NATIONAL ASSOCIATION OF REALTORS®

November 21, 2022

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Thompson:

Thank you for the recent opportunity to discuss the challenges confronting the housing market and how the National Association of REALTORS® (NAR) and Federal Housing Finance Agency (FHFA) can collaborate to help homebuyers. The dual challenge of strong prime growth driven by supply shortages and a near tripling of mortgage rates has caused affordability to plummet. We appreciate your attention to these consumer and market challenges and your commitment to supporting tangible and sustainable solutions.

I would like to elaborate on a few issues that were raised during the meeting, and which are of particular interest to REALTORS® and the future of the housing market.

New Rate Paradigm Presents Challenges, Needs New Solutions

I was heartened to learn from the meeting that you share our great concern with the plight of homebuyers following this surge in borrowing costs. As was mentioned in the meeting, REALTORS® believe that guarantee fees charged by Fannie Mae and Freddie Mac are too high. Guarantee fees are determined based on operating costs as well as modeled required capital and a return on equity for holding that capital. That return on equity takes into account the corporate tax rate. In 2017, the corporate tax rate was reduced from 35% to 21% by the *Tax Cuts and Jobs Act*. However, there was no commensurate reduction in the guarantee fee.

Economist Mark Zandi has estimated that such reforms would lower rates by roughly 10 to 15 basis points, which would result in tangible decreases to monthly mortgage payments for the average American. While this is a substantial reduction in the guarantee fee, Fannie Mae and Freddie Mac have recorded multiple years of substantial profits. Furthermore, their capital reserves have surged and are also buffered by layers of credit risk transfers to absorb losses.

Despite some predictions about a pending recession, the housing market is not expected to experience the same decline as in the subprime crisis. This is because lending standards remain strong. Affordability, particularly from rising housing costs, is expected to weigh on the housing market and consumers' ability to drive the economy via spending. Reducing guarantee fees would help to improve liquidity in the housing market and boost economic growth as well.

Affordability: Focus on Payments

Lowering the guarantee fee is only one way to reduce the monthly costs to buy a home. Down payment assistance not only helps homebuyers overcome the hurdle to homeownership most frequently cited by homebuyers, it also reduces the monthly payment buyers face.

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NAR strongly supports the use of down payment assistance to support homeownership. Furthermore, REALTORS® believe that both the government and private sector can play a role in funding down payment programs and accepting them as part of guarantee businesses.

Likewise, REALTORS® support the use of Special Purpose Credit Programs to boost home ownership in communities of color and to narrow the homeownership gap. We are encouraged to see the Enterprises developing programs that may include down payment assistance. The Federal Home Loan Banks (FHLBs) should do the same. The FHLBs contribute a minimum of 10 percent of their earning to their Affordable Housing Programs (AHP). While commendable, REALTORS® believe that this floor could be raised. Furthermore, the homeownership set-aside could have its maximum share of AHP funds raised and simultaneously raise the maximum direct household subsidy. These funds could be used to expand funding for down payment assistance programs.

Finally, it should be noted that the sharp mortgage rate increase is not just impacting communities of color and the underserved. The weight on affordability cuts across the market and the GSEs should engage in down payment programs that support a broader segment of the market as well.

Technology, The Next Frontier

We remain impressed by FHFA's exploration of the impact of technology on the real estate finance industry as well as on its ability to oversee the Enterprises. As mentioned in the meeting, NAR experienced a similar call to embrace technology more than a decade ago. NAR now works with partner technology groups, runs a technology incubator program, and even sponsors real estate focused tech events annually such as the Innovation Opportunity and Investment (iOi) summit. NAR has taken a proactive role in embracing and growing the technology that our members and the industry needs to thrive in this century. Please let me know if you would like to discuss NAR's experiences and perspective on developing and working with technology.

Working Together

Thank you again for taking the time to hear the concerns of REALTORS®. We appreciate your efforts in supporting the market during the pandemic and look forward to collaborating on ongoing support for sustainable homeownership opportunities and shaping the future of the conventional housing finance market. If you have any questions or comments, please feel free to reach out to Ken Fears, NAR's Senior Policy Representative at (202)383-1066 or KFears@Nar.Realtor. Thank you once again and we look forward to our next meeting.

Sincerely,

Kenny Parcell
2023 President, National Association of REALTORS®