NAR Issue Brief
FHA and GSE Loan Limits
2011 Congressional Summer Recess

Legislation has been introduced in the House to make the current FHA and GSE loan limit formula permanent. H.R. 1754, the "Preserving Equal Access to Mortgage Finance Programs Act", is sponsored by Reps. Gary Miller (R-CA) and Brad Sherman (D-CA). In the United States Senate, Senators Robert Menendez (D-NJ), Dianne Feinstein (D-CA) and Johnny Isakson (R-GA) have introduced S. 1508 to extend the current loan limits. With housing markets remaining fragile, they cannot handle a mortgage disruption like lowering the loan limits.

Mortgage Loan Limits Will Drop without Congressional Action: The current loan limit formula is set to expire on September 30, 2011. Unless Congress acts, the FHA and GSE formula will drop to 115% of local area median home price with a cap of $625,500 from the current limit of 125%, with a cap of $729,750.

Decreasing the Limits Impacts Nearly Every State – NOT JUST HIGH COST AREAS: FHFA and FHA have published the new limits; more than 669 counties in 42 states and the territories would be negatively impacted by the loan limit formula and cap change. The average decline in loan limits would be more than $68,000. Only 8 states will see no decline (AR, IA, KS, MS, NE, ND, SD, & OK). Every other state will see a drop in loan limits. [1]

The Number of Families Impacted Will Be High: On October 1st, 2011, some 5 million homes – roughly 27% of all owner-occupied homes in the United States - will become ineligible for mortgage financing, since there is little to no private mortgage financing available. Moreover, 59% of all owner-occupied housing will be ineligible for affordable FHA financing.[2] If families can't sell their homes and others cannot buy, the inventory of homes for sale will grow, further reducing housing values nationwide.

Housing Markets are Rebounding, but the Recovery will be slowed: With tight underwriting already constraining mortgage availability, lowering the FHA/Fannie/Freddie loan limits will only further restrict liquidity. Even with the current higher limits, borrowers are finding it more and more difficult to obtain affordable mortgage financing. Making the current limits permanent at levels appropriate for all parts of the country will provide homeowners and homebuyers with safe, affordable financing and help stabilize local housing markets.

It's a Matter of Fairness: Retaining the current loan limits will allow homebuyers in higher cost areas to have access to affordable mortgage financing and share the same opportunity to achieve homeownership that borrowers in other regions of the country enjoy.

Congress Cannot Wait: Although the limits don't expire until September 30, 2011, action cannot wait. It takes FHA and the GSEs several months to reset their underwriting systems to accept any changes in loan limits. The result will be to unnecessarily force homebuyers and those looking to refinance into less affordable mortgage products.

[1]Based on the FY12 limits published by FHFA and FHA
[2]According to data compiled by the National Association of Home Builders, "GSE and FHA Loan Limit Changes for 2011: Scope of impact"

NAR Issue Brief
National Flood Insurance Program
2011 Congressional Summer Recess

Without reauthorization, the National Flood Insurance Program (NFIP) will expire on September 30th, 2011. This is the tenth time in only three years that this critical program is again on the verge of a lapse. NAR urges Congress to reauthorize NFIP long-term to ensure access to affordable flood insurance.

Legislative History
On May 13, 2011, the House Financial Services Committee unanimously approved H.R. 1309, the Flood Insurance Reform Act (Biggert, R-IL; Waters, D-CA). The bill would:

- Extend for five years, the NFIP's authority to issue flood insurance, which is not available in the private insurance market, except to the wealthiest and for the highest valued property (at least $1 million).
- Reform NFIP to strengthen participation and put the program back on the path to fiscal solvency, including by: adding coverage options for business interruption and living expenses and indexing limits; and improving the scientific integrity of the floodplain mapping of where flood insurance is required as well as streamlining the map appeals process.

Issue Background
Millions of American Taxpayers Rely on the NFIP for Flood Protection. Floods claimed more lives and property than any other natural disaster in the United States over the last century. Unable to ignore the rising cost to taxpayers of post-disaster payments for uninsured properties or the lack of a private market for flood insurance, Congress created the NFIP in 1968. Today, 5.6 million property owners rely on the program in 21,000 communities where flood insurance is required for federally related mortgages.

Stopgap Extensions and Shutdowns Have Exacerbated Market Uncertainty. Since September 2008, Congress has approved nine NFIP extensions and allowed five lapses. During the June 2010 lapse, 47,000 home sales were delayed or cancelled according to NAR survey data. Real estate markets require certainty to make the long-term investments that are vital to the U.S. economic recovery.

Private Markets Will Not Guarantee Access to Affordable Flood Insurance. The four large insurers that write virtually all the private flood insurance today do so only for "high net worth" owners and high-value property at an average price twice the NFIP's. Reinsurance would not address the fundamental market failure, which would force private insurers to set rates that no one but the wealthiest could afford while attempting to cover NFIP's 5.6 million policies.

Reauthorizing the NFIP Saves Taxpayers Both Money and Property. Historically, NFIP has collected enough revenue to cover its cost or pay back a short-term loan from the U.S. Treasury with interest. Even with the 2005 loan balance currently at $18 billion, reauthorization would not add to the federal budget deficit according to the Congressional Budget Office. However, the program's requirements have already averted $16 billion in losses by strengthening millions of properties against floods. Without NFIP, there would be more uninsured and unmitigated properties, taxpayers would still be "on the hook" for disaster assistance to these properties, and there would be no premiums to pay down any remaining loan balance or collect interest.

Floods Are a National Problem Requiring a National Solution. From 1990 to 2005, flood disasters were declared in every state — along rivers and lakes, behind levees and dams, anywhere snow melted or rain fell. In June 2011, they were declared in Iowa, Kansas, Indiana, Nebraska, Montana, Vermont, New York, Alaska Illinois and Oklahoma. More than 98% of NFIP policies were issued in non-coastal communities. Historic claims data shows the top three states contributing the most net revenue to NFIP coffers were on the Gulf; the top three with the most NFIP net loss years were in the Midwest.

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