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## Dow Jones Newswires

### Private Banks Offer Jumbo Mortgages, Hope To Win Clients

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NEW YORK (Dow Jones)--Even during a credit crunch, private bankers can still write jumbo mortgages - and they're using them to win new clients.

As the nation's largest lenders have all but stopped writing large home loans known as jumbo mortgages, private banks serving affluent consumers have jumped further into the lending fray. Many firms in this otherwise quiet corner of the banking industry say the high demand for jumbo mortgages represents not only an opportunity to write high volumes of profitable loans, but also to convert some affluent borrowers into lucrative wealth-management clients.

For example, at BNY Mellon Wealth Management, a unit of Bank of New York Mellon Corp. (BK), first-quarter mortgage lending rose 88% over the year-earlier period. Moreover, new applications from borrowers are up 132%, according to spokeswoman Susan Rivers.

Data from Raymond James Bank, a unit of Raymond James Financial Inc. (RJF), show a similar spike in jumbo lending. Through the first three months of the year, 56% of the bank's total mortgage-lending dollars went to jumbo loans; during last year's first quarter, that number was just 24%.

The bank has "definitely seen an increase," says Darlene McConnell, senior vice president and retail lending manager.

In the wake of the mortgage crisis, few products have been harder to find than jumbo mortgages, which generally are home loans of more than \$417,000.

That's because most modern lenders make loans to borrowers and then quickly sell them to investors, freeing up cash to write more loans. But that strategy for writing loans also leaves the vast bulk of lenders vulnerable to the secondary home-loan market, where investors buy pools of loans.

Since the subprime mortgage meltdown, investors in that secondary market have all but run screaming from investments tied to mortgages, especially jumbo loans. That's because - unlike smaller, or "conforming," mortgages - jumbo loans are not backed by Fannie Mae (FNM) and Freddie Mac (FRE), the giant government-sponsored loan purchasers that guarantee the performance of the conforming-loan securities that they package and sell to investors.

Private banks, by contrast, do not sell the loans they write, and instead hold them to maturity.

"We are not being impacted" by the lack of demand by investors for jumbo loans, unlike "other lenders who are more reliant on the secondary market," says Erin Gorman, national sales manager for mortgages at BNY Mellon Wealth Management.

What's more, because private banks typically hold the loans they write rather than selling them, they can use more flexible underwriting standards, making loans available to customers other banks would turn down.

Raymond James' McConnell says the bank has clear underwriting standards, but "sometimes makes exceptions for very, very good clients."

With flexible underwriting guidelines at their disposal, private banks are becoming a lending refuge for even the most well-heeled of borrowers - some of whom have found lenders to be unreliable not only in approving jumbo applications, but in actually delivering money once they do.

## Nervous Times

Take the case of Robin and Billy Schultz. The couple, who live near New York City, were set to close in March on a condominium valued at more than \$3 million in a tony Miami development.

Eight days before the March 11 close date, the Schultzes received confirmation for their loan approval, which was reviewed by Dow Jones Newswires, from lender Wells Fargo & Co. (WFC).

"The approval is in our system - so it is official," a Wells Fargo associate wrote to Mrs. Schultz on March 3.

But after Robin Schultz arrived in Florida and on the very day of the closing, Wells Fargo notified the Schultzes that it would not deliver the loan as scheduled.

The Schultzes said the news left them in a bind: If they did not close on time, they risked losing their deposit of \$601,840, as well as their plans to buy the condo.

The couple and Wells Fargo dispute why the company backed out; Wells Fargo claims the loan commitment had expired due to builder delays, while the Schultzes say they have documents showing the commitment was still in force.

"Everything was done, they backed out, and I guess we'll never really know why," said Mrs. Schultz.

A spokeswoman for Wells Fargo said the company could not disclose a customer's information, but said, "Information provided to Dow Jones by Robin Schultz isn't consistent with Wells Fargo's records."

What is clear is that the Schultzes finally ended up at Bank of New York Mellon's Wealth Management unit, which dug up a previous mortgage application from the Schultzes, and closed the deal within 48 hours, on March 14 - which also allowed the Schultzes to avoid the specter of penalties.

Their experience is hardly unique in the current credit crunch.

"There have been a lot of real estate transactions, even on behalf of very wealthy individuals, that had to be delayed because the bank couldn't deliver the financing," says Mary Kearney, a director at Deloitte Consulting LLP.

As a result, the few banks who can quickly give jumbo mortgages to affluent clients have had a windfall of customers knocking on their doors.

"We get so many referrals from people who go to banks that can't do the deal," says Alan Rosenbaum, chief executive of Guardhill Financial Corp., a mortgage brokerage that writes loans through private banks.

The few banks who can, and do, write loans to affluent borrowers in loan-approval distress hope to win some new wealth-management clients.

"The mortgage is often that first step toward developing a relationship. It's an opportunity for us to shine" and "to see what the client's financial statement looks like," says Kate Kohler-Ros, senior vice president of the mortgage division at Gibraltar Private Bank, an affiliate of Boston Private Financial Holdings Inc. (BPFH).

According to Deloitte's Kearney, the difficulty in obtaining jumbo loans allows private banks to showcase a business reminiscent of the old days when solemn bankers approved borrowers for loans on a case-by-case basis.

"We really haven't changed how we do business," says Bank of New York Mellon's Gorman, "but it's ... serving clients quite well during this financial time."

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