

# Conventional Loans: Creating Choice for Low-Income Homebuyers

**Ohio Housing Finance Agency**  
Homeownership: Empowering New Buyers

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## Background

The housing crisis of 2008 sent the market into a tailspin. Houses in the fastest-growing markets across the country were falling into foreclosure, property values decreased translating to loss of equity, unemployment was high, and the financial sector was on the brink of disaster. Loans pre-crisis were often conventional, but during the crisis and after, those who were able to purchase homes opted to get federally-secured FHA loans as lenders steered away from conventional loans after being saddled with buybacks post crisis.

As the worst of the financial and housing crisis passed and markets stabilized, mortgage companies and servicers wanted to return to a conventional loan model for the lender, lowering service costs. The OHFA Advantage program was a product of that desire.

## Outcomes

In the years prior to the 2008 housing crisis, OHFA's loans were mostly conventional. However, in the immediate aftermath of the crisis, the balance tilted toward more FHA loans. In fact, 90% of OHFA's loans were FHA during this period.

In the years following the worst of the crisis, mortgage companies and the agencies began to modify their programs so that borrowers with lower incomes could qualify for conventional loans. In addition, other loan originators and servicers began expressing interest in getting more conventional loan customers. Conventional loans provide benefits to homebuyers and servicers. The private mortgage insurance disappears as homebuyers with conventional loans pay their mortgage. In contrast, the mortgage insurance through an FHA loan remains for the life of the loan. In addition, our servicers spend less money when they service a conventional loan.

OHFA spent considerable time in training and outreach to lending and realtor partners that conventional loans were available and informed partners that they could connect their clients to these specific loan types. This outreach was critical to helping possible homebuyers understand the benefits associated with buying conventional. As our lenders and partners have learned more about OHFA's products, they have offered these products to their clients.

## Impact

The OHFA Advantage program began in 2017 as a partnership with Freddie Mac. Two years later, the Advantage program has shown considerable growth and made significant strides to help low-to-moderate income customers buy homes.

Homebuyers whose income falls within 50% of the area median income in the county they purchase a home can receive a \$2,500 grant toward down payment assistance and closing costs.

Homebuyers whose income falls within 80% of the area median income in the county they purchase

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a home can receive \$1,500. Homebuyers can also pair these dollars with OHFA's down payment assistance program which offer 2.5% or 5% down payment assistance.

The average homebuyer who participates in the Advantage program is about 34 years old with a household income of \$38,503. Our non-Advantage loans see homebuyers around the same age but with a greater household income of \$52,120, a difference of more than \$13,000. Loans in the Advantage program averaged nearly \$107,900 and non-Advantage loan amounts were about \$119,800. With the assistance our Advantage customers have receive, we have been able to fulfill our mission "opening the doors to an affordable place to call home" and make homeownership a reality for homeowners across the state.

The overall outlook on OHFA's conventional loan business, of which OHFA Advantage is 21%, is strong. In 2017, OHFA's conventional business was 17% of our production; that increased to 30% in 2018 and is currently on pace to increase to more than 61% of our product in 2019. Since the inception of the program, OHFA Advantage 50% has made 233 loans totaling \$20,687,830 and OHFA Advantage 80% has made 441 loans totaling \$51,680,815. Since 2017, this has tilted our share of conventional vs. government to 39% vs. 61%. This is a significant change from our ratio of conventional and government loans in the preceding years: from January 2014 to December 2016, our share of conventional to government loans was 11% to 89%.

We are now originating conventional loans at pre-2008 crisis levels and are getting our customers into homes of their own.