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Jumbo MBS Get Mixed Signals

by Bonnie Sinnock
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The more portfolio-friendly nature of jumbo loans and recent delays in key secondary market regulations are key hurdles holding back the long-awaited return of this secondary market, which is making some strides in other areas.

"On the secondary market side I see confidence coming back as home values across the country start to bottom out and banks are starting to feel more comfortable with people's equity in their homes," Robert Cohan, president of Beverly Hills, Calif.-based mortgage banker Carlyle Financial, told this publication.

Cohan, who estimates about 80% of his company's volume is jumbo, said the super-low Treasury yields those bonds have hit recently in the market also are a plus for the sector because they make jumbo mortgage-backed securities yields look attractive, drawing investors back to the market.

When asked about securitization, Cohan said "obviously, there is an effort there" and the credit profile is attractive.

"The scrutiny on underwriting alone is unparalleled" compared to the pre-2008 period, he said, noting that loan-to-value ratio requirements remain lower and credit score and reserve requirements are still higher.

In part because of the housing market's protracted recovery, borrowers continue to prefer relatively longer-term seven- and 10-year hybrid adjustable-rate mortgages in the ARM-dominated jumbo market, Cohan said.

All this is "making the secondary market look at MBS, especially on the jumbo side, as something that makes sense," he said.

But when asked about the bank appetite for keeping these loans in portfolio and the recent delays in plans for key regulatory moves like the qualified mortgage definition, Cohan said these obviously continue to be obstacles for the market.

Jumbos, by definition, are an "out of the box" product. As such, they can be lacking in the kind of standardization that tends to be conducive to pooling in securitizations and sales to investors.

"Each deal is looked at as an individual transaction," he said.

That being said, while most banks are putting their jumbo loans in portfolio, "there are some sales out there, we do see it."

Cohan confirmed some real estate investment trust and investment bank appetite for the product, which his company sells servicing released. He also said that recently there have been more different types of institutions in the jumbo market, and overall relatively more buyers.

The latest Mortgage Bankers Association's weekly application index available at press time, reflecting the week ending June 1, indicated that contract interest rates on jumbo loans as well as conforming products have been at record lows.

Cohan said jumbo rates "have come down a little bit," depending on the product and the borrower's relationship with its bank, which may convince an institution to offer more aggressive pricing. Overall, he said, "I haven't seen a huge dip in rates." However, the drop has been "enough to get application volume up."

Certain areas and loan sizes in particular have heated up recently, he said, noting that in parts of the Los Angeles area competition for homes in the $1 million to $2 million range "has seen a huge pickup."

"A lot of the big cities are seeing a little pickup on the jumbo side," Cohan said. The rollback in the higher agency loan limits that previously has been allowed also has contributed to higher jumbo volumes, he said.