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Congress Urged to Keep Higher U.S.-Backed Mortgage Limits

By **ALAN ZIBEL**

WASHINGTON—Housing-market experts warned lawmakers Wednesday that the size of mortgages backed by the government shouldn't be reduced next month amid a weak housing market.

If Congress doesn't act, the maximum size of loans that can be guaranteed by Fannie Mae, Freddie Mac and the Federal Housing Administration will drop Oct 1. The new limits vary by location, but will drop to $625,500 in expensive markets such as New York, Los Angeles and Washington from the current $729,750.

Many Democrats, mainly from pricey coastal housing markets, and real-estate lobbying groups want the change to be blocked. But they have failed to gain traction so far. Only a handful of Republicans support maintaining the current levels. Many Republicans see allowing the limits to drop as a way to reduce the U.S. mortgage market's dependence on government support.

Ivy Zelman, chief executive of Zelman & Associates, a research firm, warned at a Senate Banking Committee hearing that allowing loan limits to drop as scheduled "is a significant mistake and should be put off until the market is on more solid footing."

Mark Zandi, chief economist at Moody's Analytics, said he had supported letting those limits drop earlier this year. But now, he said, "given what's happening in the housing market and the economy, I think that's an error."

Anthony Sanders, a real-estate finance professor at George Mason University, and a critic of government intervention in the housing market, said that "the market's just in too poor shape" to allow the loan caps to fall.

A skeptical note was sounded by Mark Calabria, director of financial regulation studies at the libertarian Cato Institute. He argued that allowing the loan limits to drop would affect only a small number of borrowers, who could still borrow from banks.

If policy makers want to reduce the housing market's dependence on Fannie and Freddie, Mr. Calabria said, "rich people are the place to start."

Many banks have already started in pricing in the lower limits. Mortgage Bankers Association data show that applications for mortgages between $625,500 and $729,750 fell 34% in August. By contrast, mortgage applications overall fell 14%.

—Nick Timiraos
contributed to this article.