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LOANS BEING DENIED

Rec center policies create obstacle

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Homebuyers in the Sun Cities are facing a new obstacle created by a conflict between FHA and rec centers' policies regarding preservation fees.

FHA loan applications for purchases and reverse mortgages are being denied due to preservation fees on property transfers including all transactions. Policies in Sun City and Sun City West trigger their preservation fees – Preservation and Improvement Fee in Sun City and Asset Preservation Fee in Sun City West – if a lender forecloses on a property or an owner does a deed-in-lieu-of-foreclosure. Until these policies are revised, FHA officials will not approve loans – purchase, refinance or reverse mortgages – for Sun Cities homes, according to Vicky Frye of Frye Realty.

“This could possibly cause financial injury,” she stated in an email.

Recreation center officials in both communities have no plans to revise their preservation fee policies.

“Per the CC&Rs, all dues/fees paid by members must be uniform,” Cathy Peterson, RCSCW management assistant, stated in an email. “To apply APF fees to some and not others does not follow CC&Rs or past practice.”

RCSC officials believe it is premature to make any changes until the issue is clearly defined as Housing and Urban Development officials are researching a change in their policies to allow loans despite preservation fee policies.

“RCSC has been in communication with HUD on this issue and is awaiting a formal

response,” Joelyn Higgins, RCSC communications and marketing coordinator, stated in an email.

Changing FHA policies will take time, and that could damage the housing market in the meantime, according to Liz Recchia, West Maricopa Association of Realtors government affairs director.

“The free assumability clause is in the FHA underwriting guidelines,” she explained. “The FHA will need to address this issue not just for retirement and housing communities, but the free assumability clause affects other types of transactions, for instance leased rooftop solar.”

She stated any change in underwriting guidelines is subject to approval by the HUD secretary and will need to meet concerns of both Con-

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gress and the president, she added.

“Since FHA insures loans, the underwriting guidelines are designed to protect the taxpayer,” Ms. Recchia stated in an email. “Any significant change will come under scrutiny from multiple private and public entities.”

Changing preservation fee policies will also impact the budgets of both RCSC and RCSCW. However, those impacts could be minimal based on rec centers officials' information on foreclosures in their communities.

“We don't and have not tracked the numbers of foreclosures in Sun City West, but they do not appear to be very common,” Ms. Peterson stated. “We don't believe it will affect RCSCW revenue much, Houses sell extremely quickly and if one party cannot secure a mortgage, someone else will.”

APF and home sale numbers have been at a record high for the last two years and continue to be strong, she added.

RCSC officials stated foreclosures last year represented 0.16 percent of Sun City properties.

“Foreclosures have declined each year since 2012 and declined in 2016 by 80 percent from 2012 with 41 reported foreclosures,” Ms. Higgins stated.

Ms. Peterson stated RCSCW officials have not seen a drop in home sales. Ms. Higgins stated the majority of feedback RCSC officials have received surrounds the impact on reverse mortgage financing.

FHA’s underwriting guidelines have been in place for a long time, according to Ms. Recchia. Historically, FHA purchase loans, refinances and reverse mortgages were not prevalent in retirement communities as most retirees and investors would pay cash, have significant down payments with conventional loans or use other conventional products, she explained.

“As the number of baby boomers retiring has increased, so have the number of FHA loans, refi’s and reverse mortgages,” she stated. “FHA programs can be less restrictive than conventional programs, particularly when it comes to credit scores and cash down payment requirements. Many baby boomers are burdened with debt and must use FHA programs to purchase.”

With the increased number of FHA buyers and retirees needing to avail themselves of FHA programs, the issue of the FHA free assumability clause conflicting with community governing documents has become more evident.

“Last fall I began receiving calls and emails from lenders and agents concerned that FHA loans were being denied in these communities,” Ms. Recchia stated. “Those calls have increased over the past few months and I expect they will continue to increase as buyers and property owners attempt to buy, sell, refinance or access reverse mortgage products from FHA.”

In December, Ms. Recchia sent letters to several retirement communities explaining the issue and its impact on community residents.

“Retirement communities thus far have not responded and do not seem to see the significant impact on their residents,” she stated.

Ms. Recchia stated rec center officials can decide to amend the language to allow restrictions to automatically terminate upon foreclosure, deed-in-lieu-of-foreclosure, or mortgage assignment to the HUD Secretary for FHA loan products. They need not include all FHA loan products in their exemption, they could select the products most important to the community, she added.

“In the end, communities and their residents have the ability to address this issue and solve it,” she added.

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