NATIONAL ASSOCIATION of REALTORS®

REALTOR®

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The Honorable Sherrod Brown
Chairman, Subcommittee on Financial Institutions and Consumer Protection
Senate Committee on Banking, Housing, and Urban Affairs
713 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Brown:

On behalf of 1.1 million members of the National Association of REALTORS® (NAR), CCIM Institute and the Institute of Real Estate Management (IREM), who are involved in residential and commercial real estate as brokers, sales people, property managers, appraisers, counselors, and others engaged in all aspects of the real estate industry, thank you for holding today's Financial Institutions and Consumer Protection subcommittee hearing on the "State of Community Banking: Opportunities and Challenges."

REALTORS® have a vested interest in the success of community banks, because these institutions provide the majority of our clients with the capital they require to run their small business or purchase a home. When these institutions are unhealthy, that contagion permeates into the communities they serve. Therefore, I would like to take this opportunity to express REALTORS'® concerns with the financial health of our nation's community banks and the threat posed to them by continued concentration of financial services activity in larger, national lending institutions.

Commercial Lending

High vacancy rates, plummeting prices, and sluggish sales activity in the commercial real estate industry, along with high commercial real estate loan exposure at community banks, have caused a significant decrease in commercial real estate and small business lending. This reduction in credit has resulted in job layoffs and business failures, accelerating a negative economic cycle.

Over $1 trillion of commercial real estate loans will mature over the next few years, with a very limited capacity to refinance. If not addressed, the swelling wave of maturities could place further stress on many community banks and borrowers. In addition to addressing the issues facing the commercial real estate industry, improving access to capital for small businesses is also greatly needed. Small businesses employ nearly half of all Americans and account for 60% of U.S. job creation. However, lending to small businesses declined by $43 billion last year. Moreover, community banks, which hold 52% of all small business loans, were accountable for nearly half of that drop.

NAR believes that policymakers should pursue measures to help commercial borrowers with notes coming due to refinance and community banks recapitalize. One approach to consider might be to allow banks to amortize losses attributable to commercial real estate lending over a 7-10 year period. Another approach may be to encourage more private-equity investments in many of these financial institutions in order to turn around and recapitalize struggling banks and bring much-needed equity into the banking system.

Additionally, NAR supports S. 509, the "Small Business Lending Enhancement Act of 2011," introduced by Senator Udall (D-CO). This bill will increase the cap on member business lending from 12.25% to 27.5% of total assets for well-capitalized credit unions.

EQUAL HOUSING OPPORTUNITY

We believe this legislation will help fill the current lending gap facing the commercial real estate and small business sectors.

Residential Lending

Another issue that has the potential to exacerbate problems for community banks is the definition of Qualified Residential Mortgage (QRM), which is currently under debate within the financial regulatory arena. A definition that does not optimize the amount and underwriting flexibility of product included in this category will be detrimental to community lenders and borrowers.

A narrow QRM definition will further the concentration of housing finance among the big, national lenders that we are currently witnessing. Under a narrow QRM, community banks will have a lesser capacity to conduct residential mortgage lending due to the requirement that they retain a significant amount of capital (5%) on their balance sheet for each mortgage should they want to participate in the securitization market. The alternative, not participating in the securitization market and keeping the whole loan on balance sheet while in portfolio, reduces the community lender's abilities to participate in the residential mortgage market even further. The exit of community lenders from the residential mortgage space will push more business to the large, national banks, ceding them the ability to set prices and underwriting criteria while continuing to increase their size and dominance of the market. All of these effects are detrimental to consumers and taxpayers since as mortgage capital becomes more restricted, mortgage finance costs rise, and the then bloated national institutions become "Too *Bigger* to Fail."

REALTORS® believe that federal regulators and Congress should honor the intentions of Senators Isakson, Hagan, and Landrieu by crafting a qualified residential mortgage (QRM) exemption that includes a wide variety of traditionally safe, well underwritten products such as 30-, 15-, and 10-year fixed-rate loans, 7-1 and 5-1 ARMs, and loans with flexible down payments that require mortgage insurance.

A poor QRM policy that does not heed their intention will displace a large portion of potential homebuyers and housing finance participants, slow economic growth, hamper job creation, and further retard our tenuous economic recovery.

Conclusion

The National Association of REALTORS® believes that recovery of our communities and overall economy will not occur unless our community banks are healthy and able to participate in all business sectors, especially real estate. Housing has been the vehicle that the nation has relied on to pull us out of bad economic times. Housing may not be able to pull the nation out of this downturn alone, but it will not be part of the solution if our community banking partners are prevented from working with us to ensure a housing and economic recovery.

Thank you for the opportunity to share our thoughts. NAR stands ready, willing and able to work with you and our community banking partners to ensure that they are able to effectively participate in our local marketplace.

Sincerely,

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