

# 2008 Midyear Legislative Meetings

## REALTOR® Talking Points

*REALTORS® AND CONGRESS*

*WORKING TOGETHER*

### **Housing 2008: Is the homeownership glass half full or half empty?**

The answer depends on where you're looking. The motto "Location, Location, Location" still drives the market. Despite the bleak picture painted in the news, sales in nearly half of the nation's housing markets continue to perform well and home values in many of them continue to appreciate. Most mortgages are current, and the vast majority of homeowners have avoided foreclosure. Still, foreclosure rates continue to grow; they're up 60% nationally from a year ago. The challenges in the subprime mortgage market persist, even though many, if not most, of the "bad guy" lenders have been shut down.

### **Somebody slammed the brakes on the 2003 - 2007 housing boom.**

It's not a pretty picture.

- Slightly more than half the metropolitan areas of the country are experiencing declining median prices as compared with a year ago.
- For the first time since the Great Depression, in 2007 the national median price of a home declined as compared with the previous year.
- In October 2007, the available inventory of homes for sale hit a high mark of a 10.5 month supply. This means that at "normal" sales rates, it would take 10.5 months to sell all the currently listed homes.
- While the current housing inventory has recently shrunk modestly to a 9.9 month supply, today's inventory is still 32% higher than a year ago and 3.2% higher than the previous month. The inventory remains high in part because foreclosure and delinquency rates remain at historic highs.
- In January 2008, the nation-wide median price of a home declined below \$200,000 for the first time in 3 years. It has remained below \$200,000 since.
- Credit-worthy buyers remain on the sidelines waiting for prices to level off.
- Communities suffer as the property tax base erodes because of declining property values.
- The number of construction jobs has fallen by 145,000 since the 2006 peak.

### **Are There Any Bright Spots?**

Yes. Real estate continues to contribute substantially to the overall economy. Commercial real estate activity remains strong. Most homeowners continue to amass equity in their homes, thus increasing their wealth.

- A few housing markets show home appreciation of more than 15% from a year ago, and several have risen by more than 10%.
- The housing sector contributed nearly \$2.1 trillion to the national economy in 2007. This is about 15% of overall economic activity, which is well within historic norms for the real estate sector.
- Commercial real estate contributed an additional \$483 billion to the economy.
- Even after adjusting for mortgage debt value, U.S. homeowners own \$9.6 trillion of equity in their homes. While recent purchasers have suffered with short sales and negative equity, a "typical" U.S. homeowner would have accumulated \$54,000 in housing equity over the past 5 years. Even recent purchasers who currently have negative equity are likely to benefit over time, as real estate ownership is generally a long-term proposition.

### **What's being done to shore up housing?**

Many new, good ideas are currently being debated in Congress. These include jump-start tax incentives for homeownership, FHA and GSE changes that rationalize housing finance and ongoing projects to assure authorization of existing programs and develop solutions for new problems those programs don't address. Of particular interest to Realtors is a new approach to health insurance for the self-employed. Realtors and Congress have a notable opportunity to work together to secure enactment of some important legislation.

## **NAR Asks Congress to Support Its 2008 Legislative Agenda:**

### **ENACT HOUSING STIMULUS LEGISLATION**

#### **✓ FHA Reform**

*Action Needed: Enact legislation that would make FHA a more flexible and widely-utilized program for borrowers and lenders alike and makes higher loan limits permanent.*

#### **✓ GSE Reform**

*Action Needed: Enact comprehensive GSE reform legislation that preserves the housing mission of Fannie Mae, Freddie Mac and the Federal Home Loan Bank system and makes higher loan limits permanent.*

#### **✓ Homebuyer Tax Credit**

*Action Needed: Enact a tax credit that would be widely available for prospective homebuyers. Assure that the credit is available for any property purchased as a principal residence.*

### **IMPROVE ACCESS TO AFFORDABLE INSURANCE**

#### **✓ National Flood Insurance Program**

*Action Needed: Reauthorize the Flood Insurance Program before it expires on September 30, 2008.*

#### **✓ Property and Casualty Insurance**

*Action Needed: Enact legislation that enhances the availability and affordability of homeowners' insurance.*

### **ENACT SMALL BUSINESS HEALTH CARE LEGISLATION**

#### **✓ Small Business Health Insurance**

*Action Needed: Enact legislation that will make health insurance more widely available and more affordable for self-employed individuals and owners of small businesses.*

## HOMEBUYER TAX CREDIT

### ***Congressional Action Needed:***

Enact a temporary tax credit for individuals who purchase a principal residence.

### ***Congressional Actions to Date:***

#### **House of Representatives**

The House Ways and Means Committee passed H.R.5720, the Housing Assistance Tax Act of 2008 introduced by Rep. Rangel (D-NY) providing a temporary tax credit to individuals who purchase a principal residence. H.R.5720 now proceeds to the full House possibly as part of a broader housing package.

### ***What to tell your Representatives:***

- Pass H.R. 5720, the Housing Assistance Tax Act of 2008 introduced by Rep. Rangel (D-NY).

#### **United States Senate**

The Senate passed major housing legislation (H.R.3221, The Foreclosure Prevention Act of 2008) that includes a provision providing a temporary and narrow tax credit to individuals.

### ***What to tell your Senators:***

- Move to Conference on H.R. 3221 (the Senate-passed housing reform bill) and H.R. 5720 and enact a tax credit that would be widely available for prospective homebuyers and for any property purchased as a principal residence.

### ***Issue Background:***

#### **A temporary tax credit can generate marketplace activity.**

The current residential real estate marketplace is characterized as having many browsers, but few purchasers. A temporary incentive like a tax credit could draw buyers into the market.

#### **A tax credit must be available for the purchase of any principal residence.**

To be effective, a tax credit must apply to the purchase of any property that currently qualifies as a residence. This would include single family homes, condominiums, townhouses and any other qualified residence.

#### **An optimal credit would not be subject to income limits.**

Both income patterns and housing prices vary significantly around the country. Any income limit makes a tax credit less valuable as a market stimulant, particularly in high cost areas. Congress should eliminate or increase any income limits associated with the tax credit.

#### **A tax incentive can help to clear the current overload of housing inventory.**

Among the more challenging features of the current market is that, both regionally and nationally, there is a very deep inventory of houses for sale. A primary objective of a tax credit is to generate market activity to clear this inventory to normal levels. During the past two quarters inventory levels have reached historic highs with roughly a 10-month supply of housing offered for sale. Normal inventory levels are about 4 – 5 month's supply.

## FHA MODERNIZATION

### ***Congressional Action Needed:***

Enact legislation that modernizes the Federal Housing Administration (FHA) single family mortgage insurance program and permanently increases loan limits.

### ***Congressional Actions to Date:***

#### **House of Representatives**

On September 18, 2007 the House of Representatives passed H.R.1852, the Expanding American Homeownership Act of 2007 sponsored by Rep. Waters (D-CA). The bill modernizes the FHA mortgage insurance program to give home buyers a safe, low-cost alternative to subprime loans.

#### ***What to tell your Representatives:***

- Thank you for passing H.R. 1852.
- Resolve differences with Senate and get a bill to the President.

#### **United States Senate**

On December 14, 2007 the Senate passed S. 2338, the FHA Modernization Act of 2007 sponsored by Sen. Dodd (D-CT) that similarly modernizes the FHA program.

#### ***What to tell your Senators:***

- Thank you for passing S. 2338.
- Resolve differences with House and get a bill to the President.

### ***Issue Background:***

Because FHA is not a player in today's market, many borrowers were enticed by "specialty" or "nontraditional" mortgages which can pose severe risk burdens to consumers who may be unable to afford the increased mortgage payment in the future. FHA's ability to serve the market has dwindled because its loan limits, downpayment requirement, and limited uses have rendered the program unusable for many prospective homebuyers.

### **FHA mortgage insurance is not a viable product in many areas of the country because its mortgage limits are too low.**

Permanently increasing the FHA loan limits to appropriate levels in all parts of the country will provide homeowners and homebuyers with safe, affordable financing and help stabilize local housing markets.

### **FHA mortgage insurance is not available to some homebuyers due to its rigid downpayment requirements.**

The ability to afford the downpayment and settlement costs associated with buying a home remains the most challenging hurdle for many homebuyers. Reform proposals will eliminate the statutory 3-percent minimum downpayment and provide FHA flexibility to offer varying downpayment terms to different borrowers.

### **Condominiums remain affordable for many homebuyers, but purchasing one with FHA mortgage insurance is very difficult.**

Outdated FHA owner/occupancy and documentation requirements make it very difficult to purchase a condominium using FHA mortgage insurance. The FHA modernization bills will transfer HUD's condominium financing programs into FHA's single-family program to simplify administration and ease the way for condominium purchases.

## **GSE REFORM**

### ***Congressional Action Needed:***

Enact legislation that preserves and strengthens the housing mission of Fannie Mae and Freddie Mac and permanently increases loan limits.

### ***Congressional Actions to Date:***

#### **House of Representatives**

In May 2007 the House of Representatives passed H.R. 1427, the Federal Housing Finance Reform Act of 2007 sponsored by Reps. Frank (D-MA) and Miller (R-CA). H.R.1427 strengthens the regulatory structure for our nation's housing finance Government Sponsored Enterprises (GSEs) and permanently increases the conforming loan limits.

### ***What to tell your Representatives:***

- Thank you for passing H.R. 1427.
- Urge the Senate to introduce companion legislation and take action.

#### **United States Senate**

No companion bill to date. Sen. Dodd (D-CT) has indicated he plans to complete legislation this year.

### ***What to tell your Senators:***

- Cosponsor a companion bill when it is introduced.
- Enact GSE reform legislation with permanent higher conforming loan limits.

### ***Issue Background:***

Legislation to keep Fannie Mae and Freddie Mac strong, preserve the GSEs' abilities to accomplish their important housing mission and equalize housing opportunities must be enacted this year.

A key provision in H.R. 1427, the House-passed GSE reform bill, is permanent increased conforming loan limits. The Senate Banking Committee chairman, Senator Dodd (D-CT), has announced his plans to take up the issue the first week of May. Making the temporary higher conforming loan limits, approved as a part of the recently enacted economic stimulus package, permanent is a matter of simple equity for American families residing in the nation's higher cost markets. Permanent higher loan limits will provide much needed stability to the nation's housing markets and help more moderate-income, working families nationwide qualify for safer GSE loans. Veterans, teachers and nurses are examples of those who may be forced into expensive non-traditional jumbo loans unless Congress enacts GSE reform legislation with permanent higher loan limit provisions.

## **FLOOD/PROPERTY INSURANCE**

### ***Congressional Actions Needed:***

Reauthorize the National Flood Insurance Program (NFIP) before it expires on September 30, 2008, and address the availability and affordability of property insurance in disaster-prone areas.

### ***Congressional Actions to Date:***

#### **House of Representatives**

The House has passed NAR-supported legislation addressing insurance availability and affordability:

- H.R. 3121, the Flood Insurance Reform and Modernization Act introduced by Rep. Waters (D-CA), includes several key reforms to the NFIP.
- H.R. 3355, the Homeowners' Defense Act of 2007 introduced by Reps. Klein (D-FL) and Mahoney (D-FL), addresses availability and affordability of property insurance, particularly in disaster-prone areas.

### ***What to tell your Representatives:***

- Thank them for addressing NFIP reform and property insurance availability.

#### **United States Senate**

Legislation regarding the NFIP and property insurance availability has been introduced in the Senate.

- In October 2007 the Senate Banking Committee passed S. 2284, the Flood Insurance Reform and Modernization Act of 2007 introduced by Senator Chris Dodd (D-CT). It is pending floor action.
- In November 2007 Sen. Clinton (D-NY) introduced S. 2310, the Homeowners' Defense Act. It is a companion bill to H.R. 3355 and is pending before the Senate Banking Committee.

### ***What to tell your Senators:***

- Cosponsor S. 2284 and S. 2310. Enact the bills this year to prevent a disruption in flood insurance coverage and to ensure that property insurance is available and affordable, especially in disaster-prone areas. Both are critical to the stability of the housing market.

### ***Issue Background:***

#### **Congress Must Reauthorize the National Flood Insurance Program (NFIP)**

The National Flood Insurance Program (NFIP) offers an important element of protection to homeowners in areas of the country vulnerable to flooding and helps reduce federal expenditures for disaster assistance and flood control. The National Association of REALTORS® strongly supports efforts to reform the NFIP that would ensure its long-term viability and recognize its importance in protecting property owners across the country.

NAR supports H.R. 3121 that the House passed in September 2007. The bill will protect the integrity of the NFIP, increase incentives for homeowners and communities to participate in the NFIP and increase homeowners' awareness of flood risks.

#### **Ensuring that Property Insurance is Available and Affordable**

Property owners are facing insurance availability and affordability challenges. Insurers have been issuing non-renewal notices to current customers and refusing to write new policies in coastal areas from the Gulf Coast to New England. This pull-back has occurred even in areas that have not experienced a recent significant claim event. The stability of real estate markets is threatened when insurance is unavailable or unaffordable. This pressure is felt by both residential and commercial real estate.

## SMALL BUSINESS HEALTH CARE

### ***Congressional Actions Needed:***

Enact small business health reforms to correct the inequities inherent in the nation's health insurance delivery system. Solving the problem of the uninsured must be a top legislative priority.

### ***Congressional Actions to Date:***

#### **House of Representatives**

NAR and a broad-based coalition of small business trade representatives have met regularly with the health staffs of Democratic and Republican offices to raise awareness of the problems affecting small businesses and the self-employed, and to identify legislative solutions that can be achieved in an election year. NAR is working with House supporters to introduce and cosponsor legislation.

### ***What to tell your Representatives:***

- Introduce and cosponsor companion legislation to S. 2795, the Small Business Health Options Program introduced by Sens. Durbin (D-IL), Snowe (R-ME), Lincoln (D-AR) and Coleman (R-MN)

#### **United States Senate**

On April 3, 2008 Sens. Durbin (D-IL), Snowe (R-ME), Lincoln (D-AR) and Coleman (R-MN) introduced S. 2795, the Small Business Health Options Program that would establish national and state-run purchasing pools for small-employers, including the self-employed.

### ***What to tell your Senators:***

- Cosponsor S. 2795.

### ***Issue Background:***

Over 46 million Americans have no health insurance. More than half of them go to work every day, but are self-employed and unable to find insurance in the individual insurance market or work for small businesses that cannot afford to provide insurance benefits. It is time for Congress to create alternatives means of access to health insurance for the nation's self-employed, small business owners, their employees and dependents.

S. 2795 is such an alternative. The bill will:

- create incentives for states to reform small group insurance markets,
- encourage the development of state purchasing pools backstopped by a voluntary, nationwide pool,
- preserve state regulation and oversight of health insurers and health plans,
- rely on experts to develop appropriate benefit requirements and rating rules for the voluntary, nationwide pool products,
- offer a guaranteed issue small group product to the self-employed who now are stuck in the individual market,
- provide an employer tax credit to encourage small employers to offer health coverage to employees, and
- avoid the criticisms that were lodged against association health plans (AHPs), small business health plans (SBHPs) and the Democratic alternative small employer health benefit plans (SEHBPs).

### **Self-Employed Individuals and Small Businesses Face Unique Challenges**

In most states, the self-employed, including REALTORS®, depend upon the individual insurance market for health insurance. Group policies that spread risk are not available to them. The individual insurance market is a dysfunctional market with little competition or choice. Cost is the major barrier to coverage facing REALTORS® today. As a result, today, one in four REALTORS® has no health insurance. The small group market is also dysfunctional. Since 2001, small group insurance premiums have increased a staggering 78%. Today, only 45% of all small firms – 34% of realty firms – are able to offer health insurance to their employees.