



INDEPENDENT COMMUNITY
BANKERS *of* AMERICA

Statement of the

Independent Community Bankers of America

For the Record
In the
Hearing on

“The State of the Housing Market”

Before the

**Banking, Housing, and Urban Affairs
Committee**

United States Senate

October 20, 2009
Washington, D.C.

The Independent Community Bankers of America (ICBA) welcomes the opportunity to share its views with members of the Senate Banking Committee on the state of the nation's housing market.

As reminded daily in the press, housing market woes still plague the U.S. economy. The sharp decline in the housing and housing finance sector remains at the heart of our nation's weak economy and troubled credit markets. The weak housing sector continues to have a ripple effect throughout the entire nation and is putting severe stress on households and small businesses nationwide.

The current turmoil in our housing and financial markets is also jeopardizing the availability of credit for small business. Some of the nation's largest lenders and money-center banks tripped up on aggressive subprime lending and toxic investments and are now forced to pull in their lending across-the-board, write down losses, and rebuild capital.

However, community banks represent the other side of the financial story. Community banks rely on relationships in their communities, not on relationships with investment banks or hedge funds. Common sense community bankers largely avoided the subprime debacle. Community bankers live and work in the communities they serve and do not put their customers and neighbors in loan products they could not possibly repay. Community banks did not cause the current turmoil in the housing sector but are well-positioned, well-capitalized, and willing to help. In fact, community banks are currently playing an important role in the homebuying market. We estimate that community banks closed \$100 billion in mortgage loans in the first half of 2009.

Homebuyer Tax Credit

Restoring confidence in the housing market is vital to restoring economic growth. One of the policies, introduced by Senator Johnny Isakson (R-GA) and co-sponsored by Chairman Dodd (D-CT), is the extension and expansion of the highly successful homebuyer tax credit. In order to address a slowing economy, ICBA recommended a first-time homebuyer tax credit in early 2008. A first-time homebuyer tax credit was initially enacted in a 2008 stimulus plan and expanded in the Recovery Act of 2009. The National Association of Realtors reports an increased number of individuals are shopping for a home based on the homebuyer tax incentive and existing home sales have increased in the past several months.

1 The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 268,000 Americans, ICBA members hold more than \$908 billion in assets, \$726 billion in deposits, and more than \$619 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

However, the housing sector remains a troubled spot for the economy and can use additional support. ICBA strongly supports additional targeted housing tax incentives to arrest the downward spiral in the housing market. One of the largest underlying problems preventing an economic recovery remains declining home prices. Housing and household related spending typically accounts for 20 percent of the nation's Gross Domestic Product (GDP). Plunging home values are putting record numbers of borrowers' underwater and fueling record foreclosures. Millions of small businesses are suffering the fallout from the dramatic decline in the housing market.

The vicious downward cycle in the housing sector must be stopped. The current homebuyer tax credit is working but is set to expire at the end of November. This is too soon and the credit may be too limited to boost the housing market back to robust levels. ICBA respectfully recommends Congress increase the first-time homebuyer tax credit to \$15,000; allow it to be used by all homebuyers -- not just first-time buyers, and extend it through 2010. The housing market must be stabilized and growing in order to achieve a sustained economic recovery. Stabilizing real estate prices will better allow small businesses to use their real estate values as collateral for credit. An extended and expanded homebuyer-tax credit will help.

Government Sponsored Enterprises (GSEs)

Another important aspect of stabilizing the housing market is the future of the Government Sponsored Enterprises (GSEs). Fannie Mae and Freddie Mac have long been important partners of community banks by providing community banks an important source of housing finance funding and an impartial outlet to convey community bank mortgages to the secondary market. The two GSEs continue to play a vital role in supporting residential mortgage lending and homeownership, particularly in these difficult times when other sources of credit have dried up or offer only above market rates.

In a recent survey of ICBA members, nearly 50 percent of the respondents indicated that they sell mortgages directly to the two GSEs, while nearly 40 percent indicated they sell indirectly to the secondary market (most likely because they do not generate adequate volume to sell directly). The volume of sales to the GSEs has increased recently. In 2009, ICBA members have increased the volume of loans sold to the GSEs by 300 percent over the prior year as they worked to fill the credit gap left by other lenders. Without access to a secondary market, most if not all of these loans would not have been made because community banks would not be able to keep the loans in portfolio due to interest rate risk. Thus, Fannie Mae and Freddie Mac have enabled community banks to competitively offer fixed-rate mortgages to their customers.

The future of the government sponsored enterprises must be resolved in a manner that ensures the continued existence of a strong, impartial secondary market for community bank residential mortgages so that community banks can

continue to offer this important mortgage product to the communities they serve. Community banks need a strong, impartial secondary market for residential mortgages where they can sell mortgages without fear that the entity to which they sell mortgages will steal away their customers. As Congress looks to the future structure of our residential mortgage secondary market entities, we urge Congress to ensure a secondary market that does not directly compete with the private sector and that provides equitable access and pricing to all lenders regardless of size or volume.

Recent market events demonstrate the important role Fannie Mae and Freddie Mac have played in providing liquidity and market stability. In that regard, the secondary market entity or entities that emerge from the GSE conservatorship need to have the operational flexibility to hold mortgages when market conditions dictate, along with their securitization authorities. Fannie Mae and Freddie Mac's government ties have enabled them to continue to function and provide a critical source of housing finance during the recent market upheaval. The future secondary market for housing finance should continue to have some type of government ties, to insure that homeownership will continue to play a crucial role in the financial well-being of American families and the American economy.

Conclusion

ICBA appreciates the opportunity to provide a statement on these critical issues. ICBA looks forward to working with this Committee and Congress on these and other steps that will help us emerge from this current crisis to improve and preserve our housing market for the future.