The Down Payment Report

News and Data on Residential Down Payments

March 2018

Report Released: March 20, 2018

Collaborating for Counseling

A few weeks ago, the Homeownership Collaborative, a coalition of real estate trade associations and nonprofit housing counseling providers, issued its first report since its inception in 2016. Created by industry leaders like the Mortgage Bankers Association, the National Housing Resource Center, the National Association of Realtors®, the National Association of Hispanic Real Estate Professionals, and the Asian Real Estate Association of America, the Collaborative's goal is to increase use of homeownership counseling and education.

Last year the Collaborative sponsored four events in major markets to bring together lenders, brokers, agents and counselors to discuss how to work together to increase the use homeownership counseling and education by buyers.

Those events exposed why counseling remains so greatly underutilized. Though every real estate professional has a stake in preventing defaults and delinquencies, many agents and lenders don't know how important education and counseling is for their clients and borrowers. Most don't know what counseling resources exist in their markets. At the grassroots, communication, and coordination among agents, lenders and counselors are rare.

One of the Collaborative's four strategies going forward is to work closely with state and local housing finance agencies to reach first-time buyers. "Given the special focus of HFAs, which is to assist first-time and low- to moderate-income buyers, housing counseling can work as both an awareness/marketing component as well as a risk mitigation tool. These partnerships have the potential to align real estate professionals, lenders, counseling agencies, and HFAs in a shared strategy to reach new and underserved borrowers…with all of the stakeholders complementing the other," the report concluded.

Sounds like an excellent idea.

Rob Chrane

CEO, Down Payment Resource

January 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

First-time Buyer Share Opens 2018 on a Downturn

After rising to 32 percent in December, when buyers were closing out fall purchases, January market share of first-time buyers returned to 29 percent, its all-time low that was first reached last September and again in November. In December 2017, the first-time buyer share was 33 percent.

The first-time buyer share has vacillated throughout the fall and early winter months, according to NAR's existing home sales series. First-time buyers, frustrated with rising prices and slim inventories of homes for sale, are experiencing a three-year decline. NAR's 2017 Profile of Home Buyers and Sellers, which is based on survey buyers and sellers whose transaction took place between July 2016 and June 2017, reported that first-time buyers accounted for 34 percent of annual home sales. The 2016 Profile reported an annual first-time homebuyer share of 36 percent of sales.

"Spring may not be pretty for first-time buyers. "It's very clear that too many markets right now are becoming less affordable and desperately need more new listings to calm the speedy price growth," Lawrence Yun, NAR's chief economist, said *Realtor Magazine's* February 22 issue warned.

Best and Worst Markets for First-time Homebuyers

A new study from LendingTree ranks the best and worst markets for first-time homebuyers, evaluating several down payment variables because down payments continue to be identified as the biggest obstacle to homeownership. The factors evaluated include average down payment amount and percentage, share of median priced homes, and share of buyers using an FHA mortgage.

The top three cities for first-time homebuyers were Little Rock, Birmingham and Grand Rapids. Ohio, Pennsylvania, Michigan and Indiana also present positive homebuying opportunities. Twelve of the top 15 cities are in this cluster of industrial states. Access for first-time homebuyers is great as home prices have not outpaced the growth in the economy and affordability is high.

Denver ranked as the most challenging market for first-time homebuyers. Not surprisingly, many large cities ranked in the bottom 10 markets for new buyers. In addition, some surprising cities are in the bottom 10—Las Vegas and Austin both had very low shares of FHA and non-prime borrowers and didn't rank particularly well in other metrics. These are both very popular smaller cities that may be seeing external buyers crowding out the local population.

The report recommends that as affordability declines, borrowers should consider all the programs available to assist them become homeowners, including FHA loans and down payment assistance.

Hispanic Wealth Project: "Low Down Payment Financing is Critical"

The Hispanic Wealth Project, created by the National Association of Hispanic Real Estate Professionals to build a blueprint for Hispanic wealth creation, advocates access to affordable, low down payment financing to achieve the goal of 50 percent homeownership for Hispanics.

Hispanics have accounted for 42.5 percent of new household formations over the past 16 years and the Hispanic homeownership rate of 46.2 percent for 2017 showed an increase of 0.2 percent from 2016's rate, leading Hispanics to become the only demographic to have increased their homeownership rate for the last three consecutive years despite the inventory shortage, especially for starter homes, according to the project's 2017 annual report.

While the lack of housing inventory has been widely discussed as a nationwide concern, the lack of affordable housing stock is at crisis levels, particularly in markets heavily populated by Hispanics. Net homeownership increases have occurred, largely in rural or emerging markets. The Hispanic homeownership rate has rebounded to within 3.5 percent of its pre-recession rate, a more rapid recovery than of the U.S. homeownership rate overall.

"Availability of low-down payment mortgages is critical to improving credit access for first-time homebuyers. Hispanics, in particular, cite down payment as a barrier to homeownership and the prevalence of conventional or FHA options is an important element to increasing homeownership opportunities for credit-worthy borrowers," states NAHREP's 2018 policy positions.

Millennials

Confidence Fades in Saving for a Down Payment

A survey by ValueInsured, a provider of home down payment and refinance equity protection, found that confidence in buying a home is rising among most homebuyers, but not first-time buyers. Only 35 percent said they could afford a down payment, representing a 9-point drop in the 12-month period in which the survey was conducted.

Concern over saving for down payments was higher in markets where prices are rising quickly is particularly glaring in some of the nation's hottest housing markets. Only 25 percent of interested new homebuyers in Seattle expressed some level of confidence that they can afford a down payment; in Denver, 31 percent; and in Atlanta, 33 percent.

The survey found that millennials believe affording their first home could require sacrifices. Among possible paths they will most likely take to save for a down payment sooner, the top five are:

1. Give up or cut down on eating out (59 percent)
2. Take on a second job (51 percent)
3. Give up most or all vacations (47 percent)
4. Give up most or all clothes shopping (39 percent)
5. Return to live or stay living at parents' home (33 percent)

Homeownership Education

Homeownership Collaborative Looks to HFAs to Help Promote Education and Counseling

The Homeownership Collaborative, a two-year-old coalition of housing counseling providers and real estate organizations, including the Mortgage Bankers Association, the National Housing Resource Council and the National Association of Realtors, is turning to local and state housing finance agencies for help increase the use of homeownership education and counseling.

Over a nine-month span—beginning in November 2016—the group tested ideas in four different markets with the intended purpose to explore a broader effort in the future. The collaborative held events in Cleveland, San Antonio, Richmond, CA and Brockton, MA to identify ways to bridge the information gap that exists between housing counselors, and the homebuyers and sellers who can benefit from their services. The collaborative issued a February 28 report that lists steps to increase the use of homeownership counseling services. These include raising awareness among real estate agents, grassroots advocacy, creating a social media presence and engagement with local and state housing finance agencies.

"Given the special focus of HFAs, which is to assist first-time and low- to moderate-income buyers, housing counseling can work as both an awareness/marketing component as well as a risk mitigation tool. These partnerships have the potential to align real estate professionals, lenders, counseling agencies, and HFAs in a shared strategy to reach new and underserved borrowers…with all of the stakeholders complementing the other," the collaborative said.

Mortgage Insurance

MI Premium Deductibility Refuses to Die

A provision in the 640-page Bipartisan Budget Act of 2018 passed by Congress and signed into on February 9 law extends the deductibility of mortgage insurance premiums through the 2017 tax year.

If they itemize, homeowners can include their MI premiums as mortgage interest they paid in 2017 if the insurance contract was issued after 2006. Once adjusted gross income (AGI) exceeds $100,000 ($50,000 for married filing separately), the deduction is reduced. The mortgage insurance deduction is eliminated once your AGI surpasses $109,000 ($54,500 if married filing separately). Premiums paid for mortgage insurance from the Federal Housing Administration, the Department of Veterans Affairs and the Department of Agriculture's Rural Housing Service, as well as private mortgage insurance qualify for the deduction.

Enacted at the time of the housing crash, the mortgage insurance deduction has been continued by Congress on a year-by-year basis every year since then. The deduction was written off for dead after Congress failed to extend MI premium deductibility by the end of 2017.

The same legislation also extended for another year the exclusion of cancellation of up to $2 million of debt for incurred in the short sale of a principal residence ($1 million for a married person filing a separate return) for one year through 2017.

What about the deductibility of the MI premium in the 2018 taxes? Deductibility of mortgage insurance was not included in the federal tax reform legislation, and the odds are slim that it can be extended through the 2018 tax year.

Around the Nation

Low Down Payments put Winnebagos in Homes

A homeownership initiative has reshaped the tiny Winnebago reservation in northeast Nebraska. Since 2002, 52 Winnebago families have received more than $2.3 million in down payment assistance to purchase homes through the Winnebago Down Payment Assistance Program. The average amount received by program recipients was $45,000.

Between 2000 and 2013, the Down Payment Assistance Program helped increase homeownership rates by 4.6 percent, compared with a 1.2 percent increase in homeownership for Nebraska overall. Median home values on the reservation have increased 29 percent.

The Winnebago Tribe estimates each dollar of down payment assistance provided to its citizens leads to $3.72 in home investments, and the program has helped generate $5.97 million in home investment, according to the Lincoln Journal Star. In the midst of Oregon's affordable housing crisis, Oregon House Democrats said they continue to provide desperately needed revenue to address homelessness and help families find safe and affordable housing.

Oregon Finds Funds for Housing Crisis

On March 3, the Oregon House overwhelmingly passed House Bill 4007 and House Bill 5201, which allocate funds for affordable housing and emergency homeless shelters.

House Bill 4007 increases the document recording fee by $40, allowing Oregon an additional $60 million a biennium to invest in housing programs, including homeless services and prevention, developing and preserving affordable housing, and providing homeownership opportunities for low-to-moderate income families.

"Oregon is experiencing a housing crisis," said Rep. Alissa Keny-Guyer (D-Portland) who championed the legislation told KTVZ-TV. "The population of homeless students has steadily increased, more than 1 in 4 renters are severely rent-burdened, and Oregon ranks among the lowest in the nation for homeownership. House Bill 4007 will help address the housing needs of Oregonians by increasing funding for emergency housing assistance, homeownership programs and increasing the affordable housing supply."

Affordable Housing Tops Denver's Problems

Denver's high cost of housing and lack of affordable alternatives appears to be city residents' biggest concern, and a majority are likely to support some increase in property or sales taxes to fix the problem. That's the indication of a public opinion poll conducted last month on behalf of All In Denver, a non-profit public advocacy organization that focuses on urban sustainability issues.

For the poll, 404 likely voters in Denver were asked a series of questions aimed at the respondents' top concerns about the city. The poll suggests that substantial majorities of residents would be supportive of raising property or sales taxes under three different taxing scenarios to deal with affordable housing issues. The biggest support came when respondents were asked if they'd support higher sales taxes for affordable housing efforts, which got 73 percent support.

Slightly fewer, 68 percent, said they'd support a half-mill increase in the property tax mill levy to raise $116 million a year for affordable housing and 64 percent would be willing to raise the levy one mill to raise $232 million.

"The results of this poll again shine a spotlight on Denverites' strong desire to prioritize affordable housing because it impacts everyone in our fast-growing city," Brad Segal, co-founder of All In Denver and a community development practitioner told the Denver Business Journal. "Denver's housing market is increasingly out of reach for even moderate-income families, which threatens our city's economic and cultural vitality. For Denver to remain a community of opportunity—where our residents can find quality, affordable homes with access to jobs, neighborhood amenities and resources—we have to make greater investments in housing."

THE DPR INTERVIEW

Maryland's SmartBuy Program Eliminates Student Loan Debt

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

Launched in 2016, Maryland's innovative SmartBuy Program helps first-time buyers free themselves from student loan debt so that they can buy houses with down payment assistance from the state-owned inventory of REO properties. After turning 36 buyers into homeowners with no student debt in less than two years under its belt, Maryland is launching a revised and expanded program later this year.

To qualify, borrowers must:

- Have not owned a home in the past three years, unless buying in the designated targeted areas;
- Meet local household income limits, which range from $92,500 to $154,420 depending on location;
- NOT have liquid assets equal to 20 percent or more of the property's sales price; and
- Have a balance on their student loan debt less than 15 percent of the sales price of the property they want to buy. If their debt is larger than 15 percent, they must pay down the debt to be less than 15 percent by closing. (The average SmartBuy home costs about $206,000).

Once a foreclosure hotbed, Maryland still ranks third in foreclosures nationally. State-owned REOs are rehabbed to be market-ready and listed by approved brokers. Approved lenders provide a second trust loan on behalf of Maryland's housing agency to pay off the balance of the student loan and Maryland provides down payment assistance up to 4 percent of the purchase price.

We interviewed **Craig Renner**, SmartBuy's program administrator.

(continued)

(THE DPR INTERVIEW continued)

Q. How long does it take for people to buy a home through SmartBuy?

I don't think that there is any difference in the amount of time that SmartBuy loans take compared to other Maryland Mortgage Program loans. From contract to closing, our homes take about 70 days.

Q. If you could change one thing about the program, what would it be?

If you could change one thing about the program, what would it be?

The program has been spectacularly successful. The key thing we wanted to do was address the problem of student debt, in terms of how it was keeping people, especially millennials, from becoming first-time homebuyers. The average student debt for a college graduate in Maryland is $27,000. In addition to retiring student debt, the second thing our program does is sell foreclosed homes at their market price. The houses sold under this program support local home values. We want to keep those aspects of the program—resolving student debt and maintaining property values—but we want to find a way to make it accessible to more people. We have an email list of 2,000 people who are interested.

We are certainly looking for ways to grow the program. We've been working with the governor to find alternative ways to fund the program. I think we will have a revised model for the program to announce later this year. The goal of that is to make the program available to even more people. We have a very innovative program, and other states are looking at this model.

Q. Are there other programs out there regarding addressing student loan debt out there today?

Other states are looking at our program and there are programs similar to ours in Ohio and Pennsylvania. I'm not sure than anyone has developed a program that is as far-reaching as our program.

Commentary

Down Payments on the Record

"Of millennials surveyed, 66 percent cited more living space, 36 percent cared about building equity, and about 25 percent wanted a home due to getting married. About 33 percent were focused on providing a better standard of living for their dogs."

— *An underrated factor in millennial homebuying: Dogs* by Liz Wolfe in the Washington Examiner August 3, 2017

"If you compare their access to credit and ability to get into a home, it's far easier for Millennials than previous generations. Back when Millennials' parents were buying homes, they had higher interest rates, and there weren't down payment assistance programs."

— Joe Tyrrell, executive vice president of Ellie Mae in Money.CNN, April 3, 2017

As of right now, a thin framework of regulation, and the fact that Millennials are broke are the two things keeping us from another mortgage crisis. Of course, society being what it is, Millennials can't expect any credit. Instead, they'll likely wind up being yelled at for not buying the homes of Boomers, which they don't want and can't afford.

— *Millennials Might Be the Only Thing Preventing Another Mortgage Crisis* by Dan Seitz, Uproxx September 1, 2017

"In the clients we work with, most millennials have an appropriate sense of money for their age."

— Zach Swartz, portfolio manager with BKD Wealth Advisors in *6 Money Management Mistakes Millennials Often Make*, US News.com, March 2, 2018

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.

Sign up for a free subscription. For more information on this and other reports, please visit DownPaymentResource.com/Reports

Down Payment Resource (DPR) creates opportunity for homebuyers, Realtors and lenders by uncovering programs that get people into homes. The company tracks approximately 2,400 homebuyer programs through its housing finance agency partners. DPR has been recognized by Inman News as "Most Innovative New Technology" and the HousingWire Tech100™. DPR is licensed to Multiple Listing Services, Realtor Associations, lenders and housing counselors across the country. For more information, please visit DownPaymentResource.com and on Twitter at @DwnPmtResource.

Contact: info@downpaymentresource.com. Media inquiries: tshell@downpaymentresource.com