NAR Talking Point

"Preserve FHA and Ensure Secondary Mortgage Market Finance"

(Note: With the FHA requiring a drawdown from the US Treasury, this NAR Talking Point has been updated to reflect that drawdown and thus supersedes the talking point on this topic from summer 2013.)

ASK:

HOUSE OF REPRESENTATIVES

- Oppose H.R. 2767 "The Protecting American Taxpayers and Homeowners (PATH) Act."

U.S. SENATE

- Request that the Chairman of the Senate Banking Committee hold hearings on restructuring the secondary mortgage market.
- Co-sponsor S. 1376, the "FHA Solvency Act of 2013", which provides common sense reforms of the FHA mortgage insurance program, ensuring its financial solvency without disenfranchising American families.

ISSUE BACKGROUND:

HOUSE OF REPRESENTATIVES

House Financial Services Committee Chairman Jeb Hensarling (R-TX) introduced H.R. 2767 the "Protecting American Taxpayers and Homeowners Act" (PATH Act). The House Financial Services Committee held a July 23rd markup of the PATH Act and approved the bill along an almost party line vote of 30-27; 30 Republicans voted yes, 25 Democrats voted no along with two Republicans (Miller, R-CA; Fitzpatrick, R-PA).

The PATH Act 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 and limit 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. Most significantly, 1) NAR strongly opposes the PATH Act's elimination of a federal guarantee for the secondary mortgage market which ensures the availability of the 30 year fixed-rate mortgage; and 2) NAR believes that FHA has been making significant changes to address problems and does not need to be restructured in the manner proposed by the Act. The proposed FHA provisions will disenfranchise families by increasing downpayments, lowering loan limits, and limiting the program to low income households or a very narrow definition of first-time homebuyers. Instead, FHA needs the authority to undertake reforms already identified to strengthen its financial footing.

U.S. SENATE

Senators Bob Corker (R-TN) and Mark Warner (D-VA) introduced S. 1217, the "Housing Finance Reform and Taxpayer Act" with six other bipartisan co-sponsors. No hearing has been held to date on this bill. This bill offers comprehensive reform to the secondary mortgage market that includes a catastrophic government guarantee. Though there are issues that remain to be addressed, this bipartisan legislation will accelerate the conversation necessary to reform our housing finance system.

At the same time, Senators Johnson (D-SD) and Crapo (R-ID) have introduced S. 1376, the "FHA Solvency Act of 2013", and the Senate Banking Committee held a hearing on this bill. The bill 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

WHY IS THIS IMPORTANT?

Freddie Mac/Fannie Mae:

- The PATH Act does not include a federal guarantee that ensures the continued availability of a 30-year fixed rate mortgage.

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- A government's guarantee is needed to provide the capital to fund and ensure a wide range of safe, reliable mortgage products for creditworthy consumers.
- Without the federal government clearly, and explicitly, offering a guarantee of some mortgage instruments, affordable mortgage financing will not be consistently available in all market conditions.

FHA:

- FHA's single-family mortgage insurance programs helps preserve private financing options for all credit-worthy homebuyers regardless of local, regional or national economic conditions.
- In 2013, FHA did take a $1.7 billion draw from the US Treasury. This is the first time since its inception in 1934 that it needed to take taxpayer funds to maintain their 30 years' worth of reserves. However, the need to take a draw was not due to single family loans, which borrowers fund with premiums. Instead, the draw was the result of losses in the Home Equity Conversion Mortgage program (HECM, also called the reverse mortgage program). Congress and FHA have since reformed that program to prevent future losses.
- Targeting FHA in the manner prescribed by the PATH Act completely changes the role of FHA and will make many borrowers ineligible for FHA financing, regardless of their creditworthiness or the availability of alternative financing.
- Higher downpayment requirements could make 345,000 borrowers a year ineligible for FHA financing.
- Lowering FHA loan limits nationwide will limit liquidity and borrower's access to credit.
- Without FHA, our nation's housing recovery would not have been possible.
- Congress must do no harm to that recovery, nor enact FHA reform legislation that unfairly restricts homebuyer access to safe, affordable mortgage credit.

WHAT IS THE OTHER SIDE OF THE ARGUMENT?

Those on the other side of the issue believe that: the federal government needs to "get out of the way" and let the private market function. Current practices have crowded private lenders out of the marketplace, and resulted in loans to individuals who don't have the resources to be successful at homeownership. Taxpayers shouldn't be on the hook for a government guarantee, and the role of FHA should be very limited to lower income and first-time homebuyer households

THE BOTTOM LINE

Freddie Mac/Fannie Mae and Secondary Market Reform: NAR strongly supports restructuring the secondary mortgage market. However, the PATH Act does not include a government guarantee. **NAR cannot support any new entity that does not have a clear and explicit government guarantee that will ensure the continued availability of affordable mortgage credit.**

FHA: While FHA did take a draw from the US Treasury this year, this was the first time in its nearly 80-year history. This addition to reserves was needed due to losses from the reverse mortgage program, and not FHA's single family mortgage insurance program. FHA has been making significant changes to address problems and does not need to be restructured in the manner proposed by the PATH Act. Instead, FHA needs the authority to undertake reforms to strengthen its financial footing which the Senate's "FHA Solvency Act of 2013" provides.