The Latest Boost For "Affordable" Housing: GSE Loan Limits Now Above $1 Million

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The Federal Housing Finance Agency (FHFA) just announced the GSE's conforming loan limits will surpass $1 million for the first time. In plain English, this announcement means that in 2023 Fannie MaeFNMA +2.8% and Freddie Mac will, for the first time, be able to purchase home mortgages that exceed $1 million.

This new higher limit of $1,089,300 will apply only to "high cost" markets, but the GSE loan limits are rising across the board. Most geographic areas of the United States will have loan limits of $726,000 in 2023, up from $647,200 in 2022. (For the record the FHA has similarly high loan limits.)

Anyone thinking "These figures seem awfully high" is on the right track.

Even the "regular" limit of $726,000 is well above $455,000, the (currently elevated) median sale price for homes in the United States. So these high limits are one of the holes in the story told by those who insist federal housing policy is about helping poor people get homes, rather than maximizing the number of mortgages that the financial industry can write.

Allowing federal support for mortgages on vacation homes, second homes, investment properties, and cash-out refinancing, as well as for "first time" buyers who have previously owned homes *and* for those who earn above-average income, are just a few more of those holes. But I digress.

These loan limits should have been reduced systematically for the last two decades, along with increased g-fees that would have put all geographic areas on the same footing. Failure to change that system has meant that as home prices increased, federal support for mortgages increased with them, thus fueling further price increases.

Very few government officials have even acknowledged this problem.

Regardless, crossing the million-dollar threshold should at least draw some attention to this policy problem. The Wall Street Journal seems hopeful, reporting "The higher limits are also likely to renew a debate about how big of a mortgage is too big to be backed by the government." But there really hasn't been much of a debate in the last 15-plus years.

At best, a few members of Congress from the "high-cost" areas of the country – there are roughly 100 such counties across more than a dozen states – have acknowledged the issue

and called for higher g-fees instead of lower limits. Hints of this *non*-debate show up in former FHFA director Ed DeMarco's recent comments to the Wall Street Journal:

Maybe the loan limit actually exceeding $1 million will get somebody's attention and at least provoke a much needed policy discussion about the government's footprint in the mortgage market.

DeMarco is right. The discussion *is* much needed. Sadly, almost no progress has been made on this front in the last few decades. Regardless of which political party was in control of Congress or the White House, government officials have steadily expanded the federal footprint in the mortgage market.

For instance, the government has dominated the secondary mortgage market ever since the 2008 financial crisis, with the GSEs still under government conservatorship. Few remember, though, that the situation wasn't much different prior to the crisis. From 1996 to 2007, Fannie and Freddie's annual share of the total mortgage backed security (MBS) market averaged 60 percent, only about 10 percentage points lower than the post-crisis share.

While this kind of market share doesn't seem to bother anyone in Washington, Fannie's charter stipulates that their secondary market operations "should be conducted on such terms as will reasonably prevent excessive use of the corporation's facilities." Freddie's charter includes almost identical language.

Perhaps this rule-of-law type issue is too obscure for elected officials to care about.

If so, they could just rely on some easily relatable housing finance facts that coincide with more federal involvement. For instance, the U.S. homeownership rate is almost exactly where it was prior to the expanded reliance on Fannie and Freddie; home price appreciation has consistently outpaced income growth, and taxpayers have been forced to shell out hundreds of billions of dollars in bailouts.

Fannie and Freddie (along with the FHA) have helped fuel more mortgage debt, with less equity, for higher-priced homes. These policies have been particularly harmful for low-income families, and all the typical American has to show for the existing housing finance system is excessive debt, high housing costs, volatile home prices, overregulation, and a trail of federal bailouts.

Federal policies have also crowded out private sector businesses that could have helped build a more sustainable system, perhaps with more diverse lending and insurance options.

As I point out in the homeownership chapter of *Empowering the New American Worker*, a forthcoming book edited by my colleague Scott Lincicome, federal policies have endangered workers' ability to build wealth and accumulate assets, especially in turbulent labor markets. Long-term, low equity debt is a gamble, regardless of the underlying asset.

The ideal solution would be to remove the federal government entirely from the housing finance industry. While such a change has proven politically difficult, Congress could implement any number of incremental reforms that simply inch the housing finance system in a better direction.

No longer federally backing $1 million dollar homes seems like a sensible place to start.

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