



Property Flip Less than 90 days and FHA Loan Options?

I receive many calls and emails on this topic as there is still much confusion in the Arizona market on whether FHA loans are allowed on property flips. Specifically, FHA's stance on property being flipped in less than 90 days when the new sales price exceeds the seller's acquisition price by 20% or more.

As a reminder FHA's property flip waiver, which allows buyers to purchase a property being flipped in less than 90 days, took effect February 2010 and was to expire January 31st, 2011. On January 29th, 2011 FHA announced an extension to the waiver through December 31st of this year. Over the last year the Arizona Mortgage lending community hasn't consistently embraced the waiver which has led to uncertainty as to whether the FHA Loan financing is in fact available on these transactions.

FHA Loan financing DOES exist on property flips when the price exceeds 20%! Below are a few of the guidelines lenders must follow:

- Transactions must be arms-length
- Seller must hold title to the property
- No previous flipping activity exists for the property within the last 12 months
- If the new sales price of the property is 20% or more above the seller's acquisition cost, the lender must meet 2 specific conditions: 1) justify the increase in value by retaining in the loan file supporting documentation that the seller completed legitimate renovation to the property and/or obtain a second appraisal and 2) obtain a property inspection. The buyer's property inspection may be used, if one was not completed, the lender will need to order one. Expect, in most cases, the lender to require a 2nd appraisal.

Remember, Arizona bank owned properties are exempt from the property flipping rule! We have 9 more months to take advantage of the FHA Loan waiver! If you come across a property being flipped and you have questions, don't hesitate to give me a call.

What a beautiful Saturday ~ enjoy!

Kelly

Quote of the week: The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails. ~ William Arthur Ward

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