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October 31, 2011

The Honorable Hal Rogers, Chairman
House Committee on Appropriations
2406 Rayburn House Office Building
Washington, DC 20515

By Fax to 202-225-0940

Dear Congressman Rogers,

As the House of Representatives is set to consider an extension of high cost area loan limits for the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac (the GSEs), I urge you to say no to higher loan limits. This measure has already passed in the U.S. Senate and will channel more loans from higher-income borrowers away from conventional lending and into the FHA single-family fund. This will occur at precisely the time when the FHA should be targeting low- and moderate income borrowers, to both help keep existing homeowners in their homes and to provide first-time borrowers with affordable mortgage alternatives.

Under the new proposal, high cost area loan limits would be raised from the current maximum of $625,500 back to $729,750. However, to afford an FHA-insured mortgage of $729,750, a borrower would need an annual income of over $185,000 – even as mortgage interest rates are at all-time lows. To afford a $625,500 mortgage, a borrower still would need an income of over $155,000. To put these income numbers into context, recently released Congressional Budget Office (CBO) data has shown that the proposed high cost area loan limits would only benefit the top 5 percent of US households.[1] CBO also indicates that growth in income for the top income earners vastly exceeds growth of all households. Why is Congress moving the FHA program to serve borrowers at a higher income level, especially now when we know that the share of income going to high-income earners has grown and the share of income to low- and moderate income families has actually declined?[2]

It might be argued that the GSE limits should be available to these very high-income borrowers in order to keep a liquid secondary market. But who are the GSE borrowers, other than high-income borrowers? The GSEs purchase loans primarily from borrowers making large down payments – the Federal Housing Finance Agency's annual report to Congress reported that the average downpayment for a GSE purchased loan in 2010 was over 30 percent. But FHA is very different, the average down payment for the FHA borrower in 2010 was less than five percent. Moreover, FHA's historical intent was to serve only moderate-income borrowers with low down payments.

Keeping both FHA and the GSEs at very high loan limits would be bad enough, but the current proposal goes beyond equal treatment for FHA and the GSEs. It actually mandates that the GSEs charge special fees that inevitably will direct more high-income, low down payment borrowers to FHA and away from conventional mortgages. Under the Senate measure, the GSEs are required to charge an extra 15 basis points for all loans over $625,500, which is passed on to the borrower in the form of a higher cost mortgage. The FHA is not required to charge an extra fee. As a result, lenders and low-down payment borrowers will inevitably choose the lowest cost option. That option will be FHA.

If FHA were financially sound, this proposal would simply be bad policy as more low down payment, high-income borrowers are directed to FHA and its 100 percent taxpayer guarantee. However, FHA is on thin ice financially. The FHA actuarial fund is required by Congress to have a 2 percent capital ratio. For the past two years, FHA has had only a bare 0.5 percent capital level. Diverting more high-income, low-down payment borrowers to FHA means that additional financial burden will be placed unnecessarily on the FHA fund and on the taxpayer at a time when the financial resources of the single family fund need to be husbanded to benefit moderate income borrowers.

Finally, President Obama and the Congress have made clear their intention to reduce FHA's market share by 50%, further reducing the role that they play in the mortgage market. By raising the loan limits, prospective working-class homeowners will find the bar raised even higher as they compete with higher income households for the increasingly scarce mortgage guarantees offered by FHA.

Let the market serve those of greater means; say no to the higher loan limits.

Sincerely yours,

John Taylor
President & CEO

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[1] Trends in the Distribution of Household Income 1979 to 2007, October 2011, see Appendix A page 35 at http://www.cbo.gov/ftpdocs/124xx/doc12485/10-25-HouseholdIncome.pdf, finding that household income in excess of $137,000 in 2007 set the floor for the top 5% of households.

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October 31, 2011

The Honorable Norm Dicks, Ranking Member
House Committee on Appropriations
2467 Rayburn House Office Building
Washington, DC 20515

By Fax to 202-226-1176

Dear Congressman Dicks,

As the House of Representatives is set to consider an extension of high cost area loan limits for the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac (the GSEs), I urge you to say no to higher loan limits. This measure has already passed in the U.S. Senate and will channel more loans from higher-income borrowers away from conventional lending and into the FHA single-family fund. This will occur at precisely the time when the FHA should be targeting low- and moderate income borrowers, to both help keep existing homeowners in their homes and to provide first-time borrowers with affordable mortgage alternatives.

Under the new proposal, high cost area loan limits would be raised from the current maximum of $625,500 back to $729,750. However, to afford an FHA-insured mortgage of $729,750, a borrower would need an annual income of over $185,000 – even as mortgage interest rates are at all-time lows. To afford a $625,500 mortgage, a borrower still would need an income of over $155,000. To put these income numbers into context, recently released Congressional Budget Office (CBO) data has shown that the proposed high cost area loan limits would only benefit the top 5 percent of US households.[1] CBO also indicates that growth in income for the top income earners vastly exceeds growth of all households. Why is Congress moving the FHA program to serve borrowers at a higher income level, especially now when we know that the share of income going to high-income earners has grown and the share of income to low- and moderate income families has actually declined?[2]

It might be argued that the GSE limits should be available to these very high-income borrowers in order to keep a liquid secondary market. But who are the GSE borrowers, other than high-income borrowers? The GSEs purchase loans primarily from borrowers making large down payments – the Federal Housing Finance Agency's annual report to Congress reported that the average downpayment for a GSE purchased loan in 2010 was over 30 percent. But FHA is very different, the average down payment for the FHA borrower in 2010 was less than five percent. Moreover, FHA's historical intent was to serve only moderate-income borrowers with low down payments.

Keeping both FHA and the GSEs at very high loan limits would be bad enough, but the current proposal goes beyond equal treatment for FHA and the GSEs. It actually mandates that the GSEs charge special fees that inevitably will direct more high-income, low down payment borrowers to FHA and away from conventional mortgages. Under the Senate measure, the GSEs are required to charge an extra 15 basis points for all loans over $625,500, which is passed on to the borrower in the form of a higher cost mortgage. The FHA is not required to charge an extra fee. As a result, lenders and low-down payment borrowers will inevitably choose the lowest cost option. That option will be FHA.

If FHA were financially sound, this proposal would simply be bad policy as more low down payment, high-income borrowers are directed to FHA and its 100 percent taxpayer guarantee. However, FHA is on thin ice financially. The FHA actuarial fund is required by Congress to have a 2 percent capital ratio. For the past two years, FHA has had only a bare 0.5 percent capital level. Diverting more high-income, low-down payment borrowers to FHA means that additional financial burden will be placed unnecessarily on the FHA fund and on the taxpayer at a time when the financial resources of the single family fund need to be husbanded to benefit moderate income borrowers.

Finally, President Obama and the Congress have made clear their intention to reduce FHA's market share by 50%, further reducing the role that they play in the mortgage market. By raising the loan limits, prospective working-class homeowners will find the bar raised even higher as they compete with higher income households for the increasingly scarce mortgage guarantees offered by FHA.

Let the market serve those of greater means; say no to the higher loan limits.

Sincerely yours,

John Taylor
President & CEO

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[1] Trends in the Distribution of Household Income 1979 to 2007, October 2011, see Appendix A page 35 at http://www.cbo.gov/ftpdocs/124xx/doc12485/10-25-HouseholdIncome.pdf, finding that household income in excess of $137,000 in 2007 set the floor for the top 5% of households.

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October 31, 2011

The Honorable Tom Latham, Chairman
Subcommittee on Transportation, Housing and Urban Development
2217 Rayburn House Office Building
Washington, DC 20515

By Fax to 202-225-3301

Dear Congressman Latham,

As the House of Representatives is set to consider an extension of high cost area loan limits for the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac (the GSEs), I urge you to say no to higher loan limits. This measure has already passed in the U.S. Senate and will channel more loans from higher-income borrowers away from conventional lending and into the FHA single-family fund. This will occur at precisely the time when the FHA should be targeting low- and moderate income borrowers, to both help keep existing homeowners in their homes and to provide first-time borrowers with affordable mortgage alternatives.

Under the new proposal, high cost area loan limits would be raised from the current maximum of $625,500 back to $729,750. However, to afford an FHA-insured mortgage of $729,750, a borrower would need an annual income of over $185,000 – even as mortgage interest rates are at all-time lows. To afford a $625,500 mortgage, a borrower still would need an income of over $155,000. To put these income numbers into context, recently released Congressional Budget Office (CBO) data has shown that the proposed high cost area loan limits would only benefit the top 5 percent of US households.[1] CBO also indicates that growth in income for the top income earners vastly exceeds growth of all households. Why is Congress moving the FHA program to serve borrowers at a higher income level, especially now when we know that the share of income going to high-income earners has grown and the share of income to low- and moderate income families has actually declined?[2]

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If FHA were financially sound, this proposal would simply be bad policy as more low down payment, high-income borrowers are directed to FHA and its 100 percent taxpayer guarantee. However, FHA is on thin ice financially. The FHA actuarial fund is required by Congress to have a 2 percent capital ratio. For the past two years, FHA has had only a bare 0.5 percent capital level. Diverting more high-income, low-down payment borrowers to FHA means that additional financial burden will be placed unnecessarily on the FHA fund and on the taxpayer at a time when the financial resources of the single family fund need to be husbanded to benefit moderate income borrowers.

Finally, President Obama and the Congress have made clear their intention to reduce FHA's market share by 50%, further reducing the role that they play in the mortgage market. By raising the loan limits, prospective working-class homeowners will find the bar raised even higher as they compete with higher income households for the increasingly scarce mortgage guarantees offered by FHA.

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Sincerely yours,

John Taylor
President & CEO

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October 31, 2011

The Honorable John Olver, Ranking Member
Subcommittee on Transportation, Housing and Urban Development
1111 Longworth House Office Building
Washington, DC 20515

By Fax to 202-226-1224

Dear Congressman Olver,

As the House of Representatives is set to consider an extension of high cost area loan limits for the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac (the GSEs), I urge you to say no to higher loan limits. This measure has already passed in the U.S. Senate and will channel more loans from higher-income borrowers away from conventional lending and into the FHA single-family fund. This will occur at precisely the time when the FHA should be targeting low- and moderate income borrowers, to both help keep existing homeowners in their homes and to provide first-time borrowers with affordable mortgage alternatives.

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Sincerely yours,

John Taylor
President & CEO

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