

Doron F. Eghbali Real Estate Law

Probably, Getting a Jumbo Loan to Get Tougher

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Government support for relatively exorbitant mortgages backed by Fannie Mae and Freddie Mac are set to expire at the end of this year, unless Congress acts. Let us further analyze the implications of this eventuality.

SOME BACKGROUND

The US government in the midst of the financial crisis, to bolster the rapidly deteriorating housing sector instituted some remedies. One of those palliative remedies was an increase in the amount of jumbo loans, government-backed entities, Fannie and Freddie could guaranty from up to to \$729,750.

SOME OF THE *PROBABLE* RAMIFICATIONS

1. TOUGHER TO QUALIFY FOR LOANS IN SOME AREAS

Since the government will no longer guaranty loans up to \$729,750, banks seek to minimize their risks by further tightening loan spigots through relatively stringent requirements. This means in some parts of the country especially high-class areas it would certainly be harder to purchase a residential property, let alone commercial property, because of the prevailing average prices in those areas

2. FURTHER DROP IN HOUSING PRICES IN SOME AREAS

The paradox of this action or inaction by lawmakers would be a further drop in housing prices in high-end residential areas. According to the Federal Housing Administration (FHA), the relatively larger loans backed by FHA have higher delinquency rates. In fact, based on the latest FHA figures, the larger the homes the farther they have fallen.

3. FURTHER REQUIREMENTS OF 750 CREDIT SCORE AND 20% DOWN PAYMENT

The other implication would be for purchasers to come up with the money they no longer cannot secure from Fannie and Freddie. This would force buyers to pay relatively exorbitant interests while face the specter of ever higher credit scores above 750 or so. This point is very important since while usually jumbo loans carry a higher interest than conforming loans, this spread has radically narrowed recently AS interest rates have fallen. In addition, borrowers would have to come up with at least 20% down-payment before even being considered. This confluence of factors would further complicate any rebound in housing sector.

SOME OTHER OBSERVATIONS

Some observers have noted this is the right time to unwind governmental help to the housing market for the following reasons:

- House Prices Have Fallen
- Mortgage Prices Have Fallen; and
- Private Lenders Are Relatively in a Better Shape.

However, this line of reasoning fails to indicate although the prices have fallen, people still cannot buy because of still stringent home-loan requirements and relatively high unemployment. In fact, home prices fell by 0.5 percent in July from the previous month on a seasonally-adjusted basis, according to the Federal Housing Agency's home-price index.

SOME PROBABLE CAUTIOUS OPTIMISM

Obama Administration has indicated their tentative support to extend this program for another year. However, in this bitter partisan environment with mid-term elections looming, there is no certainty.

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