



# 2007 LEGISLATIVE PRIORITIES

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## 1. GSE OVERSIGHT & CONFORMING LOAN LIMITS

**HOUSE & SENATE ACTION REQUESTED:** *That the House pass H.R. 1427 and the Senate introduce and pass similar legislation to reform GSE oversight and create a new GSE regulator with powers that include the authority to set high-cost conforming loan limits by an area's median home price.*

C.A.R. wants Congress to pass legislation that will raise the conforming loan limit in high-cost areas for Fannie Mae and Freddie Mac so that low- and moderate-income home buyers and first-time homebuyers may benefit from access to lower-interest rate conforming loans. The House has introduced H.R. 1427, The Federal Housing Finance Reform Act of 2007, which would overhaul the government sponsored enterprises (GSE) of Freddie Mac and Fannie Mae. These reforms would restructure the regulations on GSE and includes a C.A.R. sponsored provision that would allow the new GSE regulator to set high-cost conforming loan limits by an area's median home price, up to 150% of the national conforming loan limit.

Additionally, H.R. 1427 would create a world class independent regulator not overseen by the U.S. Treasury Department.

GSE reform is long overdue. After months of scrutiny concerning Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, it is time to expand oversight of these programs to allow them to grow their efforts to assist in homeownership and allow the regulator to make sure the portfolios maintain stability. On March 29, 2007 H.R. 1427 was voted out of the House Financial Services Committee by a vote of 45-19. C.A.R. is waiting for the House to announce a date which H.R. 1427 will be given a floor debate and vote.

## 2. FHA REFORM

**HOUSE & SENATE ACTION REQUESTED:** *That the House pass H.R. 1852 and the Senate introduce and pass similar legislation to reform FHA loans to help make them a more viable option to American homeowners.*

In the 110<sup>th</sup> Congress, the House has introduced two competing FHA Reform bills, H.R. 1752 and H.R. 1852; both titled Expanding American Homeownership Act of 2007. H.R. 1752 is being called the Republican version of FHA reform and is an identical version of what was passed during the 109<sup>th</sup> Congress. H.R. 1852 is the Democrat version of FHA reform and is similar to H.R. 1752, except that it also included an affordable housing fund. The creation of this fund will be a large debate in FHA reform and may delay passage. C.A.R. is asking for Congress to pass FHA Reform that includes:

- Increasing the FHA loan limits to 100% of the conforming loan limit,
- Allowing FHA to set their insurance premiums using risk-based pricing,
- Treating all condo units as single-family units,
- Insuring zero-down mortgages, and
- Insuring 40-year mortgages.

These reforms are needed in order to make FHA loans a more viable option for the expanding ranks of American homeowners. In 1999, the FHA insured approximately 127,000 homes bought in California. In 2005 that number dropped to roughly 5,000. By passing this FHA Reform, tens of thousands more California home buyers will have access to FHA home loans every year. This will save them thousands of dollars that would otherwise be spent on subprime or alternative mortgage products

### 3. NATURAL DISASTER INSURANCE

***HOUSE & SENATE ACTION REQUESTED: That the House and Senate pass comprehensive legislation that includes a federal reinsurance program, creates incentives for homeowners to take steps to mitigate the effects of a natural disaster on their property, and update insurance regulations and the tax code to encourage more participation by insurance companies in the homeowner's insurance market.***

The intensity of large natural disasters in recent years has made the acquisition of adequate homeowners' insurance very difficult in some areas. Insurers are declining to write policies, canceling existing policies or increasing premiums on existing policies. C.A.R. is asking Congress to recognize that there is a serious risk of an insurance shortage should a mega-catastrophe occur in California. The results of this would be a shortage of sufficient funds by the insurance industry to cover all claims, a refusal by insurance providers to reenter the market following the disaster, and the U.S. taxpayer having to act as a default insurance provider to cover damages.

C.A.R. believes Congress should look to implement legislation that will create a government backstop for private insurance providers, create incentives for homeowners to take steps to mitigate the effects of a natural disaster on their property, and update insurance regulations and the tax code so that insurance companies may better prepare for disasters. The longer Congress waits to pass a federal natural disaster reinsurance program the possibility of another major disaster occurring increases. Currently, there are three bills in Congress dealing with natural disaster insurance. The House has introduced H.R. 91, the Homeowners Insurance Protection Act of 2007, H.R. 537, the Commission on Catastrophic Disaster Risk and Insurance Act of 2007, and H.R. 913, the Hurricane and Tornado Mitigation Investment Act of 2007.

### 4. SUBPRIME AND PREDATORY LENDING

***HOUSE & SENATE ACTION REQUESTED: That the House and Senate recognize that many states have strong laws concerning predatory lending and that the regulation of the property lending market is best done at the state level. Any federal legislation concerning predatory lending should not preempt state laws.***

There is great concern in Congress that along with the recent housing boom, which resulted not only in an increase in home prices and homeownership rates, but also an increase in predatory lending practices that may lead to a foreclosure epidemic. While there is no specific definition to what predatory lending is, Congress is focusing most of its attention on the subprime lending market. Congress is quick to state that subprime loans are not predatory, and in fact play a vital role in allowing borrowers to become homeowners who would not otherwise qualify for a loan. However, statistics bear out that the majority of predatory loans derive from the subprime market.

Currently, most predatory lending is handled at the state level, and California has a strong anti-predatory lending law designed to protect the consumer. In 1994, the federal government addressed the issue of predatory lending by passing the Home Owner Equity Protection Act (HOEPA). However, this law is only a minimum requirement; each state is allowed to enact stricter laws. While some predatory and subprime lending bills have been introduced, it is not clear what, if any final bill will look like.

C.A.R. is asking Congress to recognize that California currently has strong successful anti-predatory lending laws in place, and that regulation of the property lending market is best done at the state level. C.A.R. believes the most important thing a predatory lending law must accomplish is to balance consumer protection while simultaneously ensuring an environment conducive to the continuous flow of capital.

### 5. Mortgage Cancellation

***That the House pass H.R. 1876 and the Senate introduce and pass similar legislation that would exclude from individual gross income the debt forgiven from a mortgage cancellation.***

There are times when a homeowner is forced to sell their home for less money than is still owed on their mortgage. When this happens, lenders are sometimes willing to forgive a portion of the loan; the difference between the sale price of the house and what is still owed on the mortgage.

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Under current law, when a mortgage lender forgives or cancels this debt, the homeowner is required to recognize this as income and pay taxes on the amount of the canceled debt accordingly. Currently, commercial and investment properties have forms of relief for these situations; but, that relief has never been extended to a primary residence.

Legislation is needed to assure that mortgage debt that is canceled or forgiven is not treated as income and taxed on primary residences as well. The House has introduced H.R. 1876, the Mortgage Cancellation Relief Act of 2007, which would allow for residential mortgage debt relief to be excluded from gross income. At the time when a family is suffering from the loss of their home it is unfair to further punish them by forcing them to pay income tax on proceeds that were never realized.

### **6. BANKS OUT OF REAL ESTATE**

***HOUSE & SENATE ACTION REQUESTED: That the House pass H.R. 111 and the Senate pass S. 413, the Community Choice in Real Estate Act, which will permanently prohibit banks from entering commerce.***

Once again, Congress passed another one-year prohibition on banks entering Real Estate. Nonetheless, in 2006 we saw attempts to find ways around this prohibition. There were OCC rulings made public that allowed Bank of America the right to develop a hotel property next to its headquarters, PNC the right to develop a mixed-use property including a restaurant and condo units near its base of operations, and Union Bank of California was given permission to own 70% of a company developing a wind energy project, including the land where the turbines will be installed.

C.A.R. and NAR support the separation of banking and commerce. If permitted to engage in real estate brokerage and management, national bank conglomerates would have an unfair competitive advantage and inherent conflicts of interest would result.

Now, more than ever, it is time to pass legislation that would make this prohibition permanent and halt the attempts to erode the lines between banking and commerce. It is time for the House to pass H.R. 111 and the Senate to pass S. 413 to put a full and permanent prohibition on banks entering Real Estate. REALTORS® support the passage of both of these bills in order to eliminate any questions over the issue.