

Special Update from Capitol Hill

March 29, 2007

This week Congress debated three issues, Natural Disaster Insurance, Subprime Lending and Fannie Mae/Freddie Mac Reform -- with enormous implications for the real estate industry. NAR has been actively involved in the debate on each of these issues to protect the interests of our members. Three articles from Congressional Quarterly Today are attached that summarize the hearings and will give you insights on what is happening in Washington that you may want to share with others in your office and our real estate industry. Please let me know if you have any questions.

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Congressional Quarterly TODAY - BANKING & FINANCIAL SERVICES

Government's Role in Disaster Coverage Discussed

By Michael R. Crittenden, CQ Staff

House lawmakers on Tuesday pressed the insurance industry, real estate and other businesses on the role the federal government should play in ensuring that insurance coverage is available for natural disasters.

At a Financial Services Housing and Community Opportunity Subcommittee hearing, Florida Republican Ginny Brown-Waite said that the federal government needs to take an active role in dealing with catastrophe insurance. She made the case that North Dakota is the only state not susceptible to natural disasters.

"Either Congress moves everyone to North Dakota or we enact real, meaningful and proactive solutions to a crisis that affects this whole nation," Brown-Waite said.

She and other lawmakers have introduced bills this year aimed at creating public-private partnerships between the federal government and insurers to guarantee the availability of insurance in the event of a catastrophe.

Industry's Mixed Reviews

Insurance groups offered mixed reviews of the proposals. Some supported federal involvement, and others questioned whether that would inhibit free markets.

Ann Spragens, senior vice president of the Property Casualty Insurers Association of America, said the federal government should step in in the case of "mega-catastrophes" such as Hurricane Katrina.

"[We] believe there is a role, properly structured, for the federal government to play in assisting the financing of mega- catastrophe risk, and we believe it should be given serious consideration by Congress," Spragens said.

Not all industry representatives agreed. The head of a reinsurance industry group warned that any federal government program would put taxpayers at risk for a bailout and would limit private companies' ability to innovate.

"[We] believe that natural disaster is an insurance risk in the private sector if the free market is allowed to work," Franklin W. Nutter, president of the Reinsurance Association of America, said in a statement.

The catastrophe insurance hearing came the day after a bipartisan group of lawmakers — including Financial Services Chairman Barney Frank, a Massachusetts Democrat — introduced legislation (HR 1682) that would overhaul the National Flood Insurance Program.

Administered by the Federal Emergency Management Agency (FEMA), the program offers flood insurance in areas prone to floods where private insurers are unlikely to offer policies. But it has been under great fiscal stress since the 2005 hurricane season.

The program had to borrow tens of billions of dollars from the Treasury to pay the record claims stemming from Hurricane Katrina and other Gulf Coast hurricanes.

Other Problems Exposed

The hurricanes also exposed a number of problems with the program, including coverage limits that had not kept up with inflation. In addition, large numbers of homeowners living in flood zones did not have flood coverage.

The legislation introduced March 26 would boost the program's borrowing authority to \$21.5 billion, from the \$20.8 billion Congress increased it to after the 2005 storms. In addition, it would increase coverage limits for homes to \$335,000 from the current level of \$250,000 and allow FEMA to raise policy rates up to 15 percent annually.

Other provisions would increase fines for lenders who fail to require a borrower to purchase flood insurance on a house located in a flood plain and would phase out subsidies for insurance premiums on vacation or second homes. Also, small businesses would be eligible to purchase business-interruption coverage through the program to help meet payroll and other business operations in the event of a flood.

CONGRESSIONAL QUARTERLY TODAY (CQT) - BANKING & FINANCIAL SERVICES

Surge in Sub-Prime Defaults, Foreclosures Prompts Calls for Tougher Regulations

By Michael R. Crittenden, CQ Staff

House lawmakers pressed federal banking regulators Tuesday on the causes of the meltdown in the subprime mortgage market and how Congress should respond.

At a Financial Services subcommittee hearing, lawmakers outlined potential legislative steps, including a national standard to prevent abusive lending, and expressed concern about broader economic consequences.

"We are facing, by all accounts, a tsunami of defaults and foreclosures," said Carolyn B. Maloney, D-N.Y., chairwoman of the Financial Institutions and Consumer Credit Subcommittee. That sentiment was voiced by lawmakers on both sides of the aisle, who queried banking regulators and industry and consumer groups on what Congress should do to address the growing crisis in the housing market.

"The problem we have in the subprime market is catastrophic," William Lacy Clay, D-Mo., said. "Who dropped the ball?"

Regulators, including representatives from the Federal Reserve and Federal Deposit Insurance Corporation, defended their efforts.

"We have been taking actions all along," said Sandra Bronstein, director of the Fed's division of consumer and community affairs.

The regulators pointed to guidance issued earlier this month that requires banks and other federally regulated lenders to ensure that they judge a borrower's ability to repay based on possibly higher adjusted interest rates, not artificially low initial "teaser" rates.

But that did little to address lawmakers' concerns about what is still to come.

"We're on the leading edge of a market correction that has the potential to hurt many Americans," said Paul E. Gillmor, R-Ohio.

Problems with subprime loans have gained attention in recent months, as mortgage defaults and foreclosures have climbed to record levels. The loans, which are offered to people with patchy credit histories, gained popularity during the recent housing boom. Record gains in housing prices and low interest rates encouraged lenders to make more credit available to borrowers who otherwise would not have qualified.

But the cooling of the housing market and a rise in interest rates have led to ballooning monthly payments for borrowers, many of whom cannot afford the increased costs.

The result has been a steep increase in borrowers being late on their payments, homeowners facing foreclosure and ripple effects throughout the economy.

According to the Center for Responsible Lending, a nonprofit group, one in five subprime mortgages issued in the past two years will end up in foreclosure, and up to 2.2 million households with subprime loans have either lost their homes to foreclosure or will in the next few years.

Maloney is working on legislation to address abusive lending practices and crack down on predatory lending. Financial Services Chairman Barney Frank, D-Mass., has said he wants to move legislation before the end of the year.

Although the effort is likely to get support from some panel Republicans, even proponents of predatory-lending legislation warned lawmakers not to overreact to the current crisis.

"The last thing we need at this point is ill-conceived legislation that dries up credit availability to ordinary Americans while worsening the current market downturn," said Spencer Bachus, R-Ala.

Senate Banking Chairman Christopher J. Dodd, D-Conn., is also expected to push mortgage industry legislation this year. Dodd, a candidate for president, took regulators and the lending industry to task at a March 22 panel hearing for contributing to the problem.

CQ TODAY - BANKING & FINANCIAL SERVICES

Affordable-Housing Fund Fuels Debate in Mortgage Giants Regulatory Bill

By Michael R. Crittenden, CQ Staff

A House panel moved toward approving legislation that would overhaul regulation of Fannie Mae and Freddie Mac, though lawmakers repeatedly disagreed on how to distribute millions of dollars targeted for affordable housing.

"This is a mystical trust fund, and it's very hard for me to support a \$500 million mystical trust fund," Tom Feeney, R-Fla., said of a bill provision that would direct a percentage of the mortgage giants' investment portfolios to affordable housing.

Financial Services Chairman Barney Frank, D-Mass., who wrote the fund language in the bill, fired back that he had never expected Feeney's support for the fund. "Unanimity isn't worth very much. I'm interested in majorities," Frank said.

The debate over the affordable-housing fund was the most spirited part of the panel's ongoing markup of legislation (HR 1427) that would create an independent regulator with broad oversight authority for the firms. The panel is expected to approve the bill Thursday with bipartisan support.

Similar language was included in a 2005 bill passed by the House over the objections of some Republicans. A companion measure then stalled in the Senate.

Those same opponents made clear Wednesday that their position on the affordable-housing fund had not changed with time.

"I don't think we should start down the road to a Robin Hood approach to corporations," said Randy Neugebauer, R-Texas.

Still, some committee Republicans signaled that they would support the affordable-housing fund if changes were made in the way the money is distributed.

As the bill is currently written, an estimated \$500 million annually would be distributed to states for housing programs for the disadvantaged, with all of the money targeted in the first year of the fund to rebuild Gulf Coast communities devastated by Hurricane Katrina.

The panel's ranking Republican, Spencer Bachus of Alabama, offered an amendment transferring control of the fund to affordable-housing programs run by the 12 Federal Home Loan Banks (FHLBs). Bachus said the banks, which like Fannie Mae and Freddie Mac are government-sponsored entities, are best qualified to encourage affordable housing.

"There's only one program I know of that's done a good job at serving that need, and that's the FHLBs," Bachus said.

Frank did not endorse Bachus' amendment but allowed that the issue could still be addressed if the current legislation is passed. Frank said that after winning passage of the bill, he would hold hearings and introduce separate legislation on distributing the affordable-housing fund's proceeds.

"If this bill passes, we will not wait for the Senate before we move forward on figuring out how to best administer this fund," Frank said.

The panel is expected to vote on a number of amendments Thursday. No major changes are expected, though, as the bill is the result of extensive negotiations between Frank and the Treasury Department.

Supporters of tighter regulation hope that agreement will allow lawmakers to overcome obstacles that have derailed past legislative efforts. Frank said Treasury likely would support the affordable-housing language despite previous opposition.

"I don't think Treasury will be throwing any parties when this bill passes, but nor do I think there will be the gnashing of teeth or rending of garments," Frank said.

The panel adopted a number of amendments Wednesday, including proposals that would cap at 10 percent the administrative costs for those receiving fund grants and requiring certain low-income individuals to receive homeownership counseling before receiving affordable-housing money.

Also adopted were amendments co-sponsored by Frank and Republican Gary G. Miller of California that would tighten language governing the regulators' oversight of the mortgage giants' investment portfolios and allow the regulator to lower the level of capital reserves maintained by the mortgage giants as they lower their risk profile.