

NAR Issue Summary

Conventional Residential Lending / Government-Sponsored Enterprises

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

Fannie Mae and Freddie Mac are the dominant institutions in the residential secondary mortgage market. With the Federal Home Loan Banks (FHLBanks), the housing-related government sponsored enterprises (GSEs) are integral to the nation's housing finance system. Over the last decade, the unprecedented growth of mortgage finance activity fueled significant growth at the GSEs. In 2003, the GSEs reported accounting irregularities, which energized Congress and the Administration to consider proposals to enhance the regulatory oversight of the GSE.

More recently, strict limitation on the loan amounts that the GSEs can purchase is hurting the liquidity of our national mortgage markets. As a result, proposals have been made to allow the GSEs to purchase loans larger than the current limit of \$417,000. Supporters of such a move argue this would help stabilize the current credit turmoil by infusing much needed capital into the nation's housing finance system.

I am a real estate professional. What does this mean for my business?

Housing and real estate account for nearly 20 percent of the national economy. The GSEs buttress the nation's housing finance system by assuring stability and liquidity in all housing markets thereby allowing investors to fund mortgages regardless of the interest rate environment or other economic factors. The GSEs represent a significant federal subsidy for homeownership.

Increasing the conforming loan limits would make mortgage money more affordable for some homebuyers. According to mortgage rate indexes, the interest rate for a 30 year fixed jumbo loan is about 60 basis points (0.6 percentage points) higher than a 30 year fixed conforming loan. Based on current interest rates, the monthly payment difference between a conforming loan and a jumbo loan can be as much as \$400. This difference can make or break a home purchase.

NAR Policy:

NAR supports strengthening GSE financial safety and soundness regulation through an independent agency that recognizes and facilitates their unique corporate structures and public missions. REALTORS® also support increasing the maximum



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loan amounts that the GSEs can purchase.

Opposition Arguments:

N/A.

Legislative/Regulatory Status/Outlook

In May 2007, the House passed a bill to overhaul the regulatory oversight of the housing GSEs and creates a strong, independent safety and soundness regulator with broad powers analogous to current banking regulators.

In February of 2008 the President signed into law the Economic Stimulus Act (H.R. 5140) which made temporary increases in the loan limits through December 31, 2008. These increases brought the limits to 125% of local area median income, with a floor of \$417,000 and a ceiling of \$729,750. In April, the House passed H.R. 3221, which included the text of H.R. 1427, with an amendment to make the economic stimulus loan limits permanent.

The Senate Banking Committee passed a GSE reform bill in May 2008. This bill is significantly different than H.R. 1427. There are several areas of concern including a requirement that the GSEs securitize jumbo conforming loans; loan limits capped at the lower of 100% of median and \$550,440; and broad authority for the new regulator to control the size of the portfolios and impose capital requirements. This bill has not yet gone to the Senate floor.

Current Legislation/Regulation (bill number or regulation)

No actions at this time.

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