High-cost houses put buyers in a bind

By Julie Schmit
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Time is short for some buyers and owners of more expensive homes to get the best terms on mortgage loans. Starting Oct. 1, Fannie Mae and Freddie Mac will cut the size of loans they buy from lenders. That will force many future borrowers into more expensive and harder-to-get jumbo loans.

The Freddie and Fannie limits, which are generally $417,000 for single-family homes nationwide, were raised in 2008 in some high-cost housing markets to stimulate the economy. In many areas, the limits rose to $729,750 and next month they'll fall to $625,500. Limits will drop more sharply in some areas and less in others.

Major lenders, including Bank of America, Wells Fargo and JPMorgan Chase, have stopped taking new applications for affected loans so that those in process close by the deadline. Meanwhile, borrowers with offers on homes — who need loans at the current limits — are "panicked to close loans" by the deadline, says Pamela Liebman, CEO of the Corcoran Group, a residential real estate brokerage firm in New York City.

Some lenders are "buried" given the rush to close deals before the changes and the mini-refinance boom driven by low rates, says Dean Rizzi, of Guarantee Mortgage in San Francisco. He has 10 home buyers who need loans to close before the deadline.

With jumbos, borrowers could see a 4.5 percent interest rate, for example, go to about 5 percent. Down payments of 20 percent will be the norm, says Quicken Loans economist Robert Walters.

Bank of America says it will close its deals in time. It stopped taking new applications for loans affected by the changes in mid-July, spokesman Terry Francisco says.

Borrowers starting the loan process now are probably "out of luck" if they want loan terms based on current limits, says LendingTree economist Cameron Findlay.

The changes will affect 2 percent of U.S. homes, but more in some areas, the National Association of Home Builders estimates.

Liebman expects 10 percent of New York City's market to be affected — largely the $800,000 to $1 million starter home market. The new loan requirements will "pull a lot of buyers out of the market," she says.

Some buyers may lack needed down payments and others might have to consider less costly homes, says Beth Peerce, president of the California Association of Realtors. Lobbying efforts to get Congress to extend the higher limits "are not looking great," she added.