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Alfred Pollard  
General Counsel  
Office of Federal Housing Enterprise Oversight  
1700 G Street, N.W.  
4<sup>th</sup> Floor  
Washington, D.C. 20522

Dear Mr. Pollard:

PMI Mortgage Insurance Co.<sup>1</sup> is pleased to offer our comments on the proposed *Guidance on Conforming Loan Limit Calculations*. We have concerns with the proposed *Guidance* that are based upon the policy considerations behind both the establishment of a loan limit for the GSEs and the establishment of a mechanism for annual adjustments to the loan limit.

The policy consideration behind establishment of a limit on the dollar size of the loans eligible for purchase by the GSEs is very straightforward. As federally-chartered enterprises the GSEs mission is to act as a source of liquidity for the lower, moderate and middle income sectors of the residential mortgage market. By limiting the size of loans that the GSEs can purchase, Congress has ensured that the benefits that flow from the unique status of the GSEs are directed towards those portions of the market Congress intended that the GSEs serve.

Similarly, the policy consideration behind the establishment of a mechanism to adjust annually the GSE's loan limit is also straightforward. It is clear Congress did not want the relevance of the GSEs to the lower, moderate and middle income segments of the market to be eroded over time by the effects of inflation in home prices. In short, Congress

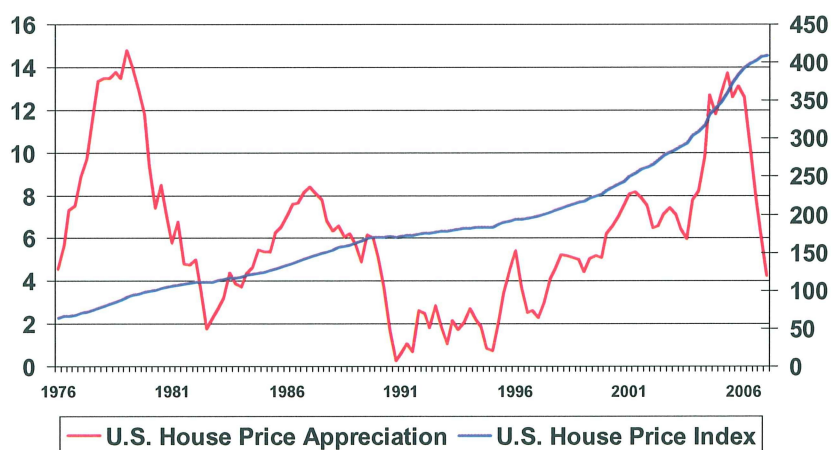
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<sup>1</sup>PMI Mortgage Insurance Co. (PMI US), a subsidiary of The PMI Group, Inc. (NYSE: PMI), provides residential mortgage insurance to mortgage lenders, capital market participants, and investors throughout the United States. PMI US is incorporated in Arizona, headquartered in Walnut Creek, CA, and licensed in all 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands. By mitigating default risk, residential mortgage insurance expands home ownership opportunities and assists financial institutions in reducing the capital they are required to hold against low down payment mortgages. PMI US is rated AA by Standard and Poor's, Aa2 by Moody's, and AA+ by Fitch. For more information: [www.pmi-us.com](http://www.pmi-us.com).

wanted the GSEs to remain relevant to those portions of the housing market by utilizing the tools granted to them by their Congressional charter.

Given these dual policy objectives, there is no policy purpose served by fine tuning the GSE loan limit downward by a few hundred, or even a few thousand, dollars to conform to a fluctuation in the index used to adjust the loan limit, a fluctuation that could prove to be very temporary. This point is illustrated in the chart below, which compares the course of the average U.S. home price appreciation rate over the past 30 years with changes in the OFHEO home price. As the chart demonstrates the rate of home price appreciation exhibits considerable volatility from year to year, but the overall trend for home prices in general has clearly been upward, which is reflected in the course of the OFHEO home price index. We believe that the conforming loan limit should continue to reflect the overall trend in home prices in the U.S. rather than year to year fluctuations in the index.

### Historical Paths of the OFHEO House Price Index and Appreciation Rate for the United States



Source: Office of Federal Housing Enterprise Oversight

In addition a reduction in the GSE's loan limit would send the wrong signal to the marketplace about the course of home prices. While the U.S. may experience a period of low or modest home price increases, there is no indication that home prices face a lengthy period of steep declines from current levels. Lowering the GSE loan limit in response to a decline in home prices as measured by the index in the October 2006 to October 2007 period could very well prove to be the wrong action at the wrong time. This is particularly true if the decline were not to be recognized in the conforming loan limit until the following year, as the proposal would provide. Federal policy, which is especially relevant during periods of uncertainty and turmoil in the housing and mortgage markets, should be oriented towards the expansion of homeownership. Reducing the conforming loan limit at this time could end up making the GSEs less relevant to the

market, especially if prices rebound. Such an action would restrict GSE activity at a time when the market liquidity function they perform could be quite important to assisting a housing recovery.

For these reasons PMI Mortgage Insurance Co. urges OFHEO to reconsider the proposed *Guidance on Conforming Loan Limit Calculations*, and amend the *Guidance* to eliminate the necessity for reductions in the GSEs' conforming loan limits in response to downward movements in the home price index. We would be pleased to provide any additional information or respond to inquiries concerning our comments. Thank you again for the opportunity to comment.

Sincerely,

A handwritten signature in dark ink, appearing to read "Victor J. Bacigalupi". The signature is fluid and cursive, with a large initial "V" and "B".

Victor J. Bacigalupi  
Executive Vice President, Chief Administrative Officer,  
General Counsel and Secretary