



June 3rd 2022

Dear FHA Resource Center,

Thank you for the opportunity to comment on Mortgagee Letter 2022-08. The National Community Stabilization Trust (NCST) strongly supports the creation of an exclusive “first look” purchase opportunity within CWCOT Second Chance sales. Given fierce competition in single-family home sales markets and our nation’s broader shortage of affordable housing, it is imperative that our federal government intentionally sell properties in ways that promote affordable, sustainable homeownership and strong neighborhoods.

While the announced CWCOT program is a strong first step, FHA will need to do much more to deliver on the Administration’s goal to create, preserve, and sell 100,000 properties to owner occupants and nonprofits over the next three years. As such, we offer a number of recommendations to strengthen the first look program and FHA’s other non-profit programs.

NCST is a non-profit organization that supports families and communities by restoring distressed single-family homes, strengthening neighborhoods, and increasing sustainable, affordable homeownership. NCST does this by facilitating sales of distressed homes to community-based partners, providing technical assistance for single-family rehab and capital in select markets, and conducting federal policy advocacy grounded in knowledge of local housing markets. NCST facilitates distressed property sales through its proprietary platform, REOMatch™. NCST was HUD’s partner on the National First Look Program and facilitated FHA First Look REO sales from 2011 to 2016.

NCST presently works with more than 250 vetted, non-profit, government, or mission-driven for-profit developers (community partners) that focus on rehabilitating REO properties. As COVID-related hardships lead to a growth in the supply of distressed homes, there is significant opportunity to grow the capacity and geographic coverage of this network. Over NCST’s history, more than 1,200 different organizations across the country have acquired property through us. Since its founding in 2008, NCST has facilitated over 27,000 property transfers in a predictable, standardized, and streamlined way.

NCST is excited to help make the CWCOT first look program a success. On June 1st, NCST [announced a partnership](#) with Xome® in which eligible buyers will have first-look access to properties available for sale on Xome.com, including CWCOT first look properties. Under the partnership, NCST will dual-list CWCOT properties on its REOMatch™ platform, facilitate bids, assist with closings, and track the rehabilitation and disposition of purchased properties.

NCST looks forward to exploring other ways it can support the CWCOT first look program and HUD’s goal of selling more properties to owner-occupants or non-profits. While we are extremely excited about the opportunities ahead, under the current arrangement NCST will not have access to all CWCOT first look

listings, and we would be interested in a more direct partnership with HUD to streamline the sales of distressed homes to mission-oriented developers.

In order to strengthen the new first look program, we recommend that HUD:

Expand the number of eligible non-profit purchasers: If FHA hopes to facilitate a meaningful number of home sales through the CWCOT first look, it is imperative to expand the number of eligible purchasers beyond the HUD-approved list. Presently, HUD does not appear to have any non-profits approved to participate in eight states. To expand the number of eligible purchasers, HUD should:

Streamline HUD's non-profit approval process. We have heard feedback that HUD's non-profit approval process is time consuming and that there is inconsistent levels of scrutiny from field staff. While most of the items on HUD's list of requirements make sense on their own, the need to demonstrate compliance with all of the requirements functions as a barrier to entry into HUD's non-profit programs. Certain requirements, like adequate facilities, appear excessive, and others, like the Quality Control Plan and Affordable Housing Program Plan, can likely be streamlined.

Select a third-party to vet and approve buyers. NCST has demonstrated that a more streamlined set of requirements can adequately protect REO sellers and increase the overall capacity of approved non-profits. To become an eligible NCST community partner, an organization must have a housing-related primary mission, a minimum of two years' experience with real estate project development, a presence in the community, and sufficient capacity and dedicated funding for acquisition and rehab. Greater levels of flexibility during the approval process can and should be mitigated by creating strong rehab and disposition requirements for all purchased properties and monitoring compliance with these requirements.

Consider whether to allow vetted and mission-oriented for-profit purchasers in areas where there is not adequate non-profit capacity to purchase and rehabilitate properties. These for-profit purchasers should be vetted along similar lines as NCST's non-profit partners and subject to equivalent rehab and disposition requirements.

Provide additional, targeted discounts on first look sales: HUD should provide additional discounts on the CAFMV or purchase price for properties that require subsidy in order to make renovation feasible. FHA should consider providing discounts both on lower-value properties, which are more difficult to renovate economically, and in neighborhoods with weak for-sale markets. Providing such discounts will help HUD sell more properties to non-profits and owner-occupants.

Require property sellers to disclose the reserve price: Given the limited number of buyers eligible to purchase properties during the first look period, potential buyers will need additional guidance if they are going to submit bids with a high likelihood of being accepted by the seller. We believe the most direct way to achieve this is to require property sellers to disclose the auction reserve price. Additional information from the property appraisal would also help buyers submit well-informed bids.

Require reporting on rehab and disposition for all purchased properties: NCST's current programs mandate that purchasers rehabilitate all purchased properties and pursue an allowable disposition, such as affordable rental or resale to a household with income under 120 percent of AMI. After closing, NCST requires quarterly updates from each community partner on rehab and disposition until final disposition. While we will track this data for all CWCOT properties purchased through our partnership

with Xome®, the remainder of CWCOT first look sales will not have such reporting. NCST believes quality reporting and strong compliance can be achieved in a relatively streamlined way that is less onerous than the HUD Homes program.

Clarify how first look buyers will access vacant properties: We applaud FHA for requiring that buyers will have the right to inspect, appraise, and conduct other diligence on vacant properties. However, more clarification is needed to fully realize the promise of FHA's requirements.

First, we urge HUD to clarify that potential bidders can inspect the property **before** a bid is submitted or a contract is signed. The ability to conduct due diligence is essential for non-profits and owner-occupants to make well-informed bids.

Second, we urge HUD to clarify the reimbursement of trip charges for the use of a property preservation contractor or real estate agent.

Third, we encourage HUD to allow utilities to be turned on for inspections if requested by a buyer. While some purchasers and/or inspectors may only require electricity, owner-occupants using FHA financing often need water and gas on too. We understand that turning on water and gas can be burdensome for third-party providers. HUD should provide guidance on the procedures for turning on utilities as well as reimbursable expenses.

Clarify the length of the required listing period: HUD has previously required a 15-day minimum marketing period for CWCOT Second Chance sales. Has this minimum marketing period been replaced by the 30-day exclusive listing period, or does the minimum 15-day marketing period begin with the non-exclusive 60-day period?

Study the barriers to purchase of CWCOT properties by owner-occupants and non-profits, and continue to revise the program to make these transactions easier: While we believe that HUD's existing policies and our recommendations will make it more feasible for owner-occupants and non-profits to purchase distressed properties, facilitating these sales at larger scale will require greater collaboration with the industry and additional policy enhancements. We recommend that FHA work with HUD's Office of Policy Development and Research to study the barriers to purchase as well as the impact of CWCOT purchases.

Strengthen its other non-profit programs: Despite the great promise of FHA's non-profit programs, many of these programs have been underutilized or essentially dormant in recent years. We encourage FHA to create a small demonstration to streamline the operations of its Nonprofit Mortgage program. In addition, FHA should examine whether elements of the HUD Homes program could be strengthened. For example, HUD should explore whether it is appropriately pricing REO properties and whether the cap on resale prices required by FHA's Land Use Restriction Addendum (LURA) is feasible, especially for lower value properties. Finally, FHA should examine whether promising elements of the HUD Homes Program, such as revitalization areas or Good Neighbor Next Door, can be adapted to CWCOT first look sales.

Thank you for the opportunity to comment. If you have any questions, please reach out to David Sanchez, NCST's Director of Research and Development, at dsanchez@stabilizationtrust.org or 202-706-7499.