

Special Report



## Update: Where is my bail out?: *by Mitch Kossar, Broker, CIG Realty and Loans*

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Dear Friends, Colleagues and Clients:

It seems not a week goes by without a new government program, and clients are constantly asking for programs, that often, in the details, do not exist.

One is the elusive 4.5% interest rate. Even if Fannie Mae is willing to buy loans that inexpensively, it still has to sell the underlying bonds and may not get those rates UNLESS the Fed ends up buying the Fannie Mae notes (which we have a hunch they are). And even then, there is no guarantee that capital starved banks are willing to lend out at low rates even so, they may simply increase the rates and take the spread as extra profit (which they definitely are).

Still, rates are quite low for conforming loans, but not so low for what is no longer called "agency jumbo" but now referred to as "high balance" loans.

### High Balance Loans:

Many clients incorrectly think that since all the GSEs (Fannie/Freddie, etc) increased their limits to \$625,000 (soon to be \$729,000 again) in markets like San Francisco, that the rates they hear about apply to these loans. Loans over \$417,000 that qualify as high balance loans are generally 1 percentage point higher than conventional loans. As recently as last December this spread was only ¼ to ½ point.

On December 15<sup>th</sup>, Fannie Mae ruled that for pools of conforming loans, up to 10% of those loans could be high balance and still get conforming pricing, but beyond that 10%, pricing is uncertain. Since then, these loans have become much more expensive. CIG does have some sources that only charge a 3/8 point spread, but only very few lenders are providing good rates on these loans .

Our thought back in December was that the new administration would take action to tighten this spread to lubricate the housing market. The new administration HAS loosened up credit for those who behind on payments or are under water from an equity position, but not basic high balance loans. Although limits have returned to \$729,000, that is the only change.

We are not sure if they are going to do much more. This administration went a bit further "left" than we expected a few months ago when

centrist economists were being placed in high posts. Solid borrowers with equity in their homes are being left out.

So we are not certain if the spread between high balance and conforming will improve for those who are not 1) first time buyers 2) late on their payments or 3) have negative equity.

### Loan Modifications:

Which brings up the second questions we get: "Is there any bail out for me?" Besides the increase in "high balance" limits, this bill has made it easier to refinance folks with Fannie Mae backed loans that are up to 105% of the value of the home or for people who are behind on their payments and in trouble. For the first group of people, we are still waiting for the details, the programs have not been rolled out yet. Some of our clients are in this situation, and we will notify you as these programs become available.

For the second group of people, there is the opportunity for a loan modification. The recent bill creates incentives for banks to modify loans (A waste really, banks are already doing this). Banks calculate the ratio between your expenses and your current payment, and if your payment hits a "sweet spot" ... that is you are in pain but not TOO much pain, you may qualify.

There are professional services out there that work on loan modifications, or borrowers can do them by themselves if they have the time and patience. There are also HUD approved loan counselors (we keep hearing about how wonderful they are on NPR) who generally provide good advice but are NOT very good at follow through. The professional loan mod folks are getting a bad name partly because a lot of them are ex- sub prime loan officers.

So there are good and bad folks doing this, more bad than good, unfortunately. A good loan modification officer knows how to package your scenario and gets the nuances, just like a good mortgage broker knows how to package a loan. Ken Hui, at CIG, is our loan modification expert, and... I would like to humbly claim...is one of the good ones.

As the government changes the rules of the game, and clarity comes out of the fog, we will continue to keep you informed.

