

Permanently Increasing the Government Sponsored Enterprise (GSE) Loan Limits and Extending their Credit Facilities Would Help Unfreeze the Housing Finance System

MBA RECOMMENDS

MBA requests Congress to help make mortgage credit more available and affordable by setting the Fannie Mae and Freddie Mac (GSEs) loan limits at \$625,500, and up to \$729,750 in high-cost areas on a permanent basis. MBA also requests an extension of the temporary credit facilities at the Department of Treasury that provide unlimited secured funding directly to the GSEs and the Federal Home Loan Banks (FHLBanks).

GSE CONFORMING LOAN LIMIT

The GSEs are restricted by law from purchasing loans in amounts over a dollar ceiling, called the conforming loan limit (CLL). The Federal Housing Finance Agency (FHFA), the primary regulator for Fannie Mae and Freddie Mac, has the authority to adjust the CLL during years when the national median home price increases. FHFA also has the authority to set higher limits in areas where the median home price is significantly higher than the national median. Since the GSEs cannot buy loans higher than the CLL, liquidity resources for such loans are limited. This is because a lender either must find a private investor to purchase the loan, or hold the loan on its own books plus an additional amount in reserve in case the borrower defaults.

As the housing finance market began to deteriorate in August of 2007, private investors exited the housing finance market, limiting to the GSEs as the only outlets for mortgage lenders to sell loans in the current market. The result was that interest rates on 30-year fixed-rate jumbo loans increased from their usual spreads of roughly a quarter of a percentage point over equivalent credit risk conforming loans to over one percent.

The higher rates on loans over the CLL of \$417,000 had an immediate and negative sustained impact on mortgage originations for home purchases and refinances in high-cost areas such as California, and portions of Florida, mid-Atlantic and Northeast states, but eventually all parts of the country were affected.

In an attempt to jumpstart the market for large balance or jumbo loans, Congress included a provision in the Economic Stimulus Act of 2008 to increase temporarily the CLL from \$417,000 to \$625,500. The act set the CLL in high-cost areas based on the areas' home prices compared to the national median, up to a maximum of \$729,750. This increase had a demonstrable impact on the mortgage market by increasing liquidity for and lowering the interest rates of loans that were previously beyond the GSEs' purchasing authority. However, because the higher loan limits were temporary, the investment community announced it would not purchase bundles of loans if they included more than ten percent of loans over \$417,000. Since many lenders report the volume of high balance loan transactions exceeds ten percent of their total volume, lenders must continue to resort to costlier alternatives to the securitization market. This dilutes the full benefits of the higher CLL because of the artificial restriction in liquidity.

The temporary increase expired on December 31, 2008, when the Housing and Economic Recovery Act (HERA) limits of \$417,000 (standard) and \$625,500 (high cost) became effective. As a result, loans above the HERA limits became more expensive and harder to obtain. The American Response and Recovery Act of 2009 raised, for one year, the high cost loan limits to the higher of \$729,750 or the highest 2008 level. The standard level of \$417,000 did not change.

Higher temporary loan limits have benefited the mortgage industry and consumers during what has been a turbulent

period for our nation's economy. In the current economic downturn, the GSEs are vital sources of housing finance liquidity. MBA believes it is important for these entities to provide market support to the broadest possible spectrum of home prices.

Therefore, MBA urges Congress to set the GSEs' standard conforming loan limit to \$625,500 and up to \$729,750 in high-cost areas on a permanent basis.

Benefits

MBA believes raising the GSEs' conforming limits in high cost areas strikes a good balance between serving a greater number of borrowers and taking on additional risk. A permanent change will also spur the investment community to lift its requirement that loan pools contain no more than ten percent of high balance loans, thus further reducing borrowing costs.

FANNIE MAE, FREDDIE MAC AND FHLBANK CREDIT FACILITIES

Because private market participants have yet to return with vigor to the secondary market, the transaction volumes of government or quasi-government programs have become a cause of concern to the industry. This is particularly disconcerting in light of the fact that the GSEs are in conservatorship and FHLBank System activity has slowed as a result of capital constraints.

MBA believes that additional measures must be taken so that existing government run or government sponsored programs have the capacity to perform their vital roles as liquidity providers of last resort. For example, the credit facilities established by the Department of Treasury for the GSEs expire at the end of this year, as does the Department of Treasury's authority to purchase GSE mortgage backed securities (MBS) in the open market. MBA believes it is imperative to suspend the expiration date for these programs until such time as an economic recovery is reasonably foreseeable.

Benefits

The unlimited secured funding provided by the GSE credit facilities directly to the GSEs and FHLBanks by the Department of Treasury as a backstop is a useful tool in the secondary market toolbox for providing liquidity to the credit markets. Extending the GSE credit facilities will ensure that a lack of access to funding in the open market will not prevent the GSEs from conducting their businesses, including making timely payment of interest and principal on senior or subordinated debt obligations.



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