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MORTGAGES

Will Loan Limits Rise?

By **[BOB TEDESCHI](#)**

IF you're in the market for a new home, especially in an area where housing prices are typically high, it might make sense to wait a few weeks. Doing so could mean a significant reduction in your monthly mortgage bill — that is, if the lending industry and Congressional leaders have their way.

Both groups have been lobbying President-elect [Barack Obama](#) to include in an economic [stimulus package](#) a provision that would again raise the limits on “conforming loans,” which are mortgages eligible to be purchased by [Fannie Mae](#) and [Freddie Mac](#), two government-sponsored agencies that resell packages of loans to investors.

Last year, the conforming loan limit was temporarily increased from \$417,000 to \$729,750 in the [New York City](#) area, and to \$708,750 in Fairfield County, Conn. (Loan limits are based on median home prices; in areas with lower home prices, it was \$625,500.) The limit was raised to help to bolster demand for higher-priced houses in a slumping real estate market.

The government made a similar attempt to spur sales in late 2007, when it decided to keep the conforming loan limit at \$417,000, reversing a longstanding practice of moving the limit in accordance with the housing market. (Because the average home price fell in 2007, the limit should have been reduced.)

On Jan. 1, the conforming loan limit was set at \$625,500 in all regions, disadvantaging borrowers in areas of higher-cost housing like New York City.

Interest rates on nonconforming, or jumbo, mortgages are typically higher than rates on conforming loans because they are considered riskier without a guarantee that Fannie Mae and Freddie Mac will buy them. The agencies are required by law to buy only conforming loans.

Looking to improve real estate sales in higher-cost areas, the provision sought by Congressional leaders would put the conforming loan limit at \$729,750.

Borrowers with 30-year fixed-rate loans of \$417,000 to \$625,000 — categorized as agency “jumbo loans” — pay about three-quarters of a percentage point less than those with the conventional jumbo mortgages (though they pay about a quarter of a percentage point more than those with mortgages below \$417,000).

By changing the “jumbo conforming” terms to include a hypothetical \$700,000 mortgage, a borrower with good credit would qualify for a 5.25 percent interest rate on a 30-year fixed-rate mortgage, based on current rates, rather than the average 6 percent rate for jumbo mortgages, according to Oded Ben-Ami, a senior loan officer with the Sterling National Mortgage Company in Great Neck, N.Y.

Monthly payments on that \$700,000 mortgage (excluding property taxes and insurance) would drop to \$3,865 from \$4,197, Mr. Ben-Ami said. The borrower would also save on fees — to get the jumbo mortgage, he or she would have had to pay a “point,” or an additional \$7,000 upfront fee.

While borrowers who choose to wait for the government to change the conforming loan limit could derive significant savings, Mr. Ben-Ami says they are also “taking a gamble.”

Interest rates could increase, he said, and banks could place restrictions on loan amounts or further tighten their lending criteria. (Some in recent months have required borrowers to prove that they have liquid assets equaling 25 percent of the loan amount.)

Another element of risk, Mr. Ben-Ami said, is the borrower’s own financial situation.

“If you can qualify now while you still have a job,” he said, “should you make your move now?”

Other mortgage specialists urged borrowers not to wait.

Stephen Habetz, the chief executive of Threshold Mortgage in Westport, Conn., said, “Homeowners with large loans who are waiting on the sidelines may well find long delays and not the large drop in rates they are anticipating.”

At the start of January, Mr. Habetz noted, there was already a backlog of mortgage applications ready to be processed.

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