CALIFORNIA ASSOCIATION OF REALTORS®

July 19, 2007

Alfred Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
1700 G. Street N.W. 4th Floor
Washington, DC 20552

2007 OFFICERS

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Re: *Proposed Guidance on Conforming Loan Limit Calculations*

Dear Mr. Pollard:

As President of the California Association of REALTORS® (C.A.R.), and on behalf of the more than 180,000 members, I am pleased to submit the following comments to the Office of Federal Housing Enterprise Oversight (OFHEO) on the *Proposed Guidance on Conforming Loan Limit Calculations,* released on June 20, 2007. C.A.R. applauds OFHEO's efforts to clarify the process and rules for calculating the conforming loan limit (CLL) for future years, and believes guidance is both necessary and overdue. However, C.A.R. has a number of concerns with the *Proposed Guidance* and how it will negatively impact the real estate market in not just California, but across the country.

C.A.R. believes OFHEO's final guidance on Procedures for Years in Which The House Price Level Declines (II(b)) should state that the CLL in future years will remain the same when the October Monthly Interest Rate Survey (MIRS) shows an annual decline in the median home price. The percentage change of the price decline should be carried forward to offset future increases in the CLL.

C.A.R. believes the statutes are clear that the CLL may only be increased or remain the same for the Government Sponsored Enterprises (GSE). OFHEO's *Proposed Guidance* references 12 USC 302(b)(2) and 305(a)(2) for how and when the CLL may be adjusted, stating, "The Enterprises apply the percentage change to the current year's conforming loan limit to establish the next year's limit." In 2004, OFHEO assumed the role of setting the annual CLL as part of their safety and soundness authority. However, C.A.R. believes the *Proposed Guidance* does not properly follow the statute it references. 12 USC 302(b)(2) and 305(b)(2) are very specific as to when and how an adjustment may be made, stating:

"Each such adjustment shall be made by adding to each such amount (as it may have been previously adjusted) a percentage thereof equal to the percentage increase during the twelve-month period ending with the previous October in the national average one-family house price in the monthly survey of all the major lenders conducted by the Federal Housing Finance Board."

The statute clearly allows for the CLL to only be adjusted when there is a "percentage increase" in home prices.

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If, upon further review of the statute, OFHEO still believes the CLL may be adjusted downward, C.A.R. has grave concerns over the impact such a move will have in the nation's housing market.

The mission of the GSE are to provide stability, affordability and liquidity to the nation's housing market. By reducing the CLL, OFHEO reduces the GSE's ability to respond to changes in the secondary and primary markets. Because drops in home prices primarily occur in down markets, any reduction in the CLL would coincide with that downturn, which is when the GSE are needed most to help stabilize the market.

OFHEO should also take into consideration that the GSE are no longer the only housing entities that utilize the CLL. Both the Veterans Affairs (VA) and the Federal Housing Administration (FHA) base their loan limits on the CLL. As is evident in today's housing market; the GSE, the VA and the FHA are being looked to by Congress, regulators, lenders and homeowners to provide a viable option for borrowers in risk of foreclosure to refinance into, and provide alternatives to the subprime market. The role these government entities play is being magnified by the needs of the current decline in the housing market.

The history of the real estate market shows that reducing the CLL in future years would create an unnecessary burden on the GSE, the VA, the FHA, lenders and home buyers, because of the short period of time which housing downturns last and are then followed by quick recoveries. Going back to 1973, the MIRS shows there were only three times that the October median home price declined from one year to the next prior to the 2005-2006 decline: 1988-1989, 1992-1993 and 1993-1994. Each of these downturns was followed by a quick recovery: it took less than two years for the median home-price percentage to increase above previous years' declines.

C.A.R. would like to examine what might have happened from 1992 to 1996 if the *Proposed Guidance*—as C.A.R. understands it—was in place to show the uncertainty and confusion that would have been caused. According to the MIRS History Table on All Homes, 1973-2006, the median home price declined 2.96% in 1993. This percentage decrease would have been carried over to the 1995 CLL, and the 1994 CLL would have remained constant. The median home price then declined 1.46% in 1994 which would have been applied to the 1996 CLL. The 1995 CLL would have been reduced 2.96% because of the 1993 decline. The 1995 median home price increased 1.90%, which would have immediately applied to the 1996 CLL. This would mean the 1996 CLL would have increased .44% (-1.46% + 1.90%)

In the example above, the 1996 CLL increase slightly. However, lenders would have had no way of knowing this and would have had to prepare for a potential decline in the CLL as would have happened in 1995. Lenders, the GSE, the VA, the FHA and potential home buyers all would have had to spend vast resources preparing for both a decline or incline in the CLL. C.A.R. believes that while the intention of OFHEO is to create a more transparent, safe and sound way to set the CLL, they would in fact bring uncertainty and chaos to the housing market when their theory is put into practice. As is shown in the example above.

Lastly, decreasing the CLL will impact hundreds if not thousands of loans due to unforeseen circumstances every year it is reduced. Every REALTOR® knows that all real estate transactions encounter at least one bump in the road. Sometimes they are small and have no bearing on the final execution of the transaction, but sometimes the bumps can bring a transaction to a complete halt. Home buyers are sometimes forced to find new lenders, or the closing of a transaction may be delayed so long that the borrower must start the loan process over. C.A.R. is concerned that OFHEO will be unable to create a *Final Guidance* that will take into account all possible cinereous to prevent home buyers from losing a mortgage or paying a higher cost in a jumbo loan due to unforeseen circumstances. Only by holding the CLL steady can all parties of the transaction know that the loan will fund, the home will be sold and a family's dream will be realized.

In closing, C.A.R. is asking OFHEO to follow the statutory requirements of increasing the CLL when the median home price increases, and to hold the CLL at the same level as the previous year's when the median home price declines. Additionally, OFHEO should take into consideration the impact that decreasing the CLL will have on not only on the GSE but the entire real estate market.

Thank you for your consideration of C.A.R.'s comments on the *Proposed Guidance on Conforming Loan Limit Calculations*. If you have any further questions please contact Matthew Roberts, Federal Government Affairs Manager, at 213-739-8284 or by email at matthewr@car.org.

Sincerely,

Colleen Badagliacco
President, California Association of REALTORS®