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Dale A. Stinton
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GOVERNMENT AFFAIRS DIVISION
Jerry Giovaniello, Senior Vice President
Gary Weaver, Vice President
Joe Ventrone, Vice President
Jamie Gregory, Deputy Chief Lobbyist

500 New Jersey Ave., NW
Washington, DC 20001-2020
Ph. 202-383-1194 Fax 202-3837580
www.REALTOR.org

September 17, 2012

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve
Washington, DC 20551

Dear Chairman Bernanke:

On behalf of the 1 million members of National Association of REALTORS® (NAR), I am writing with regard to your latest efforts to boost the economy, generally referred to as quantitative easing three or QE3. We understand QE3 will be targeted at reducing mortgage interest rates via the purchase of agency mortgage backed securities (MBS). This could further reduce mortgage interest rates and hopefully stimulate demand in the housing sector. NAR appreciates your efforts to improve the housing aspects of the economy and your ongoing admonitions that credit standards have become unreasonably tight. In that light, we offer suggestions as to how to make these efforts more effective as we end 2012 and enter 2013.

Reducing mortgage interest rates in general through MBS purchases will have diminished impact if three important rules counter the availability of mortgage credit. As you have noted, mortgage credit is already tight. A recent survey of NAR members indicates that 53% of loans in August went to borrowers with credit scores over 740. To put this in perspective, only 41% of loans backed by Fannie Mae in 2001 had scores above 740. If the forthcoming Ability to Repay/Qualified Mortgage (QM), Risk Retention/Qualified Residential Mortgage (QRM), and Basel III rules only serve to further tighten credit, the impact of QE3 is likely to be diminished and only felt among those of substantial wealth and pristine credit. In short, those who need access to affordable credit the least.

While the Federal Reserve (The Fed) is no longer the purveyor of the QM rule, we believe there is still time for the Fed to weigh in with the Consumer Financial Protection Bureau (CFPB) and ensure that this rule does not serve to further tighten credit. Specifically, according to NAR's evaluation of recent data, the proposal to cap Debt to Income ratios (DTI) at 43% would exclude nearly 20% of today's borrowers. We also believe that if the CFPB chooses to make QM a rebuttable presumption instead of a safe harbor for lenders, many will restrict credit even further due to litigation risk. Neither of these scenarios will aid in making QE3 effective.

The Fed is part of the group of regulators putting forth the QRM rule. As proposed, this rule would severely limit loans that would not require 5% risk retention when securitized by requiring 20% or more downpayments and very tight credit restrictions. While this would not on its face restrict access to credit, it would clearly increase the cost of credit for a significant percentage of borrowers and likely eliminate a number of borrowers from eligibility.

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The Fed also plays a significant role in the forthcoming Basel III capital rules. While the rules do not officially take effect for a few years, lenders are likely to start adjusting to them immediately. As proposed, the rules severely disadvantage residential and commercial mortgages under most scenarios in terms of risk weighting. It is hard not to see how this would increase the cost of mortgage credit and/or reduce access. The Fed should work to ensure that these rules take reasonable steps to reduce risk without inhibiting access to mortgage credit.

Once again, we support your ongoing and consistent attention to the housing market and recovery. We believe this aspect of the economy is the cornerstone to the broader economic recovery. We hope that by giving attention to these concerns, you can ensure that QE3 operates as intended and indeed helps keep our economy on the road to recovery.

Sincerely,

Maurice "Moe" Veissi
2012 President, National Association of REALTORS®