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JUMBO JUNGLE

For Jumbo Loans, Small Is Big

Smaller lenders embrace high-end home buyers, competing with large banks that have long dominated the market; how they measure up

Warren Griffin, left, and his partner, Drew Hamlin, in their Washington, D.C., home. In March, the couple bought the home for $961,000, using a jumbo loan from a small lender. MELISSA GOLDEN FOR THE WALL STREET JOURNAL

By Daniel J. Goldstein

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When Drew Hamlin and his partner bid on a townhouse this year in Washington, D.C's Stanton Park neighborhood, it helped that they went small—with their choice of lender.

"We literally were told that it was our lender that sealed the deal," said Mr. Hamlin, a 36-year-old assistant principal in Virginia's Fairfax County Public School system. Mr. Hamlin and his 40-year-old partner, Warren Griffin, opted for a 4.75% jumbo loan with Bethesda, Md.-based First Savings Mortgage Corp., which had $490 million in jumbo originations in 2013, up from just $160 million in 2010.

They won out for the 2,289-square-foot end-unit Federal-style home with an offer of $961,000. Even though their combined income wasn't as high as the other bidders, Mr. Hamlin says the seller, an investor, had worked with First Savings before and liked the company. Their $850,000 loan took two weeks to close and required less than a typical 20% down payment.

Lenders more than ever want the jumbo-mortgage borrower on the books," said Greg McBride, chief financial analyst at Bankrate.com, a research and rate- comparison website.

Relatively low interest rates for jumbos have made it easier for small lenders like First Savings Mortgage to nimbly maneuver around bigger lenders, says Guy Cecala, CEO and publisher at Inside Mortgage Finance in Bethesda, Md.

Mr. Cecala said competition in the jumbo-loan market has driven the spread between conforming and jumbo loans to almost parity for the first time in more than 35 years; they have had roughly the same interest rate since November.

"Small banks don't have to pay out money on CDs, and whatever money they have to lend is very low-cost money," Mr. Cecala said. "Before the crash, they couldn't compete in the conforming mortgage space, let alone the jumbo space, but now Acme Savings' costs are pretty much the same as Wells Fargo 's ."

To be sure, Wells Fargo continues to dominate when it comes to private jumbo-loan production. According to Inside Mortgage Finance, Wells Fargo was atop the private jumbo-loan market with more than $43 billion in loans in 2013, a 16% market share. That is down from 2007, the near-peak of the jumbo- loan market, when it made more than $61 billion in loans and owned an 18% market share.

But Mount Laurel, N.J.-based PHH Mortgage, a smaller lender, elbowed aside Bank of America last year to become the second-largest jumbo lender with $26 billion in loans and a 9.6% market share. In 2006, PHH made about $12.5 billion in loans, for a 2.6% share of the business,

The motivation for making a jumbo loan is straightforward: The borrower typically is a well-heeled customer who can be offered other products.

"The high-income individual is not only a candidate for loans but for investment products, small-business services, you name it," said Bankrate.com's Mr. McBride, who is based in North Palm Beach, Fla. "The mortgage business may be the foot in the door."

Because lenders' jumbo loans are kept on their books instead of being sold to Fannie Mae or Freddie Mac ,jumbos typically have stricter underwriting requirements, such as a minimum credit score of 720 for a $1 million-plus loan; six months of reserves;a debt-to-income ratio of 43% or less;and no interest-only loans, said Darren Ferlisi, a mortgage loan officer at Integrity Home Mortgage Corp. in Frederick, Md.

Here are some other factors to consider.

• **Big advantages:** If you have significant assets with a large bank, you may be able to negotiate a better rate with that bank. You also may be able to borrow against your assets at the bank at an attractive interest rate.

• **Personal touch:** Customer service at smaller institutions is usually their biggest selling point. Smaller lenders also may offer a wider array of loan types and can complete a mortgage for a home sale faster.