



What the Mortgage Market Reads



# INSIDE MORTGAGE FINANCE®

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## Mortgage Financing for Home Purchases Gaining Share from Cash Financing On a Yearly Basis

As the share of investors purchasing homes declines, mortgage financing continues to take market share from cash financing for home purchases, according to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

Non-cash financing was used on 72.4 percent of home purchases in November, based on a three-month moving average. That's up from a 70.7 percent share in November 2013 and a share as low as 66.9 percent in March 2012.

Prior to the housing crisis, the non-cash share of total home sales averaged approximately 75.0 percent, according to CoreLogic.

The cash financing share for home purchases tends to increase in the winter and decline before summer. The seasonal trend has continued this year as the cash financing share of home purchases has increased each month since August.

However, Tom Popik, research director for Campbell Surveys, noted that the cash share of home-purchase financing has been declining on a yearly basis since peaking in March 2012.

The vast majority of home purchases by investors are financed with cash while current homeowners are more reliant on mortgage financing. In November, 74.1 percent of home purchases by investors were all-cash deals, while only 25.0 percent of home purchases by current homeowners were all-cash transactions.

The current homeowner share of home purchases is at near-record levels since the financial crisis. Current homeowners accounted for 48.1 percent of home purchases in November, up from a 47.4 percent share in November 2013 and a 37.3 percent share in April 2010.

Investor home-purchase activity has declined in recent years as home prices have increased and the share of distressed property sales has plummeted. Real estate owned properties and short sales accounted for a combined 22.9 percent of home purchases in November, down from a 24.9 percent share in November 2013 and a 44.4 percent share as recently as February 2012.

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“Investors have all but disappeared,” according to a real estate agent in California. “Purchase price versus rental income doesn’t make a lot of sense financially these days. There are few ‘fix-and-flip’ opportunities left in our market.”

While mortgages are gaining share from cash transactions, real estate agents continue to note that it can be difficult for borrowers who don’t have strong credit scores to obtain mortgage financing. “FI-CO score may be the most important qualifier and largest impediment in today’s homebuying market,” Popik said.

He said real estate agents reported a wide range of credit scores that lenders are willing to accept. Some lenders are willing to offer FHA mortgages to borrowers with credit scores as low as 580 while other lenders require credit scores as high as 740 for a purchase mortgage.

“A score of about 720 is the lowest I’ve worked with this year,” said a real estate agent in Kansas. “I’ve had other potential buyers ask, but they were not able to qualify for a loan.” ♦