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Mortgage Limits Have NOT Changed (Yet)

The conforming loan limit is set by the Federal Housing Finance Agency (FHFA). Mortgages under that amount generally have the lowest effective rates, and in some cases are easier to qualify for.

With prices appreciating **rapidly** in the past year, a big increase in the loan limit would be **big news**. Prospective buyers would be able to widen their price range in many cases and homeowners whose loans exceed the previous loan limit might be able to refinance to a lower rate.

It shouldn't come as much of a surprise, then, that word has quickly spread about the earlier than normal increase of the conforming loan limit from \$548,250 to **\$625,000**.

There's just one problem: **nothing has changed yet!** The conforming loan limit is **still** \$548,250 and it will continue to be \$548,250 until November 30th at the very earliest.

So **why** have people been talking about \$625k?

It all began with **one** major lender publishing an announcement that they would accept loan amounts up to \$625k as "high balance" (HB) conforming. HB loans are already a thing for counties where home prices are much higher than the national average. This announcement was significant because it extended HB eligibility to **ALL** counties (i.e. even the ones where the maximum amount is still the national minimum of \$548,250).

A few days later, a few more lenders followed suit with similar announcements. **People talked**. Apparently it's easier to say "you see loan limits went up to 625k?" than it is to say "did you hear that a certain lender is currently offering HB conforming pricing to non-HB counties?" As such, it didn't take long before the industry was abuzz with questions and comments about "the new loan limit."

Again, **there is no new loan limit**. This is just an innovative strategy on the part of a **few** mortgage lenders designed to offer their clients more flexibility and/or to get a leg up on their competition. That's **why** they're doing it, but why are they **ABLE** to do it? After all, a conforming loan that doesn't conform to the existing guidelines isn't worth as much to mortgage lenders.

The answer is actually surprisingly simple. These lenders know when the new loan limit will be announced, and they know that it will **almost certainly be higher than \$625k**. Here's why:

National Average Mortgage Rates



| | Rate | Change | Points |
|----------------------------|-------|--------|--------|
| Mortgage News Daily | | | |
| 30 Yr. Fixed | 6.89% | 0.00 | 0.00 |
| 15 Yr. Fixed | 6.33% | +0.01 | 0.00 |
| 30 Yr. FHA | 6.33% | +0.01 | 0.00 |
| 30 Yr. Jumbo | 7.05% | 0.00 | 0.00 |
| 5/1 ARM | 6.58% | 0.00 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.77% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.05% | -0.11 | 0.00 |

Rates as of: 7/22

Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.39 | -0.01 |
| MBS GNMA 5.5 | 99.78 | +0.00 |
| 10 YR Treasury | 4.2525 | +0.0146 |
| 30 YR Treasury | 4.4725 | +0.0257 |

Pricing as of: 7/22 5:59PM EST

Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Jul 10 | 206.1 | -0.19% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |

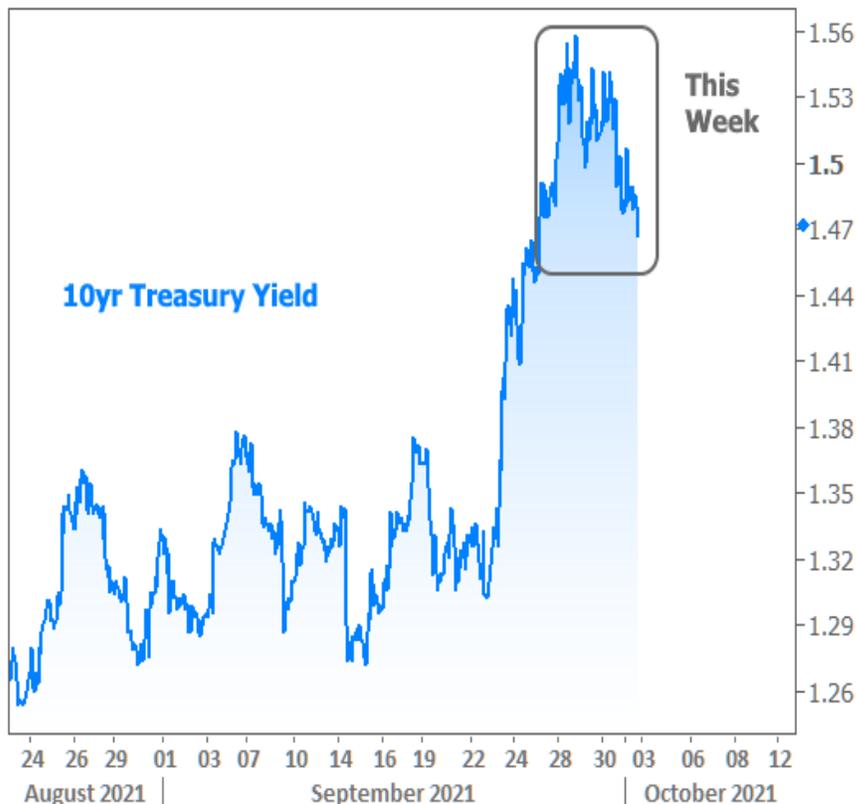
Conforming loan limits are actually updated at the **same time** every year, immediately following the November release of FHFA's House Price Index (HPI). Specifically, the FHFA uses what they call the "expanded data HPI." Determining new loan limits is as simple as looking at the expanded HPI for Q3 2021 and comparing it to Q3 2020.

Q3's HPI number is scheduled to be released on **November 30th**. Even if Q3 shows no improvement, prices have risen enough in the other 3 quarters to push the new loan limit over \$618k. But those are quarterly numbers, and FHFA actually releases monthly numbers that closely mirror the quarterly data. Incidentally, the first month of Q3 was released this week, and it showed a gain of 1.4%--enough for the loan limit calculation to spit out \$627,600 without any additional price appreciation in August or September.

In other words, and to make a very long story very short, \$625k reflects an **extremely safe, and highly educated guess** on the part of only a few mortgage companies about where the new conforming loan limit will land at the end of November.

Market Update

After a volatile week spent moving significantly higher in rate, the current week began with more of the same. That said, volatility was far more contained and by Wednesday, bond yields began to fall modestly. As of Friday afternoon, 10yr Treasury yields (a loose indicator for mortgage rate momentum) were at the week's lowest levels. Unfortunately, those levels were still higher than last week's highs.



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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|----------------|-------|--------|----------|-------|
| Monday, Sep 27 | | | | |

Event Importance:

No Stars = Insignificant
 ☆ Low

| Date | Event | Actual | Forecast | Prior |
|--------------------------|----------------------------------|--------|----------|--------|
| 8:30AM | Aug Durable goods (%) | 1.8 | 0.7 | -0.1 |
| 1:00PM | 5-Yr Note Auction (bl) | 61 | | |
| Tuesday, Sep 28 | | | | |
| 9:00AM | Jul CaseShiller 20 yy (%) | +19.9 | 20.0 | 19.1 |
| 9:00AM | Jul Monthly Home Price yy (%) | 19.2 | | 18.8 |
| 10:00AM | Sep Consumer confidence | 109.3 | 114.5 | 113.8 |
| 1:00PM | 7-Yr Note Auction (bl) | 62 | | |
| Wednesday, Sep 29 | | | | |
| 7:00AM | w/e MBA Purchase Index | 280.4 | | 283.9 |
| 7:00AM | w/e MBA Refi Index | 3359.5 | | 3391.1 |
| 10:00AM | Aug Pending Home Sales (%) | +8.1 | 1.4 | -1.8 |
| 10:00AM | Aug Pending Sales Index | 119.5 | | 110.7 |
| Thursday, Sep 30 | | | | |
| 8:30AM | Q2 GDP Final (%) | 6.7 | 6.6 | 6.6 |
| 8:30AM | w/e Jobless Claims (k) | 362 | 335 | 351 |
| 9:45AM | Sep Chicago PMI | 64.7 | 65.0 | 66.8 |
| Friday, Oct 01 | | | | |
| 8:30AM | Aug Core PCE Inflation (y/y) (%) | 3.6 | 3.6 | 3.6 |
| 10:00AM | Sep ISM Manufacturing PMI | 61.1 | 59.6 | 59.9 |
| 10:00AM | Sep Consumer Sentiment (ip) | 72.8 | 71.0 | 71.0 |
| 10:00AM | Aug Construction spending (%) | 0.0 | 0.3 | 0.3 |
| Monday, Oct 04 | | | | |
| 10:00AM | Aug Factory orders mm (%) | +1.2 | 1.0 | 0.4 |
| Tuesday, Oct 05 | | | | |
| 10:00AM | Sep ISM N-Mfg PMI | 61.9 | 60.0 | 61.7 |
| Wednesday, Oct 06 | | | | |
| 7:00AM | w/e MBA Refi Index | 3037.6 | | 3359.5 |
| 7:00AM | w/e MBA Purchase Index | 275.7 | | 280.4 |
| 8:15AM | Sep ADP National Employment (k) | 568 | 428 | 374 |
| Friday, Oct 08 | | | | |
| 8:30AM | Sep Non-farm payrolls (k) | +194 | 500 | 235 |
| 8:30AM | Sep Unemployment rate mm (%) | 4.8 | 5.1 | 5.2 |
| 10:00AM | Aug Wholesale inventories mm (%) | 1.2 | 1.2 | 1.2 |

- ★ Moderate
- ★★ Important
- ★★★ Very Important

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its "Proposed Criteria for Evaluating Home Buyer Contract Forms" on Tuesday. The 15 criteria focus on the contracts' form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document's expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker's compensation clearly stated and that the buyer broker can't receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker's commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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