



NATIONAL ASSOCIATION OF REALTORS®

*The Voice For Real Estate®*

500 New Jersey Avenue, N.W.  
Washington, DC 20001-2020  
202.383.1194 Fax 202.383.7580  
[www.realtors.org/governmentaffairs](http://www.realtors.org/governmentaffairs)

Charles McMillan  
CIPS, GRI  
President

Dale A. Stinton  
CAE, CPA, CMA, RCE  
EVP/CEO

GOVERNMENT AFFAIRS  
Jerry Giovaniello, Senior Vice President  
Joseph M. Ventrone, Vice President  
Gary Weaver, Vice President

**STATEMENT OF THE**

**NATIONAL ASSOCIATION OF REALTORS®**

**SUBMITTED TO THE**

**U.S. HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON FINANCIAL SERVICES**

**HEARING REGARDING**

**"OVERSIGHT CONCERNS REGARDING TREASURY**  
**DEPARTMENT CONDUCT OF THE TROUBLED ASSETS**  
**RELIEF PROGRAM"**

**ENTITLED**

**"USING NAR'S MORTGAGE INTEREST**  
**RATE BUY-DOWN PROGRAM TO**  
**REINVIGORATE TARP"**

**DECEMBER 10, 2008**

On behalf of the 1.2 million members of the NATIONAL ASSOCIATION OF REALTORS<sup>®</sup>, we urge your strongest support for a package of critically needed measures to stimulate our nation's housing and real estate markets. We believe these measures are essential to stabilizing the housing market and stimulating our nation's economic recovery.

Critical to stabilizing the housing market are boosting homebuyer confidence and reducing the current foreclosure rate. As home values decrease in many markets, job losses escalate and the financial burden of American families continue to soar, homeowners seeking refinance their mortgage or sell their primary residence are left with few alternatives and are "walking away" from their mortgage obligations. This action increases housing inventory and further fuels a further depression of home.

To staunch this cycle, we are advocating a federal mortgage interest buy-down program financed through the Treasury Department's Troubled Asset Relief Program (TARP). The buy-down program would complement the loss mitigation elements of TARP and provide an incentive to buy homes which will reduce the huge inventory of houses in our nation's markets. This, in turn, will stabilize home values, further boost home sales activity and breathe new life into our nation's economy. NAR's economists have estimated that lowering the mortgage interest rate by one percentage point can result in an additional 500,000 - 700,000 home sales.

We are pleased to see that the leadership of the Treasury Department is seriously considering actions to lower mortgage interest rates, and we are encouraging the Treasury Department to move swiftly to implement a buy-down element to motivate homebuyers to act rather than continue to sit by on the sidelines. Housing has always led our economy out of downturns and lower interest rates coupled with foreclosure mitigation are the key ingredients to stabilizing our housing markets and preserving homes and communities.

We urge your strong support for our 4-point housing stimulus plan and particularly our federal mortgage interest buy-down proposal. Together with carefully considered measures to address the rising number of foreclosures, these four points can help to provide our nation's housing market with the stability it sorely needs.

#### **NAR's 4-Point Housing Stimulus Plan**

The current economic crisis is, at its core, the result of problems in the nation's housing and mortgage markets. This circumstance makes it imperative that efforts be taken immediately to foster a housing recovery, so that a recovery of the overall economy can occur.

NAR has developed a plan that includes:

1. Gets the Troubled Asset Relief Program (TARP) back on track by targeting funds for mortgage relief through a federal mortgage interest rate buy-down program
2. A consumer-driven provision that eliminates repayment feature of the first-time homebuyer tax credit and expands the credit to all homebuyers,

3. Makes the higher Economic Stimulus Act of 2008's FHA and GSE mortgage loan limits permanent, and
4. Prohibits banks from entering into real estate.

NAR strongly believes that the inclusion of all of these priorities in a stimulus package is imperative to move our nation out of this economic crisis. One component that we believe can provide a near immediate impact to the housing market and the overall economy is the proposed mortgage interest rate buy-down program.

### Mortgage Interest Rate Buy-down Program

NAR supports getting TARP back on track by targeting funds to mortgage relief through the creation of a federal mortgage interest buy-down program. This program is one way the Federal government can quickly provide stimulus to the struggling housing market. The mortgage buy-down would have the government buying points to lower home buyers' mortgage rates. This program, estimated to cost in the \$40 billion range, would bring buyers back into the housing market, quickly reduce inventory and thereby stabilize home prices. NAR estimates that the months' supply of inventory would fall to about 7.5 months – a level consistent with no further home price declines. Moreover, the impact of this type of program would be felt almost immediately, by the second month after implementation.

The positive effects of falling mortgage interest rates are illustrated by the U.S. Treasury Department's recent decision to purchase the debt and mortgage-backed security (MBS) offerings of Fannie Mae and Freddie Mac. The announcement of the decision has spurred a significant reduction in mortgage interest rates over the last two weeks, a decrease of 61 basis points. Over this period, many REALTORS<sup>®</sup> have reported a significant increase of consumer interest in "for sale" properties. The revival of consumer interest due to a small decrease in mortgage interest rates confirms our suspicion that a significant reduction in mortgage interest rates, by any method, will bring a substantial number of consumers back to the housing market.

### *How the Buy-Down Program Works*

Mortgage lenders often offer home buyers the option to purchase points up front as a way to lower the interest rate on the mortgage. Typically, each point equates to a 0.25 percent reduction in the interest rate. A point costs the borrower one percent of the mortgage amount. Under this proposal the government would assist the consumers in the purchase of these points. For instance, a one percent buy-down would equate to four points or four percent of the price of the home. For a home costing \$183,300 (NAR's October median existing home sales price), the government's cost of buying down the mortgage rate one percent would be \$7,332. It is estimated that this buy-down would cost the government about \$40 billion (\$7,332 multiplied by the 5.5 million annual sales figure, which assume 500,000 additional home sales from current 5 million unit pace).

A home buyer purchasing a home at \$183,300 with a 30-year fixed interest rate mortgage of six percent has a monthly payment of \$1,098.98. If there was an interest rate buy-down of a hundred basis points, the home buyer's monthly payment would be \$983.99. That would save a consumer

\$1,379.78 in annual payments. The yearly benefit to consumers under current sales figures would be about \$6.9 billion. As a comparison, \$300,000 house in the same scenario the home buyer's monthly payment would fall from \$1,798.65 to \$1,610.46.

These lower payments could offer incentive to potential home buyers. NAR estimates that a one percent buy-down will result in 500,000 to 700,000 additional home sales. This kind of stimulus help would reduce inventory and stabilize home prices.

### **Additional NAR Housing Stimulus Plan Components**

In addition to the mortgage interest rate buy-down program, NAR's four point plan also includes the following components:

#### **Permanent Homebuyer Tax Credit**

NAR supports making the \$7500 first-time homebuyer tax credit available to all buyers and eliminate repayment requirements. The credit's limited availability and repayment requirement severely limit the credit's use and effectiveness. A tax credit that is available to all homebuyers, first-time or repeat / trade-up buyers, will increase demand for the existing housing supply and kick-start the housing market.

#### **Make the 2008 FHA, Fannie Mae and Freddie Mac Loan Limits Permanent**

NAR believes that making the 2008 FHA and GSE loan limits permanent will expand mortgage affordability in a time when home sales and refinance activity are required to stabilize the housing market and move it towards recovery. Other sources of mortgage capital have dried up, increasing the importance of FHA and the GSEs.

Current law will reduce the agency's limits at the end of 2008. This will create a situation where some borrowers will find themselves facing potentially higher mortgage interest rates, more adverse terms and conditions, or unable to secure funding because they are in an area that is suddenly above the GSE and FHA loan limits. These significant changes in loan limits will act to amplify the existing problems within the housing market.

Making the 2008 limits permanent will assure that a wide range of borrowers will have access to fair and affordable mortgages, including those residing in high cost areas.

#### **Permanently Bar Banks from Engaging In Real Estate**

NAR supports a permanent ban on banks engaging in real estate brokerage or management. The banks have proven they have enough to do to simply manage the loan process. If banks had been allowed to engage in real estate brokerage, the current economic crisis would be much more severe. Allowing banking conglomerates to engage in commercial activities would create anti-competitive and anti-consumer concentrations of power within the financial services sector, an unlevel playing field among commercial competitors, and conflicts of interest. In the current economic environment, further consolidation of power would only act

to build more business concerns that the American taxpayer would be on the hook to “not let fail.”

### **Conclusion**

Our nation continues to face a significant challenge in dealing with the economic turmoil in today’s housing market. We can only overcome this threat if we pursue avenues that will motivate the frightened and cautious housing consumer to enter the marketplace. NAR believes that the 4-Point Housing Stimulus Plan, in particular, the mortgage interest rate buy-down program, will encourage potential homebuyers, first-time and repeat, to enter the marketplace. Only then can the housing recovery begin, and only then can our nation’s economy begin the long road home to stability.

The National Association of REALTORS® urges your strongest and immediate support for its 4-point Housing Stimulus plan.