

NAR Issue Summary

Conventional Residential Lending / REOs

What is the fundamental issue?

Due to the prolonged housing downturn, thousands of homes sold each year are real estate owned (REO) or “bank-owned” properties. With a large number of homes in some stage of foreclosure, the Federal Housing Finance Agency (FHFA, the conservator of Fannie Mae and Freddie Mac (the GSEs)), the Department of Housing and Urban Development (HUD), and the Department of the Treasury have begun evaluating potential structures and disposition strategies to facilitate the current and future disposition of REO properties. The agencies are considering strategies that will help stabilize neighborhoods and local home values, and improve loss recoveries compared to individual retail REO sales.

I am a real estate professional. What does this mean for my business?

REO programs should be designed to reduce excess REO inventory, preserve local property values and achieve the best return for the taxpayer. FHA and the GSEs' current sales strategy using REO broker networks is performing well and, with continued improvement, will minimize impact on housing values. Large scale programs that allow for the bulk sale of properties to large national investors at deep discounts may further consolidate a large section of the housing market into the hands of fewer market participants.

NAR Policy:

REALTORS® understand the need for solutions to fix the housing crisis, particularly the large inventory of REO properties that continues to grow. REALTORS® believe the ideal proposal would:

- Expand resources dedicated to pre-foreclosure efforts, including loan modifications, refinancing, and short sales.
- Focus on providing mortgage financing to qualified homebuyers and investors. Expanding programs such as the FHA Section 203(k) rehabilitation program to investors and suspending GSE investor financing limitations on the number of mortgage loans allowed for any one borrower, will enhance affordable rental opportunities, increase the absorption rate of the current REO inventory, and prevent increases to the existing REO inventory.
- Incentivize individual sales to maximize recovery on the REO assets. Bulk sale pilot programs should only be considered in small geographic areas with high rental demands.
- Continue the timely and orderly disposition of REO inventory assets, and in limited geographic areas where alternatives are needed, continue to rely on the expertise of local businesses including contractors, real estate brokerage firms, and professional property management companies.



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- Create an advisory board made up of public and private industry participants, including real estate professionals, to ensure that the efficient disposition of foreclosed and agency REO properties minimizes taxpayer losses, charges to the FHA fund, and negative effects on local real estate markets.

[Read NAR's September 15, 2011 to FHFA, Treasury and HUD](#)

Opposition Arguments:

Not applicable.

Legislative/Regulatory Status/Outlook

In 2011, the Federal Housing Finance Agency (FHFA, the conservator of Fannie Mae and Freddie Mac (the GSEs)), the Department of Housing and Urban Development (HUD), and the Department of the Treasury announced a Request for Information to seek input on enhancing Fannie Mae, Freddie Mac and the Federal Housing Administration's REO asset disposition strategies.

On November 30, 2011, FHFA released a summary of the current status of the proposals it received and indicated the groundwork for the development of initial pilot transactions:

- FHFA is working to put together a small pilot program (or multiple programs) to enhance the disposition of REO assets held by Fannie and Freddie. This is being done in conjunction with HUD and Treasury and will include HUD REO properties.
- The agencies are considering pilot programs that would include bulk sales to institutions for the rental of these properties. NAR continues to meet with the agencies and promote REO disposition policies that give local investors, governments, and local housing authorities, with vested interest in their communities, the first opportunity to purchase.
- The agencies acknowledged the importance of local neighborhood stabilization efforts. NAR supports programs that utilize the expertise of local non-profits, real estate professionals, local property management companies, and contractors to ensure success.

Current Legislation/Regulation (bill number or regulation)

No actions at this time.

Legislative Contact(s):



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