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Is Credit Easing?

The credit crunch may be easing as the Federal Reserve dropped their overnight fed funds rate 0.75 percent and the government readies a stimulus package for low and middle-income households. The easing signs include a falling Prime Rate (now 6.5 percent), falling mortgage rates and indexes that determine adjustable rate mortgages. The 30-year conforming fixed rate dropped briefly to a 4.875 percent low last week, for instance, before rocketing up to 5.25 percent later in the day when stocks rallied.

ARM indexes also continued to decline, with the 1-year and 6-month LIBOR indexes falling to 2.81 percent and 3.15 percent, respectively. Other ARM indexes that adjust more slowly—such as the MTA and COFI—should also trend lower in the weeks to come

One important ingredient of a stimulus package will be raising the conforming loan limits for Fannie Mae and Freddie Mac. The National Association of Realtors has urged President George W. Bush and Congress to help homeowners and the national economy by loosening constraints on Fannie Mae and Freddie Mac as an integral part of a federal stimulus package currently being discussed.

NAR has been calling on Congress and the administration to increase the loan limits for Fannie Mae and Freddie Mac from the current ceiling of $417,000 to $625,000 for single units. "This change will permit more families to enter the housing market by making more mortgages available with lower interest rates. Increased home sales will lower inventories and immediately start stabilizing the housing market and the economy," said NAR Prez John Gaylord.

In addition, NAR has been actively advocating for quick passage of the Federal Housing Administration Reform bill. A reformed, modernized FHA program would offer a safe and affordable alternative to subprime mortgages, which are widely blamed for the current high rate of foreclosures and credit crunch.

The NAR estimated that lifting the GSE loan limit to $625,000 would lower interest payments for consumers who get new "GSE jumbo" loans, reduce the supply of homes on the market by one to one-and-one-half months, strengthen home prices by two to three percentage points, and increase economic activity by $42 billion. An additional NAR report shows that increasing conforming loan limits could help reduce foreclosures by 140,000 to 210,000 and result in an additional 348,000 home sales.

We also believe the quickest way to help the housing market is to increase conforming loan limits, since most higher-priced regions need more than a conforming loan to purchase or refinance homes. In fact, the U.S. Office of Housing Enterprise Oversight (OFHEO) estimates that 15 percent of outstanding loans are jumbo, nonconforming, and 70 percent of jumbo mortgages have adjustable rates. It is those mortgages that have suffered the most from the credit crunch, with rates as high as 1 percent above normal.