WASHINGTON -- With some members of Congress actively pushing to abolish Fannie Mae and Freddie Mac and end the federal backstop for housing, the National Association of Home Builders (NAHB) told Congress today that maintaining an appropriate level of government support is absolutely essential to preserve financial stability.

Testifying before the Senate Banking Committee, NAHB First Vice Chairman Barry Rutenberg, a home builder from Gainesville, Fla., said that absent a federal role to help reassure mortgage market investors, the cost and availability of mortgage credit would be subject to unpredictable volatility.

"The historical track record from the 1998 Russian crisis to the tragedy of Sept. 11 clearly shows that the private sector is not capable of providing a consistent and adequate supply of housing credit without a government backstop," said Rutenberg. "Therefore, as the private market transitions to assume a greater responsibility, there must be a predictable, permanent federal role in order to ensure a consistent supply of mortgage liquidity and to allow rapid and effective responses to market dislocations and crises."

While NAHB strongly supports efforts to modernize the nation's housing finance system, it is critical that any reforms be well-conceived, orderly and phased in over time.

NAHB opposes legislation pending in the House and Senate that would effectively wind down the operations of Fannie Mae and Freddie Mac without offering a clear vision for the future housing system and a non-disruptive transition to a new secondary market framework. Similarly, NAHB believes that more than a dozen short-term legislative proposals offered by House Republican lawmakers to reduce the support Fannie Mae and Freddie Mac provide to the mortgage markets represent a piecemeal approach to reform that would disrupt the housing market and could push the nation back into a deep recession.

New legislative efforts would take a very different tack from these proposals. Recent bipartisan legislation (H.R. 1859) introduced by **Reps. John Campbell (R-Calif.)** and Gary Peters (D-Mich.) would replace Fannie Mae and Freddie Mac with five private companies that would issue mortgage-backed securities that have government backing. Legislation currently being developed by Rep. Gary Miller (R-Calif.) would also include a predictable government role in the secondary mortgage market to preserve financial stability in the market and maintain a stable

housing sector.

"NAHB views the introduction of **H.R. 1859** and Rep. Miller's draft legislative proposal as very positive developments as debate on the future of the housing finance system moves forward in Congress," said Rutenberg. "Maintaining a continuing and appropriate level of government support is necessary to promote investor confidence and ensure liquidity and stability for homeownership and rental housing."

Absent a federal backstop for housing, Rutenberg warned that the 30-year, fixed-rate mortgage, the major housing finance tool for most Americans, would become increasingly scarce and much more costly, pricing many creditworthy borrowers out of the marketplace. Similarly, the availability of financing for multifamily housing would fall woefully short of the growing need.

Qualified Residential Mortgages
Also of great concern to NAHB are proposals unveiled in late March by six federal agencies that would establish a "Qualified Residential Mortgage" (QRM) standard featuring a minimum 20 percent downpayment on a home loan. Requiring 20 percent down would keep homeownership out of reach for most first-time home buyers and middle-class households.

About 62 percent of first mortgages taken out to purchase a home would not have qualified under the proposed QRM standard because they had downpayments of less than 20 percent, according to LPS Applied Analytics, a mortgage data firm.

NAHB estimates that it would take 12 years for a typical family to save enough money for a 20 percent downpayment on a median-priced single-family home and other research has found it would take even longer.

"If buyers are denied access to affordable housing credit, the shadow inventory of foreclosed homes will not be drawn down, a housing recovery will not take hold and economic growth will stall," said Rutenberg.

Moreover, low-downpayment home loans have been originated safely for decades and are not

what drove the housing lending crisis, added Rutenberg.

"Subprime, no-doc and other alternative mortgage products crashed our economy," he said. "We believe the Administration and regulators must acknowledge this fact and offer a new plan that ensures a safe and healthy mortgage market and keeps homeownership affordable for working American families."