The Biggest Opportunity Lenders are Missing in 2023

Lenders and real estate agents are leaving money on the table when they focus solely on Millennials.

A White Paper

If you ask a CEO of a mortgage lender where the next wave of homeowners will come from, you'll get an immediate answer: Millennials.

Everyone knows that Millennials *should* be the next generation to start buying homes and settling down. All of the experts are telling us it's going to happen any day now.

But data analyzed by CreditXpert clearly shows that Millennials are in no hurry to buy new homes and won't be for some time due to their harrowing financial situation. Furthermore, lenders are not in a position to help these potential borrowers overcome the financial hurdles they are currently facing.

While many lenders are putting many resources into marketing to Millennials—because the demographic data tells them it's a good idea—a broader look at the available data will show them that demographic data is no longer predictive of home sales.

Yes, Millennials are the largest group of potential home buyers in the country at this time: they are the right age, and according to historic data, they are the demographic that should be settling and buying homes. However, that is not happening.

In this paper, we'll explain why Millennials, as a group, do not constitute the mortgage industry's best opportunity for new home sales over the next 1-5 years. Millennials are not yet in a position to take the action required to qualify them for a mortgage loan, and because of this, lenders need to find new and diverse sources of loan applicants.

Demographic Data is Steering Lenders in the Wrong Direction

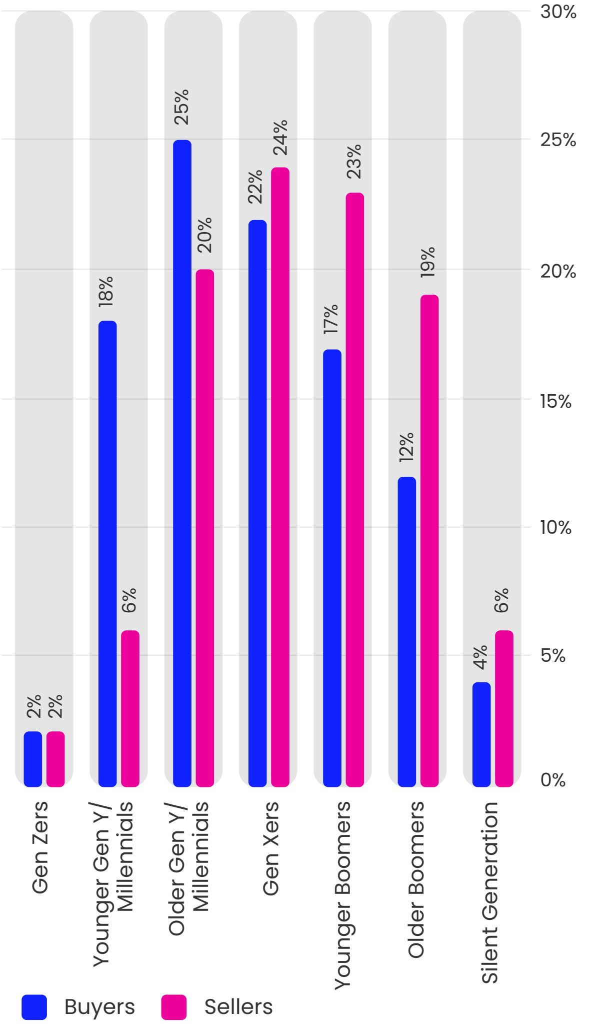
There are experts all over the real estate industry who are eager to give their opinion about the real estate market. They take what they see and make predictions about the future. That's the best any of us can do. But looking at any single industry indicator—whether that be inventory, listings, days on market, historical mortgage volume, or demographics—is not sufficient for future projections. It never has been.

In the mortgage industry, predicting what will happen beyond 12 to 18 months (and 18 months is a stretch) is close to impossible. The reason for this is that mortgage activity is directed by macroeconomic forces more than anything else, and those macroeconomic factors are hard to predict far in advance.

Additionally, mortgages are heavily influenced by national, regional, and local policy, which is also very hard to predict. As a result, we tend to look at more stable, predictable numbers for clues to what future demand will be. With a few assumptions, demographic data becomes the best estimate of how many prospective home buyers there will be at any given time.

Today, the demographic data indicates that there are more Millennials of home-buying age than any other demographic. Furthermore, this is the largest home-buying cohort we've ever seen. It's easy to see why so many lenders think this is where the opportunity for future mortgage loan business lies.

Share of Buyers and Sellers by Generation[1]



[1] https://www.nar.realtor/sites/default/files/documents/2022-home-buyers-and-sellers-generational-trends-03-23-2022.pdf

As a result, we see both real estate agents and lenders spending a great deal of time and money trying to attract Millennials, but there is plenty of other data to show that these leads are not likely to convert—at least not yet.

There is still a great deal of opportunity for mortgage companies to grow in 2023—we think there is. It's not just where most lenders are looking.

We'll show you where the biggest opportunity truly lies for lenders.

Millennials are Different from Previous Generations

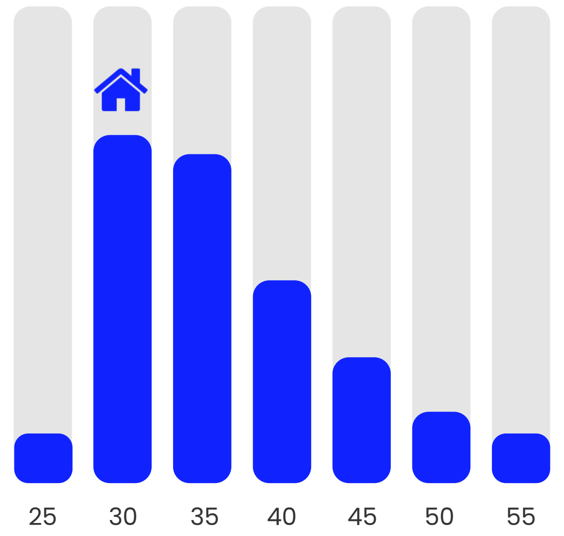
Millennials fall into the age range of 27-42, and many of them are currently in their prime home-buying years. Historically, those home-buying years have been within ages 30-34, but this rule doesn't hold true for Millennials.

According to the National Association of Realtors, the average first-time home buyer was 33 in 2021[2]. That year, 34% of all homes sold were to first-time buyers. By 2022, the typical buyer was 36 and only 26% of homes sold were to first-time buyers.

Americans buy homes within that age range (30-34) for a number of reasons. In their early 20s, consumers are typically still in school or doing apprenticeships and not making enough money to buy a home.

By their late 20s, most consumers have met a life partner or already gotten married. They may even have a dog or first child. What keeps most people out of the home buying market at this age is that they still don't have the income or the credit history to qualify for a mortgage.

By the time consumers are in their early 30s, they have plenty of reasons to buy a home. They are in the process of growing a family; they are more established in their jobs and are making good money, and they've had time to establish their credit histories.



So, why aren't Millennials buying homes?

[2] O'Brien, Sarah. 92% of millennial homebuyers say inflation has impacted their purchase plans, but most are plowing ahead anyway, study shows. CNBC (2023) O'Brien, Sarah. 92% of millennial homebuyers say inflation has impacted their purchase plans, but most are plowing ahead anyway, study shows. CNBC (2023) https://www.cnbc.com/2023/01/25/92percent-of-millennial-homebuyers-say-inflation-has-impacted-their-plans.html#:~:text=perfect%20credit%20score,Millennials%20%E2%80%94%20who%20are%20roughly%20ages%2027%20to%2042%20%E2%80%94%20are%20in,compared%20with%2034%25%20in%20202.

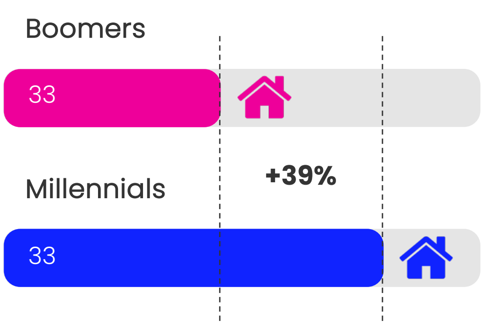
The Affordability Crisis is Affecting Millennials' Purchasing Power

Home affordability is the single largest problem keeping Millennials out of the home buying market.

Our own research backs this up: 25% of surveyed Millennials told us that they were still living with family or friends.

It's not difficult to see. The combination of year-over-year double-digit price jumps for much of 2022 and rising mortgage rates has created an affordability problem for many buyers.

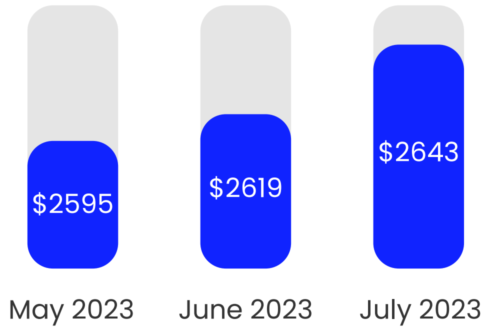
Add to this that Millennials who are buying their first home are paying 39% more than boomers did at the same age nearly 40 years ago, and it's clear that Millennials have a very high hurdle to clear. This has kept many potential home buyers renting a home, even though rents have also been rising.



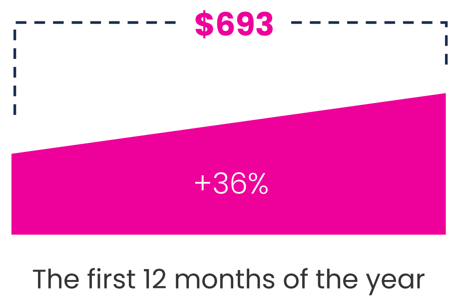
"Prospective homebuyers continued to feel the effects of higher mortgage rates in October, with the 70-basis-point jump in rates leading to the typical monthly mortgage payment rising to a new survey high of $2,012," said Edward Seiler, MBA Associate Vice President of Housing Economics, and Executive Director of the MBA Research Institute for Housing America. "Higher mortgage rates are also squeezing the purchasing power of prospective buyers. The median loan amount last month decreased to $295,000—the lowest level since January 2021. Weakened affordability and increased economic uncertainty are expected to slow homebuying activity in the final two months of the year."

The national median mortgage payment rose to $2,643 in July, up from $2,619 in June and $2,595 in May. Mortgage payments are up by $693 from July 2022 to July 2023, equal to a 36 percent increase.

The national median mortgage payment



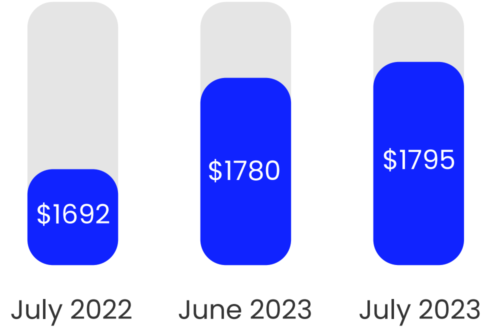
Mortgage payments



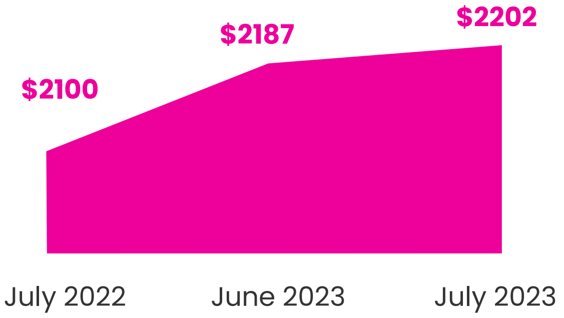
The national median mortgage payment for FHA loan applicants rose to $1,795 in July, up from $1,780 in June and $1,692 in July 2022.

The national median mortgage payment for conventional loan applicants rose to $2,202 in July, up from $2,187 in June and $2,100 in July 2022.

The national median mortgage payment for FHA loan



The national median mortgage payment for conventional loan applicants



Most consumer advocates will focus on rising home prices and interest rates and assume those are the only things holding Millennials back. Those are certainly factors (as we've covered), but they are not the only factors stopping Millennials from buying homes.

There are five other reasons this group of potential buyers is still waiting to buy their first home.

01. High Financial Hurdles

Besides the skyrocketing home prices, there are many other sources of financial pressures millennials are burdened by today. The one most often cited is student loan debt.

Over the years, we have observed that Millennials have been buying an education instead of new homes. According to data collected by EducationalData.com , 35-year-olds have the highest average outstanding student loan debt at $42,600 per borrower; their typical end balance is 287% higher than the value of their original loan.

Consumers slightly younger, in the age group of 25-34, owe an average debt of $33,570. This has risen by 6.1% since 2017.

Consumers slightly older, in the 35-49 year old group, owe an average federal debt of $43,208, which is up 17.9% since 2017.

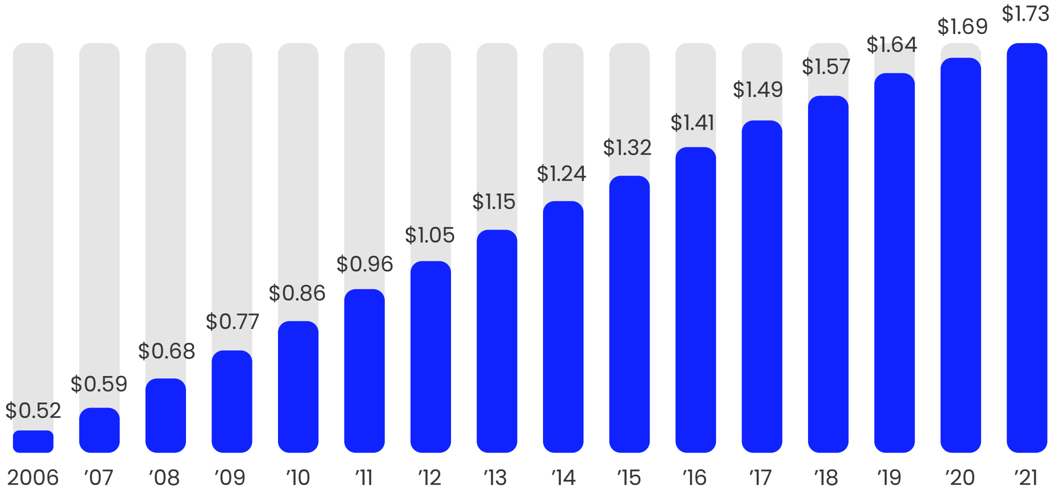
The bulk of the outstanding student loan debt is held by the group aged 30 to 44 years old, who together owe 49% of the national student loan debt balance or $823 billion.

You would expect this to have an impact on homeownership among recent college graduates, and that assumption would be correct. According to a recent report on EducationalData.com, homeownership has declined among members of this group by 1.8% for every $1,000 of their student loan debt.

Here are some other highlights from the EducationalData.com report:

- 51% of renters say student loan debt keeps them from buying a home.
- 29% of student loan debt holders say their debt has kept them from homeownership.
- 72% of student debt holders who do not own homes say they believe student loan debt will delay homeownership.
- 37% of first-time homebuyers have student loan debt.
- First-time homebuyers with student loan debt spend an average of 19% less on their homes than buyers without student debt.

Historic Total* National Student Loan Debt (in trillions)



* Totals as each year's fourth fiscal quarter.
Education Data Initiative source: U.S. Federal Reserve

How Student Loan Debt Dellays Home Purchase*

Demographic*	Delayed Home Purchase	Delayed Home Purchase 5+ Years
All Adults	50%	20%
Male	63%	22%
Female	36%	15%
Up to 25 Years Old	59%	11%
26 — 41 Years Old	70%	23%
41 - 57 Years Old	51%	22%
58 - 76 Years Old	28%	13%
Income Under $50K	45%	25%
Income $100K+	55%	16%
No College Degree	39%	13%
Bachelor's Degree	55%	24%
Postgraduate Degree	58%	11%

On top of soaring student loan debt, wages have not kept up with the rising cost of living and this generation has been paying for it. Millennials have seen less income growth than prior generations. Sprinkle in rising inflation to that equation and Millennials' purchasing power has tanked relative to other generations at this prime, home-buying age.

02. Nomadic Lifestyle Preferences

Millennials have taken longer to settle down than previous generations. It’s hard not to blame the pandemic for this as it severely limited the number of experiences this generation enjoyed during a critical phase of their development.

Today, many Millennials are making up for lost time, prioritizing experiences over possessions. This has led many to rent in urban areas, where the cost of buying housing is higher than they can afford.

03. Housing Supply Shortage

In truth, homes are in short supply. Homebuilding never fully recovered from the 2008 housing crisis, and that contributed to driving up house prices. This shortage especially affected the supply of starter homes.

COVID saw more people working from home, which led many to upgrade their starter homes to larger, more expensive residences. Also, older Americans, who had already downsized into homes that were smaller and more affordable, are living longer and staying in their homes thanks to the availability of reverse mortgages.

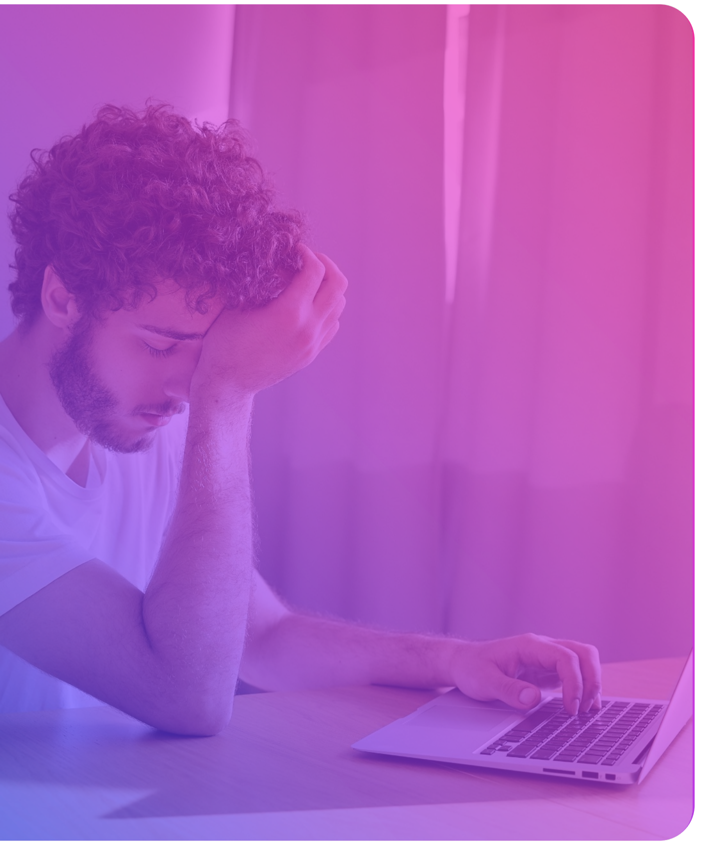
Now that interest rates are rising, fewer home sellers are confident that they will get the asking price for their homes. Others feel like they are being held hostage by their current 3% mortgage rate. So, owners aren't listing their homes at the same rate they would in previous years. This shortage of inventory is driving house prices up and making it difficult for Millennials to find houses to buy.

04. Job insecurity

After years of a strong job market, the Federal Reserve is raising interest rates in hopes of weakening the job market, somewhat.

By raising interest rates, companies can no longer afford to hire as much as they did in the past, decreasing the number of open positions and increasing the rate of unemployment.

The Great Resignation, which happened during COVID, left companies struggling to fill roles, and consequently, there were more jobs open than there were people to fill the positions.



It's not intuitive, but if you consider a labor market that has twice as many unfilled jobs as there are unemployed individuals, you can see how employees have more power to demand salary increases, raising business costs that causes inflation to fester. The employees have this power because companies are desperate to hire people with all of the open positions.

With the Federal Reserve raising interest rates, the number of open positions companies have will decrease, leaving more people unemployed. This increase in unemployment, creating job insecurity, and consequently, there will be less people with excess money to buy houses.

05. COVID

All four of the previous factors have been strongly influenced by this fifth one: the global COVID pandemic.

Our consumer research shows that about one-third of survey respondents said the pandemic delayed their home buying plans by four years or more; over one in ten people completely abandoned their home owning aspirations due to the pandemic.

COVID's remote work landscape shifted perceptions among millennials about where they could live, making them even less likely to choose somewhere to settle soon. Seven out of 10 (68%) of millennials we surveyed agreed that COVID had some degree of impact, from minor to very strong, on their thinking about geographic possibilities.

Lenders' Biggest Opportunity in 2023 Lies in their Ability to Diversify their Sources of New Borrowers

The impact of demographics on mortgage demand has diminished. Lenders can no longer default to that data point to determine new loan demand.

That's why we developed the Mortgage Credit Potential Index (MCPI). The MCPI is a monthly overview of tri-merge credit inquiries that have been analyzed by CreditXpert's predictive model. These inquiries represent all stages of the mortgage origination process, including inquiries made at the pre-qualification stage through loan underwriting. The CreditXpert Platform enables lenders to assess an applicant's creditworthiness and develop tailored improvement plans, resulting in better service and scalability.

The MCPI groups mortgage credit inquiries into 20-point bands starting with 300 and graduating to 850. For each 20-point band, the Index highlights the number (and percentage) of inquiries that could improve by at least one 20-point credit band by taking some relatively simple actions.

This allows lenders to see that there is opportunity all over the consumer credit spectrum, from the lowest credit bands to the highest, without exception. Lenders now aren't limited solely to Millennials.

Our data suggests that there is a significant opportunity for 71% of loan applicants with scores below 760 to better their score by at least one 20-point band within 30 days, i.e. before the loan gets to the closing table. The data also suggests that 62% of ALL applicants can do the same.

Instead of spending all of your time chasing Millennials who will not be ready to buy a new home for several years, find out where the true growth potential lies by downloading the most recent MCPI—for free—on our website today.

Limiting your potential leads to one age-group is a thing of the past. Evolve with the market, and let MCPI show you how.

About CreditXpert

CreditXpert was founded in 2001 with a mission to make homeownership more accessible and affordable for all. The company's predictive analytics platform helps mortgage originators, and their applicants realize the credit score potential for applicants by generating a highly accurate and detailed action plan. Since its founding, CreditXpert's Platform has analyzed more than 750 million credit records. Today, most of the top 10 mortgage originators and more than 60,000 mortgage professionals leverage the company's platform. Learn more at http://www.creditxpert.com.

CreditXpert action plans are tools meant to empower mortgage professionals and prospective consumer loan applicants, and are not furnished for the purpose of improving an applicant's credit record, credit history, or credit rating, or removing or modifying adverse, inaccurate, fraudulent, or other information in an applicant's credit record. CreditXpert is not a credit counseling, credit repair, or credit reporting agency. Credit scores and score changes from CreditXpert are estimates and will likely differ from credit score information used by mortgage professionals to assess loan eligibility. CreditXpert does not guarantee that scores from any other company will change by the same amount, in the same way, or at all.