

Opening Statement of Ranking Member Spencer Bachus, Committee on Financial Services, Hearing Entitled, "Impact on Homebuyers and Housing Market of Conforming Loan Limit Increase"

May 22, 2008

Thank you, Mr. Chairman, for holding this hearing on current conditions in the jumbo mortgage market.

The bipartisan economic stimulus package enacted in February temporarily increased conforming loan limits for Fannie Mae and Freddie Mac, raising the dollar amount of a mortgage that Fannie and Freddie can securitize to as high as \$729,500 in certain high-cost areas. While these new limits apply to all mortgages originated between July 1, 2007 and December 31, 2008, the GSEs are authorized to securitize these new "jumbo-conforming" mortgages at any time during the life of the loan.

The objective of this temporary increase in GSE loan limits was to inject liquidity into the jumbo mortgage market at a time when investors' aversion to risk had caused spreads between interest rates on those mortgages and mortgages eligible for purchase by Fannie Mae and Freddie Mac to widen alarmingly. Lower rates on jumbo mortgages would in turn help increase demand in higher-cost markets where the fall-out from the bursting of the housing bubble has been the most severe. While these beneficial effects have been slow to materialize, there have been hopeful signs in recent days that liquidity is returning to the jumbo market, as the GSEs ramp up their purchases of these mortgages and spreads between "jumbo conforming" and regular conforming loans narrow.

A key question that this Committee must ask is whether Fannie Mae and Freddie Mac will be able to continue to support the conforming mortgage market in a safe and sound manner while assuming additional responsibilities in the subprime and jumbo markets. Although these higher loan limits for Fannie and Freddie might help to reassure mortgage lenders and stabilize local markets that have been battered by sharp price declines and record foreclosures, policymakers must be mindful that they also increase the risks for these two companies. Strong and well-capitalized GSEs are essential to the stability of the housing finance system and our financial markets generally, and that is why I remain committed to working with Chairman Frank and our Senate counterparts to achieve comprehensive GSE reform this year.

Thank you, Mr. Chairman. I yield back the balance of my time.