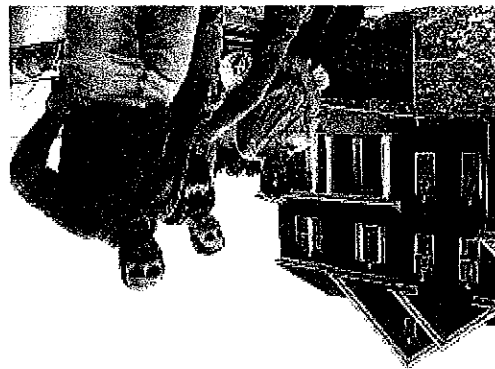


USA
TODAY

Upscale home sales lag as jumbo loans are hard to get

Updated 7/17/2009 10:13 AM

By Stephanie Armour, USA TODAY



By Truth Leem, USA TODAY

Victor Montalvo-Lugo, right, with children Isaac Montalvo and Amanda Fischer at their future home, which is under construction in Urbana, Md., on July 3. They have yet to sell their California home.

More than four months after the Obama administration launched its housing rescue plan, scores of lenders are focused on rewriting mortgage loans to make them more affordable.

But one demographic is being largely ignored: homeowners with higher-price loans.

They don't qualify for mortgage modifications under the Obama plan. They can't get today's low interest rates if they try to refinance. And with newly cautious lenders warier about who they lend to, just try to sell a home that costs \$730,000 or more these days. In many cases, finding a buyer who can get financing takes far longer than for lower-price homes, because banks want as much as 30% down and six months of mortgage payments in reserve.

CHART: Troubled jumbo home loans in 370 metro

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The result is a housing market in which sales and purchases of higher-price homes have come almost to a standstill, and it's a predicament that could undermine the housing recovery. Move-up buyers are getting locked out by lack of financing. Too many unsold homes in the top tier of the market also can push down prices for homes in the midprice range.

"We need to have a market recovery in all segments," says Lawrence Yun, chief economist with the National Association of Realtors (NAR). "If the high-end market weakens, those in the middle have to reduce prices."

While the number of homeowners with higher loans is small relative to the entire market, Yun says, "All of Middle America is undoubtedly impacted."

Jumbos and super-jumbos

Bigger loans, known as jumbo loans, come in three types.

Loans up to \$417,000 are considered "conforming," and can be sold to mortgage-finance giants Fannie Mae and Freddie Mac, which also guarantee them when they resell those mortgages to investors. But after that, the situation is more complex.

Loans between \$417,000 and \$729,750 are "conforming jumbo," and loans above \$729,750 are "super-jumbo." Fannie and Freddie back only conforming jumbos, and what qualifies as

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conforming can vary depending on location. In San Francisco, Fannie and Freddie will back loans up to \$729,750. In Atlantic City, the maximum is \$453,750.

Lenders are leery of making loans above the amount that Freddie and Fannie will guarantee, because if a jumbo loan borrower defaults, it's harder for a bank to quickly sell a higher-end foreclosed property. And because Freddie and Fannie don't buy non-conforming jumbo loans, there's less of a secondary market for super-size loans.

States with the highest percentages of jumbo mortgages include Hawaii, California and New York, as well as the District of Columbia. In New Jersey, Maryland, Massachusetts, Virginia, Connecticut, Washington, Nevada and Florida, jumbos account for 10% or more of all loans.

Jumbo loans aren't just for the very rich: In some pricey areas, \$500,000 may buy only a modest single-family house or condo.

Sales of higher-price homes have slowed to a glacial pace, driving the supply of homes for sale above \$750,000 from 18.7 months in 2007 to 41.1 months in 2009, according to NAR.

With home values still falling in many areas, borrowers who took out jumbos a few years ago are finding they can't refinance, and their mortgages are sliding into default. The number of jumbos 90 or more days delinquent reached 4.83% in March 2009, up from 1.68% in March 2008, says First American CoreLogic.

That trend is helping spread the foreclosure crisis from real-estate-bubble markets, such as California and Florida, where the housing crisis started, to other areas. Data from First American CoreLogic show that delinquency rates on jumbo mortgages under \$1 million have more than doubled in areas such as Atlanta, St. Louis and Portland, Ore.

Some cities with high percentages of jumbo loans that are 90 or more days delinquent include Merced, Calif., Muncie, Ind., and Las Vegas-Paradise, Nev.

It's been a costly situation for Victor Montalvo-Lugo, a clinical program manager at MedImmune in Gaithersburg, Md. He and his wife, Janette, bought a \$1.6 million home in Thousand Oaks, Calif., in late 2005. He moved to Maryland for the MedImmune post in December, contracting for an \$800,000 home to be

Pressure on prices

built by late August. But with the California house on the market for weeks, he's had no luck selling, even asking \$1.05 million.

If he can't sell that home before a company buy-out option expires, Montalvo-Lugo worries about the financing on the new one. A similar but smaller home down the block from his in California is listed in the \$900,000s, forcing him to lower his initial asking price. "I'm very concerned. We are already listing for less than what we owe," Montalvo-Lugo says. "We lost all of the initial equity, and we owe the bank more than we will get."

Those with jumbo loans who lose a job or have an adjustable-rate mortgage that resets to a higher amount are struggling. But help is scarce: Under the Obama housing rescue plan, homeowners with loans above \$729,750 aren't eligible for mortgage modifications. Lenders may make such modifications on an individual basis, however.

Many homeowners in higher-end markets are finding they must drastically lower prices to try to get buyers. From July 1, 2008, to July 1, 2009, nearly 26% of homes on the market for more than \$1 million have seen price reductions, and the average reduction is 13% off the asking price, according to real estate information provider Trulia. Homes on the market for less than \$1 million have seen an average reduction of 9% off the asking price.

"What you're seeing are those properties sitting on

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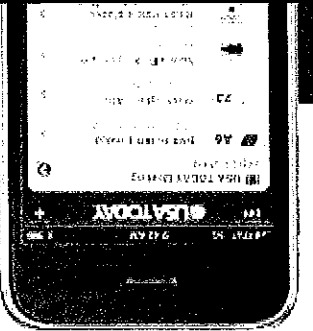
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the market for a lot longer because people can't get loans," says David Kerr, a ZipRealty agent in the San Francisco area. "I got a call about a property in Berkeley for more than \$1 million and almost fell out of my chair. All of what we're showing is in the \$200,000 to \$300,000 price range."

Jumbos are still being offered at Investors Savings Bank in Short Hills, N.J. But demand has slacked off because those taking out or refinancing jumbo loans must pay higher interest rates than other borrowers, says Richard Spengler, chief lending officer. Rates on jumbos are hovering around 6%, vs. 5.20% on a 30-year, fixed conventional loan.

The bank requires down payments of 20% to 30%, depending on the size of the jumbo. Spengler says many banks have gotten out of jumbo lending because of the lack of a secondary market. Investor Savings Bank keeps jumbos it issues in its own portfolio.

The overall stagnation in the market has a spillover effect on the economy. NAR estimates the slump in the jumbo home loan market has led to a \$42 billion decline in economic activity.

That's because borrowers who take out jumbos have much higher incomes than a typical borrower (an average \$207,600 in 2007, says NAR's most recent data) and when they buy a home, they spend a lot to furnish it. When sales of costly homes slow, sellers of furniture, carpeting, flooring and appliances get hurt.

Z Gallerie, a home merchandise retailer, is the latest in a string of higher-end stores to feel pinched. The store filed for bankruptcy-court protection from creditors in April, citing a severe sales drop. January sales were down 19% from a year earlier.

"The high-end retailers are being impacted," says Gary Drenik at BIGresearch, a consumer intelligence firm. "When people buy a home, home-improvement and related sales go up."

Those who can buy higher-end homes are seeing their discretionary income further whacked by strict lending conditions. Lenders are requiring some borrowers seeking to finance 80% of their home purchase keep 40% of the total loan value in a reserve account, says Michael Tooker, a mortgage planning specialist for Valley Private Mortgage Group in Scottsdale, Ariz. On a \$1 million loan, "that's \$400,000 in reserve," he says. "Some want six months

total debt service in reserve. It's so arbitrary."

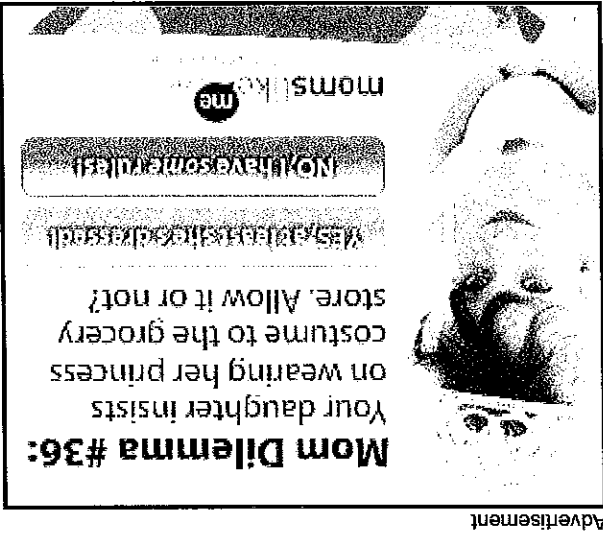
Camille Swanson, a Realtor at Realty Executives in Phoenix, can relate to the struggle. After selling her home, she fell in love with a foreclosed stacked-stone home in the desert that had been abandoned. But she discovered that no lender wanted to give her a jumbo loan on a property that needed so much renovation.

Swanson is almost finished obtaining a loan for the new place with an approval up to \$640,000, but details are still being negotiated. With her 20% down payment, the total investment will be \$800,000. She approached five lenders as far as Washington before finding one in her area to give her a loan. She didn't need money in reserve because of her retirement assets. "For them, it's an issue of risk," Swanson says.

Raising the roof

Real estate groups such as the NAR are pressuring Congress and the Obama administration to increase the jumbo loan limits that Fannie and Freddie will guarantee and make them permanent. Current amounts were raised in 2008 and are set to expire Dec. 31. They also want the Federal Reserve to buy jumbo-backed securities because Freddie and Fannie can't. The hope is that Fed purchases would create enough of a secondary market for these loans so banks would be more open to lending higher amounts.

Meanwhile, in jumbo-heavy markets, homeowners are increasingly frustrated by their inability to sell. They can't relocate for jobs or retirement. They can't



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unload vacation homes that they may now struggle to afford.

One such homeowner is Robert Westover, who works for the federal government in Washington, D.C. He's been trying for months to sell a home in Hawaii with an ocean view. He bought it for \$585,000 six years ago; it was valued at \$1.1 million during the real estate peak in 2006. But there are no offers. He planned to list it for \$940,000, but his Realtor suggested \$890,000. Then he lowered it to \$850,000. At one point, a potential buyer came forward but had no financing.

"It's just been tough. It was getting crazy," says Westover, 45, who now is taking the home off the market and renting it instead. "I hope I've learned a lesson, which is don't put anything on the market in this economy. Most people who have homes in the jumbo (price range) are reliable, pay bills. Why are we suffering while the government gives help to everyone else?"

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Jumbo loans to return in four years, banker says

October 13th, 2009, 1:00 am · 10 Comments · posted by Mathew Padilla
It is still hard but not impossible to get a jumbo home loan — that's a mortgage too big to be sold to Fannie Mae or Freddie Mac.
In his latest column, Paul Muolo of National Mortgage News writes about one mortgage banker who has a system for jumbos:

Meet Lucy Malone, president of Bridge Capital, San Diego. Until June of this year her firm funded jumbos. "It went from being a market that was over-served to one that is extremely under-served," she says.

Ms. Malone, a mortgage banker, got tired of struggling to find loan programs for her wealthy home buying clients. She had one client who had \$2 million in the bank and wanted to buy a \$500,000 home on the island of Coronado, right outside of San Diego proper. "He was an S-Corporation," she said. "I couldn't get him a loan."

For the past few months she's been acting as an agent for a commercial bank. Instead of making loans backed by the value of wealthy abodes, her firm makes a short-term line of credit that is collateralized by a home buyer's stock portfolio — as in equities. "These are all cash deals that are going into escrow," she explained. "This is asset-based lending. We look to the stock portfolio." In Ms. Malone's estimation, she had to change strategies to survive. She's been in the business for 28 years.

The bank she works with will fund up to 115% of the stock portfolio's value.

The loans are three to five-year interest only notes. For now, it's a solution to a problem that could be solved by jumbo securitizations returning but she has no hopes of that

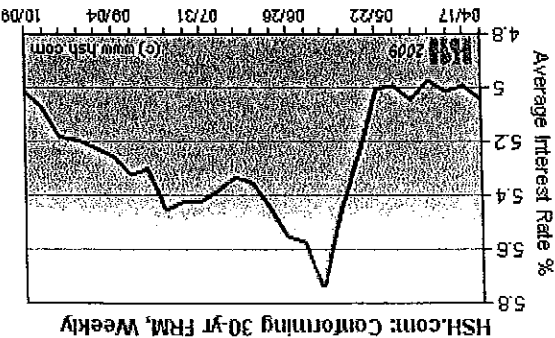
happening any time soon.

She said she's talked to the nation's largest lenders — Bank of America, Wells Fargo & Co., and Chase. "It will be four years before securitizations come back," she said. "We looked into it. That's what we found."

Muolo goes on to describe big banks making and holding jumbos. They are restrictive, asking for as much as 50% down.

Jumbo Loan Rates Dip Below 6%, Lowest In Four Years

Posted by: Chris Palmieri on October 12



Mortgage interest rates are trending steadily downward. The research firm HSH reports that jumbo loans—those for higher-priced homes—dipped below 6% for the first time since September of 2005. This week the average for a 30-year jumbo loan is 5.96%.

The news comes along with mixed signals for the high-end home market. The *Wall Street Journal* reported today that more high-end homeowners are being foreclosed on. The top tier of homes now account for 30% of foreclosed homes, up from 16% three years ago, according to Zillow.com

Despite the lower rates, a lot of buyers are having trouble getting qualified for larger loans. According to real estate agents, lenders are denying loans because the homes aren't appraising for the prices that sellers want to sell and buyers are willing to pay. Appraisers have been getting tougher about their standards. In some cases there aren't enough comparable sales to paint an accurate picture for an appraisal. "The luxury segment is seeing a lot of appraisal problems," says Las Vegas Realtor Rob Jensen.

Still, the blended rate on all 30-year loans, jumbo and conforming, has dropped to 5.35%, says HSH. In June it was 5.92%

Applications for new home purchases have jumped 13%. For refinances they are up 18%, according to the Mortgage Bankers Association. "Hopefully, those refinances will serve to recast balance sheets for households looking for extra cash to spend and/or to further pay down outstanding obligations," writes HSH vice president Keith Gumbinger.

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(mailto:)

Jumbo Mortgage Market is Holding Recovery Back, Realtors® Report

WASHINGTON, May 13, 2009

Limited availability and unusually high interest rates in the jumbo loan market are adversely affecting the rest of the housing market. This is just one of the insights from recent National Association of Realtors® research on the Impact of the Jumbo Mortgage Credit Crunch (http://www.realtor.org/research/jumbo_mortgage_impact). Released today at the Realtors® Midyear Legislative Meetings & Trade Expo (http://www.realtor.org/meetings_and_expo/2009_midyear_live).

The ongoing credit crunch in the jumbo mortgage market has stalled home sales of high-priced homes, despite some recovery taking place in some mid- and low-priced home markets. The national share of home sales above \$750,000 has fallen from 4.4 percent in 2007 to approximately 2.3 percent in 2009, and the months' supply of inventory has risen from 18.7 months to 41.1 months during that same period.

Although legislation earlier this year increased the conforming loan limit to as much as \$729,750 in high-cost areas, the mortgage market now has three primary types of loans. Loans up to \$417,000 are considered "conforming," loans between \$417,000 and \$729,500 are "conforming jumbo," and loans over \$729,500 are "super-jumbo." Although conforming mortgage rates are at 50-year lows, jumbo loans in general continue to remain very costly.

"Lenders are keeping credit standards overly stringent for borrowers at the higher end of the market, and are increasingly reluctant to make jumbo loans," said NAR Chief Economist Lawrence Yun. "The interest rate spread between 10-year treasuries and jumbo loans has also substantially increased, making jumbo loans much more costly than has previously been the case. Many people believe that the jumbo market is for the very rich, but in many areas of the country, middle-class families need these loans to buy a median-priced home."

States that have the highest percentage of jumbo mortgages include Hawaii (43 percent of all loans are above \$417,000), California (41 percent), the District of Columbia (30 percent) and New York (22 percent). In eight more states, jumbo mortgages comprise 10 percent or more of all loans in those states (New Jersey, Maryland, Massachusetts, Virginia, Connecticut, Washington, Nevada and Florida).

"Realtors® are telling us that some lenders are treating jumbo loan buyers who have very high credit scores and a substantial downpayment as higher risks than conforming loan buyers who have lower credit scores and less money for a downpayment," said Yun. "As a result, more buyers of high-priced homes are resorting to cash purchases, while the bulk of potential buyers remain sidelined and unwilling to take out mortgages that carry interest rates much higher than those on conforming mortgages."

The resulting increased inventory of homes for sale has already doubled defaults from one year ago and will hamper a broader housing market recovery, which in turn will limit economic recovery. This also affects refinancing activity. "The inability of homeowners to refinance their jumbo loans is holding back potential consumer spending for the overall economy," said Yun. "If they had the opportunity to refinance into historically lower mortgage rates, many current jumbo mortgage holders could save \$6,000 to \$15,000 in annual interest costs."

Yun will discuss the research in detail tomorrow during the Real Estate Services Forum, "Fixing the Jumbo Market."

To resolve these issues in the jumbo mortgage market, NAR advocates that Congress and the administration make permanent the current rules for determining limits that apply in 2009, use the Term Asset-Backed Securities Loan Facility (TALF) to buy jumbo loans, and increase lender competition by loosening warehouse line of credit. Realtors® will be meeting with legislators and policymakers this week to discuss these and other initiatives that will help stabilize the housing market and help lead to a quicker broad economic recovery.

##

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NAR Research on the Impact of Jumbo Mortgage Credit Crunch

Introduction

Mortgage rates are at 50 year lows, thereby raising housing affordability conditions to all-time high levels. However, the historically low mortgage rates only apply to Federal Housing Administration (FHA) and GSE (the Government Sponsored Enterprises, Fannie Mae and Freddie Mac) loans, not to jumbo loans above the applicable loan limits for the geographic areas of the country. The conforming loan limit has increased from \$417,000 to \$729,750, depending on relative prices in specific geographic areas. The mortgage market now has three major types of loans: conforming loans to \$417,000; conforming loans up to \$729,750 depending on locations, sometimes referred to as "Conforming Jumbo"; and loans over \$729,750, sometimes referred to as "Super Jumbo." The Super Jumbo loans are not covered by Freddie/Fannie/FHA lending availability, and there are also constraints on the number of conforming jumbo loans that can be made.

There continue to be significant problems in the housing markets:

- Interest rates on jumbo mortgages remain elevated above those available for conforming loans, thereby significantly denting home sales.
- Inventories of homes for sale have risen to levels that have put additional downward pressure on home prices.
- Defaults and foreclosures of both conforming and jumbo loans have been rising.

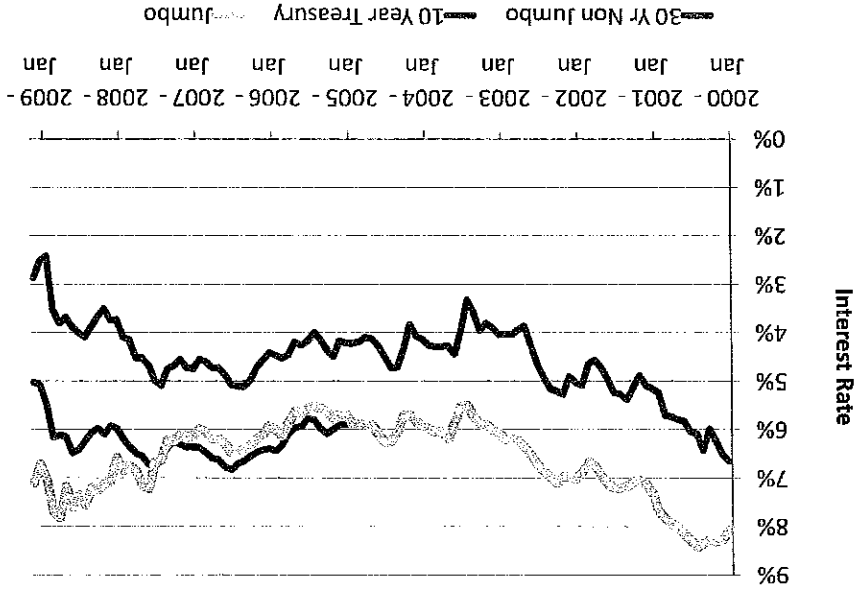
As recently as 2007, jumbo mortgages comprised 10 percent of all mortgages for home purchases and 30 percent of mortgage originations in dollar volume. However, in the midst of the most significant housing downturn since the Great Depression, much less attention has been focused on the jumbo loan segment of the housing market. The share of home sales above \$750,000 has fallen from 4.4 percent to approximately 2.3 percent of home sales in the current market environment. Both the emerging economic and housing recoveries are hindered because of credit market difficulties in the jumbo mortgage market.

Background and Overview of Problem

With the increase in the lending limits for conforming loans in high cost areas, the mortgage market now has three major types of mortgage products: conforming loans, up to \$417,000; conforming jumbo loans, up to \$729,750; and super 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 interest rates in recent months. First, increased credit standards required of borrowers coupled with the increasing reluctance of financial institutions to make jumbo loans have posed major problems at the higher 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 affecting the upper end of the housing market.

Jumbo loans typically had a rate 144 basis points above ten-year treasuries in 2005, rising to 387 basis points as of March 2009. The increased spread does not appear warranted by increased risk. Prior to the credit crunch beginning in August of 2007, interest rates on jumbo mortgages carried rates 20 to 50 basis points higher than the rates on conforming mortgages.

Jumbo Mortgage Rates

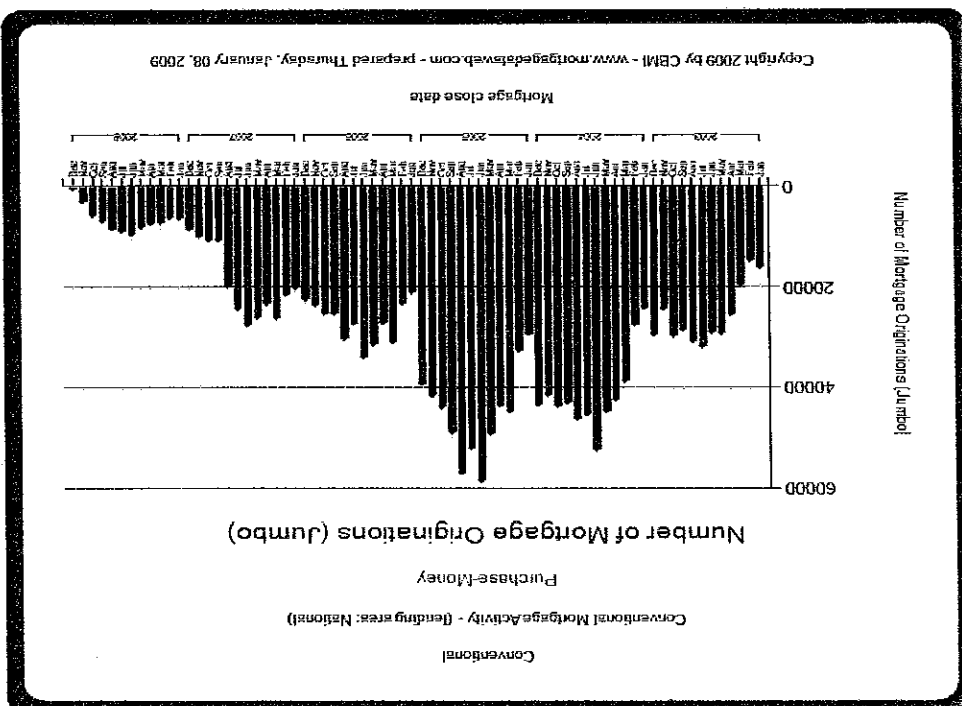


The purchase and issuance of jumbo mortgage backed securities have largely dried up. Originations of jumbo mortgages have fallen by more than 70 percent according to various industry sources.

- Example: *Inside Mortgage Finance* showed \$87 billion in jumbo mortgage originations in the first three quarters of 2008 (most recently available data), which is a decline of 71 percent from a comparable period in 2007.
- Because of the dysfunctional securitization loan market for mortgages without any U.S. government backing, the spread between jumbo and conforming mortgages has increased to a range of 150 to 200 basis points.
- The market share of jumbo loan originations has fallen to 6 percent from the typical 15 percent (according to *Inside Mortgage Finance*). High-end home sales, those homes priced above \$750,000 and typically requiring a jumbo loan, have fallen from 4.4 percent of sales in 2007 to only 2.3 percent in 2009.
- The months' supply of high-priced homes for sale generally is higher than lower priced homes. However, the inventory situation has dramatically worsened in the high-end market with months' supply in 2009 at 41 months compared to 18 months in 2007. By comparison, the months' supply of all homes has risen only modestly from 9 months to 10 months over the comparable period.

NAR Findings

Jumbo loans are of significant importance 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 through much of the entire market, further depressing home prices. Though the jumbo market is often viewed as a market for the very rich, the data suggest much wider prevalence of jumbo mortgages, touching many middle class families in several states.



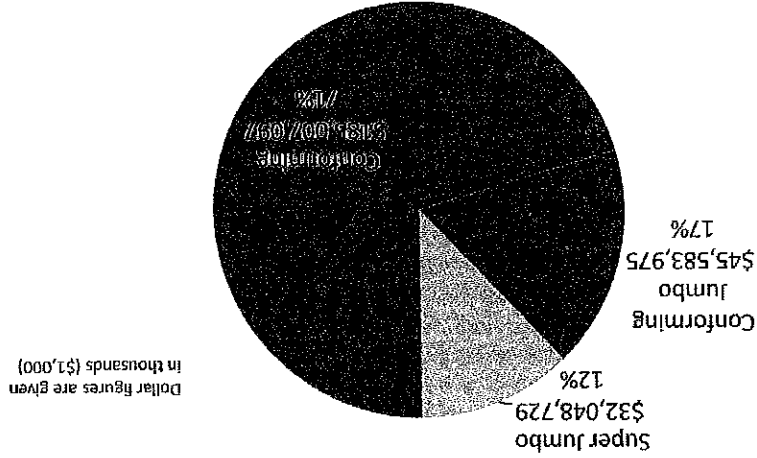
Jumbo Loan Market Share (dollar share of mortgage loans, 2007)	Total Jumbo Loans	Loans \$417,000 to \$730,000	Loan Over \$730,000
U.S.	30%	17%	12%
Hawaii	65%	42%	23%
California	63%	36%	27%
New York	51%	28%	22%
District of Columbia	50%	32%	18%
Connecticut	39%	15%	23%
New Jersey	34%	23%	12%
Maryland	32%	23%	10%
Massachusetts	31%	19%	13%
Virginia	31%	22%	8%
Florida	29%	15%	14%
Washington	29%	20%	9%
Nevada	27%	17%	10%
Colorado	26%	14%	12%
Arizona	25%	13%	12%
South Carolina	22%	12%	11%

Source: HMDA

A detailed study of two metro markets clearly shows dramatic market performance differences between high-end and low-end markets. For example, in Pierce County in the Seattle metro market, the months' supply situation has been improving from 10 to 6 months for those homes priced under \$750,000 while increasing from 40 to 70 months for those homes priced above \$750,000. Similarly in Orange County, California, the months' supply of inventory fell from 7.5 months to 4.5 months for lower priced homes with clear signs of home prices bottoming in that market segment. However, for those homes requiring jumbo loans, estimated to be one-quarter of all housing inventory, the months' supply has significantly increased, is putting downward pressure on prices, and is also raising the potential for default.

Economic Contribution

\$263 Billion Total



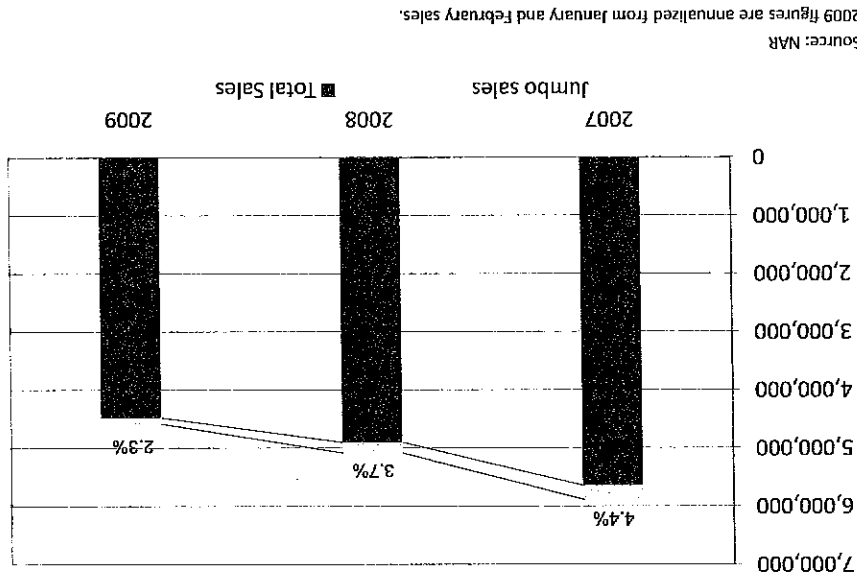
*Based on a per home economic impact of \$68,700 in 2007
 **Shares are based on an estimate of US economic impact and state and category loan dollar shares

Because of the meaningful importance of jumbo loans to the overall housing market, the current lack of jumbo loan financing is measurably and negatively impacting economic activity. A notable further price decline in the high-end market will hamper economic activity and further worsen bank balance sheets as defaults inevitably rise. In 2007, the mortgage origination dollar volumes for home purchase loans was 30 percent of the total market for mortgages above \$417,000 and 12 percent of the total market for mortgages above \$730,000.

- Problems in the jumbo financing market are reducing overall economic activity. The National Association of Realtors® estimates that each home sale at the median generates \$67,811 of economic impact (2007). This is based on income to real estate industries, spending on furniture and home furnishings, a multiplier effect on this spending, and the construction of new houses traditionally associated with existing home sales.
- As recently as 2007, jumbo mortgage market activity and associated home sales resulted in \$78 billion in economic activity. Because of credit market problems and much weaker activity in the jumbo loan market, NAR estimates a decline of \$42 billion in economic activity.

- In California 39.2 percent of homes were priced above \$500,000 (above the \$417,000 national cap for GSE loans in effect before the high cost area loan limits were adopted). Furthermore, four additional states had more than 20 percent of the housing stock with prices exceeding \$500,000. Jumbo mortgages do not impact only a sliver of the population, but affect many middle class families.

High-end Home Sales



The inability of consumers to refinance their jumbo loans is holding back potential consumer spending for the overall economy. Many of the current jumbo mortgage holders, if given the opportunity to refinance into historically lower mortgage rates, could save \$6,000 to \$15,000 in annual interest costs. In cases where home sales are not occurring as a result of higher interest rates, the outcome is not a transfer of income from jumbo borrower to lenders, but rather a pure deadweight loss for society. Sixty percent of recent home purchasers who used jumbo loans paid at least 20 percent as a down payment. That is significantly higher than down payments for people using GSE or FHA mortgages. In California, 75 percent of recent home purchasers who used jumbo loans put at least 20 percent down. Such high down payment requirements have no doubt deterred buyers, leading to higher inventories, falling home prices, and rising defaults.

As of October 2008, the foreclosure rate on jumbo mortgages reached 2.5 percent versus 1.2 percent for conforming mortgages (according to *Loan Performance*). People who take out jumbo loans have much higher income than a typical borrower. The typical income of a jumbo loan borrower was \$207,600 in 2007. Therefore, it was not surprising to observe a lower default rate among jumbo mortgage borrowers compared to other borrowers prior to the credit crunch. However, default rates have been rising among jumbo borrowers recently due to a lack of refinancing opportunities and also due to the pressure of an excessively large housing inventory in the high-end market.

Possible NAR Advocacy Positions

To relieve the jumbo loan problem and help stimulate housing recovery and economic growth, NAR advocates consideration of the following policy measures:

- Temporarily lift the loan limit (even for fairness reasons allowing more people to tap into historically low mortgage rates).
- Use TALF and PPIP to expand jumbo mortgage lending.
- Encourage more lender competition by facilitating warehouse lending to small and medium sized mortgage lenders.