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Tuesday, February 9, 2016

Flint - Crisis in Mortgage Banking

Yesterday, February 8th, FHA sent out the following announcement:

Property Eligibility Requirements Reminder for Properties Affected by Water Contamination

The Federal Housing Administration (FHA) recognizes the concerns over the quality of water that has had a negative impact not only on the residents and families in *Genesee County, Michigan, especially Flint, Michigan*, but also on home sales and mortgage lending in this area.

As a result of this emergency, FHA has become aware that there are single family housing properties that may be affected by contaminated water in Genesee County, Michigan. Mortgagees and other stakeholders involved with FHA transactions are reminded that to be eligible for FHA insurance, a property must meet FHA's Property Acceptability Criteria as stated in the Single Family Housing Policy Handbook (SF Handbook) 4000.1, Section II.A.3.a.ii (F) and (J). (My emphases.)

In the citation, section (F) states, in part:

(F) Requirements for Living Unit

The Mortgagee must confirm that each living unit contains:

- a continuing and sufficient supply of *safe and potable water under adequate pressure and of appropriate quality for all household uses*. (My emphasis.)

Section (J) states, in part:

(J) Environmental

The Mortgagee must confirm that the Property is *free of all known environmental and safety hazards and adverse conditions that may affect the*

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health and safety of the occupants ... (My emphasis).

Erin Brockovich, the environmental activist, recently went on Stephen Colbert's "The Late Show," where she observed that "Flint is the tip of the iceberg." A year ago, she had sent a team to Flint to investigate. Colbert asked her, "Is this the tip of the 'leadberg'" (sic).

Her response:

"I can tell you that Flint, Michigan is the tip of the iceberg. ... I can tell you for certain that this is a national crisis that we are not getting ready to face. The crisis is already here. Even since Flint has hit the national stage, we've found out that Sebring, Ohio has the same problem ... The same thing is happening in Louisiana, and we're just now hearing rumors – I haven't verified it before I came out – we're having the same situation in Wisconsin."

The deterioration of the infrastructure through the United States is a significant problem – indeed, a national emergency. In 2013 the American Society of Civil Engineers gave America's dire situation a grade of D+, with a repair cost of \$3.6 trillion. By the news since then, the deterioration has gotten worse!

When I use the word 'infrastructure,' it seems too much is tucked into that euphemistic nomenclature. Let's be clear. A deteriorating infrastructure means the following necessities are rapidly declining: energy, transit, aviation, levees, dams, schools, roads, inland waterways, ports, waste water, rails, bridges, public parks, hazardous waste, and most certainly drinking water.

If this is not a national emergency, I don't know what is!

We know there simply has not been much done to muster all-hands-on-deck to get our infrastructure on the mend. How do we know this? The crisis keeps getting larger each year, and a tidal wave of infrastructure obsolescence is gradually engulfing more and more of the economy.

Mortgage banking is a significant sector of the economy. It is dependent on real estate values to support property eligibility and long lasting loan performance. Given the crumbling of the country's infrastructure, the tidal wave is heading straight for the mortgage banking industry.

Indeed, more than ever, the deteriorating infrastructure is amassing an increasing toll on the stability of the mortgage banking sector. It is one thing for investors, GSEs, and FHA to shy away from loans in disaster areas, induced by natural causes. But disaster areas caused by human error, such as in Flint, or by the lack of a national effort to repair the infrastructure?

That is a disaster of a different sort, for it is entirely avoidable.

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