



**Testimony of
The NATIONAL ASSOCIATION of REALTORS®
Before the
United States Senate
Committee on Banking, Housing and Urban
Affairs
Presented
By
Cathy Wathley, President
June 12, 2003**

On behalf of more than 900,000 members of the NATIONAL ASSOCIATION of REALTORS®®, we are pleased to submit this testimony promoting homeownership and housing opportunities. The NATIONAL ASSOCIATION of REALTORS®« represents a wide variety of housing industry professionals committed to developing and preserving 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 Committee and the Congress to fashion housing policies that ensure Federal housing programs meet their mission responsibly and efficiently.

We commend the Committee 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. This hearing is very timely, as June is National Homeownership Month, where we recognize the value of having all citizens reach the American Dream. 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.

As America's greatest tangible asset, real estate plays a critical role in our nation's economy. Home sales and mortgage originations have set two successive record-breaking years in 2001 and 2002. Directly and indirectly, the housing sector has been instrumental in keeping the overall national economy afloat, contributing 68% of the U.S. economic growth in the past two years. The construction of new homes, value added contributions of REALTORS®, and mortgage banking activity all directly add to economic output, job creation, and income generation. Given the stronger than expected home sales activity so far this year, we predict that new home sales will set a historic record in 2003.

As you can see, the current system of our real estate market is making substantial contributions to our nation's economic well-being. That is why the NATIONAL ASSOCIATION of REALTORS®® opposes tampering with our real estate system. Allowing financial holding companies and subsidiary national banks to engage in real estate brokerage and management could put the safety and soundness of the U.S. economy at risk. We oppose such an untested regulation. Serving as the pillar of our nation's economy in 2001 and 2002, our current system of real estate commerce is poised to do so again in 2003.

Achieving the American dream increases financial stability for American families as well. 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. Today, an immigrant or a first-generation American heads one in five U.S. households. By 2020, the number of minority households will grow to over 41 million. 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 Shelby, and members of the Committee, 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 I have challenged each of the REALTORS organization's 1539 local and state boards and associations to develop their own affordable housing project or housing opportunity response. Already, quite a few have taken steps to make a difference and make the American dream a reality in their communities. For example, the REALTORS® Association of Mobile, Alabama requires that all homes for sale in the Mobile area have listing information available in about 10 different languages. This assists immigrants and non-English speaking minorities in purchasing a home. In Maryland, a number of local REALTOR® associations, including in Anne Arundel County, Howard County, Prince George's County, and the Greater Baltimore Board of REALTORS® have partnered with Freddie Mac to develop CreditSmartSM, a credit education workshop. REALTOR® instructors teach the course to renters, homebuyers, students, and others, on how to manage critical money skills. Obtaining and keeping good credit is an essential step in buying a home, and this program gets people off on the right foot.

Mr. Chairman, as you know, homeownership rates for minorities lag far behind that of white

families. We applaud the President's initiative to increase minority homeownership by 5.5 million over the next ten years. REALTORS® are doing their part to make this goal a reality. The NATIONAL ASSOCIATION of REALTORS® is an original partner in the White House initiative, and are proud to be a party of the *WOW (With Ownership Wealth)* program of the Congressional Black Caucus Foundation. In addition, our REALTORS® At Home with Diversity® program provides real estate agents with training tools which help develop and expand their outreach to growing minority and immigrant markets, markets in which two thirds of our nations households will come from this decade. To date, we have certified almost 10,000 REALTORS® in this program, which one participant described by saying, "My attitude toward clients from other cultures has changed dramatically. The best way I know to describe it is that I lost the 'fear' of dealing with other cultures."

In April, the NAR, along with The National Association of Real Estate Brokers, the National Association of Hispanic Real Estate Professionals and the Asian Real Estate Association of America entered into an historic partnership with HUD to promote fair housing and increase minority homeownership. This partnership builds upon our work with the White House and the HOPE Awards, which we jointly sponsor with these and several other minority real estate organizations.

The HOPE (Home Ownership Participation for Everyone) Awards recognizes up to seven organizations and individuals who are making outstanding contributions to increasing minority homeownership. We have honored two organizations for their work advancing public policies to promote minority homeownership. In 2002, the Greater Baltimore Board of Realtors was recognized for its public campaign to educate residents and policy leaders in Baltimore regarding abusive real estate and lending practices. This year, the brokerage award went to Emily Moerdomo Fu of RE/MAX Greater Atlanta International. Minority homeownership always has been the focus of Emily Fu's company, which she located in Atlanta's Asian Square Shopping Center, where the Asian and Hispanic communities come together. Her staff speaks 16 different languages and comes from 19 different cultural backgrounds. The brokerage provides a full array of services and since 1990 has helped thousands of minority families close on their first homes.

We are also working on a number of research products to review differences in homeownership rates. We have commissioned a study to evaluate the reasons for the homeownership gap between whites and minorities. We have completed the first phase of this study and expect to conclude our research early next year. We welcome the opportunity to share the results of this report with the Committee at that time.

As part of our commitment to President Bush's Homeownership Initiative, The NATIONAL ASSOCIATION of REALTORS® is convening the National Summit on Housing Opportunities on September 25, 2003 in Washington, D.C. to build a consensus for action. The Summit will bring together the country's housing leadership to consider the future of the nation's affordable housing opportunities and how to elevate affordable housing on the national policy agenda. A cross section of the nation's foremost housing and community development leaders will examine the critical questions that will determine the future shape of the American dream. I would like to invite you Mr. Chairman, and the members of this Committee, to join us at this special event.

In addition, we have an ongoing partnership with Habitat for Humanity. We are a national underwriter of the Congress Building America program. This program is designed to highlight the importance of volunteerism, produce new affordable single-family homes, and strengthen the network for affordable housing support. Also since 2001 we have agreed to build a new Habitat home in each of the cities where we hold our Annual Convention. We are currently working on a new home, in San Francisco, the site of our 2003 Annual Convention.

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 now is the time 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 to sprawl, forcing people to move farther and farther away from the urban core to find homes they can afford;
- 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 households with disabled members on waiting lists for federal housing assistance.

As we seek to address critical challenges affecting housing affordability, minority homeownership, housing supply and community revitalization, REALTORS® stand ready to work with Congress to enact favorable real estate policies that benefit our nation. To that end, we offer our support for a number of legislative and regulatory proposals that serve 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 S. 811 -- American Dream Downpayment

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 purchase market, the NATIONAL ASSOCIATION of REALTORS® commends Senator Wayne Allard (R-CO) for introducing S. 811, The American Dream Downpayment Act. It will provide assistance permitting up to 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 in 1992, the HOME program has successfully helped 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 initial accumulation of cash remains the most challenging hurdle for many prospective homebuyers. We wholeheartedly support legislation that reduces homebuying costs and helps people achieve the American dream of homeownership. S. 811 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.

Support and Enact S. 875 -- Renewing The Dream Tax Credit Act

Although this bill is not under the jurisdiction of this Committee, we call to your attention S. 875. It provides a new, innovative tool for increasing the supply of affordable housing. Nearly half of the members of this Committee have cosponsored the bill, and Senator Santorum (R-PA) has joined Senator Kerry (D-MA) as the primary sponsor. This legislation builds on a framework provided in each Bush Administration budget since 2001. It 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. Similarly, older or inner ring suburbs that need revitalization and updating would qualify for the credit.

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 and on Indian reservations the credit will attract development investment and enhance housing capacity.

Several Senators, including most recently Senators Smith (R-OR) and Stabenow (D-MI), have introduced a variety of tax credits and incentives directed at buyers. NAR welcomes all ideas and solutions for increasing homeownership. We note, however, that in today's market, the most serious affordable housing issue is the intense shortage of entry-level housing. The marketplace has developed a host of products to assist prospective purchasers qualify for a mortgage. These products, combined with enactment of the American Dream Downpayment grants, make a wide variety of financial support available to buyers. More and more frequently, however, these individuals who have qualified for different types of mortgages are simply unable to locate homes that are affordable, appropriate and accessible to jobs. Accordingly, NAR is presently focusing its advocacy efforts on increasing that supply of housing. We are focusing our advocacy efforts on securing the enactment of S. 875 so that more housing alternatives will be available for purchase.

FHA Subprime Mortgage Product

The President's FY04 Budget request proposed a new FHA mortgage product. This would be a sub-prime loan to borrowers who have poor credit. Borrowers would be required to meet debt, income, and repayment ability standards, but are not required to meet traditional underwriting standards due to their credit rating. The loans would have a higher premium, but after 24 months of on-time payments, the premium would be reduced. HUD estimates that an estimated 62,000 credit-impaired homebuyers would receive financing in the first year. The program is also expected to generate \$7.5 billion annually in additional insurance volume for FHA. We support the development of such a product, which would expand home purchase opportunities for more borrowers. Homebuyers with impaired credit are customarily at risk for predatory lending. We believe an FHA loan of this type would protect these borrowers, and offer them more opportunities for home purchase without subjecting them to a lifetime of higher premiums. We welcome the opportunity to work with the Administration and Congress to develop an FHA subprime loan product.

Property/Casualty Insurance

Property casualty coverage is an underwriting requirement for all home mortgages. In reaction to rising claims and losses, insurers have recently taken a number of steps to limit their risk. These steps include limiting the number of new policies written, increasing premiums, instituting new policy exclusions for some hazard claims and tightening their underwriting criteria for both borrowers and properties. Insurers now use insurance scores and claims databases to underwrite insurance applications. An insurance score is a credit-based statistical analysis of a consumer's likelihood of filing an insurance claim within a given period of time in the future. According to the insurance industry, studies have shown a correlation between a consumer's financial history and his/her future insurance loss potential. Thus, insurance companies believe the use of credit helps to underwrite an applicant at a cost that reflects their specific risk. The result of this is that homebuyers with impaired credit could find themselves in a situation where they can qualify for a loan product, but not qualify for property

casualty insurance, thus rendering them unable to purchase a home. We encourage Congress to hold hearings on this important issue to review the implications of insurance scoring on prospective homebuyers and homeowners.

Amend Section 214 of the National Housing Act

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. We strongly support amending 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.

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. Today, many cities and states have housing costs that are higher than these designated high cost areas. We therefore believe it is appropriate for Congress to amend the list of areas where the maximum mortgage amount may be adjusted upward.

In addition, under the conventional market the secondary market conforming loan limits have not kept pace in the same high cost areas. In some jurisdictions, area median home values far outstrip the conforming loan limit. The economic dynamics that lead to the designation of the current high costs states and jurisdictions have not been revised in nearly 30 years. We urge Congress to reexamine the current system of GSE loan limits, and recognize that Alaska and Hawaii are not the only areas that require higher loan limits to provide affordability benefits conferred by the secondary market.

Creation of Hybrid Adjustable Rate Mortgages

The NATIONAL ASSOCIATION of REALTORS® strongly supports legislation passed in the 107th Congress creating a series of hybrid FHA adjustable rate mortgages (ARMs). These new products will help close the homeownership gap for the majority of first-time, low-income and minority households who need FHA insurance to qualify for homeownership. The new ARM products will provide borrowers with the security of fixed-rate mortgages. By combining elements of a fixed-rate mortgage and a traditional one-year ARM, the new products will serve as a convenient and affordable tool for FHA homebuyers seeking a hedge against any potential rise in the cost of traditional fixed-rate mortgages. Additionally, the ARM products will lessen consumer worries stemming from the initial “teaser” rates of traditional ARMs, which customarily convert to a higher interest rate after the first adjustment. With a fixed interest rate period of at least three years, the users will experience less “payment shock” offering homebuyers the opportunity to save money during the early years of the mortgage. We applaud the Administration for acting quickly in developing this new product.

However, the enacting legislation capped the first interest rate adjustment for 3/1 and 5/1 hybrid ARMs at one percent. 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. We hope to work with the Committee and the Administration to develop a technical correction to make all FHA ARM products a more available, affordable alternative for homebuyers.

Preservation of the 203k Rehabilitation Program

The 203(k) program is the primary Federal Housing Administration (FHA) program for the rehabilitation and repair of single-family properties. Section 203(k) loan insurance enables homebuyers and homeowners to finance both the purchase (or refinance) of a house and the cost of its rehabilitation through a single mortgage.

NAR supports the current FHA 203(k) program as viable source for expanding homeownership and revitalizing neighborhoods. The need for this program to remain as Congress intended is as real today as it was when the program was created in the 1960s. The lack of affordable housing and reasonable housing opportunities is still an important factor in the lives of many people, especially minorities, immigrants, seniors, the disabled and the homeless. Without affordable and available housing opportunities, neighborhoods decline, families are stressed, jobs go unfilled and the quality of life deteriorates for all. The 203(k) program has allowed many lenders over the years to partner with state and local housing agencies and nonprofit organizations to rehabilitate properties and revitalize communities. We urge the Committee to preserve this important and vital program.

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

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Headquarters: 430 North Michigan Avenue, Chicago, IL 60611-4087

DC Office: 500 New Jersey Avenue, NW, Washington, DC 20001-2020
1-800-874-6500

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