Homebuyers Chase Jumbo Loans as Limits Near Expiration

By: Ryan Schuette 07/22/2011

Recent news reports show homebuyers flocking to high-end properties to close rates for jumbo loan mortgages, even as Congress wavers on a proposed bill that would fix higher thresholds for federally insured mortgages – a prospect that makes some wonder whether banks are capable of filling in for withdrawing government entities Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA).

On Saturday the *Wall Street Journal* reported a surge in high-end purchases. The surge could jump to the highest in five years, according to the *Journal*, largely because public officials appear unlikely to keep limits at $729,750. In past years, Congress successively raised the limits from $418,000 to $625,500, where the jumbo loan ceiling will once again rest if lawmakers refuse to pass an extension. The limit-raises arrived during the throes of the Great Recession, which public officials tried to stymie by providing lenders and high-end homebuyers with incentives.

Coupled with a recent Federal Housing Finance Agency (FHFA) report, which holds that jumbo loans account for 5 to 13 percent of total mortgage loans originated this year, some wonder about the potential for fallout in the housing sector if the GSEs and FHA pull back.

Shannon Faries, a business development manager at Harbor Lending, questions the widespread notion that banks will step up to the jumbo loan challenge.

When the limit changes "go down, who is going to be making the loans from $625,000 and up?" he asks. "A lot of private lenders are not going to touch these loans."

Faries recalls the lack of a secondary market from his workplace in California, one of several jumbo-rich regions around the country that the FHFA estimates may feel the limit expiration pinch more intensely. He also dismisses the suggestion that private equity groups will rescue homebuyers with jumbo loans.

"Until there is a larger secondary market," he says, "there is not going to be any big expansion on the jumbo loan front or anyone to service these over the $625,000 mark. There is no lender that would hold a loan that amount without having someone to sell a jumbo loan to. No one will want these."

In testimony before the House Budget Committee in July, Federal Reserve Chairman Ben Bernanke placed considerably more confidence in the private sector and argued that the government to step back. "I understand the private sector is taking at least a significant number of the jumbo mortgage market but at a higher cost," he said.

Following his remarks, the National Association of Home Builders (NAHB) released a report indicating that 250 counties with the highest jumbo mortgage loans also bear 59 percent of the nation's housing stock.

“The lower limits will place a constraint on home buying in high-cost housing markets, such as those along the coasts and in California,” NAHB Chairman Bob Nielson, a Reno-based home builder, said in a statement. “It is the last thing we need in a housing market that is still struggling to get back on its feet.”

Scott Sheldon, a loan officer with Sonoma County Mortgages, fears the repercussions of a limit fallback in his California real estate market, which he says would buckle under new foreclosures as a result of crimped homeowners who once relied on federal insurance.

Still, he says, “I think they [Congress] are going to extend the loan limits and keep them in place the way they are. They’re going to shoot themselves in the foot… [and] if they do that, there’s going to have to be some other stimulus for them to fill” in the larger economy.

If Congress passes on a limit extension, federal insurance thresholds for government-backed mortgages will fall from $729,750 to $625,500 on October 1.