



CUNA Issue Summary

GOVERNMENT SPONSORED ENTERPRISES (GSE) REFORM

ISSUE: Congress established the secondary mortgage market in order to increase liquidity in the residential mortgage finance market and promote access to mortgage credit at a time when middle class Americans could not obtain affordable mortgages to purchase a home.

Fannie Mae was chartered in 1938, as the Federal National Mortgage Association, with the responsibility of creating a secondary market for home mortgages and operated under direct federal control. It was privatized by legislation enacted in 1968 and became fully private in 1970. Freddie Mac was chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing. Freddie Mac was set up to purchase single-family and multifamily residential mortgages and mortgage-related securities, which it would finance primarily by issuing mortgage pass-through securities and debt instruments in the capital markets. By doing so, Freddie Mac indirectly decreased housing costs and provided better access to home financing.

The Federal Home Loan Banks (FHLBs) are regional wholesale banks where community financial institutions turn for funds. The twelve regional banks, which are cooperatively owned by over 8,000 community financial institutions members, provide loans that are referred to as advances. These advances, which are provided at lower rates than are available in the commercial market, are a low cost source of funds that range in duration from overnight to 20-year loans and come with fixed, floating and adjustable rates.

On September 7, 2008, Federal Housing Finance Agency (FHFA) established a conservatorship for both Fannie Mae and Freddie Mac. This act was made possible in the *Housing and Economic Recovery Act of 2008* legislation, enacted July 30, 2008. This act also provided the Treasury with the authority to purchase unlimited amounts of GSE debt and securities to keep the market solvent during the housing crisis. As acting conservator, we expect FHFA to run the GSEs in such a manner that instills safety and soundness back to the secondary markets.

CUNA POSITION: Because many credit unions and their members have benefited from the financing available through the GSEs, CUNA has sought to ensure that the secondary mortgage market remained vibrant and healthy.

In addition, CUNA has lobbied to ensure that credit unions maintained access to automated underwriting systems developed by Freddie Mac and Fannie Mae, as well as the arrangements in which lenders enter into commitments with the GSEs for the purchase of a fixed amount of mortgage loans at a particular rate before the specific loans are identified or closed. Also, CUNA has opposed restrictions on the ability of the GSEs to offer new programs. Such new programs sometimes get tied up in a regulatory process that hinders the development of programs, activities, or products that benefit the marketplace. Finally, the GSEs must ensure that guarantee fees are not based on factors, such as capital or volume of lending activity that may have the effect of favoring large lenders.

STATUS/OUTLOOK: For 2009, the new GSE regulator, the FHFA set the maximum conforming loan limit for single-family mortgages at an unchanged level of \$417,000 in most areas of the country. The conforming limits on first mortgages remained at \$533,850 for two-family loans, \$645,300 for three-family loans, and \$801,950 for four-family loans. For second mortgages, the limits were set at \$208,500 (one-family), \$266,925 (two-family), \$322,650 (three-family) and \$400,975 (four-family). Despite Congressional urging, FHFA announced that the \$417,000 conforming loan limit for Fannie Mae and Freddie Mac would remain unchanged in 2009, and would not decrease in future years.

- \$417,000, \$533,850, \$645,300, and \$801,950 for one-family, 2-family, 3-family, and 4-family houses, respectively (existing OFHEO limits), OR ...
- 125% of the median area house price of one-family, 2-family, 3-family, and 4-family houses, BUT ...
- Not to exceed 175% of \$417,000, \$533,850, \$645,300, and \$801,950 for one-family, 2-family, 3-family, and 4-family houses, respectively (existing FHFA limits)

The GSEs are able to implement temporary increases in conforming loan limits for high-cost areas that were recently passed by the American Recovery and Reinvestment Act of 2009. Both Fannie Mae and Freddie Mac will continue underwriting loans with rules and regulations outlined by the FHFA. We do not expect these provisions to limit the availability of mortgage credit to credit unions or the members we serve. CUNA will continue to closely monitor this situation to ensure that a healthy secondary mortgage market is available to ensure the liquidity that financial institutions need to finance home mortgages.

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RELATED DOCUMENTS:

[May 13, 2008: Letter from CUNA President and CEO Dan Mica to Senate Banking Committee Chairman Chris Dodd \(D-CT\) and Ranking Member Richard Shelby \(R-AL\) outlining CUNA's GSE reform priorities](#)

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