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THE IMPACT ON HOMEBUYERS AND THE HOUSING MARKET OF A CONFORMING LOAN LIMIT INCREASE

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

MAY 22, 2008

Printed for the use of the Committee on Financial Services

Serial No. 110–114

U.S. GOVERNMENT PRINTING OFFICE

43–701 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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THE IMPACT ON HOMEBUYERS AND THE HOUSING MARKET OF A CONFORMING LOAN LIMIT INCREASE

Thursday, May 22, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES
Washington, D.C.

The committee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Kanjorski, Waters, Maloney, Watt, Sherman, Moore of Kansas, Capuano, Hinojosa, Clay, McCarthy of New York, Baca, Lynch, Scott, Green, Cleaver, Ellison, Perlmutter; Bachus, Castle, Biggert, Miller of California, Capito, Hensarling, Garrett, and Neugebauer.

The CHAIRMAN. This hearing of the Committee on Financial Services will come to order.

This is a very important topic. It is one that is clearly very much affected by actions this committee has taken and it is a matter of great interest to many members of the committee.

It is also directly relevant to pending legislation because the issue of what the loan limit should be going forward for Fannie Mae, Freddie Mac, and the FHA is going to be decided in the next few weeks.

The Senate committee has passed a bill that raises the limits somewhat. We have one that has raised them higher. We have the stimulus package which has raised them until December 31st.

As I look at the two bills, I am very encouraged that the bill that passed 19–2 out of the Senate committee and the bill that passed this House are very, very close conceptually. I am confident that we are going to be able to resolve the differences, but this is one of the differences we will have to resolve.

Today's testimony is important both in terms of the current situation, but also could have an impact on what we do going forward.

I will say that I was disappointed when the loan limit increase produced less activity than I had hoped it would. I understand there are reasons and I also believe that we are going to come out of this today with a strong argument against the yo-yo effect, and in fact, a strong argument for leaving them where they are.

I did notice, for instance, that when we were debating this in the FHA modernization bill, when that became the one issue that prevented us from doing the FHA modernization, both the Secretary

of the Treasury and then-HUD-Secretary Jackson, agreed with us that it would be a mistake to drop the limits.

In terms of just economic theory, the most variant price in America, I believe, is the house price. The immobility of housing means that you get greater geographic variance in that price than almost anything else, and having one set price could not have made sense. It had to be either too high or too low; there just was no way given the variations.

What we have seen recently is a problem in the private market, and I think there has been a consensus that has been shared by many here, by the head of the Federal Reserve, who has been very active in this, and by the Secretary of the Treasury, that this is a time when public and quasi-public entities can work cooperatively with the market in unsticking things.

We have a problem now. We had this problem in the loans above the limits, that they were not selling.

We tell the story about the child who touches the stove and gets burned and then does not touch the stove again. We have had a situation in the credit markets where a number of very smart people bought things they should not have bought.

Having bought things they should not have bought, they now refuse to buy things they should buy. We have this with 100 percent guaranteed student loans. I think you have to update unfortunately the story of the little boy such that the little boy touched the stove and got burned and now will not touch the stove or the refrigerator or the bathtub or the sink or the toilet.

What we need to do is cooperatively work with people to get them back to touching white porcelain—just be a little more differentiating in which ones they touch.

I think public/private cooperation plays a large role here. Ultimately, to the extent that we get out of the current situation and we get back to where the private market does this without as much involvement from the others, fine, although we should be clear that neither the FHA, Fannie Mae nor Freddie Mac displace the private market, but in fact work with it, multiply it in Fannie's and Freddie's case, by securitizing, although that is a particular issue that I would have now that I am going to ask people to address in the question period. It may not have been an initial issue.

We now have in the Senate bill a provision that says even to the extent that they raise the loan limits, not enough in my judgment, those loans have to be securitized.

I think that would just add to the current complication. I think they should have the option of securitizing, but not a mandate.

We actually specifically addressed that issue in the stimulus and explicitly decided—I had a conversation with Secretary Paulson about it—not to require securitization. I think that even makes securitization harder. I think securitization will work better if it can be left to be done when it makes sense and not be mandated. That is something that we will want to address with people.

I think we have a clear economic case now for raising the limits, but we still have to get to a later point. Maybe we will have resolved this. I do believe the bill will be signed by July 4th. I am now convinced that we will—I think we will now get a bill signed that is very close to what we have been doing.

I am going to make another bold prediction that we will not only get a bill signed, but we will get the whole bill signed. I think we will get a bill signed that has every title and every section.

[Laughter]

The CHAIRMAN. We have adopted a new procedure, you may have noticed, with the agriculture bill. It is called the reverse line item veto, in which we delete items before they get to the President.

[Laughter]

The CHAIRMAN. There is a great consensus. I am joined by my colleague from California, Mr. Miller, and others who care a lot about this.

With that, I am going to call now on my Republican colleague for an opening statement. We have only one panel. This is a very important issue to people and I think this is going to be a very substantive hearing.

Mr. Bachus?

Mr. BACHUS. Thank you, Mr. Chairman, for holding this hearing. Obviously, the hearing deals with the current conditions in the jumbo mortgage market, something that concerns all of us.

As the chairman mentioned, the bipartisan economic stimulus package which we enacted in February temporarily increased the conforming loan limit for Fannie Mae and Freddie Mac, raising that amount to $729,750 in certain high-cost areas.

While those limits only apply to mortgages originated between July 1, 2007 and December 31st of this year, the GSEs are authorized to securitize these new jumbo conforming mortgages at any time during the life of the loan.

The objective of this temporary increase in the GSE loan limits was to inject liquidity into the jumbo mortgage market at a time when investors' aversion to risk had cost spreads between interest rates on those mortgages and mortgages eligible for purchase by Fannie Mae and Freddie Mac to widen alarmingly.

Lower rates on jumbo mortgages would in turn help increased demand in high-cost markets where the fallout from the bursting of the housing bubble has been the most severe.

While these beneficial effects have been slow to materialize, there have been some hopeful signs in recent days that liquidity is returning to the jumbo market as the GSEs ramp up their purchases of these mortgages and spreads between jumbo conforming and regular conforming loans narrow.

A key question that this committee must ask, and I am sure the witnesses, particularly from Fannie Mae and Freddie Mac can shed light on this, is whether Fannie Mae and Freddie Mac will be able to continue to support the conforming mortgage market in a safe and sound manner, while assuming additional responsibilities in the subprime and jumbo markets.

Although these higher loan limits for Freddie and Fannie may help to reassure mortgage lenders and stabilize local markets that have been battered by sharp price declines and record foreclosures, policyholders must be mindful that they are also increasing the risk for these two GSEs.

Strong and well-capitalized GSEs are essential to the stability of the housing finance system and our financial markets generally, and that is why I remain committed to working with Chairman

Frank and our Senate counterparts to achieve comprehensive GSE reform this year.

I think the GSE reform is one of the things that there is some unanimity over the need for. As Chairman Frank and I have expressed on many occasions, we just regret that component and the FHA component has not already passed and been signed by the President.

I welcome the witnesses and look forward to your testimony. I thank you, Mr. Chairman, and yield back the balance of my time.

The CHAIRMAN. I thank the gentleman. I would just say that the GSE reform has actually been a very bipartisan approach because we passed a very good version of it in the previous Congress under the chairmanship of Mike Oxley, and then we worked again and we got overwhelming votes.

I know there was some controversy over the affordable housing fund. That is important to me but it is separate from the structural case of reorganization. If you look at just the reorganization, we have gotten close to 400 votes in a Republican-led Congress and a Democratic-led Congress.

I share his view and I am hoping that we will finally get that one done by the end of the month.

The gentleman from California, Mr. Sherman.

Mr. SHERMAN. Thank you, Mr. Chairman. Thank you for holding this hearing. It is important for us to understand the delays in the effective implementation of increased loan limits. It is even more important for these hearings to focus on making these loan limit increases for high-cost areas permanent.

Unfortunately, at the Senate Banking Committee mark-up, they moved toward a limit of $550,000. This figure will deprive hundreds of thousands of people in high-cost areas in California and elsewhere of the benefits that the GSEs are supposed to provide consumers.

I believe it is essential in any conference, formal or informal, that in arriving at a comprehensive housing bill, the House conferees insist on the House position to permanently increase the ceiling to $729,750 in the high-cost areas.

A bill that does not achieve that goal I do not think will be acceptable to those of us who represent such areas.

This country is very similar in so many ways from one place to another. The same stores at the same prices. Maybe you pay 5 percent more for a cheese dog here, a McDonald's hamburger there. Even our weather. Maybe it is 10 percent hotter, 20 percent hotter in one place than another.

Housing prices are the one thing that is dramatically different. In Pittsburgh, the median home price was $120,000 last year. In Omaha, $138,000. In Los Angeles, $589,000. That is a ratio of difference that makes the political differences between Oregon and Kentucky look like nothing.

We cannot have one-size-fits-all. We knew that when these limits were created many decades ago. We recognized that Guam, Hawaii, and Alaska had to have higher limits.

Now we realize there are 10 to 15 high-cost areas on the mainland of the United States, the lower 48, that need these higher limits as well. We are not talking about millionaires. We are talking

about teachers and police officers. Can they afford a modest three bedroom home anywhere in the L.A. metro area, and more importantly, anywhere in the 27th District?

That is why we need to have the changes that we made in the Economic Stimulus Act made permanent. This committee and this House was wise enough to do so. As testimony we will hear today, this could mean $400 a month on somebody's mortgage. That is important not only in this time of economic crisis, but in the years to come.

I hope very much that the House insists upon its position and that the Senate sees the wisdom and we get this matter handled in a way that meets the needs of high-cost areas.

I yield back.

The CHAIRMAN. The gentlewoman from West Virginia, the ranking member of the Housing Subcommittee, is recognized for 3 minutes.

Mrs. CAPITO. Thank you, Mr. Chairman. Thank you for holding this hearing. It is important for us to understand the consequences of our actions and with the passage of the stimulus package and the temporary increase in loan limits, we have an unique opportunity here today, I think, to see what impact these increases will have on the housing market.

I supported the passage of the stimulus package and was able last week or more recently to get an amendment to temporarily raise those loan limits for VA loans, guaranteed loans, as well.

The credit crunch has been affecting the Nation recently and it has been making it very difficult even for borrowers with stellar credit ratings to obtain loans for more than the conforming loan limit.

In many expensive housing markets, as we have heard, including parts of my own district in West Virginia, this situation has put the American dream of homeownership on hold, particularly for those who are first-time homebuyers.

Despite raising the conforming loan limits, the market has been slow to respond. Recently, there have been, I think, some encouraging signs.

According to an article that appeared in the Washington Post on Saturday, just in the past 2 weeks, interest on the new conforming jumbo mortgages for amounts between $417,000 and $729,750 have come down enough to make a difference to borrowers. I hope this is a trend that continues.

I look forward to hearing the panel. I thank the chairman for allowing me to give an opening statement. Thank you.

The CHAIRMAN. The gentleman from Massachusetts, my colleague from the high-cost area.

Mr. LYNCH. Thank you, Mr. Chairman. I want to thank the ranking member as well.

I appreciate that we are having this hearing on the progress of efforts to expand the conforming loan limits. I represent a significant part of the City of Boston and the outlying suburbs, as the chairman mentioned. This is very important to the people that I represent.

The gentleman has already noted—the gentleman from California—the disparity between regions here. The area that I rep-

resent, the 9th Congressional District of Massachusetts, is enormously impacted.

The questions I would like the panelists to help us with as we go forward today—I do appreciate your willingness to come forward and help the committee with its work, I really do—there seems to be several explanations of why the initial response was so slow.

Number one, I guess I am curious, was it just a slow start with a new product, and is that now being rectified? I read a story several weeks ago in the New York Times that was enormously critical, and I will not repeat the quotes in the paper by some of the folks who are trying to deal with this, but they were extremely critical.

Most recently, not a couple of days ago, a Washington Post article said that to the contrary, there may be some significant progress.

I would like to hear about that. Also, I would like to hear from the panelists about what is sticking the throttle here? What is the problem that is causing the slow down? Is it in fact the inability of us to securitize these in a similar way as we do the previous conforming loans that are purchased?

Is it the fact that these are not TBA eligible? What is the problem here that perhaps we did not foresee other than the difficult loan environment right now because of the housing crisis?

Those are some of the things I would like to touch on. Again, I appreciate the panelists for coming and I appreciate the chairman for holding this hearing, and I yield back the balance of my time.

The CHAIRMAN. The gentleman from California, Mr. Miller, who has an interest in this subject will be recognized for 3 minutes, which will be too little.

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman.

This is something that as you know we have been fighting for for about 5 years. We could see this coming in California, that liquidity was going to be a huge, huge problem in the marketplace, especially as the housing prices increased.

In August of 2007, when Wall Street shut the money off, the market just plummeted. Loans were not available.

We passed a stimulus package that increased those to about $727,000, which took a while to implement because FHA had to determine what the median prices were in areas, so it took a while to get going, but come December of this year, Mr. Chairman and Mr. Bachus, when the market changes again, and if we take GSEs and FHA out of the market in high-cost areas, unless Wall Street comes back, it is going to present the same result that occurred when Wall Street pulled out. It is just going to have a devastating effect on the marketplace.

We have actually done something unusual, Chairman Frank. I have a letter signed by every Republican Member from the California Congressional Delegation supporting the concept of permanently increasing the loan limits to $729,750.

Can I ask that this be introduced into the record?

The CHAIRMAN. Without objection, it is so ordered.

Mr. MILLER OF CALIFORNIA. From 19 Republican Members, which to get all 19 to agree to anything is a major task. Every Member of our Delegation understands that—

The CHAIRMAN. If the gentleman would yield, I would note that among those are four California Republican members of this committee.

Mr. MILLER OF CALIFORNIA. Very true. In California, we face a problem; 21 of the top 25 basically least affordable housing markets in the United States happen to be in California. The other side is California is also the largest economy in this country.

One goes hand-in-hand with the other. The concept of being discriminated against based on geography, and that is what California and high-cost areas like Boston and other areas are, because of where people live, they are not entitled to participate in lower rate mortgages that the GSEs provide and FHA provides that every other area in the United States that is not a high-cost area does.

It seems unfair to me that if you are in a housing market where the median home price is $150,000, you can really go out and borrow almost triple, and we cannot even reach median in most areas.

In fact, after the recession in 2007, the median home cost in California was $558,100, after the downturn occurred.

What we are doing right now in injecting liquidity in the marketplace for GSEs is working. It took a while to implement. What do you do to a buyer in California and other high-cost areas that enters an escrow in mid-November and for some reason they cannot close that escrow by December 31st? They are going to lose that opportunity.

The jumbo marketplace has dried up. Look at the jumbo marketplace. Only 18 percent of the jumbo marketplace in 2005 made fixed-rate 30-year loans. The fixed-rate loan for 30 years, 18 percent. GSEs, 82 percent of all the loans made were fixed-rate 30-year loans. They are saving between $280 and $471 a month in interest payments. High-cost areas should benefit from that also.

What we did on the stimulus package should be made permanent. It is proving to work. Right now, we are in a housing crisis. Some people bought a home and things did not work out. A trigger kicked in. Their rates jumped up. They may have had problems with their jobs. They cannot make the payments.

Today the programs that we have implemented through FHA, high-cost areas cannot participate in. We need to change that.

Mr. Chairman and Ranking Member Bachus, I hope we stick to our guns that every high-cost area in a State should be treated like the rest of the States are. We need to make sure this is permanent. It is a long time coming. I think it is a victory we can be proud of if we can accomplish it.

I yield back the balance of my time.

The CHAIRMAN. The gentleman from California asked me to yield briefly, if there is no objection.

Mr. SHERMAN. Yes, Mr. Chairman, I also have a similar and even more strongly worded letter that only has 12 signatures so far, but I would like unanimous consent to enter it into the record when the record closes, and by then, I will have more than 19.

Mr. MILLER OF CALIFORNIA. Mr. Sherman, if I can help you circulate that, I would be happy to do so.

The CHAIRMAN. If our competitive instincts over there can be restrained, yes, we will be happy to do that.

The gentleman from North Carolina wanted to be recognized to make a brief statement.

Mr. WATT. Thank you, Mr. Chairman. I want to be recognized for two reasons. Number one, I was getting the impression that this was only a California and Massachusetts issue. I wanted to give a broader perspective to it.

In fact, while none of the communities in my congressional district get impacted by this as it turns out, even Charlotte, which I represent a part of, there is a recognition that the housing market and the credit market is a national market more than ever before.

I think this is extremely important even to those communities that may not qualify for the benefits of the jumbo mortgage.

Second, I wanted to express some degree of encouragement and appreciation to the GSEs and to the capital markets for continuing their efforts to make this a reality because if Fannie Mae and Freddie Mac do not set up a structure to do this, then it really cannot be effectively played out, and I know they have made some extraordinary efforts to enable that to happen.

If the market into which they sell these loans does not take some extra steps and get aggressively involved in making this play out, it will not happen.

It takes the members of the Securities Industry and Financial Markets Association to work with the GSEs to make sure that these loans can get into the secondary market. While that process has been slow, I think there has been movement on that front that they need to be applauded for, and they need to be encouraged to continue that movement because if it does not continue, then we cannot pull this off even if we make this a permanent provision in the law.

Mr. MILLER OF CALIFORNIA. Will the gentleman yield?

Mr. WATT. I will be happy to yield.

Mr. MILLER OF CALIFORNIA. One comment. I agree with everything you said, Mr. Watt. The benefit of this is that people in high-cost areas are able to sell their home and in many cases move into areas that are not high-cost areas that are being impacted by the housing market today.

You are correct. It is not just a high-cost area issue. It is a national issue. I thank you for your time.

Mr. WATT. I thank the chairman for the time, and I yield back.

The CHAIRMAN. The gentleman from New Jersey, Mr. Garrett, for 3 minutes.

Mr. GARRETT. Thank you, Mr. Chairman, Ranking Member Bachus, and all the members of the panel who are testifying.

For the last several years, I have sat through numerous hearings of this committee and heard members and witnesses alike basically bemoan the fact that housing prices are just too high and people cannot afford anymore to buy their own homes. Now that the prices are coming down a bit to a more accurate and sustainable level, this Congress seems to be trying to prop those prices right back up to the unaffordable range.

Most of the studies I have seen indicate that the spreads are still very large in the conforming jumbo market, and that due to the underwriting standards for those loans, the only people who are actu-

ally able to benefit are those who already have a mortgage and are able to refinance.

The people that so many members claim to want to help, the first-time homebuyer, are really not able to benefit because they do not have the necessary downpayment available to them.

If prices are coming down, should we be raising the conforming loan limits, much less keep them at the current level?

It stands to reason that if housing prices are falling in these areas, especially areas like California and Nevada that have the largest housing cost increase, then we really should be looking at lowering the conforming loan limits.

I have met with a number of economists and housing industry representatives on this issue. They inform me that when using appropriate underwriting standards, combined with a normal loan to value ratio, a family must make roughly $200,000 a year to afford a house around $700,000.

I find it interesting that our colleagues across the aisle continue to advocate raising taxes on families making over $200,000 a year but they want to have the government help those very same people by subsidizing the cost of their house.

Instead of allowing those families to keep more of their hard-earned money and allow them to decide how they want to spend it, what we are doing is to tax those families more and then have the government turn around and try to help them buy a home.

Just this last week, my Democrat friends voted to raise taxes on households and small businesses making $500,000 a year. They claim that these people are the super wealthy families and they should shoulder a higher burden of the tax burden.

This week, they advocate to have the government insure those families' homes to help them save a few bucks a month.

I hope my friends across the aisle can better explain their rationale of why the government needs to take more money from hard working families that they say are too rich and then help those very same families insure their houses.

I would like to again thank our panel for being here today, and I do look forward to your testimony.

The CHAIRMAN. If the gentleman would yield, I would respond in part; according to the Congressional Budget Office, by raising the jumbo loan limit for the FHA, the Federal Government makes money. That is, they pay into the FHA more than the FHA pays out.

Mr. GARRETT. Reclaiming my time, that is really not the point whether it is making money or not making money.

If we really want to help the first-time homebuyer, then you have to look to see who the first-time homebuyer is, and is that somebody who makes over $200,000 or $250,000 a year.

Mr. WATT. Would the gentleman yield?

The CHAIRMAN. Would the gentleman yield to me?

Mr. GARRETT. Let me just finish.

The CHAIRMAN. I will recognize the gentlewoman from New York, but I will ask her to yield to me for 30 seconds.

The gentleman from New Jersey often changes his arguments. Having made one, if it gets met, he gets another one. He talked about an—

Mr. GARRETT. Will the gentleman yield?

The CHAIRMAN. No, I will not yield, just as the gentleman would not yield to me. The gentleman said there was this inconsistency with regard to taxation and he suggested that we were giving a subsidy—not suggested, he said we were subsidizing the upper-income people, that the government was subsidizing them by raising the jumbo loan limit.

The fact is that the Congressional Budget Office certifies that by raising the jumbo loan limit, we make money for the Federal Government. There is no taxpayer subsidy. There is a taxpayer benefit. That is the argument the gentleman made.

He then wanted to make another one, and he is entitled to do that, but the argument that we are somehow giving a taxpayer subsidy to the upper-income people in the jumbo loan limit is contradicted by CBO.

Mr. WATT. Will the gentlelady yield to me to address his other issue, which is saving just a few dollars? If the gentleman would look at the difference between the rate on a jumbo loan of $418,000 and a conventional loan of $417,000, the difference is $250 a month, not a dollar or two a month.

The CHAIRMAN. The gentlewoman from New York.

Mr. GARRETT. Would the gentlelady yield?

Mrs. MCCARTHY OF NEW YORK. I would like to make a statement first.

The CHAIRMAN. I will give the gentleman time at the end of her statement.

Mrs. MCCARTHY OF NEW YORK. What I would like to say is that I live on Long Island; I certainly do not make $200,000 a year, although I feel I make a very good salary. With that being said, if the majority of people that I know have taken home equity loans out because they got all the credit that they needed, and yet those homes, and I will talk about my own house, I bought the house for $70,000. My estimated real estate is at $578,000. There is not a home in my area, and it is a tiny, tiny home, a 40-by-100 piece of property, and if I tried to sell that house tomorrow, I probably could not get $475,000.

People have taken out home equity loans trying to build up because I have young families moving into the area, they are blue collar workers. They are not making the kind of money, over $200,000, so basically I am certainly going to fight to make sure that my constituents have the opportunity, if they have taken out one of these unfortunately predatory loans, and to be very honest with you, I did not think many of them did, but when we started looking at the map of what New York State is putting out, apparently in areas that we would have never suspected, we are seeing these kinds of foreclosures because young people have gone out and tried to buy a home in a middle-class neighborhood. We are not talking about rich people.

With that, I yield to the gentleman.

Mr. GARRETT. Part of the reason I did not yield is because I only have 3 minutes, and I know the chairman can have additional time.

One of the points I was trying to make, and I tried to make a couple of points, was who are we trying to help? As the gentlelady

was saying, in order to buy these homes, you have to be making a substantial amount of money, around $200,000.

It may be two income earners. It may be a police officer and somebody else, a wife, who is a nurse, each one making $80,000 or $90,000. The household income there is approaching $200,000.

What I am told by that real estate market is that the general rule was that around 2½ times your basic annual income goes toward the value of the loan you can afford—2½ times $200,000 comes out to $500,000 to $600,000.

If that is who we are aiming for, that is my first question, who are we aiming for with this thing, is it people making around $200,000-plus who would be getting into this?

Mrs. MCCARTHY OF NEW YORK. Reclaiming my time, if we are talking about a young couple, whether it is a police officer, a fireman, or a nurse, their combined salaries are not going to come anywhere near $200,000. Yet, to buy a starter home on Long Island, I am telling you, a nice little home, which I consider my home to be, you are talking anywhere from $475,000 to $550,000. That is a starter home.

The CHAIRMAN. I am guilty. Let's not get into a debate here. Let's finish the opening statements. We will have plenty of time to debate it after our witnesses.

Let me call on Mr. Neugebauer now to give a statement.

Mr. NEUGEBAUER. I thank the chairman. I think one of the things that the marketplace needs now is just some certainty. We have done some things, the FHA reform, the GSE reform. We need to get those pieces passed. We need then for those regulators or the GSEs to give the GSEs the parameters of what the rules are going to be. We need to give FHA the relevancy of being able to be innovative and to keep up with the marketplace.

These stop-and-go policies that we are trying to do here, while they are well-meaning, I think sometimes they cause more confusion in the marketplace when a marketplace really just needs more certainty.

What we did know prior to this little hiccup that we have had in the housing and mortgage market is we had a very robust housing market, a very robust mortgage market.

What my hope is, very quickly, Mr. Chairman, is that we get these passed and then we step back and let the marketplace begin to adapt and put this puzzle back together.

I was thinking the other day, sometimes I sit down with my grandkids, and we get those 500 piece puzzles. It takes a little while to put that puzzle together.

It is going to take a little while to put this marketplace back together because there are some uncertainties, some things happened that I can assure you probably will not ever happen again. There are some lessons learned.

What I would hope is that while the chairman and I do not agree on all of the things we have been working on, I think the thing that we do agree on is that we need to bring this GSE bill, get that put in place, so that some parameters would be put in place so that the GSEs would be able to build a business plan around.

The other is to make FHA more relevant so that they can price and develop products. I do not think it is our role to tell the mar-

ketplace this is a jumbo, this is not a jumbo. This is the underwriting standards for this, this is not the underwriting standards for this.

What I think we do is we put parameters on those entities, we hold them accountable, and if they start doing some things that affect the safety and soundness of that, you make changes. For us to have to come running to Congress to determine how big a loan I can make or what the term of that loan is going to be or what the underwriting standards can and cannot be for that, I think long term, it is a hindrance to the housing market and not necessarily a plus to the housing market.

Mr. Chairman, I hope that as you and I have talked, maybe there is some chance that those changes will be made and we can let the market move on.

The CHAIRMAN. I thank the gentleman. I just have one piece of advice. He does not need advice from me. As hard as that puzzle is for you and your grandchildren to put together, do not invite a Senator, then you will never get it put together.

[Laughter]

The CHAIRMAN. Well, maybe, but it will take a lot longer.

We have 4 minutes remaining and I am going to split it between my two colleagues, the gentleman from Massachusetts for 2 minutes, and then the gentleman from New York for 2 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman. Very quickly, maybe some of my colleagues do not understand it, but my hope is that everybody on this panel understands it, there are different regional markets that require different approaches. Some markets are more expensive. Some markets are less expensive.

In all of the most expensive markets, incomes are higher as well. In my district, you could not possibly live on $10,000 a year. You cannot do it, I do not care where you live or how you live, you cannot do it.

In my district, $50,000 is a lower-middle-income person. In another district, you can live like a king on $50,000.

I am here today to hear why the market is not doing what we need it to do, which is to provide an opportunity for middle-class working people to own a home in a reasonable manner in the same way all across this country, from the rich markets to the poor markets.

Why cannot the private industry, the private market, adjust to meet regional differences? That is what I am here to listen to. If my colleagues do not understand it, I am more than happy to invite any and all of them to my district to try to find a house for less than $500,000. If they can do it, I will help them invest.

The CHAIRMAN. I thank the gentleman. With the indulgence, I miscalculated. The gentleman from Georgia is recognized.

Mr. SCOTT. Thank you very much, Mr. Chairman. I appreciate that. I want to do several things here. First, I want to associate my remarks with those of Mr. Miller from California. I agree with you 100 percent. You are absolutely right and I will certainly work with you on that.

I am so glad to hear from you, Mr. Chairman, that the President is going to sign our housing bill, our mortgage bill. That is so important.

This country is in dire shape. I think there is a sense of urgency that is not resting where it ought to be. Nowhere is that sense of urgency more devastating, more impactful, than in my own district.

Let me just tell you, Georgia as a State, ranks 8th in foreclosures at this very moment. In my own district which I represent, one of the fastest growing areas in this country, is the suburbs of Atlanta, which has been devastated by this crisis. One county alone, Clayton County in my district, ladies and gentlemen, has a foreclosure rate of nearly 2 out of ten; that is 20 percent. That is extraordinary.

As we approach this issue, the hearts and the minds of the American people are literally breaking. They are hanging on by their fingernails.

On top of that, Atlanta has just gone through a devastating pattern of thunderstorms and tornadoes that I am sure many of you have heard about and seen on the CNN reports. The estimated cost just to the housing loss is nearly $300 million. Just last evening, another storm came through.

All of this is devastating to the area. I wanted to certainly make that point of how this mortgage meltdown and credit crunch is so devastating to my area and why I want to just use every opportunity I can to issue this cry of urgency.

We need help in my home State of Georgia, particularly in my district.

Mr. Chairman, I just want to get to what I think is the crux of the matter that I hope we can get to this morning.

First, we have to answer this question: Why has it taken regulators, who were well aware of the subprime mortgage issue early on, so long to act, despite the clear evidence of problems in this market?

Ladies and gentlemen, we have to solve that question. If we do not, so much of our other work will certainly be in vein.

The other is as more and more creditors are cracking down on certain lending practices, which they are doing and it is good, we have to ensure that sound underwriting of these loans is rewarded.

At the same time, we have to make sure that those players out there who continue to prey on individuals realize there are consequences, and while we make certain that credit continues to be available to those that qualify and are feasible candidates for home loans such as first-time homebuyers, lower-income households, and minority families in communities.

As such, we must increase the conforming loan limit, but will increasing the conforming loan limit indeed have a positive effect which will be felt by many homeowners and homebuyers.

Finally, would lifting the limits permanently be good policy and encourage first-time homebuyers to purchase and further staunch the flow of foreclosures?

I think that is the crux. Thank you very much, Mr. Chairman.

The CHAIRMAN. The gentleman from Texas is recognized for 3 minutes.

Mr. HENSARLING. Thank you, Mr. Chairman.

I believe it was 2 days ago that the front page of USA Today had a headline "Taxpayer Bill Leaps By Trillions."

The first paragraph says, "The Federal Government's long term financial obligations grew by $2.5 trillion last year, a reflection of the mushrooming cost of Medicare, Social Security." It goes on to say that is now roughly $500,000 per household.

I say that as background because I fear that we once again are looking at a situation where we may be adding more potential taxpayer liability and exposure.

What we are speaking of today, I suppose the pressing problem, is to figure out how the GSEs can get involved with larger mortgages, as high as 24 times greater than the median income of every individual in the United States.

We know that the conforming loan limits were increased in the recent tax rebate bill passed in February. I have several concerns. Number one, I am not sure it was a good policy to do this in the first place, given what the GSE charter is.

Second of all, I have asked OFHEO to send me a map of which metropolitan areas, which geographic areas, would be impacted. I know it is a small map. Hopefully, everybody can see white and red.

According to OFHEO's definition, the vast majority of the country seems to be left out. California, it seems like they may do well, and then from the Washington metro area up along the Atlantic Seaboard, South Florida, and that is about it.

I believe, according to OFHEO as well, that 60 percent of the counties that would benefit literally are in those three spots.

Besides the benefits going to a limited number of people, I believe that this effort just takes the GSEs away from their core mission, further away from affordable housing for the middle- and very-low-income families.

I am not sure it makes sense in the context of the mission.

Some have said we ought to raise these conforming loan limits because many people are facing higher prices through no fault of their own. Ultimately, people choose to live in areas of high density. One of the reasons is because they may have higher incomes. They may actually vote for more onerous land use and zoning and other restrictions that can make land more expensive and thus, drive up the cost of housing.

Already, the conforming loan limit right now, $417,000, a family would have to earn at least $130,000, which is twice the median family income in the country, and one that would be 50 percent higher, well under the $730,000 maximum limit, would serve families with incomes of up to $185,000, which ranks in roughly the top 5 percent of all families in America.

With increased systemic risk that is still on the books threatening a still weakened economy, I am not convinced this policy makes sense. I yield back the balance of my time.

The CHAIRMAN. Our final statement will be from the gentlewoman from New York.

Mrs. MALONEY. Thank you, Mr. Chairman. In the interest of time, I would just like to put my prepared statement in the record.

The CHAIRMAN. Without objection, it is so ordered.

Mrs. MALONEY. I would just like to briefly say that I am strongly in support of the conforming loan limit increases and would like to be associated with the comments of my colleagues on both sides of

the aisle who have spoken out on the need for liquidity in the housing market, certainty in the housing market, and the real difference that exists in our country in regional housing markets.

I happen to represent a district in Queens and Manhattan with high housing costs. This is a very, very important issue to my constituents, and therefore to me. I fully support the increases and I fully support making them permanent.

As the chairman pointed out, this is a taxpayer benefit. I would just like to conclude by saying that everyone knows we need to get liquidity in the market. This is one way to put liquidity into Fannie Mae and Freddie Mac. I think we should do it. It is going to help housing and it is not costing taxpayers money. It makes the system stronger, and would allow even my constituents to benefit from Fannie and Freddie and FHA loans.

Thank you. I yield back.

The CHAIRMAN. If the gentlewoman would yield just on that one point, let me add, one of the things that we consciously did in the stimulus, and I talked about this with the Secretary, we allowed the Fannie Mae/Freddie Mac piece to be retroactive to July 1, 2007, in the hope that some banks which had come up against their limits because they were loaned out and did not have the capital, could sell some of those loans to Fannie and Freddie freeing up capital, which could then be used for loans up and down the spectrum.

We had hoped, and we still do, that loans that had been made in 2007 could now be sold and the selling of those loans would free up capital to make new loans to people all across the income spectrum.

With that, we will begin the hearing, and I guess the witnesses have a sense of how engaged the committee is on this subject. I am going to begin with Mr. Thomas Hamilton, the managing director of Barclays Capital. He is testifying on behalf of the Securities Industry and Financial Markets Association.

STATEMENT OF THOMAS HAMILTON, MANAGING DIRECTOR, BARCLAYS CAPITAL, ON BEHALF OF THE SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION (SIFMA)

Mr. HAMILTON. Mr. Chairman, Ranking Member Bachus, and members of the committee, I am Thomas Hamilton, managing director of Barclays Capital, and I am responsible for our residential mortgage asset backed and commercial mortgage trading businesses.

I am pleased to testify today on behalf of the Securities Industry and Financial Markets Association, where I serve as vice chairman of the mortgage backed securities and securitized products division's executive committee.

We commend Chairman Frank and Ranking Member Bachus for their leadership and efforts to address the problems we see today in the mortgage markets.

We appreciate the opportunity to discuss the agency mortgage backed securities market, the most liquid secondary market for mortgage loans in the world.

The agency market includes MBS issued by Fannie Mae, Freddie Mac, and Ginnie Mae. Specifically, I would like to discuss the to-

be-announced market, an action taken by SIFMA with respect to which loans are acceptable for inclusion in TBA-eligible MBS pools.

SIFMA is pleased to contribute to the understanding of the situation that is complex, with many moving parts and few simple answers, but of incredible importance.

A TBA is a contract for the purchase or sale of agency mortgage backed securities to be delivered at a future agreed-upon date. The actual identity of the mortgage loan pool is unknown, however, at the time of the trade.

Actual mortgage pools are subsequently allocated to the TBA transaction upon settlement which may be one or more months after the trade date. Participants in the TBA market generally adhere to market practice standards commonly referred to as the "TBA good delivery guidelines," which are published by SIFMA through consultation with all its members.

The overall market for agency-backed MBS' is huge. It was about $5.9 trillion at the end of 2007. It is no exaggeration to say that the market is vital to the mortgage finance system and this country, especially now when other secondary market sources of financing are closed.

This market has been successful for one main reason, homogeneity of collateral. Investors who participate in the TBA market are confident that even though they do not know the identity of the exact mortgage pool they will be delivered, they are comfortable that the pool composition and performance will be within a certain criteria. If this confidence is lost, the mortgage market will suffer greatly as loans become more expensive.

Pools that contain loans which are not homogeneous with TBA-eligible product are traded in what is referred to as a "specified pool market" or packaged in collateralized mortgage obligations or CMOs. This is not an insignificant market. Outstanding CMOs alone were over $1 trillion at the end of 2007.

The bright light in all this recent turmoil has been the performance of the markets for agency MBS. These markets have remained stable, given the guaranteed nature of these products, and the generally more conservative underwriting standards employed by the GSEs and FHA.

As Congress deliberated on an economic stimulus package several months ago, the issue of providing liquidity to the jumbo loan market by increasing the agency's loan size limits became a matter of discussion.

In January and February, SIFMA called together its buy and sell side members on multiple occasions to discuss the impending stimulus legislation. The legislation was viewed as extremely important both in the context of agency MBS markets as well as in the larger context of something that could counteract the contraction of the availability of credit to deserving borrowers more generally.

SIFMA believed, and still believes, that this legislation could be an useful tool to help strengthen the mortgage markets. SIFMA also met with representatives from Fannie, Freddie, FHA, and Ginnie Mae. SIFMA realized that it must act quickly to minimize any uncertainty in the markets and to ensure that the GSEs and Ginnie Mae could implement their new programs as soon as possible.

On February 15th, SIFMA announced its intention to publish an update to the "good delivery guidelines." The updates to the guidelines reflect a decision by SIFMA members to keep the maximum TBA-eligible original loan balance at $417,000.

I will now discuss the rationale for this decision. The importance of the continued liquidity and smooth functioning of the current conforming loan market must be underscored in this time of broad disruption to financial markets.

SIFMA views this arrangement as the most expeditious and least disruptive methodology currently available to facilitate securitization and secondary market activity for higher balance loans, bringing liquidity and rate relief to higher balance loan borrowers while not imposing additional costs or impairing the liquidity for loans falling within the pre-existing loan limits.

As I mentioned, the TBA market depends on perceptions of homogeneity and the introduction of jumbo loans which have significantly different prepayment characteristics in any amount and to TBA-eligible pools would have reduced the perceived homogeneity of the market.

Given that the TBA market is so essential, especially in this time of stress, market participants are very hesitant to change the rules in a manner that they believe is likely to have negative consequences for liquidity and thus for the much larger class of conforming borrowers.

There is a second important point, the legislation is temporary. While the program effectively has a 9-month life expiring on December 31, 2008, preliminary estimates as to when this program would become operational were in the 2 to 3 month range.

These estimates have proven to be accurate. Market participants are hesitant to change and disrupt functioning markets for a program that has an uncertain future.

While rates of jumbo loans have not yet returned to ranges approaching historical norms since the passage of the stimulus package, the reason for this does not relate to the TBAs or lack of inclusion of jumbo loans into TBA-eligible collateral.

Rather, lenders and agencies face operational challenges to implement these programs and the programs are not running full speed yet at this point.

One major hurdle was calculation of loan limits. Previously, Fannie Mae and Freddie Mac and their lenders operated with a national loan limit. The stimulus package, however, implemented more complex MSA-based regimes which were essentially already used by FHA and Ginnie Mae, but foreign to the GSEs and their lenders.

This is not to say that the programs will not have the intended effect. We believe they will.

The most mortgage analysts expect jumbo rates to drop is approximately 50 basis points over conforming loans which will be quite an improvement, and in the last few weeks, we have seen first issuance of jumbo loans backed by Ginnie Mae and the continued build out by Fannie and Freddie Mac of their loan purchase programs, and small pools are circulating on the trading markets.

We believe the market is on the verge of relief from higher rates and have dropped a quarter point in the last month, and we expect that to continue as the GSEs and Ginnie Mae's programs grow.

SIFMA supported the stimulus package provisions which increased the conforming loan limits and continues to do so. SIFMA believes that the housing agencies can, do and will continue to play an essential role in the recovery of these mortgage markets.

SIFMA believes the correct decision was reached regarding TBA eligibility of pools containing jumbo mortgages. The decision strikes the correct balance between providing increased liquidity and rate relief to jumbo borrowers while preserving the liquidity of the TBA market that provides lower rates to the conforming borrowers.

We thank the committee and its chairman for the opportunity to provide this testimony and would be happy to answer any questions.

[The prepared statement of Mr. Hamilton can be found on page 57 of the appendix.]

The CHAIRMAN. Thank you, Mr. Hamilton. Next, we will hear from Patricia Cook, the executive vice president and chief business officer of Freddie Mac.

STATEMENT OF PATRICIA L. COOK, EXECUTIVE VICE PRESIDENT AND CHIEF BUSINESS OFFICER, FREDDIE MAC

Ms. COOK. Thank you, Chairman Frank, Ranking Member Bachus, and members of the committee. Good morning. My name is Patricia Cook, and I am executive vice president and chief business officer at Freddie Mac. Thank you for inviting me here to testify on recent developments.

The Economic Stimulus Act that Congress passed in February is working as you intended, to bring liquidity and lower prices to targeted parts of the jumbo market.

When the President signed the Stimulus Act on February 13th, the jumbo market was largely frozen. The private investors who had typically financed jumbo mortgages had abandoned the market. Jumbo mortgages had become very expensive or even unavailable, creating significant hardships for borrowers in areas with high house prices.

To help get money flowing, mortgage money flowing into these areas, Congress temporarily raised the dollar limit for mortgages that Freddie Mac can buy from $417,000 to a maximum of $729,750 in high-cost areas.

Now rates on GSE-eligible agency jumbo loans are starting to come down, nearly to those on ordinary conforming mortgages, and mortgage money is increasingly available in high-cost areas.

I want to briefly describe Freddie Mac's perspective on three key matters: First, the prompt steps we took to implement this new authority; second, the reasons why consumers are starting to benefit from these actions; and third, the role of our retained portfolio and the need for changes in the TBA market if increases are made permanent.

The legislation required HUD to identify high-cost areas eligible for the increased limits. Three weeks after the passage of the legislation, HUD identified 224 separate high-cost areas and OFHEO calculated individual loan limits for each of these areas.

Just 6 days later, on March 12th, we announced credit terms and pricing on agency jumbo loans that met our current credit specifications.

On April 17th, we announced that we expected to be able to buy $10- to $15 billion of new agency jumbo mortgages originated by the end of the year. By putting a bid in the market, we increased liquidity, because the bid meant our customers not only knew that we would buy these mortgages, but also at what price we would pay for them.

The lower agency jumbo rates we are starting to see in the market are in my view entirely attributable to the GSEs. After our April 17th announcement, we saw rates on these mortgages offered by some lenders drop as much as three-quarters of a point from late March. Rates on agency jumbos are now a full point below other jumbos, and only about 20 basis points or less above conforming mortgages; about the same difference as in the most favorable market conditions.

We expect this pricing will be the market norm for agency jumbo mortgages originated through the end of the year.

It took only about 60 days after passage of the stimulus package for consumers to start to realize the benefits of our presence in the market. Normally, the primary market needs 60 to 90 days of lead time to implement even ordinary market changes. Here, we implemented a fundamental market change in 2 months.

The third and final point I would like to make is that we are able to provide this support because we can buy agency jumbo mortgages and hold them in our retained portfolio.

Currently, there is little investor demand for securities backed by jumbo mortgages. By buying for our portfolio, we are able to price more aggressively and bring down rates for borrowers.

In times of market turmoil, our authority to buy and hold mortgages in our portfolio helps us sustain demand and keep rates low. This is the strategy we are now using with agency jumbos.

In the long run, however, this situation is not sustainable. Agency jumbo mortgages are not eligible for inclusion in to-be-announced or TBA securities and hence do not have the liquidity that keeps prices low in the traditional conforming market.

This treatment is tenable when the adjustments are temporary. If Congress decides to increase the loan limits permanently, as the House did when it passed H.R. 3221 a couple of weeks ago, these mortgages will need to become eligible for TBA securities. This would give these mortgages a securitization execution with the liquidity to be broadly attractive to investors, but only if investors can count on our ability to use the portfolio to ensure a backstop bid.

Moreover, prohibiting the GSEs from holding agency jumbos means those mortgages cannot be TBA.

I hope my testimony has been helpful and I am happy to answer your questions.

[The prepared statement of Ms. Cook can be found on page 50 of the appendix.]

The CHAIRMAN. Next, we will hear from Mr. Thomas Lund, the executive vice president, single-family mortgage business, for Fannie Mae.

STATEMENT OF THOMAS A. LUND, EXECUTIVE VICE PRESIDENT, SINGLE-FAMILY MORTGAGE BUSINESS, FANNIE MAE

Mr. LUND. Good morning. Thank you, Chairman Frank, Ranking Member Bachus, and members of the committee for this opportunity to be here today.

I have submitted my written testimony so in my short time this morning, I really want to make four or five key points to you.

I think the first is that this committee for several years has recognized the need to expand the benefits of the conforming market to high-cost areas. When the economic stimulus package was passed, our goal at Fannie Mae was to be ready to take deliveries within 30 days of the time that HUD published the list of eligible high-cost areas. We met that goal on April 1st.

Since that period of time, we have continued to expand our eligibility, improve our underwriting, and we have made significant pricing enhancements to make the programs more attractive.

Despite that, we have done a limited amount of volume, about $80 million, through the month of May, and I believe this is really the result of two issues, as Patty just mentioned a minute ago, it is really about time. It takes us and our lenders time to bring the new product to market. It also takes time for consumers to apply for mortgages, get approved, have the lender close the loan, and ultimately deliver that loan into the secondary market. All and all, this can take anywhere from 60 to 120 days in that life cycle.

The second issue really is the TBA market. It is the most efficient liquid market for mortgages in the world. These loans were not eligible for TBA and as a result, rates did not drop as quickly as people anticipated they might have.

On May 6th, Fannie Mae announced that our portfolio would buy jumbo conforming loans at TBA-like rates even though they were not eligible for TBA.

Since that announcement, mortgage rates on jumbo conforming loans have dropped from a high of about one and a quarter points above standard conforming rates to be virtually equivalent to the conforming rate market today.

As you have heard earlier today, on a $700,000 loan, that represents about $400 in monthly savings to the average American family, and those are savings that are vitally important in times like this.

We have committed to doing this through the end of the year, and this would not have been possible without our portfolio capability to buy these loans.

Since the May 6th announcement, our lenders tell us that their pipelines of jumbo conforming loans have begun to swell. As a matter of fact, I called around to our top 10 lenders this week and they have told us they have about $3 billion in their pipeline as we speak, since this announcement has been made.

We believe that it is beginning to work and starting to unfreeze the markets that we are attempting to get to.

This pricing policy will last until the economic stimulus package runs out on December 31st. With a temporary loan limit through the end of the year, it is truly difficult to create a liquid market for these products.

In order for investors, SIFMA and others, to get comfortable with them as a TBA product, they want the certainty that permanence will provide, and we believe that would help make these savings sustainable, and I believe that this committee has recognized this under your leadership over the course of the last couple of years.

I thank you for your time today and I look forward to any questions you might have.

[The prepared statement of Mr. Lund can be found on page 83 of the appendix.]

The CHAIRMAN. Next, Dr. Emile Brinkmann, the vice president for research and economics of the Mortgage Bankers Association.

STATEMENT OF EMILE J. BRINKMANN, PH.D., VICE PRESIDENT, RESEARCH AND ECONOMICS, MORTGAGE BANKERS ASSOCIATION

Mr. BRINKMANN. Mr. Chairman, and members of the committee, thank you for the opportunity.

My message this morning is that pricing in the jumbo loan market is improving as a result of actions taken by this committee, Congress, the White House, mortgage lenders, the GSEs, and FHA.

The higher loan limits have allowed lenders to make loans to jumbo borrowers during a period of time when the secondary market remains effectively shut down for all but Fannie Mae, Freddie Mac, and Ginnie Mae securities.

It has taken some time, however, since the passage of the bill, for us to see lower pricing in the jumbo market for a number of reasons.

First, when the higher loan limits were announced by HUD at the beginning of March, the capital markets were caught up in developments at Bear Stearn. Broker-dealers on Wall Street who would normally bid on GSE securities and who would be expected to bid on these securities needed to conserve cash and could not commit to a price on a new security when they did not know if or for how much they would be able to sell it.

Mortgage lenders could not commit to a lower rate on a mortgage until they saw what investors were willing to pay for that mortgage.

Second, the pricing of the new GSE jumbo securities was complicated by the fact that there were different limits for different parts of the country, with different home price trends and different prepayment speeds, thus making it difficult to commit to a generic price.

For example, loans in New York traditionally prepay at slower rates than loans in California, and are therefore worth more to investors.

Third, the temporary nature of the higher loan limits makes the securities potential orphans in that new issuances will come to an end shortly after the end of this year. Pricing of securities is generally determined by the most recently issued securities where most trading takes place.

In the absence of the prospective of new issuance, potential investors faced having to hold an illiquid security that they could not sell because they could not get a reference market price. Therefore,

they would demand a higher yield to compensate them for that illiquidity.

What finally broke the log jam was the courageous move by Fannie Mae and Freddie Mac to simply announce a price at which they would buy jumbo loans that qualify for their programs. The establishment of a credible bid in the market has already led to greater interest among private investors.

Keep in mind, however, that not every jumbo loan will be coming down in rate. The limited geographic coverage of the bill and the level of the loan limits exclude probably about half of the jumbo market that we saw for home purchases in 2006, and given the credit standards of the GSEs, credit standards that reflect the current environment, only about half of that number, it has been estimated, will actually qualify them for GSE purchase.

Therefore, borrowers will still see a range of quotes for jumbo loans based on where they live, the amount of their downpayments and other credit factors.

A jumbo loan in an area that is not designated a high-price area will likely cost more than an identical jumbo loan in high-price areas as determined by HUD.

In addition, the jumbo loan market is not traditionally a 30-year fixed-rate market, with those loans making up roughly only a third of the jumbo market over the last 5 years. That has now changed with applications for fixed-rate loans making up about 70 percent of jumbo applications, but jumbo to conforming spreads on loans like 5–1 hybrids have not been as wide as those for 30-year fixed-rate loans, so there are still good alternatives for jumbo borrowers.

FHA-insured loans are also playing an important role. The demand for Ginnie Mae securities never really slackened and the efforts of FHA to roll out its program in risk based pricing has made FHA loans a cost-effective choice for many borrowers.

I said at the beginning that the efforts to improve jumbo pricing are working. The Mortgage Bankers Association conducts a weekly survey of mortgage applications from around the country. As recently as March 2007, applications for jumbo loans made up 12.1 percent of all applications. By March 2008, that jumbo share had fallen to only 4.4 percent; that was down from 12.1 to 4.4 percent.

As of the first few weeks of May, however, that share has now increased to 5.8 percent, and we expect that percentage now to increase.

Thank you very much, and I welcome your questions.

[The prepared statement of Dr. Brinkmann can be found on page 44 of the appendix.]

The CHAIRMAN. Thank you. Next, we are pleased to have Heather Peters, the deputy secretary for business regulation and housing for the State of California.

Ms. Peters?

STATEMENT OF HEATHER PETERS, DEPUTY SECRETARY FOR BUSINESS REGULATION AND HOUSING, STATE OF CALIFORNIA

Ms. PETERS. Good morning, Mr. Chairman, and members of the committee. Thank you for having me here. As you mentioned, I do oversee all business regulation and housing in the State of Cali-

fornia. I also have the privilege of chairing the Governor's Task Force on Non-Traditional Mortgages.

I have been asked to address three items here today: The demand for the new loans authorized by the Stimulus Act; the impact the competitive pricing would have on the California housing market; and the obstacles to those rates becoming competitive.

On the issue of demand, nowhere is the demand stronger than in the State of California. Governor Schwarzenegger has repeatedly emphasized that the previous loan limits of FHA and GSEs has rendered them virtually irrelevant in our large cities. He has said no single issue is affecting California's economy more than this one, of fair access to housing capital.

We heard earlier in the opening comments that the median price of a home in Los Angeles is $589,200. We frequently hear use of the term "starter home," and "starter home" here and "starter home" there can mean quite different things.

For a starter home in Los Angeles, I want to emphasize, the lots are so small that they are measured in square feet, not acres.

Seventy-seven percent of all California home sales last year exceeded the traditional FHA loan limits, and 69 percent of all California home sales last year exceeded the traditional GSE loan limits.

Thanks to the hard work of this committee and the Senate on the Stimulus Act, I had the pleasure of appearing with then Secretary Jackson in Los Angeles as he announced the new median home prices.

Thanks to that Act, 47 of our 58 counties now qualify for more than the traditional FHA loan limits, and 14 of our counties now qualify for the maximum loan limit of $729,750.

Fourteen counties may not sound like a lot until you examine the population, but 21 million people live in those 14 counties, that is, half of the State of California's population lives in counties where the median price justifies loan limits of $729,750; 21 million people is more than the population of every State in the Nation except for Texas.

As you go on your break this holiday weekend, I would like you to think just for a moment of what you would be facing if your entire State had no access, virtually no access, to FHA or GSE loans.

In assessing the impact, the impact is huge. Prior to the summer of 2007, 40 percent of all the sales in California were made with jumbo loans—since then, only 10 percent. Sales in California are down 24.5 percent year over year; that means 100,000 fewer homes have sold in California.

We currently have 11.6 months of inventory on the market at the current rate of sales and we are adding to it every day with our REOs.

Equally important, new construction is down 65 percent. Historically, normal levels of home building in California generates more than $70 billion in economic output, employing over half-a-million people, and providing nearly $5 billion in tax revenues.

California has already seen a loss of $2 billion in tax revenues, and unlike Vegas, what happens in California does not stay in California. We are feeling it all across the Nation; the economic impact is huge.

Addressing the obstacles, I am very pleased to report that they are much fewer now than they were just a few weeks ago. Both the announcements of Freddie Mac and Fannie Mae and what they are doing in this regard have been applauded by the Governor and are wonderful first steps.

Unfortunately, there are still external and internal factors that hinder the bringing of these loans to market in California and other high-cost loan markets.

The external factors include the market logistics that we have heard about from SIFMA and the TBA market, and there is just not enough time to develop an efficient market between now and the end of the year.

The yo-yo effect, as the Chair mentioned in his opening remarks, is significant and a market cannot develop without certainty.

Internal factors that have not been mentioned are not just the interest rates but the differing underwriting guidelines. Underwriting guidelines by Fannie and Freddie applied to traditional $417,000 loans differ from the new loans: Downpayments are higher; FICOs are higher; and debt to income ratio restrictions are more strict.

Even if we close the interest gap, there still remain barriers to California and other high-cost-loan States.

These are new in name only. They are not new to California or to other high-cost States. We know how these loans perform. There have always been $500,000 loans, $600,000 loans, and $700,000 loans.

As the Chair noted in his opening remarks, we need to use that data, and the child needs to be taught they do not need to be afraid of touching every appliance in the home.

One other procedural market issue I would like to bring up is on the FHA loans. You need to be FHA approved to originate a loan under the FHA programs. Unfortunately, in California, due to the virtual extinction of FHA, their loan volume in California had dropped by more than 98 percent.

The FHA loans that were originated in California immediately prior to the crisis were less than 2,600 loans in the entire State of California.

The problem is you have delivered the stimulus package that is bringing relief and the ability to get to FHA loans, but there is no one to write them. The brokers have let their approvals go because there were no loans to write.

It takes 3 to 6 months for the brokers to get FHA loan approval to begin writing them again, right about the time this expires. They have apparently discussed this with HUD and have not been able to streamline that process.

I thank you for the opportunity to address the committee.

[The prepared statement of Ms. Peters can be found on page 94 of the appendix.]

The CHAIRMAN. Ms. Peters, I noticed four ears perking up, two over there, Mr. Miller, and two over here, Ms. Waters. I think you are probably going to see some joint intervention with HUD to see if we can speed up that process. Obviously, we would like to move as well.

Thank you. That is a very useful specific idea. I think my colleagues will be talking about trying to speed up that approval process.

Our final witness is Mr. Vincent Malta, who represents Malta & Co., and he is here on behalf of the National Association of Realtors.

STATEMENT OF VINCENT E. MALTA, MALTA & CO., INC., ON BEHALF OF THE NATIONAL ASSOCIATION OF REALTORS

Mr. MALTA. Thank you for inviting me to testify on the impact of higher loan limits for government-sponsored enterprises on both the housing market and consumers.

My name is Vince Malta and I am a broker-owner of Malta & Company, a San Francisco-based real estate sales and management firm. I am also chair of the public policy coordinating committee for the National Association of Realtors. And on a personal note, I would like to thank Chairman Frank for addressing that committee last week at our legislative meetings and providing valuable and insightful information that was very well-received by our members.

I also serve voluntarily on Fannie Mae's National Housing Advisory Council. Today I am here to share the views of more than 1.2 million Realtors who engage in all aspects of the real estate industry. Today's hearing asks the question, why is it taking so long for the new jumbo conforming loan limits to reach homebuyers and homeowners?

The truth is that it is not an easy or simple task. Implementing the new loan limits has been difficult for a couple of reasons. First, the authority is temporary, which raised questions for both lenders and investors on how to handle the loans. Second, new underwriting guidelines from both Fannie Mae and Freddie Mac have created some confusion about downpayment and other requirements. Difficulties aside, the fact remains that the new limits have not been in effect long enough to have a substantial effect on the housing market.

In many States, lenders have only been able to make loans with the higher limits for a couple of months at most. Realtors believe that the new limits can have a substantial impact on the market, but only if we give them a real chance to live up to their promise.

We estimate that a permanent increase in the loan limits could mean as many as 350,000 additional home sales, lower inventories, and a 2 to 3 percent increase in home prices next year. A boost in home prices could also reduce the number of foreclosures by as many as 210,000 by making it easier for consumers to refinance or sell.

According to our estimates, the new limits would also enable more than 500,000 borrowers with loans above $417,000 to refinance to lower interest rates. This kind of stimulus is just what we need. Even when the housing market recovers, we believe higher limits will continue to play a vital role in giving families in high-cost areas equal access to fair and affordable loans. Jumbo mortgages have become the primary option for large numbers of working class people who live and work in more expensive areas of the country like my home State of California—as stated by Ms. Peters, and so eloquently by Representatives Miller and Sherman—the

chairman's home State of Massachusetts, and many States in between, including West Virginia, Ohio, Tennessee, Florida, New Jersey, New York, Connecticut, and Washington. In fact, 240 counties in 24 States and the District of Columbia benefit from the higher limits. Let's not forget that raising the GSE limits could stimulate $35 billion in additional economic activity. That is good for every American, whether you own a home or not.

Finally, without affordable alternatives available across the country, we could run the risk of another credit crisis at some point in the future. The House of Representatives already has included permanent, higher limits in H.R. 3221, the American Housing Rescue and Foreclosure Prevention Act of 2008.

NAR wants to thank the chairman and other members of the committee for working so hard to include permanent, higher loan limits in this bill. We ask that you continue on this course in the coming weeks, and make the higher conforming loan limits permanent before they expire at the end of this year. Doing so is the right move for the housing market and the economy, and, more importantly, it is necessary to preserving the American dream.

Thank you for the opportunity to testify today, and I will be happy to answer any questions you may have.

[The prepared statement of Mr. Malta can be found on page 86 of the appendix.]

The CHAIRMAN. Thank you.

I appreciate all the panelists who were very much on point.

Ms. Peters, let me ask you, because you have both hands-on. You have heard one of the points raised, that this is going to go primarily to a very small slice of upper-income people, people making $200,000 or more.

What will the income impact be? What kind of families are we talking about if we were to raise the loan limits in California as opposed to leaving them alone?

Ms. PETERS. We are talking about basic working families in California, and we are not talking about millionaires. We are not talking about McMansions. For example, this weekend, I was out looking for a place to live, myself. I saw a one-bedroom condo, 768 square feet, where the Realtor was telling me what a wonderful bargain it was now that the prices had dropped from $540,000 to $500,000.

The CHAIRMAN. We have heard the numbers. But we are told, well, this is the rule of thumb that you would have an income of so much to buy that. My experience is that the problem in some of the areas that I represent is that thumb gets stuck in people's eyes because like it or not, if they want to have decent housing for their families, and live within a reasonable distance of work, they have to go above that. So we are talking about people who aren't making $200,000 a year, but are paying more of their income than we wish they had to. Would that be accurate?

Ms. PETERS. Yes, very accurate. In California, the percentage of a family's income that goes to meet housing requirements is far greater than that. Unfortunately, the prices in California have led people to reach further and further and go without many other necessities to be able to put a roof over their family's head.

The CHAIRMAN. Thank you.

I do appreciate all of the witnesses; I think all of you agree that the temporary nature of this is part of the problem, and, I appreciate that.

Let me raise another issue, and that is the question of what is in the Senate bill and not in the House bill in the overall package, which is the requirement that all loans above the current limit be securitized. I would be interested in anybody's comments. Mr. Hamilton, is this going to make good business for your people? Do you want to see that happen?

Mr. HAMILTON. It doesn't hurt us. You know, certainly, the industry, their interests are to get rates as low as possible for everybody across the credit spectrum and across the loan limit spectrum, whether the loan is securitized in a Ginnie Mae, Fannie Mae, or Freddie Mac security, or whether it's a raw loan. I'm not sure it has an enormous impact either way.

The CHAIRMAN. So, you are not advocating a requirement that there be securitization?

Mr. HAMILTON. We would be indifferent.

The CHAIRMAN. Let's go down the panel, and that will be my last question.

Ms. Cook?

Ms. COOK. We are definitely not indifferent, and we think the requirement for securitization is a real issue for the success of the program going forward. You know, if you look at the situation right now, without a liquid market for securitized jumbos, for us to have to securitize them and sell them, it would completely undermine the objective of trying to keep rates low, because there isn't a bid in the marketplace. It's a circular argument. It's important to preserve the ongoing availability and stability in that market to be able to purchase those loans when appropriate.

The CHAIRMAN. You are talking about securitizing. You are not ruling out securitizing?

Ms. COOK. No.

The CHAIRMAN. Yes, Mr. Lund?

Mr. LUND. And I would just add, if I could, you would create a separate class of security, and it would be the only security that's conforming that couldn't be put in the portfolios. Therefore, they would not be TBA eligible. And, once you take away that TBA eligibility, you add increased interest rate to the consumer.

The CHAIRMAN. Dr. Brinkmann?

Mr. BRINKMANN. One of the issues that goes without saying is not being able to get a street bid on these securities that would be created with these jumbos, so we do need the support of some other execution mechanism.

The CHAIRMAN. Agreed, holding the portfolio.

Mr. BRINKMANN. Yes, sir.

Ms. Peters?

Ms. PETERS. Yes, we advocate maximum flexibility in this uncertain time.

The CHAIRMAN. Mr. Malta?

Mr. MALTA. It would be the same and we would look at how they would affect rates in the long term, and we think negatively if that were required.

The CHAIRMAN. I am quitting while I am ahead, and I recognize the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. I thank the chairman.

Of course, he asked my questions, so that I think I heard from most of the panel that everybody is in agreement that this should be made permanent. Was there a dissenting opinion?

Mr. Brinkmann?

Mr. BRINKMANN. I believe our position is that we needed a program to carry us over until the markets began to work again. And our original idea for these limits, I think, was about a 2-year program, not to this year end, as well as more uniform limits across the country. So the MBA's position is a little different.

Mr. NEUGEBAUER. So your position is that the market will return to kind of the pre-bubble marketplace that in the private to non-GSE-backed that there would be a robust securitization market for those securities and would not necessarily need for Fannie and Freddie to be in that market?

Mr. BRINKMANN. I think our position is that it has been very difficult to predict what the market was going to do from month-to-month, much less 2 years out. But we thought that about a 2-year period would give us enough room to get this up and going again and bring the private market label back up to functioning.

And, of course, if that happened, there would be the option of extending, but to try and operate in this environment and say this then requires a permanent new fix going forward is not something that we agree with.

Mr. NEUGEBAUER. Over the years—I think I have shared before that I was in the home building business and housing business for a number of years and watched these markets go up and go down. And I have watched the issue on the GSEs recently and previous years, and I kind of have to relate it to Uncle Billy. You know, Uncle Billy is the guy that nobody wants to come to any of their parties, and they don't invite him for Christmas until Uncle Billy wins the lottery, and then everybody wants Uncle Billy at every event. And I think that has kind of been the way with the GSEs, when things were kind of rocking along, people wanted to limit the ability of what GSEs could and could not do.

When the marketplace began to get a little unstable, as it has done in years past, everybody is looking for Uncle Billy to be a part of the process; and, I think what I struggle with is how do we keep a normalcy and a consistency here, as I said in my opening statement, where we let the markets function along? We don't have this in and out.

Okay, now we want to raise the lending limits for GSEs. We want to raise the amount of loans they can hold in their portfolios, but as soon as things somewhat kind of settle down, we want to go back in and put the claims back on that process. And, so, I am trying to find a market-based solution to this where we are not up here and we are not knee-jerking back and forth.

What is the right policy, Mr. Brinkmann?

Mr. BRINKMANN. Maybe if you let me go a little bit beyond at the moment the housing market and give you another example, I also deal with commercial, multi-family lending. A large portion of that lending has been in the CMBS market, the conduit market. And

when we look at what the originations volumes were in that market for the first quarter—we will be putting out the number shortly—that indicate that the decline, year over year now, has been in excess of 95 percent.

So that is an example of a market that has frozen. Do we expect that to remain frozen? No. And so when we look at the policy to say, okay, we know that eventually investors will then come back to this office. What do we need to do to encourage them to come back to give credible bids, to have the GSEs fulfill their role in supporting those markets in times of need.

But I think there is a balance in the policy to say that they are there. They are given certain privileges. We expect certain things of them in terms of supporting the market. But they are not to be the market in all circumstances going forward. And, I guess, we don't have a good answer to your question, at least I don't this morning.

But to say that maybe now is not the time to be establishing permanent rules going forward, which would be difficult, than to change if things didn't develop. But maybe take more of an intermediate perspective that we know the markets aren't functioning now. We have problems across the spectrum of lending, but that is rapidly as things changing, we may be seeing a different market 6 months from now or a different market a year from now, which then perhaps would lead to different policy ideas.

Mr. NEUGEBAUER. I thank the chairman.

Ms. WATERS. [presiding] Thank you very much.

I will recognize myself for 5 minutes. Let me welcome all of our panelists who are here today. Before I get to a question that I have for Mr. Lund, I would like to ask you, Ms. Peters: Could you explain to us the two ways that one can be a broker in California?

As I understand it, we license brokers, but we also license companies that hire brokers that do not necessarily have to have individual license. And, if that is the case, have you found that those companies that have the license who hire people who do not have a license have created part of the problem that we have in the subprime meltdown?

Ms. PETERS. Yes. Thank you for the question.

California's regulatory structure is unique and quite a challenge from my perspective. We do have a number of different ways that people can get involved in the mortgage business. The traditional mortgage broker as you use the term is licensed by the Department of Real Estate. That is, any licensed real estate agent in the State of California can use that license to broker loans. They owe a fiduciary duty to the people for whom they are brokering loans.

We also have the Department of Corporations licensing companies under the California Finance Lenders Act and the Residential Mortgage Licensing Act. Both of those Acts allow finance lenders, non-depository lenders, such as Countrywide financial, New Century Financial, and so many others we have heard about, to have a corporate license. And then within that corporate license, they hired employees as any other corporation hires employees that are not individually licensed.

As a practical matter in California, most of those companies are out of business. As a going forward matter, to prevent it from hap-

pening again in the future, we are examining the national licensing concept that is put forward by the CSBS and the Armour Association as well as the bills that are pending in Congress.

Ms. WATERS. Well, thank you very much. And I was just questioning our staff, because I thought we had in one of our pieces of legislation tried to make sure that every person selling real estate would have a license, because we recognize that under Countrywide and AmeriQuest and some of these other places, a big problem was started. I am surprised it has taken California so long to correct that, and I would hope that, I will go back and take a look at what I think we have done and one of the pieces of legislation. But, I would hope that the State would move aggressively on that also.

Let me go to Mr. Lund, because this is one area that I really want to learn a lot more about.

We have heard that interest rate resets would not be as serious for some borrowers because of the Federal Reserve's recent rate cuts. However, some borrowers have what is called the margin on their loans, which is the portion of the interest rate on an adjustable rate mortgage that is over and above the adjustment index rate.

Can you explain what the margin is? What policies guide these margins and how these mark-ups affect homeowners with resetting interest rates?

Mr. LUND. Sure. In reality, it is an adjustable rate mortgage. And, typically, what they will do is they will set a base rate, whether it be a Treasury, whether it be a LIBOR rate, and then they will set above that what the expected return would need to be above a risk-free rate. In some cases in the conforming market, that may be as little as 2 points. Where there is additional credit concerns, it may be 3, 4, or 5 points, and it can be very different. It is all very dependent on what the end investor requires in return to be able to make those mortgages to an individual borrower.

You know, one of the things that we do advocate, as we heard one of the Members of Congress talk about a little bit earlier, is we believe that fixed rates are the appropriate product, particularly in times like this. And, ARMs have a place, but a fixed-rate product is a known payment for a 30-year or 15-year piece of time, and it allows borrowers to know going in exactly what their payments are going to be and not have any surprises along the way.

Ms. WATERS. Yes, well, I would certainly agree with that. And as I have began to look at these margins, it appears that there is no rhyme or reason for the margin that is being charged by some of the loan initiators, and it could cause the reset to quadruple almost in some cases. And, if ARMs are to continue to exist, certainly I think there should be some kind of cap on margins. I am just exploring this now, but thank you for that information.

With that, I will recognize the gentleman from California, Mr. Miller, for 5 minutes.

Mr. MILLER OF CALIFORNIA. Thank you, Ms. Waters.

Mr. Brinkmann, just for the record, I know you said you had a position in the opposition.

Mr. Chairman, may I introduce a letter for the record in support of this bill, from the California Mortgage Bankers Association, building associations, mortgage brokerss and Realtors?

The CHAIRMAN. Yes. Without objection, it will be entered into the record.

Mr. MILLER OF CALIFORNIA. Ms. Peters, thank you very much for coming and for your testimony.

I represent parts of 3 of those 14 high-cost areas in California, and we have really, really, been battered. In the State of California, you know, revenues in 2007, were down about $2 billion to the State of California because of the impact on the housing industry. And I know the homebuilding industry creates about $70 billion of economic output for the State of California and we have just really been plummeted in recent years.

I really think that my good friend, Mr. Hensarling, showed a chart. And I know many things are a matter of perspective, and he is my good friend. And he said the red areas are the only areas who are benefiting from this. I say the red areas are the only ones to have been excluded in the past. And I think that we have been discriminated against because we are high-cost areas.

And we have had some really good testimony, but the conforming marketplace in the past, all the loans, about 82 percent of the loans, have been fixed-rate 30-year loans. Yet, when we are forced into the jumbo, the exotic marketplace, only 18 percent. And the other ones have been negative AMS, what triggers to 3 to 5 years, and that is what is killing California.

My good friend, Ken Calvert, represents a city in Riverside County, where home prices that were normally $1,200,000, 3 or 4 years ago, are selling for $600,000 today. And part of the problem in communities like that in high-cost areas, when the prices drop down to $900,000, most bankers were not making loans, because the liquidity was gone. They had no money to lend.

The comments you made, Ms. Cook, today, are everything I have tried to say in the past. In the entire panel, we have talked about since GSEs got involved in the marketplace, that loan rates have dropped between 100 basis points and 125 basis points.

Would you like to please comment on that? I want to hear that again, because I have been saying the same thing. In California, what is killing us, because we are not able to participate in a good program, GSEs. And I really support the members who are able to have a mortgage marketplace who can qualify for those loans. We just haven't been able to, but please speak to that. That is a huge savings to people.

Ms. COOK. Yes, thank you for the question, and I would make two points.

You know, in this environment, you have seen the GSEs demonstrate their unique ability to provide liquidity stability in the mortgage market. And, I think, throughout the crisis, the one thing that has been true is 30-year, fixed-rate agency mortgages have been broadly available.

By increasing the loan limits for us, liquidity and stability that is available to conforming mortgages is extended to those conforming jumbos that now qualify. So as soon as you made that ad-

justment, those same mortgage rates became available to the qualifying jumbos.

Mr. MILLER OF CALIFORNIA. Let me ask you a question: You have underwriting criteria that you use for, let's say, a home in the $400,000 marketplace. Do you use the same, identical, underwriting criteria as far as safety and soundness as you would use in the $700,000 marketplace?

Ms. COOK. Yes, with one exception. If you look at the credit standards that we put out for the agency jumbos, they differ from the conforming space in a couple of dimensions. The one that probably can get the most attention is that our maximum LTV is 90 percent, whereas, in conforming space, it is 95 percent.

Mr. MILLER OF CALIFORNIA. So you are making it tougher for those in high-cost areas?

Ms. COOK. A little bit, but I think the thing that we are trying to address from a safety and soundness perspective is that the agency jumbo market, as the map earlier demonstrated, is highly geographically concentrated.

Mr. MILLER OF CALIFORNIA. Yes, it is.

Ms. COOK. That poses some additional risks. In addition, those markets right now are actually declining in home prices, and, in order to make sure that that homeowner is in a sustainable position, we think it is prudent to consider.

Mr. MILLER OF CALIFORNIA. But you are taking that risk into consideration, so this is not a big give-away. We are not trying to put the government at additional risk. We are trying to safeguard for that. True?

Ms. COOK. And that is the second point I was going to make, which is that the underwriting standards reflect the appropriate safety and soundness considerations that we are going to balance against providing all the required financing.

Mr. MILLER OF CALIFORNIA. I applaud you for that, because that is a huge consideration.

You talked about securitization, and you said it has to do with success or failure. And my gleaning from that is that if we require securitization, we are putting the program at risk where if we want to make sure that it is a success, we treat them like every other loan. Is that not a fair statement?

Ms. COOK. That is correct.

Mr. LUND. I would add what has really happened over the course of the last year is that virtually all mortgage investors have pulled out of the market, really with the exception, almost, of Fannie Mae, Freddie Mac, and the FHA. And in the areas of the country in which you operate, there was no liquidity.

So despite the fact that it might have been quoted as a point-and-a-half rate differential, it may not have had access, period.

Mr. MILLER OF CALIFORNIA. In my area, many banks pulled out of the marketplace. They couldn't make a loan. When we put the SIFMA package forward, those same banks went back into the marketplace making loans. A great comment by Ms. Peters was "FHA in my district, between 2000 and 2005, dropped by 99 percent. That means for every 100 loans made in 2000, we made one loan in 2005."

Do you believe this has had a positive benefit on the liquidity in the marketplace for homebuyers today, what we are doing?

Mr. LUND. Well, I think if you don't give the GSEs portfolios access to buy those securitizations, or those whole loans, it really won't have an impact, until those investors in fact come back to the market, which they have not, yet. So I think to jump-start the market, you need to have the capability to have a portfolio.

Mr. MILLER OF CALIFORNIA. And you have provided liquidity to-date?

Mr. LUND. That is correct.

Mr. MILLER OF CALIFORNIA. Thank you.

I yield back.

The CHAIRMAN. Let me invite Members who want to vote, to go and come back. Maybe we can keep this going. There are going to be a series of votes. We will give everyone a chance.

I have asked the witnesses to stay, so if members want to go and come back, maybe somebody will come back and take over. So if somebody wants to go right away, come back. I will try and pass on the baton.

The gentleman from North Carolina is recognized.

Mr. WATT. Thank you, Mr. Chairman.

I actually think I want to ask a similar question to the ones that were raised by Mr. Miller from a safety and soundness perspective from the other side of the coin. Because one of the concerns that a number of constituents and people in my community raise is what impact will this have on my rate.

They don't understand how you can charge a rate for a $600,000 loan that is the same as a rate that you charge for a $200,000 loan. And their concern is that as a result of this jumbo mortgage that they don't understand, there will somehow be some blended rate that will work to some disadvantage to them. I think that is the same issue on the borrower side as the safety and soundness issue on the lender side.

But I wanted to get on the record your response to that so that people can be reassured. I hope that is what you were going to say: reassured that this is not going to have an adverse impact on people who have loans within the current, conventional mortgage limits. Any of the panelists, I think, could answer that, but I would be especially interested in hearing from Ms. Cook and Mr. Lund on that.

Ms. COOK. Yes, thank you for the question.

When you look at the difference in loan amounts, it is not just the loan amount that determines the credit quality of the borrower, right? There are a lot of characteristics that one looks at when they are underwriting a loan, including income ratios and a variety of other characteristics. In and of itself, a loan of $200,000, relative to $400,000, relative to $500,000, isn't necessarily riskier. So identifying the loan size as the primary risk variable would be inappropriate.

When you think about whether this change to include conforming jumbo loans will cost the average conventional conforming borrower today a higher rate; the key thing there is going to go back to the way we ultimately deal with the TBA eligibility and whether or not we can do it in a way that maintains the liquidity of that

market and maintains its effective trading in the marketplace which Mr. Hamilton addressed earlier.

Mr. WATT. Perhaps that is the question I am asking. Can you do it in a way that maintains?

Ms. COOK. Yes, I believe we can.

Mr. WATT. Okay. I wanted to make sure I got a specific response to that, because otherwise what I hear you saying, it could potentially have, if you don't have some adverse impact if you don't maintain that model.

Mr. Lund?

Mr. LUND. We have not changed our pricing for our core primary business as a result of the incremental that was added as part of the economic stimulus package. As Ms. Cook said, we look at individual characteristics of borrowers. We look at the kind of loan products. All that goes into how we evaluate pricing for that and that is pretty standard.

Mr. WATT. Is there anybody on the panel who has a different opinion on this? Everybody is nodding that they agree.

Mr. Hamilton?

Mr. HAMILTON. I would just want to make it clear that I think one of the things that is important now, what went into the decision by SIFMA to make these non-TB eligible was the main determinant of why we didn't do that was that our main concern was not raising mortgage rates for the conforming borrower.

Now, if there is an extension to the program, certainly, SIFMA is going to re-evaluate the TB-eligibility of these pools. But I think to make a statement to say, "We're going to originate jumbo loans to make them TB-eligible and it's not going to impact the conforming borrower," is a touch of a stretch. We need to do a lot of work on that, and I think coordination between Fannie, Freddie, and securities industry membership can potentially make that work. But it's not a turn-key operation by any stretch.

Mr. WATT. But if you use the same criteria for these larger loans that you have been using for the conventional loans up to now, I mean, is that the key? Or, what are you saying?

Mr. HAMILTON. I'm just saying that Ms. Cook is right, and size is not the only determinant. But I think they would also agree if the identical three credit borrowers came to the table and wanted a $200,000, a $400,000, and a $600,000 loan, I don't think anyone would disagree that the $600,000 loan demands a higher rate. It is simple math.

Mr. WATT. But if they came to the table with a $200,000, $400,000, and $600,000 loan, and they had $200,000 income, $400,000 income, and $600,000 income, and the same kind of credit profiles, why would the rate be higher?

Mr. HAMILTON. It's not a matter of credit at that point, but a matter of pre-payment.

Mr. WATT. Same applicable principals, prepayment and otherwise applying.

Mr. HAMILTON. Right. But if someone prepays a $600,000 loan, it costs a lot more money to be owed than on a $200,000 loan. So we just have to be careful about the eligibility of that and how we work that going forward.

Ms. COOK. Maybe one thing I would want to add in agreement with Mr. Hamilton is that we want to tread carefully on the TBA market because it is the core liquidity provider in the mortgage market right now.

So when we look at TBA eligibility, we have to remain true to: One, that it is permanent; and two, that the homogeneity of the TBA market today is in large measure preserved while considering what small differences will emerge by including jumbos.

The CHAIRMAN. I have to interrupt, because I was wrong. We have a series of votes. So, we will come back, and there will be a few more members.

I actually will be gone about 20 minutes or so, so we will come back. I also ask unanimous consent to put into the record a statement from George Hanzimanolis, the president of the National Association of Mortgage Brokers, on this issue. Without objection, that will be put in the record.

We will be in recess until after the roll call.

[Recess]

The CHAIRMAN. I am going to give members a few minutes. If no one shows up, then the hearing will be over. There was an unexpected privilege resolution that held us up a little, but I am told there is not going to be another vote, so we will just wait a few more minutes.

If no members show up, I will adjourn with thanks to the panel. It has already been very useful. We are going to wait to see if there are others who have questions, but the one member whom I thought was coming back will not be coming back, so the hearing will conclude.

I appreciate the testimony very much, and we will be obviously be in touch with others as well.

[Whereupon at 12:43 p.m., the hearing was adjourned.]

A P P E N D I X

May 22, 2008

ANDRÉ CARSON
7TH DISTRICT, INDIANA

2455 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-1407
(202) 225-4011

DISTRICT OFFICE
300 E FALL CREEK PKWY N DR. #300
INDIANAPOLIS, IN 46205
(317) 283-6516

Congress of the United States
House of Representatives
Washington, DC 20515-1407

Financial Services Committee
Hearing "The Impact on Homebuyers and Housing Market of Conforming Loans Limit Increase"
Opening Statement for Congressman André Carson
May 22, 2008

Thank you, Chairman Frank and Ranking Member Bachus for holding this important hearing today. I look forward to this opportunity to examine the implementation of the expanded conforming loan limits enacted in the Recovery Rebate and Economic Stimulus for the American People Act.

The Stimulus Act that became law in February included a temporary increase in the conforming loan limit for Government Sponsored Enterprises in order to increase liquidity in the jumbo loan market. This plan offers relief for many of the nation's high cost areas, but also created a complex formula for determining the variable loan limits for the GSE's which has delayed progress on bringing down the rates for expanded conforming loans.

Implementing this plan is a complex process as Freddie Mac and Fannie Mae formerly dealt with a single conforming loan limit of $417,000 and now must work to accommodate variable upper limits for 26 states and Washington, D.C. In my home state of Indiana, homes that cost $417,000 are reserved for the wealthy, but in many parts of the nation, these are homes for working families who are struggling to get access to responsible loans as GSE's have been pushed out of the market.

Recently, Freddie Mac announced that it would purchase $10 billion in these expanded conforming loans and Fannie Mae announced that it would buy jumbo conforming loans at the to-be-announced (TBA) rate even though they are not TBA eligible. There are signs that these moves have significantly increased confidence within the secondary market.

Proper implementation of this conforming loan limit increase and final determinations about the effectiveness of this plan included in the stimulus package will take time to assess. It is clear to me already, though, that these programs will offer some relief to our ailing housing market and that a more permanent increase of these loan limits is necessary.

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I want to thank the witnesses for taking part in this discussion today and I look forward to your testimony. Thank you.

Statement of Congresswoman Carolyn B. Maloney
Hearing: "Impact on Homebuyers and Housing Market of Conforming Loan Limit Increase"
10:00 am – 2128 RHOB
May 22, 2008

I would like to thank Chairman Frank for holding this morning's hearing entitled: "The Impact on Homebuyers and Housing Market of Conforming Loan Limit Increase".

As a Member who represents a district with high housing cost, this is an issue of significant importance to both me and my constituents and I want to be clear that I fully support these increases and I fully support making them permanent.

In the February Economic Stimulus package
we increased loan limits
for FHA along with
Fannie Mae and Freddie Mac,
so they can begin serving more Americans
immediately with more affordable mortgages.

This has resulted in a temporary increase
from about $363,000 to $730,000 for FHA

and a temporary increase from
$417,000 to almost $730,000
for Fannie Mae and Freddie Mac
in my district in New York City.

The goal of this increase was to provide more liquidity in the jumbo loan mortgage market and to bring down the interest rates being charged on those products to a level closer to the interest rates on conforming loans.

However, almost two months after the program's implementation, rates for these expanded conforming loans have remained well above historical conforming loans. It is only recently that we are starting to see some of the positive effects of this program, with a key announcement earlier this month from Fannie Mae that they would price conforming and jumbo conforming loans identically.

Some market analysts have a variety of theories for why the spread between conforming and jumbo conforming loans has lasted as long as it has, including the continued volatility of the

credit markets, the increase risk for prepayment or refinancing for these types of loans, the fact that this is only a temporary program and the general need to rewrite some underwriting and origination programs to recognize the new, higher loan limits.

To address the issue that this is only a temporary program, the House has made these new loan limits permanent as part of our Housing Stimulus package. The Senate, in their bill, also increases the loan amounts, but only increases the maximum to $550,000 and adds some additional restraints to the loans that may prohibit Fannie or Freddie from holding these new loans in portfolio.

I am interested from hearing from our witnesses as to the reasons they believe that the "jumbo conforming" loans continued to be priced at levels much higher than traditional conforming loans. Additionally I am interested to hear from our witnesses about their opinion about making these loan levels permanent, with comments on

both the plan that has passed the House and the plan that is pending in the Senate.

Again, I thank the Chairman for holdings today's hearing and I look forward to the testimony of our witnesses.

Questions:

In your opinion what have been the barrier for jumbo conforming loans to be priced similar to traditional conforming loans?

Do you support the House passed version that would make these increases permanent?

What impact would the proposal in the Senate have on these new Jumbo Conforming loans if they were limited to $550,000 and were not allowed to be held in portfolio?

Testimony of Emile J. Brinkmann, Ph.D.

Vice President

Mortgage Bankers Association

Washington, D.C.

before the

Committee on Financial Services

United States House of Representatives

Hearing on

"Impact on Homebuyers and Housing Market of Conforming Loan Limit"

May 22, 2008

Chairman Frank, Ranking Member Bachus and Members of the Committee, my name is Jay Brinkman, and I am Vice President of the Economics and Research Department at the Mortgage Bankers Association (MBA).[1] Thank you for the opportunity to testify today as you explore how Fannie Mae and Freddie Mac (government sponsored enterprises or GSEs) have responded to their temporary authority to purchase loans with higher balances than would otherwise be permitted under their statutory charters.

My career in the capital markets and housing finance industry spans decades. I have been an economist with MBA for the past seven years, and prior to that I was with Fannie Mae, the University of Houston and a commercial bank.

Before I begin, please let me say, Mr. Chairman, MBA particularly appreciates your dedication to holding the GSEs accountable for their congressional mandate to facilitate affordability, stability and liquidity not only during this time of duress in the mortgage industry, but throughout the business cycle. We recognize you as a champion of GSE regulatory reform, and we urge you to remain steadfast in your fervor. Over the past few days, your colleagues in the Senate have made considerable headway in developing a reasonable legislative solution to many of the obstacles impeding successful completion of this task in prior years. We encourage this committee to reach consensus with the Senate in a conscientious and expedited manner. GSE regulatory reform legislation is a top priority for MBA and the mortgage industry. MBA will do all it can to assist your work.

Background

It is a basic tenet of safe and sound lending but it bears repeating in the context of today's hearing: The larger the mortgage, the riskier the loan. The riskier the loan, the tougher it is for a homebuyer to get a mortgage approved – and the tougher it is to securitize and sell a loan in the secondary market. This rule of thumb is so basic to financing concepts that it appears even federal government intervention can do little to quickly change it.

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[1] **The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 370,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.**

For example, the Economic Stimulus Act of 2008,[2] which became law on February 13, 2008, increased the maximum allowable loan limits for Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) from $417,000 to a variable upper limit based on area median incomes in metropolitan statistical areas (MSAs), but not to exceed $729,750. The increase in loan limits was an admirable attempt by Congress to jumpstart the market for large balance or jumbo loans.

The seizing of the secondary market beginning in August of 2007 had the effect of limiting the origination of loans with balances higher than the conforming limit of $417,000 to institutions that could hold loans in their portfolios or place loans with private investors outside the securitized market. The result was that interest rates on 30-year fixed-rate jumbo loans increased from their usual spread of roughly 25 basis points over equivalent credit risk conforming loans to as much as 125 basis points.

The higher rates on these high-dollar loans had an immediate and negative sustained impact on mortgage originations for home purchases and refinances in high-cost areas such as California, and portions of Florida, mid-Atlantic and Northeast states, but eventually all parts of the country were affected. As a result, the jumbo share of mortgage applications captured in MBA's Weekly Applications Survey fell from a high of 12.1 percent of all applications in March of 2007 to a low of 4.4 percent of applications in March of 2008.

Industry Response to Higher Conforming Loan Limit

The mortgage industry faced several hurdles in figuring out how to bring the maximum benefit of the higher GSE loan limits to borrowers. The first hurdle was the complexity of the limits themselves. Up until the Economic Stimulus Act was passed, the industry had dealt with only a single national limit for loans sold to or guaranteed by Fannie Mae and Freddie Mac. While loan limits in automated underwriting systems had heretofore been adjusted by changing a single number, mortgage lenders and the GSEs became encumbered with the task of reprogramming underwriting systems to account for different limits for different metropolitan areas. Moreover, reprogramming errors could be quite costly. For example, if a loan is priced based on the expectation that it can be delivered into a GSE or Ginnie Mae security, but it turns out that the loan is not eligible due to a mistake in the system, the costs of that mistake are very large because the loan will have to be sold at a large loss. That was one of the reasons MBA had recommended going with a single national standard for the new GSE loan limits.

The second and bigger hurdle was how these loans would price in the secondary market. While these so-called jumbo conforming loans would carry a GSE credit guarantee, their prepayment behavior and liquidity was and is very much in question. One effect of the law setting different loan limits in different areas was

[2] Public Law 110-185.

that secondary market pricing would likely differ from city to city. Large balance loans prepay faster and are therefore worth less to investors. Thus the lack of a single, nationwide loan limit made investors fearful of a balkanization of the secondary market with a series of separate prices based on the maximum loan limits in each area, reducing the overall liquidity and thus value of the jumbo conforming loan backed securities. To some extent, the establishment of multi-lender pools has assuaged investors' fears, but the problem lingers.

Another factor impacting potential secondary market pricing was the uncertainty surrounding the terms of the loan limits. Investors in mortgage-backed securities are fearful of being stuck with an orphaned security, that is, a security where no new, similar ones are being issued. The reason is that in markets where little secondary trading takes place, prices are determined by trading in the most recently issued securities. Without new issues, it is difficult to determine a price and, as a result, investors are less able to liquidate their holdings if needed.

A fourth issue with establishing a price for these securities, and thus the rate on the mortgages, was the timing of the collapse of Bear Stearns and the problems with the Carlyle Fund. When the new loan limits were announced in early March, the broker/dealers on Wall Street were suddenly hoarding cash so as not to become the next victim. Mortgage companies calling around to their usual contacts for selling GSE-backed mortgage securities could find no buyers for these new jumbo securities.

The logjam appears to be breaking with very recent announcements by the GSEs about their commitment to participate in the new jumbo conforming market. Freddie Mac recently announced that it would purchase at least $10 billion in jumbo conforming mortgages from several financial institutions. Fannie Mae also announced that it would buy jumbo conforming loans at prices equivalent to the TBA market[3] for conventional conforming loans. After taking into account delivery fees, Fannie Mae's decision alone should result in rates to borrowers of around an eighth to a quarter point over loans below $417,000 with comparable risk characteristics. These recent actions have effectuated an immediate pick-up in applications for jumbo loans and a reduction in borrower interest rates. The establishment of a GSE price point in the market has increased investor confidence and is likely to whet the secondary market's appetite for these securities.

Fifth, it is important to remember that the jumbo market was not historically a fixed-rate market. Based on MBA's Weekly Mortgage Applications Survey, in May of 2006 only 30 percent of jumbo loan applications were for fixed-rate 30-year loans versus 63 percent for conforming loans. In May of 2007, the fixed-rate 30-year share of jumbo applications increased to 51 percent, but was still

[3] The TBA market facilitates the forward trading of MBS issued by GSEs and Ginnie Mae by creating parameters under which mortgage pools can be considered fungible and thus do not need to be explicitly known at the time a trade is initiated – hence the name "To Be Announced."

below the 70 percent share for conforming loans that month. While only partial data exists for this month, the 30-year fixed rate share of jumbo applications has increased to 62 percent in May, very close to the conforming share of 70 percent. Those numbers are based on applications, but according to First American CoreLogic, for loans actually originated, 76 percent of jumbo loans were adjustable rate mortgages (ARMs) in 2004, 65 percent in 2005, 46 percent in 2006 and 31 percent in 2007. The point is that the jumbo market historically was neither a GSE market nor a fixed rate market. Consequently, it has taken time for the GSEs and other investors who normally dealt only in GSE paper to become comfortable with these new loans.

The final point on pricing is that some have questioned why the industry opposed including jumbo conforming loans in conforming TBA pools. The simple reason is that once the credit risk is taken on by the GSEs, the remaining risk is that of prepayment. Since most borrowers have the option of prepaying their loans at any time, investors can never be sure they are paying the correct price for the loans. If an investor pays a price that assumes receiving payments for five years and the loan prepays in two years, the investor loses money.

Pricing of prepayment risk is a sophisticated multivariate process with one of the most important variables being the size of the loan. Because borrowers with large loan balances can recoup the cost of refinancing their loans faster than borrowers with small balances, they tend to prepay with only slight reductions in interest rates. Low balance loans, therefore, are worth more to investors, other factors being equal. Mixing high balance loans newly eligible for GSE guarantees in with the smaller balance TBA pools would have created uncertainty around the performance of these pools at a time when this was the only part of the market still functioning. The result would have been a narrowing of the jumbo/conforming spread by lowering jumbo rates <u>and</u> increasing conforming rates, a solution no one should want.

MBA analysis shows that the intended effects of the Economic Stimulus Act, combined with the GSEs' most recent focus on the jumbo conforming market segment, are beginning to show. The share of jumbo loans applications in MBA's Weekly Survey of Mortgage Applications was a little over four percent in March, but during the first few weeks of May we have seen the jumbo share climb to almost six percent.

How long will it be until jumbo loan pricing returns to levels seen before last August? As vital as the GSE contribution is to the return of portions of the jumbo market, it should be understood that the GSEs are limited in what they can do. Since the MSA-level loan limits exclude many areas, it is likely that slightly less than half of the jumbo loans originated for home purchases in 2006 would qualify for GSE purchase under the new loan limits. In addition, GSE underwriting standards are tighter than what existed in the non-GSE jumbo market so perhaps only about a quarter of the 2006 prime jumbo purchase originations would

qualify, along with perhaps 15 percent of the Alt-A originations and only about 5 percent of the jumbo subprime originations. As for refinancing jumbo loans, only about 15 percent of 2006 and 2007 originations are likely to qualify under the GSE guidelines and the geographic limitations of where the loan limits apply, whereas roughly 35 percent to 45 percent of 2002 to 2005 originations would likely qualify, with very few Alt-A or subprime loans originated in the last few years qualifying.

The credit requirements put in place by the GSEs are likely a reaction to their lack of experience in the jumbo loan market because they were prohibited by law from expanding into this territory. That is where FHA is playing an important role. The market demand for Ginnie Mae securities has also been there and one apparent side effect of the announcement of the price at which the GSEs would purchase jumbo loans is that the demand for Ginne Mae jumbo loan securities has picked up. However, for loans that qualify for neither a Fannie/Freddie program or the FHA program, little price relief is in sight for 30-year fixed rate loan, with spreads likely to remain in excess of 100 basis points over conforming rates. However, pricing is very competitive for loans with adjustable rate features, such as a 3/1 hybrid or a 5/1 hybrid.

For mortgage originators, the search for the right loan has become an exercise in balancing loan amounts, down payments and credit scores. For some combinations and therefore for some borrowers, FHA is the better, lower cost choice. For other combinations, a loan that can be sold to Fannie Mae or Freddie Mac costs less. As announcements have been made over the last month and new underwriting and fee structures have been rolled out, lenders have worked hard to present the best option to their customers.

Conclusion

All of the signs are there for a recovery of a major piece of the jumbo market. Post-recovery, the trend in underwriting practices will be to require higher credit scores, larger down payments, and more robust documentation. Nevertheless, based on current analysis, it is likely that more jumbo loans will be made even before the secondary market fully recovers.

In conclusion, MBA reiterates its request for Congress to enact comprehensive GSE reform legislation this year. Notwithstanding the positive impact of the Economic Stimulus Act of 2008, attributable to higher GSE and FHA loan limits, MBA believes comprehensive GSE regulatory reform will assist in the recovery from the current crisis, as well as minimize the likelihood of future crises. Thank you again for the opportunity to share MBA's views, and we look forward to working with the committee on this very important issue.

TESTIMONY OF PATRICIA L. COOK

Executive Vice President and Chief Business Officer
Freddie Mac

before the

Committee on Financial Services
United States House of Representatives
May 22, 2008

Testimony of Patricia L. Cook
Executive Vice President and Chief Business Officer
Freddie Mac
Committee on Financial Services
United States House of Representatives
May 22, 2008

Chairman Frank, Ranking Member Bachus, members of the Committee.

Good morning. My name is Patricia L. Cook, and I am Executive Vice President and Chief Business Officer at Freddie Mac. Thank you for inviting me here today to testify on recent developments in the jumbo mortgage market.

Just over three months ago, on February 13, the President signed the Economic Stimulus Act of 2008. The Act included a temporary increase in the dollar limit for mortgages that Freddie Mac, Fannie Mae, and the Federal Housing Administration could purchase or guarantee from $417,000 to a maximum of $729,750 in high cost areas. The credit market crunch had made it difficult or impossible for borrowers in areas with high house prices, like parts of California, to get mortgages. Congress's expectation was that by allowing the GSEs and the FHA to participate in this market, mortgages in expensive areas would become more available and rates would drop.

Congress was right, and three months later, I am pleased to say that this expectation is being realized. The GSEs are becoming active buyers of "agency jumbo" mortgages, providing liquidity and driving rates down close to or at rates for ordinary conforming mortgages. As a result, mortgage money is beginning to flow into high-cost areas.

Freddie Mac's Response to Dislocations in the Mortgage Markets

The dislocations in the jumbo market were part of the larger turmoil in the credit markets generally. Because our statutory mission is to provide liquidity, stability and affordability to the nation's residential mortgage market, I want briefly to offer some context to describe how Freddie Mac is doing its part to help steady the entire conforming market before I discuss our actions in the new agency jumbo sector.

As the housing crisis of the past year has unfolded, Freddie Mac has remained a steadfast source of liquidity and stability to the mortgage markets, even as other sources of mortgage credit dried up.

- First, we use all the tools provided by our charter to maintain the liquidity, stability, and affordability of the entire conforming conventional mortgage market. This is the basic purpose for which Congress created us;
- Second, for delinquent mortgages we own, we are helping troubled borrowers avoid foreclosure and keep their homes; and
- Third, we are extending the liquidity and stability we bring to the conventional conforming market to the agency jumbo sector as Congress anticipated in the Stimulus Act.

Testimony of Patricia L. Cook
Executive Vice President and Chief Business Officer
Freddie Mac
Committee on Financial Services
United States House of Representatives
May 22, 2008

1. Support for the Conventional Conforming Market

Since the housing crisis began in earnest last summer, we've seen an unprecedented drying up of liquidity in some sectors of the nation's mortgage markets – and a subsequent credit crunch that threatens to drag the entire economy into recession. The conventional conforming market supported by Freddie Mac and Fannie Mae has remained (with the government-insured sector) the only well-functioning segment of the market, and long-term fixed-rate conforming mortgages are still widely available and rates are low. Since the market downturn in this summer, the two GSEs have supplied $900 billion in prime market liquidity, and conforming market borrowers have typically paid a full percentage point less on their mortgages than other borrowers. In the first quarter of 2008 alone, Freddie Mac and Fannie Mae guaranteed about 80 percent of all newly-originated conventional conforming mortgage debt – up from only 39 percent two years ago.

Let me offer one recent example of how we have been able to keep mortgage money flowing and rates low. In March, investors concerned about overall market conditions flocked to the safety of Treasury securities, causing mortgage spreads to comparable Treasuries to widen and mortgage rates to rise. We were able, however, to use our retained mortgage portfolio to sustain the demand for mortgages by entering into commitments to buy more than $43 billion of mortgage securities. (OFHEO helped by removing its portfolio limits and releasing a third of our target capital surcharge.) The result was that rates on 30-year fixed rate conventional conforming mortgages actually fell to below 6 percent by the end of March. Our use of the portfolio to sustain demand and stabilize markets mirrored how we used the portfolio to ensure liquidity and stability in response to the market turmoil caused by the 1998 Russian debt crisis and the collapse of Long Term Capital Management – with the same benefits to borrowers.

I would also like to say a word about the price and credit quality of new mortgage originations, which I know has raised some concerns. To guard against the problems that led to the current crisis, in which risk was often seriously under-priced, almost every mortgage lender – not just the GSEs – has tightened credit standards and raised prices to better reflect the risks of lending mortgage money in uncertain times. While no one wants to see prices go up in times of strain, in perspective our price increases are quite modest.

2. Foreclosure Avoidance

This is the most difficult housing market we have seen in decades. Unfortunately, it seems clear that house prices have not yet reached bottom, especially in some hard-hit parts of the country. Even so, most of the mortgages we guarantee continue to perform very well relative to the rest of the market – only 0.77 percent of mortgages we guarantee were 90 days or more delinquent at the end of the first quarter of 2008 – but some borrowers do get into trouble.

When a borrower does become delinquent, however, we try hard to keep the family in their home. This is usually in the borrowers' interests and the interests of his or her neighbors and community. It is also in our interest, because foreclosures are expensive to all concerned.

We require our servicers to explore foreclosure avoidance measures with every delinquent borrower. We know from experience that the earlier the mortgage servicer starts to work with a delinquent borrower, the more likely the borrower is to be able to avoid foreclosure. For this reason, we emphasize early and frequent intervention with delinquent borrowers, as early as the first missed payment.

We reinforce this behavior by providing financial incentives to our servicers – per loan fees for completing repayment plans, modifications and other foreclosure alternatives – about $12 million last year. These fees are in addition to the normal servicing fees we pay on each of the mortgages we own. We absorb these fees ourselves rather than pass them on to families who are already in financial trouble. We want every workout to be sustainable in the long run.

In 2007, we worked out approximately 50,000 mortgages – nearly 1,000 a week. This is more than twice as many loans as we were forced to foreclose. Even with worsening market conditions, we still expect workouts to substantially exceed foreclosures this year.

3. Freddie Mac's Activity in the Agency Jumbo Market

When Congress temporarily raised the dollar limit for mortgages in high-cost areas in February, the private investors who had typically financed the jumbo mortgages had largely abandoned the market. As a result, jumbo mortgages had become very expensive or even unavailable, creating significant hardships for borrowers in areas with high house prices.

Congress's decision to bring the GSEs into a part of the jumbo market is proving to be a remarkable success. The government, the GSEs and the FHA, and the primary market all responded very quickly to this emergency, given the complexity of the task. For Freddie Mac, the jumbo market was completely off limits under the law. We know the

conventional conforming market intimately because we have spent nearly 40 years developing our expertise and business systems, designed to manage to a single, national loan limit. The Stimulus Act asked us (and Fannie Mae and the FHA) to buy or insure mortgages with higher dollar amounts, different credit and performance characteristics, and from different borrowers than allowed before February, but only on a temporary basis.

We are beginning to see strong results. They have not been instantaneous, but have occurred very fast when you consider how big and complex a task this was. Here is the chronology:

- On February 13, the President signed the Stimulus Act, raising the loan limits for high-cost areas;
- On March 6, HUD identified 224 eligible high-cost areas, and OFHEO calculated the applicable loan limit for each of the 224 areas;
- Just six days later, on March 12, we announced credit terms and pricing on agency jumbo loans that met our credit specifications, which told the market that we had the capability and intention of buying these loans;
- In early April, we entered into commitments with several customers to buy portfolios of existing jumbo mortgages;
- On April 17, we announced that we expected to be able to buy $10 - $15 billion of new agency jumbo mortgages originated before the end of the year; and

Our April 17 commitment had the most dramatic impact. By putting a "bid in the market," we increased liquidity; the bid meant that our customers not only knew that we would buy these mortgages, but also what price we would pay for them. Within a short time, we saw rates on eligible mortgages offered by some lenders drop as much as three-quarters of a percent from late March, to only about half a percent above rates for comparable non-agency jumbo mortgages. Now, many lenders are able to offer rates on high-quality agency jumbo mortgages that are a full percent less than other jumbos, and only about 20 basis points above non-jumbos, at the low end of historical spreads in stable market conditions. We expect this pricing will be the market norm for the agency jumbo mortgages through the end of the year.

These benefits do not accrue to all jumbo mortgages. One hard truth that the crisis has reinforced is the need for prudent credit standards. Freddie Mac wants the mortgages we finance to be sustainable for the borrower over the long term. We retain the credit risk on these mortgages; we do not use the Wall Street "originate to distribute" securitization model. So we purchase only agency jumbo loans that meet our current credit requirements for all mortgages. We buy only fixed-rate agency jumbo mortgages and certain conservative "hybrid" ARM products. Borrowers have to document their income and assets – no NINAs or SISAs. Maximum LTV is 90 percent of current appraised value for creditworthy borrowers.

Of course, not all mortgages exceeding $417,000 are eligible for sale to the GSEs. Rates on jumbo mortgages we cannot purchase, when they are available at all, will probably continue to be much higher than on mortgages that we will buy. Rate surveys do not make this distinction yet, which may be one reason that the public has not noticed lower agency jumbo prices until the press very recently began to report on their availability. Because it can take up to 90 days to close on a mortgage, volumes are still low, but will grow over time in response to increased availability.

Lower jumbo rates will become more widespread and durable as liquidity increases. At this time, there is no efficient securitization execution for agency jumbo mortgages because they are ineligible for inclusion in TBA ("To Be Announced") mortgage securities and are therefore less liquid than mortgages at or below the permanent conforming loan limit. At the time the decision was made, we supported the exclusion, because the increase was temporary and because we did not want to risk damaging the liquidity of the entire TBA market, and possibly raising rates for all borrowers.

We are nevertheless able to support the agency jumbo market because we can use our retained portfolio to buy and hold agency jumbo mortgages. We are able to price more aggressively than if lenders had to sell securities into a less liquid mortgage market. In the long run, this is not sustainable, and if Congress decides to permanently increase the conforming loan limits, loans meeting the higher conforming limit will need to become eligible for TBA securities. If agency jumbo loans were made fully TBA-eligible, it would broaden the liquidity and depth of the bid for these mortgages. In the meantime, the GSEs' ability to buy these loans for our portfolios has allowed liquidity back into the market and brought rates down.

Under the Stimulus Act, the higher loan limits are temporary. The benefits the GSEs have brought to the agency jumbo market will end for loans originated after December 31, unless Congress makes the increase permanent. That is for Congress to decide, and we will operate within whatever parameters it establishes. Without an extension, however, after the first of the year the affordability and availability of jumbo mortgages will depend on the willingness of Wall Street and depositories to fund them. If these investors return to the market, jumbo rates will still be more expensive than conforming mortgages but probably at premiums more closely resembling the historical 25 – 50 basis point spread. As we have seen over the past year, however, Wall Street is not nearly as reliable as the GSEs in times of market disruptions, and at some point the jumbo market could revisit the dislocations of 2007 – 2008.

I want to add a final, related point. On Tuesday, the Senate Banking Committee approved permanent loan limit increases for high cost areas of up to 132 percent of the ordinary conforming limit, to about $550,000. This is considerably lower than the limits in the Stimulus Act. Since the effective date of the Senate bill is immediate, if passed it will create great short-run uncertainty in the marketplace because of the lower loan limits

in the bill as compared to the Stimulus Act. This could undo most of the benefits that we describe above.

The Senate Banking Committee's bill also prohibits us from holding these mortgages in our retained portfolio, either in whole loan or securitized form. In the long run, the portfolio prohibition would create an inferior class of conforming mortgages, damaging liquidity, increasing prices, and posing difficult operational issues for the market. One key to the liquidity of the conforming market is the back-stop bid the GSEs provide for mortgages, especially in periods of market dislocation like the present. The Senate bill would eliminate our capability to offer that bid, with the probable result that they would almost certainly not be TBA eligible. It could return us to situation that existed before the Stimulus Act was passed.

I hope my testimony has been helpful, and thank your for the opportunity to appear before the Committee.

Written Testimony of

Thomas Hamilton

Vice Chairman

MBS and Securitized Products Division

Executive Committee

The Securities Industry and Financial Markets Association

Before the House Committee on Financial Services

May 22, 2008

Good morning Chairman Frank, Ranking Member Bachus, and Members of the Committee. I am Thomas Hamilton, Managing Director, Barclays Capital, Inc, where I am responsible for the MBS, ABS, and CMBS businesses. I am pleased to testify today on behalf of the Securities Industry and Financial Markets Association (SIFMA)[1], where I serve as Vice Chairman of the Mortgage Backed Securities and Securitized Products Division Executive Committee. We commend Chairman Frank and Ranking Member Bachus for their leadership and efforts to address the problems we see today in the mortgage markets.

We appreciate the opportunity to discuss the mortgage backed securities (MBS) market, and one of the most liquid secondary markets for mortgage loans in the world – the "To-Be-Announced" (TBA) Trading of Agency Passthrough Securities. More specifically, we would like to discuss action taken by SIFMA with respect to which loans are acceptable for inclusion in TBA-eligible MBS pools.

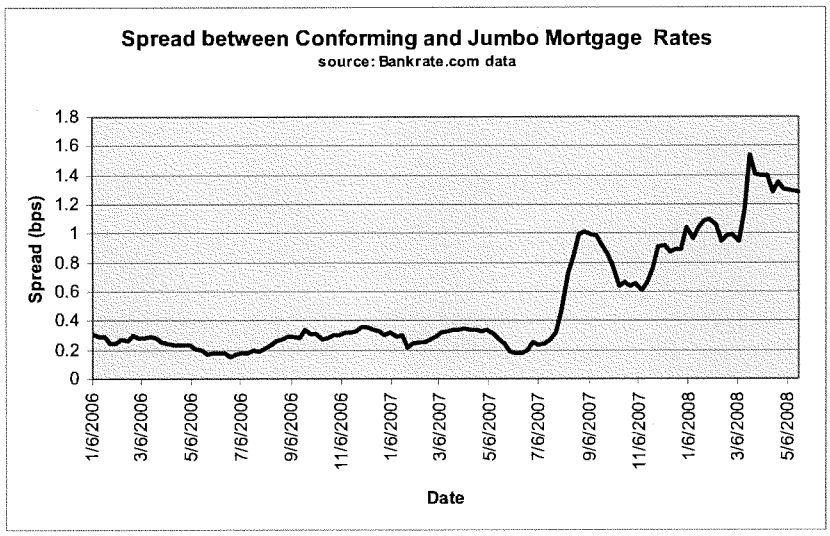
SIFMA is pleased to contribute to the understanding of a situation that is complex, with many moving parts and few simple answers, but incredible importance. By way of background, we will discuss the market for mortgage backed securities known as the Agency MBS market, the

[1] SIFMA brings together the shared interests of more than 650 securities firms, banks, and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services, and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington, D.C., and London. Its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong. More information may be found on our website: http://www.sifma.org.

trading market known as the TBA market, an essential cog in the mortgage finance system, as well as SIFMA's role in these markets.

Rates for jumbo mortgages have risen since last August to previously unseen spreads to those for conventional mortgages. As shown in the chart below, jumbo mortgage rates tend to hover in a range between 25-40 basis points above those for "conforming" mortgages. Since last summer, however, jumbo rates have ballooned to exceed conventional mortgage rates by more than one percent. This is attributed to the so-called "credit crunch" and related general lack of liquidity in securitized product markets. The chart below shows that the spread between jumbo and conforming rates has two clear peaks that correlate with periods of stress in the credit markets (August 2007 – BNP Paribas hedge fund troubles, first wave of liquidity crunch & March 2008 – Bear Stearns and hedge fund liquidity problems). This makes painfully clear the interconnection between the capital markets and the primary mortgage markets.

SIFMA
Securities Industry and
Financial Markets Association



One bright light throughout the difficulties in the credit markets has been the performance of the markets for mortgage backed securities issued by Ginnie Mae, Fannie Mae, and Freddie Mac (referred to hereafter as "Agencies"). These markets have remained stable, given the guaranteed nature of these products and the generally more conservative underwriting standards employed, in comparison to the weak underwriting standards that permeated the subprime mortgage market. As Congress deliberated on an economic stimulus package several months ago, the issue of providing liquidity to the jumbo loan market by increasing the agencies' loan size limits became a matter of discussion.

Current Jumbo Mortgage Rates

While rates of jumbo loans have not returned to ranges approaching historical norms, the seeming answer does not relate to TBAs or the lack of inclusion of jumbo loans as TBA eligible. Rather, lenders and the Ageneies faced operational challenges to implement the programs – and the programs are not running at full speed at this point. This is not to say that the programs will not have the intended effect – we believe they will. Many analysts expect jumbo rates to drop to somewhere around 50 basis points over conforming loans, which would be quite an improvement. It is important to separate out the issues of pricing of loans in the secondary market and the timing of the implementation of the programs.

We see no reasonable means or mechanism for these programs to have been implemented more quickly than has happened given the requirements of the legislation. However, in the last month we have seen the first issuances of jumbo loan-backed MBS by Ginnie Mae[2], and the continued build-out by Fannie Mae and Freddie Mac of their loan purchase programs. Freddie Mac recently announced an agreement with a number of large lenders[3], and Fannie Mae has announced various changes to their pricing policies[4]. There are reports that a few small GSE pools are circulating in the trading markets. We believe that the market is on the verge of relief from higher rates – rates have dropped a quarter point in the last month, and we expect that to continue as the GSE and Ginnie Mae programs grow.

[2] http://ginniemae.gov/issuers/poolnum2008.asp?Section=Issuers
[3] http://www.freddiemac.com/news/archives/singlefamily/2008/20080417_jumbo.html
[4] http://www.bloomberg.com/apps/news?pid=20601087&sid=a9oy299Yq6K8&refer=home

The Importance of Ginnie Mae, Fannie Mae, and Freddie Mac

The Agencies have long played a crucial role in the U.S. mortgage finance market. As the current mortgage and credit market difficulties evolved from the summer of 2007 until today, their role became even more essential. It is not an exaggeration to say that the Agencies currently provide virtually the only functioning means of accessing the secondary mortgage market which provides funding for about three-quarters of mortgage originations[5].

Mortgage backed securities (MBS) issuance statistics bear this out: as the issuance of mortgage backed securities in the private (a.k.a. "non-agency") market, which includes bonds backed by prime, Alt-A, and subprime loans, fell from about $270 billion in the first quarter of 2007 to around $20 billion in the first quarter of 2008[6], issuance of MBS by the Agencies grew to the point that the market share of Agency issued MBS now exceeds 80%. Over the last few years, the Agencies' market share fell into a range below 50%[7]. From 2006 to 2007 Ginnie Mae MBS issuance essentially doubled, driven by growth in FHA refinancing and origination programs[8]. As another example, the average daily trading volume of agency MBS reported to the New York Fed by the primary dealers[9] in 2007 was $320.1 billion, which dwarfs the $13.6 billion average for corporate debt, and approaches the levels for Treasury debt, which is regarded as the most liquid fixed-income product in the world. Difficulties in the non-agency mortgage markets

[5] Sources of funding for origination: http://www.imfpubs.com/issues/imfpubs_imf/25_13/news/1000008851-1.html
[6] Non-Agency MBS Issuance: http://www.imfpubs.com/issues/imfpubs_ima/2008_15/news/1000008955-1.html
[7] Agency share of new originations: http://www.imfpubs.com/issues/imfpubs_imf/25_17/news/1000009069-1.html
[8] Ginnie Mae MBS Issuance: http://www.imfpubs.com/issues/imfpubs_imf/25_15/news/1000008952-1.html
[9] More information about primary dealers: http://www.newyorkfed.org/markets/pridealers_current.html

contributed to a 25% year-over-year increase in this number from 2006 to 2007[10]. The outstanding volume of Agency MBS pools was $4.5 trillion at the end of 2007, and $1.3 trillion for Agency CMOs[11]. This total of nearly $6 trillion dollars exceeded the outstanding supply of Treasury debt in 2007[12].

While this is not a complete picture of the market, it provides a clear indication of the size, and thus the importance of the Agencies in providing financing to the primary mortgage market. Clearly, these are extraordinary times, and the Agencies are of extraordinary importance.

General Description of Mortgage-Backed Securities Issued by Ginnie Mae and the GSEs

Passthrough Securities

As the name suggests, the issuer or servicer of mortgage passthrough securities collects monthly payments from the mortgagees whose loans are in a given pool and "passes through" the cash flow to investors in monthly payments that represent both interest and repayment of principal. The payments of principal and interest on agency passthroughs are considered secure because of the guarantee they receive from their securitizing agency and the collateral (homes) that ultimately backs the mortgages.

[10] SIFMA's compilation of trading volumes: http://www.sifma.org/research/pdf/Overall_Trading_Volume.pdf
[11] Outstanding agency MBS: http://www.sifma.org/research/pdf/MortgageRelatedOutstanding.pdf.
[12] Outstanding Treasury debt: http://www.sifma.org/research/pdf/Treasury_Securities_Outstanding.pdf.

Normally, the mortgages backing a passthrough security are of the same loan type and are sufficiently similar with respect to maturity and interest rate to permit cash flows to be projected. At issuance, the stated maturity of most fixed-rate residential passthrough securities is generally 30 years, although some may have 20- or 15-year maturities. While most passthroughs are collateralized by fixed-rate mortgage loans, adjustable-rate mortgage loans (ARMs) may also be pooled to create securities. Most ARMs have caps and floors limiting the extent of interest-rate changes, and these option-like characteristics require that passthroughs collateralized by ARMS have higher yields than pure floating-rate debt securities.

Collateralized Mortgage Obligations / REMICs

The Agencies also issue Collateralized Mortgage Obligations (CMOs) in addition to the passthroughs discussed above. CMOs are multiclass structures that give investors a choice of short, intermediate and long-term maturities, while allowing issuers to reach a wider range of investors than normally possible with a standard passthrough. CMOs may be collateralized by FHA insured or VA-guaranteed mortgages, conventional mortgages, whole loans, Ginnie Mae, Fannie Mae or Freddie Mac passthrough mortgage-backed securities, AA passthroughs, other CMOs, callable MBS or combinations of these instruments. Unlike standard passthroughs, which typically pay monthly, CMO bonds may pay monthly, quarterly, semi-annually or as specified in the related offering materials. A related term often associated with CMOs is Real Estate Mortgage Investment Conduit (REMIC). In practice, the terms CMOs and REMICs have almost become interchangeable.

Guarantee of Payment on Agency MBS

Ginnie Mae securitizes Federal Housing Administration-insured (FHA), Veterans Administration-guaranteed (VA) mortgages and Rural Housing Service-guaranteed (RHS) mortgages. As a government entity within the Department of Housing and Urban Development (HUD), timely payment of principal and interest on Ginnie Mae securities is guaranteed by the full faith and credit of the U.S. Government.

Fannie Mae and Freddie Mac are private companies chartered by the federal government and are often referred to as Government-Sponsored Enterprises (GSEs). Fannie Mae and Freddie Mac securitize conventional mortgages that conform to certain size and underwriting criteria, and each agency provides its individual guarantee relating to timely payment of interest and principal for the securities it issues.

The Importance of Prepayment Projections and Expectations

Cash flows on mortgage-related investments may vary from month to month depending on the actual prepayment rate of the underlying mortgage loans. A critical feature of the mortgage passthrough security is that the principal on individual mortgages in the pool can usually be prepaid without penalty in whole or in part at any time before the stated maturity of the security. This is often referred to as an "embedded call option" in the security. Because of this, estimations and expectations of prepayment performance are critical to an investor's analysis of passthroughs. We will discuss this further later in the testimony.

"To-Be-Announced" Trading of Agency Passthrough Securities

Much of the volume in the agency MBS market today is in the form of "To-Be-Announced" (TBA) trading. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; however, the actual pool identities or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. Actual mortgage pools guaranteed by one of the Agencies are subsequently "allocated" to the TBA transactions to be delivered upon settlement. Settlement dates are standardized by product type (e.g. 30 year FNMA/Freddie Mac pools, 30 year Ginnie Mae pools, 15-year pools). Monthly settlement date calendars for the TBA market are published one year in advance by a SIFMA committee on a rolling 12-month basis[13]. This is done to increase the efficiency of the settlement infrastructure. Pools may, however, be settled on days other than the established settlement date if the parties to the trade so desire.

For example, in a typical trade, a buyer may ask to purchase $100 million of 30 year Fannie Mae MBS with a 6% coupon for delivery next month. The buyer does not know the exact bonds that will be delivered. According to industry practice, two days before the contractual settlement date of the trade, the seller will communicate to the buyer the exact details of the MBS pools that will be delivered.

[13] Agency MBS Settlement Dates: http://www.sifma.org/services/stdforms/settlement-dates.shtml

The TBA market is the most liquid, and consequently most important, secondary market for mortgage loans in the world. In this current time of distress, the importance of the TBA market is only heightened, and it is difficult to exaggerate the terrible consequences of a loss of confidence in, withdrawal from, or general upward repricing of risk in this market. The effects would be directly and immediately felt by the average mortgage borrower.

TBA trading enables mortgage lenders to sell product forward through primary originations, by securitizing the mortgages for purchase in the secondary market. To allow mortgage lenders to hedge or fund their origination pipelines, TBA settlements are often scheduled significantly ahead of the date on which the transaction is negotiated. This permits the lenders to lock in a price for the mortgages they are in the process of originating.

Pools delivered to settle a TBA obligation may be either newly issued or "seasoned." There are circumstances in trading TBAs where counterparties agree that the pools to be delivered must meet certain stipulations or "stips", such as issuance year and/or month; or minimum or maximum percent in a particular geographic state or region, or others.

Homogeneity is the Key to the TBA Market

The TBA market is based on one fundamental assumption – homogeneity. TBA trading is based on the assumption that the specific mortgage pools which will be delivered are fungible, and thus do not need to be explicitly known at the time a trade is initiated. At a high level, one pool is considered to be interchangeable with another pool.

SIFMA's Role in the TBA Market

SIFMA and its predecessor organizations have long played a central role in the TBA market. The genesis of this role began in the 1970s, when members of the Government Securities Dealers Association began to discuss standards for the trading and settlement of bonds issued by Ginnie Mae. In 1981, the Public Securities Association published the *"Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities"*, which is a manual that contains numerous of market practices, standards, and generally accepted calculation methodologies developed through consensus discussions of market participants, that are widely accepted and used in the MBS and asset-backed security markets.

Participants in the TBA market generally adhere to market-practice standards commonly referred to as the "Good-Delivery Guidelines", which comprise chapter eight of this manual[14]. These guidelines cover a number of areas surrounding the TBA trading of agency MBS, and are promulgated by and maintained by SIFMA, through consultation with its members. The purpose of the guidelines is to standardize various settlement related issues to enhance and maintain the liquidity of the TBA market. Many of the guidelines are operational in nature, dealing with issues such as the number of bonds that may be delivered per one million dollars of a trade, the allowable variance of the delivery amount from the notional amount of the trade, and other similar details.

[14] The Good Delivery Guidelines are a part of SIFMA's *Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities*, which is available here: http://www.sifma.org/services/publications/uniform-practices.shtml

A concept that underlies the TBA guidelines is that of a "standard loan." Standard loans are loans which are eligible collateral for bonds which are traded in the TBA market. While each standard loan may not be exactly the same, they share many general characteristics, and perform in a more consistent manner. This concept is the key to the homogeneity of the collateral.

While it is Critical, the TBA Market is Not the Only Agency MBS Market

Above we have outlined the critical nature of this TBA trading market. Pools that do not share this homogeneity of underlying collateral are not eligible for TBA trading – so where do they go? Mortgage pools which are not eligible for TBA delivery are traded in what is called the "Specified Pool" market.

In the specified pool market, unlike the TBA market, the actual identities of the bonds that are bought and sold are known at the time of a trade, similar to how most other bonds are traded. Many products which do not fit into the TBA guidelines are traded as specified pools: pools backed by interest-only loans, which in 2006-2007 became an important part of Agency issuance, pools backed by 40-year mortgages, pools backed by loans with prepayment penalties, and various types of adjustable rate mortgages. Furthermore, non-TBA eligible pools are actively bought by those who wish to create Agency CMOs. We have found in recent months that there exists a widely held misperception that there is no market outside of the TBA market; this is simply not correct.

Temporary Increases to Agency Loan Limits

On February 13th of this year, the President signed in to law the Economic Stimulus Act of 2008. Among other things, this Act temporarily increased the dollar size limits of loans which the Agencies may purchase to the lower of 125% of the area median price of a home or $729,750 (with higher amounts allowed in Alaska, Hawaii, Guam, and the U.S. Virgin Islands).

There are two significant facets of this legislation that will be considered below: (1) that the loan limit increases will sunset on December 31, 2008 and (2) that the Secretary of Housing and Urban Development was charged determination of "area median home price(s)." Both of these decisions impacted the implementation of the programs.

SIFMA's Actions Regarding Increased Loan Limits

In January and February, SIFMA called together its buy- and sell-side members on multiple occasions as the stimulus legislation progressed through Congress. SIFMA also met with representatives of Fannie Mae, Freddie Mac, FHA and Ginnie Mae. The legislation was viewed as extremely important, both in the context of the Agency MBS market, as well as in the larger context of something that could counteract the contraction of the availability of credit to deserving borrowers more generally. SIFMA believed that this legislation could be a useful tool to help strengthen the mortgage markets. SIFMA also realized that it must act as promptly as possible to minimize any uncertainty in the markets, and to ensure that the GSEs and Ginnie Mae could implement their new programs as quickly as possible.

On February 15th, SIFMA announced its intention to publish an update to the Good Delivery Guidelines. The revised guidelines more explicitly define the characteristics of the "standard" loans which are acceptable for inclusion in TBA-eligible MBS pools. Concurrently, the revision implements modifications to the "non-standard" loans section to codify existing market practice and further delineate which non-standard loan product are eligible for de minimis inclusion in TBA-eligible pools. We have included in the appendix to this testimony the relevant sections of the guidelines.

The updates to the guidelines reflect the decision by SIFMA members to keep the maximum TBA eligible original loan balance at $417,000, as well as clarify several long standing market practices for good delivery. The previous maximum original balance allowable for a single family loan in a TBA eligible Fannie Mae or Freddie Mac pool was $417,000 (with the exception of Alaska, Hawaii, Guam and the U.S. Virgin Islands where the limit is $625,500). Loan size limits for Ginnie Mae pools also remained at 2007 levels. Higher balance loans which are now temporarily eligible for FHA and GSE guarantee programs under the Stimulus Package are not eligible for inclusion in TBA-eligible pools. They are instead expected to be securitized under unique pool codes for trading on a pool specified basis or included in REMIC transactions.

SIFMA views this arrangement as the most expeditious and least disruptive methodology currently available to facilitate securitization and secondary market activity for the higher balance loans, bringing added liquidity and rate relief to higher balance loan borrowers while not

imposing additional costs or impairing the liquidity for loans falling within the pre-existing loan limits.

The importance of the continued liquidity and smooth functioning of the current conforming loan market must be underscored in this time of broad disruption to financial markets. As discussed earlier in this testimony, this importance is reflected in data from the fourth quarter of 2007 that shows Agency MBS issuance represented over 80% of total MBS issuance, representing a vital source of financing for mortgage borrowers. The Agency MBS market is effectively the lone functioning secondary market providing liquidity to originators and borrowers.

There were two main drivers of SIFMA's decision:

***First*, paramount in all discussions of the conforming-jumbo program is the temporary nature of the legislation.** Given that market participants expected the program to take some time to implement, the December 31, 2008 cutoff only provides for a very small window for the purchase of these loans by the GSEs. While the program effectively only has a nine month life, preliminary estimates as to when this program would become fully operational were in the two to three month range. These estimates have turned out to be accurate, as we see the Agencies, led by Ginnie Mae, just getting their programs in gear in the last month. Market participants are hesitant to disrupt a functioning market, especially when the market is so essential to the mortgage finance system, to accommodate a program that effectively ends in less than 9 months.

***Second*, the issue of the importance of homogeneity of the TBA market was significant.** Experience has shown that higher balance mortgage perform differently than lower balance mortgages. As discussed earlier, prepayments are a key element in MBS investing. Higher balance loans respond differently than lower balance loans to changes in interest rates – this is the concept of convexity – in that for a given decrease in interest rates, higher balance loans are more likely to refinance (i.e. prepay). Logically, this makes sense, as a .5 % change in rates is much more meaningful in dollar terms on a $600,000 loan than a $150,000 loan.

Given that the TBA market depends on homogeneity, the introduction of jumbo loans which have different convexity characteristics into TBA-eligible pools would have reduced the homogeneity of the market – and would have begun a process of bifurcation of the TBA market into pools which contained jumbo loans and those that did not. This bifurcation would have reduced liquidity; liquidity that has been essential in the last year. Given that the TBA market is so essential in this time of stress, market participants are very hesitant to change the rules in a manner that may have negative consequences.

The market would have bifurcated because investors would have valued the securities which contained jumbo loans at lower levels than those which contained only conforming loans. The TBA market is a "cheapest to deliver" market – since the collateral is considered fungible it makes sense for a seller to deliver the collateral that it can obtain for the lowest price. Thus, collateral containing jumbo loans would generally be cheapest to deliver. Because of this, pricing would have been driven down across the market, causing borrowers of conventional

loans to pay higher rates. Another possible outcome would have been to drive trading into the specified pool market, which is less liquid than the TBA market, which also would have had negative implications for conventional loan borrowers.

In the time that SIFMA members were discussing how to proceed with respect to jumbo loans, there were proposals that jumbo loans be included in de minimis amounts – that is, up to 10% of the balance of a pool, as some other types of non-standard product are included (relocation, co-op, and certain buydown loans). SIFMA members, however, generally believed that any inclusion of jumbo loans in TBA eligible pools would incur a reaction from the market that would negatively impact the liquidity of the product, and thus negatively impact the rates that previously conforming borrowers would pay. Even if the actual impact of such inclusion would turn out to be insignificant, simply the *perception* that it could turn out as such would negatively impact the market and the rates paid by mortgage borrowers. This impact would have been immediate – prices for TBA trades would have changed instantly upon an announcement by SIFMA that jumbo loans would have been included. Regardless of SIFMA's decision, benefits of this still would not have accrued to jumbo borrowers for a period of months – but lower-balance borrowers would have seen increased rates immediately. Above all else, SIFMA members did not want to increase the rates of conforming borrowers to benefit jumbo borrowers.

While it is true that jumbo rates would see maximum impact if they were included in TBA-eligible pools, it is even more important that the rates of <u>all</u> conforming borrowers would have

been impacted negatively. Jumbo rates would *not* have simply come down to what was at that time the conventional mortgage rate – rather, the rates on jumbo and conventional mortgages would have converged somewhere in the middle – i.e. *conforming rates would have to increase.* While it is impossible to quantify the exact meeting point, it is clear that conventional borrowers would be impacted. SIFMA was also mindful of the "Sense of Congress" outlined in section 201 (e) of the bill, which instructs that the implementation of the conforming-jumbo programs *"not impose additional costs for mortgages originated, purchased, or securitized under the existing limits or interfere with the goal of adding liquidity to the market."*[15]. Including jumbo loans in TBA-eligible pools would have done just that. As mentioned earlier, perceptions that jumbo loans would weaken the quality of the TBA product would cause changes to pricing, and affect the rates paid by mortgage borrowers – and it is unlikely that these perceptions would be able to be discredited in the very short window that has been granted for the Agencies to purchase or insure jumbo loans.

Thus market participants had to weigh the potential for the disruption of the last functioning mortgage market against the short term benefit of a subset of mortgage borrowers. In 2006, jumbo origination had a 15% market share, versus a 52% share for FHA and conventional loans[16]. The liquidity of the market (and therefore borrowing rates) for loans representing more than half of the mortgage market would be impacted negatively for a program that was slated to expire in less than a year, and that benefitted a significantly smaller population.

[15] P.L. 110-185
[16] Mortgage originations by product: http://www.imfpubs.com/issues/imfpubs_imf/25_6/news/1000008524-1.html

It is for these reasons that SIFMA elected to recommend the separate pooling of jumbo loans. SIFMA and its members believe that this regime will best preserve the incredible liquidity the TBA market has provided over the last 30 years, keeping mortgage rates for lower balance borrowers unchanged, while still clearing a path to the secondary market for jumbo loan originations which are currently stuck in a purgatory of no liquidity. SIFMA fully expects jumbo rates to decrease – it is a matter of originators and the Agencies gearing up their programs to implement the higher loan limits.

Implementation of Jumbo Loan Purchase Programs

SIFMA believes the main factors in the delay in implementation of jumbo loan purchase programs are the operational requirements for these programs to be enacted. The main hurdle that was faced by the market was the issue of the calculation of loan limits for a given area.

As mentioned earlier, the legislation directed the Housing Secretary to delineate the "areas" and "area median home prices" for the various areas of the country. For Ginnie Mae, which is a part of HUD and accustomed to operating under the HUD/FHA methodologies for the calculation of loan limits, this was less of a challenge.

For Fannie Mae and Freddie Mac, as well as many lenders, however, this method of calculating loan limits was a change from their current methodology, and was known in advance by market participants to be an issue that would take some time to work out. For example, changes were required to various systems used by lenders and Fannie Mae and Freddie Mac to accommodate

this new methodology of determining whether or not a loan was within size guidelines. SIFMA believes that all parties moved, and are still moving, as expeditiously as possible to implement these changes.

It may be useful to present a timeline of events:

February 13	Stimulus bill signed into law[17]
February 15	SIFMA announces decision regarding TBA eligibility[18]
March 6	FHA publishes loan limits in Mortgagee Letter 08-06[19]
March 6	Ginnie Mae publishes information about their program, effective 3/24/08[20]
March 6	Fannie Mae publishes details of program, effective 4/1/08 for 15/30yr fixed rate products[21]
March 12	Freddie Mac publishes details of program, effective June 1 for flow program, reviewing bulk sales immediately[22]
March 24	Freddie Mac announces jumbo prefix information[23]
April 4	Fannie Mae expands/updates previous announcement[24]
April 17	Ginnie Mae issues 3 pools of jumbo loan backed pools (issuance date 4/1, delivery date 4/17)[25]
April 17	Freddie Mac announces $10-15 billion purchase agreement with a number of lenders[26]
April 17	Fannie Mae announces jumbo loans will be priced 39 basis points above conforming[27]
May 7	Fannie Mae announces jumbo loans will receive TBA pricing[28]

As shown by the table above, the process of implementing the new loan limits, buying loans from lenders, and issuing securities backed by these loans takes a significant amount of time. Even for Ginnie Mae, who was best positioned to implement the changes, it took until mid-April for pools to reach the secondary markets. It is important to keep in mind that increased liquidity and lower rates will only come to the jumbo market when an active secondary market is operational. This is happening now, and can be seen in the chart we provided earlier in this

[17] P.L. 110-185
[18] http://www.sifma.org/news/news.aspx?id=1930
[19] http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/
[20] http://ginniemae.gov/apm/apm_pdf/08-05.pdf
[21] https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0805.pdf
[22] http://www.freddiemac.com/singlefamily/increased_limits.html
[23] http://www.freddiemac.com/mbs/docs/f306newsrev.pdf
[24] https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0809.pdf
[25] http://ginniemae.gov/issuers/poolnum2008.asp?Section=Issuers
[26] http://www.freddiemac.com/news/archives/singlefamily/2008/20080417_jumbo.html
[27] http://www.fanniemae.com/media/statements/2008/041708.jhtml?p=Media&s=Statements
[28] http://www.bloomberg.com/apps/news?pid=20601087&sid=a9oy299Yq6K8&refer=home

testimony. Regardless of the decision as to whether or not jumbo loans could be securitized in TBA eligible pools, the market would have faced the same operational hurdles to implement the provisions of the legislation.

Another issue is underwriting guidelines. The Agencies have recently gone through a process of changing and tightening their underwriting guidelines to better position themselves for current market conditions. SIFMA understands that many loans which have been sent to the Agencies for review were rejected because they did not meet underwriting standards. This is not to say that the Agencies' guidelines are too restrictive, but rather that Agency guidelines have tended to differ from guidelines for loans not originally meant to be sold to the Agencies. Jumbo loans have not been eligible for GSE purchase until this year, so it is natural to assume that there would be some fall out when previously originated jumbo loans are sent to the Agencies.

Expectations Were Unrealistic

We understand that some primary mortgage market participants expected jumbo rates to be nearly equivalent to those found on conforming loans shortly after the bill was passed, before there was a realistic chance for the Agencies to provide any liquidity. We discussed above some of the factors that contributed to the length of the implementation period for conforming jumbo programs. Clearly there exists a lack of clarity as to how secondary market forces impact primary market mortgage rates. The recent article in the *New York Times*[29] is further illustration of this. Expectations on one side of the coin were for immediate relief – while those on the flip

[29] http://www.nytimes.com/2008/04/30/business/30jumbo.html

side, involved in the secondary markets, always thought in terms of months. Hopefully this testimony, and this hearing, will help to correct these misunderstandings, and allow all concerned to have a better understanding of the issues at hand.

Conclusion

SIFMA supported the stimulus package provisions which increased the conforming loan limits and continues to do so. SIFMA believes that the housing agencies can, do, and will continue play a central role in the recovery of the mortgage markets.

SIFMA believes that the correct decision was reached regarding the TBA eligibility of pools containing jumbo mortgages. The decision strikes the correct balance between providing increased liquidity and rate relief to jumbo borrowers, while preserving the liquidity of the TBA market that provides lower rates to conforming borrowers.

We thank the Committee and its Chair for the opportunity to provide this testimony, and hope that we have helped to shed some light on what is a complex issue.

Appendix

Sections 10 and 11 of SIFMA's "Good Delivery Guidelines"

The Securities Industry and Financial Markets Association's

Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities

Selections from Chapter 8 – Standard Requirements for Delivery on Settlements of Fannie Mae, Freddie Mac, and Ginnie Mae Securities

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11. General Characteristics of Standard Loans for 15 and 30yr Fixed-Rate Single-Family TBA-eligible Pools

The following list represents important characteristics of loans eligible for unlimited inclusion in TBA-deliverable pools ("standard loans"). For complete details of characteristics of loans in various pools, please refer to the appropriate offering documentation available from the issuer.

- For 30 year pools: Term greater than 15 but less than or equal to 30 years
- For 15 year pools: Term less than or equal to 15 years
- Fixed rate
- First Lien
- Level payments
- Fully amortizing
- Servicing fee greater than or equal to 25bp per loan
- Maximum Original Balance for FNMA and FHLMC pools:
    - $417,000 for mortgages on one-unit properties;
    - $533,850 for mortgages on two-unit properties;
    - $645,300 for mortgages on three-unit properties; and,
    - $801,950 for mortgages on four-unit properties.
    - Limits for each of the above categories are increased by 50% for properties in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.
- Maximum Original Balance for Ginnie Mae pools:
    - Note: FHA permits first year's mortgage insurance premium (up to 2.25% of original balance) to be financed in loan;
    - $362,790 ($370,953 if MIP is financed) for one-unit properties;
    - $464,449 ($474,900 if MIP is financed) for two-unit properties;
    - $561,411 ($574,043 if MIP is financed) for three-unit properties;
    - $697,696 ($713,395 if MIP is financed) for four-unit properties;
    - Limits for each of the above categories are increased by 50% for properties in Alaska, Hawaii, Guam, and the U.S. Virgin Islands;
    - VA loans are pooled with no limitation on balance.
- Loan does not include a prepayment penalty at time of pooling

- No extended buydown provisions (greater than 2% buydown of rate, or buydown period longer than 2 years)
- Not a cooperative share loan
- May be a participation interest in a loan
- Not a relocation loan
- Not a bi-weekly loan

12. Non-Standard Loans

Effective with trade date April 1, 2008, and for pools with issue dates of April 1, 2008 and later, pools containing more than 10% of any single type of nonstandard loan or more than 15% of the total nonstandard loans—as disclosed by the agencies—will not be acceptable as good delivery for TBA transactions.

The following, exclusive list details the types of nonstandard loan product which may be delivered in pools, subject to the de minimis limits described above:

1. Relocation loans
2. Co-op loans
3. Buydown loans, defined as follows: For purposes of SIFMA's good-delivery guidelines, a buydown loan shall be considered nonstandard if the difference between the actual and the "bought down" interest rate is more than 2% or if the buydown period is more than two years.

For pools with issue dates prior to December 1, 1991, existing good-delivery standards for nonstandard loans will apply.

Testimony of Tom Lund
Executive Vice President — Single-Family Mortgage Business

Before the U.S. House Committee on Financial Services
Hearing on "Impact on Homebuyers and Housing Market of Conforming Loan Limit Increase"

May 22, 2008
Washington, D.C.

Thank you Chairman Frank, Ranking Member Bachus, and Members of the Committee for inviting me today.

This Committee recognized the need for increasing the conforming loan limit in high-cost areas long before the housing crisis began. Under the leadership of Chairman Frank and Representative Gary Miller, this Committee included an increase in the high-cost area loan limit in the GSE regulatory reform bill the House passed last spring with bipartisan support.

A higher limit in high-cost areas reflects the realities of today's housing market. That is, while the conforming loan limit is a national standard, wide regional disparities exist in housing affordability in this country.

The liquidity crisis in mortgages has given added impetus to expanding the conforming loan limit in high-cost areas. As the correction took hold last fall and winter, jumbo and other non-conforming lending all but ground to a halt in many markets. Meanwhile, the conforming market served by Fannie Mae and Freddie Mac continued to operate well, and in fact our credit book has expanded during the downturn. Fannie Mae continues to extend credit in every state in the union, in cities and in rural communities across the country, so that creditworthy borrowers can buy and own a home.

Congress and the President took a positive step toward providing more liquidity to the jumbo market in February with the passage of the Economic Stimulus Act. For the first time, the benefits of the conforming market were extended to middle-income families seeking to afford homes in high-cost areas. However, the extension is currently scheduled to sunset at the end of this year.

Our goal was to begin accepting loans within 30 days of HUD publishing the list of MSAs eligible for jumbo-conforming loans — which we did.

Six weeks into the initiative, we have purchased or guaranteed a relatively small number of jumbo-conforming loans. There are two reasons why. One is time. As with any new product, both Fannie Mae and its lender partners need to implement new policies and procedures to identify and deliver a new form of conforming loan. Then there is the time between loan application, loan closing and delivery in the secondary market. All in, this can take between 30 and 120 days.

The second reason has to do with how the secondary market is structured. Jumbo-conforming loans are not eligible to be delivered in the most liquid, efficient part of the secondary mortgage market. That is the so-called "TBA" market, or to-be-announced, which is a designation that conventional, conforming loans enjoy that allows lenders to make a conforming loan with absolute certainty that it can be securitized at a later date. This certainty makes the funding and delivery of these loans extremely efficient and liquid, and delivers the lowest-cost conforming loan possible for a borrower based on their credit risk.

Based in part on the temporary nature of the conforming loan limit extension, the Securities Industry and Financial Markets Association made the decision to exclude jumbo-conforming from TBA-eligible pools. We feel this exclusion is one reason why lenders were reluctant, in the weeks after the Stimulus Act was enacted, to make jumbo-conforming loans at rates closer to traditional conforming loans. Without the TBA designation, lenders were unsure of secondary market execution, and thus demanded higher fees and pricing to cover the extra costs and risks. That said, our entrance into the market did provide some relief – approximately half a point in the rate offered to borrowers compared to the non-agency jumbo market.

To go further in helping alleviate this problem, on May 6 Fannie Mae announced that we would purchase jumbo-conforming loans for our portfolio without demanding the non-TBA, on-top liquidity premium. This means that while jumbo-conforming loans are not TBA-eligible, we are pricing them as if they were, and have committed to doing so through the end of this year. While every borrower's rate is set by a variety of risk factors, we view it as our responsibility to make sure that a lack of liquidity in the jumbo market is not one of them.

To put the May 6 announcement in context: At the height of the jumbo loan liquidity crunch, jumbo loans were commanding a yield of as much 1.25 points higher than standard conforming loans. Since our announcement, jumbo-conforming loans have improved to between flat and one-eighth above standard conforming. For an average consumer of a $700,000 loan in a high-cost MSA, these rate reductions equate to savings of more than $400 a month.

As a result of this change, our pipelines for future delivery of jumbo-conforming loans have grown rapidly in the last two weeks. I would also point out that it was our ability to bring these jumbo-conforming loans into our portfolio that allowed us to make this beneficial move.

Fannie Mae's decision to absorb the liquidity premium lasts until the end of this year, when the conforming loan limit provisions of the Stimulus Act expire. In our view, the temporary nature of the law is a major hindrance to the development of an efficient, liquid market for jumbo-conforming loans.

A window of seven months is not enough time to create an asset class with the liquidity and scope that traditional conforming mortgages enjoy. A permanent high-cost area loan

limit would, we believe, be an extremely powerful market incentive for the mortgage industry and secondary market investors to make these loans more widely available and affordable for consumers — both now and in the long term. Mr. Chairman, the House recognized this need a few weeks ago when it voted to permanently increase the conforming loan limit for high-cost areas in H.R. 3221.

Fannie Mae is working with its lender partners and the nation's housing finance industry to find ways to extend our liquidity mission to more homeowners in high-cost areas and elsewhere as the market correction plays out. We are committed to working with this Committee and others to doing all we can for the market.

Thank you again for inviting me to speak, and I look forward to your questions.

NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

500 New Jersey Avenue, N.W.
Washington, DC 20001-2020
202.383.1194 Fax 202.383.7580
www.realtors.org/governmentaffairs

Richard F. Gaylord
CIPS, CRB, CRS, GRI
President

Dale A. Stinton
CAE, CPA, CMA, RCE
EVP/CEO

GOVERNMENT AFFAIRS
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HEARING BEFORE THE

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

ENTITLED

IMPACT ON HOMEBUYERS AND HOUSING MARKET OF CONFORMING LOAN LIMIT INCREASE

WRITTEN TESTIMONY OF
VINCENT E. MALTA

NATIONAL ASSOCIATION OF REALTORS®
MAY 22, 2008

REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.

Chairman Frank, Ranking Member Bachus, and Members of the Committee, thank you for inviting me to testify today on the impact on homebuyers and the housing market of higher conforming loan limits for the government-sponsored enterprises (GSEs).

My name is Vince Malta. I am the owner and broker of Malta & Co., Inc., a San Francisco, California firm handling real property sales and management of over 300 residential rental units. I am a member of the California Association of REALTORS® and National Association of REALTORS® and have held a number of leadership positions in both associations, including serving as the 2006 President of the California Association of REALTORS® and the 2008 Chair of the Public Policy Coordinating Committee for the National Association of REALTORS®. I also serve on Fannie Mae's National Housing Advisory Council which is comprised of mortgage bank officials, financial services companies, homebuilders, real estate professionals, leaders of affordable housing groups, and governmental officials. My tenure on the National Housing Advisory Council is voluntary and I am not compensated for my service.[1]

I am here to testify on behalf of our more than 1.2 million REALTOR® members who are involved in residential and commercial real estate as brokers, sales people, property managers, appraisers, counselors and others engaged in all aspects of the real estate industry. Members belong to one or more of some 1,400 local associations/boards and 54 state and territory associations of REALTORS®.

[1] The National Housing Advisory Council was created by Fannie Mae in 1971. It meets with Fannie Mae's senior management team throughout the year to help the company better address challenges and maximize market opportunities. Council members serve two-year terms and do not receive compensation for their service. Members are, however, reimbursed for travel related expenses when attending Council meetings.

NAR commends the committee for holding today's hearing on the impact of the temporary jumbo conforming loan authority enacted by the Economic Stimulus Act of 2008 and thanks the committee for including this provision in that legislation. The new authority retains the current national limit of $417,000, and for higher cost areas in 24 states and the District of Columbia[2] increases the limit to 125 percent of the area median, capped at $729,750. The new limits are slated to expire on December 31, 2008.

NAR urges Congress to make the new loan limits permanent, not only to give the higher cost area limits time to ameliorate the current housing downturn but also to give families in these areas equal access to fair and affordable loans on a continuing basis. Your decision to include permanent higher cost area limits in H.R. 3231, the "American Housing Rescue and Foreclosure Prevention Act," as passed by the House on May 8, 2008, has already made a difference. Press reports indicate that rates for jumbo conforming loans are finally starting to trend downward. For this trend to continue, this provision must be enacted into law.

You have asked just the right question to encourage the market to act: "Why is it taking so long for the new jumbo conforming loan limits to make fair and affordable loans available to homebuyers and home owners?". When the new loan limits became law in February, lenders and buyers were anxious to put them to use. But at least partly because the limits are temporary, implementation has not been as simple or as quick as NAR had hoped. While we know and understand some of the reasons for the delays, we remain concerned about the separate pooling "recommendation" of the Securities Industry and Financial Markets Association and the GSE's lower loan-to-value ratios, tighter underwriting, and higher fees that continue to apply to jumbo

[2] See attached for a map showing states with one or more high cost areas.

conforming loans. We believe that making the loan limits permanent will address their concerns and result in the mortgage market and the GSEs lifting the differential treatment of conforming and jumbo conforming loans.

Congress created the GSEs to provide liquidity and stability to the mortgage markets. The secondary mortgage market for conforming loans has generated a reliable, low-cost supply of mortgage credit in both good times and in bad. The same cannot be said of the secondary market for jumbo mortgages. GSEs may not purchase or securitize these mortgages, and since last summer it has become clear that the private sector has almost completely withdrawn from these activities. By the end of 2007, the volume of jumbo loans had dropped sharply to half of the total originations at the beginning the year and the trend has continued. As the credit crunch deepened starting last summer, investors have had little appetite for securities backed by jumbo mortgages and the result has been in a spike in interest rates for these mortgages at least 1 percentage point higher than conforming loans. That spike remains today for mortgages above the GSE limits. These factors illustrate why the decision of Congress to raise the conforming loan limit, permanently, is so important for home buyers and homeowners in higher cost areas.

Making the Economic Stimulus Act limits permanent will significantly boost homebuyer, lender, and investor confidence and will bring more families in higher cost areas back to the marketplace with greater access to affordable financing. Furthermore, the loan limit increases will offer more families more affordable interest rates, regardless of where they live, because the national mortgage market will be more liquid. The result will be additional sales, lower inventories, and stronger home prices. If Congress does not act, loan limits will revert to $417,000 in 240

counties in 24 states that qualify for the higher limits, and the result will be the reverse: fewer sales, higher inventories, and a less liquid mortgage market.

This expected positive impact on home prices is also important since many research studies have found that home prices have the biggest impact on foreclosures. Therefore, any strengthening of home prices could have a significant impact on reducing the number of foreclosures. The micro-level solution of loan modifications for financially stressed homeowners and the FHA Secure program will help reduce foreclosures. However, a broad strokethat would lift housing demand, such as making the higher loan limits permanent, will do more to restore the housing market and the economy to their normal healthy conditions.

The critical role that the GSEs play in providing liquidity to the mortgage market has never been more evident than it is today. While mortgages above $417,000 may be associated with luxury housing in some parts of the country, they are a critical financing vehicle for large numbers of working class families who happen to live and work in more expensive areas of the country found in 26 states and the District of Columbia. Every region of the country includes areas that qualify for jumbo conforming loans—from Washington to Florida, from Tennessee to Arizona, from New York to California, and many states in between. Here are some representative jumbo conforming limits of interest to some of the members of the committee:

- Flagstaff, AZ--$450,000
- Los Angeles, CA--$729,750
- Fairfield, CT--$708,750
- Cambridge, MA--$523,750

- Currituck County, NC--$428,750
- Exeter, NH--$523,750
- Garden City, NY--$729,750
- Hampshire, WV--$475,000

Making the jumbo conforming loan limits permanent will provide much-needed relief to jumbo borrowers and homebuyers in higher cost areas, increasing access to safer mortgages. This option is especially important for first-time homebuyers and borrowers with abusive subprime mortgages who need to refinance. Evidence indicates that borrowers in expensive markets currently account for a disproportionate share of subprime mortgages. Greater access to GSE-qualifying mortgages will help promote homeownership in a safer, more sustainable way.

NAR estimates that adopting permanent high cost area limits of 125 percent of the local median home sales price, up to $729,750, will result, annually, in:

- Between 300,000 and 350,000 additional home sales.
- Over $35 billion in increased economic activity.
- $350 to $600 savings per month in interest payments for consumers who get new jumbo conforming loans versus private jumbo loans above the Stimulus Act limits.
- More than 500,000 loans above $417,000 refinanced to lower interest rates.
- A reduction of the national supply of homes on the market by 1 to 1.5 months.
- A strengthening of home prices by 2 to 3 percent.

- A reduction of foreclosures by 140,000 to 210,000.[3]

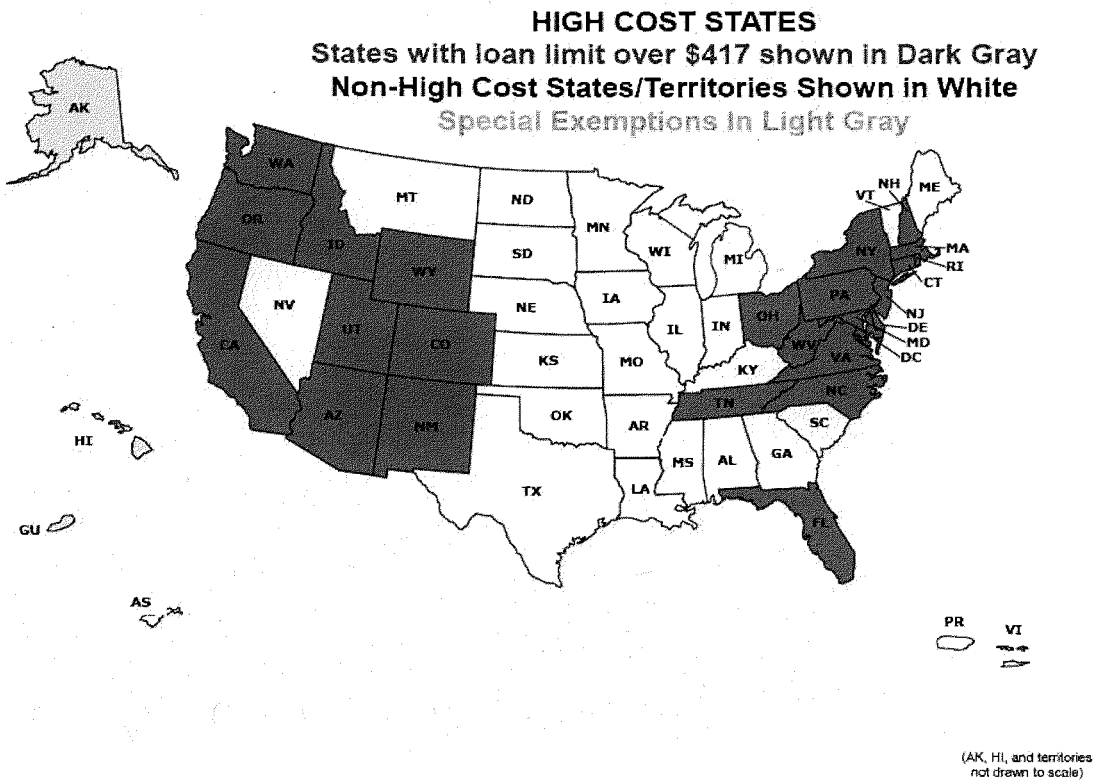
The benefits to the nation and all of its regions of making the jumbo conforming loan limits permanent are clear.

Conclusion

For all of these reasons, the National Association of REALTORS® urges Congress to make the conforming loan limits authorized by the Economic Stimulus Act permanent. Doing so is the right move for the nation's housing markets and economy and is a matter of simple equity for American families residing in the nation's higher cost markets. Permanent higher loan limits will provide much needed stability to the nation's housing markets and help more moderate-income, working families nationwide qualify for safer and more affordable GSE loans.

[3] Estimates calculated by NAR's Senior Vice President and Chief Economist, Lawrence Yun.

ATTACHMENT


HIGH COST STATES
States with loan limit over $417 shown in Dark Gray
Non-High Cost States/Territories Shown in White
Special Exemptions In Light Gray
AK
WA
OR
ID
MT
ND
MN
SD
WI
MI
WY
NV
UT
CO
NE
IA
IL
IN
OH
PA
NY
VT
NH
ME
MA
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AZ
NM
OK
AR
SC
HI
MS
AL
GA
TX
LA
FL
GU
AS
PR
VI
(AK, HI, and territories not drawn to scale)

Testimony of

HEATHER PETERS
DEPUTY SECRETARY FOR BUSINESS REGULATION AND HOUSING AT
CALIFORNIA'S BUSINESS, TRANSPORTATION AND HOUSING AGENCY, AND
CHAIR OF GOVERNOR SCHWARZENEGGER'S
INTERDEPARTMENTAL TASK FORCE ON NON-TRADITIONAL MORTGAGES

Hearing entitled
"IMPACT ON HOMEBUYERS AND HOUSING MARKET OF CONFORMING LOAN LIMIT INCREASE"

Before the
FINANCIAL SERVICES COMMITTEE

May 22, 2008

Testimony of Heather Peters

Good morning Chairman Frank and members of the Committee, my name is Heather Peters and I am the Deputy Secretary for Business Regulation and Housing at California's Business, Transportation and Housing Agency. In that role I oversee four departments that regulate lenders, brokers, real estate sales and appraisals, I oversee the California Department of Housing and Community Development and sit on the board of the California Housing Finance Agency ("CalHFA").

I am also the Chair of Governor Schwarzenegger's Interdepartmental Task Force on Non-Traditional Mortgages. On behalf of Governor Schwarzenegger and Secretary Bonner I thank you for the opportunity to testify here today on the impact of the conforming loan limit increase. We appreciate the committee's interest in this important subject.

I have been asked by the Committee to address three subjects, the demand for the new loans authorized by the Stimulus Act, the impact that competitive pricing would have on California's housing market and obstacles to rates becoming competitive.

LEVEL OF POTENTIAL DEMAND FOR THE NEW EXPANDING CONFORMING LOANS AUTHORIZED BY THE STIMULUS ACT

Nowhere is the demand for the new conforming loans authorized by the Stimulus Act stronger than in California. Governor Schwarzenegger has repeatedly emphasized in the attached correspondence and elsewhere that the previous loan limits of $362,790 for FHA and $417,000 for the GSEs rendered them virtually irrelevant in the most populous areas of California where we have some of the highest housing prices in the nation. "No single issue is affecting California's economy more than this one of fair access to housing capital."

For example, according to the National Association of Realtors, in 2007 the median price of a home in the Los Angeles metropolitan area was $589,200 compared with $395,600 in the Boston, Massachusetts metropolitan area, $263,200 in the Hartford, Connecticut metropolitan area, and $162,200 in Birmingham, Alabama metropolitan area. According to the California Association of Realtors more than 77% of California home sales last year exceeded the FHA loan limits and 69% exceeded the GSE loan limits

Now that the loan limits have been temporarily raised by the Stimulus Act, 47 of California's 58 counties qualify for loans above the prior FHA ceiling of $362,790. Fourteen California counties now qualify for the new FHA and GSE maximum loan limit of $729,750 (up to 125% of their median home prices) through the end of this year.

Over 21 million people, more than half of California's entire population, lives in these 14 counties alone. That is greater than the population of every other state in the nation except Texas. These 21 million Californians are now facing median home prices in their counties of at least $583,800 according to FHA's calculations made recently as required by the Stimulus Act.

Given these statistics, it is not surprising that under the prior loan limits FHA saw its California loan volume decline by 98% in recent years to a mere 2,599 loans written in the entire

state. This represented a loss of $13.6 billion in much needed mortgage liquidity for California homebuyers helping to fuel demand for non-traditional loan products.

All of that has the potential to change now with the new loan limits. Additionally, I note that the demand for FHA's 203(k) rehabilitation loan program in this price range will be particularly strong as most private lenders have discontinued similar loan programs in the state. This program will be critical in helping to turn California's growing inventory of distressed REO properties into the American dream for California families waiting to enter the real estate market.

IMPACT IN THE CALIFORNIA HOUSING MARKET OF NEW LOANS IF THEY WERE TO BE OFFERED AT RATES COMPETITIVE WITH LOANS MADE AT THE GSE'S CONFORMING LEVEL

California's housing market has been deeply impacted by the credit crunch and the lack of liquidity in the jumbo market. According to the National Association of Realtors, 40% of California's home sales were financed with jumbo loans exceeding $417,000 prior to the summer of 2007, but since then only 10% of sales involved these loans.

According to the California Association of Realtors, home sales decreased 24.5% in March 2008 compared with the same period one year ago. This translates to over 100,000 fewer sales of existing single-family detached homes. It would take 11.6 months of sales at this pace to liquidate California's inventory of existing single-family detached homes.

Additionally, lack of financing has contributed to a dramatic drop in new home construction. According to the California Building Industry Association, total housing starts in California dropped 65% in March compared to one year ago. This alone has had a significant negative impact on California's economy.

Studies show that construction of a new home in California generates an average of $350,000 in economic benefit and over $20,000 in state and local tax revenues. Historically, normal levels of home building in California generates more than $70 billion in economic output putting over half a million people to work and providing nearly $5 billion in tax revenue. It is estimated that the current housing slump has already cost California nearly $2 billion in tax revenues in 2007 alone.

Certainly the pricing of jumbo loans is not the sole cause of all of the above, however, it is a significant factor. With price spreads for jumbo loans over traditional conforming loans exceeding 1% in many cases, the above-$417,000 loan market has seized up causing a ripple effect in both sales and construction that would be mitigated if these loans were priced more competitively with traditional conforming loans.

More competitive pricing of these new "super conforming" loans would also help to release pent up demand from would-be home buyers who have been sitting on the sidelines waiting for the market to bottom. Sales would increase and inventory would decrease thus, at least marginally, slowing price deterioration and helping to create a more favorable building

environment that would spur the economy and would help to lower unemployment which is currently at 6.2% in California.

Additionally, increased volumes of refinances due to more competitive rates would further help stabilize the market.

OBSTACLES PREVENTING THE RATES FROM BECOMING MORE COMPETITIVE WITH THOSE LOANS MADE UNDER THE TRADITIONAL CONFORMING LEVEL

Obstacles to competitive rates seem to be diminishing in recent weeks. Freddie Mac announced that it would purchase $10 to $15 billion of the new loans and Fannie Mae announced that it would price the new loans consistently with traditional conforming loans through the end of the year. Governor Schwarzenegger issued the attached statements applauding both moves. However, some obstacles to competitive rates still exist and other factors are significantly limiting the availability of the new loans.

The logistics of bringing the new loans to market have been complicated. Low interest rates associated with traditional conforming loans below $417,000 are due in part to the fact that these loans are considered to be so fungible by investors that specific loans do not even need to be individually identified to be securitized. Investors can bid on a package of loans "to-be-announced" before the borrowers even contact their lenders to apply for the loans.

On the most basic level the "to-be-announced market" ("TBA Market") operates like a grocer ordering a bushel of apples from a supplier for delivery next week. The grocer doesn't know exactly which apples will arrive next week and recognizes that there will be some bad apples, but based on past experience the grocer is confident that the apples delivered will generally suit his needs.

Jumbo loans above $417,000 are like oranges and are sold separately at higher prices. Consumers were hoping that by raising the conforming loan limits, some of these "oranges" (new "super conforming" loans) would now be priced like the cheaper "apples" (traditional conforming loans). The market has been struggling to adjust.

The new loans between $417,000 and $729,750 are not being added to pools of loans containing traditional conforming loans sold on the well established, and highly liquid, TBA Market. The decision not to add them to existing TBA pools was made by the Securities Industry and Financial Markets Association ("SIFMA") to avoid a possible unintended consequence of driving up the price of traditional conforming loans.

Given time, an efficient market for the new loans would likely be created, however we are running out of time between now and when the new loan limits sunset at the end of this year. The single most significant obstacle remaining is the fact that the new loan limits are only temporary. Market participants are incurring costs associated with designing, creating and marketing a new program for an investment vehicle which, under current law, will cease to exist in six months. Without assurances that these costs can be recouped over time, investors are demanding a higher return to help compensate them for uncertainty.

Accordingly, Governor Schwarzenegger has continued to urge Congress to move quickly to make the loan limit increases permanent. Passing legislation now to make the loan limit increases permanent will give investors much needed assurance that they are developing a product with future application. With market certainty established, pricing can be expected to come down, perhaps not all of the way down to the level of traditional conforming loans, but still down significantly.

Pricing is not the only obstacle to making these new loans widely available to consumers, several other significant factors are also limiting production. The new loans being offered come with strings attached in the form of stricter underwriting requirements, higher down payments and added fees.

Some changes in underwriting are certainly warranted, however, it is important not to overcorrect and in effect throw the baby out with the bathwater. Corrections that are warranted include closer scrutiny of the layering of risk features such as low FICO scores paired with low or no down payments and low or no documentation of income and assets.

Many corrections have been endorsed by all Federal regulators in the issuance of Guidance on Nontraditional Mortgage Product Risks and the Statement on Subprime Lending, both of which have formalized as mandatory regulations in California.

However, the market has voluntarily tightened lending criteria much further putting the new loans out of reach for many California homebuyers at any price. The California Association of Mortgage Brokers reports that many potential borrowers with good credit and down payments who would have been easily qualified for financing before the non-traditional lending bubble are now being turned away by overly cautious lenders.

It is important to remember that the vast majority of loans made under flexible lending criteria historically are still performing. There is a long track record of success when flexible lending criteria has been used responsibly, especially for legitimately self employed borrowers. Loans in the range of $417,000 to $729,750 have always existed in California regardless of whether they were called "jumbo", "conforming jumbo", "super conforming", or any other creative names. Performance data is readily available for lenders, investors and rating agencies to use to properly assess and price risk and should be used.

Fannie Mae seems to have acknowledged this recently when it pulled back its blanket requirement of higher down payments throughout large geographic areas that did not consider the strength of some local markets.

Another factor that is slowing the production of new FHA loans in California is procedural in nature. In order for a broker to originate an FHA loan they must be HUD-approved. Approval requires an audit by an HUD-approved CPA, can take three to six months and can cost between $3,500 and $20,000 according to the California Association of Mortgage Brokers.

There are many brokers in California who were formerly approved by HUD, but let their approvals lapse when the low FHA loan cap caused these loans to nearly become extinct in California. These formerly approved brokers have asked HUD to streamline a process for them to reactivate their prior status to be able to serve California borrowers in this narrow six month window of opportunity before the temporary loan limits sunset, but to date, have not received a favorable response from HUD.

Finally, there is one obstacle that cannot be ignored, namely declining property values. Declining values represent higher risk to homeowners, lenders and investors causing higher interest rates. Conversely, higher interest rates cause sales to slow and inventories to rise, eventually perpetuating further declines in value. No single action will break this cycle. A carefully balanced approach addressing various aspects of the housing market must be developed.

ACTIONS CALIFORNIA HAS TAKEN TO ADDRESS THE HOUSING CRISIS

There is no silver bullet to solve the housing crisis. It is a multifaceted problem that requires a multifaceted solution. Raising the conforming loan limits permanently and assuring competitive pricing on those loans is a critical part of the solution. Discussed below are a number of other steps California has taken to help address various different aspects of the problem.

- Interdepartmental Task Force: Early last year the Governor Schwarzenegger's Administration formed the Interdepartmental Task Force on Non-Traditional Mortgages ("Task Force") which I chair to ensure a comprehensive and coordinated approach that leverages our talent and resources. The Task Force consists of the leadership teams from the Business, Transportation & Housing Agency, Department of Financial Institutions, Department of Corporations, Department of Real Estate, Office of Real Estate Appraisers, Department of Housing & Community Development, CalHFA, State & Consumer Services Agency, the Department of Consumer Affairs and the Department of Veteran's Affairs.

- Stakeholder engagement: The Task Force has conducted extensive stakeholder meetings and maintains an open dialogue with Federal regulators, lenders, bankers, brokers, loan servicers, Wall Street, real estate agents, builders and consumer advocates.

- Issued new regulations to protect borrowers: Our licensing departments have adopted regulations making California a leader in the nation in requiring sound underwriting, including an analysis of a borrower's ability to repay. A new consumer disclosure form (attached), translated into five languages, illustrates worst case scenario payments and loan balances under several different types of loan products in a simple grid format and deducts the payments from the consumer's income to illustrate how much they would have left to live on. These new disclosures will be made early on to allow time for thorough review and for shopping around.

- Legislation increasing protections: Last year Governor Schwarzenegger signed three key pieces of legislation and has also pledged to work with lawmakers in the coming year to take additional steps to protect homebuyers.

  - SB 223 makes it a crime for licensed appraisers to engage in any appraisal activity that is connected to the purchase, sale, transfer, financing or development of property if their compensation is impacted by the final price generated by the appraisal.
  - SB 385 permits state agencies involved with residential mortgage lending and brokering to adopt emergency measures and new policies to ensure that all mortgage lenders and brokers are subject to federal guidelines on non-traditional mortgages. This law impacts the Department of Financial Institutions, the Department of Corporations and the Department of Real Estate.
  - AB 929 increases the amount of affordable housing in California by raising the total debt that CalHFA can carry by $2 billion. CalHFA issues bonds to finance housing for low and moderate-income families.

- Servicers' Agreement to Streamline Loan Modifications: On November 20, 2007 Governor Schwarzenegger announced an unprecedented agreement with leading loan servicers. Under this agreement these servicers will:

  - Reach out proactively to borrowers well before their loans reset;
  - Streamline the processes by which lenders determine whether borrowers may reasonably be expected to be able to make the reset payment and
  - For people who are in their homes and making timely payments now at the starter rate, but who lenders determine cannot make the reset payment, keep them at that starter rate for a sustainable period of time.

  The California Department of Corporations is actively tracking the loss mitigation efforts by these servicers and others, and continues to monitor progress closely and publicly report aggregate statistics to ensure accountability.

- Governor Schwarzenegger led a town hall meeting with U.S. Treasury Secretary Paulson in Stockton to discuss help for homeowners facing foreclosure and to discuss new Federal agreements with loan servicers.

- Secretaries Bonner and Marin co-hosted a roundtable with FDIC Chairwoman Sheila Bair bringing together regulators, lenders, servicers, non-profits and local leaders to discuss remaining obstacles to loan workouts.

- $1.16 million in grant funds: In September of 2007 the Housing and Community Development Department made $1.16 million in Community Development Block Grant Funds available for counties and cities to use for consumer mortgage counseling.

- Letters to congressional leadership: Governor Schwarzenegger urged Congress to increase funding for counseling and to raise FHA and GSE mortgage loan limits. A national appropriation has been made and the limits have been temporarily raised to up to $729,750. The Governor continues to urge Congress to make them permanent. (See attached.)

- $8 million Federal mortgage counseling grant was received by the California Housing Finance Agency in partnership with the Rural Community Assistance Corporation (RCAC) to help California homeowners avoid foreclosures.

- Partnership with the Hope Now Alliance: Earlier this year the State partnered with the Hope Now Alliance to launch its national Homeownership Preservation Tour with three events in California, one attended by the Secretary of HUD.

- Consumer Education & Outreach: The Task Force has partnered with local legislators and others to do town halls to connect borrowers face to face with non-profit counselors and loan servicers to facilitate loan workouts that avoid foreclosure. Well over 6,000 constituents have attended these events to date. Additionally, the Task Force has launched a consumer home mortgage information website in both English and Spanish – www.yourhome.ca.gov and www.sucasa.ca.gov, has participated in live telethons, has produce mailing inserts and conducted community leader meetings across the state to promote the Hope Hotline. Governor Schwarzenegger launched a $1.2 million public awareness campaign called 90 Days of Hope featuring real California families who faces foreclosure educating other homeowners about ways they can avoid foreclosure.

- Increased Enforcement: Our licensing departments have been working closely with law enforcement to discipline lenders and brokers. Additionally, they are training consumer counselors, non-profits and legal aid societies to identify and report licensing violations. Individual letters have gone out to real estate licensees acting as mortgage brokers reminding them of the fiduciary duty they owe borrowers in California and letters have gone out to the editors of all major newspapers reminding them of California's mortgage advertising requirements. Enforcement staff attend our town hall events to take complaints, they conduct "secret shopper" investigations and they have an extensive advertising review program.

- $433.1 million in Proposition 46 and 1C funds: Since July 19, 2007, $433.1 million in bond awards have been announced to help more than 16,000 California families rent or purchase affordable housing.

- $72 million in federal HOME Investment Partnerships Program funds: On January 30, 2008 awards totaling more than $72 million in federal HOME Investment Partnerships Program funds were announced. Funds will be used to provide assistance to first-time homebuyers, reduce the number of bank owned homes and increase the number of rental properties.

- $5.6 million to help mortgage and banking industry workers laid off as a result of the subprime crisis make career transitions to high-demand jobs in other industries.

- Governor Schwarzenegger joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland to highlight the need for private partnerships to compliment government policies.

- CalHFA loans for first time homebuyers to purchase REOs: CalHFA is about to roll out a new pilot loan program to provide $200 million of below market financing for first time

home buyers to purchase certain REO properties that lenders are willing to discount in exchange for access to pool of pre-qualified buyers who can close quickly. If Congress passes legislation currently under consideration to raise the tax exempt bond cap for State Housing Finance Agencies this pilot program may be significantly expanded.

I hope this discussion of our efforts and accomplishments has emphasized California's commitment to aggressively address the crisis. In so doing, Governor Schwarzenegger encourages others to do the same as only multifaceted solutions reaching across Local, State and Federal jurisdictions, and across public and private partnerships, can begin to address this multifaceted problem. The Administration remains firmly committed to collaborating with all stakeholders and to find innovative ways to lead us out of this crisis and restore the American dream in California and across the nation.

This concludes my statement. I thank the Committee for the opportunity to meet with you today to discuss this important issue.

Office of the Governor ARNOLD SCHWARZENEGGER THE PEOPLE'S GOVERNOR

PRESS RELEASE

05/06/2008 GAAS:232:08 FOR IMMEDIATE RELEASE

For Immediate Release:
Tuesday, May 6, 2008

Contact: Aaron McLear
Lisa Page
916-445-4571

Gov. Schwarzenegger Issues Statement Applauding Action by Fannie Mae to Lower Cost of New Jumbo-Conforming Loans

Governor Arnold Schwarzenegger today issued the following statement after Fannie Mae announced its intention to lower the cost of the new jumbo-conforming loans in California, which was authorized by the Economic Stimulus Act of 2008:

"As I have stated before, mortgage availability is central to our housing market's recovery. Home prices are higher here in California and require higher mortgage loan amounts, which is why I asked Congress and the President to increase the limit on conforming loans. They did so last February, and Fannie Mae's action will lower the cost of these new loans, making more California houses accessible to potential buyers.

"This is great news and I encourage all mortgage lenders to follow suit. In addition, I continue to urge the federal government to make the new conforming loan limits permanent. If not, Californians will see these new mortgage options disappear after the temporary increase expires at the end of this year."

To help Californians hit hard by the mortgage crisis, the Governor has:

- Led efforts urging Congress and the Bush Administration to raise federal loan limits. Last fall, the Governor sent a letter calling on Congress to increase those limits and sent a similar letter again earlier this year. After Congress and the President approved a temporary increase, the Governor asked them to make the increase permanent. In February, the Governor met with the U.S. Department of Housing and Urban Development Secretary in Washington D.C. to reiterate the importance of a permanent loan limit increase.
- Announced $69.5 million in permanent low-interest loans from the Proposition 1C housing bonds to jumpstart 14 affordable multi-family projects up and down the state, helping more than 1,000 California families and individuals realize the dream of an affordable rental home.
- Announced more than $72 million in federal HOME Investment Partnerships Program funds to provide assistance to first-time homebuyers, reduce the number of bank owned homes and increase the number of rental properties.

- Joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland.
- Launched a $1.2 million public awareness campaign to help educate homeowners about options that can help them avoid losing their homes to foreclosures.
- Announced an agreement with major loan servicers to streamline the loan modification process for subprime borrowers living in their homes.
- Signed legislation to increase protections for Californians who own or plan to purchase homes and to expand affordable housing opportunities.
- Issued new regulations to protect borrowers, which requires lenders to consider a borrower's ability to repay at the higher reset interest rate and mandates closer scrutiny of risk features such as interest only payments, reduced documentation and simultaneous second liens.
- Established the Interdepartmental Task Force on Non-traditional Mortgages to ensure a comprehensive and coordinated approach to the issues raised by subprime loans.

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GOVERNOR ARNOLD SCHWARZENEGGER

September 19, 2007

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
U. S. House of Representatives
Washington, D.C. 20515

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

The Honorable John A. Boehner
Minority Leader
U. S. House of Representatives
Washington, D.C. 20515

Dear Senator Reid, Senator McConnell, Madam Speaker, and Mr. Boehner,

Families across America need your help. Recent developments in the sub-prime mortgage markets have put homeowners everywhere at risk of losing their homes, which are often the pinnacle of a lifetime of hard work for them. Nowhere is this problem more acute than in California, where astronomically high home prices have historically meant that many homebuyers could not access federal programs to help them obtain safe, secure financing. That is because many federal loan programs cap out at prices far below average home prices in California, meaning that homebuyers here often relied on financing outside of government-backed loans in order to achieve homeownership.

The lack of access to government loan programs has magnified the foreclosure crisis for Californians. California's statewide foreclosure rate last month was more than twice the national average with one foreclosure filing for every 224 households according to RealtyTrac. California cities account for six of the top 10 metro foreclosure rates nationwide, including the top three. Modesto had one foreclosure filing for every 79 households.

Accordingly, as you consider various legislative proposals related to home mortgages, I write to express my strong support for raising the current loan limits imposed on the Federal Housing Administration (FHA) and raising Government Sponsored Enterprises (GSE) loan limits in high-cost areas of the country.

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Senator Reid
Senator McConnell
Madam Speaker
Mr. Boehner
September 19, 2007
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Just when the safety and affordability of FHA-insured loans are needed most, they have virtually disappeared from the California marketplace. The current FHA loan limit is $362,790, well below the median-priced home in California. In testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs this summer, Brian D. Montgomery, U.S. Department of Housing and Urban Development Assistant Secretary for Housing, said California has "seen its [FHA] loan volume drop from 109,074 to just 2,599; that's a decline of 98 percent and a loss of $13.6 billion." This has been a significant factor in the increasing use of nontraditional mortgage products in California. The prospect of mounting losses on nontraditional mortgages has harmed the availability of home financing nationwide.

Increasing the FHA loan limit would have a positive impact on expanding financing options for hardworking Californians hoping to obtain a piece of the American Dream. In addition to increasing the FHA loan limits, consideration should be given to raising the conforming loan limits for the GSEs (Fannie Mae and Freddie Mac) in high-cost areas of the country. The current GSE conforming loan limit for lenders willing to originate conforming mortgage loans for median-priced homes in California is $417,000; however, according to the California Association of Realtors, the median price of a single family residence in July was $586,030. Again, this disparity makes these products practically irrelevant in California. This means that, for the majority of California homebuyers, the only option is to obtain a larger "jumbo" loan and pay higher interest rates and fees. Raising the FHA and GSE loan limits will help ensure that more financial resources are available to help facilitate lending in California.

Finally, additional funding for reputable groups that provide credit counseling and foreclosure assistance to distressed borrowers would help meet the increased demands for their services. Through their efforts, consumers get help to find their way out of further financial distress.

Your leadership on these issues is critical to ensure that financial resources are available help sustain these loans. Many families depend on these programs to achieve the fundamental and universal goal of homeownership. Thank you for your consideration, and please do not hesitate to call on me if California can be of assistance in your deliberations.

Sincerely,

Arnold Schwarzenegger

cc: The Honorable Christopher J. Dodd
The Honorable Richard Shelby
The Honorable Barney Frank
The Honorable Spencer Bachus

PRESS RELEASE

04/17/2008 GAAS:187:08 FOR IMMEDIATE RELEASE

Gov. Schwarzenegger Issues Statement Applauding Actions Boosting Mortgage Availability in California

Governor Arnold Schwarzenegger today issued the following statement after Fannie Mae, Freddie Mac, Wells Fargo Bank, Washington Mutual, CitiMortgage and JP Morgan Chase announced plans to provide billions of dollars of conforming jumbo mortgages in high cost locations. Their actions, which allow for loans as high as $729,750, stem from the new higher federal loan limits requested by Governor Schwarzenegger and included in the federal economic stimulus package signed by the President earlier this year.

"No single issue affects California's housing recovery more than access to mortgage credit that fits California's home prices. These actions will help more California families achieve the dream of homeownership and provide another tool in our effort to reduce foreclosures.

"I urged Congress to raise the conforming loan limits in order to provide Californians with more affordable mortgage options and I'm very pleased that call to action was answered, but I continue to urge the federal government to make these new higher limits permanent.

"Mortgage availability is critical to our housing market's recovery. I commend Fannie Mae, Freddie Mac, Wells Fargo, Washington Mutual, CitiMortgage and JP Morgan Chase for giving Californians living in high-cost markets more affordable mortgage choices."

To help Californians hit hard by the mortgage crisis, the Governor has:

- Led efforts urging Congress and the Bush Administration to raise federal loan limits. Last fall, the Governor sent a letter calling on Congress to increase those limits and sent a similar letter again earlier this year. After Congress and the President approved a temporary increase, the Governor asked them to make the increase permanent. In February, the Governor met with the U.S. Department of Housing and Urban Development Secretary in Washington D.C. to reiterate the importance of a permanent loan limit increase.
- Announced $69.5 million in permanent low-interest loans from the Proposition 1C housing bonds to jumpstart 14 affordable multi-family projects up and down the state, helping more than 1,000 California families and individuals realize the dream of an affordable rental home.
- Announced more than $72 million in federal HOME Investment Partnerships Program funds to provide assistance to first-time homebuyers, reduce the number of bank owned homes and increase the number of rental properties.
- Joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland.
- Launched a $1.2 million public awareness campaign to help educate homeowners about options that can help them avoid losing their homes to foreclosures.
- Announced an agreement with major loan servicers to streamline the loan modification process for subprime borrowers living in their homes.
- Signed legislation to increase protections for Californians who own or plan to purchase homes and to expand affordable housing opportunities.
- Issued new regulations to protect borrowers, which requires lenders to consider a borrower's ability to repay at the higher reset interest rate and mandates closer scrutiny of risk features such as interest only payments, reduced documentation and simultaneous second liens.
- Established the Interdepartmental Task Force on Non-traditional Mortgages to ensure a comprehensive and coordinated approach to the issues raised by subprime loans.

GOVERNOR ARNOLD SCHWARZENEGGER

January 22, 2008

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20515

The Honorable Nancy Pelosi
Speaker of the House of Representatives
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

The Honorable John A. Boehner
Minority Leader
U. S. House of Representatives
Washington, DC 20515

Dear Senator Reid, Senator McConnell, Madam Speaker and Mr. Boehner,

As the housing market continues to decline in 2008, I ask that Congress takes action immediately and passes legislation increasing the conforming loan limits from $417,000 to $625,000 for Fannie Mae and Freddie Mac for high-cost housing markets like those in California. In a state where the average price of a home far exceeds that loan limit, Californians find themselves priced out of the very help these loans are intended to provide.

The current GSE loan limit disproportionately impacts California, which is home to four of the seven national markets most harmed by the cap. No single issue is impacting California's economy more than fair access to housing capital. And since California is the nation's largest economy, the current GSE limit is negatively affecting the entire country's economic well-being.

Upheaval in the global credit markets has led to a dramatic reduction in liquidity throughout the mortgage industry. One exception is the segment of loans eligible for purchase by the GSEs. Fortunately, this market remains functional. However, because the GSE loan limit of $417,000 is uniform throughout the country and does not take into account regional price differences, GSE loans are unavailable to much of California and other higher-cost markets. While the current national loan limit of $417,000 is well above the national median sales price and exceeds the local median for the vast majority of nationwide housing markets, it is considerably below the local median in a few high-cost areas.

For example, a starter loan in Los Angeles usually puts a buyer outside the GSE loan limit and into the so-called "jumbo" loan market, a market that sprang largely from a permissive Federal Reserve policy that dropped interest rates dramatically and encouraged widespread jumbo lending. That market has now largely disappeared and, where it remains, lenders are requiring expensive and onerous terms from borrowers that in some cases are fully one percentage point higher than GSE terms.

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The Honorable Harry Reid
The Honorable Mitch McConnell
The Honorable Nancy Pelosi
The Honorable John A. Boehner
January 22, 2008
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According to one source, more than 50 percent of California homeowners and homebuyers now lack access to GSE financing. When combined with the withdrawal of the jumbo loan market, it's no surprise that current home sales activity in California is half the pace seen in 2006.

Moderate- and low-income families in high-cost housing markets are hit hardest because the current GSE loan limit restricts their access to lower cost, lower down payment, fixed-rate loans. Lifting the GSE loan limit in these areas would help put affordable home purchase and refinancing options within their reach. Likewise, these adjustments to conforming loan limits for high-cost areas would give homebuyers access to safer mortgages, especially important to first-time homebuyers or owners with high-cost subprime mortgages in need of refinancing.

Increasing the GSE loan limit could also benefit veterans, teachers, firefighters and police officers by expanding access to Federal Housing Administration (FHA) and Veterans Affairs (VA) mortgages, as both agencies' loan limits are tied to the $417,000 limit.

There is precedent for raising the loan limit in high-cost areas. Loan limits for Alaska, Hawaii, Guam and the U.S. Virgin Islands are already 50 percent higher than the rest of the nation. Treating homeowners living in high-cost parts of California and other areas of the country differently simply makes no sense.

No single issue is affecting California's economy more than this one of fair access to housing capital. Just last week our unemployment rate rose by one-half of one percent, an increase attributed by most economists to weakening housing, and just today it was announced that default notices more than doubled and foreclosures more than quadrupled over the past year. Our consumers will continue to reduce spending so long as they cannot get the same financing options available to the rest of the country.

An economic slowdown in California has immediate and significant impacts on the rest of the country. Nothing will more beneficially improve the United States economy than immediately raising these limits. I urge you to take action on this critical issue now.

Sincerely,

Arnold Schwarzenegger

cc: The Honorable Christopher J. Dodd
The Honorable Richard Shelby
The Honorable Barney Frank
The Honorable Spencer Bachus

GOVERNOR ARNOLD SCHWARZENEGGER

April 29, 2008

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker of the House
U. S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

The Honorable John A. Boehner
Minority Leader
U. S. House of Representatives
Washington, DC 20515

Dear Senator Reid, Senator McConnell, Madam Speaker, and Mr. Boehner,

Congress is appropriately continuing its focus on mitigating the economic slowdown, and I appreciate your efforts in this regard. I believe the rebate checks, business tax incentives and temporary housing cap increases will be extremely helpful, but fear this may still be insufficient to generate the soft landing we all want to see.

Unfortunately, the housing and credit crisis continues to be a significant drag on economic activity in California and across the nation. Even with the historic actions taken by Congress, the federal administration and private sector lenders, foreclosure activity is at record levels in many states.

The nation has also experienced three consecutive months of significant job declines, with California's jobless rate now at 6.2 percent. The U.S. House has already begun work on providing additional federal assistance for long-term unemployed individuals and, as I have previously indicated, I strongly support this effort.

As Congress reviews the economic situation and considers further action, I must renew the call of the nation's governors that any further federal economic stimulus legislation includes countercyclical assistance to states. The National Governors Association has promoted a state assistance package that includes grants to states along with a temporary increase in the federal medical assistance percentage, and I solidly support this proposal.

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The Honorable Harry Reid
The Honorable Mitch McConnell
The Honorable Nancy Pelosi
The Honorable John A. Boehner
April 29, 2008
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I also urge you to take action to help alleviate the continued decline in housing and the associated credit crunch. The initial increase in Federal Housing Administration (FHA) and government-sponsored enterprise (GSE) loan limits was critically important for high-cost states like California, and some level of higher caps should be made permanent. Congress should also implement an expanded FHA guarantee program that helps at-risk borrowers refinance into more affordable mortgages. In California, we have been proactive in getting lenders to work with troubled borrowers, and I urge Congress to continue its efforts to simplify mortgage workouts, while not unduly rewarding speculators or fostering imprudent credit and lending practices. Finally, a boost in qualified mortgage bond caps to states, tax incentives to first-time homebuyers and temporary assistance to homebuilders to mitigate operating losses can also help foster a more orderly transition in the housing and credit markets.

I recognize that no assistance package can, or should, eliminate necessary adjustments in the economy. However, I do believe that the sooner a full package of economic incentives and assistance can be enacted, the greater the likelihood of success in reducing the length and depth of the current economic downturn. I look forward to working with all of you to help achieve this goal.

Sincerely,

Arnold Schwarzenegger

cc: The Honorable Henry M. Paulson
The Honorable Roy A. Bernardi
Members of the California Congressional Delegation

XVIII. Comparison of Sample Mortgage Features (One to Four Residential Units)

TYPICAL MORTGAGE TRANSACTIONS

PROPOSED LOAN AMOUNT $ _____ ___-YEAR TERM	Principal and Interest *Fully Amortizing*	Interest Only *Fully Amortizing*	5/1 ARM *Fully Amortizing*	Interest Only *Fully Amortizing*	Option Payment *Fully Amortizing*	Proposed Loan Type of Loan: _____ Type of Amortization: _____
	Fixed Rate (_____%)	Fixed Rate (_____%) Interest Only for First 5 Years	Fixed Rate for First 5 Years; Adjustable Each Year After First 5 Years (Initial rate for 1 to 5 is_____%; Maximum Rate is _____%)	Interest Only and Fixed Rate for First 5 years; Adjustable Rate Each Year After First 5 Years (Initial rate for 1 to 5 is_____%; Maximum Rate is _____%)	Adjustable Rate for Entire Term of the Mortgage (Rate in month 1 is _____%; Rate in month 2 through year 5 is _____%; Maximum Rate is_____%)	Explanation of Type of Proposed Loan Product:
Payment Scenarios						
Minimum Monthly Payment Years 1-5 except as noted	$ _____*	$ _____	$ _____	$ _____	$ _____*** (1st year only)	$ _____
Monthly Payment in Year 6 with no change in rates	$ _____	$ _____**	$ _____	$ _____	$ _____	$ _____
Monthly Payment in Year 6 with a 2% rise in rates	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Minimum Monthly Payment	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Your Gross Income	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Difference	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Maximum Monthly Payment in Year 6 with a 5% rise in rates	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Your Gross Income	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Difference	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Loan Balance Scenarios						
How much will be owed after 5 years?	$ _____	$ _____	$ _____	$ _____	$ _____	$ _____
Has the loan balance been reduced after 5 years of payments?	Yes The loan balance was reduced by $ _____	No The loan balance was not reduced	Yes The loan balance was reduced by $ _____	No The loan balance was not reduced	No The loan balance increased by $ _____	No/Yes The loan balance: did not change/ increased/decreased by $ _____

* **This illustrates an interest rate and payments that are fixed for life of the loan.**

** **This illustrates payments that are fixed after the first five years of the loan at a higher amount because they include both principal and interest.**

*** **This illustrates minimum monthly payments that are based on an interest rate that is in effect during the first month only. The payments required during the first year will not be sufficient to cover all of the interest that is due when the rate increased in the second month of the loan. Any unpaid interest amount will be added to the loan balance. Minimum payments for years 2-5 are based on the higher interest rate in effect at the time, subject to any contract limits on payment increases. Minimum payments will be recast (recalculated) after 5 years, or when the loan balance reaches a certain limit, to cover both principal and interest at the applicable rate.**

IMPORTANT NOTE: Please use this chart to discuss possible loans with your broker or lender

If a mortgage loan broker licensed by the California Department of Real Estate is acting as your agent in connection with your home loan/mortgage, the agent owes you certain fiduciary duties, and California statutory law imposes other duties.

XIX. NOTICE TO BORROWER: THIS IS NOT A LOAN COMMITMENT. Do not sign this statement until you have read and understood all of the information in it. All parts of this form must be completed before you sign. Borrower hereby acknowledges the receipt of a copy of this statement.

Name of Broker *License #* *Broker's Representative* *License #*

Broker's Address

Signature of Broker *Date* OR *Signature of Representative* *Date*

Borrower *Date* *Borrower* *Date*

Department of Real Estate license information telephone number: (916) 227-0931, or check license status at www.dre.ca.gov

Testimony Submitted for the Record
George Hanzimanolis, CRMS, President

National Association of Mortgage Brokers

on

"Impact on Homebuyers and Housing Market of

Conforming Loan Limit Increase"

before the

U.S. House Financial Services Committee

United States House of Representatives

Thursday, May 22, 2008

Chairman Frank, Ranking Member Bachus and members of the committee, thank you for giving NAMB the opportunity to present testimony for the record on the impact of the conforming loan limit increase on homebuyers and the housing market.

NAMB is *the* voice of the mortgage broker nationwide, and is the largest national trade association exclusively devoted to representing the mortgage brokerage industry. NAMB speaks on behalf of more than 18,000 members in all 50 states and the District of Columbia.

Our members are generally independent, small business men and women who adhere to a strict code of ethics and best lending practices when presenting consumers with various mortgage financing options.

Mortgage brokers typically maintain business relationships with various lenders so they can offer a variety of loan products to consumers from which to choose. It is through these partnerships that our members are able to offer consumers competitive products and pricing, thereby, helping the American economy and making the dream of homeownership a reality for millions of American families.

NAMB commends Congress for working together on the passage of the Recovery Rebate and Economic Stimulus for the American People Act ("Economic Stimulus Act") earlier this year. The Economic Stimulus Act helps to address declining market conditions by enabling consumers to refinance out of negative loans and by helping to stabilize the housing market. In particular, we commend Congress' recognition of the critical need to increase conforming loan limits as part of this broad economic stimulus package. The Economic Stimulus Act recognizes the need to make financing more readily available to areas in higher priced markets as it permits the Government Sponsored Enterprises (GSEs) and the Federal Housing Administration (FHA) to temporarily increase their loan limits.

This increase in conforming loan limits is only temporary however, and is set to expire on December 31, 2008. Current market conditions require these limits to be made permanent to ensure there is sufficient liquidity in the marketplace to meet borrowers' needs and facilitate a full recovery from the present crisis.

Certain Obstacles Limiting the Effect of the Temporary Increases

The temporary loan limit increases took effect earlier this year. However, to date, we have seen a mixed response from our members. High-cost markets in Alaska, Hawaii, and the Washington, D.C. metro area have already responded positively to the increased conforming loan limits. However, we have unfortunately seen very little impact on other markets, such as in California, where obstacles are still preventing borrowers from taking advantage of the higher loan limits.

While there may be a number of potential explanations for the disparate impact of the loan limit increases across different markets, we would like to take this opportunity to address three obstacles in particular that we believe must be addressed in order for the increased loan limits in the Economic Stimulus Act to have their intended effect.

First, underwriting standards for these new conforming loan products must be realistic. Currently, underwriting standards, particularly in California, have tightened so significantly that very few borrowers are qualifying for loans under the new conforming loan limits, and originators are struggling to find customers by which to offer these loan products. Loan-to-value ratios have been significantly lowered, multiple appraisals are being required, and more areas of the country are being identified and priced as declining markets. Second, the new conforming loans must be priced in such a way that qualified borrowers can afford to take advantage of the new products and programs. Today, too many borrowers are being priced out of the housing market simply because of the cost of obtaining financing. It is critical to find a price point where lenders and investors are

adequately protected against risk, but where qualified borrowers and the market can reap the benefits of the new conforming loan limits offered in the Economic Stimulus Act. Third, the GSEs do not currently allow second mortgages that are used to refinance to be rolled into the new jumbo loan limits without being considered as "cash out." However, cash out is severely limited or simply not allowed on these mortgages. In order for the new GSE loan limits to be effective, especially in high-cost areas, borrowers should be allowed to roll these second mortgages into the new jumbo limits.

Because of these and other obstacles, the Economic Stimulus Act has not been given an opportunity to work as it was intended. This is not to suggest that increased conforming loan limits are unnecessary or unworkable in certain areas, however, increased loan limits must be combined with competitive pricing and realistic underwriting criteria for borrowers in these areas of the country.

The Need to Make Permanent Increases to the Conforming Loan Limits

In an environment where home prices remain at or near historic highs, underwriting standards continue to tighten, fees are steadily increasing, and market liquidity is disappearing, many first-time, minority, and low to moderate-income homebuyers remain in desperate need of affordable financing options. If the temporary loan limit increases provided for in the Economic Stimulus Act are allowed to expire at the end of the year, millions of consumers in high-cost areas will once again be forced to choose a more expensive jumbo or subprime loan product, or abandon the dream of homeownership altogether.

For example, under the previous limits, the majority of California's population was unable to become or remain homeowners due to median house prices that were roughly $200,000 higher than the previous GSE and FHA loan limits. Similarly, Maryland, Pennsylvania, Connecticut, New York, and New Jersey would also have a majority of their counties at or near the previous conforming loans limits. For these and other reasons, NAMB strongly supports making the increases to the FHA and GSE conforming loan limits permanent. NAMB supports such increases contained in the American Housing Rescue and Foreclosure Prevention Act (H.R. 3221) approved by the House earlier this month.

NAMB believes the benefits of the GSE and FHA programs should be available equally to all taxpayers; especially those residing in high-cost areas, where borrowers are most often in need of affordable mortgage financing options. Allowing these limits to expire will eliminate refinancing opportunities for millions of families struggling to stay in their homes.

Higher conforming loan limits will assist more families in fulfilling or sustaining the dream of homeownership in high cost areas by allowing them to qualify for affordable financing or refinancing. Additionally, current economic conditions necessitate permanently increasing the loan limits to provide sufficient market liquidity and ensure a full and lasting recovery from the current downturn we are experiencing.

Conclusion

NAMB appreciates the opportunity to offer our views on the effect of the increased conforming loan limits on homebuyers and the housing market.

Congress of the United States
Washington, DC 20515

May 21, 2008

The Honorable Barney Frank
House Financial Services Committee
2129 Rayburn Building
Washington, D.C. 20515

The Honorable Spencer Bachus
House Financial Services Committee
B301C Rayburn Building
Washington, D.C. 20515

Dear Chairman Frank and Ranking Member Bachus:

As you know, the Senate Banking Committee recently passed legislation to reform the regulatory structure of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (GSEs). Several months ago, the Senate also passed legislation to modernize the Federal Housing Administration (FHA). We are concerned that the Senate bills do not go far enough to allow Fannie Mae and Freddie Mac and FHA to participate in high-cost areas.

We support a permanent increase in the loan limits for the FHA and Fannie Mae and Freddie Mac to the levels temporarily raised in the economic stimulus package to a maximum of $729,750. The temporary nature of the increase, which expires on December 31, 2008, has caused confusion and delayed the pace of recovery and mortgage availability, especially in high-cost areas.

As members of the California Delegation, we believe that higher loan limits for the Fannie Mae and Freddie Mac and the FHA are essential to ensuring access to affordable mortgages for homebuyers and homeowners seeking to refinance in high-cost areas of the county. Californians and residents of other high-cost areas across the country continue to face home prices substantially higher than the national average. In 2007, the median home in California cost $558,100. In addition, California has one of the highest foreclosure rates in the nation, reinforcing the need for affordable financing opportunities. It is important to also note that twenty-three other states with communities where the median home prices are above the conforming loan limit are currently benefitting from the loan limit increases.

The Senate bill also prohibits Fannie Mae and Freddie Mac from holding high- cost mortgages in their portfolios. This restriction would significantly restrict liquidity in this market and, thus, increase mortgage rates on these loans. The primary reason mortgage rates are lower for conventional mortgages than high-cost mortgages is because other market participants know that they can resell Fannie Mae and Freddie Mac eligible products back to them. The GSEs' mortgage portfolio provides a necessary stabilizing effect to loans. The restriction which exists in the Senate Banking Committee passed bill would withhold this important element from high-cost mortgages.

If we do not remove this restriction in the Senate bill, the GSEs would have to place high-cost area mortgages into special securities, which will be significantly less liquid than other securities. We need only to look at the current housing crisis to know how this could impact this market. Before passage of the temporary GSE loan limit increase, middle income homeowners in high-cost districts were forced to pay up to 120 basis points more for their mortgages than their counterparts in the rest of the country. This amounts to a significant amount of money every month for working class families who live in high-cost areas and want to share in the dream of homeownership.

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Again, as the Senate continues to move toward final passage of their legislation, we ask that you maintain the critical house passed language.

Sincerely,

GARY G. MILLER
Member of Congress

CA 49

John T. Doolittle

Duncan Hunter

Buck McKeon

Elton Gallegly

Ken McCuy

Dana Rohrabacher

Ken Calvert

Daniel E. Issa

Devin Nunes

George Radanovich

Mary Bono Mack

Jim P. Gilchrest

Ed Royce

Jerry Lewis

Wally Herger

May 1, 2008

California Congressional Delegation
The U.S. House of Representatives
Washington, DC 20515

Dear Representative:

The California Association of REALTORS® (C.A.R), the California Building Industry Association (CBIA), the California Association of Mortgage Brokers (CAMB), and the California Mortgage Bankers Association (CMBA) would like to thank you for signing onto the "Dear Colleague" letter asking the House of Representatives' Leadership to make permanent the temporary increase in the loan limits for the Federal Housing Administration (FHA) and the Government Sponsored Enterprises (GSEs).

C.A.R., CBIA, CAMB and CMBA are asking that a permanent increase in the FHA and GSEs loan limits be included when the House debates and votes on a Housing Stimulus Package next week. The temporary loan limit's current expiration date of December 31, 2008, has proved to be the blade of the guillotine that hangs ominously over these loans. As such, Wall Street and other investors are hesitant and weary to delve into these new mortgage products and supply the necessary capital the market so desperately needs.

Additionally, we believe the GSEs and Ginnie Mae should securitize the new "conforming-jumbo" and higher FHA loans that are above $417,000, with the conventional-conforming loans below $417,000. Our data shows that loans in high-cost areas have a lower foreclosure rate, yet these loans have been priced at a higher interest rate than conventional conforming loans because they have been segregated into different securities. We believe pooling the less risky conforming-jumbo loans will create a safer mortgage backed security and fulfill the Congressional intent that all loans below the new conforming loan limit have the same interest rate. Nor do we believe the GSEs should be statutorily obligated to securitize high-cost loans. We believe for the GSEs to properly price these new loans so they will most benefit home buyers the GSEs need the flexibility to treat them as they would any conforming loan product.

Again, we thank you for your support for permanently increasing the FHA and GSEs loan limits. We believe this is the first—and perhaps the most important—of many steps needed to stabilize the current real estate market. If you would like to discuss the issue presented in this letter in more detail, please do not hesitate to contact our C.A.R.'s Federal Government Affairs Manager, Matthew Roberts, at 213-739-8284, or by email at matthewr@car.org.

William E. Brown
President
California Association of REALTORS®

Ray Becker
Chairman
California Building Industry Association

Peter Ogilvie CMC
President
California Association of Mortgage Brokers

Paul Schroeder
Chairman of the board of Directors
California Mortgage Bankers Association

May 6, 2008

California Congressional Delegation
The U.S. House of Representatives
Washington, DC 20515

Dear California Congressional Representative:

The recent introduction of H.R. 5958 marks a milestone in the ongoing effort to restore investor confidence and protect access to affordable credit for consumers in high-cost areas, including California. The California Association of REALTORS® (C.A.R), the California Building Industry Association (CBIA), the California Association of Mortgage Brokers (CAMB), and the California Mortgage Bankers Association (CMBA) applauds the efforts of the California delegation to pursue this much-needed reform.

Our coalition strongly supports H.R. 5958, and we respectfully ask for your support as well. By permanently extending the increase in the loan limits for the Federal Housing Administration (FHA) and the Government Sponsored Enterprises (GSEs), Congress will have taken responsible and decisive action to alleviate a strained market consumed by uncertainty. Indeed, leading indicators have recently shown that the current appetite for risk in the real estate industry is at dangerously low levels. It is vital that Congress and industry take steps to restore confidence, and passage of H.R. 5958 would send investors and consumers a clear message that the real estate market is positioned for sustainable recovery.

We thank you for your ongoing efforts to restore California's housing market, and encourage you to contact any one of our organizations for more information or assistance. Please use. Matt Roberts, C.A.R.'s Federal Government Affairs Manager, as the central point of contact. Matt can be reached at 213-739-8284, or by email at matthewr@car.org.

William E. Brown
President
California Association of REALTORS®

Ray Becker
Chairman
California Building Industry Association

Peter Ogilvie CMC
President
California Association of Mortgage Brokers

Paul Schroeder
Chairman of the board of Directors
California Mortgage Bankers Association

Congress of the United States
Washington, DC 20515

May 22, 2008

The Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Re: Insisting on the House Position on Making the Increased Conforming Loan Limits permanent

Dear Mr. Chairman:

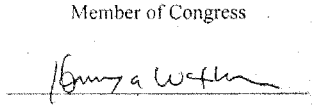
As you know, H.R. 3221, the *American Housing Rescue and Foreclosure Prevention Act,* which the House passed with bipartisan support on May 8th, includes language that would make permanent the increase to $729,750 in the single family conforming loan limit and the FHA single family loan limit that was adopted for 2008 in the Economic Stimulus Act (P.L, 110-185); these higher limits apply only to high cost areas, including most of California. A permanent increase in these loan limits is critical to our constituents who desperately need access to the more affordable financing that conforming loans provide.

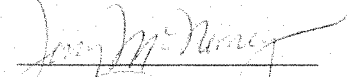
At the May 20th markup of the Senate Banking Committee's version of foreclosure relief legislation, the Senate Committee approved a bill that would set the loan limits in high cost areas at $550,000. This figure will deprive tens of thousands of our residents of the benefits of the lower cost financing.

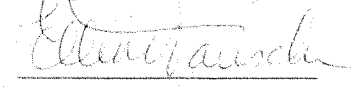
At any conference, formal or informal, to arrive at a comprehensive housing bill, we respectfully urge you and the other conferees to insist upon the House position that these limits be permanently raised to a ceiling of $729,750 in high cost areas. A bill that does not achieve this goal is unacceptable.

Sincerely,

BRAD SHERMAN
Member of Congress







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Hilda L. Solis