U.S. Senator Johnny Isakson
Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Housing, Transportation, and
Community Development

New Ideas for Refinancing and Restructuring Mortgage Loans

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Chairman Menendez, Ranking Member DeMint, and Members of the Committee, thank you for permitting me to attend today's hearing.

I began my career in residential real estate in 1967 as a real estate agent specializing in FHA and VA home sales with an average price of $17,900. In 1968, I experienced the first of four housing recessions I would face during my 33 years in the business. That first housing recession was brought on by the failed FHA 235 no-down-payment program.

In 1974, I was a branch office manager for Northside Realty in Atlanta when our country experienced what at the time was the worst housing recession our nation had ever faced. That recession ended in 1976 after Congress passed a $2,000 income tax credit for the purchase of a single family home in 1975. That tax credit effectively reduced a standing vacant three-year supply of housing to less than a one-year supply.

In 1981, I was President of Northside Realty, and experienced my third housing recession. Interest rates rose to 16.5 percent, and for the first time ever lenders made negative amortization loans to make monthly payments affordable.

In the late 1980s, the savings and loan crisis caused institutional failures across the nation, and the Resolution Trust Corporation was created. This brought on the housing recession of 1990-91, and mortgage-backed securities became the primary source of capital to fund residential conventional loans. This is when FreddieMac and Fannie Mae became dominant in housing finance.

In 1995, I was asked to serve on the advisory board of Fannie Mae. In 1999, I was elected to Congress and stepped down as President of Northside Realty, which had grown into a residential brokerage company with 1,000 agents, 25 offices, 11,000 annual home sales and volume exceeding $2 billion dollars.

During my 33-year career in real estate, I experienced many challenges and difficult markets, but never anything like the current housing market in America. Even some three years after the initial collapse, our nation is still facing a total collapse of new residential construction and development. The upcoming decline in mortgage loan limits on September 30th will only further exacerbate this problem and I encourage my colleagues to support the bipartisan Homeownership Affordability Act of 2011 which will extend, and not change, the current maximum loan limit of $729,750 for two years through December 31, 2013 for FHA, VA and GSE insured home loans. These expirations will make a weak housing market even weaker, and it will make it harder for middle class homebuyers in 42 states to get mortgages and buy homes when credit is already tight.

According to a recent CoreLogic report, 10.9 million Americans who borrowed to buy their homes, or 22.7% of all homeowners with a mortgage nationwide, are underwater. Congress should allow those that are paying their payments on time and meeting their obligations to refinance at current interest rates to free up capital.

Currently, interest rates for 30-year home mortgages remain at historically low levels – at 4.12 percent. Yet of the 27.5 million mortgages guaranteed by Fannie Mae and Freddie Mac, over 8 million still carry an interest rate at or above 6 percent. For the average homeowner – with a $150,000 loan – lowering the interest rate by 1.5 percent would save $1,600 a year. With up to two million additional borrowers refinancing, this would pump up to $3.2 billion annually into the economy.

The Boxer-Isakson Helping Responsible Homeowners Act of 2011 is a bill which I strongly support. It will help up to two million non-delinquent homeowners refinance their mortgages at historically low interest rates by keeping them in their homes and boosting economic growth.

To remove the barriers preventing responsible borrowers current on their payments from refinancing their loans, I encourage Fannie Mae and Freddie Mac to administratively:

- Eliminate risk-based fees on loans for which Fannie and Freddie already bear the risk;
- Remove refinancing limits on underwater properties;
- Make it easier for borrowers with second mortgages to participate in refinancing programs; and

- Require that borrowers are able to receive a fair interest rate, comparable to that received by any other current borrower who has not suffered a drop in home value.

I was happy to hear that President Obama recognized the benefit of these refinancing provisions in his speech before congress last week and I, along with Senator Boxer, continue to urge that these changes be done administratively by Fannie Mae and Freddie Mac. By removing the barriers that have kept these non-delinquent homeowners trapped in higher interest rate loans, it would put thousands of dollars back in the pockets of struggling families and have a direct impact on the housing sector.

Thank you.