NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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March 30, 2009

The Honorable Timothy F. Geithner
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551

The Honorable James B. Lockhart, III
Director
Federal Housing Finance Agency
1700 G St., NW
Washington, DC 20552

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429

Dear Secretary Geithner, Chairman Bernanke, Director Lockhart, and Chairman Bair:

On behalf the 1.2 million members of the National Association of REALTORS®, thank you for the efforts of the Administration to reduce interest rates and provide liquidity to the mortgage finance system. Government action is a critical part of stabilizing the housing market and establishing the foundation for a broader economic recovery. Recent increases in home sales activity and an expanding pipeline of rate reduction refinancings suggest the promise of a housing recovery that is essential to the recovery of the U.S. economy.

As you know, the complexity of our markets makes it difficult to anticipate and align every component needed for a recovery plan to succeed. We have concerns that efforts by the Treasury Department, the Federal Reserve Board, the Federal Housing Finance Agency, the Federal Deposit Insurance Corporation, and others are not fully reaching Main Street and the American people. There is growing evidence that many large financial institutions are using the leverage they now have, as a result of TARP and other taxpayer supported vehicles, to gain market share and maximize net revenues and margins at the expense of borrowers. As a result, the public is not deriving the full benefits of the Administration's actions and hard work.

Several recent articles in the Washington Post, the American Banker and CNBC.com all highlight the phenomenon. Large institutions, in an effort to maximize net revenue and avoid the costs of increasing capacity, appear to be using their pricing and market power to limit the flow of mortgage capital at the retail level. A fair assessment of rate spreads would suggest long term mortgage rates should be 4.5% or perhaps even less given the investment and efforts made by your agencies and others. Nevertheless rates still hover near 5% on average in the retail market as large firms use price to deter new mortgage applications instead of building or supporting additional capacity so that borrowers can finance or refinance at more reasonable market rates.

With regard to additional capacity, large financial institutions, including TARP recipients, have taken deliberate steps that reduce capacity system-wide, harming small and midsized retail lenders, ultimately reducing competition and harming consumers. Based on recent HMDA data, these smaller firms account for about 40% of all residential mortgages originated in the U.S. They play an essential role in providing retail capacity and both national and local competition in the mortgage markets. REALTORS® rely on them and their local expertise as they help people in their communities purchase homes or keep their homes.

Small and midsized lenders rely on large FDIC-insured depository institutions for short term "warehouse" credit lines that allow them to provide funds at the closing table. Warehouse lines are replenished as the loans are sold to investors. Many large financial institutions have closed down their warehouse lending and others have announced the intention to do so. Some have even intimated their rationale is to focus more on their own retail lending. The practical effect is not just to reduce capacity and competition, but eliminate competition.

Without warehouse lines or similar access to capital, small and midsized lenders cannot lend and eventually go out of business. It is estimated that hundreds of billions of dollars of warehouse capacity have left the system. If small and midsized lenders are forced out, there will be less competition and more concentration of pricing power in large institutions. There will also be fewer options for consumers and comparatively higher interest rates as relatively few large players dominate the market. Finally, thousands of employees of these small businesses will find their jobs endangered or lost, and homebuyers and homeowners will pay more or be denied the credit they need.

As we enter this critical stage in our housing recovery, we urge you to consider the role you each can play to restore the availability of affordable credit at the retail level and examine what role the GSEs can play in alleviating the bottleneck in retail lending. It is essential that consumers and small businesses derive the benefits from the investment that American taxpayers are making. Consumers and small businesses are the keys to economic recovery and future growth.

Low mortgage rates, first-time homebuyer tax credits, and the spring home buying season are coming together in a manner that could finally put a floor under the housing market. However, we face a potential major bottleneck in our mortgage credit delivery system and consumer interest rate costs that are historically higher than the data indicate they should be. We urge you to explore all possible options to impress upon lenders the importance of fully deploying their resources and expertise to address the retail level mortgage credit shortage and costs. Thank you for your consideration of this important issue.

Sincerely,

Charles McMillan

Charles McMillan, CIPS, GRI
2009 President
National Association of REALTORS®

cc: The Honorable Shaun Donovan, Secretary of Housing and Urban Development