CALIFORNIA ASSOCIATION OF REALTORS®

July 27, 2015

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

RE: Input/Notice No. 2015-N-03, Notice of Establishment of Housing Price Index

Dear Mr. Pollard:

On behalf of the more than 180,000 members of the California Association of REALTORS® (C.A.R.) I submit the following comments regarding the Notice of Establishment of Housing Price Index. C.A.R. is pleased the Federal Housing Finance Agency (FHFA) is taking the necessary steps to begin increasing the conforming loan limits. It is important that the FHFA continue to implement rules and regulations for Fannie Mae and Freddie Mac (Enterprises) that ensure they meet their role and mission of promoting homeownership. The accurate measurement of price changes in the nation's housing market is an important step in doing that.

The majority of California's housing markets have recovered and many areas' home prices are at or above historic highs. In June of 2015 the median home price for existing homes in California was $489,560, more than 17-percent above the national conforming loan limit of $417,000.

The FHFA should use both the expanded-data House Price Index (expanded-data HPI) AND the traditional House Price Index (HPI) to determine the loan limit adjustments, depending on which one gives a higher year-over-year percent change.

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C.A.R. supports using the expanded-data HPI because it will better reflect the changes in home prices across the nation, expanding the sample data to include non-Enterprises' sales transactions is the correct approach. However, volumes of distressed sales always vary between states/regions and most certainly fluctuate over time. Including distressed sales as part of the sample data would at times benefit certain states/regions but penalize others simultaneously. To minimize this cost-shifting scenario, it would be more accurate and less punitive if the loan limit adjustments could be determined based on not just one, but two HPI's. Both the expanded-data HPI and the traditional "purchased only" HPI would be reviewed , and the HPI that yields the higher year-over year percent change would be used to adjust the conforming loan limit.

The expanded-data HPI and traditional HPI should be the indexes used and not other "repeat-transaction" indexes, due to their transparency, reliability and the methodological control that they allow.

C.A.R. supports using both HPIs. We believe the HPIs offer more reliability and control to the FHFA, as the agency could control them to allow for total transparency on index construction and to make any enhancements. Indexes developed by outside vendors do not offer this control. Without the control, the FHFA runs the risk that the outside vendor will discontinue the index or make changes to it that could compromise the quality of the index. Lastly, because the Enterprises serve a public role and mission, it is important that every aspect of their business be open to transparency and public input, including any changes in the methodology.

Explain and justify the use of geometric mean vs. arithmetic mean.

C.A.R. is concerned that by using the geometric mean the loan limit is restricted from accurately reflecting price changes in the housing market and create confusions for practitioners and consumers in the real estate industry. By definition the geometric mean can only be as high as the arithmetic mean, but will often times be lower. C.A.R. would like clarification of the rationale behind using this, a justification on why the FHFA believes this is the best option available, and what other alternatives could be considered. Consumers and the public often determine home price appreciation using the simple arithmetic mean. The FHFA should take this into account in determining the methodology used for loan limit adjustments, so as to be consistent with the perspective of the general public, as well as to achieve greater public transparency and understanding.

C.A.R. looks forward to working with the FHFA as it moves forward to increase the conforming loan limits. We would be happy to discuss any of these issues further with you and your staff; you may contact me at 213-739-8284 or matthewr@car.org. Thank you for taking into consideration our comments.

Sincerely,

Matt Roberts
Federal Government Affairs Manager