

THIS ARTICLE

leads off a section of the Pipeline focusing on First-Time Homebuyers. The section explores numerous aspects of the first-time buyer experience: what do they need and want, how can you help them and what are the people and tools you need to compete for them. This article looks at the challenges that lenders face through the lens of the buyer and builds a case for how best to succeed in helping them into their first home.

Why Get a Mortgage from a Credit Union?

Recent First-Time Buyers Share Their Experiences, Expectations

*By Tom Burton
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It may not be the best time to be in the mortgage business. Competition from all sides is increasing, rates are headed upward and the refinancing boom has gone bust.

Mortgage lenders are being forced to re-examine their operations, and credit unions are being forced to look closely at how they do business. Remember the marketing slogan, “This is not your father’s Oldsmobile”? Well, applied to home loans, it’s that and so much more.

And the situation becomes even more challenging when one considers the plight of first-time homebuyers. This segment, which comprises a full one-third of home sales, faces a very tight market for affordable housing, rising home prices and an increasingly difficult environment in which to save for a downpayment.

It’s worth remembering that these first-time buyers are on a journey, and you, as the lender, are a part of that journey. By the time they reach you, they have absorbed (and endured) a lot on their journey, and they expect a lot more from you—a lot of help and a lot of empathy. You need to keep that in mind.



Knowledge Great Service Communication Competitive Rates



As we head toward spring, when the homebuying season really gains some traction, the home sales boom of the past few years has been slowed by higher prices and rising rates. This situation has many prospective buyers, especially first-time buyers who are most constricted by finances, taking a wait-and-see attitude.

It may be a bit too soon to tell whether the housing boom is coming to an end, but what happens in 2019 will certainly go a long way toward deciding that question. What is certain is that first-time buyers face major challenges.

According to industry blogger Rob Chrane, CEO of Down Payment Resource, “It’s no secret that the crisis in affordable housing is keeping prospective first-time homebuyers in rentals.” He called affordability “the most important barrier first-time buyers face.”

Chrane quoted an Urban Institute study that estimates 21 million Millennials, the largest demographic of homebuyers overall and a majority of the first-time buyers, are mortgage-ready but sidelined in today’s market for a variety of reasons, including a lack of affordable housing. Among other reasons:

- **Student loan debt is increasing.**

The average loan debt is approaching \$40,000 for a college graduate, bringing house-hunting delays for Millennial buyers who can’t afford to pay off student loans and buy a home.

- **Many buyers do not have savings.** Almost half of renters who plan to buy a home have not saved any money toward a downpayment, according to a survey by ApartmentList, an online service that helps match renters to apartments.

- **Mortgage rates are trending higher.** Economists expect the Federal Reserve to continue with interest-rate increases that will push mortgage rates above 5% and making homebuying more expensive.

For this article, we talked to some recent first-time homebuyers and asked them why they chose their credit union to obtain their loan. Some of their answers may surprise you. And if you’re surprised, perhaps you should take a look at what you are—or aren’t—doing to help them complete their journey.

Their answers, collected in December, provide a glimpse of how best to attract new and existing members to your mortgage lending program. One piece of advice we can give after hearing from homebuyers:

Don’t expect their business to fall into your lap; you have to work for it. And you have to work hard—and understand what they’ve already gone through to get to you.

As Paula Montford, a first-time buyer with her husband at Summit Credit Union in Wisconsin, told us, “Knowing that this would be the largest financial decision we’d ever made, we wanted to

do some comparison shopping.”

Every first-time borrower we interviewed talked with multiple lenders; most also began their research online, looking mainly at rates, but also home prices in the neighborhoods they identified as desirable.

For these buyers, more room for a growing family was often the reason to seek a home mortgage. Some of the borrowers had money saved; others did not. And most did not know how much of a loan they qualified for. Few knew they could purchase a home with no downpayment in certain cases. But all of them wanted to own a home.

CURRENT MARKET FACTORS

Before we take an in-depth look at our first-time homebuyers, let’s consider where the market stands in 2019.

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• **The housing market will change from the top.** Tight inventories in the current market will recover faster for higher-priced homes than for starter homes.

To capture the first-time market, lenders must first carry an awareness of these challenges, and then work hard to attract buyers and offer a variety of loans that can work in various financial situations.

But are products and hard work enough to attract these buyers? Nope. Our interviews show that buyers want to understand the process (knowledge), “feel appreciated” (great service), know what’s going on with their loan, including what’s ahead (continuous communication) and get a great deal (competitive rates).

KNOWLEDGE

For Paula Montford and her husband, an understanding of the mortgage process was a key. “We kept waiting [to inquire about a loan], thinking we needed a large downpayment.”

But when they finally pulled the trigger, their Summit loan officer, Tim Greene, helped them with a zero-percent downpayment option, got them pre-approved for a loan so they could start shopping, and worked out for them an affordable monthly payment.

“Tim was able to make our monthly mortgage payment for our three-bedroom townhouse only \$50 more than what we had paid to rent our two-bedroom apartment.”

Tim also had in place a relationship with a local Realtor, which opened the door for him to work with the Montfords. “Our Realtor actually knew Tim personally and recommended him,” Paula said. “And since we were already Summit members, it seemed like the best place to start.”

The Lesson: Your MLOs must not only gain the trust of the borrowers, they need to share their knowledge of the mortgage process and tailor the product to the situation. Especially for first-time buyers, products that require a limited amount for a downpayment can be important.

The Broader View: Credit unions

that offer homebuyer seminars (and distribute mortgage information through other communication channels) can help potential buyers get the jump on the process by understanding if they can qualify for a loan; and if not, how they can change it. This knowledge is particularly useful to first-time buyers. As Paula Montford noted, she and her husband likely would have looked for a home sooner if they had not assumed they needed a big downpayment. Establishing working relationships with Realtors—letting them know which products you offer for first-time buyers—is another great way make connections.

GREAT SERVICE

There is no substitute for great service. In fact, service is arguably the best way not only to distinguish yourself from your competitors, but also attract new business through word of mouth.

First-time homebuyer Neil (last name withheld by request) got his first loan from Lake Michigan Credit Union in Michigan. “I ultimately chose LMCU for their customer service,” Neil said. “They are local and I could talk to someone in person. I was brand-new to the homebuying process, so naturally I was nervous about it, but I felt comfortable with the mortgage loan originator at LMCU.

“I was encouraged to ask questions to have a better understanding of each step of the process, and my business felt appreciated,” Neil said.

The Montfords originally met with their MLO to get a pre-approval amount, which helped establish a “nice working relationship,” Paula said. “He went above and beyond to answer all of our questions, which we had a lot of.”

The lesson: Great service means taking the time to answer questions, to make the borrower feel comfortable. In this case, the time invested definitely paid off for Neil and the MLO. But

that doesn’t mean every time’s a winner; it means you must provide great service every time whether or not the borrower ultimately gets the loan.

The broader view: Credit unions that offer MLO training programs and develop qualifications for hiring MLOs that match the credit union’s needs will have the best chance to offer superior service consistently.


We had a specific financial question and [the MLO] responded to us on a Saturday because he didn't want us worrying all weekend.

COMMUNICATION

Perhaps nothing is more frustrating to a borrower seeking a loan than silence. Studies show that communicating with the borrower throughout the loan process makes for a good relationship ... or not.

Communication begins as soon as an inquiry is made about an application. It continues during the application process—at every step as well as during times when there is no action: “We are still waiting for that document, but we expect it in the next day or two.” Communication should mainly be pro-active, but when a response is requested, it should be quick.

It was quick, and greatly appreciated, for Paula Montford: “Once we had a specific financial question and [MLO Tim Greene] responded to us on a Saturday because he didn’t want us worrying all weekend.”

The case of Sunmark Federal Credit Union member Carmen Rosario Reyna illustrates another important point about communication, one that will become increasingly critical in the coming years: Carmen speaks only Spanish. At Sunmark, MLO Jose Camilo speaks Spanish and English.

Carmen tells her story with the help of her son, who translated:

“I first started saving for [a home] three or more years ago,” Carmen said. “Once I had a good amount saved, I reached out to the Realtor and then to the credit union,” which matched her with Jose.

“Jose was magnificent from the first moment I spoke with him,” Carmen

continued. “I felt so relieved and at peace knowing that [with Jose’s help] I was able to understand the process every step of the way.”

The MLO not only communicated, he also provided exceptional service, making possible a home purchase to a woman who never expected she could qualify.

“I never thought I could purchase this kind of home,” she said, “but Jose made the process worry-free [for me] and when things came up, he took care of them.”

The lesson: Communication, of course, is a two-way street. But it must be continuous throughout the loan application process. Make sure every question is answered—from the first inquiry to the closing and beyond. And be proactive whenever you can. Use the channels the borrower prefers, whether it’s phone, email, face-to-face or even texting. Don’t keep them waiting either.

The broader view: The credit union can save time for the borrower and the loan officer/contact by limiting the need for back-and-forth communications. Provide a time line with mileposts noted. Offer checklists for documents needed at the front end of the process and offer multiple channels for receiving them. Consider a program allowing you to obtain documents electronically. Set a time limit on responding to questions and designate who the credit union point person will be. To attract more first-time buyers into the future, consider the value of hiring bilingual MLOs.

COMPETITIVE RATES

Every credit union should monitor competitors’ rates, and yours should be in the ballpark, but not necessarily the lowest. If you’re selling mortgage loans on rates alone, you’re doing it wrong.

Beyond the individual borrower, you must make sure your members and potential members know you

have a mortgage program. Use your marketing channels; build campaigns; collect testimonials. It’s surprising how often members seem unaware that they can get a home loan at their CU.

And while rates are not the only factor for a borrower, it’s important. Of the borrowers we interviewed, the Top 3 concerns were service, rates and knowledge of the local market. These three factors combine to offer credit unions an opportunity for an advantage, especially when rates of competitors (other financial institutions and online lenders) are similar.

IF YOU CAN’T CONTROL IT...

Multiple first-time buyers expressed exasperation, if not frustration, at trying to buy their homes in a seller’s market. They put down offers on homes—sometimes

four and five times—and were rejected when someone else offered more money or didn’t need financing.

“Finding a home in our price range that we liked was difficult,” said Paula Montford. “Homes were going for above asking [price] in mere days after becoming available.” She said the 48 hours between the time they put in an offer on their home, considered the counter-offer and had the final offer accepted was “the most stressful”

time. She also mentioned the home inspection and appraisal as causing some stress.

“I had lost multiple homes I placed an offer on,” said Neil of LMCU. “This became very frustrating and discouraging numerous times.”

“I was applying for many different houses, but someone offered more money,” said Jeimy Hernandez Sandoval, a first-time buyer also with Summit CU. “This happened to me five times.” Happily, Jeimy scored on House No. 6.

These factors can’t be controlled by the lender or the buyer, but the credit union can play a role in diffusing tensions by preparing the buyer for these types of situations—in essence, sharing with them that they can occur and while they might not be pleasant, at least then they won’t be unexpected.

Neil from LMCU offers this advice to other first-time buyers: “Don’t be in a hurry. There are numerous aspects that are beyond your control, but it is a decision that will affect a large portion of your life, so it should be treated as such. It can be very frustrating at times, but it is well worth it in the end.”

Amen. 

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KEY 'WANTS' OF THE LENDER FROM FIRST-TIME HOMEBUYERS

Here is what first-time homebuyers are telling lenders that they want in three key areas.

KNOWLEDGE: Tell me what it means. Tell me how and when it happens. Let me know what to watch out for.

COMMUNICATION: Answer my questions. Keep me up-to-date about the process. Tell me what’s next. Prepare me for the possible outcomes—good and bad—along the way. Stay in touch.

SERVICE: Give me the time I need to understand what’s going on. Treat me with respect and help me trust you. Don’t keep me waiting. Know who I am (and what I can afford) so you can give me what I want.