AGENDA
2015 CONVENTIONAL FINANCING AND POLICY COMMITTEE
NATIONAL ASSOCIATION OF REALTORS®
2015 REALTOR® PARTY CONVENTION & TRADE EXPO
WASHINGTON HILTON HOTEL, JEFFERSON ROOM WEST
WEDNESDAY, MAY 13
10:00 AM - 12:00 PM

Chair:	**John Wong (CA)**
Vice Chair:	**Brad Boland (VA)**
Committee Liaison:	**Russell Grooms (FL)**
Committee Executive:	**Vijay Yadlapati & Charles Dawson**

I. Call to Order

II. Opening Remarks

III. NAR Conflict of Interest Statement

IV. Important RPAC Message

V. Approval of 2014 Annual Meeting Minutes

VI. Economic Update – Ken Fears, NAR Senior Economist

VII. Discussion of Alternative Credit Score Modeling
  a. Representative Al Green (D-TX)

VIII. Impact of Student Loan Debt on Access to Mortgage Credit
  a. Jessica Lautz, NAR Economist

IX. Housing Finance Reform Update
  a. Mike Stegman, Counselor for Housing Finance Policy, U.S. Department of Treasury

X. Collateral Underwriting Discussion
  a. Marty Wager, NAR Member

XI. New Business

XII. 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.

NATIONAL ASSOCIATION OF REALTORS®
2014 NAR ANNUAL CONFERENCE & TRADE EXPO
HILTON NEW ORLEANS RIVERSIDE HOTEL
JEFFERSON BALLROOM
FRIDAY, NOVEMBER 7, 2014
1:30 PM - 4:00 PM

I. Call to Order
Committee Chairwoman, Mabel Guzman, called the meeting to order at 1:30PM.

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 May 2014 Mid-Year Meetings. There were no changes and the minutes were approved by general consent.

V. Student Loan Debt Work Group Report
The Student Loan Debt Work Group (Work Group) provided the Committee with its final recommendations regarding the potential impact of student loan debt on the housing market. Specifically, the Work Group recommended that NAR should continue to monitor student loan debt research and keep the Student Loan Debt Work Group active into 2015. The Committee approved these two recommendations.

Additionally, the Work Group recommended 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 supported increased disclosure requirements and protections for all student loan borrowers. Therefore, the Work Group recommended that the Committee be supportive of legislative and regulatory efforts aimed to educate and protect student loan borrowers. Moreover, Committee member Jon Wolford asked for a motion "That NAR support legislative and regulatory efforts to promote education, increased disclosure requirements, and provide students with a better understanding of debt and repayment options." The motion was approved by the Committee.

VI. Speakers

a. The Committee received a report from NAR Diversity Committee Chairman, Glenn Moore, who provided an update on marriage equality and property rights issues. Mr. Moore requested that the Conventional Financing & Policy committee be part of future discussions to address the development of NAR policy on marriage equality and property rights as it relates to housing finance. The Committee agreed to be a part of these future discussions.

b. NAR Economist Ken Fears provided the Committee an update on the potential cost of secondary market reform. Mr. Fears described to the Committee the function and role of Fannie Mae and Freddie Mac, the drivers of cost in the secondary market system, as well as a comparison of costs for private capital participation between downpayments, implicit taxpayer support, and explicit taxpayer support. Mr. Fears also outlined the scope of work for a study commissioned by NAR from a private consulting firm to further research potential costs in any new housing finance system. Ken Fears also provided the Committee an update on the current state of the housing market as well as a forecast into 2015. While the housing market has generally improved, Mr. Fears indicated that the market still faces many headwinds such as lack of inventory in the entry-level price range, tepid income growth, and the end of the Federal Reserve Board's mortgage bond purchase program.

c. Committee member Kevin Brown requested to withdraw his tabled motion from the REALTOR® party meetings that NAR oppose the Johnson-Crapo bill unless the risk sharing provision is amended so that the risk sharing is optional and there is no minimum amount required in statute. Mr. Brown indicated that he would like to see the results of the consultant's study before considering new policy. Mr. Brown reiterated that a first loss provision in any housing finance reform bill should be a critical consideration for the Committee.

d. Mark Filler, CEO of Jordan Capital Finance, discussed the availability of financing for small investors interested in purchasing, renovating, and potentially renting out the single family properties. Mr. Filler indicated that the large numbers of investor purchases, and the availability of mortgage products such as those provided by Jordan Capital Finance, provided an opportunity for REALTORS® to break into new markets.

e. NAR Commercial Policy Staff, Erin Stackley and Stephanie Spear, presented the Committee with background on the development of crowdfunding as financing tool for both commercial and residential real estate. Ms. Stackley and Ms. Spear indicated that the SEC was finalizing rules proposed from the JOBS Act which will dictate the opportunity and availability of real estate financing from crowdfunding.

VII. Adjournment

Chairwoman Guzman adjourned the meeting at 4:00 PM.

NAR Issue Summary
Conventional Residential Lending / Credit Policy

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

The housing and mortgage markets have over-corrected in response to abusive lending, poor underwriting, and a serious recession. The result has been excessively tight underwriting criteria. Many homeowners are unable to afford their mortgages and are unable to refinance or sell them. A short sale or a foreclosure too often is the only option.

I am a real estate professional. What does this mean for my business?

Many local housing markets currently suffer from an excess supply of housing and unduly tight underwriting criteria. Unless buyers have extremely good credit, it can be very difficult for them to be approved for a mortgage. Nationally, approximately one-third of all properties for sale are short sales or bank-owned properties. Until this distressed inventory is cleared, housing markets are likely to remain under stress. Tight credit is delaying the recovery of the housing market and the economy as a whole.

NAR Policy:

The credit and lending communities and federal regulators should reassess the entire credit structure and look for ways to increase the availability of credit to qualified borrowers who are good credit risks. The inadvertent response to the "risk layering" inherent in some mortgage products (e.g. no doc, balloon, negative amortization, or "teaser rate" mortgages) has been "safety layering" where so many safeguards are being imposed that there is little risk to making new loans. NAR has identified specific recommendations for adjusting the current unduly restrictive policies.

Visit the NAR's Credit Policy Webpage.

The current book of business at the GSEs and FHA has been referred to as "pristine." NAR believes pristine loans are the result of excessively tight underwriting, not sound business practices. The GSEs and FHA have a public mission to provide mortgage liquidity to qualified home buyers, including low- and moderate-income families and first-time home buyers. This mission is being impaired by limits on the availability of credit. NAR believes a reassessment of these policies will not only help well-qualified potential borrowers, but also the entire housing market.

Opposition Arguments:

Opponents of NAR policy believe that creditworthy borrowers currently have access to affordable credit. They believe tighter lending standards have deterred individuals that do not have an ability to repay a loan from obtaining a mortgage. Therefore, they believe these tighter lending standards will prevent another financial crisis.

NAR Issue Summary
Conventional Residential Lending / Credit Policy

Legislative/Regulatory Status/Outlook

NAR has distributed its new Credit Policy and met with industry groups and regulators to emphasize the importance of reasonable underwriting policies.

Current Legislation/Regulation (bill number or regulation)

Not applicable.

Legislative Contact(s):

Vijay Yadlapati, vyadlapati@realtors.org, 202-383-1090

Daniel Blair, dblair@realtors.org, 202-383-1089

Regulatory Contact(s):

Charles Dawson, cdawson@realtors.org, 202-383-7522

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114TH CONGRESS
1ST SESSION

H. R. 123

To extend the pilot program under section 258 of the National Housing Act that establishes an automated process for providing alternative credit rating information for mortgagors and prospective mortgagors under certain mortgages.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 2015

Mr. AL GREEN of Texas (for himself and Ms. CHU of California) introduced the following bill; which was referred to the Committee on Financial Services

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A BILL

To extend the pilot program under section 258 of the National Housing Act that establishes an automated process for providing alternative credit rating information for mortgagors and prospective mortgagors under certain mortgages.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ‘‘FHA Alternative Credit Pilot Program Reauthorization Act of 2015’’.

SEC. 2. EXTENSION OF PILOT PROGRAM.

Section 258(d) of the National Housing Act (12 U.S.C. 1715z–24(d)) is amended by striking "5-year" and inserting "10-year".

○

SECTION 2124 OF THE HOUSING AND ECONOMIC RECOVERY ACT OF 2008 (HERA)

SEC. 2124. PILOT PROGRAM FOR AUTOMATED PROCESS FOR BORROWERS WITHOUT SUFFICIENT CREDIT HISTORY.

(a) ESTABLISHMENT.—Title II of the National Housing Act (12 U.S.C. 1707 et seq.) is amended by adding at the end the following new section:

SEC. 257. PILOT PROGRAM FOR AUTOMATED PROCESS FOR BORROWERS WITHOUT SUFFICIENT CREDIT HISTORY.

(a) ESTABLISHMENT.—The Secretary shall carry out a pilot program to establish, and make available to mortgagees, an automated process for providing alternative credit rating information for mortgagors and prospective mortgagors under mortgages on 1- to 4-family residences to be insured under this title who have insufficient credit histories for determining their creditworthiness. Such alternative credit rating information may include rent, utilities, and insurance payment histories, and such other information as the Secretary considers appropriate.

(b) SCOPE.—The Secretary may carry out the pilot program under this section on a limited basis or scope, and may consider limiting the program to first-time homebuyers.

(c) LIMITATION.—In any fiscal year, the aggregate number of mortgages insured pursuant to the automated process established under this section may not exceed 5 percent of the aggregate number of mortgages for 1- to 4-family residences insured by the Secretary under this title during the preceding fiscal year.

(d) SUNSET.—After the expiration of the 5-year period beginning on the date of the enactment of the Building American Homeownership Act of 2008, the Secretary may not enter into any new commitment to insure any mortgage, or newly insure any mortgage, pursuant to the automated process established under this section.

(e) GAO REPORT.—Not later than the expiration of the two year period beginning on the date of the enactment of this subtitle, the Comptroller General of the United States shall submit to the Congress a report identifying the number of additional mortgagors served using the automated process established pursuant to section 257 of the National Housing Act (as added by the amendment made by subsection (a) of this section) and the impact of such process and the insurance of mortgages pursuant to such process on the safety and soundness of the insurance funds under the National Housing Act of which such mortgages are obligations.

NCLC®
NATIONAL CONSUMER LAW CENTER®

Full File Utility Credit Reporting: Harms to Low-Income Consumers

June 2013

One of the efforts to promote alternative credit data urges that utility companies engage in monthly reporting of customer payments, including late payments, to the Big Three nationwide credit reporting agencies (CRAs), Equifax, Experian, and TransUnion. Currently, the vast majority of electric and natural gas utility companies only report to those three CRAs when a seriously delinquent account has been referred to a collection agency or written off as uncollectible.

Promoters contend that ñfull fileò utility credit reporting will assist thin file or no-file consumers to build credit histories and gain access to credit. NCLC (on behalf of its low-income clients) opposes mandatory full file utility credit reporting because we believe it could end up hurting, not helping, millions of low-income consumers. We do not oppose voluntary, opt-in reporting of utility data.

Full file utility credit reporting will result in millions of new negative marks on credit reports

Full file utility credit reporting could end up harming consumersô credit scores, or give them low scores instead of no scores. Many low-income customers would receive negative marks for a 30- or 60-day late payment during months when utility costs are high, even though they eventually catch up when costs are lower (e.g., in summer months for cold winter states). These negative marks are damaging; FICO has indicated that a single 30-day late payment damages a credit score by as much as 60 to 110 points.

An industry-funded study claims that new black marks will be minimal because its data shows that less than 3% of consumers earning $50,000 or less have a single 60-day late utility payment during a one-year period. Data from utility companies and regulators contradict these statistics, showing that the percentage of utility consumers paying 60 days late is much higher:

- Data from Pacific Gas and Electric shows about 6% of general residential customers and nearly 13% of low-income/energy assistance customers were in arrears by 61 to 90 days in June 2012. San Diego Gas and Electric Co. reported that about 11% of general residential customers and 34% of low-income/energy assistance customers were in arrears by 61 to 90 days in June 2012.
- In Massachusetts, over one-third (33.5%) of low-income/energy assistance customers of NSTAR Electric (now, Northeast Utilities) were more than 60 days late in paying their bills in June 2012.
- Columbus Gas Co. in Ohio reported that 275,000 out of its 1.3 million customers ï about 21% - were in arrears by more than 60 days as of December 2011. East Ohio Gas Co. reported that 171,700 out of its 1.1 million customers ï nearly 16% - were in arrears over 60 days as of December 2011.

A bad credit history can often be worse than no credit history

A low credit score will make consumers the target of predatory lenders, such as fee-harvester credit cards. In addition, both employers and insurance companies use credit reports. In those cases, not having a credit history is much less harmful than having a bad history. Full utility credit reporting could result in consumers being denied employment or forced to pay higher insurance rates.

Full file utility credit reporting conflicts with established state utility consumer protections

States across the country have adopted consumer protections intended to protect elderly, disabled, and households with young children from the loss of electric and natural gas utility service during high cost months, and in times of illness or financial hardship. These consumers may sometimes defer full payment of utility bills, knowing they are protected from shutoff. Enacting full file utility credit reporting would undermine these health and safety protections.

For more information and data, contact National Consumer Law Center Senior Energy Policy Analyst John Howat (jhowat@nclc.org) or National Consumer Law Center Attorney Chi Chi Wu (cwu@nclc.org), (617) 542-8010.

NAR Issue Summary
Conventional Residential Lending / Student Loan Debt

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

NAR has been monitoring the important discussion on the potential implications that rising student debt may have on consumer access to mortgage credit, and more broadly, homeownership. While there are various reasons that student debt is growing, several reports have indicated that the continued rise in student debt itself along with a weak labor market may have a long-term impact on the ability of first time homebuyers to qualify for mortgages in the future, particularly lower income consumers. Many of these potential borrowers may find a significant portion of their total monthly debt will be comprised of student loan payments.

I am a real estate professional. What does this mean for my business?

A current survey of home buyers and sellers conducted by NAR indicates that student debt liability is of particular concern to potential buyers trying to save for or meet down payment requirements. Should student loan burdens continue to impact the ability of responsible borrowers to save for a down payment, potential borrowers will be unable to access the most affordable mortgage options. Though a vast majority of borrowers have been responsible and diligent in making their student loan payments, the ability of borrowers to save for priorities such as emergency savings, medical expenses, and down payments may become more difficult and ultimately impact their future decisions to purchase a home.

NAR Policy:

The recommendations of the NAR Student Loan Debt Work Group were approved at the November 2014 NAR Convention. Specifically, the Work Group recommended that NAR (1) continue to monitor student loan debt research, and (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.

Opposition Arguments:

Some believe that stagnant wage and job growth is hindering housing market, not rising student loan debt.

Legislative/Regulatory Status/Outlook

Congress plans to hold ongoing hearings on college costs and federal loan and grant programs this year as it prepares to reauthorize the Higher Education Act (HEA).

Current Legislation/Regulation (bill number or regulation)

None at this time.

NAR Issue Summary
Conventional Residential Lending / Student Loan Debt

Legislative Contact(s):

Vijay Yadlapati, vyadlapati@realtors.org, 202-383-1090

Daniel Blair, dblair@realtors.org, 202-383-1089

Regulatory Contact(s):

Charles Dawson, cdawson@realtors.org, 202-383-7522

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)

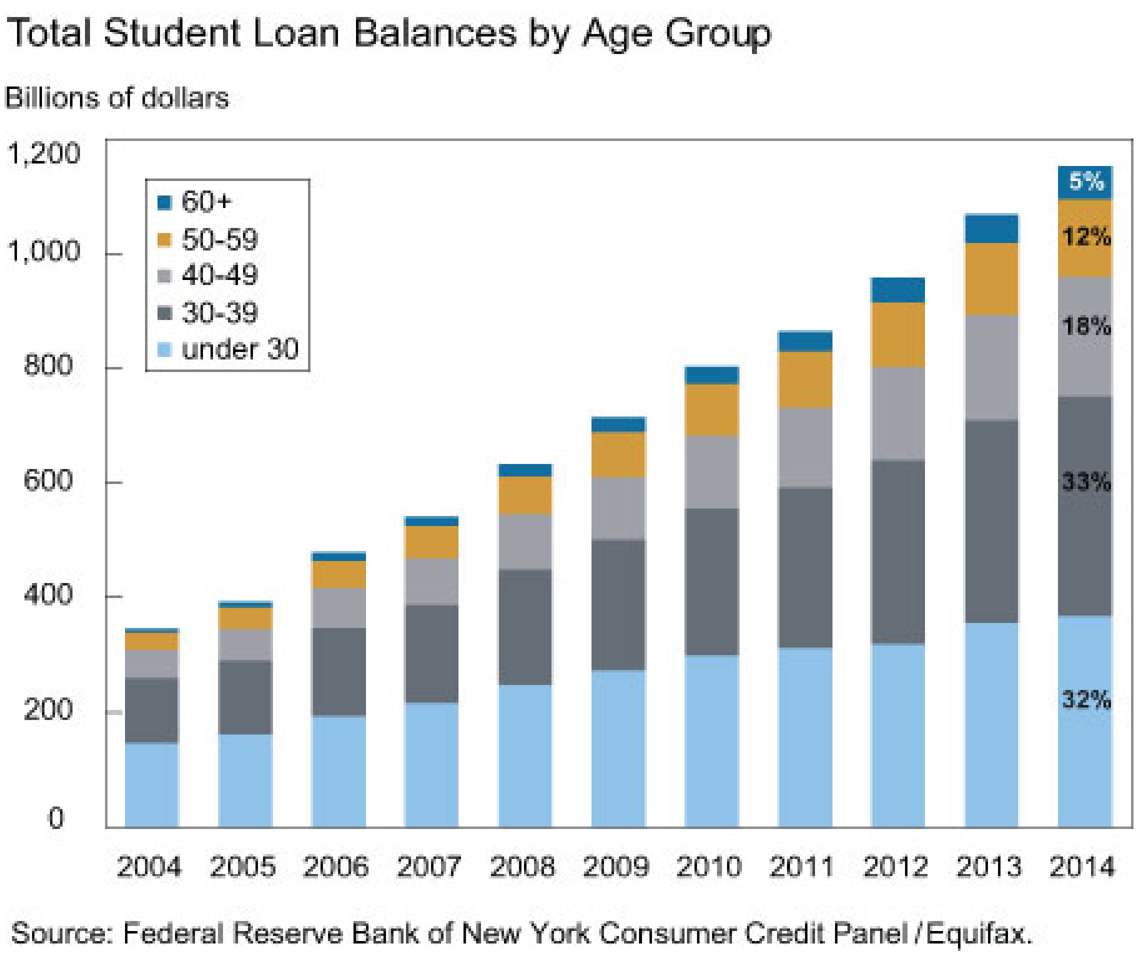
Student Loan Debt Update

Conventional Financing & Policy Committee

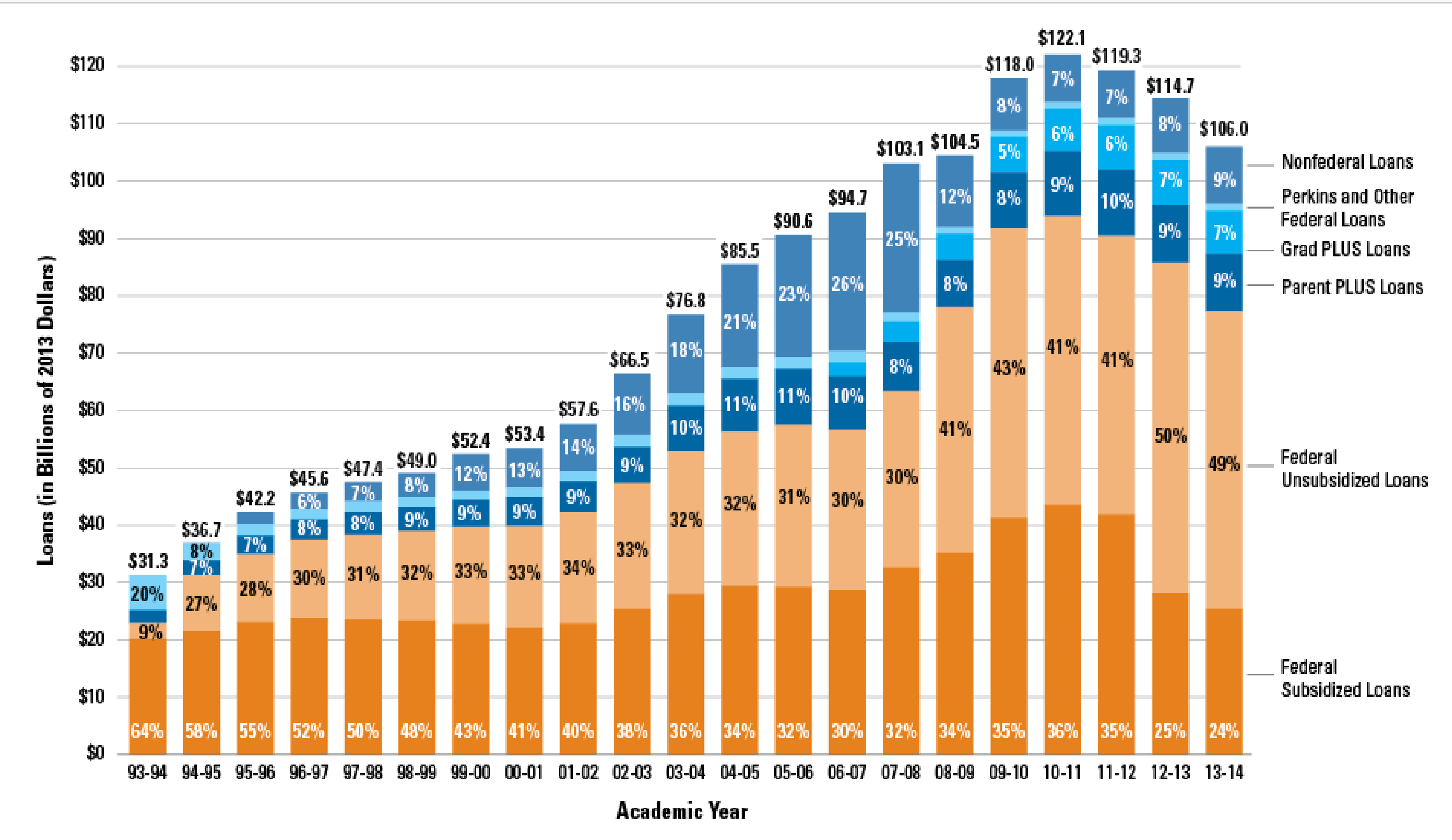
April 13, 2015

STUDENT LOAN DEBT RESEARCH

- $1.16 trillion as of Q4 2014
- About 10% of debt overall
- 90+ days delinquency rate is 11.3%--comparison of 3.5% auto loans and 3.1% mortgages

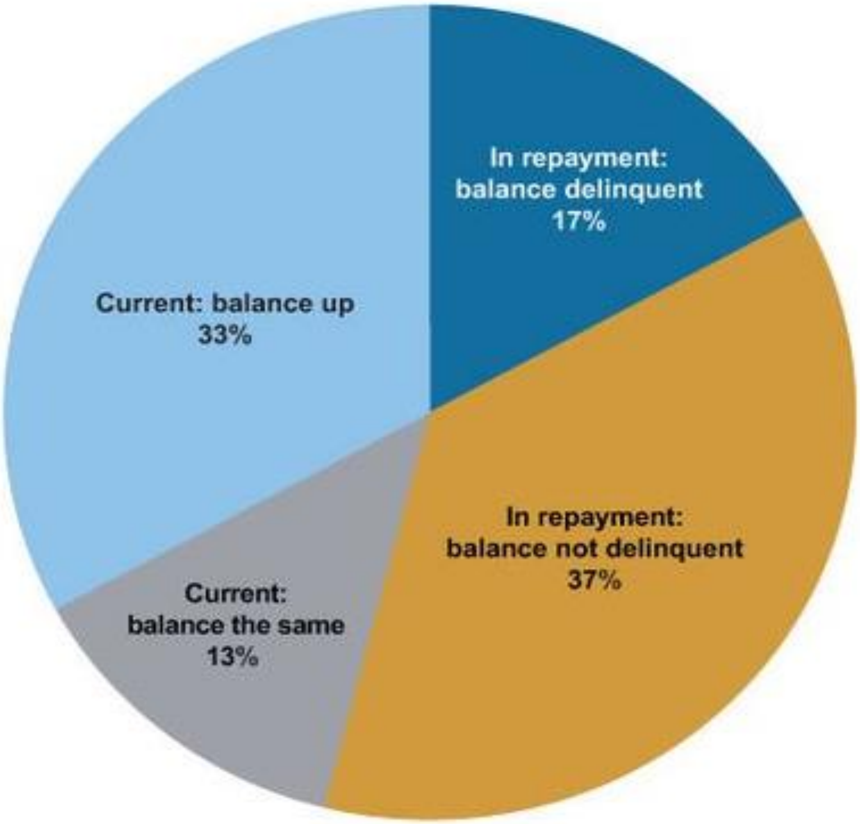


Federal and Nonfederal Loan Dollars in 2013 Dollars, 1993-94 to 2013-14



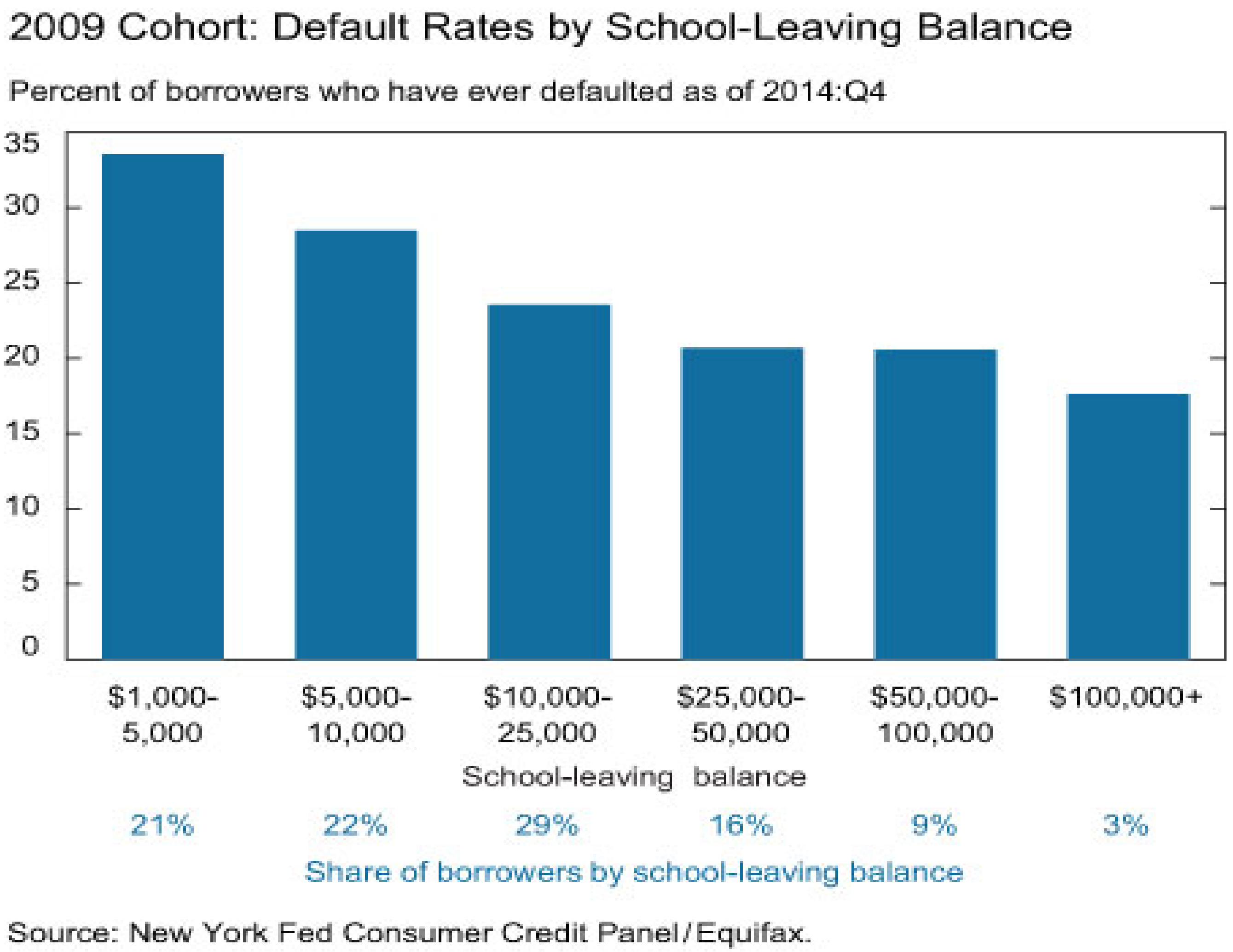
Payback Time? Measuring Progress on Student Debt Repayment

Student Loan Repayment Status in 2014

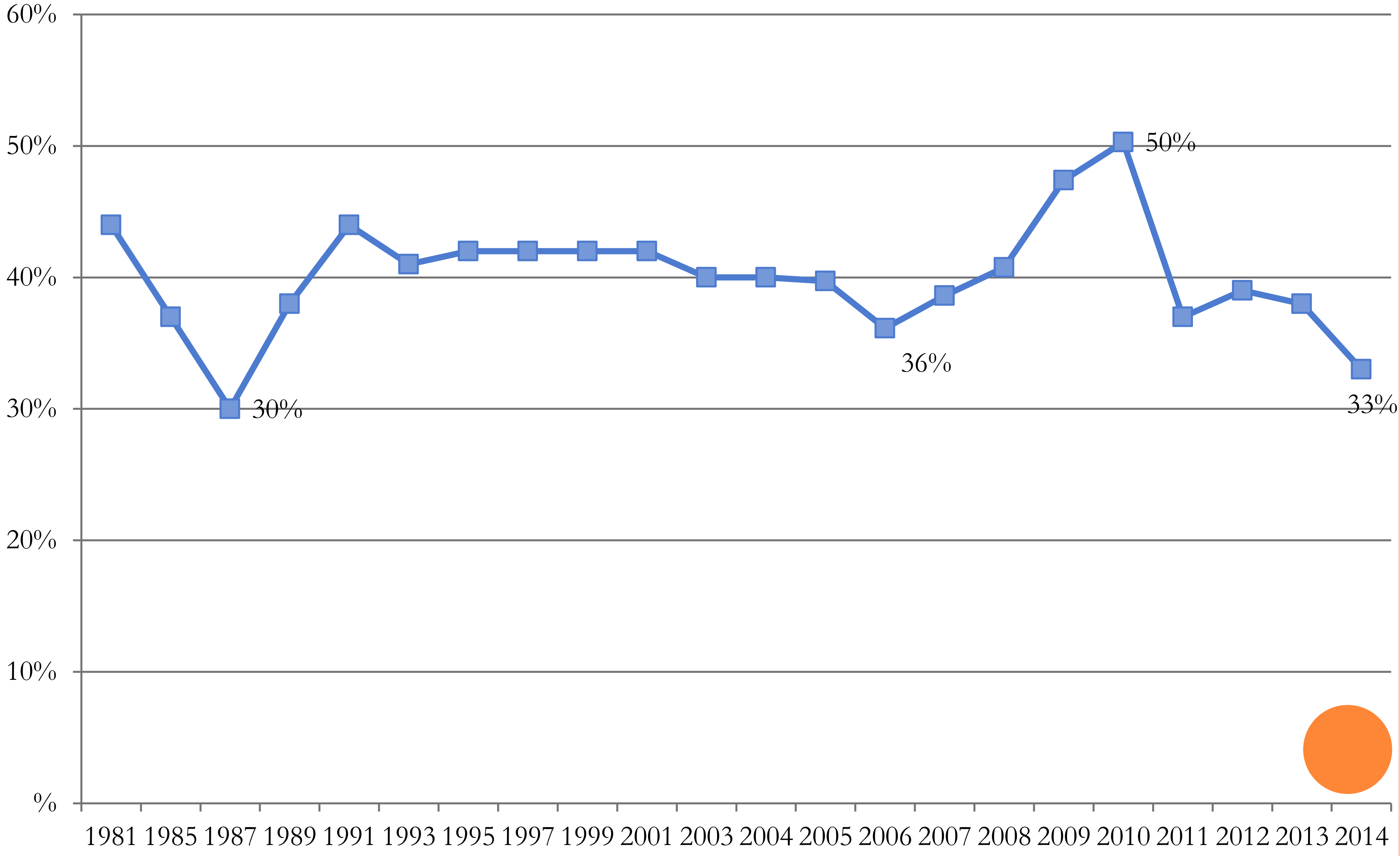


Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Looking at Student Loan Defaults through a Larger Window



NAR DATA: FIRST-BUYER SHARE AMONG PRIMARY RESIDENCE BUYERS—LOWS NOT SEEN SINCE 1987



Debt and Other Factors holding back First-Time 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:			
Student Loans	46%	57%	28%
Credit card debt	50	45	58
Car loan	38	42	32
Child care expenses	17	13	24
Health care costs	12	8	17
Other	8	5	14

Other factors at play: competition among 2nd home buyers, underemployment, slow wage growth, and doubling up with parents

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 – currently follow 10-yr Treasury
- Not uncommon to have delays of a year or longer

2014 House Republican Legislative Proposals

- Expand financial literacy by offering more robust/timely financial information to students
- Reduce multiple student loan programs
- Streamline loan repayment programs into 2 programs:
  - Standard repayment
  - Modified income-based program
- Scale back income-based repayment (IBR) terms
- Oppose President's proposed Postsecondary Institution Rating System

2014 House Actions

- Took a piecemeal legislative approach
- Passed 2 student loan bills:
  1. Requires parents & students to receive interactive counseling each year
  2. Eliminates certain data publicly available on College Navigator website; creates a “college dashboard” that includes completion rates, loan debt, and repayment rates
- Both bills never were considered by Senate

2014 Senate Democratic Proposals/Actions

- Took an all-inclusive legislative approach
- Introduced "Higher Education Affordability Act"
  - Streamline repayment plans to require "prepayments" 1st be applied to higher interest loans
  - Single income-based repayment option
  - Automatic enrollment into IBR for severely delinquent borrowers
  - Collection costs can't exceed 16% of outstanding principal/interest
- Bill failed to be debated prior to 2014 elections

Other 2014 Senate Proposals

- University & College Accountability
  - Requires schools with default rates exceeding certain thresholds to pay a percentage of the amount their defaulted student borrowers owe
- Federal Student Loan Refinancing
  - Allow borrowers to refinance into 4% rate
- Link Loan Payments & Loan Forgiveness to the Amount Borrowed
  - Undergrads can borrow up to $31K
  - Graduates can borrow for the "cost of attendance"
    - All potentially forgivable under IBR
    - Creates incentive for Law/Medical Schools to raise prices & pass taxpayers the bill

2014 Student Loan Debt Work Group Recommendation

- 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

What to expect in 2015

- Republicans control both chambers of Congress
- According to their passed budgets:
  - Republicans want to freeze Pell Grants for 10yrs
  - End in-school interest subsidy on Stafford Loans
  - Roll back expansion of Pay As You Earn program (IBR)
  - Terminate Public Service Loan Forgiveness
- Senate has approved a variety of budget amendments:
  - Streamline a myriad of income-based programs to either a 10-yr or single income-based repayment option
  - Allowing additional Pell Grant payments during an academic year
  - Simplifying higher-ed tax credits

What to Expect in 2015

- Democrats will likely support many of the President's budget & "Student Bill of Rights" proposals:
  - Capping Public Service Loan Forgiveness at $57K
  - Streamlining higher-ed tax credits/deductions into a single credit or deduction
  - Create centralized complaint system for borrowers
  - Better communication between borrowers and servicers
  - Require loan servicers to apply any extra funds to borrower's highest interest rates
  - Create a single portal for borrowers to obtain their loan and payment information
  - Debt collectors to charge reasonable fees and help borrow return to good standing
  - Work with Treasury to allow automatic access to borrower's information for the purpose of applying for & renewing income-driven payment programs
  - Allow student loans to be discharged in bankruptcy

Likely Final Outcome

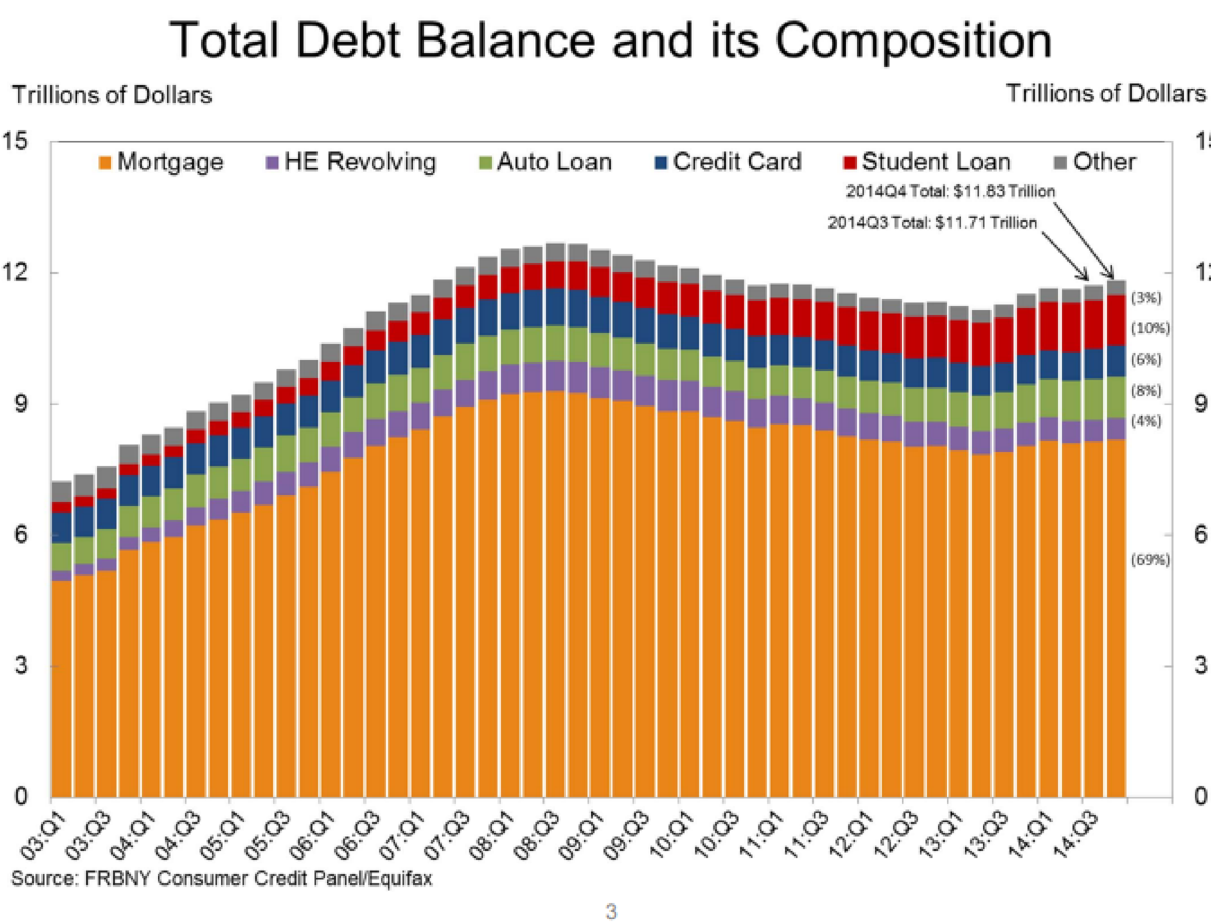
- Controversial legislation will unlikely pass
  - Republicans control both chambers, but don't have 2/3 vote to override veto
- Both parties may agree to include the following in the final reauthorization bill:
  - Better counseling and loan information for students
  - The use of interactive tools in counseling that test the user's knowledge of student loan content
  - Better information on college costs and loans for prospective students
  - A simplification of loan repayment programs

National Association of REALTORS® Research on Student Debt[1]

Size of Student Debt:

- Student loan debt was $1.16 trillion as of Q4 2014; about 10 percent of total household debt of $11.83 trillion[2] (Figure 1).
- Comparisons: Mortgage debt is at $8.17 Trillion. Auto loans at $0.95 Trillion. Credit card at $0.70 Trillion. HELOC at $510 Billion. Other debt at $0.34 Trillion.

Figure 1



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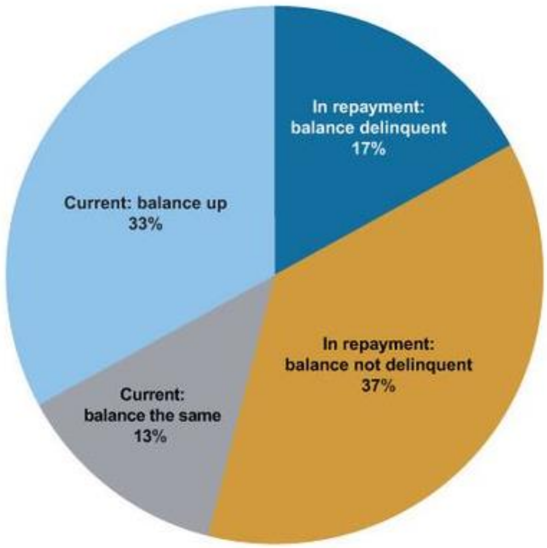
[1] Prepared by the Research Division, National Association of REALTORS®. This Facts Sheet reports on data that is available as of April 23, 2015.

[2] FRBNY, Household Debt and Credit Report, Fourth Quarter 2014. http://www.newyorkfed.org/householdcredit/2014-q4/data/pdf/HHDC_2014Q4.pdf

Figure 2

Student Loan Repayment Status in 2014



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax. [3]

Debt by Age Group (as of 2014)[4]:

- While the debt load is concentrated among those under 39, it has grown for those over 40 years of age at higher rates.
- Two-thirds of student loan balanced are held by borrowers not in their 20s
- Between 2004 and 2014 there is an increase of 89 percent in the number of borrowers and a 77% increase in the average balance.
- Between 2005 and 2010 there was an increase of 20 percent in college enrollment.
- Most borrowers have a current outstanding balance below $25k—about 40% owe less than $10K
- Mean outstanding balance is $26k; median balance is $15k
- Borrowers in their 30's and 40's have the highest mean and median balances, at about $31k and $17k respectively

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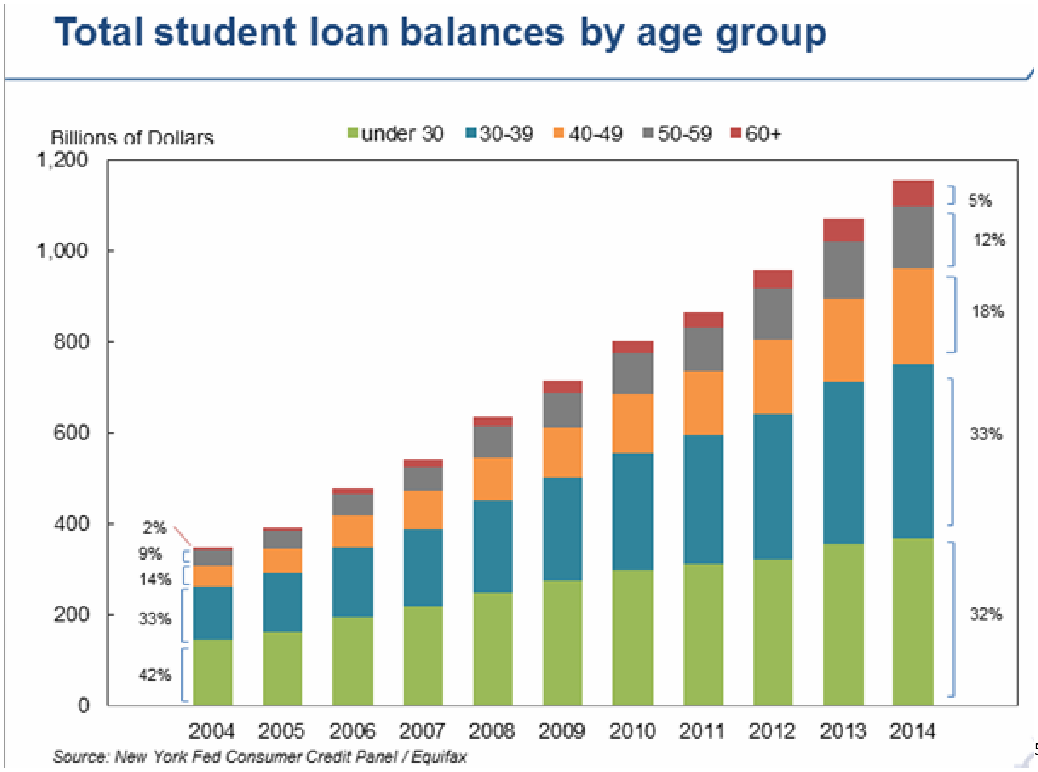
[3] *Payback Time? Measuring Progress on Student Debt Repayment.* Liberty Street Economics. Federal Reserve Bank of New York. http://libertystreeteconomics.newyorkfed.org/2015/02/payback_time_measuring_progress_on_student_debt_repayment.html#.VSv1PfnF_OE

[4] New York Fed to Host Press Briefing on Student Loans. http://www.newyorkfed.org/newsevents/mediaadvisory/2015/0410_2015.html

Figure 3



[5]

Delinquencies:

- As of 2014 Q4, 11.3 percent of student loans were 90+ days delinquent , up from 6.3 percent in 2003.(Delinquency rate for all outstanding debt is 6.0 percent, mortgages is 3.1 percent, auto loans is 3.5 percent)[6] (Figure 4).
- Under 30: 8.9 percent of loans are 90+ days delinquent, 30-39: 12.1 percent of loans delinquent, 40-49: 16.1 percent of loans delinquent (Q4 2012)[7]
- Two year cohort default rate, starting 2011: 10 percent, up from 4.5 percent in 2003[8] (Figure 6).
- Graduates of proprietary (for-profit) schools: default rate 13.6 percent.
- Public university: default rate 9.6 percent.
- Private schools: default rate 5.2 percent.

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[5] New York Fed to Host Press Briefing on Student Loans. http://www.newyorkfed.org/newsevents/mediaadvisory/2015/0410_2015.html
[6] FRBNY, Household Debt and Credit Report, Fourth Quarter 2014
[7] FRBNY, Student Loan Debt by Age Group, Data as of Fourth Quarter 2013, Released March 29, 2013. http://www.newyorkfed.org/studentloandebt/
[8] FRBNY, Household Debt and Credit Report, Third Quarter 2014. Federal Student Aid. U.S. Department of Education. http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdrschooltype2yr.pdf; http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html. Peak default rate was 22.4 percent in 1990.

Figure 4

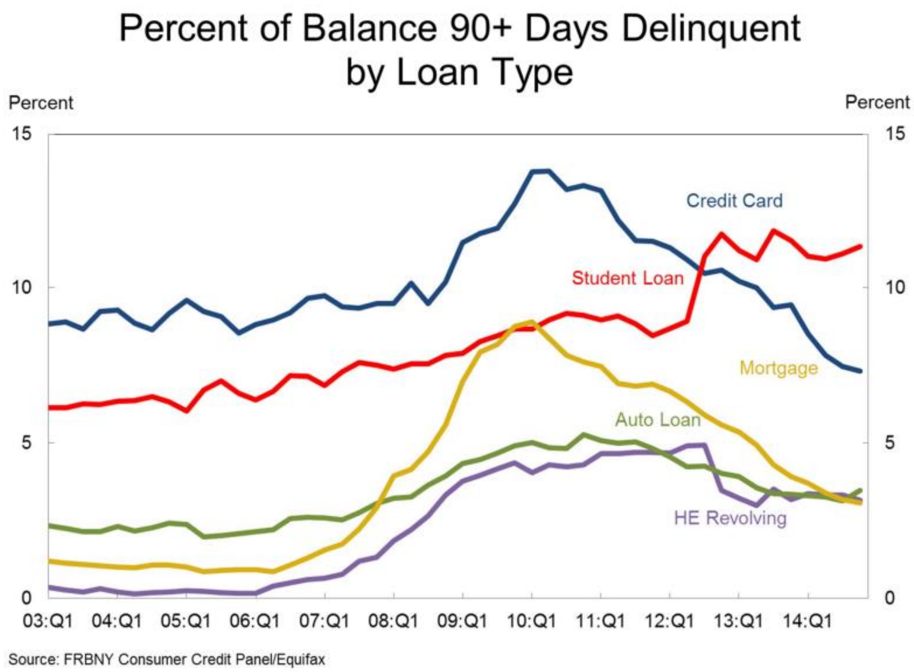
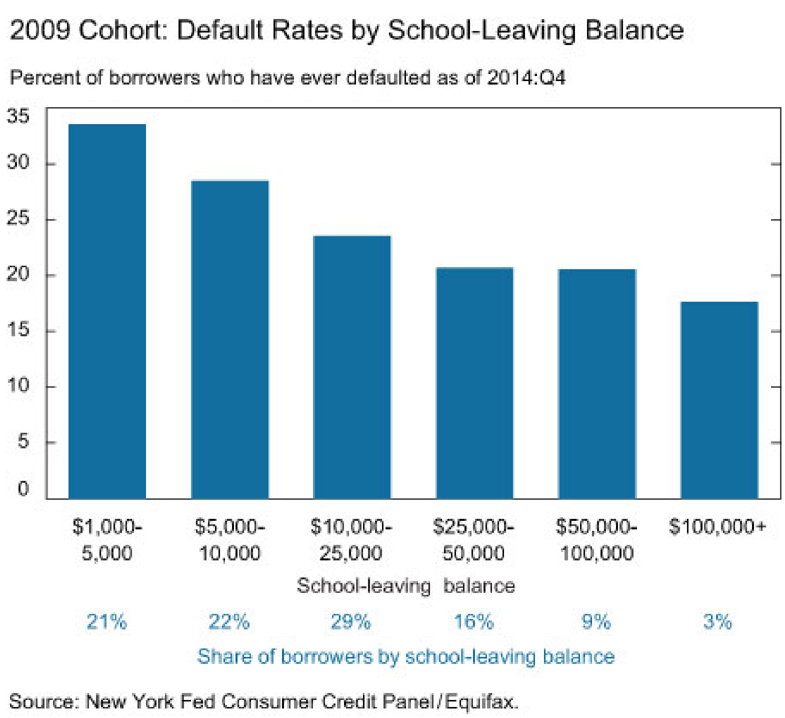


Figure 5

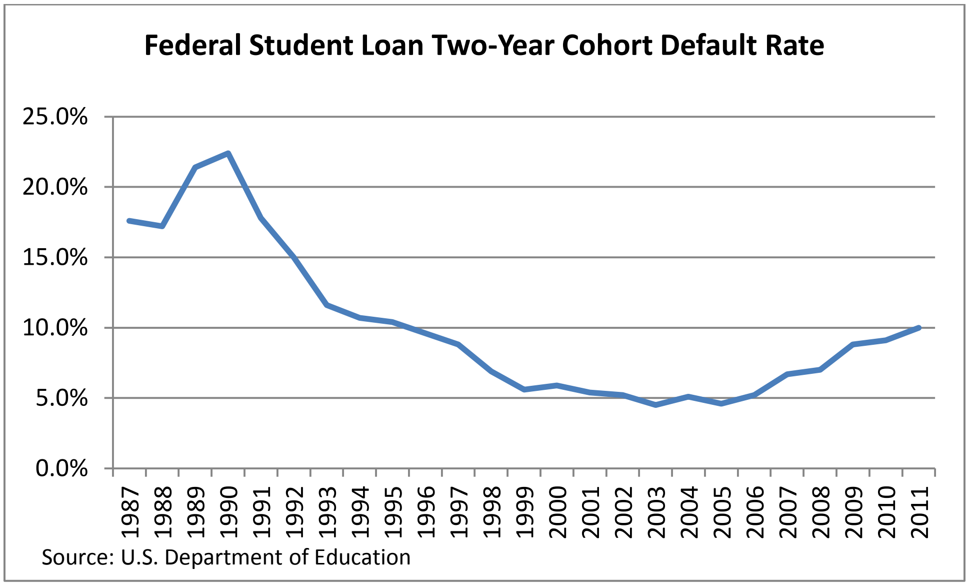


[9]

[9] Looking at Student Loan Defaults through a Larger Window. Liberty Street Economics. Federal Reserve Bank of New York. http://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html#.VSv2JPnF_OE

- Defaults are concentrated at the lower levels of debt.

Figure 6



Earnings and Debt—2011-12 and 2012-13 Four Year College Graduates[10]:

- Median earnings (2012 dollars): $30,502 in 2012 compared to $34,079 in 2000[11].
- Annualized income growth from 2008 to 2012 has remained flat for ages 25 to 34, and increased 0.3 percent for ages 35 to 44.
- About seven in 10 (69%) college seniors who graduated from public and private nonprofit colleges in 2013 had student loan debt.
- These borrowers owed an average of $28,400, up two percent compared to $27,850 for public and nonprofit graduates in 2012.[12]
- Public Colleges: 66 percent of graduates --average debt of $25,500 (compared to 2000, 54 percent borrowed with average debt at $20,800 in 2012 dollars).
- Private nonprofit 4-year colleges: 75 percent of graduates--average debt of $32,300 (compared to 2000, 63 percent borrowed with average debt of $23,800 in 2012 dollars)
- For profit colleges: 88 percent took out student loans—average debt of $39,950
- In 2013, 40% of borrowers with education debt owed less than $10,000 for undergraduate and graduate study combined, while 13% owed $50,000 or more.[13]

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[10] Average student borrowings for undergraduates of public and private non-profit colleges and universities is from The College Board, Annual Survey of Colleges, student debt -2013 data. Data for for-profit colleges and universities is from The Institute for College Access and Success "Student Debt and the Class of 2013" downloaded from http://ticas.org/posd/home

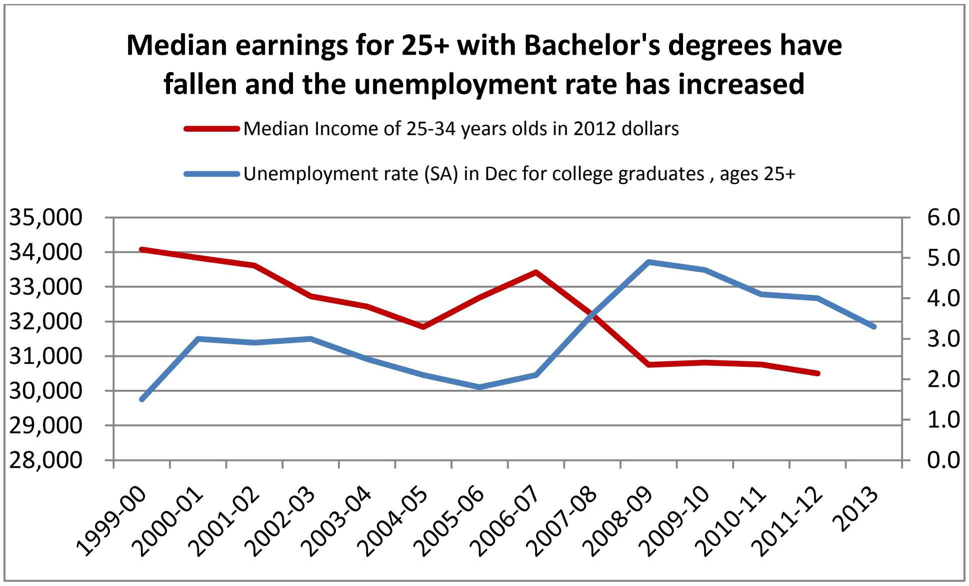
[11] Bureau of Census, Table P10-Median Income. https://www.census.gov/hhes/www/income/data/historical/people/

[12] Average student borrowings for undergraduates of public and private non-profit colleges and universities is from The College Board, Annual Survey of Colleges, student debt -2013 data. Data for for-profit colleges and universities is from The Institute for College Access and Success "Student Debt and the Class of 2013" downloaded from http://projectonstudentdebt.org/files/pub/classof2013.pdf November 2014.

[13] *Trends in Higher Education*. The College Board. http://trends.collegeboard.org/student-aid/figures-tables/distribution-outstanding-education-debt-balances-2013

- On average, the 59% of public four-year bachelor's degree recipients who graduated with debt in 2012-13 borrowed $25,600 (in 2013 dollars), 20% more than the average debt of the 2002-03 graduates who borrowed.[14]
- Average debt per public four-year college graduate, including those who did not borrow, increased by 9% (from $11,200 to $12,200 in 2013 dollars) between 2002-03 and 2007-08, and by 24% (from $12,200 to $15,100) over the next five years.[15]

Figure 7



[14] *Trends in Higher Education*. The College Board. http://trends.collegeboard.org/student-aid/figures-tables/distribution-outstanding-education-debt-balances-2013

[15] *Trends in Higher Education*. The College Board. http://trends.collegeboard.org/student-aid/figures-tables/distribution-outstanding-education-debt-balances-2013

Figure 8

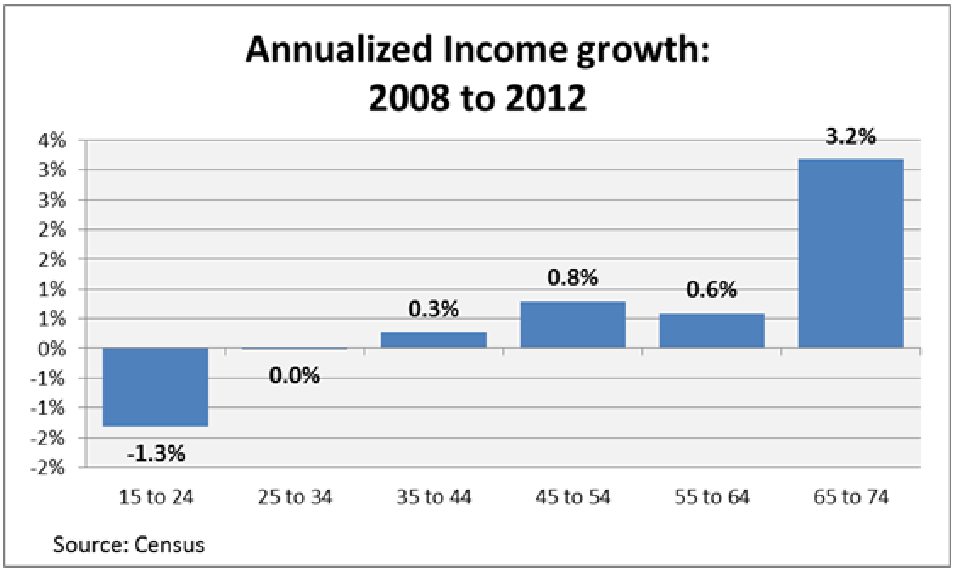
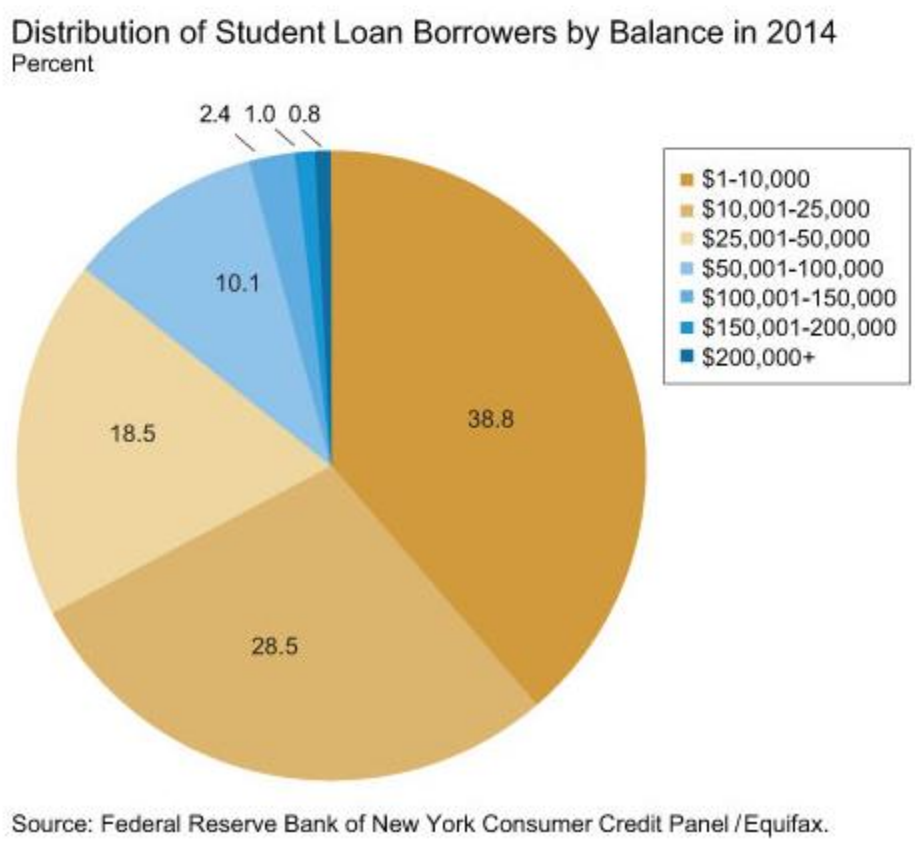


Figure 9



[16]

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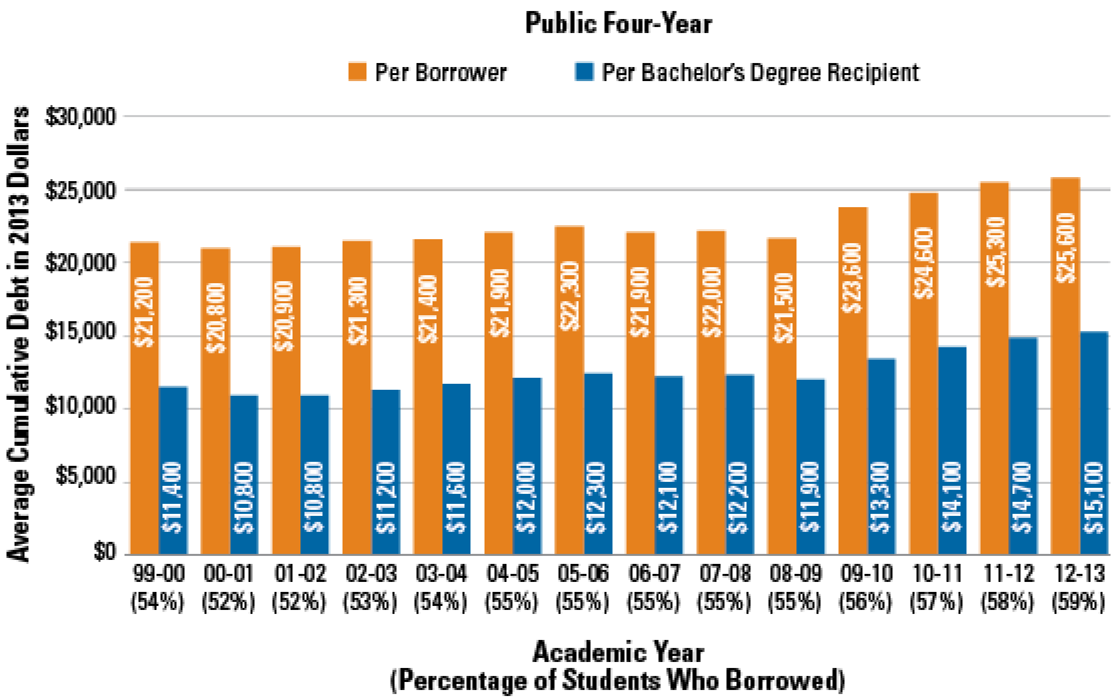
[16] *The Student Loan Landscape*. Liberty Street Economics. Federal Reserve Bank of New York. http://libertystreeteconomics.newyorkfed.org/2015/02/the_student_loan-landscape.html#.VSv22fnF_OE

Figure 10

Average Cumulative Debt Levels in 2013 Dollars: Bachelor's Degree Recipients at Public Four-Year Institutions, 1999-2000 to 2012-13

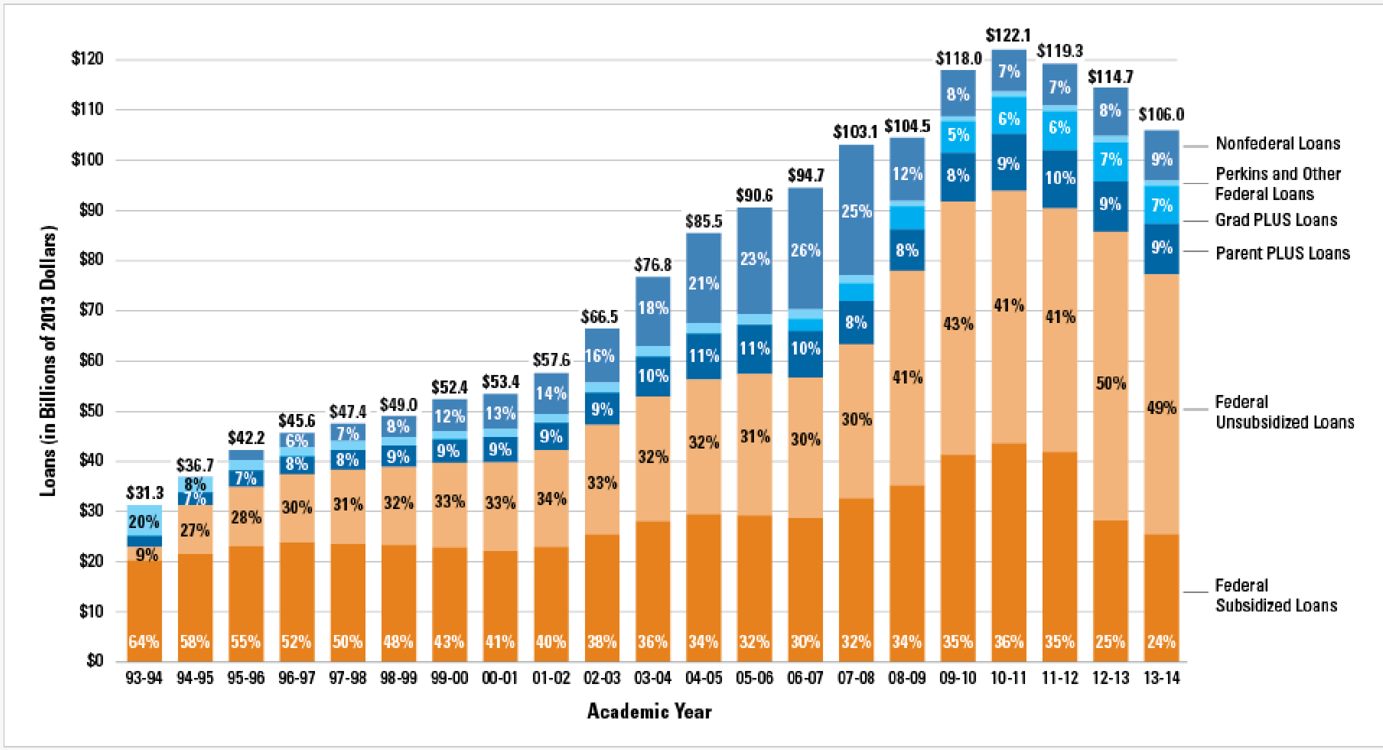


[17]

[17] Trends in Higher Education. The College Board. http://trends.collegeboard.org/student-aid/figures-tables/distribution-outstanding-education-debt-balances-2013

Figure 11

Federal and Nonfederal Loan Dollars in 2013 Dollars, 1993-94 to 2013-14



18

<u>National Association of REALTORS® Survey Data on the Obstacles of Home Ownership:</u>

- 77 percent of Americans view that having too much debt from college and student loans is a huge to medium obstacle to home ownership
- 49 percent of Americans assess having too much debt from college or student loans is a huge obstacle to home ownership[19] (Table 2)

[18] Trends in Higher Education. The College Board. http://trends.collegeboard.org/student-aid/figures-tables/distribution-outstanding-education-debt-balances-2013

[19] National Association of REALTORS®, *Housing Pulse Survey,* July 2013. http://www.realtor.org/sites/default/files/reports/2013/housing-pulse-survey-executive-summary-2013-07.pdf

Figure12

	% Huge Obstacle 2011	% Huge Obstacle 2013
Having a full time job but still not making enough to afford a home or apartment close to work.	50	49
Having too much debt from college and student loans.	NA	49
Having enough money for a down payment and closing costs.	49	45
Having enough confidence in their job security.	44	39
Banks making it too hard to qualify for a home mortgage loan.	39	37
Having enough confidence that they would be approved for a home mortgage.	33	30
Being able to find a home they like that they can afford.	30	29
Being concerned that the value of the home will decline after buying it.	36	25

National Association of REALTORS® Survey Data on Student Debt and Saving for Downpayment Among Successful Home Buyers:

- 12 percent of homebuyers found saving for a downpayment was the most difficult task in the home buying process; for first-time homebuyers, 23 percent found it the most difficult task
- Of those who had a hard time saving, 46 percent of home buyers and 57 percent of first-time buyers reported that student debt delayed saving for the purchase of a home [20]
- By generations, 22 percent of Gen Y and 15 percent of Gen X said saving for a downpayment was the most difficult task (Table 4)
- Of those who had a hard time saving 54 percent of Gen Y and 23 percent of Gen X reported student loans delayed saving for a downpayment[21]

Figure 13

EXPENSES THAT DELAYED SAVING FOR A DOWNPAYMENT OR SAVING FOR A HOME PURCHASE, BY FIRST-TIME AND REPEAT BUYERS

(Percent of Respondents Who Reported Saving for a Down Payment was Difficult)

	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:			
Student Loans	46%	57%	28%
Credit card debt	50	45	58
Car loan	38	42	32
Child care expenses	17	13	24
Health care costs	12	8	17
Other	8	5	14

[20] National Association of REALTORS®, Research Division, *2014 Profile of Home Buyers and Sellers*, November 2014.
[21] National Association of REALTORS®, Research Division, *2015 Home Buyer and Seller Generational Trends*, March 2015.

Figure 14

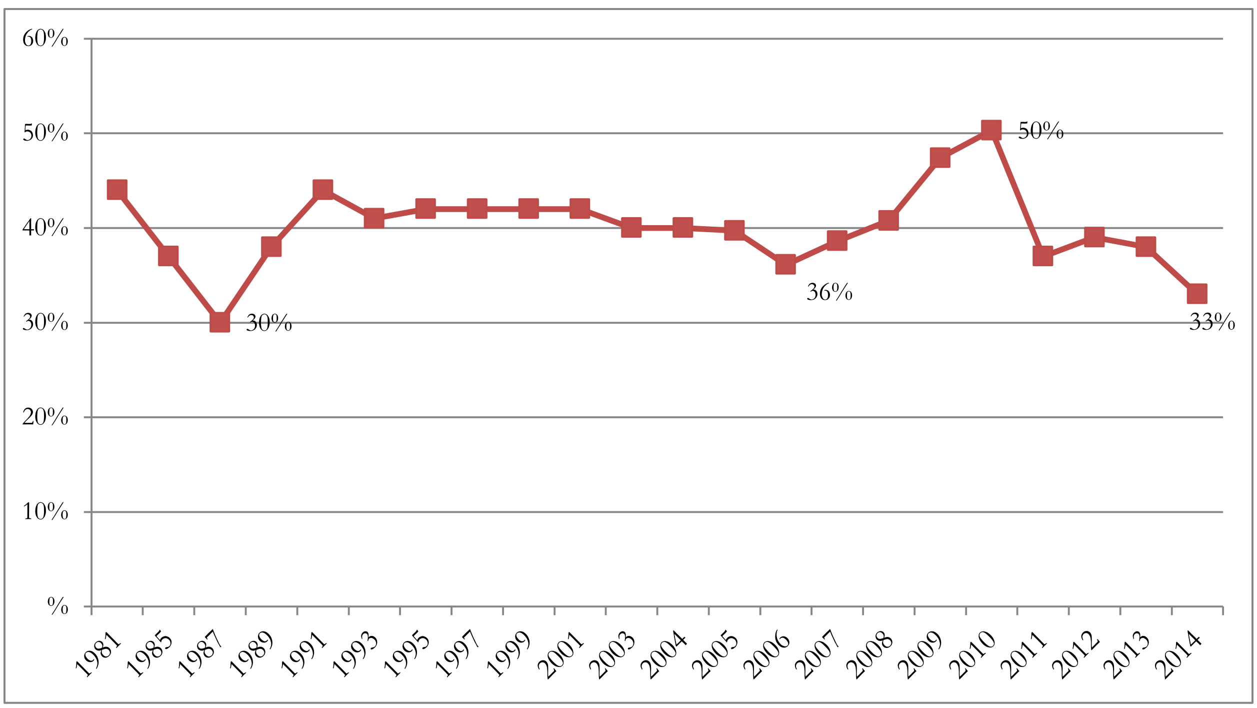
EXPENSES THAT DELAYED SAVING FOR A DOWNPAYMENT OR SAVING FOR A HOME PURCHASE, BY AGE
(Percent of Respondents Who Reported Saving for a Down Payment was Difficult)

		AGE OF HOME BUYER				
	All Buyers	34 and younger	35 to 49	50 to 59	60 to 68	69 to 89
Share Saving for Downpayment was Most Difficult Task in Buying Process:	12%	22%	15%	5%	3%	1%
Debt that Delayed Saving:						
Student Loans	46%	54%	23%	11%	7%	1%
Credit card debt	50	35	41	37	21	12
Car loan	38	30	25	16	9	5
Child care expenses	17	10	19	5	4	2
Health care costs	12	7	11	14	13	15
Other	8	15	24	42	58	68

<u>"Profile of Home Buyers and Sellers" Report from National Association of REALTORS</u>

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

Figure 15



"Student Loan Debt and Young Consumers' Housing Choices" Report from Federal Reserve Bank of New York[22]

- Home Ownership, Data based on: FRBNY Consumer Credit Panel—representative sample of consumer credit data that New York Federal Reserve acquired from Equifax
- 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.

"Student Loans and Homeownership Trends" Report from Federal Reserve Bank of New York[23]

- 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

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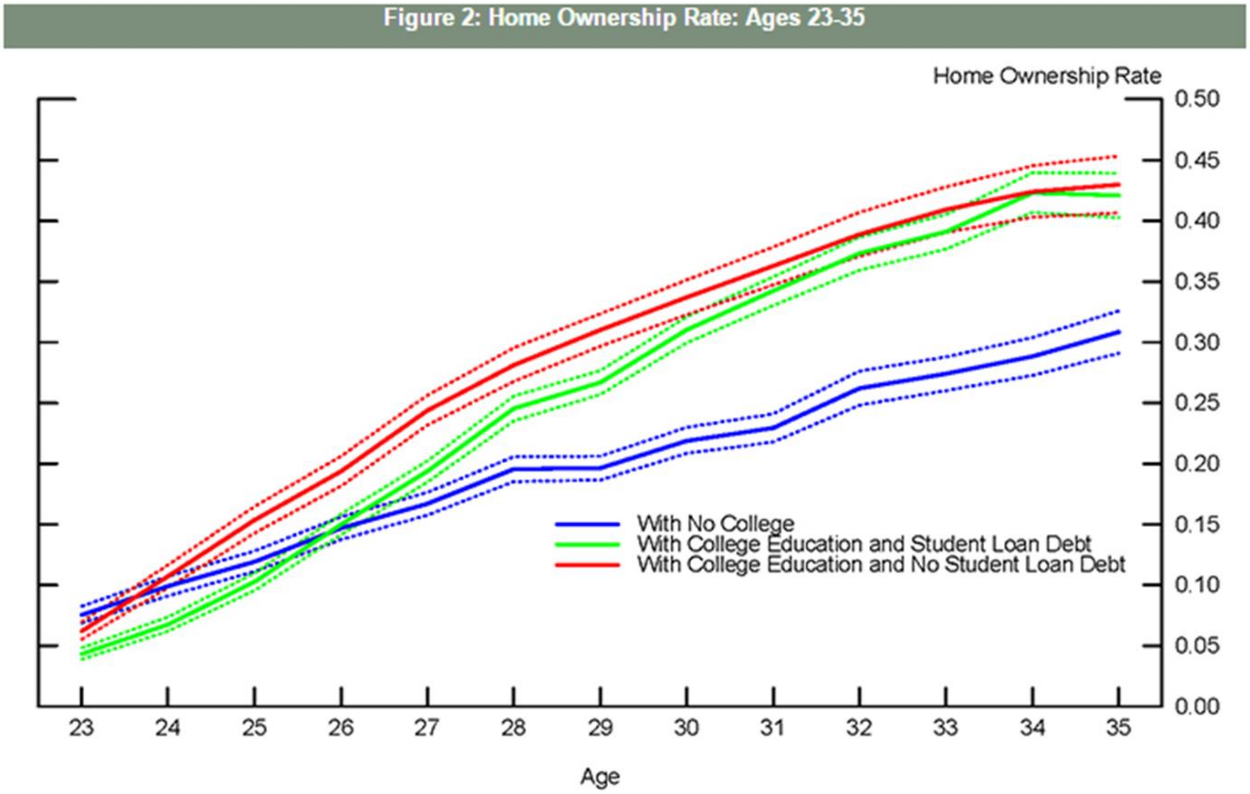
[22] "Student Loan Debt and Young Consumers' Housing Choices" Report from Federal Reserve Bank of New York
http://www.urban.org/events/upload/Bleemer_Brown_Lee_vanderKlaauw_LivingwithParents.pdf

[23] "Student Loans and Homeownership Trends" Report from Federal Reserve Bank of New York
http://www.federalreserve.gov/econresdata/notes/feds-notes/2014/student-loans-and-homeownership-trends-20141015.html

Figure 16



Borrower level information QM, and Millennials:

- 2012 was the first year that the homeownership rate for 30 years old with student loan debt dropped below the homeownership rate for 30 years olds without student loan debt. [24]
- The qualified mortgage (QM) rule and ability to repay (ATR) rules were implemented in January of 2014. They are only two of several rules that came from the Dodd–Frank Wall Street Reform and Consumer Protection Act that will impact the housing market.
- The ATR rule is intended to protect consumers through stronger underwriting standards by requiring full documentation of income, assets, employment and the ability to repay for all mortgages.
- The features of these safer QM loans include a maximum of 3% for points and fees, a cap of 43% on the back-end debt-to-income ratio, and limitations on the type of mortgage products that qualify and prepayment penalties among other requirements. [25]
- The implication for millennials is that a home purchase may be pushed back and borrowing ability is adversely affected. Assuming that this group's income grows at 5% per year, they will

[24] FRBNY, May 2014, "Just Released: Young Student Loan Borrowers Remained on the Sidelines of the Housing Market in 2013"**http://libertystreeteconomics.newyorkfed.org/2014/05/just-released-young-student-loan-borrowers-remained-on-the-sidelines-of-the-housing-market-in-2013.html#.U3wTBvldUWI**

[25] National Association of REALTORS®, Research Division, February, 2014. Economists Outlook Blog, "QM Rule Opens the Door for Many" http://economistsoutlook.blogs.realtor.org/2014/02/20/qm-rule-opens-the-door-for-many/

meet the 43% DTI in seven years. With an average student debt of $21,402, their current borrowing ability declines by the same amount. [26] (Figure 13, 14)

Figure 17

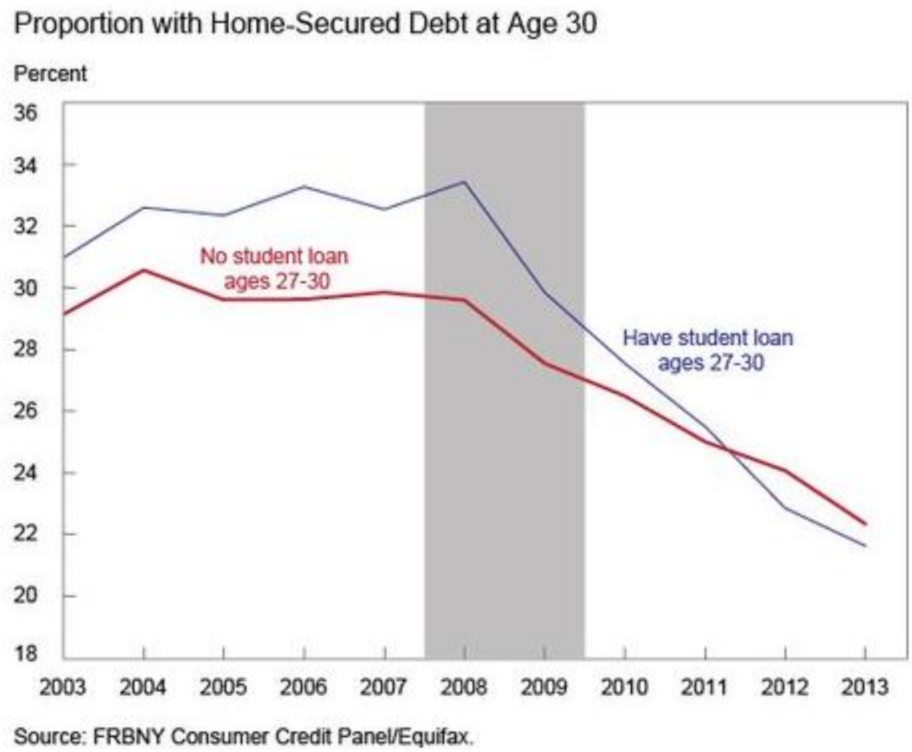
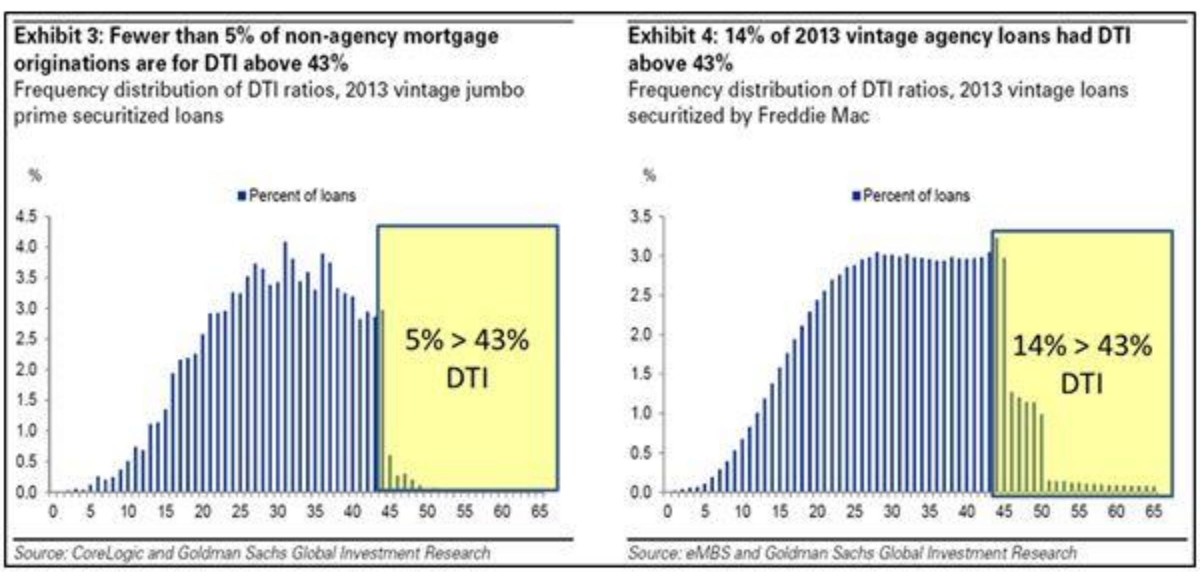


Figure 18



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[26] National Association of REALTORS®, Research Division, February, 2014. Economists Outlook Blog, "Prospect of Homeownership for Millennials" http://economistsoutlook.blogs.realtor.org/2014/02/13/prospect-of-homeownership-for-millennials/

Figure 19

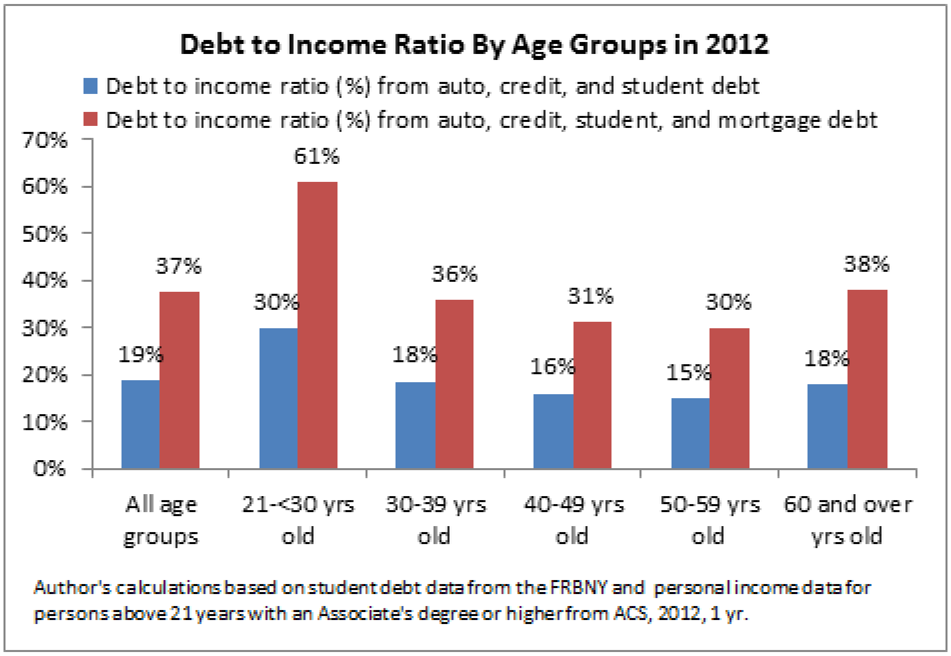
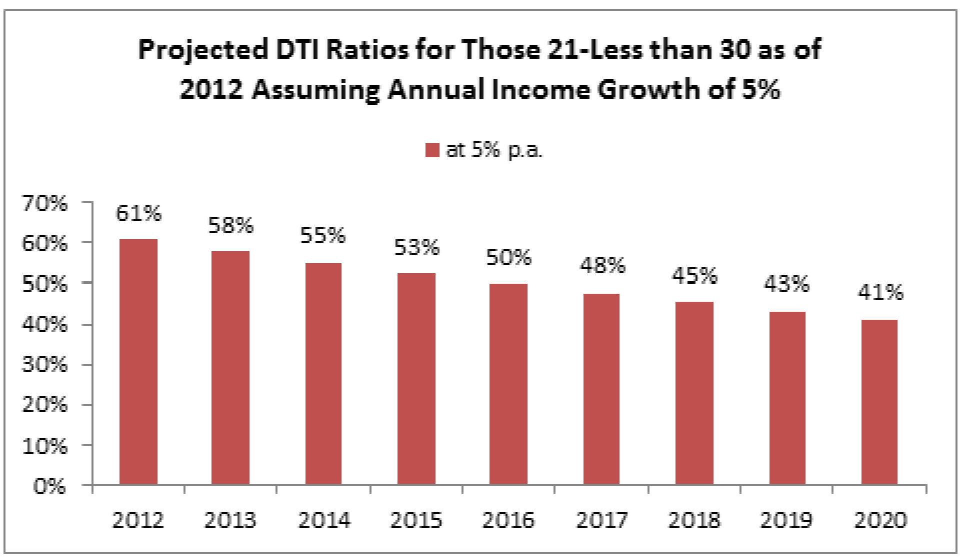


Figure 20



"Student Loan Debt and Economic Outcomes" Federal Reserve Bank of Boston[27]

- Overall, student debt lowers the likelihood of homeownership for a group of students who attended college during the 1990s. There is also a fairly strong negative correlation between student loan debt and wealth (excluding student loan debt) for a group of households with at least some college experience.

Figure 21

TABLE 1: Homeownership Rate by Age Group

	With Student Loan Debt	Without Student Loan Debt
	At Least Some College Experience	
Age 20-24	7.9%	17.3%
Age 25-29	28.7%	30.7%
Age 30-34	50.3%	52.7%
Age 35-39	65.2%	66.3%
	College Graduates Only	
Age 20-24	8.6%	9.1%
Age 25-29	32.6%	31.0%
Age 30-34	52.7%	59.9%
Age 35-39	71.9%	78.3%

Source: Authors' calculations using PSID data. Notes: Data on the presence or absence of student loan debt refer to 2011 and/or 2013. The top portion of the table is restricted to households where the head or spouse (or both) have at least some college experience. The bottom portion of the table is restricted to households where the head or spouse (or both) have a college degree or more.

"Student Loan Delinquency: A Big Problem Getting Worse?" Federal Reserve Bank of St. Louis[28]

- The delinquency rate decreased during 2011 and then increased sharply during 2012; since then it has remained quite stable at about 17 percent.
- Given the previous analysis, we conclude that the delinquency rates are high, but the evolution over the past 10 years seems less problematic.
- Researchers believe the way the delinquency rate is calculated is not accurate. As the number of borrowers who are not in repayment has declined.

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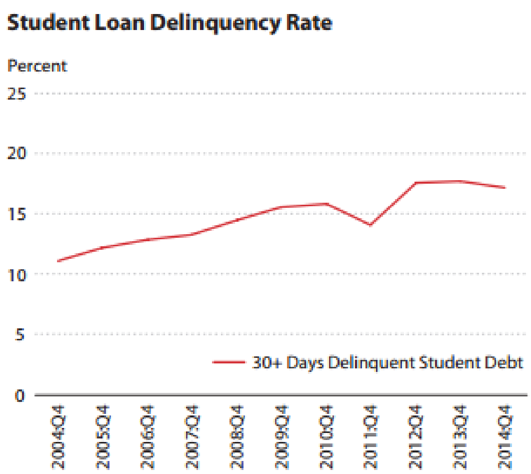
[27] "Student Loan Debt and Economic Outcomes" Federal Reserve Bank of Boston. http://www.bostonfed.org/economic/current-policy-perspectives/2014/cpp1407.htm October 2014.

[28] "Student Loan Delinquency: A Big Problem Getting Worse?" Federal Reserve Bank of St. Louis. http://research.stlouisfed.org/publications/es/article/10344 April 2015.

Figure 22

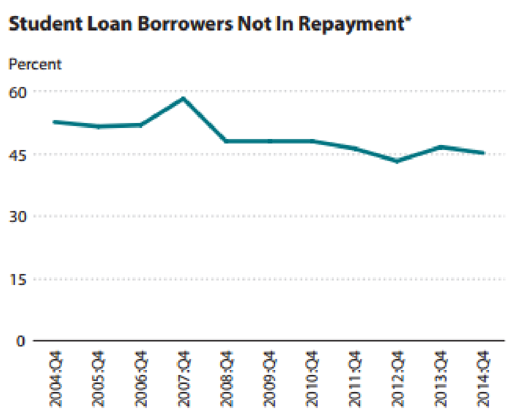


NOTE: The "30+ days delinquent" rate is calculated as

$$\frac{\text{No. of student loan borrowers with loans 30 or more days late}}{\text{No. of student loan borrowers}}.$$

SOURCE: Authors' calculations using data from Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Figure 23



NOTE: The "Not in repayment" rate is calculated as

$$\frac{\text{No. of student loan borrowers not in repayment}}{\text{No. of student loan borrowers}}.$$

SOURCE: Authors' calculations using data from Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

*Defined as a borrower with a balance in period t equal to or larger than the balance in the prior period ($t-1$) and a past-due amount in period t of zero.

Useful Data Sources and Sites:

National Association of REALTORS® Reports and Blog Posts:
http://economistsoutlook.blogs.realtor.org/2014/02/20/qm-rule-opens-the-door-for-many/
http://economistsoutlook.blogs.realtor.org/2014/02/13/prospect-of-homeownership-for-millennials/
http://www.realtor.org/reports/home-buyer-and-seller-generational-trends
http://www.realtor.org/reports/highlights-from-the-2013-profile-of-home-buyers-and-sellers
http://www.realtor.org/sites/default/files/reports/2013/housing-pulse-survey-executive-summary-2013-07.pdf

FRBNY Consumer Credit Panel Data on Household Debt and Credit:
http://www.newyorkfed.org/studentloandebt/
http://www.newyorkfed.org/microeconomics/data.html
http://libertystreeteconomics.newyorkfed.org/2014/05/just-released-young-student-loan-borrowers-remained-on-the-sidelines-of-the-housing-market-in-2013.html
http://www.newyorkfed.org/householdcredit/

Federal Student Aid Office of the U.S. Department of Education:
http://studentaid.ed.gov/types/loans/interest-rates
http://www.direct.ed.gov/student.html
http://studentaid.ed.gov/data-center
http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html

The College Board. Trends in Student Aid, 2013:
http://trends.collegeboard.org/student-aid

The Institute for College Access and Success "Student Debt and the Class of 2013":
http://projectonstudentdebt.org/files/pub/classof2013.pdf

The Council of Graduate Schools and TIAA-CREFF Collaborate to Create GradSense:
http://www.cgsnet.org/addressing-student-loan-debt-crisis-new-web-tool-helps-students-better-plan-their-financial-futures

State by State Data:
http://projectonstudentdebt.org/state_by_state-data.php

Pew Study:
http://www.pewsocialtrends.org/2012/09/26/a-record-one-in-five-households-now-owe-student-loan-debt/

Redfin Monthly Survey:
http://www.redfin.com/research/reports/special-reports/2014/higher-education-or-a-house-can-young-americans-have-both.html#.UxCllq2YaUl

Provide a Safe and Affordable Path to Homeownership for American Families

Congressional Action Needed:

Congress needs to ensure that qualified borrowers have access to safe and affordable mortgage financing, that the 30-year fixed-rate mortgage be preserved, and that federal mortgage programs providing American families nationwide a path to homeownership be safeguarded.

Congressional Actions To Date:

- No legislation has been introduced in the 114th Congress that would significantly reform or change the structure of the Federal Housing Administration (FHA) mortgage insurance program. However, many in Congress remain concerned that FHA has not met its required excess reserves level, and would like to limit FHA to first-time/low income borrowers.
- Several members of Congress have proposed legislation to reform the secondary mortgage market. Though details on the ultimate impact on consumers' costs need to be examined, these bills attempt to protect the affordable 30-year fixed-rate mortgage, shield taxpayers from bailouts, and ensure the availability of mortgage capital in all markets and under all economic conditions.
- Last year, the PATH Act would have removed the government guarantee from the secondary mortgage market, thus jeopardizing the 30-year fixed-rate mortgage. It would have also dramatically restricted the mission of the FHA mortgage insurance program. Similar legislation may be introduced in this Congress.

What To Tell Your Representatives And Senators:

- FHA remains an important resource in mortgage markets nationwide. FHA continues to fulfill its mission of serving those who are not served by the private market. Many qualified credit-worthy borrowers remain shut out of the private mortgage market, either due to high mortgage costs or unnecessarily high credit standards.
- NAR strongly believes that reform of the nation's housing finance system is required, as the current conservatorship of Fannie Mae and Freddie Mac is unsustainable. However, reform must create a viable replacement for the entities and include a government guarantee to ensure that qualified borrowers can access affordable mortgages.

Issue Background:

While mortgage markets are improving, access to safe, affordable credit remains very tight. Millions of creditworthy families remain unable to obtain their part of the American dream.

FHA Was a Critical Factor That Helped Move the Nation Out of the Great Recession

- During the crisis, FHA was one of the primary sources of mortgage financing available to American families.
- FHA helped stabilize housing prices in thousands of communities by providing access to home financing when few others would.
- FHA has been a leader in providing low-downpayment, safe, affordable mortgages for qualified buyers.
- Changing its mission would have a very negative impact in nearly every real estate market nationwide.

Housing Finance Reform is Critical to Moving Forward

- The government's support of Fannie Mae and Freddie Mac has played a key role in the secondary mortgage market, which is crucial in providing capital for mortgage lending.
- Without a secondary market and FHA-insured loans, which currently constitute nearly 83 percent of the market, there would be almost no capital available for mortgage lending.
- It is imperative that the private mortgage market has a viable replacement and a sufficient transition period before the existing secondary market is eliminated. Without a secondary market, home sales and any supporting ancillary home sales services would be severely restricted, if not curtailed.

Opposing Viewpoints:

- Critics argue that Fannie Mae's, Freddie Mac's, and FHA's prominence in the market have pushed private investors out of the market, leaving the federal government as the sole source of mortgage financing. In response, supporters argue that the private market is not meeting the needs of borrowers.
- These critics maintain that the mission and role of FHA should be strictly limited to lower income and first-time homebuyer households. Lastly, critics argue that FHA's downpayment requirements are too low and should be risk-based to protect taxpayers. Supporters say that strong underwriting and ability to pay are the most important considerations.
- Opponents believe the government should not be involved in the mortgage market. Rather, they believe free market competition will provide better pricing and access to credit for consumers and businesses. However, supporters say that without a government guarantee, the 30-year fixed-rate mortgage will not be available.

NAR Issue Summary

Conventional Residential Lending / Government - Sponsored Enterprises

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

On September 7, 2008, the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac (the government sponsored enterprises, or GSEs) into conservatorship. FHFA explained it took this action "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." Over the last several years, Congress has focused its conversation on how the GSEs found themselves in their current predicament. In the 113th Congress, two significant pieces of legislation were introduced in the House and Senate – "The Protecting American Taxpayers and Homeowners (PATH) Act" (H.R 2767) and "The Housing Finance Reform and American Protection Act" (S. 1217). Neither bill successfully made it to the floor for consideration by either the full House or Senate.

I am a real estate professional. What does this mean for my business?

Fannie Mae and Freddie Mac play a key role in the secondary mortgage market, which is crucial in providing capital for mortgage lending. During the housing finance sector's collapse, private capital withdrew from having a significant, competing role with the GSEs. Without the government's support of the GSEs and FHA-insured loans, which currently constitute nearly 90% of the market space, there would be almost no capital available for mortgage lending. This would severely restrict, if not curtail, home sales and any supporting ancillary home sales services.

NAR Policy:

NAR believes that Fannie Mae and Freddie Mac should be replaced by a non-shareholder owned authority(s) that is subject to tighter regulations on product, revenue generation and usage, and retained portfolio practices in a way that ensures the mission of the GSEs continues to meet the needs of consumers and that the taxpayer is protected. Moreover, NAR recommends that the entity(s) be managed in such a way as to encourage private capital's participation in the secondary mortgage market.

Opposition Arguments:

Opponents of NAR policy believe the government should not be involved in the mortgage market. Rather, they believe free market competition will provide better pricing and access to credit for consumers and businesses.

Legislative/Regulatory Status/Outlook

Several housing finance reform bills are expected to be introduced during the 114th Congress; however, it remains unlikely that any reform of the secondary mortgage market will be signed into law this year.

NAR Issue Summary

Conventional Residential Lending / Government - Sponsored Enterprises

Housing Finance Reform Legislative Timeline

On August 6, 2013, President Obama outlined key principles of comprehensive housing finance reform. These principles closely mirror the outline presented by NAR to the administration in early 2011. The President's plan is centered on four core principles for reform:

1. ensure a limited government role, which encourages a return of private capital;
2. a privatized system with a federal catastrophic reinsurance if private capital proved to be insufficient;
3. preserve widespread access to safe and responsible mortgages like the 30-year fixed rate mortgage; and
4. protect the American dream of affordable homeownership for all qualifying borrowers in every community.

NAR believes these principles will contribute to the long-term stability of our nation's housing market and provide consumers with access to affordable mortgage credit, even during economic downturns. However, NAR has serious concerns with other aspects of the Administration's proposal. Specifically, the Administration favors lower FHA loan limits, which the Obama Administration believes are appropriate changes to give sufficient incentive for the private sector to resume making mortgages without FHA or GSE involvement.

After the release of the Obama Administration's housing finance reform report, Congress began serious discussions regarding the future of the GSEs, as well as the need for overall reform of the U.S. housing finance system. In the 113th Congress, the Senate Banking Committee and the House Financial Services Committee held several hearings on housing finance reform, and both Committees have passed their versions of housing finance reform legislation.

U.S. House Legislation: "The Path Act"

On July 24, 2013, the House Financial Services Committee passed H.R 2767, "The Protecting American Taxpayers and Homeowners (PATH) Act", introduced by Rep Garrett (R-NJ). NAR opposes this legislation, which includes reforms to FHA, the GSEs, and the financial regulatory law known as the Dodd-Frank Act. NAR opposed the bill based on two major concerns: 1) We strongly opposed the end of federal guarantee for a secondary mortgage market; and 2) we strongly opposed the dramatic restructuring and targeting of FHA.

The bill winds down Freddie Mac and Fannie Mae over a five-year period. It would create a new Utility to promote the securitization of mortgages. However, the bill does not provide for a federal guarantee for the Utility.

NAR sent a letter to the Full Committee opposing the bill and asking for a no vote. The bill did not reach the House floor during the previous Congress.

U.S. Senate Legislation: "The Housing Finance Reform and American Protection Act of 2013"

On June 25, 2013, Senators Bob Corker (R-TN) and Mark Warner (D-VA) introduced "The Housing Finance Reform and American Protection Act of 2013" that would also phase out Fannie Mae and Freddie Mac. But, unlike the House bill, the federal government would remain as an insurer of last resort, much like the FDIC is the insurer of last resort for troubled banks. NAR has long called for replacing Fannie Mae and Freddie Mac while ensuring continued mortgage market liquidity through the maintenance of an explicit federal presence in the market. On that basis, the Senate approach is the better starting point of the two.

The bill was the subject of hearings but was not taken up for a vote.

Johnson-Crapo Legislation
On May 15, 2014, the Senate Banking Committee passed S. 1217, the "Housing Finance Reform and Taxpayer Protection Act of 2014," to overhaul the secondary housing finance market. The bill built on S. 1217 by including bipartisan changes drafted by Senate Banking Chairman Tim Johnson (D-SD) and Ranking Member Mike Crapo (R-ID). Commonly referred to as the Johnson-Crapo bill, the legislation expanded on the bill released by Bob Corker (R-TN) and Mark Warner (D-VA) that would wind down Fannie Mae and Freddie Mac and replace them with a new agency, known as the Federal Mortgage Insurance Corporation (FMIC). The bill did not advance to the Senate floor for consideration by the full Senate.

NAR continues to support the Congressional discussion and legislative process for GSE reform. The Johnson-Crapo legislation contained many positive aspects such as an explicit government guarantee, continuing HERA conforming loan limits, and a lower down payment for first-time homebuyers; however, NAR remains concerned with the potential impact on overall mortgage costs for consumers under this bill. NAR continues to be proactive in ongoing discussions and remains supportive of efforts to improve and further the process of GSE reform while ensuring that qualified borrowers have access to mortgage credit.

Current Legislation/Regulation (bill number or regulation)

No bills have been introduced yet in the 114th Congress.

Legislative Contact(s):

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Regulatory Contact(s):

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Johnson-Crapo Work Group 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.

NATIONAL ASSOCIATION of REALTORS®

Steve Brown, AB, CIPS, CRS, GREEN
2014 President

Dale A. Stinton
Chief Executive Officer

GOVERNMENT AFFAIRS DIVISION
Jerry Giovaniello, Senior Vice President
Gary Weaver, Vice President
Joe Ventrone, Vice President
Scott Reiter, Vice President
Jamie Gregory, Deputy Chief Lobbyist

Tuesday, April 29, 2014

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing, & Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing, & Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Crapo:

On behalf of the one million members of the National Association of REALTORS®, thank you for scheduling today's markup of the Housing Finance Reform and Taxpayer Protection Act of 2014.

We firmly believe that the status of the secondary mortgage market needs to be resolved in order to ensure that affordable mortgages are available to consumers and provide certainty in the functioning of our nation's mortgage finance system. We commend the Chairman and Ranking Member for their efforts to further the process of resolving the conservatorship of Fannie Mae and Freddie Mac.

NAR believes the Johnson-Crapo legislation contains many positive aspects such as an explicit government guarantee, which should ensure the availability of long term, fixed-rate mortgage products like the 30 year fixed-rate mortgage. The legislation also continues HERA conforming loan limits, and provides a lower down payment for first-time homebuyers. We understand the Committee is also working to address issues such as vertical integration, affordable housing and FMIC's regulatory authority.

This is a significant step forward in the housing finance reform discussion. However, NAR is concerned with the potential impact of this legislation on overall mortgage costs for consumers. Thus far, there is inconclusive evidence demonstrating the impact on mortgage prices for creditworthy borrowers at all levels. Therefore, we believe this issue needs further examination to accurately understand the effect this legislation may have on the U.S. housing market. We will continue to evaluate and work with you on this issue.

We commend the Senate Banking Committee for taking on the important and complex task of revamping the secondary mortgage finance system. The debate on housing finance reform must continue to advance. We look forward to participating in this important discussion.

Sincerely,

Steve Brown

Steve Brown
2014 President, National Association of REALTORS®

cc: Members of the Committee on Banking, Housing, & Urban Affairs

NAR Analysis of Johnson-Crapo Housing Finance Reform Legislation:
"Housing Finance Reform and Taxpayer Protection Act of 2014"

Section 2 – Definitions
The legislation would require borrowers to have at least 5% down payment. First-time homebuyers would be allowed to purchase with at least 3.5% minimum down payment.

NAR: It has been NAR's belief that the down payment amount should not be set in statutory language. The amount of the down payment by itself is not a predictor that a homeowner may run into trouble. Research has demonstrated that many factors contribute to loan performance. Having a hard and fast number for how much skin-in-the-game an individual needs to have, could preclude creditworthy borrowers who have an issue saving the required amount, from owning a home they could otherwise afford. However it should be noted that this legislation allows for a lower down payment amount of 3.5% for first time homebuyers, which is the only housing finance reform legislation to do so to date.

Additionally, the legislation gives authority to the FMIC to determine the definition of a first-time homebuyer. We believe this section should be amended to specify the definition of a first-time homebuyer that is identical to the definition used by the government when it administered the First-Time Homebuyer Tax Credit. The First-Time Homebuyer Tax Credit defined a first-time homebuyer as individuals/families that have not owned a home in 3 years.

TITLE I – ELIMINATION OF FANNIE MAE AND FREDDIE MAC

Sections 101 & 604 (Title VI) – Wind down; Elimination of Fannie Mae and Freddie Mac
These sections require the FMIC to wind down and repeal the charters of Fannie Mae and Freddie Mac. This process would take place over 5 years, at the end of which FMIC would be required to have met several benchmarks, including setting up a new and functioning securitization platform as well as approving a sufficient number of guarantors, aggregators, and private mortgage insurers. The legislation provides for additional time to meet the criteria under certain exceptional circumstances, though extensions would be subject to heightened approval standards.

NAR: The proposal appears to have a number of safeguards in place to ensure a smooth transition to a new secondary mortgage market system. Should a 5 year transition period not be sufficient, as NAR has suggested, the legislation allows for additional extensions, which should enable a smooth transition.

TITLE II – FEDERAL MORTGAGE INSURANCE CORPORATION

Sections 202 – 210
This section establishes the Federal Mortgage Insurance Corporation (FMIC), which is charged with overseeing the mortgage finance market while also being tasked with insuring "covered" or approved mortgage-backed securities. The FMIC is also required to facilitate the broad availability of mortgage loan credit and secondary market financing at all times.

Management
FMIC will be managed by an independent bipartisan board of directors. 5 members will be appointed by the President and confirmed by the Senate. The President will also appoint a Chairperson and Vice Chairperson. No more than 3 board members may be from the same political party.

Advisory Committee
A 9 member advisory committee will be created to provide a mechanism for stakeholders to provide input to, and consult with, the Board of Directors and the Office of Consumer and Market Access on developments in

mortgage markets and their interaction with the ongoing mission of the FMIC. The Chairperson of FMIC will appoint members from both business and consumer fields.

Offices
FMIC will be required to create the following entities: Office of Underwriting, Office of Securitization, Office of Federal Home Loan Bank Supervision, Office of Multifamily Housing, and Office of Consumer and Market Access.

NAR: It appears the structure and mission of the FMIC will help to ensure that mortgage capital continues to be affordable and available to creditworthy borrowers. However, the FMIC does have significant authority under the plan to examine participants in the new system. Many of these companies would be large U.S. banks that are already overseen by other regulators, but smaller banks could face FMIC inspections as well. The idea of new examiner teams at banks/companies would add another regulatory layer, which could result in higher mortgage costs for consumers.

Additionally, we have heard concerns that the FMIC may consolidate the secondary mortgage market into large financial institutions. Specifically, the legislation allows for a single firm to write mortgages, package these securities, and insure the bond that would receive the government guarantee, all while pocketing profits – and risks – from each role.

TITLE III – DUTIES AND RESPONSIBILITES OF THE FMIC

Sections 302 and 305 – Standard for credit risk-sharing mechanisms
This section requires a 10% first-loss position for private firms to participate in the new securitization platform. However, the bill leaves open the possibility for the 10% to be satisfied through a bond guarantor structure or through other types of capital markets executions, which would have to be approved by the FMIC.

The bill also states that if the FMIC, Federal Reserve and Treasury, in consultation with the Department of Housing and Urban Development (HUD), determine that unusual and exigent circumstances threaten mortgage credit availability, the FMIC may provide insurance on covered securities that do not meet the standard credit risk sharing requirements including those for first-loss position of private market holders. The FMIC may exercise these authorities for an initial 6 month period and up to two additional 9 month periods within any given 3-year period.

NAR: While this flexibility may be crucial for helping attract enough private capital into the market to support the new system, the investor first-loss position costs will likely be passed onto consumers, which could raise the cost of mortgages.

Section 303 – Insurance; Mortgage Insurance Fund
This section requires the FMIC to create a Mortgage Insurance Fund (MIF), which will provide funds for any claims on FMIC-backed securities. MIF would be initially capitalized through assessments charged to Fannie Mae and Freddie Mac, but later the cost would be shifted to private market participants once Fannie Mae and Freddie Mac are wound down. MIF's reserves would start out at 1.25% of the unpaid principle balance on covered securities, but that ratio would rise to 2.5% within 10 years.

NAR: The MIF's capital requirements appear to be sufficient to guard against any losses within the new secondary mortgage market. However, we believe more information is needed regarding what private market participants will pay to keep MIF well-capitalized and what the impact would be on mortgage costs for borrowers when combined with the 10% capital fee.

Section 304 – Loan Limits; Housing Price Index
This section mirrors loan limit language set by HERA, which allows for limits to rise as high as $625,500 in high cost markets. However, the legislation requires the FMIC to annually adjust these limits based on changes to housing prices in different geographic areas. Additionally, the bill modifies the current Housing Price Index to also take into consideration the averages based on different geographic regions and an average for houses whose mortgage collateralized single-family covered securities. Finally, the legislation specifies that the FMIC may not reduce the loan limits.

NAR: We support all of the provisions in this section; however, more information is needed on how the modifications to the Housing Price Index will impact loan limits.

Section 311 – Approval and Supervision of Guarantors
Guarantors will be required to hold 10% capital to protect against losses. This 10% capital requirement will be phased in over 10 years after the date on which the GSEs are prohibited from engaging in new business. Also, guarantors with more than $10 billion in assets will be subject to stress testing.

NAR: We have concerns with language in this section requiring bond guarantors to maintain at least 10% of the unpaid principle balance of outstanding MBS for which the bond guarantor is providing insurance. This section should be adjusted for bond guarantors that insure only a portion of the MBS. For example, if a guarantor insures 10% of the security, the guarantor should only maintain capital to cover that 10% and not the remainder of the outstanding MBS balance. Otherwise, the bond guarantor market will be dominated by a few large financial institutions, which will drive up lending costs for consumers.

Section 313 – Approval of supervision of aggregators
This section authorizes Federal Home Loan Banks to form a subsidiary that can act as an approved loan aggregator. Approved aggregators with assets over $10 billion will be subject to stress tests.

NAR: We support the authorization of the Federal Home Loan Banks to participate as aggregators. These institutions have a proven aggregation track record and will provide the new housing finance system with more competition.

Section 315 – Authority to establish and approve small lender mutual
This section calls for the creation of a member-owned small-lender cooperative. Membership will be limited to insured depository institutions with less than $500 billion in total assets, non-depository institutions with assets that exceed $2.5 million that originate $100 billion in loans annually, Federal Home Loan Banks, as well as other small lenders that satisfy the membership requirements established by the mutual.

NAR: Ensuring that local, small community lenders and credit unions have access to mortgage capital is a priority of REALTORS®. Many consumers utilize these financial institutions to originate and refinance mortgages, specifically, those in less urban areas. Moreover, the existence of these smaller institutions ensures competitive pricing that positively impacts the consumer.

Under this legislation, we believe small lenders will have multiple access points to the secondary market, including the option to sell individual loans through a mutual. This would provide small lenders direct access to the secondary mortgage market outside of direct competition with larger competitors. The mutual will provide members with a cash window in which to sell individual eligible mortgages, pooling, aggregation and securitization services; and assistance in retaining servicing rights.

Sections 321 – 327: Establishment of the Securitization Platform
This section requires a new securitization platform for the secondary mortgage market that would establish a universal standard for the types of securities guaranteed by the FMIC, with an emphasis on assets made up of 30-year, fixed rate mortgages. The new platform would operate as a cooperative owned by its members and

regulated by the FMIC. Initially, the FMIC will create a 5 person board made up of platform members. After initial terms of board members have expired, subsequent boards will be comprised of 9 elected directors representing members of the platform. At least one director must represent the interest of small mortgage lenders, and another will be an independent director.

This section also permits Platform Directors to assess and collect fees to operate the Platform, including an initial fee for membership and a uniform usage fee based on a member's usage of services as measured by the total principal balance of the loans or MBS issued by or through the Platform. The Platform is also required to develop the ability to issue standardized securities for single-family covered securities within 2 years following the election of the Platform Directors.

NAR: The new Platform appears to be capable of supporting a robust secondary mortgage market. However, we would like more information on the specific fees incurred by participants who will use the Platform. These fees ultimately impact the pricing of mortgages for consumers. Additionally, more information is needed regarding the costs of various fees imposed by the FMIC on market participants and how these fees will compare with the current guarantee fees charged by both Fannie Mae and Freddie Mac.

Section 335 – Multiple lender issues
This section requires that the holder of an eligible mortgage must be notified before a subsequent lien can be enforced if the combined LTV will be greater than 80%.

NAR: Among other things, we have concerns that this provision will create significant problems relating to the ability of homeowners in accessing their home equity.

TITLES IV & V – FHFA AND FMIC TRANSITION; IMPROVING TRANSPARENCY, ACCOUNTABILITY, AND EFFICACY WITHIN AFFORDABLE HOUSING

Section 402 – 407: FHFA Transition
Six months after enactment, the legislation would transfer power to the FMIC from the Federal Housing Finance Agency (FHFA), which currently oversees Fannie Mae and Freddie Mac. At that point the FHFA would become an independent office within the FMIC.

NAR: More information is needed regarding the role FHFA will play within the housing market.

Sections 408 and 501 – 505: Repeal of mandatory housing goals; Affordable housing allocations
Upon enactment, affordable housing goals currently required by the GSEs would be abolished. While the legislation would repeal past affordable housing goals, it would create a new Office of Consumer and Market Access (OCMA) within the FMIC. The OCMA would administer a new "Market Access Fund" while monitoring the needs of underserved markets and consumers.

Loan aggregators and guarantors would be required to file annual assessments, attesting to their efforts to close any gaps. Also, while being blocked from "influencing" mortgage loans purchased or guaranteed by eligible entities, in order to fulfill its own obligation to ensure equitable access to financing, the FMIC would be given authority to charge companies with a limited to zero presence in underserved markets and as much as a 10 basis point higher guarantee fee. Additionally, the incentive-based fee structure would also support the Housing Trust Fund and Capital Magnet Fund.

Moreover, the legislation amends the Housing Trust Fund to require a set-aside for federally-recognized tribes, which will be administered through a grant process by HUD. It also establishes a new requirement that the Capital Magnet Fund consider tribal housing needs.

NAR: NAR supported the formation of the Housing Trust Fund when it was passed as part of the HERA Act. Some believe the new incentive fee structure for 3 different affordable housing funds, including the Housing Trust Fund, will be more than sufficient to ensure underserved communities have access to affordable housing. Conversely, others contend that money from a 10 basis point MBS fee, feeding the HERA-created Housing Trust Fund and Capital Magnet Fund, as well as the new Market Access Fund should not be a replacement, but an addition to the former incentives and responsibilities, no matter what form those responsibilities are reconstituted.

While we are supportive of the 3 affordable housing funds in the legislation, some critics are concerned that the incentive based fees would not adequately fulfilled the needs of underserved areas.

TITLE VI – TRANSITION AND TERMINATION OF FANNIE MAE AND FREDDIE MAC

Section 601 – Minimum housing finance system criteria to be met prior to system certification date
Fannie Mae and Freddie Mac are prohibited from engaging in new business when the FMIC Board of Directors certifies that FMIC is able to undertake all of its duties as well as meet the following criteria:

- The Department of Treasury has advised the Board that laws and contracts are in place to provide for compensation to the Department
- Securitization Platform is functional
- At least one small lender mutual is operational
- A sufficient number of approved guarantors, aggregators, private mortgage insurers, and servicers exist to assume first loss position and generate a substantial volume of secondary mortgage market activity
- Multiple approved multifamily guarantors exist and provide sufficient multifamily financing

The prohibition on the GSEs engaging in new business must be certified by the FMIC Board within 5 years of enactment. If the Board is unable to make this certification within 5 years, it may extend the deadline several times, through extensions with heightened approval standards.

NAR: There appears to be an adequate number of safeguards in place to ensure for a smooth transition. However, it is unclear what number regulators will accept as a "sufficient" number of approved market participants.

Section 602 – Transition of housing finance system
The Transition Committee must develop a comprehensive transition plan within 12 months of enactment to facilitate an orderly transition to the new housing finance system. Within 12 months of submission of the transition plan, and annually thereafter, the FMIC must update the transition plan for Congress.

The FMIC must consider the impact of various transition options with respect to housing prices and affordability, the effectiveness of consumer protections in the housing market, the volume and characteristics of mortgage loan originations, the condition of the rental housing market, small lender participation in the secondary mortgage market, access to credit in rural and underserved communities, competition among market participants, the condition of the multifamily housing market, innovation among secondary market participants, taxpayer repayment, and private capital in the secondary mortgage market.

NAR: We believe these provisions are necessary to ensure for a smooth transition.

Section 605 – GSE Portfolio reduction
Each enterprise is not permitted to own single-family mortgage loan assets in excess of 85% of the aggregate amount of the single-family mortgage loan assets that the enterprise was permitted to own as of December 31

of the immediately preceding calendar year. By the date on which the enterprises are prohibited from engaging in new business, the FMIC must establish an allowable amount of enterprise-owned single-family mortgage loan assets to facilitate the orderly wind down of the enterprises and appropriate loss mitigation on any legacy guarantees of the enterprises.

NAR: Although the GSE's portfolios will be eradicated, we believe the new securitization platform will provide specialty products, such as manufactured housing with sufficient liquidity.

Section 609 – GAO report on full privatization of secondary mortgage market
Within 8 years of enactment, the GAO is required to submit a report to Congress on the feasibility of transitioning to and creating a fully privatized secondary mortgage market, including recommendations, and conduct an assessment of the cost of mortgage credit and the impact on the economy if the secondary mortgage market is fully privatized.

Within 6 months of the date on which the GAO report is submitted, the FMIC is required to submit to Congress a description of the legislative, administrative, and regulatory actions necessary to implement the recommendations of the report.

NAR: We believe it is imperative that Congress receive timely information regarding the health of the residential and multifamily mortgage markets, especially during the transition into a new secondary market. We oppose a wind down of the FMIC without a government guarantee, which may result in higher costs and reduced access for mortgage products. Therefore, we recommend altering the GAO report to Congress to focus on the availability and affordability of mortgage capital for consumers across the country.

TITLE VII - MULTIFAMILY

Sections 701 – 707: Multifamily
The FMIC will approve multifamily guarantors to both guarantee the first-loss position on multifamily securities and issue securities for which they provide guarantees. The legislation provides that the successful mechanisms currently offered by Fannie Mae and Freddie Mac, the DUS and Series K products, can be used by approved multifamily guarantors in the new system. Approved multifamily guarantors will have 10% capital requirements standing before the public guarantee.

Each enterprise and approved multifamily guarantor must ensure that 60% of the rental housing units financed are affordable to low-income families (families with incomes at or below 80% of Area Median Income) at origination. The FMIC may suspend or adjust this requirement in the event of economic distress or adverse market conditions.

Smaller properties – those with less than 50 units – serve families in urban, suburban, and particularly rural areas. As important of a source of housing as these properties are, they often face barriers accessing the secondary market. The bipartisan draft establishes a pilot program in the FMIC's Office of Multifamily Housing to test and assess methods or products designed to increase secondary mortgage market access for small multifamily properties.

Recognizing the unique nature of the multifamily housing market, the draft creates an Office of Multifamily Housing within the FMIC to provide special focus on multifamily housing.

NAR: We believe the proposal allows the FMIC to continue financing multifamily loans for properties in much the same way Fannie Mae and Freddie Mac operate now.

TITLE VIII – GENERAL PROVISIONS

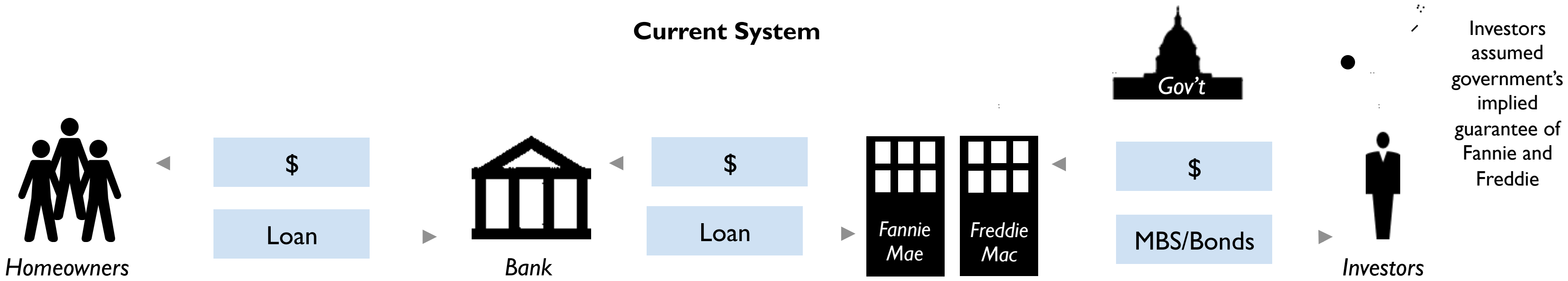
Section 803 – Transfer notification under TILA.
This section amends the Truth in Lending Act's (TILA) requirement to notify borrowers when the owner of their mortgage loan changes to also include a requirement to notify borrowers when the servicer of their mortgage loan changes.

TILA is also amended so that a borrower may not be charged a late fee if the borrower sent his or her monthly mortgage payment before the due date to the old servicer of his or her mortgage loan, so long as the payment was made within 60 days of the effective date for the transfer of the servicing rights for the borrower's mortgage.

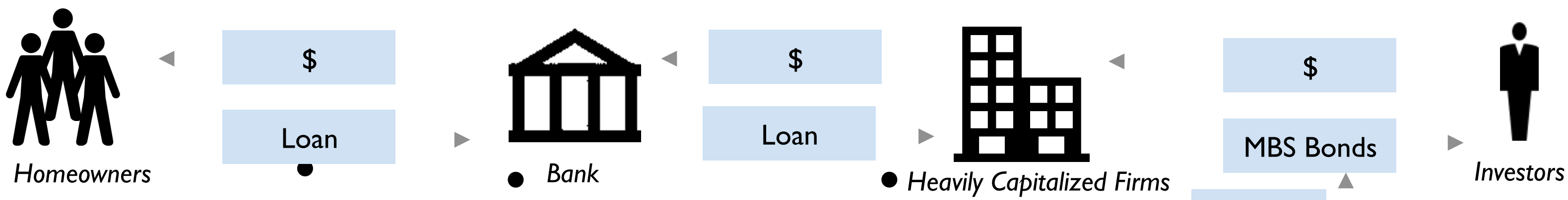
NAR: We believe this provision provides necessary protections for all borrowers.

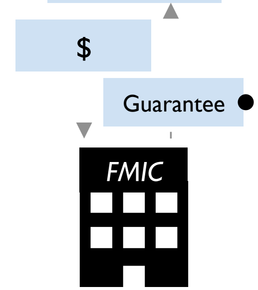
Senate Introduces Proposal to Reform Fannie and Freddie

Current System



Proposed Reforms to System





Proposal: Establishes requirements for loans that qualify for government backing that mirror the Consumer Financial Protection Bureau's "qualified mortgage" standards but include a 5% down payment (3.5% for first-time homebuyers)

Proposal: Creates separate "cash window," owned jointly by small banks, to fund new home loans to give smaller lenders access to financing

Proposal: Establishes platform owned jointly by lending members to package and sell standard mortgage bonds insured by FMIC and private securities

Proposal: Guarantees certain mortgages after private capital covers the first 10% of losses on new loans

Analysis

- In March 2014, Senate Banking Committee Chairman Tim Johnson (D-SD) and Mike Crapo (R-ID) released a bipartisan plan to wind down mortgage giants Fannie Mae and Freddie Mac and replace the entities with a Federal Mortgage Insurance Company (FMIC)
- The plan attempts to limit the government's role in the mortgage marketplace—a Republican priority—and protect access to affordable housing, a top concern of Democrats
- While it is unlikely the bill will be voted upon on the floor this year, the proposal serves as a catalyst to begin seriously considering repairing the housing market

Source: Jon Priot and Kevin Cirilli, "Senate Banking leaders reach housing finance deal," Politico, March 11, 2014; Nick Timiraos, "Plan for Mortgage Giants Takes Shape," Wall Street Journal, March 11, 2014.

Collateral Underwriter (CU) FAQs

Updated February 2015

Collateral Underwriter™ (CU™) is a proprietary appraisal risk assessment application developed by Fannie Mae to support proactive management of appraisal quality. CU is the latest addition to Fannie Mae's suite of risk management tools for lenders. Details and training schedules are provided on the CU web page. New/updated questions in this document since the previous version (December 1, 2014) are indicated by **New** or **Updated** .

Bookmark https://www.fanniemae.com/singlefamily/collateral-underwriter

Q1. **Updated** **How is CU feedback provided?**

CU feedback is available in two ways:

1) **Real-time feedback in UCDP:** Effective January 26, 2015, a CU risk score, flags, and messages are provided in real time after an appraisal is submitted to Fannie Mae through the Uniform Collateral Data Portal® (UCDP®). The CU risk score, flags, and messages are provided on the Fannie Mae tab and the UCDP Submission Summary Report. Any UCDP user that submits an appraisal to Fannie Mae has access to the CU risk score, flags, and messages.

2) **CU web-based user interface**: For in-depth appraisal analysis, the full CU application is available to Fannie Mae sellers via a web-based user interface (registration required).

Fannie Mae account teams are contacting lenders through a phased outreach approach to assist them with implementing the user interface, which is now available to approved Fannie Mae sellers. Approved sellers that want quicker access may reference the CU User Interface Registration Guide for self-service information.

NOTE: *It is critical that lenders obtain proper training for use of the CU feedback, whether obtained through UCDP or the user interface. Training is available 24/7 via eLearning courses posted on the CU web page and also described in the CU User Interface Registration Guide.*

Correspondents will have access to the web-based application later in 2015.

Other UCDP users that are not Fannie Mae sellers or correspondents – including appraisal management companies (AMCs) that have UCDP access as Lender Agents – can view the CU risk score, flags, and messages in UCDP but do not have access to the web-based application.

Q2. **Updated** **How should lenders use CU?**

Keep in mind that to take advantage of CU findings and incorporate it into the review process, lenders must submit appraisals to UCDP prior to appraisal review.

CU is a tool intended to assist lenders in underwriting appraisals. Here are some important points about using CU successfully:

- Understand the limitations of automated analysis and be aware of potential property or neighborhood nuances.

- CU is effectively predictive of appraisal defects, but there are false positives. Well-informed human judgment should take precedence over automated results.
- The expectation is not to utilize the full CU functionality and information available in the CU user interface on every appraisal.
- The various CU tools can be used to validate *or* dismiss potential red flags.
- Fannie Mae does not instruct or suggest to lenders that they ask the appraiser to address all or any of the 20 comparables that are provided by CU for most appraisals.
- Carefully review the appraisal report before seeking additional clarification from the appraiser based on CU findings.
- The risk analysis performed by CU is for use by the lender in their analysis of the appraisal report; excerpts may be shared with the appraisers in proper context upon completion of the lender's due diligence review (see Q3).

It is very important to take advantage of CU training to understand how to use the CU findings in UCDP and the user interface.

Q3. New **How should lenders use CU findings to inform conversations with appraisers?**

Fannie Mae expects lenders to use human due diligence in combination with the CU findings, and will actively follow up with lenders who are reported to be asking appraisers to change their reports based on CU findings without any further due diligence by the lender.

Fannie Mae encourages lenders to carefully review the appraisal report – including all commentary – before seeking clarification from the appraiser. Don't assume the appraiser is wrong just because you see a CU message. Taking messages or alternative sales at face value and simply asking your appraiser to address them is neither effective nor efficient. CU is intended to supplement a lender's human due diligence. After completing a thorough review, lenders should be able to have constructive dialogue with appraisers to resolve specific appraisal questions or concerns. Lenders should not, however, make demands or provide instructions to the appraiser based solely on automated feedback.

Specific information or excerpts from the CU findings on which the lender seeks clarification may be shared with an AMC or appraiser, with appropriate context and **after analyzing the CU findings to determine whether there is an issue that the AMC/appraiser may need to address.** The legal terms and conditions for CU prohibit:

- using the licensed application in a manner that interferes with the independent judgment of an appraiser,
- providing access to CU's web-based user interface to third parties (including appraisal management companies (AMCs) and appraisers), and
- providing copies or displays of Fannie Mae reports that contain CU findings to AMCs and appraisers (note that AMCs who are registered to use UCDP as Lender Agents will see the CU risk score, flags, and messages available through UCDP).

Q4. Updated **May a lender share access credentials for UCDP and/or CU with a trusted service provider?**

No. For data security and business reasons, Fannie Mae technology usage terms do not allow lenders to share technology application credentials with third parties.

Also note that the legal terms regarding Collateral Underwriter™ (CU™) and the Uniform Collateral Data Portal® (UCDP®) found in the Single-Family Shipping & Delivery Applications Schedule of the Fannie Mae Software Subscription Agreement prohibit Licensees from:

- using the licensed application in a manner that interferes with the independent judgment of an appraiser,
- providing access to CU's web-based user interface to third parties (including appraisal management companies (AMCs) and appraisers), and
- providing copies or displays of Fannie Mae reports that contain CU findings to AMCs and appraisers (note that AMCs who are registered to use UCDP as Lender Agents will see the CU risk score, flags, and messages available through UCDP).

Q5. New If lenders are prohibited from providing copies or displays of reports that contain CU findings to third parties, can they still use Lender Agents to work on their behalf?

Yes. Lender Agents who submit appraisals to UCDP on behalf of their lender clients have access to the CU findings through the Fannie Mae tab in UCDP, on the Submission Summary Report (SSR), or through a direct integration with UCDP if applicable. Both lenders and Lender Agents acting on lenders' behalf are prohibited from distributing the CU Print Report or the SSR, making demands of or providing instruction to AMCs/appraisers based solely on the CU automated output, or using CU to interfere with the independent judgment of the appraiser. (See Q3 for information about how to use CU findings to interact with appraisers.)

Note that a lender using a Lender Agent such as an AMC is fully responsible for compliance with Fannie Mae's requirements, just as if they did the appraisal review in-house, and must have policies and procedures in place to review compliance by their third-party agents.

Q6. New Are lenders and appraisers expected to address all 20 alternative comparable sales that may be identified by CU?

No. CU generates up to 20 alternative comparables for the purpose of providing context for the appraisal report reviewer. Fannie Mae's expectation is not that all alternatives be addressed or that only the CU top-ranked comps be used. Lenders may examine the alternative comparables in the course of reviewing an appraisal report to determine if their use may result in a different conclusion about value from that provided by the appraiser.

Q7. New Does CU favor lower-priced comparables and encourage under-valuation?

No. Appraiser-provided comparables are analyzed by CU and ranked against a pool of available sales based on physical characteristics, location, and sale date. The sale prices of these comparables is not a factor in the ranking. High CU risk scores may be due to potential *under*-valuation, as well as potential *over*-valuation, or other factors. CU does not take a "lower is better" approach.

Q8. Is technology integration required to use CU?

The CU web-based user interface is accessed through a URL with *no* technology integration required.

The CU risk score, flags, and messages are provided on the Fannie Mae tab in UCDP. Users that access UCDP through a vendor service should check with their vendor if there are any issues with accessing the CU findings.

Q9. Is there a fee for CU?

No. Fannie Mae developed CU with the primary objective of improving appraisal quality and collateral risk management for Fannie Mae and its lender partners. To help lenders more effectively and efficiently identify issues with appraisals, we are making CU available at no cost as one more value-add risk assessment tool for our lenders.

Q10. Does use of CU provide any waiver of selling representations and warranties, similar to the limited waiver of representations and warranties offered with use of Desktop Underwriter® (DU®)?

Fannie Mae is not currently offering representation and warranty relief with the use of CU. However, CU will be integrated with DU in April 2015 to give lenders a more holistic view of risk by enabling display of the CU risk score, flags, and messages in DU. (See the DU Version 9.2 April Update Release Notes for details.)

The integration will provide a foundation for future representation and warranty relief on property value. Fannie Mae is working with our regulator, FHFA, on details and timing, and we will provide more information as it becomes available.

Q11. Is use of CU mandatory for Fannie Mae sellers?

Fannie Mae strongly encourages lenders to utilize the CU risk score, flags, and messages provided upon submission of an appraisal to UCDP, and to access the web-based application for in-depth analysis, but use of CU is not required. Review the available training and other resources for more information about the benefits of the CU feedback.

Q12. What is meant by a "CU risk score"?

CU provides a numerical risk score from 1.0 to 5.0, with 1 indicating the lowest risk and 5 indicating the highest risk. Risk flags and messages identify risk factors and specific aspects of the appraisal that may require further attention. Details are available in the eLearning course *Understanding the Collateral Underwriter Risk Score, Flags, and Messages*.

Q13. How much geographic coverage does CU provide?

CU is able to score about 97 percent of appraisals submitted from the 50 U.S. states and the District of Columbia. Properties in the U.S. territories cannot be analyzed. The majority of unscored appraisals ("999" messages) are due to geocoding limitations.

Q14. Are there appraisals that do not receive a CU risk score?

Yes. Coverage may vary slightly from market to market, but CU is able to score approximately 97% of appraisal submissions nationwide. The primary reason for unscored appraisals is an inability to geocode the subject property or an inadequate number of appraiser-provided comparables. Rarely is a lack of alternative sales observations the cause of an unscored ("999") appraisal. Currently, CU is unable to geocode properties in the U.S. territories (Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands). In some cases, CU may be unable to geocode new construction because the address is new and not yet recognized by the geocoding service.

CU analyzes appraisals in Uniform Appraisal Dataset (UAD) format on appraisal forms 1004 (Uniform Residential Appraisal Report) and 1073 (Individual Condominium Unit Appraisal Report). Appraisals submitted on other forms, including the following, are not analyzed: Form

2055, Exterior-Only Inspection Residential Appraisal Report; Form 1075, Exterior-Only Inspection Individual Condominium Unit Appraisal Report; Form 1004C, Manufactured Home Appraisal Report; Form 1025, Small Residential Income Property Appraisal Report; Form 2090, Individual Cooperative Interest Appraisal Report; and Form 2095, Exterior-Only Inspection Individual Cooperative Interest Appraisal Report.

When CU is unable to provide a risk score, a message to that effect will be displayed (for details about CU messages, see the eLearning course *Understanding the CU Risk Score, Flags, and Messages* or the CU User Guide, which is in the user interface).

Q15. How does CU handle new construction?

CU does not treat new construction any differently than existing properties. Appraiser-provided comparables are ranked against a pool of alternative sales identified by the model based on a combination of physical features, location, and date of sale. The significance of each factor or property characteristic is model-derived and market-specific. If other nearby new construction sales are available, they will be considered for inclusion in the comparable pool, but CU will not select alternative sales simply because they are new construction. Location, date of sale, and physical features such as square footage, lot size, bathrooms, quality, view, etc. are also considered.

Q16. How does CU handle properties in rural locations?

In rural areas, it may be necessary for the appraiser to select sales from a greater distance and further back in time than in areas with higher sales density and more homogeneous housing stock. CU compares the appraiser-provided comps against a pool of observed sales transactions in the subject market and not against arbitrary, “rule of thumb” guidelines. CU will not provide a high risk score solely because the comparables are dated, located several miles away, or require significant adjustment from the appraiser. If CU’s comparable selection model finds the appraiser-provided comparables to be the best available, the appraisal will likely receive a low risk score if no other potential issues are detected.

Q17. How are the CU risk score, flags, and messages different from the previous Fannie Mae Proprietary Messages in UCDP?

The Fannie Mae Proprietary Messages in UCDP were rules-based alerts focused on data reasonableness, property eligibility, and policy compliance. CU is model-based and performs a more comprehensive analysis of data integrity, comparable selection, adjustments, and reconciliation.

Q18. Is there an interconnection between the previous Fannie Mae Proprietary Messages in UCDP and the CU risk score, flags, and messages?

All but 35 of the Fannie Mae Proprietary Messages in UCDP were retired in December 2014.

The severity status for 21 Fannie Mae Proprietary Messages in UCDP was modified in January 2015 from a warning message that was automatically overridden to a hard stop that requires a manual override or the submission of a corrected appraisal in UCDP (see UCDP Notification). Although there is a very small failure rate for those 21 items, when a hard stop is issued on one of them, it also impacts the Property Eligibility/Policy Compliance risk flag and triggers an elevated CU risk score. Also note that a hard stop on one of these 21 items could result in a difference in the UCDP submission status between the GSEs (Fannie Mae and Freddie Mac). These hard stops cause a Not Successful submission status in UCDP until a manual override is provided. Note that entering an override reason in UCDP will not clear the Property Eligibility/Compliance risk flag in CU, nor will it lower the CU risk score.

Q19. Does the CU risk score impact the “Successful” submission status of the appraisal in UCDP?

Except for the 21 hard stop messages (see Q18), the CU risk score, flags, and messages provide independent feedback on the appraisal for the submitter’s consideration, and do not impact the submission status in UCDP.

The CU risk score, flags, and messages are on the Fannie Mae tab and the Submission Summary Report (SSR). Unlike some UCDP and Fannie Mae Proprietary Messages that require action, CU messages do not need to be cleared – they simply highlight aspects of the appraisal that may require further attention.

Q20. Are appraisals rescored when resubmitted to UCDP with corrections?

Yes. Upon resubmission, CU analyzes the revised appraisal as if it were a new appraisal. Depending on the nature of the revisions, the CU risk score, flags, and messages may or may not change.

Note, however, that use of a manual override to clear a hard stop in UCDP would not result in any changes to the CU risk score.

Q21. What should lenders do if they see different results between the CU risk score and results from other appraisal review tools?

Fannie Mae is making CU available for our lenders to use independently or in conjunction with other tools they deem appropriate for their business process. Lenders that deliver loans to Fannie Mae are responsible for reviewing appraisals to confirm that they meet our policy guidelines, and must make their own decisions about review tools that meet their business needs and how to utilize the results.

Q22. What CU training is available?

Training information and other implementation details are provided on an ongoing basis, including eLearning training courses, job aids, FAQs, and other resources to support implementation and use of CU (see the CU web page).

Q23. Is Fannie Mae providing information about CU to appraisers and AMCs?

Fannie Mae’s appraisal policy and strategy teams regularly communicate with the appraisal community through participation in industry events and outreach to key industry groups. Information about our efforts to improve appraisal quality has been shared with the appraisal industry for the past few years, dating back to 2008 when we initiated appraisal data standardization efforts

Information about CU has been provided to the appraisal community, and Fannie Mae invites appraisers and AMCs to leverage our training resources to learn more about CU.

Q24. Do appraisers have access to CU?

No, appraisers do not have access to CU. CU was developed as an appraisal review tool for internal analysis and is now available to Fannie Mae lenders for review of appraisals they have submitted through UCDP. CU will review an appraisal only after it is submitted to UCDP, which then triggers the model that includes appraisal data to perform an analysis. CU *does not* function as an independent property database that allows users to enter an address and receive associated data.

Appraisers are welcome to use the resources on the CU web page, including viewing the recorded on-demand trainings:

- *Introduction to Collateral Underwriter* provides basic information about CU's features, including screenshots.
- *Understanding the CU Risk Score, Flags, and Messages* provides information to help lenders use the CU feedback in their appraisal review process.
- *CU User Interface Basic Training* covers basic use of CU functionality and navigation for end users of CU's web-based user interface for efficient and effective use

Additional training materials will be posted as they become available.

Q25. Will the use of CU as an appraisal review tool by Fannie Mae lenders result in more work for appraisers, who may be asked to make changes based on the CU findings?

Fannie Mae's current requirements and expectations for lenders have not fundamentally changed. The Fannie Mae *Selling Guide* states in Section B4-1.1-02: Lender Responsibilities, that the lender is responsible for (among other requirements): "ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy…" In the process of underwriting the appraisal, lenders should ask appraisers to provide any clarifications or updates required to satisfy the lender that Fannie Mae's requirements are met.

A number of appraisal review tools are available in the market and in use by lenders. Appraisers also have access to much of the market data used in the course of appraisal review and can reasonably be expected to anticipate many questions that might arise, and address them proactively in comments on the appraisal report. Appraisers that make a good faith effort to use the most similar comparables, provide accurate and consistent data, and support their adjustments with market data and analysis can generally expect a minimum of CU feedback that would cause a follow-up request from the reviewer. CU's analysis may in some cases help the lenders' appraisal reviewers better understand the appraiser's rationale and possibly reduce back and forth between the lender and the appraiser.

For additional discussion related to this topic, see Lender Letter LL-2015-02, *Appraisal Tools, Processes, and Policies*.

Q26. Will Fannie Mae purchase loans that receive high CU risk scores and/or risk flags?

Yes. High CU risk scores can be considered warnings, but do not preclude lender delivery of the loan to Fannie Mae. It is highly recommended, however, that lenders perform appropriate due diligence on appraisals with a high CU risk score and/or risk flags prior to loan delivery.