Testimony of Barry Rutenberg

On Behalf of the
National Association of Home Builders

Before the

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Hearing on

"Public Proposals for the Future of the Housing Finance System Part II"

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<u>Introduction</u>

Chairman Johnson, Ranking Member Shelby and members of the Senate Banking Committee, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views on the long-term future of the housing finance system. We appreciate the invitation to appear before the committee on this important issue.

My name is Barry Rutenberg and I am NAHB's First Vice Chairman of the Board and a home builder from Gainesville, Florida. NAHB represents over 160,000 member firms involved in building single family and multifamily housing (including participants in the Low Income Housing Tax Credit program), remodeling, and other aspects of residential and light commercial construction. Each year, NAHB's builder members construct about 80 percent of all new housing in America.

Credit is the life's blood of the housing sector. A reliable and adequate flow of affordable funds is necessary in order to achieve the nation's housing and economic goals. Establishing a finance system that provides liquidity for the housing sector in all markets throughout the economic cycle is a prerequisite to achieving housing policy objectives. In fact, achieving affordability in credit for single and multifamily housing reduces the resources required to address the nation's housing needs. A stable, effective and efficient housing finance system is critical to the housing industry's important contribution to the nation's economic performance and to the achievement of America's social goals.

The housing finance system currently is under a cloud of uncertainty. The federal government, through the Federal Housing Administration (FHA) and Fannie Mae/Freddie Mac, is currently accounting for nearly all mortgage credit flowing to home buyers and rental properties. Even with the current heavy dose of federal support, fewer mortgage products are available and these loans are being underwritten on much more stringent terms. In addition, Congress and the regulators are piling on layers of regulations in an attempt to plug gaps in the system of mortgage regulation and to prevent a recurrence of the mortgage finance debacle that is still playing out.

This is not an arrangement that can continue indefinitely and there is no clear picture of the future shape of the conforming conventional mortgage market. One thing that is clear is that the status quo cannot be maintained. Policy discussions are underway on what should become of Fannie Mae and Freddie Mac following the current, still-indefinite conservatorship period, and what, if anything, should change in the structure and operation of the Federal Home Loan Banks (FHLBanks). A key consideration is how to get from the current structure to a future arrangement without undermining ongoing financial stabilization efforts and disrupting the operation of the housing finance system.

NAHB has been actively involved in discussions on changes to the financing framework for home buyers and producers of rental housing. In the past year, NAHB has developed a detailed plan outlining our thoughts on the future of the housing finance system and shared this extensively with Congress. In the meantime however, Congress has passed the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act). Regulators are now busy implementing this massive law that has the potential to reduce the availability and increase the cost of housing credit. The housing landscape has seen little change during this period as the housing market remains extremely weak and decisions about the future of the housing finance system are stuck in a quagmire, despite the Administration's recent report outlining options for *Reforming America's Housing Finance Market*.

NAHB strongly supports efforts to modernize the nation's housing finance system, including reforms to the government sponsored enterprises Fannie Mae and Freddie Mac. We cannot go back to the system that existed before the Great Recession, but it is critical that any reforms be well-conceived, orderly and phased in over time. Short-term proposals to reduce the support Fannie Mae and Freddie Mac provide for the housing finance system represent a piecemeal approach to reform that would disrupt the housing market and could push the nation back into a deep recession. These proposals, along with similar plans announced by the Obama Administration in February, show that many policy makers have clearly forgotten housing's importance to the economy.

America's home builders urge policymakers in the Administration and Congress to consider the potential consequences of their proposals. Do not move forward with policies that would further destabilize a housing market that is already struggling. Housing can be the engine of job growth this country needs, but it cannot fill that vital role if Congress and the Administration make damaging, ill-advised changes to the housing finance system at such a critical time.

NAHB's testimony today will expand on these thoughts within the context of current housing market conditions and other recent developments affecting the housing finance system.

Housing Market Conditions

The housing market has not experienced the same tentative growth path that the rest of the economy is experiencing. Overall economic growth has been weak by historic standards for an economic recovery, but housing's performance has been even weaker. Unlike the last two economic recoveries, when housing grew 25 and 45 percent at this point after the end of the recession, housing is still down 18 percent since the end of the recession in June 2009.

The early months of 2011 have not provided any positive news for housing. New home sales have been stuck at record lows since the expiration of the home buyers' tax credit in April 2010.

Housing construction has reflected the poor sales performances as total building permits in 2011 have been the lowest on records going back to 1960. Single family housing starts have been among the lowest ever recorded.

House prices continue to fall in many locations as foreclosed and distressed sales continue to absorb what little demand there is. Oddly, low mortgage rates and very affordable house prices should be a stimulus to home buying, but the consumer remains uncertain about future government moves against housing. Mortgages are affordable, but credit standards and downpayment requirements are keeping many potential home buyers out of the market.

Proposals to Reform the Housing Finance System

In February, the Obama Administration released its report on *Reforming America's Housing Finance Market* (Report). As required by the Dodd-Frank Act, the Report provides recommendations for ending Fannie Mae and Freddie Mac's conservatorship and the proper role of the federal government in the nation's housing finance system. The report lays out a path toward transition that will significantly reduce the government's role in housing finance by winding down Fannie Mae and Freddie Mac and, over time, restoring the private sector's role in mortgage finance. The Administration stresses that the transition should be a careful and deliberative process that will take several years to implement.

During the transition, the Administration proposes a number of steps to reduce government support including lower loan limits, increased downpayment requirements and higher fees for conforming and FHA-insured mortgages. As Fannie and Freddie's role in the housing market is reduced, FHA's presence would be scaled back to its pre-crisis role as a targeted provider of credit access for low – and moderate income and first-time homebuyers. Program changes at FHA would ensure that the private market – not FHA - would pick up new market share as the Fannie/Freddie role is reduced. Reforms at the FHLBanks would include restricting member banks to only one FHLBank, capping the level of advances for any institution and reducing the FHLBanks' investment portfolios.

The Administration proposes three options for the long-term framework of the housing finance system, but does not endorse a specific option:

- Option 1 would establish a privatized system of housing finance with government support limited to assistance by FHA, USDA and VA for a narrowly targeted group of borrowers.
- Option 2 is a similar to Option 1, but would provide a federal government guarantee for private mortgages that would be triggered only during time of economic stress.
- Option 3 would permit the government to provide catastrophic federal re-insurance for the securities backed by a targeted range of mortgages that are already guaranteed by private insurers.

NAHB believes that changes to the housing finance system should be comprehensive, coordinated and undertaken in a careful and deliberate manner that does not unnecessarily disrupt the struggling housing recovery. While we support housing finance reform, and look forward to working with this Committee and Congress on broad reform efforts, we have serious concerns on several of the legislative proposals put forward so far in the 112th Congress.

On March 31, 2011 legislation was introduced by Senators John McCain (R-AZ) and Orrin Hatch (R-UT), S. 693, *the GSE Bailout Elimination and Taxpayer Protection,* that would effectively wind down the operations of Fannie Mae and Freddie Mac without offering a clear vision for the future housing system and a thoughtfully designed path for a non-disruptive transition to a new framework. NAHB opposes S. 693, as well as identical legislation introduced in the House earlier this year, H.R. 1182, introduced by Representatives Jeb Hensarling (R-TX) and Spencer Bachus (R-AL). Similarly, NAHB is opposed to the growing list of legislative proposals introduced by members of the House Financial Services Committee that are aimed at reducing the activities of Fannie Mae and Freddie Mac absent comprehensive reform that would continue to provide a federal backstop ensuring a reliable and adequate flow of affordable housing credit in all economic and financial conditions.

While NAHB agrees that private capital must be the dominant source of mortgage credit, the future housing finance system cannot be left entirely to the private sector. The historical track record clearly shows that the private sector is not capable of providing a consistent and adequate supply of housing credit without a government backstop. NAHB therefore believes that it is premature to begin dismantling the current housing finance system, as represented in both these legislative approaches, until there is a clear vision for the future of the housing finance system.

NAHB is nevertheless pleased to see new legislative efforts being introduced and developed in the House of Representatives that would take a very different tack from the proposals mentioned previously. Recently bipartisan legislation, H.R. 1859, was introduced by Representatives John Campbell (R-CA) and Gary Peters (D-MI), which would replace Fannie Mae and Freddie Mac with five private companies that would issue mortgage-backed securities and have government backing. This approach differs greatly from the previously mentioned proposals that would move towards full privatization of the GSEs and slowly diminish federal support for the current housing finance system. Similarly, NAHB is aware of legislation currently under development by Representative Gary Miller (R-CA) that would likewise include a predictable government role in the secondary mortgage market to preserve financial stability in the market and maintain a stable housing sector.

NAHB views the introduction of H.R. 1859, as well as the direction of Rep. Miller's legislative proposal, as a very positive development as the debate on the future of the housing finance system moves forward in the 112th Congress. In addition to NAHB's own detailed proposal on how a future housing finance system can be structured (outlined later in this statement), NAHB looks forward to working with all members of the House and Senate to move forward comprehensive GSE reform legislation seek an appropriate federal role to maintain a healthy mortgage marketplace.

NAHB Position on Housing Finance Reform

Key Principles

NAHB has had a strong and longstanding interest in the maintenance of an efficient secondary mortgage market and the role of the GSEs in facilitating the flow of capital to housing. NAHB, along with a number of other housing and financial trade associations, including some that are on this panel, have developed *Principles for Restoring Stability to the Nation's Housing Finance System*, which were released on March 28. We believe the following principles should help guide efforts to restore and repair the nation's housing finance system:

- A stable housing sector is essential for a robust economic recovery and long-term prosperity. Housing, whether through homeownership or rental, promotes social and economic benefits that warrant it being a national policy priority.

- Private capital must be the dominant source of mortgage credit, and it must also bear the primary risk in any future housing finance system.

- Some continuing and predictable government role is necessary to promote investor confidence and ensure liquidity and stability for homeownership and rental housing.

- Changes to the mortgage finance system must be done carefully and over a reasonable transition period to ensure that a reliable mortgage finance system is in place to function effectively in the years ahead.

We agree with the Administration that private investment capital is critical for a robust and healthy mortgage marketplace, and the current government-dominated mortgage system is neither sustainable nor desirable. As critical as it is to attract private money to the mortgage markets, an appropriate level of government support is essential to preserving financial stability. To facilitate long-term fixed-rate mortgages, affordable financing for low- and moderate-income borrowers, and financing affordable rental housing – particularly during times of crisis and illiquidity – it is important to establish a clearly defined role for the federal government in developing effective insurance and guarantee mechanisms. While the goal should be to move toward a largely private secondary market, the private and public sectors should work as partners in creating a variety of financing options to ensure that safe, stable, and affordable financing is available to all creditworthy borrowers.

NAHB Proposal for New Secondary Market System

NAHB believes that it is crucial for the federal government to continue to provide a backstop for the housing finance system to ensure a reliable and adequate flow of affordable housing credit. The need for such support is underscored by the current state of the system, where Fannie Mae, Freddie Mac, the FHLBanks, FHA and Ginnie Mae are the only conduits for residential mortgage credit. NAHB feels the federal backstop must be a permanent fixture in order to ensure a consistent supply of mortgage liquidity as well as to allow rapid and effective responses to market dislocations and crises.

A workable system must be established to perform the basic roles served by Fannie Mae and Freddie Mac. These GSEs should not be converted to government agencies, nor should their functions be completely turned over to the private market. Last year NAHB presented this Committee a proposal recommending major changes in the structure and operations of the secondary mortgage market. The operation of the new secondary market for conforming conventional mortgages is illustrated in the diagram attached to this statement.

NAHB's proposal is similar to the Administration's third option for the long term structure of the housing finance system. Key features of NAHB's proposal are summarized below.

- Private entities, called conforming mortgage conduits, would purchase and securitize mortgages but would receive no direct or implicit federal government support.

- The federal government would guarantee the timely payment of principal and interest of the mortgage-backed securities issued by the conforming mortgage conduits.

- Conforming mortgage conduits would have significant capital requirements (minimum and risk-based requirements) and also would be required to contribute to a fund to cover losses on the mortgages they pool and sell.

- Therefore, the federal government would incur only catastrophic risk beyond the risk covered by securitizers' capital and fund.

- Primary mission of conforming mortgage conduits would be to provide mortgage market liquidity through securitization activities.

- These conduits would be permitted to maintain limited portfolios to facilitate transactions as well as to hold loans that do not have a secondary market outlet.

- Conforming mortgage conduit activities should be directed at a broad range of housing market needs to enable Americans at all income levels to achieve decent, safe and affordable housing. (No specifics on affordable housing requirements.)

- Conforming mortgage conduits would deal in mortgages with well understood and reasonable risk characteristics (including standard 30-year fixed rate loans, ARMs and multifamily mortgages).

<u>Impact on the Federal Home Loan Bank System</u>

Discussion of housing finance system reform has focused almost exclusively on the future of Fannie Mae and Freddie Mac. While this is understandable given the magnitude of problems facing those companies, their open-ended line of support from the U.S. Treasury, and their ongoing operation under conservatorship, attention must also be accorded to the FHLBank System.

NAHB also views the FHLBank System as an essential component of the U.S. housing finance framework that has served as a key source of liquidity for institutions providing loans to home buyers and home builders as well as credit for community and economic development. The

FHLBanks are significantly different from Fannie Mae and Freddie Mac in structure and operations and these differences should be acknowledged and respected during the consideration of the future structure of the housing finance system.

NAHB urges policymakers to undertake any changes to the housing finance system in a manner that will not diminish the favorable cost of funds for the FHLBanks or impair the role of the FHLBanks in supplying liquidity to institutions providing mortgage and housing production credit, support for community and economic development, and resources to address affordable housing needs. The FHLBanks should continue their current activities to serve as an ongoing key liquidity source for institutions providing housing credit.

Transition Considerations

The housing sector is struggling to regain its footing and begin contributing to a recovery in economic output and jobs. The current environment is rife with instability and uncertainty. Many markets throughout the country, however, have returned to a position where consumers are shopping for new homes and housing production can begin to move back to more normal levels.

It is critical that the housing finance system facilitate this emerging recovery rather than stifle it. Under these circumstances, finding a means of moving to a new secondary market framework may be as great, or greater, a challenge as developing the new conforming conventional secondary market structure. NAHB urges Congress to carefully consider and address the short-term, unintended consequences that could occur during the transition to a new housing finance system.

Any changes should be undertaken with extreme care and with sufficient time to ensure that U.S. home buyers and renters are not placed in harm's way and that the mortgage funding and delivery system operates efficiently and effectively as the old system is abandoned and a new system is put in place. Every effort should be made to reassure borrowers and markets that credit will continue to flow to creditworthy borrowers and that mortgage investors will not experience adverse consequences as a result of changes in process.

Impact on 30-year Fixed Rate Mortgage

NAHB believes that any new housing finance system must support the continued availability of the 30-year, fixed-rate mortgage (FRM). Borne out of the Great Depression, the 30-year FRM has played a pivotal role in helping to increase the national homeownership rate so that today two out of three Americans own a home of their own.

It has become an industry standard for several reasons:

- **Affordability.** These loans are geared toward affordability; 30-year terms lock in low monthly payments, allowing households with average incomes to comfortably budget for their home loan.

- **Inflation protection.** Knowing their monthly housing costs will remain the same year in and year out regardless of whether interest rates rise provides households with a sense of financial security and also acts as a hedge against inflation.

- **Long-term planning.** Many young buyers know that as their incomes rise, their housing costs will stay constant and become less of a burden, enabling them to prepare for other long-term obligations, such as college tuitions and retirement savings.

- **Tax advantages.** In most instances, all of the interest and property taxes borrowers pay in a given year can be fully deducted from their gross income to reduce taxable income. These deductions can result in thousands of dollars of tax savings, especially in the early years of a 30-year mortgage when interest makes up most of the payment.

The key to the sustainability of the 30-year FRM is a securitization outlet because originators (banks and thrifts) do not have the capacity to hold such long-term assets which are funded with short-term deposits. Fannie Mae and Freddie Mac provided the securities vehicle along with an implicit government guarantee for investors. It is not clear whether a private housing finance system would be capable of supporting this type of product without some government backing. At a minimum, the cost of 30-year FRMs would increase under a private system.

The Administration's Report analyzes the impact of its three options on the cost and availability of the 30-year FRM to assess the impact of each option on the housing finance market. Option 1 would likely eliminate the 30-year FRM for non-FHA mortgages. Under Option 2, the 30-year FRM could be preserved, but would be very expensive. The 30-year FRM would be most likely to survive under Option 3, but it would be more expensive than at present.

As the private market transitions to assume a greater role, a strong federal backstop is necessary to maintain a stable and adequate supply of credit for home buyers and ensure that the 30-year FRM remains readily available to first-time home buyers and working American families. Otherwise private financial institutions will turn the 30-year mortgage into a luxury product, with high interest rates, fees and downpayments that would price millions of middle-class households out of the market.

Multifamily Financing

The focus of the discussion on the future of housing finance reform largely has been on single family homeownership. Less attention has been paid to the multifamily rental housing segment of the housing finance system, even though almost one-third of Americans live in rental housing, and demand for rental housing in the future is expected to increase.

In particular, NAHB estimates that the aging of the "echo boom" generation will result in demand for between 300,000 and 400,000 multifamily housing units on average per year over the next ten years. The timing of this demand will depend on the pace of economic recovery, but the housing needs of these households will not be postponed indefinitely. The current average pace of multifamily housing starts of less than 120,000 annually is insufficient to meet this demand. Production of multifamily housing will undoubtedly increase above the current extraordinary low levels. It is important that the financing mechanisms to support that production are available.

In spite of the crisis affecting single family housing, the multifamily sector has performed well. Multifamily loans held or guaranteed by Fannie Mae and Freddie Mac have very low default rates, and both businesses are profitable. In addition, the multifamily business of the GSEs finances a wide range of multifamily rental properties, which provide housing for very-low to middle income households. The FHA multifamily mortgage insurance programs also fill a need in the multifamily rental market, although its loan volume capacity is limited.

Private market sources of capital for multifamily financing are not available for all segments of the multifamily market. Life insurance companies tend to focus on large projects in the strongest markets and typically serve the highest income households. Once they meet their own portfolio investment targets, life insurance companies retract their lending. Banks do not provide long-term financing and are subject to significant restrictions in terms of capital requirements. While the commercial mortgage backed securities (CMBS) market was significant at one time, it has not recovered from the financial crisis and is not expected to resume its past levels of volume.

These facts point to the need to maintain a viable, liquid and efficient secondary market for multifamily rental financing where the federal government continues to play a role. In addition, the secondary market must be structured to ensure that the appropriate range of products is available to provide the capital needed to develop new and preserve existing rental housing, as well as to refinance and acquire properties. An adequate flow of capital will ensure that demand for rental housing is met and that affordable options are available for a range of households.

As we suggest for the single family market, on the multifamily side, the federal government should provide an explicit guarantee of the timely payment of principal and interest on securities backed by conforming conventional mortgages, in the same manner that Ginnie Mae now provides guarantees for investors in securities representing interests in government-backed mortgages. Again, the federal government should only be called on to support the conforming conventional mortgage market under catastrophic situations when the capital and self-funded insurance resources of private secondary market entities are exhausted.

However, multifamily loans do not lend themselves to standardization as easily as single family loans, which points to the need to retain the ability to hold some volume of multifamily loans in portfolio.

<u>NAHB Concerns with the Administration's Proposal for Multifamily Financing</u>

The administration's report emphasizes that Americans must have access to a range of affordable housing options, whether they own or rent. The report notes that renters face significant affordability challenges and says that the housing finance system must promote liquidity and capital to support affordable rental options that alleviate high rent burdens on low-income households.

The report states that, in the near term, the administration will begin to strengthen and expand FHA's capacity to support both lending to the multifamily market and for affordable properties that are underserved by the private market. Options include risk-sharing with private lenders and development of programs dedicated to hard-to-reach segments, such as small rental properties. However, NAHB believes that the current structure, staffing levels and resources available to the FHA may not be sufficient to take on such additional responsibilities, nor does FHA have the institutional flexibility to respond to the range of market needs quickly and efficiently. If the role of FHA is to change, much more discussion is needed in this regard.

Of particular importance, the report states that the administration is committed to finding more effective ways to provide financing for small rental properties, underserved markets and rural areas. NAHB is pleased that this proposal is included in the report, as financing for such properties continues to be a challenge.

However, NAHB is concerned that less thought has been given to a future financing system that will meet the needs of moderate and middle income renters. The administration acknowledges that Fannie Mae and Freddie Mac have developed expertise in providing financing to the middle of the rental market, where housing is generally affordable to moderate income families. But the administration does not suggest any alternatives to this model, nor does it set forth a viable transition plan as Fannie Mae and Freddie Mac are wound down. NAHB believes that it is critical to find ways to maintain funding to this segment of the market, and more thought needs to be devoted to solving this aspect of the housing finance system.

Also of concern to NAHB is the continued heavy reliance on non-profit partnerships to address the needs of low- and moderate-income renters. Unfortunately, there has been a long-standing bias favoring non-profits for expertise on these issues. This has been true in this and other administrations. NAHB believes the criteria in selecting program participants should be based on their competence and capacity for producing housing in the most cost-effective way. For-profit businesses are successful, and the government should look to partner with for-profit businesses when appropriate.

Recent Regulatory Developments – QRM

Of great concern to NAHB at present are the credit risk retention rules required by Section 941 of the Dodd-Frank Act, which were unveiled on March 29, 2011, by the six agencies charged with implementing that section of the law. NAHB believes the proposed rules contain an unduly narrow definition of the important term "Qualified Residential Mortgage" (QRM), featuring a minimum downpayment of 20 percent, which would seriously disrupt the housing market by making mortgages unavailable or unnecessarily expensive for many creditworthy borrowers. By stipulating such a large downpayment for a loan to be considered a QRM, the Administration and federal agencies are preempting congressional efforts to reform the housing finance system by imposing a narrow and rigid gateway to the secondary mortgage market.

This extreme proposal could not have been put forward at a less opportune time. The housing market is still weak, with a significant overhang of unsold homes, and an equally large shadow inventory of distressed loans. A move to a larger downpayment standard at this juncture would cause renewed stress and uncertainty for borrowers who are seeking or are on the threshold of seeking affordable, sustainable homeownership. We believe a more balanced QRM exemption is imperative in light of the enormous potential impact it would have on the cost and availability of mortgage credit at this precarious point in the housing cycle.

Risk retention is intended to align the interests of borrowers, lenders and investors in the long-term performance of loans. This "skin in the game" requirement, however, is not a cost-free policy option. Borrowers who can't afford to put 20 percent down on a home and who are unable to obtain FHA financing will be expected to pay a premium of two percentage points for a loan in the private market to offset the increased risk to lenders, according to NAHB economists. This would disqualify about 5 million potential home buyers, resulting in 250,000 fewer home sales and 50,000 fewer new homes being built per year. Such a drastic cutback would have a disproportionate impact on minorities and low-income families who are struggling to achieve the dream of homeownership.

The exclusion of FHA and VA and, at least temporarily, Fannie Mae and Freddie Mac from the risk retention requirement provides some short-term cushion to the impact of the proposal but that relief would be short-lived and is eroded by the tighter underwriting and higher costs already imposed by those agencies. Further exacerbating the situation, the Obama Administration has announced its intention to shrink FHA's share of the marketplace, lower FHA and conventional conforming loan limits and further increase fees on FHA, Fannie Mae and Freddie Mac home loans. These changes, combined with the effects of an overly restrictive QRM, would make it even more difficult for buyers to access affordable housing credit.

It appears to NAHB that the agencies did not give sufficient weight to statutorily required considerations in formulating their QRM proposal, which directed that the definition be based on objective, empirical data rather than subjective presumptions. The statute also requires a multifactor approach to establishing the parameters of the QRM in order to promote sound underwriting practices without arbitrarily restricting the availability of credit. The agencies have admitted that they deliberately selected an extremely conservative approach to create a very limited QRM basket.

Creating an inordinately narrow QRM exemption would cause significant disturbances in the fragile housing market. Today's credit standards are tougher than they have been in decades. As a result, credit availability is extremely tight even for very well qualified borrowers. NAHB strongly urged the banking regulators to consider the negative ramifications of setting further limits on the availability of credit through a comparatively narrower QRM exemption. Under the proposed standard, millions of creditworthy borrowers would be deemed, <u>by regulatory action</u>, to be higher risk borrowers. As a result, they would be eligible only for mortgages with higher interest rates and fees and without the protections required by the statutory QRM framework that limit risky loan features.

An overly restrictive QRM definition also would drive numerous current lenders from the residential mortgage market, including thousands of community banks, and enable only a few of the largest lenders to originate and securitize home loans. This sharp dilution of mortgage market competition would have a further adverse impact on mortgage credit cost and availability.

A QRM definition that is too narrow would prohibit many potential first-time homebuyers from buying a home especially if the definition includes an excessively high minimum down payment requirement. Repeat buyers and refinancers also would be adversely impacted if the QRM includes exceedingly high equity requirements. In other words, the important goal of clearing historically high foreclosure inventory – a necessary condition for a stabilized housing market – will be undermined.

The purpose of the QRM is to create a robust underwriting framework that provides strong incentives for responsible lending and borrowing. Loans meeting these standards will assure investors that the loans backing the securities meet strong standards proven to reduce default experience. The exemption also will keep rates and fees lower on QRMs, which will provide incentives for borrowers to document their income and choose lower risk products. In turn, the market will evolve to establish the appropriate mixture of QRM to non-QRM borrowing.

The majority of industry participants (lenders, home builders, realtors, mortgage insurers) and the sponsors of the QRM language in Dodd-Frank support a broad QRM definition that would encompass the bulk of residential mortgages that meet the lower risk standards of full documentation, reasonable debt-to-income ratios and restrictions on risky loan features. In addition, most believe that loans with lower down payments that have risk mitigating features, most notably mortgage insurance, should be included in the QRM exemption.

NAHB recommends the broadest criteria possible should be utilized in defining a QRM exemption that will ensure safe and sound operation of the mortgage market while accommodating a wide range of viable mortgage borrowers.

Given the substantial impact that the QRM rule will have on the availability and costs of mortgage credit for years to come, a thorough response to the Proposed Rule will require significant data development, analysis and validation that cannot reasonably be completed by the June 10, 2011 comment deadline. For this reason and others, NAHB joined with 14 other organizations representing consumers and the real estate and financial services industries to request an extension of the comment deadline. Specifically, we asked that the comment deadline on the QRM proposal be synchronized with that of the rulemaking on the Ability to Repay and Qualified Mortgage provisions under Dodd-Frank so that comments are due no earlier than July 22, 2011. NAHB respectfully requests the Committee's support for this request and urges the

Committee to encourage the regulatory agencies that drafted the QRM rule to grant the extension of the comment deadline.

Conclusion

Thank you for the opportunity to participate in this important and timely hearing. NAHB looks forward to working with all stakeholders to develop an effective as well as safe and sound means to provide a reliable flow of housing credit under all economic and financial market conditions.

Conforming Conventional Mortgage Secondary Market