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Banks Lower Bar On Jumbo Loans

FINANCE: Hot High-End Market Stokes Competition
By **MICHAEL LIPKIN**

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JPMorgan Chase & Co. is relaxing lending requirements for mortgages up to $3 million, the latest in a series of moves by major banks to allow higher-end borrowers to buy homes with smaller down payments and lower credit scores as investor demand for quality mortgages increases.

Chase said on Aug. 5 it would allow borrowers to buy $1.5 million to $3 million single-family homes with a 15 percent down payment instead of 20 percent. The bank already allowed 15 percent down payments for loans up to $1.5 million. FICO score requirements dropped from 740 to 680. The limits would also apply to some types of refinancing.

While standards for most loans are set by government-sponsored mortgage buyers Fannie Mae and Freddie Mac, the companies don’t pick up so-called jumbo mortgages, which are larger than $417,000 in most areas. In some high-priced counties, the jumbo loan threshold is as high as $625,500. In San Diego, mortgages higher than $562,350 are considered jumbo loans.

For loans above those limits, banks have more leeway to set underwriting criteria because the mortgages will typically sit on the banks’ balance sheet.

Far looser standards contributed to the housing crash, as borrowers with credit scores below 650 could get jumbo mortgages with very small down payments.

Big Recovery

Jumbo loans have seen the strongest recovery since the subprime crisis, jumping from 5 percent of mortgages by dollar value in 2009 to about 20 percent, according to Lawrence Bailey, Chase’s regional manager for mortgage banking in California.

“It’s becoming more of a mainstream need to do a loan that’s jumbo,” Bailey said.

While Chase wanted to simplify its jumbo underwriting requirements, Bailey acknowledged the change was also a move to stay competitive with other banks, including Bank of America, Wells Fargo & Co. and PNC Bank, that loosened their own jumbo lending rules over the past year. Chase’s $3 million cap is higher than those banks’ stated limits for the lower down payments.

Bank of America allows first-time buyers to put 15 percent down on loans up to $1 million, Wells Fargo allows just 10.1 percent on loans up to $1.5 million, though its credit score limit for those loans is 740, and PNC Bank offers loans up to $1.5 million with 15 percent down. The banks’ changes, rolled out since last June, generally dropped down payment requirements by about 5 percentage points.

“Our customers didn’t have access to credit,” Bailey said. “They were going to other lenders. Expanding to $3 million has a lot to do with having a larger bucket to capture folks.”

Strong Top Market

The competition is heating up as homes requiring jumbo loans experience far more growth than less expensive houses. Sales of homes worth more than $500,000 rose more than 21 percent in June over the year before, while home sales worth less than $100,000 fell about 3 percent, according to the National Association of Realtors. The gap was even more pronounced in the western U.S., where more expensive home sales rose more than 26 percent and the sub-$100,000 market saw sales drop 19 percent.

“There’s been a real disparity of strength at the top and bottom of the market,” said Michael Fratantoni, chief economist for the Mortgage Bankers Association.

Fratantoni predicted the major banks were closing in on a stable set of criteria and that credit would remain tighter than it had been before the recession. The recent moves by banks to make themselves more attractive to higher-income jumbo-loan customers come as Wall Street investors are looking for earning assets. Prime jumbo mortgages are among the best choices available, he said.

“The competition has pushed interest rates below those on (nonjumbo) loans, at least in our survey, and it’s not surprising we’ve seen lenders incrementally changing the criteria from absolutely pristine credit a couple of years ago to just strong credit borrowers,” Fratantoni said.

The lower requirements were vital to the banks because homes prices have escalated, forcing more buyers into the jumbo category. Jasen Mackenzie, vice president and West Coast regional

manager for PNC Bank, said 20 percent down payments are a stumbling block for home buyers seeking even a modest home in a major California city.

“In these markets that have appreciated so rapidly, we feel many capable borrowers are being left on the sideline,” Mackenzie said. “$417,000 really serves a diminishing portion of borrowers in California.”

Back to the Bubble?

But Alan Lane, CEO of San Diego-based Silvergate Bank, said a potential “loose credit mentality” made him nervous. Silvergate, which runs a mortgage warehouse division, would never fund a jumbo loan through its customers with only 15 percent down, he said. Increasing home values shouldn’t be used to justify lowering down payment requirements, Lane argued.

“That’s what got everybody in trouble in the first place,” he said. “What if the values are inflated? When you only require 15 percent down, it doesn’t make much of a correction for the loan to be underwater. It’s the opposite of what should be happening.”

The big banks said borrowers seeking a lower down payment would need healthier financials in the other metrics they examine. San Diego State University real estate lecturer Mark Goldman added that while credit risk was increasing somewhat, the banks were not reducing the debt-to-income ratios required for the loans. Fifteen percent of a $1.5 million loan still represented a sizeable dollar investment to disincentivize defaults, according to Goldman, who is also a loan officer with C2 Financial Corp., and the upshot was more investors are returning to the residential mortgage market.

“The $500,000-and-above mortgage is finally gathering some steam in San Diego,” Goldman said. “The economy is stabilizing and people are more willing to commit to a long-term purchase. The pendulum is now slowly swinging back to the reasonable range of credit access.”