Are You Prepared for the Spring Home-Purchase Market?

It's Not Too Soon to Make Product and Services Decisions to Help Members

By John Castiello

Although it's wintertime in Philadelphia, crocuses already are starting to come up in my garden—very unusual weather for this time of year.

What does this have to do with mortgages? Well, just like the weather, the industry can be very unpredictable and you never know what new challenges will come our way.

We have adjusted to the regulatory changes over the past few years with QM and TRID taking up a sizeable amount of our time and resources. But now it's time to get ready for our next challenge, one filled with opportunities to help your members achieve their goal of homeownership and wealth creation.

It's time to start thinking what you will do to drive purchase business now that the "Fed" has started increasing interest rates. Are you up for the challenge?

While football consumes many folks time on winter weekends, baseball managers are already working hard behind the scenes to get ready for the spring season. Are you doing the same?

Do you have the products and services that your members will require, and the processes in place to manage their expectations?

Whether you are coming up with a new portfolio product or getting your systems ready for Fannie Mae's new HomeReady program, you must be prepared to handle the increase in purchase volume that is coming your way.

WHO WILL YOUR BUYERS BE?

What is the best way to assist your members and make the mortgage experience a pleasurable one? Will your spring lineup be able to attract and retain the next wave of homebuyers? Let's first examine the market (and buyers) and what we will need to do.

Retirees are starting to come back into the market since their properties have returned to a positive equity position, and contrary to popular norms, seniors are buying larger homes.

Millennials seem to be our biggest target market, but some are still hesitant to buy due to high student debt, lack of downpayments, concerns over job stability or they just do not have an interest in owning after what happened to property values during the last downturn.

Diverse Markets are also a great potential source of production for us. A significant number of new household formations in the next 10 years will come from diverse markets. Are you prepared with a diverse market strategy to attract the Asian, Hispanic and African American borrowers entering the market?

Having products and programs that will meet the needs of these markets will be essential for mortgage originations. Fannie Mae's HomeReady program addresses some of these issues, especially for diverse markets where there is a need to use extended household income for purchases.

Renters also make up a large segment of the opportunity for mortgage originations, and we need to present a compelling argument for renters to enter the purchase market, such as the opportunity for them to build wealth through real estate rather than enriching others.

To engage each of these segments and entice them into the market, we must promote the fact that they don't need a 20% downpayment and then demonstrate the financial benefits of purchasing a home vs. renting. Then your members can see that purchasing a home and starting on the path of wealth creation can happen sooner and be more affordable than they realized.

RENTING VS. OWNING

Let's take a close look at scenario of renting vs. owning with a 3% downpayment and a sale price of $250,000. We'll assume a $242,500 30-year fixed loan at 4% interest with $5,000 in real estate taxes and $800 homeowner's insurance annually.

We'll contrast that with a monthly rent payment of $1,800.

Based on a five-year pro forma, renting the property would require a cash outlay of $109,800 including the security deposit. Purchasing the home would require total payments of $ 118,000 for PITI, which includes mortgage insurance. But this isn't the entire picture. Based on the principal reduction and downpayment, your member now has a positive equity position of $30,665 and at an appreciation rate of 2% annually, an additional equity position of $26,020.

The benefits of owning truly surpass the rental option. and that's not including possible tax saving benefits for those that itemize. These numbers also demonstrate the reason to buy now, so that your member can get started on the path of wealth creation with home prices and rates still low. Waiting even a few years to buy could cost them considerably—both in financing and appreciation.

THE HOMEREADY PROGRAM

In the 2015 homebuyers profile published by the National Association of Realtors, multigenerational households accounted for 11 to 19% of home purchases. The overriding factor in these purchases was children purchasing properties with their parents to care for aging parents and save on costs. NAR's report also breaks down the information regionally.

HomeReady allows for non-borrower income to be used as a compensating factor for loans with DTIs between 45% and 50% (providing that the income is at least 30% of the qualifying income in the transaction). It also allows for a maximum LTV of 97%. The program eliminates the Loan Level Price Adjustment (LLPA) for loans with a 680 credit score and LTVs greater than 80%.

Fannie Mae also has reduced the MI coverage to 25% for loans with LTVs greater than 90%. The pricing advantage due to the reduction of the LLPAs and the added benefit of the reduced MI leads to a compelling financing package for loans that meet the Area Median Income (AMI) limits of the program.

Millennials with small downpayments are also good candidates for this program. A 97% LTV loan with attractive pricing could be just the product to get them back into the market.

Recent articles have indicated that retirees are also coming back into the market due to the return of equity in their properties. They are looking to purchase new housing units, and in some cases, larger homes than they have now. Since HomeReady is not just for first-time homebuyers, they are a perfect fit for the program. Remember: there are AMI restrictions that apply, but 51% off all census tracts are at 100% of the AMI or no income limit at all.

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OTHER STRATEGIES TO CONSIDER

Fannie Mae shouldn't be the only product innovator. With your portfolio capabilities and increasing interest rates, ARM loans look to be making their way back.

With the agencies only purchasing 1-year, 3/1, and 5/1 ARMs, credit unions have the ability to create ARM products that are more compelling with prices better than agency adjustables. The 3/3 and 5/5 ARM are viable alternatives to agency loans and provide your members with more peace of mind around payment adjustments.

Mortgage insurance also offers a variety of options for credit unions that are typically seen in only a small number of lenders. Lender-paid monthly mortgage insurance is an excellent product to offer with your adjustable rate mortgages, whereas single premium lender-paid MI is not feasible for portfolio products. The portfolio credit union ARM with monthly lender-paid MI translates into lower monthly payments and possible additional interest deductions, which your competitors are probably not offering.

If you have the right products and programs ready, you should see heavy volume in the spring, which is a very good thing but can cause operational issues if you aren't equipped to handle that volume. You may want to consider outside service providers to assist you in the various stages of the loan manufacturing process. Services from processing, contract underwriting, pre- and post-closing quality control, shipping and delivery, and secondary marketing can all be obtained to assist you during heavy volume periods or to offset your fixed costs with variable costs. But you should be assessing those resources now.

This is the time to get ready for spring. Plant the seeds for production with your products and programs. Add any additional outsourcing needs you may require to handle the increased volume and watch your loan originations grow!

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