



# The Down Payment Report

News and Data on Residential Down Payments

November 2017

Report Released: November 8, 2017

## Struggling to Save

One statistic in the National Association of Realtor's 2017 Profile of Home Buyers and Sellers speaks volumes about what's wrong with homeownership today. The survey found that nearly one out of every three first-time homebuyers is taking two years or even longer to save up for a down payment. Many young buyers are saddled with student loan and credit card debt, and struggle to save. Some are so desperate they are tapping every possible source, even their 401K and individual retirement accounts. In the profile, and in virtually every other study that tries to find out why homeownership has fallen to historically low levels, the answer is the same: The hardest part of buying a first home is saving for a down payment.

Last week I was honored to participate in the Urban Institute and CoreLogic [Fifth Annual Housing Finance Symposium](#). When the discussion turned to how difficult it is to save today, I recalled some of the closings that I attended when I was a broker. When the final papers were signed, the couple would turn to each other and say something like, "Well, honey I guess its tuna fish and baked beans for the next few years."

Saving for a down payment isn't enough. Homeownership is expensive, and new owners need cash for closing costs, movers, and a dozen other expenses.

Soon we will be releasing the results of a study on credit access and affordability we commissioned along with Freddie Mac by the Urban Institute. The report shows how down payment assistance programs could offer much-needed help in today's market, especially for low- to median-income and first-time homebuyers.

Old myths die hard, especially the belief that you need to put down 20 percent to buy a house. How many young couples are postponing their homeownership dreams for years or are house poor when they finally buy because they didn't get the facts about down payments?

Rob Chrane

CEO, Down Payment Resource

## October Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	87	13
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 6 Percent

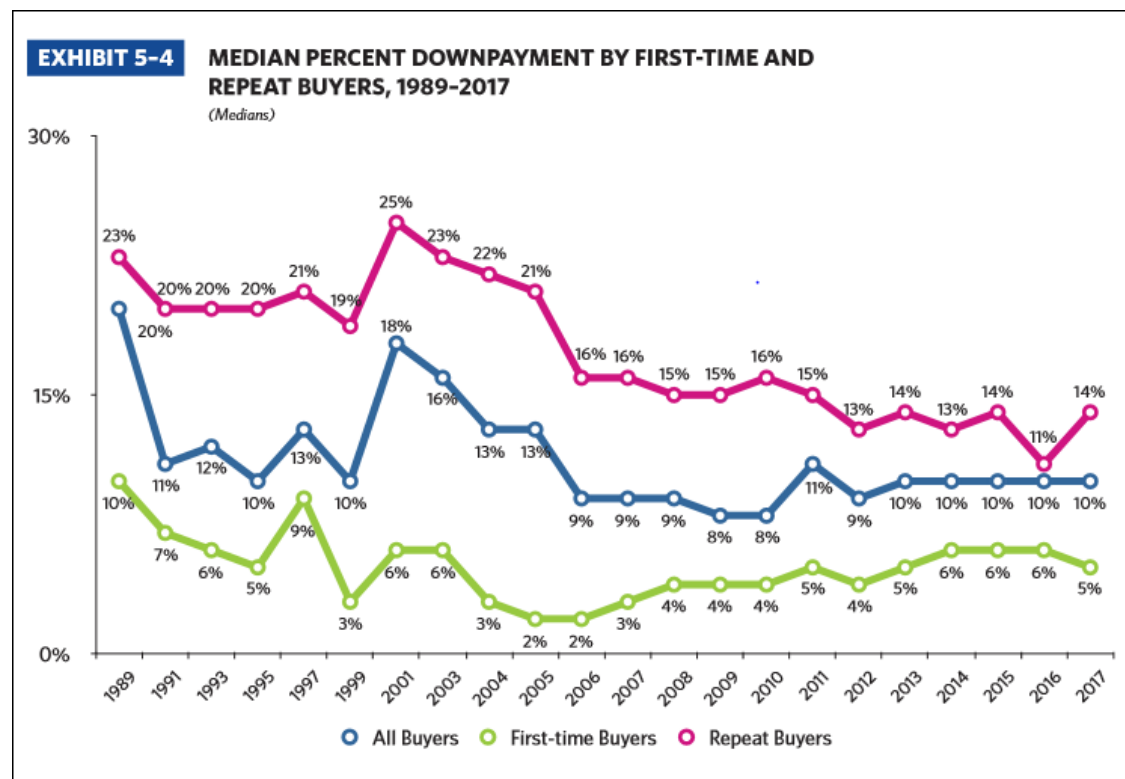
Some 60 percent of first-time buyers put down 6 percent or less in September, an increase from 57 percent in August. The all-time peak for first-time buyers share of low down payment loans reached 73 percent in September 2009.

The percentage of first-time buyers putting down less than 20 percent rose to 74 percent in September from 71 percent in August while only 52 percent of all buyers put down less than 20 percent, according to the latest [Realtors Confidence Index](#) from NAR.

## First-time Homebuyers

### First-timers' Median Down Payment Declined in 2017

In 2017, the median down payment was 10 percent of all buyers, and fell to 5 percent from 6 percent for first-time buyers, according to NAR's [2017 Profile of Home Buyers and Sellers](#).



Here are more findings from this year's Profile:

- For 59 percent of buyers, the source of their down payments came from their savings. Thirty-eight percent of buyers cited using the proceeds from the sale of a primary residence, which was the next most commonly reported way of securing a down payment.
- Forty-three percent of buyers saved for their down payment for six months or less. Twenty-eight percent of all buyers and 32 percent of first-time buyers saved for more than two years.
- Among buyers who said saving for a down payment was difficult, student loan debt was the major reason cited by 49 percent of all buyers and 53 percent of first-time buyers. The second most cited barrier to saving for a down payment was credit card debt.
- The median amount of student loan debt carried by first-time buyers is \$29,000; among all buyers, \$25,000.
- Owners are living in their homes an average of 10 years before selling, but buyers expect to live in their homes 15 years. Twenty-two percent of owners aged 45 to 64 and 29 percent of owners over 65 never plan to sell their homes.

## First-time Buyers Still Trail Historical Norm

Frustrated by a three-year drought in inventories that are limiting their choices of affordable properties as well as artificially inflating prices, especially for lower-tier starter homes, tens of thousands of first-time buyers are putting their homeownership plans on hold, according to the latest data.

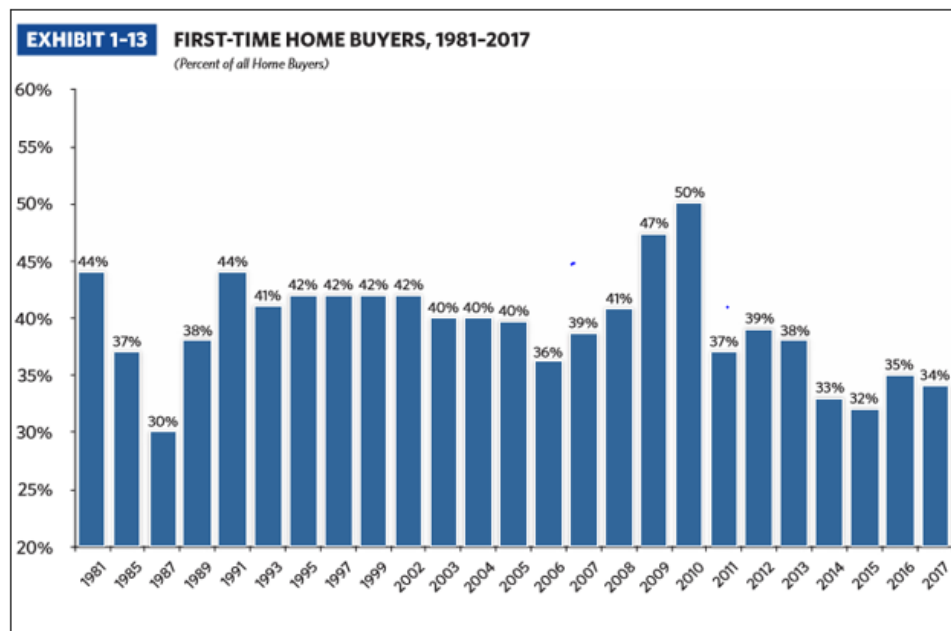
Despite widespread access to low down payments, looser lending standards and mortgage rates that are still historically low, potential first-time buyers are putting off buying a home until conditions improve. For many of these discouraged young families, rising rents and high levels of debt especially student loan debt, are keeping them trapped in rentals by making it harder to save for a down payment.

The first signs of the first-time buyer pullback surfaced in mid-summer. By September, the first-time buyer share had fallen to just 29 percent of sales, down from 31 percent in August and 34 percent in September 2016. The September decline matched the lowest share since September 2015, according to NAR's monthly [Existing Home Sales](#) releases.

A slowing of overall sales mirrored the first-time buyer's trend. "Home sales in recent months remain at their lowest level of the year and are unable to break through, despite considerable buyer interest in most parts of the country," said [NAR Chief Economist Lawrence Yun](#).

"Realtors® this fall continue to say the primary impediments stifling sales growth are the same as they have been all year: not enough listings – especially at the lower end of the market – and fast-rising prices that are straining the budgets of prospective buyers."

NAR's [2017 Profile of Home Buyers and Sellers](#), a survey of more than 7,000 consumers who bought or sold homes between July 2016 and June 2017, found that purchases by first-time buyers decreased slightly, from 35 to 34 percent of sales. Since 2011, the share of first-time home buyers has been below the historical norm of 40 percent. In 2015, it was the lowest since 1987, when the share of first-time home buyers reported was 30 percent.



(First-time homebuyers continued)

Data on first-timer transactions with FHA and the three housing GSEs confirms the downward trend. The first-time homebuyers' share of all GSE and FHA loans increased from 57 to 60 percent between June 2016 and April 2017. By July, the first-time homebuyer share of GSE purchase loans fell for the third consecutive month to 45.9 percent, after hitting the highest level in recent history in April (48.1 percent).

## Stuck in Neutral with Nowhere to Go

Perhaps one of the most startling findings of this year's NAR Profile is a dramatic increase in homeowner tenure. People are staying in their homes longer, which is contributing to the inventory shortage that is trapping move-up buyers in starter homes and keeping first-time buyers in rentals.

According to the [Urban Institute](#), the number of repeat homebuyers in the market has changed significantly over the past two decades. Repeat homebuyers are families who have lived in their first, second, or third home for a few years and who are able to buy a different (usually more expensive) home thanks to their increased equity and higher earning power.

The inventory drought is working its way up the housing ladder, and now move-up buyers are having a hard time. The basic strategy for moving up from a starter home to a larger home has been to accumulate equity in the home through consistent price appreciation and then convert that equity into the down payment for a more expensive home. Traditionally, borrowers could afford the higher payments on the larger mortgage because their incomes were rising. But falling home prices during the financial crisis have eroded this equity, and most homes are still worth less than their 2007 peak.

Also, low inventories are impacting repeat buyers as well as first-time buyers. While the average home is selling in 45 days, move-up buyers spend three months or more looking for their next home.

In 2001, there were 1.8 million repeat homebuyers in the market. Although their numbers declined until 2008, there were always at least 1 million each year. In 2009, however, there were just under 700,000 repeat homebuyers. By 2015, this number had recovered to only over 900,000, and it has now reached 1 million in the latest 2016 data.

Frozen move-up buyers may be one of the reasons home tenure is getting longer. Currently, the median number of years sellers remain in their home is 10 years, up from six years in 2008. Tenure may continue to increase: today's buyers expect to live in their new homes for 15 years.



## FHA

### Legislation Introduced to Limit FHA Mortgage Insurance

More than a few first-time buyers found out after the fact that when they took out an FHA loan, they also agreed to pay FHA mortgage insurance premium for the life of the loan, even after they had accrued 22 percent equity or more.

Veteran legislator and long-term housing advocate Rep. Maxine Waters, D-Calif., the ranking member of the House Financial Services Committee, introduced a bill, entitled the Making FHA More Affordable Act in mid-October.

The bill would repeal the life of loan requirement and reinstate the FHA's previous policy of requiring borrowers to pay mortgage insurance premiums until the outstanding principal balance reaches 78% of the original home value.

The FHA changed its policy and instituted the life of loan policy in 2013, as part of an effort to improve the health of the FHA's flagship fund, the Mutual Mortgage Insurance Fund.

The FHA needed a \$1.7 billion bailout in 2013, due to the significant shortages in the FHA's MMI Fund. Since then, the fund turned in four years of growth, exceeding its Congressionally mandated target in each of the last two fiscal years. Now that the MMI Fund on better footing, Waters is pushing for the elimination of the life of loan policy.

"Families who take out home loans through the Federal Housing Administration should not be unnecessarily burdened with mortgage insurance premiums for the life of the loan," Waters said in a statement. "My bill would remove this unfair requirement for FHA borrowers and help to make mortgages more affordable for hardworking Americans."

According to Waters' office, several housing trade groups and fair housing groups support the bill, including the National Association of Realtors, the National Association of Real Estate Brokers, the Community Home Lenders Association, the National Consumer Law Center, the National Housing Conference, the National Community Reinvestment Coalition, the California Reinvestment Coalition, and the National Association of Hispanic Real Estate Professionals.

## Research

### Zillow Study Finds Buyers Using Low Down Payments Make More Offers

When home sellers weigh multiple offers, they tend to be most interested in prices and proposed closing dates. But they also want to be sure the buyer they choose has the financial wherewithal to complete the deal, to avoid both wasting time and having to explain to future bidders why a contract fell through. For buyers not paying cash, it's not necessary to have a sizeable down payment to secure a home. But the amount of a buyer's down payment can come into play when other factors in competing bids are a wash.

### (Zillow Study continued)

A [Zillow](#) analysis of data from the Zillow Group Consumer Housing Trends Report 2017 found that on average, buyers with higher down payments make 1.9 offers, compared to 2.4 offers for buyers with lower down payments (after controlling for how competitive the market is). Similarly, for every offer made by a homebuyer with a higher down payment, buyers with lower down payments make 1.4 offers. When time is money, a smaller down payment can be costly.

“Sellers do need to feel comfortable that their potential buyer can qualify, and having more skin in the game in the form of a down payment tends to make people more comfortable,” said Zillow Director of Industry Outreach Jay Thompson, who was a real estate broker in Phoenix.

In some states, the down payment is included as part of the purchase contract. Even in areas where it's not required, a buyer's agent will sometimes include that information in a letter to the seller's agent or a letter from the prospective buyer to the seller. That's often in addition to a preapproval letter from a bank, which is different from a prequalification letter in that the preapproval typically means the lender did a rigorous vetting of the buyer's record, including pulling a credit report, Thompson said.

Even then, deals can go sour. “I've had deals fall apart two days before closing because the client didn't think the lender would pull the numbers again and bought a \$40,000 Lexus, and now the loan debt-to-income ratios are out of whack,” said Thompson. “A lot of agents have horror stories about that, and most of them spend a lot of time with buyers at the beginning of the process saying, ‘Don't buy a car, don't apply for a credit card.’”

## Conventional Lenders

### Lennar Mortgages Help to Pay Student Loan Debt

Eagle Home Mortgage, a subsidiary of Lennar Corporation, now offers a mortgage program with a feature that helps borrowers pay off up to \$13,000 of outstanding student loans, depending on the sales price.

Borrowers with Eagle Home Mortgage's Student Loan Debt Mortgage Program can direct up to 3% of the purchase price to pay their student loans when they buy a new home from Lennar, one of the nation's largest homebuilders. Lennar contributes the 3% student loan payment, which does not increase the price of the home or add to the mortgage loan balance.

Buyers must meet credit and income requirements to qualify for the Student Loan Debt Mortgage Program, which is being offered on a trial basis with new Lennar homes nationwide. As one of the nation's largest homebuilders, Lennar provides a wide range of single-family residences, townhomes or detached condos.

At closing, Lennar contributes up to 3% of the purchase price to pay down student loans incurred while attending universities, colleges, community colleges, trade schools and other certificate-granting programs. In addition to the 3% contribution to student loan balances, buyers may also be eligible for other incentives – such as credits toward closing costs.

## THE DPR INTERVIEW

### The 2017 NAR Profile: Beyond the Numbers

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

*Why hasn't the first-time buyer market share returned to its historic level of 40 percent? With prices rising and new programs available, why isn't the median down payment declining? To get answers to these and other questions, DPR went beyond the numbers to interview **Jessica Lautz, NAR's Managing Director of Survey Research and Communications**. Jessica heads up the research team that produces the annual NAR Profile of Home Buyers and Sellers.*



*Q. The first-time buyer share dropped in 2011 and still hasn't recovered. Why are first-time buyers still below the historical norm of 40 percent?*

I believe the drop in 2011 was probably due to the expiration of the first-time buyer tax credit that was pushing first-time buyers into the market in 2009 and 2010. That was a contributing factor for the following two years, but I think that's too far removed to be a factor today. Now, I believe that the headwinds that we see for first-time home buyers are supply constraints—there's not enough inventory on the market and supply constraints are causing prices to increase at a rapid pace. Also, potential first-time buyers are having difficulties saving for a down payment, especially if they have student loan debt.

*Q. The September existing home sales report has the first-time buyer share down to 29 percent. Do you anticipate next year's profile will show a further decline in first-time buyers?*

I don't believe that the problems that we are seeing in the market for potential first-time buyers are going to go away quickly. The amount of student loan debt in the economy continues to rise on a quarterly basis. New home construction has not returned to historical levels before the recession. If those two factors remain, I can't imagine that we are going to see a significant rise in first-time buyers.

(continued)



*(THE DPR INTERVIEW continued)*

*Q. The median down payment for first-time buyers has been between 4 and 6 percent for the past eight years. In light of the new low down payment programs from the GSEs and conventional lenders, are you surprised to see that the median down payment hasn't declined?*

It did drop to 5 percent this year, so we have seen a slight decline. I think part of the problem could be financial illiteracy regarding low down payment programs. We did another survey of non-homeowners earlier this year, and we asked them what they think the typical down payment is. Among non-owners, they believe overwhelmingly buyers need down payments of 10 percent or even 20 percent to purchase a home, so they may not be aware that these programs are available, and they may not be taking advantage of them. I think that the slight decline to 5 percent perhaps is an encouraging sign.



## DOWN PAYMENT MYTHS DEBUNKED

Some of the biggest misconceptions regarding the homebuying process are related to down payments. The National Association of REALTORS<sup>®</sup> debunks some of the myths surrounding what many people consider the greatest barrier to homeownership.

- 1 You need a 10-20% down payment**  
This simply isn't true. In fact, roughly 60% of homebuyers financed their purchase using a 6% - or less! - down payment.
- 2 Low down payment programs are only for first-time buyers**  
Low down payment and down payment assistance programs are available to many qualified homebuyers, even those buying their second, third or tenth home. Homeowners should review program requirements before counting themselves out!
- 3 It's difficult to qualify for down payment assistance**  
There are assistance programs available for homebuyers with all levels of income, current renters or owners, and buyers with a diversity of credit scores. Talk with your lender or real estate agent about programs in your area!
- 4 You can't use gifts, grants or loans for your down payment**  
This all depends on your lender, but many allow buyers to use money that has been gifted to them (whether through family or grant programs) to pay for some, if not all, of the down payment.

 NATIONAL ASSOCIATION of REALTORS<sup>®</sup>

When you're ready to buy or sell a home, talk with a REALTOR<sup>®</sup>, a member of the National Association of REALTORS<sup>®</sup>. Visit [realtor.com](http://realtor.com) to find a REALTOR<sup>®</sup> and locate accurate, up-to-date listings in your area.

Source: National Association of REALTORS<sup>®</sup> REALTOR<sup>®</sup> Confidence Index

## Commentary

### Down Payments on the Record

*“A down-payment assistance program can be a valuable way both to attract new customers and to fulfill community investment goals. It eliminates the most frequently cited barrier to homeownership, opening up an entirely new demographic of future borrowers.”*

- [Show Them the Money: Down-Payment Assistance](#) by Ed Robinson in the MReport, October 9, 2017.

*“If you’re a millennial who’d like to buy a house before Beyoncé’s twins graduate from high school, then listen up. The folks at Apartment List recently crunched the numbers surrounding our chances at homeownership, and they’re pretty stark. At the rate we’re going, Rumi and Sir are going to be in Freshman Comp before we get the keys to our pads.”*

- [The Millennial Mortgage Problem: Down Payments and Expensive Cities](#) by Susan Shain in Credit.com, October 4, 2017

*“So, while you might hear that it’s more “conservative” to make a large down payment, it’s only partly true: it’s more conservative for the lending institution. A large down payment is riskier for the homebuyer.”*

- [Before making a 20 percent mortgage down payment, read this](#) by Tim Lucas in The Mortgage Reports, October 26, 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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