The Down Payment Report

News and Data on Residential Down Payments

March 2017

Bringing Homeownership to Overlooked Communities

Last year more homes were sold in America than any year since 2006. Yet the housing recovery is bypassing dozens of communities and millions of Americans. In twenty markets, 11 percent of the nation, home prices fell last year and in many markets where prices are appreciating, the inability for supply to catch up with demand continues to put a tight affordability squeeze on first-time buyers.

With the help of federal programs like the Treasury Department's Capital Magnet Fund and TARP Hardest Hit Fund, state housing finance agencies are launching new down payment assistance programs to bring the housing recovery to overlooked urban and rural neighborhoods. By giving buyers an incentive to choose a home in languishing neighborhoods, these programs are catalysts for change. New owners invest in their communities, stimulating growth and community revival. Down payment assistance can leverage a minor investment to turn communities around and put young families on a path to homeownership.

Innovative state and local housing finance agencies are the key to turning federal initiatives into local opportunities that improve lives and build communities. The Wisconsin Housing and Economic Development Authority and the Tennessee Housing Development Agency are just two of a number of agencies pioneering the targeted application of down payment assistance to communities and neighborhoods that need it the most.

Rob Chrane
CEO, Down Payment Resource

January 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

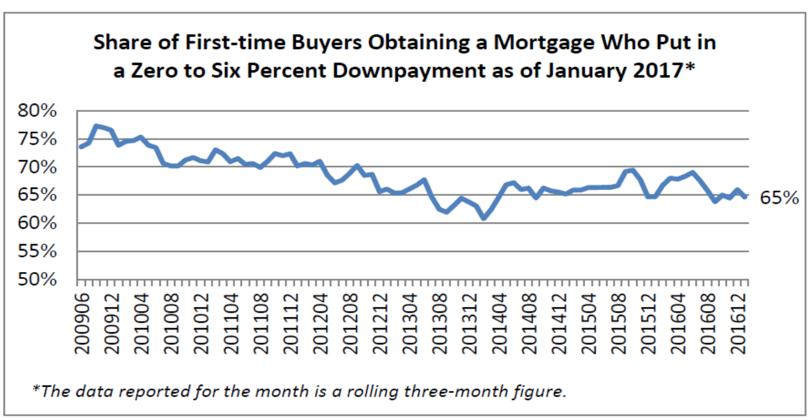
Source: [January Ellie Mae Origination Insights Report]

First-time Homebuyers

First-timer Share Grows; Slight Decline in Low Down Payments

Sales to first-time homebuyers accounted for 33 percent of residential sales in January 2017, the highest share since October 2016 and 4 points higher than 2014, when the first-timer buyer share fell to 29 percent, according to NAR's Realtor Confidence Index.

Some 65 percent of first-timer buyers put down a zero to six percent down payment, a decrease from 66 percent in December. Among all buyers whose transaction closed in January, 62 percent of those who obtained mortgage made a down payment of less than 20 percent, the same percentage as in December.



State Housing Finance Agencies

Down Payment Programs Boomed in 2016

In 2016, homebuyer programs and down payment assistance from state housing finance agencies helped tens of thousands of buyers become homeowners. In many cases, state support grew significantly over 2016. Many agencies also launched new initiatives for first-time buyers, veterans, public workers and lower income residents, according to a review of agency annual reports by the Down Payment Report.

Here are some of the highlights. Look for news on more state programs in the April Down Payment Report.

Massachusetts. In FY 2016, MassHousing closed more than $656 million in loans for more than 2,800 homebuyers and homeowners, up from $200 to $300 million 10 years ago. In fiscal year 2016 the agency launched a new loan program for veterans and military service personnel called Operation Welcome Home, which includes a 0% interest, deferred down payment or closing cost assistance loan option of up to 3% for eligible borrowers.

Wisconsin. The Wisconsin Housing and Economic Development Authority (WHEDA) funded $321.7 million in single family home loans in 2016. This figure represents the highest annual amount of WHEDA mortgage lending since the housing crisis hit in 2008. The $321.7 million in WHEDA home loans during 2016 is a 60% increase from the $200.9 million in WHEDA home loans during 2015. The 2016 lending volume enabled 2,637 Wisconsin individuals and families to purchase a home with a low-cost WHEDA mortgage. WHEDA also funded 1,667 Easy Close down payment and closing cost assistance loans in 2016 totaling $6.6 million compared to 939 such loans in 2015 totaling $3.6 million.

New Hampshire. New Hampshire Housing's Home Flex Plus gives borrowers the option to access cash for down payment and closing costs. Home Flex Plus accounts for 57% of the overall loan volume. With a total of 802 loans in FY 2016, Home Flex Plus remains the top loan product for the agency. Ninety-two percent of borrowers who use this program are first-time homeowners.

California. In 2016, the California Housing Finance Agency launched the mew MyHome Assistance Program and purchased 10,017 CalHFA down payment assistance loans for $96.8 million and announced changes to its Extra Credit Teacher Home Purchase Program (ECTP), allowing more K-12 public school employees—including administrators and support staff such as aides, bus drivers, food services workers and janitors—to receive as much as $15,000 in down payment assistance. The program includes educators at public charter schools, school district offices and county continuation schools.

Wisconsin and Tennessee Launch Targeted DPA Programs

With funding from Treasury Department programs, two state housing finance agencies announced programs recently to provide down payment assistance in targeted communities.

On March 2, the Wisconsin Housing and Economic Development Authority (WHEDA) launched the Capital Access Advantage program to help qualify more borrowers for an affordable WHEDA home mortgage. This new second mortgage product is a low-cost, deferred down payment assistance loan designed for home buyers in specific Wisconsin markets that have high housing needs.

"WHEDA continually strives to create opportunities to help more Wisconsin families become homeowners," said WHEDA Executive Director Wyman Winston. "The Capital Access Advantage is a low-cost solution to help more home buyers access an affordable WHEDA mortgage."

WHEDA's Capital Access Advantage provides a $3,500 loan to be used for a down payment and closing costs. The down payment assistance loan has 0.00% annual percentage rate (APR), a deferred payment with the loan payable at the time the first mortgage is paid in full, and no prepayment penalties.

The Capital Access Advantage must be combined with a WHEDA first mortgage loan, which can have up to a 105% combined-loan-to-value (CLTV) ratio. Eligible properties must be located within a housing need market area. The only borrower cost is a recording fee. Qualified home buyers must meet eligibility requirements as well as income and purchase price limits.

WHEDA's Capital Access Advantage is made available through the Capital Magnet Fund. Last September the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund awarded WHEDA a Capital Magnet Fund grant of $5,470,000. WHEDA won the second largest award in the country and was the only winner in Wisconsin. Capital Magnet Fund awards can be used to finance affordable housing and economic development activities. WHEDA allocated $3.5 million toward the new Capital Access Advantage down payment assistance program.

In early February, the Tennessee Housing Development Agency (THDA) began offering $15,000 in down payment assistance to Great Choice-eligible homebuyers who purchase a home in targeted neighborhoods across the state that were hard hit by the downturn and have been slower to recover, through the Hardest Hit Fund Down Payment Assistance (HHF-DPA) program. THDA received approval from the U.S. Department of Treasury to commit $60 million in federal funding to its new HHF-DPA Program.

By stimulating home sales in these areas, the program is designed to protect the families already living in there from blight, falling property values and risk of foreclosure.

“Our goal is to provide a shot in the arm to the neighborhoods and housing markets in Tennessee where the effects of the housing crisis have been most difficult to erase. We’re creating a substantial incentive for homeowners to buy in areas that are struggling for sales right now. Increased market activity in these areas will help stabilize property values for existing homeowners, thereby reducing the risk they will fall into delinquency or foreclosure,” said Ralph M. Perrey, executive director of THDA.

THDA’s $15,000 HHF Down Payment Assistance program is available in targeted zip codes based on “stress” factors, including foreclosures, short sales and negative equity rates

Down Payment Assistance

NeighborWorks Funds 19 DPA Programs

NeighborWorks America awarded $48 million in down payment assistance grants to 19 Community Development Financial Institutions (CDFIs) working to increase low- and middle-income homeownership in their communities. The one-time grants, awarded after a competitive process conducted by third party reviewers, are part of Project Reinvest, a limited and targeted program from NeighborWorks America, not related to its core grant operations.

The 19 grantees, which include both NeighborWorks Network and Non-network organizations, represent 17 loan funds and 2 credit unions located in 16 states. A full list of the grantees can be found at Project Reinvest: Homeownership.

Conventional DPA Programs

Wells Fargo Loosens Standards for Low Down Loans

Wells Fargo has expanded its credit criteria to allow more first-time and low- to moderate-income buyers the chance to qualify for the program, according to an article in *Builder Magazine*. Under the program, credit history includes nontraditional sources, such as tuition, rent, or utility bill payments. Borrowers need a minimum credit score of 620 to qualify.

Wells launched its yourFirstMortgage program in May 2016, which offers fixed-rate mortgages for a down payment of as little as 3%. The yourFirstMortgage program does not have an income limit and is not restricted to first-time buyers.

FHA

Spike in FHA Loan Delinquencies

The delinquency rate for mortgage loans on single family homes increased to a seasonally adjusted rate of 4.80 percent of all loans outstanding at the end of the fourth quarter of 2016. The delinquency rate was up 28 basis points from the previous quarter, and was three basis points higher than one year ago, according to the Mortgage Bankers Association's (MBA) National Delinquency Survey.

The seasonally-adjusted FHA delinquency rate increased to 9.02 percent in the fourth quarter from 8.30 percent in the third quarter (its lowest level since 1997). This quarter's increase was driven primarily by the FHA 30-day delinquency category, which increased 55 basis points over the quarter. The increase in early stage FHA delinquencies was led by loans made in 2014, 2015 and 2016. However, on a year-over-year basis, there was no increase in the overall FHA delinquency rate.

"It should be noted that last quarter's overall delinquency rate was at its lowest level since 2006. It is not unexpected that delinquencies could eventually increase off such a low base. We continue to see strong fundamentals in the overall economy, such as rising home values and increased employment, which bodes well for the future performance of FHA, VA and conventional loans," said Marina Walsh, MBA's Vice President of Industry Analysis.

Millennials

Ellie Mae: Millennials FICOs Decline

Mortgages to millennial borrowers for new home purchases continued their ascent in January, accounting for 84 percent of closed loans, according to the latest Ellie Mae Millennial Tracker™ report.

In December, 82 percent of closed mortgages were for new home purchases, up from 77 percent from August through November.

FHA loans remained attractive among millennials, representing 35 percent of all loans closed in January, a slight uptick from 34 percent in December. This is significantly higher than the Ellie Mae January Origination Insight Report data which showed FHA loans represented 21 percent of closed loans in the month.

FICO scores across all loan types fell slightly in January to an average of 724 from their peak of 726 from August through October. For purchases, the average FICO score was 748 for a conventional loan, 690 for an FHA loan and 734 for a VA loan.

"It is not surprising to see millennial borrowers leverage FHA loans because they typically offer lower down payments and lower average FICO score requirements than conventional loans," said Joe Tyrrell, executive vice president of corporate strategy at Ellie Mae. "Across the board, we're continuing to see strong interest in homeownership from this younger generation."

LOAN TYPE

63%	Conventional
33%	FHA
2%	VA
2%	Unspecified

AVG. DTI

24 / 37

AVG. NOTE RATE

3.952%

AVG. LTV

87

Source: Ellie Mae Millennial Tracker

Commentary

Low Down Payments on the Record

"Consumers do not know about these programs (low down payment assistance), and those that do assume it's more difficult to get than it is."

—Jonathan Smoke, chief economist of Realtor.com®

"Personal finance writers have been taking aim at lattes for years. Consumers trying to save a down payment, advisers note, waste $1,000 a year on their daily $4 shot. Give that up, they say. You'll hasten the day when you have amassed your mortgage down payment and closing costs, and are ready to buy a house.

Okay. But is that really relevant? If you save $1,000 a year toward the standard 20 percent mortgage down payment, it would take you 40 years to buy a $200,000 house!"

—Gina Pogol, The Mortgage Report.

"The Federal Housing Finance Agency (FHFA) made recent strides in this direction by once again allowing Fannie Mae and Freddie Mac to secure mortgages with smaller down payments. While this is a step in the right direction, it is not enough. The FHFA must reverse its trend towards risk-based pricing in its loan guarantee fees and loan-level price adjustments. It also should prevent risk-based pricing in front-end credit risk transfers, including deeper mortgage insurance. Pricing structures are important, as they can incentivize lending that only serves those with the least risky credit profiles."

—Nikitra Bailey, executive vice president with the Center for Responsible Lending

"The idea here is that neighborhood stabilization requires more than investment; it requires the presence of an invested home owner. And this encourages people to buy and to stay and to help build up these neighborhoods."

—Ralph M. Perrey, executive director, Tennessee Housing Development Agency, at a press conference launching THDA's new HHF Down Payment Assistance program

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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On March 1, 2017, Down Payment Resource was named one of 2017's most innovative technology companies by HousingWire TECH100™. Down Payment Resource was featured for its ability to automate the process of matching buyers and properties to more than 2,400 available homebuyer programs, and its work across all segments of home sales and finance.