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NATIONAL ASSOCIATION OF REALTORS®

RECOMMENDATIONS FOR:

FIGHTING THE PROBLEMS OF POVERTY AND HOUSING AFFORDABILITY

AS REQUESTED BY:

U.S. HOUSE OF REPRESENTATIVES FINANCIAL SERVICES COMMITTEE

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1. **RESTRUCTURING HUD TO MAXIMIZE ITS ORGANIZATIONAL EFFICIENCY,**

For years HUD has been hampered by a lack of investment in staff and information technology.

The National Association of REALTORS® (NAR) strongly supports increased funding for HUD to upgrade its technology. Although improvements have been made over the years, HUD continues to operate with technology that is decades old. Upgrading the dozens of incompatible systems to web based customer-centric applications is necessary for the agency's continued success.

HUD needs the ability to hire the professional staff needed to run what is now such a large and critical component of our housing finance system. HUD also needs flexibility to hire appropriate staff using the compensation guidelines of similar agencies, such as the Federal Housing Finance Agency or the Federal Deposit Insurance Corporation. NAR also supports providing HUD with authority to hire expert consultants to work on specific program areas within FHA's operations. These changes are necessary to ensure the FHA is able to work efficiently and effectively with qualified, experienced staff.

In addition, Ginnie Mae, which securitizes FHA (as well as VA and RHS) loans, is in need of modernization. Increases in staffing and technology would help GNMA keep up with high demand for its services, and create efficiencies for the program.

2. **INNOVATIVE APPROACHES TO ADDRESS HOUSING AFFORDABILITY THAT RESPECT INDIVIDUAL RIGHTS AND PROMOTE INDIVIDUAL RESPONSIBILITY,**

While there has been great progress in our economic recovery, access to affordable mortgage credit remains a problematic obstacle for prospective homebuyers. The number of first-time buyers entering the market is at the lowest point since 1987, despite historically low mortgage rates. The nation's homeownership rate has fallen almost to levels last seen in 1990. Today, the number of homes purchased annually remains less than 70 percent of what was purchased prior to the real estate bubble and subsequent collapse.

Loan pricing and lending restrictions are also making it more difficult for credit-worthy borrowers to purchase a home. NAR believes that these types of rules should be directly commensurate with actual risk. Borrowers should not be subject to higher fees or burdens that are unnecessary or used to fund unrelated programs.

FHA remains a critical part of the housing market, and must be strengthened and preserved. FHA played a vital role during the Great Recession and provided the only access to mortgage credit for American families. From 2007-2009, FHA financing helped more than 1.8 million Americans become homeowners. Even more importantly, FHA helped stabilize housing prices in thousands of communities by providing access to home financing when few others would. Today, FHA is strong and its financial health continues to grow. FHA continues to play a significant role for first-time buyers and minorities. But we believe they can do more to provide access to safe, affordable, sustainable housing.

Condo Restrictions Should Be Lifted

Condominiums often represent the most affordable options for first-time homebuyers, urban dwellers, or older homeowners who wish to downsize. Condominium unit mortgages are among the strongest performing in the FHA portfolio. According to FHA data from 2014, the national serious delinquency rate for condominium projects is 0.89 percent versus 1.17 for single-family homes.[1] Condominiums are often the most affordable option for first time homebuyers. NAR strongly believes that qualified homebuyers should not be prevented from this option, simply due to mortgage restrictions.

However, the Federal Housing Administration has placed significant restrictions on the purchase of condominiums. However, NAR supports developing policies that will give current homeowners and potential buyers of condos access to more flexible and affordable financing opportunities as well as a wider choice of approved condo developments. Specifically, NAR has five areas of concern.

a. **Owner occupancy** – FHA regulations require that a condominium property be at least 50 percent owner occupied in order to be eligible for FHA mortgage insurance. FHA's ratio greatly limits the number of condominium buildings available to credit-worthy borrowers. This policy is also self-fulfilling. If a building has less than the 50 percent owner-occupancy ratio, sellers of units have fewer buyers who are eligible, and may be forced to rent out their units rather than sell. This, in turn, makes it difficult for many buildings to achieve the 50 percent requirement. By way of contrast, the GSE requirements do not place limits on the owner-occupancy of a condominium project if the borrower is buying it as a primary residence. NAR strongly urges FHA to eliminate this requirement to open up more properties for FHA eligible buyers.

b. **Project Approval Process** – FHA requires the entire condominium project to be approved prior to a buyer purchasing a unit. This certification process is costly and time-consuming, and difficult for the volunteer boards of condominium buildings. Less than 20 percent of all condominium properties nationwide have FHA approval.[2] NAR strongly urges FHA to reduce the burdens associated with project certification. NAR also recommends that the spot loan approval process be reinstated to allow purchases in some buildings that do not have FHA certification.

c. **Delinquent Dues** – Following the housing crisis, a number of condominium and homeowner associations have had units that are behind in paying their dues. FHA restricts approval of properties where more than 15 percent of the units have delinquent dues. While NAR appreciates the need to make sure properties are properly capitalized with appropriate reserves, dues payment should not be a sole determinant of fiscal soundness. Some associations may have compensated for delinquencies by building additional reserves or taking other steps to ensure that delinquencies are not impacting their financial stability. This requirement should not be a determining factor, but instead be a part of an overall review of a property's finances.

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[1] Serious Delinquent Rates, Retrieved April 13, 2015, from Neighborhood Watch, Early Warning System. ttps://entp.hud.gov/sfnw/public/

[2] Based on estimates derived from FHA's condo lookup tool as of 2/24/15.

d. **Commercial Space** – Multi-use properties and new "town center" developments are very popular, and lauded by HUD as creating benefits for communities in providing easy access to amenities and transportation. Yet, condominium associations with commercial space are restricted from approval by both the GSEs and FHA. The GSEs limit commercial space to 20 percent, but provide waivers. FHA's limit is 25 percent, also with allowable waivers. The current policy hinders efforts to build neighborhoods that have a mix of residential housing and businesses with access to public transit. NAR urges FHA and the GSEs to lift these restrictions.

e. **Transfer Fees** – FHA has a policy that prohibits FHA mortgage insurance on any property that has a transfer fee covenant. Fees that increase the costs of housing can disenfranchise those who wish to obtain the American dream; however, fees that provide a direct benefit to homeowners and improve the property are legitimate and should be permitted. The blanket policy used by FHA can greatly disadvantage the millions of homeowners living in community associations, making it much harder for them to sell their homes. NAR believes that FHA rules should distinguish between equity-stripping private transfer fees and those that are used to fund projects that directly benefit homeowners, much as FHFA has already done.

FHFA has previously dealt with this issue, following a thoughtful and lengthy rule-making. FHFA's final rule on transfer fee covenants establishes a clear, national standard to protect homeowners from equity-stripping private transfer fees while preserving the preeminence of State and local governments over land use standards.

FHA should accept a mortgagee's compliance with FHFA's transfer fee covenant regulation as compliance with relevant FHA mortgage insurance program rules, guidelines and requirements. Any additional and potentially conflicting federal standard on transfer fee covenants by FHA will cause confusion in the housing market and require community associations to amend governing documents. Amendments to community association covenants, conditions, and restrictions can be difficult to execute and by statute generally require legal counsel and the approval of at least a supermajority of owners. NAR urges FHA to mirror FHFA's rule, and prohibit only those fees that don't benefit the homeowner and association where they live.

REALTORS® support H.R. 3700, which addresses a number of these issues. There are additional concerns related to condo rules including investor ownership, concentration limits, and pre-sale requirements that also should be changed.

Mitigating Flood and Disaster Risk

Many homebuyers and homeowners today face significantly increased costs for food and other disaster insurance. HUD's 203k loan renovation can provide a significant benefit to American families who wish to help mitigate the risk to their property, and lower their insurance costs. NAR has been working with FHA to better communicate the availability of 203k loans for hazard mitigation to homeowners and lenders alike. Such actions could reduce the burdens on the National Flood Insurance Program and ease costs for homeowners and home buyers.

Changes Must Be Made to Increase Housing Voucher Usage

NAR believes that federally assisted-housing programs have proven records for producing and preserving affordable housing. These programs must not only be preserved but also strengthened and provided with significant additional resources. Our members are involved in the ownership and management of Section 8 properties and conventional properties that accept vouchers.

The Section 8 housing program for existing housing involves the issuance by a local government of Section 8 certificates which allow the certificate holder to rent any apartment, with the tenant paying monthly rent in an amount usually not more than 30% of the tenant's certified household income to the landlord, and the local government guaranteeing to pay the remainder of the rent, up to local fair market rent limits, based upon unit size. The property operator enters into a contract with the tenant and third party, usually the local housing authority, which pays the portion of the rent above the amount to which the tenant is directly obligated to the landlord, as a rental subsidy. The legislative construction and intent of the program was for landlord participation to be voluntary, meaning a property owner or manager is not required by the federal government to participate in the Section 8 program. Landlords who participate in the Section 8 program and accept Section 8 rental subsidy certificates must follow strict and voluminous regulatory requirements including, without limitation, specific lease terms (required and prohibited), inspection requirements and other required regulations.

In addition to the certificates, the program also grants vouchers to individuals as a form of payment for rent. It is the responsibility of the tenant to make up the difference between the amount of the voucher and the amount of the actual rent.

NAR believes that affordable housing opportunities should be available to all citizens. There are many opportunities for the government and property owners and managers to work together to provide adequate, affordable housing to citizens. Involvement in these opportunities, however, should not be mandated by any level of government, whether it be local, state, or federal. The selection of tenants and the terms of the contractual relationship are the function of the property owner or manager, not the government. Allowing certain tenants to have different (government-mandated) provisions included in their leases is unfair to all residents of the property.

There are many valid, nondiscriminatory reasons for not participating in the Section 8 program. Participation in the program requires a property owner to sacrifice many private property rights and forces the operator to comply with burdensome government regulations and procedures which can seriously compromise the performance and financial viability of a property, which may include: entering into housing assistance payment contracts, amendments of landlord's leases, and compliance with additional required regulations not normally attendant to conventional housing. Some of the regulations and logistical burdens attendant to tenant-based Section 8 tenancies needlessly inhibit private participation in the program. We encourage changes to these policies to eliminate those burdens inconsistent with conventional housing practices. HR 3700 includes several such provisions, and NAR supports this legislation.

3. METHODS OF TARGETING HOUSING ASSISTANCE TO ADDRESS GENERATIONAL CYCLES OF POVERTY,

NAR believes that all families deserve access to safe, affordable housing that is appropriate to their work/life situation. Studies have shown that home ownership has a significant impact on net worth, educational achievement, civic participation, health, and overall quality of life. And, home ownership helps create jobs—lots of them—right here at home. NAR supports a number of programs that can help move people from rental housing to responsible homeownership.

Section 8 Homeownership

Some housing authorities are utilizing a program called the Homeownership Voucher program, which allows qualified voucher holders to purchase a home and transition off housing assistance. While the program includes stringent eligibility, homeownership training, counseling, and other requirements, the program has the potential to move families into stable homeowners. These programs differ by housing authority but can offer home loans at below-market interest rates, provide downpayment assistance, and allow eligible Section 8 tenants to use their Section 8 Housing Choice Vouchers towards a monthly mortgage payment. REALTORS® support increased development of this program to help families gain independence, increase their net worth, and improve their overall quality of life.

Condos

As previously noted, condos are often the most affordable option for many people moving out of rental housing into homeownership. While NAR agrees that both FHA and GSE have responsibility to insure these properties are physically and fiscally sound, many of the current restrictions are counterproductive. Condos are often far more affordable than stand-alone single family homes, and can provide great benefits to first-time buyers.

4. EXAMPLES OF SUCCESSFUL IMPLEMENTATION OF SUCH PROPOSALS AT THE LOCAL, NATIONAL, OR INTERNATIONAL LEVEL (IF APPLICABLE),

Landlord Outreach

A number of housing authorities are using extensive landlord outreach programs to encourage more landlords to participate in the Section 8 housing voucher program. As was discussed earlier, this program includes a number of requirements that place unnecessary burdens on property owners who accept voucher tenants. Encouraging landlords at the local level to learn more about the program, and provide guidance and direct contact by housing authorities can help grow the number of landlords who are willing to participate in the program.

HOME Funding

NAR supports full funding HOME Investment Partnerships Program. Using a formula, the Department of Housing and Urban Development distributes HOME grants states and local communities to fund a wide range of affordable housing activities. These include downpayment assistance, rental assistance, rehabilitation of affordable housing, and development. These programs are used at the local level and have been very successful in meeting the specific needs of each community.

Employer-Assisted Housing

Housing opportunities for low-and moderate-income working households — often referred to as "workforce housing"— continue to be elusive in many parts of the country. Much of our workforce, including those who provide vital services to a community such as firefighters, police officers, teachers, health workers, cannot afford to live in the communities where they work or serve. Home prices and rents in many communities are still beyond the reach of many working families.

Tight credit, the difficulty of saving for a down payment, and market uncertainty all add to the challenges of homeownership. These factors create a ripple effect that compels working families to move farther away from jobs in search of affordable housing. Longer commutes contribute to traffic congestion, more money spent on transportation, increased stress, and less time for workers to spend time with family and friends. And, in some parts of the country, shortages of workforce housing have taken a toll on local employers' bottom lines as employers are unable to recruit and retain workers in high-cost areas. These challenges are compounded by an unstable housing market and neighborhoods devastated by foreclosures. The foreclosure crisis not only jeopardizes the American dream of homeownership, but it also increases the number of vacant properties and makes neighborhoods unsafe and undesirable for working families.

Communities across the country increasingly are recognizing the importance of affordable and workforce housing to their economic and social well-being and are looking for ways to address the housing challenges in their communities. NAR supports the development of employer-assisted housing programs. Some REALTOR® associations and REALTORS®, along with employers, non-profit organizations, and government entities, have already started to implement creative initiatives to expand workforce housing opportunities for families working in their communities.

NAR has created an Employer-Assisted Housing (EAH) class to educate REALTORS® to work with local employers so that they can help their employees become homeowners or afford a home close to work. Businesses are starting to understand that there is a link between housing costs and their bottom line as housing costs continue to create challenges for individual businesses seeking to attract and retain workers. Initiating an employer-assisted housing program can help communities and businesses attract motivated and productive workers who have ties to their community.

Housing Counseling

For some buyers, the process of purchasing a home can seem complicated and overwhelming. There are also buyers who feel ready to purchase a home but in reality may not be financially ready. Time spent in a homebuyer education class or with a HUD certified housing counselor can help a buyer understand the process and reach a position of being mortgage-ready. REALTORS® support robust counseling tools and expertise to help those clients who could benefit from counseling resolve financial, problems, determine actual household needs, and work on a budget and spending plan and an action plan that begins to prepare the buyer to meet the financial requirements of his or her new home.