



What the Mortgage Market Reads



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First-Time Homebuyer Share Up Sharply This Spring, Helped By Reduction in FHA Insurance Premiums

The first-time homebuyer share of home purchases in April hit its highest level in more than four years, according to the *Campbell/Inside Mortgage Finance's HousingPulse Tracking Survey*. The purchases have been boosted by a reduction in the FHA's mortgage insurance premiums and help rebut concerns about the demise of the first-time homebuyer.

First-time homebuyers accounted for 37.6 percent of home purchases in April, up from a 34.3 percent share a year ago, based on three-month moving averages. The last time the first-time homebuyer share of home purchases was above 37.6 percent was in August 2010 at a 40.0 percent share.

Tom Popik, research director of Campbell Surveys, said the strong performance of first-time homebuyers this spring was largely due to the January reduction of the annual MIP for FHA loans. The Obama administration reduced the MIP by 50 basis points to 85 basis points.

Popik said FHA lending to first-time homebuyers has been on a "tear" since then.

Some 42.2 percent of purchases by first-time buyers in April used an FHA mortgage, up from a low of 34.2 percent in September. FHA financing for first-timers has taken market share from the government-sponsored enterprises and the Department of Veterans Affairs in recent months.

Analysts at the Urban Institute's Housing Finance Policy Center noted that the reduced premium for FHA mortgages could be helping buyers who previously couldn't afford an FHA loan or qualify for a different mortgage. The Obama administration said it expects an additional 250,000 borrowers to purchase their first home in the next three years due to the MIP reduction.

The annual MIP was 50 basis points from 2001 through July 2008 and then rose gradually to 135 bps in April 2013, noted Moody's Analytics. "Only a group made up primarily of first-time and lower-income homebuyers will benefit from the lower FHA premiums, but their home purchases are more sensitive to changes in mortgage rates than those of trade-up and high-income homebuyers," analysts said. "Their ability to purchase

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a home is often constrained by the size of their mortgage payments, so small changes in affordability prompt disproportionate changes in housing demand.”

Popik added that demand from first-timers is strong, with many seeing owning a home as cheaper than renting. However, he cited a number of obstacles for potential buyers, including saving for a downpayment, credit history, a previous foreclosure or short sale and anxiety about income.

“There are many first-time buyers who are struggling to put together savings for buying a home due to increased rental rates,” added a real estate agent in Texas.

An agent in California said underwriting standards remain a concern. “I don’t believe it’s the needed cash that is keeping first-time homebuyers out of the market but rather the credit restrictions imposed by FHA and conventional lenders,” the real estate agent said.

Underwriting standards for government mortgages have loosened most months since early 2012, according to the Mortgage Bankers Association. In April, underwriting standards for FHA loans hit levels last seen in 2011, according to the MBA. ♦