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July 27, 2015

The Honorable Mel Watt
Director
Federal Housing Finance Agency
Attention: Comments/RIN 2590-AA39
400 7th St., SW
Washington, DC 20024

Transmitted by e-mail to RegComments@FHFA.Gov

RE: 2015-N-03

Dear Director Watt:

On behalf of the over 1 million members of the National Association of REALTORS®, I am writing to respond to the **2015-N-3, Notice of Establishment of Housing Price Index.** NAR is America's largest trade association, representing over one million real estate professionals, 54 state and territorial associations and more than 1,400 local associations. Federal support for housing finance is a critical driver of liquidity and affordability in the housing market. NAR believes that a single price index does not account for the broad nature of the housing market through the housing cycle and could limit access to credit, counter to a principal duty of the FHFA Director. Rather, NAR believes a price index or methodology that recognizes the multifaceted market dynamics is a better choice for setting the conventional loan limits.

Market Recovery Necessitates New Limits

After peaking in 2006, the national median home price plummeted more than 25 percent[1]. Consequently, the conforming loan limit was effectively frozen in 2007 and has yet to change. However, with all measures of home prices rising for successive years, the national price trend suggests the need to raise the current conventional loan limit is imminent.

The Federal Housing Finance Agency (FHFA) is tasked to "establish and maintain a method of assessing the national average 1-family house price for use in adjusting the conforming loan limitations."[2] Furthermore, the Safety and Soundness Act suggests a number of indexes and measures that might be used to adjust the limits. In recent years, several new price measures were developed joining a crowded field that includes measures generated by S&P Case-Shiller, Black Night, Corelogic, Freddie Mac, FNC, the National Association of REALTORS®, and the FHFA.

While NAR recognizes the arguments and merits laid out by the FHFA in its request for comment, we believe that the most important features of an index used to establish the loan limits are:

- Transparancy of methodology
- Continuity of production, and
- Appropriate measure of all facets of the housing finance market over the housing cycle

[1] NAR Research
[2] Section 1322 (12 U.S.C. 4542) of the Safety and Soundness Act as amended by section 1124(d) of HERA, 122 Stat. 2693

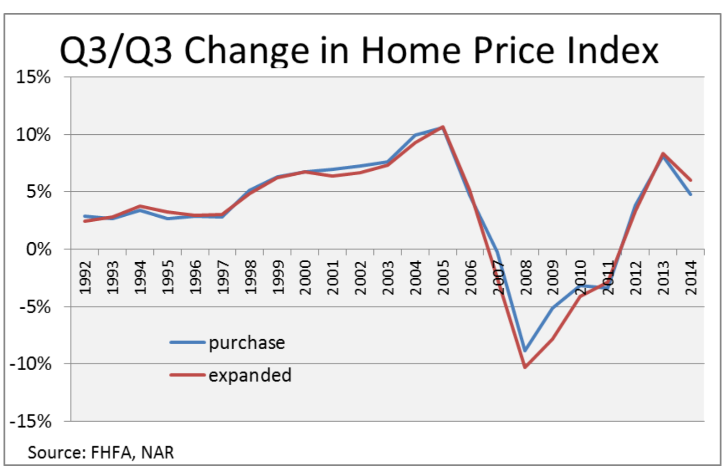
Priorities and Market Cycles

Several measures, public and private, now incorporate a same-sale methodology. However, the exact data used, its make up over time, weighting and other facets may not be made publicly available. Any measure used for the setting of national standards must be fully transparent, not just in method, but also in the underlying data as the data affects the price trend. The entity responsible for producing the selected price index should publish information on weights, distributions and trends in the underlying data.

While private data producers have made strides in incorporating cutting edge technology into their price series, none have the resources or longevity as producers as the federal government. When oversight of Fannie Mae and Freddie Mac (the government sponsored enterprises, or GSEs) was transferred from the Office of Federal Housing Enterprise Oversight (OFHEO) to the FHFA in 2008[3], the responsibility to oversee the production of the OFHEO's home price index used for adjusting the conventional loan limits was similarly transferred to the FHFA.[4] This act demonstrates the federal government's desire and ability to maintain continuity of staff and resources in order to maintain the price index. Given the impact the housing market has on the U.S. economy, maintaining a steady source of financing is critical. The loan limits that define the space within which the government can support the housing market are critical for a steady and affordable flow of credit to consumers and economic growth. A measure constructed independent from the private sector would provide continuity and limit interference.

Finally, as was learned in recent years, the housing finance system is not one cohesive market. The financial strength of, and flow of financing to, the conventional and non-conventional markets can vary dramatically over the housing cycle. Originators and private investors shy away from credit risk and raise downpayment requirements in a procyclical manner during economic downturns, while the government-backed portion of the market remains stable. But even the latter trend has limits. The FHFA's "purchase" index, which is made up of data from loans financed by Fannie Mae and Freddie Mac, has outperformed the FHFA's broader "expanded" index during the recent housing market expansion and that of 2001 to 2006. This pattern in part reflects a shallower price decline in the conventional market during the past two recessions as well as price recoveries that were similar to or stronger to those in the broader market.

By including FHA data as well as REO data through county records, the ability of the middle and upper tiers of the conventional space to expand are limited. While in theory this demand might shift to a healthy private sector, that has not occurred in recent years due to systemic issues in the market for private label securities. Furthermore, in the wake of the housing market crash, portfolio lenders focused on high net worth borrowers with large down payments and pristine credit. Basing the conventional loan limit on the expanded index would limit the ability of borrowers in the upper price segment of the *conventional* market to obtain financing, government or private, during the nascent period of housing market expansion, particularly those with less than perfect credit and significant downpayments. This pattern would limit tradeup buying and the unlocking of housing supply for entry level buyers. As the business cycle continues and the confidence of private financiers improves, they may reenter the market and compete against the government sources of financing; the current historically-high fees at the GSEs has in fact enabled a gradual recovery of portfolio lending in recent years and a relaxation of their terms to compete with the GSEs in late 2014 and early 2015.



[3] Housing and Economic Recovery Act of 2008 (HERA), Pub. L. No. 110-289, 122 Stat. 2654

[4] Housing and Economic Recovery Act of 2008 (HERA), Pub. L. No. 110-289, 122 Stat. 2693

Conversely, the FHFA purchase and Case-Shiller indexes displayed slower price growth in the early and late 1990s. Since the FHA loan limit is a function of the conventional loan limit, basing the limit on the purchase index would hamper access to credit for this significant portion of the market during this period and for trade-up buyers in turn.

The behavior of the FHFA indexes suggests that neither is optimal for setting a conventional loan limit to support an efficient market with fluid access to credit throughout the housing cycle. A tractable and superior alternative would be a rule that employs the larger growth rate of the two indexes over a 4-quarter period to adjust the national loan limits. While a more sophisticated measure that incorporates access and rejection rates in combination with price growth rates of the various market segments may be ideal, the simple measure suggested above would be more transparent and operational. Alternatively, the FHFA might develop a value-weighted variation of its purchase index. At worst, the FHFA should utilize the purchase index, as it grows faster during market's expansion through the cycle.

Conclusion

NAR appreciates the opportunity to comment on the FHFA's proposal to utilize its expanded price index to adjust the national loan limits. We agree with the FHFA's desire for an index with transparent methodology and data and one that provides consistency in production. However, given the limiting behavior of both the FHFA's expanded and purchase indexes, NAR believes that the FHFA should utilize a measure that incorporates the dynamics of the disparate submarkets the two indexes represent.

Thank you for your time and consideration of this timely issue. We look forward to working with you. If I may be of any assistance to you, please do not hesitate to contact me or Ken Fears, NAR Director of Housing Finance and Regional Economic Research, at kfears@realtors.org.

Sincerely,

Chris Polychron
2015 President, National Association of REALTORS®