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Is Private Mortgage Insurance the Path to Homeownership for the Middle Class in the USVI? Banks Field Questions, Offer Suggestions at Hearing

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Home construction.

The Senate Committee of Finance hosted top leaders from the territory's banks Tuesday for a discussion on how they could improve the home-buying experience for Virgin Islanders. At the meeting, banks spoke of their current offerings and obstacles that lead to application rejection, and a suggestion by V.I. Housing Finance Authority Executive Director, Darryl Griffith, on private mortgage insurance loan programs could lead to legislation aimed at leveling the playing field for middle income individuals in the territory.

Called by Finance Chair Sen. Kurt Violet, the meeting sought to find ways whereby middle earners in the USVI could see a path to homeownership. As it currently stands, this income bracket is finding it difficult to own homes even as the upper class are able to make down payments on their mortgages — on average 20 percent of the purchase value — and the low to very lower classes are being aided through federal home ownership programs through V.I.F.H.A.

The U.S. definition of middle class are those earning between two-thirds and double the median household income, according to the Pew Research Center. This Pew classification means that the category of middle-income is made up of people making somewhere between \$40,500 and \$122,000, according to Investopedia. Those making less than \$39,500 make up the lower-income bracket, while those making more than \$118,000 make up the upper-income bracket.

Three of the most common problems that lead to loans being rejected are issues with debt to income ratio, loan to value ratio and credit scores, according to Oran Roebuck, senior vice president of Banco Popular Virgin Islands Region. Income to debt ratio is calculated by dividing total debt by gross monthly income; loan to value ratio is calculated by dividing the amount that would be borrowed by the appraised value of the property.

Each bank explained their basic requirements for loan approval after they were asked by Senator Samuel Carrion.

Banco Popular is looking for a credit score of 630-640, a loan to debt ratio of 40 percent and the loan to be valued at 80-90 percent, which is the amount of the loan the bank is willing to fund. The bank approves around 35-40 percent of the applications. FirstBank requirements are a debt to income ratio of roughly 43 percent, credit score of around 620 for a conforming loan and 680 for non-conforming loan, and loan to value of up to 80 percent on conforming loans and 85 percent for non-conforming loans. FirstBank approves 41 percent of loan applications.

Oriental Bank requires a credit score 620, income to debt ratio of 40 percent and a loan to value ratio of 80 percent. Bank of St. Croix requires a credit score of 620, loan to value ratio of 80 percent, and income to debt ratio of 43 percent.

Senator Janelle Sarauw highlighted data that shows millennials — Ms. Sarauw's generation — being the most indebted, especially with student loans, making it difficult to become a homeowner. A suggestion provided by Ms. Roebuck was to see if existing debt such as student loans could be deferred. Ms. Roebuck said she hoped the discussion would encourage people to seek financial counseling and have discussions with their banks, because “there are ways” to becoming a homeowner.

Later in the hearing, Ms. Sarauw said part of the difficulty in purchasing a home locally could be the incessant migration of talented Virgin Islanders to the U.S. mainland, most of whom make their lives elsewhere and never return permanently.

Mr. Violet encouraged the banks to start offering construction loans. He told Oriental Bank, “We need you to have a construction loan. You're doing business in the Virgin Islands, it's only fair that you allow Virgin Islanders to construct homes and repay loans. We are not asking for it for free.”

First bank offers construction loans for clients that have a land loan with the bank but does not offer the same for people who own the land outright. “We're pleading, First Bank took over Chase, Chase used to offer construction loans because I built my home under Chase Bank. We can't have multiple entities in the territory that are custodians of government funds and they are

not offering the products to the people of the Virgin Islands. It just can't work," Mr. Violet said.

Mr. Griffith, the V.I.H.F.A. director, said the authority currently has housing programs for low to very low income individuals, which are primarily what V.I.H.F.A. offers. He encouraged lawmakers to consider providing private mortgage insurance in the territory, suggesting the program would have a big impact on homeownership. PMI or private mortgage insurance is a type of mortgage insurance that is usually required for conventional loans, and allows the loan applicant to make a down payment of less than 20 percent of the home's purchase price.

"All of the new funding that we have, it's for low to very low income individuals that come through HUD (the U.S. Dept. of Housing and Urban Development). So for us to be able to assist [middle income individuals] as the V.I.H.F.A., we're going to need funding to be able to serve the middle class, and and from what I'm hearing from the banks, I think they need help in getting PMI in the territory because when I bought my first home, that's what I used," Mr. Griffith said. "I put little to nothing down, but PMI was what was used to get me to my first home, and then I sold that home when I moved home then I was able to put 20 percent down. So if the Legislature can do anything to help the banks with PMI, I think that's going to go a long way — and funding the V.I.H.F.A." Some of the bank representatives nodded in agreement.

Senator Novelle Francis, who posed the question to Mr. Griffith leading to the PMI discussion, said he would have a discussion with Mr. Griffith after the hearing, suggesting that legislation may be on its way to that end.