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TESTIMONY OF

CHARLES McMILLAN, CIPS, GRI

2009 PRESIDENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

HEARING REGARDING

"PRIORITIES FOR THE NEXT ADMINISTRATION: USE OF TARP FUNDS UNDER THE EESA."

JANUARY 7, 2009

Introduction

Chairman Frank, Ranking Member Bachus, and Members of the Committee, thank you for inviting me to testify today regarding priorities that must be addressed by the next administration when deploying TARP funds authorized under the Emergency Economic Stabilization Act of 2008.

My name is Charles McMillan, and I am the 2009 President of the National Association of REALTORS®. I have been a REALTOR® for more than 20 years, and am Director of Realty Relations and Broker of Record for Coldwell Banker Residential Brokerage, Dallas-Fort Worth. Along with being a REALTOR®, I have been active in my community, serving as past chairman of the Community Development Council of Fort Worth, the Tarrant County Affordable Housing Task Force, the Housing Subcommittee of Fort Worth, and a past director of the United Way of Tarrant County and of the Fort Worth Chamber of Commerce.

I am here to testify on behalf of more than 1.2 million REALTORS® 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. Members belong to one or more of some 1,400 local associations/boards and 54 state and territory associations of REALTORS®.

We thank the House Financial Services Committee for holding this hearing on an issue that is paramount to the recovery of the housing market and the U.S. economy.

Ensuring that TARP Funds Facilitate Economic Recovery

NAR strongly believes that the housing sector is at the core of our current economic crisis. Moreover, we believe that in order to move the country out crisis, Congress and the new administration must place significant emphasis on repairing and restoring confidence in this vital wealth building and commerce generating industry.

Achieving these objectives requires that the Troubled Asset Relief Program (TARP) be refocused towards its initial intention – thawing the credit crisis, which will jump start mortgage lending.

Due to the prolonged severity of the current crisis, aside from making funds available to consumers for home purchases, there are two additional issues that are critical to stabilizing the housing market: (1) boosting homebuyer confidence, and (2) reducing the current foreclosure rate. As home values decrease in many markets, job losses escalate and the financial burden of American families continue to soar, homeowners seeking to refinance their mortgage or sell their primary residence are left with few alternatives and are "walking away" from their mortgage obligations. These actions increase housing inventory and further fuels a decrease in home values. If home prices continue to fall, default rates and re-default rates by borrowers whose mortgages have been modified will rise. Therefore, it is critical to include stimulus measures that bring buyers back and reduce inventory in order to stabilize home prices.

To staunch this cycle, we strongly urge Congress to consider NAR's Housing Stimulus Plan.

Stimulating the Housing Market, Mitigating Foreclosures, and Helping Homeowners

NAR's Housing Stimulus plan includes provisions aimed at:

- 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 and expanding it to all homebuyers, and
- making the higher Economic Stimulus Act of 2008's FHA and GSE mortgage loan limits that applied in 2008 permanent.

NAR strongly believes that focusing on 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.

To date, several ideas have been discussed. One would be for TARP to fund the payment of points at the individual loan level to achieve a low interest rate. Another approach is for Fannie Mae and Freddie Mac to purchase mortgages at a below market interest rate but pay lenders the market rate. Fannie and Freddie could either take the loss directly or pool the loans and sell them to the Treasury Department at market rates.

Another idea involving the Federal Home Loan Bank System would broaden the impact of the concept. For example, the Federal Home Loan Banks could raise funds by selling a debt instrument to the Treasury Department at a below market rate and make the proceeds available as advances to member institutions that agree to make it available for mortgage loans with a specified below market mortgage interest rate. These lenders could hold the mortgages in portfolio. The added bonus of an initiative implement by the Federal Home Loan Banks is the money could be extended to homeowners and homebuyers with financing needs in excess of the maximum existing GSE and FHA jumbo conforming loan limits - $625,500.

NAR believes that these types of initiatives 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, on November 25, the Federal Reserve announced its decision to purchase GSE debt and MBSs. 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, by any method, will bring a substantial number of consumers back to the housing market.

Additional NAR Housing Stimulus Plan Components

In addition to government action to reduce mortgage interest rates, NAR’s housing stimulus plan also includes the following components:

Amend the Homebuyer Tax Credit

NAR supports 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.

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.

Lowering the loan limits for FHA and the GSE means borrowers are finding themselves facing higher mortgage interest rates and more adverse terms and conditions, or are 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.

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 market recovery and effectively implement TARP, 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.

- 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.

Current Actions 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.

It is imperative that action be taken to support the commercial real estate sector because it directly and indirectly generates economic activity equivalent to about 20 percent of gross domestic product. Real estate encompasses an estimated $20 trillion in owner-occupied housing and approximately $6 trillion in income-producing commercial property. Moreover, this sector 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 enter a new year, and a new administration is about to take office, there remains a lot of work that Congress and the housing industry must complete in order for our nation to face down the continual 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 housing consumer to enter the marketplace, and that will encourage the extension of credit to consumers and businesses.

NAR believes that the refocus of TARP on housing finance, in particular, initiatives aimed at lowering mortgage interest rates, will encourage potential homebuyers, first-time and repeat, to enter the marketplace. And it will help families seeking to refinance in order to stay in their home find fair and affordable mortgages. Only then can the housing recovery begin, and only then can our nation's economy begin the long road home to stability.

I thank you for this opportunity to present our thoughts on TARP and the housing market. The National Association of REALTORS® stands ready to work with Congress and our industry partners to facilitate a housing recovery, and bring our nation out of this economic nightmare.