

Jumbo loan mortgage guide: Jumbo loan limits and requirements

A jumbo loan could be your ticket to buying a bigger and more expensive home, provided you qualify.

Jumbo loans are commonly available in amounts up to \$2 or \$3 million. And the requirements to qualify for a jumbo loan are more relaxed than they used to be. If you're planning to buy a high-priced home and think you might need a jumbo mortgage loan, here's what you should know.

What is a jumbo loan?

A jumbo loan is any home loan that is greater than the conventional conforming loan limits set by Fannie Mae and Freddie Mac. In 2024, a jumbo loan is a mortgage bigger than \$766,550 in most areas. Although loan limits are higher in more expensive counties.

This type of mortgage is often called a "non-conforming loan" because it exceeds conforming limits. Buyers looking to purchase a luxury home or a house in a high-cost real estate market may need a jumbo loan to finance their property.

What's more, jumbo loans are flexible and can be used to purchase primary residences, vacation homes, and investment properties.

Are there jumbo loan limits?

Because they are non-conforming, jumbo loans do not have limits set by Fannie or Freddie. Instead, mortgage lenders get to set their own jumbo loan limits. For example, **CrossCountry Mortgage** offers jumbo loans up to \$4 million, while **LoanDepot** allowed jumbo mortgage amounts up to \$3 million.

In other words, each individual mortgage lender will have its own jumbo loan limit. So, home buyers in ultra-high-cost areas hoping to buy multi-million-dollar properties will likely want to look for local mortgage lenders that specialize in high-balance jumbo loans tailored to their market.

What is considered a jumbo loan in 2024?

Beginning in January 2023, conforming loan limits increased. Limits for single-family homes now go as high as \$766,550 in most of the country. They're even higher in pricey locations like most of California, all of New York City, the District of Columbia, Alaska, and Hawaii: up to \$1,149,825 for a single-family home. Loans that surpass these conforming limits are considered jumbo loans.

If your requested loan amount is above \$766,550, the eligible financing would be dependent on the county loan limit for the home you want to purchase.

For example, in Eastern Massachusetts, the county loan limits go as high as \$770,500. If you want to buy a home there and need to borrow \$800,000, you'll probably need a jumbo mortgage loan.

Conforming vs jumbo loan limits

Because jumbo loans are above the conforming loan limit set by the Federal Housing Finance Agency (FHFA), they are classified as non-conforming.

That "non-conforming" title matters for borrowers. As non-conforming loans, jumbo mortgages are not eligible for purchase by Fannie Mae or Freddie Mac, the agencies that set lending requirements for most home loans.

Since jumbo loans don't fall within Fannie and Freddie's jurisdiction, lenders get to set their own requirements. That means that guidelines for credit, income, down payment, and other important qualifying factors may vary from one lender to the next.

Typically, non-conforming loans involve much more difficult guidelines for qualifications. If you're in the market for an expensive home and a jumbo loan, make sure to shop around and find a lender that meets your needs.

Jumbo loan requirements in 2024?

Jumbo loan requirements are stricter because this type of mortgage carries a greater risk to lenders. Still, home buyers shouldn't worry too much. Anyone with sufficient monthly income, credit, and down payment can qualify for a jumbo mortgage.

While jumbo loan requirements will vary depending on the lender, here's what borrowers will likely encounter.

Minimum credit score

Jumbo loans tend to have higher credit score requirements than conforming loans. To be eligible, your FICO score should be higher than 700. In some cases, you may need 720 or above to qualify for a jumbo mortgage.

Debt-to-income ratio

Lenders will also consider your debt-to-income ratio to "ensure that you don't become overleveraged. Some [jumbo programs] won't allow you to exceed a 45% DTI ratio.

Indeed, many mortgage lenders will require lower DTIs in the mid to high 30s. You may qualify with a higher DTI, but doing so will often have a negative impact on your mortgage rate.

Cash Reserves

Many lenders will want borrowers to prove they have sufficient cash reserves to cover upwards of one year's worth of mortgage payments. Applicants are more likely to be approved for a jumbo mortgage loan when they have enough cash in the bank.

Documentation

To prove that you are fiscally responsible when applying for a jumbo loan, be prepared to submit full documentation of your personal finances, including:

- 2-3 years' tax returns
- 2-3 years' W-2 statements or 1099 statements
- Bank statements
- Information on investment accounts and other assets

The good news is that jumbo loans aren't just for repeat home buyers. If a first-time home purchaser meets all the required underwriting guidelines, they could certainly apply for a jumbo mortgage.

Jumbo loan benefits

There are several advantages to choosing a jumbo loan if you need one.

Higher home purchase prices

If you're looking for homes at a certain purchase price — starting near \$1 million or higher, depending on down payment — a jumbo loan may be your best and only option. They offer higher loan limits for a larger house purchase.

Jumbo loans can also give you a leg up on competitors if or when a bidding war occurs. Jumbo mortgages are designed to allow borrowers to finance properties and homes in highly competitive local real estate markets.

Multiple types of mortgages

You also can choose from a variety of different loan programs. You could potentially get a 30-year fixed-rate loan, or a jumbo mortgage with an adjustable rate, allowing you some flexibility in your loan terms.

Even though most government-backed mortgages do not offer jumbo loan options, the VA loan is a notable exception. The Department of Veterans Affairs does offer a jumbo VA loan to eligible veterans and active-duty service members.

Jumbo loan disadvantages

Jumbo loans are typically more challenging to qualify for than conforming mortgages. Lenders set stricter requirements because these extra-large mortgage loans carry extra risk.

Higher credit score requirements

Applicants can expect lenders to require **good credit scores** to qualify for a jumbo mortgage. One con of a jumbo loan is that the applicant must have a top-tier credit score, often 720 or higher.

Another is that the eligible **debt-to-income ratio (DTI)** used to determine your loan approval might be lower than required for a conventional or FHA-backed mortgage loan. So, if you're working with a higher level of existing debt, you may need to search for a jumbo lender that's more flexible in this regard.

Potentially higher mortgage interest rates

Because jumbo loans are considered riskier than conforming loans, they often carry a higher interest rate. In a typical market, jumbo mortgage rates may be 0.25% to 0.375% higher than for conventional loans. But this will vary depending on the lender and borrower.

However, in a rising rate environment like we are currently experiencing, it's not uncommon to see jumbo loans be better priced than conventional loan programs.

Typically, the rates and pricing on conventional loans react more quickly to market volatility, and there tends to be a lag with jumbo rate adjustments. So, if the timing is right, there may be a scenario where you could secure a lower interest rate on a jumbo mortgage than what is being offered on a conventional mortgage.

Larger down payment requirements

Jumbo loans often have higher down payment requirements compared with conforming loans. Although, rules vary from one lender to the next.

Jumbo loans generally require a full 20% down payment, as opposed to conventional and **FHA loan programs** that may allow for a minimum 3% to 3.5% down payment. However, some jumbo loans will allow for less than 20% down. In some instances, lenders may go as low as a 15% or 10% down payment.

Do all lenders offer jumbo mortgages?

While not all mortgage companies and lenders offer jumbo loans, many do. These include major banks, non-depository mortgage lenders, and some credit unions.

The larger loan amounts are riskier for smaller lenders and banks because the loans take longer to pay off and there may not be a large enough consumer base in their market.

Some jumbo loan lenders are more competitive than others, so it makes sense to shop around and compare offers, rates, and terms carefully.

Meyer recommends working with a broker if you're in jumbo mortgage territory. They will have access to multiple jumbo products and will do the leg work in terms of figuring out which ones you qualify for and which you don't.

How can I avoid a jumbo loan?

There are two possible ways to avoid a jumbo loan (aside from buying a less expensive home).

1. Make a bigger down payment

The easiest way to sidestep a jumbo loan is by choosing a conventional loan and then making a down payment big enough

to cover the difference between the home's price and the conforming loan limit.

For instance, say the conforming loan limit in your area is \$647,200 and you want to buy a home worth \$800,000. If you make a 15% down payment (\$120,000), your resulting loan amount will be \$680,000. This is a jumbo mortgage because it's above the local conforming loan limit.

But if you make a 20% down payment on the same home (\$160,000), your resulting loan amount is \$640,000. In this case, you do not need a jumbo loan because your loan amount is within the local limit.

2. Use a 'piggyback loan'

Another way to avoid a jumbo loan is with a strategy called a "piggyback mortgage."

Sometimes, having two mortgages in the form of a piggyback loan makes more sense for your situation. A piggyback loan lets you buy a home with two loans, totaling 90% of the price plus a 10% down payment.

An 80-10-10 piggyback loan includes two separate mortgages plus a down payment. The first mortgage is 80% of the home's price, the second mortgage is 10%, and the down payment picks up the rest of the tab (another 10%).

Some buyers of expensive homes choose piggyback mortgages to get around the stricter lending requirements for jumbo mortgages.

Can you refinance a jumbo loan?

Yes, you can refinance a jumbo loan. While the principals are nearly identical to refinancing a conforming mortgage loan, each lender will likely have differences in their specific requirements. But here's what homeowners can generally expect when refinancing a jumbo loan.

- **Minimum credit score:** 700 to 720
- **Debt-to-income ratio:** Negotiable, but typically below 45% DTI
- **Retained equity:** Usually between 10% and 20% of the home's value, meaning a maximum loan-to-value ratio (LTV) of 80% or 90%
- **Cash reserves:** Negotiable. But expect to need up to a year's mortgage payments in cash or easily liquefiable assets
- **Closing costs:** Typically, between 3% and 6% of the loan amount. That's a little higher than for conventional loans

Homeowners who meet these qualifying requirements can refinance a jumbo loan to achieve any number of financial goals, including swapping an adjustable-rate mortgage with a fixed-rate loan, lowering their monthly payment, canceling private mortgage insurance, or cashing-out home equity.