



LENDER REPORT

on down payment programs

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Homebuyers' Use of Down Payment Programs is Poised to Grow

By Rob Chrane, CEO, Down Payment Resource

Down payment help and other homeownership programs have been with us for decades, yet until now have played a relatively small role in facilitating home sales. Why is that the case, what's about to change and how will that affect our industry?

About the program

Down Payment Resource (DPR) was developed to create opportunity for homebuyers, Realtors and lenders by uncovering programs that get people into homes. We license our proprietary search engine to MLSs, brokers and lenders, who use it to match eligible buyers and properties to these programs. It helps them sell and finance more homes while positioning themselves as trusted resources in the pursuit of homeownership. A broad array of programs is available across every market in the U.S. Our Third Quarter 2015 Homeownership Program Index counts more than 2,400 programs administered by over 1,100 housing finance agencies and other providers.

To give you an idea of their nature:

- 70 percent are for down payment and closing cost help (the prevailing benefit is about \$10,000)
- 9 percent are Mortgage Credit Certificates (up to \$2,000 federal tax credits for the life of the loan)
- 9 percent are affordable first mortgages
- 14 percent are exclusively available to veterans, protectors, educators, health care professionals, buyers with disabilities, etc.
- They are well-funded — 85 percent of the programs have funding available
- 37 percent do not have a first time homebuyer requirement

In part, they are underutilized because they are perceived to add complexity and extend the time needed to close a sale. Complexity, yes, due to a fragmented system of delivering and administering these programs. DPR is helping to solve this issue, but not every real estate service provider has access to DPR today.

Throughout our marketing and training efforts, some real estate brokers, agents and mortgage lenders tell us that it's just not worth the extra effort involved to use these programs. The typical sales price is also presumed to be lower which means lower earnings per transaction. Coming from a real estate and mortgage banking background, I can empathize. After all, they are largely, if not wholly compensated by commissions paid on the transactions they close. For real estate professionals, allocation of their time directly impacts their livelihood.

Misperceptions about who these programs can benefit also negatively impact real estate and lending professionals' willingness to engage. What does "affordable housing" mean to you? Do you envision unappealing, low cost homes in targeted census tracts and distressed neighborhoods? But, when we flip the words to "housing affordability," we know that's important to every buyer. Every buyer wants to be sure the home they purchase is affordable to them. Yet, saving for a down payment consistently ranks as the number one obstacle for all buyers.

Surprising data trumps perceptions

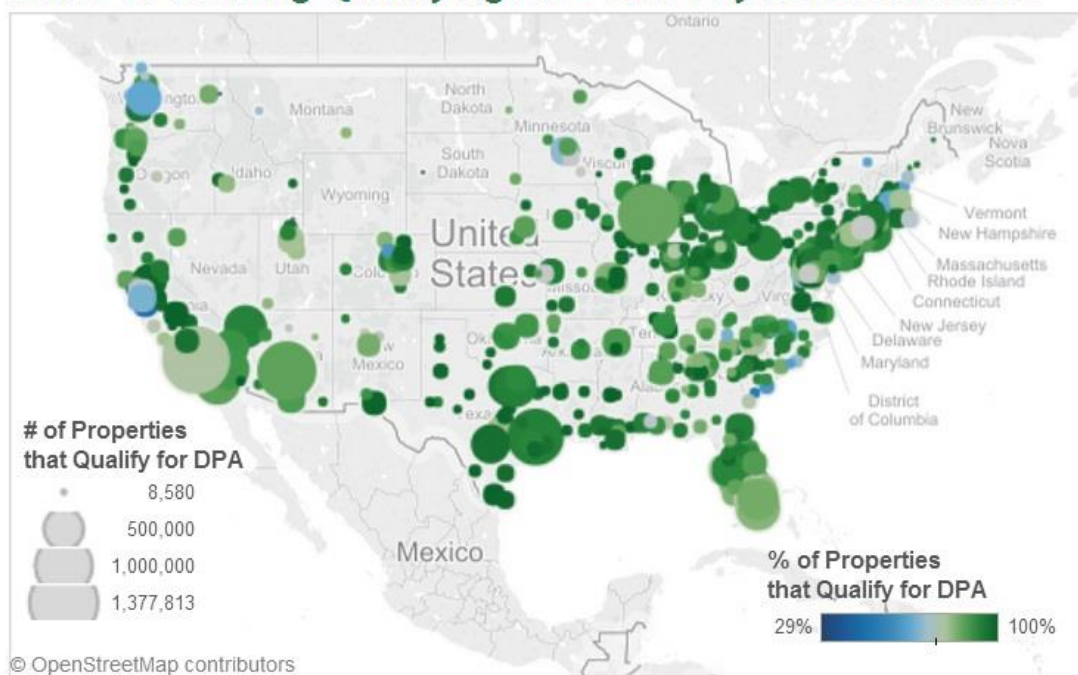
Our day-to-day experiences backed by research and analytics often reveal surprises and refute many of these misperceptions about affordability and homeownership programs, including the belief that using programs can extend days on market.

Earlier this year we compared data shared by some of our Housing Finance Agency (HFA) partners who administer down payment programs and Multiple Listing Service (MLS) customers who license Down Payment Resource.

In three of the four markets we researched, homes sold using one of these programs actually sold faster than similar homes without. Days on market ranged from 10 days faster to 7 days slower. The list price to sales price ratio for these transactions also compared favorably. Transaction records for home sales facilitated by these programs showed that sellers received 1 to 2 percent closer to their asking price.

Most real estate executives and even many lenders are surprised if not downright shocked when we show them the percentage of for-sale homes in their markets that are eligible for one or more program. We worked with RealtyTrac to produce a [report in February](#) that showed, on average, 87 percent of all residential properties across 578 counties with populations of 100,000 or more are eligible. This is consistent with listing data from across our current MLS markets.

Share of Housing Qualifying for Down Payment Assistance



Likewise, real estate professionals are astounded when they discover the many programs available in their market, with benefits ranging from thousands to tens of thousands of dollars and the annual household incomes allowed by these programs above the area median income — exceeding \$100,000 in some high-cost markets. They have a notion of a few local programs, but not the dozens that we typically find.

The impact of down payment requirements and confused consumers

In a recent [Stratmor Group blog](#), Rob Chrisman reported how changes in down payment requirements affected borrowers' willingness to pay (WTP) for a home according to the Fed's "2014 SCE Housing Survey." Respondents' WTP increased strongly — especially among current renters — when the lower down payment requirement was offered. On the other hand, when it comes to changing the interest rate on a mortgage from 4.5 percent to 6.5 percent, the Fed's results, in line with other research, found only modest effects of interest rates on WTP and house prices.



Yet, consumer surveys repeatedly show that they don't even know how much down payment is required. This most recent example comes from Wells Fargo's second annual [How America Views Homeownership](#) survey. It shows how consumers overestimate the down payment funds needed to qualify for a home loan, with 36 percent thinking a 20

percent down payment is always required. Among African Americans and Hispanics it's even higher — 58 percent and 55 percent respectively. This is unattainable for most households as it would take 14 to 15 years to save 20 percent for a median-priced home.



A NeighborWorks America survey late last year found that [70 percent of adult Americans do not know about down payment programs](#). After talking with thousands of people over the last seven years, I would peg the number to be even higher. Go ask 10 people at a cocktail party and you'll see what I mean.

What happens to renters who aspire to homeownership and are actually qualified to buy today, but don't know it? They self-select themselves out of the market. They are not even looking. In addition, those who think they have a chance and are searching for homes are not aware of their full range of options. Sadly, data shows too many households diminish their long term financial security by unnecessarily depleting their savings, including 401-Ks and IRAs. Down payments are not one size fits all. Sometimes a large down payment is appropriate, but in many cases it is not.

Despite these obstacles the use of down payment programs is poised to soar

With changing demographics, down payment challenges and increased awareness, we believe the use of programs will increase.

Millennials, immigrants, many of whom are also Millennials, and Boomerang Buyers will soon dominate home sales. Real estate service providers recognize that new buyers will be their biggest growth opportunity for years to come.

The need is clear. The credit box is not expanding, at least not for everyone. From Kenneth Harney's June 24 column in the Washington Post: "Average FICO credit scores on new mortgages for home purchases by giant investors Fannie Mae and Freddie Mac increased in May to 757 — the highest level in more than a year and up by five points since January, according to data compiled by mortgage technology company Ellie Mae. And the average down payment last month at both government-administered companies was 19 percent."

Awareness will reach a tipping point. National enterprises across the housing supply chain are aligning to better educate future homebuyers. That is, before they buy. Understanding the availability of down payment programs is recognized as an important element. These organizations have the budgets and reach to connect with millions. Once informed, these new buyers will hold our industry accountable for providing their full range of financing options.

Back-of-the envelope calculations on the impact

Potential buyers are already here, they just don't know it. An [interactive map from the Harvard Joint Center for Housing Studies](#) reveals that in many metro areas across the U.S., more than 50 percent of renters could afford to own a home. That translates to about 5.5 million renter households in just the 25 to 34 year old renter households are qualified to buy a home today. To be sure, there are other issues affecting first-time homebuyers. Recovering jobs, stagnant incomes, student debt and overheated markets in some areas. With that in mind, let's say that just 2 to 3 percent of these already qualified renter households get the message and act. That translates to 110,000 to 165,000 incremental sales, moving annual sales of existing and new homes to over 6 million units.

Today, we have a significant opportunity to help people achieve their goal of homeownership in a safe and sustainable way. The answer is education and homeownership programs.

Rob Chrane has more than 30 years of experience as a top producer and executive in the real estate and mortgage finance industries. Chrane launched Down Payment Resource to connect eligible homebuyers and eligible properties with hard-to-find down payment programs. As a volunteer leader with housing community organizations, Chrane has served with the Urban Land Institute and its Terwilliger Workforce Housing Center; the National Council of State Housing Agencies; the National Association of Local Housing Finance Agencies; the National Housing Council; and the Metro Atlanta "Piece by Piece Regional Foreclosure Initiative." Chrane also worked on numerous Habitat for Humanity homes and served as a board member and fundraiser for the Buckhead YMCA for more than 15 years.

MYTH:

Programs are only for first time homebuyers.



37 percent don't have a first-time homebuyer requirement.

5 DOWN PAYMENT MYTHS

DEBUNKED!

MYTH:

Programs aren't available in my area.



There are programs available in every community. Some are available nationwide and statewide.

MYTH:

Down payment programs make financing more difficult.



There are now more than **2,400 programs** available across the country and 85% have funds available for homebuyers.

MYTH:

It's too expensive to buy in my market.



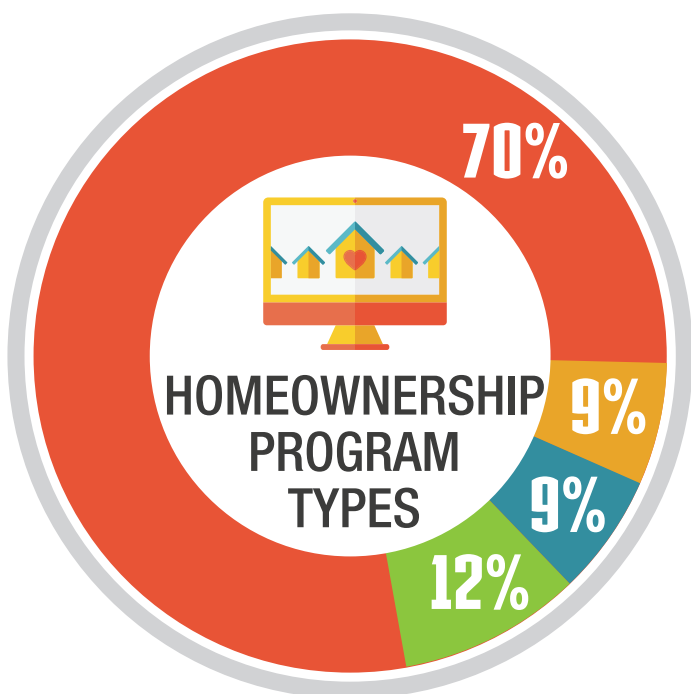
More than **14% of programs** are designed for individuals providing an important community service, including **educators, protectors, healthcare workers, veterans** and other special circumstances. Especially helpful in high cost markets, the programs help workers live in the community they serve.

MYTH:

You need to put 20% down.



Many program types will allow you to save on the down payment and retain savings for home repairs and improvements.



70% DOWN PAYMENT AND CLOSING COST ASSISTANCE PROGRAMS

GRANTS: gifts which do not have to be repaid

SECOND MORTGAGES: loans with very low or no interest rate where the payment may be deferred or forgiven incrementally for each year the buyer remains in the home.

NEIGHBORHOOD STABILIZATION PROGRAMS: designed to revitalize communities.

COMBINED FIRST MORTGAGE AND DOWN PAYMENT PROGRAMS

9% MORTGAGE CREDIT CERTIFICATES (MCCs)

Provide up to \$2,000 in annual tax credits for the life of the loan.

9% FIRST MORTGAGE LOANS

Below-market interest rates, lower or no mortgage insurance, or 100 percent financing.

12% ADDITIONAL PROGRAMS

Include Employer Assisted Housing programs and Individual Development Accounts that provide a matching down payment savings program.

HOMEOWNERSHIP PROGRAMS BY STATE

