

“Protecting American Taxpayers and Homeowners Act”

ISSUE: House Financial Services Committee Chairman Jeb Hensarling (R-TX) has introduced the “Protecting American Taxpayers and Homeowners Act” (PATH Act). This bill is a comprehensive restructuring of financial mortgage markets. The bill has two major goals: 1) dissolve Fannie Mae and Freddie Mac and replace them with a new Market Utility and 2) Restructure the FHA Mortgage Insurance Program. Unfortunately, NAR must oppose this legislation. There are numerous problematic provisions that would limit access to mortgage credit, increase the cost of that credit and prevent many credit-worthy and responsible families from purchasing a home. Most significantly, 1) NAR policy strongly opposes the elimination of the long-standing federal guarantee for a secondary mortgage market; and 2) FHA has been making significant changes to address problems and does not need to be restructured in the manner proposed by the Act; instead FHA needs the authority to undertake reforms to strengthen its financial footing.

HOUSE ASK: ASK YOUR REPRESENTATIVE TO OPPOSE “THE PROTECTING AMERICAN TAXPAYERS AND HOMEOWNERS (PATH) ACT.”

WHY IS THIS IMPORTANT?

Freddie Mac/Fannie Mae:

- The federal government must clearly, and explicitly, offer a guarantee of some mortgage instruments
- The government’s guarantee should ensure a wide range of safe, reliable mortgage products for creditworthy consumers
- A new utility that does not include a guarantee will not ensure the continued availability of a 30-year fixed rate mortgage.

FHA:

- Targeting FHA in the manner prescribed completely changes the role of FHA and will make many borrowers ineligible for FHA financing, regardless of their creditworthiness or the availability of alternative financing.
- Higher downpayments could make 345,000 borrowers a year ineligible for FHA financing.
- Lowering the loan limits nationwide will limit liquidity and borrower’s access to credit.

WHAT ARE OPPONENTS LIKELY TO SAY: In both the case of the GSEs and FHA, the federal government needs to get out of the way and let the private market function. Current practices have crowded private lenders out of the marketplace, and resulted in loans to individuals who don’t have the resources to be successful at homeownership. Taxpayers shouldn’t be on the hook for a government guarantee, and the role of FHA should be very limited and targeted.

STATUS:

The House Financial Services Committee will hold a markup beginning on Tuesday, July 23rd. An initial hearing was held on Thursday, July 18th, three days after its introduction.

BACKGROUND:

Freddie Mac/Fannie Mae Sections: NAR strongly supports restructuring of the secondary mortgage market. However, the PATH Act does not include a government guarantee. Without federal government participation, mortgage interest rates would be unnecessarily higher and unaffordable for many Americans, and in extreme market disruptions, not be available at all. In addition, products like the 30-year fixed-rate mortgage would most likely be inaccessible to most borrowers. NAR cannot support any new entity that does not have a clear and explicit government guarantee.

FHA Section: FHA, like every other holder of mortgage risk, has incurred financial losses as a result of high foreclosure rates. These losses have caused many in Congress to be concerned about the risk to taxpayers. But the PATH Act would dramatically restructure FHA. It would target the program only to a very narrow definition of first-time homebuyers, and those making less than 115% of local area median income. It would raise downpayments to 5% for borrowers who meet the income limits but do not meet the first-time definition. Additionally, downpayments would rise to 10-20% for all borrowers when FHA’s excess reserves don’t meet congressionally mandated levels. It will lower loan limits for all areas, lower the limit to \$200,000 in non-high cost areas, and decrease the high cost limit over time. In the end, the bill completely changes the structure and role of the FHA single-family mortgage insurance program.



NATIONAL
ASSOCIATION of
REALTORS®

Gary Thomas
2013 President

Dale A. Stinton
Chief Executive Officer

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

July 22, 2013

Chairman Jeb Hensarling
U.S. House of Representatives
2228 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling,

The one million members of the National Association of REALTORS® oppose the “Protecting American Taxpayers and Homeowners Act” (PATH Act). The housing sector has a dramatic impact on our nation’s economy. Public policy reforms should promote responsible, sustainable home ownership and should not endanger the future of this critical economic sector. Unfortunately, NAR believes the PATH Act will jeopardize the ability of American families to purchase a home, as well as the future of the housing industry itself. We ask you to vote no.

Our opposition falls primarily into two areas: 1) The PATH Act does not include an explicit federal guarantee; and 2) the PATH Act dramatically restructures FHA and proposes targeting of its mission. NAR supports winding down of Freddie Mac and Fannie Mae, and the creation of a new entity to support the secondary mortgage market. However, we believe a government guarantee is necessary to create stability in housing finance markets, and to ensure the continued availability of 30-year fixed rate mortgages for all qualified borrowers – not just those with a high downpayment and very high credit score. Furthermore, we believe FHA has been making significant changes to address the problems that it has experienced and does not need to be restructured in the manner proposed by the Act; instead, FHA needs the authority to undertake reforms it knows are needed to strengthen its financial footing.

The National Association of REALTORS® must urge you to vote no on the PATH Act.

Sincerely,

Gary Thomas
2013 President, National Association of REALTORS®

cc: House Committee on Financial Services



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Agenda

- Actions Year to Date
- “Protecting American Taxpayers and Homeowners Act”
 - Why is this important?
 - Fannie Mae and Freddie Mac
 - FHA
- Actions Needed

Year to Date

- Midyear Talking Points focused on:
 - Restructuring of Fannie Mae and Freddie Mac
 - Preserving the Mission and Purpose of the FHA Program
- Introduction of the “Protecting American Taxpayers and Homeowners Act” (PATH Act) which:
 - Dissolves Fannie Mae & Freddie Mac and replace with a new Market Utility
 - Restructures the FHA Mortgage Insurance Program
- July 18th - House Financial Services Committee holds introductory hearing
- July 23rd - House Financial Services Committee to vote on PATH Act

WHY IS THIS IMPORTANT? FANNIE MAE & FREDDIE MAC

- **The federal government must clearly, and explicitly, offer a guarantee of some mortgage instruments**
 - In times of market disruptions, private capital will flee the mortgage market leaving consumers unable to access credit and homeowners unable to move.
- **The government's guarantee should ensure a wide range of safe, reliable mortgage products for creditworthy consumers**
 - Reliable mortgage products, including traditional adjustable-rate mortgages (ARMs), 15-year and 30-year fixed rate loans will provide consumers with choice when making the financial determination of what product is best for them.

WHY IS THIS IMPORTANT? FANNIE MAE & FREDDIE MAC

- A new utility that does not include a guarantee will not ensure the continued availability of a 30-year fixed rate mortgage.
 - Lenders will choose not to offer the loans to consumers without pristine credit and high downpayments at exponentially higher interest rates.

WHY IS THIS IMPORTANT?

FHA

- **Targeting FHA completely changes the role of FHA and will make many borrowers ineligible for FHA financing.**
 - The PATH ACT limits FHA to a narrow definition of first-time homebuyer and other borrowers who make less than 115% of median area income.
- **Higher downpayments could make 345,000 borrowers a year ineligible for FHA financing.**
 - The PATH Act increases downpayments to 5% for all non-first time homebuyers. Will raise downpayments to 10% or 20% for all borrowers when FHA is not fully capitalized.

WHY IS THIS IMPORTANT?

FHA

- **Lowering the loan limits nationwide will limit liquidity and borrower's access to credit.**
 - The PATH Act will lower the FHA loan limit in low cost areas to \$200,000 (from \$271,050) and will lower the high cost limit.

ACTION NEEDED

Ask your Representative to oppose “The Protecting American Taxpayers and Homeowners (PATH) Act”