

James Overstreet: Rates start to tumble on jumbo mortgages

By James Overstreet

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More green shoots are sprouting in the housing market as mortgage interest rates for big homes have suddenly started to fall.

Rates on so-called jumbo mortgages -- those that exceed \$417,000 in Memphis -- have dropped below 6 percent.

"It appears that the banks are getting more aggressive in attracting customers for this product," says Jimmy Reed, president and co-owner of Marx & Bendorf Realtors. "You have to have very good credit and 20 percent down -- or more -- but this is a very significant change in a very short period."

Reed, a 30-year real estate veteran, said it has been tough watching the "conforming" loan market -- loans under that \$417,000 mark -- picking up momentum during the past few months as the non-conforming market continued to lag.

"You've had this combination of low rates and good prices in the conforming market for quite some time," Reed says. "Finally, you have the same combination in the jumbo market -- great rates and great prices."

Holding the market back has been the fact that jumbo mortgages are too expensive for Fannie Mae or Freddie Mac to buy, so banks that originate those loans must find investors (known as the secondary market) to buy them or they must hold them on their own books -- a very risky proposition in an environment with 10 percent unemployment and rising loan defaults nationwide.

With the banking industry still suffering post-traumatic stress disorder from its near total collapse last year, it's not surprising that lenders are not rushing back in to make these loans.

The jumbo market was wiped out by the credit crisis of 2007, with investors who had bought the loans from banks suffering huge losses when the housing market collapsed.

With the secondary market decimated, banks stopped making the loans and rates soared.

But now the general consensus is the economy is turning the corner and there is suddenly renewed interest in the jumbo market.

Bank of America, JPMorgan Chase and Citigroup have all announced plans to issue more jumbo loans.

And there is room to grow: Jumbo mortgages make up about 5 percent of the total mortgage market, compared with 15 percent in 2007.

But, go figure, investors remain gun-shy.

"We have four primary investors and only one is offering this," says Mary Floyd, senior vice president of Financial Federal Savings Bank in Memphis. "So they are not all getting back in."

So why would banks or investors risk making these loans? First, jumbo mortgages tend to be safe investments -- only buyers with pristine credit and a lot of money to put down qualify.

Second, jumbo loans are profitable, yielding higher returns than conforming mortgages and generally much more than 10-year treasuries.

"Our best performers have always been our jumbo loans," Floyd says.

So with lower mortgage rates, homebuyers are eager to get back into the market and homeowners are eager to refinance -- refinance applications soared 18 percent in the week ending Oct. 2 compared with the previous week, according to the Mortgage Bankers Association.

But there's a new normal in lending: much stricter credit and income standards.

Still, the fact that investors and banks are beginning to have the stomach for risk could be a sign that the economy is on the mend.



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