



The Down Payment Report

News and Data on Residential Down Payments

December 2016

Tempest in a Teapot

Last July, HUD's inspector general raised concerns that some state housing authorities have permitted lenders to charge premium mortgage rates to low and moderate income buyers participating in down payment assistance programs (DPA), potentially a violation of HUD policy. The IG claimed borrowers were effectively "repaying" the DPA gift-grant through an above-market rate mortgage.

Both the FHA and HUD's general counsel disagreed vehemently with the IG's findings and last July, HUD announced it was initiating its own investigation of the issue.

Now the Urban Institute has conducted the first independent and exhaustive study exploring the two core empirical claims in dispute: that borrowers are paying premium rates for down payment assistance and whether such payments pose a higher level of risk for FHA mortgage insurance fund. After reviewing the publicly available data, researchers at the [Urban Institute's Housing Finance Policy Center](#) found that the number of loans for which a possible premium was charged is small—at the very most no more than 9 percent of all state DPA loans. These loans pose little risk to the FHA's MMI fund, which was found to be fiscally sound in FHA's annual report to Congress November 15.

The Urban Institute researchers concluded that state HFA DPA loans are net present value positive, not negative, to the FHA insurance fund.

It's important to keep homebuyer programs in perspective and not allow it to become politicized to the detriment of the hundreds of thousands of buyers who need assistance to buy a home.

October Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	22
FHA Purchase	96	4
Conventional Purchase	80	20
VA Purchase	98	2

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

FHA

FHA Mortgage Insurance Fund Increased by \$3.8 Billion

An independent actuarial analysis of FHA mortgage insurance fund found that its capital ratio grew by \$3.8 billion in Fiscal Year 2016 and is now valued at \$27.6 billion, reaching 2.32 percent—the second consecutive year since 2008 that FHA's reserve ratio exceeded the congressionally required 2 percent threshold. The fund's growth allows FHA to expand credit access to qualified borrowers even as the broader housing market continues to recover, FHA said in its [annual report to Congress](#).

GSEs and FHA Raise Loan Limits

For the first time in nearly a decade, on November 23, FHFA [raised the basic loan limit](#) from \$417,000 to \$424,100 for conforming loans eligible for purchase by the GSEs in 2017. FHFA also raised limits in the nation's highest cost counties, to a maximum of \$636,150.

On December 1, FHA also raised loan limits. In high-cost areas, the FHA national loan limit ceiling will increase to \$636,150 from \$625,500. FHA will also increase its limit in lowest cost counties to \$275,665 from \$271,050. View a complete list of [new FHA loan limits](#).

Kroll: Rising Rates Cancel Out New Loan Limits

While 2016 has been an excellent year for the U.S. mortgage industry with almost \$2 trillion in new loan originations, Kroll Bond Rating Agency believes that this year is also likely to be the peak in terms of lending volumes, according to a [new analysis](#) by Senior Managing Director Christopher Whalen.

NAR: Down Payments Increased Slightly in October

Among all buyers, 38 percent put down more than 20 percent in October, according to NAR's [Realtor Confidence Index](#), slightly more than in September. Some 65 percent of first-time buyers who purchased a property in October made a down payment of 65 percent or less, a slight decrease from 67 percent in September and less than the 74 percent who put down 6 percent or less.

ATTOM: FHA, VA Loans Linked to Foreclosure Increase

[ATTOM Data Solutions](#) reported that foreclosure filings increased in October, up 27 percent from a 129-month low in September but still down 8 percent from a year ago. FHA and VA loans originated since 2009 accounted for nearly half of the filings.

“The loans used in this housing recovery that appear to be most susceptible to foreclosure are those such as FHA and VA with low down payments,” said ATTOM Senior Vice President Daren Blomquist. “Our data shows FHA and VA loans combined represent 49 percent of all active foreclosure inventory for loans originated in the seven years ending in 2015. By comparison, FHA and VA loans only represent 12 percent of all active foreclosure inventory among loans originated in the previous seven-year period, from 2002 to 2008.”

While some states are still slogging through the remnants of the last housing crisis, the foreclosure activity increases in states such as Arizona, Colorado and Georgia are more heavily tied to loans originated since 2009 — after most of the risky lending fueling the last housing boom had stopped,” said Blomquist. “The increase in October isn’t enough evidence to indicate a new foreclosure crisis emerging in these states, but it certainly demonstrates that this housing recovery is not completely devoid of risk.”

Down Payment Assistance Programs

New Maryland DPA Program Helps Buyers Pay Off Student Debt

An innovative new Maryland program called [Smart Buy](#) helps buyers with student loan debt get down payment assistance to purchase housing owned by the state and also to pay off their student debt. Launched in November, the program finances 95 percent of the sales price with a first mortgage, and provides a 5-year forgivable second mortgage to pay up to 15 percent of the purchase price to be used to pay off the borrower's outstanding student debt balance. Any remaining balance on the student loans must be paid in full by the closing date.

To qualify, buyers must be in good standing on their student loans and have at least \$1,000 in debt. The purchase also must be financed through the Maryland Mortgage Program, which arranges home loans for first-time buyers in the state. Homeowners must remain in the house for at least five years to have the student debt forgiven. Only homes owned by the state's housing department are eligible.

The new program was featured in a [Washington Post article](#) published November 24.

FDIC Issues Guide to State and Local DPA Programs

The Federal Deposit Insurance Corporation issued a new guide containing general information on first mortgage products, down payment and closing assistance, mortgage tax credit certificates, and homeownership education and counseling programs that can facilitate mortgage lending by insured depository institutions. Many of these products can be used in conjunction with other federal and government-sponsored enterprise programs, as well as Federal Home Loan Bank products.

[Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies](#) provides an overview on the programs and products offered by each State Housing Finance Agency.

Conventional

Bank of America Commits \$1 Billion to First-time Buyer Program

Bank of America, in partnership with Self-Help Ventures Fund and Freddie Mac, has [doubled its annual commitment to its Affordable Loan Solution™](#) mortgage program from \$500 million to \$1 billion, ensuring continued support for an innovative mortgage program that has provided more than 90 percent of its recipients' first-time homeownership financing.

The program allows down payments as low as 3 percent on the purchase of a primary, single-family residence. Customers are not required to pay mortgage insurance. Borrowers may use secondary financing, such as an affordable second loan, grants, or even cash they have on hand. The program also considers non-traditional forms of credit to demonstrate credit history. Loan amounts must be within conforming loan limits (up to \$417,000), and applicants' income cannot exceed 100 percent of the HUD area median income. Applicants must occupy the property, and first-time buyers must participate in homebuyer education through a HUD-approved housing counseling agency.

Mortgage Insurance

2017 Premiums May Not be Tax Deductible

Whether private mortgage insurance payments paid in 2017 are deductible is still an open question. Late last year, lawmakers extended the annually renewing provision through the end of 2016. However, it [hasn't considered](#) whether to extend beyond the end of this year, and so taxpayers will have to wait to see if a last-minute set of tax extenders includes the provision.

The tax deduction was created as part of the Tax Relief and Health Care Act of 2006 and originally applied to PMI policies issued in 2007 and has been extended on a yearly basis every year since then. As part of the Protecting Americans from Tax Hikes, or PATH, Act of 2015 that was enacted in December 2015, this tax deduction is in effect for premiums paid through 2016.

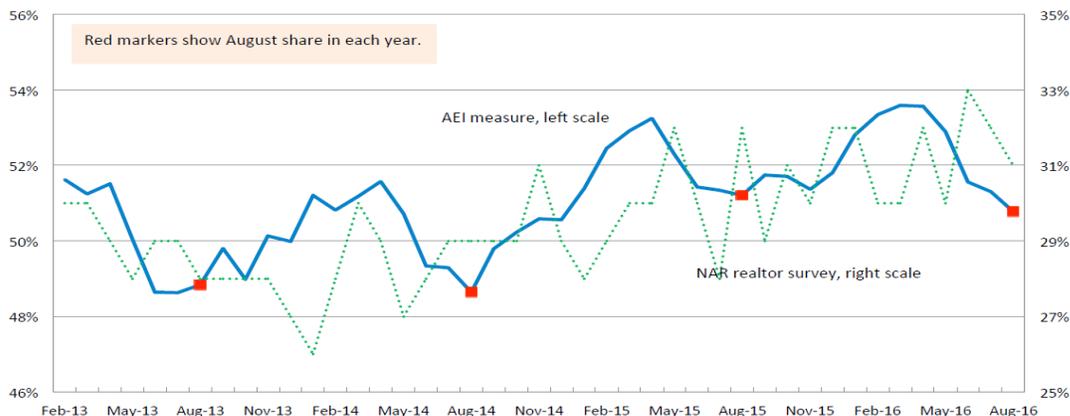
First-time Buyers

First-Time Buyer Share Rose 14 Percent in August

According to [AEI's Center on Housing Risk](#), the first-time buyer market share soared 14 percent in August. Some 53 percent of first-time homebuyer loans were subprime or high risk (MRI above 12%) in August, down from 54 percent a year earlier. 89 percent of FHA were first-time homebuyer loans. Of first-time buyers, 71 percent had down payments of 5 percent or less.

Combined First-Time Buyer Mortgage Share Index

Combined first-time buyer share also slightly lower in August than a year earlier. The NAR's monthly realtor survey is badly flawed, providing a much noisier picture - and as of recently, perhaps the wrong trend.



Commentary

Published Quotes From Housing Leaders and Journalists

“Mortgage insurance has gained a negative connotation, but it enables many people to buy homes who wouldn’t otherwise be able to.”

— [Barbara Carrollo-Loeffler](#), director of consumer and residential lending at Provident Bank

“Although the election may bring changes in the regulation of housing finance, low down payment programs will continue to be important tactics to reverse the multi-year decline in homeownership. Saving for a down payment is still the greatest single barrier keeping first-time buyers from becoming homeowners. Median down payments for first-time buyers fell to only 4 percent in 2016, down from six percent in 2015 and as the summer season ended, first-time buyers matched their highest share of buyers since July 2012.”

— [Rob Chrisman, Mortgage News Daily](#)

“Affordability is still a top concern, with 62 percent not confident they can afford a down payment. I expect to see more Millennials take advantage of low down payment mortgages, as they become informed about these new programs.”

— [Joe Melendez in Housing Wire](#)

“While interest rates are low, lenders are demanding higher down payments and better credit histories from borrowers than they did in 2006.”

— [Megan McArdle, Bloomberg View](#)

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.

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