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Bay Area helped by new loan limits

By Katherine Conrad

MEDIA NEWS STAFF

Article Launched: 02/10/2008 03:07:23 AM PST

The economic stimulus package introduced Jan. 24 included a provision long sought by California housing leaders that would benefit home buyers and homeowners across the state, but especially in the Bay Area, where residents must contend with some of the highest prices in the country.

When asked why congressional leaders agreed to raise the limit on conforming loans -- which carry lower interest rates and are backed by government-sponsored companies, Fannie Mae and Freddie Mac -- one real estate expert answered, "panic."

"California leads the nation in recovery," continued Jeff Barnett, regional manager for Alain Pinel Realtors in Los Gatos, and a director for both the National Association of Realtors and the California Association of Realtors. "If you get good housing news out of California, it's a stimulus for the country."

Here are some questions and answers about the proposed change.

Q: What have congressional leaders agreed to do?

A: Increase Fannie Mae's and Freddie Mac's conforming loan limits from \$417,000 to as much as \$729,750, according to House Speaker Nancy Pelosi's office.

Q: Who benefits?

A: Home buyers who are in the market as well as home sellers, who should benefit from a larger pool of buyers who would be able to get bigger loans at lower interest rates. Homeowners with nonconforming, or jumbo, loans also could benefit because they could refinance into a new conforming loan.

Q: Why is this proposal important to California?

A: The average home price in the Bay Area -- more than \$600,000 -- is almost triple the average price in the rest of the nation. As a result, many Bay Area homeowners have jumbo loans at higher interest rates.

Q: When will the plan take effect and how long will it last?

A: Congressional leaders hope to have it on President Bush's desk by mid-February. It is scheduled to end Dec. 31.

Q: Why is it only for 2008?

A: It's meant to stimulate the economy as soon as possible. Permanent changes would require more study and take longer to enact.

Q: What are the chances it would be extended?

A: It's possible, depending on how the economy is doing at the end of the year.

Q: Should I refinance my home loan just because of this change?

A: Only if you have a nonconforming loan. Homeowners with loans from \$417,000 to \$729,750 would be prime candidates to refinance for a lower rate.

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Q: What was the conforming loan limit in California before this proposal?

A: \$417,000.

Q: Why wasn't the conforming loan limit increased before now for some higher-price areas?

A: It takes an act of Congress to change the limit. This is a low priority because only a few states -- such as California, New York and parts of Florida -- benefit from raising the limit. The limit is already higher -- \$625,000 -- in Hawaii, Alaska, Guam and the U.S. Virgin Islands. Even though housing leaders in California have pushed to raise the limit for the past several years, they have not succeeded. Until the rapid run-up in prices during the boom, most parts of California did not need a higher limit. The Bay Area, however, has had significantly higher home prices than the rest of the state since the mid-1990s.

Q: Will the legislation have any effect on me if I already have a conforming loan?

A: No.

Q: How many homeowners in Silicon Valley and in California have nonconforming or jumbo loans?

A: The number of jumbo loans in Silicon Valley is estimated to be 105,000, and in the entire state there are about 1 million jumbo loans, according to First American CoreLogic LoanPerformance in San Francisco. The number of conforming loans in the valley is about 200,000, and about 5 million in the state.

Q: Will this help homeowners at risk of foreclosure?

A: It could help some homeowners who couldn't refinance under the conforming loan

limit of \$417,000, unless their credit is already impaired.

Q: How many more home sales could be generated nationally from this stimulus?

A: As many as 350,000 -- or about \$44 billion in economic activity, according to Joseph Perkins, president of the Home Builders Association of Northern California.

Reach Katherine Conrad at kconradmercurynews.com or 408-920-5073.

HOW changes would work

Stanley Tseng, president of the Silicon Valley chapter of the California Mortgage Brokers Association, said the savings for Bay Area home buyers under proposed conforming-loan limit changes are significant, almost \$5,000 a year.

Using the median price of a resale home in Santa Clara County of \$739,000: A buyer puts 20 percent down, requiring a loan of \$591,200. Under the current system, the buyer needs a nonconforming, or jumbo loan, which has higher interest rates. For a 30-year fixed loan, the rate is 6.75 percent, making the payment \$3,835 a month.

Under the stimulus package, the buyer would be able to obtain the same loan of \$591,200, but at a lower interest rate of 5.75 percent. The monthly payment is \$3,450, a difference of \$385 a month, which is a savings of \$4,620 a year.

-- Katherine Conrad, MediaNews staff

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