THE REPUBLICAN STUDY COMMITTEE

Financial Services Working Group

Congressman Jim Jordan (R-OH), RSC Chairman
Congressman Randy Neugebauer (R-TX), FSWG Chairman
Congressman Jim Renacci (R-OH), FSWG Vice-Chairman

WEEKLY UPDATE

October 26, 2011

Conforming Loan Limits

More than nine out of every ten loans issued today are purchased by Fannie or Freddie and guaranteed by the American taxpayer. This guarantee is in addition to the nearly $170 billion tab the taxpayers have already picked up to bailout these entities. At the beginning of this month, the maximum size of mortgages the GSEs are permitted to buy was automatically lowered from $729,750 to $625,500 (according to the National Association of Realtors, the September average sale price for existing homes was $212,700). This was a crucial first step to attracting more private capital in the housing finance market, since gradually reducing the conforming loan limits will slowly expose a larger portion of the housing finance market to private sector securitization.

This was a move supported by housing scholars at the American Enterprise Institute, the Heritage Foundation, and the *Wall Street Journal* editorial board as an essential step towards getting the government out of the housing market. Even the Obama Administration's housing reform white paper published earlier this year explicitly supported such a move as a means to "to further scale back the enterprises' share of the mortgage market." However, last week eight Republicans joined 52 Democrats in the Senate to pass an amendment to the Transportation, Housing and Urban Development Appropriations Bill restoring the $729,750 limit until the end of 2013. Here is what is being said about the importance of allowing the loan limits to be reduced, as was done at the beginning of this month, and the need to prevent the Senate's recent actions reversing this progress:

- "*In order to further scale back the enterprises' share of the mortgage market, the Administration recommends that Congress allow the temporary increase in limits that was approved in 2008 to expire as scheduled on October 1, 2011."* – Obama Administration's February White Paper

- "*We will work closely with the Federal Housing Finance Agency to determine the best way to responsibly reduce Fannie Mae and Freddie Mac's role in the market and ultimately wind down both institutions. This objective can be accomplished by … reducing conforming loan limits by allowing the temporary increases enacted in 2008 to expire as scheduled on October 1, 2011.*" – Treasury Secretary Geithner

- "*The best medicine for the ailing housing market is a gradual, predictable, and complete elimination of subsidies from Fannie Mae, Freddie Mac, and the FHA… At a time when we need to dramatically shrink the size and scope of the federal government, there is no way to justify subsidizing homes of this value.*" - Americans for Prosperity

- "*Extending higher FHA loan limits would increase the risk and size of a potential taxpayer-funded bailout as well as continue the federal government's counterproductive involvement in the housing market.*" - National Taxpayers Union

- *"This [Senate] amendment reverses the very, very small progress that has been made in reducing the federal government's role in the mortgage market."* – FreedomWorks

- "*Diverting more mortgage loans to the FHA and away from the private sector will taxpayers further at risk."* - Heritage Action

- "*The progressive withdrawal of the GSEs from the housing finance market should be accomplished in several ways, leading to the sunset of the GSE charters at the end of the transition. One way would be successive reductions in the GSEs' conforming loan limits…"* – American Enterprise Institute

Why Should Housing Reform Matter to Conservatives?

- **$170 billion:** the amount the U.S. taxpayer has invested in Fannie Mae & Freddie Mac since 2008.

- **$400 billion:** the estimated amount that the U.S. taxpayer will invest in these GSEs before they are removed from government ownership. However, no plan exists to return these entities back to private operation – or eliminate them – without government backing.

- **$413 billion:** the total amount of disbursements made under TARP to 707 institutions.

Recent Committee Action

Life Of The Party: In October, Fannie Mae and Freddie Mac spent $140,000 to send 87 employees to a Mortgage Bankers Association conference in Chicago. Meanwhile, Fannie Mae and Freddie Mac currently have over 90-percent of the market share – what business were they trying to grow with taxpayer dollars? The Oversight & Investigations Subcommittee has begun reviewing the decision making process that allowed for taxpayer dollars to be spent in this manner.