September 27, 2013

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
400 7th St., SW
Washington, DC 20024

Dear Acting Director DeMarco:

We are concerned about reports that the Federal Housing Finance Agency (FHFA) is considering actions to reduce the maximum size of home mortgage loans that Fannie Mae and Freddie Mac can finance. Such reductions could negatively impact our economic recovery, disproportionately harm residents and homebuyers in areas with high housing costs, and contravene standards specifically set by Congress to account for regional variations in home prices. As you know, Congress is actively working on housing finance reform legislation, which we believe is the more appropriate vehicle for addressing this issue. Now is not the time for FHFA to take this action on its own.

While we understand the desire to reduce the public sector footprint in the mortgage market, which expanded when the federal government stepped in to stabilize the market during the financial crisis, our economy is still recovering. Unemployment remains high at 7.3 percent, and more than four million Americans remain long-term unemployed. Instead of strengthening the economic recovery, reducing the loan limits would have a contractionary effect. For example, a family living in their first home seeking to move up in the housing market could see the value of their existing home drop and the cost of a mortgage to purchase a new home rise.

Moreover, reducing the loan limits or ignoring the higher limits applicable to high cost areas would disproportionately fall on the backs of families who already face the burden of high housing costs. Home values are not uniform across our nation, so it would be wrong to impose a one-size-fits-all limitation. The prices of homes may be higher in some parts of the country than others, but the families who live there are not necessarily proportionally wealthier; they are ordinary, middle-class families who work hard to save for a home like homeowners and homebuyers anywhere else. Congress set the limits where it did, and provided for regional variation as it did, to meet the needs of homeowners in <u>all</u> parts of our country. Without retaining higher limits for high-cost areas, many hard-working, middle-income families would be denied homeownership simply based on where they live.

It would also be wrong to assume that families now served by the conforming loan market could be equally served by the jumbo market. This market's comparatively low costs today reflect the fact that it serves "a relatively exclusive slice of borrowers who have pristine credit, large down payments, lots of assets and low debt loads relative to their incomes," according to a recent *Wall Street Journal* article.[1] In other words, these conditions reflect a small group of borrowers. For the many families who do not meet these requirements but who responsibly make their payments and have shown themselves to be low-risk in the conforming market, they are more likely to face higher costs if the limit is reduced.

Congress, not FHFA, should determine whether to change the conforming loan limits. The provisions establishing FHFA's powers as conservator are broad and admittedly subject to different interpretations as to the Agency's power to lower the limits. But reducing the loan limits may actually worsen the financial condition of Fannie Mae and Freddie Mac—in direct contravention to FHFA's responsibilities as conservator.[2] Regardless of FHFA's authority, however, it should defer to Congress in the absence of express direction. The fact that Congress is currently working on housing finance reform legislation only strengthens the rationale for deference.

If FHFA is considering any changes to the loan limits, we request that before taking any action, the Agency provide us with:

(1) a detailed description of what it believes to be the basis of its authority to take such action and

(2) a quantitative analysis of the impact on the economy and national and regional housing markets, including a detailed analysis of the distributional impact on households in high-cost areas.

Thank you for your careful review of our concerns. We appreciate your thoughtful and timely response.

Sincerely,

Robert Menendez

Johnny Isakson

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[1] "'Jumbo' Mortgage Rates Fall Below Traditional Ones," *Wall Street Journal*, Sept. 4, 2013 (http://online.wsj.com/article/SB10001424127887323893004579055283906962194.html).

[2] The Federal Housing Administration's most recent annual Actuarial Report, for example, has data showing that larger loans under the current loan limits—which would be excluded by a reduction—tend to perform better than other loans in the same area. *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2012*, pp. 48-49, available at: http://portal.hud.gov/huddoc/ar2012_forward_loans.pdf.

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