



Jumbo Loans



May 1, 2009

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In recent months the availability of jumbo loans has decreased while the interest rate spread between jumbo rates and ten-year treasuries has widened. These developments are having a negative effect on the housing market.

With the increase in the lending limits for conforming loans, the mortgage market now has three major types of mortgage products: conforming loans, up to \$417K; conforming jumbo loans, up to \$729,750; and jumbo loans, loans over \$729,750. Although the upward revision of the conforming loan limit is a positive development, overall the jumbo loan market has experienced problems of limited loan availability and higher than usual rates in recent months. First, increased credit standards required from borrowers coupled with the increasing reluctance of financial institutions to make jumbo loans have posed major problems at this end of the market. In addition, the interest rate spread between ten-year treasuries and jumbo loans has substantially increased—making jumbo loans much more costly than has previously been the case and significantly impacting the upper ends of the home market.

Jumbo loans have typically had a rate 1.34% points above ten-year treasuries in 2005, rising to 2.56% points as of March 2009. The increased spread does not appear warranted by increased risk.

Jumbo loans are a small part of the market today. For example, jumbos were approximately 5% of transactions in March of 2009, and super jumbos were less than 1% of transactions. However, these loans have been of significant important in high cost areas and states, such as California, New York, and Florida.

Adverse jumbo market impacts are believed to result in downward pressures on the rest of the housing market. Decreased jumbo loan availability appears to work its way down through the market, further depressing other home prices.

NAR conducted a member survey in order to obtain REALTOR® input on the jumbo loan situation. This type of information provides insight on the operational impacts of national trends on the operational level from the people immediately involved with housing transactions. Respondents were asked for their opinions on a variety of specific issues. In addition, REALTORS® were asked through an open ended question to share additional comments on issues of importance to them. The summary statistics as well as representative comments are provided below.

Loan Rates: Higher loan rates relative to conforming loans and relative to historic practice were cited as a problem by an overwhelming majority of REALTOR® respondents.

- “My clients are mad that with their financial clout, the rates on jumbo loans are too high.”
- “Rates are not coming down, they are going up, and the minimum credit score requirement is too high.”

Jumbo loans are less available: There appear to be fewer loan providers for jumbo loans: 30% of REALTOR® respondents.

- “It is difficult to find banks that will even look at a jumbo.”
- “Banks are not lending. If you hear otherwise, it is not true, it is not accurate.”
- “A lot of the jumbo market were self employed no doc loans, and they aren’t available anymore.”

Loan requirements are increasingly unrealistic. REALTORS® indicated that required down payments were greater than 20% in 60% of the cases—with payments required greater than 30% in 9%.

Required down payments have increased to a point where prospective purchasers are having real trouble: 43% of REALTOR® respondents.

Buyers are being told that their incomes are too low relative to mortgage size: 13% of REALTOR® respondents.

Buyers are having trouble qualifying based on credit scores: 20% of REALTOR® respondents.

- “The tighter underwriting requirements for mortgage insurance are hurting all the loans. Plus warehousing is a big problem.”
- “Mortgage lenders are requiring a lot more income documentation that would not have been needed. Also the 2nd note lenders are super conservative to a ridiculous point.”
- “Jumbo purchasers are often self employed, have multiple properties and investments, and the banks are finding them unqualified to purchase even with excellent credit and the process is painful requiring full documentation of all rentals, investments, etc.

Buyers are Delaying purchases: Buyers are delaying home purchases due to jumbo loan home rates: 35% of REALTOR® respondents.

- “The high costs of Jumbo loans, including points, discourage many buyers. I work in a high end project and our buyers have all but disappeared. We’ve had a couple of cash buyers but not one offer where jumbo financing was involved.”
- “The higher pricing involved in jumbo loans have knocked a lot of potential buyers out of the market, making it far more difficult to sell higher priced homes.”

Buyers are being forced to drop out of the market: Buyers who want buy cannot get jumbo mortgages or do not want to pay higher jumbo rates appear to have dropped out of the market: 85 percent of REALTOR® respondents.

Incentives exist for 1st time buyers which allow the next tier of buyers to buy up in value. With such high jumbo rates the natural progress from the first time buyers to the higher end buyer is being stymied. I can understand the increase in down payment requirement but NOT the increased mortgage rates.

- “The high jumbo rates have had an effect of lowering home values.”
- “In the Los Angeles market most all homes are sold with jumbo loans. The lack of available lenders is strangling a market with pent up demand. It seems less a problem with borrowers and sellers, more an issue of a lack of willing lenders.”
- “Purchase price: \$1.5 million. Down payment required due to self-employment: \$1 million (66%)!!!. The jumbo lending guidelines are going to destroy a large percentage of the market and sellers that have to sell now.”

Conclusions

On the basis of REALTOR® input as well as a review of financial data it is clear that there are problems with the Jumbo Loan market. The spread between ten-year treasuries and jumbo loan rates has widened, and jumbo loan availability has significantly decreased. In many cases we are told that well qualified borrowers are simply unable to obtain loans, apparently due to much higher risk aversion on the part of financial institutions. The availability of jumbo loans is important in high cost areas—e.g., Los Angeles, San Francisco, New York—and real estate markets are being adversely impacted relative to previous experience. A number of REALTORS® noted that adverse impacts at the upper end of the market tend to radiate downward.