

July 27, 2015

Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
Constitution Center
400 Seventh Street SW., Eighth Floor,
Washington, DC 20024

Attention: Input/Notice No. 2015-N-03

Dear Mr. Pollard:

The American Bankers Association appreciates this opportunity to provide input on the Federal Housing Finance Agency's (FHFA) proposal regarding the housing price index required by the Federal Housing Enterprise Safety and Soundness Act of 1992 (the Safety and Soundness Act).

The housing price index plays a significant role in the American housing market as it is used to set the limits for loans eligible for purchase by Fannie Mae and Freddie Mac (the Enterprises). Given the dominant role played by the Enterprises in the current environment – a role which is likely to continue for some time – it is essential that the housing price index, and thus the loan limits, be accurate, and reflect the true state of housing prices nationwide.

ABA generally believes that the index chosen by FHFA, the “expanded data index” already produced by FHFA (and by its predecessor agency, OFHEO before it), is an appropriate index for these purposes.

Background

As FHFA notes in the proposal, the Safety and Soundness Act as amended by the Housing and Economic Recovery Act of 2008 (HERA) mandates that FHFA establish a housing price index and the Federal National Mortgage Association Charter Act and the Federal Home Loan Mortgage Corporation Charter Act (the Charter Acts) require that the index be used to adjust annually the conforming loan limits of the Enterprises. Further, the Charter Acts limit declines in the conforming loan limits. Thus, given the dramatic declines in home prices during and immediately following the financial crisis of 2007/2008, the loan limits have remained at a \$417,000 base line for a number of years. Only recently have prices begun to improve again to such an extent that adjustments may be necessary in the future.

ABA's Policy Position Regarding Loan Limits

ABA believes the government's role in housing finance must be broadly reformed, targeted to reduce taxpayer liability and limited to ensuring access to the secondary market for lenders of all sizes, and to ensure stability and accessibility of the capital markets in the event of a market failure.

The overarching principle should be to give banks of all sizes access to secondary market financing while ensuring that governmental entities do not compete directly with the private market. As Congress works to develop a consensus on broad reforms, ABA has advocated lowering the conforming loan. According to data from the Mortgage Bankers Association, the average mortgage loan was only \$294,000 as of March of 2015, which means that the GSEs' current loan maximums of \$625,500 in high-cost areas and \$417,000 in all other areas are dramatically higher than necessary. Such high limits have made it possible for the GSEs to hold too large a share of the housing finance market. We recognize that (as noted above) the Charter Acts have prevented a reduction in conforming loan limits, but at the very least, increases in the limits should be reasonably constrained going forward. The housing price index chosen should be one which accurately reflects the state of the nation's housing market, and must not let regional spikes or other outlying factors justify an unreasonable increase in loan limits which could lead to an overheated market like the one preceding the financial crisis.

Analysis of the “Expanded-Data” Index

Several house price indexes were referenced as an option in the proposal for assessing the national average single-family house price – specifically the FHFA's expanded data, Census Bureau, S&P/Case-Shiller (Case-Shiller) and CoreLogic indexes. As these indexes do not always move in tandem, it is helpful to consider their methodology to properly assess which index should be used in differing circumstances.

The FHFA, Case-Shiller and CoreLogic indexes all use a “repeat sales” methodology which measures the price change of the same house between a previous sale and a current sale. Conversely, the Census Bureau represents a median price index which gathers a random collection of home prices, regardless of house characteristics, to be indexed. While the repeat sales method omits the sale of new homes, which decreases the overall sample size, it helps create a more accurate comparison by comparing homes with similar characteristics (i.e. square footage, number of bedrooms, location, etc.).

Since repeat sales indexes are more commonly used than median, we took a closer look at the differences between those three. The main difference between the FHFA index versus the Case-Shiller and CoreLogic is the type of mortgage data collected. The FHFA only collects conforming loans while the other two also include nonconforming mortgages. Additionally the FHFA includes refinancings and the other two do not. The main difference between Case-Shiller and CoreLogic is the value-weighting. Case-Shiller employs an interval-weighting procedure that places greater weight on repeat sales with shorter intervals. CoreLogic also has larger coverage because it includes mortgage data in place of public records in states with nondisclosure loans.

Since the Case-Shiller and CoreLogic indexes include higher-priced home sales (those financed with jumbo mortgages) and non-conforming loans, they often see larger variances while the FHFA index tends to be flatter.

Given the circumstances surrounding this proposal, ABA agrees with the use of the FHFA “expanded-data” house price index. In addition to the standard FHFA housing price index, the expanded data includes information from (1) transactions records for houses with mortgages endorsed by FHA and (2)

county recorder data licensed from CoreLogic. Using this index, which takes many variables into account and is indexed solely by conforming loans, will likely produce the best metric.

ABA's has conducted additional analysis of the "expanded-data" index proposed to be used by FHFA which further underscores the accuracy of the index to be a guide for current house prices nationwide, using the index to extrapolate from the 1991 conforming loan limit.

Extrapolating from the 1991 conforming loan limit of \$191,250 using the proposed index shows that the current conforming loan limit would be \$386,249, far below the actual loan limit baseline of \$417,000 and still significantly higher than the average mortgage size of \$294,000. Given that outcome it would appear that it is not yet time for FHFA to adjust the conforming loan limits, as home prices are still recovering. We urge the FHFA to move cautiously when considering any increases to the loan limits, so that we do not recreate conditions that led to the overheated housing market and the bubble in home prices that precipitated the recent financial crisis. ABA's extrapolation from the 1991 conforming loan limit is attached for your reference.

Conclusion

Setting the conforming loan limits for the Enterprises is an important part of ensuring that the Enterprises' role in the secondary market is appropriately defined and constrained. Much work remains to be done to end the conservatorships of Fannie Mae and Freddie Mac and to restore the proper balance between the private market and the government supported secondary market. Much of that work requires legislative action, but the setting of appropriate conforming loan limits, as well as the setting of appropriate guarantee fees are within the purview of the FHFA. We appreciate the FHFA's attention to this matter, the thoughtful analysis undertaken in proposing the use of the "expanded-data" index, and the opportunity to provide input. Please do not hesitate to contact the undersigned if you have questions or would like to discuss any of these issues in greater detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph Pigg", enclosed in a thin black rectangular border.

Joseph Pigg
Sr. Vice President and Sr. Counsel
Mortgage Markets

Attachment

United States Expanded Data House Price Index from the FHFA

Year	Quarter	Seasonally		Extrapolated
		Ajdusted Index	% change	
1991	1	100		
1991	2	100.06	0.06%	191,365
1991	3	100.31	0.25%	191,843
1991	4	101.1	0.79%	193,354
1992	1	102.14	1.03%	195,343
1992	2	102.1	-0.04%	195,266
1992	3	102.75	0.64%	196,509
1992	4	103.68	0.91%	198,288
1993	1	103.66	-0.02%	198,250
1993	2	104.78	1.08%	200,392
1993	3	105.61	0.79%	201,979
1993	4	106.6	0.94%	203,873
1994	1	107.73	1.06%	206,034
1994	2	108.66	0.86%	207,812
1994	3	109.6	0.87%	209,610
1994	4	110.28	0.62%	210,911
1995	1	111.11	0.75%	212,498
1995	2	112.02	0.82%	214,238
1995	3	113.17	1.03%	216,438
1995	4	114	0.73%	218,025
1996	1	114.9	0.79%	219,746
1996	2	115.84	0.82%	221,544
1996	3	116.53	0.60%	222,864
1996	4	117.3	0.66%	224,336
1997	1	118.21	0.78%	226,077
1997	2	119.07	0.73%	227,721
1997	3	120.06	0.83%	229,615
1997	4	121.41	1.12%	232,197
1998	1	122.84	1.18%	234,932
1998	2	124.36	1.24%	237,839
1998	3	125.9	1.24%	240,784
1998	4	127.81	1.52%	244,437
1999	1	129.66	1.45%	247,975
1999	2	131.8	1.65%	252,068
1999	3	133.69	1.43%	255,682
1999	4	135.75	1.54%	259,622
2000	1	138.3	1.88%	264,499
2000	2	140.55	1.63%	268,802
2000	3	142.68	1.52%	272,876
2000	4	145.04	1.65%	277,389
2001	1	147.48	1.68%	282,056
2001	2	149.55	1.40%	286,014
2001	3	151.79	1.50%	290,298
2001	4	153.89	1.38%	294,315
2002	1	156.2	1.50%	298,733
2002	2	159.03	1.81%	304,145

United States Expanded Data House Price Index from the FHFA

Year	Quarter	Seasonally		Extrapolated
		Ajdusted Index	% change	
2002	3	161.89	1.80%	309,615
2002	4	164.84	1.82%	315,257
2003	1	167.75	1.77%	320,822
2003	2	170.43	1.60%	325,947
2003	3	173.74	1.94%	332,278
2003	4	177.49	2.16%	339,450
2004	1	180.67	1.79%	345,531
2004	2	185.44	2.64%	354,654
2004	3	189.87	2.39%	363,126
2004	4	194.59	2.49%	372,153
2005	1	199.91	2.73%	382,328
2005	2	205.02	2.56%	392,101
2005	3	210.17	2.51%	401,950
2005	4	214.87	2.24%	410,939
2006	1	218.71	1.79%	418,283
2006	2	220.5	0.82%	421,706
2006	3	220.88	0.17%	422,433
2006	4	221.82	0.43%	424,231
2007	1	222.35	0.24%	425,244
2007	2	219.39	-1.33%	419,583
2007	3	215.29	-1.87%	411,742
2007	4	210.02	-2.45%	401,663
2008	1	204.73	-2.52%	391,546
2008	2	198.7	-2.95%	380,014
2008	3	193.17	-2.78%	369,438
2008	4	185.52	-3.96%	354,807
2009	1	180.92	-2.48%	346,010
2009	2	178.33	-1.43%	341,056
2009	3	178.08	-0.14%	340,578
2009	4	178.39	0.17%	341,171
2010	1	176.4	-1.12%	337,365
2010	2	175.8	-0.34%	336,218
2010	3	170.74	-2.88%	326,540
2010	4	169.65	-0.64%	324,456
2011	1	167.2	-1.44%	319,770
2011	2	165.29	-1.14%	316,117
2011	3	165.79	0.30%	317,073
2011	4	165.47	-0.19%	316,461
2012	1	166.99	0.92%	319,368
2012	2	169.51	1.51%	324,188
2012	3	171.26	1.03%	327,535
2012	4	174.45	1.86%	333,636
2013	1	178.14	2.12%	340,693
2013	2	182.03	2.18%	348,132
2013	3	185.56	1.94%	354,884
2013	4	187.95	1.29%	359,454

United States Expanded Data House Price Index from the FHFA

Year	Quarter	Seasonally		Extrapolated
		Ajdusted Index	% change	Loan Limit
2014	1	190.95	1.60%	365,192
2014	2	193.68	1.43%	370,413
2014	3	196.64	1.53%	376,074
2014	4	199.15	1.28%	380,874
2015	1	201.96	1.41%	386,249