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Housing Affordability Increasing

President Bush has signed the economic stimulus package that includes a temporary increase in the conforming loan limit and the upper threshold for FHA loan programs to as much as $729,750 in high-cost areas. The question now is who will be affected, and how.

This legislation allows increases in the loan limits for FHA, Freddie Mac and Fannie Mae to 125 percent of the median house price in the area of the property for the period 7/1/07-12/31/08, resulting in new loan limits from $417,000 to $729,750 for single family properties. The legislation requires HUD to publish revised median house prices and principal obligation limits to implement the legislation "as soon as practicable", which should be within weeks after the bill is signed.

Krista Pleiser, the Realtor's Government Relations Director, has calculated that the maximum limit will be $587,500 for Santa Barbara, since it is calculated from the median price for the county as a whole.

As we stated last week, conforming loans require some kind of income verification, which will limit those able to use the program. This may still make qualification for the higher conforming loan amounts difficult, as median home prices are now more than 3.2 times the national median family income of $54,000 ($64,500 in Santa Barbara County), vs. 2.8 in the 1980s, according to the National Association of Realtors.

One positive indicator of a housing recovery is a higher National Association of Realtors national affordability index. It has risen from 104 last June to 122 in January. This means that today a household with a median income can afford 122 percent of the median price of a home, vs. just 104 percent last June. This is because the median price has dropped 10 percent at the same time that interest rates have fallen more than 1 percent over that time.

Mortgage rates and programs are still plentiful, with only stated income programs in short supply. But some stated income, stated asset programs still exist, including negatively amortized Option ARMs, 3-10-year fixed rate ARMs, as well as 30-year fixed rates. And adjustable rates continue to decline in line with the major indexes that control them. The COFI 11th District Cost of Fund index has now fallen to 4.07 percent, while the MTA is down to 4.33 percent.

The economic news continues to be mixed. A huge plunge in January's service sector activity by the Supply Management index and a plunge in the U. of Michigan sentiment survey was countered by higher retail sales in January. Also, a lower fourth quarter trade deficit from higher exports means that last quarter's GDP growth may inch upward from its initial 0.6 percent estimate.

The fourth quarter surge in exports is keeping manufacturing and GDP positive, which means no near-term recession. For the year as a whole, the U.S. trade deficit narrowed 6.2 percent to $711.6 billion from 2006's record $758.5 billion -- the first reduction in the annual trade gap since 2001 and the biggest percentage decline in 16 years.

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And exports in December rose to a new record high -- up 1.5 percent to $144.3 billion -- while imports declined for the first time in four months, slipping 1.1 percent to $203.1 billion. This is why some of the Federal Reserve Governors, including Chairman Bernanke and Janet Yellen predict slower growth, but no recession.