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Frustrated New Yorkers Grapple with Loan Rates

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A MONTH after the mortgage markets started to crumble, mortgage brokers and lawyers say that New Yorkers are finding it harder than ever to get mortgages and are increasingly backing out of deals. This lending slowdown has seemed to affect a broader segment of New York City apartment hunters, many of whom are now waiting to see if prices drop because of the mortgage crisis before they commit to buying.

Robert Stolarik for The New York Times Elliot Chun, Michael Grossman and Sam Payrovi (left to right) canceled because rates rose while they bargained with the seller.

Buyers affected by these changes include younger New Yorkers with short credit histories and, interestingly, professionals who buy apartments with small down payments and nearly 100 percent financing and count on end-of-year bonuses to pay down the loans.

Adam Leitman Bailey, the head of a real estate law firm, said that in the last three weeks, five buyers represented by his firm had backed out of deals for apartments — ranging from $595,000 to $4.5 million — in Manhattan and Brooklyn.... "It's not only the financing," Mr. Bailey said. "It's the fear. They fear that prices are going to go down or we're going to have a recession."

The market has reached the point that mortgage brokers like Lori Famighetti, chief executive of Oxford Wellington Mortgage Company, are telling their clients in New York not even to try to get a mortgage for more than $1 million at a competitive interest rate if they have a credit score of less than 680 and want a loan of 90 percent or more of the purchase price.

"This is the market now," Ms. Famighetti said. "The buyer has to have a 700 or 720 credit score" to be considered for a mortgage that would cover more than 90 percent of the sales price.

While some New Yorkers will still talk about the exceptional mortgages that they got at rates better than those of a few months ago, these deals tend to be exceptions available to borrowers requiring smaller loans or with high credit scores. Whether this week's rate cut actually affects rates or improves buyers' moods remains to be seen.

Richard Barenblatt, a mortgage broker with the Apple Mortgage Corporation, helped one client, Freda Gimpel, pay out less monthly than she had originally expected. But he stressed that the bargain occurred because she financed the deal with a conforming mortgage, a loan that falls under guidelines set by Fannie Mae and Freddie Mac. The ceiling on these loans is now set at $417,000, and the rates they carry overall have been dropping. Larger loans are considered jumbo or super-jumbo in industry parlance.

Mr. Barenblatt pointed out that many buyers need to borrow far more than $417,000 — especially in Manhattan, where the average price for an apartment in June was $1.3 million.

"She came out ahead," Mr. Barenblatt said of Ms. Gimpel. "But it's rare."

Brokers warn that some of the most adversely affected buyers will be those seeking to borrow a lot of money for new condominiums that cost $1 million to $2 million, without having been able to lock in rates on loans.

Jeffrey Appel, director of new development financing at the Preferred Empire Mortgage Company, says he has seen buyers who have already made down payments on apartments this expensive, who are now having trouble setting mortgage rates. As he explained it, these buyers originally thought that they could borrow nearly the entire amount of the purchase, but now many banks won't lend them as much, and they will have to come up with the difference.

"I'm concerned about the folks who have been approved at the 90 or 95 percent level where the products or programs may change before they close," Mr. Appel said.

Many people hoping to buy new apartments are finding that, months before their closing dates, they cannot lock in rates. Buyers who do not qualify for the mortgages they need by the time they close also risk losing their down payments, because contracts for them tend to be ironclad. Last August, Hannah Taylor-Noren, 23, found a $495,000 one-bedroom in the Ikon, a building under construction at 50 Bayard Street in Williamsburg, Brooklyn, with help from her agent, Lee Oelkers.

She estimated that she could manage a monthly payment of about $3,200, including maintenance and without factoring in income tax savings based on homeownership. She hired a lawyer, got preapproved for a mortgage and had her bank draft a $78,000 check from her account for the down payment.

But then Ms. Taylor-Noren, an event planner, watched the mortgage market unravel. No bank would guarantee that she would still qualify for a mortgage six months into the future without hefty fees, a problem since she wouldn't be closing on the apartment until spring.

Ms. Taylor-Noren knew she would not be able to afford higher payments if mortgage rates rose before she closed, and did not want to put down a nonrefundable deposit if there were any chance she might lose it.

"It was a great price and perfect for my budget," she said. "I couldn't lock in a rate. It was terrible." On Aug. 14, Ms. Taylor-Noren backed out of the deal.

Adam Leitman Bailey, the head of a real estate law firm, said that in the last three weeks, five buyers represented by his firm had backed out of deals for apartments — ranging from $595,000 to $4.5 million — in Manhattan and Brooklyn.

He said that several of them were financing their apartments partly with Wall Street bonuses, and that they had pulled out because their lenders folded, could not deliver financing right before closing or could not promise to lock in a rate because the apartments were in projects under construction. He said that while some of his clients could have found mortgages, they were concerned about what might happen to the real estate market, Wall Street and the broader economy.

"It's not only the financing," **Mr. Bailey** said. "It's the fear. They fear that prices are going to go down or we're going to have a recession."

Other buyers have backed out of deals because they can't afford their higher mortgage payments and they think prices may drop later this year.

In June, Sam Payrovi, Elliot Chun and Michael Grossman — friends who met as students at the University of California at Los Angeles — decided to buy a $1.65 million bachelor pad at 123 Baxter Street, in Little Italy. They looked at 30 apartments and, when they found the place on Baxter Street, hired a lawyer to help them structure the purchase as a partnership and an architect to help with minor renovation plans.

They had a commitment from a mortgage broker for a loan with payments of about $3,500 a month each before tax deductions. All their agent, James Coleman of Bond New York, had to do was hammer out the final contract details.

But negotiations dragged out, as the three friends tried to work with the developer on contract language allowing them to convert the two-bedroom apartment into a three-bedroom. By September, they realized that with mortgage rates rising, their monthly payments had jumped to $3,800 each.

On Sept. 12, they backed out of the deal before a contract was signed. Mr. Payrovi said that they lost nearly $3,000 in legal and architectural fees, but that they could not afford the $300 monthly difference and feared prices would drop after they closed.

Not everyone, of course, has a bad mortgage story to tell. In early July, Ms. Gimpel put down about $150,000 to buy a $600,000 one-bedroom apartment on the Upper East Side. She had a commitment letter for a 30-year fixed-rate mortgage, but not a rate lock, from GreenPoint Mortgage, a division of Capital One Financial Corporation, at a rate that would have translated into a $2,950 monthly payment.

In August, her mortgage broker, Mr. Barenblatt, found the rates had jumped so drastically that Ms. Gimpel's monthly payments would be $3,375. Not only was this increased rate more expensive; it could also have affected her approval by the co-op board.

Mr. Barenblatt arranged for her to get the $417,000 conforming mortgage and paired it with a $32,000 home equity loan. The combined loans will actually cost Ms. Gimpel $150 a month less than she would have paid.