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Change in lending rules could make big mortgages harder to find on North Coast

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Buyers of upscale homes on the North Coast and other high-cost areas could find it harder to get a loan this fall — and pay more for their mortgage.

Rules that temporarily increased limits on the size of loans backed by the federal government since 2008 are scheduled to expire on Oct. 1, triggering a debate about the potential impact on the region's housing market.

The changes will reduce the maximum size of mortgages backed by the Federal Housing Administration and the government-sponsored entities, Fannie Mae and Freddie Mac.

The California Association of Realtors and other groups are urging Congress to extend the current conforming loan limits, arguing that the pending changes would make lending more difficult.

But local loan officers and real estate agents have mixed views on the possible impact. Most agree the vast majority of homes on the market in Sonoma, Mendocino and Lake counties would still be eligible for federal mortgage guarantees.

"I don't think it's going to affect us all that much," said Mike Kelly, an agent with Keller Williams in Santa Rosa.

Three years ago, the federal government raised the limit on the mortgages it guarantees to as much as $729,750 in California and other high-cost states.

The change resulted in maximum loan limits of $662,500 for Sonoma County and $512,500 for Mendocino County. Lake County received a maximum amount of $401,250 for FHA loans only.

Unless Congress acts, Sonoma County's limit this fall will drop to $520,950. Lake County's limit for FHA loans will fall to $271,050. Mendocino County's limit will drop to $373,750 for FHA loans and $417,000 for other federally-backed loans.

About 9 percent of homes sold in Sonoma County would no longer be eligible for FHA loans, said Robert Kleinhenz, deputy chief economist for the California Association of Realtors. About 8 percent of the county's homes would no longer be eligible for guarantees from Fannie Mae and Freddie Mac.

Borrowers in this price range would have to seek other types of mortgages, typically jumbo loans, that often come with higher costs and larger down payments.

The change could amount to nearly 50,000 fewer homes sold statewide this year, he said. Moreover, the segment of the market that would be affected by the change "is actually the one that is currently the weakest."

Sales of homes between $500,000 and $1 million are down 14 percent for the first five months of 2011, compared to a year earlier, Kleinhenz said. In contrast, sales of homes priced under $500,000 increased 3 percent, while those above $1 million remained flat.

Scott Sheldon, a loan officer with First Cal Mortgage in Petaluma, said the lower limit for FHA loans could mean higher costs for affected buyers in Sonoma County — perhaps paying 1.5 percent more in interest rates.

“That’s going to price a lot of people out of the market,” he said.

But other loan officers doubted the change would impact many buyers.

Nick Costa, president of American Mortgage Partners in Ukiah, said he rarely sees people who would be affected by the lower loan limit.

“We’re in a first-time homebuyer market and first-time homebuyers aren’t buying $500,000 homes,” Costa said.

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