

Housing and Economic Reform Act (HERA)

Government Sponsored Enterprise (GSE) Changes

FREQUENTLY ASKED QUESTIONS

Q. 1. What is MBA doing to help members understand and comply with the new housing law?

A. MBA has developed several summary and interpretive documents, such as this FAQ, to assist MBA members. All of these documents are located on a special section of MBA's Web site: www.mortgagebankers.org/hera.

In addition, MBA is hosting a series of teleconferences designed to address certain aspects of the law. The teleconference handouts and reference materials are also located on the MBA HERA Web site. MBA is planning to hold a series of one-day meetings featuring in-depth reviews of the law's key components. You can also contact MBA public policy staff with specific questions beyond those answered in the documents.

Q. 2. What is the maximum loan amount Fannie Mae and Freddie Mac can purchase?

A. The new law establishes procedures for setting the standard conforming loan limit (CLL) for Fannie Mae and Freddie Mac mortgage purchases. Beginning on January 1, 2009, the standard CLL for single-family, one-unit properties is \$417,000. The standard CLL has increased limits for other single-family property types up to four units. The existing provision establishing higher limits for Alaska, Hawaii, Guam and the Virgin Islands remains. The law also enables the regulator to set higher CLLs in "high cost" areas of the country. High cost areas are defined as areas where the median home price exceeds 115 percent of the standard CLL of \$417,000. In these areas, the loan limit is set at 115

percent of the local area median home price, up to a cap of 150 percent of the standard conforming loan limit or \$625,500. After 2009, the CLL will be adjusted by the new regulator, the Federal Housing Finance Agency (FHFA), on an annual basis to reflect any increase in home prices. The CLL will not be adjusted downward in years when home prices decline.

Q.3. How will this law help if the housing finance market further deteriorates?

A. The new law contains several emergency provisions to help maintain and restore investor confidence in the housing finance system. For example, the U.S. Government can purchase an unlimited amount of Fannie Mae, Freddie Mac or Federal Home Loan Bank stock or debt in the event that any GSE encounters significant liquidity or capital shortages.

Q. 4. Will this law prevent future crises within the housing finance system?

A. The new regulator, FHFA, has much broader and stronger powers to supervise Fannie Mae, Freddie Mac and the Federal Home Bank System. For example, the regulator can limit the GSEs' investment portfolios and has the power to monitor their activities much more closely than before. Combined with the mortgage originator licensing program, and the overhaul of the Federal Housing Administration, the new law bolsters supervisory oversight in both the primary and secondary markets. The law also requires government studies on a variety of discrete issues such as default risk management, mortgage insurance and consumer credit information.

Q.5. Is it possible for my company to participate in the Fannie Mae/Freddie Mac Housing Trust Fund program?

A. The new law requires Fannie Mae and Freddie Mac to contribute a portion of their mortgage purchases (4.2 basis points per unpaid principal balance) to two new government housing funds each year. An Affordable Housing Trust Fund, administered by HUD, will receive 65 percent of the GSEs' contributions. HUD will distribute these funds in the form of grants to states on a needs-based basis to support services for extremely low- and very low- income households, and the homeless. Only state governmental entities are authorized to receive trust fund grants. A Capital Magnets Fund, administered by the Treasury Department will receive the remaining 35 percent of the GSEs' contributions. Treasury will distribute the funds in the form of competitive grants to community development financial institutions or nonprofit organizations to attract private capital and investments in affordable housing and community development.

Q.6. Can Fannie Mae and Freddie Mac increase the fees they charge in order to cover their contributions to the Affordable Housing and Capital Magnets Funds?

A. The new GSE regulator will issue regulations prohibiting the GSEs from passing their contributions along to originators.

Q.7. Will the GSEs increase their fees or charge more now that their regulator is not funded by the U.S. Government?

A. The GSEs reimburse their regulator for its supervisory costs under the old law and the new law. Before the law was enacted, the GSEs' regulator (OFHEO) was required to obtain approval by the U.S. Office of Management and Budget and Congress for its budget. Upon approval, OFHEO would seek reimbursement from the GSEs for the costs of supervision. The new law removes the new regulator from the U.S. budgetary appropriations process.

Q.8. Does the law change the market for manufactured housing lending?

A. In addition to the higher loan limits, fee restrictions and insurance requirements included as part of the FHA modernization portion of HERA, the law gives Fannie Mae and Freddie Mac an affirmative duty to serve three traditionally underserved markets. One of these is manufactured housing; the other two are rural areas and preservation of existing affordable housing projects. Look for the GSEs to increase their level of activity in these areas after the new regulator issues guidance on how to comply with this requirement. (See also Part I: FHA Modernization Act FAQs.)

Q.9. How does the law clarify the types of activities Fannie Mae and Freddie Mac can perform?

A. The law establishes a formal approval process Fannie Mae and Freddie Mac must follow prior to offering any new product. The process includes seeking input from the public on whether the regulator should approve the new product. In addition, the new regulator has the authority to review any current activity, program or product of these two GSEs.

Q.10. Does the law do anything to expand the mission of Fannie Mae, Freddie Mac and the Federal Home Loan Bank System?

A. The law imposes additional quantifiable measures of the GSEs' efforts to foster liquidity, stability and affordability within the housing finance system. For example, Fannie Mae and Freddie Mac must make annual contributions to an affordable housing trust fund. They also have a new requirement to support affordable housing preservation, manufactured housing, and rural housing initiatives. Also, the Federal Home Loan Banks must meet affordable housing goals set by their regulator on their mortgage purchase activities.

For questions on the new law and regulations please contact

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