

Date of Hearing: June 23, 2014

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Roger Dickinson, Chair
SJR 19 (Correa) – As Amended: June 12, 2014

SENATE VOTE: 37-0

SUBJECT: High-cost loan limits.

SUMMARY: Expresses the Legislature's opposition to the reduction of the current national and high-cost conforming loan limits and would urge the Federal Housing Finance Agency (FHFA) to resist implementation of any reductions to those limits.

EXISTING FEDERAL LAW

Establishes the FHFA, and places responsibility with FHFA for overseeing the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

FISCAL EFFECT: None

COMMENTS:

During the near shutdown of the U.S. credit markets due to the subprime housing collapse Congress, passed the Housing and Economic Recovery Act (HERA) of 2008, Pub.L. 110–289, 122 Stat. 2654, enacted July 30, 2008. HERA, among other things, temporarily increased the conforming loan and high-costs loan limits and allowed for several communities in California to be recognized as high cost. The conforming loan limit is a vital tool in the mortgage market as it represents the ceiling at which Fannie Mae and Freddie Mac will buy these mortgages on the secondary market. Ensuring the conforming loan limit keeps up with California home prices ensures that mortgage credit is available for borrowers who may not otherwise be able to afford the increased costs of a jumbo loan (A loan above the conforming loan limit). In January of 2012 the increased loan limits established by HERA expired and the high-costs limits were lowered back to the 2006 value of \$624,500. Then, in December 2013 FHFA issued a request for comments on a proposal to further lower the loan limits by an additional \$25,000. These adjustments have a major effect on the mortgage market as Fannie Mae and Freddie Mac control approximately 60% of the national mortgage market. On May 13th, 2014 FHFA announced that they would not lower the conforming loan limits any further. With this announcement, it is necessary to pass this resolution?

Future of Federal Government Participation in the Mortgage Market.

In 2008, as a result of the runaway lending that precipitated the housing market collapse, Fannie Mae and Freddie Mac (Also known as the Government Sponsored Entities (GSEs)) were loaned \$187 billion from the United States Treasury and placed under the conservatorship of FHFA. This has raised numerous questions about the future participation of the government in the mortgage markets via the GSE's. The United States Senate Banking Committee passed legislation that would end the GSE's support for the mortgage market and instead provide a

mortgage insurance program that would require private capital to take the first 10% in any losses. At this time it does not appear that the effort has enough support in Congress to make it to the President's desk. Additionally, numerous housing and community groups have expressed concerns regarding the plan and the GSEs still face dozens of investor lawsuits that could potentially tie-up Recently, President Obama's nominee to lead the Department of Housing and Urban Development, Julian Castro, urged Congressional lawmakers to move forward with efforts to end Fannie Mae and Freddie Mac.

Suggest amendments:

- 1) On page 2, line 16 after "the" insert "temporary high-cost loan limit increase provided in the"; and
- 2) Page 2, lines 27 and 28 states, "WHEREAS, The FHFA is not bound to follow a policy on loan limits that protects California homebuyers in the future; and." Staff recommends the deletion of this statement as those things that may provide for a "policy...that protects California homebuyers.." would be subjective factors subject to numerous debates and opinions. Therefor the amendment would be, on page 2, delete lines 27 and 28.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Realtors (Sponsor)
California Credit Union League (CCUL)
California Independent Bankers (CIB)
California Mortgage Bankers Association (CMBA)
Orange County Association of Realtors

Opposition

None on file.

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