



Jumbo-Conforming Update

The Economic Stimulus Act of 2008 temporarily increases Fannie Mae's conventional loan limit in designated Metropolitan Statistical Areas (MSAs). This issue of MBSenger provides investors with details about Fannie Mae's implementation of this new temporary jumbo-conforming loan limit into its mortgage-backed securities (MBS). We discuss how the loan limit is set for different MSAs; Fannie Mae eligibility requirements for these loans; and how these loans will be incorporated into Fannie Mae MBS and structured transactions.

Since January 1998, the interest-rate spread between jumbo and conforming loans had been relatively stable, averaging 25 basis points through July 2007. However, in the

wake of the challenging mortgage market environment of late 2007 and early 2008, the spread between jumbo and conforming mortgage rates widened significantly to above 100 basis points, as shown in **Exhibit 1**. In this environment, homeowners in high-cost geographic areas were adversely affected by relatively high mortgage rates, making it more costly for home buyers and those wanting to refinance existing mortgages. Legislators are hopeful that the temporary increase in conforming loan limits will promote better liquidity in the primary mortgage market in high-cost geographical areas and extend the reach of lower conforming mortgage rates to high-cost geographic areas where borrowers have previously been required to obtain relatively higher-cost, non-conforming loans.

Exhibit 1: Jumbo-Conforming Spread (between 01/02/98 and 04/11/08)



Source: Fannie Mae and HUD

The maximum temporary jumbo-conforming loan limit for one-unit homes in the continental U.S. is \$729,750.

On March 6, 2008, the new conforming loan limits, as defined by the U.S. Department of Housing and Urban Development (HUD), were announced, temporarily increasing the conforming loan limits in certain high-cost areas.

Following this announcement, Fannie Mae released *Announcement 08-05, Temporary Increase to Our Conventional Loan Limits*, (<https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0805.pdf>), which outlines Fannie Mae's requirements for the origination, underwriting, delivery and servicing of jumbo-conforming mortgage loans. A jumbo-conforming mortgage is any conventional mortgage loan for which the original principal balance exceeds the conforming loan limit in effect prior to the temporary increase up to the new limits set by HUD for the area in which the property is located.

Jumbo-Conforming Loan Limit Established by Metropolitan Statistical Area (MSA)

Before the change in legislation, the conforming loan limit for 2008 was set at \$417,000 on a national basis with higher loan limits in a select group of states and territories. However, after the passage of the Economic Stimulus Act, a temporary conforming loan limit became dependent on geographic location defined by Metropolitan Statistical Area (MSA). The loan limit, now set by MSA, rather than on a national basis, can differ from MSA to MSA. A Metropolitan Statistical Area must have at least one urbanized area of 50,000 or more inhabitants and consist of no less than one county. The maximum temporary jumbo-conforming loan limit for one-unit homes in the continental U.S. is \$729,750. However, the new loan limit in Alaska, Hawaii, Guam, and the U.S. Virgin Islands may be higher.

The higher conventional loan limit is calculated as 1.25 times the median house price for the highest-priced county in the property's metropolitan or micropolitan area, which is one urban cluster of at least 10,000 but less than

50,000 inhabitants, or the median house price for the property's county, if it is in a rural county. For any area where 125 percent of the area median home price is less than \$417,000, the loan limit will remain at \$417,000 (\$625,500 for Alaska, Hawaii, Guam, and the U.S. Virgin Islands). The 2008 increased conforming loan limit is not exclusive for one-unit homes. Loan limits for two- to four-unit properties are proportional to the one-unit limit.

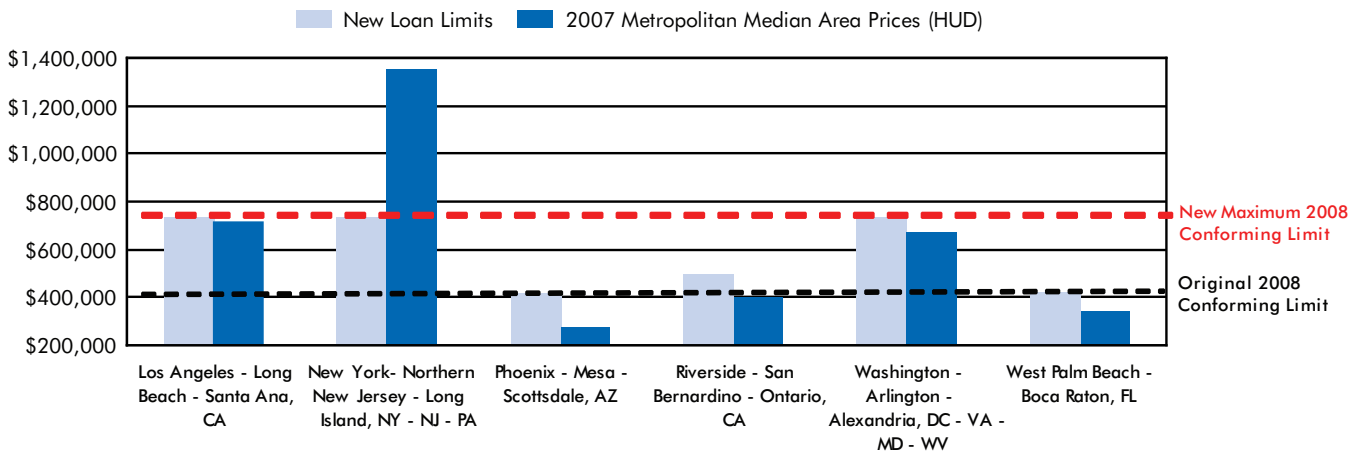
For example, if the median home price in an MSA (or the highest-priced county in an MSA) is \$450,000, the new loan limit is calculated by multiplying 1.25 by the area median home price of \$450,000. The product ($1.25 \times \$450,000 = \$562,500$) will be the new loan limit for that area, since it is below the \$729,750 maximum loan limit. **Exhibit 2** shows the impact of new loan limits for a selection of high-cost areas against their respective metropolitan area home price in 2007.

In California, fourteen counties will benefit from a 75 percent increase in the one-unit property conforming loan limit, reaching the maximum conforming loan limit of \$729,750. Another 58 counties in 12 states will reap the benefits of a 75 percent increase of the loan limit. In total, 278 counties will benefit from the legislation. Conversely, 2,951 counties across the country will not be impacted by the legislation.

Fannie Mae's Jumbo-Conforming Eligibility Requirements

In order for a jumbo-conforming mortgage loan to be eligible for Fannie Mae to securitize or purchase, it must be a conventional first-lien mortgage and must have been originated between July 1, 2007 and December 31, 2008. Fannie Mae will purchase or securitize jumbo-conforming fixed-rate mortgages starting on April 1, 2008. For eligible 5/1 adjustable-rate mortgages, the effective date to be purchased or securitized will be May 1, 2008. Additional products will be considered for future delivery. **Exhibit 3** shows the different jumbo-conforming product types Fannie Mae will securitize or purchase.

Exhibit 2: Loan Limits on One-Unit Properties for Selected MSAs



Source: Fannie Mae and National Association of Realtors

Exhibit 3: Fannie Mae Jumbo-Conforming Product Types

Fixed-Rate Mortgages	Adjustable-Rate Mortgages
<ul style="list-style-type: none"> Fully-amortizing mortgages 	<ul style="list-style-type: none"> 5/1 ARM, fully-amortizing mortgages with 30-year term, LIBOR index, 5/2/5 caps 5/1 ARM, interest-only (IO) for 10 years with 30-year term, LIBOR index, 5/2/5 caps

Fannie Mae has set eligibility requirements based on loan-to-value (LTV) ratio, credit score and other credit factors. Exhibit 4 reflects Fannie Mae's eligibility requirements for jumbo-conforming mortgages from a credit perspective. Additionally, the eligibility requirements are subject to change over time.

Exhibit 4: Fannie Mae's Jumbo-Conforming Mortgage Eligibility Requirements for Principal Residences

Product Type	Loan Purpose	Maximum LTV	Minimum FICO Score
Fixed-Rate Mortgage	Purchase	90%	LTV ≤ 80%: 660 LTV > 80%: 700
	Rate Refinance	75%	660
Adjustable-Rate Mortgage	Purchase	80%	660
	Rate Refinance	75%	660

No cash-out option available.

All jumbo-conforming fixed-rate pools may be used as collateral backing a Real Estate Mortgage Investment Conduit (REMIC).

Incorporating Jumbo-Conforming Loans Into MBS and Structured Transactions

The Securities Industry and Financial Markets Association (SIFMA) determined that jumbo-conforming mortgages would not be TBA-eligible.

In order to adapt to the temporary increase in the conventional loan limits, Fannie Mae developed jumbo-conforming prefixes by revising specific existing seasoned pool prefixes and by creating new pool prefixes. The separation of the jumbo-conforming prefixes between seasoned mortgages and newly-originated mortgages will provide better disclosure to Fannie Mae investors, as these two segments of loans may result in different prepayment speeds.

Fannie Mae identified four different prefixes associated with jumbo-conforming fixed-rate mortgages. Two of these prefixes have been revised and updated from the current Fannie Mae prefix list, and the other two are new additions to the Fannie Mae prefix list. The existing and revised prefixes are for seasoned loans, JI (15-year) and JL (30-year), and are assigned to pools for jumbo-conforming loans originated between July 1, 2007 and February 29, 2008. **Exhibit 5** defines each jumbo-conforming fixed-rate prefix for mortgages originated from July 1, 2007 through February 29, 2008.

Exhibit 5: Revised Jumbo-Conforming Fixed-Rate Prefixes – Seasoned Loans

JI: (Revised Definition)	JL: (Revised Definition)
Conventional Intermediate-Term Mortgages; Single-Family; maturing or due in 15 years or less .	Conventional Long-Term Mortgages; Single-Family; Initial Terms greater than 15 years .
Pool meets any of the following criteria: (i) More than 15 percent of pool issue balance is comprised of loans with more than one special product characteristic (as defined in the Fannie Mae Guides), (ii) Pool contains loans with one or more other unique characteristics (see individual Prospectus Supplement for details), or (iii) Pool contains jumbo-conforming loans with an origination date beginning July 1, 2007 through February 29, 2008.	

For jumbo-conforming fixed-rate mortgage loans originated on or after March 1, 2008, the jumbo-conforming pools will be assigned the new prefixes, CJ (15-year) and CK (30-year), for loans eligible on a flow basis. **Exhibit 6** defines each jumbo-conforming fixed-rate prefix for mortgages originated on or after March 1, 2008.

Exhibit 6: New Jumbo-Conforming Fixed-Rate Prefixes – Newly-Originated Loans

CJ: (New Prefix)	CK: (New Prefix)
Conventional Jumbo-Conforming, <i>Intermediate-Term</i> , Level-Payment Mortgages; Single-Family; maturing or due in 15 years or less .	Conventional Jumbo-Conforming, Long-Term, Level-Payment Mortgages; Single-Family; maturing or due in 30 years or less .
Pool contains jumbo-conforming loans with an origination date on or after March 1, 2008.	

In order to create jumbo-conforming fixed-rate Fannie Majors®, the prefixes correlated with this product must be one of the two newly-originated jumbo-conforming fixed-rate prefixes (CJ or CK). At this time, jumbo-conforming fixed-rate Fannie Majors may not contain any seasoned jumbo-conforming loans (JL or JI). In contrast, all jumbo-conforming fixed-rate pools may be used as collateral backing a Real Estate Mortgage Investment Conduit (REMIC).

For jumbo-conforming adjustable-rate mortgage loans securitized or purchased on or after May 1, 2008, the jumbo-conforming pools will be assigned new prefixes, LC (seasoned) or LD (newly originated). **Exhibit 7** defines each jumbo-conforming adjustable-rate prefix.

Fannie Megas[®] may be created from MBS that are backed by jumbo-conforming loans.

Exhibit 7: New Jumbo-Conforming Adjustable-Rate Prefixes

LC: (New Prefix)	LD: (New Prefix)
Conventional Adjustable-Rate Jumbo-Conforming Mortgages, Single-Family, London Interbank Offered Rate (LIBOR); pool contains jumbo-conforming loans with an origination date beginning July 1, 2007 through February 29, 2008.	Conventional Adjustable-Rate Jumbo-Conforming Mortgages, Single-Family, London Interbank Offered Rate (LIBOR); pool contains jumbo-conforming loans with an origination date on or after March 1, 2008.
<ul style="list-style-type: none"> ▶ 5/1 ARMs will have the subtype P92. ▶ 5/1 Interest-Only ARMs will have the subtype P93. 	

Fannie Mae MBS subtypes are alphanumeric codes that identify adjustable-rate mortgage product characteristics such as index, initial fixed-rate period, rate and payment adjustment frequency and caps, convertibility, and other features. In the jumbo-conforming adjustable-rate mortgages pools, the P92 or P93 subtypes are based on the Wall Street Journal 1-year LIBOR index, with an initial period of 43-66 months, for Single-Family MBS adjustable-rate mortgages. All jumbo-conforming adjustable-rate pools are permitted to be included in REMICs as collateral.

Fannie Megas[®]

Fannie Megas (Megas) may be created from MBS that are backed by jumbo-conforming loans. In order to create a jumbo-conforming fixed-rate Mega, the prefixes correlated with this product may be any of the four jumbo-conforming fixed-rate prefixes (JI, JL, CJ, or CK); however, each Mega must be comprised of the same jumbo-conforming fixed-rate prefix. To create jumbo-conforming adjustable-rate Megas, all pools within the Mega must have the same subtype (P92 or P93). A jumbo-conforming adjustable-rate Mega may include both LC and LD pools, as well as LB¹ and WS² pools. The resulting Mega will be assigned an LC prefix if LC pools are included; otherwise, an LD prefix will be assigned.

For example, a conventional JL 30-year fixed-rate MBS issued in April 2006 can be commingled with a jumbo-conforming JL 30-year fixed-rate MBS issued in January 2008, to create a jumbo-conforming fixed-rate Mega. Conversely, a conventional JI 15-year fixed-rate MBS, is-

sued in June 2006 cannot be commingled with a jumbo-conforming JL 30-year fixed-rate MBS, issued in January 2008, to form a jumbo-conforming fixed-rate Mega because the pool prefix of each pool in a Mega must be the same.

Jumbo-Conforming Disclosures

For all MBS with jumbo-conforming loans, Fannie Mae will provide a table in the at-issuance prospectus supplement, which will include the number of jumbo-conforming mortgages in the pool, the aggregate unpaid principal balance (UPB) of these jumbo-conforming mortgages, and the percentage of the pool's UPB that they represent. The at-issuance jumbo-conforming loan disclosure elements are available in two of Fannie Mae's easy-to-use online tools, Prospectus Supplement Retrieval System (eProSupp) and PoolTalk[®].

- ▶ eProSupp retrieves most of the Fannie Mae MBS (Single-Family) and Mega (Single-Family and Multi-family) Prospectus Supplements issued from May 1996 to the present. eProSupp is accessible on Fannie Mae's website->Mortgage-Backed Securities->Search Tools & Resources->Prospectus Supplement Retrieval System (eProSupp). <http://www.fanniemae.com/mbs/tools/eprosupp.jhtml>
- ▶ PoolTalk provides pool-level information to its securities, including Fannie Mae fixed-Rate and adjustable-Rate MBS, Megas, SMBS, REMICs, and Grant or Trusts. ePooltalk is accessible on Fannie Mae's website->Mortgage-Backed Securities->Search Tools & Resources->PoolTalk. <http://www.fanniemae.com/mbs/tools/pooltalk.jhtml>

Exhibit 8 provides the starting dates on which Fannie Mae will securitize loans with the new temporary, increased conforming loan limits, which have been originated in the specified range.

¹LB: Adjustable-Rate Mortgages, Single-Family, London Interbank Offered Rate (LIBOR), lifetime caps are pool-specific.

²WS: Conventional Adjustable-Rate Mortgages; Single-Family. Includes a wide variety of ARM types and indices.

Exhibit 8: Jumbo-Conforming Timeline

Product Type	Origination Date	Fannie Mae Securitization Date	Term	Prefix
Fixed-Rate Mortgage	July 1, 2007 thru February 29, 2008	April 1, 2008	15 year	Jl
	July 1, 2007 thru February 29, 2008	April 1, 2008	30 year	Jl
	March 1, 2008 thru December 31, 2008	April 1, 2008	15 year	CJ
	March 1, 2008 thru December 31, 2008	April 1, 2008	30 year	CK
Adjustable-Rate Mortgage	July 1, 2007 thru February 29, 2008	May 1, 2008	–	LC
	March 1, 2008 thru December 31, 2008	May 1, 2008	–	LD

Additional Resources

Additional resources for information regarding jumbo-conforming loans:

- I. *Announcement 08-05, Temporary Increase to Our Conventional Loan Limits* (<https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0805.pdf>), covers additional and more detailed information such as:
 - ▶ Eligibility requirements for loan characteristics
 - ▶ Eligibility for second home and investment property
 - ▶ Ineligible products, features, or transaction types
 - ▶ Debt-to-income ratio
 - ▶ Credit
 - ▶ Appraisals requirements
 - ▶ MBS buy-up and buy-down grids
 - ▶ Early funding settlement options
 - ▶ Remittance options
 - ▶ Anti-predatory lending requirements
 - ▶ Lender representation and warranty
 - ▶ Loan-level price adjustments (LLPA)

- II. *Announcement 08-09, Jumbo-Conforming Mortgage Loans-ARM Plans, MBS Pooling, and Other Information* (<https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0809.pdf>), covers additional and more detailed information such as:
 - ▶ ARM Plans
 - ▶ ARM MBS Pool Prefix and Subtype Information
 - ▶ MBS Buyup and Buydown Grid Clarification
 - ▶ Clarifications and Updates to Announcement 08-05

- III. Reference material regarding the maximum conforming loan limit by county is available on www.efanniemae.com under the Single-Family Reference Materials section, “Loan Limits” page. <https://www.efanniemae.com/sf/refmaterials/loanlimits/jumboconf/xls/loanlimref.xls>

Summary

In this edition of MBSenger, we review the temporary higher loan limits promulgated by the Economic Stimulus Act of 2008 and identified by HUD in March 2008. We remind dealers and investors about the jumbo-conforming mortgage characteristics and how they are able to distinguish MBS pools backed by all or a portion of jumbo-conforming mortgages.

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