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Realtors Say FHA Loans and GSE Low-Downpayment Programs Seen as Readily Available for Homebuyers

While some banks have reduced their FHA lending in recent years and alternatives from the government-sponsored enterprises are still gaining traction, homebuyers still have access to low-downpayment mortgage programs, according to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

"Most real estate agents say high loan-to-value ratio mortgages are readily available, especially for homebuyers with good credit," said Tom Popik, research director for Campbell Surveys.

The *HousingPulse* survey covering activity in June included questions about the availability of low-downpayment mortgages and asked real estate agents to assess which programs were the best for homebuyers.

Popik said low-downpayment programs directly backed by the federal government – FHA, the Department of Veterans Affairs and Rural Housing Service – were most frequently cited by real estate agents. The programs were seen as particularly useful for borrowers with relatively weak underwriting characteristics.

"FHA is the best high LTV ratio lending option with credit scores as low as 580 getting approved," said an agent in New Jersey.

However, many agents suggested that if homebuyers can qualify for financing outside of the FHA, they should take the non-FHA option.

"Many lenders are offering 97.0 percent LTV ratio conventional products that appeal to many buyers due to the mortgage insurance requirement for FHA remaining through the life of the loan," said a real estate agent in Florida.

Many real estate agents noted that underwriting standards for the GSEs' low-downpayment offerings are more restrictive than standards for FHA mortgages.

Wells Fargo is among the banks that recently started offering an alternative to low-downpayment FHA mortgages. The bank launched its yourFirstMortgage product at the end of May. The loan allows for downpayments as low as 3.0 percent.

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Officials at Wells said that in the first month of offering the product, applications for more than $1.0 billion in production were received. The originations will be delivered to Fannie Mae, and officials at Wells note that the mortgage insurance requirements are more favorable to borrowers than with FHA loans that require MI for the life of the loan.

While there were few complaints about the availability of low-downpayment mortgages, agents cautioned that some sellers favor buyers that have what can be seen as more reliable financing. "Many offers from buyers using high-LTV loans are not selected because the seller has other offers with higher downpayments to consider," said an agent in Colorado.

Mortgages with a downpayment of at least 20.0 percent, which can avoid mortgage insurance requirements, tend to close more quickly than mortgages with private mortgage insurance or FHA loans, according to *HousingPulse*. The total average closing time for GSE mortgages with a downpayment of at least 20.0 percent was 46.1 days in June, based on a three-month moving average. The average closing time for GSE loans with private mortgage insurance was 48.8 days and the average for FHA mortgages was 48.5 days. ♦