

Maintain Government Loan Limits to Support the Housing Finance System

MBA Recommends

Congress should maintain the current, temporary higher loan limits for Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) until the housing market stabilizes and private capital returns. The higher loan limits are especially important to borrowers in higher cost housing areas.

Background

The temporary higher limits are a key component of the economic recovery, helping lower mortgage interest rates for a broad spectrum of consumers who want to purchase a home or refinance an existing mortgage. If the temporary limits are allowed to expire at the end of Fiscal Year 2011, obtaining financing will become more difficult and expensive for many borrowers. Maintaining the limits also would avoid jeopardizing the economic recovery in major housing markets that need the availability of FHA and Government Sponsored Enterprise (GSE)-supported loans. Last year, the House and Senate passed, and the President signed into law, legislation that extends the higher conforming loan limits through September 30, 2011. However, MBA believes the limits should be maintained until the housing market stabilizes and the private market reemerges.

Since the collapse of the housing finance market four years ago, nearly all of the market's liquidity has been provided by Fannie Mae, Freddie Mac and FHA/Ginnie Mae. Importantly, Congress recognized the need to approve the higher loan limits

in the Economic Stimulus Act of 2008 and provided a series of temporary, annual extensions in subsequent legislation. Without the higher loan limits, financing would be unavailable or too costly for many borrowers, which in turn would inhibit home purchases or the ability to refinance into more affordable mortgages. In prior years, the lack of certainty about the extension of the higher loan limits has had an impact on borrowers' ability to obtain affordable financing. For example,

- Some lenders stopped underwriting loans at the then-current interest rate for conforming high-value loans because lenders were uncertain about whether they would be able to sell the loans into the secondary market, and were unable or unwilling to retain them in their own portfolios.
- Consumers could not lock in current interest rates beyond 60 days for conforming jumbo loans. As a result, loans that do not close before the end of the year will need to be underwritten again, and possibly declined because of the higher interest rate and resulting mortgage payment.

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Certainty with respect to whether the loan limits will be maintained is necessary to provide sufficient time for FHA, the Federal Housing Finance Agency, and the GSEs to conduct market assessments and provide the necessary implementation guidance.

Action Needed

The temporary loan limits authorized by Congress have benefited consumers and the housing market during what has been a turbulent period for our nation's economy. In light of the continuing weakness in the secondary market, we urge Congress to ensure that the GSEs and FHA can continue providing capital to support loans to moderate and middle income American families across the nation.