

## Credit crunch? Mortgages still available

By [Holden Lewis](#) • Bankrate.com

 [Print](#)  [E-mail](#)

Mortgages are still available, despite talk of a credit crunch.

Qualified borrowers can find conforming and FHA-insured mortgages easily. Jumbo mortgages are more scarce, but available. Rates went up in the last week, which is another way of saying that credit is tighter. But the mortgage marketplace isn't frozen, at least in part because of federal intervention.

"There's almost no difference in the availability of money compared to a year ago, with the exception of jumbos," says Jim Sahnger, mortgage consultant with Palm Beach Financial Network in Stuart, Fla. "The main difference is that you have to provide documentation, such as W-2s, tax returns and bank statements. Welcome to the full-doc world."

Credit standards have been getting tighter all year, reducing the number of people who qualify for loans. It's hard to quantify how many people have been disqualified merely because of [more strict lending standards](#).

As Sahnger mentioned, one prominent change has to do with documentation of income. A year or two ago, a borrower with an excellent credit history and no change in employment might have been able to refinance a mortgage without having to provide proof of income -- even on a full-documentation loan. Those days are gone, mortgage lenders say. Bring in W-2 forms or income tax statements, or get turned down for a loan.

### Borrowers need better qualifications

The income-documentation requirement is part of a yearlong trend in which mortgage insurers and Fannie Mae and Freddie Mac have added fees and restrictions, little by little. Each change knocked a few more people from the ranks of qualifying borrowers.

Take the mortgage insurers, who protect lenders from the costs of borrower default when borrowers make down payments of less than 20 percent. Last year, the mortgage insurance companies began publishing lists of "restricted markets," where home prices are declining. Borrowers have to make bigger down payments and have higher credit scores to get mortgage insurance in restricted markets.

The mortgage insurers have tightened the screws slowly, adding cities and states to the lists of restricted markets and increasing requirements. In the latest example, Mortgage Guaranty Insurance Corp. recently boosted the minimum credit score needed to buy a house in a restricted market. In August, the minimum score was 680. Beginning in October, the minimum score will be 700.

At the same time, MGIC tinkered with down payments on second homes. In August, you could buy a second home in a restricted market with a 5 percent down payment. Starting in October, that same home requires a 10 percent down payment.

### Fannie, Freddie and fees

Mortgage financing giants Fannie Mae and Freddie Mac have been adding restrictions, too. Before they were taken over by the federal government in early September, Fannie and Freddie had been on a months-long campaign of [adding fees](#) that were then passed along to borrowers either directly or through higher mortgage rates. The Fannie terminology for these fees was "loan level price adjustment."

[Next: "It's not all good news."](#)

Page | 1 | 2 | 

## Credit crunch? Mortgages still available

Page | 1 | 2 |

 [Print](#)  [E-mail](#)

That trend might reverse soon, courtesy of the federal government. James Lockhart heads the Federal Housing Finance Agency, which now oversees Fannie and Freddie. He told Congress this week that the mortgage finance companies' mission to support affordable housing "had been impaired," partly because of the added fees that had made mortgages more expensive.

In a sign that he wants to rescind some of those fees, Lockhart told the Senate Banking Committee that he has instructed the new heads of Fannie and Freddie "to examine the underwriting standards and pricing. They have begun to do so, and I expect any changes to reflect both safe and sound business strategy and attentiveness to the Enterprise's mission."

### Jumbos are scarce

It's not all good news. The marketplace for jumbo mortgages has been in disarray for more than a year now, and it isn't getting better. Jumbo rates are higher than rates on conforming loans (mortgages of \$417,000 or less).

"Jumbos are harder to get. To me, that market is scarce," says Bob Walters, chief economist for Quicken Loans. If there are any jumbo deals to be had, they come from banks and thrifts that keep the loans instead of selling them on the moribund jumbo secondary market.

"Jumbo still exists, but in a horrifying format," says Dick Lepre, senior loan consultant with Residential Pacific Mortgage in San Francisco. A few lenders offer 30-year, fixed-rate jumbos at 8 percent or more. That rate is too high for today's borrowers. For jumbos, "the most common thing that we do is a 5/1" adjustable-rate mortgage, Lepre says.

Early this week, a 5/1 jumbo ARM was available from Lepre at a starting rate of 6.375 percent, with a one-year prepayment penalty. To qualify, the borrower had to have good credit and "fairly strong reserves" -- as much as 12 months' worth of house payments in readily available savings. That loan was from Union Bank of California, a regional bank based in Los Angeles.

At the same time, Citi was charging more than 9 percent on a 5/1 jumbo ARM -- plus more than 2 discount points. Chase was charging high rates, too. "Citi and Chase just don't have any appetite for jumbo loans right now," Sahnger says.

Lepre and Sahnger are brokers, and they say brokers are the best source for jumbo loans because they have access to the reduced number of lenders that are offering them at affordable rates.

[Bankrate.com's corrections policy](#)

-- Posted: Sept. 25, 2008

 [Create a news alert for "mortgage"](#)

Page | 1 | 2 | 

#### RESOURCES

- [Fannie, Freddie fees boost mortgage cost](#)
- [Lenders and mortgage insurers pull back](#)
- [Mortgage Matters blog](#)

#### TOP MORTGAGE STORIES

- [Renting your home carries risks](#)
- [Terminating a verbal contract](#)
- [FAQ: Paulson bailout plan and mortgages](#)