Down Payment RESOURCE

The Down Payment Report

News and Data on Residential Down Payments

September 2017

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An Unprecedented Housing Crisis

As the floodwaters recede from the communities ravaged by Hurricane Harvey, the toll on the region's housing stock is shocking. And, Irma's impact is still being assessed. Preliminary reports suggest:

- In Texas alone, 185,149 homes were damaged or destroyed by Harvey, according to the Texas Division of Emergency Management as reported by ABC News.
- An estimated 70 percent of flood damage from Hurricane Harvey is not covered by any insurance, according to CoreLogic. The uninsured flood loss flood loss for homes in Texas is estimated to be between $18 billion and $27 billion.
- Real estate data provider Black Knight Financial Services reports that there are twice as many mortgaged properties in Harvey's disaster area, with nearly four times the unpaid principal balance — the amount homeowners owe — as when the Louisiana and Mississippi counties were declared a disaster area in 2005. Freddie Mac, Fannie Mae, and the Federal Housing Administration announced that they will offer forbearance for at least 90 days to borrowers in the Houston area and could, in some cases, extend that up to a year.

Homeownership resources are playing a key role in disaster relief. Avenue CDC, which serves the entire Near Northside and Washington Avenue communities, is shifting its counseling services to provide disaster recovery counseling which will involve helping Houstonians rebuild in the aftermath of Hurricane Harvey. In addition, the 11 down payment assistance programs serving the Houston area will no doubt will play critical role in financing home purchases as this great city rebuilds its residential infrastructure in the months and years to come.

Rob Chrane

CEO, Down Payment Resource

July 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

Harvey Creates Crisis in Houston's Rental Markets

Will high rents and low vacancy rates create stronger incentives for Houston first-time buyers?

In recent years, the prevailing trends in many parts of the Houston apartment market have produced an era of softer rents, plentiful supply and higher vacancy. Since late 2016 into early 2017, Houston has had to absorb a glut of apartments designed and planned before the oil and gas crunch lowered job stats and revised supply and demand estimates.

Hurricane Harvey changed all that in one weekend, according to realtynewsreport.com.

The devastation that the storm wrought on multifamily rentals will place upward pressure on apartment rents in Houston and move the city toward the possibility of a "short-term housing shortage as thousands of multifamily units were damaged or destroyed," according to the Yardi Matrix multifamily data firm.

Millennials

Though Prices Rise, Fewer Young Buyers Use FHA

Over the past 12 months, the percentage of Millennial buyers using FHA has declined 3 percentage points and conventional loans have increased 2 percent over the past year. Millennials are paying nearly 2 percent more for the houses they buy, according to an analysis of Ellie Mae data by The Down Payment Report.

While the FHA share declined, the percentage of first-time buyers putting down less than 20 percent has remained stable at about 75 percent, suggesting that buyers are making greater use of conventional low down payment offerings and low down payment loans financed by state housing finance agencies. VA share also increased from 1 to 2 percent during the year.

While the FHA share declined, perhaps because a reduction in the program's up-front mortgage insurance program was cancelled early in the year by the Trump Administration, prices paid for homes by Millennials rose significantly. Prices paid by Millennials over the past year rose an average of 1.9 percent, far below the median annualized increase of 6.2 percent paid by all buyers of existing homes in July.

Profile of Millennial Mortgages, Year over Year

Closing Dates	May to July 2016	May to July 2017	Annual Change
Average Loan	$180,413	$182,935	+1.39%
Average Value	$214,118	$218,198	+1.90%
Conventional/FHA/VA	61%/36%/1%	63%/33%/2%	FHA down 3 pts.
Average Rate	3.758%	4.226%	+46.8 basis pts
Average LTV	88	88	0
Average FICO	724	723	Down 1 pt.
Average DTI	24/36	24/37	Back end up 1 pt.

Source: Ellie Mae's Millennial Tracker.

Millennials are Anxious Over Down Payments

Anxiety about having enough money for a down payment is one of the factors keeping Millennial renters from buying a home, according to a new national survey by loanDepot. Some 63 percent of young renters participating in the survey said that they are concerned about having enough money for a down payment.

According to survey results, Millennials are unsure how much down payment they need to put down, with the average coming out to 32 percent while the industry standard is typically a 20 percent down payment.

“It's clear from the survey results that Millennials have a lot of anxiety built up about the home-buying process,” said David Norris, loanDepot's Head of Retail Lending. “There is good news, however, as there's more flexibility than most Millennials think regarding how to qualify for a loan and what's needed for a down payment.”

Of those surveyed, 49 percent currently have a home mortgage, yet just 27 percent said they felt knowledgeable about the home purchase process when they began. For those who've already made the jump to homeownership, they wished they'd known more about interest rates (55 percent), types of loans available (47 percent) and how the pre-approval process worked and what down payment they'd need (45 percent each) before setting out.

“The best advice I have for young buyers is to not believe everything you read on the Internet,” said loanDepot lending officer John Pearson. “When talking with a professional, you can discuss your specific financial situation and the lending officer can help you determine how much down you'll need and what a monthly mortgage payment will look like. You'll probably discover you don't have to wait until you reach the point of a 20 percent down payment.”

Low Down Payments

Low Down Payments Rise, But Not Risk

An analysis of lending trends from June 2016 to June 2017 by Black Knight Data & Analytics found that use of low-down-payment purchase loans are increasing, but not the risk that characterized loans a decade ago.

“Over the past 12 months, approximately 1.5 million borrowers have purchased homes using less-than-10-percent down payments,” said Executive Vice President Ben Graboske. “That is close to a seven-year high in low-down-payment purchase volumes. The increase is primarily a function of the overall growth in purchase lending, but, after nearly four consecutive years of declines, low-down-payment loans have ticked upwards in market share over the past 18 months as well. In fact, they now account for nearly 40 percent of all purchase lending.”

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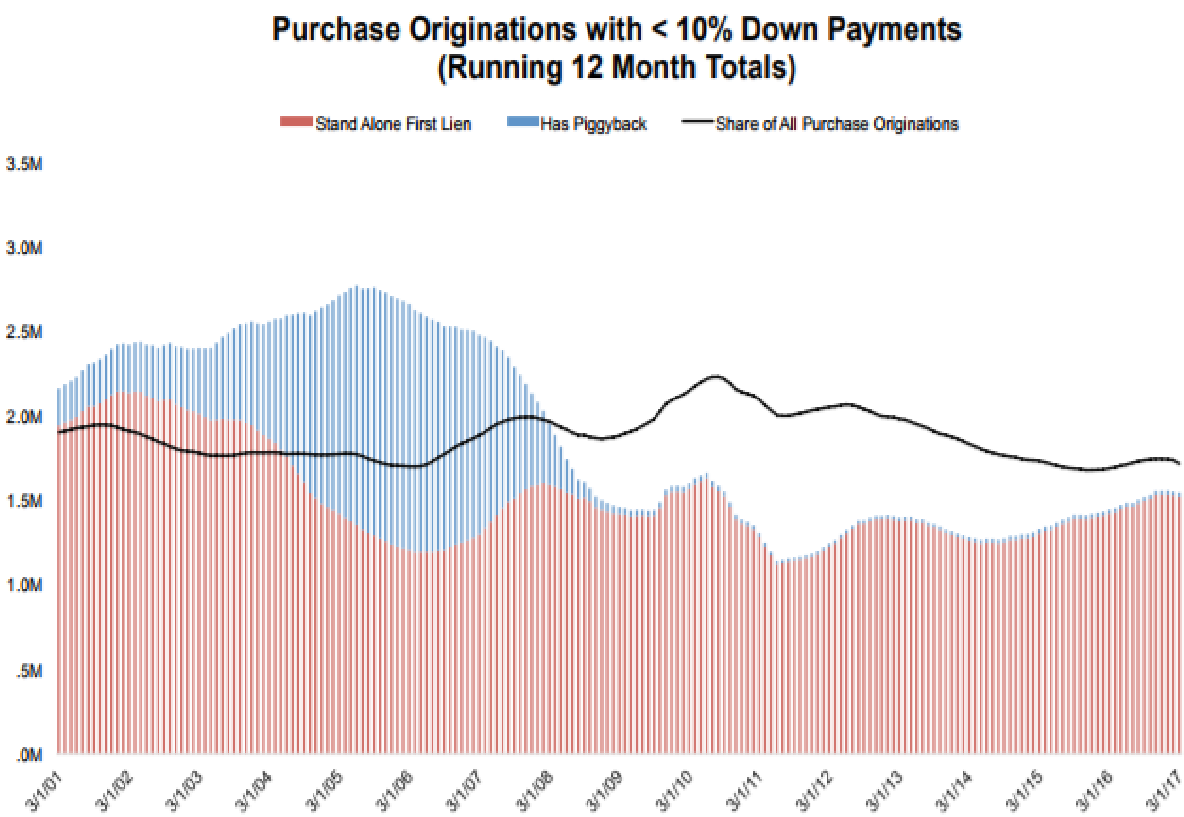
(Low Down Payments Rise continued)

Graboske said the bulk of the growth has not been among the various three-percent-or-less down payment programs that have been reintroduced in the last few years, but rather in five-to-nine- percent down payment mortgages. This segment grew at twice the rate of the overall purchase market in late 2016, whereas lending with down payments of less than five percent grew at about the market average.

“However, low-down-payment purchase lending today has a much different risk profile than it did back in 2005-2006 during the run-up to the financial crisis. At that time, half of all low-down-payment purchase originations involved ‘piggyback’ second liens, as opposed to a single high-LTV first lien mortgage. It’s also worth noting that while the total share of purchase lending going to borrowers putting less than 10 percent down was relatively similar then to what we see today, today’s low-down-payment mortgage products and secondary risk characteristics are markedly different. In the pre-crisis years, a large proportion of low-down-payment loans were more risky adjustable rate mortgages (ARMs).

“In contrast, ARMs are virtually nonexistent today among high-LTV loans. Perhaps the most telling difference is that borrowers using these programs today have average credit scores roughly 50 points higher than those approved for high-LTV purchase loans in 2004-2007. Among GSE loans with down payments under five percent, average credit scores are 60 points higher today,” Graboske said.



Source: [Black Knight June 2017 Mortgage Monitor]

Homeownership Programs

Shared-equity Programs Offer an Alternative Model

Some 33 down payment assistance programs help buyers finance their homes by selling equity to investors, according to the latest Down Payment Resource Homeownership Program Index (HPI).

Most are city/county, non-profit or university administered programs. There are also new programs in high cost markets, like the San Francisco Bay area, designed by private investors to help buyers finance homes that are outside conventional home price limits.

“Municipal shared equity programs have been around for a long time, and today we are seeing more private investors enter the market,” said Rob Chrane, CEO of Down Payment Resource. “Because this home financing model trades some of the long-term homeownership value, it will be important for buyers to first carefully evaluate all their down payment program options.”

The Urban Institute evaluated shared equity programs and found they are successful in linking low- and moderate-income people with affordable owner-occupied housing. In addition, homeownership among shared equity programs is sustainable, and shared equity homeowners resell their homes with the same frequency and for the same reasons as other homeowners.

Municipal Programs

Shared equity programs are an alternative to traditional down payment assistance funding for municipal or non-profit providers. The buyer receives funds for part of the down payment in exchange for a share of the equity gained. In most cases, the buyer must also pay back the initial down payment investment at resell.

These programs are often designed to keep the home prices affordable for the next buyer and continuously re-fund the program. Benefits to the buyer include helping lower their first mortgage, thereby reducing their monthly payments and accruing more equity from paying down the mortgage faster. Below are some examples:

- In Tennessee, The Housing Fund’s Our House Shared Equity Program provides income-eligible buyers with a loan investment of up to 25% of the sales price. The loan investment stays with the home, upon resale to preserve housing affordability for the next owner.
- The City of Austin Down Payment Assistance Program offers a shared equity option with help of up to $40,000 where the buyer agrees to pay back an equitable share of appreciation back to the City.
- The San Francisco City Second or Down Payment Assistance Loan Programs (DALP) provides down payment assistance, in the form of a deferred payment loan up to $375,000, to qualified first-time homebuyers with income limits up to 200% of the area’s median income. The principal amount plus an equitable share of appreciation is due and payable at the end of the term, or repaid upon sale or transfer.

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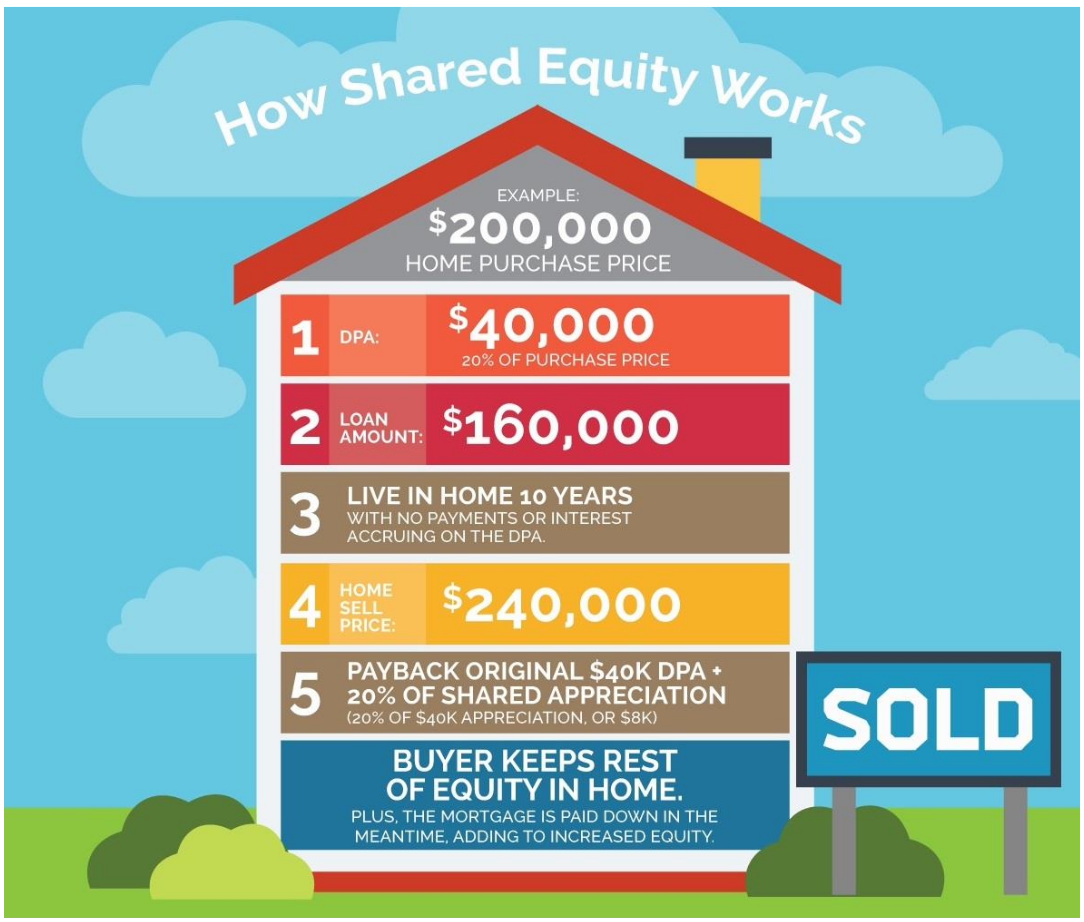
(Shared Equity Programs continued)

- In Colorado, the [Douglas County Housing Partnership (DCHP) Shared Equity Program] provides funding for up to 20% of the purchase price for a maximum of $25,000. The buyer must pay DCHP 20% of the sales price or appraised value upon sale or refinance.
- The [Arlington County Moderate Income Purchase Assistance Program for First Time Homebuyers (MIPAP)] offers eligible Arlington homebuyers a deferred-payment, no-interest loan of up to 25% of the home purchase price. If the property value increases upon sale of the home, the buyer owes the county the original subordinate loan amount plus a proportionate share of the net appreciation.

Investor Programs

In recent years, more private market shared equity programs, such as Unison, have entered the market. These programs often don't have income or home sales price eligibility requirements, but they do have minimum and maximum investments.



THE DPR INTERVIEW

How Unison Turns Future Equity into Down Payments Today

A monthly feature of the Down Payment Report, the DPR Interview showcases national leaders in homeownership assistance and low down payment programs.

This month we interviewed Michael Micheletti, Unison's Director of Corporate Communications, to learn more about how its buyer program works.

Unison Homeownership's equity-sharing offerings for homebuyers and homeowners may be the most successful program to date that makes it possible institutional investors to own a portion of individual homeowners' equity. Buyers must put at least 10 percent down, and Unison matches the buyer's amount to double the total down payment. Unison sells a fractional stake in the home's equity to an institutional investor for 30 years and typically receives 35 percent of the profit at the time of sale. For existing owners, Unison will purchase up to 20 percent of equity owned by existing homeowners, freeing them of added debt or payments of a home equity loan or HELOC. Today Unison is active in 12 states and the District of Columbia and will open in nine more states soon.

Q. Does Unison's buyers' program work best in hotter markets where buyers need larger down payments to compete?

If you are in a tight market like Washington DC, Seattle, New York or San Francisco, you are looking to put the strongest offer down for sellers who are evaluating many offers. They are going to look at someone who is putting 20 percent down or more a lot more favorably than someone who is putting down less than 20 percent.

In tighter markets, you need that larger down payment and also make sure that the monthly payments are in line with what you can pay. Thus, buyers in many hotter markets today need access to capital to increase their purchasing power or to reduce their monthly payments to afford the home they want to buy. However, they don't want the additional debt or the interest charges that come with a larger loan.

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Q. Low down payment programs have been criticized recently for making it hard for first-time buyers to build equity when begin by putting so little down. Does your product make that problem even worse?

We require that you have 10 percent to put down before we match it. With some of the lower down payment programs, say a 3 percent down the program, you may be underwater before you are even out of the gate.

It's all a matter of evaluating the buyer's financial situation and how much equity they may need in a home. For some buyers, the lower down payment with higher monthly payments and mortgage insurance may fit their lifestyle. Others are watching prices rise, and they are tired of waiting to save for 20 percent for the higher down payment that they will need to buy the home that they want today. In some markets, if you put down only 10 percent and you are trying to purchase a home you are going to be wildly unsuccessful. For these buyers, we provide a solution that doesn't increase their debt or cost them interest.

Q. How are investors responding?

Institutional investors, like pension funds and endowments, have always needed the ability to get into the residential real estate market without the overhead and inefficiency involved with actually purchasing homes. We provide to those investors efficient access to wide range of fractional stakes in U.S. real estate across the country. Investors make a fixed investment over 30 years which allows them to hedge their liability for their plan participants. This is the first time that institutional investors have been able to "own" residential real estate and the response has been unprecedented.

Commentary

Down Payments on the Record

"Mention a low down payment and a great oddity arises: Homebuyers love them, sellers aren't so sure, and lenders are traditionally cautious. These reactions are baked into the real estate marketplace. Today, however, buying with little cash up front is increasingly accepted."

— Peter Miller in The Mortgage Report, August 22.

"We are seeing more and more lenders adopting it (Freddie Mac's 3 percent down Home Possible program) every day."

— Danny Gardner, Freddie Mac's vice president of affordable lending and access to credit, in the Washington Post, August 22.

"Since the Great Recession, FHA has played a critical countercyclical role to stabilize the mortgage market. This is true not only for single-family but also for multifamily and health care insurance programs that experienced a fourfold increase in volume from 2008 to 2011. As the economy continues to recover, I expect to see FHA's market share diminish as nongovernment entities re-enter the market. However, this process will be different than any other we have witnessed because it crucially depends on the future status of the GSEs."

— Dr. Edward Seiler, Chief Housing Economist at Summit Consulting, quoted in the July issue of DS News Magazine.

"The wealth gap between homeowners and renters is enormous. The median net worth of the nation's homeowners in 2013 was $195,400, compared with $5,400 for those who don't own, according to a Federal Reserve Board survey. Rising home values can build wealth, of course, but so does the forced savings aspect of owning a home."

— NerdWallet columnist Liz Weston: The 3 Biggest Money Decisions You'll Ever Make, Associated Press, August 21.

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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