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Federal Housing Finance Agency
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To Whom It May Concern:

The Financial Services Roundtable's Housing Policy Council¹ (HPC) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) request for public input on implementation issues associated with reducing the loan limits of Fannie Mae and Freddie Mac (the GSEs).

In a white paper HPC recently submitted to FHFA, we expressed our support for “a transparent, carefully managed, gradual reduction in conforming limits over a significant period of time.”² It is increasingly apparent, however, that such changes should be planned and managed carefully given the ongoing challenges facing mortgage lenders and consumers.

While we appreciate that FHFA understands the challenges the industry and consumers are currently facing in the recovery of the housing market, we believe they are worth restating. The market for housing, while improved, has not returned to the energy levels that existed before the economic crisis began in 2007. Confidence is stronger, but not fully restored. The new and massive regulations issued by the Consumer Financial Protection Bureau (CFPB) have just gone into effect, and the true scope of the strategic and systems changes required by them are only starting to be understood as applications and loans are being processed over the next several months. At this point, all we know for certain is that the impact will be very significant. *The personnel and systems of many financial institutions are at, or near, capacity as they focus on implementing these new rules.*

¹ The Housing Policy Council (“HPC”) of the Financial Services Roundtable is a trade association that represents 31 of the leading national mortgage finance companies. HPC members originate, service, and insure mortgages. We estimate that HPC member companies originate approximately 75% of mortgages and service two-thirds of mortgages serviced in the U.S.

² The Housing Policy Council with The Financial Services Roundtable, Recommendations on Key Transition Issues for FHFA and the GSEs (2013).



Changes in the loan limits will have a direct effect on mortgage availability. In the CFPB's ability to repay/qualified mortgage rule, the CFPB created a special, temporary category under which loans can qualify as QMs if they are eligible for purchase by the GSEs and meet certain other criteria.³ We understand that the vast majority of QMs will qualify under this special category, at least for the near future. If FHFA moves forward with decreasing loan limits, fewer loans will qualify for QM under this special category. While the number of loans affected may not be large, it is important that FHFA considers the impact that decreasing the loan limits will have on the market.

As described in more detail below, we support FHFA creating a transparent process for a gradual reduction of the GSEs' loan limits on an annual basis. As noted earlier, in establishing this process and a timetable, the Agency should consider the current uncertainty in the housing and mortgage markets. Our responses to the five questions posed by FHFA are below.

- 1. FHFA has promised to provide at least six months advance notice of any reduction of the loan purchase limit. If FHFA makes a determination and announcement by, for example, March 20, would October 1 be a reasonable effective date, or would operational issues suggest that an alternate or later date in 2014 would be preferable?**

We appreciate that the FHFA is working to ensure that all affected parties have enough time to make operational adjustments when the loan limits are changing. It is important that any change is clear, and the industry is given enough time to ensure that changes are implemented properly.

That being said, we believe that October 1, 2014 is too early for a reduction in loan limits. As noted above, we are concerned that the market needs more time to fully recover before the reduction in limits should begin. If, however, the FHFA moves forward with reducing loan limits this year, we suggest that the announcement be made by July 1 and the effective date be January 1. This time frame is particularly appropriate this year since the industry is so deeply engaged in implementing the new CFPB's mortgage rules. Again, we urge that FHFA maintain the loan limits at their current level for the time being.

- 2. Assuming the Enterprises' loan limit reduction takes effect for purchases of loans originated on or after October 1, 2014, should that reduction be in effect for 12 months or 15 months? In other words, for future announcements on any future change in the loan purchase limits, is a January 1 origination date preferred, or**

³ 12 CFR 1026.43(e)(4)



should those announcements be tied to the initial loan purchase limit reduction date?

While we do not believe reductions in loan limits are appropriate in the current market, if and when the market is ready for reductions, HPC advocates for a policy of introducing any changes to the loan limits on January 1 of a given year. To minimize disruptions to the market, changes should remain in effect for at least twelve months. Thus each reduction, if there is any, would be effective January 1.

We believe that each year the determination of the conforming loan limits for the following calendar year should be announced by October 1. This is true even if the FHFA determines to leave those limits unchanged. This will provide the necessary time frame for planning and will create continuity in the review of those limits over time. This also will provide FHFA with enough data on the impact of the limits in effect to determine whether a change in those limits is appropriate, and if so, at what level.

We believe this systematic approach would lend itself to better planning, not only for the FHFA and the GSEs, but for the lenders and general public. The October 1 announcement and January 1 effective date, of course, maintains the processes in existence over many years prior to the onset of the crisis.

3. Is it preferable for the Enterprises to announce a multi-year schedule of proposed decreases? If so, should it be a specific percent per year, perhaps five percent, or a specific dollar reduction, perhaps \$20,000 each year?

We do not believe that the Enterprises should make decisions more frequently than annually and therefore should not announce a multi-year schedule of changes in the conforming loan limits. Decisions on whether to change those limits, and, if so, by how much, should be made based on all of the market data and other circumstances then in existence. We cannot know the full impact of decreasing the loan limits more than a year in advance, and it is critical that FHFA maintain flexibility to respond to the impact of any changes it proposes. The FHFA must have flexibility throughout this process to ensure that the mortgage markets are not disrupted in the event of a change in the country's economic circumstances, such as, the development of another recession.

Therefore, we recommend that FHFA establish criteria to evaluate the impact of loan level changes. The criteria would be used to evaluate whether a change in the loan limits is appropriate. Examples of these criteria could include a review of the Case-Shiller index, housing



starts and/or homeownership percentages over a certain period of time. We ask FHFA to work with the industry in creating the criteria that could best assess the impact of loan limit changes.

We also urge the FHFA to coordinate any change with the Federal Housing Administration (FHA), as a change in the GSEs loan limits will impact the FHA's market share.

- 4. Currently, there are several geographic areas with limits between the current baseline loan limit of \$417,000 and the ceiling high-cost area limit of \$625,500. The maximum limits in these areas are tied to the median house price in those areas. Should FHFA tie future reductions in loan purchase limits in those areas to changes in median house prices in any way, or should reductions in those areas simply be proportional to reductions in the baseline limit?**

HPC supports FHFA continuing to connect the loan limits to local median house prices. We believe this is the best determination of the appropriate loan limits for certain geographic areas. As such, loan limit reductions should be tied to changes in median house prices by geography rather than proportional reductions.

At the same time, those prices should only be one of a number of criteria that the agency should consider in reviewing the question of changes in the limits. Our members would be willing to work with the agency to provide our recommendations on various standards that should be used for such reviews.

- 5. Currently, all loan limits are rounded to the nearest \$50. Is this appropriate, or should the loan purchase limits be set at even multiples of either \$1,000 or some other dollar amount for greater simplicity?**

We suggest that FHFA round the loan limits to the nearest \$1,000. We believe that creates simplicity for all involved. Additionally, we believe that rounding to the nearest \$1,000 would lower internal costs in complying with the loan limits.

We appreciate the FHFA seeking public input on this important process, and we look forward to working with the FHFA on this proposal going forward.

Sincerely,

John H. Dalton
President, Housing Policy Council