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CAPITOL REPORT
Fannie and Freddie: Bigger is better?
Support rises for buying bigger home loans, but legislative hoops remain

 By [Robert Schroeder](#), MarketWatch

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WASHINGTON (MarketWatch) – If you're looking for a "jumbo" mortgage, help may soon be on the way. Just one tip, though: write your member of Congress before getting your hopes too high.

Support is building for raising the value of loans big mortgage-buyers Fannie Mae and Freddie Mac are permitted to purchase. That amount is currently set at \$417,000. Anything above that limit is considered a "jumbo" mortgage -- a term that's laughable to some in California, for example, where the median home price is about \$712,000 in northern Monterey County.

'We need to stabilize neighborhoods as much as possible by making sure loans above the current limits of Fannie and Freddie can be refinanced.'

— [John Taylor](#), National Community Reinvestment Coalition

But as the housing crunch exacerbated by the subprime-mortgage crisis lingers, a growing chorus of voices is calling for jump-starting the jumbo market.

Everybody from lawmakers to the White House to banks to borrowers wants the housing market to recover. But in this case, it's lawmakers who hold the key to giving Fannie (FNM) and Freddie (FRE) freer rein. And it's not guaranteed they will, say analysts.

The two government-sponsored enterprises still enjoy the enmity of some critics who remember the accounting scandals both companies underwent not long ago. "For GSE critics there's no reason to let a temporary increase go through," says Brian Gardner, an analyst with Keefe, Bruyette

& Woods. It's too much to give, Gardner says, because "we all know in Washington there's no such thing as a temporary increase."

To be sure, some supporters of an increase in the conforming loan limit -- including Treasury Secretary Henry Paulson -- have called for it to be a one-time event. And both Paulson and James Lockhart, who heads the federal agency that regulates Fannie and Freddie, say such an increase would need to be tied to reforms at the companies.

That's where Congress comes in, again. Lawmakers have been trying to pass comprehensive reforms on Fannie and Freddie for years. But given the subprime crisis's staying power, says community advocate John Taylor, raising the loan limit may just be an idea whose time has come.

"Everybody's looking for solutions," says Taylor, who is president and chief executive of the National Community Reinvestment Coalition. Taylor argues that allowing Fannie and Freddie to buy bigger mortgages would have a positive ripple effect on the mortgage market by expanding liquidity.

"We need to stabilize neighborhoods as much as possible by making sure loans above the current limits of Fannie and Freddie can be refinanced," he said in an interview.

Taylor credits an anticipated tide of foreclosures for the newfound interest in allowing Fannie and Freddie to buy bigger loans.

Jumbo mortgage market needs help too

Earlier this month, announcing steps to help some borrowers refinance, Paulson said there are about 1.8 million subprime mortgage resets on the horizon in 2008 and 2009. The steps were aimed at heading off foreclosures.

Some Democrats, though, said it wasn't enough. On Wednesday, Sen. Charles Schumer of New York called for boosting the conforming loan limit as well as other steps including tougher regulation for mortgage brokers and amending the bankruptcy code.

For their parts, the companies would be eager to see an increase in the loan limit.

"If Congress were to raise the limit, we could help provide needed liquidity to the jumbo market, where rates have risen to a 20-year high relative to the conforming market we serve," says Freddie Mac spokesman Doug Duval.

"I want to be clear -- we would support such an increase, and we would be prepared to act," Fannie's CEO Daniel Mudd said in congressional testimony in September.

Most of the news about the housing crunch has been limited to the subprime segment, which serves borrowers with poor credit. But it's worth remembering that the market for big loans has dried up, too, and that a loan above the current limit actually isn't that big in some places.

"A lot of these jumbo loans are not so jumbo," says Gardner, citing high home prices in California.

Some lawmakers may resist the idea of raising the limit, arguing that Fannie Mae and Freddie Mac have accounting-scandal baggage. That makes concessions to the companies difficult. But with the housing outlook still weak, that baggage may just have wheels. ■

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