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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. In some cases, the guarantees support homeownership by making private lenders more willing to offer certain types of mortgages. In other cases, the guarantees provided by these entities may 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 guarantee amounts that limit 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.
- **The Federal Housing Administration (FHA).** The FHA 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 always 100% of the unpaid balance.
- **The U.S. Department of Agriculture's Rural Housing Service (RHS).** RHS provides direct loans and loan guarantees for certain home mortgages in rural areas. RHS does not have a maximum mortgage size, but does have limits on income and the value of the home purchased.

Mortgage guarantee programs transfer risk to the government from the private sector, but may also expand credit availability and lower 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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The federal government provides homeownership incentives based on the belief that there are benefits to society of having a high homeownership rate.[1] For example, owners may have a greater attachment to their neighborhood than renters, and this could be reflected in better exterior home maintenance, greater civic participation, and more involvement with local schools. However, some analysts have questioned whether homeownership *causes* these behaviors, or is only correlated with them (that is, it may be that people who are already inclined toward greater civic participation are more likely to become homeowners). Critics of homeownership policies have argued that homeownership can make it more difficult for people to move to areas with better employment opportunities and places the risk of unanticipated repairs on the homeowner. Some have also argued that even if homeownership conveys certain benefits, it is not the federal government's role to intervene in housing markets, or that there may be more efficient ways for the government to advance these outcomes. Some recommend homeownership as a way to accumulate wealth, but others warn that house prices can decline, resulting in large losses to homeowners.

One way in which the federal government supports homeownership is through programs that insure, guarantee, or directly provide mortgages to certain eligible homebuyers. 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. In other cases, the programs may increase the amount of capital available for mortgage lending by bringing more investors into the mortgage market.

This report analyzes the following four federal programs or entities 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, but there are no limits on home value or income.
- 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. There is no FHA income limit.
- The Department of Veterans Affairs (VA) guarantees mortgages taken out by veterans. There is a maximum guaranty amount, but not a maximum mortgage or income limit. The guaranty limit applies nationwide.
- The Department of Agriculture'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.

[1] For more on the rationale for subsidizing homeownership, see CRS Report R41596, *The Mortgage Interest and Property Tax Deductions: Analysis and Options,* by Mark P. Keightley.

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

This section summarizes the limits on federal insurance, guarantees, and direct mortgages.

Conforming Loan Limits

Fannie Mae's and Freddie Mac's charters limit the maximum size of a mortgage that they can purchase. This limit is known as the *conforming loan limit* and is adjusted annually based on the Federal Housing Finance Agency's house price index (HPI), which, in turn, is based on a survey of average home price changes.[2] There is a baseline limit for one-unit structures on the mainland United States and Puerto Rico, and high-cost areas have higher limits.[3] The limits are higher for structures with two, three, and four units.[4] By law, the conforming loan limit in Alaska, Hawaii, Guam, and the U.S. Virgin Islands is 150% of the baseline limit.

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 2017 were published in November 2016).

Table 1 summarizes the 2017 conforming loan limits.[5] This was the first increase in the limits since 2006.[6]

[2] 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).

[3] 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.

[4] 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 limit is 192% of the one-unit limit.

[5] Federal Housing Finance Agency, *Conforming Loan Limits: 2017 Conforming Loan Limits*, available at http://www.fhfa.gov/DataTools/Downloads/pages/conforming-loan-limits.aspx. For information on the house price survey, see Federal Housing Finance Agency, *House Price Index,* at https://www.fhfa.gov/DataTools/Downloads/pages/house-price-index.aspx.

[6] The Housing and Economic Recovery Act of 2008 (HERA) established the rule that when average house prices decline, the conforming loan limit will not be reduced. Instead, the conforming loan limit is not increased until average house prices exceed that level.

Table 1. Conforming Loan Limits for 2017

(Mortgages acquired in 2017 and originated after October 1, 2011, and before July 1, 2007)

	1-Unit	2-Unit	3-Unit	4-Unit
Mainland and Puerto Rico, baseline	$424,100	$534,000	$656-350	$815,650
Mainland and Puerto Rico, high cost[a]	$636,150	$814,500	$984,525	$1,223,475
Alaska, Hawaii, Guam, and the U.S. Virgin Islands, baseline	$636,150	$814,500	$984,525	$1,223,475
Alaska, Hawaii, Guam, and the U.S. Virgin Islands, high cost	$954,225	$1,221,750	$1,476,775	$1,835,200

Source: Federal Housing Finance Agency, *Conforming Loan Limits: 2017 Conforming Loan Limits*, available at http://www.fhfa.gov/DataTools/Downloads/pages/conforming-loan-limits.aspx.

Note: For details on the calculation of the conforming loan limits, see Federal Housing Finance Agency, *Addendum: Calculation of 2017 Maximum Conforming Loan Limits under HERA*, at http://www.fhfa.gov/Media/PublicAffairs/Documents/CLLAddendum_CY2017.pdf.

a. For 2017, some states and Puerto Rico do not, in fact, have any high-cost areas.

Table 2 shows the current one-unit conforming loan limit in selected high-cost areas.

Table 2. Current High-Cost Conforming Loan Limits in Selected Areas

(One-unit loans)

High-Cost Housing Area	Loan Limit
Suffolk County (Boston), MA	$598,000
Fairfield County, CT	$601,450
Los Angeles County, CA	$636,150
New York County, NY	$636,150
Essex County (Newark), NJ	$636,150
San Diego County, CA	$612,950
King County (Seattle), WA	$592,250
Washington, DC	$636,150
Blaine, ID	$625,500

Source: Federal Housing Finance Agency, "Fannie Mae and Freddie Mac Maximum Loan Limits for Mortgages Acquired in Calendar Year 2017 and Originated after 10/1/2016 or before 7/1/2007," http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx.

Federal Housing Administration Insurance

FHA insures certain eligible mortgages made by private lenders against the possibility of borrower default.[7] 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 trading lower down payments for higher monthly payments. In

[7] 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.

general, FHA serves many first-time homebuyers, low- and moderate-income homebuyers, and minority homebuyers.[8]

In order 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.[9] 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.[10] 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 is set at 65% of the conforming loan limit, and the ceiling 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.[11] The higher limits for two-, three-, and four-unit structures use the same percentage increases as the conforming loan limits.

FHA 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.[12] The FHA loan limits for 2017 were announced in December 2016 and were higher in many areas than in the previous year.[13] For a one-unit property, the nationwide floor is set at $275,665 for 2017 (65% of $424,100), and the ceiling is set at $636,150 (150% of $424,100). The FHA loan limits for 2017 are summarized in **Table 3**.

[8] 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 2016,* p. 14, https://portal.hud.gov/hudportal/documents/huddoc?id=fhafy2016annualmgmntrpt.pdf.

[9] 12 U.S.C. §1709(b) and P.L. 110-289 §2112.

[10] The statute specifies that "area" means a metropolitan statistical area as defined by the Office of Management and Budget (OMB), 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.

[11] 12 U.S.C. §1715d.

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

[13] FHA Mortgagee Letter 2016-20, https://portal.hud.gov/hudportal/documents/huddoc?id=16-20ml.pdf. See also FHA Mortgagee Letter 2016-25, which provided a correction to the FHA loan limit ceiling in Alaska, Hawaii, Guam, and the Virgin Islands.

Table 3. FHA Loan Limits for 2017

	1-Unit	2-Unit	3-Unit	4-Unit
FHA Loan Limit Floor	$275,665	$352,950	$426,625	$530,150
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	$636,150	$814,500	$984,525	$1,223,475
FHA Loan Limit Ceiling in Alaska, Hawaii, Guam, and the Virgin Islands	$954,225	$1,221,750	$1,476,775	$1,835,200

Source: FHA Mortgagee Letters 2016-20 and 2016-25.

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 conforming loan limit, 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 $275,665 for calendar year 2017. Fannie Mae and Freddie Mac, in contrast, can purchase mortgages with principal balances up to $424,100 in these areas.

Department of Veterans Affairs Loan Guaranty

The VA loan guaranty program assists eligible veterans by guaranteeing mortgages made by private lenders. Unlike conforming and FHA-insured mortgages, in many cases the VA program does not require the borrower to make a down payment.

The VA loan guaranty is available for the purchase or construction of homes as well as to refinance existing loans. Under the loan guaranty, the VA agrees to reimburse lenders for a portion of losses if borrowers default. Although there is not a maximum loan amount for VA loans, the VA limits the guaranty that it will provide based on the amount of the loan. Where loan amounts are at or below $144,000, the VA guaranty ranges from 25% to 50% of the loan.[14] A guaranty of at least 25% is important because if a lender wishes to sell a VA mortgage in the secondary mortgage market, the guaranty must cover at least 25% of the loan.[15] For loans that exceed $144,000, the statute establishes a "maximum guaranty amount"—the maximum amount up to which the VA guaranty will equal 25% of the loan—that is tied to the conforming loan

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

[15] For information about the secondary mortgage market, see CRS Report R42995, *An Overview of the Housing Finance System in the United States*, by N. Eric Weiss and Katie Jones.

limits.[16] The maximum guaranty amount is the lesser of 25% of the loan amount or 25% of the Freddie Mac conforming loan limits.

If the amount of a loan exceeds the maximum amount at which the VA will guarantee 25% of the loan, a veteran may have to make a down payment equal to 25% of the amount over the loan limit to qualify for the loan. For example, if a veteran wants to purchase a $500,000 home in a county where the conforming loan limit is $424,100, the veteran may have to make a down payment equal to 25% of the amount over the loan limit ($18,975)[17] to qualify for the loan.[18]

The second column in **Table 1** lists the conforming loan limits, which the VA uses to determine the maximum guaranty amount for one-unit properties.[19] The VA does not increase the maximum guaranty amount for properties with two, three, or four units, so the limits in column one of **Table 1** apply for all one- to four-unit properties.

U.S. 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.[20] 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.

Under the Section 502 direct loan program, the USDA 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.[21]

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.[22] The maximum loan amount is based on the cost to construct a modest home in the county and varies more than FHA and conforming loan limits.

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,[23] but these rates are

[16] 38 U.S.C. §3703(a)(1)(C). "[T]he term 'maximum guaranty amount' means the dollar amount that is equal to 25 percent of the Freddie Mac conforming loan limit limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation [Freddie Mac] Act (12 U.S.C. 1454(a)(2)) for a single-family residence, as adjusted for the year involved." This is the same as the Fannie Mae conforming loan limit.

[17] $500,000-$424,100=$75,900, and 25% of $75,900 is $18,975.

[18] The actual down payment will depend on a number of factors, including prior VA-guaranteed mortgages.

[19] U.S. Department of Housing and Urban Development, *VA Loan Circular 26-16-36, 2017 Department of Veterans Affairs County Loan Limits*, December 1, 2016, at http://benefits.va.gov/HOMELOANS/documents/circulars/26_16_36.pdf.

[20] P.L. 81-171.

[21] U.S. Department of Agriculture, *Rural Development Single Family Housing Direct Loan Program*, at https://www.rd.usda.gov/files/RD-DirectLimitMap.pdf.

[22] See 7 C.F.R. §3550.63. Area loan limits are determined annually for U.S. counties and county equivalents, and are available at https://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap.pdf.

[23] Effective December 1, 2016, the current interest rate for the Single Family Housing Direct Loans is 2.875% for low- and very-low-income borrowers.

modified by payment subsidies, which can significantly lower the actual rate. The amount of assistance is determined by the adjusted family income.

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.[24] Loans are made through USDA-approved lenders, and USDA provides a 90% loan guarantee.[25] The housing must be "adequate, modest, decent, safe, and sanitary" and must be used as the owner's primary residence.[26] 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: the reasons for the programs, the risks and costs to the government of the programs, and government's role in the mortgage market. 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.

Reasons for Programs

All of the mortgage programs discussed in this report have the goal of making mortgages and homeownership more affordable and more available, but they emphasize different aspects.

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.[27] The VA program has been expanded to cover those who have served more recently and meet additional criteria.

The FHA, the GSEs, and the USDA programs were created to remedy various market imperfections. The FHA and the GSEs were created, at least in part, to stimulate the mortgage market and housing. During the Great Depression, when the FHA and the GSEs were established, there were restrictions on the number of branches a bank could have, interstate banking, and lending very far from a lender's location. The explicit and implicit government support for the FHA and the GSEs made the mortgage market more national, but there were limits on the flow of money between the states, and interstate differences in interest rates continued until the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allowed interstate banking.[28]

The FHA, Fannie Mae, and Freddie Mac are intended to increase liquidity in the mortgage market more broadly by making it easier for lenders to sell mortgages to investors.[29] The FHA and GSEs

[24] U.S. Department of Agriculture, *Rural Development Single Family Housing Guaranteed Loan Program, Guaranteed Housing Program Income Limits*, at https://www.rd.usda.gov/files/RD-GRHLimitMap.pdf.

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

[26] U.S. Department of Agriculture, *Rural Development Single Family Housing Guaranteed Loan Program*, at https://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program.

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

[28] P.L. 103-328.

[29] The Housing and Urban Development Act of 1968 (P.L. 90-448) created Government National Mortgage Association (Ginnie Mae) to guarantee timely payment of principal and interest on privately issued MBS backed by FHA, VA, USDA, and other government guaranteed or insured mortgages. Basically, Ginnie Mae does for government-backed mortgages what the GSEs do for other conforming mortgages.

are intended to support middle-class homeownership and affordable housing more generally, rather than being targeted specifically to those who might otherwise have difficulty qualifying for a mortgage.

The USDA programs are designed to facilitate the financing of rural housing. Part of the mortgage review process, called *underwriting*, is to compare the price that the mortgage applicant is willing to pay to what similar housing has recently sold for. This comparison is designed to protect the lender in the event of foreclosure. In rural areas, it can be difficult to find similar homes that have been sold recently. This can make rural housing more risky to lenders, and the USDA housing programs are designed to either assume that risk by making mortgages to homeowners or reduce the risk to lenders by insuring mortgages. In addition, the USDA mortgage programs complement the USDA's rural development program, which benefits less-developed rural areas by supporting a wide range of essential rural services such as housing, economic development, and health care.

A general case for loan limits is made by some who argue that a case can be made for providing assistance in purchasing basic shelter, but 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 case for loan limits that vary by region is based partly on equity concerns. Homebuyers with conforming, FHA-insured, and VA-guaranteed mortgages receive an indirect benefit from the federal government in the form of lower interest rates than they might otherwise be able to obtain, or by being able to obtain a mortgage sooner or more easily than might otherwise be the case. Because housing prices vary across the nation, the geographic distribution of this benefit is uneven. If there were a nationwide loan limit, households living in high-cost areas such as New York, San Francisco, and Miami would be less able to take advantage of the programs. Even within a given area, differences in house prices across neighborhoods can affect who benefits from these programs.

Costs and Risks

The costs of federal mortgage guarantee programs are an important consideration for many policymakers. Government mortgage programs control costs by limiting availability, limiting risks, and operating efficiently. For the purposes of this report, risks can be considered as costs that might or might not occur.

Underwriting mortgages reduces the risk of loss on mortgages by reviewing a borrower's credit history and obtaining an independent appraisal of the value of the home being financed. The borrower's credit history is used to understand the risk that the borrower might default on the mortgage, and the appraisal suggests the likely losses in the event of a foreclosure.

The FHA and the conforming loan limits attempt to reduce risk by limiting the size of the mortgages guaranteed, thereby limiting the amount of risk transferred from the lender to the federal government.[30] The VA limits the amount of the guaranty, but not the amount of the mortgage it will provide, which shares the risk with the lender instead of assuming all of it.

Homeowners borrowing under the programs are charged fees (sometimes rolled into the interest rate) for participating and indirectly pay a user cost to the federal government. Not all costs are covered by users. For example, although the FHA program is sometimes considered to be self-

[30] For more information about the federal government's mortgage risk, see CRS Report R44525, *Fannie Mae and Freddie Mac in Conservatorship: Frequently Asked Questions*, by N. Eric Weiss.

funding, with borrowers and/or lenders paying fees to cover the costs of the insurance or guarantees, administrative and other operating costs are appropriated by Congress.[31]

The government also faces the risk that the programs' fees will not cover costs and could result in a transfer from the government. (In economic terms, to the extent that the fees do not cover the government's costs, the programs are subsidized.) The FHA, the VA, and the USDA programs present a risk that their reserves will be insufficient and require additional funds from Congress.[32] The GSEs were designed to be nongovernmental entities with no budget impact. Observers argued that the GSEs' charters created an implicit federal guarantee that if the GSEs were unable to honor their guarantee of timely payment of principal and interest, the federal government would make the payments. This amounts to insurance for which the federal government does not receive payment. Since September 2008, the GSEs have been in conservatorship, and Treasury has provided $187 billion in support to them.

As previously noted, a key aspect of the programs' costs is the size of each program's loan limits. 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 credit quality of the mortgages insured.

Government's Role in the Mortgage Market

Some policymakers argue that the federal government (i.e., FHA, Fannie Mae, and Freddie Mac) is currently playing too large of a role in the mortgage market. These policymakers would like to take steps to reduce the federal government's role while increasing the role of private capital. 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. It may reduce the financial risks facing the government but may also limit credit availability for some borrowers.

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[31] Moreover, as the experience of the housing crash of 2008 demonstrates, the reality is that the government can sometimes be required to intervene financially.

[32] The programs have needed to receive a transfer of funds from Treasury infrequently, but it has happened. For example, at the end of September 2013, HUD announced that its Mutual Mortgage Insurance Fund was taking a mandatory appropriation of about $1.7 billion to ensure that enough money was available in the Financing Account to cover all expected future losses on insured loans. For more information, see CRS Report R42875, *FHA Single-Family Mortgage Insurance: Financial Status of the Mutual Mortgage Insurance Fund (MMI Fund)*, by Katie Jones.

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