



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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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**

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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 Columbia² 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 stroke that 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.

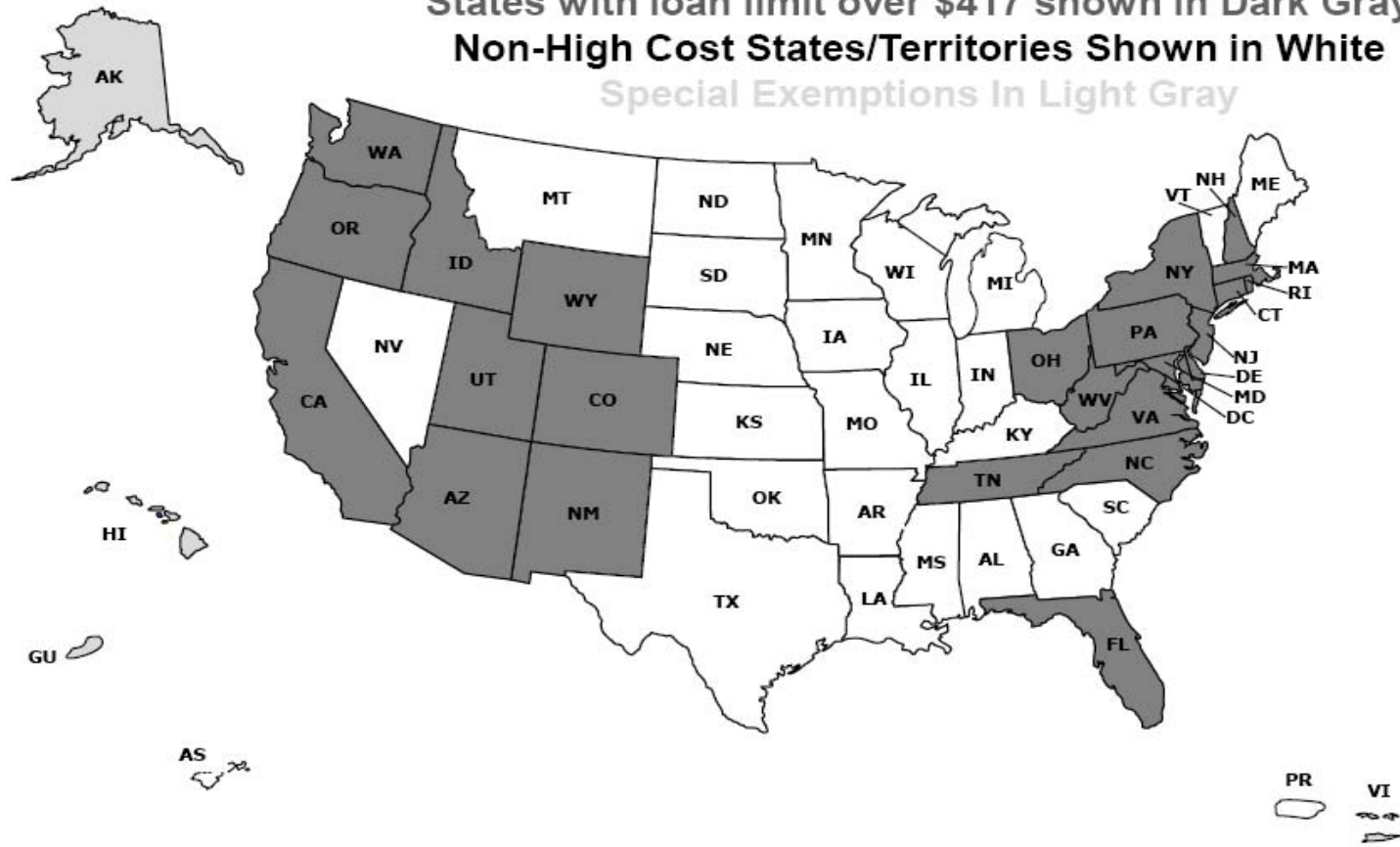
³ Estimates calculated by NAR's Senior Vice President and Chief Economist, Lawrence Yun.

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, HI, and territories not drawn to scale)