The Down Payment Report

News and Data on Residential Down Payments

June 2017

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Unlocking the Doors to Homeownership

June is Homeownership Month, a good time to take stock of the state of homeownership in America today. There are good reasons to be concerned, but also to be optimistic about the future of the American Dream.

By the numbers, homeownership is struggling. At 63.9 percent, the national homeownership rate remains near record lows and some experts fear it may fall as low as 61 percent by 2025. Among young adults below the age of 35, the rate reached a historic low of 34.1 percent a year ago and is virtually the same today.

While the data is depressing, survey after survey substantiates that the desire to own a home burns as brightly today as ever. Just last month, Gallup found that roughly half of U.S. adults who currently do not own a home plan to buy a home within the next five years, up slightly from recent years. An additional 20 percent expect to purchase a home in the next ten years. Only 28 percent of those who don't own a home today have no plans to become homeowners in the foreseeable future.

Low homeownership rates result from the challenges facing first-time buyers: the burden of student loan debt, low-income levels, soaring prices and a dearth of affordable homes to buy. The greatest of these barriers, however, is saving for a 20 percent down payment, which takes the average Millennial nearly a decade according to a recent Rentonomics study.

Low down payment options like FHA, VA, commercial mortgage products, GSE programs and thousands of state and local down payment assistance programs are the key to unlocking the doors to homeownership for thousands of young buyers. Only lack of awareness and misinformation are delaying their dreams.

Rob Chrane
CEO, Down Payment Resource

April Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	80	20
Millennials	88	12
FHA Purchase	96	4
Conventional Purchase	80	20
VA Purchase	98	2

Source: Ellie Mae Origination Insight Report and Millennial Tracker

First-time Homebuyers

New Buyer Share of Sales Rose in April

Sales to first-time homebuyers accounted for 34 percent of residential sales in April 2017 (32 percent in March 2017; 32 percent in April 2016). Sustained job and income growth are likely supporting the increase in purchases from first-time homebuyers. The anticipation of further increases in interest rates may also have prompted first-time buyers to enter the market, according to the April Realtor Confidence Index.

However, fewer first-time buyers are making a low down payment. Among first-time homebuyers, 63 percent put down a zero to six percent down payment, a decrease from the 74 percent share in June 2009 when NAR started collecting this information in the RCI Survey.

Commercial Lenders

"Super Low Down" Loans Take Off

Since Quicken Loans introduced its first one percent down product in late 2015 and followed up with super low down payment for mid to lower income borrowers, a growing number of commercial lenders are introducing their own versions of the super low down payment mortgages that are popular with Millennials.

To create a three percent equity mortgage, most of these new offerings combine one percent down payments with grants amounting to two percent to create a three percent equity loan. However, today highly qualified borrowers can find zero down loans with grants that need not be repaid.

Guild Mortgage announced a new one percent down purchase loan that combines a 2 percent grant from the lenders, creating 3 percent equity and a loan with a 97 percent loan-to-value ratio.

"We were able to create this breakthrough national program because we are a direct lender with many decades of strong investor relationships and first-time homebuyer expertise," said Mary Ann McGarry, president and CEO of Guild Mortgage. "We wanted to make homebuying more attainable for more people, including millennials who are entering the housing market in increasing numbers."

Guaranteed Rate has offered a similar "Double Match" loan since last summer. Under the new Double Match program, qualified borrowers only need to put down one percent to receive an additional 2 percent grant through the program. The Double Match grant is completely forgivable and doesn't need to be repaid if the buyer moves or refinances.

LoanDepot recently joined the ranks of commercial lenders offering one percent down mortgages by partnering with Freddie Mac's HomeReady Program.

"In many hot markets where affordability is a huge issue today, low down payment loans make it possible for Millennials and other first-time buyers to get into the market now and begin to build equity while appreciation is still strong," said LoanDepot's Senior Vice President of Public Affairs.

Other lenders offering one percent down coupled with a two percent grant are United Wholesale Mortgage and Chicago Infrastructure Trust.

Movement Mortgage's new zero down loan for first-time homebuyers combines a non-repayable down payment three percent grant with a 30-year conventional loan. Qualified borrowers will be eligible for 97 percent financing with down payment assistance up to 3 percent in the form of a grant provided directly by Movement Mortgage. This grant is not required to be repaid and comes with no second loans, liens or promissory notes.

At least two other lenders, Fifth Third Mortgage and Bancorp South, offer zero down loans to qualified buyers.

FHA

Condo Certification and Mortgage Insurance

In a speech at the National Association of Realtors' (NAR) Midyear Meetings in May, HUD Secretary Ben Carson raised hopes that he would support proposals to increase FHA financing of condos and to allow homeowners to terminate FHA mortgage insurance after they have achieved sufficient equity.

Carson said he is "in lockstep" with proposals to revive the Federal Housing Administration's condo financing program, which was the subject of proposals that would increase the numbers of buyers and condominium associations participating in FHA's condo program. One of the changes would give a green light to "spot loans" for individual units in condo buildings lacking FHA "certifications."

Fewer than 7 percent of condo projects or buildings currently have FHA certification, according to estimates by the Community Associations Institute, a trade group. Under current rules, units in noncertified buildings are ineligible for FHA mortgages.

Last year HUD released a proposed rule on condominiums that would allow the return of spot loans and an extension of the certification period. HUD also included a proposal to set owner-occupancy rate requirements within a range of 25 percent to 75 percent. NAR supports a higher threshold of 35 percent.

Carson said he would review FHA's "life of loan" mortgage insurance policy. On a conventional mortgage, borrowers typically must pay for mortgage insurance if they have less than 20 percent equity in the property. When the homeowner reaches that 20 percent equity mark, they're usually able to cancel the mortgage insurance and put those monthly payments back in their pocket. With an FHA mortgage, however, borrowers must maintain mortgage insurance for the entire life of the loan.

FHA Delinquencies Lowest Since 1997

After rising in the final quarter of 2016, the FHA delinquency rate decreased to 8.09 percent from 9.02 percent in the first quarter of 2017, reaching its lowest level since 1997. According to the latest MBA Delinquency Survey.

"Typically, in the fourth quarter of any given year, we see a rise in delinquencies because of higher heating costs and holiday spending. This increase is usually reversed in the first quarter. While MBA uses a seasonal adjustment model to mitigate these predictable seasonal effects, this particular 6 month period showed larger than expected swings. First quarter results indicate that the increase in FHA delinquencies that we saw in the last quarter of 2016 has not been established as an ongoing trend," said Marina Walsh, MBA's Vice President of Industry Analysis.

Down Payment Research

Down Payment Programs Decline Slightly

The number of total programs decreased to 2,454, down by just nine programs from the previous quarter. Approximately 87 percent of programs currently have funds available for eligible homebuyers, unchanged from the previous quarter, according to the First Quarter 2017 Homeownership Program Index (HPI) from Down Payment Resource (DPR).

DPR also reported that:

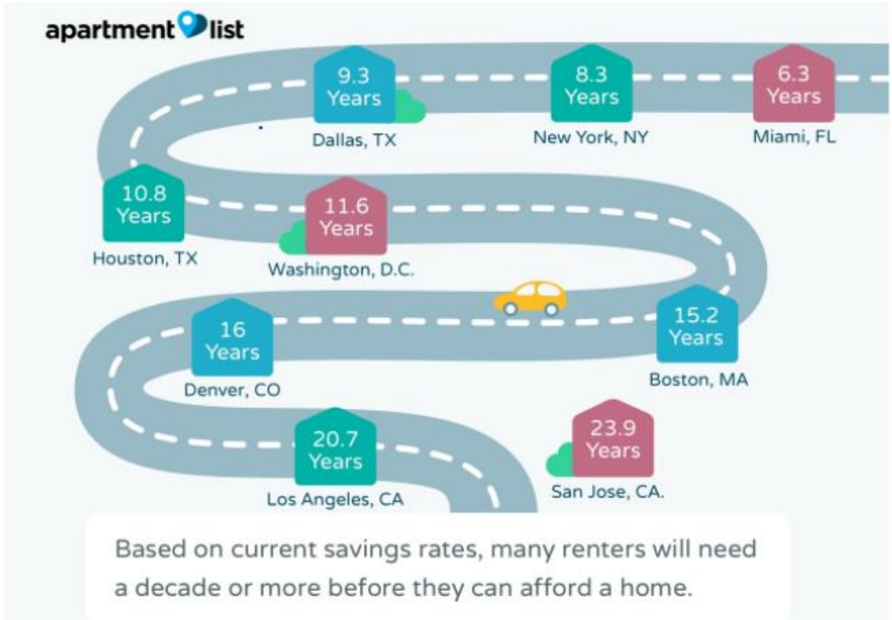
- 63% of homeownership programs have a first-time homebuyer requirement. This is defined by HUD as someone who has not owned a home in three years.
- 5% of programs are available for community service workers, including educators, police officers, firefighters and healthcare workers.
- 5.5% of programs have benefits for veterans, members of the military and surviving spouses. These programs can also be layered with zero down payment VA loans.

Millennials Need a Decade for a Down Payment

Based on their current rate of monthly savings, a survey by Rentonomics found that millennials in many of the nation's large metros will need at least a decade to save enough money for a 20 percent down payment on a condo. Millennials in San Francisco, San Diego, Los Angeles, Austin and San Jose each face a wait of at least 19 years. A Millennial in San Jose, the metro with the longest wait time of almost 24 years, wouldn't be able to afford a 20 percent down payment on a condo until the year 2041. Millennials in Kansas City need the least time to save for a down payment: five and a half years. Even if we assume a smaller down payment of 10 percent, just over one in three millennials will be able to save the required amount in five years or less.

Based on the average of respondents' current down payment savings, the amount of help they expect to receive and the amount they're saving on a monthly basis, Rentonomics calculated the number of years millennials would need to amass a 20 percent down payment, accounting for growth in home prices and wages, as well as returns on savings.

Millennials in over half of the metros in the study will need at least a decade to save for a down payment, and in some of the costliest West Coast cities, they will need nearly two decades or more. Even assuming a 10 percent down payment, only 15 percent of millennials aged 25 to 34 will save enough for a 10 percent down payment within the next year, and nearly two-thirds of respondents will need more than five years of saving at their current rates to amass that amount.



Down Payment Assistance Programs

Rhode Island Housing launched its "First Down" program in early June to offer down-payment assistance to eligible first-time home buyers. The program is designed for people buying homes in Rhode Island communities hardest-hit by the foreclosure crisis.

The down-payment assistance is available for buyers purchasing a one- to four-family home or condominium in one of the selected areas, and the property must be the buyer's primary residence. Buyers must also obtain a Rhode Island Housing first mortgage through a participating lender or Rhode Island Housing.

Just in time for Homeownership Month, the Tennessee Housing Development Agency is celebrating the 500th home loan under its new $15,000 HHF Down Payment Assistance program. In May, more than 60 percent of homebuyers in THDA's Great Choice Home Loan program also applied for the new $15,000 HHF Down Payment Assistance program. To qualify, homebuyers must finance the purchase of an existing home in one of 55 designated ZIP Codes with a Great Choice Home Loan.

The District of Columbia Housing Finance Agency (DCHFA) announced:

Closing Cost Grants Giveaway—DCHFA is offering $1,500 grants to be used towards closing costs.

DC Open Doors Borrower Income Increase—Maximum borrower income for all DC Open Doors loan programs is now $132,360 widening the range buyers that may qualify for the DC Open Doors loan program.

Freddie Mac Super Conforming Loan—This month, DCHFA will begin offering Freddie Mac's super conforming mortgages. Currently, the Agency's maximum conforming loan is limited to $424,100. Freddie Mac's super conforming mortgages are mortgages originated using higher maximum loan limits, currently up to $636,150 in DC.

First Home Clubs Open in New Jersey

M&T Bank has begun offering the [First Home Clubs] program in New Jersey in May, providing down payment and closing cost assistance of $4 in matching funds for each $1 saved by eligible first-time homebuyers, with grants of up to $7,500 available.

The First Home Clubs is a product of the Federal Home Loan Bank and operated through its member banks. M&T is a member of the Federal Home Loan Bank of New York (FHLBNY) and has helped more than 2,200 New York State residents purchase homes through the First Home Clubs program by accessing more than $17 million in program grants and is now actively seeking New Jersey applicants.

The First Home Clubs was launched by the FHLBNY in 1995 to offer an incentive for households with incomes at or below 80 percent of their area median income to save towards the purchase of a new home. Program participants have between 10 to 18 months to reach their savings goal, and also complete a required homeownership education course through an approved not-for-profit counseling agency.

Federal Budget Watch

CDBGs and HOME Programs Still on the Chopping Block

In the fiscal year 2018 federal budget released by the While House May 23, HUD's request included defunding several programs that provide state and local support for targeted homeownership activities, including Community Development Block Grants and the HOME Investment Partnerships Program.

The Community Development Block Grant program is proposed for defunding. HUD's press release said the agency was "devolving the activities the CDBG program supports to the State and local level" as studies have found CDBG "is increasingly not well targeted to the poorest communities and has not demonstrated a measurable impact on communities."

The budget also proposes the elimination of HUD's Choice Neighborhoods Initiative, HOME Investment Partnerships Program, and the Self-Help Homeownership Opportunity Program (SHOP), "because State and local governments are better-positioned to serve their communities' needs."

Congress has yet to address the federal budget for FY 2018, which begins October 1. Cuts proposed for HOME and CDBG in the current year's budget were restored by a final version passed in May.

Commentary

Down Payments on the Record

In the 1920s, before the federal government became a player in the market, commercial banks and insurance companies generally required 50 percent down, while savings and loan associations, which were the mortgage specialists, were more liberal—they required only 40 percent down.

—Jack Guttentag, Perspectives on Down Payment Requirements

Our goal—going back to regulatory reform—is should you move the down payment requirement from 20 percent to 10? It wouldn't introduce that much risk but would actually help a lot of mortgages get done.

—Bank of America Chief Executive Officer Brian Moynihan on CNBC, June 6.

Our market has definitely shifted and it's not an embarrassment to have a 3.5 percent down payment on a loan. I would say the 20 percent down payment is an enigma.

—Linda King, real estate agent and president of the Savannah Area Board of Realtors., quoted in savannahnow.com June 3.

Governors, mayors and other officials use funds from Department of Housing and Urban Development initiatives, such as the HOME Investment Partnerships and the Community Development Block Grant programs, to build and preserve housing, support first-time home buyers, open community centers and supplement services for the homeless, elderly and disabled. These funds would be eliminated in this proposal, which could result in 580,000 fewer affordable homes created and more than 350,000 jobs lost over the next five years.

—Henry Cisneros, HUD secretary from1993 to 1997 and Terri Ludwig, Chief executive, Enterprise Community Partners, Six of the worst cuts in Trump's budget, Washington Post May 27.

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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Down Payment Resource (DPR) creates opportunity for homebuyers, Realtors and lenders by uncovering programs that get people into homes. The company tracks approximately 2,400 homebuyer programs through its housing finance agency partners. DPR has been recognized by Inman News as "Most Innovative New Technology" and the HousingWire Tech100™. DPR is licensed to Multiple Listing Services, Realtor Associations, lenders and housing counselors across the country. For more information, please visit DownPaymentResource.com and on Twitter at @DwnPmtResource.

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