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HEARING BEFORE THE

HOUSE FINANCIAL SERVICES COMMITTEE

ENTITLED

"A LEGISLATIVE PROPOSAL TO PROVIDE FOR A SUSTAINABLE HOUSING FINANCE SYSTEM: THE BIPARTISAN HOUSING FINANCE REFORM ACT OF 2018."

WRITTEN TESTIMONY OF

VINCE MALTA.

ON BEHALF OF

THE NATIONAL ASSOCIATION OF REALTORS®

DECEMBER 21, 2018

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EQUAL HOUSING OPPORTUNITY

Introduction

Chairman Hensarling, Ranking Member Waters and members of the Committee; my name is Vince Malta. I am a third-generation REALTOR® and the CEO and broker of Malta & Co., Inc. I have over 43 years of experience servicing San Francisco, California and have served the industry in countless roles. I am currently the National Association of REALTORS® 2019 President Elect.

I am testifying on behalf of the 1.3 million members of NAR, who thank you for the opportunity to present NAR's views on "A Legislative Proposal to Provide for a Sustainable Housing Finance System: The Bipartisan Housing Finance Reform Act of 2018." NAR is America's largest trade association, including our eight affiliated Institutes, Societies and Councils, five of which focus on commercial transactions. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,200 local associations or boards, and 54 state and territory associations of REALTORS®.

REALTORS® Perspective

While the housing market has generally improved since the financial crisis, there remains a need for policymakers to address challenges that may arise in another economic downturn. NAR urges lawmakers to pass comprehensive housing finance reform. Thoughtful reform of the secondary mortgage market will not only safeguard the interests of taxpayers, but also ensure for a deep and affordable mortgage market for all creditworthy Americans.

REALTORS® thank Chairman Hensarling and Representative Delaney for introducing the "Bipartisan Housing Finance Reform Act of 2018" (discussion draft or proposal). NAR firmly believes that comprehensive housing finance reform must be done in a bipartisan manner. REALTORS® appreciate the Chairman's diligent work and negotiations over the past several months that has resulted in a discussion draft containing a series of compromises from both sides of the aisle. As the discussion draft is a work in progress, I would like to provide the Committee with NAR's perspective on the proposal. Highlighted below are provisions within the discussion draft that are the foundation for housing finance reform along with, constructive suggestions to improve the proposal and changes policymakers can take now to ensure a robust housing finance market.

A Strong Foundation for Housing Finance Reform

NAR believes the discussion draft contains many provisions that should serve as the backbone for comprehensive housing finance reform. These components include an explicit government guarantee, regulatory flexibility, strong and reasonable regulatory authority, use of the Common Securitization Platform (CSP), and establishment of a cash window.

Explicit Government Guarantee

NAR strongly supports the proposal's language to provide an explicit government guarantee for mortgage-backed securities (MBSs) buttressed by various credit enhancements. Explicit government backing of these new MBSs is required to instill confidence in potential investors.

Without investor confidence, the ability to raise capital and provide liquidity to the secondary mortgage market will be severely limited.

Additionally, an explicit government guarantee and the access to a deep, liquid capital markets that it provides, is essential to ensure qualified, creditworthy borrowers have access to affordable mortgage credit and to preserve wide access to a 30-year fixed rate mortgage. Without government backing, consumers will pay much higher mortgage interest rates and mortgages will, at times, not be readily available, as happened in jumbo and commercial real estate markets during the most recent financial crisis. Taxpayer risk would be mitigated in the proposed model through the use of mortgage insurance on certain loan products and through other fees paid to the government.

Regulatory Flexibility

NAR generally supports the overall flexibility given to Ginnie Mae and the Federal Housing Finance Agency (FHFA) to set various rules and standards for market participants. NAR agrees that prudent underwriting standards, sound regulatory guidelines and strong oversight are essential guardrails needed to protect taxpayers in any future system. Conversely, having hard and fast thresholds for various rules and standards in the secondary market could preclude many creditworthy borrowers from entering the housing market. Ginnie Mae and FHFA have the market research and expertise to set specific requirements for issuers and private credit enhancers (PCEs), respectively. A final plan should direct Ginnie Mae and FHFA, when issuing final rules, to strike a fine balance between protecting the taxpayer and the public mission of providing certainty that responsible Americans have broad access to affordable mortgage credit.

NAR also supports a Qualified Mortgage (QM)-like definition to be used as part of the underwriting process for government-backed mortgages. However, the provision in the discussion draft can be further developed to allow for regulatory flexibility with regard to the implementation of the QM definition. This modification would be beneficial to creditworthy, non-traditional borrowers (i.e. self-employed) and Americans with growing student debt levels.

Strong & Reasonable Regulatory Authority

The discussion draft further fills the crucial role of strong regulators of the secondary mortgage market. Lack of regulatory oversight was one of many issues that led the country into the Great Recession. Providing Ginnie Mae and FHFA with proper oversight tools creates a more transparent mortgage market that can operate in a robust, safe and sound manner.

NAR also strongly supports the provision in the discussion draft prohibiting issuer price discrimination, which will result in a fair and competitive housing finance system.

Use of Common Securitization Platform (CSP)

Another critical component of the discussion draft is the use and buildout of the CSP. NAR has long supported the FHFA, Fannie Mae, and Freddie Macs' (Enterprises) efforts to create a single mortgage-backed security with the goal of increasing liquidity and fungibility to the "To-Be-Announced" (TBA) market and reducing and eradicating trading disparities that currently exist. Today, the CSP is envisioned to support the Enterprises' MBSs to improve the overall liquidity of the Enterprises' combined securities and help generate a wide-reaching mortgage market.

NAR recognizes the importance of preserving the CSP infrastructure and utilizing its benefits for the mortgage market. NAR supports the discussion draft's transformation of the CSP into an open-access securitization platform to be used for both government-backed securities and non-government-backed securities. Having one set of rules and standards for the issuance of MBSs through the platform will enhance transparency and may help rebuild a vibrant, stable private label securities (PLS) market.

Establishment of Cash Window

An important element of any future housing finance system is to provide equal footing to all lenders, large and small, by maintaining a "cash window" for mortgage purchases. This cash window is essential to prevent a mortgage system that rewards larger lenders with better pricing given their volume and market power. A cash window would maintain a level playing field for all lenders. NAR is pleased the discussion draft creates both a small lender access program for lenders to be able to sell individual loans to PCEs, as well as allowing the Federal Home Loan Bank System to operate a cash window for their smaller and mid-sized lenders.

Additional Considerations for Comprehensive Housing Finance Reform

As the discussion draft evolves, the proposal can be improved to further ensure a reliable and affordable source of mortgage capital is readily available for responsible creditworthy Americans in all types of markets. This can be accomplished through a reasonable transition that adjusts and adapts to market conditions, underwriting flexibility, continuation of rules establishing loan limits, an enhanced housing mission, and expansion of mortgage assumability.

Adjustable & Adaptable Transition

A critical component of comprehensive housing finance reform is to ensure a smooth transition. Any misstep in the implementation of a new housing finance system could cause serious harm to the housing market and economy. In the balance hang many potential homebuyers with the desire and ability to purchase a home and owners who would like to sell their homes. Any disruption to the housing finance system could harm these aspiring new homeowners and existing homeowners.

The discussion draft generally provides for an efficient, effective, and expeditious transition. This could be enriched by providing flexibility and possibly a longer transition period in an event that the new system is not providing adequate mortgage credit to middle-class Americans.

Underwriting Flexibility

As mentioned earlier, NAR appreciates the underwriting flexibility in the proposal such as creating a QM-like definition. NAR is also pleased the discussion draft removes private mortgage insurance (PMI) requirements for mortgages with more than 15 percent equity. However, the proposal would codify into law a downpayment requirement of 5 percent. Such an explicit down payment amount should not be set in statutory language. The amount of the down payment by itself is a weak predictor that a homeowner may run into trouble. Research has demonstrated that many factors contribute to loan performance. Having a hard and fast number for how much equity an individual needs to have could preclude creditworthy borrowers who have an issue saving the required amount from owning a home they could otherwise afford. This is especially the case given rising student loan debt levels.

Continuation of Loan Limits

Furthermore, the original goal of mortgage loan limits was to make mortgages and homeownership more affordable and available across the country. Mortgage loan limits have helped the Enterprises support middle-class homeownership. For this reason, the continuation of the existing framework for establishing conforming loan limits under the "Housing and Economic Recovery Act of 2008" (HERA) are vital for any future housing finance system.

Enhanced Housing Mission

While an explicit government guarantee will help provide some countercyclical protections and pricing benefits, NAR recommends including language in the discussion draft to instruct Ginnie Mae and FHFA to be not only risk managers, but also to have as one of their missions to ensure that a deep, liquid, affordable, and national mortgage market exists. NAR firmly believes that responsible and creditworthy Americans should not be discriminated against and unable to obtain a mortgage because of where they live. REALTORS® do not want to stifle the competition and innovation that may result from the discussion draft. With that said, if there are creditworthy Americans in certain areas that are not sufficiently being served by issuers and PCEs, NAR believes that equipping Ginnie Mae and FHFA with the necessary tools and mechanisms will ensure these Americans are properly served.

REALTORS® also believe the need for a liquid, national mortgage market that is resilient to stress and supports the homeownership needs of middle-class Americans – a factor that will always be a critical component of the American Dream of homeownership. Thus, it is prudent to provide Ginnie Mae and FHFA with the authority to play an explicit countercyclical role. NAR supports language to be included in the discussion draft to allow these entities to operate programs that fulfill this countercyclical mission.

Expand Mortgage Assumability

It is imperative that any new housing finance system allow for mortgages that are syndicated through explicitly government guaranteed MBSs to be assumable. When interest rates rise, especially in high cost areas, the availability of an assumable low rate mortgage on a property may be the most affordable source of financing for a qualified assuming buyer. Federal Housing Administration (FHA), Veterans Affairs (VA) and U.S. Department of Agriculture (USDA) mortgages are currently assumable and many are backed by Ginnie Mae. It makes sense to expand loan assumability to all government-backed loans considering the proposal provides for added layers of taxpayer protections as well as the superior performance of loans purchased by the Enterprises. This change would improve affordability for consumers as mortgage rates rise and provide them with another mortgage choice, i.e. assuming an FHA or VA mortgage when buying homes.

Housing Finance Reform: An Immediate Step

Creation of Mortgage Market Liquidity Fund (MMLF)

While there is less concern today that a draw on the Enterprises' line of credit at the U.S. Treasury would disrupt mortgage markets due to new accounting rules, it is important to have a buffer between any losses and taxpayers. This is especially the case if comprehensive housing finance reform legislation is not adopted in the near-term. It makes sense to build that buffer now while the Enterprises have positive cash flows.

An action that Congress or the Administration could take immediately would be to establish a Mortgage Market Liquidity Fund (MMLF) through legislation or under existing regulatory authority. A portion of the Enterprises' profits could be deposited into the fund, controlled by the FHFA Director, which would cover future losses due to market fluctuation as described above. The FHFA Director could release funds from this account to buffer against further U.S. Treasury involvement. As a result, some capital would be in place to avoid significant market disruptions and to continue to ensure that Americans have access to affordable mortgages.

The MMLF would also protect taxpayers by reducing the need for the Enterprises to draw additional funding from the U.S. Treasury. Finally, the fund would provide Congress the necessary time to enact comprehensive housing finance reform and could be rolled over to help capitalize a new system if so desired.

Conclusion

REALTORS® thank the Chairman for his leadership on producing a bipartisan housing finance reform proposal and other important issues such as regulatory reform and flood insurance. NAR believes a comprehensive and bipartisan housing finance approach is necessary to ensure for a safe and vibrant housing market.

NAR strongly supports many of the discussion draft's provisions and believes the foundation for the future housing finance system must include an explicit government guarantee, regulatory flexibility, strong and reasonable regulatory authority, use of the Common Securitization Platform (CSP), and establishing a cash window.

While these are fundamental components for the secondary mortgage market, the discussion draft can be modified to better serve creditworthy Americans while also protecting taxpayers. The proposal could be improved with a reasonable transition that adjusts and adapts to market conditions, underwriting flexibility, continuation of rules establishing loan limits, an enhanced housing mission, the expansion of mortgage assumability, and the support of a MMLF.

REALTORS® thank the Chairman and members of the Committee for the extensive efforts developing a bipartisan solution to reform the secondary mortgage market. Most importantly, your recognition of the importance of an explicit government guarantee that would protect taxpayers while ensuring that all creditworthy consumers have reasonable access to affordable mortgage capital is critical to fostering American's ability to attain the American Dream of homeownership. NAR looks forward to continuing to work with members of the Committee to mend and improve a housing finance system that has served us well for many years.