How to Grow Your Mortgage Program by Focusing on First-time Homebuyers

By Cory Fleming
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"Homeownership is important to our community, and we are committed to helping individuals realize the dream of owning their first home."

– Phil Buell, CEO, Superior Credit Union

We've all heard that mortgage growth will slow now that rates have topped 5% for the first time in a decade. At Superior Credit Union, which operates 25 branches in western Ohio and is sole owner of Superior Financial Solutions, a mortgage CUSO, application volume has held steady in 2022. Hence, it's our belief that other credit unions are still able to see success with their mortgage programs so long as they make mortgage lending an organizational priority.

For more than 20 years, SCU has been the leader in northwest Ohio by taking a member-centric approach to mortgage lending, actively looking for ways to get loan approval while still managing risk. We take pride that many of our borrowers are first-time homebuyers looking to build long-term equity rather than pay rent.

One aspect to help court first-time home borrowers is down payment assistance. In the past, we've participated in the Federal Home Loan Bank of Cincinnati's Welcome Home program, which provided $5,000 DPA grants to qualifying homebuyers. Unfortunately, the program saw a 75% reduction in available funds for 2022. The lack of housing inventory has also priced many first-time buyers out of the market, especially when having to compete with real estate investors.

In response, our Foundation created the "SuperiorFirst" program, which offers first-time homebuyers the opportunity to receive a grant to fund their down payment and closing costs. In four years, SuperiorFirst has assisted 300 first-time homebuyers with nearly $600,000 in relief. One of those members recently shared that, "the $2,000 SuperiorFirst Grant helped me so much throughout my process of homebuying and financing. I wouldn't have been able to secure my first home without the advantage of using the grant."

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If down payment assistance is not possible for your credit union, another way to adapt to rising interest rates is offering a full menu of mortgage products. With 30-year fixed rates increasing over 2% already this year, the average homebuyer's monthly payment could increase by as much as several hundred dollars per month. This increase leads to higher DTI ratios, which in turn hurts the ability of many borrowers to find and purchase a home. This is especially true for millennials who graduated college with high student loan debt and little-to-no assets for a down payment.

Adjustable-rate mortgages (ARM's) became a four-letter word following the Great Recession of 2008, but the fact is that a 30-year fixed rate mortgage may not make the most financial sense for a lot of borrowers, especially first-time homebuyers. Why would a borrower want a 30-year loan on a property they only intend to occupy for five years? It makes far more sense for them to take an ARM and realize the interest savings in the first period(s) to build equity faster and equip themselves to make a larger down payment on their next home.

At Superior, we offer most standard ARM's, but our most popular is a 5/5 ARM. This product fixes the rate for the first five years with a maximum adjustment of 1% for each interval that follows. By pricing this loan at 1.25% less than the 30-year fixed, the borrower is essentially locking in a rate lower than the 30-year fixed for at least 10 years. After 10 years, it's likely that they will be selling or refinancing anyway. By carefully explaining the benefits of an ARM to your borrower, you can help your member save money, lower their DTI, and build equity faster.

In addition to helping with down payment assistance and offering adjustable-rate products, other ideas for your credit union to consider include:

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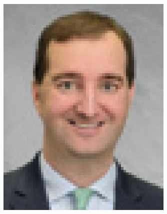
- **Actively contacting realtors for client referrals.** We are now in a purchase market. Successful lenders will be the ones who have built a strong referral network. Your lenders should be encouraged to attend realtor association events to build relationships with referral partners.

- **Market directly to get members pre-approved.** Your value to realtors increases exponentially if you can send them clients who already have financing in place. In fact, it is highly unlikely for an offer to be accepted in today's market if it does *not* include a pre-approval letter. But make sure you verify assets and income before issuing one. As a reputable lender, you need to stand behind your pre-approvals. Nothing upsets an agent more than having an offer accepted only to find out the purchaser was not approved for financing.

- **Provide staff incentives for cross-selling.** Your front-line staff interacts with members more than anyone. Many times, members offer cues that they are looking to buy a home. If staff are trained to notice these cues and can turn them into referrals, you're more likely to see an increase in mortgage volume.

- **Do not be hesitant to offer FHA loans.** Nearly half of first-time homebuyers will utilize a government loan for financing. Some lenders are hesitant to offer them due to the increased inspection scrutiny and underwriting requirements. By doing so, you are limiting yourself to a large market of prospective borrowers.

At Superior, we believe credit union members are getting a mortgage somewhere, so why not with us? If your credit union adopts a similar mentality, then you too can be successful in mortgage lending. This does require an all-in commitment from the top to the bottom of your organization, openness to collaboration, allocating financial resources, and instilling a sales mentality with staff. But such commitment is sure to result in increased mortgages and more satisfied members.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Cory Fleming is the Vice President of Business Development for Superior Financial Solutions, which is a wholly owned CUSO of Superior Credit Union. In his capacity, Cory oversees the CUSO partner recruitment and assists with origination support. Previously, he served as the Legislative Director for the Ohio Credit Union League.