

Winning the Housing Battle

How Credit Unions Can Accommodate Millennial and First-Time Buyers to Increase Home Purchases

By LenderSelect Mortgage Group



The mortgage industry will continue in 2019 to respond to changes, as the Mortgage Bankers Association predicts interest rates will rise to 5.1% in the new year and will continue to hover around this level through at least 2021.

These higher interest rates, which began increasing in early 2018, have led to a significant decrease in refinances, with an additional 12.4% decrease expected in 2019. Despite this, purchase originations are expected to top \$1.2 trillion in 2019, a 4.2% increase over 2018.

Interestingly, Millennials currently make up nearly half of all buyers, but this group faces significant challenges in its journey toward homeownership. A combination of rising interest rates, increased home prices—the median existing home price rose 4.9% between 2017 and 2018—and a severe lack of inventory are stifling Millennials dreams of owning their own homes.

What can mortgage professionals do to sustain and support Millennials, and all first-time buyers, to encourage them to pursue homeownership?

UNDERSTANDING FIRST-TIME BUYERS

Millennials make up almost half of all homebuyers, according to Zillow, but did you also know over 60% of first-

time buyers are Millennials?

The average homebuyer earns a median household income of \$72,500 annually, with nearly a third earning less than \$50,000 and another third earning more than \$100,000, according to Brian Buffini's 2018 Real Estate Report.

First-time buyers tend to opt for buying in the suburbs or urban areas, with very few choosing to live in rural area. This makes sense because more than half of buyers desire to live in a walkable neighborhood. And, according to Zillow, 68% of Millennials and 66% of (younger) Generation Z buyers prefer a short commute to their job, as they are likely to use public transportation.

The layout of the home is less important to Millennials than older generations; however, more than a third of Millennials place a priority on having additional space to use for rental income.

FIRST-HOME CHALLENGES

It's important to take a close look at today's first-time homebuyers. Using research by Zillow, let's discuss the challenges associated with buying a first home.

It is no surprise that 73% of individuals rent before purchasing a home and over half consider renting while looking to buy. 74% of today's buyers opt to work with a real estate agent, and they are seeking a strategic partner to help them through the home buying process—someone with extensive knowledge and trustworthiness.

As a credit union, this is where you can take the upper hand and shine as the mortgage subject matter expert.

Over half of all buyers who seek a mortgage are concerned about qualifying for one and 52% put less than 20% down on a home. And 30% of first-time buyers, in particular, have concern when it comes to qualifying for a mortgage and 29% of them were denied at least once on their journey to obtaining a mortgage.

When it comes to finding a lender, younger generations are more willing than older generations to shop around before making a decision, with more than half of first-time buyers contacting two or more lenders.

A major struggle for many first-time buyers is the ability to put a full 20% down on a home, with less than a quarter of them able to do so. Many Millennials also face the struggle of an ever-increasing debt-to-income ratio due to growing student loan debt.

COMBATTING CHALLENGES

Despite the significant challenges many first-time buyers are facing in the current real estate market, there are many ways credit unions can encourage and support these buyers on their journey to homeownership.

1. Diversify Your Portfolio: With many types of mortgages available, avoid taking a one-size-fits-all approach toward lending. Building a diverse portfolio of

mortgage products allows you to expand your audience and provide options that many buyers are seeking in order to reach their goal of homeownership.

There are many low-down payment options available. In fact, buyers can take out a government-backed loan that allows for as little as zero percent down. Even an FHA loan requires just 3.5% down, making it a viable option for many Millennial and first-time buyers. And 45% of first-time buyers choose a government loan, so including these as part of your mortgage offerings could greatly expand your reach.

Credit unions sometimes overlook the government lending options, sending mid-tier and higher debt-to-income (DTI) borrowers to seek alternative lenders.

2. Provide Construction Loan Options: The lack of housing inventory has led to significant challenges for homebuyers, leading to affordability issues

in some regions.

Taking a different approach and cultivating interest in new construction is one way to combat this challenge, but it is important to ensure you provide construction loan options that will make homebuilding an affordable and viable option for buyers.

3. Offer Mortgage Education: One of the reasons younger generations have uncertainty toward purchasing a home is due to a lack of education regarding the home buying process. Offering tools and resources to Millennials and all first-time buyers can provide them the confidence needed to encourage a home purchase.

This can be done through one-on-one sessions, first-time buyer or credit education courses or even simply creating an online blog to share easy-to-read content related to the mortgage and home buying process.

If you're not providing educational opportunities online or in your branches, buyers may shop you strictly on rate and that can be a race to the bottom.

Again, this is an opportunity for credit unions to enter the mortgage space as a subject matter expert for potential home buyers.

4. Foster Agent Relationships: Sixty-two percent of buyers use referrals to find a mortgage lender, and 50% of them turn first to a real-estate agent for advice.

Knowing this, it would be beneficial to cultivate relationships with like-minded agents in your local area to establish a strong network that will be a win-win situation for both the lender and agent. This can help you get in front of buyers as soon as they begin the home search process, allowing you to provide the education and resources they are seeking on their journey to homeownership.

Marketing/advertising service agreements are not a necessity, since credit unions already have a large membership list filled with potential homebuyers to leverage when working with local agents.

In summary, despite the challenges many Millennials and first-time buyers face, there is a huge opportunity for credit unions to step in and provide the tools and resources buyers need to make purchasing a home a reality.

Offering a variety of mortgage products is one of the best ways to draw in younger and less experienced buyers, but it is equally important to provide the advice and support they need to feel confident in beginning their homebuying journey. ▲

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