The Down Payment Report

News and Data on Residential Down Payments

Report Released: July 10, 2017

July 2017

Duty to Serve

Mandated by the 2008 Housing and Economic Recovery Act, or HERA, Duty to Serve will, at last, become a reality when Freddie Mac and Fannie Mae launch initiatives to increase the liquidity of mortgage investments and improve the liquidity and distribution of mortgage investment capital for very low, low, and moderate-income families in these markets. In July, the period for filing public comments on Duty to Serve plans by the two GSEs closes. The plans include programs to improve the financing of affordable housing in three underserved areas: manufactured housing, affordable housing preservation, and rural housing.

Homeownership is the cornerstone to family wealth, particularly for mid to lower income families and those living in economically disadvantaged neighborhoods. Freddie Mac's Home Possible® Mortgages and Fannie Mae's HomeReady® program are making homeownership a reality for thousands of families. The success of these programs, which combine low down payments with homeownership education, provide a good foundation to meet the Duty to Serve mandate.

Plans submitted by Freddie and Fannie include increased loan purchases in the underserved markets, new product offerings, market research, increased homebuyer education, community engagement and innovative partnerships to make housing more affordable. As the decade-long process reaches its conclusion, we hope Duty to Serve becomes a defining commitment not just for today's GSEs but for the post-conservatorship mortgage finance system in the years to come.

This month we also launch a new feature, **The DPR Interview**, where we sit down with a national leader in homeownership assistance and low down payment programs. See pages 8 – 9 for our interview with David Battany, Executive Vice President of Capital Markets at Guild Mortgage.

Rob Chrane
President and CEO, Down Payment Resource

May 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	81	19
VA Purchase	98	2

Source: Ellie Mae Origination Insight Report and Millennial Tracker

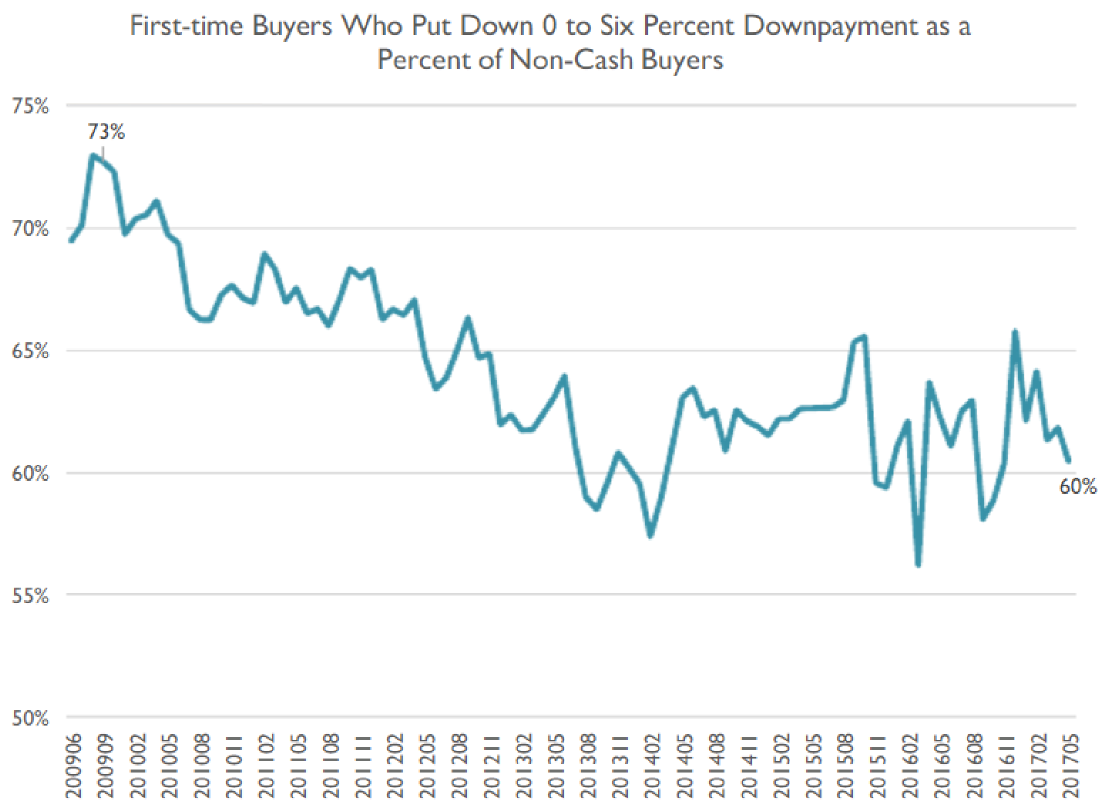
First-time Homebuyers

Low Down Payment Percentage Plummets

Percentages of buyers putting down low down payments dropped significantly in May. Sixty percent of non-cash first-time buyers made a zero to six percent down payment in May, down from 63 percent in April and 13 points below the peak of 73 percent in September 2009, according to the latest Realtor Confidence Index from NAR.

Among first-time homebuyers who obtained a mortgage and whose transactions closed in March through May, 71 percent put down less than 20 percent for down payment compared to 79 percent who closed in February through April. The percentage of all buyers putting down less than 20 percent also fell, from 64 percent in April to 54 percent in May.

Ellie Mae's average down payment for buyers taking out conventional mortgages also increased one point in May, from 18 to 19 percent.



Source: [NAR's May Realtor Confidence Index]

DPR-ATTOM Study Finds Down Payment Assistance Abounds for First-time Buyers in Denver

A new joint analysis by ATTOM Data Solutions and Down Payment Resource found that first-time homebuyers in Denver — the least affordable market in Q1 2017 according to the ATTOM Affordability Index — can increase their down payment on a median-priced home by $13,900 (129 percent above just the minimum 3 percent down). They will save nearly $5,000 in monthly house payments over the next five years by taking advantage of just one out of 89 down payment assistance programs available to home buyers in Colorado.

"Since 2013, CHFA has seen a 24 percent increase in millennials using CHFA homeownership mortgage loan programs. In 2016, 61 percent of our borrowers were Millennials. We attribute this increase to a growing population of this demographic in Colorado and to our programs, which are especially helpful to young individuals and families. We focus on education by requiring anyone using a CHFA loan program to complete a homebuyer education class, and we offer down payment and closing cost assistance, helping Coloradans overcome barriers to homeownership," said Dan McMahon, Home Finance Director, Colorado Housing and Finance Authority.

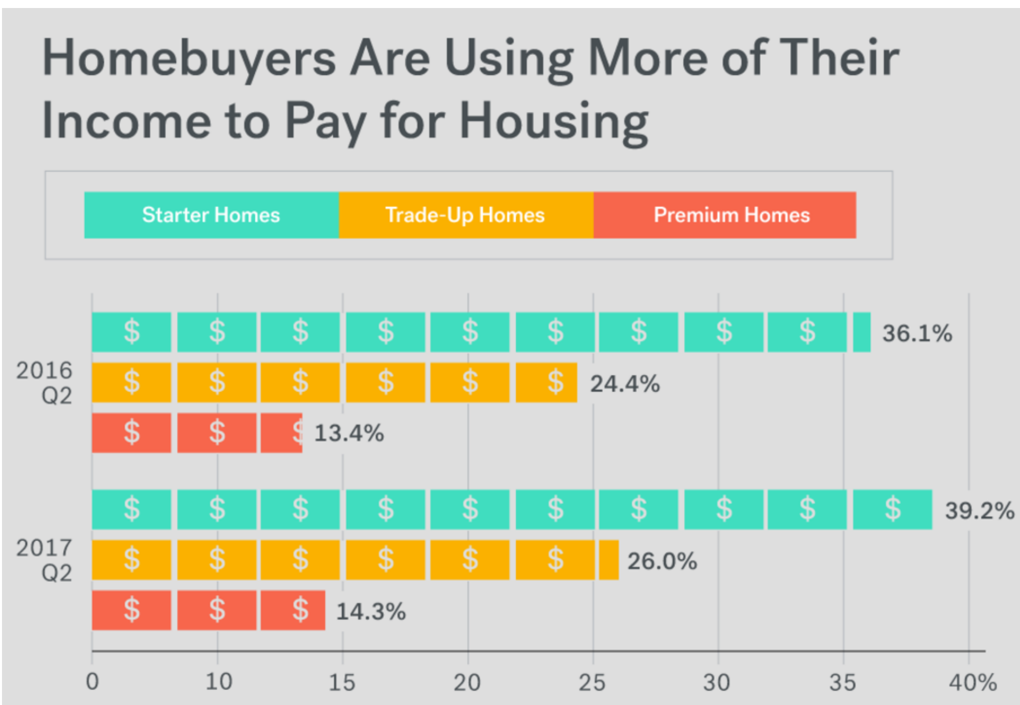
Starter Homes Now Cost Buyers Nearly 40 Percent of Monthly Income

The three-year inventory drought has pushed affordability of homes across all segments to new post-recession lows, but starter home buyers are suffering the most.

Median buyers of starter homes now have to dedicate 39.1 percent of their monthly income to buy a starter home – a 3.1 percentage-point increase from last year and up from 31.7 percent in Q2 2012, according to a new analysis by Trulia's Ralph McLaughlin.

Though trade-up and premium homes are still relatively affordable, the share of income these buyers would have to spend on such homes also reached post-recession highs. For example, trade-up and premium home buyers would need to spend 26 percent and 14.3 percent of their income to buy a home, respectively, but both are up from 21.5 percent and 11.7 percent just five years ago. The inventory crunch hasn't helped housing affordability across the U.S.

"Affordability isn't the only thing falling as a result of the inventory crunch: the share of homes still on the market after two months is at its lowest since we started keeping track in 2012. When homes are in short supply, homebuyers respond not only by bidding up the price of homes but also by closing on homes faster to gain a competitive edge over their competition. Over the past five years, that's exactly what we've seen: 57 percent of homes were still on the market after two months back in 2012, while today that number has fallen to 47 percent," wrote McLaughlin.



Source: Trulia's Inventory and Price Watch

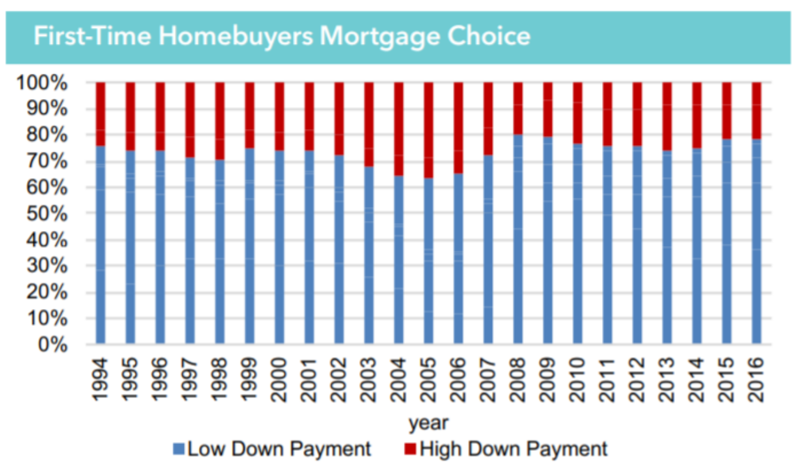
First-time Buyers Driving Sales Since 2015

First-time homebuyers were responsible for 85 percent of the housing market's sales growth over the past two years, according to a new study by [Genworth Mortgage Insurance.]

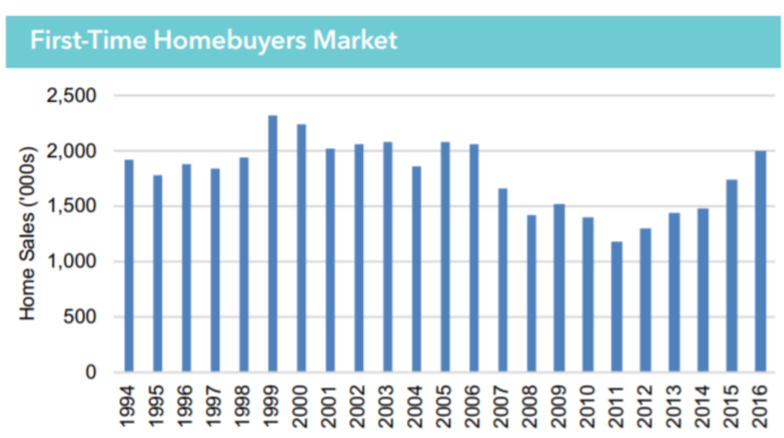
After a lull in 2014, the first-time homebuyer market surged in 2015 and 2016 from under 1.5 million to 2.0 million units, which is the average level of the previous housing cycle. Over the same period, sales of single-family homes expanded by 616,000 units from 4.8 (2014) to 5.4 million units (2016).

The boom in first-timers followed a dramatic disappearance from real estate markets following the housing bust. Since 2007, first-time homebuyers have averaged just 1.5 million a year, which is 300,000 fewer than the historical average. Over ten years, this amounted to three million first-time homebuyers missing from the housing market. Between 2007 and 2015, the number of first-time homebuyers was lower than its historical average every year.

"Low down payment mortgages have long been a popular choice for first-time homebuyers with the creation of FHA and VA loans in the 1930s and 1940s, and the rise of the private mortgage insurance industry in the 1960s. Between 1994 and 2016, 73 percent of first-time homebuyers chose low down payment mortgages versus 27 percent who made a down payment of at least 20 percent. Regarding the number of home purchases, low down payment mortgages funded an average of 1.3 million first-time homebuyers a year between 1994 and 2016, while mortgages with at least a 20 percent down payment funded the remaining 0.5 million a year. In 2016, close to 1.6 million first-time homebuyers chose low down payment mortgages while just over 0.4 million chose to put down at least 20 percent," wrote Tian Liu, Chief Economist for Genworth Mortgage Insurance Corporation.



Source: Genworth Mortgage Insurance



Source: Genworth Mortgage Insurance

Federal Homeownership Support

CDBG, HOME Program Funding Still on the Chopping Block

The future of Community Development Block Grants and the HOME Investment programs, which include federal funding for homeownership assistance programs in targeted communities is still in doubt as Congress begins to address the FY 2018 budget, which begins October 1.

On June 29, the Administration formally submitted its budget proposal which would eliminate all funding for CDBG and HOME programs. The House Budget Committee canceled plans to mark up the budget before the July 4 recess. The Senate has yet to schedule a mark-up.

Though in recent years, Congress has failed to approve annual federal budgets and the government continued operations under continuing resolutions, this year the Administration's legislative strategy to pay for infrastructure construction and tax reform relies on Congress adopting an FY 2018 budget resolution.

HUD Secretary Ben Carson supported the HUD cuts before a Senate subcommittee June 7, arguing "mission creep" has allowed for the funding to be used for programs like those to spay and neuter animals or plant roadside flowers. "Not that those aren't wonderful things, but in an atmosphere of severe fiscal constraint, we have to be able to concentrate on what our primary goals are," said Carson.

In May, Congress failed to approve an Administration request for changes to the current FY 2017 budget that would have cut funding for Community Development Block Grants and HOME. Across the country, state and local governments received what may be their final funding for programs to develop targeted communities, including funding for down payment assistance and homeownership education under the two programs.

More than 250 Housing Counseling Agencies Receive HUD Grants

Some 255 different housing counseling agencies, including 19 state housing finance agencies will receive just over $7.8 million in grants. HUD announced the grants July 6 and also released a list of counseling agencies that have received a total of more than $47 million in Housing Counseling program grants for fiscal year (FY) 2017.

These grants will support programs that provide low and moderate-income consumers with a variety of counseling services, including educating first-time home buyers about their options, helping families secure affordable rental housing, and offering financial literacy training to those who have experienced credit troubles. Many HFAs also offer foreclosure prevention counseling to help struggling borrowers remain in their homes. HFAs often act as HUD counseling intermediaries for their states, partnering with locally based organizations to assist low and moderate-income borrows in communities throughout their states.

HUD also awarded $3.5 million in housing counseling training grants to four national and regional organizations (the National Community Reinvestment Coalition, Inc.; National Council of La Raza; NeighborWorks America, and the Rural Community Assistance Corporation). This funding will be used to train housing counselors nationwide.

Homeownership Assistance Coast-to-Coast

Iowa Launches Lottery to Promote Homeownership Assistance

House hunting Iowans have until August 31 to win $2,500 in cash and a chance to learn about the Iowa Finance Authority's homeownership assistance programs in a state-wide lottery backed by IFA and the Iowa Association of REALTORS®.

IFA offers $5,000 down payment assistance for eligible service members and veterans and is launching a new closing cost program, which is available for a limited time and expected to assist approximately 230 home buyers.

"It's no secret that our homeownership market is booming," Iowa Governor Kim Reynolds said. "Iowa was recently named the number one state in the country for homebuyers by Bankrate.com due to our housing affordability and the job market for young professionals. I commend the Iowa Finance Authority and the Iowa Association of Realtors for offering new and innovative programs to increase awareness of resources in our state and this effort will help even more Iowans purchase homes this home buying season."

Milwaukee Businesses Join Forces for Employees

Businesses on Milwaukee's northwest side will provide grants to help their employees make down payments to buy neighborhood houses under a new program by the Havenwoods Business Improvement District.

The program will provide $3,000 for a down payment on a loan to buy a house in the Havenwoods area. A $1,500 grant will be provided for an employee who buys a house in Milwaukee but outside Havenwoods, said Harling, executive director of the Havenwoods Economic Development Corp. That nonprofit group works with the business district.

Harling said one-third of the amount is forgiven for each year the home buyer remains in the house and continues working at the neighborhood company. The program also includes assistance for employees from Housing Resources Inc., a local nonprofit home buying counselor. So far, four businesses have joined the campaign: HellermannTyton North America, TJM Innovations, Fredman Bag and Hentzen Coatings.

Maryland Smart Buy Program Hailed as Innovative

The Center for California Real Estate, an institute sponsored by the California Association Realtors, published a case study of Maryland's Smart Buy program last month, hailing the program as an innovative path to homeownership for buyers with student loans.

The Maryland Department of Housing and Community Development implemented a new homeownership program to help credit-qualified home buyers with student loan obligations buy their own homes. The initiative allows the department to sell its own homes and provide unique mortgage financing benefits to buyers.

"The program mitigates new requirements to use student loan repayment obligations as a reduction in a homebuyer's ability to qualify for a higher mortgage loan. It is an example of creative thinking that may help keep California college graduates from fleeing the state after earning a diploma," said the Center.

THE DPR INTERVIEW

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

This month we interviewed David Battany, Executive Vice President of Capital Markets at Guild Mortgage*.*

Based in California and with offices across the West Coast, Southwest, and Southeast you are in the middle of the nation's hottest markets. Is down payment assistance booming?

Sales prices are rising, mortgage rates are rising, inventory is low, and housing is expensive. If you think about millennials who first went to college and then came into the workplace at a very difficult time, so many of them were unemployed or underemployed, and they didn't accumulate savings compared to past generations. They are saddled with student debt, their expenses are high, and they are still trying to catch up. At the same time, home prices keep rising, and down payments keep rising. That makes it hard to save for a down payment. Demand for down payment assistance is immense, but even then it can be tough in a competitive situation. The lack of inventory in many areas makes it even harder because if you have a low rate HFA, that's probably 60 days of processing time. Then an all-cash buyer comes in and can go to escrow in two weeks. The combination of rising prices, rising interest rates, and all-cash buyers makes it tough to buy a home.

Are you seeing HFAs expanding their programs in these hotter markets?

We definitely see a lot of HFA changes. We work with 312 programs, and almost every week we see HFAs trying to change, add new features. To me, they seem to be slight adjustments, like fine tuning how a program operates rather than major steps forward or backward.

How are HFAs keeping up with demand?

In most of the really hot markets like California, they are having a hard time raising capital. Most of them are not issuing bonds today because rates are not high enough to attract investors. Instead, they are using premium pricing and either doing FHA or Fannie or Freddie first mortgages with either a grant or a second trust deed on top of it for closing costs or a down payment. When rates rise, they may be better able to raise capital and issue mortgage revenue bonds.

(continued)

(THE DPR INTERVIEW continued)

How is your 1 percent loan program being received in this market?

Our program complements HFA programs. It's not very common that a borrower comes to us and says, "Hey, we saw a neat state program, do you do it?" It's more likely the reverse. If they come to us for a regular loan or a one percent loan, we can help them find the right state or local HFA program, or their Realtor can help them know that there is an even better program in the market that fits them. The one percent program does attract borrowers because they have heard of it.

If you work with so many HFAs, why did you decide to launch your own 1 percent product?

Guild is a big believer in HFAs regarding being one of the best affordable housing solutions in the nation. They have a great track record; they are non-profit, they focus on buyers, they have a strong focus on educating home buyers. We love the HFAs, and we may be the largest HFA lender in the country. The challenge of the HFA model is each HFA program is its own independent product. With 312 programs, that's 312 sets of guidelines, legal documents, internal guidelines, marketing materials. It is a lot of work to manage. The idea behind the 1 percent program that we rolled out was to serve all markets even if there was no HFA program in a market. At the end of the day, any given borrower can talk to us, and if there is an HFA program in their market and the borrower is eligible, then that might be the better program for them. We look for whatever program is best for the borrower.

Commentary

Down Payments on the Record

"The Federal Housing Administration (FHA) plays a critical countercyclical role in ensuring access to mortgage credit. Between 2005 and 2009, the number of FHA home purchase mortgages increased by more than 350 percent just as the number of conventional home purchase mortgages plummeted."

—State of the Nation's Housing 2017, Harvard Joint Center for Housing Studies

"It's been my experience that about half of my clients know that there are loans and/or programs that require less than 20 percent down," says Kris Lindahl, a real estate agent in Blaine, Minn. "The other half still think that they must have at least 20 percent down in order to qualify for a home mortgage."

— The 20% Mortgage Down Payment Is Dead, Hal Bundrick, Nerdwallet

"But the need for knowledge is real. When we surveyed consumers, we learned that about half were unable to answer questions about key mortgage qualification criteria. And our recent qualitative study reveals that consumers agree homeownership education is helpful and they believe it should occur earlier in the process."

—Homeownership education is evolving, and it's good for business Michael T. Hernandez. Vice President, Housing Access, Affordable Housing Initiatives, Fannie Mae

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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