The Down Payment Report

News and Data on Residential Down Payments

September 2018

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Low Down Payments Make the Difference

As we near the end of the third quarter, some of the conditions facing first-time buyers show modest signs of improvement. Inventories are finally stabilizing, albeit at levels far below normal in many markets, though prices are projected to continue to rise at a 5 percent rate for the next 12 months[1] even though CoreLogic reports 40 percent of the nation's top 100 markets are overvalued.[1]

Though first-time buyers face rising mortgage rates on a 30-day fixed rate mortgage as well as rising prices, those who have their finances together are buying before conditions get even worse. The first-timer market share has remained steady at 31 to 33 percent.

It's no surprise that one in five frustrated buyers are putting their plans on hold. Confidence in the value of homeownership is starting to wane and as many as one in five frustrated Millennials are putting their home buying plans on hold.

Now that Millennial-aged buyers armed with low down payment mortgages dominate real estate markets today imagine what the real estate economy would look like if 20 percent were still the standard?

Rob Chrane

CEO, Down Payment Resource

[1] https://www.corelogic.com/news/corelogic-reports-july-home-prices-increased-by-6.2-percent-homeowners-waiting-to-sell-for-anticipated-increase-return-on-invest.aspx

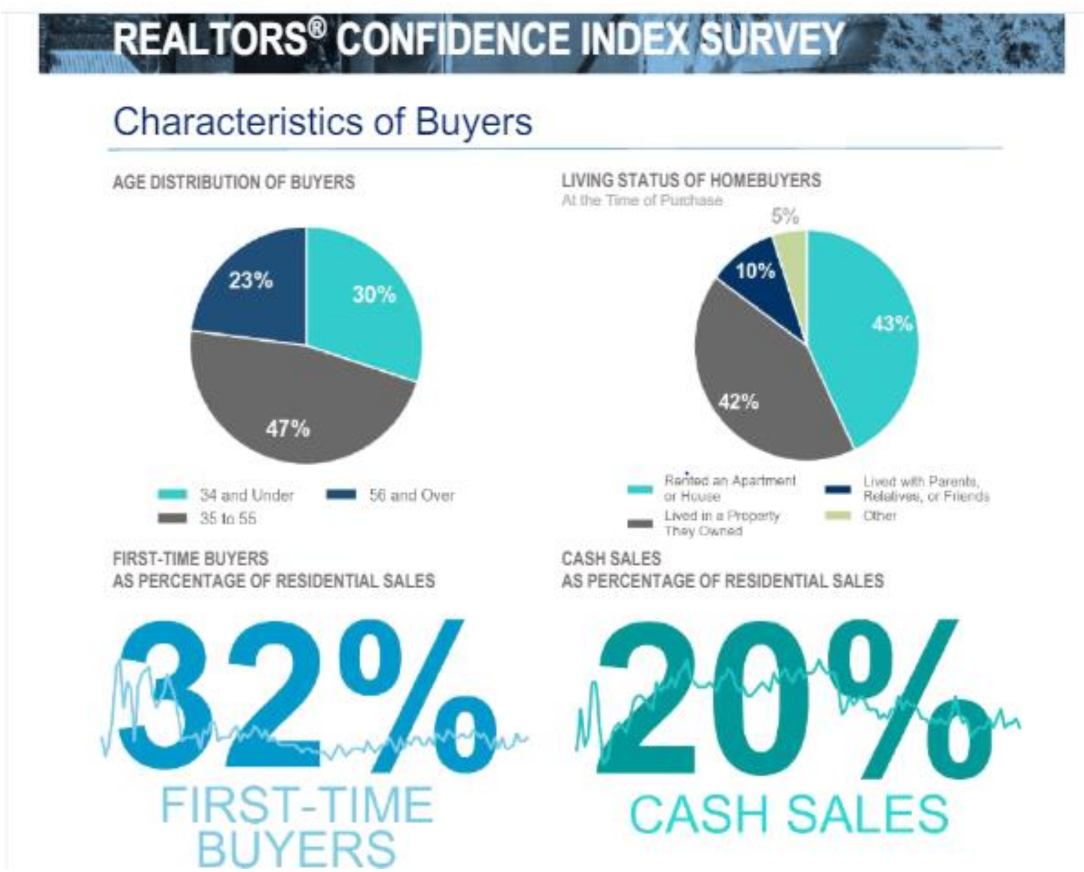
[1] https://www.corelogic.com/insights-download/corelogic-home-price-insights.aspx

July 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

August First-time Buyer Market Share



Source: NAR Realtors Confidence Index

First-time Homebuyers

May First-time Buyer Originations

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 ($)	233,891	260,998	203,351	227,756	221,131	255,913
Credit Score	739.1	755.1	670.5	676.1	710.4	743.0
LTV (%)	87.6	79.0	95.7	94.1	91.0	81.3
DTI (%)	36.1	36.5	43.1	44.0	39.1	37.7
Loan Rate (%)	4.76	4.65	4.85	4.77	4.8	4.67

Source: August Urban Institute Chartbook

First-timers dominated spring agency housing markets

First-time homebuyers accounted for over half of the purchase-money mortgages securitized by Fannie Mae, Freddie Mac and Ginnie Mae during the second quarter of 2018, according to a new analysis of mortgage-backed securities data by Inside Mortgage Finance.

A total of $99.16 billion of first-timer purchase loans were funded through agency MBS programs in the second quarter, equaling 51.1 percent of total agency purchase-mortgage business. By loan count, first-timers represented 54.4 percent of the market. These figures exclude a small percentage of loans that lack data on credit score, loan-to-value ratio and debt-to-income ratio.

First-time buyers have traditionally flocked to the FHA program because of its relatively low down payment requirements. In the second quarter, 76.6 percent of the $41.18 billion in FHA purchase loans went to first-time buyers, and volume was up 25.1 percent from the first quarter.

But private mortgage companies have made a significant dent in the first-timer market. Lenders delivered $38.38 billion of first-timer mortgages to Fannie and Freddie MBS, a 34.4 percent jump from the previous three-month period and a 22.7 percent gain from the first half of last year.

Millennials

Soaring prices sink Millennial support for homeownership

Most Millennials no longer believe that owning a home is a good investment and support for owning over renting has fallen significantly over the past two years, according to a new survey by a company that insures down payments and equity.

In the third quarter of 2018, 48 percent of all Millennials believe buying a home is a good investment; a record low, down from 54 percent in the second quarter. The previous high was 77 percent in 2016. Just over six in 10 Millennials (61 percent) now believe buying a home is more beneficial than renting, a survey low, down from a high of 83 percent two years ago, according to ValueInsured's quarterly Modern Homebuyer Survey.

Even among Millennials who are still interested in becoming homeowners in the near future, ValueInsured found anxiety. Forty-nine percent of motivated first-time buyers were concerned that rising mortgage rates would put currently affordable homes out of their reach. Sixty-seven percent were worried that they would not be able to save enough to buy a home they would actually like to live in. And 85 percent expected their down payment to eat up more than half of their personal assets.

"Most homebuyers experience a healthy amount of jitters before such a milestone purchase; that's normal," said Joe Melendez, CEO and founder of ValueInsured. "But the new normal is highly anxious, inexperienced buyers bungee jumping without knowing if their safety harnesses will work. That is an unhealthy – bordering on dysfunctional – trend that our industry needs to mitigate to ensure we do not lose an entire generation of future homeowners."

Experian: bad credit cripples Millennial buyers

Most Millennials who have not yet bought a home will need to significantly improve the quality of their credit to qualify for a mortgage, according to a new study by Experian that highlights the borrowing behaviors of Millennials, the largest credit population in the United States.

The study found that:

- Only 39 percent of Millennials without a mortgage have a prime or better score, and the majority of Millennials are facing higher delinquency rates.
- Average credit scores for both older and younger Millennials are worse than the national average. The average consumer VantageScore is 677 and credit scores generally become more prime (661-780) as people age. Younger Millennials (age 22-28) have an average near a prime score of 652 with older Millennials (age 29-35) at the prime score of 665.

(continued)

(continued: Experian study)

- Among Millennials with a mortgage, credit scores improve. Some 77 percent of Millennials have a 661 VantageScore or greater with an average score of 716. Geographically, Millennial homebuyers are most prevalent in the south and west regions where three-four percent of the millennial population have a mortgage.

- Millennial delinquency rates are higher than the national average. Nationally, delinquency rates on personal loans are on the decline at 1.32 percent. Millennial delinquency rates as of 4Q17 stand at 2.08 percent for younger Millennials and 1.51 percent for older Millennials.

- Today Millennials represent a growing segment of the home buying market. In the last quarter of 2017, Millennials accounted for 23 percent of newly originated mortgage dollars. On average, Millennial homebuyers are 31 years old with an income of $64,000. The average mortgage balance for younger Millennials is $167,000 and $210,000 for older Millennials.

Some 86 percent of Millennials believe that buying a house is a good financial investment, yet Experian's research found that only 15 percent have a mortgage today. To understand the borrowing behaviors of the next big wave of homebuyers better, Experian looked at personal loan trends, credit scores, bankcard behaviors and mortgage trends of 60 million millennial consumers. With 61 percent of Millennials near prime or worse, many will need to improve personal loan and bank card usage habits to obtain lower rates when they're ready to secure a mortgage.

NAHB reports 19 percent of frustrated Millennial buyers will give up

As the slower fall and winter home buying seasons near, nearly 20 percent of Millennials told a June-July survey by the National Association of Home Builders (NAHB) that they will give up looking for a house to buy until next year or later if they cannot find a home in the months ahead. A smaller percentage of all buyers, 16 percent, said they would give up.

More than half of all buyers said that they have been looking for three months or longer. Frustrated home buyers said they can't find a home with the features they want (45 percent), followed closely by not being able to find a home at a price they can afford (43 percent).

Most unsuccessful Millennials said they would keep looking in the same area and 36 percent plan to enlarge the search area. If they have to, one out of four (23 percent) plan to buy a more expensive home and about the same percentage, 26 percent, will look for a less expensive home.

Millennials and Gen Z

Gen Zers still eager to become homeowners

Perhaps because they are not quite at homebuying age, Millennials' younger sisters and brothers, Generation Zers (those born between 1995 and 2010, which means that the oldest are about 22 and are just entering the workforce), are still bullish on homeownership. Some 83 percent say they are planning on buying a home within the next 5 years, according to a new study by [PropertyShark.]

BIGGEST OBSTACLE TO BUYING A HOME

	STUDENT DEBT	THE DOWN PAYMENT	JOB INSECURITY	ECONOMIC FACTORS	CREDIT SCORE	INCREASING HOME PRICES
Generation Z	32%	30%	13%	10%	10%	5%
Millennials	17%	35%	9%	10%	16%	13%
Generation X	7%	31%	12%	15%	21%	14%

PropertyShark

The study also found that:

- Gen Zers are willing to compromise on almost anything to keep costs down – but dreams of lots of space and amenities;
- Millennials are more realistic about their means but more pessimistic about the prospect of homeownership than Generation Zers;
- College debt is the top obstacle facing Millennials and Gen Zers; and
- Gen Z will pose serious competition to Millennials on the real estate market.

Coming of age in a relatively healthy housing market, only a few Gen Zers consider increasing home prices as the top hurdle towards homeownership (4 percent), while a third view credit scores, economic factors or job insecurity as the main barrier.

Even though the same number of Millennial and Gen Z respondents expect to pay more than $50,000 for a down payment – about a third of both generations – it's Millennials who are most pessimistic when it comes to homeownership. On average, Millennials expect they'll need $41,000 for a down payment, about 10 percent less than Gen Zers. Yet only about 40 percent of all Millennials have less than $10,000 saved, while nearly one in five Gen Z and Gen X consumers have nothing saved. At the same time, 16 percent of Millennials expect they'll need to save for between 5 and 10 years to afford a down payment, and only 11 percent of Gen Zers expects the same time.

HOW LONG DID YOU SAVE FOR THE DOWN PAYMENT

	UNDER 5 YEARS	5-10 YEARS	OVER 10 YEARS
Generation Z	93%	0%	7%
Millennials	68%	23%	9%
Generation X	58%	25%	17%

PropertyShark

Conventional Lending

Guild partners with Home Depot on 3-2-1 Loan

[Guild Mortgage](#) has launched a 3-2-1 Home Program that enables first-time buyers to purchase a home with as little as 3 percent down. As part of the program, Guild provides a $2,000 Home Depot Gift Card and a $1,500 grant that can be applied toward closing costs or increasing the down payment after the minimum 3 percent investment is met.

Unlike other low-down payment programs, the Guild mortgage can be funded by a gift, such as a wedding or graduation present. To qualify, borrowers must have a minimum credit score of 620 and purchase a home that is located within 100 percent of the area median income for their family size, except in underserved areas. The program is available nationwide in the 40 states where Guild operates.

“With the 3-2-1 Home program, buyers can consider a home that may need minor repairs or updates and have peace of mind knowing they have extra resources to make improvements without tapping into their cash reserves,” said Mary Ann McGarry, Guild’s president and CEO.

Across the Nation

Pennsylvania bill gives first-time buyers a tax break

A proposed law would give a tax break to first-time home buyers in Pennsylvania who put money aside for their purchase. The bipartisan House Bill 1981, introduced jointly by state Reps. Rosemary Brown (R-189) and Ryan Bizzarro (D-Erie), would let contributions to a first-time homebuyer savings account qualify for a deduction on state income tax.

“Being able to buy a home for the first time is a major part of the American dream for many people across our state and nation, and financial literacy plays a huge part in this,” Rep. Brown said in a statement.

MassHousing launches zero-down program

A new down payment assistance program from MassHousing aims to administer some relief, allowing qualified low-to-middle-income buyers to purchase homes with no down payment at all. 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.

MassHousing was formed in 1966 as a nonprofit, quasi-public agency that finances construction and preservation of affordable housing and provides affordable mortgages for low- and moderate-income homebuyers. It builds capital through its loan portfolio, reinvesting the ‘profits’ into programs to make homeownership accessible to more residents. The agency is not tax-funded. The new down payment assistance program will be sustained by MassHousing’s existing portfolio.

States offer veteran-friendly home-loan programs

Colorado: Qualified veterans can participate in the Colorado Housing and Finance Authority's FirstStep and FirstStep Plus products regardless of whether they are buying their first home. The program requires participants to have a credit score of at least 620, but those without a measured credit score can participate. Second mortgages offered via the program can be used to assist with closing costs, down payments and other expenses; visit the CHFA online for details.

Connecticut: The Military Mortgage Option offered by the state's housing finance authority reduces the program's interest rate by 0.125 percent for qualified participants seeking to buy their first home (or their first in at least three years). It's open to current and former service members, as well as to surviving spouses and civil partners of troops who died in the line of duty or from a service-connected disability. Other rules apply, including income and property-price caps. The new home must be the owner's primary residence.

Delaware: Qualified veterans can use the Delaware First-Time Homebuyer Tax Credit even if they're not buying their first home. Beneficiaries receive either 35 percent of their taxable interest as a tax credit or a $2,000 credit, whichever is lowest. Visit the above link for other restrictions and property-price limits, and head here for a list of approved lenders.

Illinois: The state offers veteran support via multiple programs, including @HomeIllinois ($5,000 in down payment and closing cost help, plus other benefits) and 1stHomeIllinois ($7,500 in down payment/closing cost help on a 30-year fixed-rate mortgage in certain counties). Unlike other program participants, veterans aren't required to be first-time buyers. Get details, contact information and links for all the programs here (PDF), and learn more about 1stHomeIllinois here.

Iowa: The Military Homeownership Assistance Program, run by the state's finance authority, offers eligible veterans $5,000 toward a down payment or closing costs. It's open only to those with time on active duty during Operation Desert Storm/Shield and since Sept. 11, 2001, and to surviving spouses of those veterans; visit the link for full eligibility requirements, including financial and property restrictions.

Louisiana: Qualified veterans are eligible for a variant of the Louisiana Housing Corporation Market Rate Program that allows beneficiaries to secure VA-backed 30-year fixed-rate loans at "favorable interest rates." Participants must have a credit score of 640 or better and must use a program-approved lender (PDF).

Maine: Qualified veterans (active-duty members, honorably discharged veterans and reserve-component members who've served 180 days in a combat zone) can get an extra 0.125 percent off their 30-year fixed-rate mortgage under the SaluteME and SaluteME Home Again programs, offered via the Maine State Housing Authority. The programs are offshoots of the First Home Loan program, which offers some participants $3,500 to help with a down payment, closing costs or related fees. Check the program's website for other requirements and contact details.

Other state-based veteran housing benefits are located in: Alaska, California, Nevada, New York, Texas, Washington. Indiana, Maryland, Massachusetts, Mississippi, Oregon, Wisconsin Missouri, Nebraska, Ohio, Tennessee, Utah Georgia, Florida, North Carolina, Pennsylvania.

From: Military Times

THE DPR INTERVIEW

The Experian Study: Millennials are slow to use credit

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

Rod Griffin, Director of Consumer Education and Awareness, Experian

With more than 20 years in the information services industry, Rod Griffin is a recognized expert in consumer credit reporting and scoring, fraud and identity theft and other consumer information and data use issues. As the Director of Consumer Education and Awareness, Rod Griffin is responsible for Experian's national consumer education programs and outreach.

Q. One of the things you found in the study is that Millennials seem to be having a more difficult time than older generations maintaining good credit ratings. To what do you attribute that?

We're seeing a significant difference between young adults age 22 to 28 and those who are 28 to 35. When you are 22 or 23 years old, you tend not to have a well-established history of credit use and as a result you generally have lower credit scores. In the older segment of the Millennial generation, we're seeing their scores increase. Because you're looking at a group that has been slower to use credit, I think that is a positive sign. Their rates are generally consistent with older adults and they are trending in the right direction.

Q. You also found that trended credit may work to the advantage of younger adults because, since they have less of a history, it is easier for them to improve their scores quickly?

Trended data looks at credit use over a period of time rather than just a snapshot of a moment in time. It helps to identify patterns of credit use and help lenders identify credit-worthy individuals who would not qualify in a traditional snapshot. Trended data can play a significant role with Millennials whose scores are improving, which means their credit history is improving but they are not quite at a prime level. Trended data can show that you are a reliable borrower and it can help to lift that individual closer to qualifying.

(continued)

(THE DPR INTERVIEW continued)

Q. In light of the many barriers to homeownership that Millennials face today—soaring prices, lack of affordable homes for sale, saving for a down payment, student loan debt, lower income levels than previous generations, later household formation—do you think that educating them about good credit habits would significantly improve homeownership for this generation?

Yes. That's something that we have seen over the past two decades. Not understanding the difference between credit and debt, and understanding how credit can be a financial tool instead of something to fear will help younger generations become more financially successful and that's what we really want people to understand. They should be able to use credit reports as a financial tool so that they can achieve the things they want out of life. Debt is a financial problem, a problem that is manageable, but credit is a financial tool. We want people to use their credit scores and credit reports to their advantage.

Q. What specifically can be done?

In some ways Millennials are potentially better informed about credit than past generations but because of what happened with the Great Recession, they tend to be less willing to use credit. Because they saw the mortgage debacle, they saw the negative potential rather than the positive potential when credit is used well. Do Millennials understand the value of a mortgage not only as a way to finance a place to live but also in terms of what it can do to improve their financial well-being?

I think that we need to have personal finance education in our schools. We teach trigonometry to every child. When's the last time you used trigonometry? We don't talk to people about how credit cards work but when was the last time you used a credit card and thought about how it would affect your credit? We don't talk to young people about the repercussions of using credit. Helping to educate Millennials about credit when they are thinking about buying a house will help them achieve better overall financial success.

Commentary

Down Payments on the Record

"For those who are trying to build wealth and sustain wealth-building practices outside of the guardrails of homeownership, there are few alternate options. You have the mattress. You have the sock drawer. You have savings accounts, and long-term savings are not throwing off the dividend interest that they had."

— Low Minority Homeownership Reverberates for Generations. Cy Richardson, Scotsman Guide, August 20, 2018

"But while you might be able to finance a used car with less-than-stellar credit, getting approved for a home mortgage when you have FICO scores dwelling deep in the cellar can seem like an infinitely steeper climb. An Everest-level climb, in fact."

— Got Lousy Credit? 10 Places Where It Won't Stop You From Buying a Home. Sara Ventiara, Realtor.com, September 10, 2018

"College is over, but you still have to do the kind of math that matters. Like: How am I supposed to save $50,000 for a down payment on a house."

— Don't let a down payment scare you away from buying first house. Brianna McGuffan, NerdWallet, June 19, 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. Contact him at scook@commsonsulting.com.

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