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The Financial Habits of Future Homebuyers

FINLOCKER®

Younger generations have begun to dominate and shape the homebuying market. In 2022, the National Association of REALTORS® identified that 43% of homebuyers were Millennials and 2% of homebuyers were Gen Z. While many more consumers aspire to become homeowners, they often face challenges and obstacles along the way.

Across all states and demographics, the top three reasons for a mortgage application being denied in 2021 were high debt-to-income ratio, low credit score, and insufficient savings to cover their down payment and closing costs.

FinLocker believes that homeownership should be attainable and sustainable for everyone, regardless of socioeconomic status. We are committed to working with mortgage lenders, banks, credit unions, and related financial institutions and businesses to understand the challenges often facing homebuyers. Together we can overcome the obstacles facing many future homeowners on their path to achieving the American Dream.

Who are the future homebuyers?

To better understand the financial habits of future homebuyers, FinLocker partnered with students in the American Marketing Association's group at the University of Southern California (USC).

Over a four-week period from mid-March to mid-April 2022, the USC students interviewed Millennials, defined as those born between 1981 and 1996, and Gen Z, defined as those born between 1997 and 2012. However, the average age of Gen Z survey respondents was 20.3 years old, so that they could provide relevant responses to the survey questions.

The survey was designed to determine:

1. How the next generation of homebuyers manages their personal finances?
2. How are they planning to achieve their financial goals?
3. How is the next generation of homebuyers planning to buy a home in the future?

Identifying the financial habits of future homebuyers

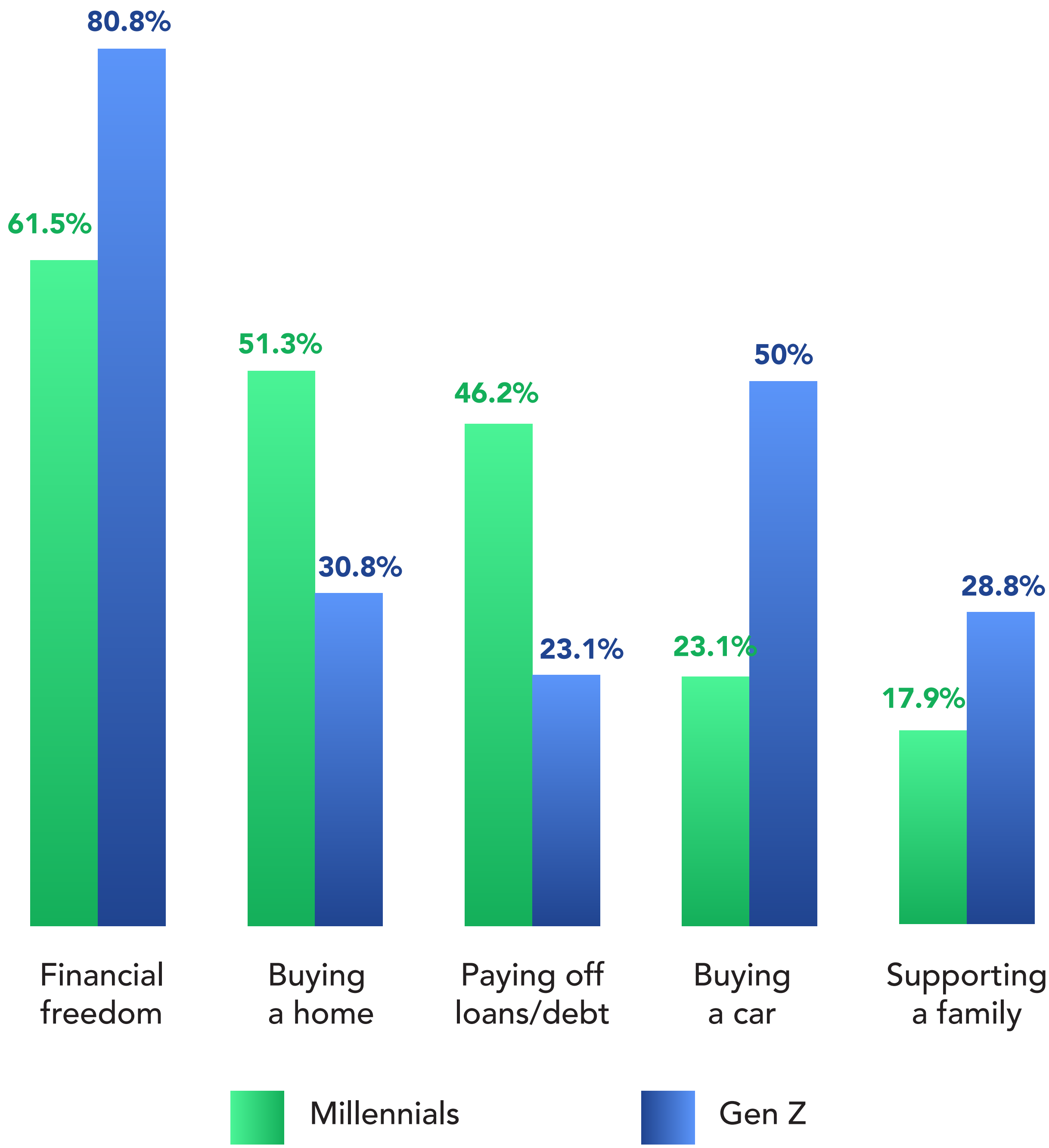
When it comes to using budgeting tools to manage their finances, Millennials were evenly split using personal finance apps (45%) and spreadsheets (43.1%). In comparison, most Gen Z preferred personal finance apps (52%) over spreadsheets (12.3%). However, 33.3% of Millennials and 49.1% of Gen Z do not use any tool to manage their finances. With the oldest Gen Zers just graduating college and the youngest still in middle school, this admission identified an opportunity for financial institutions to connect with the 73% of smartphone users who said they used an app to manage their finances in the month prior to taking the survey.

The prevalence of free credit monitoring tools has made it easier for future homebuyers to monitor their credit score. Most Millennials (82%) and Gen Z (54.5%) regularly monitor their credit score, and 88.8% of both groups prefer to use their bank's app or website for credit score monitoring rather than a personal financial management app.

To monitor their credit report, the top choice for both groups is FICO (46.9%), closely followed by going directly to one of the three credit bureaus (43.6%), with TransUnion (18.6%) being their preferred bureau. However, most respondents were unaware that FICO offered a paid service for credit report monitoring, so they were likely obtaining their FICO credit score from their banking app or website and obtaining their credit report directly from the credit bureaus.

Financial goals of future homebuyers

A high proportion of both groups had identified financial goals to achieve in the next five years. Their financial goals reflected the differences in their stage of life. Millennials, who are more likely to have already bought a car and started to accumulate credit card debt, aimed to buy a home, pay off loans/debt, then buy a car. While the leading financial goals of Gen Z respondents were first to buy a car, buy a home, then pay off loans/debt. Interestingly, for two generations early in their financial life, both groups rated achieving financial freedom, which they defined as being debt-free and having savings to buy a house, as their top priority.

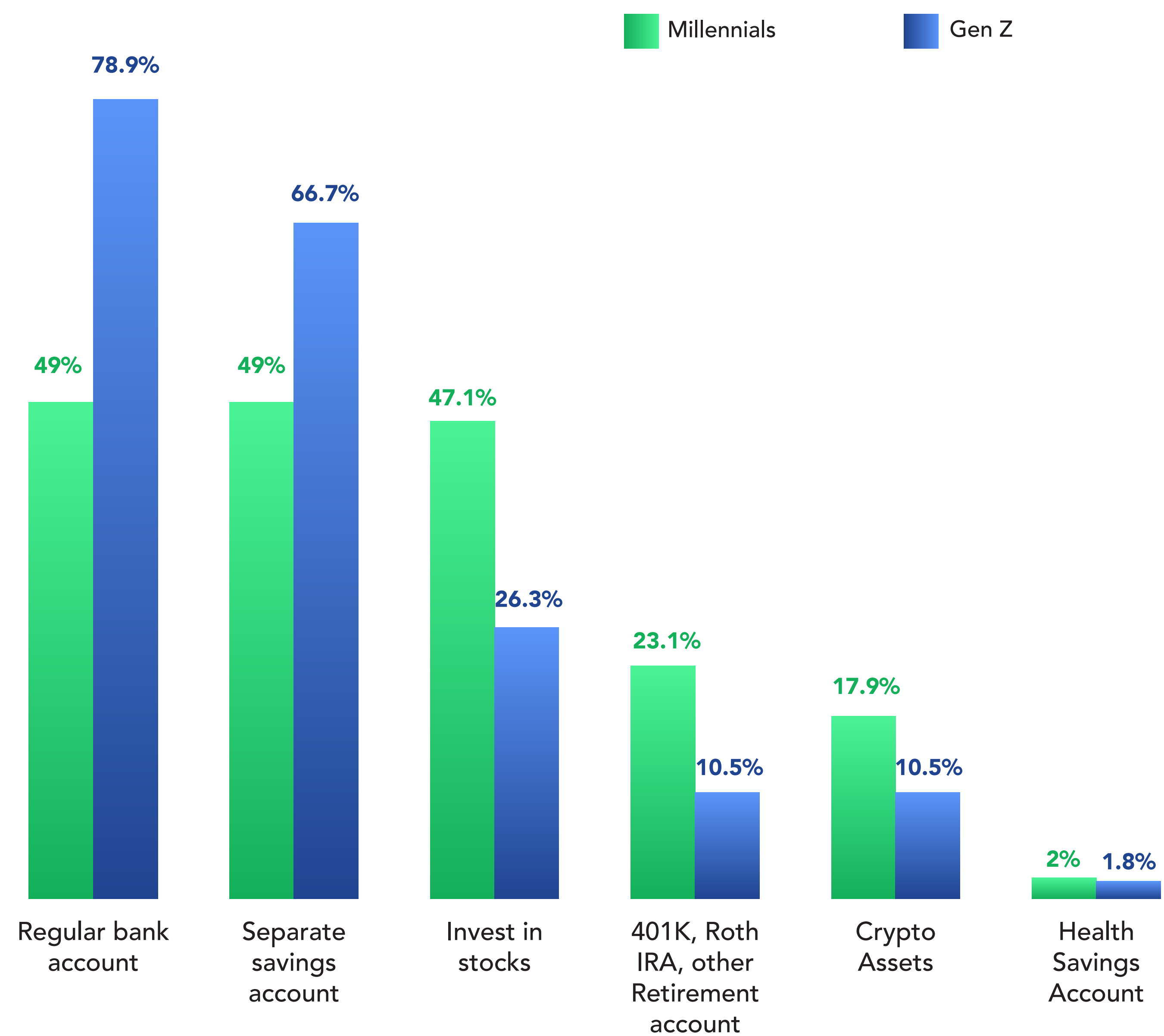


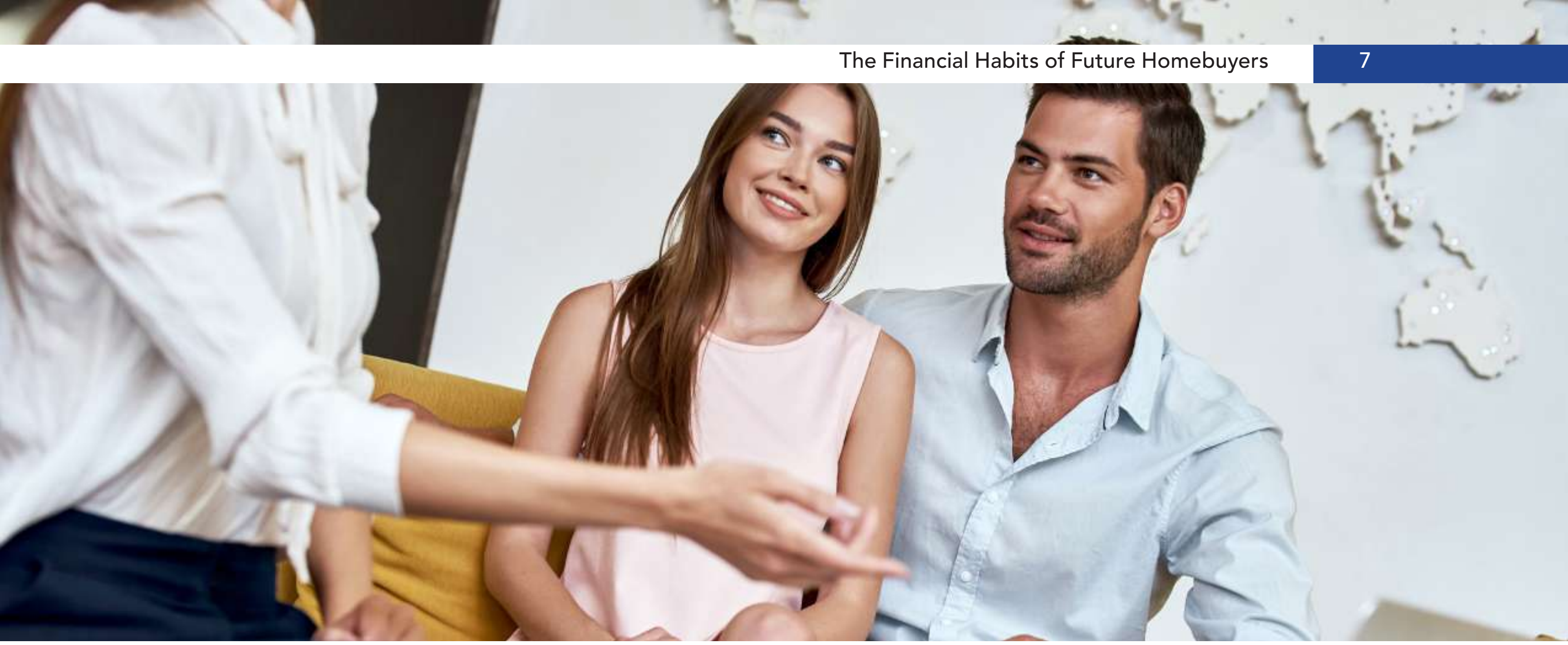
How are future homebuyers saving to achieve their financial goals?

According to the 2022 NAR Home Buyers and Sellers Generational Trends, savings are the primary source of a down payment for homebuyers 23 to 31 (86%) and 32 to 41 (72%). It is, therefore, optimistic to see that future homebuyers are establishing saving habits early.

Banks and credit unions have a head start on independent mortgage lenders capturing the business of future homebuyers because Millennials and Gen Z are either saving in a regular bank account or a separate savings account.

Where do you put your savings?





Marketing to future homebuyers

Become the trusted advisor that future homebuyers seek

Like many first-time homebuyers, the Millennials and Gen Z survey respondents lack a solid understanding of how to improve their credit profile, the mortgage process, and the amount of time it takes to buy a home.

The majority of Millennials conceded that they need to improve their knowledge of the homeownership process, including finding a real estate agent, home loans, down payments, etc.

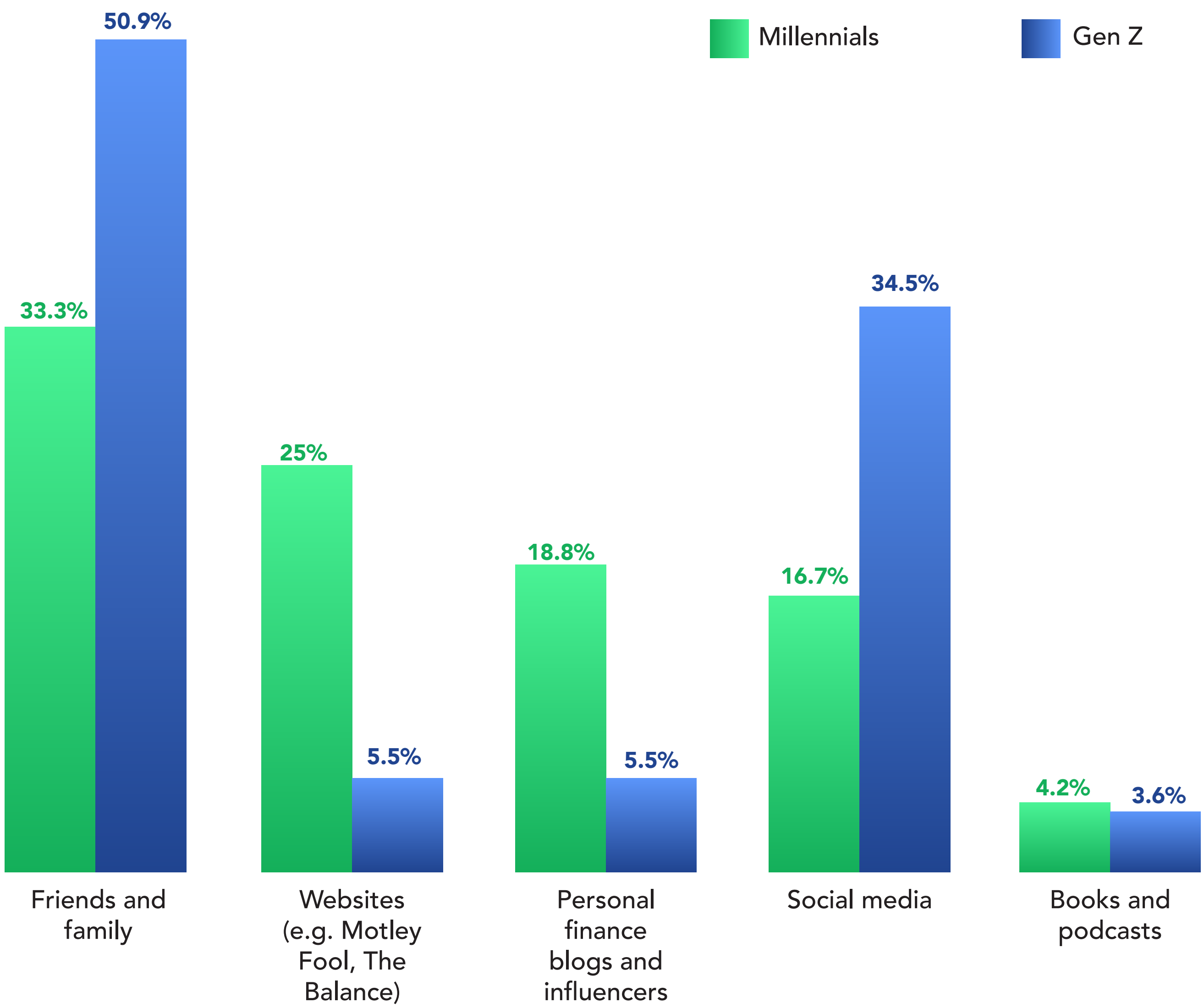
When Millennials were asked to rate their knowledge of the home buying process, 32.6% confidently rated their knowledge 8, 9, or 10 out of 10. However, 49.8% rated their knowledge only a 1, 2, or 3 rating out of 10.

Both groups of future homebuyers primarily learn about personal finance topics, such as how to save and follow budgets, from family and friends. However, Millennials next preferred finance websites, personal finance blogs, and influencers before social media. Gen Z respondents overwhelming turned to social media before any other source.

According to Cultural Outreach, Millennials and Centennials use social media platforms such as YouTube, Facebook, Instagram, and TikTok for between one to five hours each day. Over 58% of these future homebuyers report using YouTube to learn more about personal finance, a rate of more than two times any other platform such as Facebook (24%) or Twitter (21%).

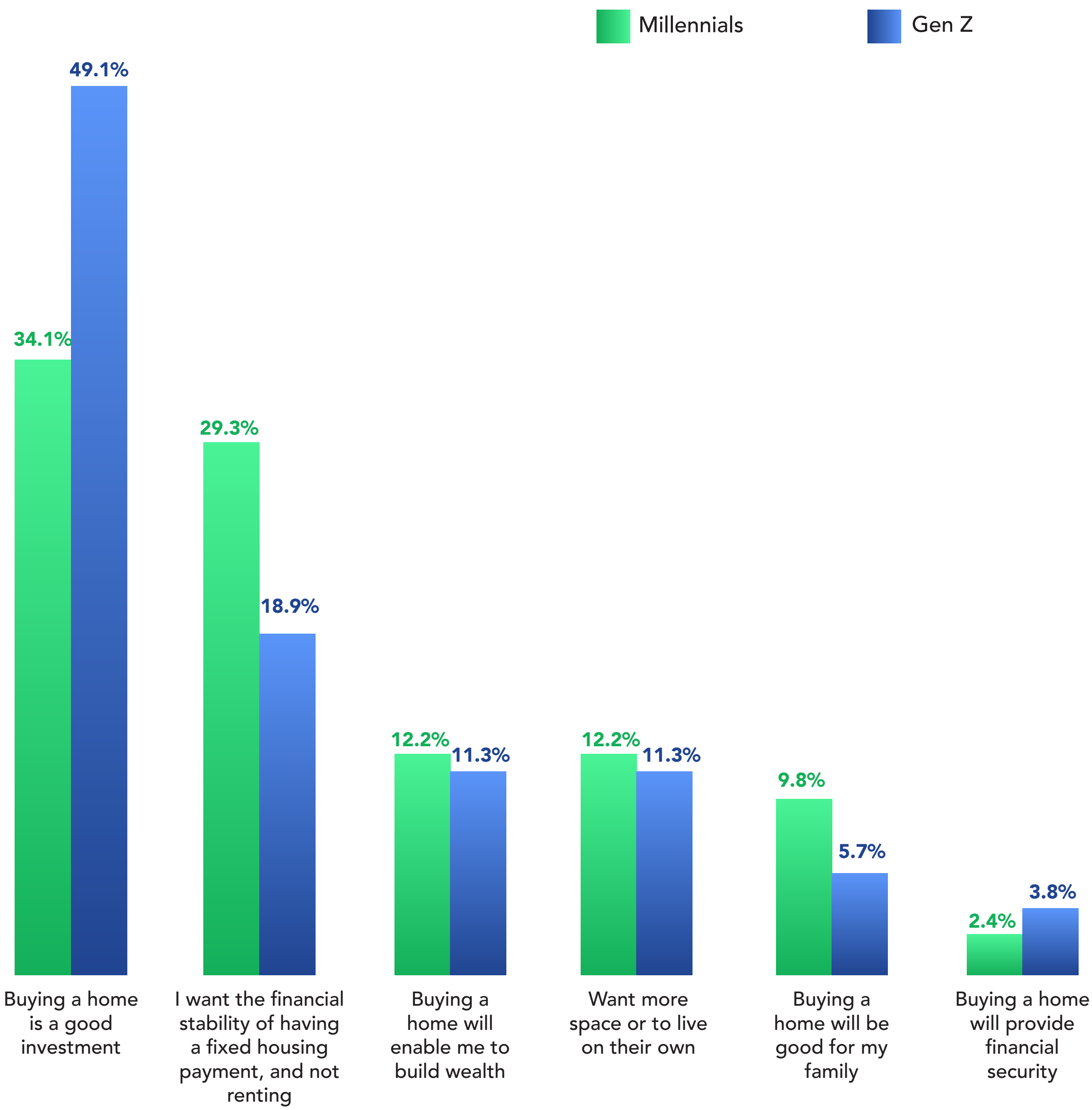
Mortgage lenders, banks, and credit unions can increase exposure to their business through financial education posted to these popular social media channels.

Where do you go to learn about personal finance topics?



Both Millennials (80.4%) and Gen Z (93%) respondents would eventually like to buy a home. Knowing the motivating factors of future homebuyers can be used as additional topics for social media posts and blogs.

Why would you like to buy a home?



What drives future homebuyers to begin their homeownership journey?

FinLocker has conducted extensive user research focused on leading indicators of a borrower entering their homeownership journey. The mortgage industry commonly uses high-cost lagging indicators, like credit and MLS listing triggers to identify new leads. However, as the survey validates, there is a more equitable opportunity to engage a consumer: connecting at the top of the marketing funnel during their point of thought. Our research informs us of four primary activities most consumers undertake (sequence may vary within each consumer segment) as a precursor to their homeownership journey.

1. Consumers begin their homeownership journey by forming a mental picture of their new home. During the property exploration phase, consumers identify where they would like to live, the type of home, neighborhood, schools, etc., well before they connect with a real estate agent or mortgage originator.

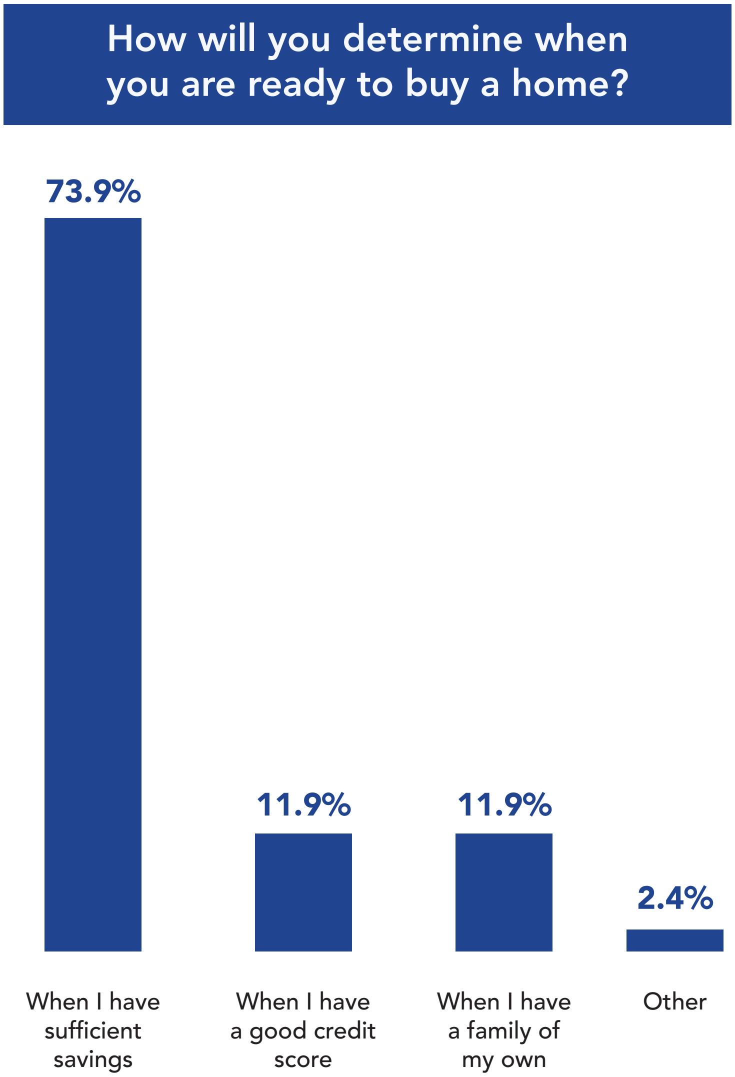
2. Consumers research how they will finance their home purchase. In this phase, consumers seek answers to understand their potential buying power, the mortgage products they may qualify for their purchase, and the companies and prices offered for those products.

3. Consumers review their credit profile to understand their credit score and its impact on pricing, eligibility, and affordability.

4. Consumers decide if their finances and cash flow can support a mortgage payment. In this phase, the consumer develops their financial picture of cash flow, housing expenses, and discretionary spending implications.

To better understand how to reach future homebuyers at their point of thought, we need to know the factors that future home buyers use to determine when they are ready to start their homeownership journey.

The study has already identified that future homebuyers know they need to be educated on ways to build credit and budget their income. However, they also need support during the initial stages of their homeownership journey when they are actively saving, paying off debt, and monitoring their credit.



The ability to save is also impacted by the number one factor that delays future homebuyers from considering homeownership – debt. Nine out of ten Gen Z survey respondents had educational loans, and 26.8% had credit card debt.

Debt is an obstacle that prevents or delays homeownership for many future homebuyers. Among the class of 2020, 55% of bachelor's degree recipients took out student loans, graduating with an average of $28,400 in federal and private debt, according to Student Loan Hero.

Student loans was the primary expenses that delayed 49% of young millennials and 44% of older millennial homebuyers, a median of 3-4 years from saving for a down payment or buying a home, according to the 2022 NAR Home Buyers and Sellers Generational Trends.

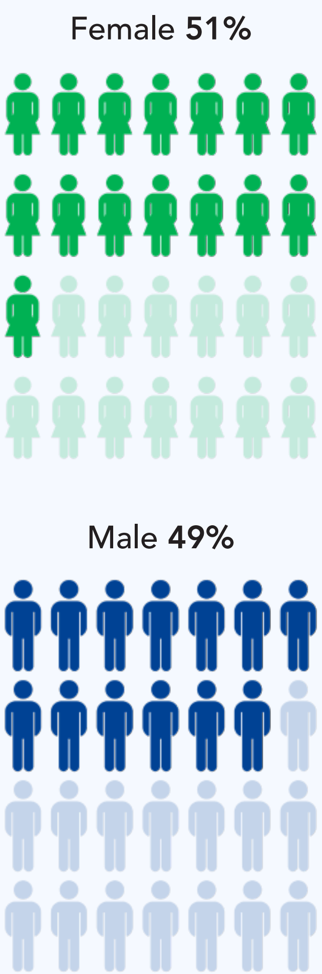
Helping future homebuyers to achieve homeownership presents challenges to the mortgage industry. However, mortgage lenders have clear opportunities to reach them by understating their needs and responding to the drivers they use to determine when they are ready to proceed with their first home purchase. This study, which was conducted by future homeowners, was to understand the challenges facing these consumers so the industry can provide them with trusted resources and objective information to help them navigate their own path to homeownership.

Survey implications to the mortgage industry

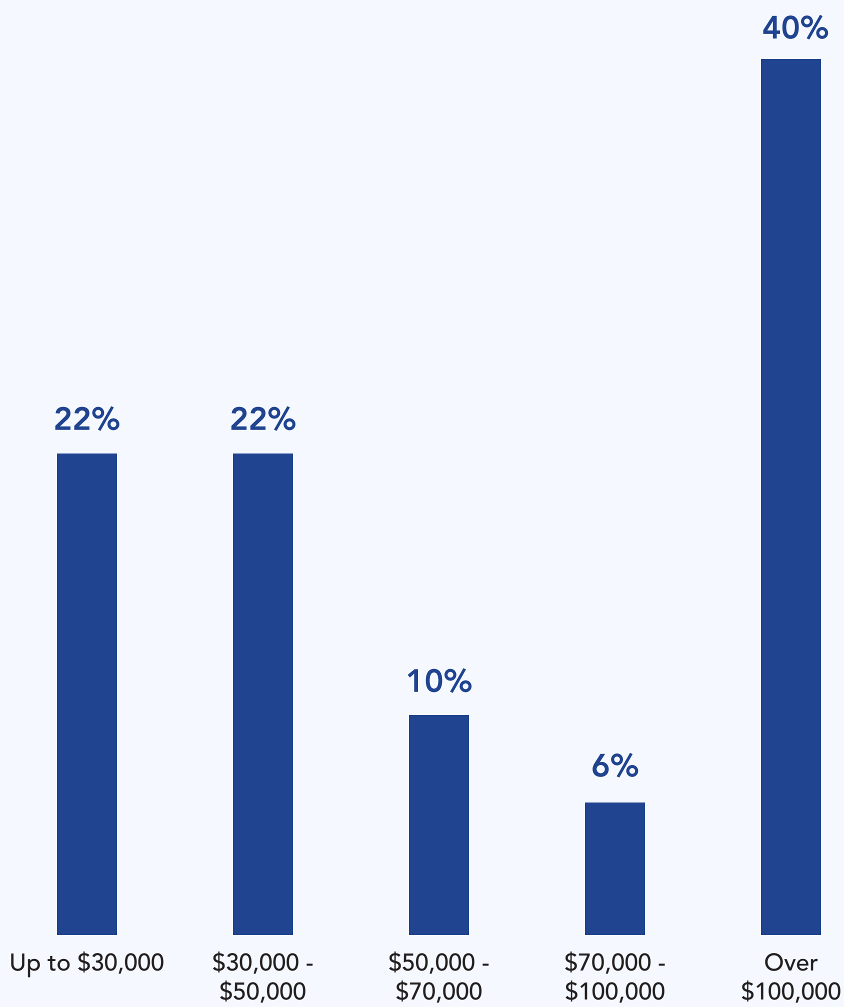
The mortgage industry, despite the perception of being 'behind on digital,' adapts and adapts well to changing dynamics in the market. In the past three decades, the industry went from basic websites as call center advertisements to fully managing entire business channels and books-of-business online. The industry has absorbed the social media channel well. A majority of realtors and loan officers optimize search engines and social media outlets for lead management and customer service. The all-digital generation of Millennials and Gen Z'ers will require us to adapt again to pursue next-generation Web3.0 avenues and newer social media platforms. The survey proves that ease of access, trust, and social proof is important to this generation. Solutions like FinLocker that can meet the consumer of tomorrow digitally, engage them via an intuitive single-pane-of-glass financial fitness solution, and do so with minimal digital intrusion can effectively reach the next generation and serve them well.

Summary of survey respondents:

Gender



Income



About FinLocker

FinLocker makes it easy to play the long game with future homebuyers

FinLocker provides a competitive advantage to attract future homebuyers to your business long before they begin taking actions that put them on the radar of other mortgage lenders.

As the survey highlights, saving is the most significant factor for Millennials' homebuying decisions. The core financial fitness tools in FinLocker – credit health, financial accounts management, trackable savings goals, and customizable budgets - were designed to engage consumers of all ages meaningfully. Future homebuyers can begin their financial life by establishing good financial habits and saving to achieve early financial goals while learning from the educational resources while interacting with your brand in your private-labeled FinLocker.

When a future homebuyer determines they are ready to begin their homeownership journey and selects the goal of "first-time homebuyer" in their FinLocker, personalized journeys are triggered to introduce them to the Readiness tool. This proprietary tool, created by FinLocker, aggregates and analyzes their enrolled financial data and outputs their current status for mortgage eligibility. Consumers are also provided with the actions they need to take to get mortgage ready, including saving more for their down payment, raising their credit score, and reducing their debt-to-income ratio.

Future homebuyers can research the current sales prices of homes in their desired neighborhoods using the Property widget powered by HomeScout. The home affordability calculator analyzes their income and recommends a home budget and monthly mortgage payment based on their income. The calculator also shows the amount they need to save for their down payment and closing costs.

FinLocker makes it easy for future homebuyers to achieve their savings goals. Within a few clicks on their FinLocker app, consumers can create a trackable savings goal for their down payment and assign a bank account that perpetually updates each goal. To reduce their debt-to-income ratio, they can also create trackable goals to pay off credit cards and other high-interest personal loans.

Future homebuyers can track their progress towards mortgage readiness using the perpetually updated Readiness tool. When they've achieved mortgage eligibility, they can verify their income and employment in the FinLocker app and share their financial data and documents with their mortgage originator to begin their mortgage application.

FinLocker's mission is to enable people to achieve the dream of homeownership and financial well-being. We are committed to providing the mortgage industry with trusted tools and resources that can help make this happen.

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Additional Contributors

- Yee Young (YY) Cher - Business Administration
- Isaac Wu - Industrial Systems Engineering & Business Administration