



# The Down Payment Report

News and Data on Residential Down Payments

August 2017

Report Released: August 14, 2017

## Setting the Record Straight on Freddie's Premium Pricing

On July 26, [Freddie Mac re-enforced](#) its existing requirement that lenders cannot use differential pricing to fund gifts or grants to borrowers under its [Home Possible](#) program. Some of the news coverage seemed to suggest that Freddie will deny any loans where borrowers personally make a down payment lower than 3 percent, which is not the case.

To reach the 97 percent LTV required by the Home Possible program, lenders have been offering 2 percent or 3 percent grants to borrowers to lower their total down payment to one or even zero percent. To make up the difference, some lenders have practiced premium pricing to recoup their grants by setting rates slightly above market or by charging high origination fees. Effective November 1, gifts and grants from lenders that are funded through the mortgage transaction, whether by differential pricing in rates, discount points, fees for individual loans or any other method across the Home Possible offering will no longer be eligible.

Neither Freddie nor Fannie have permitted premium pricing. Fannie and Freddie still allow borrowers to lower down payments below 3 percent by using gifts and grants from friends and family, and funds from federal agencies; local and state housing finance agencies; nonprofit organizations; and or employers.

Two important points to emphasize:

1. Freddie's decision is in no way a rejection of or a reflection on low down payment or super low down payment loans. Rather, Freddie is outlawing the use of premium pricing that borrowers end up paying more in the form of higher rates or higher fees.
2. The decision will result in the termination of some recently announced one and zero percent down products from conventional lenders who have been practicing premium pricing, but first-time buyers can still find ways to lower their down payments to end up with super low down loans and avoid the costs of premium pricing.

As a result, state and local Housing Finance Agency programs will play an even more important role in supplying the low-down payment financing that will unlock the doors to homeownership for tens of thousands of first-time buyers.

## June 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	19
VA Purchase	98	2

Source: [Ellie Mae Origination Insight Report](#) and [Millennial Tracker](#)

## Millennials

### Young Buyers Are Paying More and Borrowing More

Millennials (born between 1980 and 1999) are spending and borrowing slightly more to buy homes than they were a year ago, according to [Ellie Mae's Millennial Tracker](#). But the values of homes they are buying are appreciating at a lower rate than average sale prices reported by the S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index.

Case-Shiller's national index gained 5.6 percent year-over-year in May, an [all-time high](#) for the sixth straight month. Average values of Millennials' purchases over the three-month period from March to May rose only 1.1 percent year-over-year and average loans rose only 1.9 percent.

One area where Millennials are getting socked is rising rates. The average rate for a Millennial purchase loan in May was 4.304 percent, a 67-basis point increase and over May 2016.

Actual prices may be higher than the appraised values for affordable starter homes, reported by Ellie Mae. These homes are hard to find in many markets, as a result of overpricing and bidding wars. The data may also suggest that rather than paying and borrowing more—perhaps more than they can afford--young buyers may realize they cannot keep up with rising values and are putting home ownership on hold until prices and values plateau and their incomes improve.

## Online Search Activity for First-time Buyer Mortgages at All Time High

Over the long run, home sales among buyers 34 years and younger have been on an uptrend, accounting for [33 percent of sales](#) in June, up from 26 percent in July 2013. Interest in getting a mortgage is very high. A July joint study by [Chase and Google](#) found search activity for first-time home buying mortgages are at an all-time high, and affordability continues to reign as the top priority for prospective buyers. Some 44 percent of searches in Google's mortgage category to date this year were for first-time buyer mortgages, up 11 percent from last year. That also reflects what Chase has seen in its mortgage business. Customers under age 35 accounted for 36 percent of Chase's new mortgages in 2016, up 16 percent from 2015.



However, for now, the disconnect between pricing data for Millennial buyer sales compared to total sales coupled with sluggish existing home sales in April, May, and June suggests that first-time buyers may be slowing down. Sluggish June sales prompted [NAR's Lawrence Yun](#) to comment: "It's shaping up to be another year of below average sales to first-time buyers despite a healthy economy that continues to create jobs," said Yun. "Worsening supply and affordability conditions in many markets have unfortunately put a temporary hold on many aspiring buyers' dreams of owning a home this year.

## Profile of Millennial Mortgages, Year over Year

	March to May 2016	March to May 2017	Annual Change
Average Loan	\$179,619	\$181,593	+1.09%
Average Value	\$213,717	\$216,116	+1.1%
Conventional/FHA/VA	60%/37%/1%	61%/35%/2%	FHA down 2 pts.
Average Rate	3.634%	4.304%	+67 basis pts.
Average LTV	88	88	0
Average FICO	722	721	Down 1 pt.
Average DTI	24/36	24/37	Back end down 1 pt.

Source: [Ellie Mae's Millennial Tracker](#)

## Dog Days of Summer?

One out of three Millennial-aged Americans (ages 18 to 36) who purchased their first home say having a better space or yard for a dog influenced their decision to purchase their first home, according to a new survey conducted by Harris Poll for [SunTrust Mortgage](#).

Dogs were cited by more Millennials than marriage/upcoming marriage, 25 percent, or the birth/expected birth of a child, 19 percent, as reasons they purchased their first home.

"Millennials have strong bonds with their dogs, so it makes sense that their furry family members are driving home-buying decisions," said Dorinda Smith, SunTrust Mortgage President, and CEO. "For those with dogs, renting can be more expensive and a hassle; home ownership takes some of the stress off by providing a better living situation."

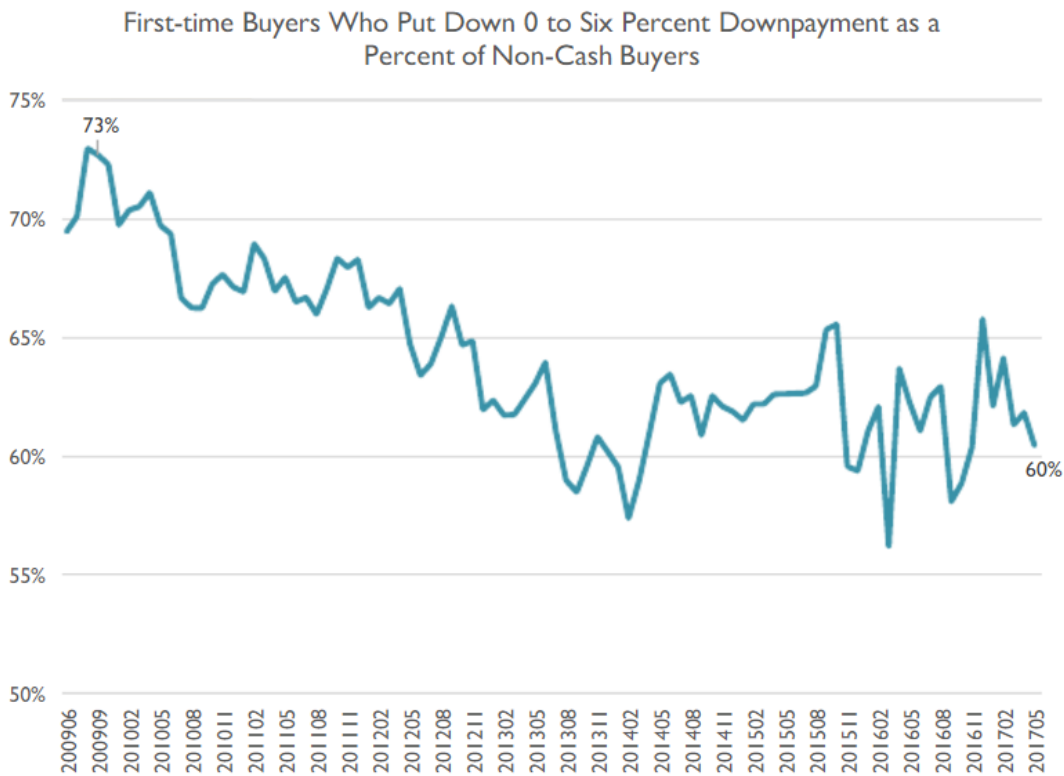


## First-time Homebuyers

### Low Down Payment Percentage Ticked up in June

The percentage of first-time buyers putting down payments less than 6 percent rose slightly in June, to 61 percent. The percentage was below May's 63 percent and the peak of 73 percent in September 2009, according to the latest [Realtor Confidence Index](#) from NAR.

The clear majority—73 percent— of first-timers put down less than 20 percent in April to June, while 53 percent of all buyers put down less than 20 percent, a drop from 64 percent in April and 54 percent in May.



Source: [NAR's June Realtor Confidence Index](#)

## Lack of Down Payment is Top Concern in Michigan State Housing Survey

A June survey by the [Michigan State Housing Development Authority](#) (MSHDA) found that lack of savings for a down payment was the top concern (55 percent) among buyers who are looking to purchase their first home more than 12 months out.

Prospective buyers also were concerned about:

- Not being confident that their mortgage would be approved (32 percent)
- Hard to find credible information and advice on housing and financing (22 percent)
- Not knowing enough to make a good decision (21 percent)
- Uncertainty about making the new payments (18 percent)

The top reasons first-time buyers cited for wanting to purchase a home are the desire to own their place (83 percent) and being tired of paying rent (44 percent). Rising rent prices play an especially significant role in West Michigan, said Ryan VerWys, CEO of Grand Rapids affordable housing non-profit Inner City Christian Federation, which partners with MSHDA on homebuyer education.

"One thing we saw in the survey results is people are tired of paying rent," VerWys said. "More often, the case is people can't afford their rent. Rents in this area are higher than what a mortgage can be. What we're seeing is more and more people's rents are moving up so rapidly, they're recognizing paying a mortgage would be more affordable."

"Many of today's first-time homebuyers remember the 2008 housing crisis and the impact it made on many family and friends, and that is reflected in the uncertainty and apprehension we see in this study," said Mary Townley, director of homeownership at MSHDA. "Our job is to help empower these first-time homebuyers to become confident, smart buyers and realize the dream of homeownership."

In 2016, MSHDA helped more than 1,600 families at multiple income levels and across Michigan communities become homeowners for the first time. For example, new homebuyers may be eligible for a Michigan Down Payment up to \$7,500 when they select the MI Home Loan program, eliminating one of the biggest barriers to becoming a homeowner. MI Home Loan is a statewide mortgage program offering 30-year, fixed rate loans to first-time homebuyers looking to purchase a home up to \$224,500, with income limits varying by location.



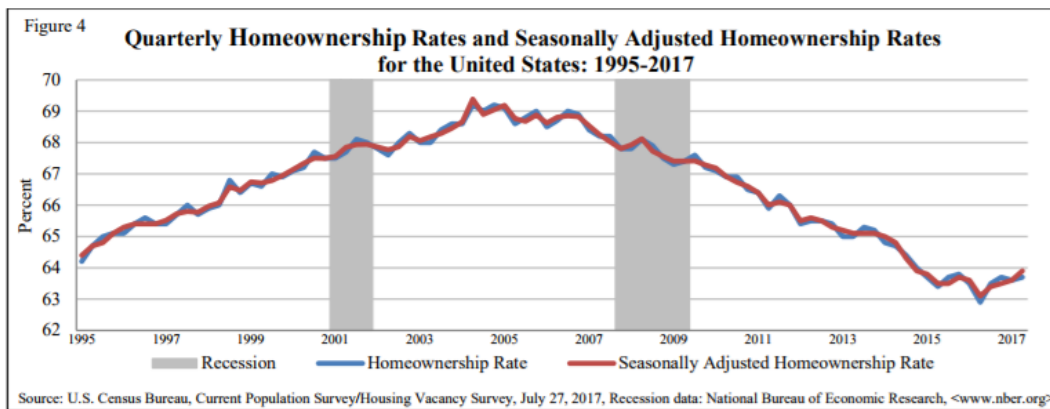
## Homeownership

### Homeownership Rate Rises Again

The nation’s slowly improving [homeownership rate](#) may have bottomed out last year and is now beginning rebounding for the first time in suggesting that it may have bottomed out a year ago, at the end of the second quarter of 2016.

Over past four quarters, the homeownership rate has ticked upward, and may now be rebounding for the first time since it peaked in 2005. At 63.5 percent at the end of the second quarter, the rate was 0.8 percentage points higher than the rate in the second quarter 2016 (62.9 percent) and not statistically different from the rate in the first quarter 2017 (63.6 percent).

“Job growth, accelerating wage gains, and unmet single-family housing demand should see these trends continue. The question is whether the market can provide the right mix of supply as demand for single-family housing improves,” commented Robert Dietz, chief economist for the National Association of Home Builders.



Source: [US Bureau of the Census](#)

### Is the MID in Play?

The 100-year old mortgage interest deduction could play this fall as the Trump Administration officials and Republican leaders in Congress seek ways to pay for their tax reform plan, according to [Politico](#).

The mortgage interest deduction is one of two components of the tax code that support homeownership. The other is the ability to deduct state and local property taxes from income taxes. An estimated 40.7 million taxpayers take the property tax deduction right now, and 70 percent of them have adjusted gross incomes between \$50,000 and \$200,000, according to the report.

Despite promises from the Trump administration in April that it would “protect the homeownership deductions,” multiple sources tracking tax reform said that the cap on the mortgage interest deduction — currently set at the interest on up to \$1 million of mortgage debt — could be lowered in tax reform.

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A study commissioned by the [National Association of Realtors](#) last spring found that roughly 35 million households will claim the mortgage interest deduction in 2018, three-quarters of which have incomes between \$50,000 and \$200,000. The report found that ending the MID could cause home values to fall by an average of more than 10 percent in the near term. In areas with higher property taxes or state income taxes, the drop could be even greater.

Politico reported that no final decision had been made yet, as Republicans work during Washington's sleepy days of August to craft a reform plan that would be politically palatable and meet the criteria for the budgetary maneuver they plan to use to bypass Democrats who could hold up a bill in the Senate.

## Homeownership Education

### HPF Moves Beyond Loan Modifications

Founded by lenders during the heat of the foreclosure crisis in 2007 to help defaulting homeowners get back on their feet, the [Homeownership Preservation Foundation \(HPF\)](#) is expanding its horizons and using its financial management tools and expertise to expand its sustainable support for homeownership.

Financial coaching of diverse HPF clients trying to stay current with a trial mortgage modification has resulted in a 20-25 percent greater probability of clients sustaining their modified mortgages twelve months later. Since its post mortgage-modification coaching program began at HPF in 2009, 65 percent of clients improved their monthly budget by an average \$289 in available cash. Nearly three-quarters of clients improved their credit score an average 25 points, HPF said.

Now HPF is focusing on helping more diverse consumers become financially stable with financial coaching. To make the point, in April the Foundation launched A [Path to Sustainable Homeownership](#), a board game modeled after *The Game of Life* board game. The game illustrates how HPF helps at-risk homeowners of any age or situation manage real life.

"The country faces significant work to restore the value proposition for the American Dream of homeownership since the financial crisis," said David Berenbaum, HPF's Chief Executive Officer. "With access to HPF's foreclosure prevention counseling, and post mortgage-modification or pre-purchase financial coaching programs, more diverse consumers will access mortgage credit and become successful homeowners."



## Down Payment Assistance Programs

### DPA is Booming in Knoxville

Tennessee Housing Development Agency (THDA) saw its production increase more than a third in Knoxville-area neighborhoods that qualify for the state's new \$15,000 HHF down payment assistance program.

Since March, THDA has offered \$15,000 in financial assistance to homebuyers in designated ZIP codes to help them cover the down payment and closing costs on one of the agency's own Great Choice Home Loans.

About 140 home buyers in eligible ZIP codes in Knox, Anderson, Cocke, Hamblen, and Jefferson counties have taken advantage of the program in its first four months. That figure marked a 37 percent increase over 2016 when 102 THDA mortgage loans were originated in those counties.

Across the state, 706 households have applied to receive downpayment assistance totaling over \$1 million.

THDA launched its \$15,000 HHF-DPA program in March, offering second mortgage loans to qualified homebuyers in 55 designated ZIP codes across the state to help them cover down payment and closing costs. The program's ZIP codes were selected because they lagged behind the rest of the state regarding home sales, property value growth, and recovery from the effects of the Great Recession, especially foreclosures.

Statewide, THDA made \$40 million in home loans in June, which was proclaimed Homeownership Month by proclamation of Gov. Bill Haslam. The total marked THDA's biggest month since the Great Recession. More than 200 of those home loans came with \$15,000 in down payment assistance under the new HHF-DPA program.

### OK Town Uses DPA to Rebuild from Tornado

The City of [Moore, Oklahoma](#) is using down payment assistance loans to rebuild neighborhoods devastated by a 2013 tornado. Loans up to \$40,000 are available to low-to moderate-income citizens if they buy a home in a neighborhood impacted by the tornado. There are about 100 empty lots, along with several existing homes, which remain in the 18 neighborhoods that were damaged by the tornado.

"Certainly, the impact of the storms for affordable housing has been impacted, but this is a great opportunity for families to become homeowners either for the first time or to come back and be part of this wonderful community again," said Roland Chupik, Neighborhood Housing Services Executive Director.

## THE DPR INTERVIEW

### The Loan Star Solution: How Texas Finds Financing in Today's Capital Marketplace

*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 interviewed [Texas Department of Housing and Community Affairs](#) (TDHCA) Executive Director [Tim Irvine](#) and Director of Bond Finance, [Monica Galuski](#).*



As rising home prices drive up demand for state and local down payment assistance, low interest rates create challenging conditions for housing authorities. TDHCA has found creative ways to finance its homeownership assistance programs, including maximizing its innovative Texas Mortgage Credit Certificate (MCC) program.

*Q. How is affordability affecting demand for homeownership programs in Texas?*

*Tim Irvine:* Housing market conditions in Texas have been different than those in Silicon Valley or the Northeast. Texas has enjoyed solid and steady appreciation as a result of a good solid broad-based economy, and we are seeing prices increasing steadily in all of our markets. We've been educating our Realtor communities, and our buyer networks and they are getting a lot more sophisticated at putting their clients into the best possible products—more combo loans, more stand alone Texas MCC. We are seeing more thought going into how everybody gets served.

*Monica Galuski:* We've always seen very strong demand for down payment assistance programs and demand is growing, but in response to the affordability question, we are seeing more layering—more people adding the Texas MCC and a lot more creativity. Rumor has it that we have one of the largest, if not the largest, mortgage credit certificate programs in the country. The key is buyer awareness. Our homeownership division does a really good job of working with lenders and Realtors. Borrowers hear about the Texas MCC from several sources.

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*(THE DPR INTERVIEW continued)*

*Q. One of the problems other states are having is finding financing when mortgage rates are not high enough to attract investors. How are low rates affecting you?*

*Tim Irvine:* Our biggest challenge is finding additional sources of funding for down payment assistance. We work with the private sector to find liquidity sources for down payment assistance. We operate in this regard pretty much like any mortgage bank...and we still have a lot of headroom with regard to our maximum loan amount caps.

*Monica Galuski:* For some period of time, we actually have been consistently at or below market rates on our first mortgage, and we offer down payment assistance in the form of a second lien loan repayable at maturity, refinancing, or sale of the property. We offer a very competitive first rate, which has worked out well for home buyers, it helps with the affordability.

We've been continuing to see an upward trend in demand, and we have no reason to believe that will change. As Tim pointed out, the challenge is going to be finding down payment assistance. We've been very creative to this point. One of the things that I like about what we have done is we are still doing taxable and tax-exempt bond issues, so we're not relying solely on one financing approach. It allows us the flexibility to respond to the market and not have all of our eggs in one basket.

*Tim Irvine:* The 900-pound gorilla in this market is not credit risk, but interest rate risk. You really want to structure your pipeline and your funding mechanisms to minimize interest rate risk.

## Commentary

### Down Payments on the Record

*So will a low down payment hurt a buyer's chances against another borrower who puts 20% down?*

*The short answer: no.*

*But, it's going to take all parties involved to change this mindset against the competitive edge that low down payment mortgages bring.*

- [Can 3% down payments really compete in today's tight mortgage market?](#), Brenna Swanson in HousingWire, August 2, 2017

*"There're two ways to help millennials: Help them to have less money down and less closing costs," Wise said, giving examples such as a loan product that requires a minimum down payment of 3 percent, and a first-time homebuyer education program that comes with a \$500 grant to reduce closing costs.*

- Mike Wise, senior lending manager at JP Morgan Chase, quoted in [USA Today's lohud](#).

*Over the past 12 months, less than 10% down loans increased to a share of nearly 40% of all purchase loans, or about 1.5 million borrowers. Black Knight explained the higher number of loans is also due to a shift toward the purchase market and away from refinances. This increase is significant considering the past four years all showed yearly declines in high LTV lending. Now, however, high LTV lending increased its market share as well as volume.*

- [Monday Morning Cup of Coffee: Lenders closing low down payment mortgages at 7-year high](#), Kelsey Ramirez in HousingWire. August 7, 2017

## 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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