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Jumbo Loans:

A Strategic Opportunity for Members and Borrowers

As an MPF® Program Account Manager, I am often asked whether members can sell Jumbo loans from their balance sheets under the Mortgage Partnership Finance® (MPF) Program. Rather than selling all these loans, I'd like to highlight an alternative approach that can benefit both borrowers and member institutions.

Understanding Jumbo Loans

A Jumbo loan is a mortgage that exceeds the FHFA's annual conforming loan limits for a given county. Because these loans fall outside Fannie Mae (FNMA) and Freddie Mac (FHLMC) guidelines, they are categorized as non-conforming and traditionally perceived as higher risk.

In practice, a Jumbo loan is a single-family mortgage that cannot be sold to FNMA, FHLMC or the MPF Program. Lenders seeking to move these loans off their balance sheets typically rely on private investors, who often provide limited options and may require higher mortgage rates. Many also prohibit delegated underwriting, forcing lenders to submit complete loan files for investor review prior to closing. This process can be slow and cumbersome, creating friction for both lenders and borrowers.

Perception vs. Reality

Jumbo loans have long been perceived as higher risk with higher rates. These perceptions are increasingly outdated.

- The current 30-day delinquency rate for Jumbo loans is 1.09%, compared with 1.9% for conforming loans.
- The average 30-year Jumbo rate is 6.6%, nearly identical to the 6.54% conforming average.

Underwriting requirements remain largely comparable. A Jumbo loan is simply a larger mortgage; additional documentation requirements often reflect investor preferences more than actual borrower risk.

A Better Path for FHLBank Members

More members should consider retaining Jumbo loans in portfolio rather than selling them. By pairing these loans with FHLBank advances, institutions can manage interest rate risk effectively — much like they already do with commercial loans.

Members commonly set their residential lending limit to roughly \$1 million, while their commercial lending limit exceeds \$2.5 million. This raises an important question: why extend significantly more credit for a strip mall than for a borrower's primary residence? In challenging economic environments, which obligation is the borrower more likely to prioritize?

What This Approach Looks Like

Structuring a Jumbo loan similarly to a commercial loan — using a five- or seven-year balloon with a 20- to 30-year amortization — can generate meaningful spread income.

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Chris has been at FHLBank Topeka since 2005 and previously worked for a community bank. He is a graduate of Emporia State University. Contact him today.



For example, on a \$1 million loan at today's average Jumbo rate of 6.6%, current FHLBank advance pricing offers:

- Five-year bullet: 4.48% ⇒ 212 bps spread
- Seven-year bullet: 4.64% ⇒ 196 bps spread
- Five-year amortizing: 4.47% ⇒ 213 bps spread
- Seven-year amortizing: 4.55% ⇒ 205 bps spread

Across structures, spreads consistently hover around 200 basis points. These examples assume funding the full \$1 million. Many institutions would fund a smaller portion reducing the cost of funds and increasing overall spread.

Expanding the scenario: consider placing \$20 million in Jumbo assets on your balance sheet.

- Asset yield: 6.5%
- Advance: \$10 million, 60-month term, 4.58% rate
- Deposit cost of funds: 2%
- Blended average cost of funds: 3.29%
- Resulting spread: 321 bps

By blending FHLBank advances with your institution's deposits — currently averaging around 2% cost of funds — the overall spread widens further, strengthening the transaction's profitability.

Whether a 200- or 300-basis-point spread justifies the strategy depends on your institution's goals, but this represents only part of the value proposition.

Is the Juice Worth the Squeeze?

A 200 to 300 basis point spread on a \$1 million loan certainly provides "juice," but the greater value comes from the borrower relationship.

Jumbo borrowers typically possess significantly above-average net worth. Because their loans exceed conforming limits, they must demonstrate:

- High and stable income
- Substantial cash reserves (often 12-24 months of PITIA)
- Strong asset positions, such as investment accounts, business holdings and real estate portfolios

By retaining their mortgage, you position your institution to capture additional business opportunities in deposits, wealth management, commercial lending, trust services and more. Selling their loan and ultimately their financial profile to a private investor opens the door for another institution to compete for those opportunities.

This is precisely why large financial institutions reserve Jumbo lending for wealth management clients: the mortgage is not the goal but the gateway to a deeper, more profitable relationship.

Conclusion

Placing Jumbo loans into portfolio strengthens relationships with high-value customers and opens the door to broader business across deposits, investments, commercial lending and trust services. With FHLBank Topeka's advance products, members can manage interest rate risk effectively and tailor funding solutions to nearly any loan scenario.

For additional information or to explore specific opportunities, please contact me, your Regional Account Manager or the Lending Desk.

Contact Chris today for solutions that work for you.

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