

MORTGAGES

A Word From the Naysayers

By **BOB TEDESCHI**

THE federal economic stimulus package signed last month has started to take effect for mortgages, and the results for borrowers in the New York area are not encouraging. While more homeowners are eligible for bigger loans than were initially expected, they are not yet getting a meaningful break on interest rates, dampening hopes that the plan would give the housing market an immediate boost.

The stimulus plan lifted the size limits for loans eligible for purchase by Fannie Mae and Freddie Mac, two government-sponsored companies that resell packages of loans to investors. Previously, only mortgages below \$417,000 qualified as so-called conforming loans.

Mortgage executives had believed the new limits would reach about \$650,000 in the greater New York area, but earlier this month the government said loans below \$708,750 for Fairfield County, Conn., and loans below \$729,750 elsewhere in the New York City area would qualify.

Fannie Mae and Freddie Mac set relatively strict standards that banks must use to screen borrowers for these mortgages, thus building a safer package of loans to sell to investors. That, plus the guarantee that Fannie

Mae and Freddie Mac will buy the loans, helps keep rates on these mortgages low.

But when banks began actually accepting applications for the loans in recent weeks, investors who will buy the loans from Fannie Mae and Freddie Mac appeared a bit gun-shy, apparently because they believe the bigger loans will be less lucrative in the long run. The result? Rates on the new "jumbo conforming" mortgages were five-eighths to three-quarters of a percentage point higher than on the smaller

loans.

"This will be a big disappointment for consumers who were hoping to see rates the same or close to conforming," said Penn Johnson, president of the Stamford Mortgage Company, a Connecticut mortgage broker.

Mr. Johnson said that around March 20, banks like Chase and Wells Fargo were offering mortgages at 6 percent for conforming loans, while rates on jumbo conforming mortgages were at least 6.75 percent. Loans above \$708,750, he said, carried interest

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rates of 7 percent.

Mr. Johnson and other lenders said they would continue directing borrowers who wanted bigger loans to savings banks. They

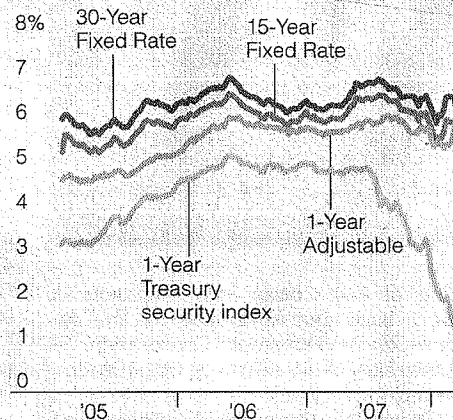
often keep mortgages on their own books, rather than selling them to investors, so they can make loans under their own underwriting standards.

Rates on \$700,000 loans from savings banks in late March were about 5.5 percent, but they were also more difficult for borrowers to get. In some cases, only those with more than 30 percent equity in their homes could qualify.

"Right now, the mortgage portion of the stimulus package is totally useless," said Daniel Shlufman, president of the FCMC Mortgage Corporation in Clifton, N.J. "And if rates don't drop by May 1" — when many buyers will want their financing lined up, he believes — "it's not going to help the purchase market at all."

The refinancing market could possibly flourish, Mr. Shlufman said, if rates dropped to about 6.25 percent. "And I do believe the rates will come down," he said. "Something's got to give."

Frank Sillman, chief executive of the IndyMac Mortgage Bank in Pasadena, Calif., said he, too, believed that lower rates might be on the way and that Fannie Mae and Freddie Mac might ultimately buy and hold more large mortgages. "Obviously, we're in a market where the supply and demand for mortgages is out of whack," he said.



Rates shown are for the New York region.

Source: HSH Associates

	Week ended:	N.Y.	N.Y. CO-OPS	N.J.	CONN.
30-YEAR	Mar. 21	6.34%	6.23%	6.16%	6.48%
	Mar. 14	6.61	6.39	6.37	6.68
15-YEAR	Mar. 21	5.78%	5.73%	5.65%	5.81%
	Mar. 14	6.03	5.91	5.78	6.06
ADJUSTABLE	Mar. 21	6.17%	N.A.	5.52%	5.73%
	Mar. 14	5.81	N.A.	5.42	5.54
INDEX FOR ADJUSTABLE RATE MORTGAGES		Week ended	Mar. 21	1.35%	
1-year Treasury rate			Mar. 14	1.52	

Rates on most adjustable mortgages are set 2 or 3 percentage points above this index.

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