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March 29, 2011

U.S. House of Representatives
Washington, DC 20515

Dear Representative:

On behalf of the 1.1 million members of the National Association of REALTORS® (NAR), I respectfully request that you exercise extreme caution as you intensify your efforts to overhaul the U.S. Housing Finance market and seek to create a model for the future.

REALTORS® believe that reform of our housing finance system is required in the aftermath of our systems recent collapse. However, we oppose the eight GSE reform bills that were introduced on Tuesday, March 29th because they represent a piecemeal approach to reform of the housing finance system, and they effectively shut down the GSEs without establishing a replacement secondary mortgage market mechanism. Reform of the housing finance system must be a methodical, measured, and comprehensive effort that is based on fact and not academic theory in order to ensure market certainty.

Homeownership is a pillar of our economy. NAR research suggests that one million additional home sales in 2011 over 2010 will create 500, 000 private sector jobs. These jobs are created in the numerous businesses that are all part of the housing industry (e.g. home renovation, remodeling, furnishing, etc.) and that will help provide needed revenue to both our state and local governments.

REALTORS® continue to remind their elected Federal representatives that one of the pillars of our great Nation's society is homeownership. We acknowledge that during the housing boom, homeownership was viewed by some as a commodity, to buy low and sell high. That perception caused undeniable damage to the housing markets. However, the fundamental importance of homeownership as a foundation for our communities and as a long-term conduit for fostering financial and household stability for American families has not been destroyed.

Enclosed, please find NAR's "Principles for Restructuring the Secondary Mortgage Market". I ask that you consider these principles as you continue to consider reforms for our housing finance system. And, as always, NAR stands ready to collaborate with you and our industry partners to enact comprehensive and effective mortgage reform legislation.

Sincerely,

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

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NAR's Principles for Restructuring the Secondary Mortgage Market

(February 16, 2011)

NAR supports restructuring the secondary mortgage market to ensure a reliable source of mortgage lending for consumers, in all types of markets, to avoid major disruption to the nation's economy that would result from the total collapse of the mortgage market. Restructuring is necessary in response to the failure of Fannie Mae and Freddie Mac and the government conservatorship that began in September 2008.

An efficient and adequately regulated secondary market is essential to providing affordable mortgages to consumers.
The secondary market, where mortgages are securitized and/or combined into bonds, is an important and reliable source of capital for lenders and therefore for consumers. Without a secondary market, mortgage interest rates would be unnecessarily higher and unaffordable for many Americans. In addition, an inadequate secondary market would impede both recovery in housing and the overall economic recovery.

We cannot have a restoration of the old GSEs with private profits and taxpayer loss system.
The current GSEs (Fannie Mae and Freddie Mac) should be replaced with government-chartered, non-shareholder owned entities that are subject to sufficient regulations on product, revenue generation and usage, and retained portfolio practices in a way that ensures they can accomplish their mission and protect the taxpayer.

Reforms should ensure a strong, efficient financing environment for homeownership and rental housing.
This mission would include providing access to mortgage financing for consumers that have the demonstrated ability to sustain homeownership. Consumers need a steady flow of mortgage funding that, during economic downturns, only government backing can provide.

The government must clearly, and explicitly, guarantee the issuances of the entities.
Taxpayer risk would be mitigated through the use of mortgage insurance on loan products with a loan to value ratio higher than 80 percent or other fees paid to the government. This is essential to ensure borrowers have access to affordable mortgage credit. Without government backing, consumers will pay much higher mortgage rates and mortgages may at times not be readily available at all (as happened in jumbo and commercial real estate loans).

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

Sound and sensible underwriting standards must be established.
For additional safety, sound and sensible underwriting standards must be established for loans purchased and securitized in mortgage-backed securities (MBSs), loans purchased for portfolio (to a limited extent), and MBS purchases.

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

The reformed entities must have a separate legal identity from the federal government but serve a public purpose.
An example of this structure is the Export- Import Bank. Unlike a federal agency, the entities will have considerable political independence and be self-sustaining given the appropriate structure.

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

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

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