

September 15, 2011

The Honorable Timothy F. Geithner
 Secretary
 Department of the Treasury
 1500 Pennsylvania Avenue, N.W.
 Washington, DC 20220

The Honorable Shaun Donovan
 Secretary
 Department of Housing and Urban
 Development
 451 7th Street, S.W.
 Washington, DC 20410

The Honorable Edward DeMarco
 Acting Director
 Federal Housing Finance Agency
 1700 G Street, NW
 Washington, DC 20552

Submitted Electronically to: REO.RFI@fhfa.gov

Type of Strategy

<input checked="" type="checkbox"/>	Outright purchase
<input checked="" type="checkbox"/>	Joint-venture
<input checked="" type="checkbox"/>	Rent-and-hold
<input checked="" type="checkbox"/>	Lease-to-own
<input type="checkbox"/>	Other (specify)

Type of Respondent

<input type="checkbox"/>	Private capital
<input type="checkbox"/>	Real estate company
<input type="checkbox"/>	Rental property management
<input type="checkbox"/>	Asset management
<input type="checkbox"/>	Nonprofit
<input checked="" type="checkbox"/>	Other (banking trade assoc.)

Dear Secretary Geithner, Secretary Donovan and Acting Director DeMarco:

The American Bankers Association appreciates this opportunity to comment on the request for information issued by the Federal Housing Finance Agency (FHFA) and the Department of

Housing and Urban Development (HUD). *The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than \$165 million in assets.*

FHFA and HUD are seeking information in order to solicit ideas for sales, joint ventures, or other strategies to improve the current and future disposition of Real Estate Owned (REO) assets owned by Fannie Mae and Freddie Mac (the Enterprises) and the Federal Housing Administration (FHA). The stated goal of the request is to improve loss recoveries compared to individual retail REO sales, help stabilize neighborhoods and local home values, and improve the supply of rental housing.

As a trade association, ABA's comments will be limited to process and policy recommendations, rather than to specific disposition strategies and structures, which we believe are more appropriately provided from entities which may engage in actual REO purchases.

We do note at the outset, however, that most banks, and certainly most community banks, do not have the capacity of either capital or staffing to engage in large scale REO purchases. Realty firms and other commercial ventures are far more likely than banks to engage in potential purchases of REO properties.

Ensuring stability in home values and neighborhoods

Any REO disposition program must carefully consider the impact of releasing large numbers of properties (sale or rental) into a market. A sudden influx of "for sale" or rental properties in a local market can have a seriously depressive impact on other home prices. In weighing these effects, FHFA and HUD should not just consider the impact of a large increase in "for sale" properties and thus steer potential REO purchasers toward a rental strategy. A sudden increase in rental properties can be equally devastating to house prices in a local market if renting suddenly becomes substantially more attractive than purchasing a property. This is particularly true in the current environment where many are questioning the benefits of homeownership after the real estate bubble burst in many parts of the country. For this reason, we strongly suggest that FHFA and HUD consider limiting factors such as a cap on the number of potential new sale or rental properties in each MSA as a result of any REO disposition program.

Encouraging participation of community based groups

A number of our members have highlighted the importance of involving faith-based and other community based non-profit organizations involved in affordable housing initiatives. These entities should be provided incentives to work with financial institutions, and especially community based financial institutions, on joint ventures for the acquisition of properties. Furthermore, banks should be incentivized to enter into such joint ventures through Community Reinvestment Act credit and other incentives.

Property repair and rehabilitation needs

FHFA and HUD also are seeking input on improving strategies for REO property repair and rehabilitation needs. A number of lenders have noted that currently the FHA limits uses of escrow funds to weather related repairs. To better ensure upkeep on FHA owned properties we urge that the use of escrow funds be expanded beyond weather related repairs to include other maintenance and repair needs facing REO properties.

Conditions on closing

A number of our members have expressed frustration regarding limitations that create closing issues such as stipulations against financing more than 120% of the purchase price (which may interfere with including repair costs in the purchase) or stipulations against refinance of the debt within 120 days (intended to prevent ‘flipping’). While there may be good policy reasons for some of these stipulations, they can prevent sales that would benefit the overall community. We encourage the development of policies which would allow for exceptions to such stipulations where appropriate to facilitate such beneficial sales.

Conclusion

Again, we appreciate this opportunity to comment. While disposition of REO properties held by the Enterprises and FHA must be undertaken in a cost effective manner, it remains of paramount importance that such disposition is done in a manner that considers the impact on local markets and does nothing to further destabilize an already traumatized housing market. Any disposition strategies undertaken must strengthen, not weaken, local housing markets. If such strategies cannot be developed for a specific market, FHFA and HUD should instead focus on ensuring maintenance and repair of existing REO properties to ensure that they do not blight neighborhoods or cause further erosion of home values.

Again, we appreciate this opportunity to provide our views. If you need further information or wish to discuss any of these issues in more detail, please do not hesitate to contact the undersigned at (202)663-5480 or JPigg@aba.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph Pigg". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joseph Pigg
Vice President and Sr. Counsel