

Jumbo mortgage market is beginning to thaw

Contributed by Sam Stamper
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Jumbo mortgage market is beginning to thaw. The meltdown sent interest rates soaring and availability shrinking, but rates are declining and lenders are more willing to make loans that top the limits for Freddie Mac, Fannie Mae and the FHA.

By E. Scott Reckard

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Phil Kelly had 18 more months to go before the fixed rate on his \$2.5-million mortgage became adjustable.

But when Kelly, a former computer executive living in Rancho Santa Fe, learned he could knock his interest rate down by a full percentage point by refinancing, he went for it.

"It's always tough to pick the exact bottom or top of anything," Kelly said. "But I think this rate is about as low as you're going to get."

Rates on jumbo mortgages -- loans of more than \$729,750 in counties with the highest-cost housing -- shot up during the financial crisis as lenders and loan investors shunned anything tainted with even a whiff of higher risk. Rates on big mortgages were especially high relative to those on smaller loans.

But in a boon for borrowers in California's expensive housing markets, the jumbo-loan market is starting to return to normal.

Two weeks ago, the average interest rate on 30-year fixed-rate jumbos dropped to 5.79%, a nearly five-year low, according to rate tracker Informa Research Services of Calabasas. It edged up to 5.88% on Tuesday, still very attractive by historical standards. The average is down from well above 7% in late 2008.

Rates are even lower on so-called hybrid adjustable mortgages, on which the rate is fixed for, say, five years and then adjusts annually. Kelly's new loan is a five-year hybrid adjustable identical to his old one, except that he's paying about 5%, down from 6%.

Banks are also relaxing slightly some of their requirements for jumbo loans. That's an encouraging sign because the market for jumbos, in contrast with the rest of the mortgage business, isn't being propped up by Uncle Sam.

The lower rates and somewhat easier terms reflect newfound confidence among banks in the housing market. That's because, by definition, jumbos are too big to be bought by Freddie Mac and Fannie Mae or to be insured by the Federal Housing Administration. Plus, the private market for mortgage-backed bonds dried up when the meltdown hit. So lenders making jumbo loans these days must be willing to take the risk of keeping them in their portfolios.

The maximum amounts for Freddie Mac and Fannie Mae "conforming" mortgages, and for FHA mortgages, are set by Congress. The cutoff for single-family homes was \$417,000 from 2006 until February 2008, when lawmakers increased it temporarily to \$729,750 in certain high-cost areas, including Los Angeles, Orange and Ventura counties. Conforming loans top out at \$500,000 in Riverside and San Bernardino counties and \$697,500 in San Diego County.

The increased upper limits, which have been extended until the end of this year, have created a three-tier system in expensive areas, mortgage professionals say: loans of up to \$417,000, which are the easiest to obtain and carry the lowest rates; "conforming jumbos" from \$417,000 to \$729,750, which are somewhat harder to get and have slightly higher rates; and true jumbos, with the toughest standards and highest rates.

In the boom years of 2005 and 2006, interest rates were typically no more than a quarter of a percentage point higher on jumbo loans than on conforming loans, according to Informa Research. That widened as the mortgage meltdown intensified and home prices dropped in late 2007. The spread ballooned to nearly 1.7 percentage points in early 2009 after the entire credit system froze.

But this year the rate spread has narrowed to less than a percentage point. It could shrink more if conforming-loan rates rise as expected after the Federal Reserve wraps up a \$1-trillion-plus program to support the market for conforming loans next month.

In addition to lower rates, down-payment requirements are being relaxed in some cases. For example, to write a jumbo loan in coastal areas of Los Angeles and Orange counties, Wells Fargo Home Mortgage looks for a 20% down payment or that percentage of equity, down from 25% last year, said Brad Blackwell, a national mortgage sales manager at the

lender.

The reason: Wells believes high-end home prices are stabilizing in those coastal counties. But the bank still requires higher down payments in the Inland Empire and other battered housing markets such as Florida, Nevada and Arizona, where prices for jumbo-size homes don't appear to be stabilizing, he said.

Jumbo loans remain much harder to get than before the credit crunch and recession. Borrowers typically must have a credit score of at least 700, compared with boom-era minimums in the 600s, though Laguna Niguel mortgage broker Jeff Lazerson said at least one lender was again making sub-700 jumbos available.

What's more, unless their down payments are very large, borrowers must provide evidence of high income, have sizable bank accounts as a cushion against the unforeseen and occupy the houses themselves.

But there are clear signs that the jumbo market has loosened. One is an increasing availability of "stated income" loans -- those that don't require proof of income -- of as much as \$2 million to borrowers with at least a 40% down payment, said mortgage broker Gary Bluman, owner of Real Estate Resources in Brentwood.

Also, instead of a true jumbo loan, some "piggyback" second loans are available again to help certain borrowers with 25% down payments pay for high-priced homes, Lazerson said.

Of course, adjustable, stated-income and piggyback loans were big contributors to the mortgage meltdown. But such provisions are less risky if a borrower has 25% to 40% equity.

Despite the confidence in the market that such terms imply, lenders and mortgage investors are still dealing with piles of bad jumbos made during the boom.

Delinquencies of 60 days or more on prime jumbo loans that were packaged into securities jumped to 9.6% in January, up from 3.7% a year earlier, Fitch Ratings reported this month.

The jumbo delinquency rate in California climbed to 11.3% from 4.1% a year earlier.

For now, the jumbo market remains limited to the volume of loans that banks are willing and able to keep on their books. But there is hope for a return to private outside funding.

Although no jumbos have been turned into securities for at least two years, packages of delinquent jumbos have begun to be sold again to "vulture" investors, a sign that the secondary market for the loans may revive, said Michael Fratantoni, vice president of research at the Mortgage Bankers Assn.

"The ice sheet," he said, "is starting to crack here and there."