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REAL ESTATE | MORTGAGE

End of a mortgage era

Fixed 30-year mortgage rates in the 5% range? Minimum down payments below 5%? Jumbo-sized home loans for high-cost markets at regular interest rates? Kiss them goodbye, possibly sooner than you might guess. Take a snapshot of today's mortgage-market conditions and frame it. It's highly likely you'll never see anything like these favorable combinations of rates and terms again.

That's the inescapable conclusion emerging from the Obama administration's "white paper" on optional remedies for the two ailing giants of housing finance — Fannie Mae and Freddie Mac — along with events already under way in the economy.

The administration's long-delayed housing report, released Feb. 11, drew a mix of catcalls and mild applause. Apartment developers praised its emphasis on expanding opportunities for people to rent their housing as opposed to the idea that homeownership is something for everybody.

Big banks and their allies in Congress welcomed the prospect of oblivion for Fannie Mae and Freddie Mac — who together account for about 60 percent of the mortgage market but have cost taxpayers a net $150 billion in bailout money in the past three years.

Consumer and real-estate-industry groups lamented the phase-out of Fannie and Freddie, both of whom — despite their recent crashes — supplied steady streams of mortgage cash for decades.

The report offered not only options for Congress to consider in winding down the two companies but also recommendations on more immediate "transition" measures to achieve a smaller federal footprint in the mortgage market. Some of these steps require no congressional approval, and therefore are likely to impact borrowers and homebuyers in the months immediately ahead.

Factor these changes into your timing for any loan application or purchase you're contemplating this year:

• Higher insurance fees on FHA mortgages — another quarter of a percentage point on annual premiums, beginning April 18th. That's important to consumers with moderate incomes and assets, especially in the African-American and Hispanic communities where FHA loans are the dominant route to homeownership. The report also hints at a possible increase in minimum down payments for FHA - currently 3.5% - but provided no specifics. Congressional approval would be required for any change.

• Significant reductions in maximum loan amounts later this year for both FHA and conventional loans eligible for purchase by Fannie or Freddie, unless Congress votes to retain the current statutory $729,750 limit for high-cost areas before its expiration Oct. 1. Loans above each local market's limit — whatever the reduced ceiling turns out to be — will be considered jumbos, and come with higher interest rates from private lenders.

• Raising the fees Fannie Mae and Freddie Mac charge lenders to guarantee pools of their mortgages for resale to bond investors. Lenders will automatically pass those on to borrowers as a cost of doing business. The report also calls for raising down payment requirements at Fannie Mae and Freddie Mac to 10%.

• Retaining the controversial and costly add-on fees charged by Fannie Mae and Freddie Mac that can increase the expense of obtaining even a moderate-sized mortgage by thousands of dollars. These add-ons now extend to applicants with FICO credit scores of 800 and above who are making substantial down payments.

The white paper actually applauded the imposition of these fees, calling them one of several "first steps" on the path to weaning consumers off reliance on Fannie and Freddie for mortgage money.

The administration not only wants to wind down the two companies over the coming several years but also to severely reduce the size of FHA's role, cutting its market share from around 30% today to as low as 10%.

Where will the buyers who depend upon FHA today for affordable financing turn when that sharp cut has been accomplished? That's not clear.

The white paper makes an oblique reference to a major issue bubbling on the back burner that could also push rates up: Regulators are debating what should and shouldn't be a "qualified residential mortgage" under the terms of last year's financial-overhaul legislation.

Loans that are not "qualified" - in terms of down-payment size and other criteria - will require extra investments by lenders when they pool them into bonds; that in turn could raise rates for nonqualified mortgages by as much as 2% to 3%.

Among the proposals: Make 20% to 30% down payments the minimum to meet the "qualified" test. The worst-case scenario: If you only have money for a small down payment you'll be charged significantly higher rates.

Bottom line: Get ready to pay more for mortgages, no matter what happens to Fannie and Freddie.

Thanks, in part, to Ken Harney