

**American Financial Services Association
Consumer Mortgage Coalition
Housing Policy Council, The Financial Services Roundtable**

July 19, 2007

Mr. Alfred Pollard
General Counsel
OFHEO
1700 G Street, N.W., 4th Floor
Washington, D.C. 20552

Sent via electronic mail to: ofheoguidancecomments@ofheo.gov

Dear Mr. Pollard

The American Financial Services Association, the Consumer Mortgage Coalition and the Housing Policy Council, The Financial Services Roundtable, trade associations representing mortgage lenders, servicers, and service providers, appreciate the opportunity to comment on the proposed guidance on the conforming loan limit calculations for Fannie Mae and Freddie Mac. These calculations establish the maximum size limit for loans that Fannie Mae and Freddie Mac may purchase, as provided in their charters. The conforming loan limit is adjusted annually through a calculation of year over year changes to the existing level of home process based on data from the Federal Housing Finance Board. It is our understanding that because of the importance of the conforming loan limit, OFHEO is seeking to provide a framework for setting the limit that does not represent significant operational challenges to the industry and consumers.

Very briefly, we do not believe that a reduction in house prices should result in a reduction the GSE loan limits. *We have taken this position even though our organizations are continuing to oppose the proposed increase in the conforming loan limit that was included in the House-passed GSE reform legislation, H.R. 1427.* Instead, we recommend that for purposes of arriving at the limits, any decrease in house prices be recorded and netted against any future increases.

We arrived at this conclusion for two reasons. First, a downward adjustment in the loan limit ceiling would result in significant costs to the industry, as well as costs to borrowers. Second, decreases in the GSE loan ceiling would send the wrong message at the wrong time. The industry is currently undergoing significant turmoil. Layering on this additional requirement(s) is simply not worth the cost, particularly since there is a workable alternative that is fair. A more detailed explanation for our position is provided below.

Decreases in the Loan Ceiling Would Impose Costs on the Industry and Consumers Alike

Our collective members have advised us that the annual increase in the GSE conforming loan limits requires systems changes throughout their companies. Every department from loan origination and secondary marketing to servicing and quality assurance is impacted. Increases in the loan limits do not adversely impact existing loan commitments.

Decreases to the limits, however, would have the same cost impact as increases to the limit *plus* the adverse business implications and potentially negative results for consumers, including those with loan commitments for new home construction and those seeking to refinance. Many consumers purchasing new homes arrange for mortgages up to a year in advance of closing. Those mortgages are based on house prices that fall within the conforming loan limit at the time the consumers arrange financing. Refinance borrowers often seek conforming loans at the loan limits. Downward adjustments in the limits will harm these borrowers in the pipeline and render many unqualified for a conforming mortgage.

A determination by OFHEO in early November that the conforming loan ceiling must be decreased by January of the following year will mean that lenders must find an alternative execution outlet for many borrowers' loan commitments made under the assumption that they would qualify for a conforming loan. Alternative executions could impact the cost and profitability of the loan for the consumer and the lender, respectively.

Delayed Implementation Also Has Potential Adverse Consequences

OFHEO also requested comments on its proposal to delay implementation of a decrease in the limit. OFHEO suggested that a one year delay in the implementation of a decrease could give the lending community time to adjust expectations. Moreover, OFHEO suggested that it would not impose the decrease after the year's delay if prices had gone up on a net basis during the interval.

While we very much appreciate OFHEO's proposed accommodation to the industry and consumers alike, we recommend that OFHEO adopt the proposal described earlier in this letter instead. Under the "delayed implementation" approach, lenders and brokers will still be required to track and prepare to implement a change that may never be implemented. In addition, lenders would have to estimate what a lowered ceiling might be and would also be bound to price the contingency into their overhead, thereby impacting costs to consumers.

Decreases in the Loan Ceiling Would Contribute to the Turmoil In the Mortgage Market

Currently, the mortgage market is in a correction phase as it adjusts to a slower level of home price appreciation or, in some markets, a decrease in home prices. As some borrowers refinance their adjustable rate mortgages into new mortgage products, the GSEs can play an important role in helping to stabilize the market.

The GSE loan ceiling is closely watched by the industry. Decreasing that number would not be helpful because it would send the wrong signal at the wrong time to all mortgage market participants, including consumers. While we realize that a decision not to decrease the conforming loan ceiling might result in a slightly higher GSE loan ceiling than would otherwise be the case that would only be temporary if our proposal were to be accepted. Considering the disruptions that would occur if the industry and consumers had to contend with a gyrating loan ceiling, the utility of decreasing the ceiling is not worth the cost.

Our Proposal for Adjustment to the Loan Ceiling

We recommend the following approach for adjustment to the loan ceiling:

1. Review the FHFB data and make the calculation of the amount of increase or decrease there has been in house prices for the prior year;
2. In the event of an increase, check for any prior decrease(s) to net against the increase and announce and implement any net increase;
3. In the event of a decrease, record the amount of the decrease for netting against future increases, and leave the conforming loan ceiling unchanged.

The advantage to this method is that it would avoid the adverse consequences while still allowing the ceiling to reflect the downward fluctuations in housing prices.

We thank for your kind consideration of our recommendations and for reviewing the concerns we have that a downward adjustment – delayed or not – would have on the industry and consumers.

We are, of course, very willing to provide you with any additional information you may need on this issue. If additional information is needed, please feel free to contact Bill Himpler, Executive Vice President, Federal Affairs, American Financial Services Association; Anne Canfield, Executive Director, Consumer Mortgage Coalition; or John Dalton at the Housing Policy Council, The Financial Services Roundtable. (Contact information is listed on the next page.)

Sincerely,

American Financial Services Association
Consumer Mortgage Coalition
Housing Policy Council,
The Financial Services Roundtable

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