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FHA Loan Limits: The Changes Ahead for 2009

By Val Cook-Watkins

If there is one thing that can be said about 2008, it is that it was a year of ups and downs. Whether in the stock market or real estate market, every month seemed to hold a surprise-for better or worse. We're in for another change come January 1 that could affect those looking to purchase a home.

Back in March, as part of the Economic Stimulus Act of 2008, the Department of Housing and Urban Development (HUD) temporarily increased its limits on Federal Housing Administration loans. Most counties in the Bay Area (including Alameda, Contra Costa, Marin, Monterey, Napa, San Francisco, San Mateo, Santa Clara and Santa Cruz) were considered high cost areas and the limit for a home's mortgage was raised to \$729,750. The goal of the increase was to encourage more lenders and borrowers to use FHA loans in the tight credit market, creating economic stability in communities across the country and giving nearly 240,000 additional homeowners and homebuyers a safer, more affordable mortgage alternative.

Starting January 1, 2009, the expiration date of the Stimulus Act, FHA loan limits will decrease across the country. Loan limits for Alameda, Contra Costa, Marin, San Francisco, San Mateo Santa Clara and Santa Cruz Counties will adjust to \$625,500. Monterey County will decrease to \$483,000, Napa County to \$592,250 and Sonoma County from \$662,500 to \$520,950. The lower limits are set at 115 percent of the median home prices in each market. But despite the planned decreases, limits are still well above the \$362,790 level that was in effect prior to the Stimulus Act and usually enough to buy a respectable house, condominium or townhouse in most markets.

The FHA insures loans made by traditional lenders, lowering the default risk the lenders face for buyers who are not able to put down 10 or 20 percent when purchasing their home. FHA usually only requires about a 3 percent down payment. It is also the only government agency that operates entirely from self-generated income-costing taxpayers and the government nothing. Since its inception, FHA and HUD have insured more than 34 million mortgages and helped millions of people break into the real estate market. Last year, FHA backed about \$60 billion of residential mortgages, but that number is expected to increase to \$224 billion by the end of the year.

It should also be noted that the Office of Federal Housing Enterprise Oversight (OFHEO) has approved Fannie Mae and Freddie Mac to maintain their conforming loan limit of \$417,000 in 2009. This will be the fourth year in a row that the companies will be allowed to purchase mortgages at or below that rate on a national level. Anything above that amount would be considered a jumbo loan, which typically carries a higher interest rate and down payment requirement for buyers.

In higher cost areas, including Alameda, Contra Costa, Marin, Monterey, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz and Sonoma Counties, the conforming loan limits have also been adjusted by 115% of the median home price and have been set as the same rate as the FHA limits listed above. For a complete list of conforming loan limits, visit www.efanniemae.com.

For more information visit the HUD website at www.hud.gov.

Val Cook-Watkins, Manager of Coldwell Banker Residential Brokerage's Orinda offices, provides the above tips. A 30-year real estate veteran, Watkins oversees a

talented team of 78 real estate professionals in the East Bay. Her offices are located at 5 Moraga Way and 2 Theatre Square, Suite 211, in Orinda. She can be reached at 925-253-4600

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