



NATIONAL ASSOCIATION OF REALTORS®

*The Voice For Real Estate®*

500 New Jersey Avenue, N.W.  
Washington, DC 20001-2020  
202.383.1194 Fax 202.383.7580  
[www.realtors.org/governmentaffairs](http://www.realtors.org/governmentaffairs)

Charles McMillan  
CIPS, GRI  
President

Dale A. Stinton  
CAE, CPA, CMA, RCE  
EVP/CEO

GOVERNMENT AFFAIRS  
Jerry Giovaniello, Senior Vice  
President  
Gary Weaver, Vice President  
Joe Ventrone, Vice President  
Jamie Gregory, Deputy Chief Lobbyist

**STATEMENT OF THE  
NATIONAL ASSOCIATION OF REALTORS®  
SUBMITTED FOR THE RECORD TO THE  
UNITED STATES SENATE  
COMMITTEE ON BANKING,  
HOUSING & URBAN AFFAIRS  
HEARING REGARDING  
FEDERAL RESPONSE TO THE  
HOUSING & FINANCIAL CRISIS  
JANUARY 28, 2009**

---

REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.



## **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 Federal Governments' response to the ongoing housing and finance crisis.

NAR strongly urges Congress to pursue efforts that are focused on stimulating the nation's real estate markets. The real estate sector, and the financial institutions that serve it, are at the core of our economic crisis. Until Congress, along with the new administration, places significant emphasis on repairing and restoring confidence in real estate, a vital wealth building and commerce generating sector, no economic recovery will occur.

NAR believes that in order for the Federal government to respond effectively to the current crisis, it is crucial that initial steps be focused on stabilizing the real estate market. 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. Therefore, it is critical to include stimulus measures that bring buyers back to the market and reduce inventory in order to stabilize home prices and spur peripheral economic activity.

## **Stimulating the Real Estate Market, Mitigating Foreclosures, and Helping Homeowners**

In late 2008, NAR presented Congress with a housing stimulus plan that focused on:

- Getting the Troubled Asset Relief Program (TARP) back on track by targeting funds for mortgage relief through efforts to lower mortgage interest rates,
- Eliminating the repayment feature of the first-time homebuyer tax credit, expanding it to all homebuyers, and extending the credit's effective date to December 31, 2009,
- Making the higher Economic Stimulus Act of 2008's FHA and GSE mortgage loan limits that applied in 2008 permanent, and
- Increasing liquidity in the commercial real estate loan market.

NAR strongly believes that addressing these priorities is imperative to move our nation out of this economic crisis. One component that will provide a near immediate impact to the housing market, and the overall economy, is the effort to ensure that mortgage interest rates remain low, with the ultimate goal of having them within the normal 160 to 180 basis points spread over 10-year Treasury notes.

### *Maintaining Low Mortgage Interest Rates*

An effort to reduce and maintain low mortgage interest rates, and more specifically, to have the rates mirror the normal spread above 10-year Treasury notes (160 - 180 basis points) seen in a stable economic climate, is one way the Federal government can quickly provide stimulus to the struggling housing market. In the recent past, the Director of the Federal Housing Finance Agency, James Lockhart, has made public statements acknowledging the link between lower rates in helping homeowners and home buyers. NAR estimates that a one percentage point decrease in mortgage interest rates would increase home sales by 500,000.

NAR believes that 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 supply of inventory would fall to about 7.5 months – a level consistent with no further home price declines. Moreover, the impact of this type of initiative would be felt almost immediately.

Federal action has already had some success in lowering interest rates. The Treasury Department is purchasing mortgage backed securities (MBSs) of the GSEs. In addition, 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 this 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 suspicion that a significant reduction in mortgage interest rates will bring a substantial number of consumers back to the housing market.

#### *Amend the Homebuyer Tax Credit*

NAR continues to support making the \$7500 first-time homebuyer tax credit available to all buyers and eliminating the repayment requirement, and extending its expiration date through the end of December 2009. The credit's limited availability and repayment requirement severely restrict the credit's use and effectiveness. A tax credit that is available to all homebuyers, first-time or repeat / trade-up buyers will increase demand for the existing housing supply and kick-start the housing market.

NAR applauds Senators Conrad, Baucus, and Ensign for their efforts to help correct the existing homebuyer tax credit by offering amendments that extend the expiration date of the tax credit and eliminate the repayment requirement.

#### *Make the 2008 FHA, Fannie Mae and Freddie Mac Loan Limits Permanent*

NAR believes that making the 2008 FHA and GSE loan limits permanent will expand mortgage affordability in a time when home sales and refinance activity are required to stabilize the housing market and move it towards recovery. Other sources of mortgage capital have dried up, increasing the importance of FHA and the GSEs.

As required by current law, the maximum limits were reduced at the end of 2008 from 125 percent of area median up to \$729,750 to 115 percent of area median up to \$625,500. In addition, the regulators have chosen to recalculate the median home prices for all counties, most of which went down. This recalculation, coupled with the change to the high cost area formula, has further reduced the loan limits in many markets, and greatly limited access to mortgage credit.

These actions mean borrowers will find themselves facing higher mortgage interest rates and more adverse terms and conditions, or are simply unable to secure a mortgage because they are in an area that is now subject to lower GSE and FHA loan limits. These significant changes in loan limits will act to exacerbate the existing problems within the housing market.

NAR applauds the attention Congress is giving this issue by crafting language in the American Recovery and Reinvestment Act of 2009 that repeals the changes in the loan limits and has them revert them to 2008 levels temporarily. The changes, that NAR strongly supports, are an excellent first step in stimulating the housing market and bringing relief to troubled homeowners.

However, in order to have a significant impact on the market over the long-term, NAR believes that making the 2008 limits permanent will assure that a wide range of borrowers will have access to fair and affordable mortgages, including those residing in high cost areas.

### **Additional Measures to Ensure a Successful Housing Recovery**

Implementation of these core priorities will only go so far if the federal government and the mortgage lending industry do not address additional fundamental operational issues that are beginning to impede the delivery of mortgage credit and increase foreclosures. To successfully facilitate a housing and financial market, 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.
- FHA Secure should be reinstated. HUD's FHA Secure 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 FHA Secure, has not yet achieved the same levels of success. We urge HUD to reinstate FHA Secure, 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.

## **Recent Actions that have been Detrimental to the Housing Recovery**

### *Increased GSE Fees*

On December 29, 2008, Fannie Mae announced an increase in lender fees in Announcement 08-38. The higher fee structure imposes major new costs on home buyers and home owners

seeking fair and affordable mortgage loans, and NAR questions whether it makes sense, from a policy standpoint, to increase these fees and is concerned about the lack of any explanation of or justification for the action.

In the past, Director Lockhart has expressed concern about the negative impact of higher fees being imposed by the government sponsored enterprises, Fannie Mae and Freddie Mac, to raise capital. Moreover, Secretary Paulson stated that the primary mission of the GSEs under the conservatorship would be to increase mortgage affordability. With that as background, we were completely surprised that Fannie Mae has decided to raise fees, especially so significantly. As we understand Fannie Mae's announcement, a borrower with a credit score of 670 making a 20% down payment for a condominium would have the fee increased from 150 basis points to 350 basis points—more than double.

A related concern is complete lack of justification or even explanation for the increases. This was a concern even before the conservatorship, but now that the GSEs are subject to government conservatorship, we think that they should be required to increase the transparency of their major policy decisions and explain the basis for their actions. NAR urges Congress to seek an explanation for this increase, and request that the GSE provide more transparency when changes like this are made.

#### *Lack of Credit in the Commercial Market*

Commercial real estate is threatened by a lack of credit being offered by nearly all lending outlets. Currently, there is not enough available capital in the current credit environment to refinance the massive amount of commercial real estate debt that will mature in 2009 and subsequent years.

A possible initiative that may be used to support commercial real estate's credit needs is the Term Asset-Backed Securities Loan Facility (TALF) established by the Federal Reserve. Utilization of this facility would provide a source of capital for newly originated secured and unsecured loans on commercial real estate properties that have a long-term credit rating in the highest investment-grade rating category (for example, AAA). Such a credit facility would help restore capacity and address the enormous credit shortfall facing commercial real estate.

The commercial real estate sector plays a vital role in the economy. Real estate encompasses an estimated \$20 trillion in owner-occupied housing and approximately \$6 trillion in income-producing commercial property. Moreover, the real estate industry supports more than 9 million jobs and generates millions of dollars in federal, regional and local tax revenue. Local governments, especially, depend on this revenue (approximately 70 cents of every local budget dollar) to pay for public services such as education, road construction, law enforcement and emergency planning and response.

#### **Conclusion**

As we begin this new year, and a new era in American History, there remains a lot of work that Congress and the housing industry must complete in order for our nation to face down the continuing turmoil in the housing market and the whole economy. We can only

overcome this threat if we pursue avenues that will motivate the frightened and cautious real estate consumer to enter the marketplace which, in turn, will encourage the extension of credit.

NAR believes that focusing on real estate finance, in particular, initiatives aimed at lowering mortgage interest rates, offering relief to troubled homeowners, and providing liquidity to the commercial market will encourage potential real estate purchasers to enter the marketplace. Moreover, it will help families seeking to refinance in order to save in their home find fair and affordable mortgages. Only then can the housing recovery begin, and only then can our nation's economy begin an eagerly anticipated healing process.

NAR thanks you for this opportunity to share our thoughts on the Federal response to the housing and financial crisis. The 1.2 million residential and commercial real estate practitioners of the National Association of REALTORS<sup>®</sup> stands ready to work with Congress and our industry partners to facilitate a housing recovery, and bring our nation out of this economic nightmare.