Down Payment® RESOURCE

The Down Payment Report

News and Data on Residential Down Payments

April 2018

Report Released: April 23, 2018

Hard Times for First-time Buyers

First-time buyers are such critical players in the nation's real estate economy that nine years ago Congress enacted a First-Time Home Buyer Tax Credit to breathe some life into the nation's moribund housing markets. It focused attention on the role first-time buyers play driving housing markets forward to the benefit of homeowners, move-up buyers and the nation's housing economy.

A good case can be made that first-time buyers were better off in 2009 than they are today. A stingy economic recovery has denied young Americans the income levels enjoyed by older generations and has kept them in rentals and their parents' homes. Student debt keeps the best educated shackled by high debt levels.

Worst of all, a chronic inventory shortage, perhaps the worst since the post-war years, is inflating the cost of entering homeownership not just in expensive coastal markets, but also in heartland cities like Buffalo, Philadelphia, Minneapolis, and Atlanta.

As the spring sales season opens, the outlook for first-time buyers may even be worse than last year. The inventory shortage may be slowing in hotter markets where soaring prices are killing demand and slowing sales, but in most of America inventories are still falling.

Never have low down payment mortgages played such an important role. Sales would shrivel in many markets and most first-time buyers, who on average put down half as much as other buyers, would have to wait twice as long to save for their first down payments.

Rob Chrane

CEO, Down Payment Resource

DownPayment RESOURCE

February Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	78	22
Millennials	86	14
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 Settles at a New Low

The share of homes purchased by first-time buyers opened 2018 at 29 percent of all residential sales in both January and February according to the National Association of Realtors' (NAR) Confidence Index, a monthy survey distributed to over 50,000 real estate practitioners.

The first-time buyer share fell to 29 percent last September for the first time since October 2015 and returned to 29 percent in November and again in January. The February share marked the first time in recent years that the new buyers' share has stayed at 29 percent for two consecutive months, suggesting that the first-time buyer share is settling in at the lower level in advance of the 2018 spring season.

NAR's 2017 Profile of Home Buyers and Sellers, a survey of several thousand buyers and sellers, was 34 percent of sales, the lowest level in recent years. The 2016 Profile reported an annual FTHB share of 36 percent of sales. NAR's 2018 Home Buyer and Seller Generational Trends Report, released March 14, used the 34 percent figure from the 2017 Profile for the 2017 first-time buyer market share.

The monthly Confidence Index and Profile numbers differ for two reasons. First, the two suveys were conducted differently. The Profile figure is a survey of buyers based on a total of 7,866 responses from primary residence buyers. The Confidence Index number comes from a monthly survey of 3,560 Realtors. Second, the studies cover different time periods. Buyers surveyed for the Profile bought between July 2016 and June 2017 while the Condidence Index survey is more current, covering transactions in February 2018.

Both surveys describe a downward trend in the percentage of sales to first the first-time buyer share to multi-year lows over the past three years.

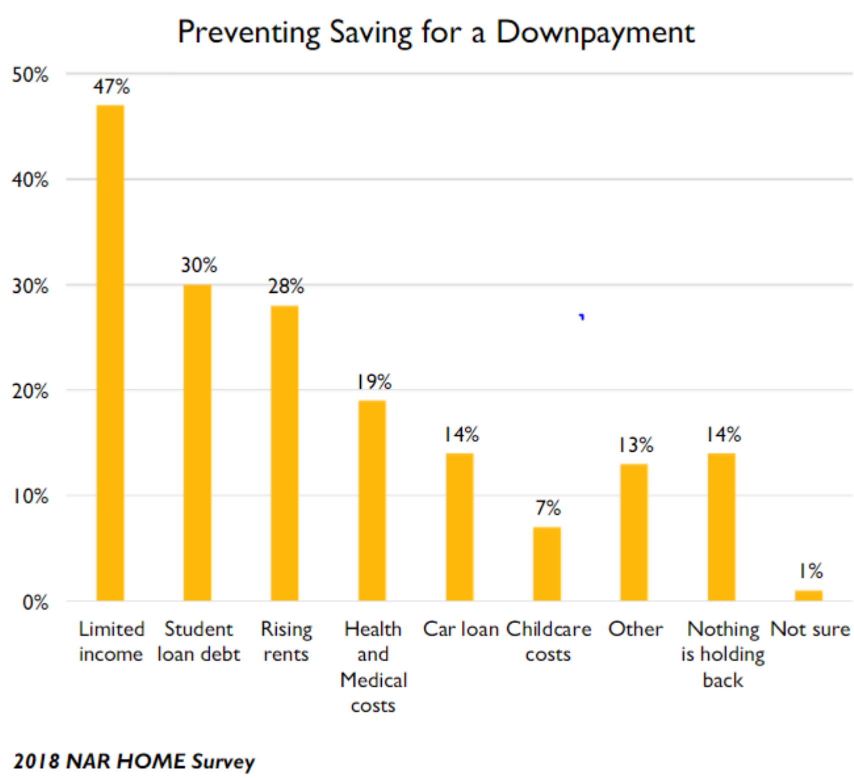
Young Buyer Confidence Sinks as 2018 Sales Season Opens

The percentage of consumers younger than 35 who think now is good time to buy a home has dropped seven percentage points over the past year, from 62 to 55 percent, and the percentage of young buyers who think this is not a good time to buy rose by the same margin, from 38 to 45 percent, according to the first quarter Home Opportunities and Market Experience (HOME) survey by NAR's research department. Among buyers of all ages, support for buying a home fell only four points, from 72 to 68 percent.

About the same percentage of young consumers in 2018 believe home prices in their markets will rise over the next year compared to a year ago. Some 50 percent of younger consumers believe prices will rise in 2018 compared to 53 percent in 2017. Prices rose a median of 5.8 percent in 2017.

However, more young non-owners believe they will have a harder time qualifying for a mortgage this year than last year. Non-owners listed their top three problems qualifying for a mortgage as uncertain income (45 percent), low credit scores (34 percent) and too much debt (26 percent). Top three reasons preventing non-owners from saving for a down payment this year are limited income (47 percent), student loan debt (30 percent) and rising rents (28 percent).

About the same percentage of renters believe 2018 will be a good time to buy a home. Renters' expectations that prices will rise this year (56 percent) also is about the same as last year (57 percent). However, renters are more pessimistic regarding their chances of qualifying for a mortgage this year than last year. Some 64 percent of renters believe they would have a hard time qualifying for a mortgage this year compared to 56 percent last year.



Down Payment Assistance Programs Help First-time Buyers in Best and Worst Markets

As spring sales open across the country, first-time buyers face a variety of barriers to homeownership, including rising prices and access to credit. A February study by LendingTree ranked the best and worst markets for first-time homebuyers this spring, but in both the easiest and most difficult markets, first-timers have access to a variety of programs, according to analysis of down payment and homeownership assistance programs by Down Payment Resource.

LendingTree rated markets based on the share of buyers using FHA loans, average down payment, percentage of buyers who have less than prime credit (below 680), affordability as measured by LendingTree's Housing Opportunity Index, and the average FHA down payment as a percentage of average down payment for all loans.

Best Markets for First-time Buyers

- Little Rock buyers may qualify for programs through the state housing agency in Arkansas. The ADFA Move-Up Choice Loan Program features a grant of 4 percent of the loan amount to help cover down payment and closing costs. Plus, ADFA's Mortgage Credit Certificate (MCC) Program offers a dollar-for-dollar tax credit (up to $2,000 annually) for first-time, low-to-moderate income homebuyers.
- In Birmingham, the NeighborhoodLIFT program provides matching funds up to $7,500 in down payment assistance on qualified properties located in Jefferson County. And, the Alabama Housing Finance Authority (AHFA) Step Up Mortgage Program offers a 10-year second mortgage that provides 3 percent down payment assistance, combined with a 30-year, fixed-rate first mortgage.
- Grand Rapids buyers have access to state programs, including the Michigan State Housing Development Authority (MSHDA) MI Home Loan program that offers up to $7,500 in down payment assistance. And, MSHDA offers a MCC program that provides a dollar-for-dollar tax credit for the life of the original mortgage.

Worst Markets for First-time Buyers

- Denver buyers have access to the Denver Metro Mortgage Assistance Plus Program that provides up to 4% of the first mortgage loan as a non-repayable grant. The agency also offers a MCC program that provides a tax credit of 25 percent (up to $2,000 annually). And, check out the potential impact the Colorado Housing and Finance Authority's Smart Step Plus Program can make for a Denver homebuyer.
- New York buyers may be able to take advantage of one of many programs offered by the State of New York Mortgage Agency (SONYMA), including the Graduate to Homeownership program providing up to 3 percent or $15,000 for college grads purchasing their first home in certain upstate New York communities and the Down Payment Assistance Loan (DPAL)program that offers down payment assistance through a second mortgage.

Millennials

Home Prices for Young Buyers Rose 65 Percent Since 2016

Prices paid by younger buyers are increasing nearly three times faster than prices paid by all age groups, according to the 2018 edition of [NAR's Home Buyer and Seller Generational Trends](#).

The median price of homes bought by buyers 37 years and younger has increased 17.4 percent over 2016 while the median price for all age groups has increased 6.8 for the past two years. Younger buyers spent a median of $220,000 in 2017, (up from $205,000 last year and $178,400 in 2016). The median price for all age groups was $236,000, up from $220,000 in 2016.

Other key findings from the 2018 report:

- For 59 percent of buyers, down payments came from their savings and for 38 percent, from the proceeds from the sale of a primary residence. Seventy-five of buyers 37 years and younger used savings for their down payment compared to only 42 percent of buyers 63 to 71 years.
- Twenty-six percent of all buyers reported having student loan debt with a median amount of $25,000. For buyers 37 years and younger, 46 percent have student debt with a median amount of $27,000 compared to just four percent for buyers 63 to 71 years.
- Only 56 percent of buyers 37 years and younger used a conventional loan compared to 68 percent of buyers 63 to 71 years. Twenty-seven percent of buyers 37 years and younger used a FHA loan and 10 percent used a VA loan.
- Ninety-eight percent of buyers 37 years and younger financed their purchases and only 20 percent of them put down 20 percent or more.

Exhibit 5-2
PERCENT OF HOME FINANCED
(Percentage Distribution)

		AGE OF HOME BUYER				
	All Buyers	37 and younger	38 to 52	53 to 62	63 to 71	72 to 92
Less than 50%	9%	5%	6%	13%	22%	16%
50% to 59%	3	1	2	5	8	4
60% to 69%	5	2	5	6	9	10
71% to 79%	12	10	13	16	16	12
80% to 89%	22	23	22	24	17	23
90% to 94%	14	17	17	11	6	6
95% to 99%	21	28	22	12	7	8
100% – Financed the entire purchase price with a mortgage	14	15	13	13	14	21
Median percent financed	90%	93%	91%	84%	77%	83%

Affordability

New Affordability Indexes Measure Renters' Ability to Become Homeowners

Unlike most other measures affordability that compare income levels with house prices, two new indexes developed by the Urban Institute focus on renters' ability to become homeowners based on the distribution of local incomes and area home prices. In defining households, the new indexes also distinguish between owners and renters.

The think tank has developed both national and local versions of the housing affordability housing affordability for renters index (HARI). The local HARI shows how affordable homeownership is to current renters in the 20 most-populous MSAs. A local index of 25 percent indicates that 25 percent of renters in a given MSA earn enough to purchase a house in that area. The local HARI ranges from 18 to 31 percent. The national HARI shows in which of the 20 most-populous MSAs will migrating renters have the best chance of being able to afford to buy a home. The national HARI ranges from 9 to 31 percent, depending on the region into which the renter might move, assuming the renter keeps his or her current income.

HARI is producing some startling results. Three of the top 20 largest markets that are usually considered unaffordable by traditional indexes may in fact be accessible to more local renters when the distribution of the incomes and area home prices are taken into account. These include San Francisco, Seattle, Washington, DC. The new index also shows that, nationwide, more than one in four renters have incomes that put homeownership within reach.

The Washington, DC metropolitan area, for example, is considered "severely unaffordable" by at least one traditional measure, but the HARI index reveals that 30 percent of local renters can afford homes in the area, nearly double the 17 percent of national renters with incomes similar to those of DC homebuyers. Renters moving to the area might find it difficult to afford a home there, but one-third of renters in the area have the necessary incomes.

San Francisco is equally surprising. Only 9 percent of national renters could afford to buy a home in San Francisco according to traditional indexes, but the HARI found that nearly one in four local renters have incomes that match those of recent local homebuyers. In Seattle, one in four local renters can afford homes, while only 18 percent of national renters can match or exceed the incomes of recent homebuyers. Here's the local HARI's ranking of the twenty least affordable major markets:

Local Housing Affordability for Renters Index

Metropolitan statistical area	Local HARI (%)	Homeownership rate (%)
Los Angeles-Long Beach-Anaheim, CA	18	47.7
San Diego-Carlsbad, CA	20.2	52.2
New York-Newark-Jersey City, NY-NJ	22.1	51.1
Houston-The Woodlands-Sugar Land, TX	22.4	59.4
Boston-Cambridge-Newton, MA-NH	23.5	61.3
Dallas-Fort Worth-Arlington, TX	23.8	59.1
Miami-Fort Lauderdale-West Palm Beach, FL	24.1	58.3
San Francisco-Oakland-Hayward, CA	24.3	53.5
Philadelphia-Camden-Wilmington, PA	25.4	66.7
Riverside-San Bernardino-Ontario, CA	25.5	61.3
Denver-Aurora-Lakewood, CO	25.6	63.9
Seattle-Tacoma-Bellevue, WA	25.7	59.5
Detroit-Warren-Dearborn, MI	26	67.7
Minneapolis-St. Paul-Bloomington, IL-MN	26.2	69
Chicago-Naperville-Elgin, IL-IN-WI	26.4	63.5
St. Louis, MO-IL	26.6	68.2
Tampa-St. Petersburg-Clearwater, FL	28.3	63.4
Washington-Arlington-Alexandria, DC-VA	29.6	62.2
Atlanta-Sandy Springs-Roswell, GA	30.1	61.4
Phoenix-Mesa-Scottsdale, AZ	31.2	61.8

Across the Nation

Philadelphia Considers Tax to Fund Down Payment Assistance

The Philadelphia city council is considering legislation to strengthen the city's middle class by helping people struggling with rising housing costs and the barriers so many face in their quest for homeownership.

A central feature of the plan is a one percent tax on the cost of construction, due at the time the building permit is issued. The tax is expected to generate $25 million a year, to be split between affordable housing production and a new down payment assistance program. Supporters expect the plan will be voted onto the books by the end of May, according to WPVI-TV.

Massachusetts Buyers Get New Zero Down Program

Known as one of the most expensive housing markets in the nation, Boston and Massachusetts have developed such high home prices that it's one of the most serious impediments to the state's long-term economic growth, according to Massachusetts Governor Charlie Baker.

Middle-class residents will get some relief from a new down payment assistance program launched by MassHousing that allows qualified low-to-middle-income buyers to purchase homes with no down payment. Instead of requiring its usual three percent down, the agency will now offer to cover that three percent with a second loan (up to $12,000), repayable at one percent interest over 15 years.

NeighborhoodLIFT Program Expands to Serve Atlanta

Since 2012, the Wells Fargo NeighborhoodLIFT program has provided down payment assistance and financial education to thousands of homebuyers across the country. Today, the program is active in seven states, most recently launching in Atlanta. Officially opening June 5, the Atlanta program provides assistance to buyers in five metro counties.

NeighborhoodLIFT provides eligible homebuyers up to $15,000 toward down payment and closing costs on qualified homes. First responders, members of the military and teachers can receive up to $17,500. The program's partnerships with NeighborWorks® America and local nonprofit organizations provide financial education along with down payment assistance.

Denver Teachers Partner with Landed

Denver Public Schools announced that it has partnered with Landed, a startup based in California, and the Zoma Foundation to launch a down-payment assistance program that will provide up to half of a 20 percent down payment on a home, or up to $70,000 per household, to about 100 teachers the first year. Teachers and school staff members who have worked for DPS for at least two years and can contribute half of a 20 percent down payment would qualify for the program.

Rather than giving out loans or grants, the program's backers will act as co-investors on the property, sharing in the loss or gains in the value of the home. When a buyer refinances or sells the home, the buyer would pay back the original down payment funding plus 25 percent of any gain in the home's value, according to the company. Landed reinvests any gains back in the program so that it can grow. Denver will be Landed's first foray outside California.

THE DPR INTERVIEW

First-time homebuyer and starter home inventory challenges

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

Ralph B. McLaughlin is well-known for his work as Trulia's Chief Economist. There, he led the housing economics research team and provided house hunters with key insights about the economy, housing trends, whether to rent or buy and public policy issues such as tax reform. Recently Ralph left Trulia to form Veritas Urbis Economics to provide economic consulting services to the real estate industry.

Q. Let's begin with the elephant in the room. What will happen with inventory shortage this year?

I don't see any signs of relief at all. In fact, I think that there's a good possibility that things will take a dive and get even worse. The big question is why is all this happening and what can be done about it? I think there are three main reasons. First, we are building homes at only about 65 percent of the rate that we have been over the past three years. We are under-building. Second, we are entering what I call a demographic roadblock. A majority of homeowners are at a period of their lives where they want to stay put. Three, I think that rising prices in many markets are actually incentivizing people to stay put. If owners want to trade up, they would probably have to spend much more than just the equity they have in their current house to buy a larger one. So, they renovate rather than trade up. I think those three things explain most of what we are seeing in the market.

Q. *You've done research showing that starter homes are appreciating at twice the rate of a premium priced homes. Do you see the crisis in starter homes getting worse this year?*

Yes. With prices increasing a lot faster than inflation, that puts pressure down the line. When trade-up buyers can't find a home they can afford, they will buy a less expensive home. Those who tend to get squashed are starter home buyers. Also, there still is competition between starter home buyers and investors. Investors are not as active as they were, say, in 2013, but there still are opportunities for investors to buy, repair and sell homes. Those are real challenges for first-time home buyers.

Some of the solution to the inventory problem may be generated by the investors themselves. I think those investors who bought up single family homes in 2011 and 2012 have seen the equity in their properties rise substantially, especially compared to rent. At some point, they are going to be incentivized to sell because the equity in their houses is worth more than the cash flow from rent.

(continued)

(THE DPR INTERVIEW continued)

Q. Do you think that in some markets today prices have reached such a point that first-time buyers are buying homes that they can't afford and default?

In some markets I think that there is a higher risk than others, but I think those are largely isolated in California, Seattle and Denver. In those markets I think that some buyers are stretching their resources just to get into the game. From a national perspective, I think those markets that are safe for first-time home buyers far outweigh those that are risky. I don't think there is any national problem, but in certain markets, it is possible.

Q. So how do you think first-time buyers will do this year?

I think that their market share could go down a little bit but the demographics over the next two to four years will lead to more first-time buyers. We have this big demographic group that are currently buying homes at a historically low rate, and as that cohort ages beyond 35, I think that due to their size they will become a larger share of the market. It's going to take inventory relief over the mid term as well as lifestyle changes over time.

Commentary

Down Payments on the Record

"According to the Federal Reserve, for every 10 percent in student loan debt a person holds, their chance of homeownership drops between 1 and 2 percentage points during their first five years after school."

— Annie Nova on CNBC, March 2018

"They were blamed for the biggest financial disaster in a century. Subprime mortgages – home loans to borrowers with sketchy credit who put little to no skin in the game. Following the epic housing crash, they disappeared, due to strong, new regulation, and zero demand from investors who were badly burned. Barely a decade later, they're coming back with a new name — nonprime — and, so far, some new standards."

— Diana Olick on CNBC, *Subprime mortgages make a comeback—with a new name and soaring demand,* April 12, 2018

"And even if your own kids haven't yet asked for a hand, many of them might be considering it. The "Modern Homebuyer" survey from ValueInsured, a company that sells insurance to consumers that pays back their down payments if the value of their home falls, indicates that nearly 60 percent of Millennials looking to buy their first home aren't confident they can afford to do so.

— *Should you help your adult child with a down payment for a house?* USA TODAY March 13, 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.

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