

# Get to Know Jumbo Loans

By ANNA CHANG-YEN | Green Shoot Media

If you're in a booming local real estate market or looking to move up to a home with no shortage of space, you might need a jumbo loan to seal the deal. If so, be prepared to have your finances go under a higher degree of scrutiny.

## CONFORMING VS. JUMBO

In most areas of the country, the largest amount available for a “conforming” loan — a loan that can be purchased by government entities Fannie Mae and Freddie Mac — is \$417,000. In some areas of the country where real estate costs are much higher, conforming loan limits are as high as \$625,000.

Limits are higher for multiple-unit dwellings. In high-dollar markets such as Alaska, Guam, Hawaii and the U.S. Virgin Islands, a four-unit home can qualify for a conforming loan with a price tag as high as \$1.2 million.

Conforming loans typically offer more attractive interest rates than non-conforming loans, while also requiring documentation of the borrower's income and placing limits on a borrower's total debt including the proposed mortgage.

A large purchase price isn't the only thing that can prevent a borrower from qualifying for a conforming loan. If a buyer's credit score is too low or his income cannot be verified, or if the borrower carries too much debt, he still may need a pricier non-conforming loan.

## DIFFERENT REQUIREMENTS

Because lenders are putting more



money on the line without the ability to sell the mortgage to a federally backed program, the requirements and interest rates are higher for jumbo loans.

There are no universal guidelines for jumbo loans, with each bank setting its own requirements.

Lenders may require more than one appraisal of the property and probably will require a larger down payment and low debt-to-income ratios.

The Wall Street Journal reported in January 2016 that jumbo loan applicants could expect loosened loan requirements in 2016, with some programs allowing credit scores as low as 660 and down payments as low as 10 percent. Higher credit scores and down payments, however, still can score borrowers the lowest rates.

## SHOPPING TIPS

If you're looking to purchase a home in jumbo loan territory, it might be a good idea to stash some cash before you start home shopping. A large down payment can help keep you below conforming loan limits and help you score a lower rate, not to mention avoiding jumbo loan requirements.

It also might be a good idea to pay off as much debt as possible before making a purchase in the jumbo price range, as large monthly obligations combined with a jumbo payment could prove difficult to qualify for — and manage on a monthly basis.

The Wall Street Journal recommends that borrowers shopping for a jumbo loan consider an adjustable-rate mortgage. ARM rates typically are lower than fixed mortgages, and a 1 percent

## REAL ESTATE 101

### Know the Limits

Conforming loan limits are published by the Federal Housing Finance Agency. Loan limits change each year as home prices and local real estate markets change. To see current loan limits for a particular area, visit <http://bit.ly/2aDS3ud>.

difference can add up to big savings on a large mortgage balance.

Because lenders can set their own requirements for jumbo loans, it's very important to shop around. Even a quarter of a point difference in interest rates is more than pocket change in the jumbo market.





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### HOMESWISE GLOSSARY

**Market value:** The most probable price that a property should bring in a competitive and open market, provided that all conditions requisite to a fair sale are present, the buyer and seller are knowledgeable and acting prudently, and the price is not affected by any undue stimulus.

**Appraisal:** an opinion or estimate of value performed by a state-licensed or certified real estate appraiser in the state in which the property is located. Also refers to the process by which a value estimate (factual analysis) is obtained.

**SOURCE:** U.S. Department of Housing and Urban Development

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