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The Voice For Real Estate®

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Dale A. Stinton, CAE, CPA, CMA, RCE
Chief Executive Officer

DATE: August 14, 2008

TO: State Association Executives, Government Affairs Directors, and Communications Directors

FROM: Dale Stinton, Chief Executive Officer

SUBJECT: Response to the Credit Crunch

NAR is hearing from members who are extremely concerned about continuing turmoil in the credit markets. These concerns are well-founded. Mortgage lenders, Fannie Mae and Freddie Mac (the GSEs), private mortgage insurers, and investors in mortgage securities are being extremely cautious in response to the downturn in the housing and mortgage markets. The GSEs, for example, are increasing fees and tightening lending standards. Since most lenders are now subject to much stronger underwriting standards imposed by federal regulators with NAR support, we think that much of the current reluctance to make and invest in mortgage loans is an over-reaction. On the other hand, we cannot ignore the huge losses still being reported by the GSEs. And the banks continue to struggle as they confront high rates of foreclosures and defaults in their mortgage portfolios. Banks need to make much more progress in modifying loans where that is a sound option so homeowners can avoid foreclosure.

NAR has worked hard in response to these problems. In response to NAR objections, the GSEs have withdrawn their declining markets policies. More recently, NAR worked closely with Congress and the Administration to enact the [Housing and Economic Recovery Act of 2008](#) (HERA) achieving a significant victory benefiting housing. HERA helps families refinance into affordable mortgages; makes high cost area FHA and GSE loan limits permanent; reforms the FHA program; reforms the oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks; and stabilizes Fannie and Freddie to make sure capital will continue to flow to mortgage lending. We are working with those charged with implementing the new law. NAR has other initiatives under way. For example, we are launching a pilot program to determine if information sharing by MLSs with the GSEs can give GSEs better information about markets so they can expedite short sales, minimize foreclosures, and avoid increasing the inventory of homes for sale. If the pilot shows this information sharing works, we will make this opportunity available to other interested MLSs, especially those in high foreclosure areas.

Attached is a chart listing the key issues that have arisen in the context of the credit crunch, including the NAR response and a status report. Please rest assured that NAR will continue to work closely with Congress, federal regulators, and our industry partners to help mitigate the housing market downturn. If you have any questions or comments, please contact Joe Ventrone, Vice President, Regulatory and Industry Relations (jventrone@realtors.org or 202.383.1095) or Jeff Lischer, Manager, Financial Services (jlischer@realtors.org or 202.383.1117).

CREDIT CRUNCH ISSUES

Issue	Description	NAR Action	Status
<p>Reform of the FHA Mortgage Insurance Program</p>	<p>The Federal Housing Administration (FHA) mortgage insurance program protects lenders if the borrower defaults. Until recently, low mortgage limits and “red tape” have limited its use. Now that HUD has streamlined the program and the limits have been raised for high cost areas, the program has much wider appeal.</p> <p>As conventional lenders have tightened lending standards and as the GSEs have raised fees and tightened underwriting in response to their huge losses, the FHA mortgage insurance program is becoming a very attractive alternative for buyers seeking fair and affordable financing, including buyers with less than perfect credit.</p> <p>Building on improvements HUD has made by regulation, HERA makes various improvements to the FHA mortgage insurance program, including streamlining of condo loans, simplification of down payment requirements, and (unfortunately) increasing the borrower contribution from 3% to 3.5%.</p>	<p>NAR has developed a new FHA Tool Kit to explain the program to REALTORS®.</p> <p>NAR coordinated a conference call with HUD to educate Housing Committee members and GADs on program changes.</p> <p>Under the Real Estate Services Program, NAR has held several conference calls to discuss the FHA program with brokerage companies that have mortgage affiliates.</p> <p>NAR supported most elements of the FHA reform legislation.</p>	<p>The Tool Kit will be rolled out at the Leadership Summit in mid-August and available by the end of August at the REALTOR® store (www.realtor.org/store).</p> <p>NAR is working with HUD as it implements the new changes.</p>

Issue	Description	NAR Action	Status
Temporary FHA and GSE Loan Limits--2008	The Economic Stimulus Act of 2008 established high cost area loan limits for FHA and GSE loans for the rest of 2008. For FHA, the limits are the greater of \$271,050 or 125% of the local area median. For GSEs, the limits are the greater of \$417,000 or 125% of the local area median. The FHA and GSE limits are each capped at \$729,750. HERA raised the VA limits to the GSE limits for 2008.	NAR worked with Congress to ensure enactment of high cost area loan limits for 2008.	The temporary limits expire at the end of 2008, unless extended. NAR is exploring what options may exist for extending the temporary limits.
Permanent FHA and GSE Loan Limits—after 2008	HERA makes high cost area loan limits permanent. For FHA, the limits are the greater of \$271,050 or 115% of local area median. For GSEs, the limits are the greater of \$417,000 or 115% of local area median. The FHA and GSE limits are capped at \$625,500. [Note that for some areas the permanent limits are lower than the 2008 limits.]	NAR worked with Congress to ensure enactment of high cost area loan limits in HERA.	The permanent loan limits are scheduled to take effect beginning on 1/1/09.

Issue	Description	NAR Action	Status
Securitizing Jumbo Conforming Mortgages	For 2008, the GSEs may purchase loans above \$417,000, up to \$729,750 in high cost areas (jumbo conforming mortgages). The Securities Industry and Financial Markets Association (SIFMA) guidelines do not allow these 2008 jumbo conforming mortgages to be included in certain mortgage backed securities pools known as “to-be-announced” or TBA pools. As the most liquid secondary mortgage market, the TBA market enjoys very favorable pricing (which means lower rates for borrowers). SIFMA adopted the restrictive guidelines because the 2008 loan limits are temporary and due to concern that including jumbo conforming loans in TBA pools would raise rates for borrowers with loans at or below \$417,000.	On August 7, 2008, NAR President Dick Gaylord wrote to SIFMA urging it to allow all mortgages eligible for purchase by the GSEs to be included in TBA pools, without permitting unbalanced pools that the market could price differently than regular TBA pools. Now that high cost area loan limits are permanent, at the lower levels established by HERA, the letter argues that it is time to treat all GSE-eligible mortgages the same and permit pooling in TBA securities so all qualified borrowers may receive the full benefit of GSE mortgages.	On 8/14/08, SIFMA announced it will amend the guidelines to allow jumbo conforming mortgages to be included in TBA pools. This is good news for borrowers in high cost areas. To protect pool homogeneity, SIFMA is capping the number of these mortgages in any one pool at 10%. NAR will monitor the market to make sure the 10% cap allows securitizers to securitize all the jumbo mortgages they want to securitize.
FHA Foreclosure Prevention	HERA includes an FHA 30-year fixed rate refinancing option for homebuyers with problematic loans. The new loan amount may not exceed 90% of the current appraised value, and borrowers must share 50% of future appreciation with FHA. The national loan limit is \$550,440. Many other requirements apply.	NAR strongly supported the FHA program to prevent foreclosures and stabilize neighborhoods.	HUD is working hard to implement the new program by the October 1, 2008, effective date.

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First-Time Homebuyer Tax Credit	HERA includes a \$7,500 tax credit that is available for first-time homebuyers who meet income and other requirements. The purchase must be on or after April 9, 2008, and on or before June 30, 2009. The credit is, in effect, an interest free loan because it is repayable over 15 years (\$500 per year).	NAR was a primary proponent of the new tax credit.	Borrowers can take the tax credit on their 2008 returns. If they buy in 2009, they can file an amended 2008 return. NAR has met with Treasury to map out necessary guidance.
Seller-Funded Downpayment Assistance Program (DAP).	HERA prohibits seller-funded downpayment assistance programs (such as the Nehemiah Program) in connection with FHA mortgage insurance.	NAR supported the prohibition because these loans were a large drain on the FHA insurance fund. NAR is participating in discussions on legislation to institute possible seller DAP reforms that could eliminate the risk that these loans currently pose to the FHA's insurance fund and allow these programs to continue to exist. NAR would likely support such legislation, if the FHA insurance funds that are necessary for the continuation of all FHA mortgage insurance products are adequately protected.	The prohibition goes into effect 10/1/08. Legislation to reform seller-funded assistance programs instead of prohibiting them is under discussion. Timing uncertain.

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GSE Stabilization	HERA includes Administration proposals to allow the Treasury Department to make loans to, and invest in the stock of, Fannie and Freddie.	NAR supported the objective of the Administration’s proposals. NAR’s support is consistent with its policy to preserve and protect the housing mission of the GSEs.	The program provides a backstop if the condition of the GSEs deteriorates and they need assistance to continue operations. The goal of the backstop is to reassure the financial markets so there is never a need to use the authority.
Short Sales	It takes banks too many weeks or months to decide whether to approve a short sale.	Pursuant to recommendations of the NAR Short Sales Issues Work Group, NAR is working to improve the short sales process. In addition to the pilot described in the memorandum, NAR is working with Freddie Mac on a Webinar introduction to short sales. We are also talking to lenders and lender organizations about problems in the short sales process and urging them to streamline short sales.	Ongoing.

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<p>GSEs Raise Fees</p>	<p>On 8/4/08, Fannie announced an increase from 0.25% to 0.50% in its adverse market delivery fee. On 8/8/08, Freddie announced the same increase for its market condition delivery fee.</p> <p>Both GSEs reduced other fees by 0.25% for some borrowers. Borrowers with credit scores of 620 or above and LTV ratios more than 85% will have no net increase.</p> <p>The GSEs raised fees for some borrowers. Fees are being raised where the borrowers have credit scores of 620-739 and LTVs of 75.01-80%. They are also being raised for borrowers with credit scores of 620-679 and LTVs of 80.01-85%.</p>	<p>NAR does not support higher fees. Fannie and Freddie continue to report huge losses and are adjusting fees to better reflect risk. The role of the GSEs in the mortgage market is crucial since purely private mortgage backed securities now represent an insignificant share of the market. The GSEs believe they must take appropriate actions to maintain sufficient capital to stay in business and avoid the possibility of federal control.</p>	<p>Fannie's fee changes take effect 11/1/08.</p> <p>Freddie's fee changes take effect 11/7/08.</p> <p>NAR is continuing to work closely with the GSEs on the firms' responses to current market challenges, including fee adjustments.</p>

Issue	Description	NAR Action	Status
GSE Limits on Number of Second Home and Investor Loans	<p>For Freddie Mac loans, borrowers seeking an investor or second home loan may not own more than four properties subject to a mortgage (including the new loan).</p> <p>For Fannie Mae loans, borrowers seeking an investor or second home loan may not own more than 10 properties subject to a mortgage (including the new loan). No limit applies if the borrower seeks a loan to purchase a principal residence. For jumbo conforming loans (GSE-eligible loans above \$417,000), there is a four financed property limit in all cases.</p>	<p>NAR does not support these limits on second home and investor loans. The GSEs have imposed these limits to help stem the very high losses the GSEs are experiencing from investor loans. NAR has communicated its concerns to the GSEs.</p> <p>NAR has confirmed that Freddie and Fannie both permit lenders to request waivers of these limits in appropriate cases and has urged the GSEs to grant waivers in appropriate cases.</p>	<p>The Freddie four-unit limit took effect 8/1/08.</p> <p>The Fannie limits have been in effect since 2002 (except that the limit on jumbo conforming loans was set this year). Considering current market conditions, Fannie has its current investor loan limit under review. NAR will continue its discussions on this issue with the GSEs.</p>
Declining Markets Policy	<p>On November 15, 2007, Freddie announced it was reducing its maximum LTV ratio by 5 percentage points for properties in declining markets. Fannie followed suit on December 5, 2007. As a practical matter, these policies required buyers to increase their down payments by 5 percentage points.</p>	<p>After weeks of informal staff discussion with the GSEs, President Dick Gaylord wrote the CEOs of Fannie and Freddie on 4/11/08 to urge them to drop their declining markets policies. President-Elect Charles McMillan followed up with meetings with Fannie Mae CEO Dan Mudd and Freddie Mac EVP and Chief Business Officer Patti Cook.</p>	<p>Fannie announced withdrawal of its declining markets policy on 5/16/08 and Freddie followed suit on 5/29/08.</p>

8/14/08