

## High-Balance Loans in Fannie Mae MBS

On July 30, 2008, the Housing and Economic Recovery Act of 2008 (HERA) expanded the government-sponsored enterprises (GSEs) conforming loan limits by permanently establishing high-cost area loan limits for the GSEs, thereby enabling them to purchase and securitize these high-balance loans. The high-cost area conforming loan limits, applicable in those geographic areas where 115 percent of the area median house price exceeds the general conforming loan limit, are set at 115 percent of the area median house price up to a maximum of 150 percent of the general conforming loan limit.

The 2009 general conforming one-unit home loan limit in the continental U.S., set on November 7, 2008 by the Federal Housing Finance Agency (FHFA), remains at \$417,000. This limit is \$625,500 for Alaska, Hawaii, Guam and the U.S. Virgin Islands. The maximum high-cost area one-unit loan limit in 2009 is \$625,500 (\$417,000 x 150 percent) for the continental U.S. and \$938,250 (\$625,500 x 150 percent) for Alaska, Hawaii, Guam and the U.S. Virgin Islands.

The Securities Industry and Financial Markets Association (SIFMA) has amended their standard requirements for delivery on settlements of Fannie Mae, Freddie Mac and Ginnie Mae securities contained in their Uniform Practices Manual to allow high-balance loans to be considered 'good delivery' in the to-be-announced (TBA) market for mortgage-backed securities (MBS) on a 10 percent de minimis basis. The TBA market only allows for single-family, fixed-rate, amortizing, intermediate-term or long-term conventional mortgages. SIFMA's decision to allow a 10 percent de minimis amount of high-balance loans originated after October 1, 2008 into TBA pools issued after January 1, 2009 is designed to preserve the homogeneity of the TBA product, while minimizing liquidity disruption. This de minimis restriction applies to Fannie Mae TBA eligible CL-, CI-, CT- and CN-prefix MBS. For non-TBA eligible Fannie Mae prefix MBS (for example ARMs) Fannie Mae will allow high-balance loans to be included into pools without limitation. This edition of *MBSenger* reviews the permanent changes to the

conforming loan limits and describes how high-balance loans will be securitized into Fannie Mae MBS.

### General Loan Limits

Prior to HERA, the general conforming loan limit was indexed to the October survey of major lenders conducted by the Federal Housing Finance Board. With the enactment of HERA, the general conforming loan limit will be adjusted annually based upon a new housing price index established by FHFA with the first adjustment effective on January 1, 2009. Future annual adjustments in the general conforming loan limit will be made by increasing the existing general conforming loan limit by a percentage equal to the percentage increase in FHFA's housing index during the most recent 12-month or four-quarter period. If FHFA's housing index decreases during the relevant period, no adjustment will be made to the general conforming loan limit for the next year. Instead, decreases in the index will be accumulated and will offset future increases in the index until those future increases exceed prior declines. The 2009 general conforming loan limit for a mortgage secured by a one-unit single-family residence remains unchanged from the 2008 limit at \$417,000.<sup>1</sup>

### High-Cost Area Loan Limits

High-cost areas are defined by county-based geographical areas known as metropolitan statistical areas (MSAs).<sup>2</sup> The loan limit for a high-cost MSA will be determined using the county within that MSA with the highest median house price. The new maximum high-cost area loan limits established by HERA are lower than the jumbo-conforming loan limits, which were established by the Economic Stimulus Act of 2008. The new high-cost area loan limits are set at 115 percent of the area median house price up to a maximum 150 percent of general conforming loan limit, while the jumbo-conforming loan limits were set at 125 percent of the area median house price up to a maximum of 175 percent of the general conforming loan limit.<sup>3</sup>

<sup>1</sup> The general conforming loan limit for 2009 is set at \$533,850 for a mortgage secured by a two-family residence, \$645,300 for a mortgage secured by a three-family residence and \$801,950 for a mortgage secured by a four-family residence.

<sup>2</sup> In addition to MSAs, high-cost areas are defined by micropolitan areas and individual counties.

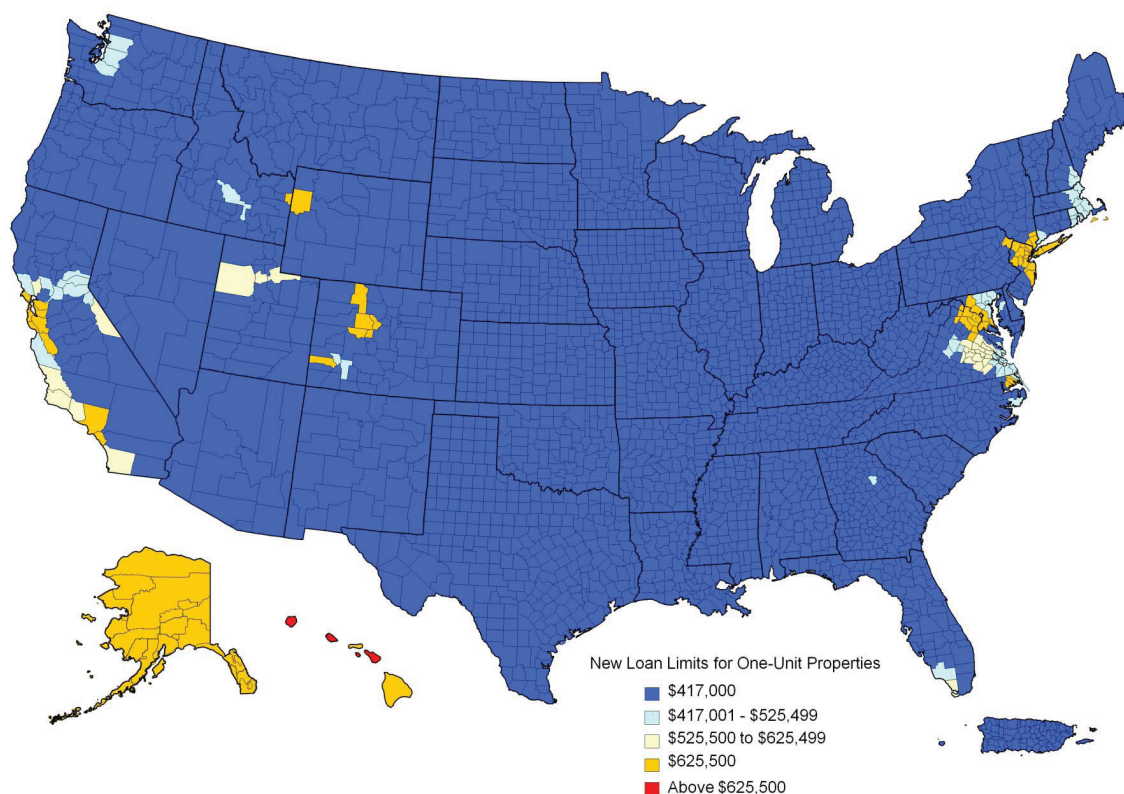
<sup>3</sup> Jumbo-conforming loans will continue to be eligible for purchase and securitization by Fannie Mae in accordance with the Economic Stimulus Act of 2008, notwithstanding the establishment of the permanent high-balance loan limits under HERA. For a more detailed discussion of jumbo-conforming loans, please see the *MBSenger* editions from April and June 2008, which are available at the following website: <http://www.fanniemae.com/mbs/mbsenger/index.jhtml?p=Mortgage-Backed+Securities&s=MBSENGER>

The U.S. Department of Housing and Urban Development (HUD) determined the median home price of each MSA for 2009. Fannie Mae may hold in portfolio or securitize these high-balance loans beginning January 1, 2009. The 2009 high-cost area one-unit home loan limit in the continental U.S. has a maximum amount of \$625,500, which is 150 percent of the \$417,000 general conforming loan limit. The 2009 one-unit high-cost area loan limit for Alaska, Hawaii, Guam, and the U.S. Virgin Islands cannot exceed \$938,250, which is 150 percent of \$625,500. High-balance loans in these areas are eligible for TBA delivery even though the loan amount is greater than \$625,500. Loans in these areas that meet the general one-unit conforming loan limit (\$625,500 for a one unit dwelling within Alaska, Hawaii, Guam and the U.S. Virgin Islands) are eligible for TBA delivery without limitation. Exhibit 1 (right) lists the 2009 one-unit high-cost area loan limits for selected MSAs. Exhibit 2 below depicts the conforming loan limits geographically.

### Exhibit 1: One-Unit High-Cost Area Loan Limits for Selected MSAs where Conforming Loan Limits are Set Based on High-Cost Area Provisions of HERA

City	Loan Limit
Boston – Cambridge – Quincy	\$465,750
Bridgeport – Stamford – Norwalk	\$511,750
Los Angeles – Long Beach – Santa Ana	\$625,500
Naples – Marco Island	\$448,500
New York – Northern NJ – Long Island	\$625,500
Salt Lake City	\$600,300
San Diego – Carlsbad – San Marcos	\$546,250
San Francisco – Oakland – Fremont	\$625,500
Seattle – Tacoma – Bellevue	\$506,000
Washington – Arlington – Alexandria	\$625,500

### Exhibit 2: Map of One-Unit Conforming Loan Limits for 2009 (Determined Under Rules Set Forth in the Housing and Economic Recovery Act of 2008)



#### Notes:

1. All counties within the same Metropolitan/Micropolitan Statistical Area have the same loan limit.
2. The median house price estimates underlying the high-cost area limits were calculated by HUD/FHA. A 30-day appeals period has begun during which interested parties can submit to HUD appeals suggesting higher median prices. If some of those are successful, some local loan limits could change.

Source: FHEA



**Trivia Question:** Which county in Georgia is the only county that has a 2009 high-cost area loan limit? (answer found in the footnote<sup>4</sup>)

The complete list of MSAs where conforming loan limits are set based on the high-cost area provisions of HERA can be found on FHFA's website at the link below.

<http://www.fhfa.gov/GetFile.aspx?FileID=135>

### Exhibit 3: Fannie Mae MBS Issuance of CL-, CI-, CT- and CN-Prefix MBS

Prefix	Description	Dollar Volume: Issuance Year-to-Date 2008, Through November	Percentage of Fannie Mae Single-Family MBS Issuance Year-to-Date 2008 Through November
CL	Conventional Long-Term, Level-Payment Mortgages; Single-Family; maturing or due in 30 years or less.	\$369.7 billion	79.9%
CI	Conventional Long-Term, Level-Payment Mortgages; Single-Family; maturing or due in 15 years or less.	\$57.1 billion	12.3%
CT	Conventional Intermediate-Term, Level Payment Mortgages; Single-Family; maturing or due in 20 years or less.	\$11.6 billion	2.5%
CN	Conventional Intermediate-Term, Level Payment Mortgages; Single-Family; maturing or due in 10 years or less.	\$3.6 billion	<1%

Note: Balloon mortgages are not permitted by Fannie Mae for high-balance mortgage loans, therefore, they are not permitted in pools with a CX-prefix which denotes conventional balloon, level-payment mortgages; single-family; maturing or due in seven years or less.

Source: eMBS and Fannie Mae.

### High-Balance Loans and the TBA Market

Much of agency pass-through trading in the secondary mortgage market is on a TBA basis. In a TBA trade, the buyer and seller agree to general characteristics of the trade including the agency, maturity, coupon, settlement date, par amount and price. The buyer typically does not know which pools will actually be delivered until two days before settlement, but the pools delivered by the seller must satisfy SIFMA good delivery guidelines. The TBA market essentially makes unique and often small pools interchangeable, and facilitates liquidity in fixed-rate pass-through trading.

On August 14, 2008, SIFMA announced that high-balance loans originated on or after October 1, 2008 will be eligible for TBA trades as of January 1, 2009. SIFMA believes "this will accomplish limiting loans to 'new production' as desired, while allowing for an expeditious ramp-up to the pooling for high-balance loans when they become eligible for delivery in January 2009."<sup>5</sup> High-balance loans in the TBA market are limited to up to 10 percent of the total balance of a TBA pool. The 10 percent de minimis limit for high-balance loans will be separate and distinct from the existing individually limited 10 percent and collectively limited 15 percent de minimis rules for non-standard loan products, such as cooperative properties, relocation loans, and significant buydowns as identified in SIFMA's good delivery guidelines.

Each Fannie Mae mortgage loan pool is assigned a separate pool number and a two-character prefix that identifies the type of mortgage loans in the pool and the basic terms of the certificates. Fannie Mae will allow high-balance loans in all Fannie Mae MBS, but only Fannie Mae fixed-rate MBS pools with prefixes CL, CI, CT and CN will be eligible for TBA transactions. SIFMA guidelines provide that 30-year fixed-rate CL-prefix pools and 20-year CT-prefix pools are considered good delivery for 30-year TBA-eligible trades. The guidelines also state that 15-year CI-prefix pools and 10-year CN-prefix pools are considered good delivery for 15-year TBA-eligible trades. All 30-year, 20-year, 15-year and 10-year fixed-rate, fully amortizing, level payment MBS pools with greater than 10 percent concentration of high-balance loans will not be designated by one of these four prefixes and will not be TBA-eligible. MBS pools with greater than 10 percent concentration of high-balance loans will use existing jumbo-conforming prefixes CJ and CK.

CL- and CI-prefix MBS have constituted 92 percent of Fannie Mae MBS issuance year-to-date through November 2008. Furthermore, 79.9 percent of Fannie Mae MBS issuance in 2008, through November, or \$369.7 billion in dollar volume has been in CL-prefix MBS, and 12.3 percent or \$57.1 billion has been in CI-prefix as shown in Exhibit 3.

<sup>4</sup> Trivia Answer: Greene County, GA.

<sup>5</sup> SIFMA – *Information Regarding Inclusion of Higher-Balance Loans in TBA-Eligible Securities*, August 20, 2008. [http://www.sifma.org/capital\\_markets/ihbl.shtml](http://www.sifma.org/capital_markets/ihbl.shtml).

## High-Balance Loans in Non-TBA-Eligible MBS

Fannie Mae's business practices allow high-balance loans to be securitized into any non-TBA-eligible Fannie Mae prefix without limitation. There is no limit as to the amount, concentration or origination date for high-balance loans that back non-TBA eligible Fannie Mae MBS.

## Fannie Majors® and High-Balance Loans

Fannie Majors permits multiple lenders to deliver into the same Fannie Mae MBS pool. Fannie Majors are generally available for fully-amortizing fixed-rate (10-, 15-, 20-, 30- and 40-year) mortgages, seven-year balloons and certain adjustable-rate mortgages and interest-only mortgages. Delivery of high-balance loans into TBA-eligible Fannie Majors pools is permitted. However, as with other non-standard pool characteristics (such as relocation loans, cooperative properties and significant buydowns), the 10 percent de minimis restriction will be applied to each discrete lender delivery into a given Fannie Majors pool, not at the pool level.

## Fannie Megas® and High-Balance Loans

There are no restrictions regarding the unpaid principal balance or number of high-balance loans in MBS that can be used to create Fannie Mae Mega pools. Fannie Megas are MBS pools in which the underlying collateral is comprised of groups of existing Fannie Mae MBS or other Fannie Mae-backed Megas with similar features. Fannie Mae can create Megas from either fixed-rate or adjustable-rate MBS. The cash flows from the underlying, previously-issued Fannie Mae MBS provide the cash flow for the Mega pool. The MBS underlying a TBA-eligible Mega are required to have adhered to SIFMA's good delivery guidelines at issuance, including the 10 percent de minimis limit for high-balance loans.

## Loan Size Disclosures

Fannie Mae will continue to provide at issuance disclosures regarding loan size to investors via PoolTalk® and Pool Data Direct™, including maximum loan size in a pool, minimum loan size in a pool, and quartile loan size information. This information is updated on a monthly basis and investors can access PoolTalk via FannieMae.com using pool numbers or CUSIPs.

## Summary

This edition of *MBSenger* reviewed the permanent changes to the conforming loan limits and describes how high-balance loans will be securitized into Fannie Mae MBS. The general conforming one-unit loan limit will be \$417,000 for 2009, and the high-cost area one-unit loan limit for certain MSAs will be as high as \$625,500 in 2009, although the limits for loans originated in Alaska, Hawaii, Guam and the U.S. Virgin Islands could be higher. High-balance loans, those with an original principal balance greater than the general conforming loan limit and up to the high-cost area loan limit, will be considered 'good delivery' in the to-be-announced (TBA) market for mortgage-backed securities (MBS) on a 10 percent de minimis basis.

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