Restructure Fannie Mae & Freddie Mac and Encourage the Return of Private Capital

CONGRESSIONAL ACTION NEEDED

Restructure Fannie Mae and Freddie Mac to ensure that affordable mortgages are available to consumers in all types of markets, and to avoid a major disruption to the nation's economy that would result from the total collapse of the housing finance sector.

CONGRESSIONAL ACTIONS TO DATE

- The House Financial Services Committee held a hearing on March 19th titled "Sustainable Housing Finance: An Update from the Federal Housing Finance Agency on the GSE Conservatorship."
- The Senate Banking, Housing and Urban Affairs Committee held a hearing titled "Bipartisan Solutions for Housing Finance Reform."

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- Request that the chairmen of the House Financial Services Committee and the Senate Banking Committee hold hearings that focus on restructuring the secondary mortgage market, and that the emphasis of these hearings be the crafting of comprehensive bipartisan legislation that resolves the conservatorship of Fannie Mae and Freddie Mac.

ISSUE BACKGROUND

Fannie Mae and Freddie Mac were created to ensure that creditworthy borrowers had access to affordable mortgage capital no matter where they lived in the United States. For over 70 years, the system worked well, combining government support and private capital to bring the necessary funding to consumers in support of their homeownership needs. The system faltered during the housing collapse, and since 2008, Fannie Mae and Freddie Mac have been in conservatorship under the supervision of the Federal Housing Finance Agency (FHFA). FHFA placed Fannie Mae and Freddie Mac into conservatorship "to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their [housing] mission, and mitigate the systemic risk that has contributed directly to the instability in the current market." During the last two sessions of Congress, there was a lot of discussion regarding the causes of the housing collapse, and the role that Fannie Mae and Freddie Mac played. There were also a large number of bills introduced, which attempt to resolve the conservatorship; however, there has been no significant effort to move any of these bills.

An Efficient and Adequately Regulated Secondary Market is Essential to Providing Affordable Mortgages to Consumers

The secondary market, where mortgages are securitized, is an important and reliable source of capital for lenders, large and small, and therefore for consumers. Without a secondary market, mortgage interest rates would be unnecessarily higher, and unaffordable for many Americans. In addition, a poorly functioning secondary market will impede both recovery in housing sector and the overall economy.

The Federal Government Must Clearly, and Explicitly, Offer a Guarantee of Some Mortgage Instruments

A federal guarantee is essential to ensure borrowers have access to affordable mortgage credit. Without government backing, creditworthy consumers will pay much higher mortgage interest rates and mortgages may at times not be readily available—as has happened in jumbo and commercial real estate loan markets.

The Government's Guarantee Should Ensure a Wide Range of Safe, Reliable Mortgage Products for Creditworthy Consumers

These mortgage products should include 15-year and 30-year fixed-rate loans, traditional adjustable-rate mortgages (ARMs), and other loan products that have stood the test of time and for which American homeowners have demonstrated a strong "ability to repay."

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Preserve the Mission and Purpose of the FHA Program

CONGRESSIONAL ACTION NEEDED

Ensure that the Federal Housing Administration (FHA) single-family program has the tools and policies in place to meet its mission of providing access to safe, affordable mortgage financing to qualified borrowers nationwide.

CONGRESSIONAL ACTIONS TO DATE

- The House Financial Services Committee has held a number of hearings on FHA reform, including one that featured NAR President Gary Thomas.
- Reps. Waters (D-CA) and Capuano (D-MA) have introduced H.R. 1145, the "FHA Emergency Fiscal Solvency Act of 2013." NAR supports this legislation. Additional legislation is expected to be introduced by the Committee leadership.
- The Senate Banking Committee has held a hearing on FHA reform, at which NAR President Gary Thomas testified.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- FHA's single-family mortgage insurance program helps preserve private financing options for homebuyers regardless of local, regional or national economic conditions.
- Without FHA, our nation's housing recovery would never have begun.
- Do no harm to that recovery. Do not enact FHA reform legislation that unfairly restricts homebuyer access to safe, affordable mortgage credit.

ISSUE BACKGROUND

FHA, like every other holder of mortgage risk, has incurred financial losses as a result of high foreclosure rates. FHA has taken a number of steps to recoup its financial stability. These include increasing premiums five times in the last two years, increasing down payments on some borrowers, and increasing risk management. Congress should NOT impose any additional cost or qualification burdens on consumers. Further mandated increases to premiums or down payments will disenfranchise American families and hurt our nation's housing *and* economic recovery.

Provide FHA With Tools but Don't Disqualify Potential Homeowners.

NAR supports H.R. 1145, a bill identical to bipartisan legislation that passed the House of Representatives last year by a vote of 402-7. This legislation provides FHA with flexibility to make necessary changes to the program, provides taxpayer protections against lenders who make errors of material fact, and improves program oversight.

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Preserve Homeownership Tax Policies

CONGRESSIONAL ACTION NEEDED

As Congress considers proposals to reform the federal tax code, lawmakers should consider the vital role that real estate tax provisions play in the nation's housing markets and economy, as well as the financial well-being of Americans and their families.

CONGRESSIONAL ACTIONS TO DATE

- No comprehensive tax reform legislation has been formally considered.
- The House Ways and Means and Senate Finance Committees have held hearings on various components of the tax code, including hearings to review itemized deductions.
- The Ways and Means Committee created Working Groups to review tax code provisions that impact various sectors. NAR has met with the Real Estate, Small Business and Retirement Working Groups. Also, the Finance Committee has begun informal weekly meetings to consider various tax reform options.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

Continue to support these important tax provisions for residential real estate. As real estate markets continue to recover, Congress must first do no harm.

- **Mortgage Interest Deduction:** For 100 years, the MID has helped make homeownership more affordable for families of moderate means, strengthening our communities. Oppose efforts to change or eliminate the mortgage interest deduction for primary and second homes.
- **Property Tax Deduction:** Property taxes paid are properly not considered "income" that should be subject to federal income tax. Congress should not tax "income" that doesn't exist and oppose elimination of the deduction for property taxes.
- **Capital Gains Exclusion for Sale of Principal Residence:** Individuals can exclude the first $250,000 (and married couples the first $500,000) of gain from the sale of their principal residence from capital gains tax. This provision allows homeowners to build equity and save for retirement. Congress should maintain it.

ISSUE BACKGROUND

Both the House and Senate are considering different plans to reform the federal tax code. As a result, "everything is on the table" including various real estate tax benefits. While no formal comprehensive tax reform legislation has been introduced, it is important Congress understands the vital role these provisions play in our nation's economy.

Real Estate Related Provisions Must Be Preserved

- More than 75% of homeowners utilize the mortgage interest deduction over the period they own their home.
- For many homeowners, property taxes are their largest tax deduction, one that continues even after a mortgage is paid off.
- The value of both mortgage interest and property tax deductions is capitalized into house prices. Eliminating the mortgage interest deduction, for example, would cause on average a 15% decline in value of homes. Decreasing the deductions, even for a limited group, compresses the value of all homes.
- Further declines in home values will harm housing markets, and stymie our nascent housing recovery.
- Reducing the capital gains exclusion thresholds would harm household retirement savings and reduce financial flexibility.

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