



## **NATIONAL ASSOCIATION OF REALTORS®**

### **SUMMARY OF ENHANCED SUBPRIME LENDING POLICY APRIL 12, 2007**

#### **I. NAR's 2005 Subprime Lending Policy**

Section I summarizes the NAR subprime lending policy approved by the Board of Directors in May 2005. NAR supports keeping fair and affordable mortgage products available for subprime borrowers and eliminating abusive lending practices. The policy takes a three-pronged approach: support stronger anti-predatory lending legislation and regulations, foster consumer education, and build on NAR's Public Awareness Campaign.

#### **II. Why Do REALTORS® Seek to Prevent Abusive Lending?**

Section II restates the explanation from the 2005 policy explaining the strong stake REALTORS® have in preventing abusive lending.

#### **III. Need to Enhance NAR Policy**

Section III briefly describes the current problems in the subprime lending market that call for an enhanced NAR policy statement.

#### **IV. Responsible Lending Principles**

Section IV sets forth NAR responsible lending principles:

- Like REALTORS®, mortgage originators should treat all parties in the mortgage transaction honestly.
- NAR supports strong underwriting standards that require mortgage originators to determine if the borrower has the ability to repay the mortgage. NAR supports policies that are consistent with the goal of assuring borrowers who have demonstrated their financial ability to meet their mortgage obligations have access to mortgage loans made by responsible lenders. Lenders should make subprime loans that have a reasonable debt-to-income ratio. Subprime lenders should require reserves held by the lender/servicer for taxes and insurance.
- Stated Income/Stated Assets underwriting should ordinarily be limited to situations where it is not feasible to document borrower income and assets.

- In underwriting a loan, lenders should take into account all relevant circumstances of the borrower, including income, credit history, future income potential, and other relevant life circumstances.
- NAR supports an anti-mortgage flipping rule requiring lenders to assure that refinancing mortgages provide a significant benefit to the borrower.
- As stated in NAR's 2005 policy, NAR opposes prepayment penalties for all mortgages. If total prohibition is not feasible, prepayment penalties should be as short and low as possible, and should not extend beyond any "teaser" rate period.
- NAR supports ongoing efforts to take into account alternative factors for measuring creditworthiness, such as rent, utility, telephone, and other regular payments.

#### **V. Mortgage Choice for Borrowers**

Lenders should offer borrowers a reasonable choice of mortgages with interest rates and other fees that appropriately reflect the borrower's credit risk. Borrowers should have information and alternatives so they can choose the mortgage that is best for them.

#### **VII. Enforcement/Remedies**

NAR supports strong criminal and civil remedies and penalties for abusive acts by mortgage originators.

#### **VII. GSE, FHA, and VA Loans**

- NAR supports regional adjustments to conforming loan limits to make low cost, low downpayment GSE, FHA, and VA loans more readily available.
- NAR supports FHA modernization to give subprime borrowers a safe and affordable alternative to problematic loans and bring stability to the subprime market.
- NAR urges the GSEs, HUD, and VA to explore ways to help borrowers with problematic loans refinance into fair and affordable loans.

#### **VIII. Foreclosure Avoidance and Mitigation**

NAR supports mortgage lender, legislative, regulatory, and private-sector foreclosure avoidance and mitigation efforts. In particular, NAR:

- Urges lenders to help borrowers in default to resolve the problem;
- Supports increased funding for programs that provide financial assistance, counseling and consumer education to help borrowers avoid foreclosure;
- Urges policy makers to examine alleged abuses by mortgage servicers; and
- Supports a Tax Code amendment to provide tax relief for homeowners when the lender forgives some of a homeowner's mortgage debt.