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Jumbo Loans Coming to Life

Jumbo loans or loans that exceed the amount of $729,750 generally, was quite difficult to obtain just a short twelve months ago, but has been easing up lately. It did not matter how good the borrower's FICO was, it was simply unavailable or costly to obtain. The $729,750 amount is the magic number ceiling which Fannie Mae and Freddie Mac has set for conventional conforming loans, thus the moniker jumbo loans. These loans are considered to be unwieldy for the two quasi -government institutions to back.

The difficult in obtaining these loans arises when Fannie and Freddie fails to buy them from the lenders who initiated the loans, thus lessening the marketability of these loans.

Twelve months ago, if a borrower had access to these loans, the interest rate was between 7 and 8.5% for those with excellent credit. Borrowers with low or questionable FICO scores had little luck of securing these loans. Currently, the interest rates for these loans has come very close to conventional conforming loans; within less than 1.0 point, a far cry from where they were previously.

The effect of the difficulty in obtaining these higher loan values is that it adversely impacts move-up borrowers from selling their homes and buying higher priced homes, since they cannot obtain favorable loan interest rates. To compound this issue, buyers of homes that fall within conventional conforming loan financing have fewer homes to choose from, as sellers sit still waiting for loosening in credit availability of higher priced homes.

With recent loosening and credit availability of jumbo loans, many sellers of higher priced homes are seeing movement, with more than 30% more sales from the middle of 2009. The key players such as Bank of America, Wells Fargo and Citigroup have staked out this market for more activity, as echoed by a recent article in Wall Street Journal. This will mean even more lenders jumping into the fray, making credit available for borrowers in this segment of the market, and freeing more homes for lower priced homes.

Of course in Sacramento, the Fannie/Freddie Mac loan limit is lower at $580,000.

Al Som-Anya, MBA, Broker

Strategic Default Under Hammer

Strategic defaults or the act of borrowers walking away from their mortgages even though they can afford it, is increasing with home prices in most locations worth less than what was paid on it, and in some cases about half as much as the outstanding mortgage.

Fannie Mae has thrown its weight into the issue with current mandate to make borrowers who engage in strategic default ineligible for any mortgage backed by the company for seven years. They have also indicated that they will seek deficiency judgment in states that allow the practice.

This might be tricky as the company is still working on the instruction to define who qualifies as a strategic defaulter, considering so many mortgages were underwritten with very little documentation. It is pertinent to note that deficiency judgment in this case, do not apply to most California mortgages. The recent veto by Governor Schwarzenegger killed the anti deficiency bill that would have exonerated refis.

Al Som-Anya

THE TREND!

California	
Median Price-SFH	**Date**
$314,850	**07/10**
$311,950	**06/10**
$284,110	**07/09**
Sales change Prior Month –10.9%	
Sales change Prior Year -20.8%	
Sacramento	
Median Price - SFH	**Date**
$186,180	07/10
$196,215	06/10
$184,200	07/09
Sales change Prior Month -23.2%	
Sales change Prior Year –26.3%	
Source C.A.R Research Dept.	

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