NAR Debating the Issue

FHA, Fannie Mae & Freddie Mac Reform

Introduced in the House, H.R. 2767, the "Protecting American Taxpayers and Homeowners (PATH) Act" (Hensarling R-TX) is a comprehensive restructuring of mortgage markets. The bill has two major goals: 1) dissolve Fannie Mae and Freddie Mac and replace them with a new secondary mortgage market structure that does not include a government guarantee, and 2) restructure the mission of the FHA Mortgage Insurance Program. There are numerous problematic provisions in the Act that would limit access to mortgage credit, increase the cost of that credit and prevent many credit-worthy and responsible families from purchasing a home. NAR opposes the PATH Act.

In the Senate, S. 1217, the "Housing Finance Reform and Taxpayer Act" (Corker R-TN; Warner D-VA) offers comprehensive reform of the secondary mortgage market but maintains a government guarantee. Though there are issues that remain to be addressed, NAR is supportive of this bipartisan approach which will accelerate the conversation necessary to reform our housing finance system.

Also in the Senate, S. 1376, the "FHA Solvency Act of 2013" (Johnson D-SD; Crapo R-ID) provides common sense reforms to ensure the continued solvency of FHA without disenfranchising qualified borrowers. It provides increased enforcement and oversight of the FHA fund, and flexibility to FHA to better manage its programs. NAR supports this bipartisan approach

When meeting with your Member of Congress, they may reference statements that have been made in the media or by other associations and organizations that go against NAR's position on this issue. To help prepare your response, NAR has highlighted below some of these opposing statements and how you can respond if asked.

<u>NEED FOR A FEDERALGOVERNMENT GUARANTEE</u>

Other countries' governments don't provide a guarantee and homeownership rates in those nations are high.

- Unlike the U.S., many countries have highly consolidated banking systems that by U.S. standards would be consider "too big to fail".
- Investors who purchase mortgage-back securities and covered bonds understand this fact and believe that they will be 'covered' should the bank falter as its ultimate failure would cause irreparable economic damage.
- This structure creates an implicit, if not explicit, government guarantee.

Why is a government guarantee needed?

- In down-markets, as was the case in 2007-8, private lenders have regularly chosen to pull out of mortgage markets. These decisions have brought housing markets to a standstill in some parts of the country. These contractions have affected the nation's overall economic stability.
- Even when most private financing markets shut down, government support allowed Fannie Mae, Freddie Mac and FHA to continue to purchase or insure loans made by private mortgage lenders to keep housing markets going.

The PATH Act does include a federal guarantee for housing through the FHA program.

- This is true, but the bill also narrowly targets FHA's mission to first time homebuyers and low and moderate households that meet certain income requirements.
- As a result, the guarantee is only available to a select group that leaves many well-qualified middle income families without access to affordable long-term mortgages.

The PATH Act gives FHA the ability to expand during times of market disruption.

- The bill does allow an expansion of FHA to a wider array of households during demonstrated market disruptions. However, it is not clear that there is an appropriate leading indicator that will reflect a future downturn in time to allow steps to be taken to avoid any downturn.
- If forced to wait until data shows the nation is in a housing downturn, the market will likely be so far into it that it will be very difficult to effect change and avoid a downturn.

<u>**AVAILABILITY OF 30-YEAR MORTGAGE**</u>

The PATH Act includes language supportive of 30-year mortgages.

- The PATH Act's replacement to Fannie Mae and Freddie Mac, the "Utility", is not a lender.
- It is lenders who will have to choose to offer a 30-year product.
- History has shown that they will be hesitant to do so, particularly in times of economic instability, if there isn't a readily available secondary market for this product.
- Without a guarantee, there will be considerably less private interest in offering a long term, fixed rate mortgage product. As a result, 30-year mortgages will be available to only those with sterling credit histories and less available to tax-paying moderate income homeowners.

30-year mortgages are available in the private market right now in the "jumbo market' that has no government guarantee.

- Only the wealthiest Americans with high incomes, large down payments and pristine credit scores have access to a 30-year mortgage in the private market. First time buyers buying a condominium have no financing options if their loan cannot be purchased or insured by Fannie Mae, Freddie Mac, or FHA.

30-year mortgages may not be the best option for homeowners in the long run.

- Reliable mortgage payments should be an option available to consumers, especially in times of economic volatility.
- Rising interest rates on adjustable rate mortgages reduce affordability over the life of a loan and make it more difficult for consumers to deal with future financial challenges or budget for long-term priorities like saving for a child's education or retirement.
- We have major concerns that reduction in the availability of the 30-year fixed rate mortgage would harm consumers and leave the burden and instability of rising interest rates on middle class Americans. Many middle-class and older Americans on fixed incomes will be left without the ability to responsibly plan for the future.

People stay in their homes for 5-7 years, so why continue to push for 30-years loans being backed by the government?

- Median tenure has risen to 9 years. In 2012, 25% of all home sellers had been in their home for more than 15 years.
- As interest rates increase, we can expect that the average holding period will also increase as owners choose to hold on to their more affordable, lower rate mortgage.
- For some individuals, a 30-year mortgage with its stable payments <u>does</u> work best for their individual circumstances. Having this option is a consumer choice that should be available.

Interest rates are lower for adjustable rate mortgages.

- As rates move up from all-time historical lows, the lack of a long term, fixed-rate product will leave many middle class Americans at the mercy of those rising rates and larger mortgage payments.

THE DODD FRANK PROVISIONS WORSE FOR THE MARKET THAN PATH ACT

Dodd-Frank's mortgage provisions are much more likely to "reduce access to mortgage credit" than the PATH Act.

- Regulators have modified the most onerous proposed mortgage provisions to ensure mortgage finance is affordable and accessible.
- The PATH Act's restrictions on FHA usage and elimination of a guarantee for the secondary mortgage market will significantly restrict middle class access to mortgage finance and steer investors towards high cost, quick profit mortgage products.

CHANGES TO FHA ARE NEEDED

FHA was always intended to serve underserved low-income and first time homebuyers.

- This is not true. From the beginning, there was no requirement limiting participation to first time buyers or "low income households". In fact, the original loan limit was 330% higher than the average home.
- First time and low and moderate borrowers are not the only underserved populations – more than 25% of FHA borrowers in 2013 had incomes above 120% of area median income.

Repeat buyers and those with additional financial resources are adequately served by the private market.

- The PATH Act limits FHA's use to repeat buyers who have incomes less than 115% of area median income.

More than 78% of FHA borrowers are first-time buyers, so this bill won't impact many.

- While 78% of FHA borrowers are first-time buyers, the bill uses a much stricter definition of first-time buyer that does NOT align with HUD's traditional definition.
- The biggest difference in the traditional and PATH first-time buyer definitions is that the HUD definition includes someone who has not owned a home in the last 3 years, while the PATH Act restricts it to those who have never owned a home – with only a few exceptions for divorce.

Most of FHA buyers are low-moderate income households, so the bill doesn't change anything.

- The bill limits access to FHA loans for repeat buyers to those who make less than 115% of area median income.
- Families with incomes above that would be ineligible for FHA loans unless they meet the new and very limited definition of first-time buyers.
- There are currently NO restrictions on the use of FHA based on income or first-time homebuyer status.
- You can look up your area's median income at: http://www.huduser.org/portal/datasets/il/il2013/select_Geography_mfi.odn

The PATH Act does not eliminate low FHA downpayments.

- While the bill does retain the 3.5% downpayment for FHA borrowers who meet the first-time homebuyer definition, the downpayment for other borrowers goes up to 5%. Furthermore, if FHA experiences another financial crisis, the downpayment for ALL borrowers is required to go 10% and even 20%.

FHA, Fannie Mae & Freddie Mac Reform

GENERAL

The federal government shouldn't be involved in housing at all.

- The housing market accounts for 15-20% of the entire economy and is systemically important to the entire financial sector.
- Home sales in this country generate more than 2.5 million private-sector jobs in an average year. For every two homes sold, a job is created.
- The government has been involved in and promoted homeownership since the 1930's. Part of the American dream is the access to homeownership and providing for one's family and self.

Taxpayers have had to bail Fannie and Freddie out and now FHA is on the brink of needing a similar handout.

- Though the government did take Fannie Mae and Freddie Mac into conservatorship, a number of large financial institutions that issued private mortgage backed securities were also bailed out or failed completely.
- While FHA currently has less than required cash reserves, it is not bankrupt. FHA's recent audit indicates that it has sufficient resources to pay 7-10 years' worth of claims right now – even with no future business.

The federal government's market share is so large that it is crowding out the private market.

- Private investors have moved away from investing in mortgage markets after Wall Street firms sold investors toxic securities to get them off their books.
- It was this loss of trust on the part of these private investors and the uncertain economy that has driven the private market securities market to a standstill, and resulted in a greater market share for Fannie Mae, Freddie Mac and FHA mortgage products.
- Private capital does need to come back, but it is also key that we ensure that any new system provides taxpayers with mortgage options that fit their needs of homeownership, not just investors' needs for profits.