



## Federal Reserve Issues Guidance to Banks on REO Rentals

On April 5, 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.

As part of our 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 our 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.