

MORTGAGE MELTDOWN

Jumbos making a rebound

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Sunday, October 21, 2007

The jumbo-mortgage market, which went into a deep freeze in late August, is starting to thaw.

Some large lenders have begun pricing their jumbo loans more aggressively in the past few days and weeks, bring rates closer to where they were before the credit crunch hit.

Jumbo loans are those that exceed \$417,000, the maximum size that can be sold to Fannie Mae or Freddie Mac. In late August, when problems in the credit markets reached a crescendo, investors stopped buying jumbo and other nonconforming loans that can't be sold to Fannie or Freddie.

In response, many lenders and brokers exited the jumbo market. Others, such as Wells Fargo, jacked up rates on jumbo loans sold through brokers, but not their retail branches.

"As far as I was concerned, Wells Fargo was out of the wholesale market," says Robert Jackson, a mortgage broker with BayCal Financial Corp. in San Francisco.

The freeze contributed to a sharp slowdown in Bay Area home sales. More than 60 percent of Bay Area homes are purchased with jumbo loans. Sales in September sank to their slowest pace in at least 19 years, DataQuick Information Systems reported last week.

Although investors are still avoiding nonconforming mortgages, banks that can hold loans on their books - at least temporarily - are getting more aggressive in the jumbo market.

"Pre-August, when things were normal, a plain vanilla 30-year fixed-rate jumbo loan would have been 6.625 percent with one point," says Mark Leaver of LoanLane Residential in Atherton.

"When everything went to custard, as they say, that same program was 6.625 percent with five points. If you wanted one point, the rate would have been at least 7.875

percent," he says. (A point is an up-front loan fee; each point is equal to 1 percent of the loan amount.)

At that juncture, many brokers including Leaver stopped advertising or quoting jumbo-loan rates.

"Now, with no major news, 30-year jumbo rates have come back down," Leaver says. On Friday, he says Wells Fargo was offering jumbo loans at 6.5 percent with one point through brokers. "The jumbo market has come full circle," he says.

Well, not exactly. To get that rate, a borrower needs a 10 percent down payment, a FICO credit score above 720 and standard income documentation.

A borrower with a 661 FICO score, no income documentation and a 10 percent down payment would likely pay 6.5 percent and two points.

One caveat, Leaver says, is that the property still needs to appraise properly and "comparable sales are getting harder to come by due to declining values in the real estate market."

Other loan brokers are not so sanguine. The jumbo market "has thawed a little bit. The rates have become more competitive as the big players - Bank of America, Wells Fargo, Citibank, Washington Mutual - have started to compete against each other," Jackson says.

But "we're not even close to being back to normal. We don't have as many players in the market. Jumbos are still difficult to get for clients with low down payments and less-than-stellar credit. We've wiped out an entire subset of mortgages that was there before."

Jackson says that 30-year fixed-rate jumbo mortgages are around 6.75 percent with half a point. "That's for someone with good credit and a 20 percent down payment. A month ago, that was about 7 percent. In late August, it was between 7.5 and 8 percent," he says.

If a customer needed to borrow more than \$417,000, Jackson had been setting up a first mortgage for \$417,000 at a rate around 6 percent and taking a second mortgage for the rest at a rate around 7.25 percent. Depending on the size of the second, that gave the customer a blended rate of 6.5 to 7 percent.

"That is better than where the jumbos have been until recently," Jackson says.

He adds that some of his customers had been putting enough down to get their loan amount below \$417,000, even if it meant putting 30 to 40 percent down.

Bank representatives are telling Jackson that the loans they are taking from him are for their own portfolios. "There are still no (jumbo) sales in the secondary market," he says.

A Wells Fargo spokesman says, "While pricing in the broker channels remains slightly higher than in our retail channel, it has improved during the last few weeks."

Julian Hebron, branch manager with Residential Pacific Mortgage in San Rafael, agrees that the jumbo market is improving.

Adjustable-rate jumbo mortgages "started coming back three weeks ago and fixed-rated jumbos started coming back the past 10 days," he says.

Last week "was the first week I have even thought of quoting 30-year fixed loans again," Hebron adds.

He says the jumbo market might have gotten a boost from the announcement on Monday that a group of banks led by Citigroup are creating a superfund to buy high-quality assets from investment funds that hold securities backed by mortgages and other debt.

These funds, created by Citigroup and other mostly European banks, might have trouble refinancing short-term debt that is coming due because investors are unwilling to loan them any more money until they know what their assets are really worth.

There's a fair amount of skepticism about how and whether this superfund will work, but if it improves confidence in the credit markets, it could have a positive effect even if it never gets off the ground.

Mortgage rates also benefited last week from a drop in the 10-year Treasury yield.

On a national basis, Keith Gumbinger, a vice president with HSH Associates, says he has seen "grudging improvement" in the jumbo market. "Some lenders in our survey are starting to quote jumbos again," he says.

The week before last, the average jumbo rate in his survey was 0.66 of a percentage point higher than the average rate on a conforming loan. He did not have data for last week.

In late August, the difference was 0.93 of a percentage point, but in July it was only 0.20 of a percentage point.

Although the "upstream" or secondary market for loans is still dammed up, "lenders are reorganizing their books so they can make jumbos."

Given reserve requirements, there are only so many loans banks can make and hold on their books. Until investors return, the jumbo market won't fully recover.

Greg McBride, senior financial analyst with Bankrate.com, says that "investor demand still hasn't returned in full force. When that happens, the spreads (between jumbos and conforming loans) will quickly return to historical norms."

This article appeared on page C - 1 of the San Francisco Chronicle