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Buying Homes in Today's Pricier Areas

If you are a prospective homebuyer in one of the nation's pricier areas, there is some good news and there is some bad news. The bad news is that it is extremely difficult to acquire a jumbo loan in today's market. The good news though, is that prices will likely fall in the coming months, making it easier to get financing in the future.

Here's the situation: The rising foreclosure rates among subprime or poor credit borrowers has led to losses for investors on the secondary market. Those investors are now being much more cautious with their money. They are shunning bonds made up of any type of loan riskier than conventional Fannie Mae and Freddie Mac-approved mortgages. That means that the non-conforming jumbo loans (over \$417,000) essential for buying along the country's coasts have lost a lot of popularity among investors.

Now that lenders cannot sell those loans as readily on the secondary market, they are not making them as frequently. When they do, the rates and terms are very prohibitive. In fact, the average rate on a 30-year fixed-rate jumbo loan has risen to about 7 percent, up a whole percentage point since March.

That is pretty bad news if you are planning to buy in one of the 11 U.S. metropolitan areas with a median home price above \$417,000. Included in that count are the California markets of San Jose, San Francisco, San Diego, Los Angeles, and Orange County, as well as the Honolulu market. Along the East Coast, New York City, northern New Jersey, southern Connecticut, Long Island, and the Washington D.C. metropolitan region have median home prices above the conventional limit.

Here's where the good news comes in though. "Investors have just vanished," said Douglas Duncan, chief economist at the Mortgage Bankers Association. "It will reduce the number of sales and that may well bring prices down."

Mark Zandi of Moody's Economy.com agrees. "All of those housing markets will be under pressure as it has become more difficult to get a jumbo loan," Zandi said.

Indeed sales are falling in these high-priced areas. In July, San Francisco saw its slowest sales pace in over 12 years. In the D.C. area, homes stay on the market twice as long as they did during the housing boom.

Zandi predicts that as a result of the faltering sales, home prices in the most expensive markets may drop up to 11 percent by the end of 2011. And prices have already started to fall. Boston's median home price declined 2 percent during the last quarter, while the Orange County and San Diego, Calif. Markets have seen price decreases since the third quarter of 2006.

So, what this means for you is that you should wait if you can wait. Holding off a couple of years while you save up more for a down payment will mean getting a better price on a home as well as better terms on your financing. But if you can't wait, be prepared to offer your lender a huge down payment and an excellent credit score. If you can't do that, you may be forced to wait anyway for prices to come down.