The Down Payment Report

News and Data on Residential Down Payments

January 2018

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Cloudy Forecast for First-time Buyers

The past year was not the best of times for first-time home buyers. Shortages of homes for sale in most markets drove up prices, and rising interest rates raised the cost of mortgages even higher than prices. Down payments followed suit, rising to a record high by the end of the third quarter.

The lack of affordability has curtailed home sales and caused many young families to put their homeownership dreams on hold. The share of homes purchased by first-time buyers fell to record lows in the second half of the year.

With the dawn of the new year, there is a good reason to be hopeful. New listings are increasing, prices in many of the hottest markets are leveling off, and first-time buyers are using low down payment programs to fight back against the soaring prices of down payments. Low down payment options will play a central role in the revival of first-time buyers in the months to come.

Best wishes to you and your family for a great 2018.

Rob Chrane

CEO, Down Payment Resource

November 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

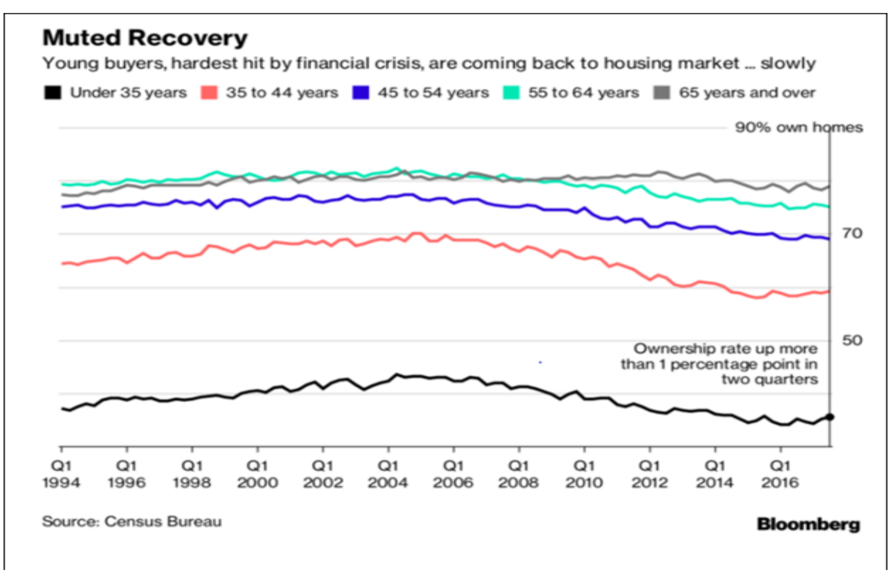
Source: Ellie Mae Origination Insight Report and Millennial Tracker

First-time Homebuyers

FTHB Share Vacillated as Fall Demand Weakened

First-time buyers purchased only 29 percent of existing home sales in November, the second time in the final four months of the year that the first-time homebuyer share of home sales fell to the lowest level in recent memory.

On an annual basis, first-timers are experiencing a three-year decline. Even the October peak share of 32 percent was one point lower than October 2016. NAR's 2017 Profile of Home Buyers and Sellers, which is based on a survey of buyers who purchased their homes between July 2016 and June 2017, reported that first-time buyers accounted for 34 percent of annual home sales. The 2016 edition of the Profile set the first-time buyer share at 35 percent, and over the 38-year history of the Profile, the average market share for first-time buyers is 39 percent.



Millennials Still Trail Homeownership Norms

Though the homeownership rate for Americans under 35 improved slightly in 2017, from 34.7 percent at the beginning of the year to 35.6 percent by the end of the third quarter, today's millennials still trail young Americans' homeownership rate of five years ago by 24 basis points.

In a December 7 interview on Bloomberg TV, Dean Baker, co-director of the Center for Economic and Policy Research, said the nation would have to avoid a recession and see two or three years of better income growth before millennial homeownership rates will resemble those of past generations.

"Young people, pretty much across the board—even young people with advanced degrees− have seen no wage gains since the turn of the century, I think that is improving now, but it doesn't make up for all those years of stagnation and declining wages," he said.

As time passes, new opinion research suggests that Millennials are becoming less likely to associate homeownership with the American Dream and most are planning to delay plans to buy a home by at least 12 months. Trulia's 2017 Homeownership Report found that for the first time since 2011, fewer Americans view homeownership as a part of their American Dream. Millennials aged 18-34 saw the biggest drop, falling from 80 percent in 2016 to 72 percent last year. Some 83 percent of these young Americans still plan on buying a home, but most (72 percent) won't do so until at least the end of 2018.

Low Down Payments and Affordability

Do Low Down Payments Make Mortgages Less Affordable?

Home prices are forecasted to continue to rise in 2018, though not as quickly as last year. However, higher mortgage interest rates combined with above normal appreciation could make affordability an even more significant problem for first-time buyers than last year, especially middle and lower income buyers.

Most forecasters expect abnormal price increases to continue through 2018 as long as inventories of home for sale fail to keep up with demand. For example, the CoreLogic HPI Forecast anticipates that during 2018, home prices will increase by another 4.2 percent on a year-over-year basis, from September 2017 to September 2018, before slowing to a 0.1 percent monthly appreciation rate. In 2017, CoreLogic reported prices rose a median of 7 percent. Strong price appreciation led the more than one-third of the nation's top 100 markets being overvalued by the end of the third quarter.

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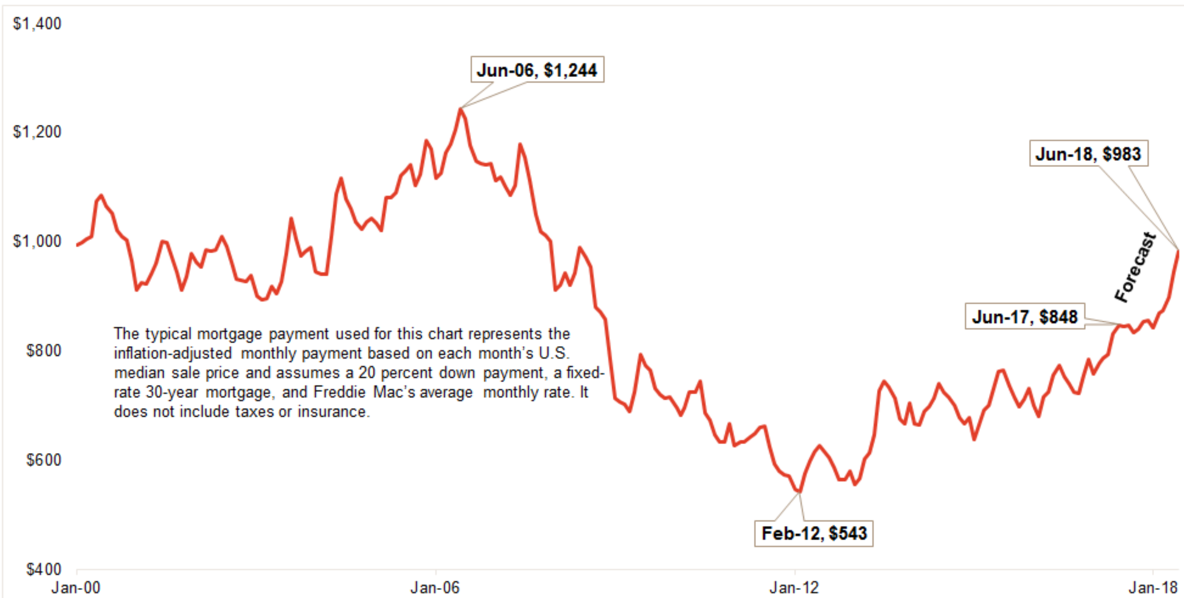
Monthly mortgage payments have been rising faster than housing prices. During the housing recovery, low interest rates helped to mitigate the of impact increasing prices on affordability but the days of rates lower than 4 percent are over. The Fed's policy of gradual rate increases will almost certainly raise 2018 rates higher than they have been in many years and affordability will suffer.

Figure 1: National Homebuyers' "Typical Mortgage Payment"

Inflation-Adjusted Monthly Mortgage Payment That Buyers Commit To



Source: CoreLogic's Real Estate Analytics Suite, Bureau of Labor Statistics, Freddie Mac, and IHS Markit (for CPI and mortgage rate forecast). Forecast period begins in July 2017.

Low Down Payments and Affordability

In the Barriers to Accessing Homeownership study released in November, analysts at the Urban Institute's Housing Finance Policy Center found that loans with down payments of 20 percent or more cost borrowers less over time than low down payment loans.

Monthly payments on low down payment mortgages cost more of a borrower's monthly income than monthly payments on the same loan with a traditional 20 percent down payment. Low down payments leave larger principals to pay off, and those principals create more interest over time. Low down payment loans also require mortgage insurance.

At current interest rates, the share of a family's median income needed for the monthly payment with a 20-percent-down mortgage would be about 22 percent and about 24 percent with a 3.5 percent down payment. Should rates rise to 4.75 percent by the end of this year, as many predict, a buyer putting 20 percent down would pay about 25 percent of his monthly income and a buyer using a low-down payment loan at 3.5 percent down payment would pay about 28 percent of the buyer's monthly income.

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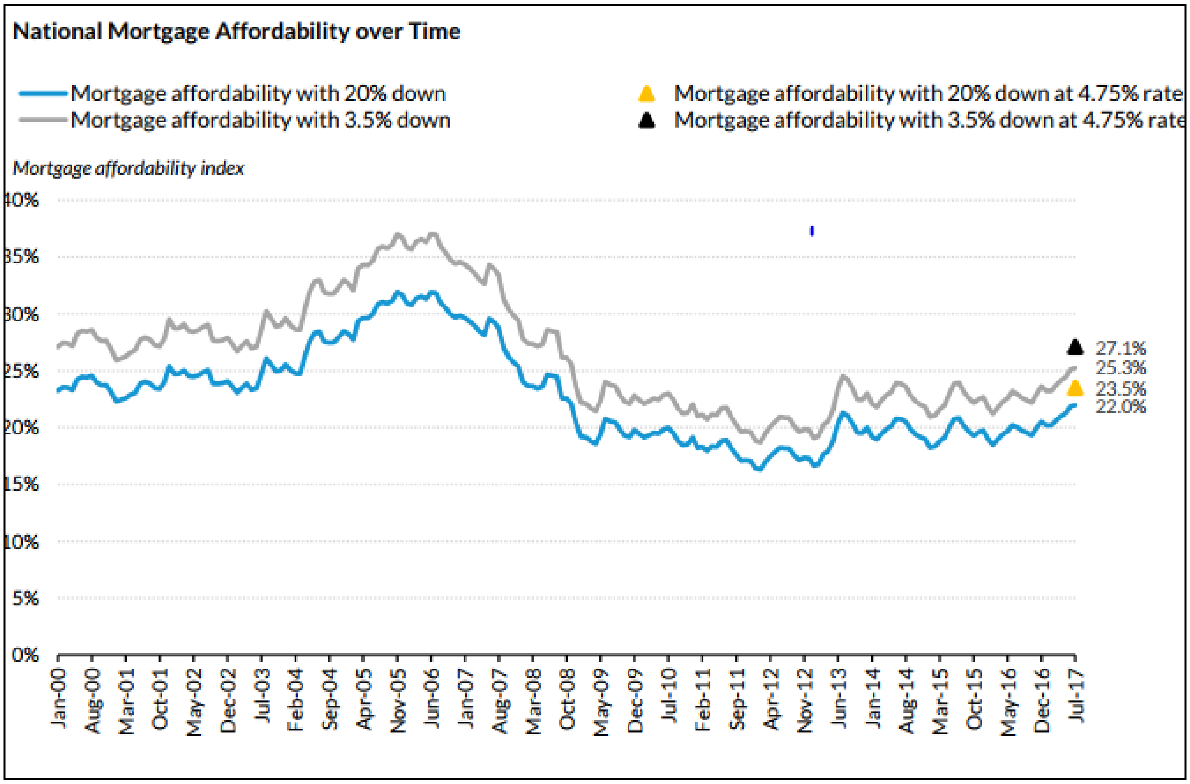


Source: “Barriers to Accessing Homeownership”

Access to Homeownership Changes the Equation

Forgoing a low down payment today to save for a 20 percent down payment in the future changes the equation for first-time buyers. With prices and rates on the rise in 2018, and wage growth still underperforming, affordability will worsen in the months ahead.

A recent survey by Apartment List found that it takes many millennials a decade or more to save enough to make a 20 percent down payment. By that time, the costs of waiting so long will outweigh the advantages of a larger down payment.

Since 2012, it has been cheaper to buy than rent in most markets and rents today are consuming an even larger share of monthly disposable income. The price index for rental of tenant-occupied nonfarm housing rose 3.7 percent from September 2016 through September 2017−the fastest pace in a decade−according to the Commerce Department. Every month that they delay, first-time buyers who wait years to buy are paying a high price.

Barring a recession, both mortgage rates and home prices are certain to increase in the months to come. By the end of this year, rates could rise as high as 4.75 percent, and prices are forecasted to continue to rise in 2018. Rising rates and prices will increase the cost of a 20 percent down payment for those who delay.

“With rising home prices and interest rates, access to sustainable mortgage credit is often only possible with low–down payment loans,” concluded the Urban Institute study.

Down Payment Trends

Down Payment Prices Reached a New Peak in Q3

Rising home prices drove up the median price of down payments on single-family homes and condos to a new record in the third quarter of 2017. Down payment prices are expected to continue to rise as prices appreciate in the new year.

The report also found that 23.4 percent of all purchase loan originations on single-family homes in Q3 2017 involved co-borrowers — multiple, non-married borrowers listed on the mortgage or deed of trust — up from 22.8 percent in the previous quarter and up from 21.1 percent in Q3 2016.

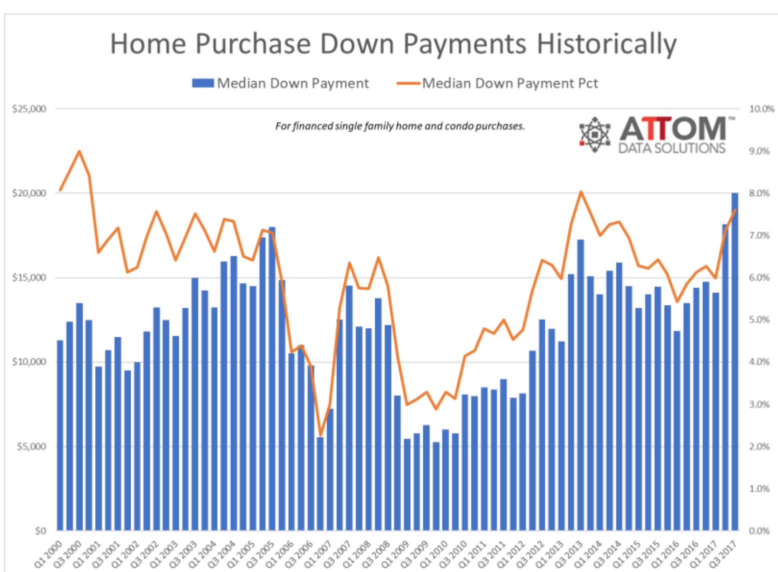
ATTOM Data Solutions reported that down payments reached $20,000, up from $18,161 in the previous quarter and up from $14,400 in Q3 2016 to a new high as far back as data is available, Q1 2000.

The average down payment of $20,000 was 7.6 percent of the median sales price of $263,000 for financed home purchases in the third quarter, up from 7.1 percent in the previous quarter and up from 6.1 percent in Q3 2016 to the highest level since Q3 2013 — a four-year high.

"Buying a home has become a full-contact sport in many markets across the country, and buyers with the beefiest down payments — not to mention all-cash buyers — are often able to muscle out those with scrawnier savings," said Daren Blomquist, senior vice president with ATTOM Data Solutions. "Despite the increasingly competitive nature of homebuying, the number of residential property purchase loans nationwide increased to a 10-year high in the third quarter."

The report found that loans backed by the Federal Housing Administration (FHA) accounted for only 12.9 percent of all residential property loans originated in the third quarter, down from 13.6 percent in the previous quarter and down from 13.2 percent in Q3 2016.

Loans backed by the U.S. Department of Veterans Affairs (VA) accounted for 6.6 percent of all residential property loans originated in the third quarter, up from 6.5 percent in the previous quarter but down from 7.5 percent in Q3 2016. Down payments of all loans closed in November, including refinances and FHA and VA, averaged 20 percent, according to the Ellie Mae Origination Insight data.



FHA

Loan Limits Rise for the First Time in Six Years

FHA is raising limits on the size of conforming loans for the first time since 2008 when the conforming loan limit for a single-unit home was set at $417,000 in an attempt to stabilize the economy in the wake of the financial crisis.

Legislation enacted at the time fixed the limit at $417,000 until average U.S. home prices returned to pre-crisis levels. In the third quarter of 2016, HUD determined home prices finally surpassed those of 2007, thus ending the nine-year freeze. New loan limits of 6.4 percent for most of the nation went into effect on January 1, 2018.

Daren Blomquist, senior vice president for ATTOM Data Solutions, says the new loan limits make sense, “Home prices continue to rise,” he says. “This is an effort to keep government-backed loans in line with those rising home prices.”

THE DPR INTERVIEW

Daren Blomquist's Take on 2018

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

Daren Blomquist *is Senior Vice President of Communications at ATTOM Data Solutions (formerly RealtyTrac), where he directs ATTOM Media, a division of the company that publishes original real estate reports sourced from the ATTOM Data Warehouse, the nation's most comprehensive property database.*

As one of the most quoted sources on residential real estate data and news-making trends, Daren has been quoted in hundreds of national and local publications and has appeared on many national network broadcasts, including CBS, ABC, CNN, CNBC, FOX Business, and Bloomberg. He shared his views with us on issues important to first-time buyers and low down payment programs.

Q. How do you think first-time buyers will fare in the 2018 housing markets?

It's going to be another tough year. I do think conditions will improve marginally from 2017 as we do see more inventory come on line and that will help some markets more than others. Unfortunately, a lot of markets that have the least inventory also have the most barriers to entry for builders. I think that by the end of the year we will see some of the housing start numbers that we have seen trending up in the last few months will translate into more inventory, that's going to be limited to places that have room to build.

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(THE DPR INTERVIEW continued)

Q. Today’s first-time buyer sitting in his apartment faces a real dilemma. He doesn’t have enough for a 20 percent down payment, and it will take him years to save for it, but if he doesn’t get into the market as soon as he can, he’s going to be paying a higher rate of interest and a higher price if he delays. What would you advise someone in that situation?

I know the common storyline is that if you don’t buy a home now, then you will never get into homeownership, but I would say don’t buy into that. It’s OK to be patient. Many of these markets are cyclical, and there will be better opportunities to buy at some point in the future.

That said, I think homeownership is a good thing for many people, and one way to get past the hurdle of the down payment is a down payment assistance program. You may only have enough for 3 percent down payment, but using one of these programs you can turn that into a much larger down payment.

Q. Do you think a 10 percent down payment is a better option than a 3 percent payment for someone in that position?

Absolutely. A down payment doesn’t have to be 20 percent today. In fact, we show that the average down payment is below 10 percent consistently (7.6 percent). It will help your chances with owners in a competitive situation. Also, affordability will be better because the more you put down, the lower the monthly payments will be.

Another way to get over the down payment hurdle is to get assistance from family members to put together a bigger down payment. We see more of that in our data. We see a higher percentage of co-borrowers, particularly in places like the Bay Area and Seattle using co-borrowers. In our data, we are seeing that buyers who can come up with a bit more than the minimum will get them into a better loan product and interest rate as well.

Commentary

Down Payments on the Record

"Buying a home has become a full-contact sport in many markets across the country, and buyers with the beefiest down payments — not to mention all-cash buyers — are often able to muscle out those with scrawnier savings."

— ATTOM Senior Vice President Daren Blomquist, news release, December 17, 2017

"As with many things, the way things get started is something that will help you or haunt you for years to come, so it's essential to understand the initial down payment."

— Justin Pritchard, Choosing a Down Payment, The Balance, September 26, 2016

"It can seem overwhelming when you're beginning to move through the home buying process, but know that you're not the first to exclaim, "I'm ready to buy a home," and you won't be last."

— Allison Sanders. Top Ten Mistakes First-time Home Buyers Make (And How You Can Avoid Them), Zing Blog, December 27, 2017

"That first time behind the wheel, you were in charge of thousands of pounds of metal. The fact that so many others had done this before you didn't make you any more familiar with it. That's how first-time home-buyers feel."

— Abhi Golhar, How to Sell Your Home to a First-time Homebuyer, Forbes, December 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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