https://www.wsj.com/finance/banking/mortgage-jumbo-loan-interest-rates-wealthy-a84e87d3

Banks Don't Love Rich Mortgage Borrowers as Much as They Used To

The Fed's interest-rate hikes and recent bank failures mean lenders aren't competing so fiercely for jumbo loans

By Ben Eisen Follow *and Rachel Louise Ensign* Follow

Updated Aug. 21, 2023 12:00 am ET

Sheila Smith was set to get a mortgage for about $750,000 to buy an investment property in Sedona, Ariz., earlier this year. The lender, a regional bank, offered a starting interest rate of about 5%, well below the going rate.

Then, the bank said it was no longer offering the deal. Smith balked at paying more and wound up buying a cheaper home she could afford in cash.

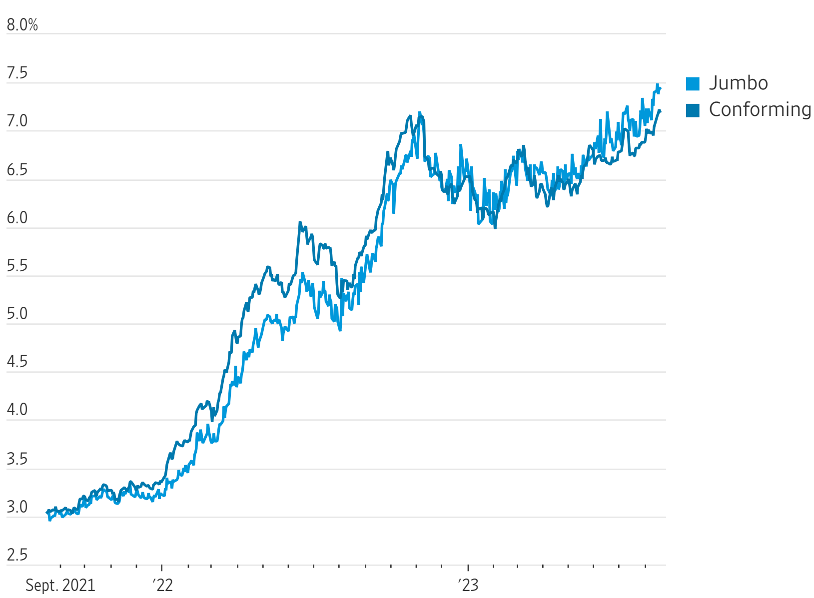
"It knocked me out of the higher price point," she said.

Banks are tapping the brakes on big home loans known as jumbo mortgages, which they have typically viewed as a low-risk way to attract wealthy customers. In the past year, the Federal Reserve's steep interest-rate increases and a series of bank failures have dimmed their appetite. Now affluent home buyers are no longer getting the special treatment and preferential rates they hoped for.

Mortgage borrowers across the board are facing higher rates, and the average rate on a 30-year, fixed-rate mortgage shot above 7% last week. But rates are rising faster for jumbos, which are typically above $726,200.

Jumbos usually carry lower rates than regular-size mortgages, but that has reversed in recent months. The going rate on a jumbo was 7.44% on Friday, versus 7.20% for a typical smaller loan, according to mortgage-data and technology company Black Knight. The availability of jumbos has been falling for three straight months, the Mortgage Bankers Association said.

30-year mortgage rates by loan size



Source: Black Knight

Wealthy people are hardly struggling. But their wages are growing more slowly than lower-income households'. They are drawing on unemployment benefits at three times the pace of lower-income households, according to the Bank of America Institute.

Other borrowing costs for the affluent are also rising. People with super-prime credit scores are paying interest rates roughly twice as high as two years ago on new-car loans, while deep-subprime interest rates are about flat, according to Experian data from the first quarter.

Lenders are also charging higher rates on loans backed by investment portfolios, which are favored by well-off borrowers. Because the rates float, they are a lot more expensive now—roughly 8% today, compared with about 3% before the Fed started increasing rates, said Tom Anderson, who consults with banks on the product.

Banks grew eager to make jumbo mortgages in the years following the financial crisis. These loans were virtually guaranteed to be repaid by well-heeled customers, the opposite of the dodgy subprime mortgages that had just brought the financial system to the brink.

The banks generally kept the jumbo mortgages on their balance sheets, a key difference from smaller loans, which are sold to investors. A 30-year fixed-rate mortgage at 3% provided a reasonable return when banks were paying nothing on deposits.

Silicon Valley Bank failed in March, brought down partly by its mishandling of the higher interest rates. First Republic Bank, which had made a business of offering ultralow rates and flexible terms to wealthy home buyers, soon followed.

"The shock wave has psychologically affected bank executives," said Chris Abate, chief executive officer of Redwood Trust, a financial firm that buys and sells jumbo mortgages.

Before the banks collapsed, most of Redwood Trust's business involved buying jumbos from independent mortgage brokers and selling them to banks. Now it is the opposite: Dozens of banks are flooding the firm with requests to potentially unload their jumbo loans. Banks will find it harder to make bespoke loans since they have to be standardized to sell to third parties, Abate said.

Last month, U.S. regulators proposed rules that would effectively require banks to keep more capital against some mortgages, making it less lucrative to hold them.

JPMorgan Chase likely was the largest jumbo lender in the U.S. in the second quarter after its acquisition of First Republic, according to Inside Mortgage Finance.

JPMorgan CEO Jamie Dimon said his bank wouldn't be taking the same approach as the failed institution. "We're not going to be putting a lot of cheap jumbo mortgage loans on our books," Dimon said in a call with investors on the morning of the deal.

Citizens Financial Group recently hired dozens of former First Republic bankers as part of an effort to attract affluent customers. One thing the new employees won't have in their arsenal? Deeply discounted mortgages, said Brendan Coughlin, head of consumer banking at Citizens.

The pullback is forcing many affluent home buyers to reconsider their financing options, or even what properties they buy.

Smith, the Sedona buyer, said the cheaper house she bought needs some work, so she is planning to fix it up before renting it out. To get the cash to buy it, she drew on a line of credit against her home in Boise, Idaho, where she is a real-estate agent.

Columbia Banking System, which had been offering the adjustable-rate jumbo loan she wanted to use, said it is focused on building customer relationships, and as a result, "jumbo mortgages are primarily reserved for customers."

Christine Johnson, a marketing manager in Chicago, has been looking with her family of four for a house with a backyard. They wanted to put down 20% on a $1 million home and take out a jumbo loan. But they could get a lower rate if they put down 30% and got a conforming mortgage, industry parlance that means it is eligible to be sold to investors with government backing.

They have been considering coming up with the extra cash by selling the condo they currently live in, and by borrowing against retirement accounts. They haven't yet had an offer accepted, so they haven't had to decide.

"Depending on where interest rates are, it will dictate what we are doing," she said.

Write to Ben Eisen at ben.eisen@wsj.com and Rachel Louise Ensign at Rachel.Ensign@wsj.com

We Want to Hear From You

Have you bought or sold a home recently or are you in the process of buying or selling one? What was the experience like?*

How have mortgage-interest rates influenced your decision to buy or sell? What about the inventory of homes for sale in your area?*

Where did you purchase or sell your home (city, state)?*

What is your mortgage rate?

Name*

Email*

SUBMIT

By submitting your response to this questionnaire, you consent to Dow Jones processing your special categories of personal information and are indicating that your answers may be investigated and published by The Wall Street Journal and you are willing to be contacted by a Journal reporter to discuss your answers further. In an article on this subject, the Journal will not attribute your answers to you by name unless a reporter contacts you and you provide that consent.

Appeared in the August 21, 2023, print edition as 'Wealthy Borrowers Lose Sweet Deal'.