



What the Mortgage Market Reads



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Lower-Downpayment Mortgages Seen As Useful Products for First-Time Homebuyers, Though Fees are a Concern

First-time homebuyers could benefit from mortgages with downpayment requirements as low as 3.0 percent, but high fees on such products tend to limit their originations, according to qualitative survey results from the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

The government-sponsored enterprises are set to roll out products that allow combined loan-to-value ratios as high as 97.0 percent, competing with the 96.5 percent combined LTV ratio limit for certain purchase mortgages guaranteed by the FHA. In recent years, the GSEs generally have allowed for combined LTV ratios as high as 95.0 percent.

“Agents commonly believe downpayment requirements are a homebuying impediment,” said Tom Popik, research director for Campbell Surveys. He said mortgages with lower downpayment requirements could help more first-time homebuyers qualify for financing. But pricing on the products could hinder originations. “Agents say low downpayment programs and mortgage insurance are often too expensive,” Popik said.

Pricing details for the GSEs’ new products have yet to be revealed, though analysts at Compass Point Research & Trading project that pricing with private mortgage insurance on the 3.0 percent downpayment mortgages to be offered by the GSEs will be less expensive than pricing for FHA mortgages. The FHA has increased its mortgage insurance premiums a number of times in recent years along with extending premiums for the life of the loan, as part of an effort to stem losses from poorly performing mortgages.

A large number of real estate agents reported being in favor of mortgages with lower downpayments. But there are concerns about how successful the GSEs’ products will be.

“Being able to do a non-FHA loan with 3.0 percent down may increase buyer activity, but only if the loan costs and mortgage insurance are reasonable, along with qualification requirements being reasonable,” said a real estate agent in Oklahoma.

And while downpayment requirements play a large role in whether a first-time homebuyer can qualify for a mortgage, real estate agents noted that a number of other issues limit purchase-mortgage originations. Many po-

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tential first-time homebuyers haven't been able to qualify for mortgage financing due to credit score requirements or debt-to-income ratio requirements, particularly due to outstanding student loans. ♦