The Down Payment Report

News and Data on Residential Down Payments

February 2017

How Low Down Payments Make Homeownership Affordable

Last year the affordability of starter homes declined more than twice as much as trade-up homes, and nearly four times as much as premium homes according to Trulia. It's no surprise that first-time buyers have been hit hardest by rising prices—and rising down payments—even for buyers with the income to qualify for a starter home, whose median price rose 7.6 percent last year. The problem is greatest in the nation's markets where prices are rising fastest.

In markets like San Francisco and Seattle, tens of thousands of buyers are turning to down payment assistance programs to get into a home. San Francisco's first DPA program was launched in 2013. It doubled its capacity in 2014 and now is arranging even more financing to fill a demand so great it temporarily exceeded funding (See *In Hot Markets, DPA is Booming*).

Down payment assistance and options like FHA and conventional down payment programs make it possible for buyers to get into a home now before prices rise even more.

Equally important, buyers who can get into a rising market without waiting months or even years to save for a 20 percent down payment start the clock ticking on the accumulation of equity. Buyers who can buy now in markets where inventories are at historic lows and prices are forecasted to continue to rise are no longer the victims but the beneficiaries of market trends.

Rob Chrane
CEO, Down Payment Resource

December 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: December Ellie Mae Origination Insights Report

New Research

Realtor.com: Higher Prices Increase Down Payment Percentages

An analysis of loan records from Optimal Blue, an enterprise lending software company, by realtor.com's chief economist Jonathan Smoke found that down payment percentages increased in more expensive markets and decreased in rural, less expensive markets. The average down payment amount was $32,680, or 11 percent.

- In Washington DC., where the median price exceeded $630,000, down payments averaged $110,000 or 17 percent.
- In San Francisco County, CA, buyers put down an average of more than $326,000 on homes purchased in 2016, which represented an average down payment of 29.9 percent.
- In Manhattan, buyers put down an average of 30.2 percent, or about $219,000.
- In Tennessee's Tipton County, an outer suburban county of Memphis, the average down payment was just over $3,500. The average price of a home purchased with a mortgage in 2016 was just under $138,000.

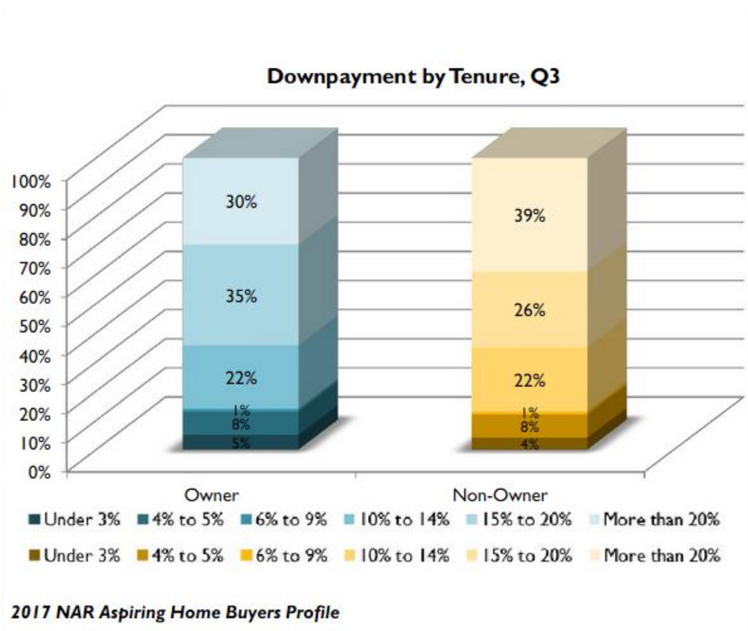
In a separate survey, realtor.com found that in December, 25 percent of buyers on realtor.com® who were looking to purchase their first home said a key factor holding them back was lacking funds for a down payment.

NAR Finds Real and Imaginary Barriers Holding Back Prospective Homebuyers

Being unable to afford to buy a home was the number one reason non-owners cited as to why they don't own. For the entire year, over half of non-owners indicated they could not afford to buy, while roughly one-fifth of respondents said they needed the flexibility of renting, according to recent consumer insight from the National Association of Realtors®.

Apparent confusion about down payment requirements may also be behind non-owners' lagging confidence about buying. NAR's Profile of Home Buyers and Sellers has shown that the median down payment for first-time buyers has been 6 percent for three straight years and 14 percent for repeat buyers in three of the past four years. However, when asked about the amount of a down payment needed to purchase a home, a remarkable 87 percent of non-owners indicated that a down payment of 10 percent or more is necessary.

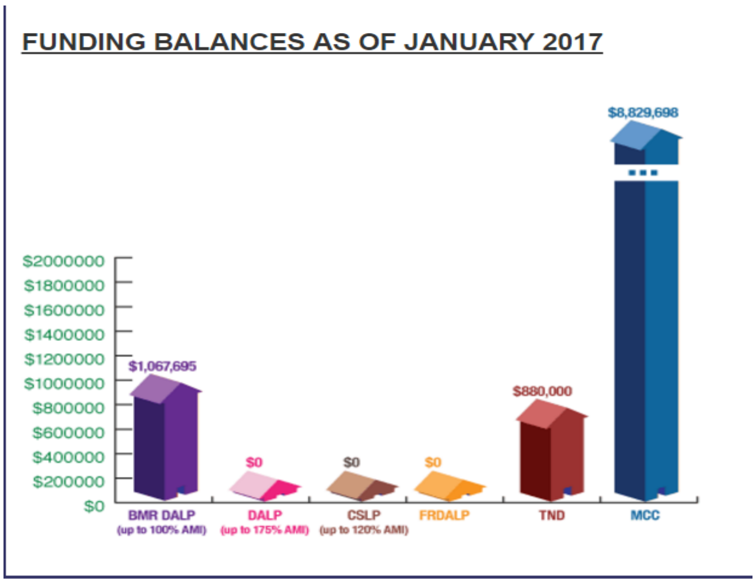
"It's concerning that there is a larger share of non-homeowners than owners who think they need to put 20 percent down or more and 87 percent of non-owners think they need to put down 10 percent or more," Jessica Lautz, NAR's Manager of Member & Consumer Survey Research told The Down Payment Report, noting that non-owners had a lower median income than owners.



Down Payment Assistance

In Hot Markets, DPA is Booming

Four years ago, San Francisco's Mayor Edwin Lee launched the city's first down payment assistance program. Three years ago, he doubled its funding. Last month, demand depleted its coffers six months before new financing was scheduled. To help middle class families buy a house, Lee announced plans to expand the Downpayment Assistance Loan Program again.



Three of San Francisco's housing assistance programs, including its Downpayment Assistance Loan Program for first-time buyers and its First Responder Downpayment Assistance Loan Program, ran out of money last month.

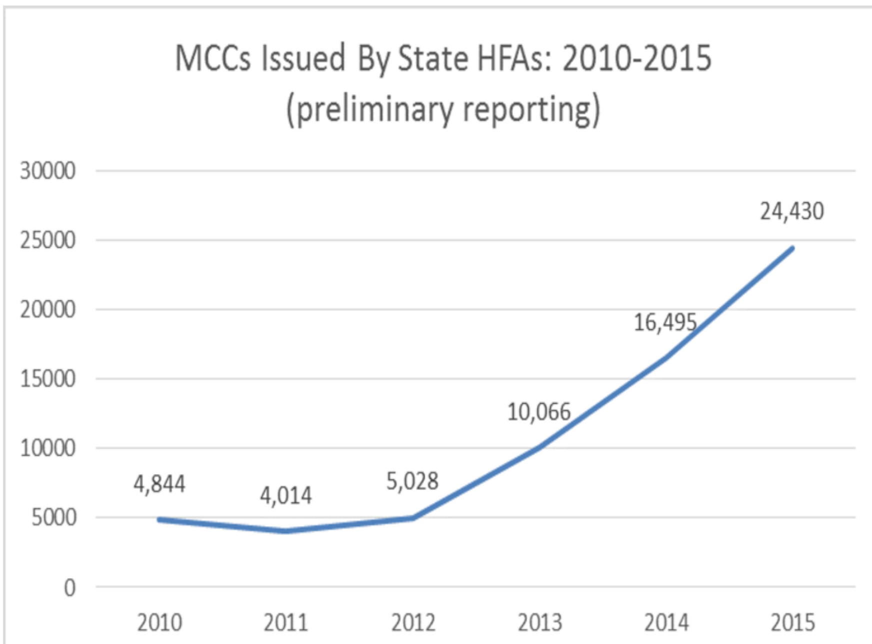
Demand for DPA support is booming across the West:

- In Oakland, the CalHome Program, which provides loan amounts up to 30 percent of the purchase price, not to exceed $60,000, has run out of money and the city is developing a new, expanded program.
- Last year the Washington State Housing Finance Commission spent $42.8 million on down payment and closing cost assistance for 5,115 buyers, up 54 percent from 2015.
- 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.
- In Denver, since 2013, the city has supported the home purchases of 1,066 households with $8.6M of down payment assistance. In 2015, 190 households received MMA grants totaling $1.8M (averaging $9,430 per household).

Mortgage Credit Certificates on the Rise

The Down Payment Resource [Fourth Quarter 2016 Homeownership Program Index (HPI)] found that the number of total programs increased to 2,463, up 2.8 percent from the previous quarter. Approximately 87 percent (87.3%) of programs currently have funds available for eligible homebuyers, roughly unchanged from the previous quarter (87.9%).

While the total number of programs remained consistent, the HPI saw an increase in Mortgage Credit Certificates (MCCs) across the country, representing more than 8 percent of all programs. Between 2010 and 2015, state housing finance agencies increased MCC issuances to homebuyers by more than 400 percent, according to preliminary data from National Council of State Housing Agencies (NCSHA).



FHA

Trump Stops FHA MIP Cut

On January 20, seven days before it was scheduled to take effect, the 25 basis pomt reductom in FHA's upfront mortgage insurance cut was suspended by an executive order signed ny President Trump on his first day in office.

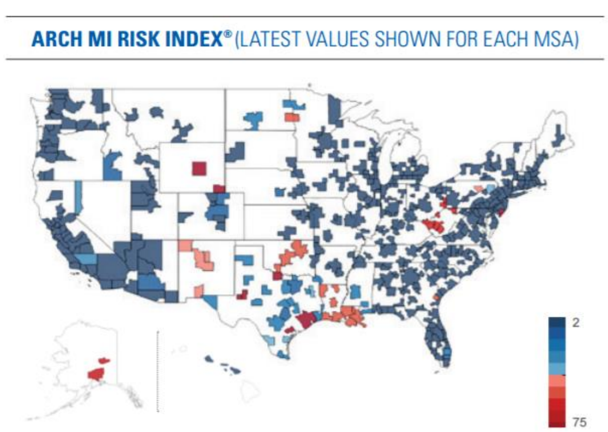
The National Association of Reators is leading efforts to restore the premium reduction, arguing it would have reduce costs for 750,000 to 850,000 homebuyers in 2017 with mortgages backed by the FHA and would have made homeownership possible for an additional 30,000 to 40,000 homebuyers.

However, AEI's International Center on Housing Risk said that loan data from the last FHA premium reduction in 2015 shows that won't be the case. The 2015 premium reduction did not save borrowers much money in real terms or draw many new people off the sidelines, but did drive up home prices and steer borrowers away from other loan programs that carry less risk to taxpayers, the center said, based on an evaluation of thousands of FHA home purchase loans.

Mortgage Insurance

Risk Rises in Energy States

The largest changes in Arch MI's Risk Index this quarter are in states with large energy-extraction sectors. Higher energy prices, combined with signs that employment is stabilizing in some regions, has resulted in lower home price risk in energy states. The exceptions are Alaska and Louisiana, which remain sluggish and have higher production costs than areas such as Texas and Oklahoma. The Arch MI Risk Index, both at the state and MSA level, estimates the probability of home prices being lower in 2 years, times 100.



Millennials

Ellie Mae: Single Millennial Women are More Likely to Leverage FHA Loans

According to the December Ellie Mae Millennial Tracker™, 41 percent of single female primary homebuyers leveraged FHA loans in the month, compared to 35 percent of married female primary homebuyers. Thirty-eight percent of single male homebuyers utilized FHA loans compared to 28 percent of married men. Women in total selected FHA loans more than men during the month of December, with 39 percent of closed loans as FHAs compared to men who utilized FHAs on 32 percent of closed loans.

“Last year we saw millennials begin to enter the housing market in force. While life events such as marriage or starting a family often influence borrowers’ decisions to purchase a home, others see homeownership as an opportunity to build equity. As a result, we saw many single female borrowers, pursue homeownership in 2016,” said Joe Tyrrell, executive vice president of corporate strategy at Ellie Mae. “We’re on the cusp of a new era, with potential for an influx of millennials to begin exercising their purchase power.”

FICO scores on all closed loans by millennials in December averaged 724, on par with scores that were seen throughout 2016, hovering in the low 720s. The average FICO score for millennials refinancing in December was 748, while the average FICO score of those who closed on a purchase loan held steady from the previous month at 746.

Commentary

Published Quotes From Housing Leaders and Journalists

"The premium cut proposed by Secretary Castro would have had a small impact on expanding access to credit. Forgoing this cut strengthens the FHA's financial situation and allows the FHA Mutual Mortgage Insurance Fund to build its buffer."

—Bing Bai and Laurie Goodman, Urban Institute Housing Finance Policy Center

For a full mortgage market recovery, we need to expand the credit box again. A number of reforms can be undertaken to encourage lending to creditworthy borrowers who would have qualified before the housing boom. A return to 2005 and 2006 lending practices would be ill-fated, but the pendulum has unquestionably swung too far. Today's tight standards have locked out many prospective borrowers from homeownership, disproportionately preventing African American and Hispanic families from building wealth and benefiting from the recovery.

—By Bing Bai and Taz George, Urban Institute Housing Finance Policy Center

"Saving for a down payment often represents the biggest hurdle for first-time home buyers. In December, 25 percent of buyers on realtor.com® who were looking to purchase their first home said a key factor holding them back was lacking funds for a down payment. No matter how you cut it, it represents a big chunk of cash. But here's the thing: It doesn't always need to be quite so big as most think."

—Jonathan Smoke, Chief Economist, realtor.com

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. Winner of the 2011 Inman News Innovator "Most Innovative New Technology" award, 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.

Contact: info@downpaymentresource.com. Media inquiries: tshell@downpaymentresource.com