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### Feeling the chill; Buyers expecting the same old lending terms get a frosty reception.

[HOME EDITION]

Los Angeles Times - Los Angeles, Calif.

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#### Document Text

PETER LEPORE and Cathy Tieri-Lepore began looking for a home three years ago when it was just the two of them. Today the Santa Monica couple are the parents of a 2-year-old. And they're still looking.

In the early days of their search, they were regularly outbid on properties, and the pickings were slim. Then, as homes on the market became abundant, the sub-prime meltdown led to tightened lending even for credit-worthy borrowers, including shoppers in their price range who needed so-called "jumbo" loans above \$417,000.

Complicating matters, spooked lenders recently started to shun these larger deals that, according to Andrew LePage, an analyst with DataQuick Information Systems, accounted for almost 40% of purchase loans in Southern California in the first seven months of 2007. Last month, Southland home sales dropped to their lowest level for any August since 1992 as buyers, sellers and lenders held back in the uncertain market and deals slowed or stalled.

Now some lenders are starting to drift back, but the rules have changed for borrowers: They need much brighter credit scores, a fuller financial profile and larger down payments. Plus, buyers can expect to pay higher interest rates than they did just a few months ago.

Among the changes, many lenders have backed away from 100% financing; when it is still offered, the terms are much more restrictive.

"I like to tell people that 90[%] is the new 100," said Barry Kaye, a Beverly Hills-based mortgage industry consultant. And the deposit needed on a loan of up to \$1 million has gone from 5% to 10% in the last year, he said, assuming the borrower meets the new lending criteria. The changes are being felt largely by those seeking homes costing roughly between \$800,000 and \$2 million, he added.

Credit tightening at the jumbo end of the market, said Margaret Gazey, a consultant with Re/Max All Cities Realty in Los Angeles, means agents are having to learn "different ways of putting deals together."

Strategies can include sellers paying points to buy down the buyer's interest rate, making deals contingent on buyers first selling their homes, or even more modest incentives such as paying off homeowner association fees, she said.

A number of loan programs, once widely available, have disappeared or now require larger down payments, higher credit scores and more thorough income and asset documentation, said Ed Craine, vice president for the California Assn. of Mortgage Brokers. "Some people have found the original loan they qualified for no longer exists."

But it is still possible to borrow -- though that may require a little extra legwork.

Lepore and Tieri-Lepore, who own two eateries in Santa Monica, said they love the beach lifestyle, so they have mostly been looking at \$1-million to \$1.5-million properties between Lincoln Boulevard and the ocean.

Revisiting loan options

After recent meetings with loan officers at Countrywide Financial and First Federal, Tieri-Lepore is weighing their current options and leaning toward a five-year, interest-only, adjustable-rate mortgage.

Thanks to credit scores in the 800s and the ability to plunk down a deposit of between 20% and 40%, the couple's interest rate would likely be about 5.6% with a possible minimum payment equivalent to about 4%.

"It's definitely more expensive to borrow now," said Tieri-Lepore, though she believes buying is the right move based on her confidence that Santa Monica property will continue to appreciate.

As home buyers and sellers ponder what to do next in today's volatile real estate and money markets, the conflicting opinions of industry professionals may not offer much help.

**"Things are in a pretty bad way right now," said Brian Martucci, head of online mortgage broker GetLoans.com, who believes the situation will become much worse before it gets better.**

Martucci, based in Washington, D.C., sees more lenders going out of business and a growing supply of homes as a result of foreclosures, developers who overbuilt and buyers who can't find financing.

He predicts it could be another year until the full extent of the foreclosure crisis is known and even longer before the lending market regains its momentum. "There's a lot of unwinding to come. We're all heading for the same pain."

Locally, Gary Bluman, owner and president of Real Estate Resources, based in Brentwood, takes a more sanguine view.

"We're telling our clients that based on history, values will come back and that now is a good time to buy for the long term," he said. "We're not expecting a big slump."

Jennifer Albovias, sales associate with Century 21 Diamond Realty and Penco Financial, in Diamond Bar, is another who sees a silver lining in the problems now faced by lenders.

She welcomes the return to "some kind of sanity" after a period of several years in which she said real estate agents, brokers, bankers and others were indiscriminately helping to arrange loans for anyone with "a pulse and a Social Security number."

"We couldn't keep on at the pace we were going. That wasn't good for anybody. Now it's a question of finding a happy medium. That's going to be a challenge for a little while."

Steve Miller, branch sales manager at the Re/Max Brentwood office, does not think Southern California's pricey market offers any special protection. "Los Angeles is not immune to the craziness we're seeing around the country," he said.

Miller predicts more problems ahead as many short-term, custom loans come up for renewal, the number of foreclosures and "short sales" -- in which owners sell at a loss to avoid foreclosure -- increases and prices slide further.

Leon Hunting, a San Francisco broker and former mortgage brokers association president, said volatility in the home-loan market has increasingly been an issue since March.

Confusion and uncertainty

"The underwriting guidelines started changing then, sometimes more than once a day," he said, creating confusion and uncertainty among buyers and their agents. Hunting predicts those conditions will continue as a credit squeeze drags on for several more months.

Loan qualification guidelines have tightened up so much that it is now more difficult for borrowers to get the same-sized loan than it was a year ago, with lenders taking a harder look at credit scores, documentable income and deposits.

But a less borrower-friendly environment has failed to dim the long-term optimism of James Minor and his partner, Gino DePercifield, who are looking to move out of their Placentia condo and into a larger, single-family home closer to central or south Orange County.

Though they have enough cash for a down payment, Minor said they prefer to use spare funds to upgrade what they buy; so instead they are holding out for a 100% mortgage on a home in the \$550,000-to- \$650,000 range.

It was just such a zero-down loan that eased Minor into the condo two years ago. And today, now that he has a higher salary at his job with a credit-card processing company in Irvine, he feels even better qualified.

Although these deals were easy to come by until a matter of months ago, Minor said there's nothing like that out there right now. "But that's OK. We've only just started looking, and we're not in a hurry. We're prepared to wait and see."

In fact, even if they found the perfect house next week, he said, they would pass on it if they could not get a 100% loan.

Credit: Special to The Times

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