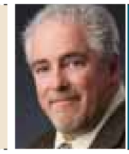

By Ray Brousseau
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Seeing Recovery Down the FHA Path

Reviving homeownership can help the mortgage industry and the economy

As the American public frets over the financial future of our nation and government officials lay out possible course corrections, it's time for high-impact industries such as the mortgage business to step up to the plate and try to create some much-needed change. Keeping in mind that the housing market has helped lead the U.S. out of recession on multiple occasions, mortgage professionals should take stock of the tools at hand and evaluate how they can be maximized to drive economic growth.

Some tools not to be overlooked are Federal Housing Administration (FHA) loan programs. For years, FHA backing has provided loans for millions of borrowers who didn't qualify via traditional underwriting. Although some may argue that the higher default rates in the FHA program have contributed to the nation's financial challenges, a closer look suggests that the FHA has been — and can continue to be — a contributor to economic growth and stability. Creating an environment where more people can qualify for homeownership is likely to increase demand, improve home values and create new opportunities for move-up buyers, thereby bolstering the housing market as a whole.

Although it's hardly a novel approach, targeting first-time homebuyers as candidates for FHA loans is a promising strategy for increasing the number of homeowners in the United States. Since first-time buyers are critical to driving upward mobility throughout the market, it's unfortunate that this group remains a relatively small segment among homeowners. The market desperately needs an infusion of new buyers to avoid stagnation or, worse yet, another decline.

Other consumer businesses can benefit from an increase in first-time homebuyers, as well, since this group often spends money on single-purchase household items like lawnmowers, snowblowers and similar household appliances that they don't need as renters. Using FHA programs as a way to guide some of the nation's millions of renters into homeownership could do a lot to lift and sustain the housing market, leading local markets — and the U.S. economy — toward a sustainable recovery.

Homeownership

FHA loans are attractive to first-time buyers who often have lower incomes and less cash for downpayments than borrowers who qualify for conventional loans. One of the fundamental missions of FHA is to provide homeownership opportunities to people who simply cannot qualify for traditional underwriting.

From the standpoint of an originator, FHA loans are easy to sell. Beyond the obvious psychological appeal of being able to attain something thought to be out of reach, the benefits associated with FHA loans include lower downpayments (as low as 3.5 percent), lower closing costs, the option to include repair costs for fixer-uppers, less stringent credit requirements and competitive interest rates. The flexibility associated with these loans often allows gift funds to be included in the downpayment on a home, which is a plus for borrowers just starting out that may rely on gift funds from family members to make their first home purchase.

Using the FHA program also enables originators to provide loans to people who have found themselves in a difficult position because they were negatively impacted in some way by the recession. For instance, the fact that FHA loans allow for lower FICO scores than those required for traditional loans opens doors for many renters considering the leap into homeownership. Although the FHA has continued to tighten up its lending qualifications, applicants with a FICO score as low as 580 can qualify for a 3.5 percent downpayment. Those applicants failing to meet that criteria typically are required to put at least 10 percent down to help balance the risk associated with their loans, compared to 20 percent — or higher — downpayments for most other loan products.

To consider a longer-term perspective, responsible borrowers can use FHA loans as a way to rebuild their credit scores and improve their chances of securing traditional financing at a later date. Homeowners who are diligent about paying their bills on time will see improvements in their FICO scores, meaning that when they're ready to move up into their next home, they should find themselves eligible for lower downpayment options. For many people, owning a home can instill an elevated sense of stability and responsibility, creating an argument for the idea that there is a natural correlation between homeownership and improved credit risk over time. In other words, if the mortgage industry helps

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this group of people move into homeownership in a responsible, thoughtful manner, it can contribute to making them a better credit risk for future transactions.

For this group of buyers, the benefits of homeownership are as much psychological as they are financial in nature. Purchasing a home will give them something that is theirs to put their mark on, be proud of and use to raise a family. It also acts as their ticket to one day move up into a larger home as their families — or perhaps just their ambitions — grow.

Tips for Marketing to First-time Homebuyers

Considering the significant population of renters currently in the United States, there is a substantial pool of potential first-time homebuyers out there, many of whom may be excellent candidates for Federal Housing Administration (FHA) loans. The challenge, however, lies in finding these prospects and then educating them about when the time may be right to buy. Here are some tips for effectively marketing FHA loans to this audience:

- **Find rental experts in your area via the Internet.** Ask them — or your established Realtor partners — for assistance in determining where higher-priced rental properties are located. Consider whether renters in those properties can move out and own a home for roughly the same as their monthly rental payments. Many interested parties will bring about 3.5 percent in cash or use gifts from their families for downpayment.
- **Check non-owner-occupied properties.** Because these are rental units, make sure you contact the resident at a location as opposed to the owner.
- **Collaborate with Realtors** who work on both sides of the business — rentals and sales — to effectively identify the most suitable candidates, and then reach out to them to discuss the psychological and financial benefits of owning compared to renting.
- **Look for areas with high monthly rental rates** and target them with door hangers and other marketing materials.
- **Reach out to first-time homebuyers** via seminars designed to meet their needs. Expand your company's educational platforms in this respect, enlightening first-time homebuyers about the mortgage process and telling them what they can expect from selection to sale. Participating local Realtor partners can provide home selection and purchase guidance specific to your local market. These seminars can include reviews of mortgage programs, explanations concerning credit and guidelines for financially preparing to purchase a home.
- **Remember your compliance responsibilities** as they pertain to marketing and contacting prospective homebuyers.

—Tom Shaw,
vice president of marketing,
Mortgage Lending Division,
Carrington Mortgage Services LLC

Identifying buyers

When it comes to finding potential first-time homebuyers, there are a number of approaches you can take. Here are some of the most widely used:

- **Tap into lists from data providers:** Rental lists are available for purchase from a number of data providers. From these lists, mortgage professionals can drill down to a specific locale or complex, and even decipher how long someone living in a location has been a renter. Although these lists may not be rental lists per se, you can acquire them via title companies that target renters by indicating in your criteria that you're searching for non-owner occupied properties. By matching this information with psychographic and behavioral data provided by house-holding companies that identify promising FHA loan candidates, it becomes possible to create a target list of contacts complete with mailing addresses, phone numbers or even e-mail addresses. A word of caution, however, when using this strategy: Make sure that your data provider has taken into account whether phone numbers or e-mail addresses included in their information are against national or state do-not-call databases and comply with other applicable laws. Further, be mindful of the fact that using large lists for direct-mailing campaigns requires the ability to mail out information frequently and may require a large bandwidth to physically answer the phone when recipients call. You never will know when a possible customer might be motivated to talk about the potential to buy, meaning that you'll need to be available to take their calls whenever the moment is right.
- **Establish yourself as the go-to resource within a given community:** Mortgage professionals should make an effort to work with local community centers, libraries and religious centers to offer free information or seminars directed at helping first-time or even move-up homebuyers

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learn about the current housing market. The real estate and mortgage markets have gone through many changes since 2007, meaning that even a fairly confident move-up buyer can benefit from education concerning the state of local real estate markets, the current values of surrounding areas, mortgage programs for homebuyers, credit qualifications, requirements for downpayments and general information on timing. Being recognized as the trusted local-area resource for this information can make you a valuable asset to the community — and the first person prospective homeowners call when they decide they're ready to buy.

- **Be a resource for industry partners:** Market yourself as the local loan expert by communicating your knowledge of pricing trends and transactions taking place. One way to do this is to start a blog in which you write about what's happening in your market and share information about any transactions in which you're actively participating. If blogging isn't your style, you still can share your knowledge via weekly or monthly e-mails sent to all of your contacts including past and potential buyers. Whatever you do, make an effort to communicate your knowledge of the market on some regular basis. Remember that there's a fair amount of noise competing for the average person's attention, which means that you want to remain as top-of-mind as possible.
- **Buy FHA purchase leads from lead aggregators:** There are a number of lead aggregators sourcing orders of all sizes, and these organizations can be extremely helpful in targeting potential buyers. Just keep in mind that the approaches among lead aggregators can vary to meet specific needs. The main question to ask yourself before you start calling around is whether you have the ability to contact a lead quickly once you receive it. If you have the capacity to do so, companies that offer competitive leads should work for you. If not, you might opt to work with an organization that provides exclusive leads.
- **Advertise online:** Engaging in some form of online advertising has become a necessity across multiple markets. Search-engine marketing is likely the most suitable place to start such an endeavor. Doing so, however, is not necessarily easy, as maximizing the effectiveness of this vehicle generally requires an understanding of the nuances associated with online pay-per-click marketing, as well as knowledge of various search-engine advertising platforms and the optimization choices available. It also requires access to — and control of — every website and landing page that your ads point to. Although advertising, for instance, "FHA purchase loans in San Diego" online can be effective, it also can prove costly unless keywords, landing pages and graphics are optimized regularly for response.

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Regardless of the approach, the mortgage industry should work toward attracting the attention of the FHA audience and demonstrating to that demographic the ways in which homeownership can enhance their lives. In doing so, mortgage brokers and originators can take a big step toward improving the housing industry — and the economy — for everyone.