

# Conforming Loan Limits are Blasing Off!



**Buckle Up!** 2006 is going to start the year with a BLAST OFF! Fannie Mae and Freddie Mac have announced the new "conforming" loan limits that will become effective January 1st, 2006. The increases in the loan limits is expected to add fuel to the economy and boost home sales within California and around the United States in 2006. Fannie Mae estimated in a press release that next year alone, as many as 466,326 additional homeowners would be eligible for a conforming loan! Let's take a look at the changes and explain what all of this means to you! Below are the old and new loan limits:

	<b>Conforming Loan Limits</b>	
	<b>New Limits</b>	<b>Old Limits</b>
<b>Single Family Home</b>	<b>\$417,000</b>	<b>\$359,560</b>
<b>Two Units</b>	<b>\$533,850</b>	<b>\$460,400</b>
<b>Three Units</b>	<b>\$645,300</b>	<b>\$556,500</b>
<b>4 Units</b>	<b>\$801,950</b>	<b>\$691,600</b>

**The limit on a conforming second mortgage was raised from \$179,825 to \$208,500.**

You may be saying to yourself, "Ok, but what does all of this mean to me?" I'll explain. Most borrowers will be affected by the single family home category, since most of us live in a single family residence. Investors are affected by the 2-4 unit categories, when they own investment properties that are usually rentals. If you look at the difference between the old limit and the new limit on a single family home, the difference is a staggering 16%! This is the largest increase in over 25 years, and should provide a boost to the real estate market, which has been showing signs of cooling off. Rest assure, this will definatly help!

## **What are conforming loan limits and who are Fannie Mae and Freddie Mac?**

Conforming loan limits pertain to loans that are purchased by Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). These are government-sponsored, federally chartered, New York Stock Exchange public companies, who are the largest purchasers of mortgages in the United States.

### **Impact on homebuyers in 2006:**

The rates on loans that "conform" to Fannie Mae or Freddie Mac guidelines are one-quarter to five-eighths percent lower than larger loans that are considered to be "non-conforming" or jumbo loans. On a \$417,000 mortgage, that would result in a monthly savings of \$67.80 a month, when computed at a 6.125 percent interest rate versus 6.375 percent. Over the life of the loan, the savings would be over \$24,000!

### **Impact on current homeowners in 2006:**

Current home owners will now have more options. Because of the large price increases over the past year in California, many borrowers have taken out a second mortgage. However, the interest on the smaller second loans is typically tied to the prime rate, which has risen to 7 percent from 5.25 percent in late 2004. The higher conforming loan limits will prompt some people to refinance and roll both of their mortgages into a single, fixed rate loan. This strategy could save borrowers thousands of dollars!

Although these changes will not go into affect until January 1st, lenders are raising their limits now! By the time a loan goes through the process, the loan will be ready to sell off to Fannie Mae and Freddie Mac in January. This means that you can begin to take advantage of the changes now! Check with you professional lender and see what the impact could be on your financial future. You may find that the savings to your wallet are substantial.

## California's Future?

In October, the California Association of Mortgage Brokers (CAMB) lobbied to insert language in a bill that would increase the loan limits in high cost areas of California to 150% of the nationwide averages above. H.R. 1461 was approved by the House of Representatives in October. CAMB considers this a major victory in Congress. The bill now has to be approved by the Senate. Most likely, the bill won't be considered until the early to mid part of 2006.



By: Scott Gormley  
Broker/Owner  
Oak Valley Mortgage  
Direct: 530.592.8362  
Fax: 530.267.5555  
email: [Scott@OakValleyMortgage.com](mailto:Scott@OakValleyMortgage.com)  
Website: <http://www.OakValleyMortgage.com>