

Doron F. Eghbali Real Estate Law

Probably, A Beacon of Hope for Jumbo Loan Borrowers

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If you wanted to purchase a very expensive house before the prices climb, you might be a little luckier today than yesterday. In fact, jumbo mortgage rates might move down a little bit thanks to a planned Citigroup, Inc. offering of bonds backed by jumbo mortgages. However, perils still loom large.

SOME BACKGROUND

Jumbo mortgages are the ones too large to be guaranteed by government-backed investors namely Fannie Mae and Freddie Mac. The maximum loan guaranteed by the government varies from housing market to housing market. The maximum guaranty could be between \$417,000 in most of the nation to \$729,750 in the very high-end markets.

During the housing boom, jumbo mortgage prices tended to be not much higher than so-called conforming loans, i.e. below the \$417,000 or \$729,750. However, when frightened investors moved away from jumbo mortgages, rates climbed. In fact, at the peak of the financial crisis, December 2008, 30-year fixed rate jumbo mortgages were around 7% compared to 5.2% for loans guaranteed by the government, according to HSA Associates. Last week, jumbo mortgages had dropped to 5.8%, based on HSA Associates.

This is important to note many people obtain fixed rate jumbo mortgages for five years and then the rates start to adjust. These rates usually carry a lower rate than the ones cited above.

PLANNED BOND ISSUANCE BACKED BY JUMBO MORTGAGES

The market for mortgage securities not backed by government was nearly dead for two years. However, the perception now is that \$222 million worth of bonds issued by Redwood Trust, Inc. and backed by Citigroup, Inc. jumbo mortgages made in the past 11 months might spark some interest in the moribund securities market.

SERIOUS CAVEATS

- **Still Parlous Territory To Wade Through:** Make no mistake. Such mortgage-backed securities were at the heart of the financial crisis.
- **Still No Precipitous Drop in Prices Anticipated:** Do not expect precipitous drop in jumbo mortgage rates over night. There are far more egregious and fundamental problems with the US real estate market. Such problems, indeed, do not disappear by some small offerings.
- **Still Plenty of Cash and Excellent Credit Required:** You must have plenty of cash for a large down payment and excellent credit to have a chance.

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