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NAR Issue Analysis
REFORMING AMERICA'S HOUSING FINANCE MARKET

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REFORMING AMERICA'S HOUSING FINANCE MARKET
Key Points for NAR External Communications

The National Association of Realtors® (NAR) welcomes the Obama Administration's call for an orderly transition from the current form of the secondary mortgage market to a new structure that would enable Americans to achieve affordable, sustainable mortgages. The Administration's desire to engage stakeholders in any final plan is a positive step forward; NAR wants to serve on any advisory panel that will study the consolidation of federal incentives for housing. NAR has been representing the interests of homeowners for more than 100 years and our goal is to bring their interests into this debate as well. REALTORS® want to help design a secondary mortgage model that will serve homeowners today, and in the future, and ensure a strong housing market and full economic recovery.

A pillar of NAR's GSE Recommendations is that there can be no restoration of the former secondary mortgage market with entities that take private profits and push losses onto the taxpayer. The new system must involve some government presence, outside of FHA, USDA, and the Department of Veterans Affairs, to ensure a continued flow of capital to housing markets during economic downturns when large lenders flee the housing market.

There are areas within the Administration's plan that do not coincide with the recommendations set forth by NAR and its members. The following addresses the areas of concern to NAR, as well as those issues on which NAR and the Administration agree.

General Comments:
The housing and economic recoveries are still very fragile. Time is required for the housing sector to stabilize and recover before drastic, yet needed, changes are required. Many have indicated that it is their intention to "do no harm", as a transition from significant government participation within the housing market takes place. Therefore NAR believes that:

- Policy-makers and academics must put aside their political disdain for Fannie Mae and Freddie Mac and focus on the importance of the secondary mortgage market and the positive role it has played in enabling Americans to achieve sustainable homeownership and upward mobility in American society.

- Despite their obvious shortcomings and mistakes, the GSEs have long played positive and valuable roles in mortgage finance. It is important to remember those elements and preserve them in the mortgage finance system so future generations can enjoy the same advantages of predictable payments from a 30-year fixed rate mortgage.

- Fannie Mae and Freddie Mac are going away; however, key elements of the role they played must remain in order for the U.S. to have an efficient and affordable reformed mortgage finance system.

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- Repeatedly indicating that the government's participation in the housing market draws capital away from other, "more productive", sectors precludes the fact that housing accounts for 15% of our Nation's GDP, that 2.5 million jobs are generated when there are annualized home sales of 5 million, and that with every home purchase, up to $60,000 is pumped into the economy for furniture purchases, home improvements, and other related items.

- The proposed plans seem to foster policy that allows home prices to continue to decline due to reduced credit availability which is counter-productive economically.

NAR Concerns
Proposed GSE Reforms:
NAR's Statement of Concern- Cutting back significantly on Fannie Mae and Freddie Mac's involvement in the mortgage market will (1) reduce housing access and affordability for those who are able to become homeowners (2) create higher profits for America's big banks, (3) create more too big to fail banks, leading to greater consumer risk and taxpayer exposure, and (4) hurt the economy and hinder job creation and growth.

- **Ultimately winding down the GSEs** – NAR has consistently indicated that the GSEs need to be reformed, and private capital brought back to the secondary market. However, REALTORS® believe that government participation is required in the secondary mortgage market to ensure the continual flow of mortgage capital to all markets in all economic conditions. Shuttering the GSEs without a mechanism for seamless government participation in the secondary market during economic downturns will increase the likelihood of a future housing finance system failure.

- **Proposed increase in down payment amount** - Increased down payment requirements will place a burden on families in many markets, but especially high cost urban ones. Saving for the down payment has long been cited by survey results as one of the top barriers to home purchases. A ten percent down payment will be problematic for many first time buyers and even for repeat buyers relocating to higher cost markets from less expensive markets. This change, coupled with the proposed drop in FHA limits and the imposition of FHA income limits, will mean that first time home buyers in higher cost metro markets will have to pay significantly higher private capital costs or delay their purchases despite having the incomes necessary to carry the costs of a home purchase with a lower down payment FHA or conventional loan with adequate PMI.

  Additionally, the eventual QRM thresholds will add an another barrier if LTV limits for QRMs are set above the affordable down payment level and lenders are unwilling or unable to offer conventional products that don't meet the QRM test.

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- **Proposed decrease in loan limits** - High cost areas will be negatively impacted as the cost of capital to the consumer will increase significantly. Though the experts have stated that the receding of government involvement in loans up to $729,500 will spur private capital to the market place, evidence to that effect is very limited. The current jumbo market is nearly non-existent due to the stringent constraints placed on potential home buyers by private capital.

- **Increased guarantee fees (g-fees) for the GSEs** – Just as increased down payments will increase the cost of mortgage capital to credit worthy homebuyers, increasing g-fees will become an additional burden for potential home buyers. NAR has long pushed back on the GSEs and FHFA to reduce their risk-layering to encourage more lending. We understand that prudent underwriting is required; however, this over-correction has become more costly and is prohibiting consumers who can afford home payments from participating in the market. Any further risk layering will exacerbate qualified, credit worthy homebuyers' inability to participate in the purchase money market.

- **Winding Down the GSEs Portfolio** – NAR has advocated for reduced portfolios of both Fannie Mae and Freddie Mac; however, full eradication should not be the goal for a new secondary market entity. Outside of using their portfolios to increase profits, both companies have used the portfolios to house product that cannot be securitized (e.g. multi-family loans and pilot project mortgages). Shuttering this important tool will rid the secondary market of an incubator to test innovative home purchase or refinance products, as well as prevent multi-family users from having access to affordable lending products.

- **Narrow Qualified Residential Mortgage (QRM) safe harbor** - If the regulatory agencies establish a QRM that is significantly tighter than current credit standards, it would mean that millions of creditworthy borrowers would be deemed to be higher risk borrowers. As a result, they would be eligible only for mortgages with higher interest rates and fees and without the protections required by the statutory QRM framework that limit risky loan features. Additionally, a narrow QRM definition would prohibit many potential first-time homebuyers from buying a home if the definition includes an excessively high minimum down payment requirement, it would also adversely impact repeat buyers and refinancers if the QRM includes exceedingly high equity requirements.

NAR Concerns
Proposed FHA Reforms:

- **Reduced FHA loan limits** - Allowing the current loan limits to decrease will have an immediate negative impact on mortgage liquidity for numerous markets in the nation.

- **Imposition of income limits** - In Options 2 and 3, the imposition of income limits on FHA's loan product will drastically impact the availability of affordable mortgage capital for many Americans. It will also limit low and moderate income families to homes in the poorest communities in America.

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Proposed FHA Reforms (continued):

FHA was never designed to be a first-time buyer or low income buyer program. Adding limits could significantly impact the MMIF's financial soundness if better risk repeat or higher income buyers are eliminated from the pool of mortgages.

- **Increases to MIP** will eventually price out of the market many low-mod families. Even if income limits go out the window, steadily increasing fees, looking to increase the down payment, etc. will make FHA less attractive than the private markets and that's a good thing. However, if FHA is the least attractive product out there what will this mean for the quality of those borrowers whom are they able to serve?

Proposed Reforms for the Federal Home Loan Bank System (FHLBS)

- **Limiting levels of advances and reducing portfolio sizes** – Currently, NAR has no policy regarding the FHLBS; however, the NAR's Conventional Finance and Lending Committee is working to determine changes required to protect this vital system.

Areas of Agreement with NAR Policy

- **Empowering consumers to avoid unfair practices and make fully informed decisions** – These proposals, located on page 16 of the plan, are in agreement with NAR's Responsible Lending Policy that was established in May 2005. The proposed policy seeks to curb abusive practices, promote clarity and choice, as well as, stronger underwriting standards, including requiring lenders to verify the consumer's ability to pay. Each of these items was explicitly called for in our policy developed in May 2005.

- **Improving mortgage servicing and foreclosure processing**_- Since the onset of the financial crisis, foreclosures have mounted and NAR has actively worked with the Administration and regulators to establish criteria to reduce the risk of foreclosure. NAR's effort to provide guidance to streamline short sales and other loss-mitigation tools has given distressed homeowners options other than the embarrassment of being forced from their home due to foreclosure.

- **Ensuring that capital is available to creditworthy borrowers in all communities** - Ensuring an active secondary mortgage market by facilitating the flow of capital into the mortgage market for all types of housing (rental included), in all market conditions is a pillar of NAR's Secondary Market Recommendations.