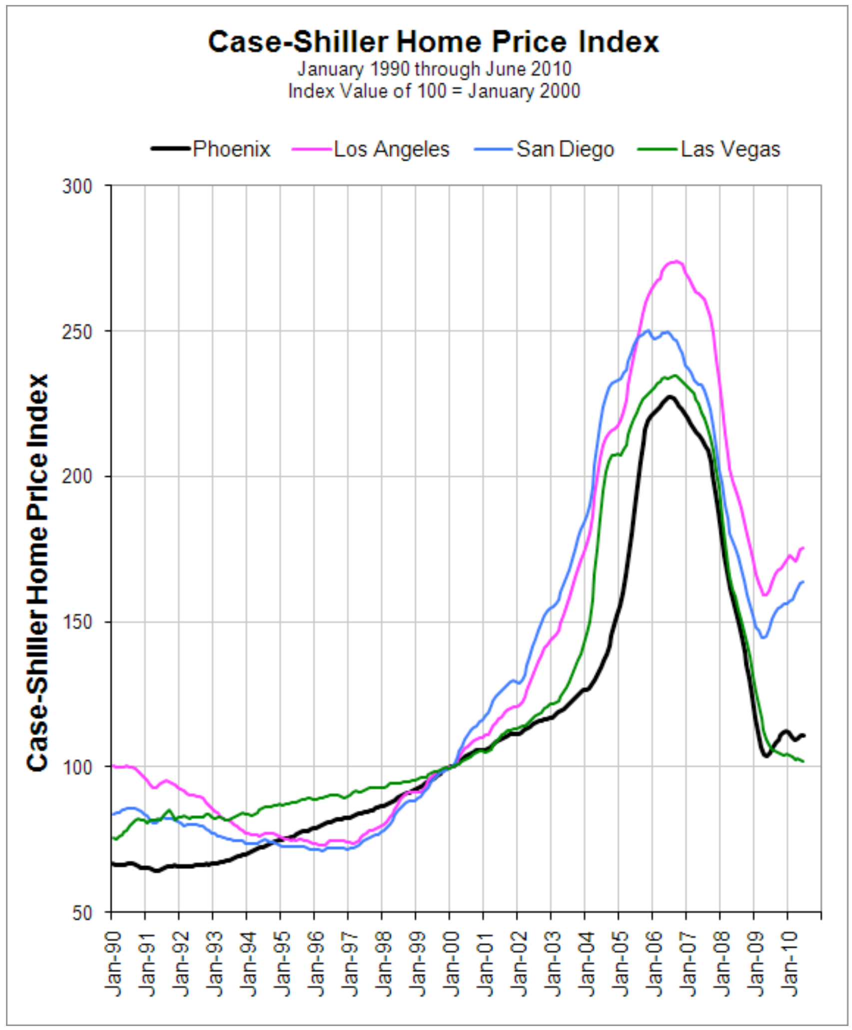
Why renters are not becoming home buyers.

...and what you can do about it.

Preface

Nearly 70% of Americans believing that now is a good time to buy a home. Home affordability has never been higher. So why are millions of renters sitting on the sidelines?



In 2010 there was a nationwide government survey on this subject. The survey results identified the top reasons that renters are not buying. Many of these were the usual items that we as lenders and Realtors need to overcome. However, four of the top five reasons given by renters can be easily conquered.

Let us first look at the state of the current market. Based upon the attached chart, home prices look to have stabilized. As the chart also reveals, you can now buy a home in Southern California for roughly the same price you might have paid in 2004.

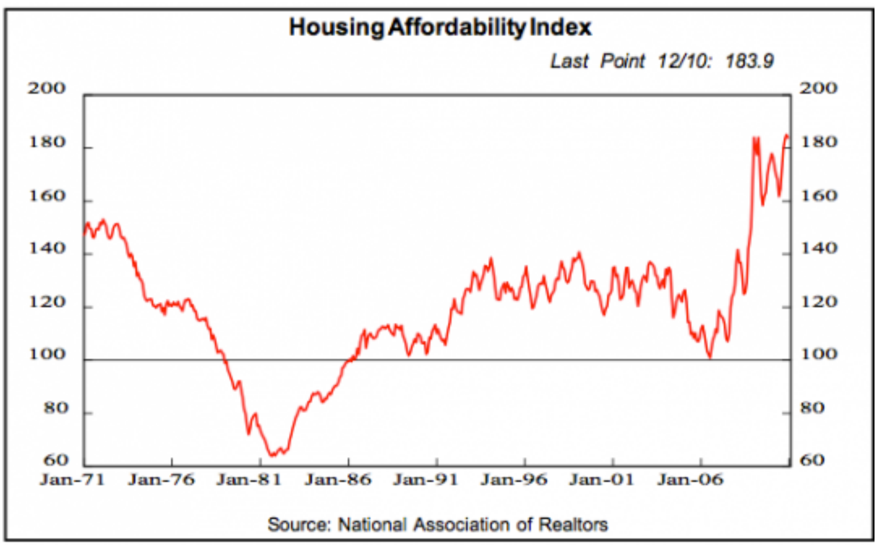
What is more important, 67% of the renters in the survey stated that they believe home prices have stabilized and might actually increase in the near future. This is good as we don't need to sell renters on the opportunity.

Mortgage rates are significantly lower than they have been in recent decades. These lower rates have opened the door to home ownership to millions of Americans that would otherwise be shut out of the market.

While we are experiencing high unemployment, and probably even higher under employment, the housing affordability index has NEVER been higher.

The housing affordability index (HAI) reflects consumers' ability to purchase a home. It takes into account:

- **Home prices** (higher prices hurt affordability)
- **Mortgage rates** (higher mortgage rates hurt affordability)
- **Family income** (higher income helps affordability)



The index is produced by the National Association of Realtors® (NAR) monthly and quarterly. A similar, more-defined quarterly index covers first-time buyers.

To interpret the indices, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20% down payment.

For example, a composite HAI of 120.0 means a family earning the median family income has 120% of the income necessary to qualify for a conventional loan.

An HAI of 80.0 indicates the average family has only 80% of the income required to qualify.

Quite simply, the higher the HAI, the more people qualify. The lower the HAI, fewer people qualify.

With today's HAI at over 180.0, it is obvious that today's borrowers have more than enough income to qualify for a home.

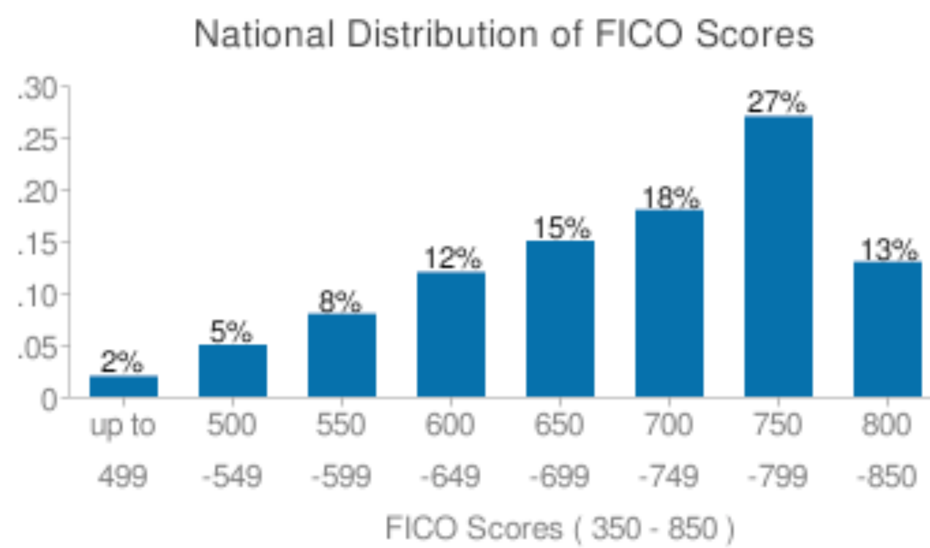
We have clearly shown that 2011 represents a tremendous buying opportunity and that buyers themselves believe it is a great time to buy. So again, why are millions of renters sitting out the housing market?

Well, here is the list. It adds up to more than 100% do to the survey allowing renters to list their "reasons" for not actively pursuing home ownership. Renters surveyed often listed more than one reason.

REASON # 1

54% of renters feel they do not have a sufficient credit to qualify for a home loan.

The problem with this, is that it is largely a self perceived inaccuracy. Many renters fail to understand that their current credit already qualifies them for home financing.



FHA loans have gained significant market share with their *higher loan amounts and smaller down payments*. They also generally require only a 620 FICO score. Statistically, over 80% of Americans have a 620 or better FICO score. With the given statistics, it becomes obvious that many Americans do not realize they have what it takes to buy a home in todays market.

Most renters are also unaware that FHA also allows for the building of credit through alternate sources such as rent, utilities, cell phone bills and others. This ability to build an alternative credit profile increases the pool of potential buys tremendously.

Solution: A very large portion of those renters need to be made aware that they can, will, and do qualify. My team and I are more than eager to assist you in qualifying your potential clients. By working together we can help ensure that renters do not miss out on the great buyers market.

REASON #2

47% claimed that they do not have sufficient income to buy and maintain a home.

The public is bombarded with bad news about housing, expenses, the economy, and how difficult it is to qualify for a loan.

Incomes are in fact down. Several households are getting by with less. However, the combination of lower home prices and lower interest rates have made home ownership more affordable than ever.

This is proven out in the Housing Affordability Index (HAI) indicates. With the average family currently making 180% of what is required to buy the average home. Income qualifying has never been easier.

Solution: The real question is not whether they can afford a home but how much home can they afford? Your marketing to renters must highlight the advantages of this market not the difficulty. Again, we are here to assist you in pre-approving your clients and preparing them for home ownership.

REASON # 3

41% are concerned as to whether now is a good time to buy.

Renters are concerned about home prices dropping further and fear of over paying for a home. Sadly, we must compete with the media which continues to report on dropping values and homeowners being forced from their homes.

These types of news reports leave renters apprehensive about buying a home.

This may seem to be a tougher solution than most. However, let's to compare the situation to buying a new car. In 2004 new well equipped Honda Accord cost $19,400. Today a similar model goes for nearly $30,000. Yet, as the earlier chart showed, today's borrower can often purchase a new home at 2004 prices. Now that is an open door to a buying opportunity!

Additionally, if borrowers are concerned about housing prices they should be equally concerned about interest rates. A $350,000 mortgage has an interest payment of $1450.00 at today's 5% levels. If rates rise to 6% that payment jumps to $1750.00 Given that scenario, the cost of owning just went up nearly 15%.

Also, recent news indicates that inflation is right around the corner. Rents have been, and are likely to continue rising. I recently read that if the government calculated inflation using the same model used in the 1970s and 1980s, that todays inflation rate would be at 10%. These rising costs are surely going to be passed on to renters. Homeownership largely stabilizes housing costs for families.

We can assist your borrowers by helping them become aware of the long term value of home ownership.

REASON #4

34% of renters do not think they will be in the area long enough for buying to make sense.

Solution: None. I'm not one to fight a losing battle. If you have a great comeback to this objection I would like to hear it.

REASON #5

30% of renters think it is cheaper to rent than to buy.

Perhaps they are previous homeowners that are currently renting or possibly first time home buyers. Either way, they more than likely have been bombarded by news of people losing their homes due to lack of affordability. The constant barrage of bad news is leaving many with the misconception that home ownership is very expensive.

Solution: I love these scenarios. This is where numbers can do magic. It is no longer a 2007 market. With today's lower home prices and lower interest rates most renters can buy a home and have a payment very close to their rental payment.

When we plug in tax advantages, future rent increases, and modest appreciation, buying in today's market is a no brainer. We can show your clients on paper why buying makes sense and why waiting may really be a bad move.

BONUS! REASON #6

I know we said we would give you the top five reasons renters fail to become buyers, but number six is a no brainer. **25% of respondents thought that the whole buying and qualifying process was to complicated.**

Solution: At Castle & Cooke Mortgage we have the process down do 8 to 10 days. That is 8 to 10 days from application to closing.

I know that the escrow will usually be longer than that, but the good news is their loan will be sitting their waiting for them. Isn't it great not to have to wait on the lender for a change?

This is not just lip service, this is a guarantee! If your loan fails to close on time we pay your buyers closing costs. You can review our guarantee on our website at www.castlecookemortgage.com.

CONCLUSION

While there additional reasons given by renters for not entering the housing market, the vast majority were addressed above. Although there are several issues on the table, it seems quite clear that the renters in the survey are simply uninformed as to the current state of the market.

In order to get renters off the fence, it is absolutely essential to educate renters on the amazing opportunities that exist in today's homes buying market.

Whether you advertise directly to this market segment by way of direct mail, email, seminar, or blogging, the key element in your marketing should be the tremendous value in home buying, the wide selection of home available and the ease with which they can get into their own home.

If there is anything that my office can do to assist you in this process please feel free to contact us. I have 25 years experience in the mortgage business and have closed thousands of loans. We are currently capable of closing government and conventional loans in 8 to 10 days.

Kyle Franson
kyle@kylefranson.com