



The Down Payment Report

News and Data on Residential Down Payments

April 2017

The Trump Budget and Homeownership Assistance

Three important sources of financing for homeownership assistance would be eliminated and thousands of moderate and lower income Americans would lose the chance to become homeowners under the preliminary Trump Administrations budget for FY 2018. The budget would eliminate Community Development Block Grants and the HOME Investment Partnerships Program, and defund NeighborWorks America, the congressional chartered organization that has made homebuyer education accessible millions of home buyers.

Administration budgeters allegedly used “evidence-based budgeting” to identify poorly performing organizations and programs. Supporters of homeownership assistance have nothing to worry about on that score. Years of research and program evaluations have proven the value of these programs.

In 2012, [HUD summarized the research](#) and found that “Even small amounts of down payment assistance increase the probability of moving first-time buyers into homeownership. Although about one out of five first-time homebuyers receives such help from their families, low-income households are less likely to have this option available.”

HUD’s [First-time Homebuyer and Education Demonstration](#), a rigorous, multi-year study, found that access to homebuyer education demonstrably improves mortgage literacy, credit scores, and communication with lenders, all steps on the path to sustainable homeownership.

Federal support for homeownership assistance should continue because evidence shows it works.

Rob Chrane
CEO, Down Payment Resource

February Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
FHA Purchase	96	4
Conventional Purchase	80	20
VA Purchase	98	2

Source: [February Origination Insights Report](#)

FHA

Urban Institute: “OIG Criticism is Perplexing”

In a [March 16 post](#), three Urban Institute economists said that renewed criticism of a Federal Housing Administration (FHA) program that allows state housing finance agencies to offer down payment assistance to borrowers is “perplexing.”

Nothing indicates these programs are a problem and if there is a negative impact, it is tiny, the economists said. The number of loans the OIG was concerned about is at most a little over 8,000, but is likely closer to 4,800. “It remains unclear what problem the OIG finds in these programs, as the data do not suggest either that the higher rates paid by these borrowers are tied to the program or that these loans are economically problematic for the FHA.”

“Part of the FHA’s mission is to ensure that families the mainstream mortgage market does not well serve can become sustainable homeowners. Because the down payment is often the most significant barrier to entry for such families, programs that can help them in a manner that doesn’t pose unnecessary risk to them or the FHA should be supported. We fear that the OIG is instead undermining one,” concluded Laurie Goodman, Jim Parrott and Bing Bai.

Homeownership Assistance

Trump Budget Cuts HUD-Funded Down Payment Assistance and Homebuyer Education Programs

Three major sources of support for local down payment assistance and homebuyer education programs—[Community Development Block Grants](#), the [HOME Investments Partnerships Program](#) and [NeighborWorks America](#)—would be eliminated under the Trump Administration’s proposed [FY 2018 budget](#) released March 16.

Also, under a revised [FY 2017 budget proposal](#) announced March 28, the Administration seeks to cut funding by half this year for Community Development Block Grants, reducing its finding by \$1.5 billion. Congress faces an April 28 deadline to pass a spending plan for the rest of the fiscal year, which ends Sept. 30. The reductions in the FY 2017 budget would partially offset a \$30 billion increase Trump has requested for defense and border security. Congress is expected to vote on the FY 2017 budget during the week of April 24, after returning from Easter Recess.

The Administration’s FY 2018 budget would also defund [NeighborWorks America](#), a congressionally-chartered nonprofit organization that supports community development in the United States and Puerto Rico and provides access to homeownership and to safe and affordable rental housing.

Though congressional leaders like [Senator Lindsey Graham \(R-SC\)](#) proclaimed the Trump budget “dead on arrival,” the proposed cuts are the most serious challenges to date to federal support for low-income homeownership assistance programs.

[Community Development Block Grants](#) are annual grants to localities and states to assist in the development of viable communities by providing decent housing, a suitable living environment; and expanded economic opportunities to low- and moderate-income residents. Eligible activities include homeownership assistance. [CDBG funds](#) can be used for down payment assistance up to 50 percent of the lender required down payment amount.

The [HOME Investment Partnerships Program](#) (HOME) provides formula grants to states and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities to create affordable housing for low-income households. HOME funds may be used to provide home purchase or rehabilitation financing assistance to eligible homeowners and new homebuyers.

State and Local Homeownership Assistance Programs Threatened by CDBG and HOME Budget Cuts

Below is a sampling of news coverage on the impact of the Administration's budget proposals on local homeownership assistance programs.

Arizona

[Trump budget would cut funds used for 'most vulnerable,' Valley officials say](#)

California

[Trump budget: San Diego housing faces cuts](#)

[Roundtable: San Diego Encounters Trump's Budget And Tijuana's Sewage](#)

[Trump proposes to slash HUD budget by \\$6.2 billion](#)

Connecticut

[Trump budget would end CT heating aid, housing, after-school programs](#)

Florida

[As U.S. axes affordable housing, Florida dare not raid trust fund](#)

Illinois

[Here's what's at stake for Chicago under Trump's budget](#)

Maine

[Deep cuts in Trump's proposed budget would have dramatic impact in Maine](#)

Michigan

[Five ways Donald Trump's budget proposal could impact Michigan](#)

Nevada

[Report shows how Trump's budget would hit low-income housing programs in Nevada](#)

New Jersey

[Are Shore towns losing in Trump's budget?](#)

New York

[New York City schools, security and public housing would suffer the most under Trump's budget](#)

North Carolina

[North Carolina's cities would see devastating cuts in Trump budget](#)

[Trump's budget will worsen Charlotte's housing crisis](#)

[Trump's budget would abolish 7 local programs](#)

Ohio

[Trump budget seeks to eliminate many programs](#)

Tennessee

[Trump budget would cut Knoxville funds](#)

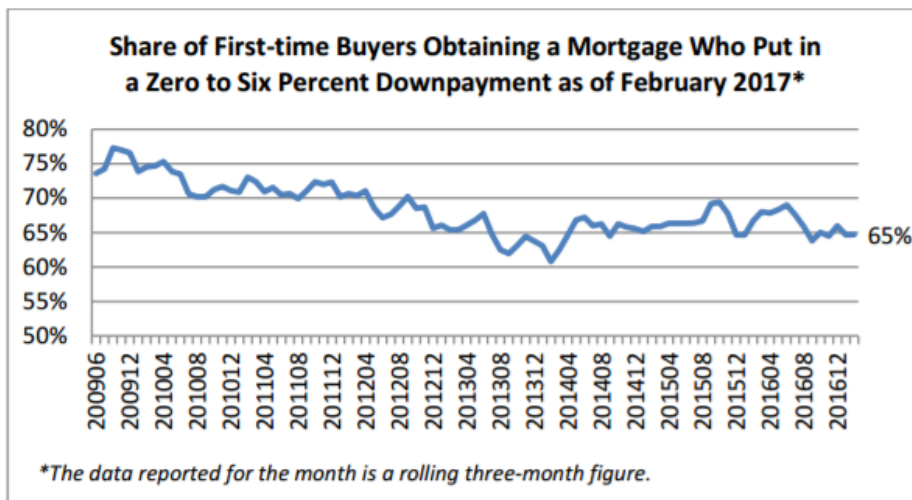
[Trump's budget cuts could hurt Clarksville agencies](#)

[Memphis funding endangered by Trump's proposed budget](#)

First-time Homebuyers

Eighty Percent of First-time Buyers Put Down Less than 20 Percent

For the third consecutive month, four out of five first-time buyers put down less than 20 percent of their purchase price, according to the [February Realtors Confidence Index](#). Among all homebuyers who obtained a mortgage and whose transactions closed in December 2016–February 2017, 62 percent made a down payment of less than 20 percent.



Commerical Lenders

Ally Launches HomeReady Product

[Ally Home Loans](#), the direct-to-consumer mortgage arm of Ally Bank, now offers HomeReady® mortgage loan, a Fannie Mae product designed to serve creditworthy, low-to moderate-income borrowers.

Features of the HomeReady loan include expanded eligibility for underwriting home loans and low down payment for first-time and repeat homebuyers as low as 3 percent.

"Homeownership is part of our American culture, and as we continue to ramp up our direct-to-consumer mortgage business we recognize that home buyers need customized solutions to suit their specific circumstances," said Diane Morais, Ally Bank President, Consumer & Commercial Banking Products. "The innovative underwriting flexibilities for financing homes offered by the Fannie Mae HomeReady program provide consumers with an alternative home loan option."

FHA

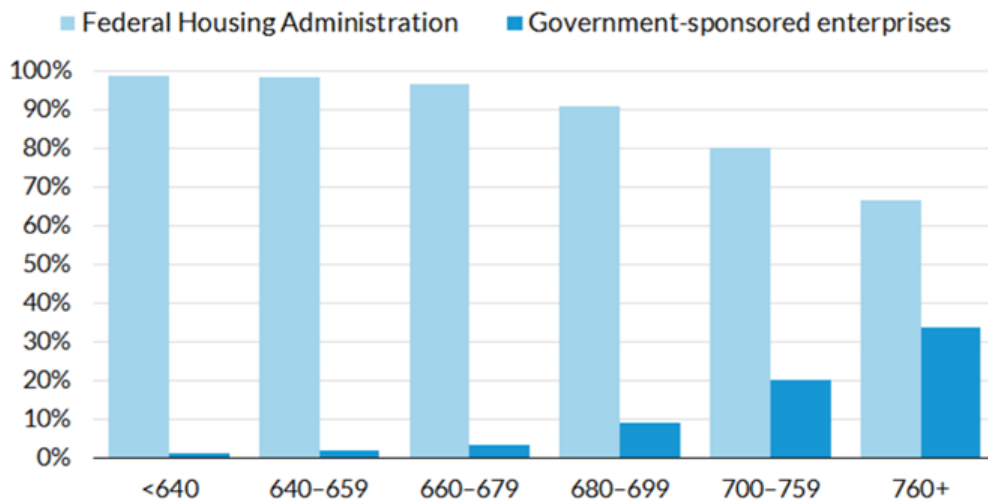
FHA Lags in Loosening Lender Underwriting

Credit is tight in large part because lenders are imposing even more stringent standards than those required by the entities that guarantee or insure these loans: the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac and the Federal Housing Administration (FHA), according to a [new analysis](#) by the Laurie Goodman, co-director of the Urban Institute's Housing Finance Policy Center.

Originators knowingly drive away business because they are concerned that the costs of producing and servicing a less-than-pristine mortgage are higher than what they can earn on the mortgage. The FHFA and the GSEs have given lenders the clarity and reassurance they sought, but credit availability is still so limited because of the FHA, she wrote.

“The FHA, not the GSEs, has historically insured borrowers with less than pristine credit, because the FHA does not do risk-based pricing. The FHA charges the same fee for those with perfect credit and those with less than perfect credit. The GSEs, on the other hand, impose risk-based pricing through their loan-level pricing adjustments,” Goodman said.

Channel Choice by Credit Score when Down Payment Is 3 to 4.99 Percent



Sources: eMBS and the Urban Institute.
 Note: 2016 purchase and refinance mortgages.

URBAN INSTITUTE

Commentary

Low Down Payments on the Record

Trump's proposed cuts represent the most severe funding threat to HUD since the early days of the Reagan administration according to Diane Yentel, the president of the National Low Income Housing Coalition, a nonprofit.

- How Trump's Budget Would Impact Cities' Poorest Residents, The Atlantic, March 16, 2017

"If a credit union is just looking at loans in black and white, they might as well have robots working for them. The grey is really important in lending. People have lives and their lives happen to them and we have to remember that when we're considering different decisions."

- Stephanie Zuleger, chief lending officer at the \$920 million Y-12 Federal Credit Union in Oak Ridge, TN quoted in the March 29, 2017 issue of [Credit Union Times Magazine](#).

Many years ago, Congress enshrined the "goal of a decent home and a suitable living environment for every American family" within its Declaration of National Housing Policy. This goal was not just justified by the basic needs of those with inadequate housing, but also because "the general welfare and security of the nation" required it. As our nation's leading cities grapple with rapidly growing homeless populations, this additional justification takes on added weight today.

- ["Trump's budget proposal is bad news for housing across the nation"](#) published The Hill, March 16, 2017 by David Reiss, a professor at [Brooklyn Law School](#) and the director of academic programs at the [Center for Urban Business Entrepreneurship](#)

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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