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January 17, 2008

The Honorable Spencer Bachus  
Committee on Financial Services  
2246 Rayburn House Office Building  
Washington, DC 20515

Dear Ranking Member Bachus:

As Congress and the Administration turn their attention to developing an economic stimulus package, I strongly urge you to support the inclusion of provisions allowing the Government Sponsored Enterprises (GSEs) to purchase loans larger than the current conforming loan limit of \$417,000. This action would bolster the housing finance market, which continues to be severely stressed, and provide an immediate infusion of much-needed liquidity into the nation's mortgage market.

The critical role that the GSEs play in providing liquidity to the mortgage market has never been more evident than it is today. Unlike most proposed stimulus measures being discussed, a national conforming loan limit increase to \$625,000 would have a positive, immediate impact on the housing market and the broader economy. Specifically, NAR estimates that increasing the conforming loan limit to \$625,000 will strengthen current home prices by 2 to 3 percent and generate \$42 billion in increased economic activity.

It is also worth emphasizing that NAR's near-term forecast for the housing market continues to point toward weak conditions and sizeable pent-up housing demand. Increasing the conforming loan limits will help lift consumer confidence and result in approximately 335,000 additional home sales. The economic impact of the sale of an existing home has typically equaled 30 percent of its value. Thus, each additional home sale of \$417,000 would generate \$127,000 in new economic activity and personal income.

The lack of a viable secondary market for jumbo loans poses a significant threat to the housing market. This is evidenced by the fact that at the end of 2007, the volume of jumbo loans dropped sharply to half of the total origination at the beginning the year. The little, if any, investor appetite for securities backed by nonconforming mortgages has resulted in a spike in interest rates for jumbo borrowers at about 1 percentage point higher than conforming loans. This spread costs homeowners \$274 to \$411 every month in higher interest payments, which is cash that could otherwise be put back into the economy.

To date, we see no convincing signs that the poorly functioning secondary market for nonconforming loans will recover in the near term. Raising the GSEs' conforming loan limit will provide immediate relief to borrowers and alleviate any downward pressure on already fragile housing markets and the broader economy. While such an increase will not solve the full range of housing challenges ahead, it will inject liquidity in an important segment of the economy and play an important role in a stimulus bill aimed at preventing recession.

Sincerely,

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