

1 YOU'RE MORE LIKELY TO NEED ONE NOW

With home prices up almost 43% over the past five years, a growing number of homebuyers need to finance purchases with jumbo mortgages—loans that top the amount that can be guaranteed by federal agencies Fannie Mae and Freddie Mac. Jumbos made up 18.9% of all loans approved last year, up from 7.1% in 2008. The jumbo threshold has been constant at \$417,000 for about a decade in most parts of the country, but it has risen in many pricier counties, going as high as \$625,500 for 2016.

2 IT'S TOUGHER TO QUALIFY

To approve you for a jumbo, many lenders require a FICO score of about 760, vs. 740 for regular mortgages. Some also require higher down payments, says Keith Gumbinger of mortgage data site HSH.com—typically 20%, compared with 10% for a regular loan, though there are notable exceptions. (More on that in a minute.) You'll also need more proof that you can afford the loan, he says—ideally, enough cash on hand to cover six months of payments. With regular loans, you need at least two months' cash.

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Things to Know About Jumbo Loans

by Kerry Close

3 YOU SHOULD RESIST SOME OF THE SWEETEST OFFERS

Particularly in wealthy areas, some lenders are relaxing the rules for jumbos. Buyers in Austin and the Bay Area, for instance, are seeing 0%-down offers. Don't be seduced: "The fact that a bank tells you that you can afford a property does not mean you can," says financial planner Michael McKevitt of Palatine, Ill. "It's your financial situation and your goals for the future that determine this." And if you do take the offer? "Have a savings plan to create a large emergency fund—one year of living expenses—along with other investments that diversify your risks," he says.

4 YOU MAY HAVE TO PAY MORE

Jumbo loans have historically been more expensive—with rates 0.25 to 0.5 point higher than regular mortgages, and even greater gaps during the housing crisis. That flipped last year, when jumbos became the cheaper choice, but the historical norm seems to be reestablished. Recently, average 30-year jumbo rates were 3.64%, vs. 3.52% for 30-year conventional, and 15-year jumbo rates were 3.21%, vs. 2.84%, HSH.com finds. Shop around for the best rate, says McKevitt: "You need to get several quotes."

5 REFINANCING? GO CONVENTIONAL

Low rates make this a good time to refi, but you'll get an even better deal if all or most of your debt falls below the jumbo limit. If you have the cash on hand, put more down now to bring you under the regular-loan threshold, says Potomac, Md., financial planner Marguerita Cheng. Another option: Refi under the jumbo limit, says New Orleans planner H. Jude Boudreaux, by using a smaller second mortgage or home-equity line to bridge the gap. Then target extra payments to pay off that higher-rate loan sooner. **M**