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## **Federal Reserve issues guidance to banks on REO rentals**

May 31, 2012 - Owners Developers & Managers

On April 5th, the Federal Reserve System issued guidance to banks intended to spur the temporary conversion of Real Estate Owned (REO) to rental property. Earlier this year, the Federal Reserve strongly encouraged the sale of REO to investors for use as rental properties. With this new guidance, the Federal Reserve is offering banks the option to keep ownership of REO properties while making the properties available for rent. The Federal Reserve's REO rental guidance will impact CAI's members in two general areas.

Under the guidance, banks with more than 50 REO rental properties must show compliance with all federal, state, and local laws and regulations, including landlord-tenant laws and property maintenance standards. Banks must ensure rental REO properties are adequately insured and that property obligations are met on a timely basis. Additionally, the Federal Reserve specifically requires that banks review community association bylaws to determine if properties may be rented.

The Federal Reserve also requires that banks partner only with property management companies or other third-party property managers that have expertise in management of residential property. Banks must ensure all third-party property managers are in sound financial condition and have a demonstrated track record in managing residential properties. Additionally, property managers must possess adequate information management systems for comprehensive reporting on all aspects of managing the bank's REO rental portfolio, which include tracking of rents, lease agreements, property maintenance and other similar requirements.

Federal banking regulators have traditionally taken the view that banks should make every effort to dispose of REO in an orderly but expeditious manner. It has been a long-standing policy of banking regulators to minimize the mixing of banking operations and commercial activities. This policy was reinforced by Congress as recently as 2009 with adoption of the Fiscal Year 2009 Omnibus Appropriations Act, which expressly prohibits banks from engaging in real estate brokerage or management services as a line of business. The new guidance applies only to bank REO and is intended to offer banks additional flexibility to manage balance sheet risk associated with a substantial REO portfolio.

### CAI Testifies Before Congress

Dick Pruess, long-time CAI member and chair of California's Legislative Action Committee, told federal lawmakers that association homeowners suffer when lenders delay foreclosures, allowing delinquent owners to remain in their properties.

The U.S. House of Representatives financial services committee asked CAI to testify on a plan to sell real estate owned (REO) held by mortgage giants Fannie Mae and Freddie Mac to private investors. The federal agency that oversees Fannie Mae and Freddie Mac is testing a program that will sell large numbers of REO to investors who must agree to rent the properties for a minimum of three years. CAI was asked to share how bulk sales of Fannie Mae and Freddie Mac REO would

impact community associations and homeowners.

Pruess testified that federal banking regulators need to ensure all outstanding arrearages on REO must be paid prior to being sold to investors and that lenders must resume foreclosures on delinquent owners whose home cannot be saved. Pruess also testified that community associations want homes to be sold to responsible, qualified investors who understand the responsibility of owning property in a community association.

Members of Congress, in particular representative David Schweikert (R-AZ), immediately grasped the impact of long-term delinquencies associated with vacant and abandoned properties as well as properties where lenders refuse to foreclose on hopelessly delinquent owners. Pruess shared several personal examples of how this problem directly impacts responsible association homeowners who are forced to pay higher assessments to make up for non-paying units.

To read Pruess' oral statement and entire written testimony to the U.S. House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises go to the "Issues and Advocacy" section at [www.caionline.org](http://www.caionline.org).

As part of the ongoing Mortgage Matters program, CAI is working to protect homeowners in community associations and to ensure access to fair and affordable mortgage products for all current and potential community association residents. You can follow their work and share your thoughts at [www.caimortgagematters.org](http://www.caimortgagematters.org). CAI will continue to monitor and participate in shaping changing federal housing policies to ensure the perspective of community associations is heard. This is one of the many benefits of belonging to an organization that works for you on the local, state and federal level.

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