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STATEMENT OF

GARY THOMAS
2013 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

TO THE

UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

HEARING TITLED

A LEGISLATIVE PROPOSAL TO PROTECT AMERICAN TAXPAYERS AND HOMEOWNERS BY CREATING A SUSTAINABLE HOUSING FINANCE SYSTEM

JULY 18, 2013

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EQUAL HOUSING OPPORTUNITY

Introduction

The one million members of the National Association of REALTORS® thank Chairman Hensarling for introducing a comprehensive financial reform bill, the "Protecting American Taxpayers and Homeowners Act of 2013" (PATH ACT). However, NAR must oppose this draft. Most significantly, our opposition is twofold: 1) We strongly oppose the end of federal guarantee for a secondary mortgage market; and 2) the dramatic restructuring of FHA.

Without a federal guarantee for the new utility, and a removal of Title II regarding FHA, we cannot support this discussion draft.

Wind down of GSEs and Creation of New Market Utility

As indicated on a number of occasions, NAR supports a comprehensive approach to restructuring the secondary mortgage market, including winding down Fannie Mae and Freddie Mac (the government sponsored enterprises, or GSEs), but believes any new secondary market entity replacing the enterprises must have an explicit government guarantee. The drastic changes and timeline outlined in the PATH Act, ultimately, doesn't take into consideration the dramatic destruction of wealth that many middle class Americans would experience as the result of falling home prices should the $10 trillion dollar mortgage market lose a functioning secondary market that includes what has been a long-standing role for the federal government.

REALTORS® are supportive of a self-sufficient infrastructure whereby safe, sound, transparent, and insured MBS may be packaged and sold. NAR believes the Utility will bring standardization, stability and confidence in the mortgage market space to facilitate the return of private sources of capital to the housing finance system. Additionally, we believe the improvement of loan level and mortgage pool disclosures to market participants will enhance opportunities for private capital participation. This data is an essential foundation for investors to efficiently analyze and price mortgage credit risk.

REALTORS® agree with lawmakers that taxpayers should be protected, private capital must return to the housing finance market, and that the size of government participation in the housing sector should decrease if the market is to function properly. However, REALTORS® believe that it is extremely unlikely that any secondary mortgage market structure that does not include government backing could support the existing mortgage funding needs of the United States housing sector. Make no mistake; the tremendous size of this systemically important market can neither be supported solely by lending from insured bank deposits nor from private investors that would be required to take on additional risk.

Legislation that relies only on private capital to operate the secondary mortgage market will find that, in extreme economic conditions, private capital will retreat from the market. A federal guarantee is essential to ensure borrowers have access to affordable mortgage credit.

Without government backing, creditworthy consumers will pay much higher mortgage interest rates and mortgages may at times not be readily available —as has happened in jumbo and manufactured housing real estate loan markets in the aftermath of the crisis.

In both instances, mortgage capital became nearly non-existent, which prohibited qualified borrowers from access to the funds required to purchase a home. Although private capital is now returning to these markets, it has taken many years.

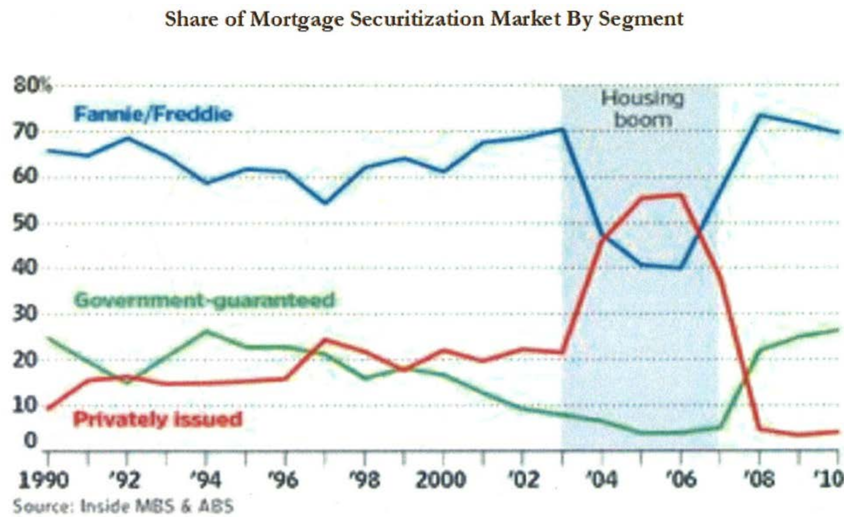

Figure 1

Over the last 5 years, FHA has raised its insurance premiums, the GSEs have raised their upfront fees (including loan-level pricing adjustments), and the lending industry as a whole has tightened underwriting standards to the point that only those with pristine credit histories have access to reasonably priced mortgage credit. The lack of financing put downward pressure on home values, increasing the number of homeowners whose mortgages exceed the value of their home, and increasing foreclosures. As can be seen from Figure 1, if no government-backed entity existed as private mortgage capital fled to the sidelines in recent years, the housing market would have come to a complete halt and thrown our nation into a deeper recession, or even a depression.

When the economy turns down, private capital rightfully flees the marketplace, and should that occur in the residential market it would come to an abrupt and complete halt. Should that happen in the residential mortgage market space, the results for the entire economy – because of the plethora of peripheral industries that support and benefit from the residential housing market – would be catastrophic.

REALTORS® believe that full privatization is not an effective option for a secondary market because private firms' business strategies will focus on optimizing their revenues and profits. This model would foster mortgage products that are more aligned with the business' goals

(e.g. based upon significant financial risk-taking) than in the best interests of the nation's housing policy or the consumer.

Homeownership is a cornerstone of our economy. As such, it is a significant driver of employment opportunity. Jobs are created in the numerous businesses that are all part of the housing industry (e.g. home renovation, remodeling, and furnishing). We must endeavor to support this founding pillar of our society and economy so that our nation can begin to move toward recovery, instead of lingering in our current economic malaise.

Loan Limits

PATH proposes to lower the conforming and FHA loan limits. Lowering the loan limits restricts liquidity and makes mortgages more expensive for households nationwide. Without the additional liquidity created by maintaining loan limits at current levels, families will have to pay more to purchase homes, face the possibility that they will not be able to obtain financing at any price or find it more difficult or impossible to refinance problematic loans into safer, more affordable mortgages.

Many argue that the loan limit increases benefit only the higher cost areas, but this is not the case. According to a recent HUD report, only 3 percent of FHA loans are above $362,750, and less than 2 percent are above $417,000. The majority of markets that would be impacted by the loan limit decline are NOT high cost. If the limits were to fall, more than half of all existing homes nationwide will be ineligible for FHA mortgage financing. If families cannot obtain financing to buy, sellers will need to further reduce the price on their home. This will further erode the wealth of American families and will prolong the nation's economic recovery.

The 30-Year Fixed-Rate Mortgage

Unique to the U.S. housing finance sector is the availability of affordable, long-term fixed-rate mortgages. The 30-year fixed rate mortgage is the bedrock of the U.S housing finance system. And now, more than ever, consumers are seeking fixed rate 30-year loans because they are easily understood and offer a predictable payment schedule.

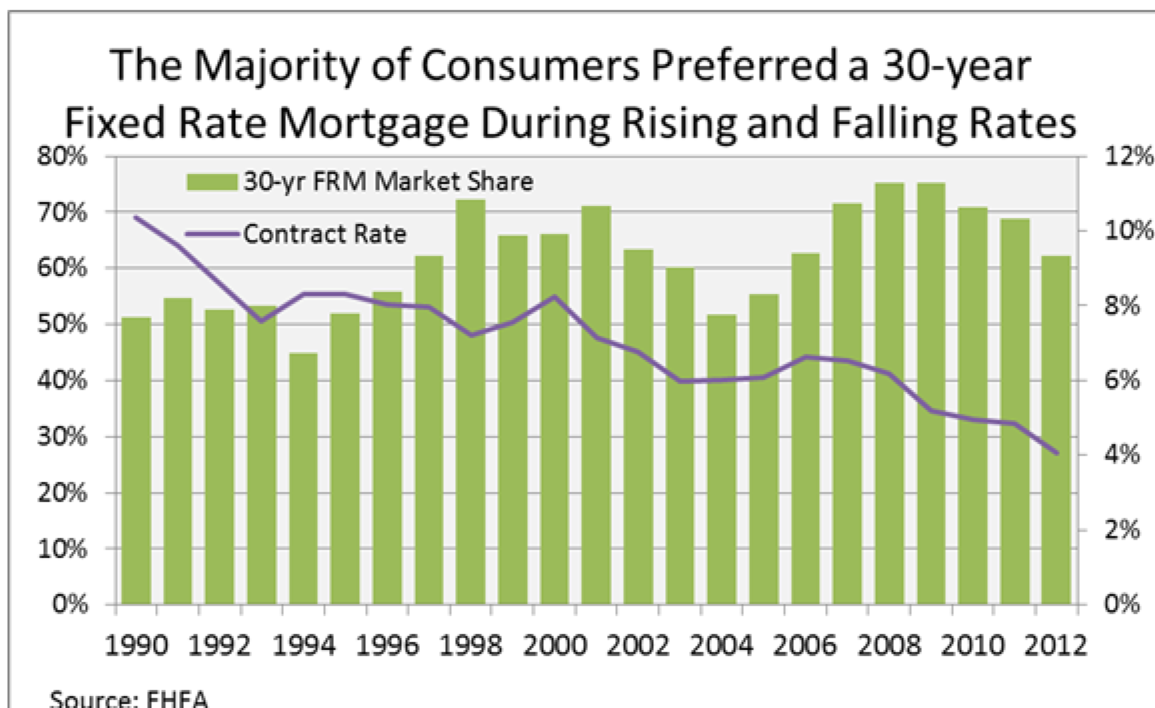

Figure 2

As discussed above, REALTORS® believe that full privatization is not an effective option for our secondary mortgage market because private firms' business strategies will focus on optimizing their revenue/profit generation. This model would foster mortgage products that are more aligned with these business' goals (e.g. based upon significant financial risk-taking) than in the best interest of the nation's housing policy, or the consumer. We believe that this would lead to the elimination of long-term, fixed rate mortgage products (e.g. 30-year fixed-rate mortgage), and an increase in the costs of mortgages to consumers. At this time, when our economic recovery teeters on the edge of full recovery, activities that force further constriction of economic activity should be resisted.

According to research by economist Dr. Susan Woodward, there is no evidence that a long-term fixed-rate residential mortgage loan would ever arise spontaneously without government urging. Dr. Woodward points out that a few developed countries have encouraged the use of amortizing long-term loans, but in all instances (save for Denmark) where they do exist, the loans have adjustable rates and recast every 5 years. She goes on to point out that the United States is unique in having a residential mortgage that is long-term, amortizing, fixed-rate and pre-payable, and that Americans have come to view this product as one of their civil rights. Dr. Woodward points out that in early 2000, when Former Federal Reserve Chairman, Alan Greenspan, hinted at its abandonment, the public outcry was such that he eagerly abandoned that position.

We are particularly concerned by data that suggests that, should the 30-year fixed rate mortgage cease to be available, older owners who tend to stay in their home longer, would

be the most effected. A future scenario of rising interest rates to a group of homeowners on a fixed income would see higher payments. The absence of availability of a fixed rate mortgage payment for this group would create a similarly outcry:

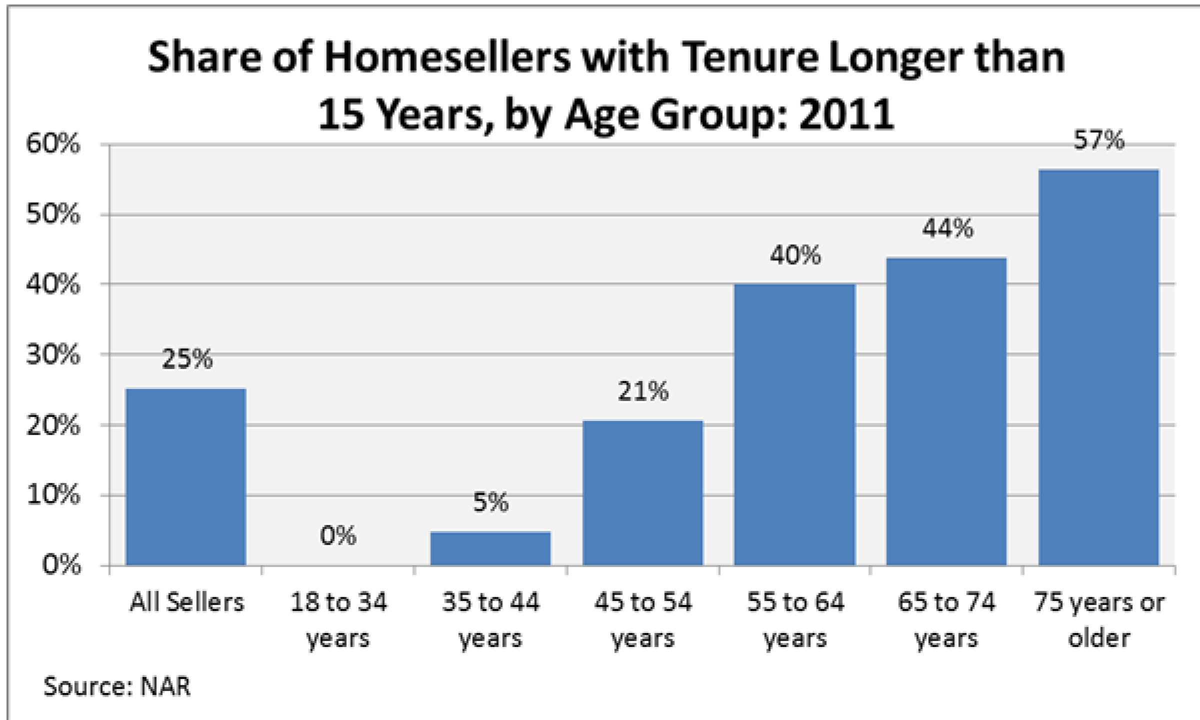

Figure 3

Additionally, others have suggested that a 30 year mortgage builds equity slower, however, borrowers forced into a mortgage with a shorter duration face a significant loss in purchasing power. Consider an individual earning approximately $52,000 who is purchasing a $208,000 home (May 2013 median home price) with 10% down:

Duration	Interest Rate	Payment (PITI)
30 year	4.07%	$1,160
15 year	3.17%	$1,540

With a 30-year mortgage, the consumer's total mortgage debt to income (DTI) would be 26%; with a 15 year mortgage, this measure of affordability jumps to 36%. To achieve the same DTI with a 15-year mortgage, the purchase price would have to be reduced to $144,444.

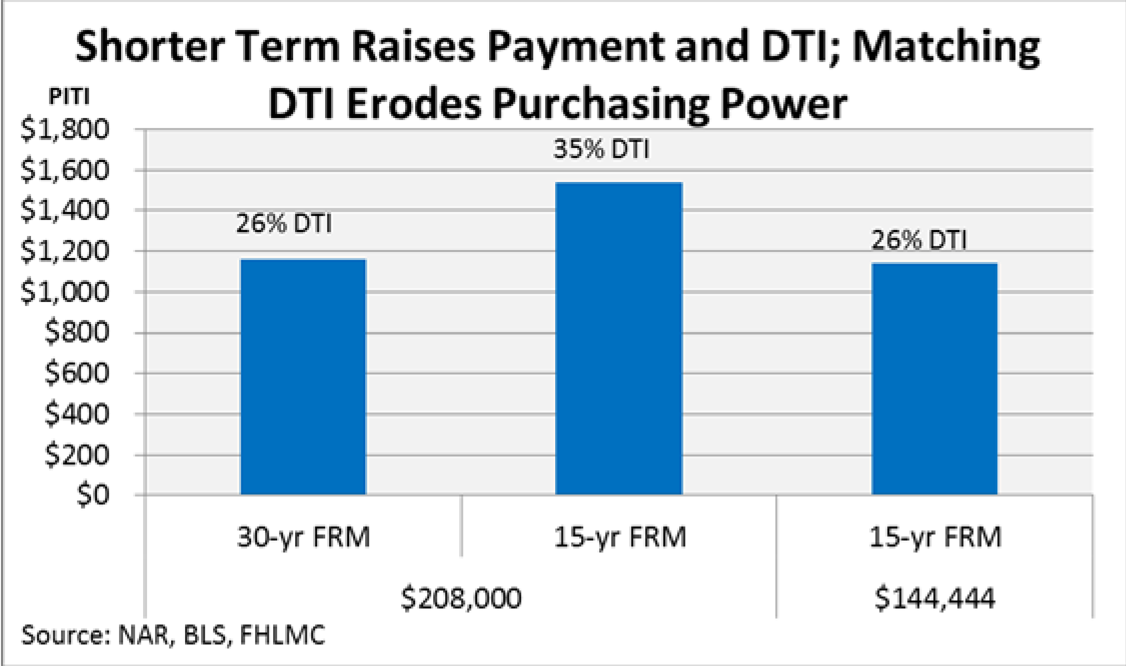

Figure 4

FHA Restructuring

With the collapse of the private mortgage market, the importance of the Federal Housing Administration has never been more apparent. As liquidity has dried up and underwriting standards have been squeezed tight, FHA is one of the primary sources of mortgage financing available to families today. Without FHA, many families would be unable to purchase homes and communities would suffer from continued foreclosure and blight.

The PATH Act would define a much difference mission for the FHA by limiting it to first-time homebuyers and those making less than 115% of area median income. The bill would make other significant changes to the program including increasing downpayments, lowering loan limits, and increasing premiums.

We strongly oppose these changes, and instead support reforms to address solvency issues, as was the approach taken in the bill that was passed in the House by a vote of 402-7 last year. We strongly believe that the reforms included in this Title will disenfranchise millions of qualified families from purchasing a home of their own, with equally significant ramifications for local communities. We believe that a total restructuring of the sort proposed in the Act is unnecessary, and will severely and unnecessarily disrupt recovering housing markets.

FHA, like every other holder of mortgage risk, has incurred financial losses as a result of high foreclosures during the housing crisis. More than $70 billion in claims that FHA has filed can be attributed to the books of business made in 2007-2009. In addition, the Home Equity Conversion Mortgage (HECM) has experienced severe losses. This program, as it has been structured, is very sensitive to volatile housing prices. According to recent HUD testimony, "the budget estimates that the use of the HECM program results in a negative value of $5.248billion and a disproportionately negative impact to the fund."[1]

But FHA has sustained housing markets nationwide during the worst economic crisis of our lifetime. As private lenders fled and financial institutions went out of business, FHA remained in the market and provided mortgage insurance to more than 4 million families since 2008. In a time when many large private banks, investment firms, and other financial institutions have needed bailouts or have even collapsed, FHA has weathered the storm very well.

Limiting Eligible Borrowers

The discussion draft proposes to limit FHA to first-time borrowers (regardless of income) and those borrowers with incomes below 115% of area median income. We strongly oppose this dramatic refocusing of the FHA. When designed in 1934, the program was intended to

"to improve Nation-wide housing standards, provide employment, and stimulate industry; to improve conditions with respect to home mortgage financing, to prevent speculative excess in new-mortgage investment, and to eliminate the necessity for costly second-mortgage financing, by creating a system of mutual mortgage insurance and by making provision for the organization of additional institutions to handle home financing . . . ." [2]

From the beginning, there was no requirement limiting participation to first time buyers or "low income households". In fact when the program began, the upper limit for a FHA loan was $16,000. While this loan amount may seem exceptionally small today, the national median home value was only $4,778.[3] Furthermore, in 1930 only 3.2 percent of homes were valued between $15,000 and $20,000.[4] The majority of homes were valued between $2,000 and $7,500, with the largest number falling between $3,000 and $5,000.[5] So an upper limit of $16,000 was more than 330% of the median American home value then and was sufficient to finance roughly 96% of all homes.

Of course, the $16,000 loan limit does not paint the entire picture of FHA's initial demographic. To better understand this, we need to look at how the program was used by borrowers. In its third annual report to Congress for 1936, FHA's statistics showed that

[1] Testimony of Carole Galante before the Senate Appropriations Subcommittee on THUD, June 4, 2013.
[2] H.R. Rep. No. 1922, 73d Cong., 2d Sess. 1 (1934)
[3] Id. at 18
[4] 15th Census of the United States, Population, Volume VI: Families, U.S. Census Bureau, 1930, P. 17
[5] Id.

most of the homes insured were valued in the $3,000 to $6,000 range and the average single-family home value for an insured mortgage was $5,497, more or less reflecting the average costs of homes at the time.[6] Only 2.8 percent of FHA-insured homes were valued below $2,000, and only 2.1 percent above $15,000.[7] This is strong evidence that FHA was not originally targeted to any income group, but rather was intended to help families across the spectrum get financing to purchase homes. These statistics varied slightly from year to year, with the size of insured mortgages somewhat lower in 1937 (median $4,288), and then higher in 1938 (median $4,491).[8] In general, these trends have followed income levels of FHA-insured borrowers.[9]

What can be said is that FHA was designed to serve underserved markets. That market does not always match an income or first-time homebuyer status. While the vast majority of FHA's borrowers are first-time homebuyers, other borrowers often struggle to find lenders active in their areas or particular submarket, i.e. condos; they should not be prohibited from access to safe, affordable mortgage financing.

Furthermore, the definition of "first time homebuyer" provided in the bill is very restrictive. Title 24[10] of the Code of Federal Regulations defines a first-time homebuyer as an individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase (closing date) of the property. It also includes any individual that only owned with a former spouse while married; and an individual who has only owned a principal residence not permanently affixed to a permanent foundation, or a property that was not in compliance with State, local, or model building codes and cannot be brought into compliance for less than the cost of constructing a permanent structure. The definition in the PATH Act is significantly more restrictive, and would disenfranchise many qualified borrowers. Under this definition, many current FHA first-time buyers would be disqualified.

Being underserved does not only relate to income or first-time homebuyer status. FHA has been a leader in providing home financing for minority families. Half of African-American homebuyers and nearly the same percentage of Hispanic and Latino buyers who purchased in 2011 used FHA financing. This has been true regardless of economic conditions. These are not all first-time homebuyers.

Income is not an indicator of need for FHA. According to recent FHA endorsement data, more than 25% of FHA borrowers in 2013 had incomes above 120% of are median income.

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[6] Third Annual Report of the Federal Housing Administration for the Year Ending December 31, 1936. U.S. Government Printing Office. 1937. P.35

[7] Id.

[8] Fourth Annual Report of the Federal Housing Administration for the Year Ending December 31, 1937. U.S. Government Printing Office. 1938, P.58; Fifth Annual Report of the Federal Housing Administration for the Year Ending December 31, 1938. U.S. Government Printing Office. 1939, P.85

[9] Fourth Annual Report of the Federal Housing Administration for the Year Ending December 31, 1937. U.S. Government Printing Office. 1938. P.61; Fifth Annual Report of the Federal Housing Administration for the Year Ending December 31, 1938. U.S. Government Printing Office. 1939. P.91

[10] 24 CFR 92.2

While we expect this number to decrease (historically it is about 17%) as the private market returns, there are reasons why some buyers may need FHA to finance their home – even if it's not their first home purchase, and even if their income is greater than 115% of area median income. These include the type of housing unit, type of employment, or a lack of lenders actively in the market.

Counter-Cyclical Role of FHA

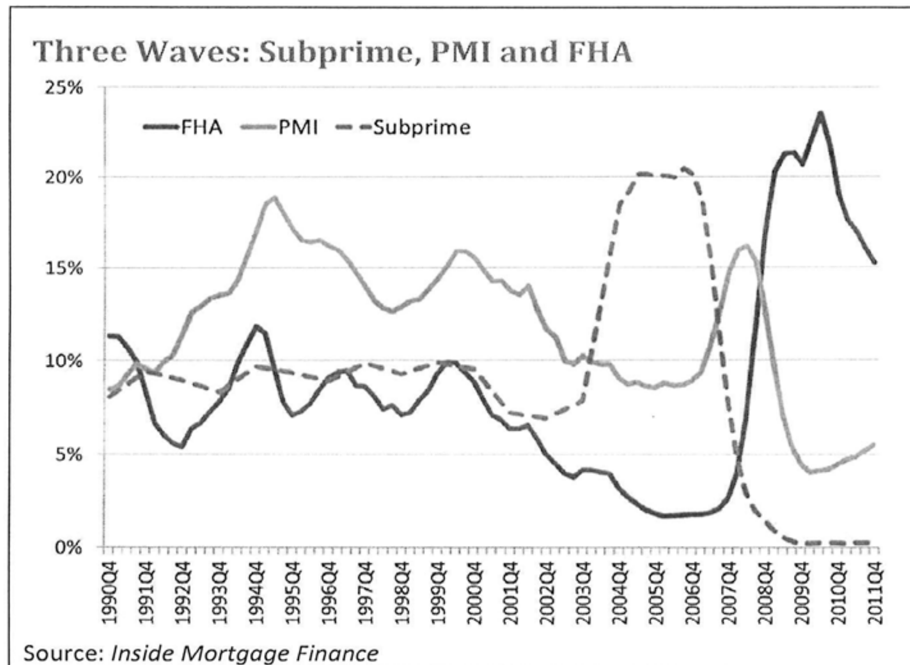

Figure 5[11]

As private lending constricted (and in some markets, disappeared altogether), FHA's role in the market grew. As recently as 2006, FHA's share of the home mortgage market was to 3 percent, as unscrupulous lenders lured FHA's traditional constituent to risky exotic mortgages with teaser rates and little to no underwriting criteria. As the housing market began to collapse, private lenders fled or went out of business. As is seen in Figure 5, FHA's share of the loan market began to grow, as the private market's share plummeted. This demonstrates the counter-cyclical role FHA plays in the market.

Mark Zandi of Moody's Analytics has pointed out that "If FHA lending had not expanded after private mortgage lending collapsed, the housing market would have cratered, taking the economy with it."[12] Moody's has estimated that without FHA, housing prices would have

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[11] Quercia, Roberto G. and Park, Kevin A, Sustaining and Expanding the Market: The Public Purpose of the Federal Housing Administration, UNC Center for Community Capital, December 2012.
[12] Zandi, Mark, Obama Policies Ended Housing Free Fall, *The Washington Post*, September 28, 2012.

dropped an additional 25 percent, and American families would have lost more than $3 trillion of home wealth. By the time a counter-cyclical trigger could be activated, housing prices would likely already have plummeted.

FHA helped stabilize housing prices in thousands of communities by providing access to home financing when few others would. A recent University of North Carolina study noted that "Private mortgage insurers implemented 'distressed area' policies making it almost impossible to obtain conventional mortgages with LTV ratios greater than 90 percent in some regions of the country. In contrast, FHA does not vary its insurance premiums by region, creating an automatic regional stabilization policy."[13] This counter-cyclical role of FHA helped stabilize markets and slowed the downward spiral of housing prices and economic decline (see Figure 6).

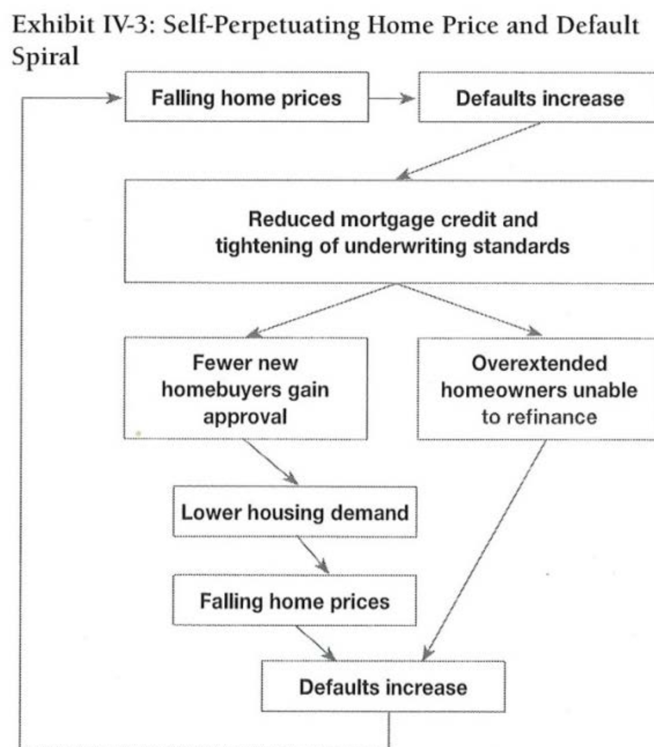

Figure 6[14]

Had FHA not stepped in and filled this mortgage insurance void, many neighborhoods would have been devastated and our economy will still be in a recession.

[13] Quercia, Roberto G. and Park, Kevin A, Sustaining and Expanding the Market: The Public Purpose of the Federal Housing Administration, UNC Center for Community Capital, December 2012.
[14] Szymanoski, Edward; Reeder, William; Raman, Padmasini; and Comeau, John "The FHA Single-Family Insurance Program: Performing a Needed Role in the Housing Finance Market", PD&R Working Paper No. HF-019, December 2012.

While the PATH Act provides language lifting some restrictions in the bill during a contraction of the market, we do not believe there is a leading indicator that could reflect a downturn in time to stop a significant impact on the market. In retrospect we can find many things that should have alerted us to a crisis, but they all have one significant flaw – data lags. The most reliable data triggers – changes in price, tightening of liquidity, rise in unemployment, housing defaults – all lag reality. If forced to wait until the data shows we are in a housing downturn, we will be so far into it that it will be very difficult to get out. Generally a recession is only declared after four quarters of economic decline. This country debated for more than a year about whether or not we were in a recession during the most recent crisis.

Increased Downpayment

NAR opposes increasing FHA's minimum downpayment for certain borrowers or during times of financial crisis for FHA. While the size of the downpayment does have an impact, increasing the downpayment doesn't add revenue to FHA's reserves. Increasing the downpayment, however, does have a significant impact on the ability of households looking to buy a home to do so. In theory, it should help to protect the agency against the potential default by requiring more "skin in the game" from the buyer. However, loans with higher downpayments performed marginally better during the housing boom, but that effect has diminished in the wake of stronger underwriting, stable employment and changes implemented by the agency.

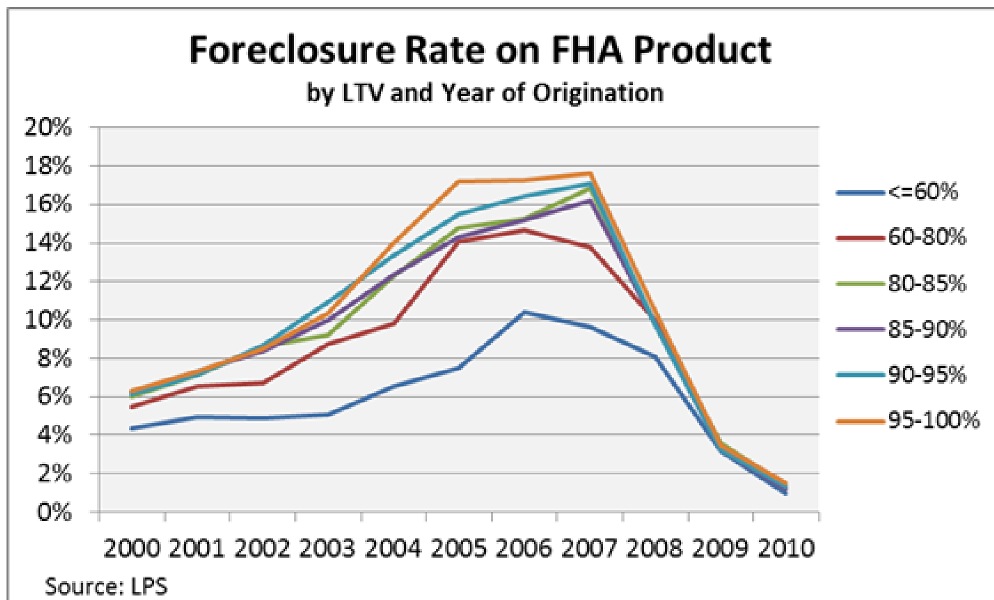

Figure 7

As demonstrated in Figure 7, the performance of loans with higher LTVs (greater than 80) was in a relatively tight band prior 2005. The performance of high downpayment mortgages deteriorated for mortgages originated between 2005 and 2007 before improving sharply, relative to larger downpayments in subsequent years. Performance by LTV on the 2009 and 2010 cohorts was nearly indistinguishable by the end of 2012.

FHA estimates that increasing the downpayment to 5% would disenfranchise 345,000 borrowers a year – more than 43% of all FHA buyers. Borrowers already must commit 3.5% cash at closing in addition to closing costs, which range from $3,000 to more than $5,000 on an average home sale. Increasing the downpayment will remove homeownership options for many American families, and would be counter to FHA's historic mission.

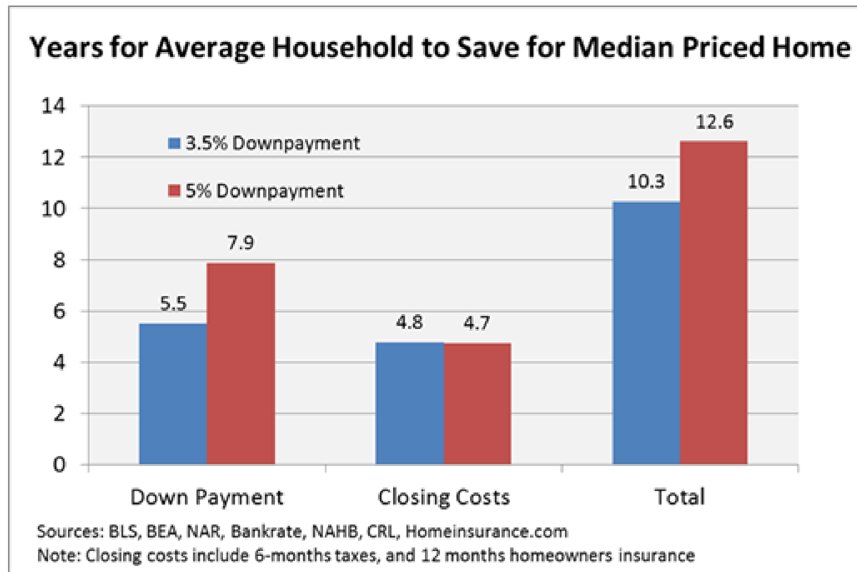

Figure 8

The size of the required downpayment also has a significant impact on the timing of a family's home purchase. At a 3% downpayment, the average buyer has to save 10.3 years to come up with the necessary downpayment for a median priced home. A simple increase in required downpayment from 3.5% to 5% will require the average buyer to save for an additional 2.3 years (from 10.3 years to 12.6 years). This estimate assumes that life events like having children, or taking care of family members don't divert their savings. (See Figure 8)

Homeownership is an important means for building wealth through structured equity payments for most households. However, recent trends towards higher downpayment in the traditional market have resulted in a higher share of home buyers using funds designated for retirement (such as IRAs, pensions, and 401ks) as a means of funding their downpayment. (See Figure 9)

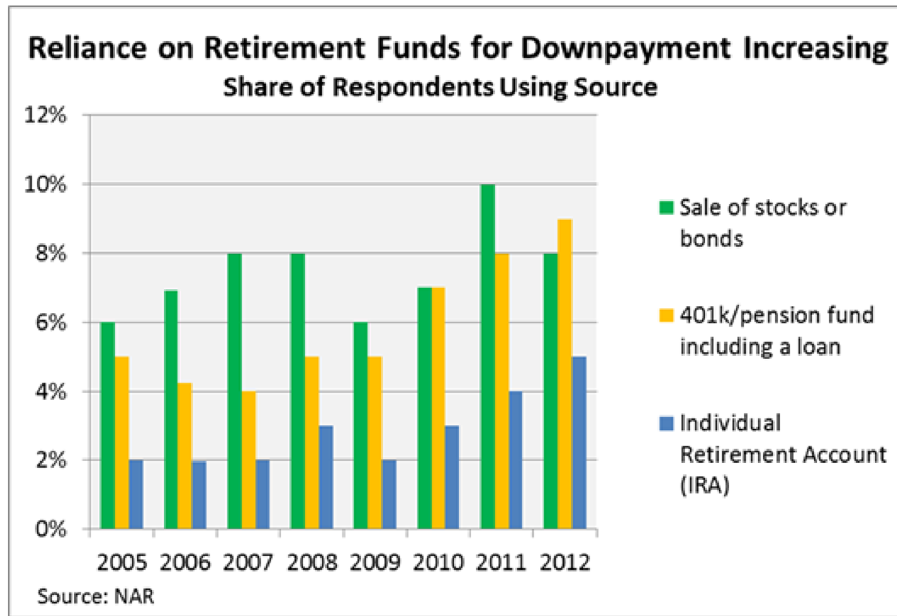

Figure 9

The impact of increasing the downpayment is greater on minorities than on whites, who are more likely to have received an inheritance or assistance from their family. Recent studies have shown that for loans made during 2004 – 2008, a 10% down payment would have made a mainstream mortgage out of reach for 60% of African-Americans and 50% of Latino borrowers who were current on their mortgage (Center for Responsible Lending). More than 52% of African Americans and 45.8% of Hispanics relied on a downpayment less than 5%, compared to only 33.4% of other purchasers. (See Figure 10)

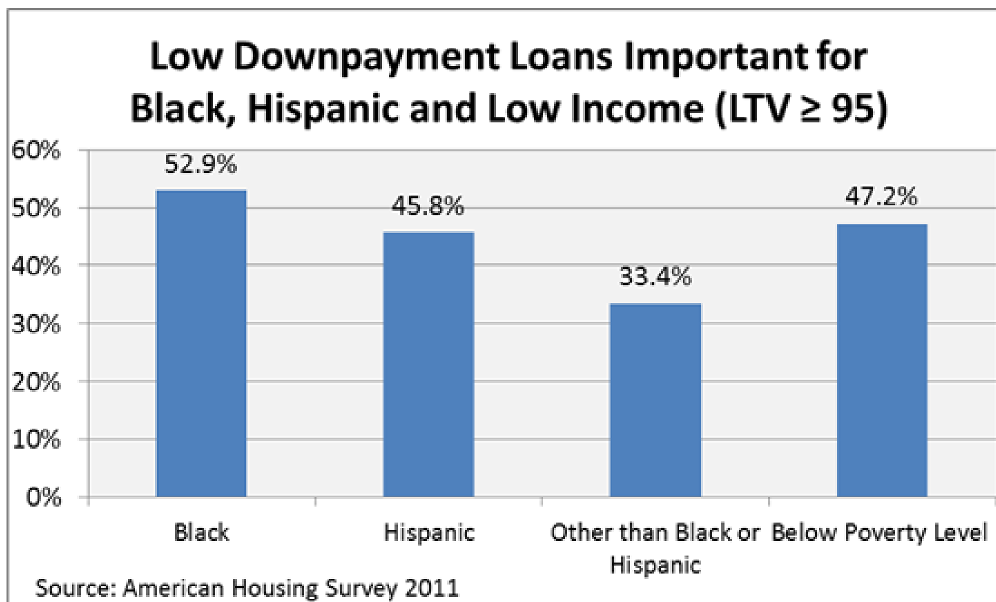

Figure 10

Low downpayments are not just important for first-time buyers. Repeat buyers also use low-downpayment loans, and could also be disenfranchised by this legislation. (See Figure 11)

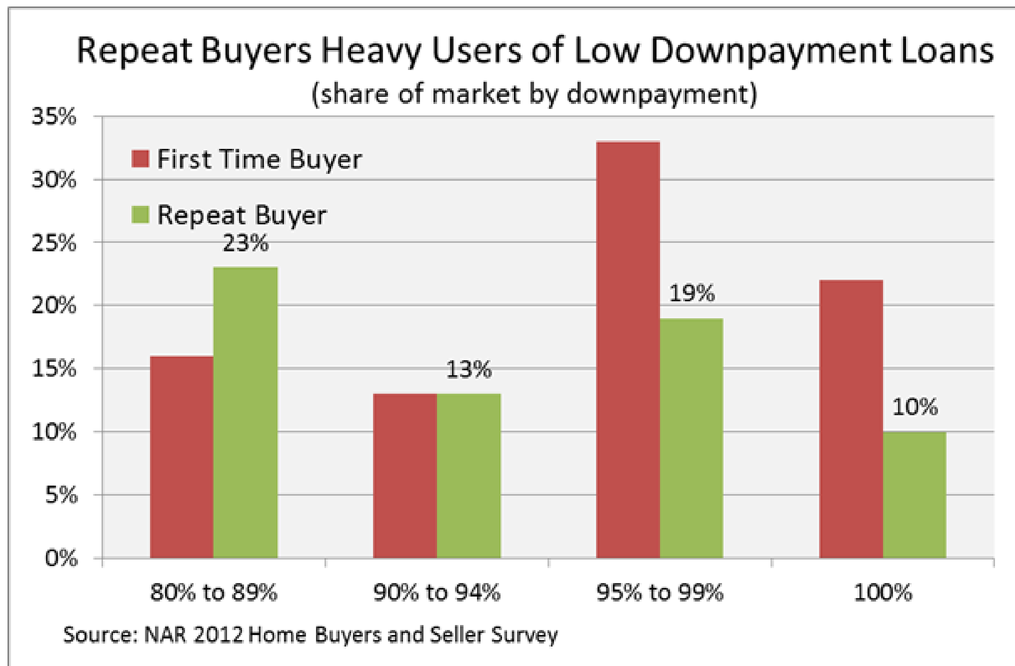

Figure 11

Reducing the FHA Loan Limits

Our concerns with the language in PATH to lower the limits have been enumerated above.

We would point out, there is no financial solvency argument for reducing the loan limits. In fact, higher balance FHA loans perform better than lower balance ones. As has been indicated in recent actuarial reports, "FHA experience indicates that more expensive houses tend to perform better compared with smaller houses in the same geographical area, all else being equal." So despite arguments that FHA higher limits put taxpayers at risk, these loans actually add strength to the program, and reduce risk to the fund.

Premiums

The PATH Act would codify a recent FHA policy to require borrowers to pay the annual Mortgage Insurance Premium (which is paid monthly) for the life of the loan. Previously, borrowers could cancel that premium when their LTV reached 78%, as they can in the private market when their LTV reaches 80%.

This policy change has already caused significant problems in mortgage markets, because the lifetime pricing of the MIP has moved many FHA loans into the High Priced Mortgage Loan (HPML) status. An HPML loan is defined as a loan that exceeds the APOR (Average Prime Offered Rate) by 1.5% or more on first liens. The APOR is a rate issued weekly by

the Federal Reserve Board. Many lenders do not originate loans that are fall under HPML rules. Making this recent policy change permanent will result in far fewer lenders being willing to originate FHA loans.

While NAR supports risk-based priced premiums for FHA borrowers, the related provisions in the PATH Act go significantly further. The bill will allow the premium rate to vary for individual borrowers during the mortgage term, based on pre-disclosed criteria. We strongly oppose this provision, which could dramatically change the borrower's payments over time, and for reasons beyond their control.

FHA's Role in Multifamily Markets

As in the single-family market, FHA's role in multifamily mortgage markets has never been more critical. More than 1/3 of American families rent their homes, and keeping a sufficient supply of affordable rental housing is essential. Without the liquidity provided by FHA multifamily mortgage insurance, these markets would be stalled.

In recent years, FHA's role in the multifamily market has increased dramatically – nearly 4 times its size from just several years ago. As lenders remain slow to provide financing for construction loans, FHA is the primary source of construction for multifamily developers and owners. Again, this demonstrates FHA's ability to step up and fill the gap when private markets will not or cannot act.

FHA's multifamily loan program has performed very well. Their annual claim rate on each of the major programs has been less than 1% since 2011. The premiums are high and have risen in the last year, further strengthening the fiscal soundness of these programs.

The PATH Act would target the FHA multifamily loan program by creating income limits for tenants in properties financed with FHA multifamily loans. The vast majority of FHA's multifamily portfolio serves low-to moderate income borrowers, and more than half those properties already have affordability provisions. Placing significant burdens on property owners and tenants alike to require rent certification is unnecessary and would add costs to the operation of these properties.

Other Concerns

We have concerns with a number of other provisions of the legislation which we will briefly note here:

- Guarantee Fees: Guarantee fees should appropriately reflect risk, and not be subject to other factors, as suggested in the Act.

- Affordable Housing Goals: The affordable housing goals have provided qualified borrowers with access to mortgage finance, and some form of goals should be included in the new entity.

- Risk-Sharing Requirements: We have concerns about the risk-sharing requirements under the GSE title and FHA title. NAR supports a risk sharing model, but has continues to have concerns that mandated levels may be hard to reach if the private sector elects not to participate.

- FHA Guarantee Reductions: The legislation would reduce the FHA guarantee in half over a five year period. All studies to date have shown that any reduction of the guarantee would result in significant increases in loan prices and decreases in lender participation. Again, increased loan prices and lender participation will have a significant impact on borrowers and markets.

- FHA Capital Reserve Ration: Doubling of the FHA capital reserve ratio and the related increases in premiums will have a dramatic negative impact on FHA borrowers.

- Seller Concessions: We support the FHA proposed rule on seller concessions that allows for the greater of 3% of acquisition costs or $6000, whichever is greater. We believe this approach better reflects differences in closing costs nationwide.

- Lender Repurchase Requirements: We believe the lender repurchase provision of PATH's FHA title will negatively impact lender participation to the detriment of the program.

- Fair Value Accounting: NAR opposes the use of Fair Value Accounting for FHA. Such an approach is only appropriate when assets are being disposed of in the near term and not for the long-term holding as under the FHA program.

Provisions We Support

Covered Bonds. We believe a covered bond market can be an additional tool for mortgage liquidity. Exacerbating the pullback in bank lending, another key source of commercial real estate credit — the CMBS market — is only beginning to recover from near-zero levels in 2009. As this market struggles to rebound, the creation of a covered bond market in the U.S. will be essential to address ongoing commercial real estate refinance challenges. Already successfully used in Europe and Canada, covered bonds allow banks to raise funds by issuing a pool of high-quality assets (typically real estate loans) to investors, which are backed both by the bank's promise to repay and by the assets pledged as collateral. This dual recourse nature is attractive to investors. Therefore, banks who issue bonds have a stake in assuring the long-term viability of the mortgages underlying the bond.

3% Cap for Affiliate Fees (HR 1077). As currently defined by Dodd Frank and in the Consumer Financial Protection Agency's (CFPB) final regulation implementing the "ability to repay" requirements, "points and fees" include (among other charges): (i) fees paid to affiliated (but not unaffiliated) title companies, (ii) salaries paid to loan originators, (iii)

amounts of insurance and taxes held in escrow, (iv) loan level price adjustments (LLPAs), and (v) payments by lenders to correspondent banks and mortgage brokers in wholesale transactions.

As a result of this problematic definition, many loans made by affiliates, particularly those made to low-and moderate-income borrowers, would not qualify as QMs. Consequently, these loans would be unlikely to be made or would only be available at higher rates due to heightened liability risks. Consumers would lose the ability to choose to take advantage of the convenience and market efficiencies offered by one-stop shopping.

Regulatory Relief. NAR appreciates the language in the bill attempting to provide regulatory relief to the mortgage market. We believe uncertainty in financial markets about regulations exists and this bill attempts to address that.

Basel III. We support a study of the Basel III rules to conduct a cost-benefit analysis. This will help identify any provisions in the final rule that would unnecessarily harm the housing and commercial recovery. In addition, these rules cannot be considered in a vacuum. The cumulative impact on the real estate finance market and consumers of the layering of the proposed Basel III on top of the myriad of other rules including QM and QRM should be fully assessed by the regulators.

Manufactured Housing. NAR also supports language that will preserve the manufactured housing industry without deterioration of important consumer protections. The provision clarifies the difference between manufactured housing manufactures and loan originators; it also ensures that small manufactured housing loans are exempt from HOEPA standards.

Common Sense Economic Recovery Act (HR 927). We support inclusion of this bill, which directs federal banking agencies to not place a commercial real estate loan in non-accrual status solely because the collateral for such loan has deteriorated in value. This will create more financing options for maturing commercial real estate loans and allow financial institutions to play a significant role in revitalizing our nation's economic recovery.

Summary

The National Association of REALTORS® recognizes the Chairman for his desire to introduce comprehensive reform of housing finance. However, the National Association of REALTORS® must oppose this discussion draft.