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Higher Loan Limits, Again, for Pricey Markets

By **MARC SANTORA**

LESS than two months after lowering the maximum [loan](#) amount that could be backed by the [Federal Housing Administration](#), lawmakers in Washington reversed course just before the Thanksgiving holiday and once again raised that limit, offering home buyers more financing options in a tight credit market.

Under the new guidelines, the F.H.A. would be able to back loans up to \$729,750 for the next two years in the nation's most expensive real estate markets, including [New York City](#) and the surrounding metropolitan area.

Before the change, according to rules that went into effect on Oct. 1, the maximum loan the F.H.A., Fannie Mae and Freddie Mac could back was \$625,500. Congress decided to leave the lower loan ceilings for the [mortgage](#) giants Fannie Mae and Freddie Mac untouched.

Last year, there were 1,541 loans from \$625,500 to \$729,750 issued in New York City, all backed by the federal government, according to data analyzed by the [Furman Center for Real Estate and Urban Policy](#) at New York University. Fannie and Freddie accounted for the vast majority, with about 11 percent insured by the housing administration. Private lenders underwrote 1,737 loans above \$729,750 with no federal backing.

The F.H.A. does not issue loans but instead offers private lenders guarantees against homeowner default. In 2006, the agency backed about 5 percent of the nation's mortgages. In 2010, it insured a third of all loans. It backs loans in which down payments can be as low as 3.5 percent of the cost of the home.

Loans backed by the F.H.A. cannot be used to buy a co-op, according to the administration's [Web site](#). Condominiums need to obtain certification to be eligible, and [in New York many have done that](#) to broaden the pool of eligible buyers.

Stephen Spinola, the president of the [Real Estate Board of New York](#), which lobbied to have the loan limits raised, said it was good news for potential buyers across the city.

"We are thrilled that it is a two-year extension," he said, describing the move as a recognition that

the housing market still needed help. Had Congress not raised the limits, he said, “it would have been a disaster.”

If the lower limits had remained in place, private lenders would have needed to greatly increase the number of jumbo loans they backed, to make up for those no longer secured by federal agencies.

It remains to be seen if buyers will turn to the F.H.A. or whether private lenders will step back into the market, but the move ensures that the role of the F.H.A. is likely to grow in coming years.

Mark A. Willis, a research fellow at the Furman Center who helped analyze the data, said he was concerned that the private sector was not ready to increase lending so substantially, and that this reluctance would have made financing even harder to get. “Given the fragility of the housing market in general,” he said, “we worried that this might not be the best time to start pulling back government involvement.”

Beyond the specific question of loan limits, the question at the heart of the debate concerns the role the federal government should play in the mortgage market. About 90 percent of loans issued in the country are backed by the federal government.

While the growth of Fannie and Freddie has been well documented, the F.H.A., which traditionally helped first-time buyers or those with low to moderate income, has also greatly expanded its purview in recent years. There is broad agreement in Washington that the federal government should eventually have a smaller footprint in the mortgage market, but the question is how fast it can pull back without hurting the housing market.

The loan limits were increased in 2008 in direct response to the collapse of the housing market and the credit crisis. The Obama administration, in a position paper on the housing market released this fall, argued that lower loan limits would mean that “larger loans for more expensive homes will once again be funded only through the private market.”

But many in the real estate industry feared that with the private market not ready to fill the void, loans would be harder to get and home prices further depressed. They lobbied vigorously to reverse the lower loan limits.

The [National Association of Realtors](#), which opposed lowering the limits, spent \$17.6 million lobbying Congress last year, according to the Center for Responsive Politics.

