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Lawmakers sound alarm on reducing loan limits

Representatives push back against DeMarco's strategic goals

Christina Mlynski October 11, 2013

More than 60 lawmakers are fighting against the Federal Housing Finance Agency's ongoing efforts to reduce conforming loan limits. Yet, some housing analysts view these lawmakers as driven more by special interests than sound housing policy.

Nevertheless, influential lawmakers — including Reps. Maxine Waters, D-Calif.; Gary Miller, R-Calif.; and Michael Capuano, D-Mass. — sent a letter to the FHFA asking the agency to drop its plans to reduce conforming loan limits.

"Such an action by a single regulator would serve only to further tighten credit availability and thereby erode progress in our fragile housing recovery," the House members wrote.

They added, "Moreover, housing is the cornerstone of our economy, and arbitrary regulatory reduction of the conforming loan limit will further disrupt our overall economic recovery."

Earlier this year, FHFA said it was considering a plan to reduce the conforming loan limits, which currently sit at $417,000 for most of the nation, while remaining as high as $625,000 in high-cost housing markets.

While the letter from lawmakers argues that FHFA Acting Director Ed DeMarco doesn't possess the authority to drop the loan limits, it's almost secondary to the real reason why representatives are against a lower ceiling.

"Generally the entire country and Congress are all for loan limits going up, and DeMarco without any legislation is trying to contract the government-sponsored enterprises' presence, which is why everyone is at odds," explained Tim Rood, managing director for The Collingwood Group.

He added, "DeMarco has his triple mandate: contract, maintain and build. One of the two levers involves reducing loan amounts and credit pricing, so he’s pulling both levers to shrink the GSEs’ footprint."

On a similar note, Cato Institute director of financial regulation studies Mark Calabria suggested that there is a large group in Congress that wants loan limits to be as high as possible.

"They represent higher cost areas and of course would like the taxpayer subsidizing their voters as well," Calabria said.

He continued, "Generally this a group that shows little concern for the taxpayer. The biggest point of contention when I was working on the Housing Economic Recovery Act in 2008 was not capital or receivership, but just how high the loan limits would be."

Lawmakers are not the only groups pushing back against lower conforming loan limits.

For instance, the National Association of Federal Credit Unions wrote in a similar letter to the FHFA that such changes would disrupt the availability of affordable housing credit, the housing recovery and the economy as a whole.

Additionally, Real Estate Mortgage Network executive vice president Rick Floyd said any time a limit is lowered, the pool of potential buyers shrink.

"The mortgage market is still, despite improvement, in a depressed state, especially if you compare it to where it was pre-bubble levels," Floyd stated.

Nonetheless, Rood isn’t worried that such upheaval from industry participants will defer DeMarco’s goal to reduce the enterprises’ footprint.

"He’s got a track record of doing the right thing without being subject to political influence of bias, so this won’t be any different," Rood concluded.