

Many hope cap on conforming mortgage loans will be lifted

by James Giannini

Miguel Albarran's adjustable mortgage is a ticking time bomb.

Each time it goes up, he feels the pressure build on his family budget. The payment is set to rise again in December, this time by \$1,100 a month, putting a potentially unbearable strain on his family of five in Vista, Calif.

RAISING THE ROOF - Home prices are passing the U.S. conforming-loan limit in recent years. CNS Illustration. Many homeowners across the nation share Albarran's problem, but higher home prices and the current cap on conforming mortgage loans make the situation more difficult in some areas than others.

Some in Congress believe they can ease the strain by raising the maximum amount that can be borrowed for a conforming mortgage with standard interest rates. They face an uphill battle, but help could be on the way.

Federal Reserve Board Chairman Ben Bernanke recently suggested that Congress allow mortgage buyers Fannie Mae and Freddie Mac to buy and hold mortgages worth as much as \$1 million, shattering the current loan limit of \$417,000.

Until now, an effort to increase the limit hasn't emerged from the Senate, with some lawmakers and housing experts arguing that it would be the wrong move. And a federal agency could actually lower the amount that can be borrowed in a conforming mortgage in 2009.

The conforming-loan limit is considered a mortgage large enough to buy the average U.S. house. It establishes the maximum loan that publicly chartered agencies Freddie Mac and Fannie Mae can buy, package and resell.

Home buyers who purchase more expensive homes must get what are called "jumbo loans" or second mortgages, both of which carry higher interest rates. In places such as San Diego, where home prices are above the national average, buyers face higher costs because of the conforming-loan limit.

Bernanke recently told a House-Senate Joint Economic Committee hearing that a temporary increase to \$1 million in the conforming-loan limit could be backed by U.S. government guarantees, although Freddie Mac and Fannie Mae should be responsible for excess losses.

The current limit of \$417,000 is above the government's latest calculation of the average U.S. home price of \$306,258 and above a realty group's calculation of \$224,800 as the median price of the existing American home.

Albarran, 48, who makes \$63,000 a year as a video editor, bought his 1,550-square-foot, three-bedroom home two years ago. He paid about \$478,000 and financed the purchase with a conforming first mortgage of \$95,000 and a second, "jumbo" mortgage of \$382,000.

As his mortgage rates adjust upward, Albarran would like to refinance into a single new mortgage at conforming-loan rates. But, like many residents, he owes more than the conforming-loan limit and also would be penalized for refinancing before three years of payments. The balance on his two loans is about \$477,000.

Albarran is in talks with his lender but is worried that his family could lose their house.

"I feel frustrated because living here is better than living in an apartment," Albarran said. "We are happy to be here but worried because we don't know what is going to happen."

While Alaska and Hawaii have higher conforming-loan limits of \$625,000, some don't approve of limits higher than the national standard. Their ranks include the director of the Office of Federal Housing Enterprise Oversight, which sets the conforming-loan limit.

"The original law was passed in 1970 and then modified in 1980," said Director James Lockhart. "And maybe back then Alaska might have been a high-price real estate market, but I don't think it is anymore. It's sort of somewhat an accident of history. But in the case of Hawaii, it might have some logic."

In many California cities, home prices are so high that buyers find themselves paying the jumbo-loan rate when buying a relatively modest home.

"Why should someone who lives in South Dakota be able to buy a 10,000-acre ranch for the same amount of money and get that subsidized, but I can't buy a 1,000-square-foot, three-bedroom, one-bath (home) in the (San Francisco) Bay Area?" asked Colleen Badagliacco, president of the California Association of Realtors.

Sen. Charles Schumer, D-N.Y., is trying to revive the moribund Senate effort to force an increase in the loan limit. He would like to raise it as high as \$625,500 in high-cost areas for one year as well as increase the size of the Fannie Mae and Freddie Mac mortgage portfolios.

"This common-sense measure will deliver a shot in the arm that could make refinancings possible for tens of thousands of Americans trapped in the subprime mess," Schumer said.

Schumer's best hope would be attaching a provision to a bill that would make changes to the Federal Housing Administration, said Bert Ely, a consultant on financial institutions and monetary policy based in Alexandria, Va.

"If we want something that is housing-related this year, the FHA reform bill is the most likely culprit," Ely said. "The question is, 'If so many cars get loaded on the train, will the train ever leave the station?'"

A bill already passed by the House, HR 1427, would reform Fannie Mae and Freddie Mac and allow the two to securitize loans of up to \$625,000 in expensive housing markets.

A similar bill has stalled in the Senate Banking Committee. Differing ideas and proposals have made it difficult for lawmakers to agree on housing reform legislation.

Sen. Barbara Boxer, D-Calif., and Rep. Duncan Hunter, R-San Diego, are among those saying they favor raising the conforming-loan limit, but proponents' hopes remain dim.

The Office of Federal Housing Enterprise Oversight, which regulates Fannie Mae and Freddie Mac, announced in October that the conforming-loan limit will remain at \$417,000 in 2008 despite slumping home prices. But the agency said it would lower the limit in 2009 if home prices decline 3 percent or more for the 2006-08 time period.

Opponents to an increase in the limit say mortgage lending should remain in the private sector and not with government-sponsored enterprises such as Fannie Mae and Freddie Mac. They say a higher conforming-loan limit could hurt lower-income home buyers.

Ann Canfield, an analyst for Canfield & Associates, a financial consulting firm in Washington, D.C., said giving Fannie Mae and Freddie Mac the authority to buy higher-dollar loans might require them to divert resources from affordable housing. The new loans could add to the total loans bought, but very few could be

counted toward the loan companies' affordable-housing goals, she said.

Badagliacco, of the California Association of Realtors, disagrees.

"People aren't buying a mansion for \$500,000; they're buying maybe a three-bedroom and two-bathroom home that's maybe 40 years old and no bigger than 1,500 square feet," she said.

"If they want a 2,000-square-foot, four-bedroom, 2.5-bathroom home, they're looking at \$750,000 and up. So to say we're taking money away from the low end of the market, how do you define the low end?"

Opinions are split at the Independent Community Bankers of America, a trade group that represents 5,000 community banks.

"There are those who think the conforming limits don't need to be raised, that the private market is able to make those loans and handle it," said Karen Thomas, executive vice president of government relations for the group. "And there are others that would like to see the conforming limit raised so that they can sell the loans on the secondary market and have that help facilitate a flow of mortgage money."

Gabe del Rio, vice president of lending and homeownership for Community HousingWorks in San Diego, believes Fannie Mae and Freddie Mac have a special status as government-sponsored enterprises and should be more responsive to the public than to their shareholders.

"The GSEs have more of a responsibility to the taxpayers, and to the government and to stabilizing our economy than they do to providing their shareholders with dividends," del Rio said.

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