Testimony of

HEATHER PETERS
DEPUTY SECRETARY FOR BUSINESS REGULATION AND HOUSING AT CALIFORNIA'S BUSINESS, TRANSPORTATION AND HOUSING AGENCY, AND CHAIR OF GOVERNOR SCHWARZENEGGER'S INTERDEPARTMENTAL TASK FORCE ON NON-TRADITIONAL MORTGAGES

Hearing entitled
"IMPACT ON HOMEBUYERS AND HOUSING MARKET OF CONFORMING LOAN LIMIT INCREASE"

Before the
FINANCIAL SERVICES COMMITTEE

May 22, 2008

Good morning Chairman Frank and members of the Committee, my name is Heather Peters and I am the Deputy Secretary for Business Regulation and Housing at California's Business, Transportation and Housing Agency. In that role I oversee four departments that regulate lenders, brokers, real estate sales and appraisals, I oversee the California Department of Housing and Community Development and sit on the board of the California Housing Finance Agency ("CalHFA").

I am also the Chair of Governor Schwarzenegger's Interdepartmental Task Force on Non-Traditional Mortgages. On behalf of Governor Schwarzenegger and Secretary Bonner I thank you for the opportunity to testify here today on the impact of the conforming loan limit increase. We appreciate the committee's interest in this important subject.

I have been asked by the Committee to address three subjects, the demand for the new loans authorized by the Stimulus Act, the impact that competitive pricing would have on California's housing market and obstacles to rates becoming competitive.

LEVEL OF POTENTIAL DEMAND FOR THE NEW EXPANDING CONFORMING LOANS AUTHORIZED BY THE STIMULUS ACT

Nowhere is the demand for the new conforming loans authorized by the Stimulus Act stronger than in California. Governor Schwarzenegger has repeatedly emphasized in the attached correspondence and elsewhere that the previous loan limits of $362,790 for FHA and $417,000 for the GSEs rendered them virtually irrelevant in the most populous areas of California where we have some of the highest housing prices in the nation. "No single issue is affecting California's economy more than this one of fair access to housing capital."

For example, according to the National Association of Realtors, in 2007 the median price of a home in the Los Angeles metropolitan area was $589,200 compared with $395,600 in the Boston, Massachusetts metropolitan area, $263,200 in the Hartford, Connecticut metropolitan area, and $162,200 in Birmingham, Alabama metropolitan area. According to the California Association of Realtors more than 77% of California home sales last year exceeded the FHA loan limits and 69% exceeded the GSE loan limits

Now that the loan limits have been temporarily raised by the Stimulus Act, 47 of California's 58 counties qualify for loans above the prior FHA ceiling of $362,790. Fourteen California counties now qualify for the new FHA and GSE maximum loan limit of $729,750 (up to 125% of their median home prices) through the end of this year.

Over 21 million people, more than half of California's entire population, lives in these 14 counties alone. That is greater than the population of every other state in the nation except Texas. These 21 million Californians are now facing median home prices in their counties of at least $583,800 according to FHA's calculations made recently as required by the Stimulus Act.

Given these statistics, it is not surprising that under the prior loan limits FHA saw its California loan volume decline by 98% in recent years to a mere 2,599 loans written in the entire state. This represented a loss of $13.6 billion in much needed mortgage liquidity for California homebuyers helping to fuel demand for non-traditional loan products.

All of that has the potential to change now with the new loan limits. Additionally, I note that the demand for FHA's 203(k) rehabilitation loan program in this price range will be particularly strong as most private lenders have discontinued similar loan programs in the state. This program will be critical in helping to turn California's growing inventory of distressed REO properties into the American dream for California families waiting to enter the real estate market.

IMPACT IN THE CALIFORNIA HOUSING MARKET OF NEW LOANS IF THEY WERE TO BE OFFERED AT RATES COMPETITIVE WITH LOANS MADE AT THE GSE'S CONFORMING LEVEL

California's housing market has been deeply impacted by the credit crunch and the lack of liquidity in the jumbo market. According to the National Association of Realtors, 40% of California's home sales were financed with jumbo loans exceeding $417,000 prior to the summer of 2007, but since then only 10% of sales involved these loans.

According to the California Association of Realtors, home sales decreased 24.5% in March 2008 compared with the same period one year ago. This translates to over 100,000 fewer sales of existing single-family detached homes. It would take 11.6 months of sales at this pace to liquidate California's inventory of existing single-family detached homes.

Additionally, lack of financing has contributed to a dramatic drop in new home construction. According to the California Building Industry Association, total housing starts in California dropped 65% in March compared to one year ago. This alone has had a significant negative impact on California's economy.

Studies show that construction of a new home in California generates an average of $350,000 in economic benefit and over $20,000 in state and local tax revenues. Historically, normal levels of home building in California generates more than $70 billion in economic output putting over half a million people to work and providing nearly $5 billion in tax revenue. It is estimated that the current housing slump has already cost California nearly $2 billion in tax revenues in 2007 alone.

Certainly the pricing of jumbo loans is not the sole cause of all of the above, however, it is a significant factor. With price spreads for jumbo loans over traditional conforming loans exceeding 1% in many cases, the above-$417,000 loan market has seized up causing a ripple effect in both sales and construction that would be mitigated if these loans were priced more competitively with traditional conforming loans.

More competitive pricing of these new "super conforming" loans would also help to release pent up demand from would-be home buyers who have been sitting on the sidelines waiting for the market to bottom. Sales would increase and inventory would decrease thus, at least marginally, slowing price deterioration and helping to create a more favorable building environment that would spur the economy and would help to lower unemployment which is currently at 6.2% in California.

Additionally, increased volumes of refinances due to more competitive rates would further help stabilize the market.

OBSTACLES PREVENTING THE RATES FROM BECOMING MORE COMPETITIVE WITH THOSE LOANS MADE UNDER THE TRADITIONAL CONFORMING LEVEL

Obstacles to competitive rates seem to be diminishing in recent weeks. Freddie Mac announced that it would purchase $10 to $15 billion of the new loans and Fannie Mae announced that it would price the new loans consistently with traditional conforming loans through the end of the year. Governor Schwarzenegger issued the attached statements applauding both moves. However, some obstacles to competitive rates still exist and other factors are significantly limiting the availability of the new loans.

The logistics of bringing the new loans to market have been complicated. Low interest rates associated with traditional conforming loans below $417,000 are due in part to the fact that these loans are considered to be so fungible by investors that specific loans do not even need to be individually identified to be securitized. Investors can bid on a package of loans "to-be-announced" before the borrowers even contact their lenders to apply for the loans.

On the most basic level the "to-be-announced market" ("TBA Market") operates like a grocer ordering a bushel of apples from a supplier for delivery next week. The grocer doesn't know exactly which apples will arrive next week and recognizes that there will be some bad apples, but based on past experience the grocer is confident that the apples delivered will generally suit his needs.

Jumbo loans above $417,000 are like oranges and are sold separately at higher prices. Consumers were hoping that by raising the conforming loan limits, some of these "oranges" (new "super conforming" loans) would now be priced like the cheaper "apples" (traditional conforming loans). The market has been struggling to adjust.

The new loans between $417,000 and $729,750 are not being added to pools of loans containing traditional conforming loans sold on the well established, and highly liquid, TBA Market. The decision not to add them to existing TBA pools was made by the Securities Industry and Financial Markets Association ("SIFMA") to avoid a possible unintended consequence of driving up the price of traditional conforming loans.

Given time, an efficient market for the new loans would likely be created, however we are running out of time between now and when the new loan limits sunset at the end of this year. The single most significant obstacle remaining is the fact that the new loan limits are only temporary. Market participants are incurring costs associated with designing, creating and marketing a new program for an investment vehicle which, under current law, will cease to exist in six months. Without assurances that these costs can be recouped over time, investors are demanding a higher return to help compensate them for uncertainty.

Accordingly, Governor Schwarzenegger has continued to urge Congress to move quickly to make the loan limit increases permanent. Passing legislation now to make the loan limit increases permanent will give investors much needed assurance that they are developing a product with future application. With market certainty established, pricing can be expected to come down, perhaps not all of the way down to the level of traditional conforming loans, but still down significantly.

Pricing is not the only obstacle to making these new loans widely available to consumers, several other significant factors are also limiting production. The new loans being offered come with strings attached in the form of stricter underwriting requirements, higher down payments and added fees.

Some changes in underwriting are certainly warranted, however, it is important not to overcorrect and in effect throw the baby out with the bathwater. Corrections that are warranted include closer scrutiny of the layering of risk features such as low FICO scores paired with low or no down payments and low or no documentation of income and assets.

Many corrections have been endorsed by all Federal regulators in the issuance of Guidance on Nontraditional Mortgage Product Risks and the Statement on Subprime Lending, both of which have formalized as mandatory regulations in California.

However, the market has voluntarily tightened lending criteria much further putting the new loans out of reach for many California homebuyers at any price. The California Association of Mortgage Brokers reports that many potential borrowers with good credit and down payments who would have been easily qualified for financing before the non-traditional lending bubble are now being turned away by overly cautious lenders.

It is important to remember that the vast majority of loans made under flexible lending criteria historically are still performing. There is a long track record of success when flexible lending criteria has been used responsibly, especially for legitimately self employed borrowers. Loans in the range of $417,000 to $729,750 have always existed in California regardless of whether they were called “jumbo”, “conforming jumbo”, “super conforming”, or any other creative names. Performance data is readily available for lenders, investors and rating agencies to use to properly assess and price risk and should be used.

Fannie Mae seems to have acknowledged this recently when it pulled back its blanket requirement of higher down payments throughout large geographic areas that did not consider the strength of some local markets.

Another factor that is slowing the production of new FHA loans in California is procedural in nature. In order for a broker to originate an FHA loan they must be HUD-approved. Approval requires an audit by an HUD-approved CPA, can take three to six months and can cost between $3,500 and $20,000 according to the California Association of Mortgage Brokers.

There are many brokers in California who were formerly approved by HUD, but let their approvals lapse when the low FHA loan cap caused these loans to nearly become extinct in California. These formerly approved brokers have asked HUD to streamline a process for them to reactivate their prior status to be able to serve California borrowers in this narrow six month window of opportunity before the temporary loan limits sunset, but to date, have not received a favorable response from HUD.

Finally, there is one obstacle that cannot be ignored, namely declining property values. Declining values represent higher risk to homeowners, lenders and investors causing higher interest rates. Conversely, higher interest rates cause sales to slow and inventories to rise, eventually perpetuating further declines in value. No single action will break this cycle. A carefully balanced approach addressing various aspects of the housing market must be developed.

ACTIONS CALIFORNIA HAS TAKEN TO ADDRESS THE HOUSING CRISIS

There is no silver bullet to solve the housing crisis. It is a multifaceted problem that requires a multifaceted solution. Raising the conforming loan limits permanently and assuring competitive pricing on those loans is a critical part of the solution. Discussed below are a number of other steps California has taken to help address various different aspects of the problem.

- Interdepartmental Task Force: Early last year the Governor Schwarzenegger's Administration formed the Interdepartmental Task Force on Non-Traditional Mortgages ("Task Force") which I chair to ensure a comprehensive and coordinated approach that leverages our talent and resources. The Task Force consists of the leadership teams from the Business, Transportation & Housing Agency, Department of Financial Institutions, Department of Corporations, Department of Real Estate, Office of Real Estate Appraisers, Department of Housing & Community Development, CalHFA, State & Consumer Services Agency, the Department of Consumer Affairs and the Department of Veteran's Affairs.

- Stakeholder engagement: The Task Force has conducted extensive stakeholder meetings and maintains an open dialogue with Federal regulators, lenders, bankers, brokers, loan servicers, Wall Street, real estate agents, builders and consumer advocates.

- Issued new regulations to protect borrowers: Our licensing departments have adopted regulations making California a leader in the nation in requiring sound underwriting, including an analysis of a borrower's ability to repay. A new consumer disclosure form (attached), translated into five languages, illustrates worst case scenario payments and loan balances under several different types of loan products in a simple grid format and deducts the payments from the consumer's income to illustrate how much they would have left to live on. These new disclosures will be made early on to allow time for thorough review and for shopping around.

- Legislation increasing protections: Last year Governor Schwarzenegger signed three key pieces of legislation and has also pledged to work with lawmakers in the coming year to take additional steps to protect homebuyers.

  - SB 223 makes it a crime for licensed appraisers to engage in any appraisal activity that is connected to the purchase, sale, transfer, financing or development of property if their compensation is impacted by the final price generated by the appraisal.
  - SB 385 permits state agencies involved with residential mortgage lending and brokering to adopt emergency measures and new policies to ensure that all mortgage lenders and brokers are subject to federal guidelines on non-traditional mortgages. This law impacts the Department of Financial Institutions, the Department of Corporations and the Department of Real Estate.
  - AB 929 increases the amount of affordable housing in California by raising the total debt that CalHFA can carry by $2 billion. CalHFA issues bonds to finance housing for low and moderate-income families.

- Servicers' Agreement to Streamline Loan Modifications: On November 20, 2007 Governor Schwarzenegger announced an unprecedented agreement with leading loan servicers. Under this agreement these servicers will:

  - Reach out proactively to borrowers well before their loans reset;
  - Streamline the processes by which lenders determine whether borrowers may reasonably be expected to be able to make the reset payment and
  - For people who are in their homes and making timely payments now at the starter rate, but who lenders determine cannot make the reset payment, keep them at that starter rate for a sustainable period of time.

  The California Department of Corporations is actively tracking the loss mitigation efforts by these servicers and others, and continues to monitor progress closely and publicly report aggregate statistics to ensure accountability.

- Governor Schwarzenegger led a town hall meeting with U.S. Treasury Secretary Paulson in Stockton to discuss help for homeowners facing foreclosure and to discuss new Federal agreements with loan servicers.

- Secretaries Bonner and Marin co-hosted a roundtable with FDIC Chairwoman Sheila Bair bringing together regulators, lenders, servicers, non-profits and local leaders to discuss remaining obstacles to loan workouts.

- $1.16 million in grant funds: In September of 2007 the Housing and Community Development Department made $1.16 million in Community Development Block Grant Funds available for counties and cities to use for consumer mortgage counseling.

- Letters to congressional leadership: Governor Schwarzenegger urged Congress to increase funding for counseling and to raise FHA and GSE mortgage loan limits. A national appropriation has been made and the limits have been temporarily raised to up to $729,750. The Governor continues to urge Congress to make them permanent. (See attached.)

- $8 million Federal mortgage counseling grant was received by the California Housing Finance Agency in partnership with the Rural Community Assistance Corporation (RCAC) to help California homeowners avoid foreclosures.

- Partnership with the Hope Now Alliance: Earlier this year the State partnered with the Hope Now Alliance to launch its national Homeownership Preservation Tour with three events in California, one attended by the Secretary of HUD.

- Consumer Education & Outreach: The Task Force has partnered with local legislators and others to do town halls to connect borrowers face to face with non-profit counselors and loan servicers to facilitate loan workouts that avoid foreclosure. Well over 6,000 constituents have attended these events to date. Additionally, the Task Force has launched a consumer home mortgage information website in both English and Spanish – www.yourhome.ca.gov and www.sucasa.ca.gov, has participated in live telethons, has produce mailing inserts and conducted community leader meetings across the state to promote the Hope Hotline. Governor Schwarzenegger launched a $1.2 million public awareness campaign called 90 Days of Hope featuring real California families who faces foreclosure educating other homeowners about ways they can avoid foreclosure.

- Increased Enforcement: Our licensing departments have been working closely with law enforcement to discipline lenders and brokers. Additionally, they are training consumer counselors, non-profits and legal aid societies to identify and report licensing violations. Individual letters have gone out to real estate licensees acting as mortgage brokers reminding them of the fiduciary duty they owe borrowers in California and letters have gone out to the editors of all major newspapers reminding them of California's mortgage advertising requirements. Enforcement staff attend our town hall events to take complaints, they conduct "secret shopper" investigations and they have an extensive advertising review program.

- $433.1 million in Proposition 46 and 1C funds: Since July 19, 2007, $433.1 million in bond awards have been announced to help more than 16,000 California families rent or purchase affordable housing.

- $72 million in federal HOME Investment Partnerships Program funds: On January 30, 2008 awards totaling more than $72 million in federal HOME Investment Partnerships Program funds were announced. Funds will be used to provide assistance to first-time homebuyers, reduce the number of bank owned homes and increase the number of rental properties.

- $5.6 million to help mortgage and banking industry workers laid off as a result of the subprime crisis make career transitions to high-demand jobs in other industries.

- Governor Schwarzenegger joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland to highlight the need for private partnerships to compliment government policies.

- CalHFA loans for first time homebuyers to purchase REOs: CalHFA is about to roll out a new pilot loan program to provide $200 million of below market financing for first time home buyers to purchase certain REO properties that lenders are willing to discount in exchange for access to pool of pre-qualified buyers who can close quickly. If Congress passes legislation currently under consideration to raise the tax exempt bond cap for State Housing Finance Agencies this pilot program may be significantly expanded.

I hope this discussion of our efforts and accomplishments has emphasized California's commitment to aggressively address the crisis. In so doing, Governor Schwarzenegger encourages others to do the same as only multifaceted solutions reaching across Local, State and Federal jurisdictions, and across public and private partnerships, can begin to address this multifaceted problem. The Administration remains firmly committed to collaborating with all stakeholders and to find innovative ways to lead us out of this crisis and restore the American dream in California and across the nation.

This concludes my statement. I thank the Committee for the opportunity to meet with you today to discuss this important issue.

PRESS RELEASE

05/06/2008 GAAS:232:08 FOR IMMEDIATE RELEASE

For Immediate Release:
Tuesday, May 6, 2008

Contact: Aaron McLear
Lisa Page
916-445-4571

Gov. Schwarzenegger Issues Statement Applauding Action by Fannie Mae to Lower Cost of New Jumbo-Conforming Loans

Governor Arnold Schwarzenegger today issued the following statement after Fannie Mae announced its intention to lower the cost of the new jumbo-conforming loans in California, which was authorized by the Economic Stimulus Act of 2008:

"As I have stated before, mortgage availability is central to our housing market's recovery. Home prices are higher here in California and require higher mortgage loan amounts, which is why I asked Congress and the President to increase the limit on conforming loans. They did so last February, and Fannie Mae's action will lower the cost of these new loans, making more California houses accessible to potential buyers.

"This is great news and I encourage all mortgage lenders to follow suit. In addition, I continue to urge the federal government to make the new conforming loan limits permanent. If not, Californians will see these new mortgage options disappear after the temporary increase expires at the end of this year."

To help Californians hit hard by the mortgage crisis, the Governor has:

- Led efforts urging Congress and the Bush Administration to raise federal loan limits. Last fall, the Governor sent a letter calling on Congress to increase those limits and sent a similar letter again earlier this year. After Congress and the President approved a temporary increase, the Governor asked them to make the increase permanent. In February, the Governor met with the U.S. Department of Housing and Urban Development Secretary in Washington D.C. to reiterate the importance of a permanent loan limit increase.
- Announced $69.5 million in permanent low-interest loans from the Proposition 1C housing bonds to jumpstart 14 affordable multi-family projects up and down the state, helping more than 1,000 California families and individuals realize the dream of an affordable rental home.
- Announced more than $72 million in federal HOME Investment Partnerships Program funds to provide assistance to first-time homebuyers, reduce the number of bank owned homes and increase the number of rental properties.

- Joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland.
- Launched a $1.2 million public awareness campaign to help educate homeowners about options that can help them avoid losing their homes to foreclosures.
- Announced an agreement with major loan servicers to streamline the loan modification process for subprime borrowers living in their homes.
- Signed legislation to increase protections for Californians who own or plan to purchase homes and to expand affordable housing opportunities.
- Issued new regulations to protect borrowers, which requires lenders to consider a borrower's ability to repay at the higher reset interest rate and mandates closer scrutiny of risk features such as interest only payments, reduced documentation and simultaneous second liens.
- Established the Interdepartmental Task Force on Non-traditional Mortgages to ensure a comprehensive and coordinated approach to the issues raised by subprime loans.

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GOVERNOR ARNOLD SCHWARZENEGGER

September 19, 2007

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
U. S. House of Representatives
Washington, D.C. 20515

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

The Honorable John A. Boehner
Minority Leader
U. S. House of Representatives
Washington, D.C. 20515

Dear Senator Reid, Senator McConnell, Madam Speaker, and Mr. Boehner,

Families across America need your help. Recent developments in the sub-prime mortgage markets have put homeowners everywhere at risk of losing their homes, which are often the pinnacle of a lifetime of hard work for them. Nowhere is this problem more acute than in California, where astronomically high home prices have historically meant that many homebuyers could not access federal programs to help them obtain safe, secure financing. That is because many federal loan programs cap out at prices far below average home prices in California, meaning that homebuyers here often relied on financing outside of government-backed loans in order to achieve homeownership.

The lack of access to government loan programs has magnified the foreclosure crisis for Californians. California's statewide foreclosure rate last month was more than twice the national average with one foreclosure filing for every 224 households according to RealtyTrac. California cities account for six of the top 10 metro foreclosure rates nationwide, including the top three. Modesto had one foreclosure filing for every 79 households.

Accordingly, as you consider various legislative proposals related to home mortgages, I write to express my strong support for raising the current loan limits imposed on the Federal Housing Administration (FHA) and raising Government Sponsored Enterprises (GSE) loan limits in high-cost areas of the country.

STATE CAPITOL • SACRAMENTO, CALIFORNIA 95814 • (916) 445-2841

Just when the safety and affordability of FHA-insured loans are needed most, they have virtually disappeared from the California marketplace. The current FHA loan limit is $362,790, well below the median-priced home in California. In testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs this summer, Brian D. Montgomery, U.S. Department of Housing and Urban Development Assistant Secretary for Housing, said California has "seen its [FHA] loan volume drop from 109,074 to just 2,599; that's a decline of 98 percent and a loss of $13.6 billion." This has been a significant factor in the increasing use of nontraditional mortgage products in California. The prospect of mounting losses on nontraditional mortgages has harmed the availability of home financing nationwide.

Increasing the FHA loan limit would have a positive impact on expanding financing options for hardworking Californians hoping to obtain a piece of the American Dream. In addition to increasing the FHA loan limits, consideration should be given to raising the conforming loan limits for the GSEs (Fannie Mae and Freddie Mac) in high-cost areas of the country. The current GSE conforming loan limit for lenders willing to originate conforming mortgage loans for median-priced homes in California is $417,000; however, according to the California Association of Realtors, the median price of a single family residence in July was $586,030. Again, this disparity makes these products practically irrelevant in California. This means that, for the majority of California homebuyers, the only option is to obtain a larger "jumbo" loan and pay higher interest rates and fees. Raising the FHA and GSE loan limits will help ensure that more financial resources are available to help facilitate lending in California.

Finally, additional funding for reputable groups that provide credit counseling and foreclosure assistance to distressed borrowers would help meet the increased demands for their services. Through their efforts, consumers get help to find their way out of further financial distress.

Your leadership on these issues is critical to ensure that financial resources are available help sustain these loans. Many families depend on these programs to achieve the fundamental and universal goal of homeownership. Thank you for your consideration, and please do not hesitate to call on me if California can be of assistance in your deliberations.

Sincerely,

Arnold Schwarzenegger

cc: The Honorable Christopher J. Dodd
The Honorable Richard Shelby
The Honorable Barney Frank
The Honorable Spencer Bachus

Office of the Governor ARNOLD SCHWARZENEGGER THE PEOPLE'S GOVERNOR

PRESS RELEASE

04/17/2008 GAAS:187:08 FOR IMMEDIATE RELEASE

Gov. Schwarzenegger Issues Statement Applauding Actions Boosting Mortgage Availability in California

Governor Arnold Schwarzenegger today issued the following statement after Fannie Mae, Freddie Mac, Wells Fargo Bank, Washington Mutual, CitiMortgage and JP Morgan Chase announced plans to provide billions of dollars of conforming jumbo mortgages in high cost locations. Their actions, which allow for loans as high as $729,750, stem from the new higher federal loan limits requested by Governor Schwarzenegger and included in the federal economic stimulus package signed by the President earlier this year.

"No single issue affects California's housing recovery more than access to mortgage credit that fits California's home prices. These actions will help more California families achieve the dream of homeownership and provide another tool in our effort to reduce foreclosures.

"I urged Congress to raise the conforming loan limits in order to provide Californians with more affordable mortgage options and I'm very pleased that call to action was answered, but I continue to urge the federal government to make these new higher limits permanent.

"Mortgage availability is critical to our housing market's recovery. I commend Fannie Mae, Freddie Mac, Wells Fargo, Washington Mutual, CitiMortgage and JP Morgan Chase for giving Californians living in high-cost markets more affordable mortgage choices."

To help Californians hit hard by the mortgage crisis, the Governor has:

- Led efforts urging Congress and the Bush Administration to raise federal loan limits. Last fall, the Governor sent a letter calling on Congress to increase those limits and sent a similar letter again earlier this year. After Congress and the President approved a temporary increase, the Governor asked them to make the increase permanent. In February, the Governor met with the U.S. Department of Housing and Urban Development Secretary in Washington D.C. to reiterate the importance of a permanent loan limit increase.
- Announced $69.5 million in permanent low-interest loans from the Proposition 1C housing bonds to jumpstart 14 affordable multi-family projects up and down the state, helping more than 1,000 California families and individuals realize the dream of an affordable rental home.
- Announced more than $72 million in federal HOME Investment Partnerships Program funds to provide assistance to first-time homebuyers, reduce the number of bank owned homes and increase the number of rental properties.
- Joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland.
- Launched a $1.2 million public awareness campaign to help educate homeowners about options that can help them avoid losing their homes to foreclosures.
- Announced an agreement with major loan servicers to streamline the loan modification process for subprime borrowers living in their homes.
- Signed legislation to increase protections for Californians who own or plan to purchase homes and to expand affordable housing opportunities.
- Issued new regulations to protect borrowers, which requires lenders to consider a borrower's ability to repay at the higher reset interest rate and mandates closer scrutiny of risk features such as interest only payments, reduced documentation and simultaneous second liens.
- Established the Interdepartmental Task Force on Non-traditional Mortgages to ensure a comprehensive and coordinated approach to the issues raised by subprime loans.

GOVERNOR ARNOLD SCHWARZENEGGER

January 22, 2008

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20515

The Honorable Nancy Pelosi
Speaker of the House of Representatives
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

The Honorable John A. Boehner
Minority Leader
U. S. House of Representatives
Washington, DC 20515

Dear Senator Reid, Senator McConnell, Madam Speaker and Mr. Boehner,

As the housing market continues to decline in 2008, I ask that Congress takes action immediately and passes legislation increasing the conforming loan limits from $417,000 to $625,000 for Fannie Mae and Freddie Mac for high-cost housing markets like those in California. In a state where the average price of a home far exceeds that loan limit, Californians find themselves priced out of the very help these loans are intended to provide.

The current GSE loan limit disproportionately impacts California, which is home to four of the seven national markets most harmed by the cap. No single issue is impacting California's economy more than fair access to housing capital. And since California is the nation's largest economy, the current GSE limit is negatively affecting the entire country's economic well-being.

Upheaval in the global credit markets has led to a dramatic reduction in liquidity throughout the mortgage industry. One exception is the segment of loans eligible for purchase by the GSEs. Fortunately, this market remains functional. However, because the GSE loan limit of $417,000 is uniform throughout the country and does not take into account regional price differences, GSE loans are unavailable to much of California and other higher-cost markets. While the current national loan limit of $417,000 is well above the national median sales price and exceeds the local median for the vast majority of nationwide housing markets, it is considerably below the local median in a few high-cost areas.

For example, a starter loan in Los Angeles usually puts a buyer outside the GSE loan limit and into the so-called "jumbo" loan market, a market that sprang largely from a permissive Federal Reserve policy that dropped interest rates dramatically and encouraged widespread jumbo lending. That market has now largely disappeared and, where it remains, lenders are requiring expensive and onerous terms from borrowers that in some cases are fully one percentage point higher than GSE terms.

According to one source, more than 50 percent of California homeowners and homebuyers now lack access to GSE financing. When combined with the withdrawal of the jumbo loan market, it's no surprise that current home sales activity in California is half the pace seen in 2006.

Moderate- and low-income families in high-cost housing markets are hit hardest because the current GSE loan limit restricts their access to lower cost, lower down payment, fixed-rate loans. Lifting the GSE loan limit in these areas would help put affordable home purchase and refinancing options within their reach. Likewise, these adjustments to conforming loan limits for high-cost areas would give homebuyers access to safer mortgages, especially important to first-time homebuyers or owners with high-cost subprime mortgages in need of refinancing.

Increasing the GSE loan limit could also benefit veterans, teachers, firefighters and police officers by expanding access to Federal Housing Administration (FHA) and Veterans Affairs (VA) mortgages, as both agencies' loan limits are tied to the $417,000 limit.

There is precedent for raising the loan limit in high-cost areas. Loan limits for Alaska, Hawaii, Guam and the U.S. Virgin Islands are already 50 percent higher than the rest of the nation. Treating homeowners living in high-cost parts of California and other areas of the country differently simply makes no sense.

No single issue is affecting California's economy more than this one of fair access to housing capital. Just last week our unemployment rate rose by one-half of one percent, an increase attributed by most economists to weakening housing, and just today it was announced that default notices more than doubled and foreclosures more than quadrupled over the past year. Our consumers will continue to reduce spending so long as they cannot get the same financing options available to the rest of the country.

An economic slowdown in California has immediate and significant impacts on the rest of the country. Nothing will more beneficially improve the United States economy than immediately raising these limits. I urge you to take action on this critical issue now.

Sincerely,

Arnold Schwarzenegger

cc: The Honorable Christopher J. Dodd
The Honorable Richard Shelby
The Honorable Barney Frank
The Honorable Spencer Bachus

GOVERNOR ARNOLD SCHWARZENEGGER

April 29, 2008

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker of the House
U. S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
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Washington, DC 20510

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U. S. House of Representatives
Washington, DC 20515

Dear Senator Reid, Senator McConnell, Madam Speaker, and Mr. Boehner,

Congress is appropriately continuing its focus on mitigating the economic slowdown, and I appreciate your efforts in this regard. I believe the rebate checks, business tax incentives and temporary housing cap increases will be extremely helpful, but fear this may still be insufficient to generate the soft landing we all want to see.

Unfortunately, the housing and credit crisis continues to be a significant drag on economic activity in California and across the nation. Even with the historic actions taken by Congress, the federal administration and private sector lenders, foreclosure activity is at record levels in many states.

The nation has also experienced three consecutive months of significant job declines, with California's jobless rate now at 6.2 percent. The U.S. House has already begun work on providing additional federal assistance for long-term unemployed individuals and, as I have previously indicated, I strongly support this effort.

As Congress reviews the economic situation and considers further action, I must renew the call of the nation's governors that any further federal economic stimulus legislation includes countercyclical assistance to states. The National Governors Association has promoted a state assistance package that includes grants to states along with a temporary increase in the federal medical assistance percentage, and I solidly support this proposal.

The Honorable Harry Reid
The Honorable Mitch McConnell
The Honorable Nancy Pelosi
The Honorable John A. Boehner
April 29, 2008
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I also urge you to take action to help alleviate the continued decline in housing and the associated credit crunch. The initial increase in Federal Housing Administration (FHA) and government-sponsored enterprise (GSE) loan limits was critically important for high-cost states like California, and some level of higher caps should be made permanent. Congress should also implement an expanded FHA guarantee program that helps at-risk borrowers refinance into more affordable mortgages. In California, we have been proactive in getting lenders to work with troubled borrowers, and I urge Congress to continue its efforts to simplify mortgage workouts, while not unduly rewarding speculators or fostering imprudent credit and lending practices. Finally, a boost in qualified mortgage bond caps to states, tax incentives to first-time homebuyers and temporary assistance to homebuilders to mitigate operating losses can also help foster a more orderly transition in the housing and credit markets.

I recognize that no assistance package can, or should, eliminate necessary adjustments in the economy. However, I do believe that the sooner a full package of economic incentives and assistance can be enacted, the greater the likelihood of success in reducing the length and depth of the current economic downturn. I look forward to working with all of you to help achieve this goal.

Sincerely,

Arnold Schwarzenegger

cc: The Honorable Henry M. Paulson
The Honorable Roy A. Bernardi
Members of the California Congressional Delegation

XVIII. Comparison of Sample Mortgage Features (One to Four Residential Units)

TYPICAL MORTGAGE TRANSACTIONS

	Principal and Interest *Fully Amortizing*	Interest Only *Fully Amortizing*	5/1 ARM *Fully Amortizing*	Interest Only *Fully Amortizing*	Option Payment *Fully Amortizing*	**Proposed Loan Type of Loan:** ________ **Type of Amortization:** ________
PROPOSED LOAN AMOUNT $ ________ ___-YEAR TERM	**Fixed Rate (______%)**	**Fixed Rate (_____%) Interest Only for First 5 Years**	**Fixed Rate for First 5 Years; Adjustable Each Year After First 5 Years (Initial rate for 1 to 5 is_____%; Maximum Rate is _____%)**	**Interest Only and Fixed Rate for First 5 years; Adjustable Rate Each Year After First 5 Years (Initial rate for 1 to 5 is______%; Maximum Rate is ______%)**	**Adjustable Rate for Entire Term of the Mortgage (Rate in month 1 is ______%; Rate in month 2 through year 5 is ______%; Maximum Rate is_____%)**	**Explanation of Type of Proposed Loan Product:**
Payment Scenarios						
Minimum Monthly Payment Years 1-5 except as noted	$ ______*	$ ______	$ ______	$ ______	$ ______*** (1st year only)	$ ______
Monthly Payment in Year 6 with no change in rates	$ ______	$ ______**	$ ______	$ ______	$ ______	$ ______
Monthly Payment in Year 6 with a 2% rise in rates	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Minimum Monthly Payment	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Your Gross Income	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Difference	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Maximum Monthly Payment in Year 6 with a 5% rise in rates	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Your Gross Income	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Difference	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Loan Balance Scenarios						
How much will be owed after 5 years?	$ ______	$ ______	$ ______	$ ______	$ ______	$ ______
Has the loan balance been reduced after 5 years of payments?	Yes The loan balance was reduced by $ ________	No The loan balance was not reduced	Yes The loan balance was reduced by $ ________	No The loan balance was not reduced	No The loan balance increased by $ ________	No/Yes The loan balance: did not change/ increased/decreased by $ ________

* **This illustrates an interest rate and payments that are fixed for life of the loan.**

** **This illustrates payments that are fixed after the first five years of the loan at a higher amount because they include both principal and interest.**

*** **This illustrates minimum monthly payments that are based on an interest rate that is in effect during the first month only. The payments required during the first year will not be sufficient to cover all of the interest that is due when the rate increased in the second month of the loan. Any unpaid interest amount will be added to the loan balance. Minimum payments for years 2-5 are based on the higher interest rate in effect at the time, subject to any contract limits on payment increases. Minimum payments will be recast (recalculated) after 5 years, or when the loan balance reaches a certain limit, to cover both principal and interest at the applicable rate.**

IMPORTANT NOTE: Please use this chart to discuss possible loans with your broker or lender

If a mortgage loan broker licensed by the California Department of Real Estate is acting as your agent in connection with your home loan/mortgage, the agent owes you certain fiduciary duties, and California statutory law imposes other duties.

XIX. NOTICE TO BORROWER: THIS IS NOT A LOAN COMMITMENT. Do not sign this statement until you have read and understood all of the information in it. All parts of this form must be completed before you sign. Borrower hereby acknowledges the receipt of a copy of this statement.

Name of Broker	*License #*	*Broker's Representative*	*License #*
Broker's Address			
Signature of Broker	*Date* OR	*Signature of Representative*	*Date*
Borrower	*Date*	*Borrower*	*Date*

Department of Real Estate license information telephone number: (916) 227-0931, or check license status at www.dre.ca.gov