



The Down Payment Report

News and Data on Residential Down Payments

August 2018

Report Released: August 23, 2018

Raiding Retirement Savings for a Down Payment

First-time home buyers face extraordinary pressures to buy now whether they are ready or not. Rising interest rates and home prices that are increasing faster than economists' forecasts make buying a first home more expensive as time passes. More than [a third](#) of Millennials who want to buy a first home plan to do so within a year.

In their haste, many buyers are tapping retirement savings for down payment cash. A recent survey by [Bank of the West](#) found that 19 percent of Millennials who plan to buy a home are counting on using funds from their 401K or IRA accounts to help with their down payments. Some 29 percent of Millennial owners have already done so. As a result, these buyers may deprive their future retirement of the appreciated value that these funds will accrue over time, plus they may be paying penalties for taking early distributions and paying taxes on the amounts they withdraw.

Two years ago, an [NAR survey](#) found that almost 40 percent of renters thought they need to put down more than 20 percent, and 26 percent thought a 15 to 20 percent down payment is required. As recently as June, three out of ten first-time buyers ([31 percent](#)) were still putting down 20 percent or more.

Hopefully, more Millennials can consider options such as low down payment loans and down payment assistance programs in lieu of retirement savings for their down payment. For example, in the DPR Interview (page 11) we highlight how the Tennessee Housing Development Agency (THDA) used its affordable programs to bring in applications totaling \$70.8 million for June, a 58-percent year-over-year increase. THDA works closely with Realtors, lenders and nonprofits to raise awareness about the range of buyers its programs serve.

Rob Chrane

CEO, Down Payment Resource

June Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	80	20
Millennials	87	13
FHA Purchase	95	5
Conventional Purchase	80	20
VA Purchase	98	2

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

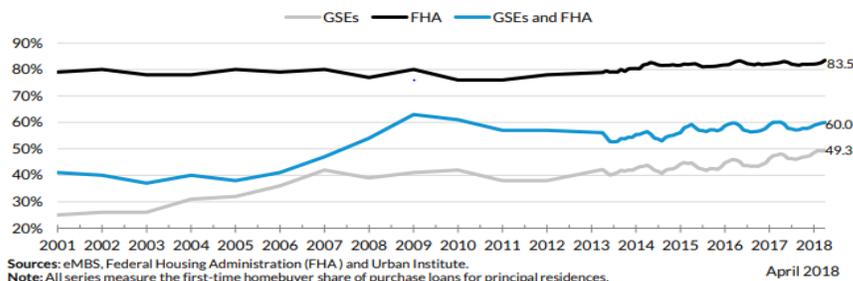
In June, the average down payment for all loans fell to 20 percent from 21 percent in May. For FHA purchase loans, down payments increased from 4 to 5 percent. Conventional purchase down payments increased from 19 to 20 percent.

STATE OF THE MARKET FIRST-TIME HOMEBUYERS

Source: [Urban Institute Chartbook, July 2018](#)

First-Time Homebuyer Share

In April 2018, the first-time homebuyer share of GSE purchase loans was 49.3 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 83.5 percent in April 2018. The bottom table shows that based on mortgages originated in April 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.



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

Characteristics	GSEs		FHA		GSEs and FHA	
	First-time	Repeat	First-time	Repeat	First-time	Repeat
Loan Amount (\$)	235,259	261,053	199,946	225,903	220,409	255,498
Credit Score	738.6	754.0	670.0	677.5	709.8	742.0
LTV (%)	87.5	79.4	95.7	94.3	90.9	81.8
DTI (%)	36.2	36.7	43.1	44.1	39.1	37.9
Loan Rate (%)	4.70	4.60	4.81	4.72	4.75	4.62

Sources: eMBS and Urban Institute

Millennials

Why Millennials are Losing the Homeownership Race

An extensive study of [Millennial homeownership](#) by the Urban Institute found that the largest generation in the nation’s history is trailing preceding generations in its homeownership rate by at least 8 percentage points, and current trends will increase the gaps in homeownership rates for young adults who are less educated and members of minorities.

TABLE 1
Homeownership among Baby Boomers, Gen Xers, and Millennials in 2015

Generation	Years born	Age	Population	Current homeownership (%)	Homeownership at age 25–34 (%)
Millennials	1981–97	18–34	75,170,263	32.2%	37.0%
Gen Xers	1965–80	35–50	66,441,487	60.4%	45.4%
Baby boomers	1946–64	51–69	74,649,971	75.0%	45.0%

Sources: 1990 and 2000 Decennial Censuses and the 2015 American Community Survey.

Why the Homeownership Rate Will Worsen

The studied identified two areas of greatest concern:

- Less educated adults are falling further behind in homeownership; and
- Current trends will exacerbate wealth disparities among whites, blacks and Hispanics.

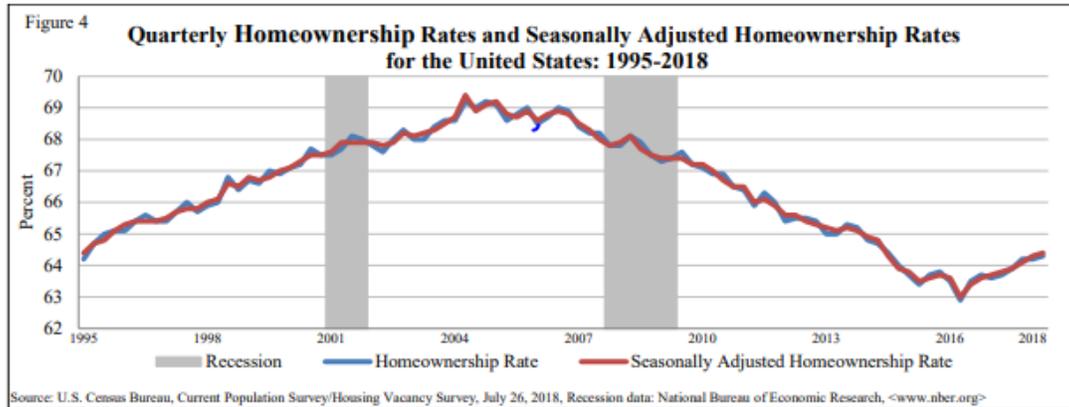
Black young adults have experienced the greatest decline, falling from 23.1 percent in 2000 to 13.4 percent in 2015. The homeownership rate among black Millennials is 26.2 percent lower than that of white Millennials. The homeownership rate also increases with educational attainment. The homeownership rate gap between the two levels of education were less than 5 percentage points in 1990 and 2000, but the gap is now almost 10 percentage points for Millennials.

Recommendations

The study made four recommendations to improve homeownership among future generations:

- Enhance the financial knowledge of young adults about homeownership;
- Use technology to simplify the mortgage process;
- Expand credit assessment criteria to include rental, telecom and utility payment history when evaluating Millennials’ creditworthiness and fully capture income in the underwriting process; and
- Ease land-use restrictions: Change land-use and zoning regulations to allow for more construction.

Millennial/Gen X Homeownership Rate Zooms



Just weeks after the Urban Institute completed its analysis of chronically low Millennial homeownership rates, the rate for young Americans under age 35 rose more in one quarter than it has in 27 years, when the Census Bureau began collecting data.

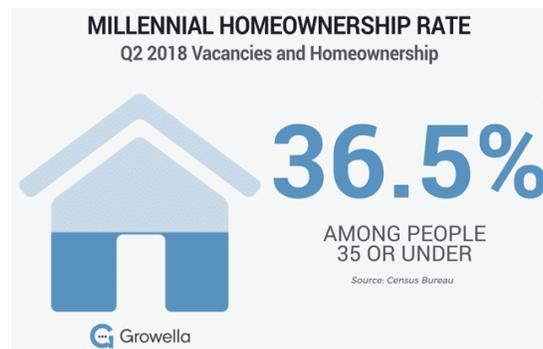
The second quarter [homeownership rate](#) of 64.3 percent was not statistically different from the rate in the first quarter a year ago but the rate among young adults (under 35) zoomed to 36.5 percent, gaining a full 1.2 points over the first quarter and the second quarter of last year.

The one quarter increase was the largest for young homeowners since the Census Bureau began keeping homeownership data by age in 1994.

Though the under 35 age cohort still has the lowest rate of any age group by far, it reached the highest level in nearly five years. In Q4 2013 the rate was 36.8 percent. Homeownership among young owners peaked at 43.8 percent in the height of the housing boom, Q2 2014.

The rate for households with family income less than the median family income also increased in the second quarter, from 50 percent to 50.2 percent, while black and Hispanic rates fell.

“Over the past two years, Millennials have been on a home shopping spree, driving a bump in the overall homeownership rate in Q2. Homeownership among younger households still remains well below pre-crisis and pre-bubble norms, but those same groups are currently experiencing some of the biggest gains,” commented Zillow’s [Aaron Terrazas](#).



Nearly 30 Percent of Millennials Tap Retirement Savings for Down Payments

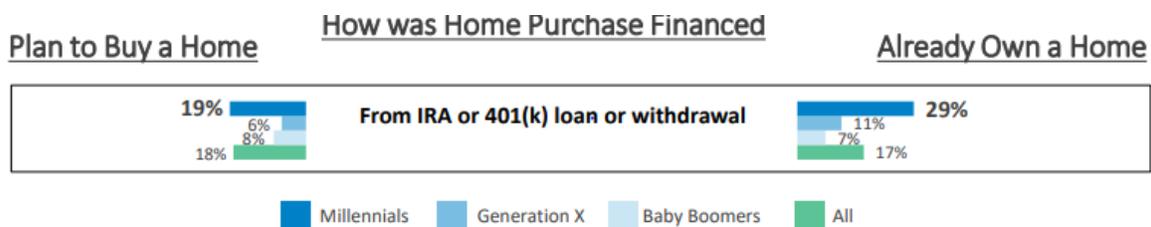
Two out of ten Millennials (19 percent) who plan to buy a home will raid their retirement savings to help pay for the down payment. Some 29 percent of Millennial homeowners have already done so, according to a new study of Millennial buyers by the [Bank of the West](#).

Millennials (ages 21-34) who own a home were more likely to have used retirement funds than proceeds from selling other assets (22 percent), inherited money or gifts (20 percent), or money borrowed from a family member (16 percent) to buy their homes.

Older generations were less likely to use retirement savings to buy a home. Only 11 percent of Baby Boomers and 7 percent of owners who belong to Generation X used retirement funds. Despite their willingness to raid retirement savings, nearly two-thirds of Millennials say that living through the financial crisis made them more conservative investors.

“Millennials are so eager to become homeowners that some may be inadvertently cutting off their nose to spite their face,” said Ryan Bailey, Head of the Retail Banking Group at Bank of the West. “The fact that nearly one in three Millennials who already own their homes have dipped into their retirement nest eggs to finance their down payment is alarming. With careful financial planning, Millennials can have it all – the dream home today, without compromising their retirement security tomorrow.”

In their view of the American Dream, more than half the Millennials in the survey (56 percent) said that owning a home takes precedence over paying off debt or retiring comfortably. Larger percentages of Baby Boomers (68 percent) and members of Generation X (59 percent) said homeownership was important. The survey also found that more than two-thirds (68 percent) of Millennial owners regret that they were not better prepared for the home-buying process—a higher percentage than Generation X (55 percent) and Baby Boomers (35 percent).

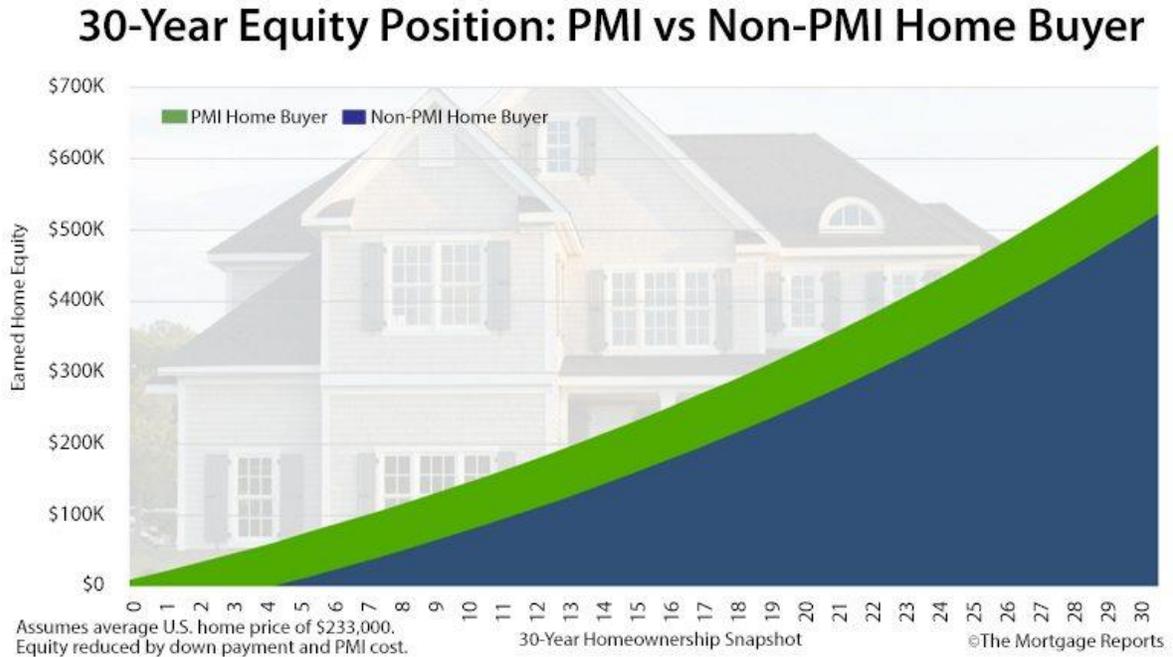


Source: [Bank of the West](#)

Mortgage Insurance

How Much Does It Cost to Avoid PMI?

An analysis of the relative costs and benefits of private mortgage insurance by [Tim Lucas](#) in [The Mortgage Reports](#) found that the cost of mortgage insurance can more than pay for itself by getting a buyer into a home to take advantage equity gained as home values appreciate.



Lucas found that buyers who put 20 percent down simply to avoid the expense of PMI are losing money in the long run by missing out on the equity that they would have been gained if they bought earlier with a low down payment loan.

A renter who bought the average home four years ago has “made” more than \$40,000 to date—far more than the cost of mortgage insurance during the time the owner has less than 20 percent equity and PMI can be cancelled. Some have earned much more — six figures in some cases.

An owner who bought in 1991 has beat inflation and the cost of mortgage insurance, despite the years of equity lost following the housing crash. According to FHFA, home values are up more than 140 percent since 1991. That means a home worth \$100,000 in January 1991 is worth \$240,000 today. Over that time, inflation has risen 75 percent, according to the Bureau of Labor Statistics. A first-time home buyer in 1991 has beat inflation, plus made an additional 65 percent return on investment, Lucas found.

“Putting 20 percent down is riskier than making a small down payment, but it’s also costly,” Lucas concluded.

FHA

Will FHA Flourish in the Homes of the Future?

A forecast of tomorrow's single family home by Porch.com, a remodeling website, suggests that FHA's volume could double over the next 18 years as the size and costs of new homes grow.

In just 18 years, homes will have an average of 3,000 square feet and new home constructions could cost as much as \$305,000 on average—an increase of more than \$100,000 over 2016, forecasted the Porch report.

"Fewer homes in the future may be purchased with conventional home loans, giving way to a rising popularity of FHA home loans. With lower overall down payments and easier approval ratings, FHA home loans provide access to more lenders with different criteria, making owning a home more accessible for millions of potential buyers.

"When it comes to purchasing new homes, conventional home loans may start to give way to other forms of financing. More than 3 in 4 new builds in 1999 were purchased using conventional home loans, but those numbers may continue to shrink in the future. While the use of cash is expected to rise slightly, the use of FHA home loans could more than double by 2036 from the number of Americans having utilized them in 1999," said Porch.com.

Montgomery: No Plans to End "Life of Loan" Mortgage Insurance

Shortly after taking office last month, FHA Commissioner Brian Montgomery set expectations on two pending issues, including the prospect of reducing FHA's upfront mortgage insurance premium and ending the agency's long-standing policy requiring borrowers to pay mortgage insurance for the life of the loan.

Rep. Maxine Watters (D-CA), the ranking member on the House Financial Services Committee, introduced legislation last fall to repeal the life of loan requirement and reinstate the FHA's previous policy of requiring borrowers to pay mortgage insurance premiums until the outstanding principal balance reaches 78 percent of the original home value.

In mid-July, Montgomery said that the topic is being discussed but there are no current plans to make changes.

"Certainly, the life of loan is one consideration. Potentially, could there be some changes to it?" Montgomery told HousingWire. "What would that look like? Could there be a step-down, if you will, over a period of time? Again, we were all discussing options. I'm not saying that they were the primary option or even in the top 10. Again, that was something we discussed, but it's probably too early to say much more beyond that."

Homeownership Assistance

Homeownership Programs Increased in the Second Quarter

The Down Payment Resource (DPR) Second Quarter 2018 [Homeownership Program Index](#) (HPI) shows that the number of total programs increased to 2,527, up 24 programs from the previous quarter. Eighty-six (86) percent of programs currently have funds available for eligible homebuyers, down just a half a percent from the previous quarter.

As home prices increase, especially among starter homes, more states, cities and municipalities are considering down payment assistance and incentive programs to help address homeownership affordability challenges for its community servants. This quarter, nearly 7 percent (6.8 percent) of programs are available for workers who provide some of the most important services to a community, including teachers, first responders, law enforcement, firefighters and healthcare workers. Plus, more than 6 percent (6.1 percent) of programs have benefits for veterans, members of the military and surviving spouses. These programs can also be layered with zero down payment VA loans.

“All markets value our first responders, military, educators and other community service roles. More cities — especially higher cost markets — are beginning to look for creative ways to recruit and retain these workers, including ways to make homeownership possible,” said Rob Chrane, CEO of Down Payment Resource.

NeighborhoodLIFT Launches New Program in Chicago

With the help of an \$8 million dollar commitment from [Wells Fargo](#), NeighborhoodLIFT, NeighborWorks America and Neighborhood Housing Services of Chicago launched a new homebuyer education program plus \$15,000 down payment assistance grants for residents of Cook County, Illinois.

To qualify for NeighborhoodLIFT support, household income must not exceed 80 percent of the local area median income, or about \$67,700 for a family of four in Cook County. Veterans and U.S. service members, teachers, law enforcement officers, firefighters and emergency medical technicians who earn up to 100 percent of local area median income, or about \$84,600, are eligible for a \$17,500 grant.

“This innovative collaboration will create about 425 homeowners,” said John Santner, regional vice president, Midwest region, NeighborWorks America. “The required homebuyer education classes provided by certified professionals better prepare NeighborhoodLIFT homebuyers to achieve their goal of sustainable homeownership.

Wells Fargo also recently announced new support for NeighborhoodLIFT programs in [Kansas City](#), [Jacksonville](#), and [Boston](#).

Atlanta Initiative Helps South DeKalb County Recover from Foreclosure Crisis

The [Atlanta Neighborhood Development Partnership](#) will invest \$20 million of its existing and new capital to improve areas in South DeKalb County hardest hit by the foreclosure crisis, especially those neighborhoods impacted by the lingering effects of negative equity, over a three-year period according to officials.

South DeKalb lost more than 18,000 homeowners during the crisis and nearly one in three of its homeowners owe more on their mortgages than their homes are worth. More than 10 years after the start of the foreclosure crisis, metro Atlanta families and neighborhoods continue to struggle with the aftermath of underwater home values and disinvestment, stated officials.

The initiative will include 100 newly redeveloped single-family homes (with a focus on homeownership); access to down payment assistance from sources managed by ANDP; and a commitment to collaborate with housing, community, and governmental entities and a broader network of health, educational and other partners to improve health, equity and economic outcomes in South DeKalb.

HOME Program Provides \$550,000 in DPA to Nassau County First-time Buyers

Nassau County Executive Laura Curran announced the award of \$500,000 in Federal HOME Investment Partnerships (HOME) Program funding that promises to provide up to \$25,000 in down payment and closing cost assistance to eligible first-time buyers.

“This award is a wonderful step for [Nassau County's](#) first-time home buyers to achieve the American Dream,” said Curran. “The Nassau County Office of Housing and Community Development has been working closely with the U.S. Department of Housing and Urban Development (HUD) and Long Island Housing Partnership to ensure this funding came through and we are happy to see it come to fruition.”

Maryland Launches SmartBuy 2.0

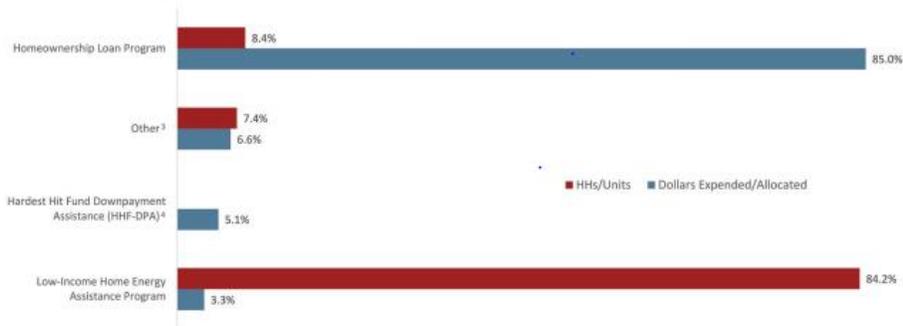
Launched August 6, [Maryland SmartBuy 2.0](#) provides an opportunity for homebuyers who are paying off student debt to purchase any home in Maryland that meets Maryland Mortgage Program guidelines. This limited time program provides all of the student debt relief offered by the original Maryland SmartBuy while making more homes eligible for purchase.

To qualify, homebuyers must have an existing student debt with a minimum balance of \$1,000. Maryland SmartBuy financing provides up to 15 percent of the home purchase price for the borrower to pay off their outstanding student debt. Maryland SmartBuy 2.0 offers the same student debt relief of 15 percent of the home purchase price with a maximum payoff of \$30,000. The full student debt must be paid off at the time of the home purchase.

Tennessee Housing Development Agency Helped Put 2,922 Families into Homes Last Year

Last year the [Tennessee Housing Development Agency](#) (THDA) made homeownership possible for 2,922 Tennessee families through our Great Choice Home Loan program. The agency also managed a wide range of grant programs under the Tennessee Housing Trust Fund, maintained a network of homebuyer education counseling partners, and administered federal programs on the state level. All told, THDA was directly responsible for \$628 million in economic activity in 2017, with a total estimated economic impact of \$1.1 billion. THDA said its activities created more than 7,477 jobs.

Figure 3. Percentage of Households/Units and Dollars Expended/Allocated by THDA Homeownership Programs, 2017¹



Local New Jersey Non-profits Fund DPA Programs for Veterans and Low-income Buyers

A pair of nonprofit organizations have joined hands to establish a down payment assistance program to help veterans and low-income buyers purchase a new home in Hudson County, New Jersey.

On July 11, the [Hudson County Economic Development Corporation](#) (HCEDC) and New Jersey Community Capital (NJCC) announced the initiative, which will provide up to \$15,000 per household toward a down payment to qualified veterans or other eligible applicants who are purchasing primary residences in Hudson County.

"Today is one of many instances where this county has shown a commitment to affordable housing and, more specifically, housing for our veterans," said Michelle Richardson, executive director of HCEDC. "This is not a tactic, but a strategy and intention."

The down payment assistance program, which has been dubbed "Address Yourself," is funded by a \$200,000 grant from the HCEDC. Half of the money is earmarked for qualified veterans.

THE DPR INTERVIEW

Tennessee Breaks Records

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



After setting records for loan applications in the first two quarters of the year, the [Tennessee Housing Development Agency](#) (THDA) brought in applications totaling \$70.8 million for June, a 58-percent increase over last June and more than twice the agency's previous record for the month. THDA's [Great Choice Home Loan](#) program is only one of several programs the agency administers that provide homeownership assistance. Notably, THDA's [Hardest Hit Fund Blight Elimination Program](#) reduces foreclosures, promote neighborhood stabilization, and maintains property values through the demolition of vacant, abandoned, blighted residential structures, and subsequent greening/improvement of the remaining parcels within targeted areas. [Ralph M. Perrey](#) is THDA's executive director.

Q. To what do you attribute your record number of applications?

For a number of years, we have put a great deal of emphasis in deepening our relationships with the private sector lenders who have to originate our mortgages and with industry partners like Realtors and non-profits who are often the trusted advisor for first-time home buyers. When I took over nearly six years ago, I found out that the typical Tennessean didn't know very much about the Tennessee Housing Development Agency and how we can help them become homeowners.

As we got the word out, Realtors were often surprised at the income ranges we could serve. Often, I'd have a Realtor who thought that we could help just poor people. They didn't know that someone making \$70,000 could qualify for one of our loans. For lenders, we found that a lot of folks who signed up with THDA were giving us just three or four loans a year. By engaging them and keeping them informed about our programs, we became a market-expanding opportunity for them. They turned a lot of those three loans into fifteen loans and a lot of ten loans into forty-five loans.

Q. How did you develop your Hardest Hit Fund program?

THDA developed our targeted loan payment assistance program using additional funding through the US Treasury's Hardest Hit Fund. We worked with Treasury to look at areas that were hard hit ten years ago and were recovering slower than other areas. Working with the US Treasury, we were able to target 62 zip codes in the state where we could offer this program.

(continued)

(THE DPR INTERVIEW continued)

With the Hardest Hit program, we can offer an incentive to bring not just investment but the presence of an invested homeowner back into these areas. We offer \$15,000 of down payment/closing cost assistance to eligible buyers buying existing homes in one of the targeted zip codes. If they stay in that home, after six years, we forgive 20 percent per year of that \$15,000. Someone who stays in a mortgage for ten years will never repay any of the \$15,000.

Q. I understand that recently you readjusted eligible income limits for the THDA Great Choice Loan. How did that work?

HUD develops income limits based on Median Family Income estimates and Fair Market Rent area definitions for each metropolitan area, parts of some metropolitan areas, and each non-metropolitan county. We have the option of increasing income limits based on those HUD develops, and we exercised that option to increase acquisition limits and household incomes for most counties in Tennessee.

That's going to be helpful in areas in and around Nashville. Housing prices are rising very rapidly. In Nashville and Davidson County, a larger household earning just under \$105,000 can now qualify for THDA financing. That helps us help folks who are feeling the pressures of buying a first home. It still surprises people that THDA's Great Choice Home Loan can serve so many income levels.

Commentary

Down Payments on the Record

“If you have an extra room or even a couch, people are willing to pay to stay for a night or two or even longer. Or you could try renting out a parking spot in your driveway—if you have one, of course.”

— [Seven Creative Ways to Save for a Down Payment](#), Zillow Blog

“If the marriage rate in 2015 had been the same as it was in 1990, the Millennial homeownership rate would be about 5 percentage points higher.”

— [Millennial Homeownership](#), The Urban Institute

“The idea that many (Millennials) were averse to homeownership peaked a few years ago. But this was never a very credible argument. This would assume that this population group was in some way fundamentally different from the generations that had come before.”

— [Millennials Are Out of the Basement and Into Buying Homes](#) by Barry Ritholtz. Bloomberg Opinion, February 2, 2018

“Maybe in a few years, the price of avocado toast will go down, and I’ll be able to afford that dream castle.”

— [Why it’s So Hard for Millennials to Buy Homes](#) by Alyssa Pagano and Lauren Lyons Cole, Business Insider, May 11, 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 2,500 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](https://twitter.com/DwnPmtResource).

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