

President Bush Signs Stimulus Bill to Increase Mortgage Limits

President Bush signed into law HR 5140, the Economic Stimulus Act of 2008, raising the conforming loan limit for mortgages eligible for purchase or guarantee by Fannie and Freddie to 125% of the median home price in high-cost areas, not to exceed \$729,750. **In areas not designated as high-cost markets, like Illinois, the conforming loan limit will remain \$417,000. The new FHA loan limit is approximately \$343,000.**

The stimulus bill also increases the upper limit for FHA loan guarantee programs in high-cost markets -- currently \$372,790 -- to 125% of the median home price, with an upper limit of \$729,750. The upper limit for FHA-backed mortgages in "normal" housing markets will be increased from \$200,160 to \$271,050.

The stimulus bill gives the Secretary of Housing and Urban Development 30 days to publish area median prices and loan limits. But federal regulators have said it will take longer for Fannie and Freddie to draft new credit guidelines and update their systems to evaluate what are now considered "jumbo" loans.

The law also prevents Fannie and Freddie from buying loans above the \$417,000 limit made before July 1, 2007. That provision would let borrowers with older loans refinance into loans that would be sold to Fannie and Freddie, because those loans would be considered new loans. Groups representing Realtors, bankers and home builders, who have been hit hard by the downturn, have been lobbying hard for increases in the Fannie and Freddie limits.

Still, the impact of the changes may take several months to be felt in the market, said Doug Duncan, chief economist at the Mortgage Bankers Association. Investors are working out whether loans above \$417,000 will be packaged together as securities with loans below that limit or treated separately. Also, Duncan said, investors will want to study default levels on loans above \$417,000, and prices could reflect a higher level of risk until that is known.

The impact of the Federal Housing Administration change is likely to be smaller. The Congressional Budget Office estimated the agency could back \$10 billion in additional loan guarantees through 2008 with higher limits - a tiny fraction of the more than \$2 trillion in new loans made in 2007.

While economists call these changes positive, they are not a quick fix for the industry's problems. Home prices are falling, lenders have become more cautious about extending credit and investors worldwide remain leery of the U.S. market amid soaring losses on mortgage-linked investments. "Congress and the president want to show that they're doing something about housing," said Nariman Behraves, chief economist at Global Insight. In the short term, he said, "the overall effect of this, we think, is going to be fairly small."

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