of the crisis, with the explicit purpose of intervening in the mortgage market. During the 2006–2016 period, conforming loans were generally limited to a $417,000 cap. As we illustrate in Figure 1, at the beginning of the crisis the jumbo market experienced a contraction, which was particularly relevant for high housing-cost markets. In order to increase lending in these areas, the Economic Stimulus Act of 2008 temporarily increased the conforming loan limit in high-cost areas by as much as $729,750. The policy of higher limits has persisted since then, although the limit for high-cost areas was subsequently reduced to $625,000.[20] The limit is subject to an ongoing policy debate regarding the potential downsizing of the GSE role by progressively lowering conforming loan limits.[21] Moreover, because the policy caps loan amounts, its consequences differ substantially across markets with different house prices and households with different mortgage demands. We experiment with several scenarios and show the results in Table 11 and Figure 12.

Mortgage Origination and Redistribution

We first consider expanding GSE coverage by increasing the conforming loan limit by 25%. For most markets, this means increasing it from $417,000 to roughly $520,000. This counterfactual highlights the redistributive impact of expanding GSE coverage because of the changed market structure. Increasing conforming loan limits leads to increases in overall and conforming volume, decreases in jumbo volume, and increases in consumer welfare, especially in high house-price areas. Total origination volumes increase by roughly $200 billion, with conforming origination volumes increasing by roughly $310 billion and jumbo originations decreasing by roughly $110 billion. This expansion of GSE coverage leads to increases in shadow bank market share by roughly 4 pp. Consumer surplus increases by roughly $88 billion in the highest-income markets, while it increases by only $11 billion in the lowest-income markets. Borrowers in high-income areas gain most, since more loans at the ideal mortgage size are now conforming, which are cheaper and more convenient.

Finally, it is interesting to consider the two scenarios of unifying conforming loan limits across counties, reverting to pre-crisis policies. Column 5 of Table 11 considers setting all limits to the $417,000 lower limit; Column 6 considers setting all limits to the $625,000 higher limit. While lowering the limit decreases lending volumes overall and raising the limit increases lending volumes overall, these gains are not evenly distributed. Decreasing limits in all markets to $417,000 has essentially no impact on low-income area consumer surplus, while it significantly reduces high-income area consumer surplus, decreasing it by roughly $51 billion relative to the baseline scenario. On the other hand, increasing limits across all markets to $625,000 significantly increases high-income consumer surplus among both low- and high-income areas, with the majority of the welfare gains accruing to high-income areas and high-income borrowers. Borrowers in high-income areas see consumer welfare increase by $106 billion, while borrowers in low-income areas see consumer welfare increase by only $17 billion.

Bank Stability

[20] Due to progressive increases in conforming loan limits from 2017 onwards, by 2019 the conforming loan limit reached $484,350 in most markets and up to $726,525 in high-cost areas.

[21] See, for example: https://www.housingwire.com/articles/27344-affordability-concerns-surface-in-conforming-loan-limit-debate [accessed October 2, 2018].