AGENDA
2014 CONVENTIOANL FINANCING AND POLICY COMMITTEE
NATIONAL ASSOCIATION OF REALTORS®
2014 ANNUAL CONFERENCE
HILTON NEW ORLEANS RIVERSIDE HOTEL
JEFFERSON BALLROOM
FRIDAY, NOVEMBER 7, 2014
1:30PM – 4:00PM

Chair:	**Mabel Guzman (IL)**
Vice Chair:	**John Wong (CA)**
Committee Liaison:	**Cynthia Shelton (FL)**
Committee Executive:	**Vijay Yadlapati & Charles Dawson (DC)**

I. Call to Order

II. Opening Remarks

III. NAR Conflict of Interest Statement

IV. Important RPAC Message

V. Approval of 2014 Mid-Year Meeting Minutes

VI. Marriage Equality and Property Rights – Glenn Moore, NAR Diversity Committee Chairman

VII. Student Loan Debt Work Group Report

VIII. Update on Housing Market and Housing Finance Reform Study – Ken Fears, NAR Senior Economist

IX. Discussion of Tabled Risk Sharing Motion

X. Investor Financing in the Marketplace – Mark Filler, Jordan Capital Finance

XI. Crowdfunding – Stephanie Spear and Erin Stackley, NAR Commercial Policy Staff

XII. New Business

XIII. Adjournment

OWNERSHIP DISCLOSURE AND CONFLICT OF INTEREST POLICY

Ownership Disclosure Policy

1. When NAR has an ownership interest in an entity and a member has an ownership interest* in that same entity, such member must disclose the existence of his or her ownership interest prior to speaking to a decision making body on any matter involving that entity.

2. If a member has personal knowledge that NAR is considering doing business with an entity in which a member has any financial interest**, or with an entity in which the member serves in a decision-making capacity, then such member must disclose the existence of his or her financial interest or decision making role prior to speaking to a decision making body about the entity.

3. If a member has a financial interest in, or serves in a decision-making capacity for, any entity that the member knows is offering competing products and services as those offered by NAR, then such member must disclose the existence of his or her financial interest or decision-making role prior to speaking to a decision making body about an issue involving those competing products and services.

After making the necessary disclosure, a member may participate in the discussion and vote on the matter unless that member has a conflict of interest as defined below.

Conflict of Interest Policy

A member of any of NAR's decision making bodies will be considered to have a conflict of interest whenever that member:

1. Is a principal, partner or corporate officer of a business providing products or services to NAR or in a business being considered as a provider of products or services ("Business:); or

2. Holds a seat on the board of directors of the Business unless the person's only relationship to the Business is service on such board of directors as NAR's representative; or

3. Holds an ownership interest of more than 1 percent of the Business.

   Members with a conflict of interest must immediately disclose their interest at the outset of any discussions by a decision making body pertaining to the Business or any of its products or services. Such members may not participate in the discussion relating to that Business other than to respond to questions asked of them by other members of the body. Furthermore, no member with a conflict of interest may vote on any matter in which the member has a conflict of interest, including votes to block or alter the actions of the body in order to benefit the Business in which they have an interest.

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*Ownership interest is defined as the cumulative holdings of the member, the member's spouse, children, siblings and to any trust, corporation or partnership in which any of the foregoing individuals is an officer or director, or owns, in the aggregate, at least 50% of the (a) beneficial interest (if a trust), (b) stock (if a corporation) or (c) partnership interests (if a partnership).

**Financial interest means any interest involving money, investments, credit or contractual rights.

5/30/2000

Message on behalf of 2014 NAR President Steve Brown

Dear NAR Committee Members:

The 2014 NAR Leadership Team, RPAC Leadership and I want to thank each of you for your commitment and hard work towards the 2014 RPAC Committee Challenge. Thanks to your dedication and hard work, we were able to get the message out loud and clear that RPAC is important and protects our industry and livelihood.

This year's RPAC Committee Challenge was met by an astonishing 46 committees compared to 35 last year. 95% of all NAR Committees members invested in RPAC this year. These 46 committees, which are noted below, will be recognized during the 2014 Annual Convention Chair Lunch on Thursday, November 6 from 12noon - 1:00 PM in the Belle Chasse Room of the Hilton New Orleans Riverside. These committees will also be recognized at NAR 360^{0} on Thursday from 4:00pm - 5:00pm in the La Nouvelle Ballroom located on the second floor of the Morial Convention Center.

- AEC Recommendations and Recognition Advisory Board
- AEC-AE Institute Advisory Board
- AEC-RCE Certification Advisory Board
- Amicus Brief Advisory Board
- Association Executives Committee
- Broker Involvement Council
- Business Issues Policy Committee
- CIPS Advisory Board
- Commercial Committee
- Commercial Legislation and Regulatory Advisory Board
- Condo Working Group
- Corporate Investor Council
- Executive Committee
- Federal Financing & Housing Policy Committee
- Federal Independent Expenditures Advisory Board
- Federal Taxation Committee
- Finance Committee
- Global Alliances Advisory Board
- Idea Exchange Council for Brokers
- Leadership Academy Advisory Group
- Local Leadership Idea Exchange Council
- Meeting and Conference Committee
- Member Communication Committee
- MLS Technology and Emerging Issues Advisory Board
- Multicultural Real Estate Leadership Advisory Board
- Multiple Listing Service Forum
- NAR Issues Mobilization
- NAR Realtor® Party Member Involvement Committee
- Nominating Committee
- Past President's Advisory Group
- Professional Development Committee
- PS Interpretations and Procedures Advisory Board
- Public Advocacy Advisory Group
- Real Property Operations Committee
- Real Property Valuation Committee
- REALTOR® Party Member Involvement Committee
- Research Committee
- Reserves Investment Advisory Board
- RPAC Major Investor Council
- RPAC Participation Council
- RPAC Trustees Federal Disbursement Committee
- RPAC Trustees Fundraising Committee
- Smart Growth Advisory Board
- State and Local Forum on Global Business
- State and Local Issues Mobilization Support Committee
- State Leadership Idea Exchange Council
- Young Professional Network Advisory Board

You have all done an outstanding job of bringing the importance of RPAC to the forefront with your committee members. Thank you for your leadership and dedication to ***our*** real estate industry.

With sincere gratitude,

Steve Brown
2014 NAR President

NATIONAL ASSOCIATION OF REALTORS®
2014 REALTOR® PARTY CONVENTION & TRADE EXPO
MARRIOTT WARDMAN PARK HOTEL
WILSON ROOM B
WEDNESDAY, MAY 14
10:00 AM - 12:00 PM

I. Call to Order

Committee Chairwoman, Mabel Guzman, called the meeting to order at 10:00AM.

II. Opening Remarks

Ms. Guzman welcomed the members of the Committee and gave an overview of the extremely full agenda.

III. NAR Ownership Disclosure and Conflict of Interest Statement

The Chairwoman referred members to the Ownership Disclosure and Conflict of Interest Statement and asked that Committee members recuse themselves from discussions if they had any conflict.

IV. Approval of Previous Meeting's Minutes

Committee Vice Chair, John Wong, asked the committee if there were any amendments to the minutes from the Annual Meeting in November 2013. There were no changes and the minutes were approved by general consent.

V. Speakers

a) The Conventional Financing and Policy Committee received a report from NAR's Senior Economist, Ken Fears, on the current state of the housing market as well as a forecast for the rest of 2014. While the housing market has generally improved, pending homes are down year over year. Mr. Fears indicated that the market still faces many headwinds such as lack of inventory, tepid employment and income growth, soft increase in consumer confidence, and the tapering of the Federal Reserve Board's mortgage bond purchase program.

b) The Committee was briefed by Chairwoman Guzman on the GSE Workgroup which offered recommended changes to S. 1217, also known as the Johnson-Crapo housing finance reform bill. The Working Group indicated that though there were many positive aspects to the bill, the Senate Banking Committee should pay particular attention to the potential cost increases to the mortgage market. Committee member Kevin Brown offered a motion that NAR oppose the bill unless the risk sharing provision is amended so that the risk sharing is optional and there is no minimum amount required in statute. After discussion, the Committee tabled the motion to a later date.

c) Seth Wheeler, White House Housing Advisor, provided the Committee with information on the Johnson-Crapo housing finance reform legislation. While Mr. Wheeler acknowledged the legislation is not perfect, he stressed the bill is still a work in progress. The Administration is hopeful that the U.S. Senate Banking Committee will address NAR's concern regarding the overall cost of mortgages for consumers.

d) Anthony Hutchinson, Director of Government and Industry Relations for Freddie Mac, provided the Committee with Freddie Mac's analysis of the Johnson-Crapo housing finance reform legislation. Freddie's analysis estimates a significant increase in the cost of credit if the legislation is signed into law as currently written.

e) Keith Castaldo, Finance Counsel for U.S. Senator Gillibrand, provided an overview of the impact of student loan debt on access to credit. Mr. Castaldo went over several legislative proposals aimed to help student loan borrowers to refinance and reduce their debts.

f) Conventional Financing and Policy Committee member Eloise Martin provided an update on the Joint Condo Working Group made up of representatives from Federal Financing and Housing Policy Committee, Conventional Financing and Policy Committee, and the Resort and Second Home Real Estate Committee. Ms. Martin reported that the committee discussed a variety of issues around condo sales and purchases. The top concerns related to: 1) certification requirements; 2) FHA owner/occupancy ratio; 3) mixed use buildings and commercial space; and 4) lack of coordination between FHA, Freddie Mac, Fannie Mae, and VA. Ms. Martin indicated she would post additional notes to the Committee's message board.

VI. Announcements

The Chairwoman referred members to the announcements in the agenda packet that included the time and location of the Legislative and Political Forum. She also reminded members to attend the trade exposition.

VII. Adjournment

Chairwoman Guzman adjourned the meeting at 12:00 PM.

Marriage Equality and Property Rights

Issue:
Marriage can affect real estate in several ways including how property is titled, tax consequences related to real estate, and estates in the event of death or divorce. Many states allow same-sex couples to marry and enjoy the property rights and tax benefits of marriage. The Federal Government has by executive order extended tax benefits to legally married same sex couples. Actions by the Courts have held that restrictions prohibiting same-sex couples from marrying are unconstitutional; however, the issue has not been decided by the Supreme Court. There are over 20 states that continue to bar same-sex couples from marrying.

There may be multiple private property rights issues related to marriage that impact same-sex couples and possibly create a difference in treatment on the basis of sexual orientation. For example, in Minnesota, an analysis of state laws benefiting married couples found well over 50 specific real estate related benefits for married couples.

REALTOR® Policy:
The National Association of REALTORS supports equal housing opportunity on the basis of sexual orientation.

Opposing Positions:
Some might argue that marriage is not a real estate issue and therefore not an issue for NAR to consider. Others and the legislatures in several states have pushed measures allowing discrimination on the basis of sexual orientation if a business person has a religious belief that homosexuality is wrong.

Outlook/Next Steps:
The Diversity Committee identified several possible areas where real estate benefits are not available to same sex couples because they are not allowed to marry in their state and asked for the input of the Federal Financing and Housing Policy Committee, the Convention Financing and Policy Committee, the Federal Taxation Committee and the State and Local Issues Policy Committee. Research was conducted regarding state laws and identified several issues impacting same sex couples not allowed to marry, including the application of transfer taxes when one member of a couple dies, the ability to title property, and protection from discrimination. The committees mentioned above, plus the Public Policy Coordinating Committee, are being asked to (1) Discuss and determine whether there is an issue under the purview of the committee that impacts the private property rights of same sex couples not allowed to marry and, (2) If so, whether the Committee desires to be part of any future discussion to address the development of any NAR policy addressing the issue.

NAR Student Loan Debt Work Group Final Report
November 3, 2014

EXECUTIVE SUMMARY

Ongoing news coverage on rising student loan debt levels as well as Congressional intent to reauthorize the Higher Education Act has started the debate on the impact that student loan debt has on homeownership. Since NAR has no existing policy with respect to student loan debt, a formal Student Loan Debt Work Group (Work Group) was created to research and analyze the issue of increasing student loan debt and evaluate its potential impact on the housing market, and report any such recommendations for consideration by the Conventional Financing and Policy Committee at the November 2014 NAR Annual Convention.

The Work Group was comprised of members from the Conventional Financing and Policy Committee. The Work Group met four times, via webinar, on July 2, August 21, October 2, and November 3, 2014.

On November 3, 2014, the Student Loan Debt Work Group met to finalize its recommendation to the Conventional Financing and Policy Committee. Specifically, the Work Group recommends that NAR should (1) continue to monitor student loan debt research, (2) support legislative and regulatory efforts to educate and protect all student loan borrowers by helping them better understand loan programs, repayment rules, and responsibilities, and (3) keep the Student Loan Debt Work Group active into 2015.

FINAL STUDENT LOAN DEBT WORK GROUP RECOMMENDATIONS

1. **Research Recommendation**

   The Work Group reviewed several studies on student loan debt from the Federal Reserve, various trade groups, and media reports. The Work Group found that lagging job/wage growth has a direct impact on rising student loan debt, but it was unable to conclude that student loan debt is currently having a direct impact on the housing industry. At this time, the Work Group believes there is not enough data to substantiate a direct linkage between student loan debt and the housing market. Also, the Work Group questioned some of the assumptions and methodology used by various media reports regarding the student loan debt issue. Nevertheless, the Work Group believes there could be certain factors such as credit scores and default rates that may help identify a direct correlation between rising student loan debt and the housing market.

   Therefore, the Work Group recommends that NAR continue to review research, with an emphasis on data related to credit scores, default rates, and research released by other trade groups.

2. **Policy Recommendation**

   Furthermore, the Work Group believes that all student loan borrowers should have comprehensive access to loan information and a better understanding of debt and repayment options. Moreover, the Work Group supports increased disclosure requirements and protections for all student loan borrowers.

   Therefore, the Work Group recommends NAR be supportive of legislative and regulatory efforts aimed to educate and protect student loan borrowers.

3. **Continuation of Work Group Recommendation**

   Finally, the Work Group recommends that it remain active for at least one year in order to provide NAR with additional guidance as congressional discussion regarding the reauthorization of the Higher Education Act (HEA) evolves, further research into the linkage between student debt and housing market is published, and additional issues arise. The Work Group should provide periodic updates as needed to the Conventional Financing and Policy Committee.

NAR STUDENT LOAN DEBT WORK GROUP STRUCTURE

Purpose: To research and analyze the issue of increasing student loan debt and evaluate its potential impact on the housing market. All members are from the Conventional Financing and Policy Committee.

Chair: Mabel Guzman (IL)
Liaison: Cynthia Shelton (FL)
Staff Executives: Vijay Yadlapati, Charlie Dawson, and Jessica Lautz (DC)

Members:
John Wong (CA)
Kevin Brown (CA)
Matt Farrell (IL)
Cindy Stanton (TN)
Terrie Suit (VA)
Jon Wolford (VA)
Ron Woods (NJ)

Student Loan Debt Research & Legislation

Work Group on Student Loan Debt

Conventional Financing and Policy Committee

November 7, 2014

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Student Loan Debt Work Group Structure

Purpose: To research and analyze the issue of increasing student loan debt and evaluate its potential impact on the housing market.

Chair: Mabel Guzman (IL)

Liaison: Cynthia Shelton (FL)

Members:

John Wong (CA), Kevin Brown (CA),

Matt Farrell (IL), Cindy Stanton (TN),

Terrie Suit (VA), Jon Wolford (VA), & Ron Woods (NJ)

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"Student Loan Debt and Young Consumers' Housing Choices" Report from Federal Reserve Bank of New York

- Data based on:
  - FRBNY Consumer Credit Panel—representative sample of consumer credit data that New York Federal Reserve acquired from Equifax
  - Borrower level information
  - Linear probability model of homeownership with available data controlling for:

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"Student Loan Debt and Young Consumers' Housing Choices" Report from Federal Reserve Bank of New York

Why the decline in housing and auto markets?

- Weakened labor market
- Decreased access to credit
  - Underwriting standards tightened in the recession and recovery
  - DTI calculations include larger student loan balances
- Possible delayed life-cycle timing
- Credit scores are 15-20 points lower among student loan borrowers
- Student borrowers are less likely to own homes at 30 and less likely to purchase cars using credit at age 25, but those most at risk are borrowers not finishing the college degree.
- Difficult to infer clear fiscal policy prescriptions from the limited evidence available on the student debt and housing relationship.

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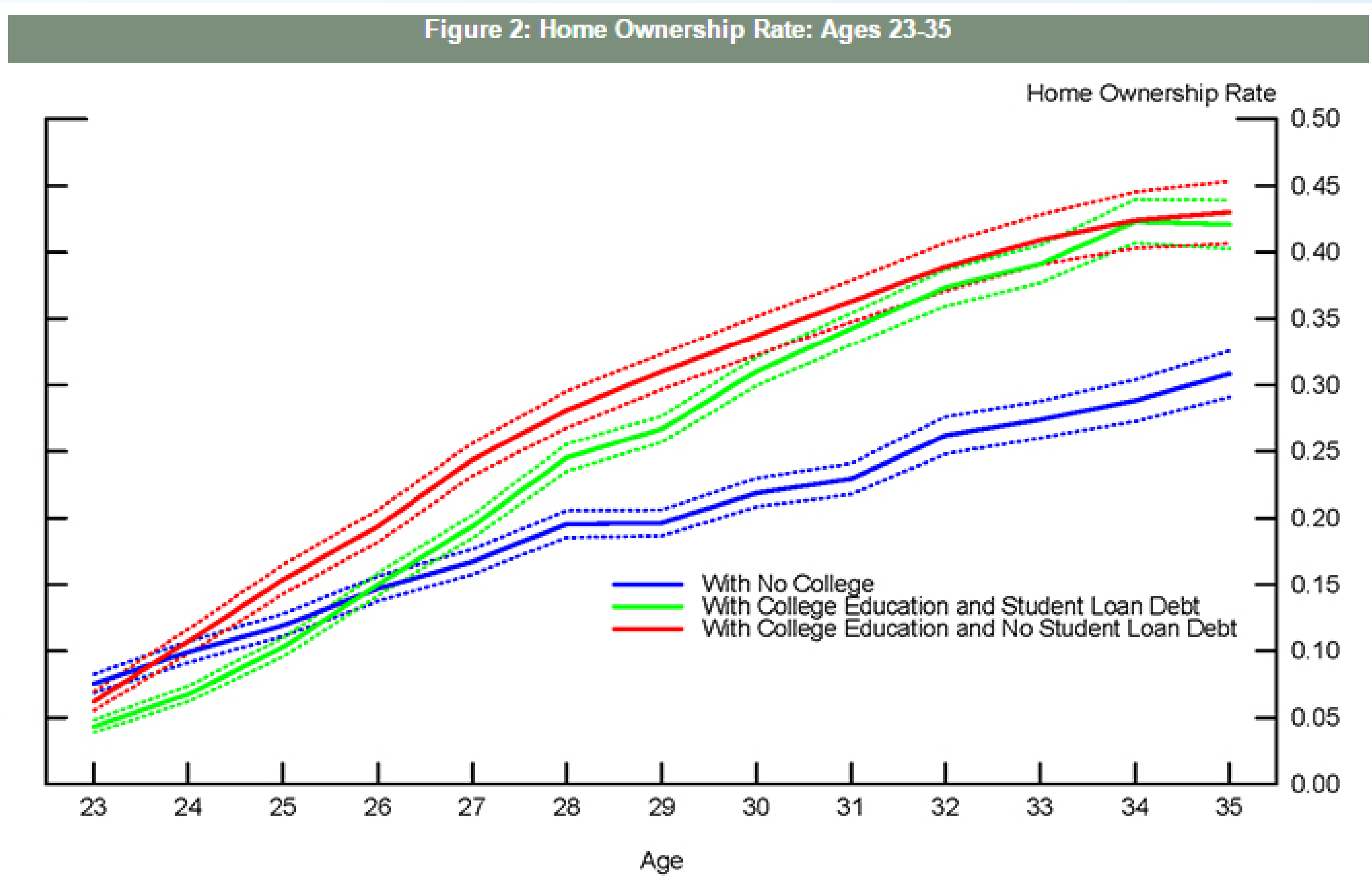
"Student Loans and Homeownership Trends" Report from Federal Reserve Bank of New York

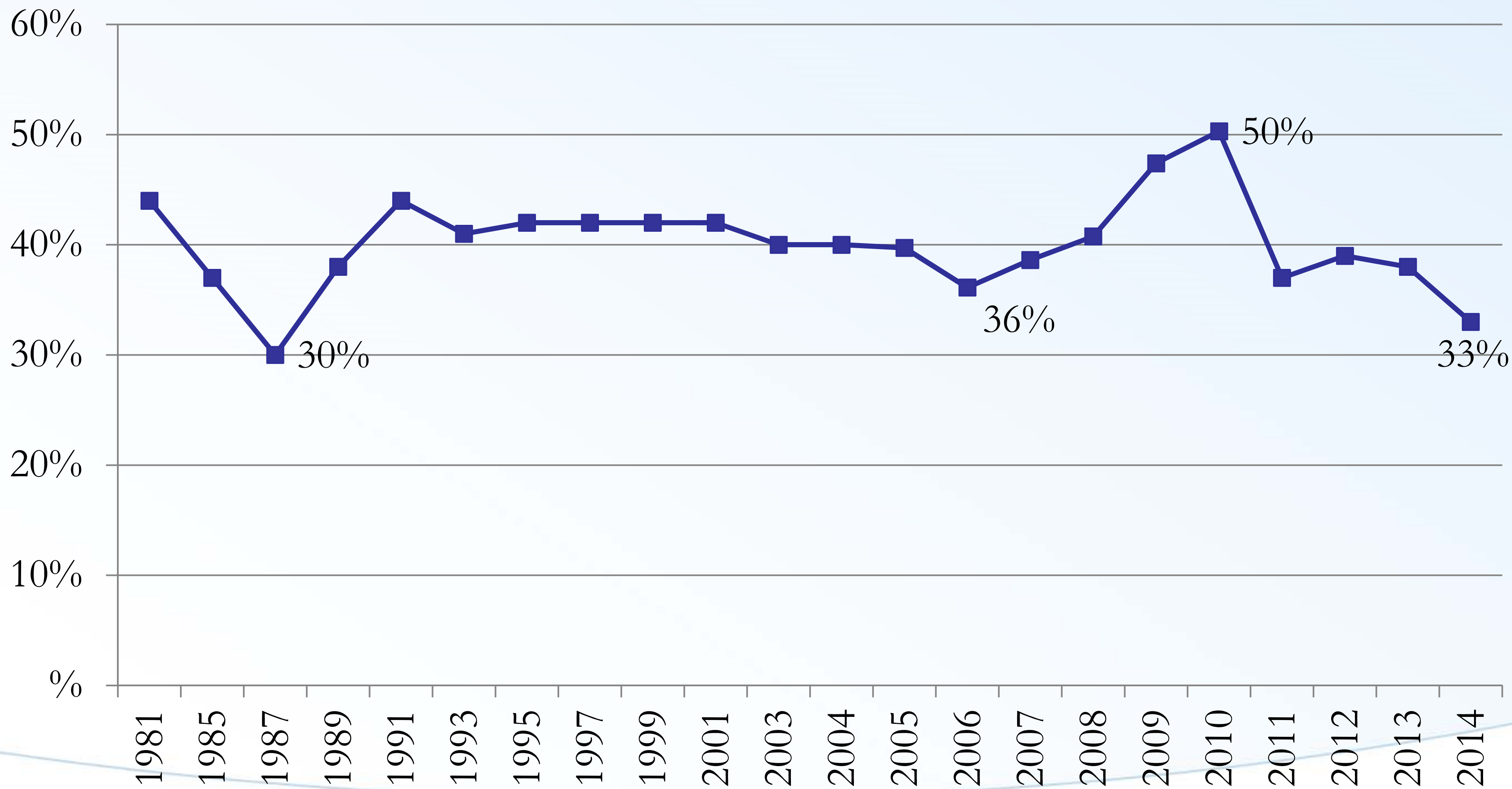
- The analysis in the note is based on a nationally representative, anonymous sample of credit bureau records randomly drawn by TransUnion, LLC
- A cohort of 34,890 young individuals who were between ages 23 and 31 in 2004.
- The data spans the period 1997 through 2010.
- Higher homeownership rates among those who went to college but did not have any student loans might be caused by lower overall debt burdens
  - Potentially also by other factors: ability of one's family to provide funds for a down payment.
- Results cannot address how homeownership trends in recent years

“Student Loans and Homeownership Trends”
Report from Federal Reserve Bank of New York



“Profile of Home Buyers and Sellers”
Report from National Association of REALTORS

First-buyer share among primary residence buyers—lows not seen since 1987



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Profile of Home Buyers and Sellers

"Profile of Home Buyers and Sellers" Report from National Association of REALTORS Among successful Home Buyers

	All Buyers	First-time Buyers	Repeat Buyers
Share Saving for Downpayment was Most Difficult Task in Buying Process:	12%	23%	7%
Debt that Delayed Saving:			
Credit card debt	50%	45%	58%
Student Loans	46	57	28
Car loan	38	42	32
Child care expenses	17	13	24
Health care costs	12	8	17
Other	8	5	14

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Legislation
Reviewed by Work Group

- University & College Accountability
  - Requires schools with default rates exceeding certain thresholds to pay a percentage of the amount their defaulted student borrowers owe
- Student Loan Fairness Prepayment
  - Requires "prepayments" first be applied to the principle of the loan with higher interest rate
- Streamline Student Loan Programs
  - Income-based repayment
  - 10% of income cap; forgiven after 20 years
- Federal Student Loan Refinancing
  - Allow borrowers to refinance into 4% rate

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Student Loan Borrower Bill of Rights

- Increase disclosure requirements & protections for private student borrowers
- Require new notices to borrowers throughout loan origination & repayment process
- Simplify Access to Student Loan Information
  - Require National Student Loan Data System to include private loan information
  - Encourage non-traditional outreach to borrowers

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Reauthorization of Higher Education Act

- It is unknown what will be included in reauthorization of Higher Education Act (HEA)
- HEA Reauthorization occurs every 5 years
- Federal education loan interest rates are reset every July 1st
- Not uncommon to have delays of a year or longer

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Work Group Recommendation

1) NAR continue to review research, with an emphasis on data related to credit scores, default rates, and research released by other trade groups (Informational)
2) NAR keep the Student Loan Debt Work Group active into 2015 (Informational)
3) NAR support legislative and regulatory efforts to educate and protect all student loan borrowers by helping them better understand loan programs, repayment rules, and responsibilities (Policy Recommendation)

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Where are the Home Sales?

Ken Fears

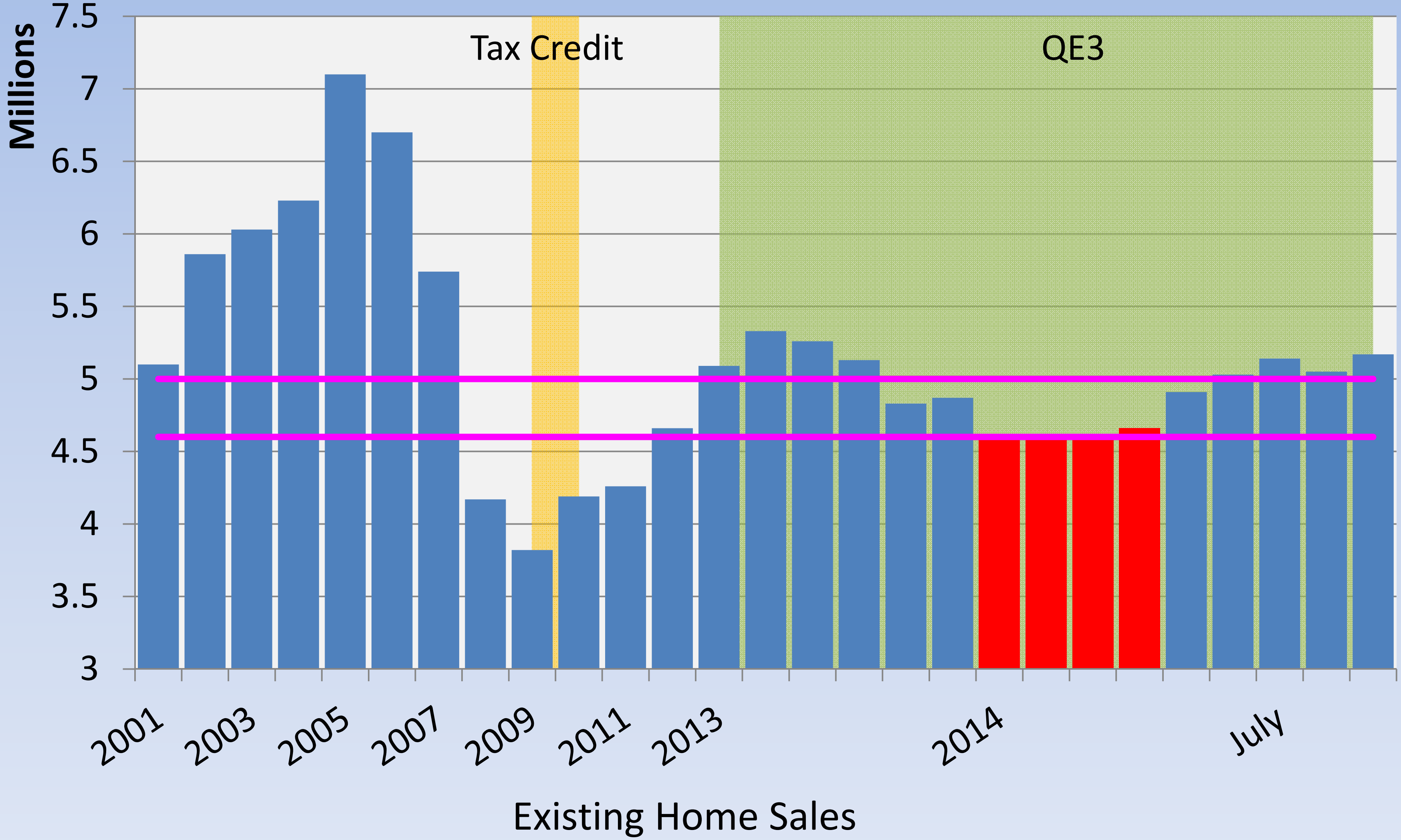
Director, Housing Finance and Regional Economics

NAR Research

Entry Level Buyers are Key!!!

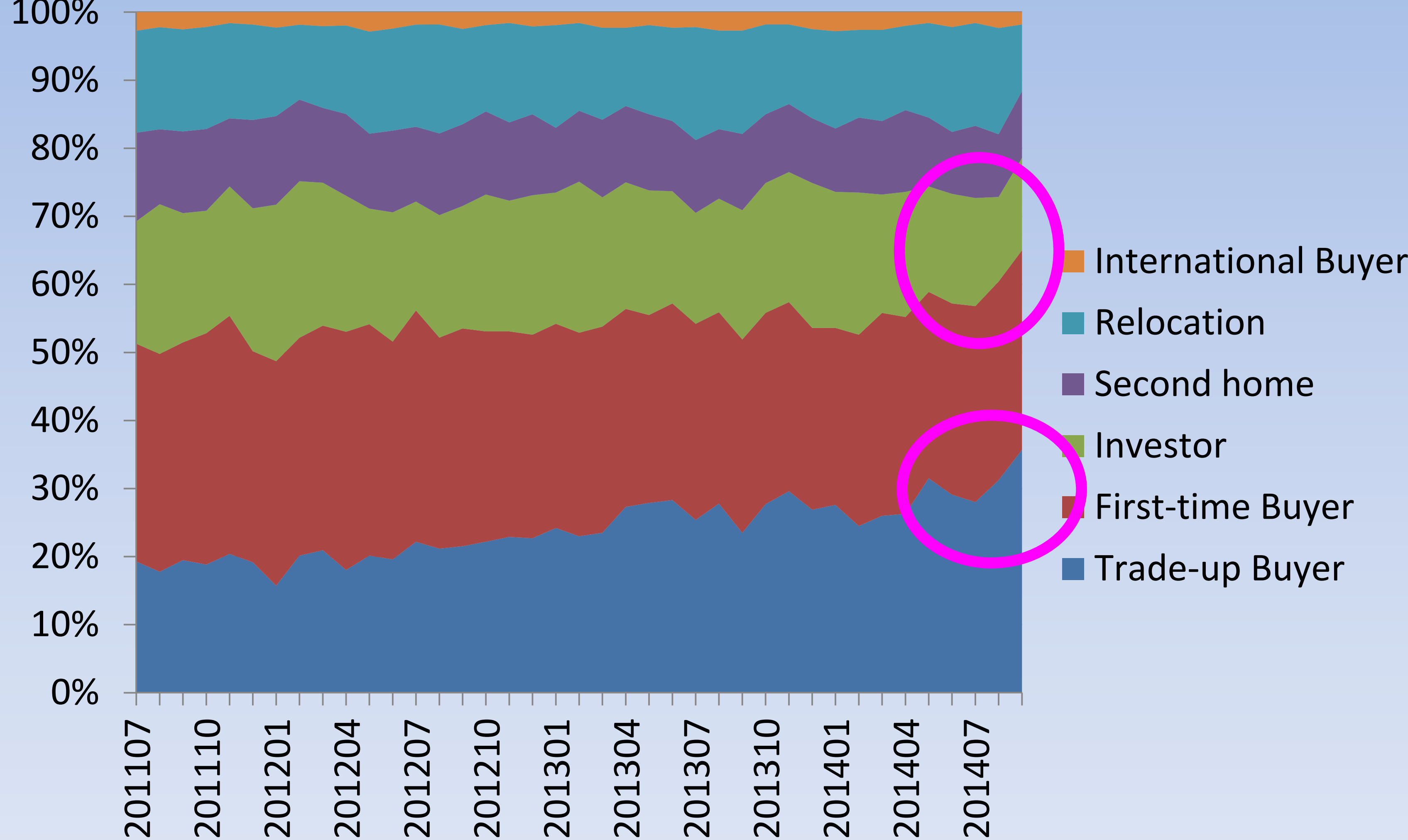
- Regulatory impacts linger, but improving
- Inventories improving, but historically tight
- Employment and confidence improving … but incomes lagging
- How long will rates remain low?

Sales Sputtered, but Back

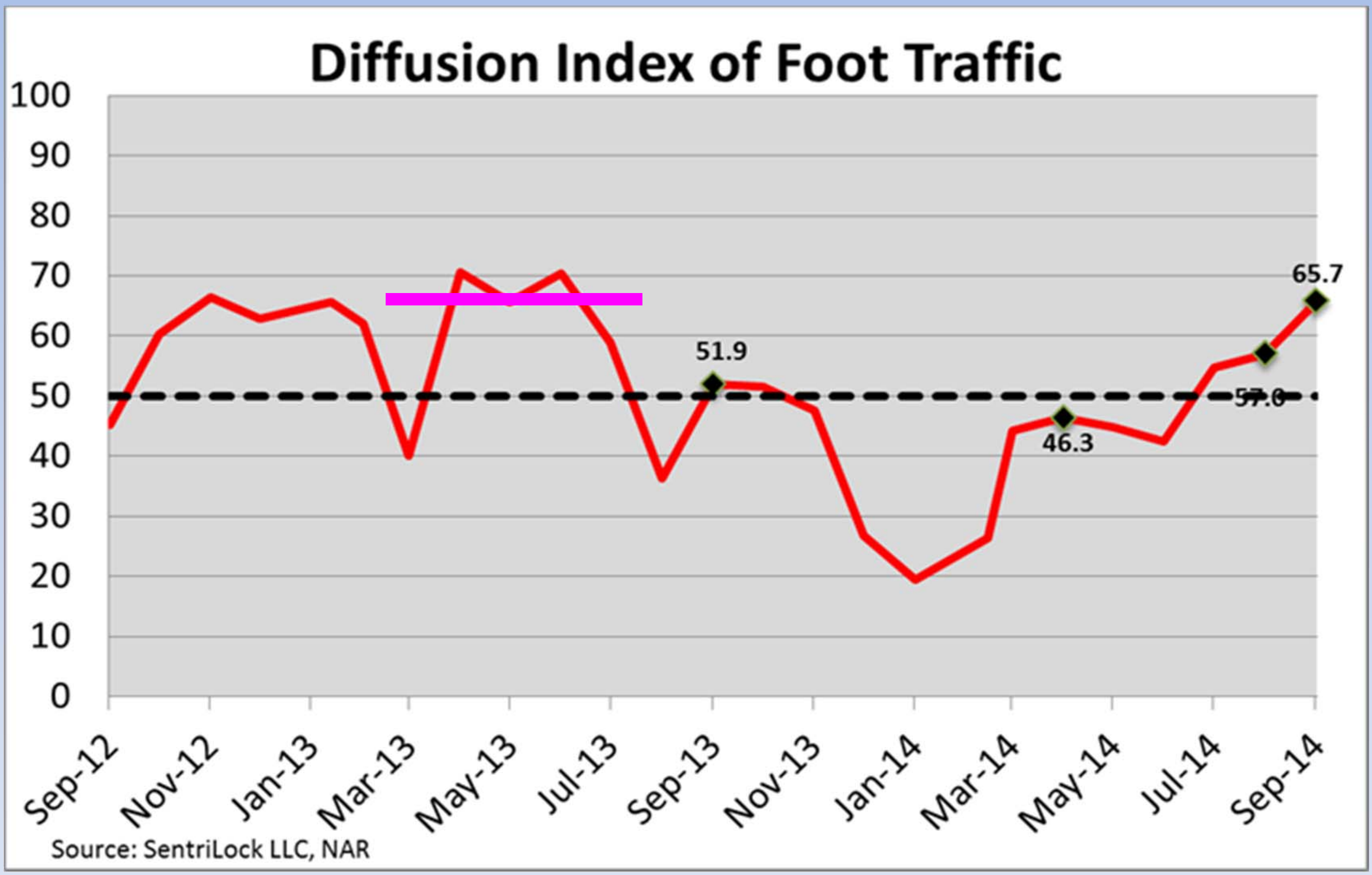


Source: NAR

Who Will Step Up, When Investors Back Out?

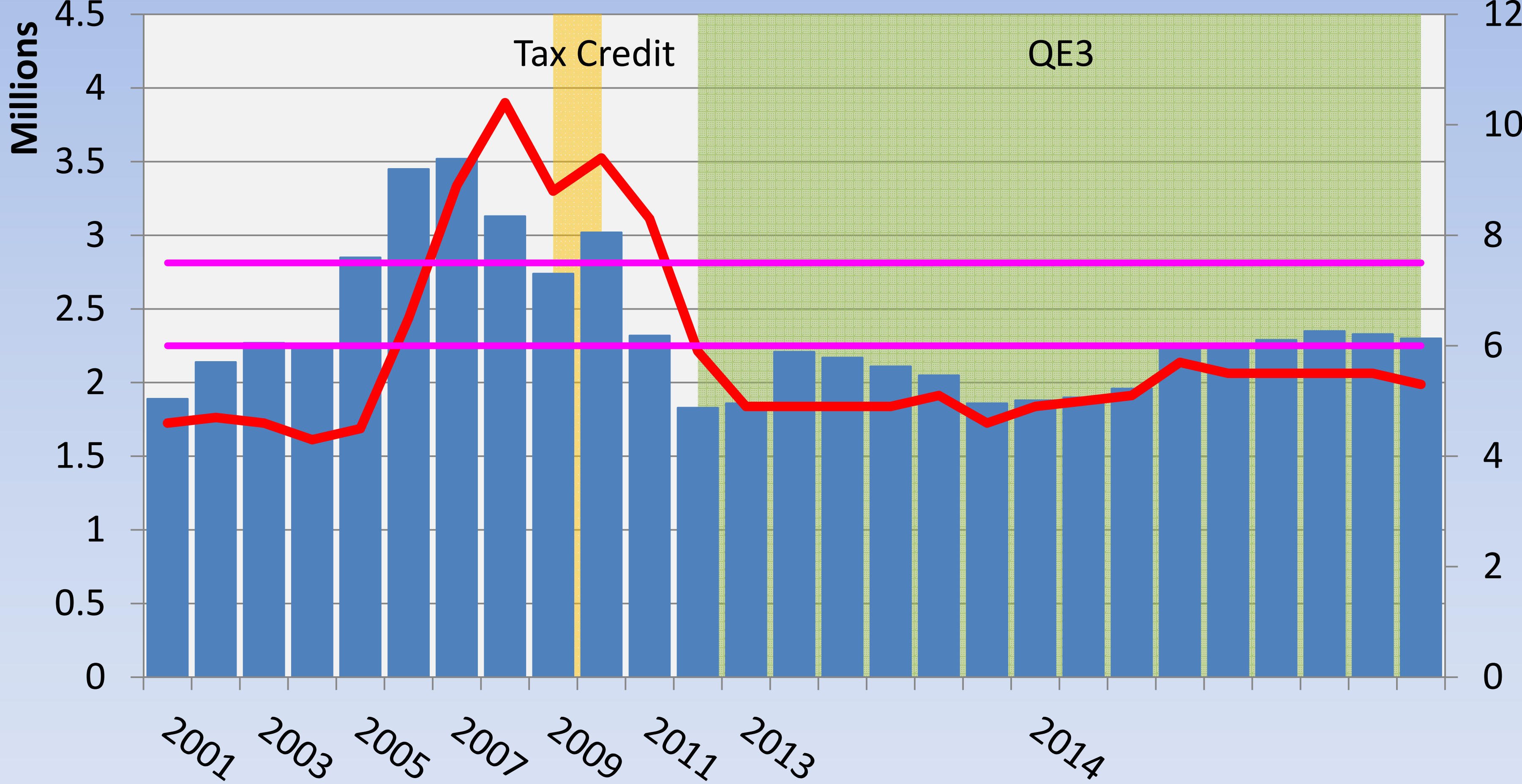


Foot Traffic Pointing to Strength in the Fall and Winter



Months Supply Remains Low

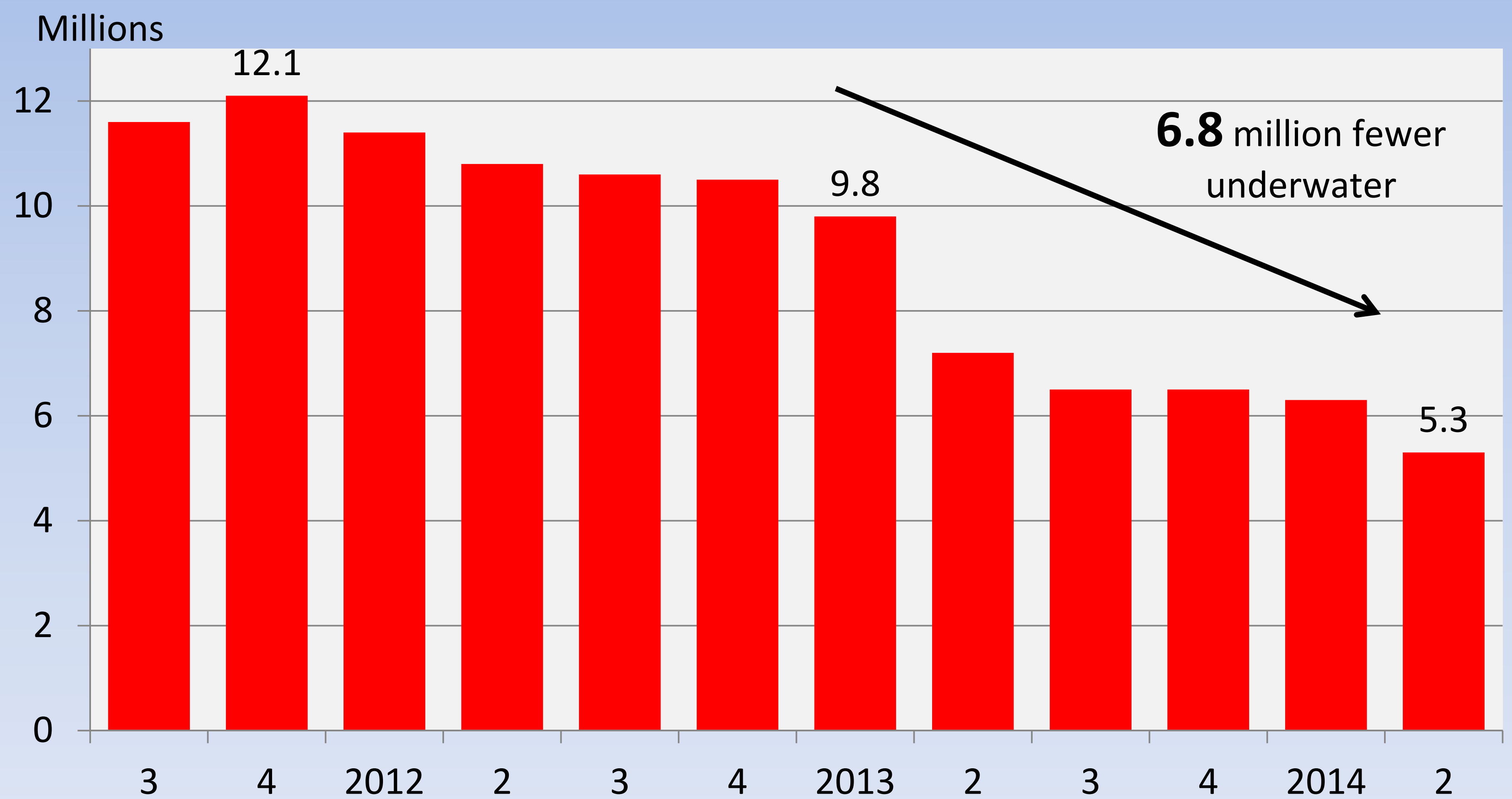
Inventory rising seasonally, but lowest in a decade



Source: NAR

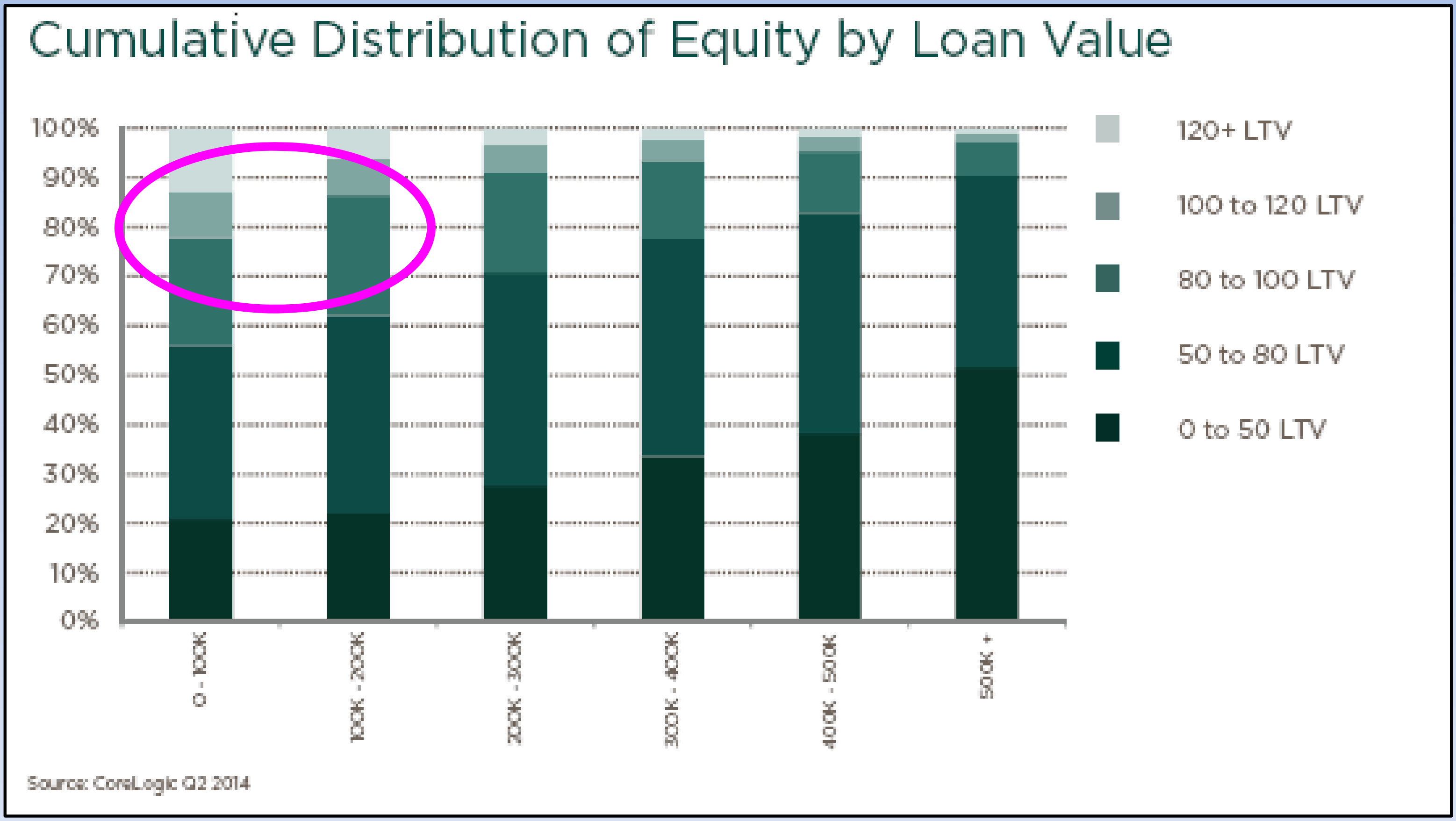
Home Prices Reduce Underwater

Improves Sales and Reduces Foreclosures



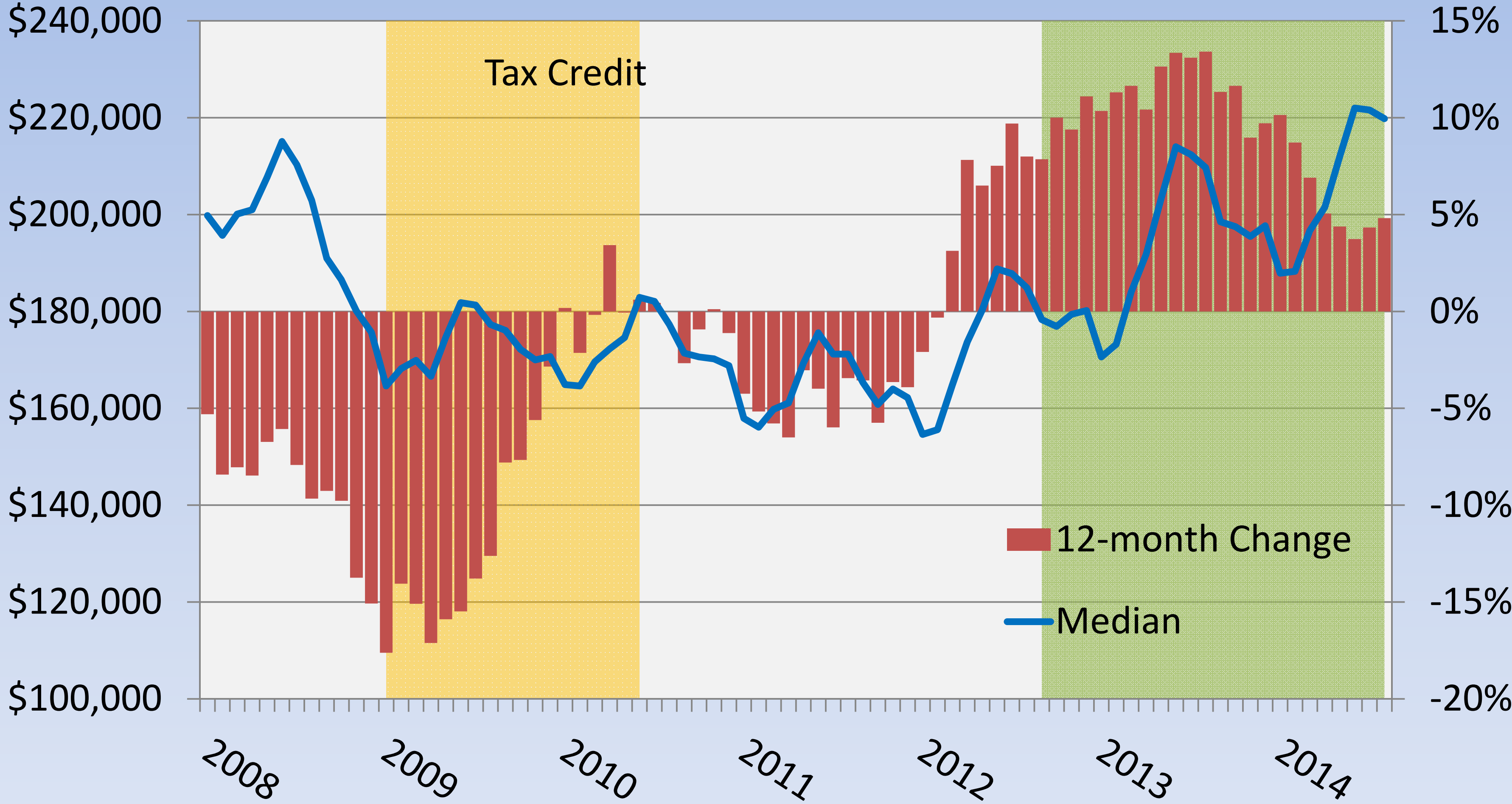
Source: Corelogic

Underwater Tend to be in Entry-level Price Range



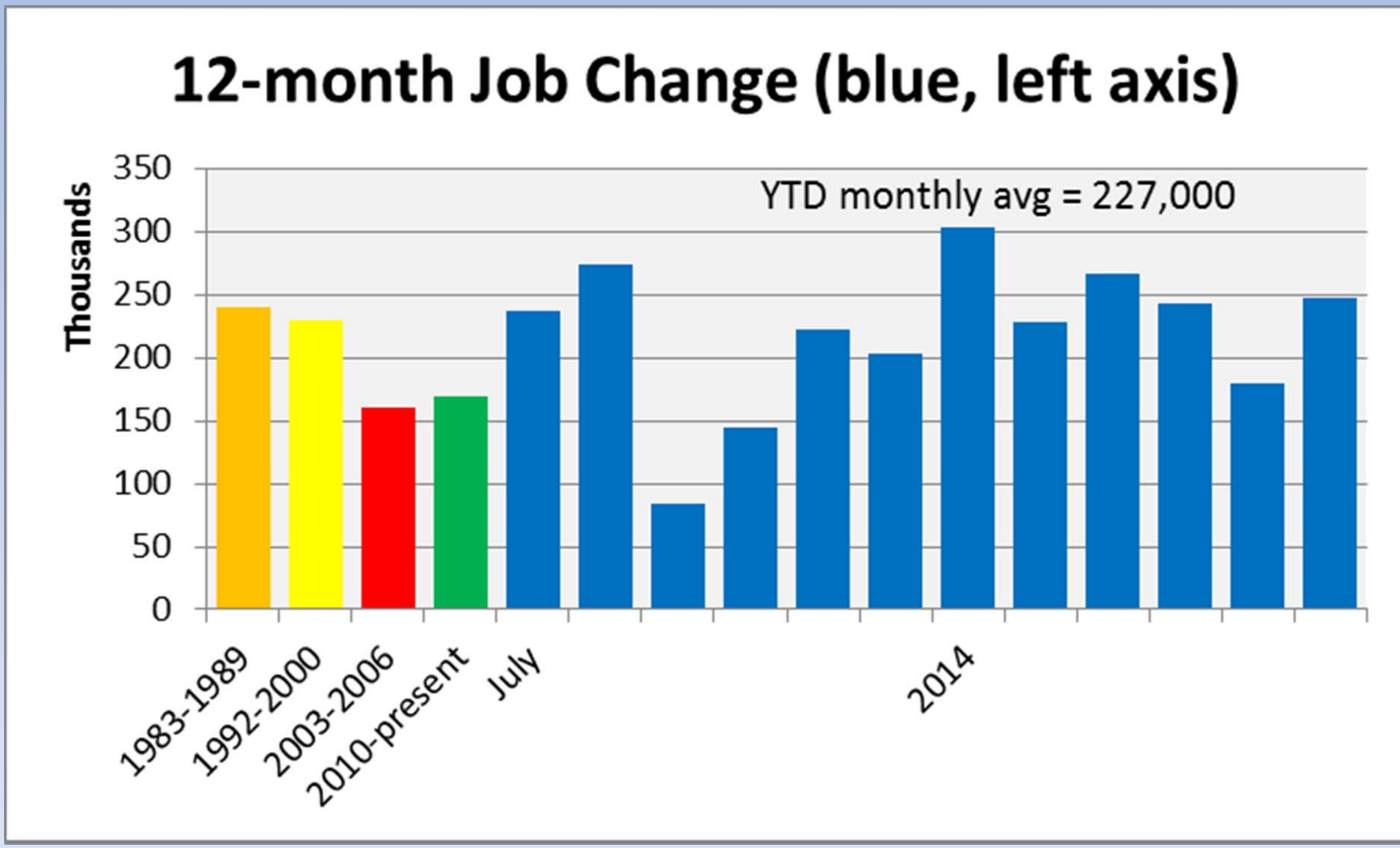
Entry-level supply may soon come to the market

Price Growth Strong, but Easing
Where will it stabilize?



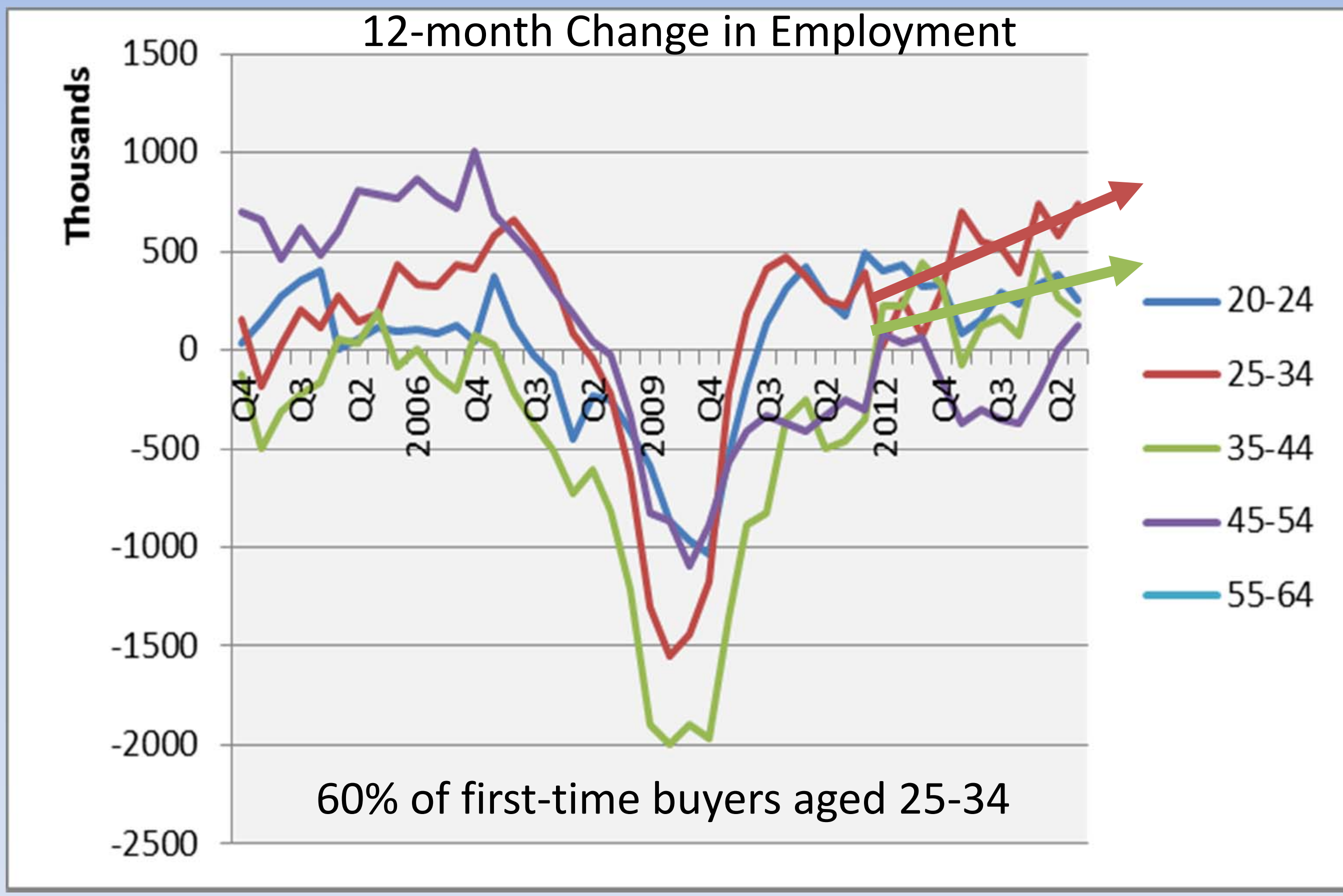
Source: NAR

Employment Growth Back on Track
Following Years of Delay



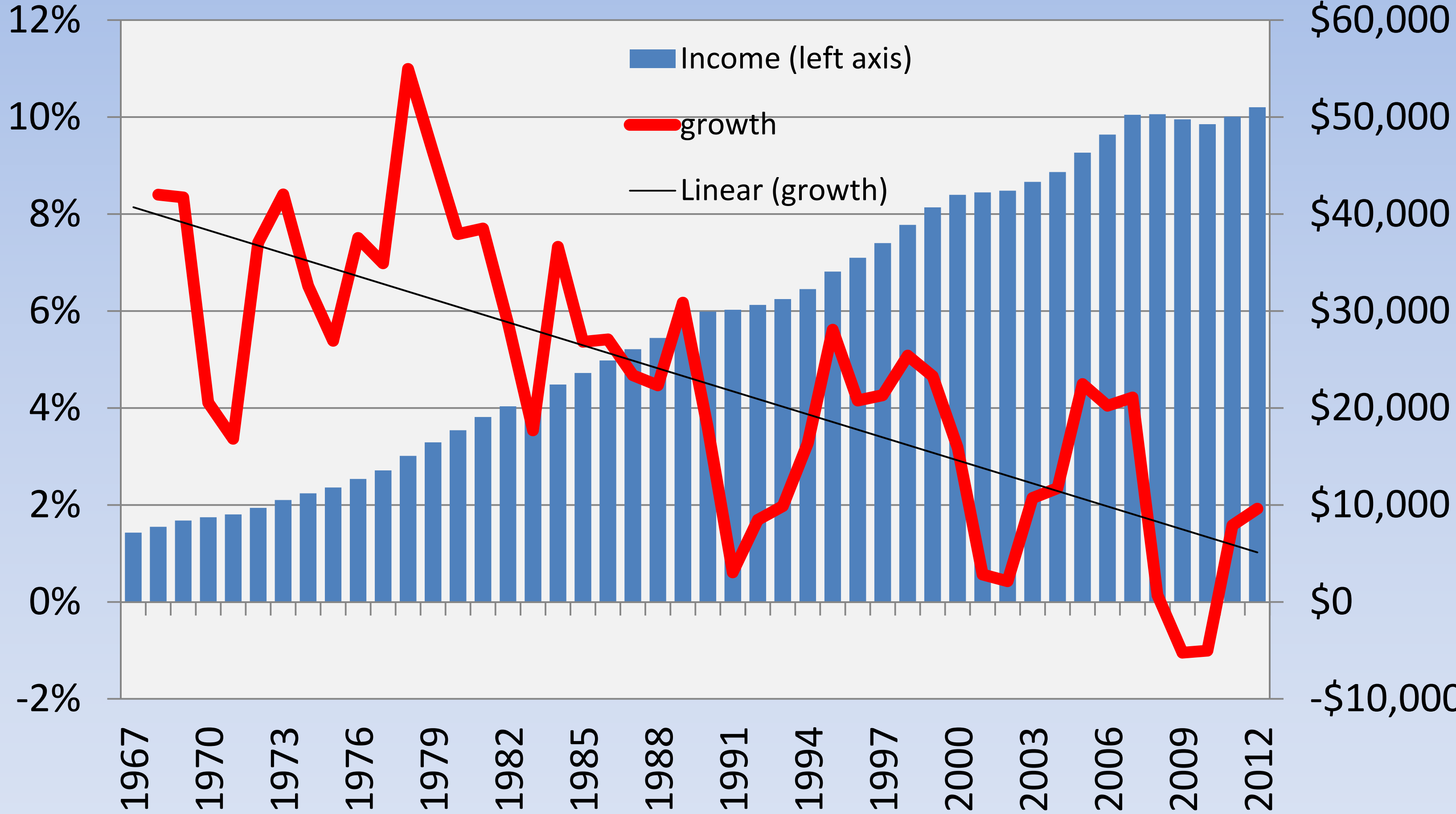
Source: BLS

Job Creation Benefits Younger Cohorts



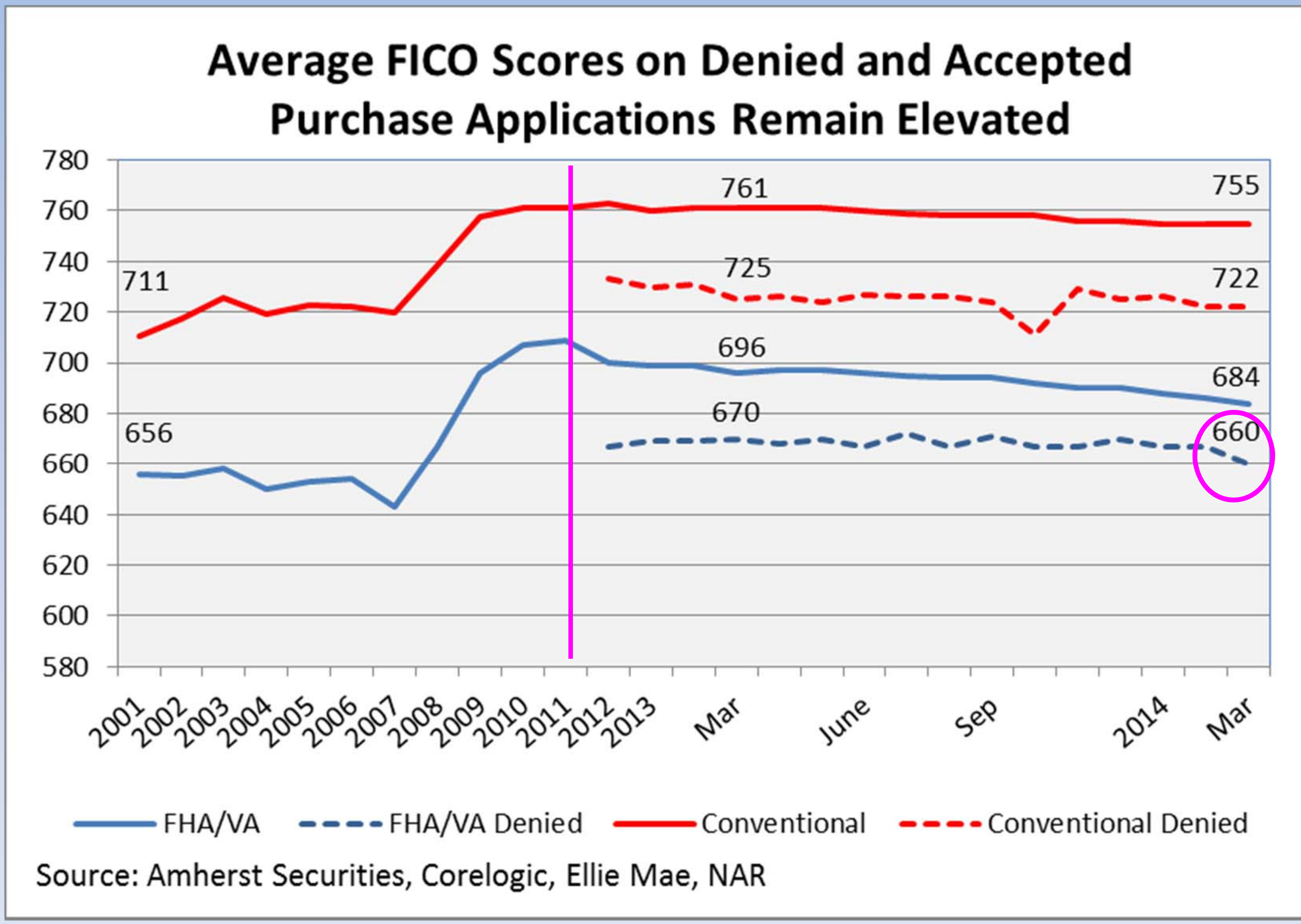
Anecdotal Evidence of Improving Household Formation

Secular Decline in Income Growth is the Biggest Headwind to Affordability



Falling rates have been a temporary (decade-long) respite

Green Shoots, but Credit Remains Tight



Concerns for 2015

- When will interest rates rise?
  - QE3 is OVER!   Return of demand for GSE MBS?
  - Rapid improvement in global economy?

- Opening the credit box:
  - Lower FHA premiums and g-fees?
  - FHA and GSE reforms

- Will tight supply conditions hold?

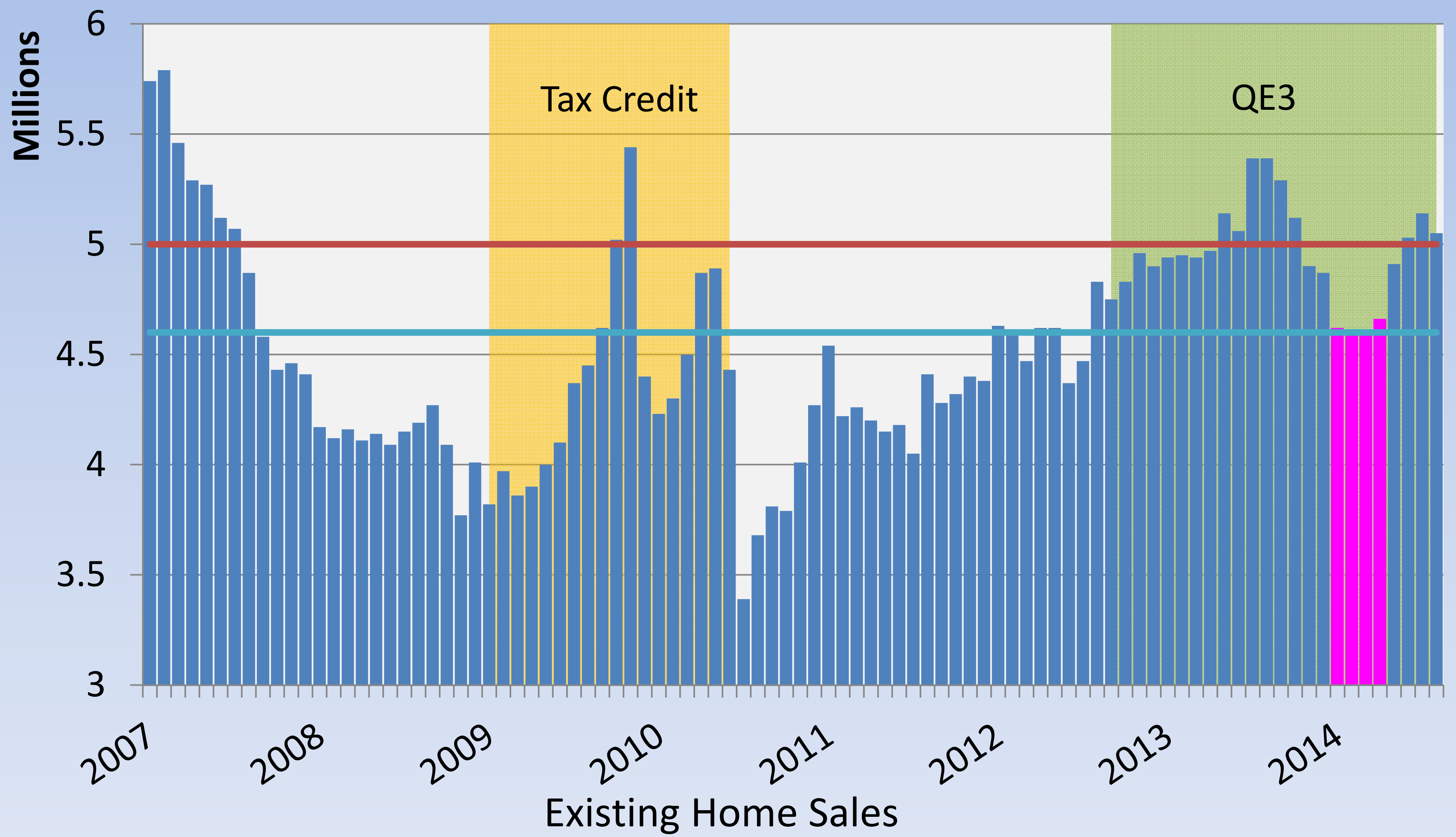
- Household formation?
  - Young consumer attitudes
  - Employment and income growth

NAR Research—On Line

- Twitter: https://twitter.com/NAR_Research
- Blog: http://economistsoutlook.blogs.realtor.org/
- NAR Research Page http://www.realtor.org/research-and-statistics

SUPPLY AND DEMAND

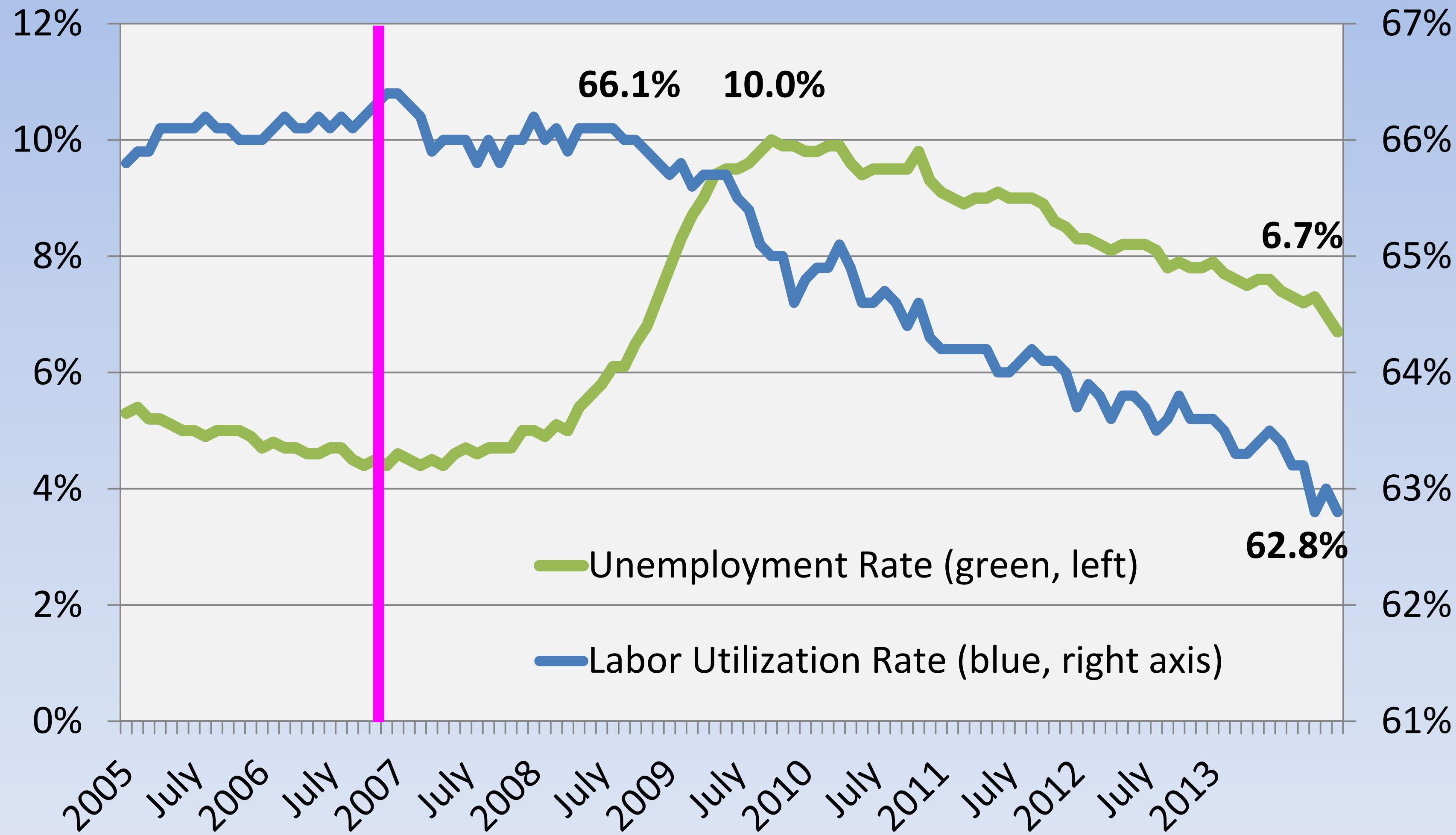
Sales Sputtered, but Back



Source: NAR

Unemployment Ignores Employment Gap

Many Workers Not Looking or Timed-Out

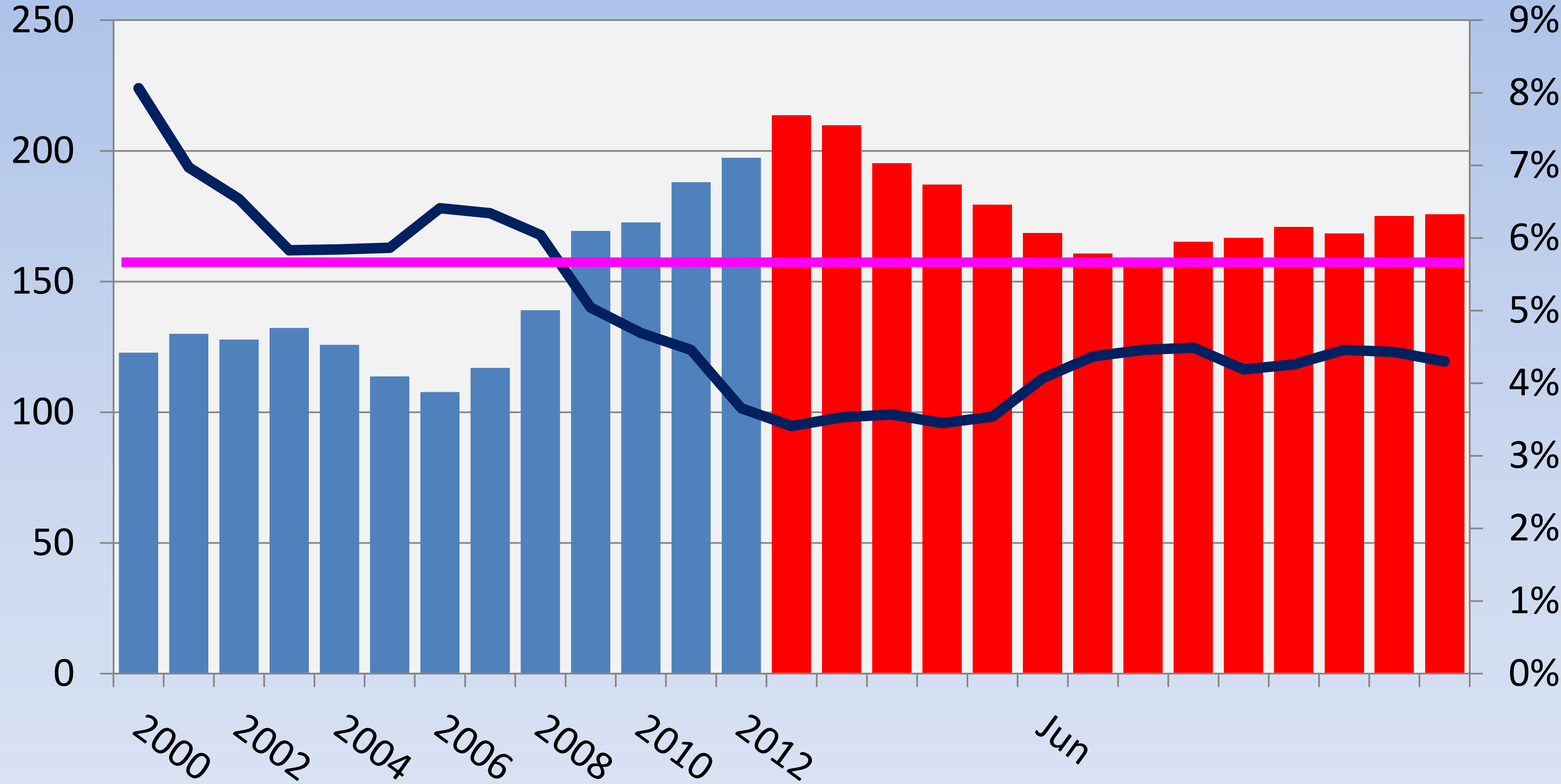


When will the Fed raise rates? 5.5%?

Source: BLS

Rising Rates and Prices Undercut Affordability

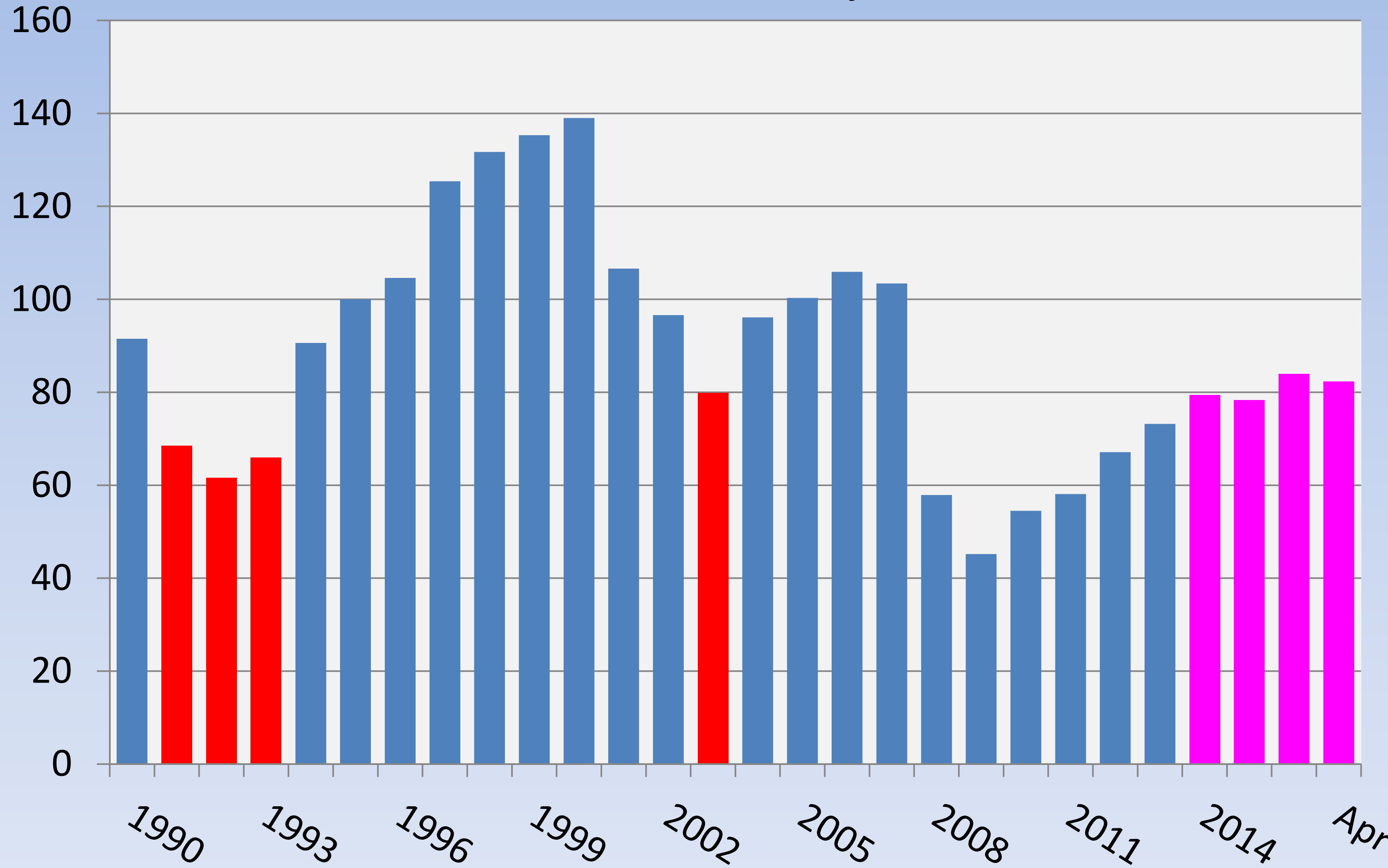
Can Income Growth Compensate?



Source: NAR, Freddie Mac

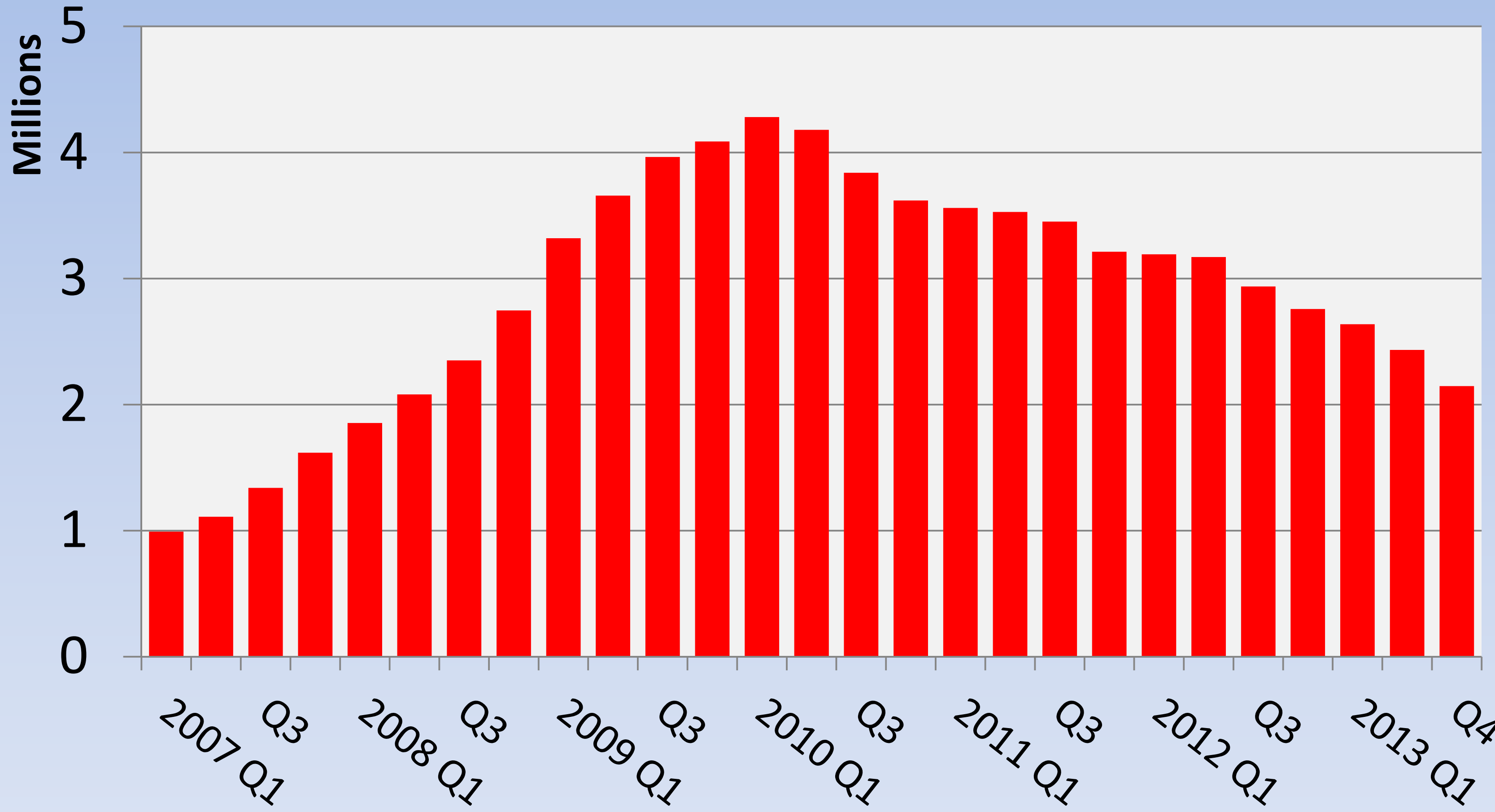
Consumer Confidence Better, but Soft

Different from Home Buyer Confidence



Source: Conference Board

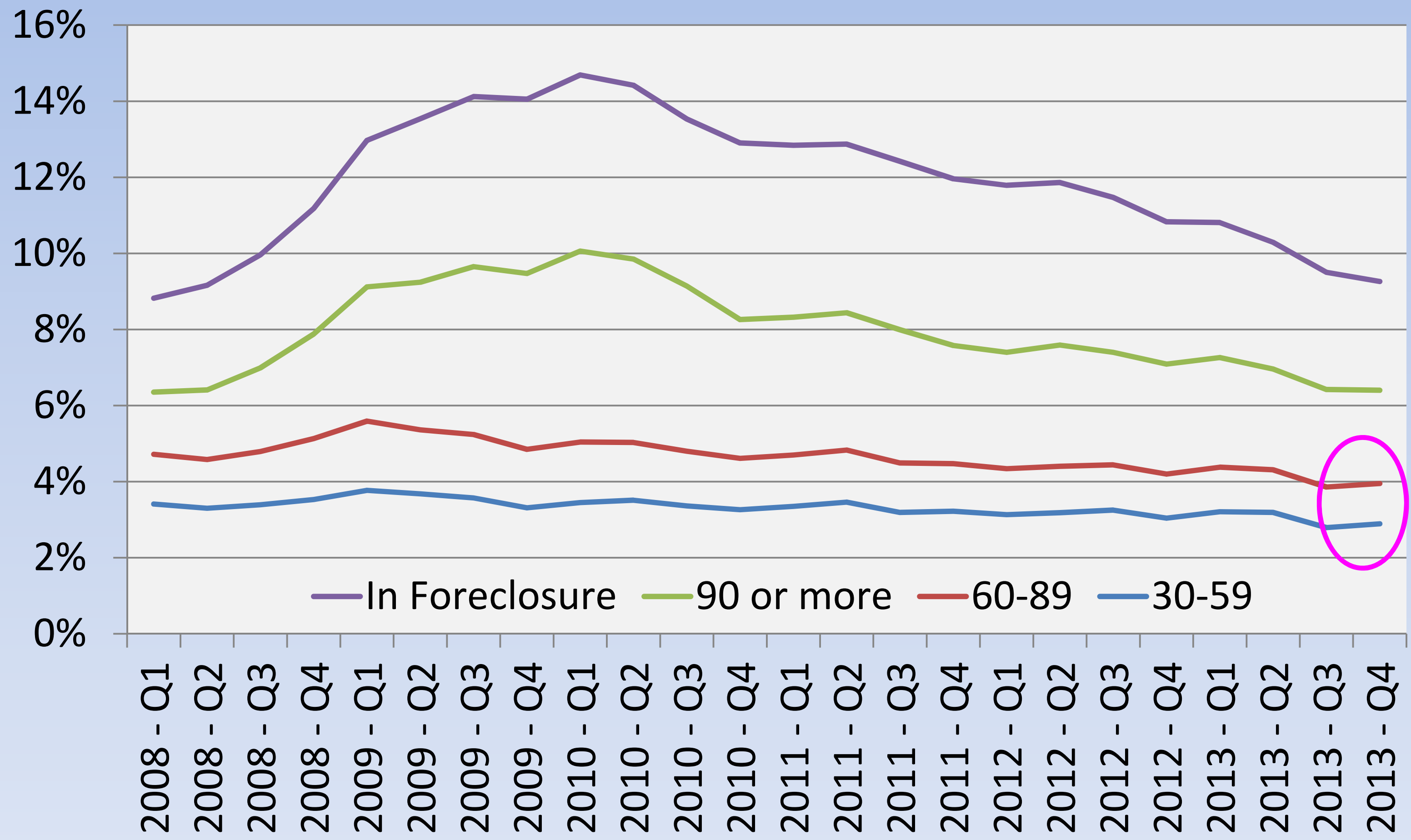
Shadow Inventory Continues Decline:
Fewer REOs, More DIL and Pre-FC Sales



Note: This estimate includes mortgages that are 90-days delinquent and in foreclosure (source: MBAA); it does not account for early stage delinquencies, improved role rates (short sales and dead-in-lieu), lower re-defaults on modifications, or REOs

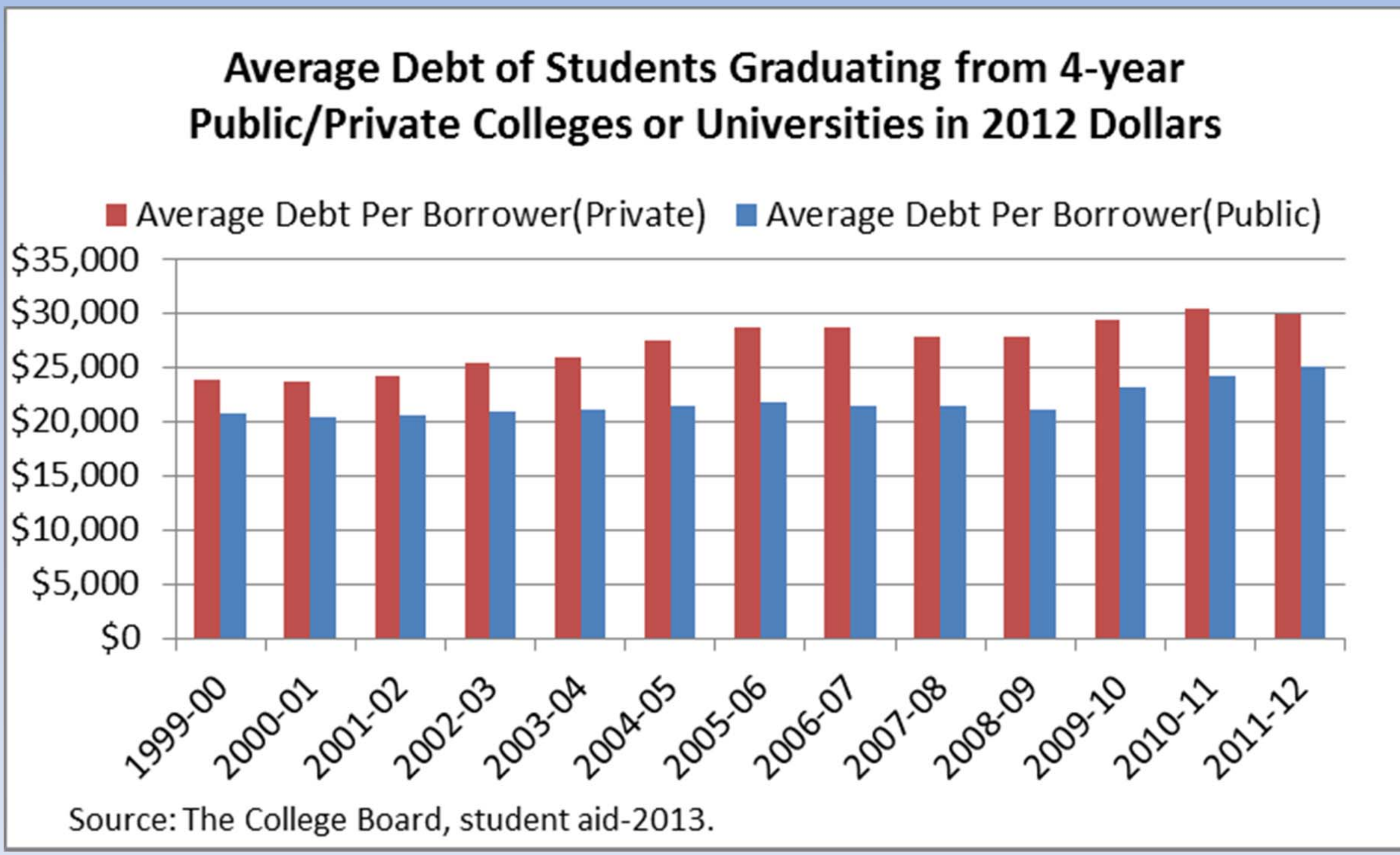
Early Stage Delinquencies on the Rise

Tax Change Boost Foreclosures?



Inventory tight, but something to keep an eye on: legs for SFR market

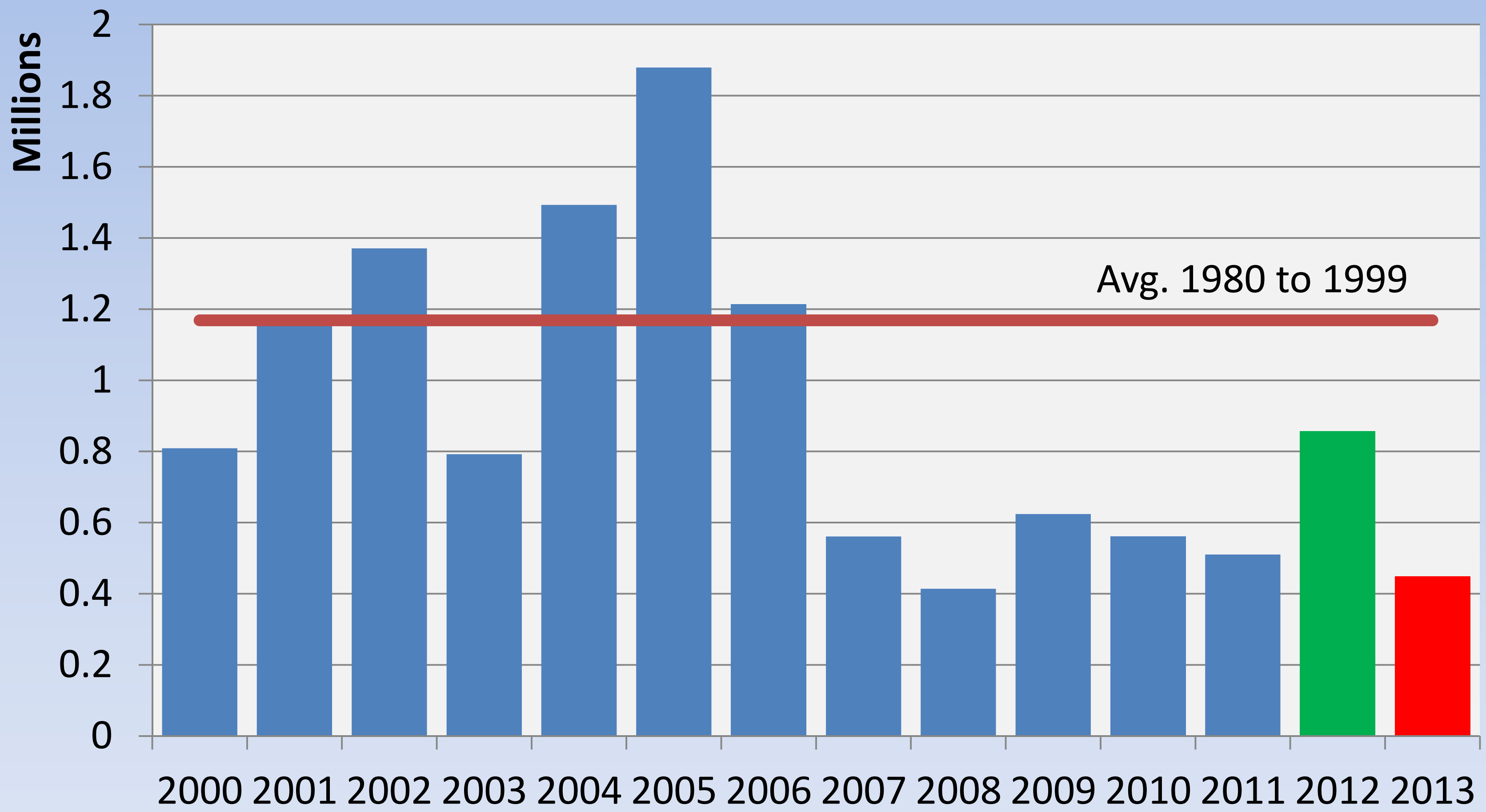
Student Debt Rising In Absolute Numbers and Share



Students take on more schooling per capita in downturn + less gov't aid,
but defaults climbing without jobs and income growth; drag on future consumption (DTIs)

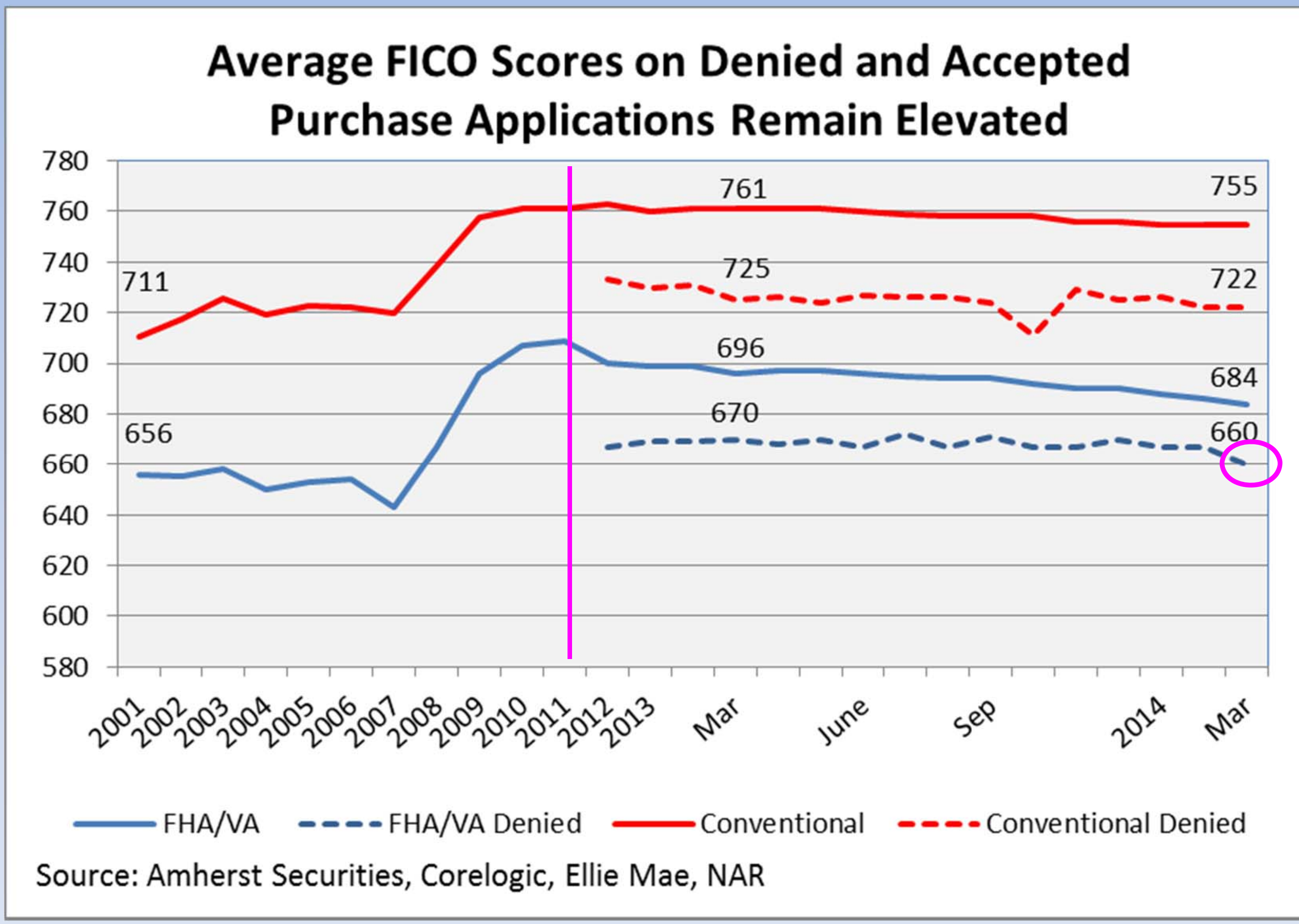
Household Formation Stumbled in 2013

Set Back or Decoupling?



Source: Census

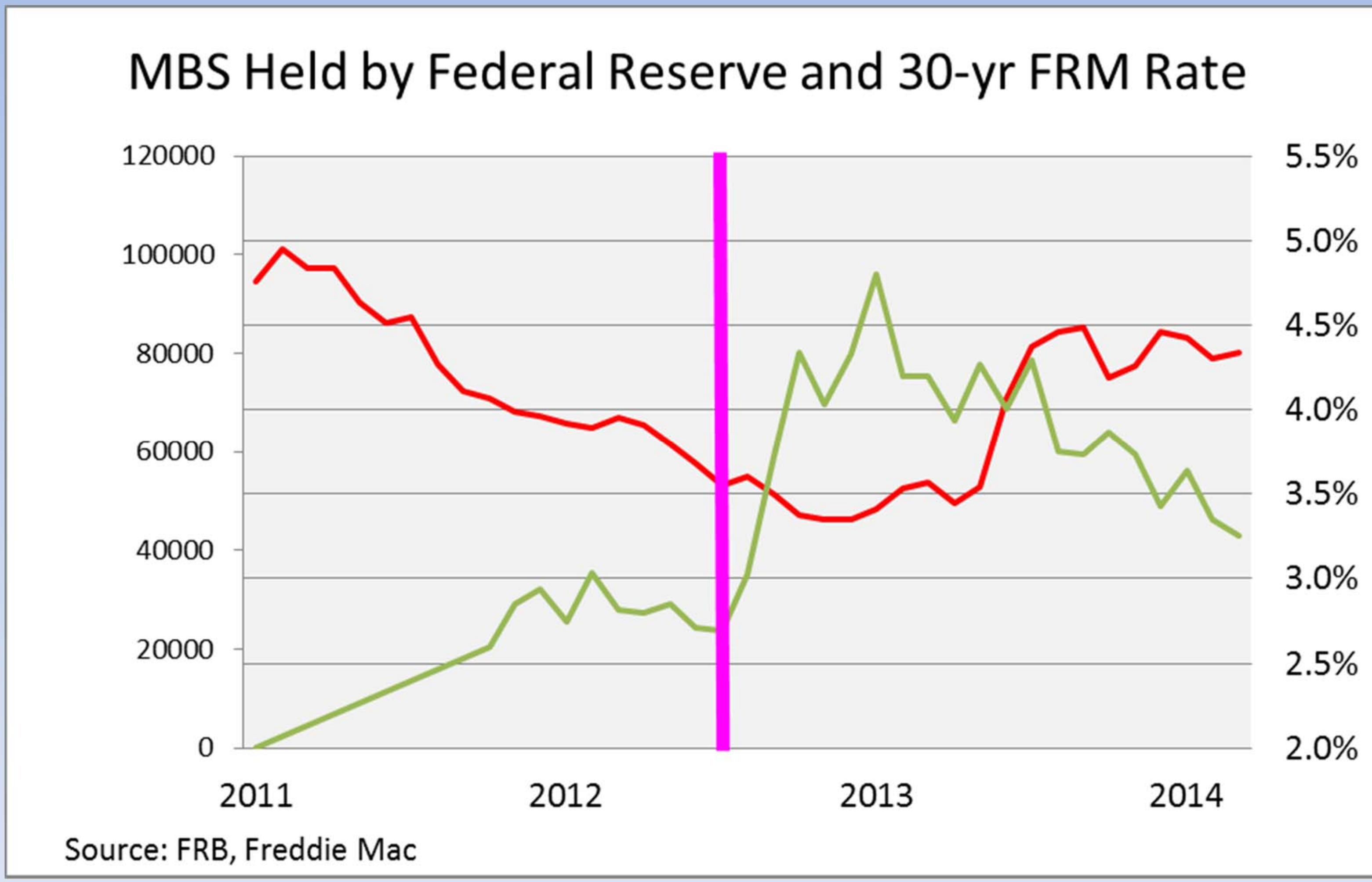
Green Shoots, but Credit Remains Tight



HOUSING FINANCE

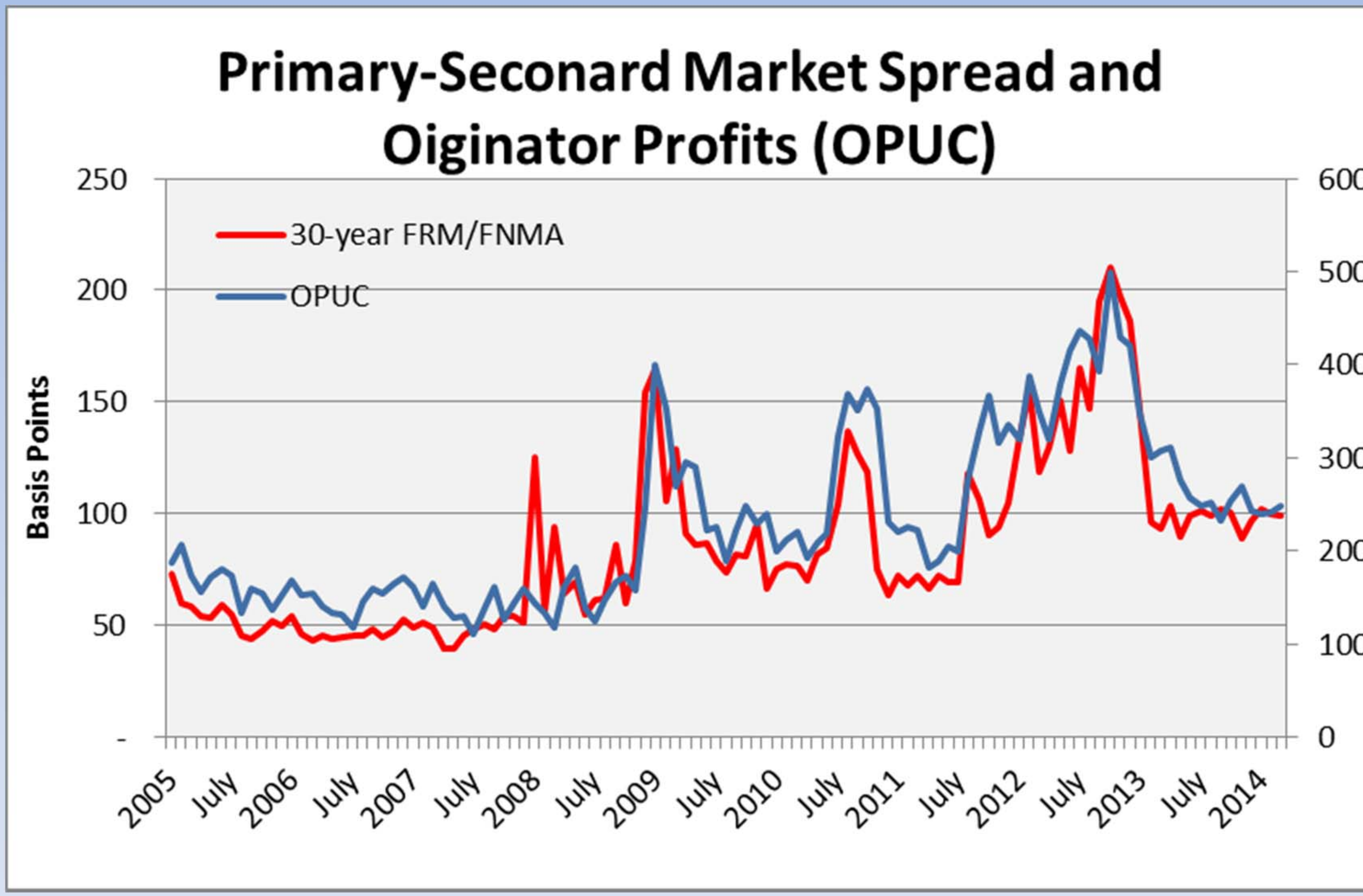
Fed's Withdrawal Priced In?

Fed's LSAP Program



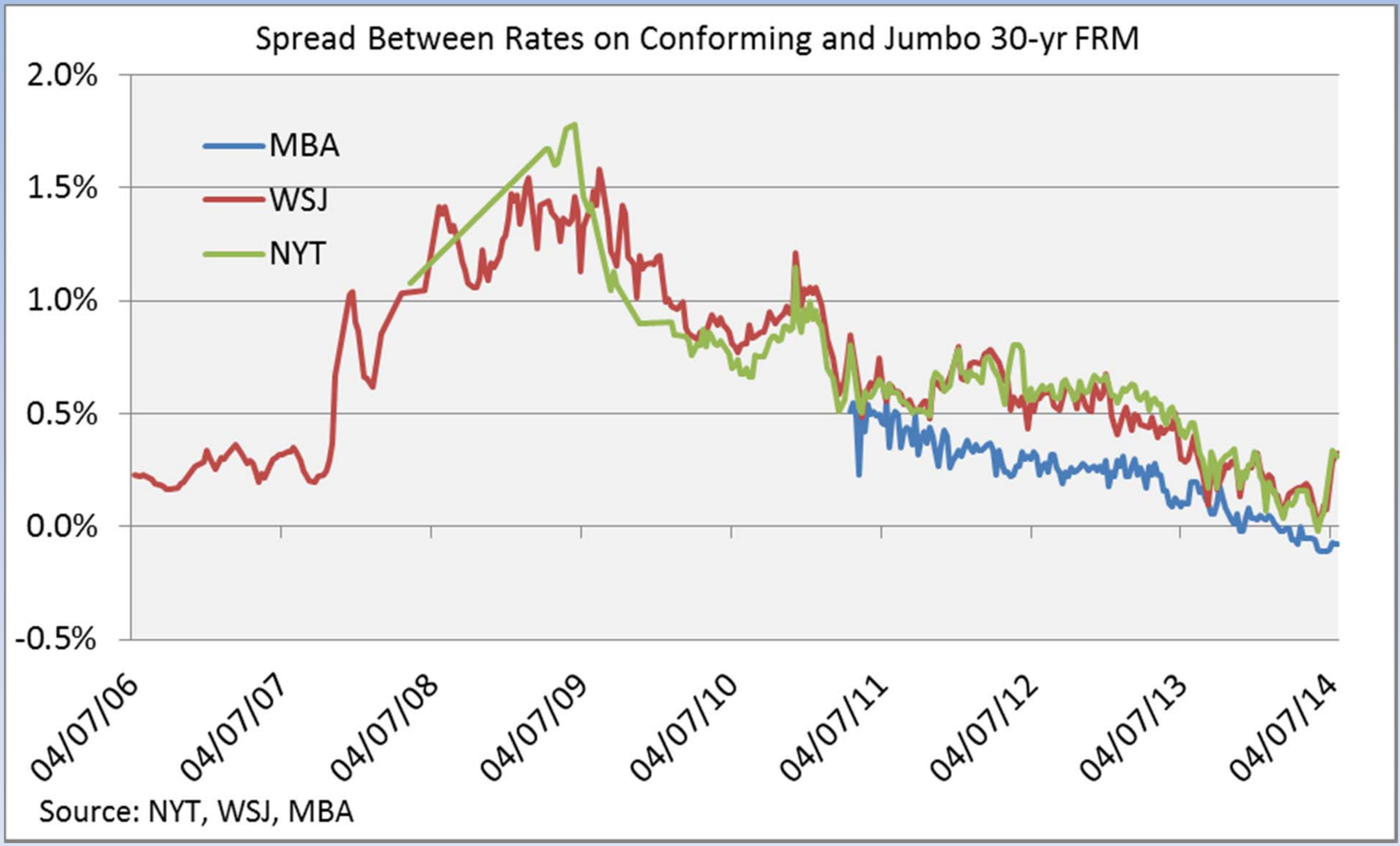
How long can it last? What is the Fed's exit strategy?

Originator Profits Remain Elevated



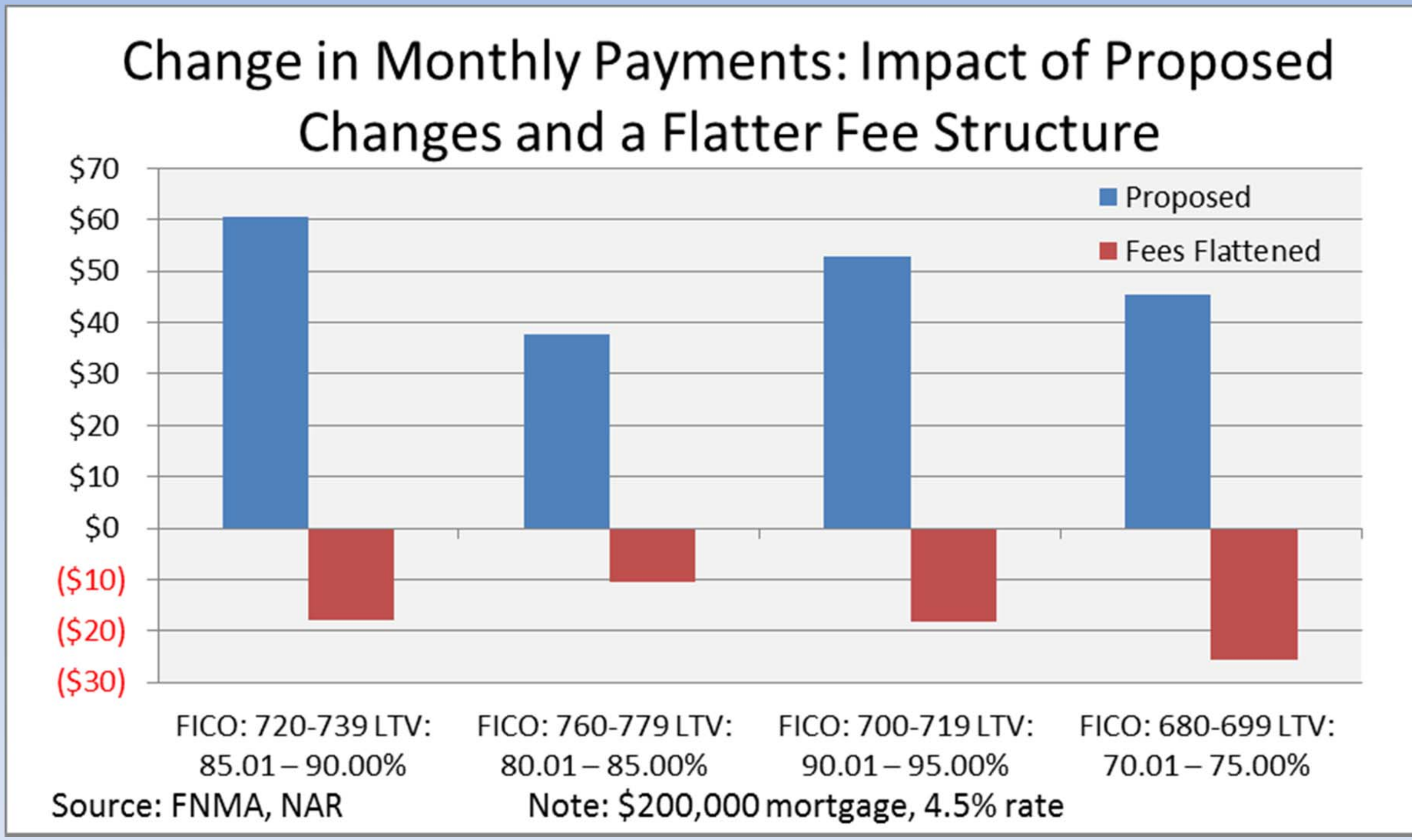
Retaining earnings to build capital for legal defense of ATR and QM?

Jumbos Remain Competitive



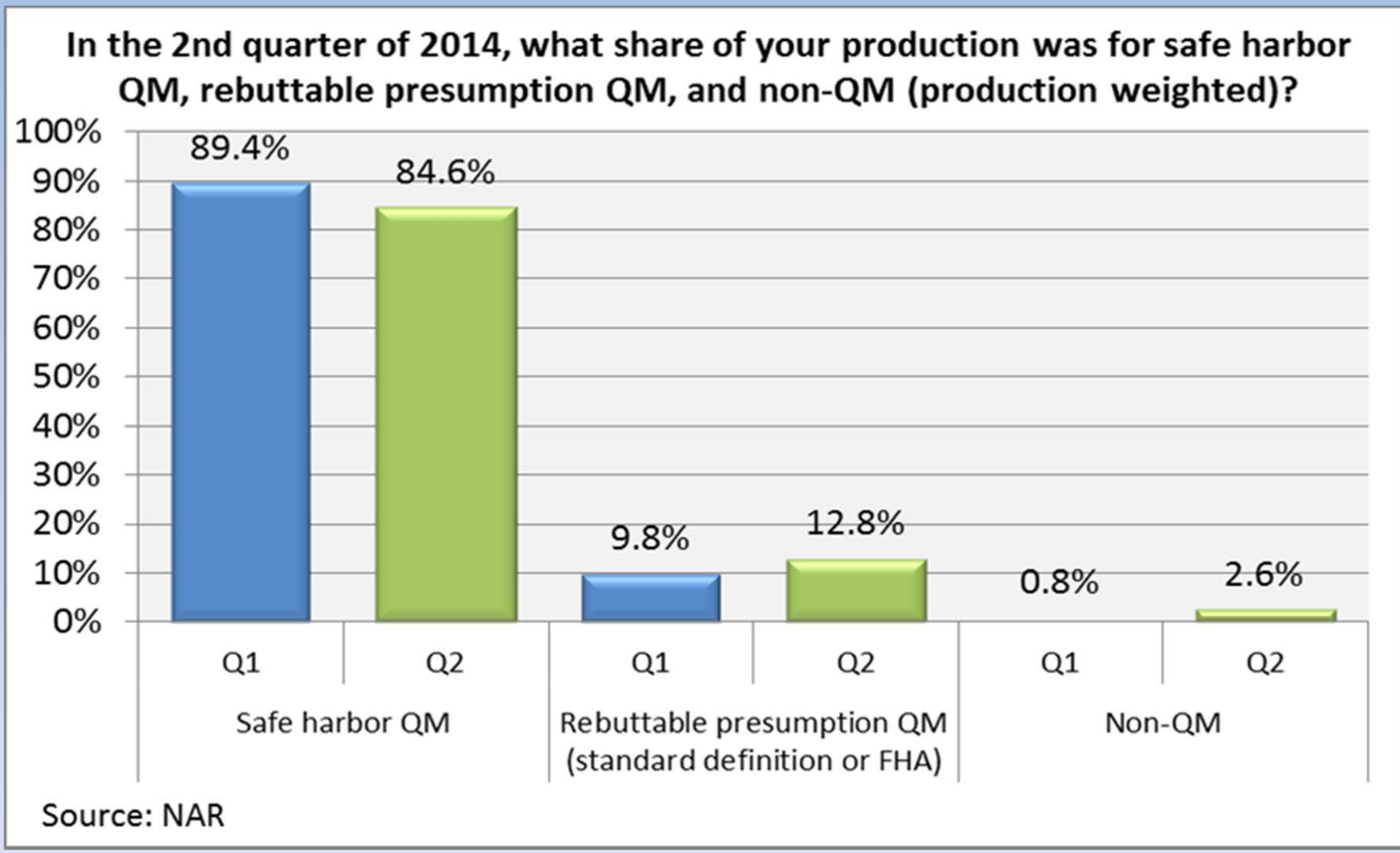
A decline in G-fees, LLPAs or AMDC could end this trend

G-Fees and LLPAs: Change Under Watt?



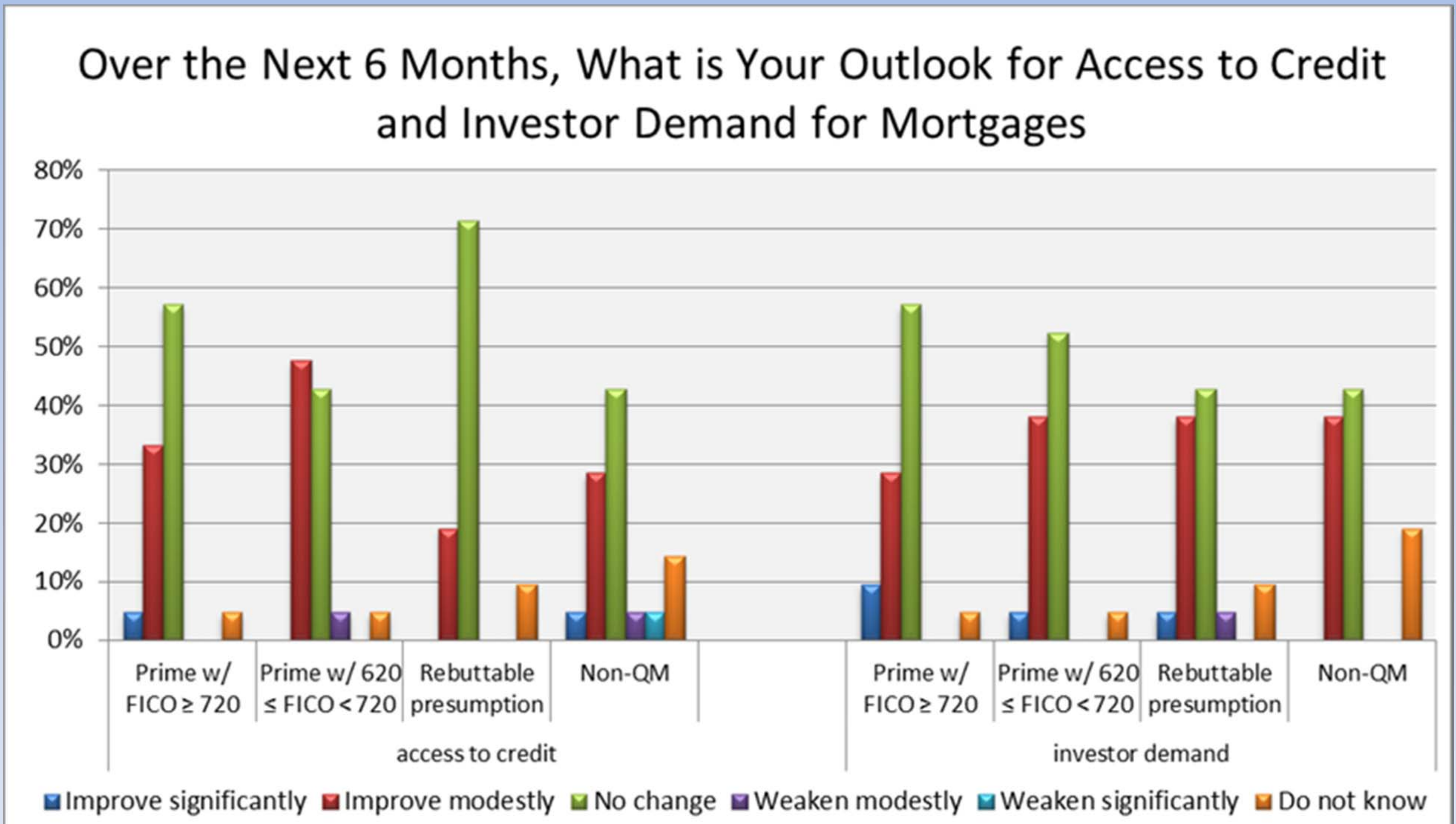
LLPAs and AMDC more likely than g-fee

Non-QM Lending Improving



Investor take-out still uncertain

Lenders Optimistic about Future

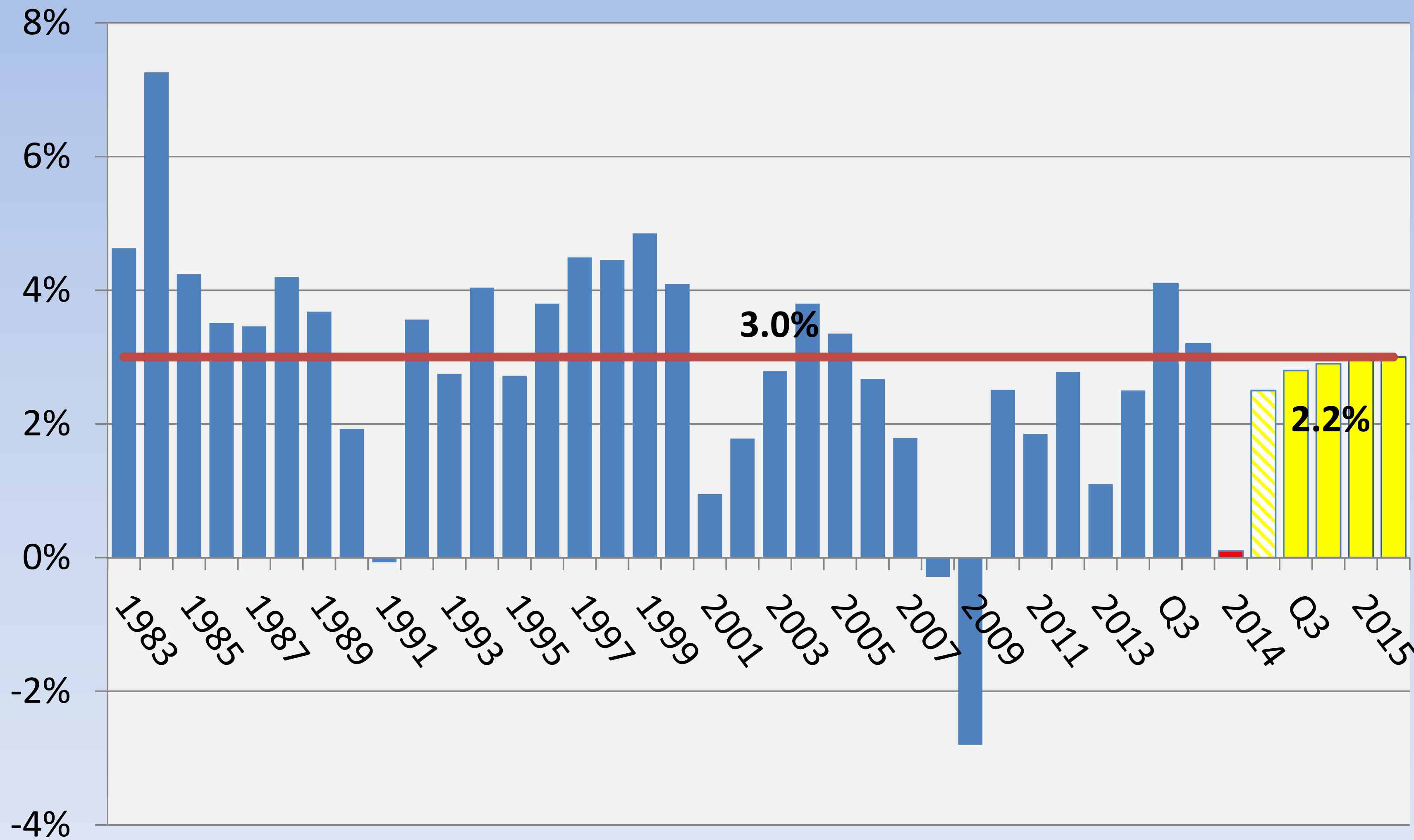


Source: NAR

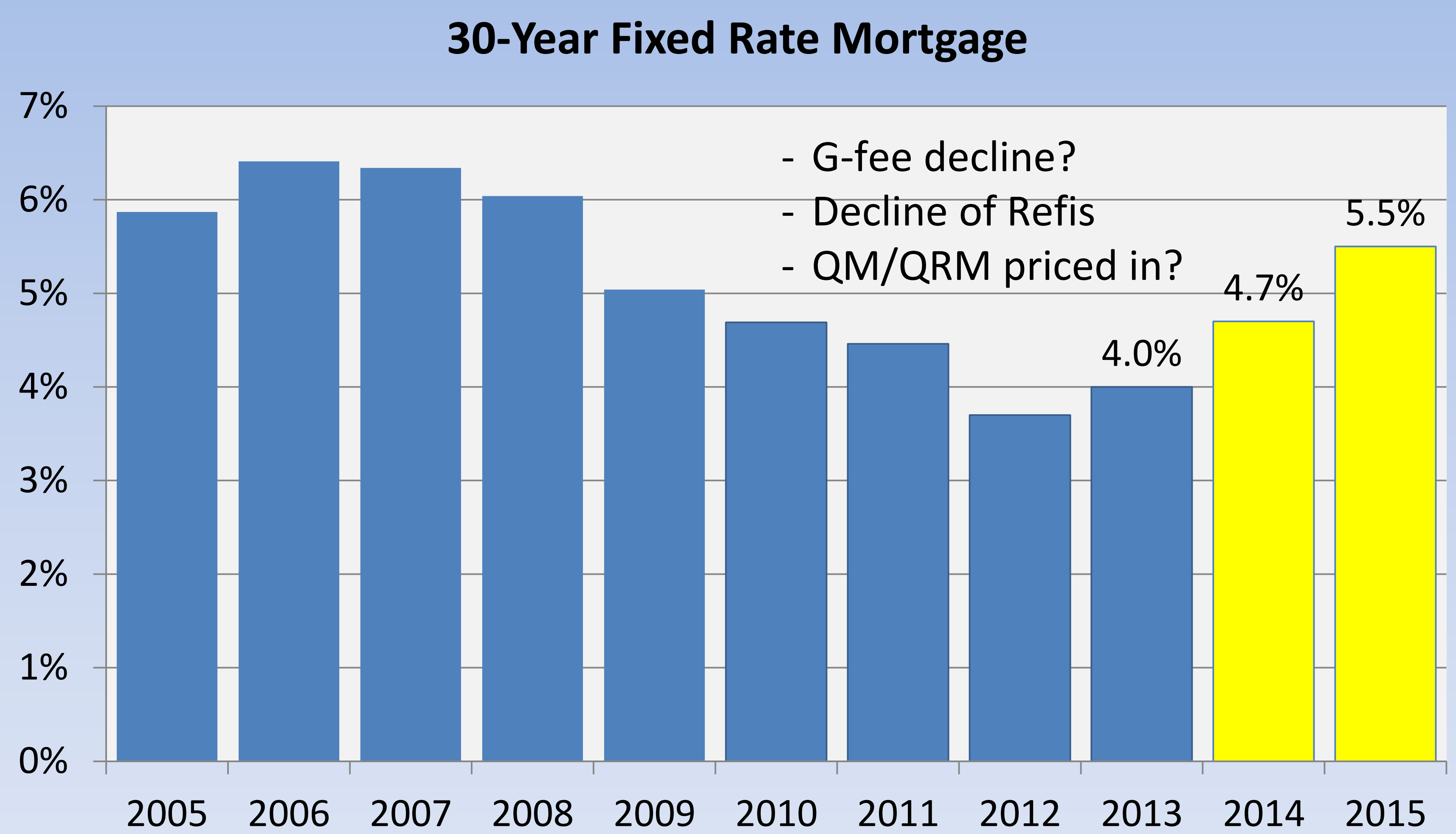
LOOKING FORWARD

GDP Growth Tumbled; Expect Rebound

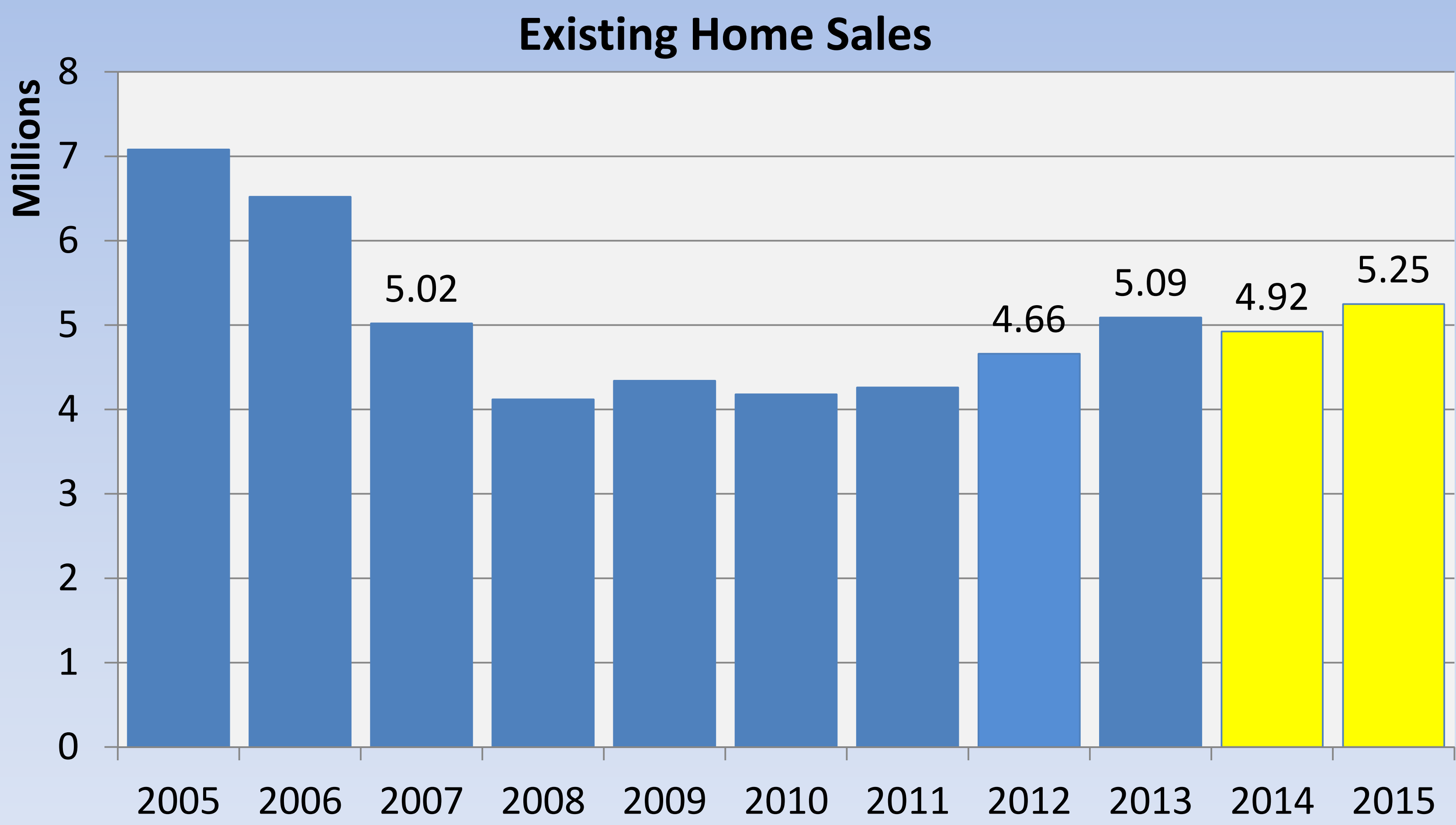
Employment Continues Steady Expansion



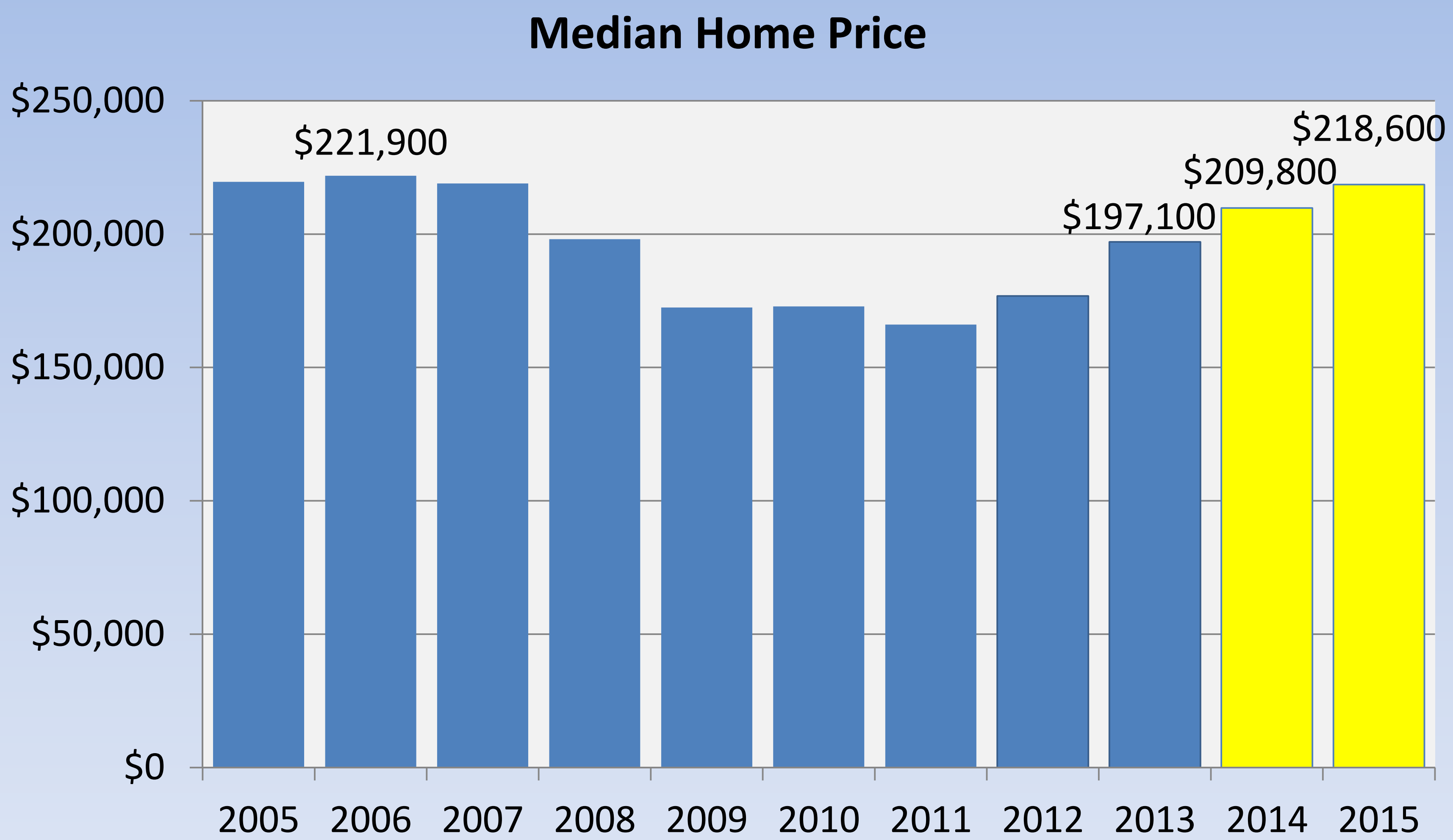
Rates Will Rise, but Timeline Pushed Off



Home Sales Revised Lower, but Strong by Recent Standards



Low Inventories => Steady Price Growth



Uncertainty is Certain this Spring

- QM becomes law in January
- Rep and warrant risk lingers
- Issues with legacy portfolio coming to an end?
  - JPM and WF settlements ($6-7bn total) begins to clear the air
  - BOA and 16 others to follow

  -> light at the end of the tunnel
  - Shift reserves to QM reserves?
    - Helps 19, but not small lenders

- QRM=QM?
- Disparate impact
- Basel III; LCR, MSRs, etc.
- Higher rates; Fed exit impact on portfolios

Cost of Secondary Reform

Ken Fears
Dir. Housing Finance and Regional Economics
NAR Research

Issues for REALTORS®

- How much will rates change?
- How will access to credit be affected?

What Do the GSEs Do?

- Securitize loans into MBS
  - Common securitization platform

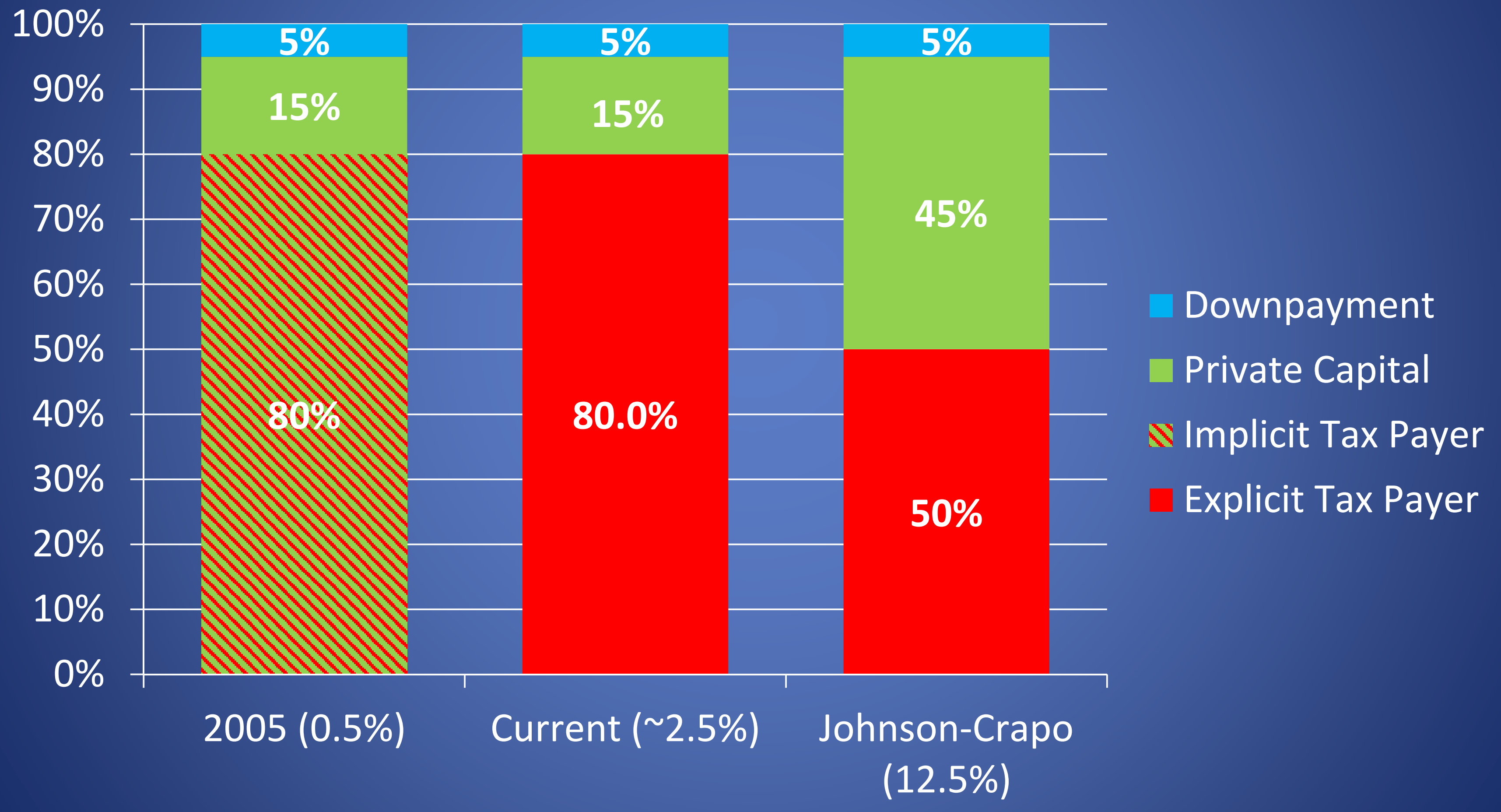
- Provide liquidity for special pools
  - ?

- ~~Earn profits on retained portfolio (investments)~~

- Guarantee timely payment to investors in MBS
  - Servicer issues, etc.
  - Government backstop?

- Act as guarantor (insurer) of mortgages behind private mortgage insurers (PMI)
  - Mortgagee issues

Comparison of Private Participation



Drivers of Cost –> Guarantor Role

- Amount of capital
- ROE on capital
- Structure of the capital
- Risk-based vs. Pooled Pricing

Capital Offsets Losses

- Required capital = default rate * loss severity of loss

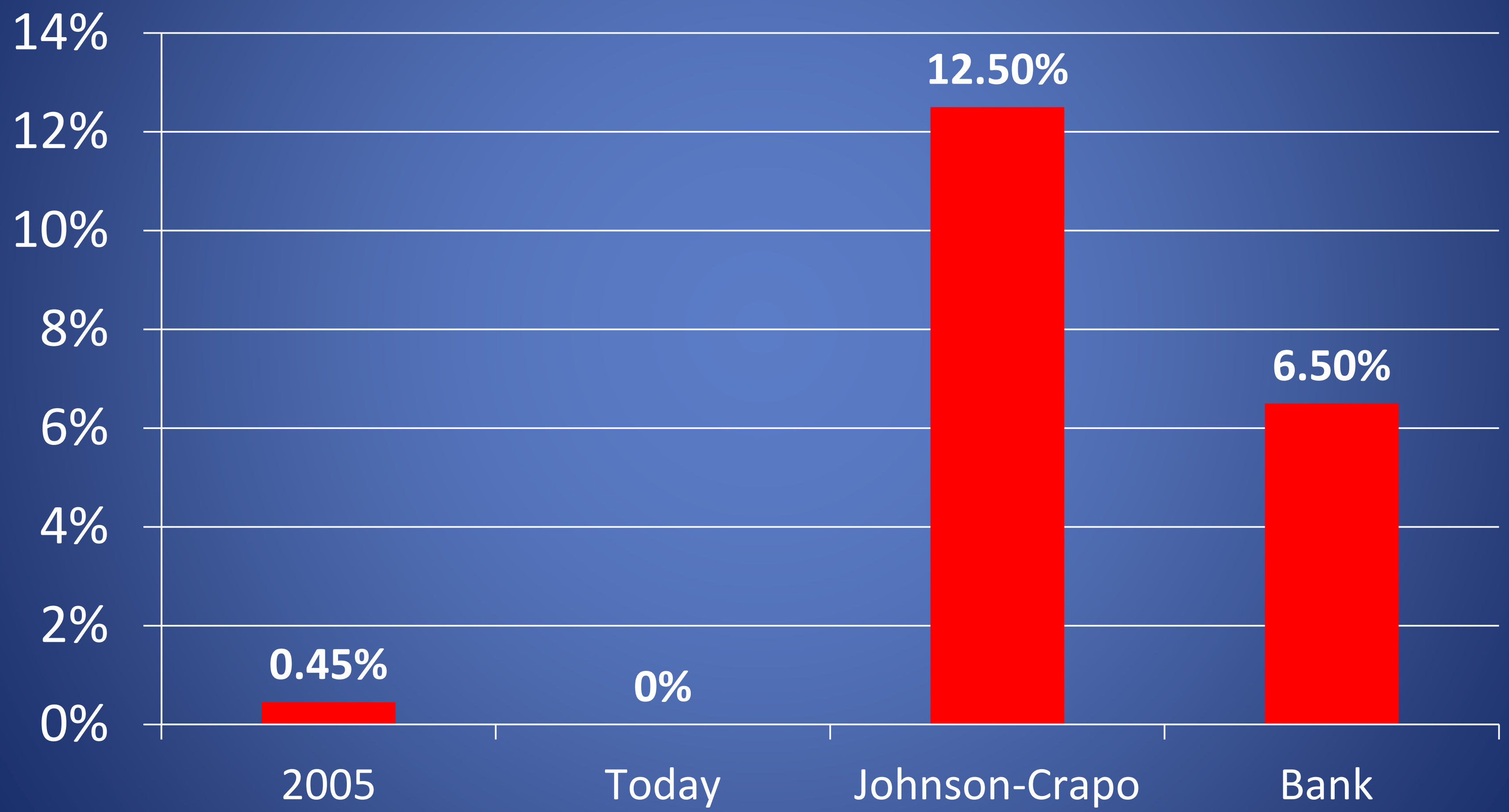
- Capital needed for 2007 vintage is roughly 4.68%

- More Capital
  = Higher mortgage rates
  = Fewer Home Sales

Why Do We Need Equity Capital?

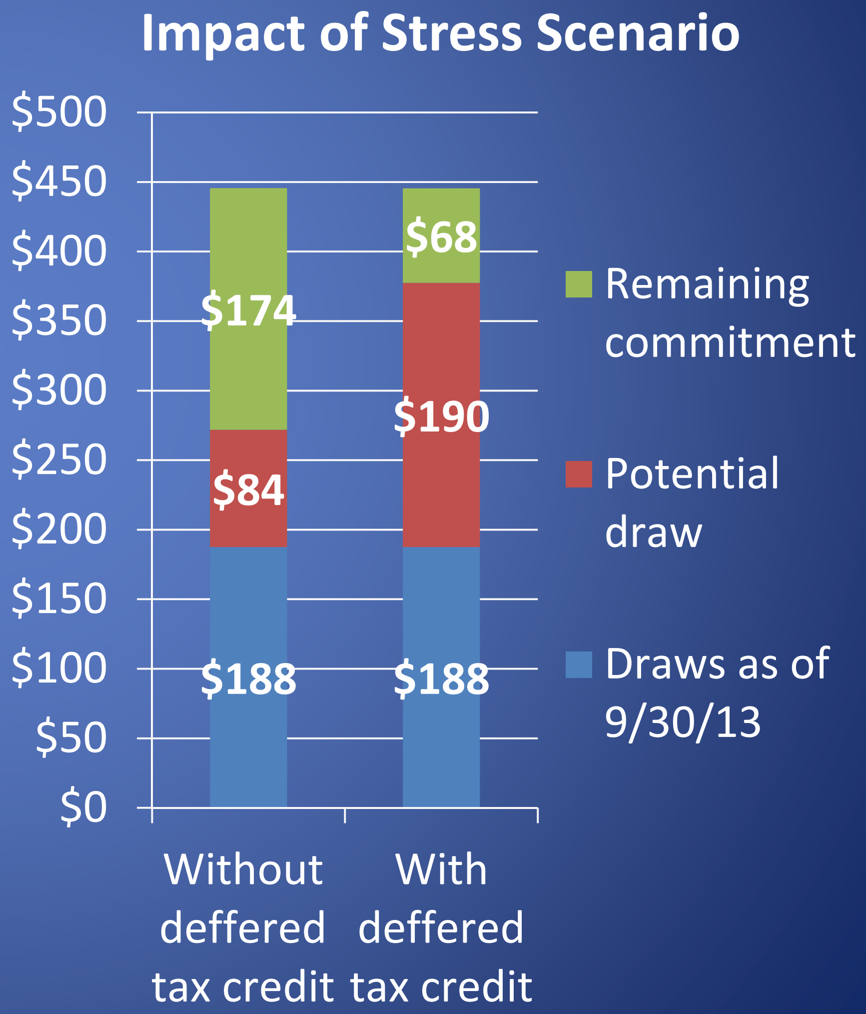
- Tax payers absorb losses
- Under capitalization is a form of subsidy
- Political environment in opposition
  - $187 billion losses during crisis
  - Repaid, but optics remain

How Much Equity Capital?



Why Do We Need Equity Capital?

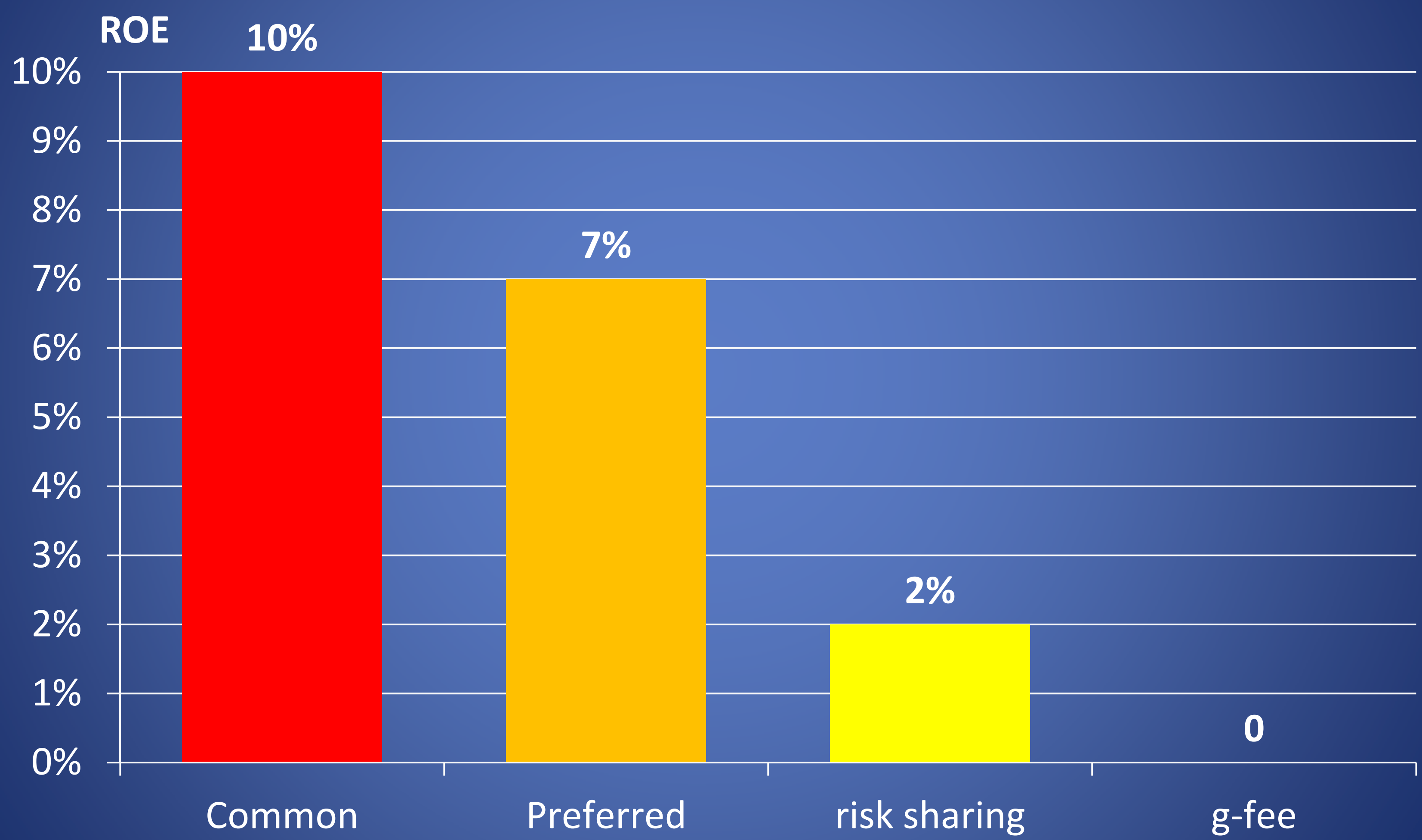
- $84 to $190 losses in a stress case
  - Political response?



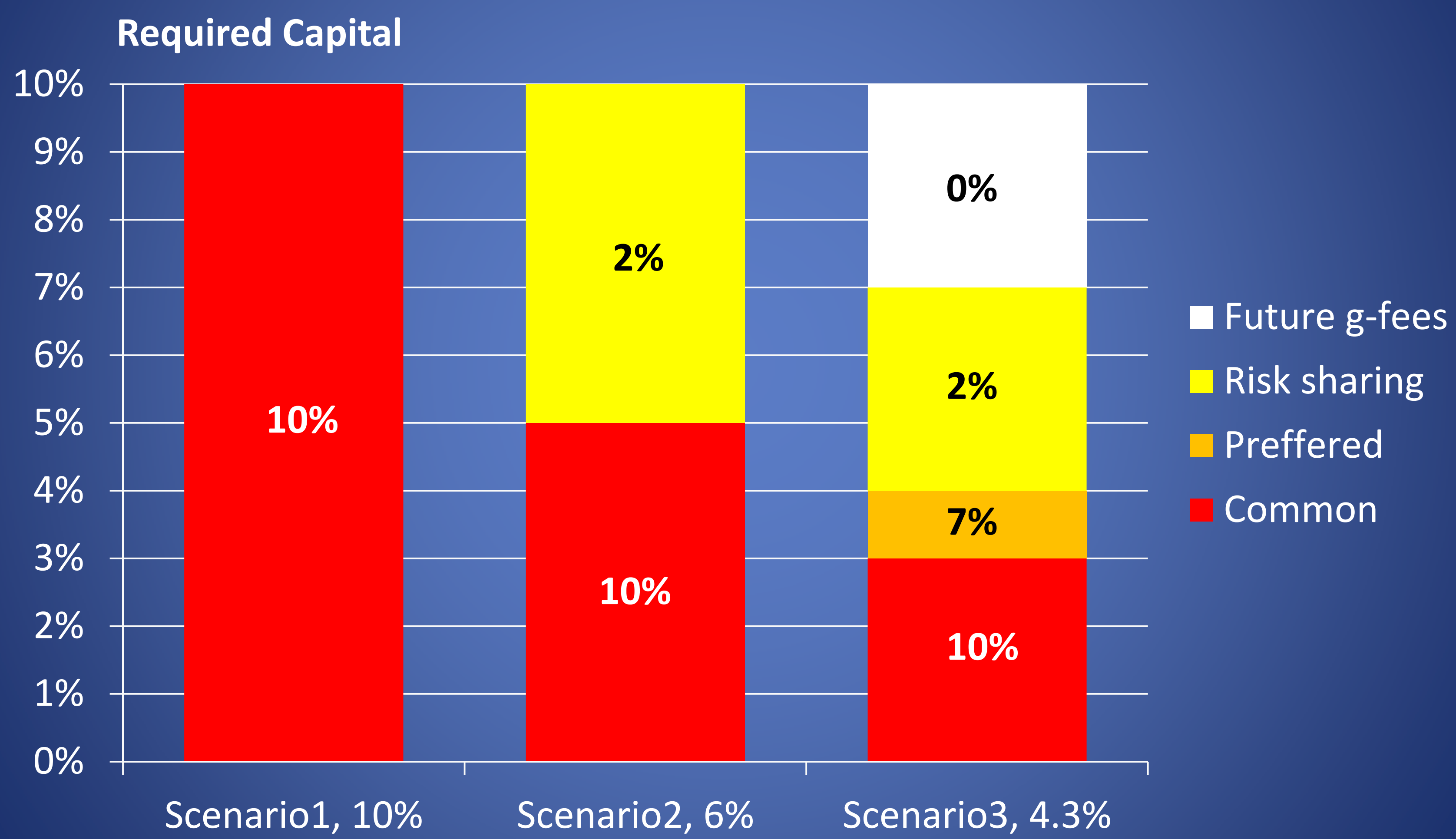
Return on Equity

- Guarantors borrow funds to earn a return
  - No return on capital = a cost
  - Pass the cost to the consumer
  - Higher mortgage rates

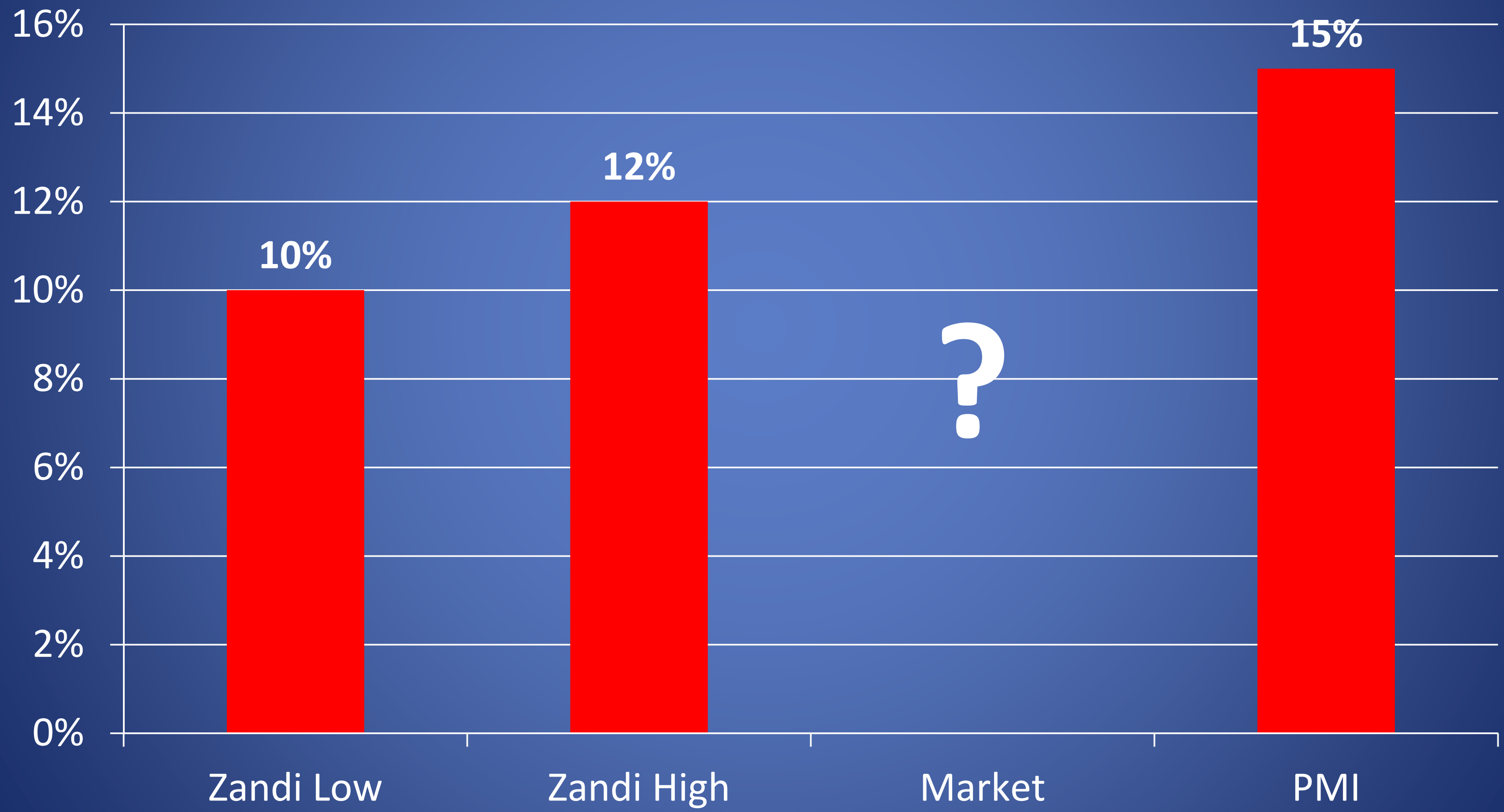
Different Capital Costs Different Amounts



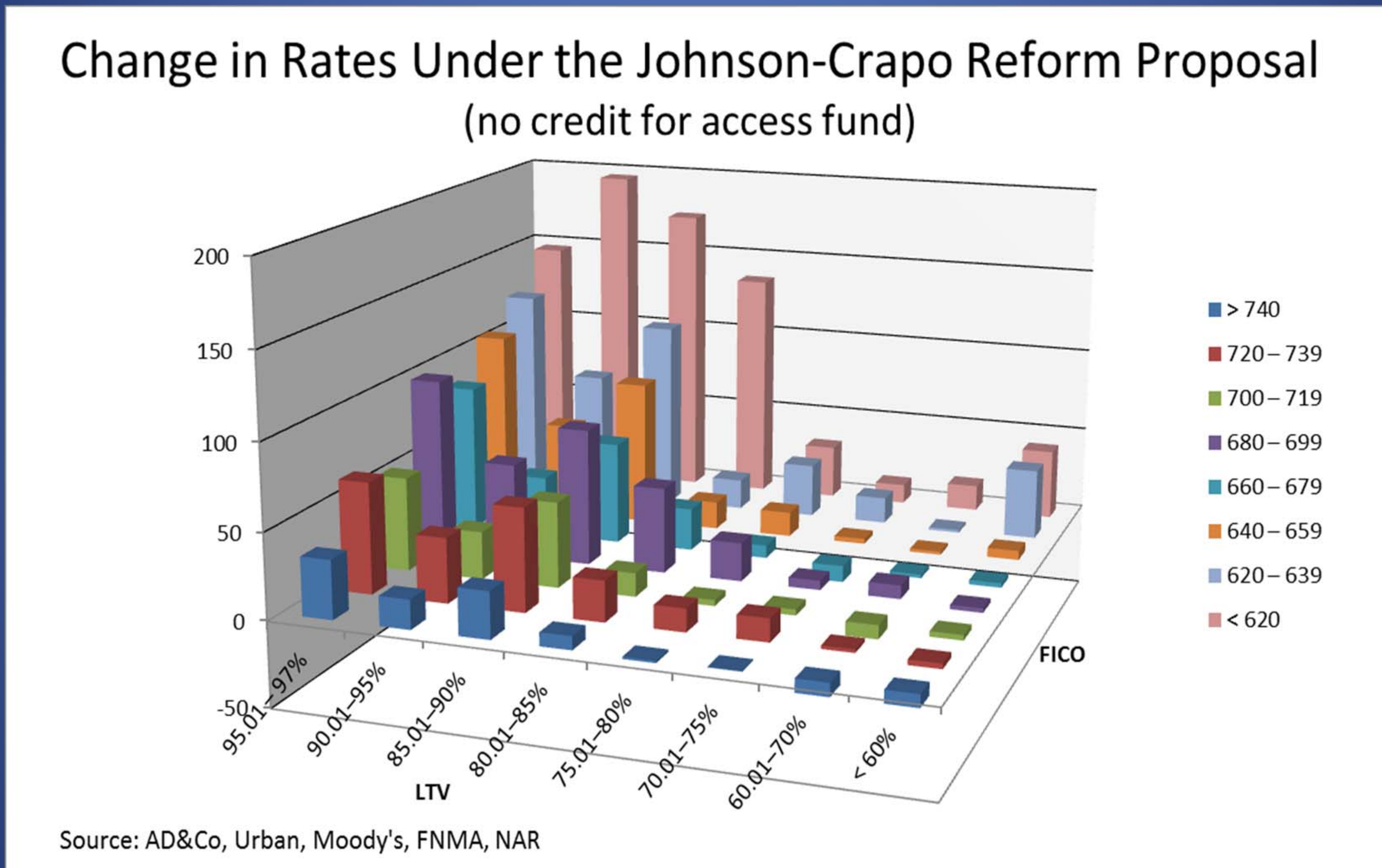
Capital Structure Determines Total Cost



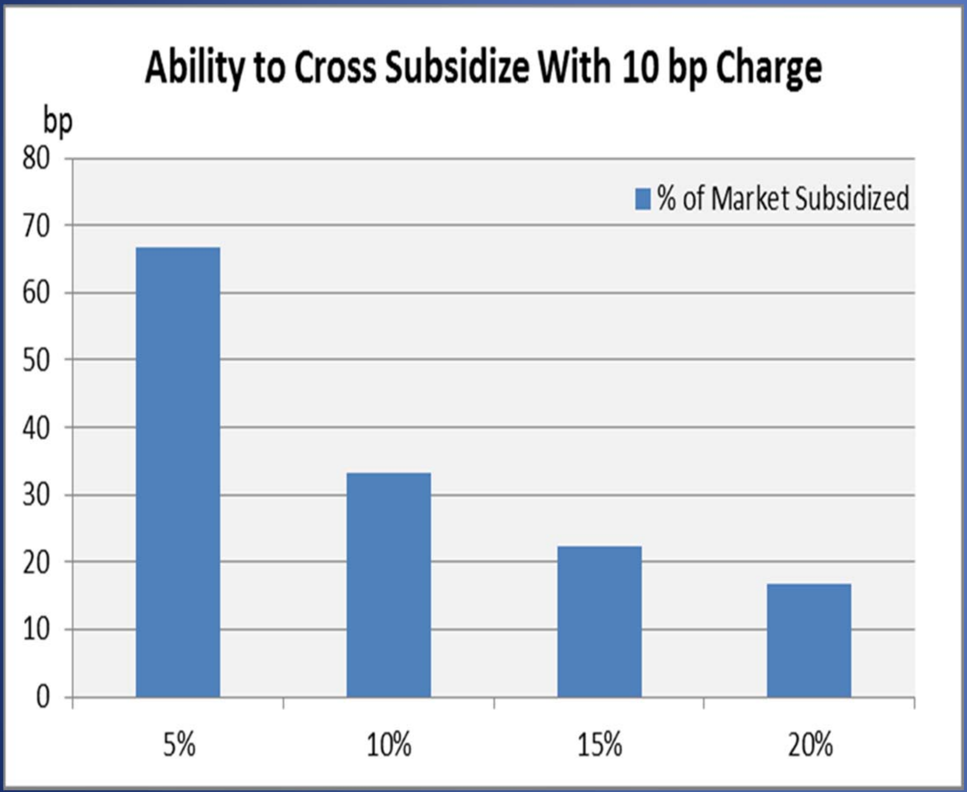
Common Equity Most Expensive: Range Of Estimates



NAR Estimates of Sub-Group Impact

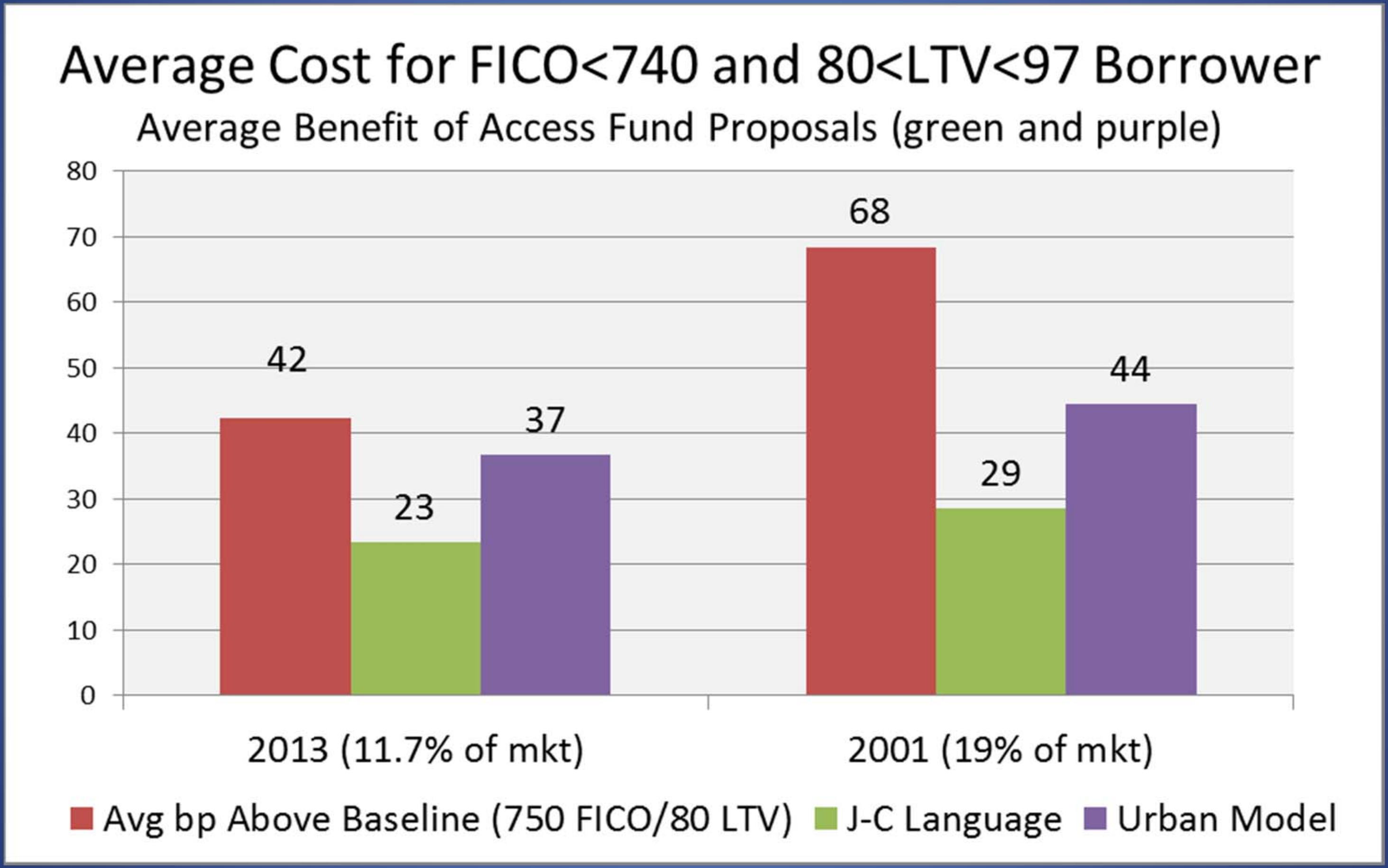


Access Fund: Reduces Costs

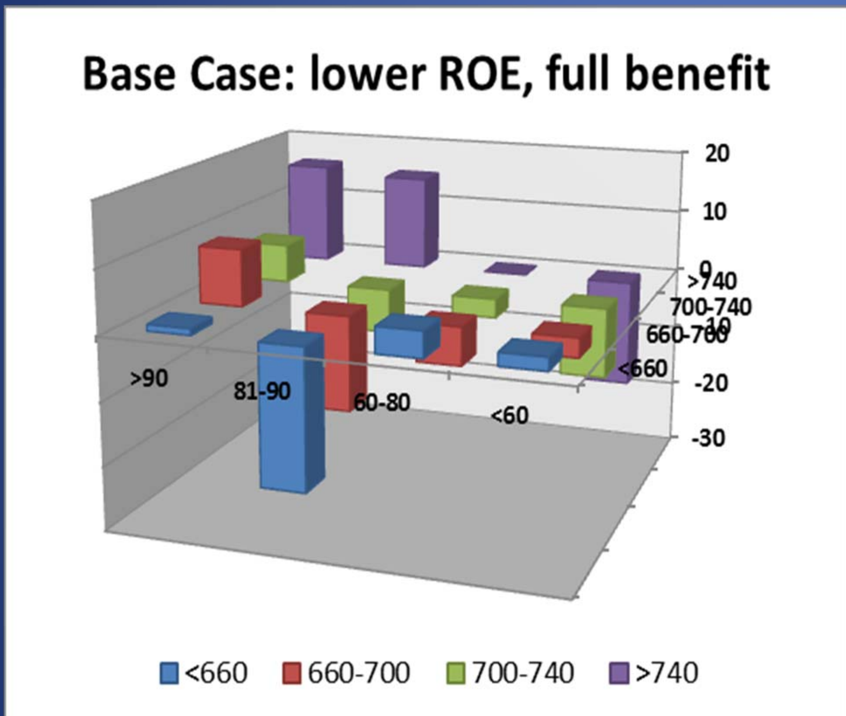


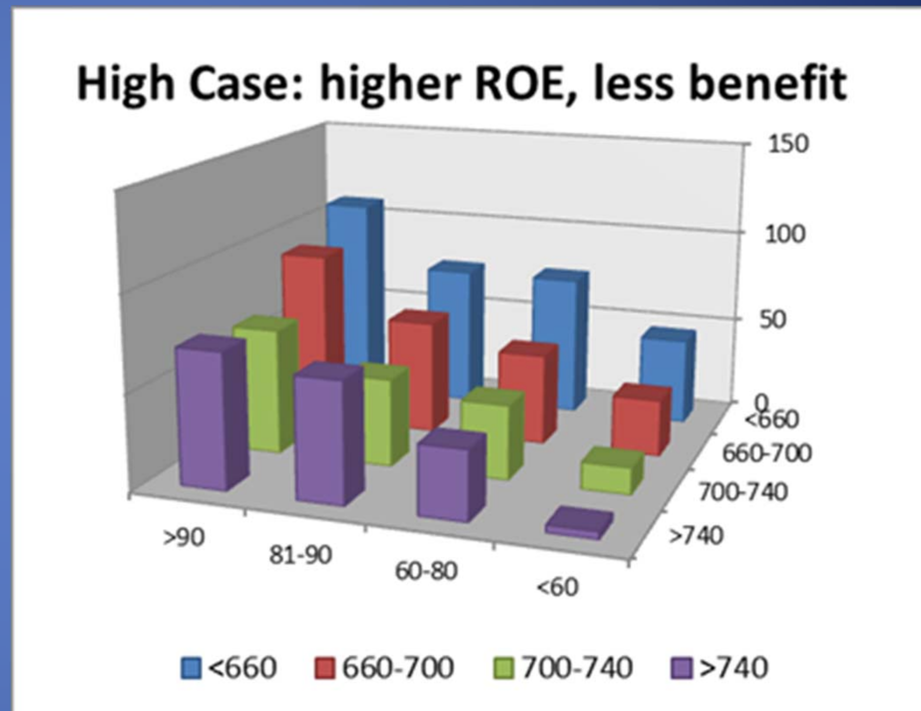
- Fund goes to multi-family issues
- Guarantor chooses to support or not
- Priced and explicit

Access Fund Softens Cost for Some



Assumptions Drive Large Differences





Need for the Market to Weigh-In

- How much capital would an MBS investor require?
- What return on equity would a guarantor require?
- How does competition impact pricing?
- How do all three factors impact access
- Role of government guarantee and innovations

Consulting Project

- Widely recognized expert on pricing MBS
- Non-partisan
- Ability to address the scope of issue
- Works directly in pricing deals
  - Knows investors
  - Knows guarantors
  - Knows agencies

Scope of Work

- What are the factors that drive cost and access
  - How much Capital
  - How big is the actual ROE
  - Capital structure
  - Competition
  - Benefit of “full faith” guarantee
  - Role of common securitization platform and efficiencies
  - Fluctuation over the cycle

More Capital/ROE = Higher Rates = Fewer Sales

Remember How Everyone Else Thinks!

Johnson-Crapo Work Group Final Recommendation

On April 21, 2014, the Housing Finance Work Group met to discuss the Johnson-Crapo legislation and to formulate recommendations for the NAR Leadership Team regarding the position NAR should take on this bill. We first identified the provisions in the bill that are directly in line with NAR's principles and policy on GSE reform. The Work Group then debated 5 issues of concern that were raised on our previous calls. Both the positive aspects and issues of concern are outlined in the attached document. The Work Group made the following recommendations.

OVERALL POSITION

The Work Group believes that the Congressional discussion and legislative process for GSE reform should continue to move forward. The Work Group understands the Johnson-Crapo legislation contains many positive aspects such as an explicit government guarantee, continuing HERA conforming loan limits, and a lower down payment for first-time homebuyers; however, we are concerned with the potential impact on overall mortgage costs for consumers under this bill. As the Johnson-Crapo legislation discussion continues, NAR staff is directed to raise the following issues:

1. **Overall Cost of Mortgages for Consumers**
   We are in support of a first-loss position structure for private investors included in the legislation; however, we are concerned with the proposed percentage of the first-loss position and how the details of this new structure will impact the cost of mortgages for consumers. Currently there is an insufficient amount of data/studies to determine the overall impact on mortgage prices. Therefore, NAR should continue to examine and encourage further studies on the impact of mortgage costs for all borrowers as a result of this proposal. We also encourage continued analysis of the impact on overall liquidity of capital in the housing market.

2. **FMIC Size & Regulatory Authority**
   As stated in NAR's GSE reform policy, we support a strong regulatory body that will oversee the secondary housing finance system. We encourage NAR to work with other industry trade groups to ensure a coordinated and fair regulatory balance for the industry.

3. **Affordable Housing**
   The new housing funds appear to place little emphasis and funding towards homeownership. NAR should pursue modifications to the 3 trust funds to ensure adequate funding for homeownership opportunities, including housing counseling, other education programs and programs that promote sustainable homeownership for underserved markets.

4. **Availability of Private Capital & Market Participants (Vertical Integration)**
   As currently written, the legislation allows for financial institutions to participate in all aspects of the structure, which some fear could lead to a market dominated by large financial institutions. We understand that this has become a debate between large and small financial institutions. NAR's GSE reform policy supports equal and competitive access for financial institutions of all sizes. We are concerned with provisions in the legislation permitting entities that serve as guarantors to also participate as aggregators and/or originators. NAR should continue to monitor this discussion.

5. **Notification of First Lien Holder**
   The proposed legislation requires the first lien holder of a mortgage to be notified by a potential second lien holder. As the proposal is currently written, we are concerned the notification process could create unintended negative consequences such as impairing a homeowner's ability to access

their home equity. We are also concerned this provision could allow the senior lienholder to solicit the borrower for the same credit transaction. NAR staff should work the banking trade groups to modify this provision to mitigate these possible ramifications.

NAR Principles for Restructuring the Secondary Mortgage Market and Encouraging the Return of Private Capital

NAR supports restructuring the secondary mortgage market to ensure a reliable and affordable source of mortgage capital for consumers, in all types of markets, to avoid a major disruption to the nation's economy that would result from the total collapse of the housing finance sector. Restructuring is required in response to the failure of Fannie Mae and Freddie Mac, which has been under government control since entering conservatorship in September 2008.

- **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 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 old GSE system with private profits and taxpayer loss must be replaced**. The current GSEs (Fannie Mae and Freddie Mac) should be replaced with government-chartered, non-shareholder owned entity(s) that are subject to sufficient regulations on product, revenue generation and usage, and retained portfolio practices in a way that ensures they can accomplish their mission to support long-term mortgage financing and protect the taxpayer.

- **Reforms should ensure a strong, efficient financing environment for homeownership and rental housing**. The mission of the new entity must include providing access to mortgage financing for consumers who have the demonstrated ability to sustain homeownership. Creditworthy consumers require a steady flow of mortgage funding that, during economic downturns, only government participation in the secondary mortgage market can provide.

- **The government must clearly, and explicitly, offer a guarantee of mortgage instruments facilitated by the entity(s) that meet the Qualified Mortgage (QM) standards**. This is essential to ensure qualified, creditworthy borrowers have access to affordable mortgage credit. Without government backing, consumers will pay much higher mortgage interest rates and mortgages may at times not be readily available at all—as happened in jumbo and commercial real estate loans. Taxpayer risk would be mitigated through the use of mortgage insurance on loan products with a loan-to-value ratio higher than 80 percent, or through other fees paid to the government.

- **The new entity(s) should guarantee or insure a wide range of safe, reliable mortgage products**. These mortgage products include 15-year and 30-year fixed rate loans, traditional adjustable-rate mortgages (ARMs), and other products that have stood the test of time and for which American homeowners have demonstrated a strong "ability to repay."

- **Provide a self-sufficient mechanism whereby safe, sound, transparent, and insured Mortgage Backed Securities (MBS) may be packaged and sold.** There must be an option for an explicit government guarantee or insurance for all offered MBS within the secondary mortgage market. The creation of a not-for-profit "utility" facility is needed to receive, package, sell and guarantee MBS.

The entity should operate with similar insurance and enforcement components as the FDIC. This option must minimize taxpayer exposure.

- **Sound and sensible underwriting standards must be established**. Establish standardized, sound underwriting principles and products that provide the foundation for responsible, credit worthy borrowers to be able to achieve homeownership goals. For additional safety, these standards must also be applied to securities (MBSs), purchased for portfolio (to a limited extent).

- **The entity(s) should price loan products or guarantees based on risk**. In addition, the new entities must set standards for the MBS they guarantee that establish transparency and verifiability for loans within the MBSs.

- **Ensure solid, verifiable, current loan level data is available to investors that empowers and enables them to conduct their own risk analysis.** There is a strong consensus among multiple market participants that solid loan level data is the essential foundation from which to rebuild the private mortgage security industry. Investors want to be empowered and enabled to conduct their own analysis. With properly structured loan level data the mortgage collateral supporting a regulated, securitized instrument will lead to a verifiable, current predictable instrument of cash flow and thus will attracting private capital.

- **The reformed entities must have a separate legal identity from the federal government but serve a public purpose**. Unlike a federal agency, the entities will have considerable political independence and be self-sustaining given the appropriate structure.

- **The GSEs should remain politically independent**. Political independence of the entities is mandatory for successful operation. CEOs should have fixed terms so they cannot be fired without cause, and they should not be allowed to lobby. Additionally, the entities should be self-funded instead of receiving ongoing appropriations.

- **To increase the use of covered bonds, particularly in the commercial real estate arena, the entities should pilot their use in multifamily housing lending**. The entities should explore the use of covered bonds as an additional method to provide more mortgage capital for residential housing. The entities should be allowed to pave the way for innovative or alternative finance mechanisms that meet safety criteria.

- **There must be strong oversight of the entities**. The new entities should be overseen by the Federal Housing Finance Agency (FHFA) or a successor agency that would make timely reports to allow for continual evaluation of the entities' performance.

- **Restore investor confidence and trust in the Representations and Warranties via the standardization of pooling and servicing contracts.** Standardization of Representations and Warranties is imperative. Pooling and Servicing Agreements (PSAs) must be simple with clear terms and definitions so they are easily understood by investors. They must have clear disclosures of any deviations from "Federal Best Practice Standards", clearly define "buy back" rules, and servicer operational policies must be consistent with their fiduciary duties to the investor.

The 2012 JOBS Act and Commercial Realtors: What you need to know

Today's Presentation

- What is the JOBS Act of 2012?
- What is happening next with the JOBS Act?
- What opportunities exist for Commercial Realtors?
- What are the securities law implications?
- Where can I get more information?

The JOBS Act of 2012

- Jumpstart Our Business Startups (JOBS) act of 2012
- Designed to provide additional funding streams for companies, focusing on small businesses and startups
- Formalize the crowdfunding process

The JOBS Act of 2012

- General Solicitation

Allows solicitation or marketing of securities sales to accredited investors

- Crowdfunding

The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet

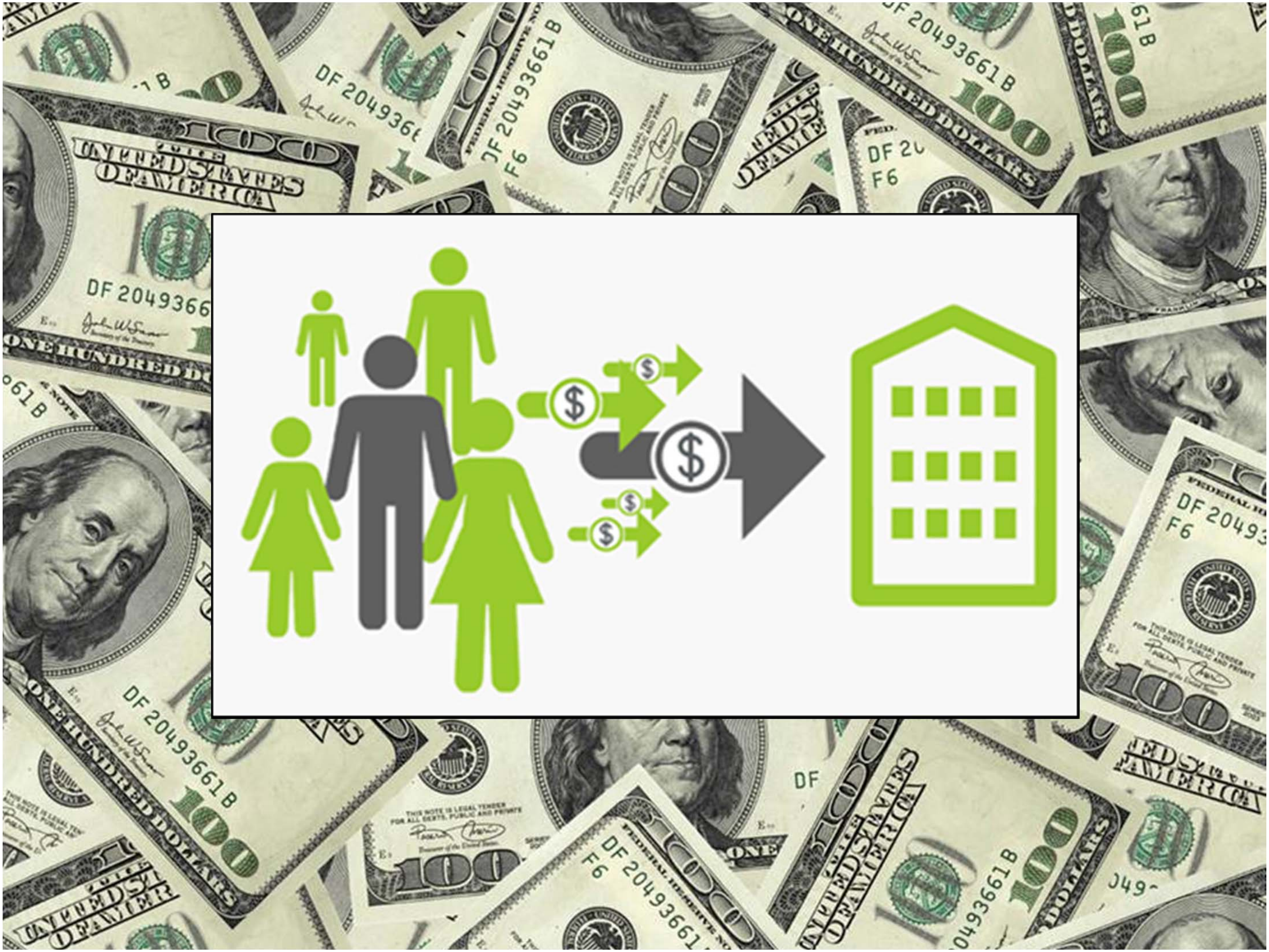
<Oxford English Dictionary>

So Many Questions!

Who is an accredited investor?

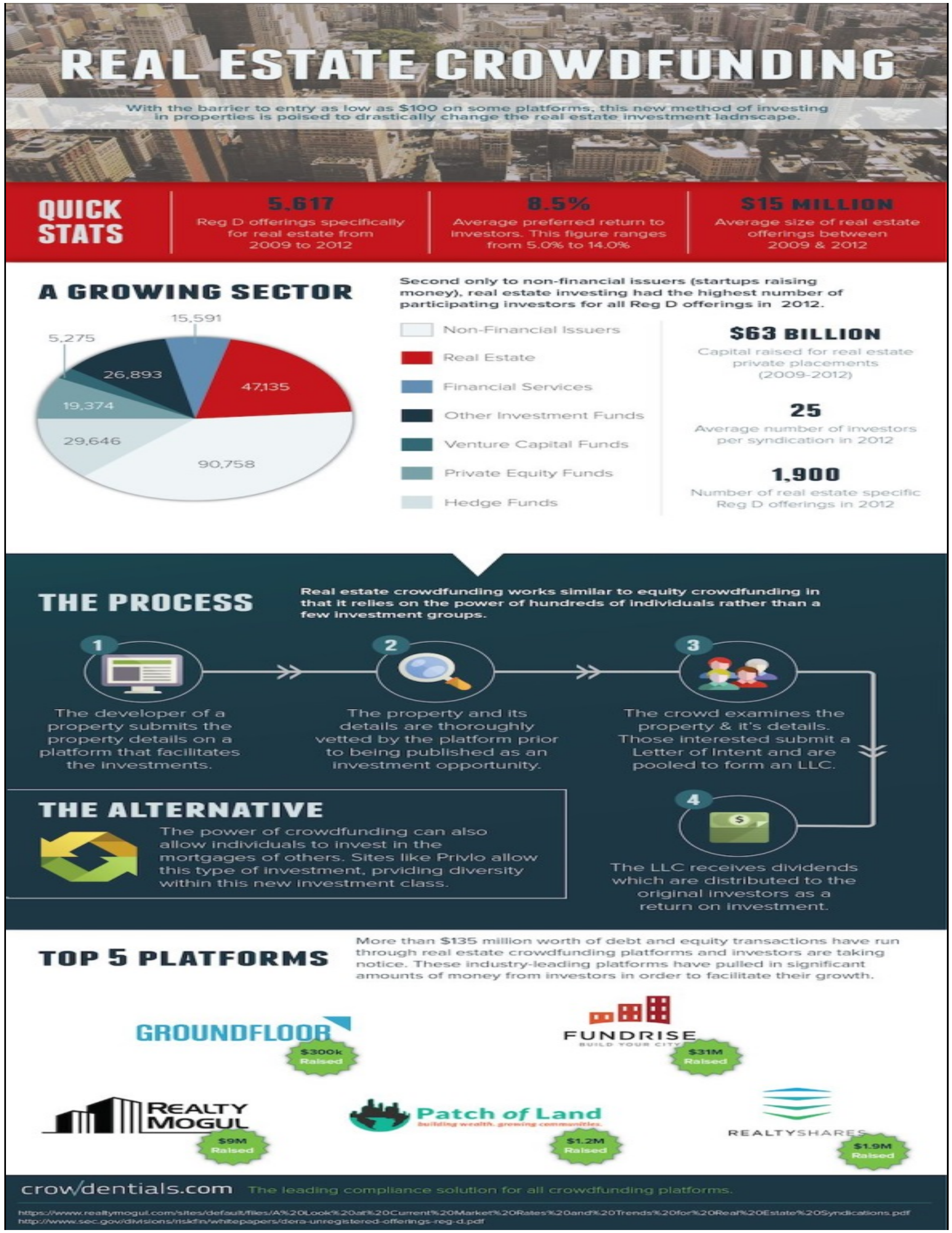
Are the crowdfunding rules in the JOBS Act final?

How do federal laws in this space interact with state laws?



JOBS Act and Real Estate

- More funding streams for buyers and sellers
- More funding for developers
- Can be creative with investments in your community
- Small-dollar entry means more people can get involved
- Opportunity to build relationships with potential clients (the crowd)



REAL ESTATE CROWDFUNDING
With the barrier to entry as low as $100 on some platforms, this new method of investing in properties is poised to drastically change the real estate investment ladnscape.
QUICK STATS
5,617
Reg D offerings specifically for real estate from 2009 to 2012
8.5%
Average preferred return to investors. This figure ranges from 5.0% to 14.0%
$15 MILLION
Average size of real estate offerings between 2009 & 2012
A GROWING SECTOR
Second only to non-financial issuers (startups raising money), real estate investing had the highest number of participating investors for all Reg D offerings in 2012.
15,591
5,275
26,893
47,135
19,374
29,646
90,758
Non-Financial Issuers
Real Estate
Financial Services
Other Investment Funds
Venture Capital Funds
Private Equity Funds
Hedge Funds
$63 BILLION
Capital raised for real estate private placements (2009-2012)
25
Average number of investors per syndication in 2012
1,900
Number of real estate specific Reg D offerings in 2012
THE PROCESS
Real estate crowdfunding works similar to equity crowdfunding in that it relies on the power of hundreds of individuals rather than a few investment groups.
1
The developer of a property submits the property details on a platform that facilitates the investments.
2
The property and its details are thoroughly vetted by the platform prior to being published as an investment opportunity.
3
The crowd examines the property & it's details. Those interested submit a Letter of Intent and are pooled to form an LLC.
4
The LLC receives dividends which are distributed to the original investors as a return on investment.
THE ALTERNATIVE
The power of crowdfunding can also allow individuals to invest in the mortgages of others. Sites like Privlo allow this type of investment, prviding diversity within this new investment class.
TOP 5 PLATFORMS
More than $135 million worth of debt and equity transactions have run through real estate crowdfunding platforms and investors are taking notice. These industry-leading platforms have pulled in significant amounts of money from investors in order to facilitate their growth.
GROUNDFLOOR
$300k Raised
FUNDRISE
$31M Raised
REALTY MOGUL
$9M Raised
Patch of Land
building wealth. growing communities.
$1.2M Raised
REALTYSHARES
$1.9M Raised
crowdentials.com The leading compliance solution for all crowdfunding platforms.
https://www.realtymogul.com/sites/default/files/A%20Look%20at%20Current%20Market%20Rates%20and%20Trends%20for%20Real%20Estate%20Syndications.pdf
http://www.sec.gov/divisions/riskfin/whitepapers/dera-unregistered-offerings-reg-d.pdf

Securities Law

- Selling shares → broker dealer → under SEC Regulation
- SEC enforcement

More Information

- Visit www.realtor.org for updates
- Attend the Commercial Leg/Reg Advisory Board Meeting at NAR Annual Meeting <Thurs Nov 6 at 12:30 pm> with guest speaker Phil Shasteen, Esq

Committee Meeting Evaluation and Feedback
NATIONAL ASSOCIATION OF REALTORS®

Dear Committee Member: Your feedback on this committee meeting is important to the Association leadership. Please share your thoughts by completing this form and returning it to staff before you leave this meeting. Thank you!

Committee (please print clearly): ____

1. Please provide feedback on how the committee can better achieve its objectives:

____

____

2. Please suggest any other ways the chair and vice chair could better direct the committee's programs and agenda.

____

____

3. Please suggest methods of getting member input on committee issues other than a committee meeting (such as surveys, focus groups, forums, or feedback from other committees):

____

____

4. Can you suggest ways to make the committee experience more productive?

____

____

On a scale of 1 to 10, 10 being the highest rating:

1. How well did the meeting accomplish its objectives?	1 2 3 4 5 6 7 8 9 10
2. How well was the meeting organized?	1 2 3 4 5 6 7 8 9 10
3. How valuable did you find the prepared materials?	1 2 3 4 5 6 7 8 9 10
4. How well did the chair and vice chair demonstrate team leadership?	1 2 3 4 5 6 7 8 9 10

Other comments:

____

____

Optional -- please print -- Your name: ____

Thank you for your input and your commitment to the Association!