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Subject: Comments Regarding Federal Regulations Including Federal Regulations Affecting Small Business

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REGULATION AFFECTED

This recommendation for a change to an existing regulation concerns Code of Federal Regulations Title 24 Article 203.200 through 203.209, INSURED TEN-YEAR PROTECTION PLANS.

All providers of Insured Ten-Year Protection Plans are small business organizations.

BACKGROUND

Since 1994, HUD has accepted insured Ten-Year Protection Plans from some providers which contained warranty coverage definitions that deviated from the specific definition of a structural defect in 24 CFR. This has resulted in some FHA home buyers having reduced levels of protection under their ten-year structural defect warranty. This also caused unfair price completion in the marketplace against the providers who rigidly adhered to the structural defect coverage definition for FHA home buyers in accordance with 24 CFR. For this reason and other valid concerns, the National Association of Home Builders (NAHB) created, in May 1999, a NAHB Home Buyer Warranty Task Force to develop a Uniform Warranty that would increase structural defect coverage to FHA home buyers, streamline the enrollment process of FHA homes for both home buyers and builders, and significantly reduce the administrative load for HUD staff in overseeing the insured Ten-Year Protection Plans in CFR Title 24 Article 203.200 through 203.209. This Uniform Warranty would be the "standard" warranty offered by builders of FHA homes. Thus all FHA homebuyers would receive uniform warranty coverage.

The NAHB Home Buyer Warranty Task Force was composed of representatives from large production builders and small builders, representatives of providers of HUD approved Insured Ten-Year Protection Plans, representatives of the staff of NAHB, engineers, and attorneys. Early on, the Task Force met with the Assistant Secretary for Housing- Federal Housing Commissioner and his staff to identify all of the problems with the Insured Ten-Year Protection Plan. During the development of the Uniform Warranty, all problem areas identified by HUD were addressed and improvements included. Input from homeowners of recently constructed new homes concerning their expectations of what warranty coverage was fair and reasonable for builders to provide was obtained with high confidence through an independent survey firm. This

input from home owners was also included in the Uniform Warranty.

After 12 months of very hard work by the members of the NAHB Home Buyer Warranty Task Force, they unanimously approved the HUD Uniform Warranty, simplification of the FHA enrollment procedures for homeowners and builders, and recommendations for incentive for builders to offer ten-year insurance backed warranties to home buyers. These recommended changes to HUD regulations contained in CFR Title 24 Article 203.200 through 203.209 were submitted to HUD by the National Association of Home Builders in May 2000 with the recommendation that all changes be implemented as a package.

For the past two years, the National Association of Home Builders and the providers of Insured Ten-Year Protection Plans have repeatedly urged HUD to implement all the recommendations of the NAHB Home Buyer Warranty Task Force as a package. Implementation by HUD would have the following benefits:

(1) Provide increased and uniform insurance-backed ten-year warranty coverage on all new FHA homes.

(2) Simplify the enrollment process of new homes into the FHA insured loan program benefiting homeowners and builders.

(3) Greatly reduce the administrative load required to oversee the Insured Ten-Year Protection Plan Program by HUD staff.

(4) Increased and uniform insurance-backed ten-year structural warranty coverage on FHA homes would decrease default rates on FHA loans.

RECOMMENDATION

HUD should immediately change the existing regulations and implement as a package the recommendations of the NAHB Home Buyer Warranty Task Force. The benefits to HUD and their FHA home buyers are tremendous.

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