

Economic stimulus package could give some home buyers a break

By Carol Lloyd, Special to SF Gate

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What will shift the ebbing tides of the Bay Area real estate market? No one can predict the future, but experts typically talk about waiting out the inevitable. Real estate markets are cyclical, we're told, and we're in a down cycle. Nuthin' to do but grimace and bear it.

But what if, overnight, the government gave Bay Area home buyers as much as \$100,000 of extra buying power for their next home purchase? What if it gave every homeowner with a high interest jumbo loan the opportunity to refinance at a lower rate? What if these offers, like a blue-light sale at Kmart, were available only to those who act fast and buy now?

The new economic stimulus package which President Bush signed into law this week offers people in high-priced real estate markets what might be called a fire sale courtesy of Uncle Sam. Although sending out checks for \$300 (for those who don't pay taxes) and \$600-\$1,200 for taxpayers may not ease the financial strangleholds many Americans find themselves in, one part of the stimulus package could make a huge difference for some Bay Area home owners and home buyers.

Between July 1, 2008 and December 31, 2008, the law would raise the limit on so called "conforming loans" — loans which Fannie Mae and Freddie Mac, mortgage institutions financially insured by the government, are allowed to buy. The new loan provisions would lift the current national limit of \$417,000 to a new level based on 125 percent of the region's median home price (with an upper cap of \$729,750). The stimulus package would also raise Federal Housing Administration loans — meant for low income and credit impaired buyers — to the same 125 percent of the region's median price.

Such changes are potentially significant for lenders because, since the subprime meltdown, no secondary mortgage investors have been willing to buy loans which aren't written to Fannie Mae/Freddie Mac standards. By lifting the conforming loan limits, lenders like Bank of America and Wells Fargo, which have been holding these loans (this applies to loans created since July 1, 2007), would be able to sell them on the secondary market and presumably free up more money to make more loans to home buyers.

The temporary redefinition of conforming loans is also potentially crucial for borrowers who currently need jumbo mortgages to buy or refinance their homes. In four and a half months these folks would be able to get conforming mortgages, presumably at much lower rates.

What might this mean exactly? Home owners with loans between \$417,000 and \$729,750 might be able to refinance at a much lower rate, saving themselves more than a point in interest rates and up to \$500 a month. (The difference between a jumbo loan now and a conforming loan is about 1.125 percent, though it has recently been wider.)

Or they could opt to buy a more expensive home. For qualifying home buyers, if interest rates stay roughly



The advertisement features the blue lithium logo at the top, which includes a stylized blue and white grid icon and the text "blue lithium DATA IS THE DIFFERENCE". Below the logo, the text "BEHAVIOURAL PROFILING?" is displayed in a bold, black, sans-serif font. The central image shows a man with short blonde hair wearing a red shirt, looking thoughtfully at the camera with his hand on his chin. A small blue square with a white question mark is stuck to his forehead. In the bottom right corner, there is a red rectangular button with the white text "Click here to know".

the same, a conforming loan could translate into as much as \$100,000 more in buying power.

Many pundits have noted that this part of the stimulus package won't make much of a dent in the national real estate morass. After all, it will only affect the highest-priced real estate markets, about 20 of the 160 metropolitan areas in the country. And it will only affect those areas for a paltry six months.

But what about for home owners and buyers in the regions that are affected? Some professionals who live in areas with high priced real estate seem to be looking forward to the change with the same anticipation that kids look forward to a birthday party. Good times for everyone ahead!

Joseph Perkins, president of the Home Builders Association of Northern California, has claimed the program could stimulate 350,000 home sales nationally to the tune of \$44 billion in economic activity. Shane Backer, a New York mortgage broker, has such faith in the transformational possibilities of this new loan limit that he has fashioned himself into an expert on the subject, complete with a [Web site](#) with conforming loan refinance calculators and essays on the new loan provisions.

"I think in the short term, it will stimulate the economy — most directly in places like New York and especially in California, where seven out of the 20 affected markets are located," Backer told me. "It will allow people to qualify more easily, get better rates and often save hundreds of dollars a month."

In the Bay Area, where, according to Dataquick, the median home price dropped below \$600,000 in December in large part because of the plummeting number of new jumbo loans (down 65.7 percent between December 2006 and December 2007), the new loan provisions may create a temporary respite from the bust.

But, as Backer admits, it won't offer a bonanza to all home owners in the area. "For the people with no equity, or those who are self-employed and can't show income, (they will still be disqualified) from getting a conforming loan. So, some people will benefit and some people will still be stuck." It also won't help people who already have conforming loans.

Taken as a whole, Backer says he's most concerned about what happens to the real estate market when the program ends. "I think it's a temporarily good thing," says Backer. "But what happens when the six months end? I worry that people will freeze up and wonder why they should pay these higher prices?"

Well yeah. It's all very well to squirt some financial WD-40 into the economy, but can six months of artificially injected boom actually change the cycle without a whiplash effect? Indeed, there are many problems with saving the economy via governmental deus ex machina after all hell has already broken loose.

Although there are good arguments for the government permanently changing conforming loan limits by attaching them to regional market prices, jumbo loans are considered more risky for a reason: They involve borrowing a lot of money! If we collectively ignore the risk, don't we threaten to create a new kind of mortgage meltdown, one that centers around two government-backed institutions already mired in increased risk? (According to Business Week, Fannie Mae and Freddie Mac have bought into low-documentation loans and bought mortgage packages on the secondary market that no one else would.)

Plus, selling such loans on the secondary market may not be foolproof. After all, investors may regard the nouveau conforming loans as riskier than old conforming loans if there aren't other safeguards in place. If lenders do take this risk into account (as some observers predict they will) by charging higher rates to consumers or requiring more stringent loan qualification standards, how much buying and refinancing will actually get stimulated? Deutsche Bank analyst Nishu Sood released a study last week that concludes that the new loan limits amount to "High-profile policy, low-profile impact." He argues that the benefits to borrowers will be offset by qualification difficulties, higher interest rates on higher loan amounts and other disincentives.

Finally, there's the possibility that a Valentine from Uncle Sam involving a \$100,000 housing coupon may not change the feelings of those who have already had their hearts (and bank accounts) broken. If people are hurting — because of lack of income, plummeting consumer confidence and evaporating equity — even sweetheart deals may not seduce them to bet on an economy that previously burned them.

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