

Title Chat

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Recent Federal Action Involving Property Flips

The first “Title Chat” that was issued in October 2001 discussed land flips. The Department of Housing and Urban Development (HUD) has published a final rule to be effective June 2, 2003, entitled “Prohibition of Property Flipping in HUD’s Single Family Mortgage Insurance Programs.”

A copy of the rule can be found in the Federal Register of May 1, 2003, at *Vol. 68, No. 84 page 23370* also cited as *24 CFR Part 203.37a* and *203.255* or at the web site of the American Land Title Association at www.alta.org

The summary of the rule states that

. . . the final rule establishes certain new requirements regarding the eligibility of properties to be financed with Federal Housing Administration (FHA) mortgage insurance The new requirements will make flipped properties ineligible for FHA-insured mortgage financing, thus precluding FHA home purchasers from becoming victims of predatory flipping activities.

The rule provides that “to be eligible for a mortgage insured by FHA, the property must be purchased from the owner of record and the transaction may not involve any sale or assignment of the sales contract.” The lender is required to submit documentation supporting this fact to HUD with its application for mortgage insurance. The rule cites as examples of documentation to be submitted, which can include a property sales history report or a copy of the recorded deed from the seller or a title commitment.

The rule provides time periods during which if the property would be resold, it would be ineligible for mortgage insurance by FHA. If the seller resells within 90 days or less following acquisition the property, the property is ineligible for insurance. If resold between 91 and 180 days after acquisition by the seller, the property is available for insurance but the lender is required to produce additional documentation to HUD regarding value of the property.

This Chat only summarizes the major points of interest to those who are not lenders.

Next month we will *Chat* regarding recently published statistics on title industry claims incurred during 2002.

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