

Unlocking growth in mortgage lending:  
**Capitalizing on the  
untapped potential of  
first-time homebuyers**





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# Surveying the modern mortgage landscape

In today's economic environment, mortgage lenders face an uphill battle to sustain, let alone expand their businesses. While the pandemic saw a boom in the mortgage industry, spurred by historically low interest rates, the current landscape tells a different story. **With interest rates hovering around multi-decade highs and a shortage of inventory pushing home prices further out of reach, both new purchases and refinancing activities have experienced a significant decline.** This sudden shift left lenders struggling to find new paths for growth and profitability.

In addition to grappling with broader economic headwinds, lenders also experienced lackluster results from “traditional” growth strategies.

## Trigger leads

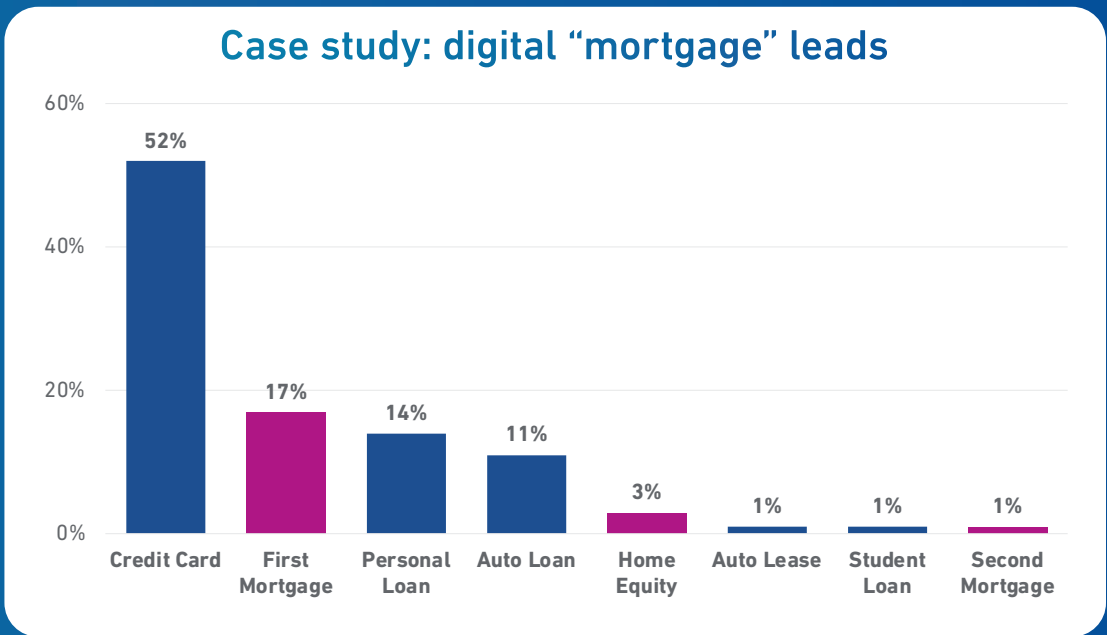
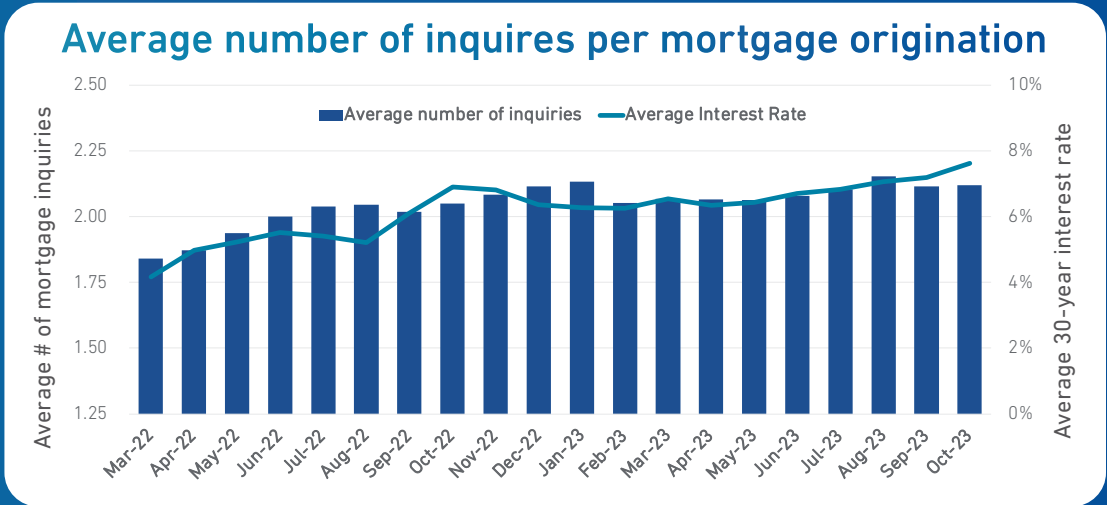
Although trigger leads remain one of the most effective ways to identify active consumers, conversion rates overall are declining due to intensifying competition.

## Rate shopping

Consumers are doing their homework and shopping for the best rates available. **Our analysis shows consumers averaging 2.12 mortgage inquires prior to origination in Oct 2023, up from 1.84 inquires in Mar 2022, a 15% increase.** Rate shopping benefits consumers, as well as lenders best able to deploy nuanced, data-driven marketing strategies to convert leads in a hyper-competitive environment.

## Marketing lists

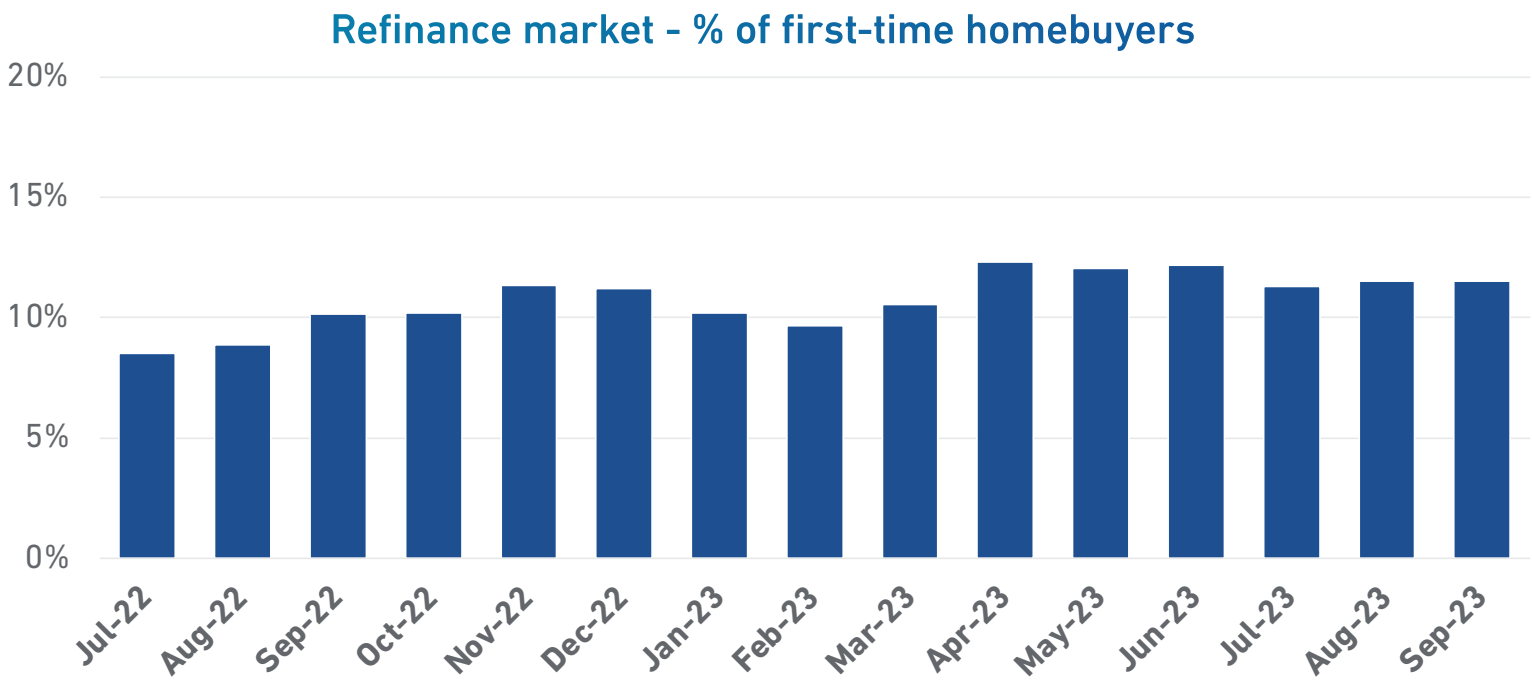
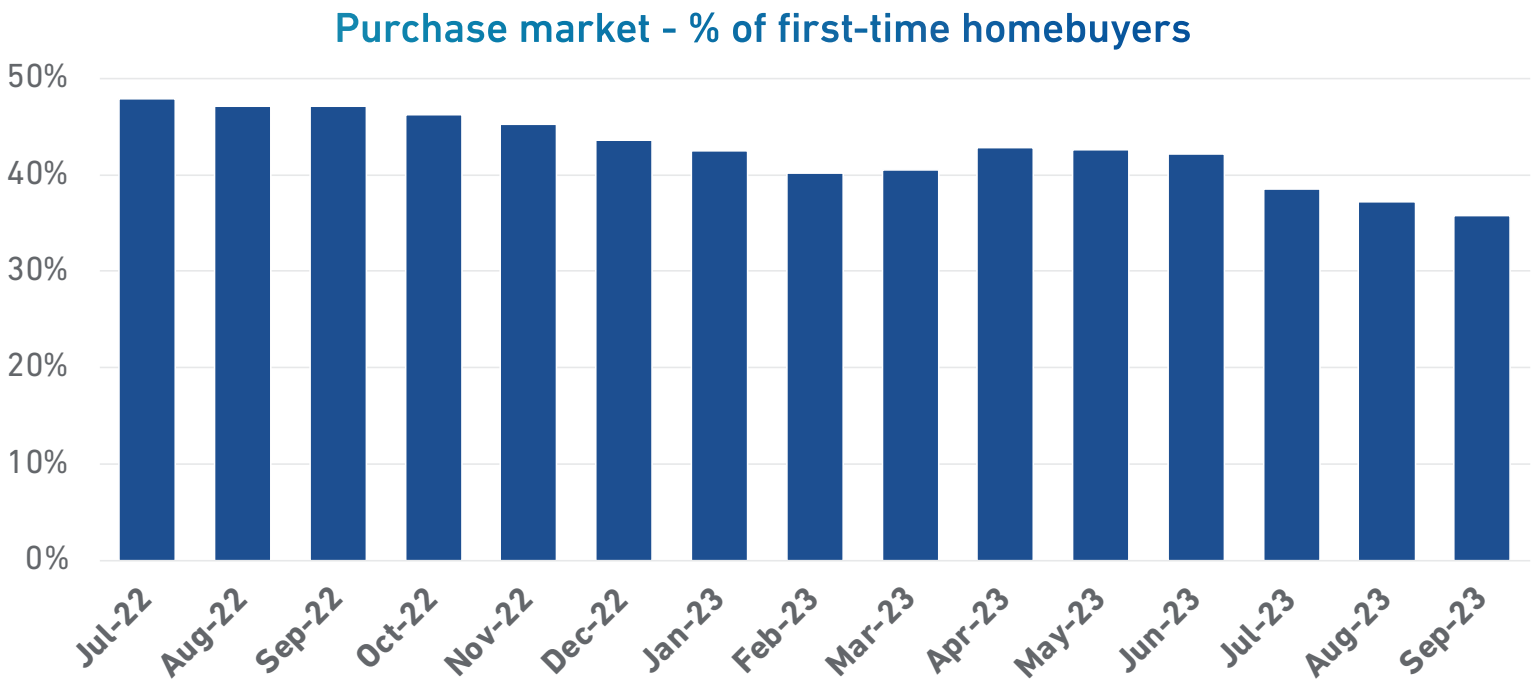
High-quality leads are increasingly scarce and lenders need to meticulously refine their third-party marketing lists to ensure they target the most relevant prospects. Many lenders have asked us to analyze their lead lists and the results reveal a striking disconnect - **up to a staggering 80% of these “mortgage” leads are not actively seeking mortgages**, leading to disappointing engagement and conversions. Instead, many individuals open alternate financial products. While such leads may hold long-term value as nurture or cross-sell leads, they are not immediate opportunities, culminating in a low return on investment and inflated customer acquisition costs for lenders.



# The Next Frontier: Captivating first-time homebuyers to propel business growth

As interest rates begin to stabilize, mortgage lenders have an opportunity to pivot towards untapped market segments. **First-time homebuyers, who have shown remarkable resilience amid market fluctuations, remain a vibrant segment, comprising 35-48% of all new purchases and 8-12% of all refinances.** They represent both immediate potential and long-term client relationships - a dual benefit for growth-minded lenders. Specially tailored loan products can transform these aspiring homeowners into lifelong customers, forming the cornerstone of a robust, forward-thinking growth strategy.

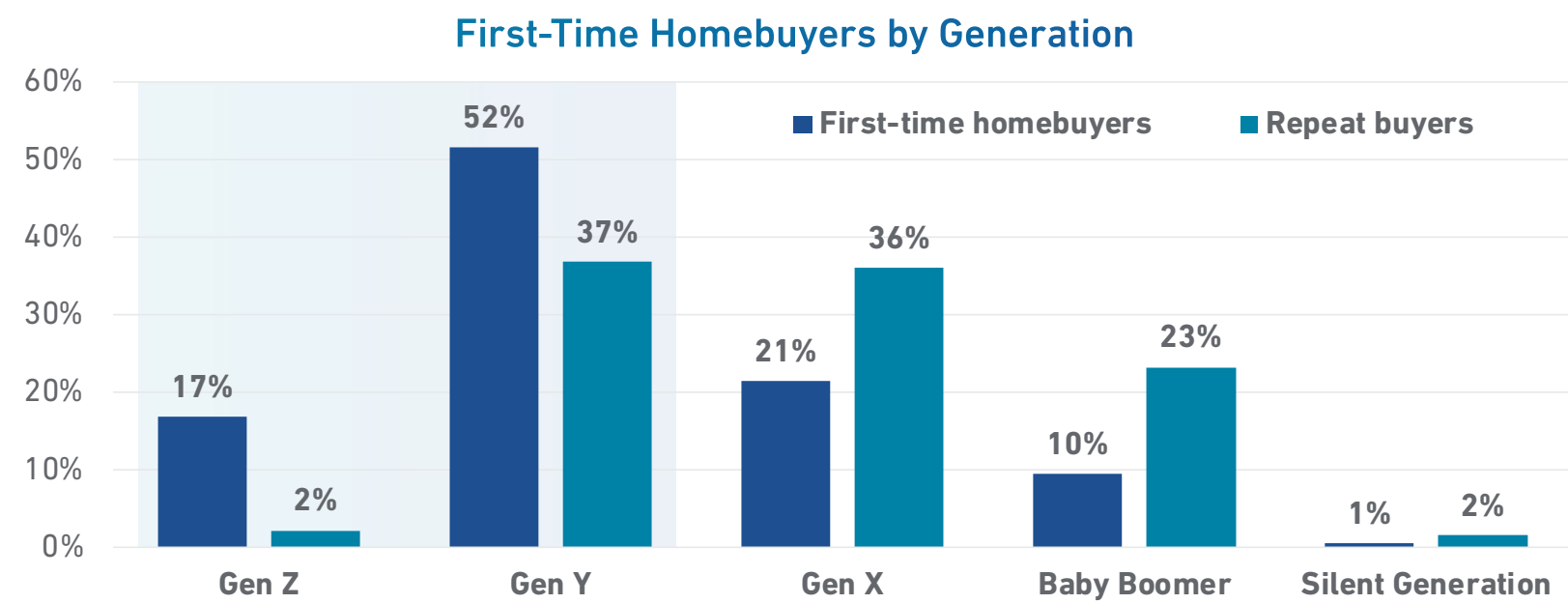
In this whitepaper, **we present exciting new research on first-time homebuyers, shedding light on the evolving dynamics of this unique consumer segment.** We provide valuable insights to empower lenders in adapting their strategies and capitalizing on growth opportunities as pent-up demand intersects with affordable housing supply. By targeting first-time homebuyers, lenders can revitalize their businesses and tap into a lucrative segment eager to embark on the journey of homeownership.



# Decoding the homeownership dream: A deep dive into first-time homebuyer behavior

## Who are first-time homebuyers?

Understanding the generational traits of first-time homebuyers is key to building highly targeted marketing strategies. **Our research reveals that ~70% of first-time homebuyers belong to Gen Y and Gen Z.** These generations not only lead the first-time homebuyer market but also represent ~40% of repeat buyers, indicating that their homeownership aspirations persist beyond the initial purchase.



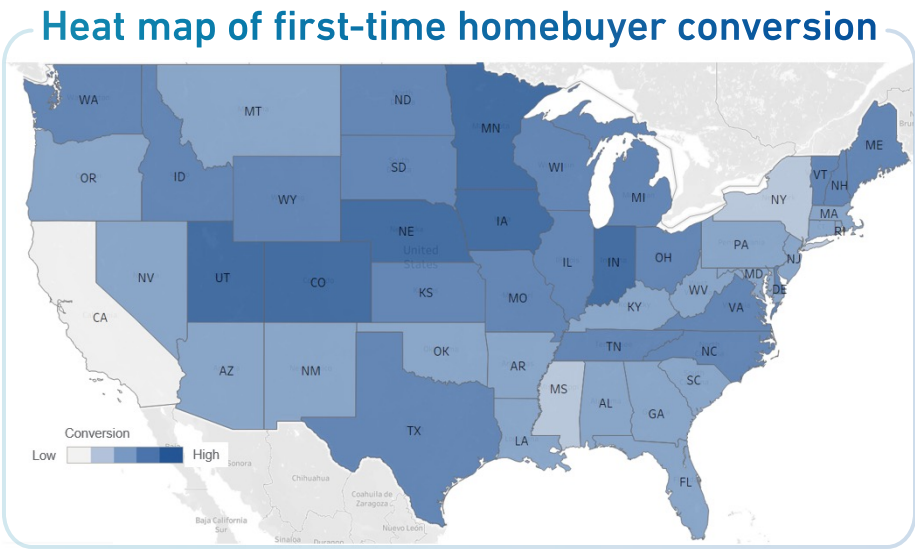
To effectively connect with this audience, **mortgage lenders must understand their digital preferences.** These consumers, who are accustomed to seamless online experiences, have lofty expectations when it comes to the digital proficiency of their financial service providers. It is crucial to incorporate their individual decision-making styles (brand loyalists, deal seekers, or savvy researchers) and preferred channels of engagement (online, email, or phone) into your marketing and outreach plan.

**By deploying an omni-channel marketing strategy that encompasses online platforms, social media, and personalized email communications, lenders can resonate with the tech-savvy tendencies of these younger generations.** Such an approach not only facilitates timely and relevant connections but also showcases a lender's agility in meeting the evolving expectations of this segment, fostering trust and loyalty among potential first-time homebuyers.

## Where are they buying?

The geography of first-time homebuyer activity is as diverse as the segment itself. Delving into the data, unsurprisingly, we see a significant concentration (i.e., population) of these buyers in the most populous states - California, Texas, Florida, and New York. Collectively, these states account for over one-third of first-time homebuyers who have taken the crucial step of obtaining a mortgage.

A more compelling narrative unfolds when viewed from the perspective of regional affordability. It's here we start to observe the nuances of geographic distribution and **see a higher proportion (i.e., conversion) of first-time homebuyers in more affordable locations, most notably in west and mid-western states**, including Utah, Colorado, Nebraska, Minnesota, Iowa, and Indiana - all states known for their relative affordability compared to their coastal counterparts.

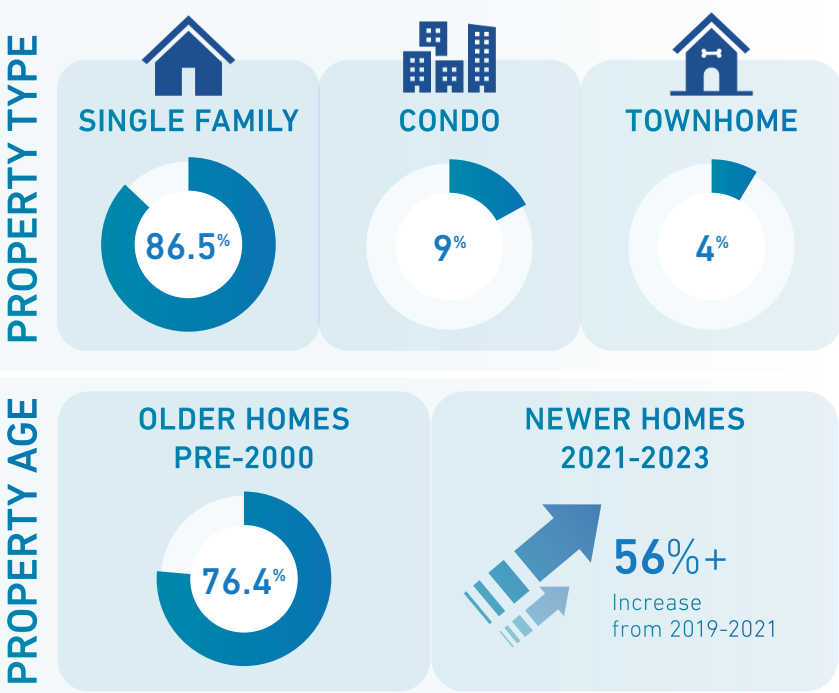


These insights serve as a powerful reminder for mortgage lenders to explore regions where the cost of living is lower, and housing affordability is within the grasp of first-time homebuyers. By targeting these areas with bespoke marketing strategies, lenders can tap into a burgeoning market. It is evident that the appeal of economic stability, coupled with the dream of homeownership, is drawing this segment to places where their aspirations are financially attainable.



## What are they buying?

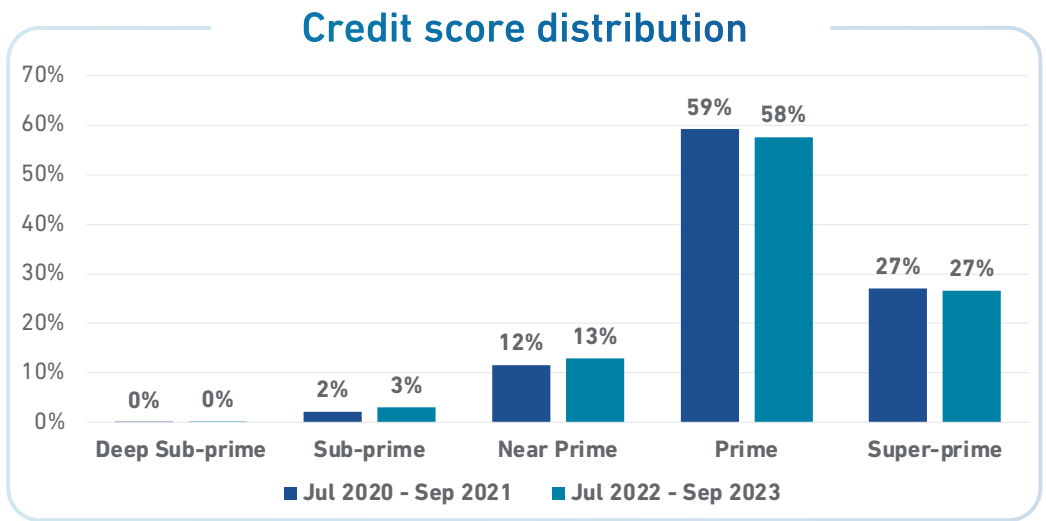
Analysis of property preferences reveals an **overwhelming 86.5% of first-time homebuyers purchase single-family homes**. This choice aligns with the aspirational values of younger generations seeking to establish their roots and plan for the future. **Additionally, 76.4% purchase homes constructed pre-2000.**



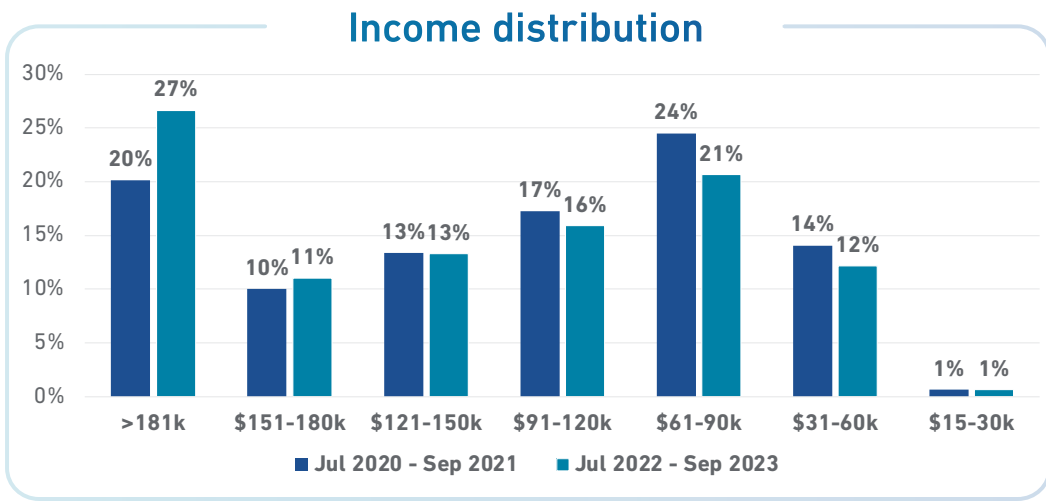
While the vast majority purchase older homes, there has been a significant rise in purchase activity for new construction by both first-time and repeat homebuyers. Interestingly, first-time homebuyers have displayed a much higher inclination towards purchasing newer construction compared to repeat buyers. **When comparing results from 2019-2021 and 2021-2023, we observe a remarkable increase of 56% in new construction purchases by first-time homebuyers and 38% by repeat buyers.** It is evident that incentives, such as builder credits for rate buy-downs, are attracting first-time homebuyers and making the entry point for new builds more affordable.

## What is their financial profile?

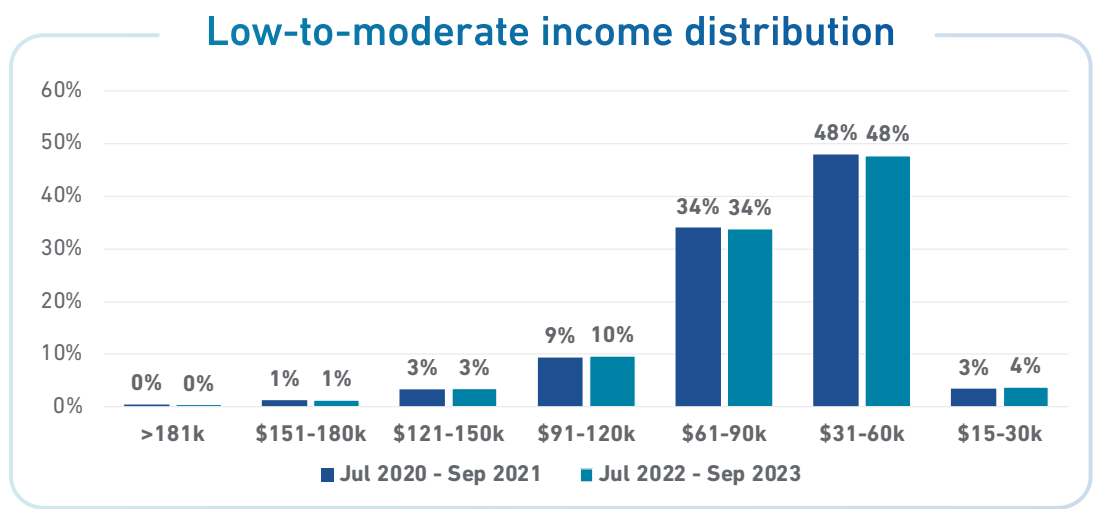
Understanding the financial habits of first-time homebuyers is crucial for crafting effective marketing and lending strategies. Identifying these patterns can help lenders anticipate needs and tailor services for this key segment.



Our analysis shows a slight shift in credit scores over the last three years. **While most first-time homebuyers fall into the prime and super-prime score bands, recent trends signal a growing presence in the near-prime score band.** While overall mortgage credit standards, including non-credit criteria such as loan-to-value and debt-to-income, may be tightening, we are encouraged by a more calibrated and inclusive approach to credit. Incorporating the use of alternative credit data, such as rental payment history, helps expand opportunities for homeownership while maintaining a balanced risk profile.



The income landscape for first-time homebuyers reveals over **one-third of these buyers have an annual household income of less than \$90k**, signifying a market grounded in modest means. Yet, amidst the pandemic, we witnessed a surge in wages as companies struggled to attract and retain top talent. This reaction contributed to a visible shift, with **an increasing number of households climbing to an income bracket over \$150k**, reshaping the profile of potential first-time homebuyers and the strategies needed to reach them.



Furthermore, we examined the population that meet the low-to-moderate income requirements as defined by the FHFA, those with <80% of the area median income. The data reveals **approximately 11% of first-time homebuyers meet this requirement, with most in the \$31-60k annual household income bracket.** This trend underlines a vital opportunity for mortgage lenders to design financial products and education initiatives tailored to these buyers. By deploying resources that align with the unique circumstances of these consumers, lenders can inspire confidence, support well-informed financial decisions, and drive more inclusivity.

**Lastly, we analyzed debt-to-income (DTI). Since June 2020, debt-to-income ratios have seen an increase of approximately 4% (in absolute terms) across almost all income brackets.** The combination of high interest rates and record home prices has added to the financial burden of consumers who are already feeling strained from other financial obligations, such as student loan debt.

# Effective strategies for growth in your business with first-time homebuyers

Now that we have gained a deeper understanding of first-time homebuyer behavior, let us explore the practical applications of our research. Our goal is to equip you with effective strategies that resonate with the needs, preferences, and financial capabilities of first-time homebuyers - so your business can drive meaningful growth.

## RECOMMENDATION #1

Build first-time homebuyer personas using a combination of data and predictive analytics

In light of our findings, we recommend developing a 360-degree view of first-time homebuyers, their financial capacity and housing availability in your target markets. This can be achieved by **incorporating a rich blend of diverse financial data and predictive analytics, including credit, alternative credit, income, rental, and property information**. This will enable you to build personas which can form the basis of your marketing and outreach efforts and guide the development of tailored campaigns and offers, which will improve chances for success. The more data and analytics you leverage, the greater return on investment you can achieve.

Recognizing the diversity within the first-time homebuyer segment is imperative for successful engagement and conversion strategies. Tailoring your approach to address these differences will enhance relevance and drive higher response to your marketing initiatives.

## RECOMMENDATION #2

Target affordable geographic locations

Our study revealed higher conversions in more affordable states. In response to this, we recommend **building marketing strategies tailored for unique geographic locations (at a granular level)**. To bolster this approach, look for opportunities where rental payments align closely with future mortgage payments. Let us look at Houston, TX for example. The payment gap in Houston Gardens (\$609) is noticeably lower than in Sunnyside (\$932). By adopting this approach, you position your services in areas where first-time homebuyers are more likely to take the leap from renting to owning. These potential homeowners can perceive the transition to homeownership as a feasible option, rather than an insurmountable financial hurdle. Your efforts, therefore, become targeted and efficient, enabling you to tap into a market of ready and willing first-time homebuyers. This strategy not only aligns with their financial comfort but also encourages their aspiration for homeownership. In such a way, you can create a win-win situation for both your business and the communities you serve.

Example first-time homebuyer personas

	San Diego, CA (Tierrasanta)	Houston, TX (South Park)	Chicago, IL (West Park)
Average Credit Score	743	685	768
Average Household Income	\$207k	\$91.3k	\$216.5k
Average Rent	\$2,495	\$1,152	\$2,078
Average Sale Price	\$932k	\$214k	\$527k
Average Mortgage Payment	\$3,813	\$1,981	\$3,602
Average Down Payment	20.0%	15.9%	18.6%

Rental vs. mortgage payment gap

Houston, TX			
	Houston Gardens	South Park	Sunnyside
Average Rental Payment	\$1,333	\$1,152	\$1,322
Average Mortgage Payment	\$1,942	\$1,981	\$2,254
Payment Gap	\$609	\$829	\$932



RECOMMENDATION #3

Take advantage of down payment assistance programs

Our research has shown first-time homebuyers possess a strong credit history but lack the funds required for a full 20% down payment. To assist these individuals, we recommend **leveraging down payment assistance programs and prioritizing affordable housing initiatives.**

Notably, the first-time homebuyer segment presents a unique opportunity for lenders to support low-to-moderate-income consumers. Lenders can leverage down payment assistance tools to swiftly find, understand and match programs that cater to the specific needs of their borrowers. These programs can help first-time homebuyers meet their down payment requirements, thereby avoiding costly private mortgage insurance (PMI) and facilitating a smoother home buying process.

Average down payment for first-time homebuyers

	San Diego, CA (National City)	Houston, TX (South Park)	Chicago, IL (Dunning)
Average Credit Score	720	685	732
Average Down Payment	9.7%	15.9%	10.7%

RECOMMENDATION #4

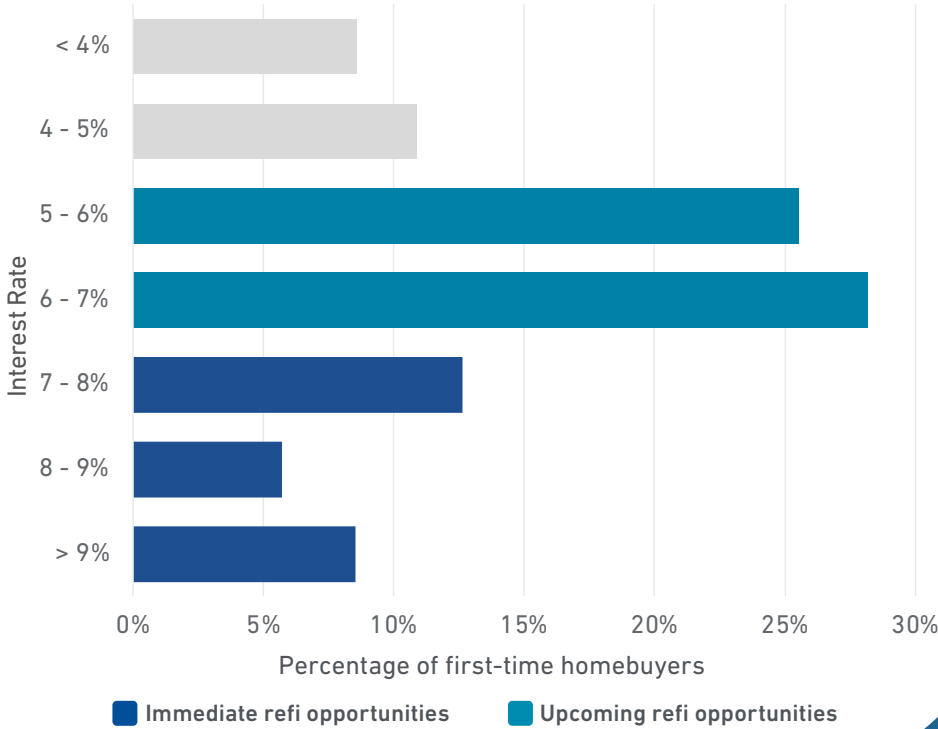
Prepare for the return of the refi

As market conditions improve, a window of opportunity has opened for recent first-time homebuyers to decrease their monthly mortgage payments. Through our segmentation - which incorporates current interest rates, credit scores, income brackets, combined loan-to-value ratios, and other relevant factors - **we have pinpointed approximately 800k first-time homebuyers as ideal candidates for refinancing.**

These individuals have secured mortgages with interest rates exceeding 6.75% and stand to benefit from refinancing.

By leveraging predictive segmentation and tailoring communications to address the refinance value proposition (i.e., rate/term, debt consolidation, remodel), lenders can foster customer loyalty and improve borrowers' financial health. Now is an ideal time to equip your team with the resources and strategies to proactively guide these homeowners through the refinancing process, empowering them with savings and demonstrating your commitment to their financial success.

Refinance opportunity for first-time homebuyers  
(Interest Rate Distribution)





# Conclusion

In summary, this whitepaper highlights valuable insights and effective strategies that present an exciting opportunity for mortgage lenders to bolster their businesses by targeting first-time homebuyers more effectively. These strategies offer lenders a competitive edge in overcoming current market challenges and ensuring a prosperous future. If you are interested in delving deeper into our research on first-time homebuyers or discussing the practical implementation of these recommendations, **contact your Experian account representative or visit us at [experian.com/mortgage](https://experian.com/mortgage).**

**Together, we can propel your business forward and make the dream of homeownership a reality for countless first-time homebuyers.**

## APPENDIX

**First-Time Homebuyer Definition:** In this report, we define a first-time homebuyer as an individual who does not currently hold a first mortgage and who has not been associated with an owner-occupied residential property in the past three years.

**Data Analyzed:** We're observing a 15-month period from July 2022 to September 2023.

