

Jumbo Mortgages Are On the Comeback Trail

FINANCE: Better Secondary Market, Pricing Spur Increase

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San Diego lenders say borrowers seeking jumbo mortgages have more options this year despite a spike in average mortgage interest rates recently.

“We’re doing about three times as many jumbos this year compared to last year,” said Craig Brown, president of Rancho Financial Mortgage, a Rancho Bernardo mortgage bank. The reason for the increase is a marked improvement in the secondary market for mortgages, and mega banks stockpiling the mortgages, Brown said.

Jumbo mortgages are those above \$417,000. Those considered “conforming” meet the purchase requirements of the primary government mortgage buyers, Fannie Mae and Freddie Mac. The jumbo loans cannot exceed \$625,000. Above that level, the mortgages are called “nonconforming” and are generally retained by the lenders.

Qualifying for such high loans and obtaining them has improved this year compared with last year, said Mark Goldman, a mortgage broker with C2 Financial Corp. in San Diego, and lecturer at San Diego State University.

The Rate Spread

“We’ve seen the pricing of jumbos get better, and the rate spread (between the conventional and jumbo mortgages) also get better,” Goldman said.

Once averaging about 1 point above the conventional mortgage because its perceived higher risk, jumbos recently fell to less than a quarter of a point higher, Goldman said.

Lenders are having an easier time selling off the jumbos to the government agencies (so long as they come within the conforming limits) while the secondary market for the jumbos also began opening up more this year, he said.

According to the June Dataquick report on the housing market in Southern California, the real estate information firm reports jumbo mortgage borrowers accounted for 28.5 percent of the region’s purchase lending, which was the highest since August 2007 when jumbos made up nearly 37 percent of all home purchases.

John Lee, president and CEO of Carlsbad-based BluFi Lending, said while the market for jumbo mortgages has certainly improved, it’s still makes up only about 5 percent of the total mortgage market.

The buyers of the jumbos — mega banks, pension funds and hedge funds along with the government agencies — have all increased their purchases of such loans, which results in more liquidity and lower pricing, Lee said.

Last year, lenders issued \$203 billion in jumbo mortgages; this year, the total is expected to rise to \$220 billion, according to Inside Mortgage Finance, an industry trade publication.

Customer Service Strategy

In many cases, the biggest mortgage banks are undercutting the market just to retain the business of their customers who are usually in much higher income brackets, said Brown.

One of Brown's prospective clients recently went to Bank of America because that bank offered a lower interest rate on his jumbo loan. The rate, nearly the same as the average for a conventional mortgage, was one Rancho couldn't match, he said.

In many cases, the biggest mortgage banks are providing these attractive rates because they don't want to lose the other relationships, including deposits, which the customer has with the bank, Brown said.

Rancho Financial was doing more fixed rate jumbo mortgage lending up until several weeks ago when the market changed. Recently, the company began making more hybrid jumbos, Brown said. Hybrids generally have fixed rates for five, seven or 10 years, and then switch over to adjustable rates.

Brown said a recent securitization of jumbo mortgages (a bundling of similar mortgages into a bond sold to investors) didn't go well, and had a dampening effect on the market.

Emmanuel Vuillequez, Wells Fargo Bank's nonconforming mortgage manager, downplayed the impact of the secondary market, saying the size of the market is small compared with the total.

The main reason for the increase in jumbo originations is that banks determined these mortgages were worth making. "More banks became more comfortable about the risks around these loans and were willing to put more of those loans on their balance sheets," Vuillequez said.

Wells Fargo, the nation's largest mortgage lender, reported making \$109 billion in mortgages in the first quarter of this year, down from \$129 billion in the like quarter of 2012.

Vuillequez said while there was a slight increase in the volume of jumbo loans this year that was caused mainly from the seasonality of home buying activity in the spring.

Getting approved on a jumbo still requires borrowers to have a strong credit history and a typical down payment of at least 20 percent, he said.

As for credit scores, the preferred score would be in the "high 700s, although we have done some with scores in the low to mid-700s," he said.

Because of the fluctuating rates on jumbos, it's important that borrowers look carefully at both types of mortgages — those to be sold to conforming agencies and those the bank would retain, Vuillequez said.