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STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED FOR THE RECORD TO

THE UNITED STATES SENATE COMMITTEE ON BANKING HOUSING AND URBAN AFFAIRS COMMITTEE SUBCOMMITTEE ON HOUSING TRANSPORTATION AND COMMUNITY DEVELOPMENT

HEARING REGARDING

INEQUALITY OPPORTUNITY AND THE HOUSING MARKET

DECEMBER 9, 2014

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EQUAL HOUSING OPPORTUNITY

INTRODUCTION

Chairman Menendez, Ranking Member Moran, and members of the Subcommittee; my name is Mabél Guzmán. I am the broker for @properties in Chicago, Illinois. I have a long history of advocacy for housing needs, and received the 2014 Presidential Medallion for Outstanding Service from the Illinois Association of REALTORS®. I serve as the 2014 Chair of the National Association of REALTORS® Conventional Finance and Lending Committee. I am here to testify on behalf of the one million members of the National Association of REALTORS®. I thank you for the opportunity to present our views on "Inequality and Opportunity in the Housing Market."

TIGHT CREDIT HAS CREATED INEQUALITY & INHIBITS OPPORTUNITY IN THE HOUSING MARKET

Access to affordable credit remains a huge problem for prospective homebuyers, those wishing to refinance, and our economy overall. The homeownership rate has fallen almost to levels last seen in 1990. Today, the number of homes purchased annually remains less than half of what was purchased prior to the real estate bubble and subsequent collapse. The number of first-time buyers entering the market is at the lowest point since 1987, despite historically low mortgage rates.

Some may question whether Americans still believe in the American Dream or whether homeownership is no longer desirable; however, according to a survey[1] by Neighborworks America released in October 2014, 88 percent of adults maintain a positive view of homeownership. Younger Americans also support homeownership. A recent report by *The Demand Institute* demonstrates that homeownership still matters. In fact, 75 percent of Millennials believe home ownership is an important long-term goal and 73 percent believe ownership is an excellent investment.[2]

Americans have not changed their belief that owning a home is important. What has changed is access to affordable mortgage credit. Credit remains tight as lenders remain leery of taking on risk. There are 6 major factors that are currently impacting access to credit:

1) **The national economy is still in recovery and the supply of both credit and homes remains tight.** Housing demand has lagged historic levels due to sluggish growth in employment and incomes combined with lender overlays on loans financed by the U.S. government. The result is constrained access to credit for minorities, young buyers, and low and moderate earners.

2) **High guarantee fees and loan level pricing adjustments charged by the Government Sponsored Enterprises (GSEs) are still hurting consumers.** Though it is prudent to protect taxpayers against further losses and bailouts of the GSEs, the Federal Housing Finance Authority (FHFA) must use restraint. Encouraging policies or economic models that significantly overcharge consumers may well result in billions of dollars of profits for the GSEs, but will also have a significantly negative impact on mortgage lending.

[1] Neighborworks America, *America at Home Survey*, October 21, 2014.
[2] The Demand Institute, *Millennials and Their Homes: Still Seeking the American Dream*, September 16, 2014.

3) **Excessive Federal Housing Authority (FHA) premiums are negatively impacting housing markets.** While NAR supports FHA's efforts to shore up its emergency reserve fund, our membership believes FHA's actions have come at the expense of FHA borrowers. Despite a healthy portfolio, FHA is charging borrowers historically high rates and requiring them to pay mortgage insurance for the life of the loan, with no opportunity to cancel that mortgage insurance other than to refinance into a non-FHA product.

4) **FHA and GSE condominium restrictions are preventing homeownership opportunities.** Changes to rules regarding owner occupancy ratios, project approval process, delinquent dues, and commercial space are necessary to remove onerous barriers preventing consumers from the ownership of condominiums, which often are the most affordable options for first-time homebuyers.

5) **Housing policies add to lending concerns.** Although recent steps taken by FHFA to provide more clarity with regard to representations and warranties, as well as restoring the GSE's longstanding practice of purchasing loans with 3 percent downpayments, are positive, it is imperative that lenders improve the quality of their underwriting and halt preventable mistakes during this process. Furthermore, just as the FHA has done encouraging work on compare ratios, NAR believes Congress and the Administration can help to further improve current credit conditions by addressing the 3 percent cap on fees and points.

6) **Foreclosure and short sales remain problematic for thousands of American families**. For this reason, NAR urges Congress to pass an extension of , "The Mortgage Forgiveness Tax Relief Act," which would extend mortgage debt forgiveness to distressed homeowners and provide more certainty to the short sale process. Also, NAR remains concerned about the GSE and FHA alternative asset disposition programs that actually reduce home purchase opportunities for owner occupants.

A NATIONAL ECONOMY STILL IN RECOVERY

Homeownership is an important source of wealth creation for American families. Homeowners have always enjoyed more net worth than renters; in the recovery from the great recession, the wealth of owners grew by $20,900 from 2010 to 2013 as compared to just $300 for renters. The median net worth of a homeowner in 2013 was $195,400 versus $5,400 for renters. Federal Reserve economists have noted the power of a mortgage as a means of forced savings.

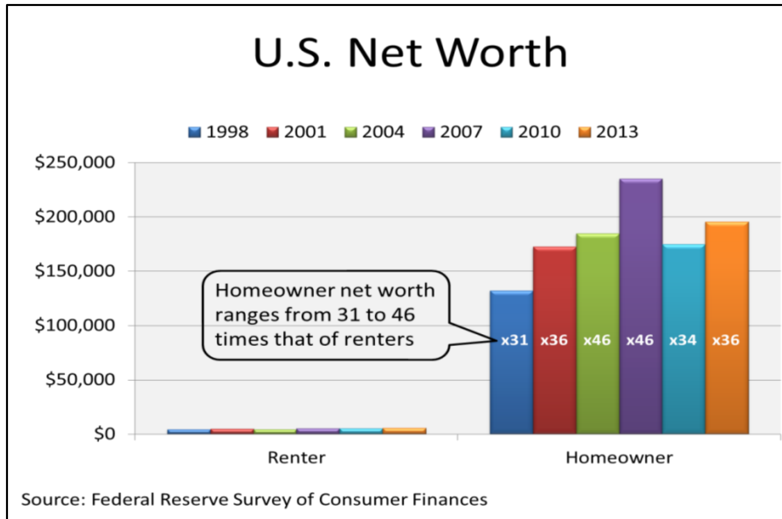


Exhibit 1

At the same time, however, the share of first-time home buyers fell to a 27-year low in 2013 of 33 percent, down from 38 percent in 2012 and a recent high of 50 percent in 2010. As depicted below, the decline in homeownership between 2004 and 2013 was disproportionately borne by African Americans and buyers aged 44 and under. As homeownership is one of the main vehicles for building wealth over one's lifetime, the decline in homeownership will have a lasting effect on access to education, healthcare, and retirement for these groups.

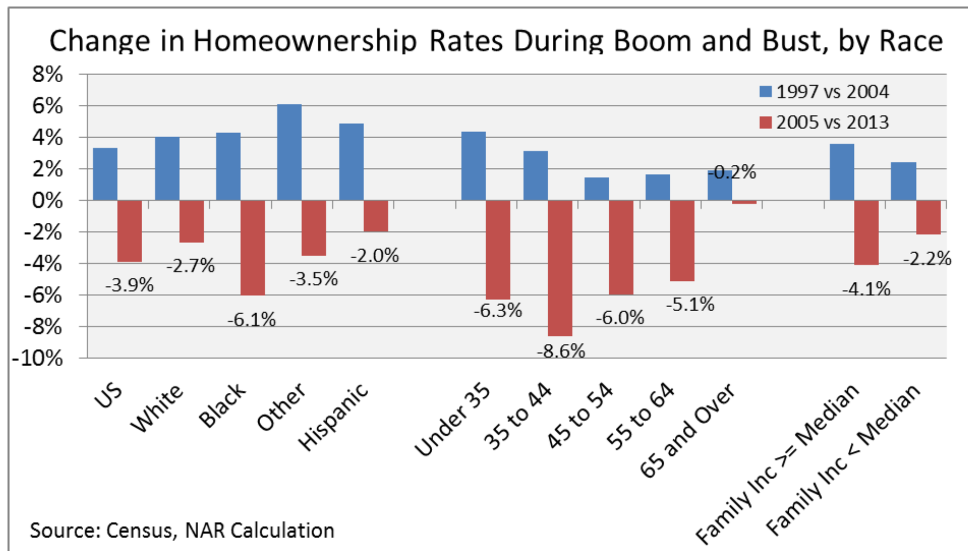


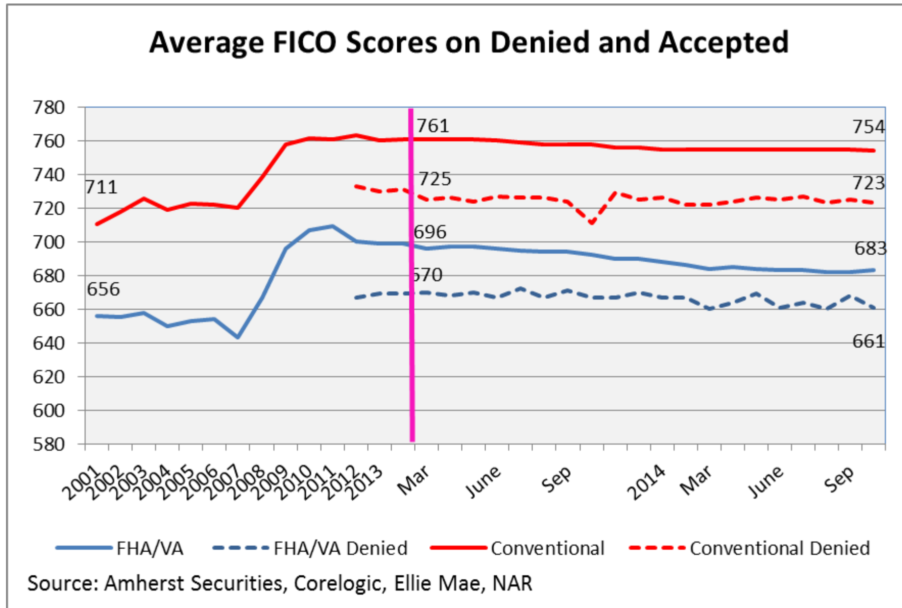
Exhibit 2

Rents have increased steadily in recent years as a result of tight credit and a bourgeoning renter population, and are expected to rise at annual rates of roughly 4 percent in each of the coming two years. Rising rents eat into savings that could fund a down payment, as well as savings for other life events like having a family and retirement. This trend could drive an expansion of the wealth gap.

Several factors are impacting the market today; these include: the supply of credit, the supply of homes, and consumer demand.

<u>SUPPLY OF CREDIT STILL LAGGING</u>

The average successful mortgage applicant's FICO score remains well above the historic average. While the FHA, Department of Veterans Affairs (VA), and Rural Housing Service (RHS) all provide access to low down payment loans, lenders have restricted that access to borrowers with higher credit scores and lower Debt-to-Income ratios (DTIs).



<u>Exhibit 3</u>

The impact of tight credit is felt even more by minority groups. The denial rate of African American credit qualified borrowers is more than double that of whites (see Exhibit 4 below). The ratio is nearly the same for Hispanics.

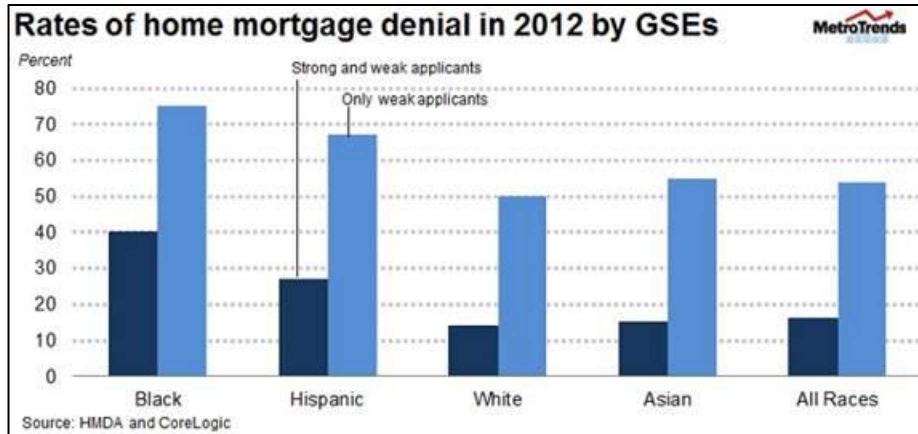


Exhibit 4[3]

Furthermore, while the rejection rates for all borrowers were higher in 2013 compared to 2004, the change in rejection rates over this period for African American, Hispanic White, and other minorities were elevated relative to non-Hispanic Whites.

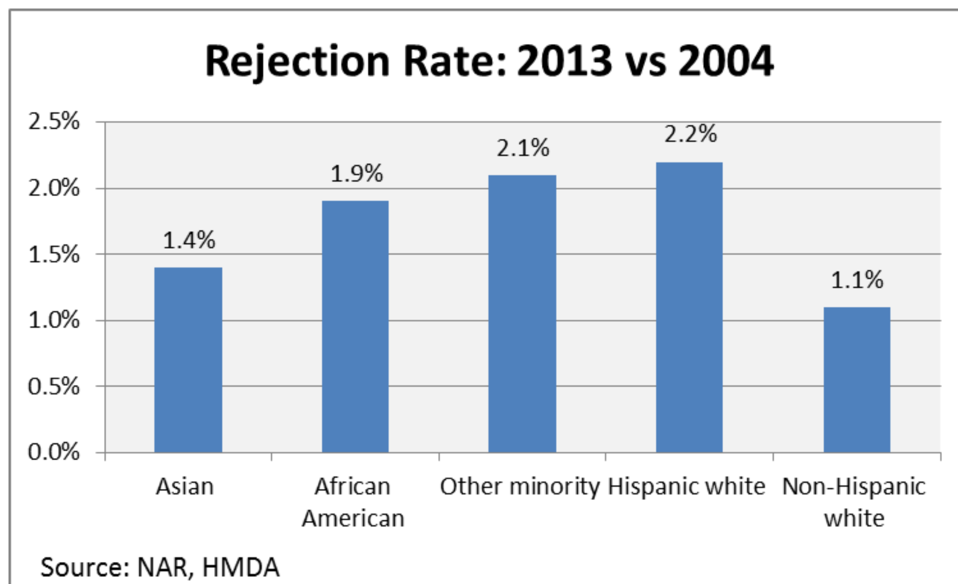


Exhibit 5

While lenders have expressed concern about regulatory uncertainty, the final Qualified Mortgage (QM) and Qualified Residential Mortgage (QRM) rules are both favorable and the CFPB has acted to ameliorate some frictions. Moreover, NAR applauds the six financial regulators that finalized the Risk Retention rule earlier this year which includes a broad definition of QRM that aligns with the Qualified Mortgage standard implemented earlier this year.

[3] http://blog.metrotrends.org/2014/06/gses-serve-minority-borrowers/

REALTORS® are confident that the new QRM rule will encourage sound and financially prudent mortgage financing by lenders, while also ensuring responsible homebuyers have access to safe and affordable credit. The synchronization of the QRM rule with the QM rule will provide lenders with much needed clarity and consistency as they apply the new standards to loan applications while also providing a framework to bring more competition to the secondary mortgage market.

The new QRM rule is also a healthy step towards a more robust securities market that will reduce the government's footprint and creates more opportunities for private capital to participate. Importantly, the final rule relies on sound and responsible underwriting rather than on an onerous downpayment requirement to qualify as a QRM loan.

Additionally, lenders surveyed have indicated optimism about an expansion of credit in the near-prime segment and a modest improvement for sub-prime borrowers (Exhibit 6).

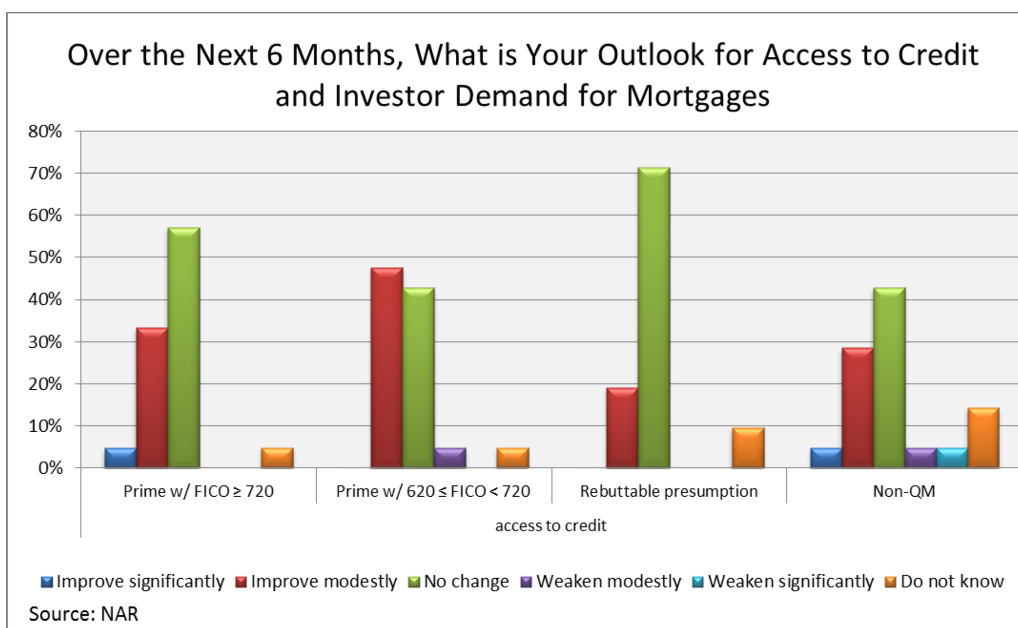


Exhibit 6

Lender confidence has not been shared by entry-level consumers, though. Research by the Federal Reserve indicates that borrowers with FICO scores below 680 expect to be rejected for credit at higher rates in 2014 and plan to apply at lower rates for credit as a result. The opposite is true for most other groups except high FICO borrowers who have had advantageous conditions for several years. The impact of tight credit has impacted lower credit borrowers' willingness to even apply for credit.

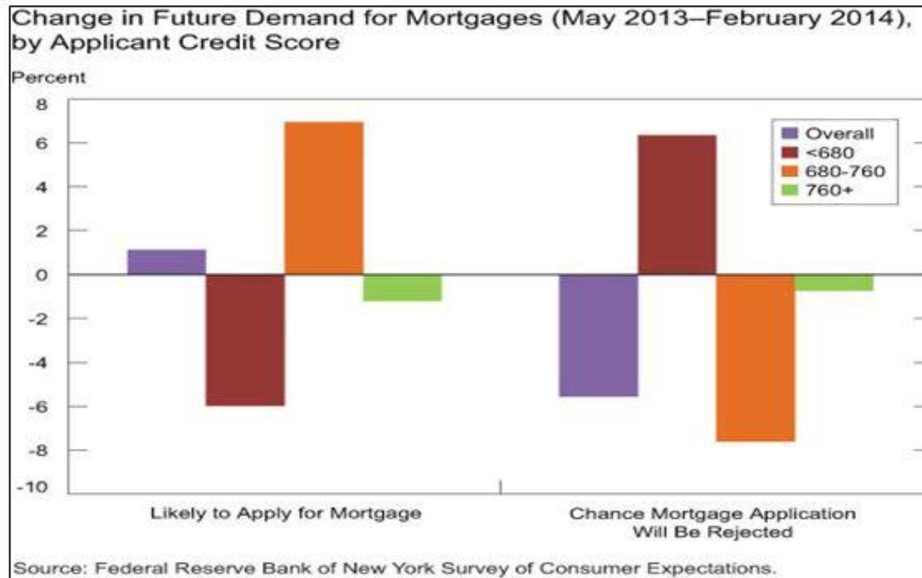


Exhibit 7

African American and Hispanic borrowers make up a disproportionate share of borrowers with FICOs less than 650. According to the 2013 Federal Reserve analysis of HMDA filings, in 2006, 56.8 percent of African American or Black borrowers had an Experian credit score of 650 or less, as compared to 37.5 percent for White Hispanic and 19.1 percent for White, Non-Hispanic. As depicted below, the distributions of credit scores by race vary significantly. Furthermore, the share of rejections due to credit score in 2013 was significantly higher for African Americans (30.0 percent) and other minorities (27.7 percent) than non-Hispanic Whites (22.5 percent).

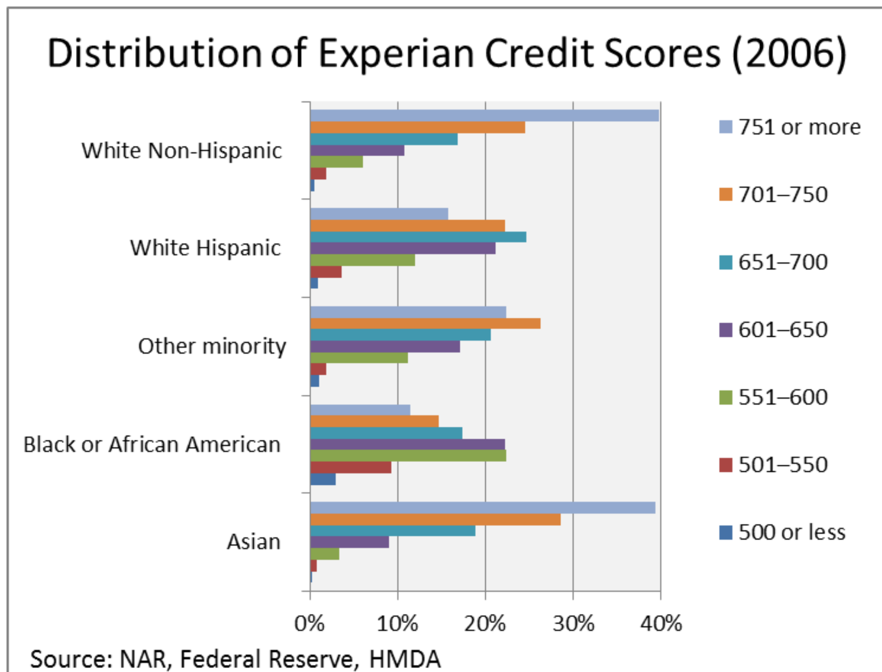


Exhibit 8

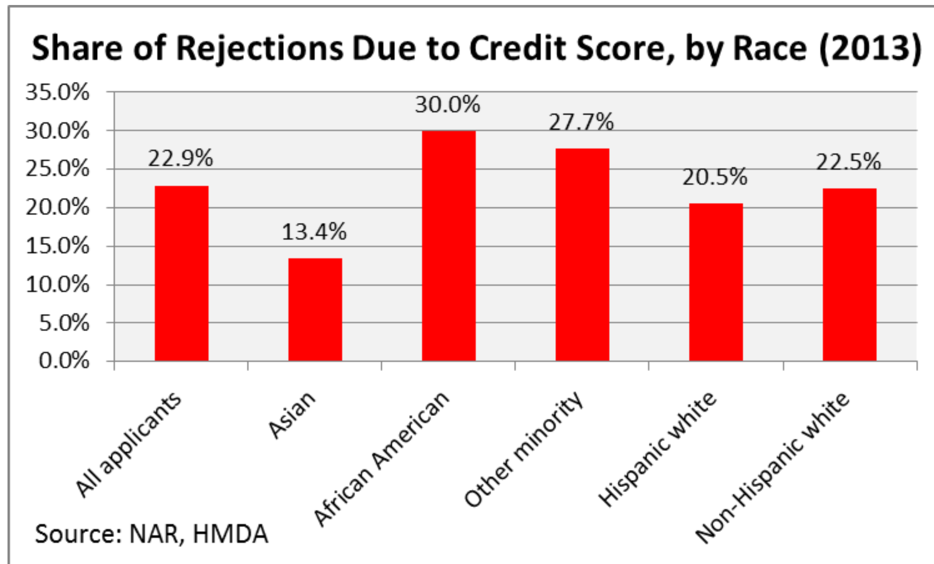


Exhibit 9

According to a recent NAR survey, roughly 60 percent of lenders believe FICO's latest credit score model, called FICO 9, will result in the increased acceptance of mortgage applications. Specifically, the company's latest version of its score will no longer weigh medical debts, which account for about half of all unpaid collections on consumers' credit reports, as heavily as it did in previous iterations. The newer FICO scores will also ignore any overdue payments that have already been made; previously, the scores factored paid and unpaid collections equally, though amounts under $100 were ignored.

REALTORS® welcome FICO's changes and believe they will ultimately make a real difference in the lives of millions of Americans, who have been shut out of the housing market or forced to pay higher mortgage interest rates because of flawed credit scores. Our members do understand that for consumers to see any benefit, however, lenders have to adopt the new scoring techniques. In the past, mortgage lenders have been slower to adopt new scores because Fannie Mae and Freddie Mac still used older models in their own underwriting software. NAR urges the GSEs to expand the use of other credit score models such as VantageScore, which rolled out a new scoring model in March 2013 that excludes all paid collections. This model also uses utility and rental payments, which are advantageous to potential buyers without considerable credit card balances or car loan debt, helping low income and first time buyers achieve homeownership.

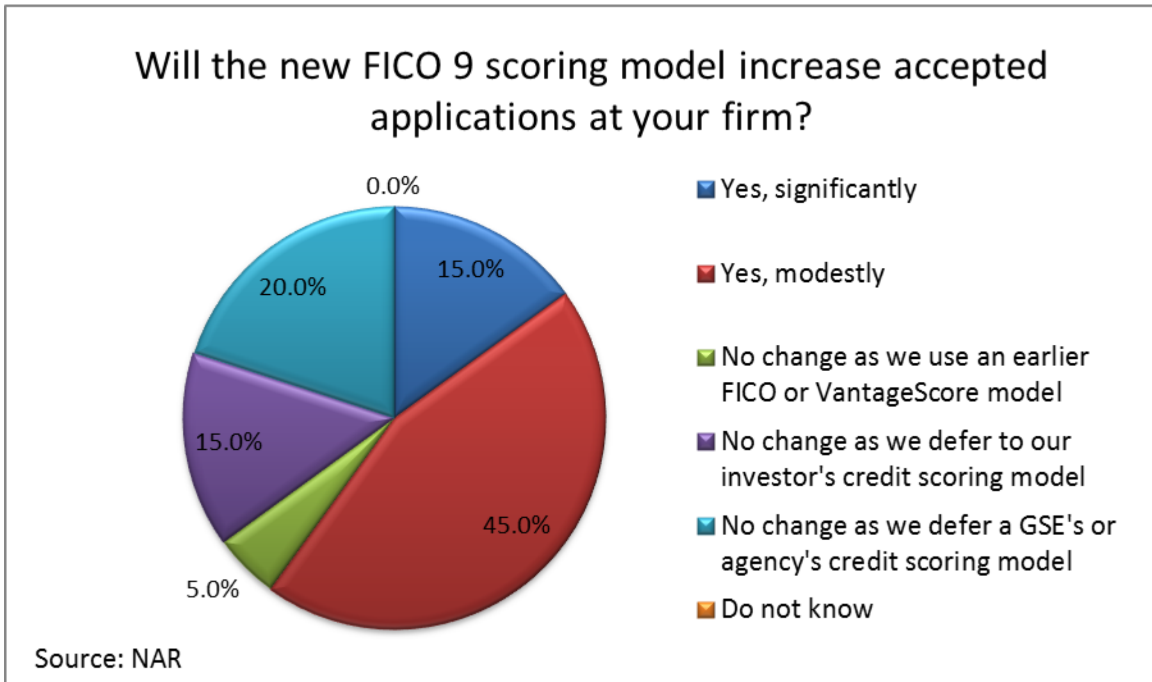


Exhibit 10

HOUSING SUPPLY REMAINS TIGHT

The months' supply of homes has been under the neutral 6 months' mark for more than two years, attesting to the tightness of inventories. While the national average was 5.1 months' in October 2014, the supply of homes in the $250,000 price range or less where entry-level buyers typically participate was much lower. Investor demand focused on this price point helped to absorb any excess inventory following the recession, but traditional sellers and builders have been slow to replenish the supply as the market recovered.

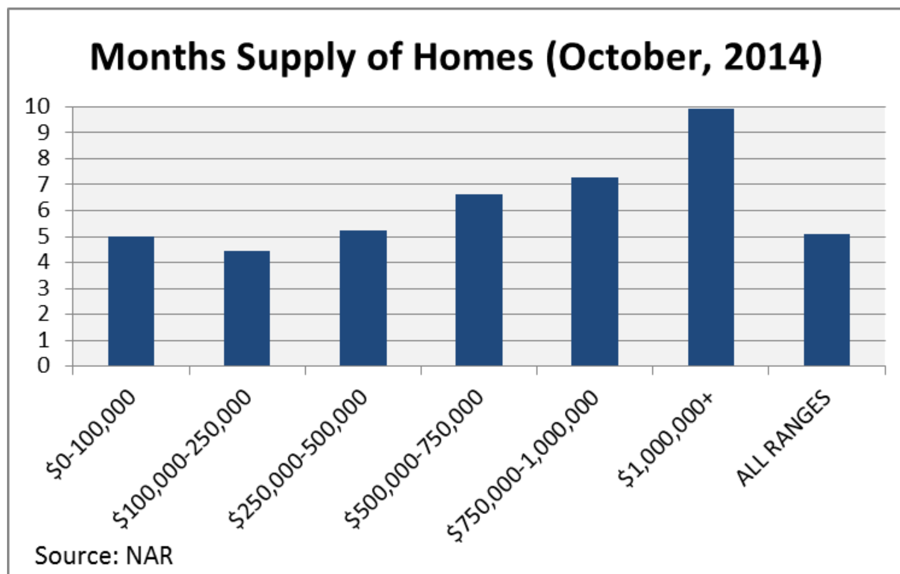


Exhibit 11

Single family housing starts were just 621,000 in 2013 and have only averaged slightly better in 2014, well below the historic average of nearly 1.1 million per year. Total construction starts, including single family and multi-family, were 930,000 in 2013 and have been modestly higher in 2014, but again well below the historical average of nearly 1.5 million per year.

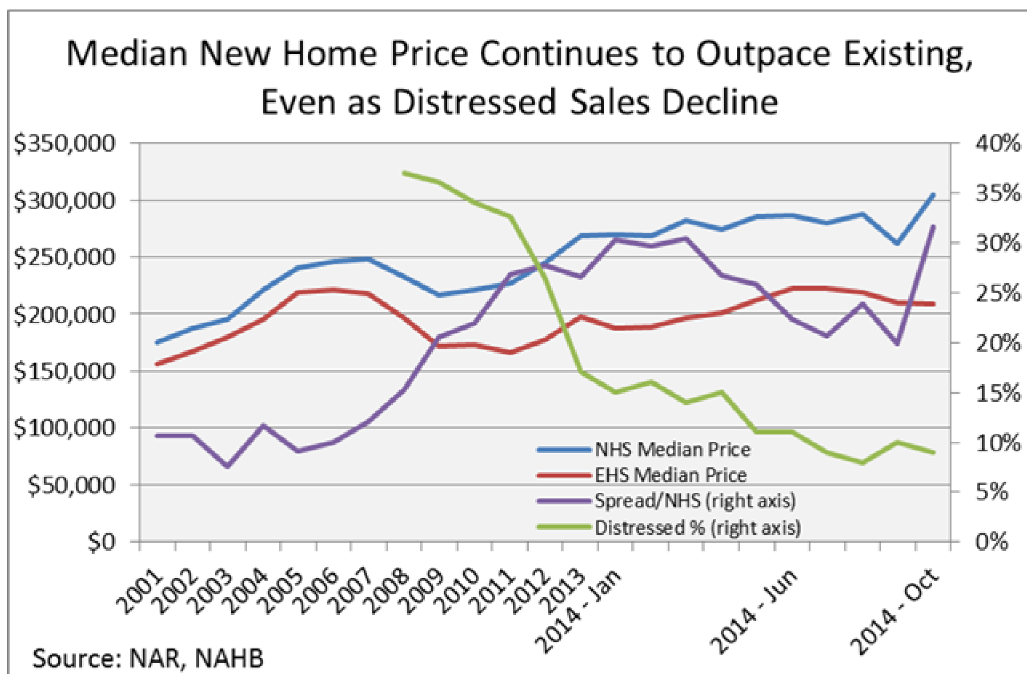


Exhibit 12

Furthermore, the sales price of new homes remains significantly higher than those of existing homes pointing to the lack of affordable housing in the new construction portion of the market. While the spread has eased from a peak of 30 percent of the median new home sale price, it remains significantly above its level in the early
2000s. Some might argue that the median existing sale price includes distressed sales, but the spread did not decline in lock-step as the distressed share fell from 34 percent in October of 2011 to 9 percent in October of 2014. The spread has eased in 2014, but remains more than twice its pre-crisis level.

Without an increase in construction, the months' supply of homes could slip below 5 months, which could in turn drive strong price appreciation. Combined with an expected increase in mortgage rates, a rapid increase in home prices could weigh on affordability and stymie nascent first-time buyer confidence.

HOUSING DEMAND FACES HEADWINDS

As the economy improved over the last two years, job prospects for young workers have as well. Nearly 1.2 million more persons between the ages of 25 and 34 were employed in October 2014 as compared to October 2012; this age group makes up nearly 60 percent of first-time homebuyers according to NAR's *Profile of Home Buyers and Sellers*. This survey also indicates that the majority of borrowers build up their down payment within the 24 month period in advance of their purchase. These trends bode well for 2015 as jobs provide the income and confidence to build up a down payment and make a home purchase.

However, headwinds for these young, aspiring home buyers remain. Of those buyers who had trouble saving for a down payment, nearly half of homebuyers indicate that student debt delayed their ability to save, according to NAR's 2014 *Profile of Home Buyers and Sellers*. Research by economists at the New York Federal Reserve indicates that students in states where the average student is more "heavily reliant on student debt while in school are significantly and substantially more likely to move home to parents when living independently, and are significantly and substantially less likely to move away from parents when living at home".[4] Furthermore, these same economists found a long-term pattern of increased residence of young adults with parents due to rising student debt burdens.

Repeat owners and potential trade-up buyers have had their own issues with which to contend. As of the second quarter of 2014, 5.3 million homeowners still owed more on their home than it was valued. This was a significant improvement of nearly 6.8 million fewer underwater borrowers than in the 4th quarter of 2012. Unfortunately, the severity of negative equity is greater for owners in the entry-level price range. Negative equity stymies the trade-up process, preventing entry-level homes from re-entering the market, but it also constrains the supply. As prices appreciate, these owners will gain the equity to trade up.

Former owners who went through short sales or foreclosures may now have access to financing through the FHA or the Government Sponsored Enterprises (GSEs). However, Federal Reserve economists found that 6 years after going delinquent, the FICO scores for these homeowners had only recovered 90 to 95 percent.[5] These borrowers may have access to credit, but they face higher pricing and manual underwriting by the FHA, GSEs, and Private Mortgage Insurers (PMIs). The higher pricing affects their ability to comply with the 3 percent cap and 43 percent back-end DTI requirements of the QM rule.

Not all homeowners can wait for prices to go up; many are in distress. Roughly 920,000 homeowners were seriously delinquent on their mortgage in the 3rd quarter of 2014 and another 980,000 were in some stage of foreclosure. If Congress is unable to extend the current tax treatment of mortgage debt forgiveness relief, these households will face an even greater debt load, further compounding their impaired credit issues and reducing the likelihood of their participation in the housing market and the economy. The potential impact of a failure to extend this provision of current tax law is illustrated by the sharp drop in the share of short sales in the latter half of 2013 that occurred in anticipation of the elimination of the more favorable treatment of mortgage debt forgiveness given the long timelines needed to complete the short sale process.

Summarizing, weak employment and income growth combined with lender overlays on loans financed by the US government or through Fannie Mae or Freddie Mac have constrained access to credit and the housing recovery for minorities, young buyers, and low and moderate earners. In short, these groups are missing out on the strongest affordability conditions in decades and this pattern may persist going forward.

HIGH GSE GUARANTEE FEES & LOAN LEVEL PRICING ADJUSTMENTS STILL HURTING CONSUMERS

In addition to national economic factors, high guarantee fees (g-fees) and loan level pricing adjustments (LLPAs) charged by the GSEs are negatively impacting the housing recovery. These Enterprises buy single-

[4] http://www.newyorkfed.org/research/staff_reports/sr700.pdf

[5] http://www.federalreserve.gov/pubs/bulletin/2013/pdf/2012_HMDA.pdf

family mortgages from mortgage companies, commercial banks, credit unions, and other financial institutions. A key revenue component for the GSEs is a g-fee received for guaranteeing the payment of principal and interest on their mortgage backed securities (MBS). The g-fee is a significant factor in determining profits earned from this credit guarantee. The g-fee covers projected credit losses from borrower defaults over the life of the loans, administrative costs, and a return on capital. FHFA's announcement on December 9, 2013, will result in g-fees that are more than double the level of fees in 2007.

In March 2008, the GSEs implemented two new fees. The first was an upfront adverse market fee of 25 basis points that was intended to protect against the heightened credit risk posed by deteriorating housing market conditions. At the time, the adverse market fee was equivalent to an ongoing guarantee fee of approximately five basis points. The second new fee was loan level pricing adjustments (LLPAs), which are additional fees based on loan-to-value (LTV) ratios, credit scores, and other risk factors. Both of these charges, like the g-fee, are passed onto borrowers, typically in the form of higher mortgage rates, since borrowers often use available cash to contribute toward down payment rather than towards additional fees.

In addition to the LLPAs, ongoing g-fees are included in the interest rate charged to the borrower, while borrowers with LTVs higher than 80 percent will often contribute hundreds of dollars a month toward mortgage insurance premiums that protect the GSEs for losses well beyond that. As an example, Exhibit 13 shows the additional fees borrowers at different down payment levels are required to pay to the GSEs.

LLPAs and AMDC Paid Upfront on $200,000 Home								
	< 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%
> 740	$0	$325	$363	$775	$825	$875	$925	$960
720 – 739	$0	$325	$725	$1,163	$1,238	$1,313	$1,388	$1,440
700 – 719	$0	$975	$1,450	$1,938	$2,063	$2,188	$2,313	$2,400
680 – 699	$300	$975	$2,175	$3,100	$2,888	$2,625	$2,775	$2,400
660 – 679	$300	$1,625	$3,263	$4,263	$4,950	$4,375	$4,625	$3,840
640 – 659	$900	$1,950	$3,988	$5,038	$5,775	$5,250	$5,550	$4,800
620 – 639	$900	$2,275	$4,713	$5,038	$5,775	$6,125	$6,475	$6,240
< 620 (1)	$900	$2,275	$4,713	$5,038	$5,775	$6,125	$6,475	$6,720
Source: FNMA, NAR								

Exhibit 13

Accordingly, a borrower with a down payment slightly under 10 percent will pay for credit protection to the GSEs in the form of $2,313 in upfront fees (if they are able to) and ongoing monthly guarantee and credit insurance costs that represent 18.9 percent of their monthly mortgage payment as shown in Exhibit 14. To provide context, the borrower in this example is paying for mortgage insurance coverage up to 30 percent in losses, which exceeds the charter requirement for 20 percent protection, based on the purchase price or the appraised value of the house.

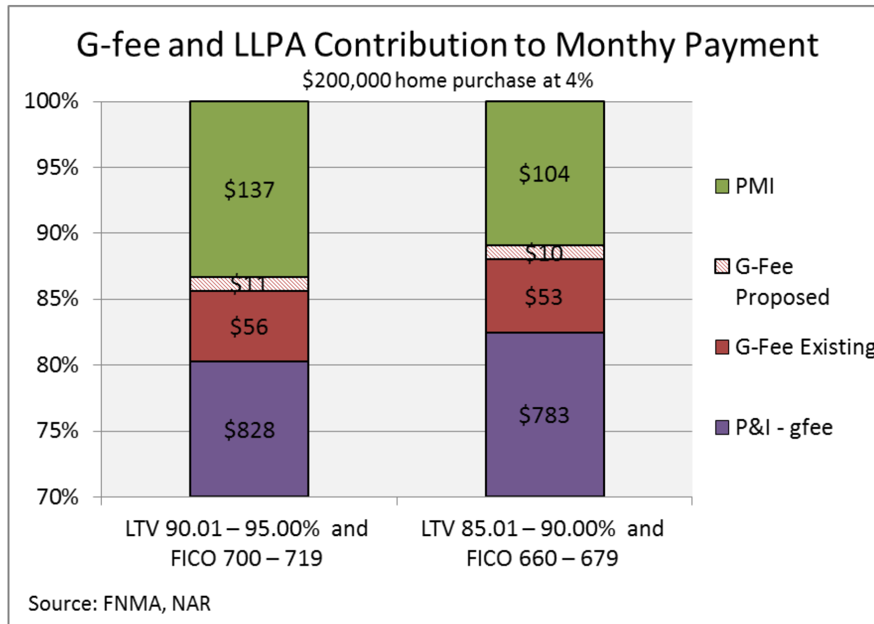


Exhibit 14

On December 13, 2013, as part of a yearly analysis of g-fees, FHFA indicated that, at its direction, Freddie Mac and Fannie Mae implemented new costing models in 2012 that resulted in sizeable increases in the GSEs' estimates of the cost of guaranteeing single-family mortgages. Though these changes don't reflect the reduced credit losses the GSEs experienced throughout 2013, FHFA indicated that it believed that the estimates more fully reflected the credit risk posed by the loans, thus substantiating continued increases to g-fees. It should be noted, that the same report indicated that the GSEs were guaranteeing a substantially lower amount of "high-risk" loans and that over 87 percent of loans originated were from borrowers with credit scores greater than or equal to 720, contradicting the idea that the estimated increase in costs were based on risk, rather than prescriptive policy measures to try to make high private market rates appear competitive.

Another flaw with the GSEs' models is that they do not take into account the new regulatory framework under the Consumer Financial Protection Bureau's Ability-to-Repay rule that prevents the highest risk loans from being originated. In addition, the cost models also don't factor improvements in mortgage servicing which will reduce losses should borrowers fall behind on payments. Instead, both of the GSEs are attempting to achieve a significant target rate of return to guarantee mortgages – well over and above projected losses. NAR's interpretation of this decision is that these fees are excessive and forcing taxpayers to pay substantially higher rates for their mortgages than the actual risk that they pose. As FHFA notes in its Request for Input, the GSEs' return on capital is positive in all borrower loan-to-value and credit score risk buckets, and the "cost" expressed is not actually a cost, it merely reflects a profit that is less than the targeted rate.

Continued increases in g-fees and upfront borrower costs will extend a trend of reduced access to mortgage credit, which is counter to a principal duty of the FHFA Director under the Housing and Economic Recovery Act of 2008 (HERA). Continuing to increase the fee will mean that larger numbers of consumers, many of them first time homebuyers, will be forced to pay substantially higher mortgage rates, or be left with limited housing finance options. NAR believes borrowers who are either purchasing a home or refinancing their existing mortgage using conventional financing are being charged excessive fees due to policy goals that go beyond protecting taxpayers from GSE losses.

NAR is especially concerned with the disparate impact the changes will have on first time homebuyers and other traditionally underserved borrowers. These families are more likely to bear the brunt of these fees typically due to credit histories that do not reflect payments toward housing expenses and smaller down payments than made by other borrowers.

FHFA seems to believe that by raising costs for loans purchased or guaranteed by the GSEs, they can lure private sector capital back to the mortgage market. However, we believe this policy does not account for the aversion to, and lack of trust in, issuers of private mortgage backed securities that many investors still harbor since suffering tremendous losses during the recent housing crisis. This lack of trust remains and is hard to quantify. When increasing fees, the GSEs must include performance measures to ensure they are meeting the goal of increasing private sector participation. In addition, the Agency should examine other factors that are holding back the private market in conjunction with the Treasury Department. The National Association of REALTORS® believes that future data will show that the effect of raising fees will simply be increased costs to home buying taxpayers who can afford to become homeowners, and that the true effect will be redirection of more mortgage loans to FHA without a robust private sector return.

Though many have commented that prior to the 2008 financial crisis the GSEs underestimated projected losses, FHFA's announcement of December 9, 2013 will result in more than a doubling of the guarantee fee since 2007. This is a result of credit risk models that don't factor regulatory changes made after the financial crisis such as the Ability-to-Repay rule and improvements in mortgage servicing standards. These rules restrict many of the loans and practices that were responsible for the substantial losses the GSEs experienced.

The excessiveness of these continued fee increase will harm the nation's housing recovery. First time homebuyers and other traditionally underserved borrowers are more likely to make smaller downpayments have been disproportionately affected by the upfront LLPA fees. Given the need to encourage borrowers to return to the housing market, unnecessarily increasing borrowing costs for this class of homebuyers is irresponsible housing policy and impacts borrowers who are essential to our housing recovery. .

EXCESSIVE FHA PREMIUMS NEGATIVELY IMPACTING HOUSING MARKET

Along with excessive fees charged by the GSEs, current FHA mortgage insurance premiums have made it more difficult for many Americans to achieve the dream of homeownership. In 2014, FHA fees make up nearly 25 percent of a monthly mortgage payment. On a $150,000 loan at 4.5 percent interest, the mortgage payment is 13 percent higher today than it was in 2008 (See Exhibit 15).

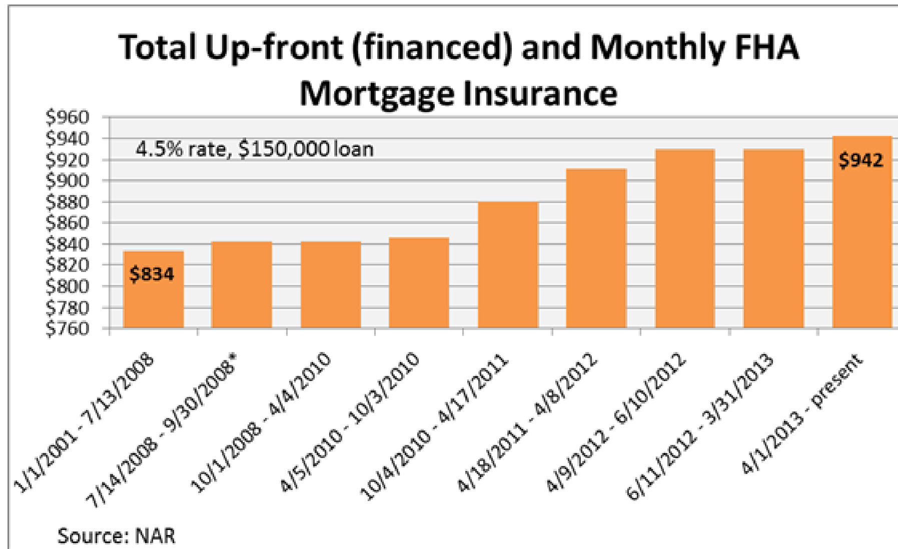


Exhibit 15

Now that the MMI Fund is on a path to recovery, NAR has strongly urged FHA to lower the annual mortgage insurance premiums and eliminate the requirement that mortgage insurance r for the life of the loan. These changes will slow the rate of prepayments that are having a negative effect on the fund. According to HUD's data, full payoffs, with no subsequent refinance with FHA, were 81 percent of FHA's prepayments.[6] In 2012, only 50 percent of FHA prepayments were full payoffs. Prepayments in FY 2013 were at their highest level since the end of FY 2004

The MMI Fund is currently capitalized at $4.8 billion. In just two years, the fund has gained $21 billion. This is remarkable progress considering in FY 2012, FHA had to take a draw on the Treasury due to significant losses experienced as a result of the housing collapse for the first time in its 80 year history,. The housing crisis was the worst in our nation's history since the Great Depression. FHA took losses, because doing so helped keep our economy afloat during this crisis. FHA prevented an even greater economic collapse by continuing to lend mortgage money, stabilizing housing prices, and keep housing markets flowing. Mark Zandi of Moody's has reported *"if FHA lending had not expanded after private mortgage lending collapsed, the housing market would have cratered, taking the economy with it."*[7] Moody's has estimated that without FHA, housing prices would have dropped an additional 25 percent, and American families would have lost more than $3 trillion of home wealth.

Now that the FHA fund is healthy, FHA is trying to rebuild its emergency reserves as quickly as possible. NAR supports this effort, but rebuilding capital reserves takes time. FHA's underwriting is stronger than ever. Higher risk borrowers are required to make significant downpayments, and some even must go through strenuous manual underwriting processes. FHA's average borrower today has a credit score of more than 680. The average borrower rejected for an FHA mortgage has a credit score of 661. Despite these strong borrower characteristics, FHA is charging borrowers historically high rates and requiring them to pay mortgage insurance for the life of the loan, with no opportunity to cancel other than to refinance into a non-

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[6] U. S. Department of Housing and Urban Development (HUD) Office of Risk Management and Regulatory Affairs, Office of Evaluation, Reporting and Analysis Division, *FHA Production Report*, December 2013.

[7] Zandi, Mark, Obama Policies Ended Housing Free Fall, *The Washington Post*, September 28, 2012.

FHA product. NAR believes this is simply disenfranchising the typical FHA borrower, and preventing a significant portion of qualified borrowers from buying a home.

In 2014, the mortgage insurance premium of 1.35 percent is 80 basis points higher than the rate of 0.55 percent in 2010. The 80 additional basis points pushed an estimated 1.45 million to 1.65 million renters over a sustainable debt-to-income level for purchase of a home in 2013 (see Exhibit 16). Of these impacted renters, as many as 125,000 to 375,000 would have purchased a home in 2013 had they not been priced out of the market.

Premium Rates and the Impact on Renters			
Year	MIP	Change in MIP from 2010	Renters Impacted
10/4/2010 - 4/17/2011	90	35	550,000 to 750,000
4/18/2011 - 4/8/2012	115	60	1,000,000 to 1,250,000
4/9/2012 - 6/10/2012	125	70	1,200,000 to 1,400,000
6/11/2012 - 3/31/2013	125	70	1,250,000 to 1,450,000
4/1/2013 - present	135	80	1,450,000 to 1,650,000

Exhibit 16[8]

Many of the potential home buyers who are priced out of FHA cannot migrate to private mortgage insurance (PMI). PMI premiums are currently 1.1 percent annually for a borrower with a downpayment between 3 percent and 5 percent and a FICO score of 720 or higher[9]. The rate rises to 1.31 percent if the FICO is between 680 and 719, and 1.48 percent if the FICO is between 620 and 679; private mortgage insurance in not available for loans with FICOs below 620. Combined with the higher funding cost of roughly 25 basis points for a GSE execution, only borrowers with the highest credit scores could afford to migrate to GSE financing (e.g. 1.31 percent + 0.25 percent = 1.56 percent, 21 basis points higher for conventional than FHA). Likewise, for a larger downpayment between 5 and 10 percent with a FICO below 680, the cost of PMI is 1.15 percent, still more expensive than FHA when the 25 basis point difference in funding costs is included.

Many first-time home buyers, who are priced out of FHA and unable to migrate to private mortgage insurance, are likely to be under the age of 44. Since 2008, income growth has been slowest among Millennials, ages 33 and younger, and Generation Xers, ages 34-44 (see Exhibit 17). Of these younger buyers, over 40 percent are minorities. If most of the people buying homes in the next two decades are now under the age of 44, then more than one in four homebuyers will be Hispanic or Asian.[10]

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[8] NAR, Census and Genworth Data

[9] Genworth Financial data on PMI.

[10] The Changing Face of America (2011, August) *National Association of REALTORS® Global Perspectives Newsletter*. Retrieved from http://www.realtor.org/sites/default/files/global-perspectives-2011-08-US-demographic-shift-full-issue.pdf

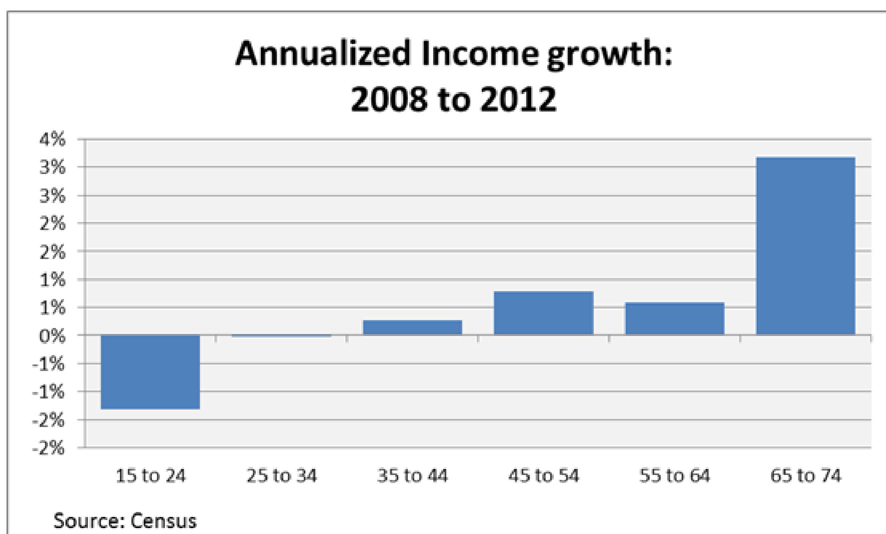

Exhibit 17

FHA has played an important role in helping first-time and minority borrowers become homeowners. In 2014, 81 percent of all FHA loans went to first-time homebuyers.[11] Moreover, nearly half of African American and Hispanic families who purchased a home, did so with FHA mortgage insurance (see Exhibit 18). Providing access to credit for these homebuyers is a critical means of building wealth. A recent research paper by the Joint Center for Housing Studies at Harvard concludes that even after the decline in housing prices and the increase of foreclosures beginning in 2007, homeownership continues to be a significant source of household wealth, particularly for lower-income and minority households.[12] The study notes that,

> *"efforts to save for a down payment lead to a large jump in wealth that is then further supported by at least modest appreciation and some pay down of principal over time. Renters may have the opportunity to accrue savings and invest them in higher yielding opportunities but lack strong incentives and effective mechanisms for carrying through on this opportunity…and those who made a failed transition from owning to renting are no worse off financially than those who remained renters over the whole period."*[13]

[11] Housing and Urban Development, Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2014, November 17, 2014.

[12] Christopher Herbert, Daniel McCue, and Rocio Sanchez-Moyano. "Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?),"49, Joint Center for Housing Studies, Harvard University, September 2013.

[13] Ibid, 26-27.

Home Purchase Loans and Racial Shares Across Market Segments in 2013[a]

Race or Ethnicity	Number of Loans	2013 Market Segments (Shares in Rows Add to 100%) Conventional	FHA	FSA/RHS[b]	VA
All Borrowers	2,748,237	62.9	23.4	4.8	9.0
American Indian or Alaska Native	9,262	47.5	34.5	5.9	12.1
Asian or Hawaiian/Pacific Islander	158,741	82.4	13.7	0.8	3.1
Black or African American	130,534	32.4	46.3	4.5	16.8
Hispanic or Latino	220,070	39.7	47.9	4.6	7.7
White	1,949,002	65.4	20.4	5.5	8.7
Not Disclosed[c]	200,846	69.5	18.8	1.8	10.0
Joint[d]	79,782	59.9	22.1	2.7	15.4

Exhibit 18[14]

The 2014 FHA Actuarial report believes FHA will achieve a 4.5 percent capital reserve (more than double the required level) in just 4 years. But at what cost? FHA's mission is to provide mortgage access to the underserved. Increasing the emergency reserves at this rate, is limiting mortgage access to hundreds of thousands of qualified families. FHA is healthy, and strongly capitalized. We strongly urge FHA to lower premiums, and resume its goal of providing safe, affordable mortgage financing to qualified American families who want and deserve their piece of the American dream. .

CONDO RESTRICTIONS PREVENTING HOMEOWNERSHIP OPPORTUNITIES

FHA and the GSEs have significant restrictions on the purchase of condominiums. However, condominiums often represent the most affordable options for first-time homebuyers. NAR supports developing policies that will give current homeowners and potential buyers of condos access to more flexible and affordable financing opportunities and a wider choice of approved condo developments. Specifically, we have four areas of concern.

1. Owner occupancy – The GSEs do not place limits on the owner-occupancy of a condominium project if the borrower is buying it as a primary residence. FHA requires that a condominium property be at least 50 percent owner occupied. FHA's ratio greatly limits the number of condominium buildings available to credit-worthy borrowers. This policy is also self-fulfilling. If a building has less than the 50 percent owner-occupancy ratio, sellers of units have fewer buyers who are eligible, leading them to rent out their unit rather than sell. This makes it difficult for many buildings to achieve the 50 percent requirement. NAR strongly urges FHA to eliminate this requirement to open up more properties for FHA eligible buyers.

2. Project Approval Process – Both FHA and the GSEs require the entire condominium project to be approved prior to a buyer purchasing a unit. The GSEs allow lenders to approve a project, but they

[14] Housing and Urban Development, Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2014, November 17, 2014.

do not publish the approved list, making it difficult for prospective purchasers to know if a building is approved. FHA, on the other hand, does publish a list of approved properties, but its certification requirements to obtain approval are much more challenging. The process is costly and time-consuming, and difficult for the often volunteer boards of condominium buildings. Only about 10 percent of all condominium properties nationwide have FHA approval.[15] NAR strongly urges FHA to reduce the burdens associated with project certification. NAR also recommends that the spot loan approval process be reinstated to allow purchases in some buildings that do not have FHA certification.

3. Delinquent Dues – Following the housing crisis, a number of condominium and homeowner associations have units that are behind in paying their dues. Both FHA and the GSEs restrict approval of properties where more than 15 percent of the units have delinquent dues. While NAR appreciates the need to make sure properties are properly capitalized with appropriate reserves; dues payment should not be a sole determinant. Some associations may have compensated for delinquencies by building reserves or taking other steps to ensure that delinquencies are not impacting their financial stability. This requirement should NOT be a determining factor, but instead be a part of an overall review of a property's finances.

4. Commercial Space – Multi-use properties and new "town center" developments are very popular, and lauded by HUD as creating benefits for communities in providing easy access to amenities and transportation. Yet, condominium associations with commercial space are restricted from approval by both the GSEs and FHA. The GSEs limit commercial space to 20 percent, but provide waivers. FHA's limit is 25 percent, also with allowable waivers. The current policy hinders efforts to build neighborhoods that have a mix of residential housing and businesses with access to public transit. The Association urges FHA and the GSEs to lift these restrictions.

There are additional concerns related to condo rules including investor ownership, concentration limits, and pre-sale requirements that also should be changed. REALTORS® were pleased to see a recent notice by Fannie Mae, loosening some restrictions. We look forward to the publishing of FHA's upcoming condo rule and are hopeful that it will loosen many of the current restrictions.

Condominium unit mortgages are among the strongest performing in the FHA portfolio. According to FHA data from 2014, the combined serious delinquency and claims rate for new condominium projects is 0.96 percent and 0.76 percent for existing projects.[16] Condominiums are often the most affordable option for first time homebuyers, or older homeowners who wish to downsize. We strongly believe that qualified homebuyers should not be prevented from this option, simply due to mortgage restrictions. .

HOUSING POLICIES ADD TO LENDING CONCERNS

Lenders remain wary of mortgage markets, and continue to only provide access to those with pristine credit and flawless work history. Just last month, former Federal Reserve Chairman Bernanke disclosed that he had

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[15] FHA Approved Condominium Map, Retrieved July 21, 2013, from FHA Review by a|v|s. http://www.fhaapprovedcondomap.com/

[16] Serious Delinquent/Claim Comparison, Retrieved December 1, 2014, from Neighborhood Watch, Early Warning System. https://entp.hud.gov/sfnw/public/

been denied the opportunity to refinance his home. The average FICO score on conventional, purchase mortgages fell slightly in recent months, from 761 to 754 – still at historically high levels. This partially reflects the increased willingness of private mortgage insurers to back high FICO, high LTV mortgages. The average accepted FICO on FHA purchase production has fallen slightly as well, while the average FICO for a rejected loan in both spaces has increased. This pattern suggests a shift in production from the FHA to the GSEs, but not an expansion of the credit box. Specifically, the average FICO scores for accepted applications of both conventional and FHA production remain roughly 30 to 40 points higher than in 2001, a period predating the loosening of underwriting standards.

While the credit box remains very tight, NAR is encouraged by the actions of FHFA in the area of representation and warrants as well as for their work on guidelines for the GSEs to resume their longstanding practice of purchasing mortgages with downpayments of 3 percent. FHA has also begun to look at compare ratios, which should help expand access. Finally, we urge Congress to pass legislation fixing the 3 percent cap on fees, so that consumers have more options for financing.

A BETTER REPRESENTATION & WARRANTIES FRAMEWORK

Since the financial crisis, lenders have also expressed concern about representations and warranties, which provide the necessary assurances which permit the GSEs to purchase loans in an efficient and responsible manner without checking each loan individually or being at each closing. They also provide Fannie Mae and Freddie Mac with remedies to address circumstances where lenders do not meet the GSEs' purchase guidelines.

It is clear that the Representation and Warranty Framework (Framework) did not provide enough clarity to empower lenders to understand when the GSEs would exercise their remedy to require repurchase of a loan. This has contributed to lenders imposing credit overlays that drive up lending costs and also restrict lending to borrowers with less than perfect credit scores.

The new FHFA framework will provide clarity on specific Life-of-Loan exclusions from repurchase relief. Life-of-Loan exclusions are intended to protect the GSEs from instances of fraud or other significant noncompliance, and as a result, they allow the GSEs to require lenders to repurchase loans at any point during the term of the loan. The banking industry has conveyed that the current Life-of-Loan exclusions are open-ended and make it challenging for a lender to predict when, or if, Fannie Mae or Freddie Mac will apply one of them.

Moreover, by specifically defining the Life-of-Loan exclusions, lenders will know what they are and when they apply to loans that have otherwise obtained repurchase relief. Also, for loans that have already earned repurchase relief, FHFA plans to clarify that only Life-of-Loan exclusions can trigger a repurchase under the Framework, which REALTORS® believe will reduce confusion and risks to lenders. Finally, under the new Framework, the GSEs will retain their ability to conduct quality control reviews at any time, which is essential to their ongoing safety and soundness.

RESTORING 97 PERCENT LTV LOANS A POSITIVE STEP

In addition to FHFA's plan to improve representations and warranties, NAR supports the Agency's work to allow the GSEs to resume their longstanding practice of purchasing 97 percent LTV mortgages. When

coupled with high quality underwriting, these loans have a history of performing well. Mortgages with high quality underwriting and low downpayments provide an important option for many creditworthy borrowers, especially first-time homebuyers, who will have access to affordable homeownership in a sensible and responsible manner.

While this action along with improvements to representations and warranties will help improve the lending environment, NAR strongly believes that lenders must do their part and ensure loans are prudently underwritten. Additionally, it is imperative these financial institutions improve the quality of their underwriting and halt preventable mistakes during this process, which ultimately has hurt potential borrowers and taxpayers.

Furthermore, NAR believes Congress and the Administration can help to further improve current credit conditions by addressing the 3 percent cap on fees and points.

3 PERCENT CAP ON POINTS & FEES NEEDS TO BE FIXED

In June 2014, the House of Representatives passed H.R. 3211, "The Mortgage Choice Act". It was passed again as part of a broader package (H.R. 5461) in September, 2014. H.R. 3211 and its Senate companion, S. 1577, are bipartisan compromises that reduce discrimination against mortgage firms with affiliates in the calculation of fees and points in the Dodd-Frank Ability to Repay/Qualified Mortgage (QM) rule. The QM rule sets the standard for mortgages by providing significant compliance certainty to QM loans that do not have risky features and meet certain requirements. A key requirement is that points and fees for a QM may not exceed 3 percent of the loan amount. The inherent discrimination of this rule arises from the fact that under current law and rules, what constitutes a "fee" or a "point" varies greatly depending upon who is making the loan and what arrangements are made by consumers to obtain closing services. As a result of these definitions, many loan originators affiliated with other settlement service providers are not be able to make QM loans to a significant segment of otherwise qualified borrowers.

The discrimination in the calculation of fees and points is being felt by consumers who are seeing reduced choices and added obstacles in their transactions. A Spring 2014 NAR survey of affiliated mortgage lenders revealed almost half experienced problems due to the 3 percent cap and in almost half those instances, consumer either were not able to complete the transaction or not able to complete the transaction with their preferred settlement services provider. Where services were outsourced and charges known to the lender, nearly half of loans (43.8) reported higher fees as compared to the same (12.5) or unknown (43.8).

Now that the House has passed H.R. 3211, we believe it is now time for the Senate to act during the lame duck session and pass S. 1577, which has the support of several notable sponsors including: Senators Manchin (D-WV), Johanns (R-NE), Levin (D-MI), Kirk (R-IL), Stabenow (D-MI), Toomey (R-PA), Klobuchar (D-MN), Portman (R-OH) and Isakson (R-GA).

FHA COMPARE RATIOS ARE A GOOD START

Lender overlays are a significant issue for borrowers attempting to use the FHA program. One reason for lender overlays is that FHA reviews and audits all lenders under the same protocol. This means that lenders who take the time and effort to carefully underwrite borrowers and approve with lower credit scores are treated the same as those lenders who only lend to those with a credit score over 700.

NAR is pleased that FHA is beginning to review compare ratios for lenders, but thinks they can do more. FHA currently compares a lender's early seriously delinquent (SDQ) performance for single family loans in a geographic area to other mortgagees in the same area. FHA's new proposal will add a supplemental analysis that will assess lender performance based on the lender's national default rate within three credit bands (below 640, 640 to 680 and above 680) and compare it to an FHA target rate of 1.6 percent. If a lender's SDQ rate is less than 125 percent of the target rate, FHA has indicated that "this may be a consideration to not take further action under the Initiative." NAR believes that the benefit of the Supplemental Performance Metric needs to be more definitive. If a lender has a supplemental metric ratio below the acceptable compare ratio (proposed 125 percent), NAR would like to see more certainty that the lender will not be subject to termination. Only then do we believe that lenders will feel more comfort in lending to borrowers with lower credit scores.

In addition, we believe the 125 percent target is too narrow. In its other Credit Watch calculations, FHA uses an SDQ rate of 150 percent of the industry average for Lender Insurance sanctions and 200 percent for Credit Watch penalties. We are concerned that 125 percent may provide too narrow of a tolerance particularly for smaller lenders where 5 to 10 additional early defaults could cause a significant swing in its compare ratio. Consequently, lenders may be compelled to manage their performance at much lower default rates, which will not encourage lending to qualified borrowers across the credit spectrum. .

FORECLOSURES & SHORT SALES REMAIN PROBLEMMATIC

Along with the issues discussed above, NAR believes that there remain a number of issues related to foreclosure and short sales processes that the Subcommittee should also review.

HOMEOWNERS ARE SUFFERING WITHOUT MORTGAGE CANCELLATION TAX RELIEF FIX

Over the past year, many families have decided not to go through with short sales or seek workouts because of uncertainty over a possible tax burden they could not pay. The income tax exemption on mortgage debt forgiven in a short sale or a workout for principal residences expired at the end of 2013. Unless remedied, homeowners who did participate in a workout or short sale will have to pay tax on "phantom income" from forgiven debt. This is not only unfair but harms families, neighborhoods and communities. The lapse of this provision causes many families to simply walk away and accept a foreclosure on their home. This is contrary to every policy designed to keep people in their homes and prevent foreclosures. Today, more than 5 million families remain in a home that is "under water."

Although not under the purview of this Subcommittee, NAR urges all Members to support an extension of, "The Mortgage Forgiveness Tax Relief Act." This bipartisan legislation would extend an expired provision that has helped millions of distressed American families by allowing tax relief for homeowners when lenders forgive some portion of the mortgage debt they owe. If this provision is not extended hundreds of thousands

of American families who did the right thing by short-selling their home will have to pay income tax on "phantom income." Moreover, more distressed homeowners will decide to take a pass on opportunities for workouts with the lender or short sales, opting instead for continued delinquency or possible default until foreclosure, or simply to walk away from the property. This will destabilize the communities where such homes are located.

SHORT SALES STILL A PROBLEM

NAR believes that the short sale process would significantly improve with the passage of S.361, "The Prompt Notification of Short Sale Act," introduced by Senators Brown (D-OH) and Murkowski (R-AK). This legislation requires servicers to decide whether to approve a short sale within 30 days of completion of the file. The bill attempts to prod servicers to make the short sales process more efficient by setting standards and penalizing them for inadequate performance.

Too often, short sales are still a story of delay and unrealistic views of current home values, resulting in the potential buyer cancelling the contract and the property going into foreclosure. Enormous amounts of time are spent on potential short sales that result in foreclosures. Even if successful, the process usually takes many months and countless hours and often requires re-marketing because buyers lose patience and terminate the contract. Streamlining short sales will reduce the amount of time it takes to sell the property, improve the likelihood the transaction will close, and reduce the number of foreclosures. This will benefit the lender, the seller, the buyer, the community.

NAR supported the Consumer Financial Protection Bureau's final rule on mortgage servicing that requires servicers to comply with new loss mitigation procedures for loans secured by a borrower's principal residence. If the servicer receives a complete loss mitigation application more than 37 days before a scheduled foreclosure sale, the servicer must evaluate the borrower within 30 days for all loss mitigation options available, including loan modifications and short sales. A borrower may appeal a denial of a loan modification only if the complete application was received 90 days or more before a scheduled foreclosure.

GSE NOTE SALES REDUCE HOME BUYER OPPORTUNITIES

NAR applauds FHFA's efforts to broaden opportunities for consumers to refinance as well as encouraging the GSEs to take every feasible action to keep families in their homes with a loan modification. These home retention initiatives both mitigate losses to the GSEs and taxpayers, and provide stability to local housing markets.

Conversely, NAR is concerned about alternative asset disposition programs that actually seem to contribute to reducing home purchase opportunities for owner occupants. REALTORS® strongly believe that every effort should be made to incentivize individual as opposed to bulk sales, in the form of REO assets or note sales, since marketing an individual property maximizes recovery on the asset and minimizes the impact on housing values and neighborhood disruption.

REALTORS® believe the best opportunity to reduce costs to taxpayers and assist in the stabilization of housing values and neighborhoods is to respond more effectively to, and provide more resources for, pre-foreclosure efforts on loans owned or guaranteed by the GSEs. These efforts not only are net-positive outcomes for homeowners, but taxpayers as well. Refinancing programs, such as the Home Affordable Refinance Program (HARP), allow responsible homeowners to lower their monthly mortgage payments and

reduce their risk of default. Due to the prolonged housing recovery, many private market participants have found that foreclosures are typically more costly than loan modifications and short sales. Renewing and increasing the focus on foreclosure alternatives such as loan modifications and short sales will minimize the need for more taxpayer dollars being lost to investors who benefit from the discount purchase on these notes.

Recent strategies, specifically, the bulk sale of mortgage notes by Freddie Mac to large investors, reduces opportunities for owner occupants to purchase homes and unsettles the recovery of neighborhoods. It is important that stakeholders understand how these transactions, without expectations or restrictions, blunts the opportunity for first-time homebuyers to aid a recovery in the broader housing market.

Though there is limited information available about this program, one concern is that these properties will end up as rentals, thus limiting the supply of affordable housing inventory available for purchase. NAR's concern is that this leads to less affordable inventory being available for purchase by the same first time homebuyers that the market requires to keep moving. The GSEs, with FHFA's guidance, have an opportunity to lead an effort to provide first-time homebuyers with greater purchase opportunities through sensible disposition strategies.

FHFA MUST INCREASE DISCLOSURES ON THE NOTE SALES PROGRAM

NAR understands that, as conservator, FHFA must protect taxpayers from losses and that the pilot bulk note sale is intended to save money. While NAR appreciates these efforts, it is also important to measure the program and its impact to communities. Information on the sale of the notes has not been made available and NAR believes it is important to be able to study the cost and impact of bulk note sales to institutional investors.

FHFA should collect and share more detailed performance data about the note sale. For example, the loans were sold seemingly without any restrictions or expectations for outcomes. FHFA should disclose the name of the investor who purchased the pool of notes and track outcomes. Of the loans sold, how many were offered foreclosure alternatives? How many ended as post-foreclosure rentals?

NAR looks forward to hearing more about the note sale program and is committed to working with FHFA to find ways to protect taxpayers while continuing to promote homeownership and preserve affordable housing options for potential homebuyers.

FORECLOSURE RELIEF MUST BE EXHAUSTED BEFORE MOVING TO FHA LOAN SALES PROGRAM

NAR believes that FHA must improve its pre-foreclosure sales process to ensure that mortgage servicers have fully complied with the agency's loss-mitigation requirements before referring loans to the Single Family Loan Sales program (SFLS). The SFLS program is used to sell delinquent loans and recover losses for the FHA. However, we believe that this program has been too aggressive, auctioning large pools of mortgages to the highest bidder, in some cases without considering the investor's ability to achieve neighborhood stabilization goals such as homeownership preservation and affordable housing.

Several changes would make this program stronger and ensure neighborhood stabilization. First, note sales should be in small, manageable numbers in limited geographical areas, and utilize the expertise of local businesses, including contractors, real estate brokerage firms, property managers, and non-profits that know the area. Second, FHA should closely monitor loans entering the SFLS program to ensure the servicers have exhausted all loss mitigation options. Third, FHA should increase home purchase opportunities by instituting a "first look" program for owner occupants once the homes have fallen into foreclosure. Currently many of these homes are being turned into single family rental properties that do not contribute to the stabilization of the neighborhoods around them. Lastly, the program needs to provide more transparency. FHA needs to collect and share more detailed performance data about the programs. Many loans are purchased and then resold to investors. What is the impact on these transactions on neighborhoods and homeowners? NAR

supports FHA's goals to recover losses and keep the Fund solvent. But we want to make sure that such a program also continues to promote homeownership and preserve affordable housing options. .

CONCLUSION

The U.S. housing sector is in the midst of recovering from the worst economic downturn since the Great Depression. Home prices and sales, as well as household wealth, are all up from a year ago. While this industry continues to face many headwinds such as stagnant job growth and a tight supply of homes, ensuring that Americans have access to affordable mortgage credit will be key to our nation's economic recovery. This will only be possible if Congress and the Administration have the willingness to address key policy issues such as high guarantee fees and loan level pricing adjustments charged by the GSEs, as well as excessive FHA premiums, which continue to exacerbate the tight credit market.

Policymakers can also have a positive impact on the housing market by fixing burdensome condominium restrictions that have kept consumers, especially first-time homebuyers, on the sideline. Additionally, by tackling the 3 percent cap on fees and points issue, lawmakers will address some of the regulatory burdens that are inhibiting financial institutions from lending.

While NAR is encouraged by FHFA's recent decision to provide more clarity on representations and warranties as well as restoring the GSE's longstanding practice of purchasing loans with 3 percent downpayments, it is imperative lenders improve the quality of their underwriting and halt preventable mistakes during this process. Furthermore, NAR believes Congress can help to further improve the current lending environment by passing legislation that would provide mortgage debt forgiveness as well as more certainty during the short sale process.

Only until policymakers deal with the confluence of issues listed above, will Americans have access to affordable mortgage credit, which will allow our nation to return to prosperity.