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FHA Losing First-Time Homebuyer Market Share

The fee increases and stiffer mortgage-insurance requirements implemented on FHA mortgages in the past year have helped reduce the agency's share of originations to first-time homebuyers.

First-time homebuyers have traditionally been heavily reliant on FHA financing and that continues to be the case, though the FHA's dominance has declined significantly in the past year. At the start of 2013, FHA mortgages were used in about one of every two home purchases by a first-time buyer, according to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*. By December, FHA financing was used by first-time homebuyers in 39.6 percent of home purchases, based on the three-month moving average.

In that time, the Department of Housing and Urban Development increased the mortgage insurance premium for FHA loans and required MI for the life of new originations, as opposed to the cancellation of MI previously allowed when the borrower's loan-to-value ratio fell to 78 percent.

"Nobody wants FHA anymore since you are stuck with the mortgage insurance for the life of the loan," according to a real estate agent in Colorado.

Faced with a shortfall in its capital ratio, the FHA has increased premiums five times since 2009, the most recent increase effective became April 1, 2013.

First-time homebuyers who can qualify for an agency mortgage have increasingly turned to loans that are sold to Fannie Mae and Freddie Mac, often with private mortgage insurance. Only about 10 percent of home purchases by first-time homebuyers are paid with cash, according to *HousingPulse*.

A new *Inside Mortgage Trends* analysis reveals that the FHA is still the dominant source of funding for first-time homebuyers, accounting for 38.1 percent of agency financing for loans with first payment dates in 2013. That edged out the 35.0 percent share garnered by Fannie. Overall, Fannie was the largest funder of purchase-money mortgages.

It's clear that first-time buyers and repeat buyers with lower credit scores and higher debt-to-income ratios end up with FHA or VA financing. These government-insured purchase loans also have significantly higher average loan-to-value ratios than conventional loans securitized by the two government-sponsored enterprises.

The *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey* is based on a national survey of more than 2,000 real estate agents each month and provides up-to-date intelligence on home sales and mortgage usage patterns. For more information, go to www.housingpulse.com. ►