

# FED White Paper

(January 17, 2012)

On January 4, 2012, The Federal Reserve released a white paper, entitled “The U.S. Housing Market: Current Conditions and Policy Considerations.” In the paper, the Fed indicated that continued weakness in the housing market poses barriers to a more vigorous economic recovery. The paper supports many principles established by NAR to help revitalize the housing industry and economy. NAR, however, does not support some of the Fed’s other policy suggestions, such as bulk sales of REO properties. This matrix represents the basics of various Federal Reserve and NAR positions. For a more exhaustive background on NAR policies, please visit [www.realtor.org/government\\_affairs](http://www.realtor.org/government_affairs).

Issue	Federal Reserve System Position	NAR Position & Actions
<b>Tight Lending Standards</b>	<ul style="list-style-type: none"> <li>Lending Standards are overly tight; creditworthy borrowers are not able to get loans.</li> <li>More efforts are needed to balance between prudent lending standards and unduly restrictive credit.</li> </ul>	<ul style="list-style-type: none"> <li>Lenders and regulators need to comprehensively reassess entire credit structure.</li> <li>FHA, Fannie Mae, and Freddie Mac should consider adjustments to policy on the impact of adverse credit events on home purchases.</li> <li>FICO should study the risk/performance of consumers with modified loans and modify the FICO formula accordingly.</li> <li>Lenders and regulators should adopt reasonable, uniform reporting of loan modifications, allowing borrowers who make on-time payments for a period to be reported “paid as agreed.”</li> </ul>
<b>REO Disposition</b>	<ul style="list-style-type: none"> <li>A government-facilitated REO-to-rental program could help the housing market and improve loss recoveries.</li> <li>In the current mortgage lending environment, private lenders may not have the capacity to fund a large-scale rental program, and REO holders could fill the gap.</li> </ul>	<p>Proposals for REO disposition should:</p> <ul style="list-style-type: none"> <li>Provide mortgage financing to qualified homebuyers and investors to increase the REO absorption rate;</li> <li>Any bulk sales pilot should be in small, manageable numbers in limited geographical areas.</li> <li>Allow investors access to the FHA 203(k) rehab loan program;</li> <li>Expand resources dedicated to pre-foreclosure efforts (e.g. loan modifications and short sales);</li> <li>Rely on the expertise of local businesses, including contractors, real estate brokerage firms, and property managers.</li> </ul>

<b>Refinancing Efforts</b>	<ul style="list-style-type: none"> <li>• Many homeowners haven't refinanced to lower rates because of problems with home equity, blemished credit, or tighter lending.</li> <li>• Encourage refinancing by: <ul style="list-style-type: none"> <li>○ Reducing or eliminating remaining LLPAs for HARP refinances;</li> <li>○ More comprehensively reducing putback risk;</li> <li>○ Further streamlining the refinancing process for borrowers with LTVs below 80 percent.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Qualified</i> homebuyers and investors should receive mortgage refinancing.</li> <li>• Support S.170, which would: <ul style="list-style-type: none"> <li>○ Remove refinancing limits on underwater properties for borrowers that have been paying on time;</li> <li>○ Eliminate risk-based refinancing fees charged by Fannie Mae and Freddie Mac.</li> </ul> </li> <li>• Support bipartisan Senate efforts calling for improvements to the Home Affordable Refinance Program (HARP).</li> </ul>
<b>Foreclosure Prevention: Loan Modification, Short Sale, Deed-in-Lieu</b>	<ul style="list-style-type: none"> <li>• The most efficient solution may be foreclosure alternatives (e.g. short sale, deed-in-lieu-of-foreclosure).</li> <li>• Short sales keep the property out of REO, reducing harm to communities from vacant properties.</li> <li>• Short Sales reduce the deadweight losses from foreclosures, which compound household and creditor losses and depress prices.</li> </ul>	<ul style="list-style-type: none"> <li>• HAFA and other short sales programs should be implemented and improved to make them feasible.</li> <li>• Where a loan is not eligible for HAFA, lenders should adopt HAFA principles that reduce delays in approving the transaction.</li> <li>• Support H.R. 1498, which requires servicers to decide whether to approve a short sale within 45 days of completion of the file.</li> <li>• Support H.R. 3164, which requires GSEs to inform a seller of the minimum price the GSEs will accept for a short sale.</li> </ul>
<b>Servicing Compensation</b>	<ul style="list-style-type: none"> <li>• Changes should be made to the servicing compensation model, such as aligning servicing fees more closely with expenses <ul style="list-style-type: none"> <li>○ Smaller servicing fees for performing loans but higher compensation for servicing delinquent loans</li> <li>○ Fees tied directly to expenses incurred</li> <li>○ Incentives for loan performance.</li> </ul> </li> <li>• A small part of the current servicing business already operates under such a payment regime.</li> </ul>	<ul style="list-style-type: none"> <li>• Changes to servicing compensation should proceed cautiously.</li> <li>• Servicing compensation should allow community lenders and servicers to serve the needs of their communities.</li> <li>• Sufficient resources should be dedicated to pre-foreclosure efforts (e.g. loan modifications and short sales).</li> </ul>