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New limits on mortgage size likely to affect high-end home prices in D.C. area

By Dina ElBoghdady and Dan Keating, Published: June 26

Mortgages for the Washington area's priciest homes are about to get more expensive.

This fall, the government is scheduled to stop backing loans of more than $625,500, making them subject to higher interest rates and down payments. The change could drag down home prices, especially in upscale neighborhoods, and deliver yet another blow to the faltering housing market.

The loan limit — down from $729,750 — would have affected about 40 percent of mortgages made in Great Falls if it were in place last year and more than 20 percent of the loans made in expensive areas such as Bethesda, McLean, Chevy Chase, Dunn Loring, Potomac, Fairfax Station and Upper Northwest Washington, according to a Washington Post analysis of data from LPS Applied Analytics.

Unless Congress acts soon, the change will kick in Oct. 1. But the effects will be felt before then. Borrowers who want to beat the deadline should apply by mid-July because it can take months to process mortgages these days, industry experts said.

When it comes to large loans, "the time for the dirt-cheap mortgage may be running out," said Keith Gumbinger, a vice president at mortgage research firm HSH Associates.
If the loan limit is lowered, buyers trying to get into the pricey neighborhoods may be forced to stay put or scale back their aspirations. Owners of more expensive homes would have a harder time selling. And refinancing may no longer make sense for some homeowners, analysts said.

Heather King and her husband, Rick Yost**,** learned of the deadline this month. They are rushing to put their Dupont Circle condominium on the market next month instead of September. They recently had a baby, and they want a larger home in the suburbs. But they need to sell before they can buy.

If they took out a $729,750 mortgage and put down 10 percent, they could afford the $810,000 house they've been eyeing in Alexandria, said Brian Martucci, their mortgage broker. But come October, a mortgage of that size cannot be guaranteed by the federal government, thrusting it into the "jumbo mortgage" category. Jumbos generally require at least 20 percent down — or, in this couple's case, $162,000 — and their rates can be about half a percentage point higher.

Even with more money down, they would still have to pay a higher interest rate and set aside enough cash to cover six months of payments, instead of two, Martucci said. "They'd have to settle for a less expensive home," he said.

King figures that anyone looking to buy their high-end condo could face similar constraints. "We think we could be hit on both sides as sellers and buyers," she said.
The current loan limits were put in place temporarily in 2008, when rattled investors stopped buying jumbo mortgages. Instead, they turned to loans that were guaranteed by

Fannie Mae, Freddie Mac or the Federal Housing Administration so the government would cover their losses. At the time, Fannie and Freddie did not buy loans that exceeded $417,000, and the FHA capped its loans at $362,790. Rates on loans larger than that, or jumbos, shot up.

To help lower borrowing costs, the government temporarily raised the limit for 30-year fixed-rate mortgages the government would guarantee to $729,750 on single-family homes in the nation's most expensive counties. The cap expired in 2009 and briefly fell to $625,500 for a few months. But the higher limit has been reinstated and renewed twice since then.

Rockville builder Marty Mitchell said some in the industry were counting on the higher loan limits to stay in place until the housing market stabilized. "What we've been finding for the last couple of years is that the new home builders have been building to that $729,750 level," Mitchell said. "The hope was that Congress would have the wisdom to extend these limits again, given how fragile the market is."

But Congress appears ready to stick to the October expiration date, and the Obama administration supported that position in a paper submitted to Congress this year. The move was part of an effort to scale back the government's outsize role in the nation's housing finance system and lure the private sector back to the lending arena.

Former FHA commissioner David Stevens, who took part in shaping that paper, said the administration's support for allowing the loan limit to fall was "responsible at the time" because the housing market appeared to be recovering. But since then, the housing market has taken several blows: Existing home sales reached a low for the year in May, and prices have been sliding in most major metropolitan areas.

"I don't think anyone anticipated some of the numbers that are pointing to further softening of the housing market and with no signs of improvement for the foreseeable future," said Stevens, who is president of the Mortgage Bankers Association. "This is, unfortunately, an awkward time to be scaling back."

If the lower loan limit had been in place last year, it would have affected about 7,000 loans made in the Washington region, LPS data show.

The impact will be felt beyond high-cost areas. Hundreds of other counties across the nation are also going to see the size of federally backed mortgages in their areas shrink, with declines ranging from $500 in one Colorado county to $246,750 in Monterey County, Calif., for loans guaranteed by Fannie and Freddie. One industry group is preparing to lobby against these changes.

The National Association of Realtors is flying in some of its members for face-to-face meetings with congressional lawmakers next month. It's also asking its nearly 1 million members to write to their congressional representatives. Meanwhile, some House lawmakers, who represent areas with pricey housing markets, have not lost hope.
But Rep. Brad Sherman (D-Calif.), who co-wrote a bill that would extend the larger loan limits permanently, said, "Bottom line: If you are going to buy or refinance, get it done by September 30 if at all possible."