Los Angeles Times

http://www.latimes.com/news/la-fi-jumbo25jan25,1,173423.story?track=rss&ctrack=1&cset=true
From the Los Angeles Times

Big loans could get cheaper

Supporters say the proposal would help borrowers and stabilize the housing market

By E. Scott Reckard and Peter Y. Hong
Los Angeles Times Staff Writers

January 25, 2008

The economic stimulus plan worked out Thursday in Washington would provide nearly a year of cheaper loans for Californians buying or refinancing higher-cost homes, and the news elicited jubilation in the beleaguered housing and mortgage industries.

Leaders of the House of Representatives and the White House agreed that the size of loans that can be purchased by government-sponsored mortgage buyers Fannie Mae and Freddie Mac should be increased sharply for a year from the current cutoff of $417,000.

The plan also would nearly double the size of loans insurable by the Federal Housing Administration, from $367,000 to $729,750.

The FHA was set up to provide mortgages to first-time buyers, including many with less-than-perfect credit, and insures loans to borrowers with down payments or home equity of as little as 3%.

Currently, any loans above $417,000 are considered "jumbo" mortgages. In recent months, they have become harder to obtain because skittish private investors have become reluctant to buy them.

Interest rates on jumbo loans were running about 6.5% this week -- 1 percentage point higher than rates on the so-called conforming loans that Fannie and Freddie could buy. Someone who wanted to borrow $500,000 would save about $330 a month, or $3,960 a year, if such a loan were considered conforming and thus had a lower rate.

"It's the single most effective step they could take to stabilize the housing and mortgage market," said Rick Simon, a spokesman for Calabasas-based Countrywide Financial Corp., the nation's largest home lender, which had led the lobbying to raise the loan limits.

The precise increase on the "conforming" ceiling was still being debated late Thursday. House Republicans said they had agreed to temporarily raise loan limits for Fannie Mae and Freddie Mac to $625,500 while Democrats said the deal would boost limits to $729,750.

Either way, the increased limit on loans eligible to be bought by Fannie Mae and Freddie Mac would be temporary, expiring Dec. 31. It was not clear if the higher FHA limit would be temporary or permanent.

Lobbying for an increase, the National Assn. of Realtors had estimated that increasing the conforming loan limit to $625,000 would strengthen current home prices by 2% to 3% and generate $42 billion in increased economic activity.

Higher loan limits would be especially significant in California, where the median home price is $597,640, housing and lending industry officials said.

Among other things, it would make it easier for battered lenders such as Countrywide, which lost $1.2 billion in the third quarter, to sell new fixed-rate loans to borrowers at risk of defaulting when their adjustable-rate mortgages reset to higher payments.

"This is a very positive development for California's lenders and homeowners," said Susan DeMars, executive director of the California Mortgage Bankers Assn. The California Assn. of Mortgage Brokers said the plan would "increase much-needed liquidity in today's struggling housing market, giving homeowners and home buyers access to safe, sustainable loans."

Not all observers were so optimistic.

Among those sounding skeptical notes was UCLA economist Edward E. Leamer, who said higher loan

limits "are not going to matter much now" because the housing markets are still destabilized by bubble-era home prices that must continue to fall.

The proposed new conforming loan limit is far beyond the reach of most people, Leamer said. "Most Americans can't afford a $700,000 house," he added. "They don't have the down payment; they don't have the income."

Mortgages that size seem realistic only because "in the good old days, a year or two ago, you didn't have to have the down payment or income" to get such a loan, he said.

A bill wasn't expected to be signed for six weeks. Banking consultant Bert Ely of Arlington, Va., a frequent critic of Fannie Mae and Freddie Mac, said the final version could be considerably watered down -- restricted by region or available only to borrowers with significant equity in their properties.

Ely said opposition remains strong from critics who believe the plan shifts too much risk from the private housing markets to the government, because FHA insurance is a federal program and investors regard Fannie and Freddie as having the implicit backing of the federal government.

Such observations weren't enough to put a damper on mortgage brokers such as Jeff Lazerson of Laguna Niguel, who said the prospect of higher loan limits was "just fantastic."

Lazerson said he dropped out of the FHA loan program two years ago because home prices had risen so high and his customers with marginal credit found it easy to get sub-prime loans or "alt-A" mortgages from private lenders that didn't require proof of income.

FHA loans, by contrast, are notorious for requiring careful documentation.

Despite that, Lazerson said he was eager to resume providing loans backed by the FHA, which allows borrowers to raise money from family members to make the low 3% down payment.

scott.reckard@latimes.competer.hong@latimes.com