



**NATIONAL
ASSOCIATION of
REALTORS®**

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2011 President

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May 24, 2011

The Honorable Scott Garrett
Chairman, Financial Services Subcommittee on Capital Markets and Government
Sponsored Enterprises
United States House of Representatives
2244 Rayburn House Office Building
Washington, DC 20510

Dear Chairman Garrett:

On behalf of the 1.1 million members of the National Association of REALTORS® (NAR), I respectfully request that the House Financial Services Capital Markets Subcommittee take a comprehensive approach to reforming the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. The current set of GSE reform bills take a piecemeal approach that has the potential to increase uncertainty in a sector that is still struggling to recover.

As mentioned in our letter on March 29th, REALTORS® believe that reform of our housing finance system is required in the aftermath of the 2008 housing finance system collapse. However, we oppose the seven GSE reform bills that were introduced on Tuesday, May 24th because the piecemeal approach creates uncertainty when calm is required and effectively begins to displace the human and corporate capital of the GSEs without establishing a viable replacement. We respectfully reiterate our earlier statement that reform of our housing finance system must be a methodical, measured, and comprehensive effort that is based on practical application, in order to ensure market certainty, and not just academic theory.

Of particular concern to REALTORS® is the legislation that prohibits a reduction in the GSE's dividend payments to the U.S. Treasury. Since August 2010, NAR has requested that this punitive dividend be reduced to 5%, in line with other Federal financial support recipients. Such a move is necessary in order to relieve the unnecessary drag that this assessment imposes on the housing industry's recovery. More importantly, it makes no apparent sense for the Treasury Department to transfer amounts to the GSEs so they, in turn, will have enough money to make the dividend payment back to the Treasury. I've enclosed our August 13th, 2010 letter to Treasury Secretary Timothy Geithner on this issue so that you may review our argument in more detail.

Homeownership remains a pillar of our economy. As such, it is a significant driver of employment opportunity. NAR research suggests that if there are one million additional home sales in 2011 over 2010 that 500,000 additional private sector jobs will be created. These jobs are created in the numerous businesses that are all part of the housing industry (e.g. home renovation, remodeling, and furnishing). Moreover, those jobs provide needed revenue to our state and local governments.



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I respectfully ask that you consider our request for a comprehensive approach to reform and the need for an even-hand when dealing with the GSE's dividend payments. As always, NAR stands ready to collaborate with you and our industry partners to enact comprehensive and effective housing finance reform legislation.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Phipps". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ron Phipps, ABR, CRS, GRI, GREEN, e-PRO, SFR
2011 President, National Association of REALTORS®

Enclosure: Letter from National Association of REALTORS® to Treasury Secretary Geithner sent August 13, 2010

Cc: Members, House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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August 13, 2010

The Honorable Timothy F. Geithner
Secretary
Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

Dear Secretary Geithner:

On behalf of the 1.1 million members of the National Association of REALTORS® (NAR), I am writing to urge you to reduce, on a retroactive basis, the dividend rate on senior preferred stock issued to the U.S. Treasury Department in exchange for contributing capital to Fannie Mae and Freddie Mac to assure that they maintain a positive net worth.

The National Association of REALTORS® (NAR) is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

When Fannie Mae and Freddie Mac (the housing government sponsored enterprises, or GSEs) were placed into conservatorship by the Federal Housing Finance Agency in September 2008, the Treasury Department and each GSE entered into a contract providing for an initial \$1 billion issuance of senior preferred stock with a 10 percent quarterly dividend, including warrants representing ownership of 79.9 percent of each GSE. Pursuant to the contracts, additional preferred stock has been issued in recent quarters as Treasury provided additional capital to each GSE to maintain their positive net worth. The agreements also provide for an additional quarterly fee starting in 2010.

Recent news reports have highlighted the 10 percent dividend that the GSEs are required to pay to the Treasury Department on the preferred stock. This dividend is twice the amount charged to banks that received assistance under the Troubled Asset Relief Program (TARP) and more than other firms have been required to pay in exchange for federal support. The Treasury-GSE contract imposes what we think is a punitive dividend that works as an unnecessary drag on the housing and economic recovery. The required dividend should be significantly reduced for a number of reasons.

First, the GSEs are working assiduously to reduce their losses, as they should. But the unintended consequence of their imposing high fees and very tight underwriting standards is to delay the housing recovery. NAR supports strong underwriting standards. In fact, NAR went on record, starting in 2005, at the beginning of the current crisis, warning about predatory lending, including the payment option adjustable rate mortgages and the “teaser” rate 2/28 and 3/27 mortgages that doomed so many homeowners to failure. We now just as firmly believe that the pendulum has swung too far and potential homeowners who are reasonable credit risks are too often unable to find a fair and affordable mortgage. As noted in one recent article, the GSEs’ current book of mortgage business is “pristine.” We think that achieving a pristine book of business means that the GSEs are falling short of their mission to maintain a liquid residential mortgage market, throughout the nation, that serves a wide range of borrowers, including qualified low- and moderate-income families. Reducing the current punitive dividend will enhance their ability to eliminate their losses, which will be further enhanced as the housing markets continue to stabilize and recover. This will give the GSEs the flexibility to adjust their underwriting standards to take into account reasonable lending risks, which will benefit the consumer and the entire economy, without undue risk of additional cost to the taxpayer.

Second, minimizing the amount of preferred stock held by the Treasury Department will make the challenge of restructuring the GSEs easier. One of the thorniest problems will be how to handle the amount of outstanding preferred stock held by the Treasury Department. From today’s perspective, it is hard to imagine how the capital infused into each GSE can ever be repaid. But whatever the solution, it will be easier if the obligation of the GSEs is not artificially increased by imposing the current punitive dividend rate at a level not imposed on banks or other firms, such as A.I.G., receiving government financial support.

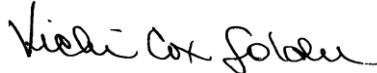
Finally, it makes no apparent sense for the Treasury Department to transfer amounts to the GSEs so they will have enough money to pay the dividend back to Treasury. If the GSEs were not required to pay the 10 percent dividend, which significantly increases each of their quarterly losses, it would reduce the amount of additional capital Treasury is called upon to provide to them. The problem is exacerbated because a growing amount is necessary to pay the dividend on amounts received in order to pay earlier dividends. The “miracle” of compounding in this case has become a nightmare that is creating a permanent drag on the ability of the GSEs to fully achieve their mission. It would make more sense to charge the GSEs an amount equal to the Treasury borrowing cost, or the borrowing cost to the GSEs based on the current federal assurance that they will maintain a positive net worth. Both of these amounts are far less than 10 percent.

The interest of the National Association of REALTORS® in the relative financial health of the GSEs, in receivership, is based on the desire of our members for robust real estate and mortgage markets that recover as quickly as possible to assist the nation as it regains its footing after the worst economic downturn since the Great Depression. Regulators have many enforcement tools and the duty to ensure that finance corporations comply with laws, regulations, and sound underwriting. However, with respect to the GSEs, it appears that government policy has imposed a dividend rate and capital structure that singles them out for particularly onerous treatment. This strikes us as misguided at best and destructive to the housing market and economy at worst.

As you know, NAR does not defend past GSE practices that resulted in the conservatorship and recommends their total restructuring at the appropriate time. Eliminating a punitive dividend is a step that should be taken now, regardless of how the GSEs may be restructured in the coming years. NAR's proposal for their restructuring is founded on eliminating the prior private profit and public loss structure, which was inherently flawed. We believe that it is the mission of the GSEs that must be protected, not their structure. For the benefit of homeowners, home buyers, renters, and the entire economy, the nation must have a way to assure the flow of capital to the mortgage market, regardless of the state of the housing or mortgage markets or the overall economy. The path out of receivership that achieves this result will be easier if the contract with the GSEs is amended to minimize the amount of preferred stock held by the Treasury Department.

Accordingly, NAR urges you to reduce, retroactively, the current punitive dividend rate now imposed on Fannie Mae and Freddie Mac, which together with the Federal Housing Administration, currently make possible the vast majority of mortgage lending. Doing so will speed our nation's recovery and facilitate the movement towards a permanent GSE reform solution. If you would like additional information or an opportunity to discuss our concerns, please contact Jeff Lischer, NAR's Managing Director for Regulatory Policy, at jlischer@realtors.org or 202.383.1117.

Sincerely yours,



Vicki Cox Golder, CRB
2010 President
National Association of REALTORS®

cc: Edward J. DeMarco, Acting Director, Federal Housing Finance Agency