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TESTIMONY OF

RON PHIPPS

2011 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

HEARING REGARDING

STATE OF THE NATION'S HOUSING MARKET

MARCH 9, 2011

Introduction

Chairman Johnson, Ranking Member Shelby, and members of the committee, on behalf of more than 1.1 million REALTORS® who are involved in residential and commercial real estate as brokers, sales people, property managers, appraisers, counselors, and others engaged in all aspects of the real estate industry, thank you for inviting me to testify today regarding the current state of the nation's housing market. I am also speaking on behalf of the 75 million American families who own homes and the 310 million Americans who require shelter.

My name is Ron Phipps. I am a 3rd generation member of a 4 generation family tradition in the Rhode Island residential real estate industry. My passion is making the dream of homeownership available to all American families. As direct result of my passion, I have become very active within the NATIONAL ASSOCIATION OF REALTORS® (NAR); holding significant positions at both the state and national levels. Since 2000, I have been President of the Rhode Island Association, a NAR Regional Vice President, and a member of the NAR Executive Committee. Currently, I am the 2011 NAR President.

Most Americans understand the value of home ownership. They measure their financial wellness in large part with homeownership and with the equity they have in that home. Home ownership provides them with shelter. Owning one's home is the first commandment of self-reliance for most families. Most Americans understand the value of buying a home and over time paying the mortgage off. More Americans rely on this tangible asset for their confidence in their own financial situation, the overall financial well-being of the country, and the strength of these United States:" Life, Liberty, and the Pursuit of Happiness" was Life, Liberty and Property in the first draft by Jefferson.

Current Housing Trends

The housing climate continues to be erratic. Mortgage rates have jumped from their exceptionally low levels of last year, and are likely to rise even further. Of course, REALTORS® expected mortgage rates to increase – that is not unusual as an economy comes out of recession and moves into recovery.

However, consumer malaise continues to prevail in the overall economy, effectively retarding the housing recovery. NAR believes that the economy may not be able to rely heavily on those consumers with stable jobs to help with economic recovery. A solid stock market recovery has lifted wealth for some, but many consumers historically have relied on the wealth tied to their housing equity for confidence. These consumers are now staring at a much lower household net worth in the aftermath of a painful housing market bust. Furthermore, many homeowners who refinanced last year into historically low rates interestingly brought more cash to the table, thus lowering their overall mortgage debt -- perhaps to further increase their ability to repay their obligation and / or to improve their equity position. The lowering of debt is a healthy trend for the long-haul, but it also means less money available for current spending and current economic growth.

Historically, the housing market has been a major power engine for economic growth, particularly coming out of a recession. This does not seem to be the case this time. Additional foreclosures and a shadow real estate owned (REO) inventory loom. As a result, housing starts may only reach 700,000 units in 2011 – half the normal historical annual production, though an improvement from the 554,000 and 586,000 starts, respectively, in the past two years. That implies little addition to economic growth. It also implies a potentially faster than expected "cleaning up" of what has been a bloated housing inventory, particularly as existing-home sales pick up.

Since jobs are now being created, albeit at a slower than desired rate, existing-home sales will likely see some improvement in 2011. Changes in median home prices will be determined by how fast the inventory is worked off. Assuming that the pace of home sales can hold at near 5.3 million units, as occurred in the final month of last year and in January (with swings in home sales induced from the existence and absence of the homebuyer tax credit largely over), then the inventory absorption rate should keep home values broadly stable. This, combined with the continued reduction in builder activity - resulting in a 40-year low on newly constructed inventory - should help absorb some of the distressed shadow inventory that will be reaching the market.

NAR expects local housing market recovery paths in terms of both sales and prices to follow in the footsteps of local job market conditions. Those metros with reasonably healthy job creating markets have so far been Washington, D.C., Boston, Minneapolis, and Seattle. The local economies with energy exposures such as those of Alaska, North Dakota, Oklahoma, and Texas are also doing relatively well. Improvements to jobs are helpful for home sales. We also need to be mindful that improved home sales help create jobs. Research suggests that one million additional home sales in 2011 over 2010 will mean 500,000 private sector jobs created in the country. Meaning, jobs and the housing market go hand-and-hand.

The housing bust of recent years has unfortunately forced as many as 11 million homeowners in to underwater situations and the aggregate homeowner wealth has declined. The median net worth – the value of everything owned minus everything owed – for a homeowner is estimated to have fallen from $230,000 in 2007 to about $170,000 in 2010. However, the net worth of homeowners still outpaces that of a typical renter, which is only $4,000 to $5,000. That is a testament to long-term benefits for homeowners who steadily pay down mortgage.

Aside from the eventual financial benefits gained over many years for homeowners, let's not lose sight of the intangible societal benefits of homeownership: better communities, higher civic participation, lower juvenile delinquency, higher pupil test scores and higher voter participation rates among home-owning families versus tenant (rental) households. As we continue to discuss the future of housing finance, we must consider the intangible social stability that arises from having a super majority of the population that are property owners. REALTORS® are not suggesting that homeownership will cure society's ills, but the U.S. has seen the benefits of homeownership and private property rights that are protected by our Constitution.

Housing Recovery Impediments

The belief in homeownership as a pillar of American society is why REALTORS® are reaching out, with great concern, to the national association to better understand the intentions of the Administration, Congress, and numerous Regulatory bodies that are perceived as actively working to devalue, or place severe obstacles in the path of, home ownership. REALTORS® agree that reforms are required to prevent a recurrence of the housing market meltdown, but unnecessarily raising down payment will have ramifications for the overall economy, as well as housing. According to Exhibit 5-3 from NAR's 2010 Home Buyer and Seller Profile (released November 2010), 41% of repeat buyers and 70% of first-time homebuyers had down payments of 10% or less of their home's purchase price (see chart below).

Exhibit 5-3 **PERCENT OF HOME FINANCED BY FIRST-TIME AND REPEAT BUYERS, AND BUYERS OF NEW AND PREVIOUSLY OWNED HOMES**

(Percentage Distribution)

				BUYERS OF	
	All Buyers	First-time Buyers	Repeat Buyers	New Homes	Previously Owned Homes
Less than 50%	8%	6%	12%	9%	8%
50% to 59%	3	1	5	4	3
60% to 69%	4	2	6	5	4
70% to 79%	10	7	14	11	10
80% to 89%	19	16	23	16	20
90% to 94%	12	14	10	11	12
95% to 99%	30	39	21	29	30
100% – Financed the entire purchase price with a mortgage	14	17	10	15	13
Median percent financed	92%	96%	86%	92%	92%

Congress intended to create a broad exemption from risk retention for historically safe mortgage products. REALTORS® believe that Federal regulators should honor Congressional intent by crafting a qualified residential mortgage (QRM) exemption that includes a wide variety of traditionally safe, well underwritten products such as 30, 15, and 10 year fixed rate loans, 7-1 and 5-1 ARMs, and loans with flexible down payments that require mortgage insurance. The QRM is likely to shape housing finance for the foreseeable future and is therefore very important. Another reason QRM is important is that it serves as a precursor for what the future GSE is likely to be eligible to securitize. A poor QRM policy that does not heed the Congressional intent will displace a large portion of potential homebuyers, which in turn will slow economic growth and hamper job creation.

Furthermore, frequent increases in fees from both FHA and the GSEs and credit overlays from lenders will unnecessarily increase the costs to homebuyers and discourage these consumers, who can otherwise afford a mortgage, from participating in the housing market. By some estimates, **10-15%** of otherwise qualified buyers with a demonstrable ability to repay will be turned away due to the overly stringent requirements. This represents approximately 500,000 home sales that won't happen, further dragging out the housing and economic recovery. (Every two additional closed real estate transactions can create one job, 500,000 sales can produce 250,000 additional jobs).

REALTORS® believe that the pendulum on mortgage credit has swung too far in the wrong direction and it is hurting consumers and the economy. The harmful products that led to the bubble and crash are gone and no one is looking to bring them back, but making it harder for those who can afford a safe mortgage does not further the goals of recovery.

As we have mentioned in prior testimony before this Committee and the House Financial Services Committee, reduced home buying activity hurts numerous businesses that are part of the housing industry (e.g. home renovation, remodeling, furnishing, etc.) and our state and local governments through reduced tax revenues. So, even though it is our belief that housing will not pull us out of this recession alone, the hampering of its recovery will severely, negatively impact any recovery that is, or soon to be, underway.

Conclusion

President Thomas Jefferson dreamed of a well-functioning and self-governing democratic society evolving from a nation of agrarian *land-owning* families. During the World War II era, President Franklin Delano Roosevelt said that a *nation of homeowners* is unconquerable. President Ronald Reagan advocated the need to preserve the mortgage interest deduction in order to promote the one important aspect of the American Dream – homeownership.

The idea of homeownership has been attacked from many quarters because of the housing bubble and subsequent bust. Many mistakes were made during the cycle. However, as the country takes a critical look at federal housing policy, let's not lose sight of the immense intangible value of homeownership – sustainable homeownership – to our country.

The National Association of REALTORS® sees a bright future for the housing market and the overall economy. However, our members are well aware that the future we see rests on the industry's and the economy's ability to successfully navigate some significant obstacles. Congress and the housing industry must maintain a positive, aggressive, forward looking partnership if we are to ensure that housing and national economic recoveries are sustained.

I thank you for this opportunity to present our view of the state of the nation's housing market. As always, The National Association of REALTORS® is at the call of Congress, our industry partners, and other housing stakeholders to help facilitate a sustainable housing and national economic recovery.