

## **FOR IMMEDIATE RELEASE**

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# **CMPS Institute Responds to Passage of Economic Stimulus Package**

## *Understanding the Higher Loan Limits*

**ANN ARBOR, MI – February 15, 2007** – An economic stimulus package was signed into law by the President on February 13, 2007. This new law includes a temporary increase in both the FHA and conforming loan limits to as high as \$729,750 in high cost areas. “This means that the interest rates on many mortgages will go down because these loans are now eligible to be purchased by Fannie Mae and Freddie Mac or insured by the Federal Housing Administration”, said Gibran Nicholas, Chairman of the CMPS Institute, an industry leading organization that certifies mortgage professionals. Previously, the FHA was only allowed to insure loans with balances up to \$200,160 - \$362,790, depending on the county where the property was located. Also, Fannie Mae and Freddie Mac were only allowed to purchase loans with balances at or below \$417,000. This resulted in limited options and higher financing costs for those with loan balances above these limits. The new law substantially increases these limits in high cost areas, opening up new options and lowering the financing costs for many people.

## **How to Determine "High Cost" Areas**

There are two things you must know in order to determine if you are in a high cost area:

### **1. Understanding the Formula**

If 125% of the local area median home price exceeds \$417,000, the temporary loan limit would be that 125% of the median home price with a cap of \$729,750. Here are three examples to illustrate this concept:

- If the median home price in your area is \$225,000, 125% of that number is \$281,250. This is below the current \$417k conforming loan limit. Therefore, the conforming loan limit in your area will not change. However, if \$281,250 is greater than the FHA limit in your county, your FHA limit will go up to \$281,250.
- If the median home price in your area is \$375,000, 125% of that number is \$468,750. This is above the current \$417k conforming loan limit. Therefore, the conforming loan limit in your area WILL change and go up to \$468,750. This number is also higher than the highest FHA loan limits, so therefore your FHA loan limit will also go up to \$468,750.
- If the median home price in your area is \$650,000, 125% of that number is \$812,500. This number is greater than the maximum cap of \$729,250.

Therefore, the conforming loan limit in your area will increase to highest allowable amount under this new law which is \$729,250.

## **2. *Determining the Median Home Price in Your Area***

The Secretary of Housing and Urban Development (HUD) will publish the median house prices within 30 days of the bill going into effect (30 days from February 13, 2008). HUD does not have any interim stats or information.

### **What do all the dates mean?**

There is some confusion because the bill has a provision that says the higher limits are only effective for loans originated between July 1, 2007 and December 31, 2008. In short, the reason it is effective beginning July 1, 2007, is because the credit crisis started to unfold in July and August of 2007. Mortgage market conditions rapidly deteriorated almost overnight. Many secondary market investors suddenly refused to purchase loans that couldn't be sold to Fannie Mae and Freddie Mac.

Unfortunately, many mortgage banks had already funded these loans in their own portfolio or through their warehouse lines of credit. Their intention was obviously to sell these loans on the secondary market after the loans were funded. However, the credit crisis prevented them from doing so, and they were stuck holding these loans in their portfolio. The July 1, 2007 date in the bill is designed to allow these lenders to unload these mortgages and sell them on the secondary market to Fannie Mae and Freddie Mac.

However, the July 1, 2007 date has no bearing whatsoever on new refinance transactions! In other words, it doesn't matter when the loan you are refinancing was originated. The old loan could have been originated in 2005, 2006 or anytime before or after July 1, 2007 and it would have no effect whatsoever on your current purchase or refinance transaction. New loan transactions, whether purchases or refinances, will be subject to the new limits set forth in the bill.

The other date of December 31, 2008 means that the old limits will go back into effect after this year. In other words, now is the perfect time to buy a new home or refinance your mortgage because after this year, your costs will be higher and your options more limited again.

### **When does this all go into effect?**

Although the bill is effective immediately, HUD has 30 days to publish the median home price data that will be used to govern the new loan limits. Additionally, Fannie Mae, Freddie Mac, and various mortgage lenders may have different policies as to how these new loans are going to be priced and underwritten. That is why it is

imperative that you work with a Certified Mortgage Planning Specialist who is committed, qualified and equipped to give you timely information and expert guidance every step of the way. To find a CMPS professional in your area, please visit [www.CMPSInstitute.org](http://www.CMPSInstitute.org)

About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. The CMPS Institute was formed as a joint effort by leaders in the mortgage and financial planning industries to raise professional standards among mortgage professionals and integrate sound financial planning advice into the mortgage process. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors, regardless of the diversity of specializations within the industry. For more information or to locate a certified professional near you, please visit [www.CMPSInstitute.org](http://www.CMPSInstitute.org) or call 888.608.9800.

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