

A polarizing debate over the size of mortgages the federal government can insure could complicate passage of the minibus legislation and the attached continuing resolution later this week.

The minibus conference report increases the size of mortgages the Federal Housing Administration can insure, but not the size of mortgages Fannie Mae and Freddie Mac can insure, GOP sources confirmed today.

Raising the stakes is a pending inspector general report on the FHA that Republican Members and aides say will paint a bleak picture of the agency.

The report, said to be released today, will show that the FHA is “totally undercapitalized,” said Rep. Scott Garrett (R-N.J.), an opponent of raising the limits. Another Member and a GOP aide confirmed that a damaging IG report would be released today.

Calls and emails to officials at the Department of Housing and Urban Development, which houses FHA, and that agency’s Office of Inspector General were not immediately returned.

At issue are legal limits on the size of mortgages federal agencies can insure, also called conforming loan limits. The Senate-passed minibus raised the limits, but House-passed spending bills have not.

Proponents of raising the limit say it will bolster the housing market and help revive the economy. Opponents say it would be a subsidy for millionaires to buy expensive vacation homes.

**Rep. John Campbell (R-Calif.)** has made a crusade of raising the limit, telling Roll Call that housing prices will **“crater, and it’ll be our fault”** if it’s not done.

**Campbell** voted “no” on a stopgap spending bill that went down on the House floor in September, gaining an audience with Speaker John Boehner (R-Ohio) and Majority Leader Eric Cantor (R-Va.) on the issue in doing so.

Garrett opposes the measure just as fiercely.

“We are not talking about first-time homebuyers here,” he said. “If you’re talking about a \$700,000 loan, you’re talking about buying a \$1 million house. This is just a case of saying, ‘Should the average American be supporting, basically, millionaires?’”

Now that the limits have been raised in the conference report for the FHA, GOP sources warn that a bitter fight is ahead this week as Boehner looks to pass the bill.

Raising the limits is “tremendously divisive,” a senior GOP aide said. “There will be Members who vote ‘no’ solely because of this issue. I find it hard to think of a dumber strategy — let’s increase the exposure of the federal agency that is going bankrupt and that provides absolutely no political benefit to any Republican constituency whatsoever.”

The provision “is clearly going to create some heartburn for some Members, especially on the Financial Services Committee,” a second GOP aide said.

Rep. Tom Latham, the chairman of the Appropriations subcommittee dealing with transportation matters and a close ally of Boehner, literally shrugged off conservative complaints while walking onto the House floor to vote.

“I have concerns, sure, but ...” the Iowa Republican said, trailing off while he shrugged his shoulders. Latham also mentioned support for the provision in the Senate.

Rep. Barney Frank (Mass.), the top Democrat on the Financial Services Committee, defended raising the loan limits.

“House prices vary more geographically than anything else,” Frank told Roll Call. “I’m disappointed they didn’t raise the limits for [Fannie Mae and Freddie Mac] as well.”

He added that he didn’t expect the issue to pose a major threat to the minibus.

Garrett said in a phone interview shortly after he heard that the FHA’s loan limits would be raised that “the compromise might be worse than the original proposal” and predicted “policy and political” problems from the provisions.

But he stopped short of saying he’d vote against the bill because it was included. “I’m still willing to talk to them and see if this can be fixed,” he said.

Last week, the Club for Growth, a conservative group known for backing primary opponents to moderate Republicans, issued a pre-emptive threat to include the minibus among its “key votes” if it raises the loan limits.

“If the conferees strip out this big-government rider, then the club will reassess the bill for consideration of a key vote,” the notice said.

Dan Holler, a spokesman for Heritage Action for America, another key outside group, said in an email today that his organization has “reserved the right to key vote” in reference to the loan limits provision and other conservative concerns.

Another issue attracting scrutiny is the disaster funding mechanism in the Budget Control Act, the legislative result of the eleventh-hour debt ceiling deal.

Members of the Republican Study Committee have complained to GOP leaders that it was unclear at the time of the law's passage that the mechanism could result in spending above the discretionary spending caps also in the law.

A GOP aide familiar with the process said the package is a compromise, with no one "getting everything they want."

"This provision prevents increases for Fannie and Freddie, the entities that have benefited from billions in taxpayer bailouts, while still allowing FHA to maintain higher limits," the aide said. "In effect, those that want lower limits have scored two out of three, and that's not a bad deal for a provision that passed the Senate with 60 votes."