NATIONAL ASSOCIATION
OF REALTORS®

REALTOR®
The Voice for Real Estate®

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Richard F. Gaylord, CIPS, CRB, CRS, GRI
President

April 15, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

Dear Secretary Paulson:

On April 11, 2008, I sent the enclosed letters to Fannie Mae CEO Dan Mudd and Freddie Mac CEO Dick Syron, on behalf of 1.3 million members of the National Association of REALTORS® (NAR). The letters raise the serious concerns of our members about a range of GSE policies that, taken as a whole, are hurting the entire national economy, not just the housing and mortgage markets. We believe there has been an overreaction by the GSEs and others in the housing finance industry that, in both the short and long terms, will harm the organizations involved by delaying recovery of the housing and mortgage markets.

NAR has asked the GSEs to reconsider their existing policies and make immediate changes to increase liquidity in the mortgage markets for home buyers and homeowners. The letters address three main areas of concern:

- A wide variety of higher fees and other underwriting standards that make mortgages much less affordable.
- Policies reducing maximum loan-to-value ratios (LTVs) by five percentage points for homes deemed to be located in declining markets.
- Extremely tight underwriting standards for jumbo conforming loans authorized by the Economic Stimulus Act.

Last week, we learned from press reports that you plan to convene a meeting with Mr. Mudd, Mr. Syron, and Senators Dodd and Shelby to discuss GSE reform legislation. I believe that the concerns raised in our letters should be considered by those involved in

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this discussion. We are concerned that GSE policies have tipped too far away from meeting their statutory public policy mission.

Thank you for considering the concerns of REALTORS®.

Sincerely yours,

Richard F. Gaylord, CIPS, CRB, CRS, GRI
2008 President, National Association of REALTORS®

cc: The Honorable Alphonso Jackson
Secretary of Housing and Urban Development

The Honorable James B. Lockhart III
Director of the Office of Federal Housing Enterprise Oversight

Enclosures

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President

April 11, 2008

Daniel H. Mudd
President and Chief Executive Officer
Fannie Mae
3900 Wisconsin Ave., NW
Washington, DC 20016-2892

Dear Mr. Mudd:

I am writing on behalf of 1.3 million members of the National Association of REALTORS® (NAR) to convey our serious concerns about a range of Fannie Mae policies that, taken as a whole, are hurting the entire national economy, not just the housing and mortgage markets.

We at the National Association of REALTORS® fully understand that the root causes of the credit crunch that began last August are not found in the policies of the housing government-sponsored enterprises (GSEs). I also want to acknowledge that we understand how difficult it is to strike the appropriate balance between ensuring that you carry out your public mission while remaining financially sound. But we believe there has been an overreaction by the GSEs and others in the housing finance industry that, even in the short term and certainly in the long term, will cause harm to the organizations involved by delaying recovery of the housing and mortgage markets. Many small individual policy decisions designed to keep the enterprises financially sound, when layered one upon another, have created major impediments to healthy mortgage and housing markets.

REALTORS® call NAR every day with questions about—and objections to—your policies that have had the effect of limiting the availability of affordable loans. NAR asks that you reconsider existing policies and make immediate changes to increase liquidity in the mortgage markets for home buyers and homeowners. There are three main areas of concern:

- A wide variety of higher fees and other underwriting standards that make mortgages much less affordable.
- Policies reducing maximum loan-to-value ratios (LTVs) by five percentage points for homes in declining markets.

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- Extremely tight underwriting standards for jumbo conforming loans authorized by the Economic Stimulus Act.

Higher Fees

The additional fees imposed since last August have made credit more expensive or completely unavailable for many home buyers and homeowners. Not only is there a surcharge of 25 basis points imposed on all loans, but fees as high as 275 basis points apply to those with lower credit. We question whether this fee structure is appropriate, considering your public charter and mission. NAR asks you to consider reducing fees significantly or allocating them differently so you can help make more safe, fair, and affordable mortgages available to more borrowers.

The heaviest impact of the fees is falling on low- and moderate-income families. Many will be less able to obtain fair and affordable loans when buying a home, or be unable to find financing at all. Others will be less able to refinance out of problematic nontraditional mortgages. While the FHA mortgage insurance program is already responding to the market, GSE participation is also important for a wide range of borrowers. This is not the time to risk falling short of achieving your public mission goals.

Declining Markets Policy

The declining markets policy requires reducing, by five percentage points, the maximum LTV for homes located in declining markets. Entire metropolitan statistical areas (MSAs) have been tagged as declining markets regardless of the actual values in the local neighborhoods, which further discourages potential buyers from entering the market. Some avoid buying because they do not have sufficient funds to make the additional down payment required. Others avoid buying because they are afraid to do so if prices are still declining. In either case, the impact of the policy becomes a self-fulfilling prophecy that creates declining markets that did not exist before and intensifies the decline for markets that are declining and delays their recovery.

Here are some recommendations for modifying the current policy. I'm sure your staff will have even more ideas.

- Discontinue the policy of stigmatizing entire zip codes or MSAs as declining markets. Zip codes and MSAs typically include widely differing housing markets, and while lenders and appraisers have the authority, under your policies, to document that a particular home in a declining zip code is not in fact in a declining market or sub-market, the reports we hear are that they are extremely reluctant to do so. Some will not even entertain an appeal.

- Consider modifying the policy to reduce the maximum LTV by fewer than five percentage points. There is already an equity cushion for almost all mortgages since, as a practical matter, 100 percent loans are no longer available, and while it is understandable from the point of view of reducing risk and increasing shareholder returns, it is not clear how an additional five percentage point cushion helps the greater public mission of stabilizing the housing market.

- Make clear to lenders and appraisers that they may override the message generated by Desktop Underwriter® that a home is in a declining market, based on documented evidence. While this is included in your written policy, it is not highlighted or, in the

view of many lenders, a serious option. Market participants would greatly benefit if you would provide examples of the types of documentation you expect them to include in the file to override a presumption of a declining market.

- Make clear to lenders that you will not require repurchase of a delinquent mortgage if the lender has determined and documented for the file that the home is not in a declining market. Lenders are concerned that if they make an independent determination that a home is not in a declining market, and a borrower becomes delinquent, you will require the lender to repurchase the loan. Concern about second-guessing is making lenders and appraisers afraid to make independent determinations.

- The declining markets policy should focus on particular properties in their particular markets. Each property is unique, and lenders and appraisers should make sure the appraisal identifies the market correctly as increasing, declining, or stable. This will minimize the risk of this policy actually creating declining markets.

Tighter Underwriting Standards and Higher Fees for Jumbo Conforming Loans

We were disappointed that you decided to impose additional fees and tighter underwriting when you adopted policies for implementing the new jumbo conforming loan limits enacted in the Economic Stimulus Act of 2008. Our members believe that the intent of Congress was to simply increase the eligible conforming loan amounts, cleanly and quickly, to increase lending in the jumbo conforming markets.

NAR is extremely interested in learning more about the market's response to the new jumbo conforming mortgages. Are lenders making these loans and selling them to you? Are investors buying securities consisting of jumbo conforming loans? What is the pricing in the market? Will jumbo conforming borrowers have to pay significantly higher rates than those with mortgages at or below $417,000? We know it is still relatively early in the process, but I can report that we have heard from members in high cost markets, such as in California, that these loans are still not being made. NAR staff will be in touch with your staff to learn how effective the new statutory authority is in achieving the intent of Congress to provide mortgage financing above $417,000 up to $729,750. I ask that you act promptly if you determine the requirements you have imposed are not necessary or are having an inappropriate or even damaging effect.

Thank you for considering our recommendations. We will be calling your staff to arrange a meeting in the near future to convey the views of our members directly.

Sincerely yours,

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President

April 11, 2008

Richard F. Syron
Chairman and Chief Executive Officer
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102

Dear Mr. Syron:

I am writing on behalf of 1.3 million members of the National Association of REALTORS® (NAR) to convey our serious concerns about a range of Freddie Mac policies that, taken as a whole, are hurting the entire national economy, not just the housing and mortgage markets.

We at the National Association of REALTORS® fully understand that the root causes of the credit crunch that began last August are not found in the policies of the housing government-sponsored enterprises (GSEs). I also want to acknowledge that we understand how difficult it is to strike the appropriate balance between ensuring that you carry out your public mission while remaining financially sound. But we believe there has been an overreaction by the GSEs and others in the housing finance industry that, even in the short term and certainly in the long term, will cause harm to the organizations involved by delaying recovery of the housing and mortgage markets. Many small individual policy decisions designed to keep the enterprise financially sound, when layered one upon another, have created major impediments to healthy mortgage and housing markets.

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