

YOUR MARKET UPDATE | AT-A-GLANCE

Mortgage Market Improves for Select Homebuyers

Affluent homebuyers are paying lower average rates on jumbo mortgages and lenders are requiring smaller down payments and waiving mortgage insurance to make the loans even easier for the wealthy to obtain.

According to a report on CNN Wire, jumbo mortgage lenders are charging lower interest rates to qualified buyers than average borrowers pay. The Mortgage Bankers Association confirmed in its weekly updates on September 21, 2014, that the average rate on jumbo loans was 4.24 percent the previous week, compared with 4.36 percent for conventional 30-year, fixed-rate mortgages.

“Jumbo” mortgages are above the conforming loan limits of \$417,000, which makes them eligible for purchase by Fannie Mae or Freddie Mac. For high-cost areas such as California coastal cities, jumbo loans can go as high as \$625,500 or more and still conform to secondary market standards.

ADVICE FOR SELLERS

While a slowing sales pace may take other sellers by surprise, be smart about pricing your home aggressively. Buyers are still looking; they are simply showing more reservation than during the peak of the summer sales season. Show that your home is the best location, condition and price for the money, and you'll find an eager buyer quickly.

ADVICE FOR BUYERS

If you've been turned down for a mortgage within the last two years, it may be worthwhile to re-apply. You may be surprised at how much your lender wants to loan you money now. If you have good credit, now is the time to lock in great low rates.

This is important because it gives a means to lenders to sell their loans so they can profit on fees and replenish their coffers to originate

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more loans. By originating jumbo loans and keeping them on their books, lenders can stay in front of affluent borrowers to pitch offerings such as brokerage services or retirement planning.

Jumbo mortgage borrowers are getting other perks, too. CNN reports that some lenders are requiring as little as 10 percent down from affluent clients and in some cases are waiving private mortgage insurance. They are also lowering credit score requirements from 700 to 650 to qualify more jumbo loan borrowers.

With home prices continuing to rise, the risk of default is lower, allowing banks to take advantage of robust markets such as Los Angeles, San Francisco, New York City and Washington, D.C.

In Q2 2014, 23.9 percent of banks reported easing loan standards – twice the number in Q1. Mortgage software firm Ellie Mae reported that 60 percent of all loans closed, compared to only 54 percent in all of 2013.

One reason borrowers are having an easier time obtaining mortgages is because lenders are reducing or eliminating investor overlays. In other words, the bank requires stricter adherence to loan standards than government insurers require for eligible loans. This includes FHA or secondary market purchasers such as Fannie Mae and Freddie

Mac. For example, a bank may require 620 FICO scores or higher for applicants to secure an FHA-guaranteed loan when FHA requires a credit score of only 580.

The improved market for jumbo and prime mortgage borrowers is confirmed by housing analysts at RealtyTrac, which reports home sales above \$500,000 in the top 20 metros soared in August.

“Higher-end properties are taking up a bigger share of a smaller home-sales pie, boosting the median home price nationwide higher even as home-price appreciation slows to single digits in many of last year's red-hot local housing markets,” said RealtyTrac Vice President Daren Blomquist.

According to CoreLogic DataQuick, 37.2 percent of all Southland home sales were \$500,000 or more, up from 37.1 percent in July 2013 and up from 33.3 percent in August of the same year.

The median price paid for all new and resale homes was \$420,000, up 1.7 percent from \$413,000 in July 2014 and up 9.1 percent from \$385,000 in August 2013. This marks the highest monthly median since December 2007, when the median was \$425,000. It was also the lowest month for sales volume in four years.

“There was certainly pressure on home values this summer, but some of that jump in the August median sale price appears to reflect a shift in market mix,” said Andrew LePage, a CoreLogic DataQuick analyst. “A slightly higher share of sales occurred in the more expensive coastal markets, and that can nudge up the median.”

The juxtaposition of buyers and sellers in the same market shows that the housing market has come a long way, but it's still healing. Many homeowners are waiting for price appreciation to rise enough so they can move up to other homes, while rising prices may create hurdles for many potential buyers. Hopefully, easing mortgage rates may help both sides of the table get what they want.