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**STATEMENT OF THE**

**NATIONAL ASSOCIATION OF REALTORS®**

**SUBMITTED FOR THE RECORD TO THE**

**UNITED STATES HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON FINANCIAL SERVICES**  
**SUBCOMMITTEE ON CAPITAL MARKETS AND**  
**GOVERNMENT SPONSORED ENTERPRISES**

**HEARING REGARDING**

**GSE REFORM: IMMEDIATE STEPS TO PROTECT**  
**TAXPAYERS AND END THE BAILOUT**

**FEBRUARY 9, 2011**

## INTRODUCTION

On behalf of the 1.1 million members of the National Association of REALTORS® (NAR), who are involved in residential and commercial real estate as brokers, sales people, property managers, appraisers, counselors, and others engaged in all aspects of the real estate industry, thank you for holding this very important hearing on reforming the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac.

REALTORS® are fervent in their belief of “free markets”, and that private capital is required to reduce Federal government financial support of the housing sector if the housing finance system is to right-track itself. However, REALTORS® are also practical and understand that in extreme economic conditions, private capital will retreat from the market, requiring the assistance of the Federal government to ensure there is a continual flow of capital into our nation’s housing finance system – as it has during this, and so many past, economic downturns.

REALTORS® also believe that job creation and good fiscal policy must be fostered in order to pull the nation’s economy out of the quagmire that it currently resides. However, the pursuit of these goals should not come at the detriment of our nation’s economy or our still fragile housing recovery. Therefore, the mantra that we believe Congress and the Administration should follow as they work with housing industry participants to prevent another financial system collapse is to first, “do no harm”.

REALTORS® agree that taxpayers should be protected, open-ended bailouts should end, private capital must return to the housing finance market, and that the size of the government participation in the housing sector should decrease if the market is to function properly. Where there is disagreement is around the “how” these aspirations should be accomplished. Proposed plans that call for full privatization of entities that will replace the function of Fannie Mae and Freddie Mac need only examine the miniscule activity in the jumbo and manufactured housing markets in order to understand the implications of just having private capital form the foundation of the housing market. In both instances, mortgage capital became nearly non-existent, which prohibited qualified borrowers from access to the funds required to purchase a home. NAR’s economists estimate that a retreat of capital from the housing marketplace will negatively impact the 2.5 million jobs generated by home sales, and reduce the \$60,000 pumped into the economy by each home purchase for furniture, home improvements, and other related activities.

REALTORS® recognize that the existing system failed and changes are needed. Therefore, NAR recommends that all parties involved in the reform of our housing finance system take a breath, slow down, and consider the practical points from our members’ GSE Reform plan as this process moves forward.

### KEY GSE REFORM POINTS BASED ON NAR’s PRINCIPLES

- An efficient and adequately regulated secondary market is essential to providing affordable mortgages to consumers. The secondary market, where mortgages are securitized and/or combined into bonds, is an important and reliable source of capital for lenders and therefore for consumers.

Without a secondary market, mortgage interest rates would be unnecessarily higher and unaffordable for many Americans. In addition, an inadequate secondary market would impede both recovery in housing and the overall economic recovery.

- We cannot have a restoration of the old GSEs with private profits and taxpayer loss system. The current GSEs should be replaced with government chartered, non-shareholder owned entities that are subject to sufficient regulations on product, revenue generation and usage, and retained portfolio practices in a way that ensures they can accomplish their mission and protect the taxpayer.
- Government-chartered entities have a separate legal identity from the federal government but serve a public purpose (e.g. the Export-Import Bank). Unlike a federal agency, the entities will have considerable political independence and be self-sustaining given the appropriate structure.
- The mission would be to ensure a strong, efficient financing environment for homeownership and rental housing, including access to mortgage financing for segments of the population that have the demonstrated ability to sustain homeownership. Middle class consumers need a steady flow of mortgage funding that only government backing can provide.
- The government must clearly, and explicitly, guarantee the issuances of the entities. Taxpayer risk would be mitigated through the use of mortgage insurance on loan products with a loan to value ratio of 80 percent or higher and guarantee or other fees paid to the government. This is essential to ensure borrowers have access to affordable mortgage credit. Without government backing, consumers will pay much higher mortgage rates and mortgages may at times not be readily available at all (as happened in jumbo and commercial real estate loans)
- The entities should guarantee or insure a wide range of safe, reliable mortgages products such as 30 & 15 year fixed rate loans, traditional ARMs, and other products that have stood the test of time and for which American homeowners have demonstrated a strong “ability to repay.”
- For additional safety, sound and sensible underwriting standards must be established for loans purchased and securitized in MBSs, loans purchased for portfolio, and MBS purchases.
- The entities should price loan products or guarantees based on risk. The organization must set standards for the MBS they guarantee that establish transparency and verifiability for loans within the MBSs.
- Political independence of the entities is mandatory for successful operation (e.g. the CEOs will have fixed terms so they cannot be fired without cause, they should not be allowed to lobby, and the authorities should be self-funded – no ongoing appropriations).
- In order to increase the use of covered bonds, particularly in the commercial real estate arena, the entities should pilot their use in multifamily housing lending and explore their use as an additional way to provide more mortgage capital for residential housing. The entities should be allowed to pave the way for innovative or alternative finance mechanisms that meet safety criteria.
- There must be strong oversight of the entities (for example, by the Federal Housing Finance Agency – FHFA or a successor agency), that includes the providing of timely reports to allow for continual evaluation of the entities’ performance.

## Why not Full Privatization?

As mentioned in testimony before the House Financial Services Committee during the 111<sup>th</sup> Congress, NAR considered a number of different models for the operation of the GSEs moving forward. The first models that our members considered were the obvious, either fully private or fully federal. Our members thought that neither would effectively protect taxpayers nor ensure a continual flow of mortgage capital into all markets during economic downturns.

REALTORS<sup>®</sup> believe that full privatization is not an effective option for the secondary market because a private firms' business strategy will focus on optimizing its revenue / profit generation. This model would foster mortgage products that are more aligned with the business' goals (e.g. based upon significant financial risk-taking) than in the best interest of the nation's housing policy or the consumer. This situation, we believe, would lead to the rescinding of long-term, fixed rate mortgage products (e.g. 30-year fixed-rate mortgage products), and an increase in the costs of these products to consumers, or both.

According to research provided to NAR by economist, Susan Woodward, there is no evidence that a long-term fixed-rate residential mortgage loan would ever arise spontaneously without government urging. Ms. Woodward points out that a few developed countries have encouraged the use of amortizing long-term loans, but in all instances (save for Denmark), the loans have adjustable rates and recast every 5 years. She goes on to indicate that the United States is unique in supporting a residential mortgage that is long-term, amortizing, fixed-rate and pre-payable, and that Americans have come to view this product as one of their civil rights. Ms. Woodward highlights that in early 2000, when Former Federal Reserve Chairman, Alan Greenspan, hinted at its abandonment, the public outcry was such that he eagerly abandoned that position.

Second, the issue of the size of the US residential mortgage market arises. Currently, the US residential mortgage market stands at \$10.6 trillion, with the GSEs owning or guaranteeing \$5 to \$6 trillion of mortgage debt outstanding and providing capital that supports roughly 70% of new mortgage originations. REALTORS<sup>®</sup> believe that it is extremely unlikely that enough pure private capital – without government backing - could be attracted to replace existing mortgage funding, or assume the GSEs market share, and make mortgage lending available in all types of markets.

Finally, our members fear that in times of economic upheaval, a fully private secondary mortgage market will cease to exist as has occurred in the jumbo mortgage, the commercial mortgage, and the manufactured housing mortgage markets. When the economy turns down, private capital rightfully flees the marketplace, and should that occur in the residential market it would come to an abrupt and complete halt. Should that happen in the residential mortgage market space, the results for the entire economy – because of the plethora of peripheral industries that support and benefit from the residential housing market – would be catastrophic.

## **CONCLUSION**

The National Association of REALTORS<sup>®</sup> supports a secondary mortgage market model that includes some level of government participation, but that protects the taxpayer while ensuring that all creditworthy consumers have reasonable access to mortgage capital so that they too may

attain the American Dream – homeownership. Our members recognize that this is just one of many conversations regarding how we mend and improve the housing finance system that has served us well for many years. We believe that the key points that we mentioned will help Congress and our industry partners design a secondary mortgage model that will be in all of our nation’s best interest today, and in the future.

I thank you for this opportunity to present our thoughts on reforming our housing finance system, and as always, the National Association of REALTORS® is at the call of Congress, and our industry partners, to help continue the housing and national economic recovery.