



What the Mortgage Market Reads



# INSIDE MORTGAGE FINANCE®

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## Mortgage Share of Home-Purchase Financing Increasing as Purchases by Investors Decline

Lenders are accounting for an increasing share of home purchase financing as investors decrease their largely cash buying. Purchases by first-time homebuyers are rising, helped by FHA financing.

“First-time homebuyers rarely buy homes with cash and with their increasing participation in the housing market, we expectedly see the proportion of cash-financed transactions falling,” said Tom Popik, research director of Campbell Surveys.

The non-cash share of financing for home purchases increased to 75.2 percent in May, according to results from the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*, based on a three-month moving average. The non-cash share of home-purchase financing was at 71.7 percent in May 2014 and as low as 66.9 percent in March 2012.

Molly Boesel, a senior economist at CoreLogic, said the cash share of home purchases is set to return to pre-crisis levels by mid-2016.

A shift in home-purchase activity from investors to first-time homebuyers has helped increase the mortgage share. About 70.0 percent of investor purchases are all cash, according to *HousingPulse*.

First-time homebuyers, meanwhile, are heavily reliant on mortgage financing, particularly from the FHA. Fewer than 10.0 percent of purchases by first-time homebuyers tend to be completed solely with cash.

The first-time homebuyer share of home purchases is at levels last seen in 2010. First-time homebuyers accounted for 38.8 percent of home purchases in May, up from a 35.9 percent share in May 2014, while the investor share fell from 18.0 percent to 15.4 percent in that span.

“First-time homebuyers are driving the market,” Popik said. “And FHA lending is driving first-time homebuyers.”

Reductions to mortgage insurance premiums on FHA loans have helped encourage originations of FHA mortgages. Concurrently, higher home prices and a shrunken supply of distressed properties have prompted fewer home purchases by investors.

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“Damaged real estate-owned properties – which are predominantly purchased for cash by investors – are scarce, especially in western states,” Popik said. “Investors are cashing out.”

Damaged REO accounted for 6.8 percent of properties sold in May, about half the level in early 2012, when investor purchases were more prevalent. In Arizona and Nevada, once hot spots for distressed properties, only 1.0 percent of properties sold in May were damaged REOs. ♦