Will they stay or will they fall?

The expanded loan limits that Congress boosted for federally backed mortgages three years ago are set to shrink modestly at the end of the summer, but there's a movement afoot in Congress to delay the decline in the so-called "conforming" limit, citing the shaky housing market.

On Friday, Reps. **John Campbell** (R., Calif.) and Gary Ackerman (D., N.Y.) introduced a bill that would defer the loan-limit reduction for another two years. They say that housing markets are too shaky to consider any reduction in loan ceilings that could raise borrowing costs for some homeowners.

In 2008, Congress raised the maximum loan amount that mortgage giants Fannie Mae and Freddie Mac and federal agencies could guarantee in certain housing markets. Home buyers in dozens of cities faced a credit squeeze when private lenders pulled back from originating loans that exceeded $417,000, the limit for government-backed loans. Congress allowed limits to rise above that mark in certain high cost markets to as high as $729,750. After September, they'll fall on a sliding scale, topping out at $625,500.

A spokesman for Rep. Campbell said Friday that the measure has significant bipartisan support. "There's a wide recognition in the House and hopefully the Senate that we need to do this," he said. Congress passed a one year extension last fall, and another extension the year before that.

The Obama administration in February said it supported allowing the limits to fall as scheduled:

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…. We will work with Congress to determine appropriate conforming loan limits in the future, taking into account cost-of-living differences across the country. As a result of these reforms, larger loans for more expensive homes will once again be funded only through the private market.

But it’s not clear whether the administration would stand in the way of an effort by Congress to keep the limit at its current level for another year. The administration is “paying attention to market conditions” and “looking carefully” at the impact of the decline in the limits, said Housing Secretary Shaun Donovan in a brief interview on Thursday. He said the administration would make a decision “shortly” on any changes.

Other top officials, including Treasury Secretary Timothy Geithner, have previously said that the limit should decline in order to create more room for private lenders to compete against federal entities. Bob Ryan, now a senior adviser to Mr. Donovan, reiterated that position at a housing conference in New York last month.

So-called jumbo loans that are too large for federal backing typically carry higher interest rates and bigger down payments, raising concerns that higher borrowing costs could reduce sales and put pressure on prices.

“There’s a trade-off there between supporting the higher-priced homes and weaning the system off the unusual limits that were put on during the crisis,” said Federal Reserve Chairman Ben Bernanke in response to questions from Rep. Ackerman at a House hearing on Wednesday.