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Rising Jumbo Rates Deal Another Blow To Housing Market

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Rising interest rates on jumbo home loans are hitting wealthier borrowers and could take down the healthiest part of the sickly housing market, analysts said.

The average rate on a 30-year fixed jumbo loan stands at 7.4%, well above the 6.47% at the start of the year, according to Bankrate.com. That adds nearly \$300 to monthly payments on a \$500,000 loan.

The spread vs. conventional 30-year fixed loans has risen to 82 basis points, from 23 basis points at the start of July. Rates vary by region, from 7.87% on average in New York to 7.62% in Los Angeles and 7.2% in Philadelphia, according to Bankrate.com.

Jumbo loans are mortgages that exceed \$417,000 in most states -- \$625,000 in Alaska and Hawaii due to higher housing costs there.

They tend to have higher interest rates than "conforming" loans that can be guaranteed by government-backed Freddie Mac (NYSE:FRE) fre and Fannie Mae (NYSE:FNM PRJ) (NYSE:FNM PRF) (NYSE:FNM PRI) (NYSE:FNM PRL) (NYSE:FNM PRH) (NYSE:FNM PRN) (NYSE:FNM PRM) (NYSE:FNM) fnm. But the size of the spread is highly unusual.

Until recently, high-priced markets largely had been untouched by the crisis sparked by soaring defaults on loans to borrowers with poor credit.

But mortgage lenders are having difficulty selling loans to Wall Street banks and other investors, depriving them of the cash and credit they need to fund new loans. That has pushed more lenders into bankruptcy and deprived would-be homeowners of loans.

Many remaining mortgage lenders have stopped offering subprime and other nonconforming loans like jumbos, raised rates on such loans and made it harder even for sound borrowers to get credit.

"It's not like they don't want to make loans but they're concerned about how it will affect their own financials," said Doug Duncan, chief economist at the Mortgage Bankers Association. Raising rates on jumbo loans is "a move to protect balance sheets and income statements."

Subprime loan defaults are dumping more houses onto the market and eroding home prices, especially at the low end. Analysts say higher jumbo rates could hit pricier states such as California and Florida especially hard.

"If jumbo rates stay higher for a couple months, that could have an additional adverse affect on the higher-priced markets," said William Wheaton, a professor of economics and real estate at the Massachusetts Institute of Technology.

Toll Bros. tol on Wednesday said third-quarter net profit dropped 85% as stricter lending standards hurt luxury home sales.

"During this downturn, we have experienced a much higher rate of cancellations than at any time in our 21-year history as a public company," Chairman and CEO Robert Toll said in a statement.

"Mortgage-market liquidity issues and higher borrowing rates may impede some customers from closing, while others may find it more difficult to sell their existing homes," Toll said.

WCI Communities wci, another high-end builder, on Wednesday reported a net loss in the second quarter.

Not all the news is bad. IndyMac imb said Wednesday that it is returning to the prime jumbo market.

But Countrywide, facing its own funding woes, said last Friday that it is going to focus almost entirely on conforming loans.

To ease the credit crunch, Democrats have been pushing for an increase to the conforming loan limit as well as an increase to the total value of loans that Freddie and Fannie can hold in their portfolios. They say such changes would inject much-needed cash into the market for mortgage-backed securities, helping to jump-start lending.

The House passed a bill in May that would raise the ceiling on conforming loans.

Rep. **Barney Frank**, D-Mass, head of the House Financial Services Committee, has urged the Senate to act

as well.

"It's very important for the Senate to pick up the bill," said Frank, who has scheduled a hearing on Sept. 5 to examine credit market woes.

Senate Banking Committee Chairman **Christopher Dodd**, D-Conn., also plans hearings when lawmakers return from their summer recess.

On Tuesday, Dodd met with Federal Reserve chief **Ben Bernanke** and Treasury Secretary Henry Paulson about steps to keep the lending spigot open.

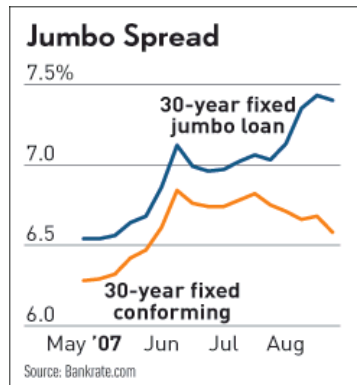
Dodd said he was "disappointed" that Paulson was reluctant to lift the mortgage portfolio limits on Fannie Mae and Freddie Mac.

The Bush administration earlier this month rejected Fannie's bid to boost its portfolio above the current \$727 billion limit.

Some say it's not clear that letting Freddie and Fannie buy bigger or more mortgages would be enough to ease the credit squeeze.

Many investors thought they were safe buying mortgage-backed securities that carried AAA ratings, only to find out that the collateral often contained toxic subprime loans. Now they're gun-shy.

"The real answer is the restoration of confidence among global investors," Duncan said.



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