CALIFORNIA ASSOCIATION OF REALTORS®

March 20, 2014

Melvin Watt, Director
Federal Housing Finance Agency
Office of Policy Analysis and Research
400 7th Street, SW, Ninth Floor
Washington, DC 20024

Re: Notice No. 2013-N-18; Fannie Mae and Freddie Mac Loan Purchase Limits: Request for Public Input on Implementation Issues

Dear Director Watt;

I am writing on behalf of the more than 165,000 members of the California Association of REALTORS® (C.A.R.) in response to the Federal Housing Finance Agency's (FHFA) December 16, 2013, request for public input on the proposal to decrease the loan limits of the government sponsored enterprises of Fannie Mae and Freddie Mac (GSE). On behalf of C.A.R.'s members I would like to express the strongest of opposition to any decrease in the GSE loan limits. If the FHFA were to lower the loan limits it would force homebuyers to pay more for their mortgages and undermine homeownership affordability. As the newly appointed Director of the FHFA it is our hope you will NOT move forward with the proposed reduction and will instead publicly reiterate FHFA's commitment to follow Congressional intent under the Housing and Economic Recovery Act (HERA) by affirmatively stating there will be no further efforts to reduce either the conforming or the high-cost loan limits.

Unprecedented Action

So important is preserving existing loan limits that Congress placed language in statute through the HERA—the same law granting FHFA its conservator authority—that PROHIBITS the lowering of the GSE loan limits, and instructs the FHFA to apply annual median home price declines against future annual median home price increases. C.A.R. believes the intent of Congress was clear and unambiguous.

The proposed reduction is a radical departure from the historic practice of Fannie Mae, Freddie Mac and their regulator against lowering loan limits. The historic and existing practice provides confidence and stability in the mortgage market and throughout the real estate industry.

This proposed unilateral decision by FHFA, absent Congressional direction, sets a dangerous precedent. As a general policy the GSEs and their past regulators have NOT lowered loan limits outside of statutory mandates so as to ensure stability in the mortgage market. This stability has allowed lenders, homebuyers and industry participants to move forward with end of the year transactions secure in the knowledge that conforming loan limits will not be reduced.

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Mortgage Finance Reform Should be done by Congress

The FHFA Notice states two primary reasons for the proposed lowering of loan limits, the first "is a means of reducing the Enterprises' financial market footprint" and the second is "to put the regulated entity in a sound and solvent condition."

Reducing Footprint

To the first point, over the last five-years the FHFA has more than doubled the GSE guarantee fee, more than tripled in some cases the loan-level price adjustments and delivery fees, and was required by law to reduce the maximum loan limit by more than $100,000. The impact of these efforts has done little to "price-in" private capital and reduce the GSEs "footprint." The real result is to price marginal homebuyers out of the market. This policy has failed is because the issues deterring private capital go beyond just the cost of the mortgage. For the last three-years the lending and investment community members have stated they will not return to the housing market absent a government guarantee and until the following issues are addressed:

- Representations and warranties,
- Loan level information and transparency,
- Mandatory arbitration and legal recourse,
- Confidence in the rating agencies,
- New and changing capital requirements, and
- New regulations from Dodd-Frank.

The proposed reduction in loan limits does nothing to reconcile these issues. Its only impact will be to expose a larger number of homebuyers to the instability of a still healing jumbo mortgage market that is failing to meet the needs of average homebuyers.

GSE Soundness

To the second point, this argument continues to ring hollow as there is no evidence of any kind that the higher loan limits pose any risk to the Fannie Mae and Freddie Mac. The FHFA provides a 21 page Appendix to supplement the notice with background and analysis, yet nowhere in these 21 pages are any numbers, charts, graphs, empirical or other data showing a higher default rate, foreclosure rate, or anything that would suggest that removing these loans will help protect the financial wellbeing of the GSEs. The statement that reducing the loan limits is necessary to create a "sound and solvent condition" for the GSEs is unsupported and comes across as nothing more than a ruse to cover a failed political agenda of "reforming" the mortgage finance market absent Congressional consent.

The FHFA should refocus the efforts of Fannie Mae and Freddie Mac on their mission of ensuring that safe and affordable mortgage capital is available for qualified homebuyers. The current exploitation of the GSEs as tools for implementing a failed political agenda of "pricing-in" private capital back into the mortgage market has done nothing to benefit homebuyers. California's homebuyers have directly suffered due to the ill-fated policies of the last four-years. In 2009, when the GSEs stepped in to provide mortgage capital to the nation's housing market 47 percent of California's home purchases were by first-time homebuyers. Over the last four-years of fee increases and tighter credit, California has seen the percentage of first-time homebuyers in 2013 drop to 28 percent. This number is the lowest it has been since 2006 and signals an alarming trend that the American dream is beyond the reach of too many Californians.

California Adversely Impacted

As FHFA is aware, California has more high-cost counties and housing than any other state. According to FHFA.gov, California has 15 metropolitan statistical areas (MSA) that currently have high-cost loan limits. These 15 MSAs encompass 24 counties with over 25 million California residents. This includes five MSAs (that encompass 11 counties) with existing loan limits above the proposed $600,000. Lowering the loan limits, even incrementally, will have a significant and unfair impact on California's housing market.

California homebuyers will be adversely affected because private capital is NOT ready to fill any void left by the GSEs. A recent private mortgage-backed-security (MBS) by Redwood Residential Acquisition Corporation had an average FICO of 770 and an LTV of 66 percent-hardly typical buyers! Private capital apparently does not wish to make loans to many qualified buyers who they would consider "fringe" without the GSE guarantee. The current performance of Fannie Mae and Freddie Mac loans is proof that these borrowers are not a risk. However, these would-be homeowners are excellent borrowers with historically low default rates. Unfortunately, and unfairly, they will find themselves without the ability to purchase a home should the FHFA pursue a policy of rolling back the GSE's loan limits.

Thank you for considering our concerns. We hope the FHFA will not move forward with the proposal to lower the loan limits. Should you wish, I would be happy to discuss any of these issues further with you and your staff at your convenience? Please feel free to contact Matt Roberts, C.A.R. Federal Governmental Affairs Manager at matthewr@car.org, or by phone at 213-739-8284, for additional information.

Sincerely,

Kevin Brown
2014 President

cc: California Congressional Delegation
Steve Brown; President National Association of REALTORS®