New Bill May Extend Conforming Loan Limits

By: Ryan Schuette

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On Monday lawmakers introduced a bill in Congress that would extend the current conforming loan limits for another two years – a deal that could potentially continue federal insurance for homeowners with high conforming jumbo loans.

Rep. John Campbell (R-California) and Rep. Gary Ackerman (D-New York) co-sponsored the bill, titled the Conforming Loan Limits Extension Act, which would fix the limit for jumbo loans backed by GSEs Fannie Mae and Freddie Mac and the Federal Housing Administration (FHA) at $729,750. The bill has been sent to the House Committee on Financial Services, which anticipates holding a hearing before October, when the limits will expire.

“Housing makes up one sixth of the American economy and is a key component to our economic recovery,” Campbell said in a statement. “H.R. 2508… will ensure that qualified homebuyers in this country continue to have access to the financing they need at a time when there are few alternatives. This will not only help to stabilize home prices, but would also provide for continued recovery in the broader economy.”

Concerned that lower loan limits would dampen mortgage loan availability across the country and force consumers to shoulder the costs, numerous trade and industry associations continue to petition Congress over the issue, according to *Reverse Mortgage Daily*. A HUD report issued in May said that loan limits would likely decline in 669 counties across the country, should Congress fail to extend the limits.

“The housing market does not need a self-inflicted wound,” *Reverse Mortgage Daily* reports Ackerman as saying. “With the economy remaining fragile and the housing sector still struggling to recover, now is not the time to make the cost of mortgages more expensive.”

Questions linger among industry and trade associations about whether the banking industry has the capital – or the will – needed to sop up a deluge of homeowners suddenly lacking in federal insurance.

“There’s not a banker in the world who wouldn’t love to pass his risk onto someone else,” says Mark Calabria, the conservative-leaning Cato Institute’s director of financial regulation studies and a former Senate Banking Committee staffer who advocated against the limit raise in 2008.

He criticizes lawmakers for making the decision to raise the limits in the first place, calling it an attempt to funnel federal funds back to voting constituents.

When the limit changes “go down, who is going to be making the loans from $625,000 and up?” asks Shannon Faries, a business development manager at Harbor Lending. “A lot of private lenders are not going to touch these loans” if Congress fails to extend the upper limits.

“Until there is a larger secondary market,” he adds, “there is not going to be any big expansion on the jumbo loan front or anyone to service these over the $625,000 mark. There is no lender that would hold a loan that amount without having someone to sell a jumbo loan to. No one will want these."

Others, such as Scott Sheldon, a loan officer with California-based Sonoma County Mortgages, see extensions by Congress as a done deal waiting to happen.

"I think they're going to extend the loan limits and keep them in place the way they are," Sheldon says. "If there's less mortgage volume, it won't help the housing sector. [Officials] would shoot themselves in the foot. That's why I think they're" going to extend the limits.

"The economy is too unstable to do something like that," he adds.