How Should Lenders Handle a High Interest, Low Inventory Market?

Meshing **high-tech** with **old-school** lending solutions may be the best way to help your borrowers.

Birchwood
CREDIT SERVICES, INC.

You can't turn on the news without hearing about **high mortgage interest rates** and **home prices**. It's enough to scare even the most determined buyers into waiting until "next year" to try buying a home. Those who've been in the mortgage game a long time know the importance of finding **ways to get borrowers into home loans**. For newer pros, these obstacles may worry and cause you to consider a new line of work. Don't wait around hoping to find enough business to fill your pipeline. **Times like these just mean you need to get creative!**

Sure, you undoubtedly promote your business on social media, attend networking events, use mobile-capable applications, and employ software that helps borrowers know how to increase their credit scores (**CreditXpert®**, of course). But there are other, lower-tech ways to address this less-than-friendly market, too. **Here are some compelling mortgage products that may have fallen out of favor in the past decade that can help.**

Mortgage Products

What they are, why you'll like them, and how your borrowers benefit from them.

- 2-1 Buydowns
- Adjustable Rate Mortgages (ARM)
- 40-Year Mortgages
- Interest-Only Mortgages
- Home Equity Lines of Credit (HELOC)
- Paying Points

  

Old School Ways to Increase Business and Serve Customers

If the trusty 30-year-fixed mortgage loan isn't cutting it for some of your customers, it's time to sharpen your pencils and find new ways to get them into their dream homes. **One of these ideas may be the perfect option.**

2-1 Buydowns

This choice is a mortgage product that offers a lower interest rate (and monthly mortgage payment) for 2 years. In year 3, the interest rate (and payment) changes to the full, original amount.

Why You'll Like It

Buydowns can serve borrowers who, because of the recent interest rate increases, are priced out of the market. This option helps mortgage pros **serve more borrowers** and **get them into a home sooner** rather than later.

How Borrowers Benefit From It

If blazing hot home prices and high interest rates have put a crimp on homebuying plans, buyers may need a way to secure a **lower monthly payment for a few years**. Borrowers who are expecting to pay off debt or increase their income and have more money to cover a higher payment in a few years may opt for a buydown. In addition, the rates may have decreased by then, allowing them to refinance into a lower monthly payment.

Adjustable-Rate Mortgage (ARM) Loan

An ARM loan is a mortgage product where the interest rate changes over time. 5 and 10-year ARMs are common, but there are other ARM lengths too. These loans were popular before the housing crisis in 2008, but fell out of favor when they were largely misused and caused many borrowers to end up being foreclosed on. ARM mortgage products are good options for borrowers who want to get into a home at a lower interest rate than a fixed-mortgage loan allows.

Why You'll Like It

One of the biggest obstacles to homeownership for otherwise qualified borrowers is the **current interest rates**. Because of this, monthly mortgage payments on the same price of home may have increased by several hundred dollars, making them out of budget for many hopeful borrowers. ARM loans help mortgage pros get these borrowers into a home while staying within their budgets.

How Borrowers Benefit From It

Being able to move forward with their homebuying plans without having to **budget more money** for the mortgage payment is the biggest advantage for buyers. Once the ARM is up, borrowers can sell, refinance into a fixed-rate loan, or accept the adjusted interest rate (and the new monthly payment amount).

40-Year Mortgage

Traditional mortgage loans usually fall into 15- or 30-year repayment lengths. Higher prices and interest rates may make financing a mortgage for a longer period an attractive option. A 40-year mortgage does just that. 40-year mortgages, like ARM loans, were popular before the 2008 real estate crash. They are gaining favor again because of the dual punches of high prices and interest rates.

Why You'll Like It

By spreading the monthly payments over 40 years, you can sometimes secure lower payments- **helping borrowers stay within their budgets** while still getting them into a home.

How Borrowers Benefit From It

Instead of having to wait until real estate prices and/or mortgage interest rates come down, borrowers can use a 40-year mortgage to get into the home they want now.

Interest-Only Mortgages

Interest-only mortgages allow borrowers to only pay the loan interest for the first few years of the loan. They’re typically structured like ARM loans and may be up to 10 years long. Once the term ends, borrowers must begin paying regular principal and interest monthly mortgage payments.

Why You'll Like It

Interest-only mortgages serve a certain client well. Borrowers who can't use other loan programs or ones who **plan to sell the property within a few years,** are great candidates for this product.

How Borrowers Benefit From It

Borrowers on a **strict budget** who still want to purchase a home may find the lower payments interest-only mortgages provide to be a big advantage.

Home Equity Line of Credit (HELOC)

People don’t secure mortgage loans only to finance homes. Sometimes they want to cash out equity via refi and use the funds for renovations, to pay off debt, cover tuition, or other life expense. A HELOC is a loan that borrowers can use to tap into their home’s equity without going through a refinance process.

Why You'll Like It

HELOCs may be the perfect way to **fill a lender's pipeline with loans**, even if real estate inventory is low. After all, it hinges on their current home instead of requiring a new purchase or refinance.

How Borrowers Benefit From It

Consumers who need an **influx of cash** will appreciate the ease of getting a HELOC. In addition, the loans typically offer flexible terms and repayment options they won't find in a refinance.

Paying Points

If borrowers want to lower their mortgage loan interest rate, they can pay points to decrease the amount they pay over time. Each point represents 1% of the loan amount. For example, 1 point on a $300,000 home would cost a borrower $3,000 and lower the interest rate by .25%.

Why You'll Like It

Explaining to your borrowers how they can buy points may prompt them to **move forward with their homebuying plans**, instead of waiting until rates come down.

How Borrowers Benefit From It

For borrowers with some **cash on hand**, buying points can help them wrangle their mortgage interest rate into a more budget-friendly beast and decrease their monthly payments.

Lending pros know that the 2023 market is going to be challenging. That's when proactive, agile ones can rise above the rest and **beat their competition** to close more loans.

Dust off these 6 "old-school" lending options and **provide opportunities to borrowers**. They are sure to help buyers who would otherwise decide to wait to purchase a new home or tap into their current property's equity.

Sources

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If you are looking to explore partnering with a different credit and verifications vendor, we hope you'll reach out to our team here at Birchwood. We would be delighted to create a **customized package that's designed to give your business a real market advantage**. And you can always count on Birchwood to deliver an exceptional customer experience. We have built our business on consistently going beyond our customers' expectations, and we don't plan to change that strategy any time soon.

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