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The Voice For Real Estate®
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STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED FOR THE RECORD TO THE

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

HEARING REGARDING

ECONOMIC ADVISORS NOMINATIONS / REVISED TARP PLAN

FEBRUARY 10, 2009

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 crucial hearing on the new administration's planned use of the Troubled Asset Relief Program (TARP).

Like millions of Americans, Realtors® are stunned that most of the first tranche of the Troubled Asset Relief Program (TARP) funding was used to prop up the capital positions of banks, without imposing conditions requiring them to use the additional capital to support increased lending. The problem with that approach is that it does nothing to address the fundamental problem of deteriorating assets on the banks' balance sheets, especially mortgages and mortgage backed securities. The lower the value of these assets, the more capital the banks must raise. Without addressing the assets themselves, it is wasteful to simply replenish bank capital.

The Secretary of Treasury under the previous administration justified the TARP program as a way to purchase these assets from the banks, remove the uncertainty about valuation, and give them more capital with which to resume lending. NAR supported this rationale for the program and strongly urges that TARP be used as originally intended.

Getting TARP Back on Track

The real estate sector, and the financial institutions that serve it, are at the core of our economic crisis. Until significant emphasis is placed on repairing and restoring confidence in real estate, a vital wealth building and commerce generating business sector, no economic recovery will occur. As home values decrease in many markets, job losses escalate, and the financial burden of American families soar, homeowners seeking to refinance their mortgage or to 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 depression of real estate values and a receding of related goods and services activity.

NAR believes that utilizing TARP funds to remove troubled mortgage assets from the marketplace, along with the additional stimulus efforts now being considered by Congress, are effective steps to bring stabilization to the real estate market. Additionally, NAR believes that the Treasury Department should only provide 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.

Additional Measures to Ensure a Successful Housing Recovery

Furthermore, NAR also advocates the following additional actions to ensure a successful housing recovery:

- 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.

- Focus on the dangerously low liquidity level in the commercial mortgage market space.

Focusing on the Commercial Mortgage Market

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.

- Owners and investors in commercial real estate support infrastructure investment and recognize that capital improvements to our nation's infrastructure (transportation, roads, energy grids, etc.) represent an important benefit to the commercial real estate sector. Along the same lines, the industry supports efforts designed to encourage the commercial real estate industry's role in energy efficiency and "green" building initiatives but believes such efforts need to be in the form of incentives rather than mandates.

Conclusion

The time for experimenting with "no strings" capital infusions into the banking system has come to an end. The Department of the Treasury must implement TARP as it was intended by Congress, with the appropriate oversight in place, if this program is going to support our nation's efforts to end the current housing and economic crisis. NAR respectfully request that you take our recommendations for refocusing TARP, as well as the other steps necessary for full real estate market recovery, into consideration as the second tranche of TARP funds is readied for release.

NAR thanks you for this opportunity to share our thoughts regarding the implementation of the remaining TARP funds. The 1.2 million residential and commercial real estate practitioners of the National Association of REALTORS® stand ready to work with Congress and our industry partners to facilitate a housing recovery, and bring our nation out of this economic nightmare.