NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED FOR THE RECORD TO THE

UNITED STATES HOUSE COMMITTEE ON FINANCIAL SERVICES

HEARING REGARDING

FEDERAL RESERVE BANK LIQUIDITY EFFORTS

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Introduction

On behalf of the 1.2 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 hearing on the Federal Reserve Bank's liquidity efforts.

NAR applauds the initial success of the Federal Reserve Board initiatives to reduce mortgage interest rates through the purchase of mortgage backed securities (MBS) issued by the government sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. When the Federal Reserve announced its decision to purchase GSE debt and MBSs, on November 28, 2008, just the announcement spurred a significant reduction in mortgage interest rates, an initial decrease of 61 basis points. During that period, many REALTORS® 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 belief that a significant reduction in mortgage interest rates will bring a substantial number of consumers back to the housing market.

NAR urges the Federal Reserve to continue its efforts to restore the normal spread between interest rates on Treasury obligations and mortgages. Keeping rates low, and pushing them lower, will restore vibrant housing and mortgage markets that will benefit both home buyers and homeowners seeking fair and affordable mortgages.

Stimulating the Residential Real Estate Market

NAR strongly believes that maintaining low mortgage interest rates, with the ultimate goal of having them within the normal 160 to 180 basis points spread over 10-year Treasury notes, will provide a near immediate impact to the housing market and the overall economy. The Honorable James Lockhart, Director of the Federal Housing Finance Agency, has made public statements acknowledging the link between lower rates in helping homeowners and home buyers. Moreover, NAR estimates that a one percentage point decrease in mortgage interest rates would increase home sales by 500,000.

NAR believes that the Federal Reserve's undertaking of this type of initiative will bring buyers back into the housing market, quickly reduce inventory, and thereby stabilize home prices. It is estimated that the increase in home sales, as spurred on by a one percentage point reduction in mortgage interest rate, will reduce the supply of inventory to about 7.5 months – a level consistent with no further home price declines. Moreover, the impact of this type of effort is felt almost immediately.

Providing Liquidity to the Commercial Mortgage Market

As the Federal Reserve continues to take positive steps towards fostering a recovery in the residential housing market, attention also must be afforded the commercial mortgage space and the serious consequences that the national economy will face if its liquidity continues to wane.

The commercial real estate sector plays a vital role in the economy. Real estate encompasses approximately $20 trillion in owner-occupied housing and $5 trillion in income-producing commercial property. It is estimated that the commercial real estate sector supports more than 9 million jobs and generates millions of dollars in federal, regional and local tax revenue.

Currently, banks and the Commercial Mortgage-Backed Securities (CMBS) market represent 75% of all outstanding commercial real estate loans. Unfortunately, banks are tightening their credit standards and reducing loan volume. At the same time, the CMBS market, which provided approximately $240 billion in financing in 2007 (nearly 50% of all commercial lending), extended less than $13 billion of credit in 2008. Investment activity in commercial real estate sectors is nearly at a standstill because commercial lending has essentially halted.

In 2009, hundreds of billions of commercial real estate mortgage loans will come due. Under current conditions, there will be insufficient capacity to refinance the performing commercial real estate loans that are maturing, which could result in significant loan defaults. It is expected that widespread loan defaults could seriously impact commercial property values, which are already weakened due to the overall downturn in the economy.

NAR strongly urges Congress, and the Department of Treasury, that any policy solutions being considered to correct current economic crisis also include these key principles for commercial real estate:

- In the current economic environment, it is extremely difficult to value assets. Mark-to-market accounting rules need to be modified so as not to further exacerbate the credit crisis.

- The Treasury and Federal Reserve should exercise their authority to implement and/or expand the Term Asset-Backed-Securities Loan Facility (TALF). The TALF should be encouraged to accept commercial mortgage-backed securities and conventional commercial real estate loans as collateral.

- Federal tax policies that strengthen the commercial real estate market need to be maintained and/or enhanced. For example, current capital gains rules as they apply to appreciated property, like-kind exchanges and carried interests need to be retained while passive loss rules should be suspended.

Additional Measures to Ensure a Successful Housing Recovery

Maintaining low mortgage interest rates and improving liquidity in the commercial mortgage markets will only go so far to relieve the current real estate crisis if the federal government, the Federal Reserve, and the mortgage lending industry do not address additional fundamental operational issues that are impeding the delivery of mortgage credit and increasing real estate foreclosures. To successfully facilitate a recovery of the real estate and financial markets, the following issues must be acted upon:

- The Treasury Department should provide additional TARP funds subject to agreement by the recipients to make additional loans for housing and other consumer purposes, establish foreclosure prevention programs, modify more mortgage loans to prevent foreclosures to the maximum extent possible, establish an efficient and effective short sales process, or a combination of these activities.

- All mortgage lenders, their servicers, the GSEs (Fannie Mae and Freddie Mac), and investors in mortgage assets should adopt and implement aggressive policies that result in more mortgage loan modifications to prevent as many foreclosures as possible. Where keeping the family in the home is not possible, these entities should facilitate short sales that will benefit all parties: owners, buyers, neighbors, communities, and lenders/servicers/GSEs/investors.

- Mortgage lenders and private mortgage insurers should (1) reexamine underwriting standards to determine whether they have over-corrected in response to abuses in the mortgage market, and (2) remove unnecessarily strict underwriting standards (such as (i) requiring excessively high credit scores that result in qualified borrowers being arbitrarily turned down for a loan, and (ii) coupling much tighter investor underwriting criteria with a lower cap on the number of financed properties an investor may own).

- Consumer reporting agencies (credit bureaus) should improve compliance with the Fair Credit Act, including prompt responses to consumers who seek to correct files and prompt correction of errors.

- Reform Hope for Homeowners. This program was designed to allow homeowners with troubled mortgages to refinance and get a new 30-year fixed FHA mortgage. However, due to its very restrictive provisions, this program has not been utilized. Reforms including providing great incentives for servicer/investor participation, expanding consumer eligibility, and lessening costs will make the program a much more effective tool for preventing foreclosure.

- FHASecure should be reinstated. HUD's FHASecure program successfully helped more than 450,000 families modify their mortgages and stay in their homes. However, this valuable program was allowed to sunset on December 31, 2008. The Hope for Homeowners program, which was expected to take the place of FHASecure, has not yet achieved the same levels of success. We urge HUD to reinstate FHASecure, so that homeowners have all the tools available to them to avoid foreclosure.

- As families consider buying a foreclosed home, they find that many properties need work in terms of rehabilitation or renovation. FHA's section 203(k) program is a valuable tool that allows homeowners to obtain one insured mortgage to rehabilitate a property in need of repair. However, this program is not available to investors, who may be interested in purchasing these homes and repairing them so they are ready for sale or for conversion to rental units. If the program were made available to them, vacant, dilapidated homes will be renewed and provide safe, comfortable homes for families. Investors will be able to access credit that is unavailable because of the current economic crisis. Finally, neighborhoods will be stabilized and previously vacant homes will contribute to the local property tax base. We urge HUD to once again open the section 203(k) program to investors, with appropriate safeguards and oversight.

Conclusion

NAR believes that focusing on real estate finance, in particular, initiatives aimed at lowering mortgage interest rates and providing liquidity to the commercial market will encourage potential real estate purchasers to enter the marketplace. We encourage the Federal Reserve to continue pursuing new avenues that will bring liquidity to the real estate market, as well as opening existing facilities (i.e. TALF) to the commercial real estate market sector that is in dire need of relief.

NAR thanks you for this opportunity to share our thoughts on the Federal Reserve Bank's liquidity efforts. The 1.2 million residential and commercial real estate practitioners of the National Association of REALTORS® stands ready to work with Congress and our industry partners to facilitate a housing recovery, and lift our nation's economy out this quagmire.