

July 13, 2007

The Honorable Christopher J. Dodd, Chairman
The Honorable Richard C. Shelby, Ranking Member
Committee on Banking, Housing and Urban affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd and Senator Shelby:

The Mortgage Bankers Association, the National Association of Home Builders and the National Association of Realtors are writing this joint letter to bring to your attention our concerns with the Office of Federal Housing Enterprise Oversight's (OFHEO) proposed guidance on the conforming loan limit (CLL) calculations for Fannie Mae and Freddie Mac (the Enterprises). The proposed guidance establishes procedures for incorporating declines in the statutory home price index in the annual conforming loan limit calculation. The guidance was not published in the Federal Register, but was posted on OFHEO's Web site for public comment on June 20th. Comments are requested by Thursday, July 19th.

Our three organizations represent major components of the housing and mortgage markets – builders, realtors and lenders. It is our concerted view that the Proposed Guidance would be detrimental to the national economy, home buyers, current home owners, the industries that serve homeownership, and to the success of the housing missions of the Enterprises, the Federal Housing Administration (FHA), and the Veterans Administration (VA). Given the importance of the CLL to the housing industry, changes such as those OFHEO proposes should be widely circulated for public comment through the Federal Register. Not only is the proposal bad public policy, it does not appear to be authorized under current law, which only permits increases in the loan limit.

The current statutes state that the conforming loan limit is adjusted annually by “adding to each such [previous] amount . . . a percentage thereof equal to the percentage increase during the twelve-month period ending with the previous October in the national average one-family house price in the monthly survey of all major lenders conducted by the Federal Housing Finance Board” (emphasis added).¹ The Enterprises may not purchase loans above the conforming loan limit. The conforming loan limit also impacts limits for FHA and VA loans, as FHA and VA loan limits are tied to the CLL. In fact, a decrease in the CLL could have an adverse budget impact if the result is that borrower access to the FHA and VA loan programs is limited and the two agencies produce lower guarantee and insurance fee income.

As you are aware, the housing sector is currently undergoing a correction, and there is concern about the availability of funds for the refinancing of loans and for new loans. Reductions in the conforming loan limit could impair the ability of some borrowers to refinance out of subprime mortgages, which is of particular concern for families with problematic mortgages, as well as prevent some first-time home buyers from obtaining lower cost financing on conforming, FHA or VA loans.

¹ 12 U.S.C. 1717(b)(2) and 12 U.S.C. 1454(a)(2).

Each of our organizations will submit a detailed comment letter to OFHEO by the deadline and will provide you with copies of these letters that will explain our concerns from the particular standpoints of our respective organizations. And, of course, we would be glad to provide you with any other additional information regarding our views. However, given the significant negative market impacts that we believe could result from implementation of the Proposed Guidance, other public policy concerns, the lack of statutory authority, and the lack of opportunity for full public comment, we respectfully request that you encourage OFHEO to withdraw the Proposed Guidance.

MORTGAGE BANKERS ASSOCIATION

NATIONAL ASSOCIATION OF HOME BUILDERS

NATIONAL ASSOCIATION OF REALTORS