

## Stimulating idea

### Mortgage change could help Californians buy, sell, refinance

By Katherine Conrad/San Jose Mercury News

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The economic stimulus package introduced last week includes 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."

In Solano County local real estate leaders are watching closely to see what happens with the stimulus package proposal.

"And it is just a proposal at this point," noted Gateway Realty Broker Bob Dorsett. "They are trying to pass it by Feb. 14 but the way government works it may or may not happen or may come in some different form."

As proposed, the plan calls for increasing 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.

If that were to happen, it would be "good news for the consumer and good news for the real estate industry in general," said Dorsett.

"In California and Solano County, for that matter, there are a lot of people buying homes for more than \$417,000, that's about the median these days," he said. For those whose loans are above that amount, interest rates are higher.

"So if you have a loan for \$419,000 you pay something like 7 percent but if your loan is \$416,000, it's 5-and-a-half percent," Dorsett explained. "If they raise that to the \$700,000 range, it will save a lot of people a lot of money on their mortgages, make qualifying for a purchase easier."

Here are some more questions and answers about the proposed change.

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 non-conforming, 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.

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Q: When would the plan take effect and how long would 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 non-conforming loan. Homeowners with loans from \$417,000 to \$729,750 would be prime candidates to refinance for a lower rate.

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 non-conforming 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.

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