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Purchase-Mortgage Market Stronger than Expected Heading into Summer, Plenty of Demand from Owner-Occupants

Originations of purchase mortgages were strong in the second quarter of 2015 and through the start of summer, according to industry participants. In recent months, demand for home purchases has been driven by current homeowners and first-time homebuyers, two groups that are particularly reliant on mortgage financing.

"The purchase market has been stronger than people expected in the second quarter," said Paul Miller, a managing director at FBR Capital Markets.

Kevin Hester, chief lending officer at Home BancShares, said the lender had its highest level of purchase-mortgage originations in June. He noted that secondary market margins were up more than 50 basis points compared with 2014, helping originations.

John Shrewsberry, CFO and a senior executive vice president at Wells Fargo, noted that while mortgage activity hasn't returned to pre-crisis levels, purchase-mortgage lending at the industry's largest originator was quite strong in the second quarter.

"The business is good," he said last week during the bank's earnings call. "There is plenty of credit available. Margins have been holding in there nicely and the pipeline looks quite good, actually."

Purchase-mortgage originations in the spring/summer home-buying season have been driven by strong demand from current homeowners and first-time buyers, according to results from the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

Non-cash transactions accounted for 75.6 percent of home purchase financing in June, based on a three-month moving average. A year ago, the non-cash share was at 72.1 percent. In that time, the combined market share for current homeowners and first-time homebuyers increased from 82.8 percent to 85.9 percent.

As home prices have increased and the supply of distressed properties declines, investors have reduced their share of home purchases. First-time homebuyers accounted for 38.3 percent of purchases in June, up from a 36.0 percent share a year ago. The last time the first-time homebuyer

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share of home purchases was at the level seen in June was in 2010 when activity by such buyers was boosted by a federal tax credit.

And the share for current homeowners has increased from 45.6 percent in June 2014 to 47.6 percent last month.

Other metrics pointed to a strong market for non-distressed properties in June, according to *HousingPulse*, including elevated sales-to-list price ratios, the average number of offers hitting a summer peak and days on market down sharply.

While purchase-mortgage originations typically decline toward the end of the year, many industry participants are optimistic that production will remain strong at least through the third quarter.

"In our markets, the economies are doing well, unemployment is down, [gross domestic product] is up, and the purchase business is looking pretty good," said William Rogers, chairman and CEO of SunTrust.

"Purchase activity is really picking up and new home construction is up substantially," said Kelly King, chairman and CEO of BB&T. "We're seeing a shift toward high percentage of purchase mortgages versus refinances. So you can think about it in terms of steady-to-up."

Analysts at Fitch Ratings said low oil prices, robust employment growth, demographics, pent-up demand, still attractive affordability/housing valuations and a steady easing in credit standards should sustain the upturn for housing through the remainder of 2015. "These trends should further stimulate housing demand in 2016, despite higher mortgage rates," the analysts added.

The Mortgage Bankers Association also increased its outlook for purchase-mortgage originations this week. The trade group expects $801 billion in purchase mortgages to be originated this year, up from the $730 billion in originations the MBA had forecast one month ago.

"We believe that pull-through rates have increased, reflecting incremental but important changes in borrower behavior and lender underwriting practices, as well as changing average loan sizes and falling cash shares," economists at the MBA said.

The MBA said it expects that the Federal Reserve will increase interest rates in September. "However, the positive of the stronger job market will outweigh any negative of somewhat higher mortgage rates," the group said. ♦