# Should the housing market have stricter guidelines?


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PHOENIX - Each Sunday, ABC15.com debuts an Arizona issue - along with two opposing sides on the topic.

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This week we’re tackling the debate on what would help stabilize the federal housing market: more lax guidelines that allow more buyers to get in with little down, or stricter guidelines?

Federal housing and financial regulators are considering tighter lending restrictions that would eliminate all loans for less that 20 percent down. We are currently in a public input period until August 1.

Votes could happen after that point and likely any changes in lending restrictions would probably take effect next year. Many people in the industry do not expect the restrictions to be quite that extreme, but it has sparked some debate.

Mark Calibria with the Cato Institute says he doesn’t agree with the full extent of the proposal but argues the need for more responsibility from buyers and lending agencies.

Andy Fegley with the SE Valley Regional Association of Realtors lays out how crippling this could be to our already struggling market.

So, should the housing market have more lax guidelines or stricter ones?

**Click “next page” to read the first of two positions, “If the taxpayer is on the hook, then should be the borrower”.**

**<u>“If the taxpayer is on the hook, then should be the borrower”: By Mark Calibria, Director of Financial Regulation Studies with the Cato Institute in Washington, D.C.</u>**

Mortgage underwriting standards, which drive the risk of default, should be a matter freely negotiated between borrower and lender. If the lender imposes standards that are too weak, then the lender loses money and in the extreme, goes out of business (and is replaced by a more prudent lender). At least that is the way it should work. Unfortunately in a world of both lender and borrower bailouts, this restraint on irresponsible behavior has been removed.

Until we find ourselves in a world free of bailouts, taxpayers, via their representatives, have every right to protect themselves from the cost of these bailouts. In fact politicians owe an obligation to the taxpayer to prevent and minimize bailouts. One method for doing so is to limit the risk of individual mortgages that are backed by the government.

While not the only factor, an important contributor to mortgage delinquency is the absence of borrower equity, particularly the lack of a sizable down-payment. First the presence of a down-payment gives the borrower some “skin-in-the-game”, something of value to lose, a reason to continue making that monthly payment. We know that as borrowers become increasingly underwater, their propensity to default sky-rockets. Second requiring a reasonable down-payment demonstrates the borrower's ability to save. It serves as an important screening mechanism that contributes to the incomplete information provided in a credit score. Quite simply, someone having trouble saving a few thousand dollars will also have trouble saving for the inevitable repairs and maintenance that comes with home-ownership. Getting that family, without a history of savings, into a home, will do that family far more harm than good.

Some will complain that asking the borrower to contribute something will keep too many out of home-ownership. A down-payment requirement would delay the transition to home-ownership for many families. That does not, however, mean that such families never achieve home-ownership. We should all ponder deeply the fact that the largest percentage increase in ownership during the boom was for persons under the age of 25. Is it really wise to encourage millions of individuals, who have just entered the labor force and can expect to change (or lose) their jobs, to purchase a home?

The real estate industry, whose incomes are tied to the price of homes, will complain that requiring down-payments will reduce home prices. They are likely correct. Such concerns, however, miss that in many cities the largest obstacle to ownership is the high price of housing. Seeing the cost of one of life's most basic necessities, shelter, fall should be celebrated not condemned.

Ultimately the objective should be to move our housing and mortgages markets to one free of government interference and intrusion. In such a world, housing would be cheaper and ownership more widespread. Booms and busts would also have much less impact on our economy and financial markets, along with protecting the taxpayer. But as long as special interests demand that the taxpayer underwrite their risk-taking, the taxpayer should be protected by minimizing that risk to the greatest extent possible. If the special interests do not like the restrictions, then they should stop asking for the subsidies. "

*Do you agree with this opinion? Add a comment below to sound off.*

**Click "next page" to read the second position, "QRM rules would impose a minimum 20% down payment, keep homeownership from millions of Americans"**

**"QRM rules would impose a minimum 20% down payment, keep homeownership from millions of Americans": By Andy Fegley with the SE Valley Regional Association of Realtors**

Last year, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. Part of that bill created a "risk retention" requirement for lenders that securitize and sell their loans to investors – a move to make sure lenders have some "skin in the game" and avoid another mortgage crisis. The intent of the legislation is something that industry leader can agree to and support, but recent actions by federal regulators could place the American Dream of homeownership out of reach for millions of qualified buyers.

Federal regulators are proposing a rule that would require lenders to retain on their books 5 percent of the value of any loans they plan to securitize and sell off to investors. This is the skin in the game part. Additionally, regulators proposed certain types of loans be exempt from the risk retention rule. For example, FHA, VA, Fannie Mae, and Freddie Mac loans would all be exempt. So would "qualified residential mortgages," or QRMs. Here is where the rules take a turn for the worse.

Regulators have narrowly-defined a QRM as a loan having, among other strict requirements, at least a 20% down payment. Their reasoning is that by having a large down payment the loans will be "low risk" and perform well. However, there is no correlation between the size of down payment and the performance of the loan. Data points to sound underwriting as the leading factor in creating a "safe" loan.

According to a report from the Federal Housing Finance Agency (FHFA), 80 percent of the government-sponsored enterprise loans (FHA, Fannie, Freddie, etc.) written from 1997 to 2009 would have failed to qualify as QRMs, even though they have proven to be the best performing, lowest risk loans in that same period.

Basically, what the proposed rules will do is remove a large section of qualified buyer from entering the market for many years, thus prolonging economic recovery. According to a study by the Center for Responsible Lending it would take borrowers up to 14 years to save 20 percent for a down payment based on the national median income of $50,000 and median home price of $172,000.

There has been outcry over the proposed rules by a large, diverse group of stakeholders. In the past few weeks we have seen groups that normally are at odds with one another come together to voice their opposition. Now, it is time for all of us to come together and speak up for the American Dream of homeownership. We need to tell the regulators that the consequences of their proposed rules are real, and they threaten economic recovery by shutting out millions of Americans from purchasing a home.

Go to www.sevrar.com and click on the "Call-to-Action" button on the home page to learn more about QRMs and to send your message to the federal regulators. The period for public comment ends on August 1.

*Do you agree with this opinion? Add a comment below to sound off.*