



# 2011 LEGISLATIVE PRIORITIES

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## I. The Future of the Secondary Mortgage Market

### A. Talking Points for Hill Meeting

- The federal government must have a continued key role in the secondary mortgage market in order to ensure that there is capital for mortgage lending in all mortgage markets under all market conditions.
- California's jumbo market over the last four-years has demonstrated that a purely private market is incapable of meeting all the needs of homebuyers and supplying a stable flow of capital.
- Reform of the secondary mortgage market, in particular Fannie Mae and Freddie Mac, should be comprehensive and undertaken methodically.
- REALTORS® does not support H.R. 1182 and S. 693 as the legislation shuts down Fannie Mae and Freddie Mac without offering a replacement for their secondary mortgage market mission.

### B. Background

The GSEs, though they have been in conservatorship for almost three years, remain critical to ensuring mortgage market liquidity. Currently, estimates of GSE loan volume range as high as two-thirds of mortgage loans. Elimination of the GSEs, without a viable replacement for their secondary mortgage market mission, will mean severely restricted mortgage capital and higher costs for qualified, creditworthy borrowers. The reduction in mortgage liquidity will exacerbate downward pressure on home prices ultimately reducing the home values for existing home owners.

## II. Access to Affordable Mortgage Products

### A. Talking Points for Hill Meetings

- Oppose any decrease to FHA and GSE loan limits
- Maintaining the conforming loan limit calculation and caps in high-cost areas would allow the local economic climate of each high-cost state to dictate the necessity of an increase in its conforming loan limit.
- Maintaining the current conforming loan limits in high-cost areas would give equal access to the secondary market for everyone.
- Submit comments to the six regulators during the comment period and voice concern that the proposed Qualified Residential Mortgage (QRM) rule would deny otherwise creditworthy Americans affordable financing while further concentrating the lending industry in the mega-banks that are already "Too big to fail."

### B. Background

The current loan limits expire on September 30, 2011. Reverting to the statutory limits will create a decline in liquidity and hurt our nation's economic recovery. Many argue that the loan limit increases help only higher cost areas, but this is not the case. Reverting to the statutory limits will reduce limits in 619 counties and 41 states and the District of Columbia. The average decline in loan limits will be more than \$58,000.

## Legislative Priorities

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The Dodd-Frank Act requires mortgage securitizers to retain 5% of the risk unless the mortgage is a qualified residential mortgage (QRM). The proposed rule issued by six federal regulators would require families to make a 20% down payment and meet other stringent requirements. The QRM definition is extraordinarily important because it will determine the types of mortgages that will be generally available for borrowers for the foreseeable future. Weak underwriting and toxic mortgages are the main cause of mortgage defaults, not well-underwritten mortgages with affordable down payments.

### III. Preserving Home Ownership Tax Benefits

#### A. Talking Points for Hill Meetings

- House members who haven't yet acted should cosponsor H.Res. 25.
- Any change to the mortgage interest deduction or other home ownership provisions will slow the housing recovery.
- Tax rates have a way of creeping up over time. Since 1986, when the rate was 28%, the top rate has been as high as 39.6% and is presently 35%.
- Reducing, eliminating or otherwise changing the value of the mortgage interest deduction will cause the value of housing to drop even more — perhaps by as much as 15% in some markets. This decline would be in addition to the 30% decline that some markets have experienced.

#### B. Background

In December 2010, the President's National Commission on Fiscal Responsibility and Reform (best known as the Deficit Commission) issued a report identifying tax and spending changes designed to significantly reduce the deficit over the next decade. That Commission recommended different tax options. At least three different approaches were included:

- Eliminate all "tax expenditures" (deductions, exclusions, credits).
- Eliminate the MID for second homes and reduce the amount of allowable mortgage debt from \$1 million to \$500,000.
- Convert the deduction to a 12% tax credit

Since the report was issued, REALTORS® have aggressively reminded Congress that any change to the tax rules that apply to home ownership would disrupt the market and cause home values to further decline.

### IV. Short Sales

#### A. Talking Points for Hill Meeting

- REALTORS® support H.R. 1498 to require servicers to decide whether to approve a short sale within 45 days of completion of the short sale request.
- A hearing on H.R. 1498 will shine a light on the short sales issue and identify ways to make short sales work better.
- Delays in approving requests for a short sale remain a significant impediment to this foreclosure avoidance option.
- Too often, consumers spend an enormous amount of time working to gain approval of a potential short sale only to have the delayed approval process result in the prospective buyer walking away from the deal and the home going into foreclosure.
- Banks are losing more than they have to because they lose much more when selling homes after foreclosure than they would if they approved reasonable short sales.

#### B. Background

Too often, short sales are still a story of delay and unrealistic lender views of current home values, resulting in the potential buyer cancelling the contract and the property going into foreclosure. 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 lenders, sellers, buyers, and communities.

### **V. Affordable and Available Property Insurance**

#### A. Talking Points for Hill Meetings

- Reauthorize the National Flood Insurance Program (NFIP) for at least five years and end the uncertainty of extensions and shutdowns.
- Do not let a vital program lapse again or hold it hostage to extensions of other federal programs.
- Support provisions of H.R. 1300 (Biggert, R-IL) to reauthorize NFIP through 2016 but oppose its privatization pilot program which would reduce the program's risk pool and long-term viability.
- Oppose H.R. 435 (Miller, R-MI) to sunset the NFIP by 2013 and authorize interstate compacts.

#### B. Background

Floods claimed more lives and property than any other natural disaster in the U.S. over the last century. Unable to ignore the rising cost to taxpayers of disaster payments for uninsured properties or the lack of a private market for flood insurance, Congress created the NFIP in 1968. Today, 5.6 million property owners rely on the program in 21,000 communities where flood insurance is required for federally related mortgages.

Since September 2008, Congress has approved nine NFIP extensions and allowed five lapses. During the June 2010 lapse, 47,000 home sales were delayed or cancelled according to NAR survey data. Real estate markets require certainty to make the long-term investments that are vital to the U.S. economic recovery.