

Date: February 14, 2008

To: State Executive Officers

FROM: Dale Stinton, Executive Vice President and Chief Executive Officer
Joe Ventrone, Vice President, Regulatory and Industry Relations

RE: Implementation of the Two Mortgage Provisions in the Stimulus Bill

On February 13, 2008, the President signed the stimulus bill, H.R. 5140. This is the first in a series of memorandums discussing the implementation of the two mortgage related provisions included in the signed measure. The bill provides temporary increases to both the Federal Housing Administration (FHA) and government sponsored enterprises (GSE) mortgage limits until December 31, 2008. NAR will provide updated information on these provisions as it becomes available.

The new law makes seven temporary changes to the FHA and GSE loan limits:

- Raises the base FHA loan limit ("floor") to \$271,050 (65 percent of the current GSE limit of \$417,000),
- Sets the base GSE loan limit ("floor") at \$417,000.
- Raises the maximum FHA loan limit from \$362,750 to \$729,750 (175 percent of the Fannie/Freddie (GSE) floor of \$417,000)
- For all areas where the FHA limit exceeds \$417,000, the GSE limit will be the same as the FHA limit. So, for example, if the FHA limit is \$590,000, the GSE limit will also be \$590,000.
- Increases the factor used to calculate FHA limits from 95 percent to 125 percent of area median sales price. Any area with an area median sales price above \$216,840 will benefit from this change.
- Replaces the existing FHA ratios used to calculate maximum loan amounts for two-, three- and four-family units financed by FHA with the ratio used by Fannie Mae/Freddie Mac ratios to calculate their limits for two-, three- and four family unit properties.

Fannie Mae and Freddie Mac two-, three- and four family unit loan limits increase the same percentage that the single family limit increases. In 2006, for example, the GSE single family limit increased 15.95 percent and the mortgage limits for multiple units increased 15.95 percent. This change should result in significant increases in FHA limits for multi-unit properties.

- The Secretary of the US Department of Housing and Urban Development (HUD) will now have the discretion to raise the maximum FHA loan limit by an additional \$100,000 for all properties (including 2-4 family units).

Implementation

HUD is required by the law to publish the new mortgage limits by March 14, 2008. These new limits will be effective for FHA immediately upon publication. NAR developed estimates of the temporary FHA and GSE single-family loan limits. This data can be found at [http://www.realtor.org/GAPublic.nsf/files/new_loan_limits.pdf/\\$FILE/new_loan_limits.pdf](http://www.realtor.org/GAPublic.nsf/files/new_loan_limits.pdf/$FILE/new_loan_limits.pdf)

The NAR sent a letter to HUD on February 13, 2008, urging HUD to implement the limits as quickly as possible.

The implementation schedule is complicated by the fact that Fannie Mae and Freddie Mac will be using the same limits above \$417,000 and Office of Federal Housing Enterprise Oversight (OFHEO) Director James B. Lockhart, III (Fannie and Freddie's regulator) noted in a recent speech that implementation could take up to three months with an additional month for partial enactment. Mr. Lockhart offered no explanation as to what partial enactment means. NAR sent a letter to OFHEO on February 13, 2008, urging immediate adoption of the new loan limits.

To date, Fannie Mae and Freddie Mac have not indicated their implementation plans once limits are established by OFHEO.

Eligible loans

FHA – The statute applies to “mortgages for which the mortgagee has issued credit approval for the borrower on or before December 31, 2008”. We believe this means any loan which receives underwriting approval before January 1, 2009.

GSE – The statute applies to “mortgages originated during the period beginning on July 1, 2007, and ending at the end of December 31, 2008”. We believe this means any loan originated before January 1, 2009. This also means that GSE can buy loans that meet the new loan limits that were originated after June 30, 2007. Consumers with existing jumbo mortgages may want to consider refinancing under the new loan limits prior to January 1, 2009.

What if I don't think my loan limit accurately reflects the median home price?

FHA has a process by which the local area median loan limits may be challenged. If you do not believe the published loan limit accurately reflects 125 percent of your median home price, you may provide HUD with comparable home sales data

to make the case that the loan limit should be raised. NAR is currently creating a guide for REALTORS® on how to challenge your loan limit and it will be available shortly.

The opinions expressed below are from consultant Brian Chappelle, Partner, Potomac Partners 2127 S. Street N.W. Washington D.C. 20008. These are the consultants opinions and do not necessarily reflect the views of NAR.

When can Lenders or Brokers start taking applications? (This portion of the memorandum is primarily for firms with a lending component to their organization.)

While every client must make their own decision on this topic, below is an assessment of the risks.

Areas at the new base loan limit ("floor") of 65 percent of the current GSE limit (\$417,000) = \$271,050

Since this amount is established in the bill and the law requires that HUD implement the provision in 30 days, there appears to be minimal risk in taking applications at the higher base loan limit ("floor") immediately.

If you wanted to close a loan at the higher base limit prior to HUD's implementation of the statute, the primary risks are two-fold. 1) You would have to run the loan through the Total Scorecard again to remove the "Ineligible" message because of an excessive mortgage amount for the area. If the borrower's credit quality deteriorated in the interim, there could be an eligibility issue. You could underwrite the loan manually to avoid this issue and 2) the insurance endorsement process. A loan must be submitted within 60 days of closing. Otherwise, the lender is required to certify that the most recent payment was made in the current month (See Mortgagee Letter 2005-23 for FHA late endorsement requirements)

High cost areas (Above \$271,050)

The mortgage limit is determined by calculating 125 percent of the area median sales price which is determined at the county or metropolitan statistical area (MSA) level. We believe that HUD is likely to use the same methodology and data that were utilized for calculating the 2008 mortgage limits. However, although it has been less than 30 days since HUD published those limits, it is also possible that HUD could update its data.

Risk is Divided into Two Categories:

First, for areas with mortgage amounts below the current Fannie/Freddie mortgage limit (\$417,000), we see less risk since HUD will be able to make its decision independently and implement these limits reasonably soon (i.e. less than the month) and will probably not implement any special underwriting requirements. The main issue is, of course, the calculation process for the maximum mortgage amount. In this regard, maximum loan amounts are increasing in many high cost areas because of the 125 percent of area median calculation (instead of 95 percent that was previously used). The issue is really how much.

Second, for areas that will have maximum mortgage limits above the current Fannie/Freddie maximum limit, it is more complicated because of the impact on Fannie Mae and Freddie Mac, the role of their regulator (OFHEO) and possible special pricing and underwriting requirements for these loans in addition to the calculation issue discussed above.

We believe there is much more uncertainty about the speed with which the new provisions will be implemented for loans above \$417,000 particularly for conforming loans. However, pricing and underwriting issues would also apply for FHA loans. For example, since these loans will be available for a short period of time (until December 31, 2008), it is possible that Ginnie Mae would form special customized pools that could affect pricing.

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