



NATIONAL ASSOCIATION OF REALTORS®

*The Voice For Real Estate®*

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STATEMENT OF THE NATIONAL ASSOCIATION OF  
REALTORS®

SENATE BANKING COMMITTEE

FIELD HEARING  
PHILADELPHIA, PA

ENTITLED

“RESTORING THE AMERICAN DREAM: SOLUTIONS TO PREDATORY  
LENDING AND THE FORECLOSURE CRISIS”

APRIL 7, 2008

On behalf of 1.3 million members of the National Association of REALTORS®, we present our views on the federal role in mitigating and minimizing mortgage foreclosures. NAR represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers. The Association has a long tradition of support for innovative and effective federal housing programs and we have worked diligently with the Congress to fashion housing policies that ensure federal housing programs meet their mission responsibly and efficiently.

The current crisis in the mortgage market is troubling to all of us. In 2006, 1.2 million families entered into foreclosure, 42 percent more than in 2005<sup>1</sup>. Abusive lending, exotic mortgages and a dramatic rise in subprime lending – coupled with slowing home price appreciation – have all contributed to this crisis.

The National Association of Realtors® supports a number of short-term, intermediate and long-term actions needed to address the current crisis and minimize the likelihood that the nation faces such a situation again.

### **Remedies for the Current Crisis**

**FHA Reform Legislation.** Legislation has passed the House and Senate to reform the FHA single-family mortgage insurance program. Without the measure's reforms – permanently increased loan limits, reduced downpayment requirements, and streamlined condominium loan program requirements - FHA loans will remain inaccessible to many homebuyers and owners, including those who need to refinance out of problem loans or are unable to find conventional mortgage financing in today's markets.

The loan limit increases provided in the Economic Stimulus bill are a strong start to making FHA a viable source of financing for homebuyers and those needing to refinance. Early evidence indicates that the increased loan limits are providing a much needed infusion of stability, liquidity and security into the market. But these limits are temporary. Permanent limits at a realistic level that can support all regions of the country are needed to continue the work on ending the housing crisis.

**GSE Reform.** The National Association of REALTORS® shares the belief of our industry partners that Fannie Mae, Freddie Mac and the Federal Home Loan Bank System are integral components of this nation's highly successful housing finance system. Homebuyers depend on the secondary mortgage market to supply a continued and stable source of funding for single-family and multifamily housing.

NAR believes legislation to reform the housing GSEs should be principally focused on safety and soundness regulation and expanding the role of Fannie Mae and Freddie Mac to provide liquidity to the secondary market based on permanent higher conforming loan limits.

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<sup>1</sup> A Flood of Foreclosures, But Should You Invest?, Market Watch, February 18, 2007.

Under current statute, Fannie Mae and Freddie Mac may only purchase mortgages that are within a cap that is determined based on an annual survey of house prices and applied nationally. While we greatly appreciate the temporary loan limit increase included in Congress' economic stimulus package it is just that – temporary – and will expire on December 31, 2008. NAR has concerns as to whether the increase will be in place long enough to ameliorate the difficult housing cycle we are experiencing.

Thus, NAR urges the Senate to permanently increase the national conforming loan limit to an amount no less than 50 percent higher than the current conforming loan limit (\$625,500 or higher). In addition, NAR asks the Senate to make the temporary conforming loan limit increase for high cost areas as provided in the economic stimulus legislation permanent. Accordingly, for high cost areas, the conforming loan limit would be increased to 125 percent of the local median home sales price, but not to exceed \$729,750.

Permanently increasing the national conforming loan limit to \$625,500, together with allowances for higher limits in more expensive areas of the country, will significantly bolster homebuyer confidence and will bring families back to the marketplace. Furthermore, the loan limit increases will offer more families more affordable interest rates, regardless of where they live. The result will be new additional sales, which lowers inventories and strengthens home prices.

We hope that Congress can reach a consensus on GSE reform, so that all in the housing industry can focus our efforts on the full range of challenges that lie ahead.

**Foreclosure Forbearance and Mitigation.** NAR supports legislative, regulatory, and private sector foreclosure avoidance and mitigation efforts. We urge lenders, especially lenders that have made loans without considering the ability of the borrower to make payments under the loan, to act promptly to help borrowers resolve the problem. Possible steps could include recasting the mortgage, forbearance, favorable refinancing, waiving of prepayment penalties, and other appropriate tools. Prompt action will almost always be in the best interests of the lender, as well.

NAR also supports increased funding for programs that provide financial assistance, counseling, and consumer education to borrowers to help them avoid foreclosure or minimize its impact. We also believe that Congress and the regulators should examine alleged abuses by mortgage servicers, some of whom are engaging in predatory servicing by imposing unjustified high fees on borrowers. These abusive practices can contribute to, or even cause, delinquencies and foreclosures.

Furthermore, NAR has taken the lead within the industry to partner with the Center for Responsible Lending and NeighborWorks® America to create a brochure that can help financially stressed consumers having problems paying their mortgage understand their options and offer guidance on how to avoid foreclosure. Our foreclosure avoidance brochure is available at [www.realtor.org/subprime](http://www.realtor.org/subprime) along with additional consumer education tools, including a brochure on avoiding predatory loans.

## **Future Prevention**

The full impact of this crisis remains to be seen, but with 2.2 million American households projected to lose their homes, the National Association of REALTORS® strongly believes that legislation must be enacted to prevent a similar disaster from happening again. These foreclosures will cost homeowners as much as \$164 billion, primarily in lost home equity.

## **Responsible Lending Principles**

NAR supports a detailed list of protections for consumers in the mortgage transaction, which were included in our statement submitted for the September 9, 2007 House Financial Services Committee hearing entitled, “Legislative and Regulatory Options for Minimizing and Mitigating Mortgage Foreclosures.” In short, NAR strongly believes lenders should:

- Treat all parties in the transaction honestly and fairly, which is consistent with REALTORS® responsibilities under NAR’s Code of Ethics.
- Verify the borrower’s ability to repay the loan, based on all terms, including property taxes and insurance, without having to refinance or sell and considering the totality of the borrower’s circumstances with some flexibility to accommodate those with unique circumstances.
- Underwrite using a reasonable debt-to-income ratio, making sure borrowers have enough residual income after making their monthly mortgage payment, including property taxes and insurance, to meet their needs for food, utilities, transportation and other essentials.
- Generally require that, for subprime loans, the monthly payment include an amount to be held by the mortgage servicer in an escrow/reserve/impound account for the payment of the borrower’s payment of property taxes and insurance.
- Underwrite loans based on verified income and assets, with few exceptions.
- Ensure that any refinanced mortgage provides a significant benefit to the borrower.
- Eliminate prepayment penalties, or at least make them for the shortest time and the lowest amount possible.
- Consider alternative payment history, such as rent, utilities, and telephone and report payment history of borrowers on a monthly basis.
- Offer a choice of mortgages with interest rates and other fees that reflect the borrower’s credit risk.
- Face strong penalties for abusive lending acts.

## **Conclusion**

Today, our nation faces three challenges in dealing with the aftermath of this year's mortgage turmoil. First, we must help those families threatened with the loss of their homes as the result of changing economic conditions and skyrocketing mortgage terms. Second, we must make sure that today's mortgage market turmoil does not spread to the economy as a whole. And, finally, we must make the changes necessary to ensure that American families do not face such a situation again. Both private industry and the federal government have an important role to play in each these challenges. The National Association of REALTORS® stands ready to work with you on implementing these most important measures and thanks you for holding this important hearing.