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222 St Joseph Avenue  
Long Beach, CA 90803  
562.439.5303 Fax 562.987.4854  
E-mail: [dickgaylord@earthlink.net](mailto:dickgaylord@earthlink.net)

**Richard F. Gaylord, CIPS, CRB, CRS, GRI**  
*President*

January 22, 2008

The Honorable James B. Lockhart III  
Director  
Office of Federal Housing Enterprise Oversight  
1700 G Street, NW  
Washington, DC 20552

Dear Director Lockhart:

Your recent report on the impact of raising the conforming limit to 150 percent of its current level concludes that such an increase would inevitably increase the risk exposure of the GSEs. The report bases its conclusions on the characteristics of jumbo mortgages that were securitized in the first half of 2007. For example, the report finds that jumbo mortgages had higher LTVs and lower credit scores, on average, than the GSEs' existing book. It uses this finding to conclude that raising the loan limit would cause the GSEs to purchase "newly eligible" conforming loans with risk characteristics that are similar to these recently originated jumbo loans, thereby leading to an overall decline in the quality of the GSEs' books.

This type of reasoning is erroneous on several grounds. To begin with, the jumbo mortgages that were included in OFHEO's analysis were subjected to very different underwriting guidelines than those that would be used by the GSEs. There is no reason to assume that loans which ultimately pass the GSEs screens would add to the risk of their overall book as those loans are very different from the non-GSE jumbo loans originated in the past. For example, a large percentage of jumbo mortgages were Interest Only or Option ARMs, as your analysis points out. Since the GSEs have agreed to follow recently-issued guidance on the underwriting of nontraditional mortgages, many of the jumbo loans that were originated in the past would undoubtedly fail the GSE screens. While the past is often a prelude to the future, this type of reasoning would clearly not apply when very different underwriting guidelines are used.



OFHEO also offers a number of other potential concerns regarding the impact of raising the loan limit, including: creating additional demands on the GSEs' capital; making it more difficult to meet affordable housing goals; and placing upward pressure on housing prices in markets with high concentrations of jumbo borrowers. However, in raising these objections, there is little, if any, acknowledgement of liquidity concerns that are currently facing the market and the fact that reducing downward pressure on housing prices would be a welcome counterbalance. In the current economic environment, the potential benefits of raising the loan limit outweigh the potential costs.

Raising the loan limits would return liquidity to a segment of the secondary market that is functioning poorly. It would also save borrowers significant sums of money as the interest rates on these loans would be reduced. NAR estimates that borrowers in the \$417,000 to \$625,000 mortgage range could save between \$274 and \$411 a month--\$3,288 to \$4,932 a year—due to lower interest rates. This would be a significant benefit to both homebuyers and homeowners seeking to refinance.

In short, we believe it is erroneous to base projections on the impact of increasing the GSE loan limits on mortgages originated under completely different underwriting standards. We believe an increase in the loan limits will provide a significant benefit to the housing market and the overall economy. For these reasons, we strongly urge OFHEO to reexamine its assessment of the risk of increasing the GSE loan limits.

Thank you for your time and consideration in this matter. If I may be of any assistance to you, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard F. Gaylord". The signature is fluid and cursive, with the first name "Richard" and last name "Gaylord" clearly legible.

Richard F. Gaylord  
2008 President  
National Association of REALTORS®