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Federal Housing Finance Agency
Office of Policy Analysis and Research
Constitution Center
400 Seventh Street, SW., Ninth Floor
Washington, DC 20024
Attn: No. 2013-N-18
Submitted via email at loanpurchaselimitinput@fhfa.gov

Re: Fannie Mae and Freddie Mac Loan Purchase Limits: Request for Public Input on Implementation Issues (2013-N-18)

Ladies and Gentlemen:

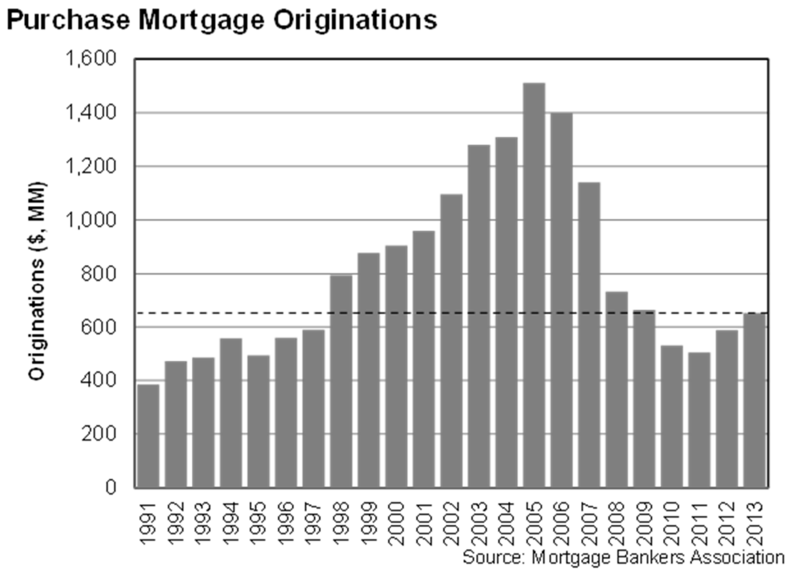
Genworth Financial's U.S. Mortgage Insurance business ("Genworth") is pleased to respond to the request by the Federal Housing Finance Agency (FHFA) for public input regarding a proposal to reduce the maximum size of loans that Fannie Mae and Freddie Mac may purchase.

FHFA's stated goal for reducing the maximum loan size was to contract the market presence of Fannie Mae and Freddie Mac. Genworth does not disagree that reducing loan sizes would result in a smaller market size for the GSEs. However, we respectfully urge FHFA to refrain from taking any actions at this time because, as discussed below, lowering loan limits when the housing market is still fragile could have serious negative repercussions.

The housing market is still fragile.

The facts regarding the current state of the housing market are well known. Credit standards remain tight: the average FICO score for GSE loans is 753 and the average loan to value ratio is 70%. Purchase volumes are low, even in today's low interest rate environment, and the percentage of that purchase market comprised of all-cash (investor) purchases is at a historical high.[1] Housing market analysts predict an even smaller mortgage market in 2014.

[1] According to the Urban Institute, the share of cash sales rose from 18 percent in 2001 to 39 percent in 2012. Laurie Goodman, Jun Zhu and Taz George, "Where Have all the Mortgages Gone?", MetroTrends blog, The Urban Institute, 03.06.14, http://blog.metrotrends.org/2014/03/mortgages-gone/



FHFA's proposal will put pressure on the housing market and hurt many responsible borrowers.

Reducing loan limits by 4.077% (to $400,000 from the current $417,000 and to $600,000 from the current $625,500) would put significant added pressure on the housing market. This reduction would not necessarily shift the market from the GSEs to portfolio lending or to nascent private label securitizations. Rather, it would force many borrowers to a smaller GSE loan that fell within the reduced loan limits (limiting purchasing power to a lower-cost home than a borrower's credit history would otherwise permit) or to an FHA-insured loan (often with higher monthly payments).

FHFA's analysis of the impact of reduced loan limits concluded that approximately three percent of loans acquired by the GSEs in 2012 (approximately 170,000 loans) would have been above the proposed loan limits. However, as to the all-important purchase loan market, a more significant five percent of purchase loans (approximately 50,000 loans) would have been above the proposed loan limits.

To further understand the impact of the proposal, Genworth analyzed 2012 GSE purchase loans contained in the CoreLogic Loan Level Market Analytics Database ("CoreLogic Database")[2]. Based on loan amount, property location, FICO score and loan to value ratio, impacted borrowers would have only two realistic options to purchase a home: a smaller GSE loan that falls within the lower loan limits (limiting a borrower to a lower-cost home than his or her credit history would otherwise permit), or a mortgage insured by the FHA (often with a higher monthly payment).

In theory, borrowers could obtain a mortgage that would be held in a lender's portfolio or securitized in the private label market, but lenders and private investors have demonstrated only limited interest in residential mortgages since 2008, and many GSE borrowers would not meet the very high credit underwriting standards imposed by the private market.

Of the 50,000 lost purchase loans that would have been above the lower loan limits, only five percent (approximately 2,500 loans) would have fallen within current FHA loan limits. Many of those borrowers would face significantly higher monthly payments than with a comparable GSE loan. For example, in a

[2] The CoreLogic Database is derived from loan servicer data and includes loan-level characteristic data and historical payment history. Further information regarding CoreLogic can be found at www.corelogic.com.

high cost market (where FHA loan limits are higher than the prevailing floor limit of $271,500), the cost of a $425,000 loan with a 15 percent down payment would be *$250 higher per month* for a borrower with a 720 FICO score. (See tables below for further examples of monthly payment comparisons of FHA and GSE loans.) Faced with this increased cost of home ownership, borrowers will devote more of their monthly cash flow to their mortgage payment, dip into cash reserves to increase their down payment (if they have enough savings to do so), buy a lower cost home than their credit history would otherwise permit or defer the purchase entirely. None of these are good outcomes for housing or the overall economy.

Comparison Of Conventional vs. FHA Monthly Payment - 85% LTV

PROVIDENCE-WARWICK, RI-MA FHA/FHFA loan limit $426,650

85% LTV	640 - 659 FICO	680 - 699 FICO	720 - 739 FICO	760 - 779 FICO
MI Premiums				
FHA Up Front Mortgage Insurance Premium	1.75%	1.75%	1.75%	1.75%
FHA Annual Renewal	1.30%	1.30%	1.30%	1.30%
Private MI Annual Mortgage Insurance Premium	0.39%	0.33%	0.27%	0.23%
Fannie Mae Adverse Market Delivery Charge & Loan Level Price Adjustment	3.00%	1.50%	0.75%	0.50%
Principal & Interest & MI Premium Monthly Payment				
FHA	$2,525	$2,525	$2,525	$2,525
Conventional With Private MI	$2,430	$2,331	$2,272	$2,245
Private MI Advantage	$95	$194	$253	$280

Assumptions: $425,000 loan amount, 3.50% pass-through rate, 1.00% GNMA vs. FNMA bond spread, annualization factor of 5, annual GSE guarantee fee 49 basis points.
Sources: Fannie Mae Selling Guide, Genworth estimates

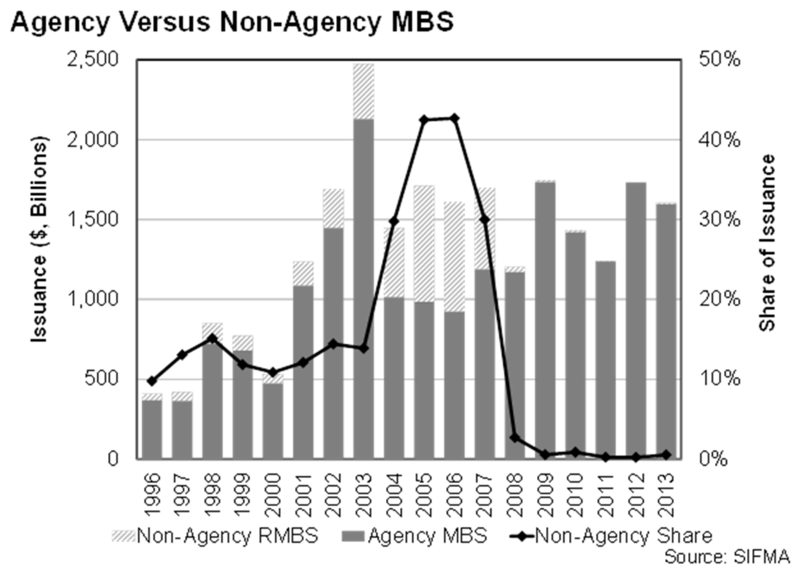
Comparison Of Conventional vs. FHA Monthly Payment - 90% LTV

PROVIDENCE-WARWICK, RI-MA FHA/FHFA loan limit $426,650

90% LTV	640 - 659 FICO	680 - 699 FICO	720 - 739 FICO	760 - 779 FICO
MI Premiums				
FHA Up Front Mortgage Insurance Premium	1.75%	1.75%	1.75%	1.75%
FHA Annual Renewal	1.30%	1.30%	1.30%	1.30%
Private MI Annual Mortgage Insurance Premium	0.71%	0.57%	0.44%	0.39%
Fannie Mae Adverse Market Delivery Charge & Loan Level Price Adjustment	3.00%	1.50%	0.75%	0.50%
Principal & Interest & MI Premium Monthly Payment				
FHA	$2,525	$2,525	$2,525	$2,525
Conventional With Private MI	$2,543	$2,416	$2,332	$2,302
Private MI Advantage	-$18	$109	$193	$223

Assumptions: $425,000 loan amount, 3.50% pass-through rate, 1.00% GNMA vs. FNMA bond spread, annualization factor of 5, annual GSE guarantee fee 49 basis points.
Sources: Fannie Mae Selling Guide, Genworth estimates

The approximately 47,500 borrowers who would not have been eligible for an FHA loan would have very few options. Many of those borrowers would not meet the standards imposed by portfolio lenders or private investors. The average FICO score and loan to value ratio for loans securitized in 30 of the private label securitizations done in 2013 was 771 and 68 percent, respectively. Applying those averages to the GSE purchase loans (and without giving effect to the fact that borrower reserve requirements and other underwriting criteria are materially stricter for private investor loans than for GSE loans), Genworth estimates that only approximately 10,000 loans would have been eligible for the private market. As seen below, the volume of private label MBS issuance remains extremely low, so there are no assurances that the market could absorb those additional loans, regardless of the credit underwriting standards.



Borrowers with loans above FHA loan limits who do not meet the pristine standards set by private investors will have very limited options: buy a less expensive home than their credit history would otherwise qualify them for, make a larger down payment (if a borrower has the resources to do so) resulting in lower cash reserves on hand once the home is purchased, or withdraw from the purchase market. These are not good outcomes for families, for the housing markets or for the broader economy.

Conclusion

Reducing loan limits in the current environment is inconsistent with the important objectives of improving borrower access to credit and supporting the ongoing recovery of the housing market. Lower loan limits will be harmful to borrowers and to the housing market. Genworth would be pleased to provide further information to FHFA or to meet with you to discuss our analysis. Questions or requests for further information may be directed to the undersigned or to Carol Bouchner (carol.bouchner@genworth.com) or Duane Duncan (duane.duncan@genworth.com).

Very truly yours,

Rohit Gupta
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Genworth Mortgage Insurance