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STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED FOR THE RECORD TO THE

UNITED STATES HOUSE COMMITTEE ON FINANCIAL SERVICES SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

HEARING REGARDING

THE OBAMA ADMINISTRATION'S RESPONSE TO THE HOUSING CRISIS

OCTOBER 6, 2011

INTRODUCTION

On behalf of the more than 1.1 million members of the National Association of REALTORS® (NAR), thank you for holding this timely hearing, and affording us the opportunity to comment on the Obama Administration's response to the housing crisis.

The U.S. housing sector remains in a precarious state. According to many economists, it appears that the sector has reached bottom, and sales volumes and prices are beginning to stabilize. However, the uncertainty that has plagued the sector's, and overall economy's, recovery will remain in place as long as Congress and the Administration place partisan ideology before the betterment of the Nation. The late President Franklin Delano Roosevelt once said, "It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something". As we continue to look for solutions to our current economic, debt, and housing sector issues, let us embrace the sentiment offered during a time of similar crisis and begin working together to resolve these complex problems.

ADDRESSING THE NATION'S FORECLOSURE CRISIS

REALTORS® appreciate the Administration's attempts over the last two and half years to keep families in their homes, and its recognition that homeownership matters. The foundation of our economy is housing. Over a million small businesses have developed from it, and many more thrive because of it, including real estate sales services, housing finance, and construction and rehabilitation services.

Though several Federal programs were put into place in an effort to keep families in their homes, nearly all have depended on the efforts of large financial institutions to assist consumers. To date, all of these programs have fallen far short of their ambitious, but achievable goals. REALTORS® are concerned that many of these same financial institutions, who received vital funding from both the Treasury Department and Federal Reserve Board at the onset of the economic crisis, continue to deny similar support for distressed households across the country. A key purpose of the extraordinary support that these institutions received was to ensure that liquidity - for all types of lending – was available throughout the crisis. Yet many creditworthy households, specifically those requiring new or refinanced mortgages, are unable to obtain fair and affordable loans.

REALTORS® know firsthand that another attempt needs to be made to fix the housing sector, particularly the large inventory of real estate owned (REO) properties that exists and continues to grow. REALTORS® believe the any proposal designed to address this issue must:

- Focus on providing mortgage financing to qualified homebuyers and investors to increase the absorption rate of the current REO inventory and prevent increases to existing REO inventory,
- Expand resources dedicated to pre-foreclosure efforts, including loan modifications and short sales (foreclosures are typically more costly than loan modifications and short sales, so this would minimize the need for more taxpayer dollars being used to support the GSEs), and
- Continue the timely and orderly disposition of REO inventory assets, and in limited geographic areas where alternatives are needed, rely on the expertise of local businesses

including contractors, real estate brokerage firms, and professional property management companies.

NAR suggests that, as the government evaluates proposals in response to the recent request for information regarding the renting of government-backed foreclosed properties, the basic principles of any proposal should be to assist in reducing the number of properties in the foreclosure process that will add to the REO glut, maximize the recovery on REO assets currently held by FHA and the GSEs, and preserve housing values in neighborhoods across the country.

FINANCING

In response to the 2008 economic crisis, the Bush and Obama Administrations have taken extraordinary steps to ensure that most of our large financial institutions survive. Most of these large institutions received funding from both the Treasury Department and Federal Reserve at extremely favorable rates considering the inherent risk. Yet, private capital in support of the mortgage market – meaning without government participation via FHA, VA, or the GSEs - virtually disappeared.

The lack of financing is putting downward pressure on home values, increasing the number of homeowners whose mortgages exceed the value of their home, and increasing foreclosures. Since the beginning of the crisis, the GSEs and FHA have provided about 90% of all mortgage lending. During this time, FHA has raised its insurance premiums, the GSEs have raised their upfront fees (including loan-level pricing adjustments), and the lending industry as a whole has tightened underwriting standards to the point that only those with pristine credit histories have access to reasonably priced mortgage credit. Increasing access to financing for qualified borrowers and investors by reassessing the higher fees and excessively tight underwriting standards will increase the availability of mortgage lending for all types of housing, and will go a long way in allowing potential homeowners and investors to absorb excess foreclosed (REO) inventory.

Increasing Consumer Lending

As a consequence of extreme economic events, most notably high unemployment, lower home values, and tighter credit, many families now find that renting is their default option. Moreover, many creditworthy consumers continue to experience difficulties in obtaining fair and affordable mortgage loans. NAR supports strong underwriting standards; however, potential homebuyers have become discouraged during this time of unprecedented housing affordability due to high fees, unduly tight underwriting standards, and the lack of availability of private mortgage capital.

REALTORS® ardently believe that the lending industry should reassess its policies and increase lending. The excessively stringent underwriting standards that are preventing creditworthy buyers from obtaining loans now need to be weighed against the broader recovery of the economy, because they are impeding the confidence of potential mortgage applicants and threatening to reproduce cracks in a very fragile housing recovery.

Liquidity for Investors

REALTORS® firmly believe it is important to have private capital return to the mortgage market and give the government the ability to reduce its market share. Unfortunately, the refusal of financial institutions to return in support of the housing finance sector and provide mortgage financing means all borrowers, including investors, are finding it more and more difficult to obtain affordable mortgage options.

REALTORS® recognize the importance of affordable rental housing. For markets with large numbers of REOs and a high foreclosure pipeline, REALTORS® support giving local investors the opportunity to finance the purchase of distressed REO properties for rentals until the market recovers or to rehabilitate for more immediate resale. In order to facilitate this, the government should implement temporary financing policies to give local investors the opportunity to purchase properties. Here are two examples of existing Agency policies that can be modified to offer incentives to investors:

(1) HUD should open up the FHA Section 203(k) rehabilitation program to investors. This will facilitate the rehab of the existing housing stock and increase the availability of financing for rental housing, and

(2) The GSEs should temporarily suspend investor financing limitations, especially the limit on the number of mortgage loans allowed for any one investor/borrower (currently 4 for Freddie and 10 for Fannie), to enhance affordable rental opportunities.

Amending these policies will give small, private investors the opportunity to absorb some of the excess inventory, resulting in the stabilization of prices for existing REO properties. Also, hard hit communities would benefit from improvements made to the vacant properties, and local economies would improve as small businesses would have the opportunity to participate in the rehabilitation of these properties by providing, as an example, renovation and property management services.

PRE-FORECLOSURE

The current economic and political environments are very budget conscious. Therefore, REO disposition programs that appear to increase taxpayer losses while seeming to enrich large institutions would raise concerns among Congressional members and millions of taxpayers, who remain angry that "Wall Street" received federal support while "Main Street" was left behind. REALTORS® believe the best opportunity to reduce costs to taxpayers and assist in the stabilization of housing values and neighborhoods is to respond more effectively to, and provide more resources for, pre-foreclosure efforts on loans insured by FHA or owned or guaranteed by the GSEs. These efforts not only are net-positive outcomes for homeowners, but taxpayers as well.

Since early 2008, NAR has continually urged the lending industry to take every feasible action to keep families in their homes with a loan modification or, in cases where it is not possible to avoid foreclosure, a short sale.

Commitment to Loan Modification and Short Sales

REALTORS® are acutely aware of the downward pressure that foreclosures have on housing market prices. To relieve this, REALTORS® recommend that the government reassess current policies to make sure that as many loan modifications and short sales are approved as possible. This will reduce adding to the ever increasing glut of REOs.

A recent Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) report noted that less than 5% of TARP funds allocated for housing support programs, such as the Home Affordable Modification Program (HAMP) and Home Affordable Foreclosure Alternatives Program (HAFA), has been used. The success of these programs depends on the resources available and efforts of participating large financial institutions. Repurposing a portion of the existing housing focused funds to increase borrower participation will improve the performance of these programs, and will reduce the pipeline of severely delinquent mortgages that end up in foreclosure. Loan modifications keep families in their homes and reduce the probability of default.

Short sales, for those unable to meet their mortgage obligations, stabilize home values and neighborhoods, by keeping homes occupied. Also, short sales help reduce taxpayer losses by selling the probable foreclosure at a premium over its potential REO sales price. Unfortunately, our members' report that many potential homebuyers still choose to simply walk away from a short sale due to the length of time it takes for the lender to complete the transaction. The dependence on large financial institutions has resulted in a short sale market that is clearly not functioning as it should. Realtors® believe that homeowners and taxpayers deserve better.

IMPROVED DISPOSITION OF REO INVENTORY

Bulk Sales

In August, the Administration requested advice from market participants on the pooling and disposition of GSE and FHA REO inventories. FHFA, Treasury and HUD expect these disposition strategies to involve REO assets totaling at least $50 million in value, and in the case of joint ventures, up to $1 billion. Though bulk sales may quickly alleviate the critical mass of REO inventory held by the agencies, these types of proposals will likely require taxpayers to accept larger losses than is necessary.

As described earlier, REALTORS® strongly believe that every effort should be made to incentivize individual versus bulk sales because individual sales maximize recovery on the assets and minimize the impact on housing values. Exclusively selling in bulk to large national investors at deep discounts will only work to further consolidate a large section of the housing market into the hands of a few market participants

REALTORS® are also concerned that the unintended consequences of bulk sales at the proposed scale could devastate communities across the country. Providing a few large, private investors access to cheap assets for rentals could very likely erode market rent and sales prices. The consolidation of a large number of rentals to an institutional investor could mean that small landlords would be unable to match the rental prices that an institutional purchaser of a discounted pool of agency assets could offer.

Rather than encouraging bulk sales across the board, bulk sales should only be considered in small geographic areas with high rental demand and should contain rigorous stipulations that ensure the revitalization and stability of local communities. It is also important that consideration be given to the pricing of these pooled assets to prevent the negative effect bulk discounts could have on the rest of the market and smaller competitors if the discount is so large that the bulk purchaser can sell these properties quickly at a deep discount.

Structuring Bulk Sale Proposal

Should a pilot program be implemented for the bulk sale of distressed properties, the federal government should first offer local governments, investors, and housing authorities, with vested interests in their communities, the opportunity to purchase the properties. Such limited sales could be made to non-profit and for-profit organizations that must meet specific program requirements and are familiar with the needs of the communities where the homes are located. Ultimately, the success of any program will be determined by its stabilizing effect on a particular locale and whether it maximizes value for taxpayers.

Maximizing recovery on the assets will depend on the determination property valuations and the assurance that the valuations are accurate, appropriate, and reflective of current market conditions. REALTORS® strongly recommend that entities investing in pools of distressed REO inventory be required to have a local presence and work locally with contractors, real estate brokerage firms, and professional property management companies. Knowledge of regional and local markets is crucial in the orderly disposition of REO assets and minimizes taxpayer losses related to REO properties.

Lease-to-Own

REALTORS® believe that sustainable rental housing is an integral component of the housing market. Furthermore, they understand the opportunities affordable rentals provide for potential homebuyers as they save for down payments. Therefore, an option to combine REO disposition with affordable rental is a lease-to-own program. NAR recommends that any lease-to-own solution should be first focused on keeping families in their homes. FHA and GSE policies should minimize foreclosures that will result in the sale of the properties at a very large discount to a purchaser in a bulk sale, regardless of whether the purchaser has a lease-to-own component in place. Where lease-to-own programs are an appropriate solution, they should focus on the rehabilitation of blighted properties, affordable homeownership and, where it makes sense due to excess REO supply and significant rental demand, rental opportunities without an initial purchase requirement.

Structuring Lease-to-Own Programs

As the government considers REO disposition solutions, REALTORS® believe that the following principles supporting affordable rental and homeownership opportunities should be considered. Lease-to-own joint ventures:

- Should not be run or administered by the government,
- Should be administered, whenever possible, by local investors or local non-profits that can manage the specialized needs and challenges of local markets,

- Should be widely marketed by real estate agents to ensure visibility and encourage homeownership,
- Should have clearly defined expectations,
- Should have guidelines and contracts that are specific regarding maintenance, purchaser responsibility, purchase price, and percent of payment allocated towards a down payment,
- Should include Condominiums, and
- Should minimize detrimental effects on neighborhoods by implementing strict guidelines on the rehabilitation and continued maintenance of properties, ensuring that the properties do not become rentals that are in disrepair.

ADVISORY BOARD

Finally, as the President recently noted, a recovery of the housing market cannot be accomplished solely by the public sector. As the government reviews ideas for alleviating the foreclosure crisis, including the pooling of properties for bulk sales and lease-to-own joint ventures, NAR recommends the creation of an advisory board made up of public and private industry participants. A wide range of board members including government staff, asset managers, real estate professionals, professional property managers, and others with extensive real estate industry experience can work to ensure that the efficient disposition of government-owned REO properties minimizes taxpayer losses and negative effects on local real estate markets.

CONCLUSION

The recovery of the broader economy depends on housing. The last two and half years have shown that, with housing prices bumping along the bottom, a robust economic recovery will remain exceedingly difficult. NAR believes that the best way to extinguish the glut of foreclosed properties is through an expansion of financing opportunities to qualified homebuyers and investors, bolstering loan modifications and short sale efforts, and focusing on enhancing the orderly and efficient disposition of REO assets. Where bulk sales or lease-to-own programs are unavoidable, NAR urges you to consider our recommendations. Doing so will reduce taxpayer losses on REO assets, minimize the impact distressed assets have on local real estate markets, and ensure the stabilization of neighborhoods.

I thank you for this opportunity to share our thoughts on the housing crisis, and potential solutions. 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.