NATIONAL ASSOCIATION OF REALTORS®

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April 27, 2020

Secretary Steven T. Mnuchin
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Chairman Jerome H. Powell
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Director Mark Calabria
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Director Lawrence Kudlow
National Economics Counsel
Room 235, Eisenhower Executive Office Building
Washington, DC 20502

Dear Director Kudlow, Chairman Powell, Secretary Mnuchin, and Director Calabria:

Thank you for your ongoing efforts to support homeowners and the economy during the COIVD-19 pandemic. The response to this crisis and the need for housing security is critical now and in the future. The Federal Reserve Board's (FRB) efforts to stabilize mortgage rates have helped and are greatly appreciated. REALTORS® also appreciate efforts by the FHFA to implement and clarify forbearance for homeowners and its response to NAR's letter from March 27th. However, REALTORS® are seeing home purchases impacted by the lack of liquidity in mortgage markets impact home purchases and are concerned that recent FHFA actions to ameliorate liquidity issues will have limited effect. To this end, the National Association of REALTORS® once again urges the Treasury, FRB, and FHFA to support American homebuyers and workers by directly addressing liquidity issues in the secondary and primary mortgage markets.

Lender overlays and the continued uncertainty posed by a continued lack of decisive action have scuttled home sales and sidelined would-be homebuyers. According to research by the National Association of REALTORS®, every home sale generates roughly $85,000 in economic activity and every two home sales supports one American job. Nationally, real estate activity accounts for nearly 20 percent of GDP. *The instability in the mortgage market is spreading from the balance sheets of servicers and small lenders to the pocket books of main street Americans, which will weigh on any attempt at economic recovery.*

Over the last two weeks, lenders have raised overlays on mortgages backed by the Government Sponsored Enterprises (Enterprises) to match those for loans backed by the Federal Housing Administration (FHA). Lender' overlays of 680 minimum credit scores or higher, debt-to-income ratios caps of 43 percent or lower, or requirements of at least three months of reserves - and in some cases all three - are now increasingly common. The mortgage credit availability index (MCAI) index published by the Mortgage Bankers Association corroborates the early signs of this retrenchment. According to the index, credit availability in the conventional conforming space fell by 2.7 percent in March relative to February, while access fell by 6.6 percent in the government-backed space and 36.9 percent in jumbo sector. However, the MCAI is a trailing index that does not include recent announcements like those by some large and prominent lenders to raise minimum credit scores to 700 and down payments to 20 percent for the majority of their business. *What these statistics do not articulate is how much this tightening is disproportionately impacting entry-level and middle-income buyers and persons of color, while undercutting the housing trade-up process.*

NAR first wrote to the Treasury, FRB and FHFA on March 27, requesting support to stabilize the servicing sector and avoid adverse impacts on the primary market and economy. NAR pointed to Congress' extension of $425 billion to the Treasury to support lending by the FRB to private industry. Under the 13(3) authority, the FRB can create a facility to support an industry such as servicing, though the loans to the non-banks would likely need to be martialed through a commercial bank.

Likewise, the Enterprises have a line of credit with the Treasury of roughly $250 billion and tools to more directly address liquidity issues beyond servicing. The FHFA recently allowed the Enterprises to relax their underwriting guidelines and to purchase mortgages where the borrower is in forbearance. However, fees charged to lenders for purchasing such mortgages are onerously high. As a result, lenders will continue to avoid loans that might go into forbearance and/or raise costs for all borrowers to cover these heavy fees. In short, the FHFA's move only locks in the current overlays and will likely raise costs for most future homebuyers.

To avoid high overlays due to servicing, the Enterprises could allow the GSEs to expand their portfolios and increase purchases from individual lenders through its cash window before assigning servicing. The FHFA could also raise its limit for purchasing whole loans from individual lenders and expand the set of lenders from whom they purchase. Furthermore, the FHFA could allow Freddie Mac to restart its pilot program for lending to non-bank servicers that was terminated by the FHFA in 2019. The FHFA cited the program's termination was due to an abundance of competition at the time, which does not appear to be the case in the current environment.

The FHFA cannot raise loan limits beyond the limits stipulated in the *Housing and Economic Recovery Act (HERA)*. However, Congress has amended HERA previously and could do so again. To increase liquidity in the jumbo market, the FHFA could work with Congress to temporarily raise loan limits, which would allow the FRB to purchase mortgage backed securities backing these loans. This, in turn, would increase liquidity and lower mortgage rates in high cost markets, which have been among the hardest hit by COVID-19.

The FHFA can also prevent the Enterprises from raising their requirements for the mortgages they will purchase. The Enterprises manage their standards through opaque automated underwriting systems and Fannie Mae recently issued a notice tightening those requirements. If the Enterprises continue to constrict their underwriting, efforts to reduce lender overlays from servicers or lenders are moot. The overlays from the Enterprises are a continuation of tightening that began in the summer of 2019, are not transparent, and could therefore linger well after the end of the pandemic.

In their charter mission, the Enterprises are tasked with providing liquidity in the secondary mortgage market and liquidity for mortgage investment. That charter mission also prioritizes liquidity for a national market and for lending to low and -moderate income Americans. The sharp increase in overlays in conforming, jumbo, and non-pristine mortgages beckons the FHFA to act, but it has held fast despite the weakening trend in the primary market and its countercyclical role. Conserving the resources of the Enterprises at this time contradicts the fact that their main resource to support the market and liquidity is their line of credit with the Treasury, which the FHFA is not tasked with conserving. The FRB and banking regulators have taken the opposite tactic, extending credit to small businesses and certain industries while lowering capital requirements on large and small banks to help extend credit. Worse, by not urging the Enterprises to prioritize their congressional mandate to support mortgage liquidity, the FHFA is setting a dangerous precedent that future shareholders may follow after the Enterprises are reformed and exit conservatorship.

The FRB and Financial Safety Oversight Council (FSOC) have raised concerns about non-bank stability in recent years and suggest they require more stringent oversight and capital requirements. REALTORS® agree that safety and soundness of the system is critical, but given the unprecedented nature of this pandemic the focus now must be ensuring a universal robust response to this crisis.

Finally, it is important to note that real estate has been a driver of nearly every economic expansion since the 20th century began. The dramatic housing shortage of recent years points to an opportunity for it to also drive this next expansion. To this end, REALTORS® urge more potent action to improve liquidity in the mortgage market. Furthermore, any support to lenders and servicers should be conditioned on their originating and supporting a nationally and market representative mix of purchase and refinance loans. While refinancing helps to stabilize current homeowners and may provide a boost to spending, the economy is driven by homes sold and built.

Once again, REALTORS® thank the Treasury, FRB, and FHFA for their actions to aid in the pandemic response and to support small businesses and homeowners. However, REALTORS® have witnessed the spread of problems from the servicing and lending industry to the market for home purchases, which will soon impact our economy more broadly and exacerbate the many issues created by the pandemic. Now is the time to act to support homeowners, renters, homebuyers, workers, and the entire American economy. NAR appreciates the opportunity to provide input and look forward to continuing to work together on these important issues. If you have any questions, please contact me or NAR's Senior Policy Representative, Ken Fears, at 202-383-1066 or KFears@Nar.Realtor.

Sincerely,

Vince Malta
2020 President, National Association of REALTORS®