NATIONAL ASSOCIATION OF REALTORS®

500 New Jersey Avenue, N.W.
Washington, DC 20001-2020
202.383.1194 Fax 202.383.7580
https://www.NAR.REALTOR/ADVOCACY/FEDERAL-ADVOCACY

Kenny Parcell
2023 President

WRITTEN TESTIMONY OF

KENNY PARCELL

2023 PRESIDENT

NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

HOUSE FINANCIAL SERVICES HOUSING AND INSURANCE SUBCOMMITTEE

HEARING TITLED

"THE CURRENT MORTGAGE MARKET: UNDERMINING HOUSING AFFORDABILITY WITH POLITICS"

MAY 17, 2023

Introduction

Chairman Davidson, Ranking Member Cleaver, and members of the Financial Services Subcommittee on Housing and Insurance, my name is Kenny Parcell. I am the CEO and broker of Equity Real Estate Utah, with over 25 years of experience as a REALTOR®, and the 2023 President of the National Association of REALTORS®.

Today I am testifying on behalf of the more than 1.5 million members of NAR, who thank you for the opportunity to present NAR's views on this crucial issue of housing affordability.

NAR is America's largest trade association, and our members are involved in all aspects of the residential and commercial real estate industries.

Helping the Current Market

It's no secret that today's housing market poses a number of obstacles to purchasing a home. Interest rates have risen nearly three percentage points over the last year. Inflation has cooled but remains high. And housing affordability and housing availability remain extremely restricted. Our members hear about these issues every day.

Lack of housing supply is not a new phenomenon. While it is certainly more noticeable now, even before the pandemic, NAR estimated a nearly 5 to 7 million housing unit deficit.1

To address the ongoing issues plaguing consumers and the housing market, NAR supports proposals that will spur federal action and incentivize state and local governments, and private actors, to boost supply and affordability for all borrowers. We encourage Congress to take the necessary steps to improve the outlook for buyers, and we look forward to working together to tackle these challenges.

There is bicameral, bipartisan legislation that can be passed, and updates to existing administrative programs that can be made, to increase housing production, enhance housing assistance, and encourage rehabilitation and re-use of existing properties. NAR supports the following legislative proposals that would accomplish these goals:

The Neighborhood Homes Investment Act can make an appreciable difference in housing inventory by mobilizing private investment to build and substantially rehabilitate 500,000 affordable homes for moderate- and middle-income homeowners over the next 10 years. The GREATER Revitalization of Shopping Centers Act would provide federal grants for adapting shopping centers.

The Revitalizing Downtowns Act would expand the historic building rehabilitation tax credit to add a qualified office conversion credit to encourage the conversion of office buildings to another use, including residential. NAR proposes expanding this concept to incentivize the conversion of any kind of commercial property to residential use.

The Affordable Housing Credit Improvement Act improves the way the Low-Income Housing Tax Credit (LIHTC) works. The LIHTC is broadly regarded as the most important resource for creating affordable housing in the U.S. today.

[1] National Association of REALTORS® and Rosen Consulting Group, Housing Is Critical Infrastructure, June 2021, https://cdn.nar.realtor/sites/default/files/documents/Housing-is-Critical-Infrastructure-Social-and-Economic-Benefits-of-Building-More-Housing-6-15-2021.pdf

The Choice in Affordable Housing Act would expand and improve the Section 8 Housing Choice Voucher Program to incentivize landlord participation via one-time incentive payments to landlords, security deposit payments, and bonuses to public housing agencies that employ landlord liaisons.

Many tax proposals could also increase supply. For example, tax credits to alleviate labor shortages could support construction workers' training and hiring. Such credits could allow a company to hire untrained workers and pay for training or attendance at trade schools. Tax incentives for construction projects that focus on lower-cost builds, such as modular/factory-built housing, ADUs, etc., would also improve the lack of residential supply. To lower land costs, the federal government could further support the enhancement of charitable contribution deductions of land to state or local housing agencies for the creation of more affordable housing.

Additionally, Congress should explore, develop, and enhance down payment assistance programs, property tax exemptions, planning and zoning reforms, permit cost reduction and expediting, rent control laws, and expanding the homeownership voucher program at the state and local levels.

Another concern in many markets is the rising rate of housing purchases for rentals by large institutional investors, which limits inventory and particularly impacts first-time buyers and families of color.2 Tax incentives to encourage large investors to sell rental homes to first-time or first-generation homebuyers would increase supply for these buyers.

Big challenges require big solutions. We look forward to working with Congress to increase housing inventory and affordability.

Background on LLPAs

These LLPA adjustments were made as prices and mortgage rates have risen nationwide over recent years. But LLPAs are not new.

The Enterprises charge both a guarantee fee (g-fee) and a low loan price adjustment (LLPA). G-fees are the same for all mortgages financed by the Enterprises. They are charged on an annual basis and spread over monthly payments. These fees cover projected credit losses from borrower defaults and administrative costs and ensure a return on capital.

LLPAs, on the other hand, are tailored to the specific risks of individual loans. They are based on loan-to-value (LTV) ratios, credit scores, and other risk factors. They are quoted as a fee to be paid up front but are typically financed over time to make payments more affordable. G-fees are quoted as an annual rate, whereas LLPAs are quoted as upfront fees that are typically added on to the annual rate.

Before 2008, the Enterprises charged only the flat g-fee. With the addition of LLPAs, the Enterprises began to utilize more risk-based pricing, though the Enterprises' charters stipulate that they are allowed to charge less than market value to support their mission, including liquidity and support for underserved communities. However, economists have pointed out that the Enterprises can serve a larger market by utilizing profits in one segment to support other segments. This cross substitution is a central tool in the Enterprises' construct.

[2] https://www.nar.realtor/research-and-statistics/research-reports/impact-of-institutional-buyers-on-home-sales-and-single-family-rentals

Overview of the Changes

NAR first raised concerns regarding the FHFA's fee increases on January 19th, 2023, particularly the impact on middle-credit borrowers with strong down payments. Given the sharp rise in interest rates over the past year, we believed the change was unnecessary and would harm borrowers in an already tight housing market.

Many news reports misconstrued these changes. While it is true that buyers with lower credit scores and lower down payments received a price reduction—a reduction which NAR believes is necessary—these borrowers will continue to pay significantly more than borrowers with higher credit scores and higher down payments. This is appropriate and consistent with the principles of risk-based pricing.

We were also concerned that many reports suggested these changes would now direct the GSEs to make loans to unqualified borrowers when, in fact, the LLPAs made no changes to underwriting or borrowers' qualifications. If you did not qualify for a loan before, you do not today. All loans must still comply with the laws established in the Dodd-Frank Act, including the Ability to Repay Rule.

We have not heard from FHFA that these pricing changes are a form of cross-subsidization wherein higher-income and lower-credit risk borrowers subsidize loans for those with lower-incomes and a higher-credit risk. However, the GSEs' charters also allow them to accept lower returns to support their mission, tools which can support the broader national market.

FHFA's fee discount does not necessarily make a GSE loan more attractive or more affordable for borrowers than an FHA loan. Given the high LLPA charge the GSEs will continue to impose on these borrowers, and the additional mortgage insurance they must pay, the FHA program will prove a much more attractive option for the vast majority of borrowers with lower down payments and lower credit scores. Ultimately, only a small portion of borrowers will actually use these discounts. The media has inappropriately conflated the discounts and rate increases; the GSEs clearly would not need to raise rates on a large segment of their borrowers to support the small segment who may use these discounts. As discussed later, NAR finds the rate increases unnecessary on their own terms, given the GSEs capital position.

Lastly, we thank FHFA for rescinding its upfront fee on borrowers with debt-to-income (DTI) ratios greater than 40 percent, which was slated to take effect on August 1.[3] REALTORS® applaud the FHFA in recognizing industry and consumer concerns. Additionally, FHFA's decision to release a request for information on other fee changes is a great example of good governance. NAR looks forward to working with all stakeholders on new LLPA changes, and we believe a public comment period will provide greater data and perspective for potential revisions.

REALTORS® Perspective

LLPAs are an outgrowth of the process to reform the Enterprises. While in conservatorship, the FHFA has held multiple requests for input (RFIs) on these fees. On May 11, 2023, the FHFA announced an RFI to discuss the changes to the Enterprises' pricing grid based on LTV and credit score. This process is good governance and an important hallmark of reform under conservatorship.

[3] "FHFA Announces Rescission of Enterprise Upfront Fees Based on Debt-To-Income (DTI) Ratio" https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Rescission-of-Enterprise-Upfront-Fees-Based-on-Debt-To-Income-Ratio.aspx

Congress should work together to allow the FHFA to establish a process for setting the pricing of mortgage guarantees by the Enterprises outside of conservatorship. This process should be transparent and include public input but also give the Enterprises discretion to make important decisions to fulfill their dual obligations with important safeguards. Specifically, the FHFA should not set pricing. Rather, it should set a maximum and minimum return on equity within which the Enterprises can set pricing. This collar would prevent the Enterprises from setting pricing too high on any segment. The return should also be set high enough that they cannot undercharge in order to grab more market share and under capitalize.

Furthermore, one of the most important changes Congress could make to improve the affordability and resilience of guarantee pricing at the Enterprises would be to provide an explicit government guarantee. An important first step would be for Congress to direct the FHFA and the Government Accountability Office to study the impacts and benefits of a guarantee to consumers, market stability, private markets, competition, and government finance. These questions will need to be resolved before any serious discussion of ending the Enterprises' conservatorship.

While fee increases harm potential homebuyers, the biggest impediment to many Americans is the lack of affordable, available housing. Consumers are also facing the impacts of inflation on everyday expenses. Without tackling these issues, many Americans will remain on the sidelines. Big problems require big solutions. Potential congressional solutions include creating tax incentives to convert unused commercial spaces to residential, mobilizing private investment to revitalize affordable homes, or incentivizing more owners to sell their homes by increasing the maximum amount of capital gains a homeowner can exclude on the sale of a principal residence.

Finally, REALTORS® also believe congressional interference in the process of setting pricing could undermine market stability. While we appreciate Congress's attention to this matter, we believe pricing decisions should be made by the agency that has the best data, financial expertise, and flexibility to change pricing on a dynamic basis.

Conclusion

REALTORS® thank the Chairman and Ranking Member for holding this important hearing on mortgage pricing at the Enterprises. NAR believes a bipartisan approach to housing finance reform is necessary to ensure a safe and vibrant housing market.

NAR strongly supports a thoughtful, transparent, and disciplined process for setting guarantee pricing that recognizes their function as market utilities. REALTORS® appreciate the FHFA's efforts to this end. However, Congress should do more to canonize this process outside of conservatorship. Congress should also explore the impacts and benefits of an explicit government guarantee as it could improve support for most homebuyers served by the Enterprises.

The Enterprises are fundamental to the secondary mortgage market. It is critical for lawmakers to address issues related to mission, competition, and transparency. These are important considerations as policymakers determine how to shape the secondary mortgage market that will better serve creditworthy Americans while also protecting taxpayers.