



The Down Payment Report

News and Data on Residential Down Payments

October 2017

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A Perpetuating Home Buying Myth

Market conditions facing today's first-time buyers are making it tough to close on their first homes, but another pernicious myth about using a low down payment loan is making it even tougher for young families to settle on their first homes.

A three-year inventory drought has left supplies of homes at multi-year lows. Tight supplies are driving up prices of starter homes at double-digit rates. More properties are selling above listing price¹ and buyers are often finding themselves competing for the same home.

When deciding among multiple offers, sometimes sellers discriminate against those using low down payment loans. Believing the myth that buyers using low down payment loans are more likely to default because they have "less skin in the game," these sellers are perpetuating a myth that deserves to die.

Low-down-payment mortgages today have a much different risk profile than they did back in 2005-2006, preceding the financial crisis, according to a recent report from [Black Knight Financial Services](#). At that time, half of all low-down-payment purchase originations involved 'piggyback' second liens, as opposed to a single low down payment first lien mortgage that is prevalent today. In the boom years, a large proportion of low-down payment loans were adjustable rate mortgages, which were riskier. Borrowers using low down payment programs today have average credit scores roughly 50 points higher than those in 2004 to 2007 and defaults among current low down payment mortgages remain low and performance has been much better than among similar loans in 2005-2006.

With so many barriers to surmount, first-time buyers who choose to use low down payment loans should have the same opportunity as other buyers in today's housing markets.

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¹ <https://www.nar.realtor/research-and-statistics/research-reports/realtors-confidence-index>

September Average Down Payments at a Glance

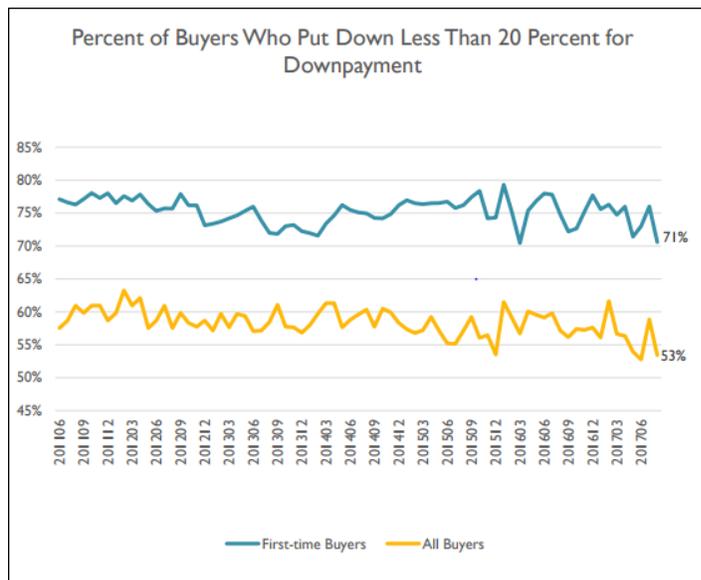
Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	80	20
Millennials	88	12
FHA Purchase	96	4
Conventional Purchase	80	20
VA Purchase	98	2

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

Down Payment Data

More First-time Buyers Put Down Less Than 20 Percent

As home prices rise, a larger percentage of first-time buyers are putting down less than 20 percent to buy a home. Of all first-time buyers closing in August, 71 percent put down less than 20 percent, up from 66 percent in August 2016. Only 53 percent of all buyers made down payments lower than 20 percent.



Progress on the 20 Percent Down Myth—or Not?

Last February, [NAR's Aspiring Home Buyers Profile](#) made headlines when it reported that 39 percent of aspiring owners and 30 percent of homeowners said they think they would need to put down more than 20 percent to buy a home.

“Having the spare capital to put 20 percent down on a home purchase is great, but it's certainly not the norm. Still, many people think it is, and that belief may be holding some would-be home buyers back, particularly young adults,” commented NAR's own magazine, [RealtorMAG](#), in an article titled “The Big Down Payment Myth.”

The source of the data was [NAR's Housing Opportunities and Market Experience \(HOME\)](#), a monthly thermometer of attitudes toward home buying and selling. A new Aspiring Buyers Profile based on 2017 may not be published until after the first of the year, but similar surveys have been tracking attitudes on this same question to measure the prevalence of the 20 percent down myth.

- A national survey of millennials in July by [loanDepot](#) found the average amount borrowers thought they need to put down to buy a home is 32 percent.
- In a survey of 2,000 adults in early August for [Nerdwallet](#), 44 percent of Americans said they believe you need a down payment of 20 percent or more to buy a home.

On the other hand, a national survey of 1,000 adults in September from [NeighborWorks](#) found that consumers think the minimum needed for a down payment is only 13 percent, and the average millennial thinks the minimum required down payment is 21 percent. Approximately 73 percent of all consumers and 62 percent of millennials participating in the survey said they are not aware or are unsure about down payment assistance programs in their communities for middle-income homebuyers.

In the NeighborWorks survey, younger consumers believe even a higher amount is required for a down payment, with, on average, those 18-24 years old thinking that a 25 percent down payment is necessary. Seventy-eight percent of renter millennials say they “don't” or “probably don't” have enough money for a down payment, compared to 70 percent of adult renters overall.

For the record, the actual median down payment buyers made in 2016 was 10 percent, and the total percentage of buyers who put down more than 20 percent of the price of their purchases was only 28 percent. Among first-time buyers, the median down payment was 6 percent, and 10 percent for all buyers.²

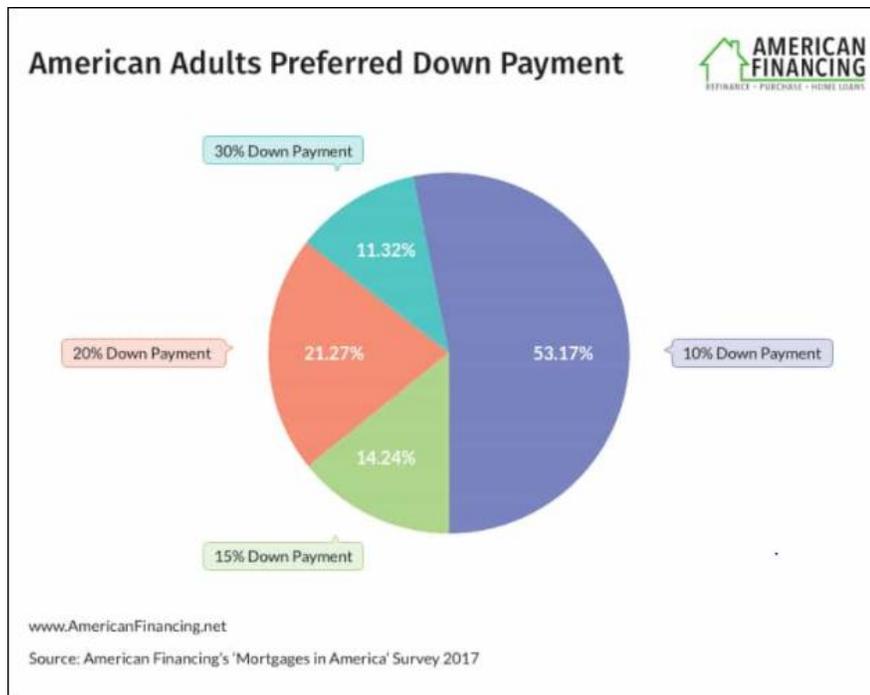
² National Association of Realtors Profile of Home Buyers and Sellers 2016

Borrowers Would *Prefer* to Pay 10 Percent or Less

As the debate rages over how much home buyers *are* putting down and *should* put down to buy a home, a new study reports what buyers *prefer* to pay. Not surprisingly, the answer is much lower than the studies cited above.

A Colorado-based lender, [American Financing](#), found that 53 percent of Americans—including the majority of Millennials, Generation Xers, and Baby Boomers—prefer a 10 percent down payment or less. Only 32.59 percent are happy to put 20 percent or more down.

Some 14.4 percent are willing to settle for 15 percent down, while 21.27 percent voted for 20 percent and 11.32 percent of consumers will go as high as 30 percent. Data on mortgage length preferences found generational variation. While 30-year mortgages are most preferred among Millennials and Generation Xers, Baby Boomers prefer 15-year terms. As expected, older generations prefer to—and can afford to—pay off debt more quickly than the younger generation.



FHA

Brian Montgomery Returns to FHA



After five months of speculation, on September 12 President Trump nominated Brian Montgomery to return to the post of Assistant Secretary of the U.S. Department of Housing and Urban Development (HUD) and FHA Commissioner, a position he held from June 2005 to July 2009. After serving under the Bush Administration, Montgomery served as FHA Commissioner and continued at his post six months into former President Barack Obama's leadership before resigning in July of 2009. Following confirmation by the Senate, he will take over for acting commissioner Edward Golding.

On his desk he will find the suspension of the proposed mortgage insurance rate cut required for all FHA-backed loans—a decision made a mere hour after President Trump took office in January. Ben Carson, Secretary of HUD, said, at the time, that he was surprised by the cut and would work with the FHA administrator and other financial experts to examine the policy. However, the suspension came before Carson's confirmation.

Montgomery now operates as Vice Chairman of The Collingwood Group, a Washington D.C.-Based Advisory Firm that he co-founded.

In his previous tenure, in 2007, FHA prohibited borrowers from using seller-financed down payment assistance programs that allowed home sellers to give money to charities, which in turn assisted buyers with their down payments. Sellers paid the charities a service fee but often recouped the money by charging a higher price for the homes, usually 2 or 3 percent more, or an amount equal to the down payment, according to a 2005 study by the Government Accountability Office.

Montgomery also worked closely to educate African-Americans who had interest in buying their first homes and was the 2008 recipient of the Robert J. Corletta Award, which pays tribute to those who have shown extraordinary creativity and dedication to the cause of affordable housing.

Montgomery also served on the Federal Housing Finance Board from 2005 to 2008 as well as the board of [NeighborWorks America](#) from 2005 to 2009. NeighborWorks America is a federally chartered non-profit agency that provides grants and technical assistance to local housing agencies. After leaving the FHA in 2009, he served on the board of Radian, which provides mortgage insurance subsidiary Radian Guaranty Inc.

Homeownership Education

NeighborWorks: Down Payment Confusion Plagues Millennials and Minorities

Thousands of would-be homebuyers—especially people of color and millennials—are shut out from the market because of confusion about down payment requirements, lack of information about credit standards and the burden of student loan debt, according to the fifth annual America at Home survey from [NeighborWorks America](#).

Over the past year, government-sponsored mortgage agencies and both large and small lenders have launched mortgage products with low down payments and broader credit standards; however, a significant number of Americans are not aware of these programs or are confused about their requirements. Millennial and nonwhite consumers are particularly confused about how to qualify for a mortgage, and these are the demographic groups that will influence the strength of the housing market for years to come.

Findings from the America at Home survey include:

- The average millennial thinks the minimum required down payment is 21 percent
- Twenty percent of consumers know someone who has delayed homeownership as a result of student loan debt.
- Ninety-three percent of adults believe owning a home is part of the American Dream.
- Eighty-one percent of adults and 72 percent of millennials say homeownership increases financial stability.
- Seventy-four percent of adults and 84 percent of millennials perceive the home buying process as complicated.

The NeighborWorks survey found that 70 percent of adults feel they don't have enough money saved for a down payment. That's not surprising considering that, on average, consumers think 17 percent is the minimum down payment required to buy a home. In fact, however, a down payment as small as 3.5 percent is sufficient for many mortgage products.

Disaster Assistance

CDBG Funds Approved for Homeowners

The [Senate](#) added \$15 billion in hurricane relief funds in mid-September, well before Hurricane Irma arrived on the doorstep of U.S. territories in the Caribbean and Hurricane Maria devastated Puerto Rico.

About half of the approved disaster recovery money takes the form of Community Development Block Grant (CDBG) funds. Under the Trump administration's proposed budget for 2018, though, this entire category of funding—the program itself—is earmarked to be eliminated.

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(CDBG continued)

About half of the Senate appropriation, \$7.4 billion, goes to the U.S. Federal Emergency Management Agency Disaster Relief Fund. The U.S. Small Business Administration gets \$450 million for disaster-relief loans. The remaining \$7.4 billion goes to Community Development Block Grant Disaster Recovery (CDBG-DR) funds, which can be used to rebuild housing for both owners and renters.

"It won't be enough, certainly for both states [Texas and Florida], to recover from their housing needs for homeowners and renters, but it's a really good down payment," says Diane Yentel, president, and CEO of the National Low Income Housing Coalition. "It's a pool of flexible funds that local communities can use to meet a variety of needs created by disasters. First after Hurricane Katrina, and pretty much every disaster since, there's been an allocation of disaster CDBG funds."

Vulnerable households may be among those likely to see recovery aid in Houston, South Florida, and beyond. By law, 70 percent of the CDBG-DR funds must go to low-income households. After previous natural disasters, Congress has adjusted this formula somewhat for relief appropriations; no such language holds in this bill.

CDBG-DR funds typically go to homeowners, not renters. Some cities and states have used disaster funds to set up programs to rebuild or repair rental units, but individual renters rarely receive disaster CDBG funds to pay their rent. HUD's Disaster Housing Assistance Programs (DHAP) includes disaster vouchers under the Disaster Voucher Program. This work typically follows a mission agreement between FEMA and HUD whereby the former reimburse the latter for disaster vouchers for renters.

New Down Payment Options and Assistance

"Fund Your Way Home"

Mortgage bank [CMG Financial](#) has launched [HomeFundMe](#), an online platform that allows borrowers to crowdfund the down payment on a home purchase without fees and with the backing of mortgage giants Fannie Mae and Freddie Mac.

"This allows you to tell your story. It allows for folks to be able to buy into the story of what it is you have, your loan story, your home story," said Christopher George, CEO of CMG Financial and vice chairman of the Mortgage Bankers Association. "Our tagline is, 'Fund your way home.'"

Most business crowdfunding platforms offer returns on the investment, but this has none — it is simply a gift. George said the individual gifts would be small, in the \$50 to \$250 range. The platform can be linked to wedding and baby registries.

"You're going to spend \$250 on a coffee making machine? If that \$250 goes to a down payment of your home, at the very least, I improve your quality of life and the second thing I do is I give you some, today, some tax deductibility," George added.

As an incentive for encouraging prospective homeowners to attend credit education courses and counseling, borrowers can also receive grants of up to \$2,500 once they've completed the free classes. After that, the platform will match donations at \$2 for every \$1 raised, up to \$2,500.

Down Payments for Hosting Airbnb Guests

A new company in Seattle offers prospective homebuyers down payment assistance up to \$50,000 for homeowners willing to list an extra bedroom on Airbnb for one to three years and share most of the income.

Called "[Loftium](#)," a start-up created by two young entrepreneurs is partnering with Umpqua Bank initially and offering down payment assistance to 50 homebuyers in Seattle over the next 12 months. In return, owners must agree to list one bedroom or more on Airbnb and manage the rental process for a fixed period of time, ranging 12-36 months. Owners choose the home, qualify for the loan amount with Umpqua Bank, and put down at least 1 percent. Loftium provides some tools like smart pricing, auto-communications, and a keypad for the door to make it easy for guests to check in and check out.

Loftium, which plans to expand into other markets, estimates the income potential of renting the home's spare bedroom on Airbnb and then offers a lump-sum prepayment to use toward the remaining down payment. Owners receive 10 to 40 percent of the rental returns. The down payment assistance, which can't exceed 10 percent of the purchase price, is structured as a revenue share.

Wells Fargo Helps Out in Nashville

Wells Fargo, NeighborWorks America and its network member Affordable Housing Resources announced the [NeighborhoodLIFT](#) program is coming to the Nashville area with a \$4.2 million commitment by Wells Fargo to boost homeownership. This will be Wells Fargo's 54th LIFT program event in the U.S.

To be eligible, annual incomes must not exceed 80 percent of the local area median income, which is about \$54,950 in the Nashville community for a single household with a family of up to four members (\$59,350 for a family with five members). Income maximums may vary depending on family size and type of loan.

Veterans and servicemembers, teachers, law enforcement officers, firefighters and emergency medical technicians may earn up to 100 percent of the area median income, which in Nashville is about \$68,700 for up to a family of four and \$74,200 for a family of five. Since February 2012, LIFT programs have helped create more than 14,600 homeowners in 53 communities.

Oak Park, Illinois Weighs Options

With more than \$1 million sitting in its affordable housing fund, the village of [Oak Park is](#) weighing options on how to spend the money. Village staff presented several options during the September 25 village board meeting, options which included the expansion of existing programs, creating a new down payment assistance program or creating a new rental assistance program.

The Oak Park Homelessness Coalition offered its own suggestions for the money, including the creation of a flexible pool of rental assistance and a revolving security deposit fund to assist households in becoming stably housed, or recommended the money be used to expand the supply of affordable rental homes where they are most needed, while leveraging local funds with federal and state funding and tax credits.

Some board members worried about spending all the money at once, while not having a means to replenish the affordable housing fund.

THE DPR INTERVIEW

Why MGIC Markets to Millennials

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 MGIC's Marketing Program Director Vance Edwards about the mortgage insurer's motivation and strategy behind its new marketing campaign.



[MGIC's](#) new marketing campaign aimed at millennial buyers may be unique in the PMI industry. MGIC has a comprehensive homebuyer education site that walks first-time buyers through the process of getting a home. There's also [Homediggidy.com](#) a site written by millennials for millennials and shares home buying experiences in the form of stories. Then earlier this year, the mortgage insurer launched a new "[buy versus wait](#)" calculator that helps prospective buyers make purchasing decisions taking into account the costs of waiting to save for a 20 percent down payment.

Q. Why is MGIC making a special effort to reach out to millennials?

We're doing it because we felt that many are misinformed. Too many think that they have to put 20 percent or more down to own a home. Many of them are missing out and can buy a lot sooner with 3 to 5 percent down using private mortgage insurance. We founded today's private mortgage insurance industry and are category experts when it comes to down payments, and we didn't see enough efforts out there to educate millennials on this issue. So even though the consumer isn't our direct customer, we decided to take on this important initiative. By providing millennials correct information, we can help everybody.

Q. What does your market research tell you about what millennials think about mortgage insurance? Are they even aware of it?

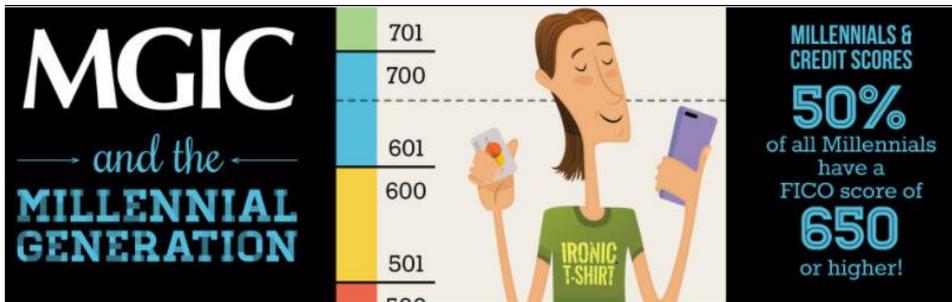
Many are not aware of it at all. Many have been told to avoid it even though they don't know what it is. However, by avoiding it, what they are truly avoiding is the chance to buy a home sooner—sometimes years sooner—while trying to save for a 20 percent down payment. Many are under the assumption that it only benefits the lender, that the borrower pays for it, but the borrower has no benefit. In fact, there's a tremendous benefit to the borrower. Probably the biggest benefit that mortgage insurance provides is making it possible for a consumer to buy a home today with just 3 or 5 percent down versus having to wait for five, six or even seven years. Our goal is not to talk anyone into buying, but to help them make an informed decision based on the numbers.

(THE DPR INTERVIEW continued)

Q. You've created a new "buy versus wait" calculator. How does it work?

"Buy versus wait" is a little bit different than "buy versus rent." We are asking the question: Are you are better off waiting until you have 20 percent to put down to avoid mortgage insurance or are you better off buying today?

The calculator tells you how much you must save every month and how long it is going to take you based on the numbers you entered. Most people who want to buy a home will have to wait five or six years to save 20 percent. With private mortgage insurance like MGIC provides, buyers can put down as little as 3 percent and they can cancel that mortgage insurance when it is no longer needed. Meanwhile, homes are appreciating which means by waiting you not only lost out on gaining some equity but will need to save that much more as the home will cost you more in the future. Plus, at a time when interest rates are forecasted to rise, it may cost you more money down the road as well. But the main point is this; most people buy a home simply because they have a desire to own a home of their own. Why would you want to wait to fulfill that desire, if you don't have to?



Commentary

Down Payments on the Record

“For households in good financial shape, paying less than 20% is not nearly as worrisome as one might think. In fact, it can free up funds for retirement savings and other important goals in ways that can make you look smart down the road.”

- Ryan Derousseau, “Why You Shouldn’t Make a Big Down Payment on Your First Home” in [Forbes](#), September 20, 2017

‘The logic behind these programs – and the reason more loan options with little down are appearing – is that the data show there’s little additional risk to lenders when borrowers finance with smaller down payments. Research from the Urban Institute found that defaults for loans with three percent to five percent down were “only slightly higher” than financing with five percent to 10 percent down.’

- Peter Miller, “Does a low down payment make your offer weaker?” [The Mortgage Reports](#), August 22, 2017

“For first-time home buyers, the challenge of coming up with a 20% mortgage down payment is often difficult enough to keep them out of the market. But the fact is, the 20% down payment is all but dead — and has been for quite some time, especially for first-time buyers.”

- Hal Bundrick, “The 20% mortgage down payment is all but dead” in the [Los Angeles Times](#), July 1, 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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