

How to Qualify and Get the Best Rate on a Jumbo Loan Today



You are probably aware that lending standards have tightened with the recent media blasts. More importantly, are you aware that in the jumbo loan market (loans above \$625,500 in our area) that interest rates have come down over 2% in the last 3 months? On a 1 million dollar loan that would produce a savings of approximately \$1,300 per month.

With the government intervention to help banks lend especially with new mortgage loans, jumbo rates have dropped to rates closer to rates of conforming loans. A jumbo loan is originated with the intent to be pooled together and sold to investors (but not FNMA, FHLMC or GNMA). Currently the ability for banks to sell these pooled loans are very limited therefore the "mega" banks are making these loans and holding them in their portfolio until such time that they can sell them again. Because each bank has to hold them you may see a difference in interest rates for the same jumbo 30 year fixed between each institution.

The criteria for qualifying for a full documentation jumbo loan has not changed. What has changed over the last 2 years is the limits on the criteria. This means that FICO score requirements have increased slightly, LTV for larger loan amounts have decreased slightly (you need to put a little more down for a jumbo loan over 1 million) and cash reserves (this could be 401k accounts as well) after the close of escrow have increased slightly. The other criteria to qualify, is debt to income. Basically, the principal, interest, taxes, insurance, revolving and installment debts are added and divided by your gross monthly income. The criteria for debt to income based on LTV can be from 40% to 46% (exceptions may be granted with a higher percentage based on compensating factors).



In order to get the lowest interest rate and pay the lowest points, here are the determining factors. The number one factor is FICO score. In most cases a 680 mid score is needed to qualify for a jumbo loan. Scores above 680 see reductions in the points for the loan. There are tiers with FICO scores that can give discounts in points, they are 680, 720 and 760. As the FICO score increases above each tier reduced points are required for the same interest rate. The other most important factor is Loan to Value

(LTV) or also referenced as the percentage of down payment. Again tiers exist with the lowest amount of points for the same interest rate being with the largest percentage of down payment or lowest LTV. When the LTV decreases from 90%, 80%, 75% and 70% the points required for the same interest is reduced. The difference in points for higher FICO scores and lower LTV's could be in the range of 0.25 points to as much as 1.0 in points when comparing opposite ends of the spectrum. Currently a jumbo 30 year fixed for a purchase is in the range of 5.75% with 1 point (zero point loans are an option as well).

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