



What the Mortgage Market Reads



INSIDE MORTGAGE FINANCE®

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First-Time Homebuyer Share of Home Purchases Increases, Origination Volume Up Sharply in 1Q16

First-time homebuyers account for a growing share of home purchases, and even though housing inventory is limited, originations of mortgages for first-time homebuyers are up sharply.

First-time homebuyers accounted for 40.8 percent of home purchases in May, according to results from the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*. The share for first-time homebuyers, based on a three-month moving average, was the highest level seen in more than five years.

“Demand from first-time homebuyers is exceptionally strong,” said Tom Popik, research director for Campbell Surveys.

Some \$120.96 billion in mortgages for first-time homebuyers were delivered to the government-sponsored enterprises, FHA and VA in the first quarter of 2016, according to an analysis of loan-level securities data by *Inside Mortgage Finance*. Agency first-time homebuyer volume more than doubled compared with the first quarter of 2015.

Mortgages for first-time homebuyers accounted for 46.1 percent of the dollar volume of agency purchase mortgages in the first quarter, up from a 43.7 percent share a year ago.

The GSEs accounted for 47.3 percent of agency first-time homebuyer volume in the first quarter, the FHA had a 39.2 percent share and the VA had a 13.5 percent share. In the first quarter of 2015, the GSEs had a 52.4 percent share of agency first-time homebuyer activity, the FHA had a 33.2 percent share and the VA had a 14.4 percent share.

The increase in first-time homebuyer volume and market share has occurred without looser underwriting in terms of credit scores and loan-to-value ratios. The average credit score on agency first-time homebuyer mortgages in the first quarter of 2016 was 705.15 and the average LTV ratio was 93.28 percent, compared with averages of 704.05 and 93.19 percent in the first quarter of 2015.

Analysts at Fitch Ratings pinned some of the increased activity for first-time homebuyers on changes in policies at Fannie Mae, Freddie Mac and the FHA. “Government entities such as the GSEs and FHA have introduced new regula

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tions clarifying mortgage put-back and indemnification policies to encourage lenders to more broadly extend lending, including to lesser income, often first-time homebuyers,” Fitch said.

In recent months, first-time homebuyers have largely gained market share from investors, according to *HousingPulse*. The investor share of home purchases declined from a seasonal peak of 16.9 percent in February to 13.6 percent in May. Investor activity has slowed as home prices increase and the distressed-property share of home sales declines.

Popik said the first-time homebuyer share of home purchases tends to fluctuate seasonally, peaking near the start of summer. In 2015, the first-time homebuyer share topped out at 38.4 percent in June. The share was at 35.5 percent as recently as November.

A number of real estate agents reported that lower-priced homes favored by first-time homebuyers are selling more quickly than higher-priced properties. “The sweet spot for the market right now is between \$150,000 and \$250,000,” said an agent in Florida. “Most of these homes are selling to first-time homebuyers. We are seeing multiple offers and days on the market of two days to four days.”

Some 78 percent of industry executives expect first-time homebuyer market share to either continue at current levels or increase by at least three percentage points, according to a recent survey by Genworth Mortgage Insurance.

“To support this demand, we must stay true to the great strides we have made in improving underwriting quality, making private capital available and expanding the availability of prudent and affordable low down payment mortgages,” said Rohit Gupta, Genworth’s president and CEO.

However, Fitch cautioned that the most significant hurdle to expanding the entry-level/first-time buyer segment is a shortage of inventory of homes for sale at an affordable price. The rating service noted that downpayment requirements remain a key challenge for first-time homebuyers as home prices have increased, outpacing increases to income. ♦