Down Payment RESOURCE

The Down Payment Report

News and Data on Residential Down Payments

June 2018

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HFAs and Healthy Homeownership

State and local housing finance agencies play an unheralded role by helping more than 3.2 million families, the majority of whom earn low-to-moderate incomes, become first-time homeowners. The states that sponsor homeownership assistance know that homeownership strengthens local economies and builds better communities.

A new working paper by authors from The Ohio State University, San Jose State University and the University of Chicago provides empirical evidence that HFAs also help to reduce delinquencies and defaults by as much as 20 to 30 percent. The study, which was sponsored by Fannie Mae, examined one million Fannie Mae mortgages and found that loans using financing from state HFAs had significantly lower rates of delinquency and default.

The study cited down payment assistance, which increases affordability and helps borrowers overcome the greatest barrier to homeownership, among the reasons listed for the strong showing by HFAs.

The new study joins a growing store of evidence that is changing the way opinion leaders view down payment assistance, including research by The Urban Institute and HUD. When used in concert with homeownership education, comprehensive underwriting and close monitoring of borrowers by housing finance agencies, down payment assistance is an important tool for first-time buyers in today's climate of declining affordability.

Thank you for following the Down Payment Report. Please let me know topics you would like to see covered and other ways we can improve the publication.

Sincerely,

Rob Chrane

CEO, Down Payment Resource

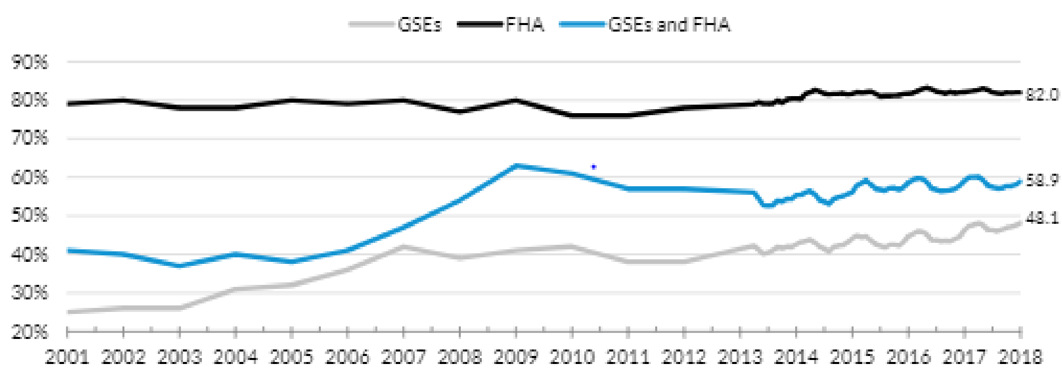
April Average Down Payments at a Glance

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 Homebuyer Share

In January 2018, the first-time homebuyer share of GSE purchase loans was 48.1 percent, its highest level in recent history. The FHA has always been more focused on first-time homebuyers, with its first-time homebuyer share hovering around 80 percent; it stood at 82.0 percent in January 2018. The bottom table shows that based on mortgages originated in January 2018, the average first-time homebuyer was more likely than an average repeat buyer to take out a smaller loan and have a lower credit score and higher LTV and DTI, thus requiring a higher interest rate.



Sources: eMBS, Federal Housing Administration (FHA) and Urban Institute.
Note: All series measure the first-time homebuyer share of purchase loans for principal residences.

January 2018

Comparison of First-Time and Repeat Homebuyers, GSE and FHA Originations

	GSEs		FHA		GSEs and FHA	
Characteristics	First-time	Repeat	First-time	Repeat	First-time	Repeat
Loan Amount ($)	231,050	255,823	203,677	223,282	219,316	250,234
Credit Score	737.7	753.7	673.4	678.9	710.1	740.9
LTV (%)	87.2	79.3	95.5	94.1	90.8	81.8
DTI (%)	36.0	36.6	42.9	43.8	38.9	37.8
Loan Rate (%)	4.25	4.12	4.32	4.22	4.28	4.14

Source: Urban Institute Chartbook

Millennials

One in Four Millennials Would Give Up Voting for a 10 Percent Down Payment

One out of every four Millennials (26 percent) they would give up the right to vote in exchange for a 10 percent down payment on a home, according to a new national survey by Unison Home Ownership.

An even larger percentage of potential buyers, 44 percent, would sacrifice their dream car, and 38 percent would agree to forgo vacations for the next five years in return for a 10 percent down payment. Moreover, 38 percent of those surveyed said they would be more likely to date or to marry someone who already owned a home at the time their relationship began.

Generation Z will Spend $226,000 on Rent

Members of Generation Z (born 1995-2010) will spend about $226,000 on rent before they can own a home – more than any other generation, according to Hotpads, a rental site owned by Zillow. HotPads analyzed U.S. government data and its own database data to determine how much Generations Z can expect to spend on rent before they buy a home.

Millennials can expect to spend $202,000 renting before they buy a home. Adjusted for inflation, baby boomers spent $148,900 on rent before buying their first home – which is about $53,000 more than Millennials and $77,000 more than Gen Z.

Saving for a Down Payment Keeps Millennials in Rentals

Saving for a down payment topped the list of barriers causing prospective Millennials to put their homebuying plans on hold and came in a close second among buyers who are planning to buy this year, according to a new Harris survey conducted for Trulia in April.

- Nearly nine in 10 (86 percent) of Millennials plan to buy a home. Of these prospective homebuyers, 35 percent plan to purchase a home within the next year, and 57 percent plan to purchase in the next two years.
- Millennials are facing problems that older generations may not have had to deal with. Among Millennials with plans to buy a home, not having a stable job (17 percent) and student debt (15 percent) are two obstacles that have hindered their homebuying decisions, and they are more than twice as likely to have experienced these obstacles compared to Gen Xers (7 percent and 6 percent, respectively) and boomers (7 percent and 1 percent, respectively).
- Faced with these pressures, Millennials are more likely than older generations to be willing to consider trade-offs in both the home and neighborhood during their home

FHA

Hurricane Losses Cause Concern Over FHA Delinquencies

After falling to a four-year low last June, the FHA overall delinquency rate in the fourth quarter of 2017 rose higher than it was in the fourth quarter of 2016 in all but three states. The rise in delinquencies from the third to fourth quarter of 2017 was primarily tied to 90+ day delinquencies for all loan types, but particularly FHA loans. Compared to the third quarter of 2017, the 90+ day delinquency rate on FHA loans rose by 75 basis points, versus 29 basis points for VA loans and 27 basis points for conventional loans, according to MBA’s National Delinquency Survey.

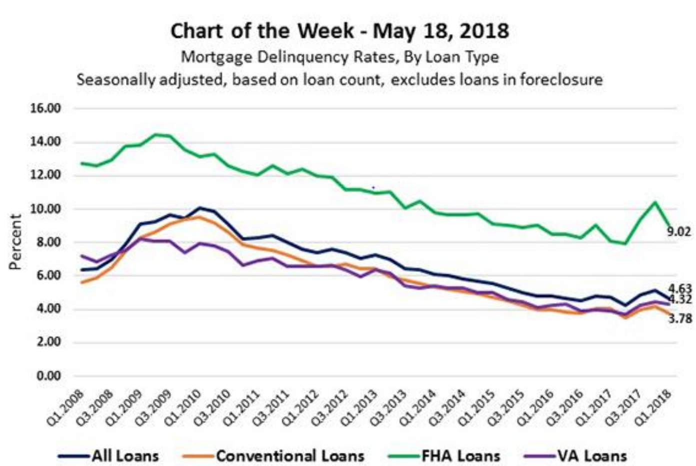
"Regardless of the hurricanes, an increase in delinquencies−particularly FHA delinquencies−off historic lows is not particularly surprising given the seasoning of the loan portfolio, expected higher interest rates, declining average credit scores on new FHA endorsements since 2014 and rising debt-to-income ratios,” said Marina Walsh, MBA's Vice President of Industry Analysis.

Concern over rising delinquencies increased when Acting FHA Commissioner Dana Wade [testified in Congress] April 18 and suggested that an increase of FHA loans using down payment assistance could be a contributing factor.

“Two other areas to highlight are the rate of FHA-insured purchase transaction mortgages that have Down Payment Assistance (DPA), and the rise in cash-out refinance transactions. The number of purchase loans with some form of DPA now stands at about 40 percent, with certain categories of DPA carrying added risk,” she said.

In a May 24 article, [“Getting Rich on Government-Backed Mortgages,”] by Bloomberg’s Prashant Gopal, Wade said that concern is growing within FHA over delinquencies. “If too many loans sour, the FHA could end up financially weakened and unable to extend help during the next downturn. Borrowers are stretching more,” she told Gopal. “We’re concerned about it from a borrower perspective and a taxpayer perspective.”

However, on May 16 the MBA reported that that [FHA delinquency rate declined] by 136 basis points in the first quarter, regaining most the points lost late last year. It was the largest single-quarter decline reported for the National Delinquency Survey data series. MBA’s Marina Walsh credited the “dissipated effects of the September hurricanes” and the strong economy, low unemployment rate, tax refunds and bonuses, and home price appreciation.



Source: MBA National Delinquency Survey

Down Payment Assistance

New Study Finds Fewer Defaults with State HFA Loans

A new study of nearly half a million first-time homeowners' loans financed by Fannie Mae found that buyers who use financing from state housing finance agencies (HFAs) are 20 percent less likely to default and 30 percent less likely to suffer a foreclosure than comparable borrowers. Three-fourths of the reduced defaults and nearly half of reduced foreclosures are related to HFA origination and service delivery practices, according to the study by authors from The Ohio State University, San Jose State University and the University of Chicago.

The study was based on a sample of nearly one million borrowers with low-to-moderate incomes whose mortgages were originated between 2005 and 2014 and were acquired by Fannie Mae. It also found that HFA borrowers have a lower risk of mortgage default, particularly during the boom and bust periods from 2005 to 2011. Here are the key findings:

Documentation. HFA loans in the study that were originated by private lenders during the boom period required full documentation and were subject to HFA monitoring. Loans originated by brokers and correspondent channels were consistently associated with higher risk of default.

Lower incomes and higher LTVs. The study found that HFA borrowers have credit scores and debt-to-income ratios similar to other first-time homebuyers, yet they have significantly lower incomes and higher loan-to-value ratios (LTVs). HFAs serve borrowers at the lower end of the income and wealth distribution.

Political pressure. As public and quasi-public entities, HFAs are exposed to more political pressures than private sector lenders and thus may have more incentives than private lenders to reduce default risk of the loans they originate.

Close monitoring of originations. HFAs monitor and approve loans financed with HFA funds, adding an incentive for careful screening. HFAs may add overlays to conventional underwriting standards to directly offset risk. For example, 75 percent of HFAs reported having minimum credit score requirements in 2012, the majority of which were higher than those set by FHA or the GSEs.

Preventive servicing. First-time homebuyers with loans originated by state HFAs that service the majority of their own loans have a reduced probability of default. Many HFAs engage in at least some type of preventive servicing practices, such as ongoing monitoring of borrower payments and early contact for delinquencies.

Homebuyer education and counseling. The majority of HFAs offer or require homebuyer education and counseling for at least a portion of their borrowers prior to purchase. Though the study was not designed to assess the effectiveness of homebuyer education and counseling, it found that reduced defaults during the boom period could be attributed to homebuyer education and counseling programs.

(continued)

(State HFA loans continued)

Down payment assistance. Lack of money for down payments has been identified as a primary barrier to home purchase, especially for low and moderate income first-time buyers. Most HFA programs increase mortgage affordability by providing down payment assistance (DPA) to borrowers. In 2012, approximately 70 percent of HFA loans had some form of DPA compared to 50 percent in 2006.

Interest rates. HFA-originated mortgages systematically have lower interest rates than other mortgages. Although the credit and income of HFA borrowers tend to be lower, interest rates are also significantly lower, averaging 5.5 percent for HFA borrowers and 5.9 percent for non-HFA borrowers.

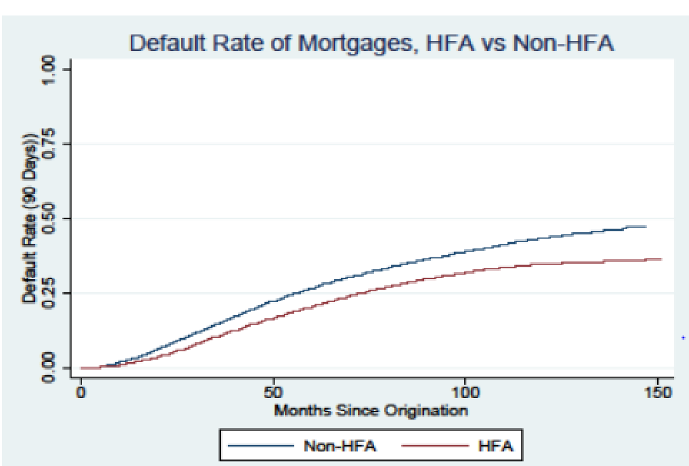
Subordinate financing. HFA-originated mortgages are much more likely to have subordinate financing and third-party-funded down payment assistance, both of which have been attributed with higher rates of mortgage default in other studies. The study found a negative relationship between subordinate financing and mortgage default.

The study leveraged data on more than one million Fannie Mae purchase loans to low and middle-income first-time homebuyers that were originated between 2005 and 2014. Loan outcomes were tracked through September 2016. More than 10 percent of the loans in this sample were originated through state HFA loan programs. Based on income alone, nearly 90 percent of the mortgages in the HFA sample went to households with income less than area median.

The study was conducted and written by Stephanie Moulton of The Ohio State University, Matthew Record of The Ohio State University and San Jose State University, and Erik Hembre of the University of Illinois, Chicago.

"One of the big takeaways from this study is the importance of borrower screening and servicing practices. Not only are HFAs more likely to require full documentation and careful underwriting, but they also serve as a third-party monitor on the partner lenders originating loans through the state program, creating an additional incentive for careful screening by the lender. This highlights the potential role for policies that increase the transparency of lender origination practices and that incorporate mechanisms for monitoring by third-parties," wrote Dr. Moulton, one of the authors, and Hamilton Fout, Director of Economics at Fannie Mae, in an analysis of the study.

Figure 3: Cumulative Hazard Rate of Default, Matched Sample (weighted)



Source: Author's calculations from Fannie Mae Single Family Loan data

Down Payment® RESOURCE

THE DPR INTERVIEW

Freddie Mac's New HomeOne℠ Product

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

Danny Gardner is Senior Vice President of Single-Family Affordable Lending and Access to Credit at Freddie Mac. Prior to joining Freddie Mac, he served as the Vice President of Community Mortgage Lending at Capital One Home Loans. From 2009 to 2013, Gardner held the position of Chief Operating Officer of the National Community Stabilization Trust, a non-profit organization that works with national financial institutions to stabilize local communities by turning foreclosed homes into new homeownership opportunities for eligible low- and moderate-income families. Before joining the National Community Stabilization Trust, Gardner worked for 13 years at CitiMortgage, serving as Senior Vice President and National Director for Strategic Markets from 2006 to 2008.

Q. How does the new HomeOne℠ mortgage differ from Freddie Mac's Home Possible® mortgages?

Home Possible® is a low down payment mortgage option designed specifically for low-to-moderate income borrowers. The income limits on the product are capped at 100 percent of area median income unless a borrower resides within a designated low- income census tract. While HomeOne℠ is also a low down payment option, it's designed for first-time homebuyers with the advantage of having no geographic requirements or income limits. With HomeOne, a three percent down payment option is available for properties located anywhere in the country. HomeOne is available for mortgages where at least one of the borrowers is a first-time homebuyer.

HomeOne mortgage provides lenders with greater flexibility with respect to sources of the borrower's down payment and allows for the use of Affordable Seconds®.

Q. *How will you work with state and local housing finance agencies?*

State and local housing finance agencies (HFAs) will continue to feature a product we created just for them called HFA Advantage®. We don't stipulate to an HFA what their program guidelines need to be, related to geography or income. They can offer HFA Advantage anywhere within their service area to accommodate localized borrower needs.

With the HFA Advantage product, there are lower mortgage insurance requirements, and we waive delivery fees, resulting in more favorable costs to the borrower. HFA Advantage also offers lower mortgage insurance coverage levels than HomeOne, and Home Possible.

(continued)

(THE DPR INTERVIEW continued)

Q. What do you see as the offering's greatest benefit?

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. HomeOne will provide our clients the flexibility to provide a low down payment solution to a broader range of first-time homebuyers anywhere in the country.

We see this as a great solution for aspiring homebuyers to grab that first rung of the property ladder and enjoy the financial and social benefits of participating in homeownership.

Commentary

Down Payments on the Record

“Not only are HFAs more likely to require full documentation and careful underwriting, but they also serve as a third-party monitor on the partner lenders originating loans through the state program, creating an additional incentive for careful screening by the lender.”

— Low Income Homeownership and the Role of State Affordable Mortgage Programs. Stephanie Moulton of Ohio State University and Hamilton Fout, Fannie Mae, May 11, 2018

“According to the recent Borrower Insight Survey from Ellie Mae, a whopping 48.6 percent of renters think they need to put 20 percent or more down on a home purchase. Another 40.4 percent said they need 4-19 percent down.”

— Renter Misconceptions: Busting The 20% Down Payment Myth And Credit Score Requirements by Aly Yale in Forbes Magazine, May 10, 2018

“Before these federal programs [VA and FHA], some home mortgages were so-called “balloon loans,” which demanded that buyers make a significant down payment (somewhere between 20 to 50 percent) and pay back the loan over a relatively short time frame, usually five to seven years. This was one of many reasons homebuying was previously the domain of a more wealthy portion of American society.”

— Why buying a house today is so much harder than in 1950 by Patrick Sisson, Curbed.com, April 10, 2018

“Either because they don’t know about low down payments or don’t understand them, thousands of prospective buyers are struggling to save enough money for a 20 percent down payment, which will take an average of 10 years, or even longer in expensive markets like San Francisco, Austin, and San Diego.”.

— Why 2018 is the Best Year Ever for a Low Down Payment Mortgage by Steve Cook, Inman News Service, February 15, 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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Contact: info@downpaymentresource.com. Media inquiries: tshell@downpaymentresource.com