



What is a Jumbo Loan and Do I Have One?!!

Josh Moffitt, President
Silvertown Mortgage Specialists, Inc.

Slowly, the credit crunch is finally correcting itself and we are seeing an unprecedented number of changes in the mortgage market. Each day, loan programs are being taken away, new ones are being added and existing programs are modifying their guidelines.

One of the products that has made quite a bit of news lately is the Jumbo loan. Traditionally, Fannie Mae and Freddie Mac have set their max loan limit nationally and would not insure the loan if it was for an amount over the limit. Fannie Mae and Freddie Mac do not make loans, but are government sponsored companies that insure loans and securitize mortgages on the secondary market, thus allowing lenders to have a consistent stream of liquidity to continue lending money. For the past few years, this Jumbo limit has been set nationally at \$417,000.

As part of the President's Stimulus Package, these agencies are now allowing that limit to be increased. This is the good news.

The bad news is that here in Georgia, it hasn't changed the max for our Jumbo loans, which will be \$417,000 again this year. The reason is that the agencies are setting their limits on a county-by-county basis, reviewing a county's median home sales price and determining if the Jumbo limit should be increased for that individual county. So rather than a national limit as in years past, it is now determined in every county by median home price. In Georgia, only one county, Green County, had an increase in the Jumbo limit. Nationally, counties out west seemed to see the biggest increase as did Hawaii and other expensive real estate markets (think all of the places you would love to have that second home, but it's too expensive!).

What does all this mean? Well, it really boils down to interest rates. Lenders are still making loans for amounts over \$417,000 in Georgia and every other state, but the rates on these loans just aren't as attractive as if the loan was under the \$417,000 mark. Unfortunately, the secondary market (mortgage-backed securities) is having a hard time evaluating the risk of loans over \$417,000 in most markets. Without Fannie Mae or Freddie Mac insuring these loans, the perceived risk is large, therefore the loans are commanding higher rates. Risk is offset by the interest rate: the higher the risk, the higher the rate! In a traditional market, a Jumbo loan is usually .5% higher in rate than a conforming loan amount (under \$417,000). Currently, a Jumbo loan sits about 1.0 to 1.125% higher in rate than the conventional interest rate.

Will the market adjust and correct itself? The common thought is yes; it's just a matter of when. Loans over \$417,000 shouldn't be much more risky than loans under \$417,000. The lenders creating the loan programs are learning that the guidelines for these loans need to be modified (in most cases tightened). More conservative lending practices (You mean lending someone a million dollars that couldn't prove where they worked, how much they made or how much they had in the bank on a loan that the rate

adjusted every month was a bad idea?!) which are needed to an extent, will help get the Jumbo market back to normal rate levels.

It's just a matter of time!