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TESTIMONY OF

MOE VEISSI

2012 PRESIDENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

HEARING REGARDING

THE RESPONSIBLE HOMEOWNER REFINANCING ACT OF 2012

MAY 24, 2012

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EQUAL HOUSING OPPORTUNITY

Introduction

On behalf of more than 1.1 million REALTORS® 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 giving us an opportunity to share our thoughts on how to help responsible homeowners save money through refinancing.

My name is Moe Veissi, and I am the 2012 President of the National Association of REALTORS®. I have been a REALTOR® for over 40 years, and am the broker-owner of Veissi & Associates, Inc. in Miami, FL. Since 1981, I have served the REALTOR® community in many capacities, from local association president, to state association president, to regional Vice-President, and now on the national stage as the NAR President in 2012. My life and my passion are real estate. So, it is my honor to be here today to lend voice to NAR's 1.1 million members, and the millions of Americans who own a home, want to sell a home, or just provide rental opportunities to those who require a home.

It's no secret our nation's housing markets remain in a tenuous state. While no one thought the crisis would carry on so long, markets are slowly recovering, but remain in need of immediate policy solutions to address the myriad challenges in order to stabilize housing and support an economic recovery. REALTORS® have long maintained that the key to the nation's economic strength is a robust housing industry. And, we remain steadfast in our belief that swift action is needed to directly stimulate a housing recovery. In particular, bringing relief to the millions of homeowners who have remained current on their mortgages in the face of declining home values and rising inflationary pressures will go a long way to kick starting not just the housing sector, but the overall economy.

The Responsible Homeowner Refinancing Act

The National Association of REALTORS® supports the "Responsible Homeowner Refinancing Act" because it offers relief to homeowners who continue to meet their

mortgage obligation during this on-going period of economic unrest. Many homeowners have maintained their mortgage payments even as the economy stalled and prices of other consumer goods rose, squeezing their discretionary income. Unfortunately, these same consumers have not been able to take advantage of the low mortgage interest rates fostered by policy aimed at stimulating the economy because of constraints embedded in the government-sponsored enterprises (GSEs) mortgage refinance guidelines.

That sentiment was acknowledged by Federal Reserve Chairman Benjamin Bernanke during comments he made to the Federal Reserve Bank of Chicago on May 10th. Chairman Bernanke indicated that, although "conditions in the financial system have improved significantly" lending remains strained in the U.S. home-mortgage market. He went on to note that "tighter lending standards and loan terms remain especially evident in the mortgage market", though banks are seeing growing demand for consumer credit and they are lending more easily in the credit card and auto loan sectors. The Chairman acknowledged that "while a return to lax lending standards that prevailed before the housing bust would not be wise, current standards may be limiting or preventing lending to many creditworthy borrowers."

The "Responsible Homeowner Refinancing Act" will encourage lenders to return to the home mortgage market by removing impediments and allow "current borrowers", whose loans are owned by Fannie Mae and Freddie Mac, to take advantage of record low interest rates. Effectively, this places more money into their pockets and gives them the confidence they need to participate in our nation's economy. According to NAR's analysis, based on data gathered by Lender Processing Services, this effort would support over 3 million refinances, reduce average annual payments by $2800, and save borrowers between $4.5 billion to $4.8 billion per year, after tax considerations (see Appendix A).

Moreover, helping these responsible homeowners lower their payments reduces their risk of default and aids the recovery of the GSEs, Fannie Mae and Freddie Mac. According to NAR's white paper, *Cutting Through the Red Tape*, "the CBO estimates that a similar program extended to loans securitized by the GSEs and FHA might result in 111,000 fewer

defaults". Finally, the economic activity spurred on by these consumers' ability to meet an affordable loan payment will act as a mechanism to begin moving our nation out of recovery.

The GSEs, under the guidance of the Federal Housing Finance Agency (FHFA), have recently made improvements to their refinance guidelines. This legislation codifies many of those improvements, and offers enhancements to others in an effort to ensure that hard-working, diligent mortgage payers, who are "current", have options available to them to relieve some of their economic burden during this tumultuous period.

The proposed legislation does a number of things that REALTORS® believe are necessary to entice both consumers and lenders to pursue refinancing in this environment. First, it eliminates unnecessary consumer costs associated with a refinance that tend to keep homeowners who need a refi on the sidelines. These would be the up-front risk-based fees charged by the GSEs that could cost consumers up to $4000 on a $200,000 loan, as well as costs associated with the appraisal. Also, underwriting guidelines that restrict eligibility due to loan-to-value (LTV) ratios would be waived for existing, performing GSE loans in order to ensure all "current" borrowers have access to affordable refinancing rates. In our present economic environment, many consumers may not have the discretionary capital required to close a refinance. However, many of these same consumers are current on their mortgage indicating their ability, and desire, to observe their obligation. The removal of these barriers will help reward those diligent mortgage payers by allowing them to achieve a reduced mortgage payment.

Second, the legislation improves competition for lenders looking to compete with the existing mortgage servicer. The proposed legislation directs the GSEs to require the same streamlined underwriting and associated representations and warranties for the new servicer that are in place for the existing servicer. This will level the playing field in a manner that yields increased competition for the consumer's business. Ultimately, this competition will lower the cost of refinancing for the consumer, again benefitting the stability of the GSEs and the overall economy.

An additional lender concern is addressed in the provision that directs FHFA to align the refinance guidance of Fannie Mae and Freddie Mac. Confusion over the standards applied by each GSE has caused lenders to remain on the refinance sideline out of concern for misunderstanding the guidance offered by the appropriate organization and being subject to "repurchase" risk.

Finally, the legislation establishes penalties for servicers of second liens and mortgage insurers who thwart the refinance process. Establishing the ability for consumers to overcome the obstacles of second liens and mortgage insurance will increase the number of households that can take advantage of the Administration's, Regulators', and Congress' efforts to help alleviate existing housing costs pressures, and stimulate the economy.

Utilization of GSE Guarantee fee as "Pay-for" for Non-housing Programs

A final issue that has the ability to prevent consumers from refinancing, or to keep potential homebuyers on the sideline, is the use of GSE guarantee fees (g-fees) as a means to "pay-for" **non-housing** programs. Just as the proposed legislation will make refinances more attractive by removing some cost barriers associated with the refinance process, the potential for Congress to increase the GSEs' g-fees for non-housing purposes effectively re-erects a cost barrier. NAR applauds the Menendez-Boxer legislation for not utilizing the guarantee-fee as a "pay-for" to support this legislation.

Our members were deeply troubled by the use of a 10 basis-point increase over the 2011 average g-fee to pay for a two-month extension of the payroll tax relief. That increase will impact homebuyers and consumers looking to refinance their mortgages for the next 10-years. Therefore, when Congress began negotiating the 10-month extension of the payroll tax relief and the potential use of the g-fess to cover that expense, you can understand why our members emphatically let Congress know that housing cannot, and will not, be used as the Nation's piggybank. Though they are only rumors about the potential use of g-fees to cover another non-housing expenditure, we would like to use this opportunity to indicate the

counter-productivity of such an increase in the face of the proposed legislation, "the Responsible Homeowner Refinancing Act".

The Nation's housing sector remains in a precarious state. Though we are seeing signs of improvement, we are cautious of taking any steps that may retard that recovery and ultimately send our overall economy into another tailspin. Increasing the g-fee, even just extending the current fee increase, effectively taxes potential homebuyers and consumers looking to refinance their mortgages, at a time when the housing sector can least afford it. The unintended impact of any proposed fee increase would be to keep housing consumers on the sideline, preventing the absorption of our nation's large real-estate owned (REO) inventory, as well as curtailing refinance activity that is needed to keep responsible consumers in their homes.

Lastly, please note that g-fees currently are calculated by the Enterprises as a function of the costs of guaranteeing the securities they issue, i.e., the risk of underlying loans. We strongly believe that fees charged by the Enterprises to manage risk and enhance capital should not be diverted for purposes unrelated to the safety and soundness of the housing finance system.

Conclusion

Homeownership matters. Either fostering new home purchases or helping consumers remain in their homes must be a priority if we are going to move our nation from tenuous recovery to prosperity. Homeownership represents the single largest expenditure for most American families and the single largest source of wealth for most homeowners. The development of homeownership has a major impact on the national economy and the economic growth and health of regions and communities. Homeownership is inextricably linked to job access and healthy communities and the social behavior of the families who occupy it.

In this period of tenuous housing recovery, we must utilize all available tools to encourage lenders and consumers to take the steps necessary to successfully support homeownership.

We can accomplish this by supporting efforts like the "Responsible Homeowner Refinancing Act" that is aimed at helping "current homeowners" lower their monthly payments, and by creating confidence in the housing finance system that encourages lenders to reach out to creditworthy borrowers.

The National Association of REALTORS® sees a bright future for the housing market and the overall economy. However, our members are well aware that the future we see rests on the industry's and the economy's ability to successfully navigate some continuing and persistent obstacles. Congress and the housing industry must maintain a positive, aggressive, forward looking partnership if we are to ensure that housing and national economic recoveries are sustained. The National Association of REALTORS® believes that the proposed legislation will foster and encourage steps in that direction.

APPENDIX A

Cutting Through the Red Tape

By Ken Fears
Manager, Regional Economics and Housing Finance Policy

The concept of utilizing a large scale refinance program to aid the ailing housing market and to stimulate the economy has been floating around since 2008.[1] Since then, rates eased below 4.0%, yet millions of Americans have not taken advantage of the opportunity because of the upfront costs of refinancing and other frictions unique to the current market. On May 8th Senator Robert Menendez (D-NJ) and Senator Barbara Boxer (D-CA) proposed a bill that would attempt to deal with these issues.

The proposal by Senators Boxer and Menendez follows several of the recommendations made by President Obama earlier this year and includes:

- Extending streamline refinancing for Fannie and Freddie borrowers
- Elimination of up-front fees on refinances
- Eliminating appraisal costs for all borrowers
- Allowing lenders not currently servicing a loan to refinance the loan with the same representations and warranties and streamline ability as the current servicer, thereby creating competition and lower costs to the consumer
- Requiring second lien holders who unreasonably block a refinance to pay "restitution to taxpayers"
- Requiring mortgage insurers who unreasonably fail to transfer coverage to refinanced loans "to pay restitution to taxpayers"

To analyze the impact of the proposal, data generated by Lender Processing Services[2] was used to estimate the universe of mortgages held by Fannie Mae and Freddie Mac that are both eligible and likely to refinance under such a program. An average 30-year fixed rate mortgage of 4.0% along with a Federal tax rate of 25%, a state tax rate of 5%, and an average loan balance of $150,000[3] were used to estimate the effect of the refinance program in the first year. It is assumed that borrowers with a current mortgage rate of 5% or higher will refinance[4] and there is no change in mortgage insurance premiums. The proposed changes would result in:

- Just over 3 million refinances
- Reduce the average annual payment by roughly $2,800
- Save borrowers $4.5 billion to $4.8 billion per year (after tax considerations) and more than $45 to $48 billion by 2022
- Some of the reduction in payments might result in increased savings, but much would be spent on goods and services.[5] The lower payments would have a multiplier effect resulting in an injection to the economy of possibly the full amount of the money saved by borrowers or perhaps more.

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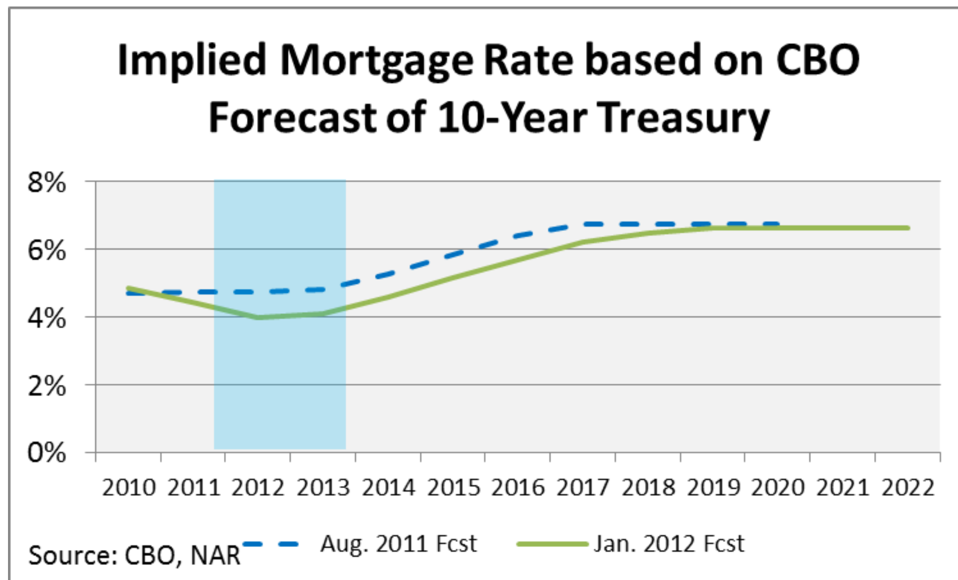
[1]See Hubbard and Mayer (2008) and Greenwald (2010)
[2]Lender Processing Services, Mortgage Monitor; February 2012 Mortgage Performance Observations
[3] Based on 4th quarter 2011 10k filing from Fannie Mae and Freddie Mac
[4] Relaxing this assumption to a minimum reduction in monthly payment of 5% like the FHA's streamline program would enable 560,000 additional refinances with a savings of $423 million in monthly payments.
[5] Canner, Passmore, and Dynan (2002) assume that 100% of the reduced payment is devoted to personal consumption expenditures and McConnel, Peach and Al-Haschimi (2003) point out that households who refinance tend to have higher propensities to consume due to income constraint.



The impact of a refinance program would extend beyond the savings to the consumer. The CBO[6] estimated that a similar program extended to loans securitized by the GSEs and FHA might result in 111,000 fewer defaults. Given the significant proportion of likely GSE refinances, the large number of loans held in portfolio that were not included in the CBO analysis, and lower subsequent CBO forecast for Treasury rates (and thus mortgage rates), it is reasonable to assume that the number of foreclosures averted by the GSE refinance plan would be substantial.

While the number of REO sales, modifications, and short sales have risen in recent quarters, the number of loans in foreclosure or REO remains high, thus underlining the need to staunch the flow of properties into this bucket. REOs are a significant problem for home sellers, the market and local communities:

- NAR estimates a price discount of 20% on REOs relative to non-distressed properties and some groups estimate this to be as high as 30%
- By one estimate, the sales price of a home was lowered by approximately 2.5% for every percentage increase in foreclosures in the same census tract, other factors constant.
- Homes that are vacant for an extended period impose costs on municipal governments ranging between $5,000 and $35,000, depending on length of vacancy, maintenance requirements, and damage to the home.
- Another study found a one percent increase in county foreclosure rate, increased the burglary rate by 10.1 percent. Impact also significant on larceny and aggregated assault.

Finally, resurgent concerns about European financial conditions as well as the impending fiscal cliff in the Unites States will weigh on the 10-year Treasury and mortgage rates in the near term, allowing more time for consumers to take advantage of a refinance program.

While the estimated $4.5 to $4.8 billion in savings and reduced defaults may seem like small figures, these refinances could have a significant impact in the local areas where the refinances would be concentrated. Furthermore, the relaxation of representations and warrants and loan level pricing adjustments sets an important precedent that could help to ameliorate the tight lending conditions on the originations side of the market.

[6] Remy, Luca, and Moore (2011), "An Evaluation of Large-Scale Mortgage Refinancing Programs".