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The Loan Limits for Government-Backed Mortgages

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Summary

The federal government supports homeownership in different ways. One of the main ways is through programs or quasi-government entities that promise lenders or investors that if a homeowner defaults on a covered mortgage, the lender or investor will still receive some—or all—of the amount it was owed. These types of guarantees can support homeownership by making private lenders more willing to offer certain types of mortgages. Additionally, they can increase the number of private investors who are willing to invest in mortgages, thereby increasing the amount of capital available for mortgage lending. The details of the programs differ, but most have maximum limits on the size of mortgages that are eligible. This report contains brief program descriptions and discusses the maximum guarantee amounts for each.

The government or quasi-government entities that insure or guarantee mortgages and are discussed in this report are the following:

- **Fannie Mae and Freddie Mac.** Lenders sell mortgages to Fannie Mae and Freddie Mac, which are congressionally chartered government-sponsored enterprises (GSEs). These mortgages are called *conforming loans* because they conform to Fannie Mae's and Freddie Mac's credit rules and are less than the conforming loan limit. Fannie Mae and Freddie Mac are overseen by the Federal Housing Finance Agency (FHFA).
- **The Federal Housing Administration (FHA).** The FHA, a part of the Department of Housing and Urban Development, insures mortgages that meet its standards, including a maximum mortgage amount. If a homeowner defaults, FHA pays the lender the remaining amount owed on the mortgage.
- **The Department of Veterans Affairs (VA).** The VA guarantees mortgages made to eligible veterans who meet its standards. If a covered veteran defaults, the VA will pay the lender. Unlike the first two programs, the VA coverage is not 100% of the unpaid balance.
- **The Department of Agriculture's (USDA's) Rural Housing Service (RHS).** RHS provides direct loans and loan guarantees for certain home mortgages in rural areas. These programs have income limits and limits on the value of the homes purchased that serve to limit the size of the mortgages that are made or guaranteed.

Mortgage guarantee programs transfer risk to the government from the private sector, but may also expand mortgage credit availability and lower interest rates for borrowers. Loan limits for mortgages that are eligible for the programs attempt to achieve a balance by limiting the size of the mortgages that are guaranteed or insured, in part to limit the amount of risk that is transferred from the lender to the federal government and also to tailor the programs to the borrowers to whom the government would like to provide assistance. The size of the loan limits may affect which homes, and by extension which prospective homebuyers, can qualify for these types of mortgages. To the extent that these types of mortgages represent the most affordable or only available mortgage option for some prospective homebuyers, any increase or decrease in the loan limits can affect access to mortgage credit for a subset of potential homebuyers.

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Introduction

The federal government supports homeownership in a variety of ways. This support is generally based on the belief that there are benefits to society, as well as individuals, of having a high homeownership rate. However, there is much debate about the extent to which homeownership is the cause of such benefits as well as the extent to which the government should support homeownership, given that potential benefits of homeownership also come with certain risks.[1]

One way in which the federal government supports homeownership is through programs that insure, guarantee, or directly provide mortgages to certain eligible homebuyers.[2] These programs reduce or eliminate a lender's loss when a homeowner does not make the scheduled mortgage payments and may make lenders more likely to offer mortgages to certain borrowers that would otherwise not be well-served by the private market. Another way that the government supports homeownership is through entities that purchase mortgages made by private lenders, increasing the amount of capital available for mortgage lending by bringing more investors into the mortgage market.

This report analyzes the following four categories of programs that provide guarantees to lenders or investors on certain types of mortgages, and discusses the maximum mortgage amounts eligible under these programs:

- Fannie Mae and Freddie Mac, congressionally chartered government-sponsored enterprises (GSEs), purchase mortgages from companies that originate them. These purchases are subject to a maximum loan amount, which is higher in certain areas of the nation.
- The Federal Housing Administration (FHA), part of the Department of Housing and Urban Development (HUD), insures mortgages subject to a maximum loan amount. The maximum amount varies across the nation based on housing prices. The FHA fully guarantees the qualifying mortgages.
- The Department of Veterans Affairs (VA) guarantees mortgages taken out by veterans. There are maximum guaranty limits depending on the amount of the loan and prior VA loan status, but not a maximum mortgage amount.
- The Department of Agriculture's (USDA's) Rural Housing Service (RHS) has two mortgage programs. One guarantees mortgages, and the other makes direct mortgages in rural areas. These programs have income limits and limits on the value of the homes purchased.

Fannie Mae, Freddie Mac, and FHA all have statutory limits on the dollar value of mortgages they can purchase or insure. VA and USDA do not have statutory limits on the dollar value of mortgages they can back, but they do have limits on the amount of the guaranty or limits on borrower income, respectively, that serve to limit the size of the mortgages made through these programs.

[1] For more on the rationale for subsidizing homeownership, see CRS Report R46429, *An Economic Analysis of the Mortgage Interest Deduction*, by Mark P. Keightley.

[2] For more on the general housing finance system, see CRS Report R42995, *An Overview of the Housing Finance System in the United States*, by Katie Jones, Darryl E. Getter, and Andrew P. Scott.

Although there is some overlap, the four federal mortgage guarantee programs discussed in this report generally have different missions or target different populations. These differences are discussed in the "Possible Policy Considerations" section.

The following sections summarize the limit on the dollar amount of a mortgage that is eligible for each of these programs. In addition to these size limits, the programs have other restrictions (such as minimum down payments) and eligibility criteria, but these are not addressed in this report.

Loan Limits for Mortgage Programs

Conforming Loan Limits for Fannie Mae and Freddie Mac

Fannie Mae's and Freddie Mac's charters limit the maximum size of a mortgage that they can purchase.[3] This limit is known as the *conforming loan limit* and is adjusted annually based on the Federal Housing Finance Agency's (FHFA's) house price index (HPI), which, in turn, is based on a survey of average home price changes.[4] (The FHFA is the regulator of Fannie Mae and Freddie Mac.) There are three limits for Fannie Mae and Freddie Mac purchases: a baseline limit; a high-cost limit; and a statutory limit set for properties in Alaska, Hawaii, Guam, and the U.S. Virgin Islands. The baseline limit is increased annually by the average increase in the HPI. High-cost area limits are recalculated at the same time. FHFA publishes conforming loan limits late in the year before they apply (e.g., conforming loan limits for calendar year 2021 were published in November 2020).[5]

There is a baseline limit for one-unit structures on the mainland United States and Puerto Rico. For 2021, the baseline limit was set at $548,250. High-cost areas[6] have higher limits, capped at 150 percent of the baseline limit: $822,375.[7] High-cost area limits vary and can range from the baseline to 150 percent of the baseline. By law, the conforming loan limit in Alaska, Hawaii, Guam, and the U.S. Virgin Islands is set at 50% higher than the baseline limit for the country. In other words, the baseline for these areas is $822,375. For each of the baseline, high-cost and noncontiguous state and territory limits, the limits are higher for structures with two, three, and four units.[8]

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[3] After Fannie Mae and Freddie Mac purchase mortgages from lenders, they package these mortgages into *mortgage-backed securities (MBS)*, and sell them to investors, and guarantee the payment of principal and interest of the MBS to the investors. Ginnie Mae is a government agency that guarantees timely payment to investors, similar to the Fannie Mae and Freddie Mac guarantee, on MBS backed by loans guaranteed by federal mortgage programs such as those administered by the FHA, VA, and USDA. Fannie Mae's charter can be found at https://www.fanniemae.com/resources/file/aboutus/pdf/fm-amended-charter.pdf. Freddie Mac's charter can be found at http://www.freddiemac.com/governance/pdf/charter.pdf. More on Ginnie Mae can be found at https://ginniemae.gov/about_us/who_we_are/Pages/our_mission.aspx.

[4] The limit was first established in the National Housing Act of 1934, and has been modified several times since then, most recently in the Housing and Economic Recovery Act of 2008 (P.L. 110-289, §1124).

[5] For a list of the prior conforming loan limits, see FHFA, "Conforming Loan Limits," https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx. For information on the 2021 limits, see FHFA, "FHFA Announces Conforming Loan Limits for 2021," November 24, 2020, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Conforming-Loan-Limits-for-2021.aspx.

[6] High-cost areas are defined by FHFA as "areas in which 115 percent of the local median home value exceeds the baseline maximum [conforming loan limit]."

[7] In areas where 115% of the median house price exceeds the baseline limit, the limit is the lesser of 150% of the baseline or 115% of the area median house price.

[8] The two-unit limit is 128% of the one-unit limit. The three-unit limit is 155% of the one-unit limit, and the four-unit

Table 1 summarizes the 2021 conforming loan limits, determined by the formula set forth in the Housing and Economic Recovery Act of 2008 (HERA; P.L. 110-289) .[9]

Table 1. Conforming Loan Limits for 2021

	1-Unit	2-Unit	3-Unit	4-Unit
Mainland and Puerto Rico, baseline	$548,250	$702,000	$848,500	$1,054,500
Mainland and Puerto Rico, high cost[a]	$822,375	$1,053,000	$1,272,750	$1,581,750
Alaska, Hawaii, Guam, and the U.S. Virgin Islands, baseline	$822,375	$1,053,000	$1,272,750	$1,581,750

Source: Federal Housing Finance Agency, *Maximum Loan Limits for Mortgages Acquired in Calendar Year 2021 and Originated After 10/1/2011 or Before 7/1/2007*, https://www.fhfa.gov/DataTools/Downloads/Documents/Conforming-Loan-Limits/FullCountyLoanLimitList2021_HERA-BASED_FINAL_FLAT.xlsx.

Note: These limits are determined by the Housing and Economic Recovery Act of 2008 (HERA; P.L. 110-289) and apply to loans acquired by Fannie Mae and Freddie Mac in 2021 that were originated by a lender either after October 1, 2011, or before July 1, 2007. Under a series of laws enacted since the financial crisis, including the Economic Stimulus Act of 2008 (P.L. 110-185), the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), as well as provisions found in appropriations (e.g., P.L. 111-88 and P.L. 111-242), higher conforming loan limits have applied to Fannie Mae and Freddie Mac mortgages acquired in specific time frames. For example, loans acquired by the GSEs that were originated between July 1, 2007, and September 30, 2011, are subject to amounts determined in the aforementioned laws, which have been set as high as $729,750 for a one-unit property. These criteria continue to apply in 2021 except for loans in high-cost areas, in which case the loan limit is the higher of the HERA high-cost limit (which maxes out at $822,375) and $729,750. For more explanation of the "seasoned mortgages" limits and for details on the calculation of the conforming loan limits, see Federal Housing Finance Agency, *Addendum: Calculation of 2021 Maximum Conforming Loan Limits Under HERA*, at https://www.fhfa.gov/DataTools/Downloads/Documents/Conforming-Loan-Limits/CLLAddendum_CY2021.pdf.

a. Some states and Puerto Rico do not have any high-cost areas.

Federal Housing Administration Insurance

FHA insures certain eligible mortgages made by private lenders against the possibility of borrower default.[10] If the borrower defaults on the mortgage, FHA will repay the lender the remaining principal amount owed on the mortgage. FHA insurance may encourage lenders to offer mortgages to borrowers who otherwise might not be well-served by the private mortgage market, such as borrowers who have lower credit scores or are unable to make large down payments. FHA serves many first-time homebuyers, low- and moderate-income homebuyers, and minority homebuyers.[11]

limit is 192% of the one-unit limit.

[9] FHFA, *Conforming Loan Limits: 2021 Conforming Loan Limits*, http://www.fhfa.gov/DataTools/Downloads/pages/conforming-loan-limits.aspx. For information on the house price survey, see FHFA, *House Price Index*, https://www.fhfa.gov/DataTools/Downloads/pages/house-price-index.aspx.

[10] For more information on the basic eligibility criteria for FHA-insured mortgages, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by Katie Jones.

[11] For data on FHA-insured mortgages and first-time homebuyers, minority homebuyers, and low- and moderate-income homebuyers, see FHA, *Annual Management Report, Fiscal Year 2020*, p. 15, https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2020ANNUALMGMNTRPT.pdf.

To be eligible for FHA mortgage insurance, a mortgage must not exceed a specified maximum loan amount that is set according to a formula specified by statute.[12] The maximum loan amount varies by area and is set at 115% of the area median house price, subject to a national floor and national ceiling.[13] That is, if 115% of the median house price in a given area results in a dollar amount that is below the floor, FHA can still insure mortgages with initial principal balances up to the floor in that area. If 115% of the median house price results in a dollar amount that is above the ceiling, FHA can insure only mortgages with a principal balance not greater than the ceiling.

The floor and ceiling are calculated based on the conforming loan limit. By statute, the floor—that is, the lowest level the loan limit can be for a given area—is set at 65% of the conforming loan limit. The ceiling—the highest possible loan limit—is 150% of the conforming loan limit (the same as the high-cost area conforming loan limit). The FHA ceiling for Alaska, Hawaii, Guam, and the Virgin Islands is the same as the conforming loan limits for those areas.[14] The higher limits for two-, three-, and four-unit structures use the same percentage increases as the conforming loan limits.

FHA usually announces the loan limits for specific areas for each calendar year late in the previous year, taking into account updated local house price data and any changes to the conforming loan limit.[15] The FHA loan limits for 2021 were announced in December 2020.[16] For a one-unit property, the nationwide floor is set at $356,362 for 2021 (65% of $548,250), and the ceiling is set at $822,375 (150% of $548,250). The FHA loan limits for 2021 are summarized in **Table 2**.

[12] 12 U.S.C. §1709(b) and P.L. 110-289 §2112.

[13] The statute specifies that *area* means a metropolitan statistical area (MSA) as defined by the Office of Management and Budget and that the median home price for the highest-priced county within a given MSA should be used to calculate the loan limit for the entire MSA. See 12 U.S.C. §1709(b)(2).

[14] 12 U.S.C. §1715d.

[15] The FHA loan limits for a specific area can be found on HUD's website at https://entp.hud.gov/idapp/html/hicostlook.cfm.

[16] HUD, "FHA Mortgagee Letter 2020-41," *2021 Nationwide Forward Mortgage Limits*, December 2, 2020, https://www.hud.gov/sites/dfiles/OCHCO/documents/2020-41hsgml.pdf.

Table 2. FHA Loan Limits for 2021

	1-Unit	2-Unit	3-Unit	4-Unit
FHA Loan Limit Floor	$356,362	$456,275	$551,500	$685,400
FHA Loan Limit for Areas Between the Floor and Ceiling	115% of area median home prices for a 1-unit property	115% of area median home prices for a 2-unit property	115% of area median home prices for a 3-unit property	115% of area median home prices for a 4-unit property
FHA Loan Limit Ceiling in Most of the United States	$822,375	$1,053,000	$1,272,750	$1,581,750
FHA Loan Limit Ceiling in Alaska, Hawaii, Guam, and the Virgin Islands	$1,233,550	$1,579,500	$1,909,125	$2,372,625

Source: FHA Mortgagee Letter 2020-41.

Notes: The specific loan limits that apply in a given area are available on HUD's website at https://entp.hud.gov/idapp/html/hicostlook.cfm. The higher ceiling in Alaska, Hawaii, Guam, and the Virgin Islands does not necessarily mean that the loan limits will be set at that amount in any given area. The higher ceiling applies only in areas where 115% of the area median home price is equal to or higher than the special high-cost ceiling. In practice, few areas in Alaska, Hawaii, Guam, or the Virgin Islands have loan limits set at the special higher ceiling in those areas.

In general, in areas where 115% of the area median home price exceeds the Fannie Mae/Freddie Mac conforming loan limits mentioned in the above section, the FHA loan limits will be the same as the conforming loan limit. However, in lower-cost areas, the conforming loan limit will be higher than the loan limit for FHA-insured mortgages. In many of these counties, the FHA loan limits are set at the floor of $356,362 for calendar year 2021. Fannie Mae and Freddie Mac, in contrast, can purchase mortgages with principal balances up to $548,250 in these areas.

Department of Veterans Affairs Loan Guaranty

The VA loan guaranty program assists eligible veterans by guaranteeing mortgages made by private lenders. The program is available for the purchase or construction of homes as well as to refinance existing loans.[17]

While there is no limit to the amount that a veteran can borrow and still receive a loan guaranty through the VA, the VA limits the guaranty that it will provide based on the amount of the loan. In most cases, the VA guaranty covers at least 25% of the principal balance of a loan. While the VA guaranty does not insure 100% of the loan (as FHA loan insurance does), the guaranty covers what would typically be required as a down payment in a conventional mortgage transaction to avoid the requirement for private mortgage insurance.

The amount of the VA loan guaranty changed as part of the Blue Water Navy Vietnam Veterans Act of 2019 (P.L. 116-23). The maximum guaranty for loans at or below $144,000 stayed largely the same, ranging from 25% to 50% of the loan but with a "maximum amount of guaranty

[17] For more information, see CRS Report R42504, *VA Housing: Guaranteed Loans, Direct Loans, and Specially Adapted Housing Grants*, by Libby Perl.

entitlement" not to exceed $36,000.[18] However, for loans that exceed $144,000, the maximum guaranty now depends on the status of previous VA loans a veteran might have entered into.[19]

Until January 1, 2020, the statute governing VA loans established a maximum guaranty amount for loans above $144,000 that was the lesser of 25% of the loan amount or 25% of the Freddie Mac conforming loan limits. If a loan exceeded the maximum guaranty amount, then a veteran may have been required to make a down payment equal to 25% of the amount over the loan limit to qualify for the loan.

Congress removed the conforming loan limit from the maximum guaranty amount for many VA loans entered into on or after January 1, 2020, as part of P.L. 116-23. The maximum guaranty for most veteran borrowers is now 25% of the loan amount, meaning they can enter into a loan of any amount and the VA will guaranty 25% of the loan. As a result, no down payment is required for loans that exceed the Freddie Mac conforming loan limit.

An exception to the guaranty being set at 25% of the loan amount exists for veterans with outstanding "entitlement." Entitlement is the guaranty amount available to a veteran.[20] When a veteran has an outstanding VA loan, he or she uses all or a portion of his or her entitlement toward the guaranty. A veteran's entitlement can be restored in various ways, in most cases when an existing property has been sold and the loan has been paid in full.[21] But for veterans with outstanding entitlement that has not been restored, the loan limit for loans above $144,000 is 25% of the Freddie Mac conforming loan limit, reduced by the amount of previously used, unrestored entitlement.[22] The VA does not increase the maximum guaranty amount for properties with two, three, or four units, so the Freddie Mac limit for one-unit properties applies to all units.[23] (See **Table 1**.)

Department of Agriculture Rural Mortgage Programs

The USDA's Rural Housing Service (RHS) administers a variety of housing loan and grant programs for rural residents authorized under the Housing Act of 1949 (P.L. 81-171). The Section 502 single-family direct and guaranteed home loan programs are the major home ownership programs. Unlike the other programs discussed in this report, the RHS programs have limits on the income of eligible borrowers.

Section 502 Direct Loans

Under the Section 502 direct loan program, the USDA directly makes loans to low- and very-low-income applicants (defined as having an income not more than 80% of the area median income) to help them acquire safe and affordable housing in eligible rural areas.[24]

[18] 38 U.S.C. §3703(a)(1)(A)(i).

[19] 38 U.S.C. §3703(a)(1)(C).

[20] 38 U.S.C. §3702.

[21] 38 U.S.C. §3702(b)(1).

[22] The guaranty for loans at or below $144,000 is also reduced by previously used, unrestored entitlement.

[23] HUD, *VA Loan Circular 26-19-33, 2020 Department of Veterans Affairs County Loan Limits*, December 20, 2019, https://www.benefits.va.gov/homeloans/documents/circulars/26_19_33.pdf.

[24] USDA, *Rural Development Single Family Housing Direct Loan Program*, https://www.rd.usda.gov/files/RD-DirectLimitMap.pdf.

The maximum loan amount depends on the applicant's income and repayment ability. There are no statutorily mandated mortgage limits, though RHS requires that the housing purchased be "modest" (e.g., generally about 2,000 square feet) for the location and not have a market value in excess of an applicable area loan limit as determined by USDA.[25] USDA establishes those limits as a percentage of the FHA loan limits. Currently, the loan limits are 80% of the applicable FHA loan limit in the area.[26]

Borrowers have to be creditworthy, but they are not generally required to make a down payment. Loans are provided at fixed interest rates based on current market rates, but these rates are modified by payment subsidies, which can significantly lower the actual rate. The amount of assistance is determined by the adjusted family income.

Section 502 Guaranteed Loans

In addition to the Section 502 direct loan program, the Section 502 single family loan guarantee program helps low- and moderate-income families in eligible rural areas become homeowners. There is not a specific dollar limit on the amount of the mortgage, but borrower income cannot exceed 115% of the national median income, and maximum loan amounts are based on what a borrower can afford.[27] Loans are made through USDA-approved lenders, and USDA provides a 90% loan guarantee.[28] The housing must be "adequate, modest, decent, safe, and sanitary" and must be used as the owner's primary residence.[29] Eligible applicants can build, rehabilitate, improve, or relocate a dwelling in an eligible rural area.

Possible Policy Considerations

Loan limits on government-backed mortgages arise from a number of policy considerations, some of which are discussed below. Because each program and entity described in this report has a somewhat different mission and different target population, these policy considerations may be weighed differently for different programs.

Purposes of the Programs

All the mortgage programs discussed in this report have the goal of making mortgages and homeownership more affordable and more available, but their support is targeted differently. For example, Fannie Mae and Freddie Mac are intended to increase liquidity in the mortgage market broadly by making it easier for lenders to sell mortgages to investors. FHA insurance encourages

[25] See 7 C.F.R. §3550.63. The specific dollar amounts of the loan limits are available at https://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap.pdf.

[26] USDA issued a final rule in June 2019 that, among other things, provided that the area loan limits would be "based on a percentage(s) of the applicable local HUD section 203(b) limit. The percentage(s) will be determined by the Agency and published in the program handbook." Previously, the area limits were based on the cost to construct a modest home in the county. The final rule discusses the rationale for the change. See USDA, "Single Family Housing Direct and Guaranteed Loan Programs," 84 *Federal Register* 29035, June 21, 2019. The current percentage is specified in Chapter 5, Section 2, pages 5-11 of Handbook HB-1-3550, *Direct Single-Family Housing Loans and Grants—Field Office Handbook* at https://www.rd.usda.gov/files/hb-1-3550.pdf.

[27] USDA, *Rural Development Single Family Housing Guaranteed Loan Program, Guaranteed Housing Program Income Limits*, at https://www.rd.usda.gov/files/RD-GRHLimitMap.pdf.

[28] See CRS Report RL31837, *An Overview of USDA Rural Development Programs*, by Tadlock Cowan.

[29] USDA, *Rural Development Single Family Housing Guaranteed Loan Program*, at https://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program.

lenders to offer mortgages to borrowers who might otherwise be underserved by private lenders due to factors such as smaller down payments or less robust credit histories. The USDA programs are designed to facilitate the financing of rural housing, addressing challenges that are specific to rural areas (which tend to have lower house prices) and focusing on lower-income households specifically. The VA mortgage guaranty program was created as part of the package of benefits offered to those who served in the armed services during World War II.[30] The VA program has been expanded to cover those who have served more recently and meet additional criteria.

Differences in target populations and purposes can contribute to differences in loan limits. For example, programs specifically targeted to low-income borrowers or to those who might otherwise have difficulty obtaining an affordable mortgage due to down payment or credit limitations might have lower loan limits than programs that are intended to facilitate access to mortgage credit more broadly.

Geographic Differences

Some argue that a case can be made for the federal government providing assistance in purchasing basic shelter or modest homes but that the case is much weaker (or nonexistent) for aiding the purchase of upscale housing. Given that average house prices vary widely across the country, the loan limits for these programs generally vary geographically as well. Nationwide loan limits could lead to households living in high-cost areas being unable to use the programs to buy homes at prices typical for the area and could at the same time lead to households in lower-cost areas being able to use the programs to purchase homes that are higher priced for that area. For these reasons, the loan limits vary by area and are based on "average" home prices. However, the areas used to set loan limits can be quite large and can include neighborhoods with a wide variety of home prices. Therefore, even within a given area, differences in house prices across neighborhoods can affect who benefits from these programs and can lead to loan limits that are higher or lower than typical home prices in subareas within the larger area.

Costs and Risks

The costs of federal mortgage guarantee programs are an important consideration for many policymakers. Government mortgage programs control costs by limiting eligibility, limiting and pricing for risks, and ensuring that the programs operated in an efficient and safe manner. For example, in November 2020, the FHFA announced a final rule that established a new capital framework for Fannie Mae and Freddie Mac. According to FHFA, the framework is "intended to ensure the safety and soundness of the Enterprises by increasing the quantity and quality of the Enterprises' regulatory capital and reducing the pro-cyclicality of the aggregate capital requirements."[31]

Loan limits are one of many factors that can affect a program's risk. Higher loan limits may have the effect of increasing financial risk to the federal government, both because they can lead to the government insuring or guaranteeing larger individual mortgages and because they may increase the overall number of mortgages backed by the federal government, as more borrowers may qualify for and seek out these types of mortgages. However, the extent to which overall risk to the government is actually increased will also depend on a variety of additional factors, including the

[30] Officially, the Servicemen's Readjustment Act of 1944, P.L. 84-881.

[31] FHFA, "FHFA Announces Final Capital Rule for the Enterprises," November 18, 2020, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Final-Capital-Rule-for-the-Enterprises.aspx.

credit quality of the mortgages insured, interest rates, unemployment, and other macroeconomic conditions.

Government's Role in the Mortgage Market

The share of mortgages insured by government agencies or guaranteed by Fannie Mae or Freddie Mac varies based on market conditions and other factors. In recent years, the share of the dollar volume of new mortgages backed by one of these entities has fluctuated from year to year but has generally exceeded 60%.[32] Some policymakers and others argue that the federal government plays too large of a role in the mortgage market and propose steps to reduce or more narrowly target the federal government's role while increasing the role of private capital.[33] Reducing the loan limits for some or all federal mortgage programs could be one way to reduce the government's role in the mortgage market, as lower loan limits will limit the number of potential borrowers who will use these loans. Lower loan limits may reduce the size of some federal mortgage programs and could potentially reduce the financial risks facing the government but may also limit credit availability for some borrowers.

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[32] Urban Institute, "Housing Finance at a Glance: A Monthly Chartbook," January 2021, p. 8, https://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-january-2021.

[33] For example, see U.S. Department of the Treasury, *Housing Reform Plan Pursuant to the Presidential Memorandum Issued March 27, 2019*, September 2019, https://home.treasury.gov/system/files/136/Treasury-Housing-Finance-Reform-Plan.pdf; and HUD, *Housing Finance Reform Plan Pursuant to the Presidential Memorandum Issued March 27, 2019*, September 2019, https://www.hud.gov/sites/dfiles/Main/documents/Housing-Finance-Reform-Plan0919.pdf. See also hearings held by the committees of jurisdiction on these plans: Senate Committee on Banking, Housing, and Urban Affairs, "Housing Finance Reform: Next Steps," September 10, 2019, https://www.banking.senate.gov/hearings/housing-finance-reform-next-steps; House Committee on Financial Services, "The End of Affordable Housing? A Review of the Trump Administration's Plans to Change Housing Finance in America," October 22, 2019, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=404485. Additionally, the Urban Institute has compiled analysis and commentary among academics and policymakers and other thought leaders on housing finance reform, which covers a range of views on the role of government in housing finance markets. For more, see Urban Institute, "Housing Finance Reform Incubator," https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-finance-reform-incubator.

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