

the Mortgage Bulletin

Week of December 5th, 2005

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Conforming Loans to \$417,000

Type	Rate	APR	Trend
30 Yr FIX	6.125%	6.215%	→
5/1	5.750%	6.632%	→
Jumbo Loans over \$417,000			
30 Yr FIX	6.500%	6.637%	↑
10/1	6.250%	6.686%	↑
5/1	6.000%	6.676%	↑
10 Yr Bond		4.550%	↑
Prime		7.000%	→

Conforming loan limit increase is not enough

Each year, around Thanksgiving Day, new conforming loan limits are announced. The new limits reflect the change in the mean (average) price for homes across the nation. A gratuitous comment that the average price is very mean indeed will be withheld.

The conforming limits are important for homebuyers because conforming rates are a bit lower than they are for jumbo loans.

On November 29th, conforming limits for 2006 were announced. The limit for single family homes increased from \$359,650 to \$417,000, an increase of 16%.

The new limit for two family homes was raised to \$533,859, \$645,300 for three units and \$801,950 for four units.

This is, of course great news for home owners and buyers where the average price for a single family home is \$500,000 or less. But in high cost areas, such as the Bay Area, where it is difficult to find a home for less than \$500,000, and the average price is \$644,000 the increase is less exciting.

The increased limit is good news, but not good enough for the Bay Area. However better news could be on the way. Presently the conforming limits for Alaska, Hawaii, Guam, and the Virgin Islands are 50% higher than they are for the rest of the country. Guam? Yes, Guam.

On October 26th, the House approved H.R. 1461, a bill which, if passed by the Senate and signed into law, will benefit homeowners in other "High Cost Areas."

Under H.R. 1461, conforming loan limits for high cost areas would be increased to the maximum of the area's average purchase price, capped at 150% of the national limit.

This would be good for the Bay Area because the new high cost areas would include: Anaheim/Santa Anna, Boston,

Los Angeles, New York/New Jersey, San Diego, San Francisco Bay Area, Washington, DC, and West Palm Beach/Boca Raton/Delray Beach.

If the provisions of H.R. 1461 become law, the conforming limit for the Bay Area would be 150% of \$417,000 or \$625,500.

And while the Thanksgiving present of an increase from \$359,650 to \$417,000 is welcome news indeed, a further increase to \$625,500 would really be nice.

Let's quantify the difference to a borrower taking out a 30 year fixed rate loan of \$625,500 (currently a jumbo loan) based on today's rates. The jumbo rate is around 6.500% and the conforming is 6.125%.

That translates into monthly payments of \$3,953.59 for a jumbo and \$3,800.60 for the hoped for conforming – a difference of \$153 (rounded) per month.

We all agree that a conforming limit of \$625,500 would be logical for the San Francisco Bay Area and helpful for homeowners and home buyers, so what can we do about it? Write your United States Senators, and write the Senators of the opposing party.

Since Congress is having great difficulty agreeing on pretty much anything, perhaps this "no-brainer" issue would have great appeal. Not that we want to encourage them to abandon the more vital issues facing the country, but this is an issue that should easily pass.

Who knows, if this meaningful and helpful legislation were to be passed on a non-partisan basis, perhaps Congress would be emboldened to treat other issues in the same non-partisan fashion. And that would indeed be a nice gift to all of us.

So, if this proposed change seems logical and helpful to you, write the Senators.

Today would be a good day to do that.

Rates shown are effective 9:00 AM the above date for a 30 day lock, zero points, and for a purchase loan. Rates can change without prior notice. Arrows show a one week trend. Diversified Capital Funding is a broker licensed by the California Department of Real Estate. License #01258060.