



**Written Statement of the
NATIONAL ASSOCIATION of REALTORS®
Before the House Financial Services Subcommittee on Housing and Community
Opportunity regarding Homeownership Through Down Payment Assistance
April 8, 2003**

On behalf of more than 880,000 members of the NATIONAL ASSOCIATION of REALTORS®, we are pleased to submit this written statement promoting homeownership and housing opportunities. The NATIONAL ASSOCIATION of REALTORS® represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers. The Association has a long tradition of support for innovative and effective Federal housing programs and we work diligently with the Subcommittee and the Congress to fashion housing policies that ensure Federal housing programs meet their mission responsibly and efficiently.

We commend the Subcommittee for its continuing efforts on behalf of American families who need and desire affordable housing opportunities. Even today, where we have seen the greatest boom in homeownership rates, many working families are not able to find decent affordable housing. The NATIONAL ASSOCIATION of REALTORS® has consistently maintained that homeownership serves as a cornerstone of our democratic system of government and that homeownership continues to be a strong personal and social priority in the United States. Living in one's own home is central to the concept that a person has achieved a measure of security and success in life.

With one out of seven families in the nation facing critical housing needs and low- and moderate-income working families virtually shut out of the housing market, the NATIONAL ASSOCIATION of REALTORS® commends Representatives Katherine Harris (R-FL) and Mike Rogers (R-MI) for introducing H.R.1276 The American Dream Downpayment Act which will provide assistance permitting 40,000 families a year to buy their first home. The initiative would provide grants to states and local governments under the Department of Housing and Urban Development's HOME Investment Partnership program. Enacted into law by Congress in 1992 the HOME program has successfully helped to expand the supply of decent, affordable housing for deserving families by providing funds to communities to address housing shortages and needs.

The NATIONAL ASSOCIATION of REALTORS® has long recognized that the ability to afford a home remains the most challenging hurdle for many homebuyers, and we wholeheartedly support legislation that reduces homebuying costs and helps people achieve the American dream of homeownership. H.R.1276 is good, sound legislation that will not only stimulate new housing opportunities but will also help to sustain the momentum in our nation's housing boom.

It is no coincidence that once people obtain the American dream of homeownership, they are in a position to reap favorable financial rewards. This is because homeownership is the primary source of a household's net worth and the fundamental first step toward accumulating personal wealth. At the urging of Federal Reserve Chairman Alan Greenspan, in 2001 NAR examined the wealth effect of housing and determined that home equity is the largest source of wealth for 3 out of 4 homeowners. Additionally, our research determined that gains realized by homeowners from the sale of their homes average \$30,000 - \$35,000, and between 76 and 85 percent of those gains are reinvested for the next home purchase.

As we look forward, change is on the horizon that challenges Congress, the Administration and the real estate industry to step forward and collectively produce favorable and responsible public policies that continue to promote homeownership, provide real estate investment opportunities and protect the free market system to further America's growth and prosperity.

For example, our U.S. population will continue to expand, reaching 310 million by 2010 and 340 million by 2020, supporting strong housing demand. In each year of this new decade, we anticipate between 1.1 million and 2.1 million new households will form. Baby Boomers, born between 1946 and 1964, will be the prime market for trade-up, upscale and vacation homes. Their children will be the main source of future homeownership growth, particularly as they begin looking for starter homes after 2010. In fact, we expect 7.6 million people between the age of 25-34, and 6.7 million aged 35-44, will represent the greatest growth in homeownership through 2010. Because of the expected increases in population, we believe homeownership will surpass 70 percent by 2010.

But, the biggest source of household growth in this decade will come from minorities and immigrants. Very simply, minorities will account for 64 percent of all new households. Between 1993 and 2000, minorities accounted for 44 percent of homeownership growth while accounting for 25 percent of all households.

By 2010, African-Americans will account for 19 percent of household growth; Hispanics will account for 38 percent; and other non-white minorities will account for 37 percent. The creation of these additional households will require more home construction as well as favorable economic conditions to lure potential homebuyers. The real estate industry and our federal policymakers have a responsibility and obligation to ensure these groups are not ignored in their quests for housing opportunities.

Chairman Ney and members of the Subcommittee, this is why the NATIONAL ASSOCIATION of REALTORS® is committed to ensuring that our industry is positioned to expand and deliver broader housing opportunities benefiting all Americans. We have launched a new Housing Opportunity Program aimed at making a commitment and sharing responsibility for the health and well-being of our communities nationwide. Soaring housing values have made the housing sector the brightest light in a gloomy economy. But, it has also put affordable housing beyond the reach of millions of American families. Today's housing costs are dividing America into two nations, one of "housing haves" – families that purchased property before the price explosion or who can afford high prices – and another of "housing have nots", families who must scale down their expectations and make lifestyle sacrifices to afford adequate shelter.

Not only is the NATIONAL ASSOCIATION of REALTORS® addressing the problem in a comprehensive manner, but we are challenging each of the REALTORS® organization's 1600 local and state boards and associations to develop their own affordable housing project or housing opportunity response. And, several have taken steps to make a difference and make the American dream a reality in their communities. For example, the California Association of REALTORS® has created its Housing Affordability Fund with the goal of raising \$20 million over the next five years to promote homeownership and address housing affordability issues throughout California. In Fort Collins, Colorado REALTORS® initiated an awareness campaign in 2001 to draw attention to the lack of affordable housing in its community and the fact that a majority of its workforce cannot afford to live where they work. Today, city planners, business leaders and REALTORS® have collaborated to develop and implement solutions providing tax incentives, fee waivers and other innovations to develop more affordable housing opportunities.

Clearly, those of us involved in the process of helping people achieve the American dream of homeownership can and must find more ways to encourage innovation and inspire investment in housing. REALTORS®, particularly, are in a unique position to parlay the need for affordable housing, both in the rental and homeownership sectors of the market, into something tangible, concrete and livable.

The NATIONAL ASSOCIATION of REALTORS® believes the timing is appropriate to address

new and innovative approaches to stimulating homeownership opportunities. Although housing remains strong in our nation's economy and has helped to increase our nation's homeownership rate to a record 68 percent, many deserving American families continue to face obstacles in their quest for the American dream of owning a home.

Consider the following:

- One out of every seven American families – 13 million families – has critical housing needs;
- More than 7.5 million renters nationwide face critical housing needs, either living in substandard properties or paying more than 50 percent of their income towards housing;
- Six million families – nearly half of those with critical housing needs – earn at least some, if not all, of their income from working;
- Most of these people earn less than half of the median income for their area. They don't receive government assistance, and they pay more than half of their income for housing or live in bad conditions;
- In 24 states, a household with two full-time minimum wage earners cannot afford a 2-bedroom apartment without spending more than 30 percent of their income;
- Many who lack decent affordable housing are not what most of us would consider poor. Among those hardest hit are schoolteachers, police officers and municipal workers;
- Our nation's housing shortage is a major contributor of sprawl, forcing people to move farther and farther away from the urban core to find homes they can afford; and,
- Nationwide, the inventory of affordable homes has shrunk to the lowest level in a decade;
- Statistics show that the waiting list for public housing has grown to approximately 1 million households with wait times as long as 10 years in some cities, while the average wait for a rental voucher in some cities is five years;
- Finally, there are approximately 270,000 disabled households on waiting lists for federal housing assistance.

To that end, we offer our support for H.R. 1276 The American Dream Downpayment Act as a viable solution to the challenge of increasing homeownership opportunities and we respectfully encourage Congress to consider these additional initiatives to inspire investment in housing, share responsibility for our communities and expand housing opportunities – rental as well as ownership – for all Americans.

Support and Enact H.R.839 Renewing The Dream Tax Credit Act

Although this bill is not under the jurisdiction of the Subcommittee, it is our hope that the Subcommittee will support H.R.839. This legislation provides a substantial tax credit for developers and investors who construct or rehabilitate housing for low- and moderate-income families to purchase. The credit is needed because in lower income distressed and gentrifying urban neighborhoods the cost of building and rehabilitating homes far exceeds the prices at which these homes can be sold to lower income families. In distressed neighborhoods the homeownership credit will fill the gap between development costs and home prices, promoting home purchase and halting further neighborhood deterioration. In gentrifying neighborhoods the credit can provide affordability to existing lower income residents, preventing displacement. And, in rural communities the credit will attract development investment and capacity into these communities.

Amend Section 214 of the National Housing Act to add other states to the list of high cost areas, permitting FHA mortgage limits to be adjusted up to 150 percent of the statutory ceiling

The median price of an existing, single-family detached home in Los Angeles during 2002 was \$290,000. In San Francisco that number is \$530,900. In the New York Metropolitan area the median home price was \$328,000. The current FHA maximum high-cost mortgage insurance limit is \$280,749, meaning that for many working families – teachers, police officers, firefighters – FHA is not a useful homeownership tool.

When Congress authorized Section 214 of the National Housing Act, it did so upon finding that higher costs prevailed in Alaska, Guam, Hawaii and the Virgin Islands because it was not feasible to construct dwellings without sacrificing sound standards of construction, design or livability. As a result, the Secretary of HUD was given authority to prescribe a higher maximum for the principal obligation of mortgages insured covering property in these areas. Because of similar circumstances in other communities across the country, we believe it is highly appropriate for Congress to amend the list of areas where the maximum mortgage amount may be adjusted upward.

Provide Reduced Downpayment Requirement for FHA Loans for Teachers and Public Safety Officers

The NATIONAL ASSOCIATION of REALTORS® is a strong supporter of providing reduced downpayments to teachers and public safety officers because it will make homeownership more affordable for many deserving American families. This proposal will open the prospect of homeownership to large numbers of public safety employees and educators who now can find little or nothing affordable in the communities where they work.

The ability to afford a home remains the most challenging hurdle for many homebuyers. Under existing FHA rules, a homebuyer generally must be able to contribute at least 3 percent of the cost of the property with his or her own funds. As an example, on a \$150,000 house a buyer would need a down payment of \$4,500 in cash and would need an additional two percent for closing costs, prepaid expenses, and title insurance totaling approximately \$7,500 needed for settlement.

Allowing a one percent down payment requirement would sharply reduce what beneficiaries of the program would need to bring to the settlement table. On a \$150,000 property, the down payment for a participant in the program would be \$1,500. We believe this change in down payment requirements would allow almost 6,000 teachers and public safety officers to become homeowners who were previously precluded by cost from the homebuying market thereby stimulating affordable homeownership opportunities and strengthening the social fabric of neighborhoods and communities.

Technical Change to the Hybrid Adjustable Rate Mortgages

The NATIONAL ASSOCIATION of REALTORS® strongly supports H.R.1443 The Access to Affordable Mortgages Act that provides a technical change to hybrid FHA adjustable rate mortgages (ARMs). Last year Congress enacted legislation authorizing creation of a hybrid FHA ARM product. However, the legislation capped the first interest rate adjustment for 3/1 and 5/1 hybrid ARMs at one percent. The housing industry maintained that a maximum one percent increase in the interest rate at the time of the first rate adjustment for a 5/1 hybrid ARM does not offer sufficient interest rate flexibility for a lender to offer this type of ARM product at a lower interest rate than a traditional 30-year fixed rate mortgage. As a result, FHA borrowers are not afforded the benefit of a hybrid ARM loan that features a starting interest rate lower than a 30-year fixed rate mortgage. H.R.1443 addresses this technicality, enabling lenders to offer 3/1 hybrid ARMs at lower interest rates and allows more families to qualify for FHA hybrid ARM loans.

In closing, the NATIONAL ASSOCIATION of REALTORS® appreciates the opportunity to share its viewpoints regarding important legislation before the Subcommittee that promotes the dream of homeownership through downpayment assistance. We applaud the Subcommittee for its leadership and commitment in stimulating housing opportunities nationwide, and we stand ready to work with the Subcommittee in fashioning legislation that helps deserving American families fulfill their housing needs.

Related Issues: Summaries

[American Dream Downpayment Fund](#)

Copyright NATIONAL ASSOCIATION OF REALTORS®
Headquarters: 430 North Michigan Avenue, Chicago, IL. 60611-4087
DC Office: 500 New Jersey Avenue, NW, Washington, DC 20001-2020
1-800-874-6500
[Terms of Use](#) | [Privacy Policy](#) | [REALTOR.com](#) | [Contact NAR](#) | [Site Map](#)