



FHA loan limits reduced by more than \$150k in SD

By **SAMANTHA HENRY**, The Daily Transcript
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The Federal Housing Administration reduced its maximum loan limits in San Diego County as of Jan. 1 – a change that was expected and had been delayed, and could eliminate a percentage of loans previously insured in this area, according to the president of the Greater San Diego Association of Realtors.

Leslie Kilpatrick said the size of mortgages that can qualify for insurance from the FHA was expected to drop with the expiration of stimulus legislation enacted during the Great Recession.

“The changes were expected and actually delayed,” Kilpatrick said in an email. “The higher limits were in place for six years, established by the Economic Stimulus Act of 2008 as emergency measures to assure that mortgage credit was widely available during a period of severely constrained private lending options. The lower loan limits under the Housing and Economic Recovery Act of 2008 were scheduled to take effect in January 2009. Because of the continuing constrains in credit markets, Congress delayed implementation several times.”

In San Diego County, the FHA loan limits was reduced from \$697,500 to \$546,250 as of Jan 1. Kilpatrick cited a paper from the Urban Institute, which states that this 22 percent drop would eliminate about 9.5 percent of the overall number of loans previously insured in this area.

“Last year an FHA borrower with a small down payment would have qualified for a home about \$100,000 more than the same FHA buyer would this year because of the reduced loan limit,” said Mark Goldman, professor at San Diego State University.

While the reduction may “squeeze out” some FHA buyers, Goldman said it’s not a big problem and there weren’t too many buyers at that price point to start with.

“Move-up buyers are most likely to be affected, especially if they do not have a strong equity position in the property they are selling or the cash reserves to supplement it,” Kilpatrick said. “Entry-level buyers will still have FHA as an option; however, all borrowers will need to establish their ability and likelihood to repay the loans. We expect the market to adjust to the new rules although efforts are being made by the National Association of Realtors and coalition partners to have the loan limits reconsidered.”

The new FHA loan limits are on par with Fannie Mae and Freddie Mac limits, Kilpatrick said.

“The changes were made because the housing and credit markets are continuing their recoveries – and because they were always part of the Housing and Economic Recovery Act,” Kilpatrick said.

The median price of a single-family detached home in San Diego is just under \$500,000, and the reduction in the FHA loan limit could possibly create a “ceiling on appreciation unless private money and portfolio lending create additional options for borrowers seeking to purchase at higher price points,” Kilpatrick said.

Kilpatrick said she’s seeing an increase in jumbo loan offerings, as is Goldman, who said it is a positive sign for the home financing market and in terms of investors’ willingness to take money off the sidelines.

“The lending community is responding now, which is a good sign,” Kilpatrick said.

Goldman said FHA is accepting lower credit scores into the 500s – which he said is a good thing.

“FHA continues to push the envelope of homeownership opportunities for borrowers who would be on the margins at this point for credit,” Goldman said. He added that FHA is also more lenient on debt-to-income ratios, but the

expense of the upfront mortgage insurance premium and monthly payment makes FHA mortgage insurance “considerably more expensive.”

FHA is the last of the “touchy-feely” loans, Goldman said. Good borrowers who have a compelling story can receive a more personal consideration for their case with an FHA loan than is possible with most conventional lenders, he said.

“Why pay extra for the mortgage insurance from FHA? In my mind, you can get an FHA loan where you otherwise would not get a conventional loan,” Goldman said.