



# The Down Payment Report

News and Data on Residential Down Payments

January 2017

## First-time Buyers Raid Retirement Funds for Down Payments

[Recent surveys](#) have documented low levels of public awareness about the many low down payment options available for home buyers.

Now there's evidence indicating that as many as one out of seven first-time buyers are tapping into their retirement funds to help with down payments. According to the National Association of Realtors [2016 Profile of Home Buyers and Sellers](#), 14 percent of first-timers used either loans or disbursements from their 401k or IRA accounts for down payments in 2016. Yet only 3 percent are turning to sources like down payment assistance programs.

In fact, more first-time buyers (14 percent) are raiding their retirement savings than repeat buyers (12 percent).

Should mortgage rates and home prices continue to rise in the year to come, they will increase down payments. Down payment assistance will become more important than ever to make homeownership available to young buyers and continue the housing recovery.

Rob Chrane  
CEO, Down Payment Resource

## November Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	78	22
FHA Purchase	96	4
Conventional Purchase	80	20
VA Purchase	98	2

Source: [November Ellie Mae Origination Insights Report](#)

## FHA

### HUD Cuts FHA Mortgage Insurance Premium

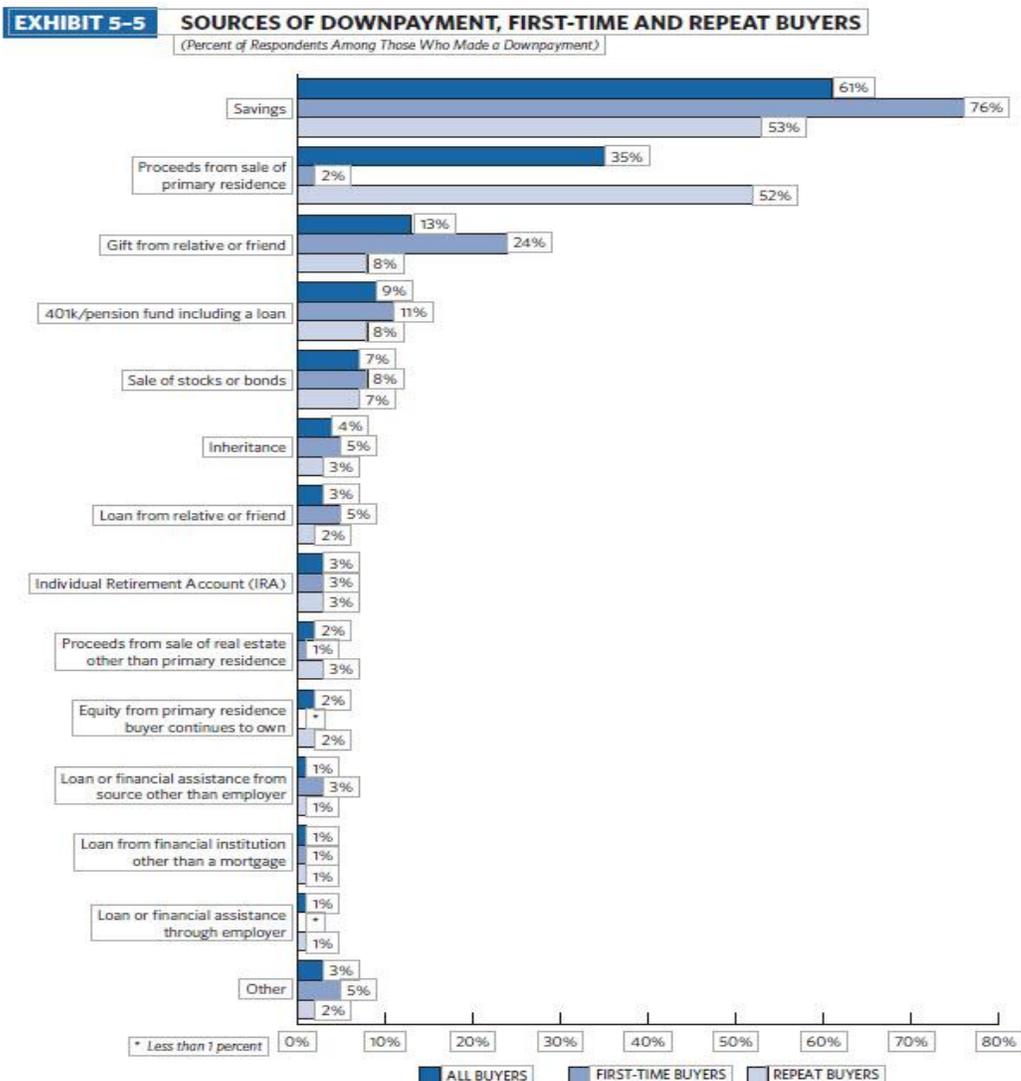
On January 9, HUD Secretary [Juan Castro announced](#) a 25 basis point reduction in the FHA upfront mortgage insurance premium to take effect January 27, leaving only seven days for the new administration to cancel the decision. Castro said it would save the new HUD borrowers an average of \$500 a year.

Under the new schedule, a home purchase with a base loan amount of up to \$625,000, with an 85-percent loan-to-value ratio and a 30-year loan term, will require an annual mortgage insurance premium (MIP) of 55 basis points, down from 80 basis points. A 15-year loan of that same amount and with a 90-percent LTV ratio will require an MIP of 25 basis points, down from 45. [Here is the full schedule of the premium cut.](#)

The [National Association of Realtors](#) quickly applauded the move, while shares of insurers MGIC Investment Corp., Radian Group and Essent Group fell 2 percent to 3 percent after the announcement.

## First-time Home Buyers

### NAR: Buyers Use Retirement Funds For Down Payments



## Bankrate’s McBride Sees Role for Low Down Payments as Rates Rise

In an interview with the Down Payment Report, BankRate’s Chief Economist Greg McBride sees an important role for low down payment programs in this year’s real estate markets.

McBride forecasts rates to rise to 4.32 percent by the year’s end and believes that the impact of rising rates on potential buyers will be less significant than economic growth, especially rising incomes. For first-time buyers, there’s no doubt that down payment programs will continue to play an important role. “If everyone had to save 20 percent, then no one would own a house,” he said.

## News from the GSEs

### Fannie Mae Eases First-timer Requirements for 97% LTV Financing in DU

Changes in Fannie Mae's Desktop Underwriter program that took effect December 14 will make it easier for first-time buyers to qualify for [97% LTV financing](#). Fannie will allow LTV ratios greater than 95% up to a maximum of 97% for MyCommunityMortgage® (MCM®) purchase transactions if at least one borrower is a first-time home buyer and pre-purchase home-buyer education and counseling is completed, and non-MCM standard purchase transactions if at least one borrower is a first-time home buyer.

Fannie also said it will immediately begin accepting applications for fixed-rate 97% loan-to-value financing of borrowers with FICO scores as low as 620. Freddie Mac, meanwhile, took a more cautious approach, delaying the start of the program, requiring credit counseling, and in some cases only allowing FICO scores as low as 660.

### Freddie Pilot Program Trades Equity for Lower Down Payment

Freddie Mac is piloting a very limited program that lets homebuyers get half of a 20 percent down payment covered by a handful of commercial investors, including San Francisco's [Unison](#). In exchange for a smaller mortgage, buyers give up a percentage of the value their homes might gain. Unison customers must have good credit, qualify for a standard mortgage and make at least a 10 percent down payment.

Unison is working with four mortgage lenders, including Orange County's LoanDepot, one of the nation's largest mortgage originators, and it has deals with three more.

## Mortgage Insurance

### HUD Study Finds FHA Mortgage Insurance Outperforms PMI

FHA-insured loans are no more likely to default than similar uninsured loans before accounting for differences in mortgage costs and over 27% less likely to default after including the adjusted rate spread. Moreover, FHA mortgage insurance outperforms every individual private mortgage insurer, according to a new study by Kevin A. Park, an economist at HUD's Office of Policy Development and Research, published in the [December issue](#) of the Journal of Housing Economics.

Park found that privately-insured loans have a default hazard nearly 61% higher than similar uninsured loans, suggesting the presence of adverse selection. Including the cost of mortgage insurance reduces, but does not eliminate, this disparity.

## Down Payments

### Twenty Percent Down Outpaces Average Incomes

A 20 percent down payment on a home costs more than two thirds of the average annual income – one of the reasons potential home buyers say saving for a down payment is among their top concerns, according to a [new analysis by Zillow](#). In the San Jose, San Francisco and Los Angeles metros must come up with the largest percentage of their income to buy a home – 182 percent of the average annual income to put 20 percent down on the median home.

In the U.S., to buy a median-priced home for \$192,500, a buyer must scrape together \$38,500 in cash for 20 percent down.

"While it's possible to buy a house with a smaller down payment, 20 percent ensures the best rates. As important as it is to find a monthly payment you can afford, some buyers' budgets will come down to the amount of cash they can bring to the table," said Zillow Chief Marketing Officer Jeremy Wacksman.

## Commentary

### Published Quotes From Housing Leaders and Journalists

*"While most Americans' view of homeownership appears to have been unaffected by the election, millennials, on the other hand, have lost some of their warm and fuzzy feelings about owning a home.... While their American Dream of homeownership fell for the first time in five years, 83% of them still plan on buying a home. Does this mean 2017 will be the year that millennials finally start to buy homes en masse? Probably not. Among millennials that currently plan on buying a home, 72% said they won't do so until at least the end of 2018, so 2017 likely be a weak year for millennial home buying.*

*Based on these findings, as well as the extensive body of work we've rolled out this year, here's what we expect in 2017: A full 59% of potential homebuyers tell us that saving for a down payment is their biggest obstacle to buying a home, followed by having poor credit (38%) and rising home prices (35%)."*

— [Trulia Chief Economist Ralph McLaughlin, December 7, 2016](#)

*"Many banks are unwilling to make FHA loans because of the risk of being sued by the Department of Justice if they make a mistake, even a small one, under the False Claims Act. FCA violations force lenders to pay fines that are three times the size of the loan."*

— [Mark Zandi, chief economist at Moody's Analytics, in the Washington Post, January 4, 2017](#)

*"Rising rates are no doubt pinching the family budget of would-be homebuyers. However, as long as the rate rises are gradual such that salaries have time to rise more strongly to mitigate some of the sting of higher mortgage payments, consumers should view these as still historically attractive mortgage rates."*

— [NAR Chief Economist Lawrence Yun, in Forbes Magazine, January 5, 2017](#)

*"Conventional wisdom might say 20% is always the way to go, but more options and different financial circumstances put this to the test. Make sure to fully explore the loan options available to you before deciding on the down payment amount that suits you and your situation best."*

— [Trulia, cited in Forbes, January 4, 2017](#)

*"In the absence of the exotic loan products available during the last housing boom, buyers are turning increasingly to the next best option — government backed loan products that allow them to put little or no down when buying a home."*

— [ATTOM's Daren Blomquist, in Scotsman Guide, December 19, 2016](#)

## About the Down Payment Report

A monthly service of Down Payment Resource, The Down Payment Report collects, archives and distributes the latest news, research and trends in residential down payments, including down payment assistance programs, low down payment options, mortgage insurance and homeownership education. The Down Payment Report is researched and written by [Steve Cook of Real Estate Economy Watch](#).

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Contact: [info@downpaymentresource.com](mailto:info@downpaymentresource.com). Media inquiries: [tshell@downpaymentresource.com](mailto:tshell@downpaymentresource.com)



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