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June 13, 2012

Mr. Ed DeMarco
Acting Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Dear Mr. DeMarco:

I am writing on behalf of the over one million members of the National Association of REALTORS® (NAR) to provide comments to the Federal Housing Finance Agency (FHFA) on its draft Strategic Plan for Fiscal Years 2013-2017. REALTORS® believe that the government-sponsored enterprises (GSEs, including the Federal Home Loan Banks, Fannie Mae, and Freddie Mac) played a vital role in the success of our nation's housing system, and continue to play a key role today by serving as a reliable source of liquidity for housing finance.

NAR is America's largest trade association, including our eight affiliated Institutes, Societies and Councils, five of which focus on commercial transactions. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

Overview

On May 14, 2012, the Federal Housing Finance Agency (FHFA) released a draft strategic plan for fiscal years 2013-2017 to incorporate the strategic plan for the conservatorships of Fannie Mae and Freddie Mac FHFA sent to Congress in February 2012. FHFA asked those interested in the plan to comment on the four strategic goals for FHFA:

1. Safe and sound housing government-sponsored enterprises.
2. Stability, liquidity, and access in housing finance.
3. Preserve and conserve Enterprise assets.
4. Prepare for the future of housing finance in the U.S.

REALTORS® support the creation of a more efficient and effective housing finance system and have long maintained that the key to the nation's economic strength is a robust housing industry. We appreciate the opportunity to comment on the plan and FHFA's efforts to bring stability and confidence back to the housing finance sector.

Strategic Goal 1: Safe and Sound Housing Government-Sponsored Enterprises

REALTORS® support prudential efforts to ensure the safety and soundness of the GSEs and believe these efforts should recognize the important role that the GSEs play in providing liquidity to the secondary mortgage market. REALTORS® also recognize that FHFA has an important mission to improve the conditions of the GSEs by identifying existing and emerging risks in order to protect taxpayers from further losses. To this end, REALTORS® believe regulatory policies and supervisory guidance intended to improve the GSEs' risk management and operating standards also ensures the continued availability of mortgage finance.

EQUAL HOUSING OPPORTUNITY

Strategic Goal 2: Stability, Liquidity, and Access in Housing Finance

NAR applauds FHFA's efforts to encourage the GSEs to take every feasible action to keep families in their homes with a loan modification as well as efforts to broaden opportunities for consumers to refinance. These home retention initiatives mitigate losses to both the GSEs and taxpayers, and provide stability to local housing markets. At the same time, NAR remains concerned about alternative REO disposition programs that may create more instability and have the potential to delay recovery of housing markets. REALTORS® strongly believe that every effort should be made to incentivize individual, as opposed to bulk, sales since individual sales maximize recovery on the assets and minimize the impact on housing values. Current proposals, such as selling in bulk to large national investors, may require the GSEs to sell these properties at unnecessarily deep discounts and will likely consolidate a large section of a local housing market into the hands of one or very few market participants. These buyers will be able to sell and, we fear, obtain windfall profits from discounted inventory purchased in bulk from the GSEs to the detriment of taxpayers. In addition, homeowners selling their own homes in areas where bulk home sales have occurred are likely to face depressed local home prices. Should FHFA decide to move forward with a pilot REO disposition program, it is important that consideration be given to the negative effect discounted prices could have on the stability of the rest of that market and individual homeowners. Alternatively, FHFA could enhance the disposition of REO assets by further promoting liquidity in the mortgage market, at least with respect to the homes owned by the GSEs. Policies that reduce the excessively tight underwriting standards many borrowers are now experiencing will go a long way in allowing potential homeowners and investors to absorb excess REO inventory held by the GSEs.

REALTORS® recognize the need for the return of private sources of capital in housing finance as well as the need for stability. However, current underwriting standards continue to restrict access to mortgage financing and prevent the return of confidence and stability in many housing markets. As NAR has previously commented, the difficulty in obtaining a mortgage is having a tremendous negative impact on a number of housing markets. For example, the dearth of available financing for the purchase of condominium units, long an affordable option for first-time homebuyers, has resulted in downward pressure on condo values to the point that only cash buyers are willing and able to purchase the property. Since the beginning of the crisis, the GSEs, along with FHA, have provided approximately 90% of all mortgage lending. During this time, 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. NAR supports strong underwriting standards but believes that the GSEs should not raise fees based on the theory that the result will be a return of private mortgage lending without a government commitment. Potential homebuyers have become discouraged during this time of unprecedented housing affordability due to high fees and unduly tight underwriting standards of the GSEs, as well as a lack of availability of private mortgage capital. It is critical that FHFA ensure the continued availability of affordable credit to all qualified borrowers until the housing market recovers.

Strategic Goal 3: Preserve and Conserve Enterprise Assets

REALTORS® are acutely aware of the downward pressure that foreclosures have on housing market prices. To relieve this, REALTORS® recommend that the agencies reassess their current policies to make sure that as many loan modifications and short sales are approved as possible. A recent Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) report noted that less than 5% of TARP funds allocated for housing support programs, such as the Home Affordable Modification Program (HAMP) and Home Affordable Foreclosure Alternatives Program (HAFA), has been used.[1]

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 revised Home Affordable Refinance Program (HARP 2) allows more responsible homeowners to lower their monthly mortgage payments and reduce their risk of default. Due to the prolonged housing recovery, many lenders and mortgage investors now agree 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 used to support the GSEs.

Strategic Goal 4: Prepare for the Future of Housing Finance in the United States

NAR believes it is necessary to provide for ongoing government participation in the mortgage market because in extreme economic conditions private capital will retreat from the market. A full shut-down of the conventional conforming portion of the secondary mortgage marketplace, in the absence of government-supported or purely private lending, would mean very

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[1] http://www.sigtarp.gov/reports/congress/2011/July2011_Quarterly_Report_to_Congress.pdf

limited or no funding for middle class homeowners or homebuyers. This would be devastating to the national economy – possibly causing a catastrophic collapse.

Therefore, as FHFA moves to implement its strategic plan for contracting the GSEs, establishing standards for safer and more efficient home financing, and building a new infrastructure for the secondary mortgage market, REALTORS® respectfully remind you of the principles that we believe to be necessary to foster and maintain a healthy secondary mortgage market. The principles espouse two major themes. First, the housing market must work in all markets, and at all times, no matter the existing economic condition. Second, mortgage capital needs to be available to ALL potential, qualified housing consumers. The principles are:

- An efficient and adequately regulated secondary market is essential to providing affordable mortgages to consumers.
- We cannot have a restoration of the old GSEs with private profits and taxpayer loss system.
- Reforms should ensure a strong, efficient financing environment for homeownership and rental housing.
- The government must clearly, and explicitly, guarantee the issuances of the entities.
- The new entities should guarantee or insure a wide range of safe, reliable mortgage products.
- Sound and sensible underwriting standards must be established.
- The entities should price loan products or guarantees based on risk.
- The reformed entities must have a separate legal identity from the federal government but serve a public purpose.
- The GSEs should remain politically independent.
- To increase the use of covered bonds, particularly in the commercial real estate arena, the entities should pilot their use in multifamily housing lending.
- There must be strong oversight of the entities.

Overly contracting the role, or over-correcting the underwriting standards, of the GSEs, to the point of essentially removing the government's involvement in the secondary mortgage market, will offer no incentive for market participants to reach out to those creditworthy consumers who may not meet extremely high, purely private sector lender underwriting standards that seek to virtually eliminate risk.. This will deprive hard-working, creditworthy households of their ability to own a home and build wealth that future generations can use to achieve the American Dream.

REALTORS® understand the need for a new securitization platform, and fully appreciate FHFA working to foster one that the GSEs will utilize in tandem as opposed to using taxpayer money to create two different platforms. However, we caution using the single platform as a proxy to contract the GSEs into one entity before Congress and the Administration can make a determination on the future structure of the GSEs or reformation the housing finance system. Utilizing the single platform to foster a single secondary mortgage market entity prior to agreements being reached by Congress and Administration may be detrimental to the Nation's efforts to reform the secondary mortgage market, and ultimately liquidity for potential homebuyers.

Conclusion

The National Association of REALTORS® appreciates the opportunity to comment on the Federal Housing Finance Agency's draft Strategic Plan. REALTORS® have long maintained that the key to the nation's economic strength is a robust housing industry and believe that FHFA's effort to bring back stability and confidence in the housing finance system is important to a continued recovery in America's housing markets. Providing creditworthy consumers with reasonable access to mortgage capital, bolstering refinancing, loan modification and short sale efforts, and ensuring that the future of housing finance includes a robust secondary mortgage marketplace will significantly improve the agency's success in achieving its goals.

If you have questions, please feel free to contact me or Charlie Dawson, NAR's Policy Representative for Financial Services, at 202.383.7522 or cdawson@realtors.org.

Sincerely,

Maurice "Moe" Veissi
2012 President, National Association of REALTORS®