage. Updating FHA's 203(k) Rehabilitation Mortgage Insurance is a strong step towards improving the existing housing stock, and ensuring low to moderate income buyers have the opportunity to participate in revitalizing communities nationwide. If you have any questions or comments, please feel free to reach out to Jeremy Green, NAR's Federal Housing Policy Representative at JGreen@nar.realtor, and Rob Zimmer of CHLA, at robtvdc@gmail.com.

Sincerely,

The National Association of REALTORS®
Community Home Lenders of America