The Down Payment Report

News and Data on Residential Down Payments

May 2018

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The Homeownership Rebound

Two years ago, the national homeownership rate fell to its lowest level in more than 20 years, in part due to a sharp decline in homeownership among young adults, African-Americans and Hispanic Americans. The drop in the rate raised concerns about the future of homeownership, especially among young first-time buyers who face chronically rising prices, falling inventories, and incomes that have not kept pace with economic growth.

Over the past five quarters, the rate has stabilized and now is rising slowly, in part due to a rebound in homeownership among Hispanic and millennial households. The national rate, currently at 64.2 percent, has a long way to go to reach its 69.3 percent peak in 2004. Young and Hispanic households also are still far below their levels during the housing boom, but the momentum has clearly shifted−especially among young and Hispanic Americans.

Both first-time millennial and Hispanic American homebuyers rely on low down payment mortgages to break through the barriers they face. Millennials are now putting down an average of 13 percent compared to 21 percent for all buyers. More than one out of four Hispanics cite down payments 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, according to the National Association of Hispanic Real Estate Professionals (NAHREP) in its 2017 State of Hispanic Homeownership Report.

Rob Chrane

CEO, Down Payment Resource

March 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	81	19
VA Purchase	98	2

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

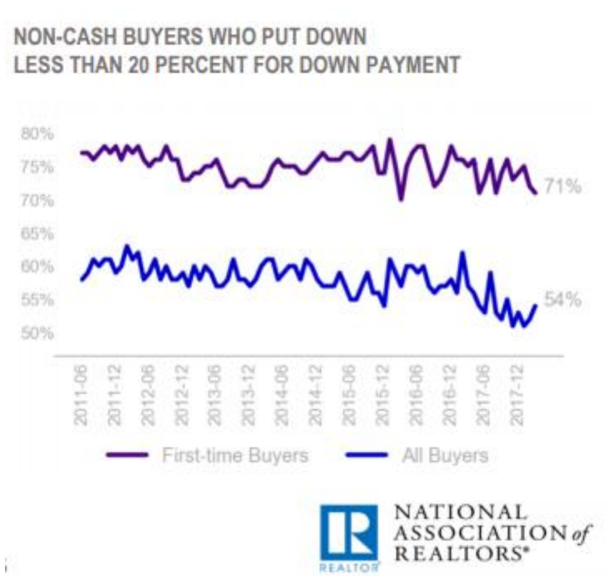
First-time Homebuyers

More Buyers Put Down Less as Spring Arrives

As the spring sales season opened, the percentage of all homebuyers putting down less than 20 percent rose to 54 percent in March, a six-month high, according to the National Association of Realtors (NAR) Realtor Confidence Index. The percentage of first-tine buyers putting down less than 20 percent fell to 71 percent, down from 72 percent in February.

First-time buyers accounted for 30 percent of all sales in March, up from 29 percent in but down from 32 percent a year ago. Released last October, NAR's 2017 Profile of Home Buyers and Sellers found that the annual share of first-time buyers was 34 percent.

The average down payments for all loans, for Millennials, and for conventional purchase loans all fell 1 percent with in March.

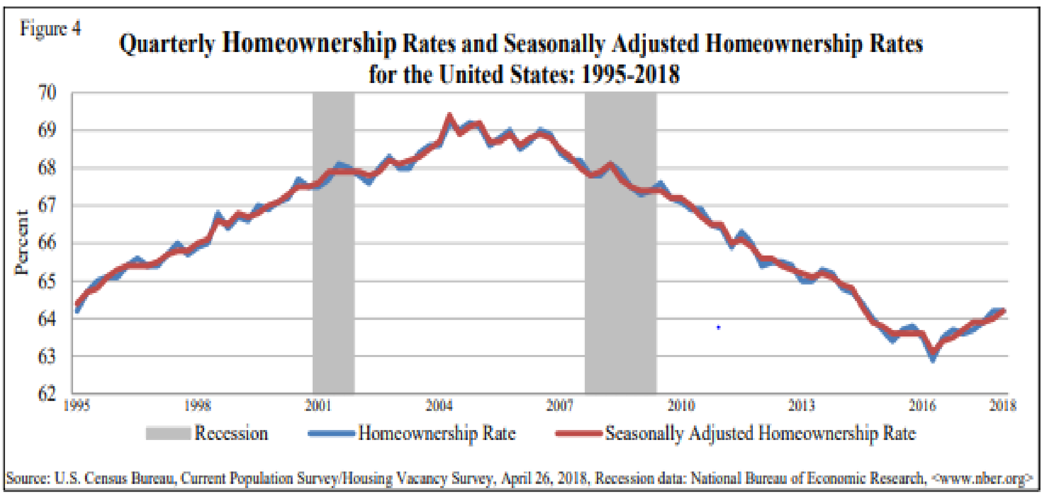


Homeownership

Hispanics and Young Buyers Help Homeownership Turn the Corner

After falling to a multi-year low in 2016, the national homeownership rate has changed course, rising or staying even for seven consecutive quarters, the longest uninterrupted streak since a 15-quarter run from Q3 1999 to Q1 2002.

Since bottoming out at 62.9 percent in the second quarter of 2015, the rate reached 64.2 percent in the fourth quarter of last year. On a quarterly basis, the rate stayed the same in the first quarter of this year despite the fact that during the slow winter months the rate has declined during the first quarter for the past six years.



Homeowner households are outpacing renters

"In each of the past three quarters (most notably in Q4 2017), the number of homeowner households has increased sharply while the number of renter households has been largely flat – a reflection of the increasingly frenetic pace of the home purchase market over the past few months. There currently are 1.35 million (1.8 percent) more homeowner households and 286,000 (0.7 percent) fewer renter households compared to Q1 2017," said Adam Terrazas, Zillow's economic research director.

"While they (households under 35) only make up a third of all homebuyers, the steady uptick in their homeownership rate over the past year suggests their enormous purchasing power may be finally coming to the housing market," said Ralph McLaughlin of Veritas Urbis Economics.

Though their rates still trail the national average, gains by Hispanic and buyers younger than 35 have been driving the trend. The homeownership rate for young buyers is .9 percent higher than it was in the first quarter of 2016 despite the barriers of falling affordability and high levels of student debt that are delaying homeownership for millions of graduates by increasing the time it takes to save for a down payment.

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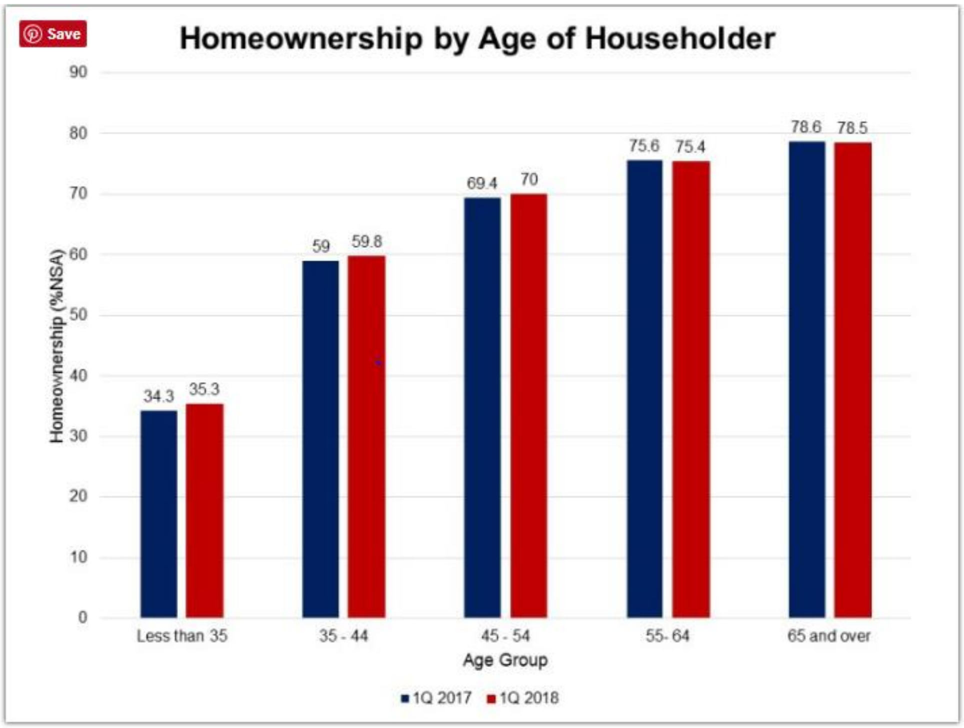
"The share of Millennials who own home increased from 34.3 percent a year ago to 35.3 percent in the first quarter 2018. However, it slipped 0.7 percent from a three-year high of 36 percent in the last quarter 2017.The homeownership rates of households ages 35-44 experienced a 0.8 percent increase, followed by the 0.6 percent gain registered by households ages 45-54," said Terrazas.



Hispanic buyers rely on low down payments to access credit

The National Association of Realtors' Affordability Index has fallen from 0.86 to 0.84 between March 2017 and March 2018. NAR's Lawrence Yun believes "the lack of entry-level supply is putting affordability pressures on too many buyers – especially those at the lower end of the market, where demand is the strongest. Therefore, first-time buyers continue to struggle to find affordable properties to buy and are making up less than a third of home sales so far this year."

The homeownership rate among Hispanics increased 0.8 percentage points to 48.4 percent, its highest rate since Q1 2010. On average, Hispanics tend to be younger than other racial and ethnic groups, so some of the rising homeownership rates among Hispanics is tied to the rising homeownership rate among young adults nationwide, reported Zillow.

In its 2017 State of Hispanic Homeownership Report, the National Association of Hispanic Real Estate Professionals (NAHREP) urged Fannie Mae, Freddie Mac, and FHA to preserve affordable, low down payment mortgage products as the best source of mortgage financing for Hispanics and other first-time homebuyers.

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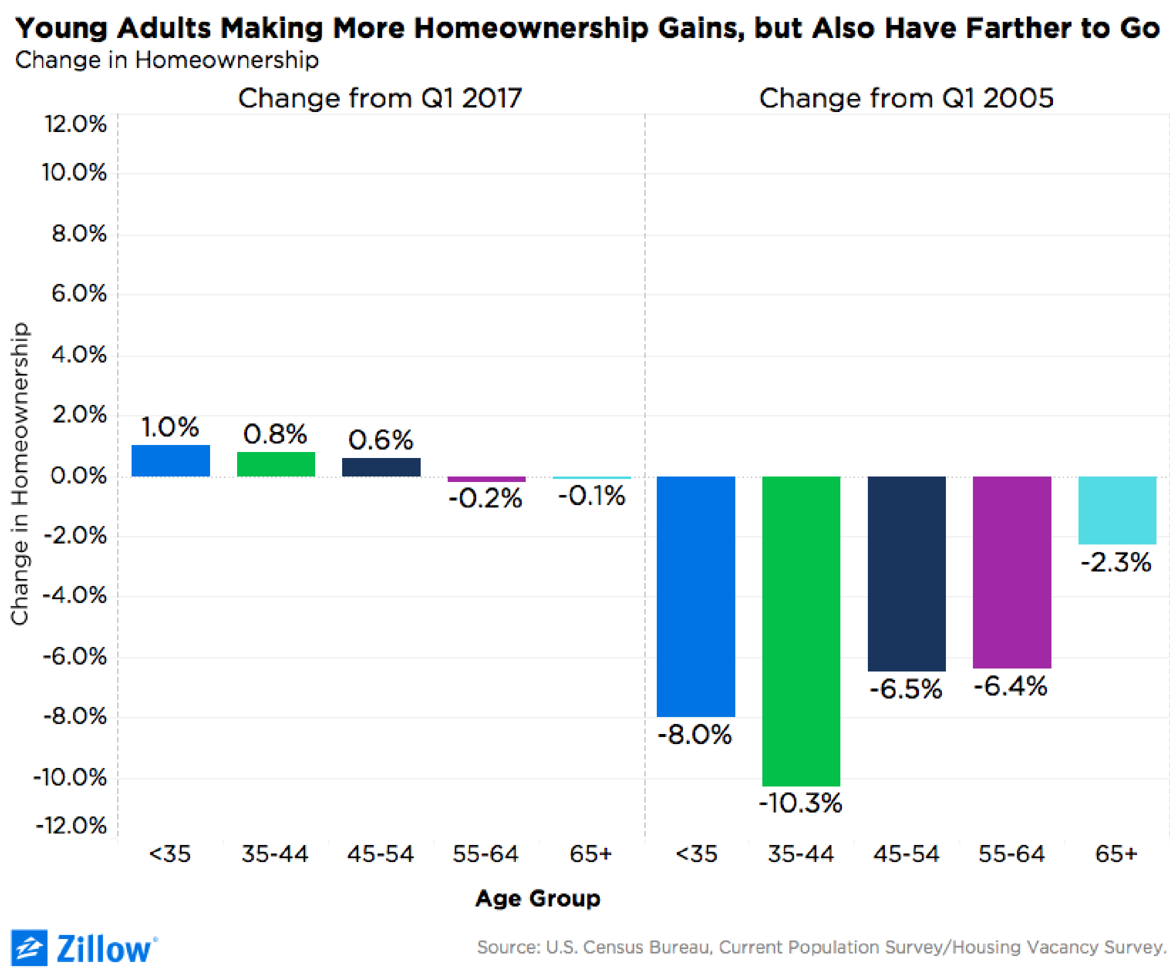
(Hispanics and Young HomeBuyers continued)

"In addition to credit scoring changes, availability of low-down payment mortgages are critical to improving credit access for first-time home buyers. 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," NAHREP said.

African-Americans are not participating in the homeownership rebound

Homeownership rates among African-American households continue to languish at post-recession levels. In the first quarter of this year, the 42.2 percent rate was about one point lower than it was in the first quarter of 2014. The homeownership rate for black households with a college education was lower in 2015 than the rate for white households with less than a high school education (57 versus 63 percent), according to a report from the [Urban Institute](#).

"Policymakers must recognize that this declining rate is the result of failings that go beyond the mortgage market. Among other strategies, we can broaden access to mortgage credit to reverse this negative trend and expand access to homeownership's many benefits," the Urban Institute concluded.



First-time Homebuyers

Hot Summer Ahead: Prices Already on Fire

Conditions for first-time buyers may worsen in the months to come as prices are rising at record rates. Home prices have seen the strongest gains to start any year since 2005, according to Black Knight's latest Mortgage Monitor, and they'll stay high if Fannie Mae's latest consumer survey is accurate.

"As of the end of February, home prices had risen 6.65 percent from a year ago, a metric that continues to increase. The rate of appreciation has accelerated by 42 basis points over the past six months and by 72 basis points over the past 12 months. This acceleration, combined with a nearly 40 basis point increase in the prevailing 30-year fixed interest rate during that same time frame, is creating a tighter affordability climate. We have now seen monthly increases in the national median home price for 27 of the past 28 months, and annual gains for 70 consecutive months," said Black Knight Executive Vice President Ben Graboske.

Fannie Mae's April National Housing Survey reached a new all-time survey high as the net share of consumers who reported that now is a good time to sell a home increased 6 percentage points month over month. Additionally, the net share who said home prices would go up in the next 12 months increased 7 percentage points.

"High home prices and good economic conditions helped push the share of Americans who think it's a good time to sell to a fresh record high. However, the upward trend in the good-time-to-sell share seen since last spring has done little to release more for-sale inventory. The tightest supply in decades, combined with rising mortgage rates from historically low levels, will likely remain a hurdle for mobility and a persistent headwind for home sales," said Doug Duncan, senior vice president and chief economist at Fannie Mae.

Down Payment Assistance Programs

More Than 86 Percent of Homeownership Programs are Funded

The First Quarter 2018 Homeownership Program Index (HPI) from Down Payment Resource reported the number of total programs decreased slightly to 2,503, down four programs from the previous quarter. More than 86 percent (86.5 percent) of programs currently have funds available for eligible homebuyers, down about one percent from the previous quarter.

Down Payment Resource communicates with 1,308 program administrators to track and update the country's wide range of homeownership programs, including down payment and closing cost programs, Mortgage Credit Certificates, affordable first mortgages and more.

Down payment assistance programs make up 69 percent of the programs in the Down Payment Resource database. Down payment assistance, or DPA, is an umbrella term for the many programs offered by federal, state, county or local government agencies, nonprofits or employers. DPA programs include loans (with widely varying payback provisions), grants and other programs for potential homebuyers who are income- and credit-qualified and ready for homeownership.

Freddie Mac Launches New Conventional 3 Percent Down Loan

In late April, Freddie Mac announced a new 3 percent down payment conventional mortgage for first-time buyers, called HomeOne. The program has no geographic or income restrictions and is meant to complement Freddie's Home Possible mortgage products for low-to-moderate income borrowers.

"Freddie Mac's HomeOne mortgage is part of the company's ongoing efforts to support responsible lending, provide sustainable homeownership and improve access to credit," said Danny Gardner, senior vice president of single-family affordable lending and access to credit at Freddie Mac. "The HomeOne mortgage will provide our customers the flexibility they need to help borrowers anywhere in the country achieve the milestone of homeownership and overcome the common down payment resource hurdle." HomeOne will be available July 29, 2018.

In addition to announcing the HomeOne product, Freddie Mac said that it is adjusting the area median income limits for the Home Possible program. Income limits will be capped at 100 percent of the area-median income. Low-income census tracts will continue to have no limits.

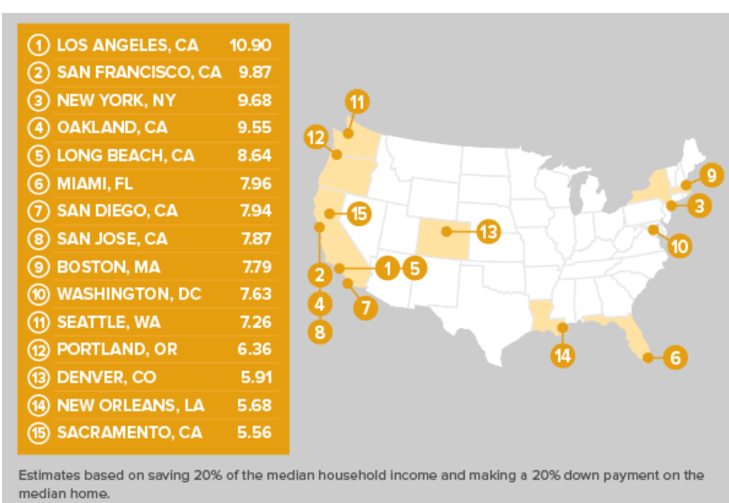
Down Payment Research

Ten Years to Save for a 20% Down Payment?

Several organizations, including the Hanley Wood Design Studio and Apartment List recently released eye-popping studies on how many years of work and saving it will take to save for a down payment. The latest, by personal finance technology company SmartAsset, found that where you want live, not just your debt, choice of home and saving skills, can determine how long it will take to save for a down payment.

For the 50 largest cities, SmartAsset found the median home value and the median household income. Assuming 20 percent of the median home value, SmartAsset divided the estimated down payment by the annual estimated savings to arrive at the estimated years of saving needed to afford a down payment.

They found that in some cities, the average home is worth so much more than the average income that it can take nearly a decade of more of saving for a 20 percent down payment.



How many years it takes to afford a 20% down payment.

Across the Nation

States Consider New Ways to Help First-timers

With state legislatures in full swing, first-time buyers are getting some sympathy from state legislators for soaring home prices and shrinking inventories. Here are some of the proposals making their way through statehouses across the nation.

State Tax Breaks in the Works

Efforts to help potential first-time home buyers save for down payments using special tax-favored accounts have been gaining traction in state legislatures. Three states passed legislation in 2017 authorizing the accounts: Iowa, Minnesota and Mississippi. Three other states had previously approved them: Colorado, Montana and Virginia.

Down payment accounts may be helpful, said Adriann Murawski, state and local government affairs representative with the National Association of Realtors, because rising home prices have made it harder for buyers to come up with the money for them. *New York Times 12/8/17*

Missouri's First-time Home Buyer Savings Account Act

A new legislation in Missouri would establish the First-Time Home Buyer Savings Account Act and authorize a tax deduction for contributions to a savings account dedicated to buying a first home.

The bill would authorize an individual income tax deduction for 50 percent of the contributions to the account. It would have an annual contribution deduction limit of $1,600 per taxpayer. The bill specifics the maximum contribution limit for all tax years would be $20,000 and the maximum total amount in the savings account would be $30,000. *Howell County News, 5/5/18*

Sen. Mensch touts First-Time Homebuyers Savings Account Bill

Senator Bob Mensch promotes new legislation to create a first-time homebuyers savings account program. Mensch says the bill would allow first-time homebuyers, or buyers reentering the housing market, to set up 10-year tax deductible savings accounts for purchasing a home.

"Homeownership strengthens communities and provides stability for families. A First-Time Homebuyers Savings Account will be an important tool in helping people overcome the financial obstacles to home ownership," Mensch said. *WFMZ-TV 5/10/18*

First-time Home Buyers Could Get Help from Dover

Proposed legislation in Dover would provide relief to first-time home buyers. House Speaker Pete Schwartzkopf says it would exempt first-time home buyers from paying the buyer's share of the one percent increase in the transfer tax.

The state portion of the realty transfer tax was raised by 1 percent in 2017 to help deal with the budget deficit. The percent increase is split 50/50 between the buyer and seller. Revenue from the tax is provided to the county and the state. If passed, the legislation would exempt first-time home buyers from paying 0.5 percent of the first $400,000 of a home's selling price, or a maximum of $2,000.

The legislation is retroactive; so any first-time home buyer who purchased a home in Delaware on or after August 1, 2017 would be able to apply and receive a refund through the Delaware Division of Revenue. *WDEL 4/19/18*

THE DPR INTERVIEW

“People should really do the math.”

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

To find out more about the SmartAsset study, we interviewed **A.J. Smith**, SmartAsset’s VP of Content and Financial Education. Smith is a personal finance expert who leads a team of talented journalists and public relations professionals at SmartAsset. She is an award-winning journalist with more than a decade of experience in television, radio, newspapers, magazines and online content. Ms. Smith has degrees from Princeton University and Mississippi State University.

Q. Did it surprise you to learn that it takes as long as a decade to save for a down payment in some of the markets you looked at?

For people living in those cities who are looking at some of the local home prices, it may not be so surprising that it would take a long time to save up for a 20 percent down payment. I think the big thing is people don’t often sit down and run the numbers. Exactly how long would it take? What amount of money would you have to put away in order to get there? People should really do the math and find out what the reality is for them and their family.

Q. *Do you think the time required to save for a down payment today is delaying household formation and the ability of millennials to become homeowners?*

This is not something that we’ve done any specific studies on, but certainly, there is a theory in housing that many millennials have an earnings deficit from costly student loans that they have to focus on first and are putting off home buying, or they may not even be as interested in home buying compared to previous generations. Certainly, I think that when they look at the actual cost of homes, it can be a scary thing. They say “Oh, I’ll worry about that later.”

That’s one of the mindsets that we hope this study will change. Instead of feeling discouraged that they will never be able to buy a home for whatever the median home value is where they live, we hope the study will get them to say, “Well, what will it take? Let me see what I would need. What if I saved 5 percent of my income towards a down payment? What if I saved 10 or 20 percent?” If you broke down the numbers and worked your savings goal into your budget, you would have a little more control.

(continued)

(THE DPR INTERVIEW continued)

Q. We have seen a lot of studies that say consumers believe that you must have 20 percent down to buy a home today. What do you think of that?

When people hear that they'll need a 20 percent down payment and they calculate that cost in their markets, they tend to look the other way and put it off until later in life. The more informed you are, the better you can take control of your finances. By looking into different down payment program options, you will find out you that can get a mortgage with less than 20 percent down. That lower down payment, however, comes at a price as you will be required to pay private mortgage insurance. By running those numbers, you can find out exactly what that means. Is it worth it to you? Does it get you closer to your financial goals or not?

Commentary

Down Payments on the Record

“More buyers are now putting less down on their home loans, stretching their budgets to afford what is available. Others are simply continuing to rent, dropping out of perhaps the most competitive housing market in history.”

— Millennial homeownership suddenly drops after a good run by Diana Olick on CNBC April 26, 2018

“Looks like many millennials won't have to go out of their way to see mom for Mother's Day.”

— A growing share of millennials are living with mom by Annie Nova on CNBC, May 10, 2018

“There simply are no "entry-level homes" in these neighborhoods. This is the case in many areas of Manhattan. So just forget it.”

— First-time home buyers are the biggest losers when it comes to rising inflation by Wolf Richter in Business Insider, April 23, 2018

"Right now, it's very challenging for Realtors and buyers because we are having tremendous difficulty particularly with our first-time home buyers. It's young Millennials with jobs and they don't have a lot of money saved. It's physicians working at Duke and UNC. I have the opportunity to work with them - it's a bear."

— Mindy Oberhardt, a veteran real estate agent on WTVD, May 10, 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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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.

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