

United States Senate

WASHINGTON, DC 20510

March 26, 2014

The Honorable Melvin Watt
Director
Federal Housing Finance Agency
400 7th St., SW
Washington, DC 20024

Dear Director Watt:

As you know, on December 23, 2013, the Federal Housing Finance Agency (FHFA) proposed reducing the maximum size of home mortgage loans that Fannie Mae and Freddie Mac can finance.¹ We respectfully urge FHFA not to proceed with the proposed reductions.

As we and eleven other senators wrote to your predecessor, Acting Director DeMarco, on September 27, 2013, we are concerned that reducing the loan limits could negatively impact our economic recovery, disproportionately harm residents and homebuyers in areas with high housing costs, and reduce mortgage availability and affordability for creditworthy borrowers who would be pushed out of the conforming loan market. In particular, we noted that the jumbo market serves “a relatively exclusive slice of borrowers who have pristine credit, large down payments, lots of assets and low debt loads relative to their incomes.”² For the many families who do not meet these requirements but who responsibly make their payments and have shown themselves to be low-risk in the conforming market, they are more likely to face higher costs if the limit is reduced.

As a result, families who are living in their first home and seeking to move up in the housing market could see the value of their existing home drop and the cost of a mortgage to purchase a new home rise. The impact could be especially problematic for the large share of families whose home represents their primary (or only significant) savings.

Families living in high-cost areas would also be disproportionately harmed. The prices of homes may be higher in some parts of the country than others, but the families who live there are not necessarily proportionately wealthier; they are ordinary, middle-class families who work hard to save for a home like homeowners and homebuyers anywhere else.

We also believe that FHFA should defer to Congress on any decision about whether to change the loan limits. The provisions establishing FHFA’s powers as conservator are broad and admittedly subject to different interpretations as to the Agency’s power to lower the limits. But

¹ “Fannie Mae and Freddie Mac Loan Purchase Limits: Request for Public Input on Implementation Issues,” Notice No. 2013-N-18, 78 *Fed. Reg.* 77450 (Dec. 23, 2013).

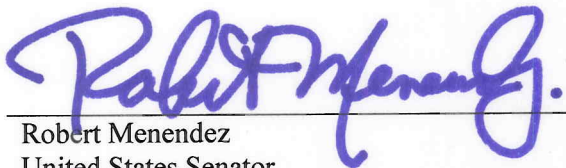
² “‘Jumbo’ Mortgage Rates Fall Below Traditional Ones,” *Wall Street Journal*, Sept. 4, 2013 (<http://online.wsj.com/article/SB10001424127887323893004579055283906962194.html>).

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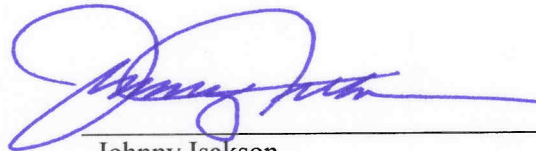
as you know from your service in the U.S. House of Representatives, Congress has demonstrated a strong, active, and longstanding interest in this subject, and the statute does not include any express direction to FHFA to set limits below the specified levels. With Congress currently working on housing finance legislation, we believe this only strengthens the rationale for deference.

Thank you for your careful review of our concerns. We appreciate your thoughtful and timely response.

Sincerely,



Robert Menendez
United States Senator



Johnny Isakson
United States Senator