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STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED TO:

THE UNITED STATES CONGRESS JOINT ECONOMIC COMMITTEE

HEARING TITLED

THE ECONOMIC EXPOSURE OF FEDERAL CREDIT PROGRAMS

JUNE 15, 2015

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EQUAL HOUSING OPPORTUNITY

The National Association of REALTORS® and its affiliate the Institute of Real Estate Management, thank the Joint Economic Committee for holding this important hearing. Federal credit programs provide great benefits to our citizens, especially in areas where the private sector does not participate. In the aftermath of the Great Recession, it is wise to examine the programs - but also to pay careful attention to the costs AND benefits they provide our nation.

In 1990, Congress approved the "Federal Credit Reform Act (FCRA)" which changed the accounting rules for federal credit programs to ensure that accurate federal costs were represented and to allow comparisons between federal programs. Prior to this change, federal credit programs were scored on a simple cash basis. This resulted in loan programs which generated revenue looking like they cost the same as a grant which would not be repaid, and in loan guarantees looking like they were free because of the revenue received in origination fees. FCRA changed all that. FCRA records all costs that are incurred to the Treasury, and also includes factors such as expected loses, late payments and even changes in market conditions

Currently, there are proposals to shift federal credit programs' accounting to a Fair Value Accounting methodology. Fair value is calculated using a market interest rate when, in reality, federal programs borrow at lower Treasury rates. Fair value accounting adds on the costs that a private sector firm experiences rather than accurately calculating the actual costs that the federal government incurs. The National Association of REALTORS® strongly opposes this change.

Private markets are risk averse. The federal government created its loan programs with this risk aversion in mind, designing programs to ensure that access to credit is available to American households in all markets. Due to volume and favorable Treasury rates, the federal government can provide this access at a safe, affordable rate, to American families who need these resources. Moving these programs to a fair value model will add phantom costs - those which are not actually incurred – and create an inconsistent budgetary treatment for certain programs while artificially adding costs to the federal budget.

One reason cited for this proposed change is that fair value is a more accurate predictor of risk. This is simply not true. Both fair value and FCRA models project future cash flows. Both use an accrual basis of accounting. The biggest difference between the two is in the effective discount rates used to calculate present value. Fair value accounting adds private sector costs of doing business not incurred by the federal government in administering federal credit programs.

To accurately assess costs, fair value accounting requires there to be a similar program in the private sector against which to benchmark risks and costs. However, federal loan and loan guarantee programs are fundamentally different than their private sector counterparts. In many cases, these programs were created to fill market gaps in which the private sector does not operate.

Utilizing fair value analysis for federal housing programs would be especially inappropriate. Part of the Federal Housing Administration's (FHA's) mission is to preserve healthy neighborhoods and communities, maintain and expand homeownership and stabilize credit markets in times of economic disruption. FHA's housing programs are designed to serve the underserved, i.e. those the private market is not serving. In order to meet its mission, FHA cannot focus solely on profit-making transactions like a private company. Rather, FHA insures a range of qualified borrowers for the good of the general public that the private market is unwilling or unable to take on.

During the recent housing crisis, the private market fled housing and mortgage markets, but FHA remained and played its important countercyclical role. In 2014, for example, 81 percent of all FHA loans went to first-time homebuyers. Moreover, nearly half of African American and Hispanic families who purchased a home did so with FHA mortgage insurance. Calculating a private sector interest rate proves problematic in this situation because there was little to no private market participation.

However, the value of federal loan programs like FHA is very real. During the Great Recession, Moody's Analytics estimates that without FHA, housing prices would have fallen an additional 25 percent, and American families would have lost an additional $3 trillion of wealth built up in the value of their homes. A homeowner's net worth is 34 times that of a renter, every home purchase contributes $60,000 in direct and indirect spending to the economy, housing accounts for 15% of GDP, and every 2 homes sold create one job. The FHA single family mortgage insurance program facilitates the American dream of homeownership for millions of American families and helps the national economy.

The impact on the Appropriations process if fair value estimates are used would be severe. For example, using fair value for FHA would hurt many programs under the Transportation-HUD appropriations bill. The Congressional Budget Office (CBO) estimates that, instead of raising $4.4 billion in revenue which is currently used to fund many other parts of the T-HUD budget, FHA would require an appropriation of $3.5 billion, and provide no offsets for the rest of the T-HUD Budget. If fair value accounting is adopted, federal housing loan programs such as FHA, the VA home loan guarantee and rural housing loans would either become significantly more expensive for borrowers, or would require increased appropriations of billions of dollars to cover costs that only exist on paper.

NAR strongly opposes moving federal credit programs to a fair value accounting model. Adding costs to the federal budget that do not actually occur will distort the true costs of these programs and will distort the budget as a whole. Federal housing programs provide significant value to American families and our economy. Adding inapplicable and imaginary private sector costs that the government does not incur complicates the appropriations process and, most importantly, makes the budget a less accurate reflection of actual government spending.