



Federal Housing Finance Agency
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Mr. Charles McMillan
President
National Association of Realtors
430 North Michigan Avenue
Chicago, Illinois 60611-4087

Dear Mr. McMillan:

I welcomed the opportunity to address NAR members at your convention in Miami, and am writing to follow-up on some of the issues/questions/concerns that were raised during the sessions. Several of the concerns, as you know, reflect a mission/safety & soundness tension. This tension has been highlighted further as the Enterprises operate under conservatorship and seek to regain profitability at just the time their support for the mortgage markets is most clearly needed.

Several questions related to investor loans. While serious delinquency rates on loans for investor-owned properties exceeded those on owner-occupied properties in recent years, it is a fair question to ask whether current tighter underwriting standards may cause this gap to lessen or disappear. Standards around the maximum number of financed properties are selling guide requirements and have long been subject to negotiations between lenders and the Enterprises when lenders want to deliver outside of the standard guide. While no final decisions have been made, I can share with you the fact that the issue of raising the selling guide ceiling on investor loans is under active consideration at one of the Enterprises, and reflects an appreciation of the role for investors in the housing recovery. As a point of clarification, there is not at either Enterprise a 2-unit limit on investor loans, except for certain specialized products.

Another question related to servicer decisions on behalf of the GSEs, and asked about a possible appeals process to challenge these decisions. On the basis of personal conversations and many, many hours of work at the staff level, I can assure you that the Enterprises are working to streamline their loss mitigation process to create a more efficient, expedited process. With regard to short sales, a number of initiatives are underway that are specifically designed to eliminate bottlenecks and allow workout decisions to be made in a faster and more efficient manner.

Shortly after the NAR convention FHFA, along with Treasury, HUD and Hope Now, announced a Streamlined Modification Program (SMP) designed to greatly reduce preventable foreclosures with a simplified, streamlined loan modification program to get struggling homeowners into mortgages that they can afford. The program draws on the FDIC's experience with Indy Mac and others, and targets the highest risk borrower. The SMP complements existing loss mitigation programs, many of which focus on an earlier stage of delinquency or, in some cases, when a delinquency is likely but has not yet occurred. As I know you appreciate, the problems in our housing markets are sufficiently varied and severe that a broad range of targeted solutions is called for.

An issue addressed in earlier meetings with NAR officers and in NAR correspondence concerns owner-occupied condo rules. The major point raised by NAR is the added difficulty in this market of getting financing for units in a condo project that has a number of bank-owned REO units, since current rules require 51% owner-occupancy, and bank-owned REO units currently count as non-owner-occupied. Two significant responses to this concern are: 1) In an established project, the 51% requirement does NOT apply to any loan secured by an owner-occupant principal residence or second home. There is therefore no barrier for a potential homeowner in an established project posed by the 51% requirement. 2) At least one of the Enterprises is considering a clarification of the 51% ratio that would exclude REO units from being counted as investor units in the owner-occupancy ratio.

I believe NAR's last follow-up question concerned relative riskiness of jumbo conforming loans, and addressed both fixed-rate loans and ARMs. At a very basic level jumbo conforming loans are riskier by virtue of their higher loan amount. Defaults on jumbo conforming loans result in higher severity levels. Historically, the majority of jumbo loans have been ARMs. ARMS, even conventional ARMS, are riskier than fixed-rate loans because of the payment adjustment. As I know you appreciate, a tight credit environment may pose an additional difficulty for an ARM borrower trying to refinance in order to avoid the higher payment.

I was delighted to meet you in Orlando, and appreciate the warm reception given me by NAR. I look forward to a continuing dialogue with you and NAR members and staff.

Sincerely,



James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board