Down Payment® RESOURCE

The Down Payment Report

News and Data on Residential Down Payments

October 2018

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Breaking Down the Barriers to Homeownership

Over the past decade, sources of low down payment financing have expanded far beyond federally guaranteed mortgages like FHA and VA. Today's first-time buyers have a range of options that include more than 2,500 state and local programs as well as new conventional products and offerings from Freddie Mac and Fannie Mae. The wealth and diversity of low down payment options available today may be the most important reason that first-time buyers still account for nearly one-third of home sales despite soaring home prices and shrinking inventories.

Until now, it has been difficult to understand the impact of new low down payment options on the real estate economy and how they have changed the playing field for first-time buyers. The "Barriers to Accessing Homeownership: Down Payment, Credit, Affordability," an updated and expanded study by the Urban Institute, commissioned by Down Payment Resource and Freddie Mac, updates our understanding of each of the three leading barriers to homeownership.

The Urban Institute found that 19 million Millennials renting today could afford to own a home with 3.5 percent down and a 5.1 percent mortgage rate despite today's higher home prices and mortgage rates. So why are so many young families still renting?

The answer is discouraging, but not surprising. The study found that 65 percent of renters still believe it takes 15 percent or more down to buy a house today. Sadly, those who continue to rent in order to save enough for a 20 percent down payment will find that rising rents, rising prices and higher mortgage rates have made homeownership even less affordable. We cover more about the expanded report in this issue.

Rob Chrane

CEO, Down Payment Resource

August 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

Millennial Buyer Confidence

Age:	34 or under	35 to 44	45 to 54	55 to 64	65 or over
A Good Time	52%	58%	65%	73%	70%
Not a Good Time	48%	43%	35%	27%	30%

Source: Third Quarter NAR HOME Report

First-time Homebuyers

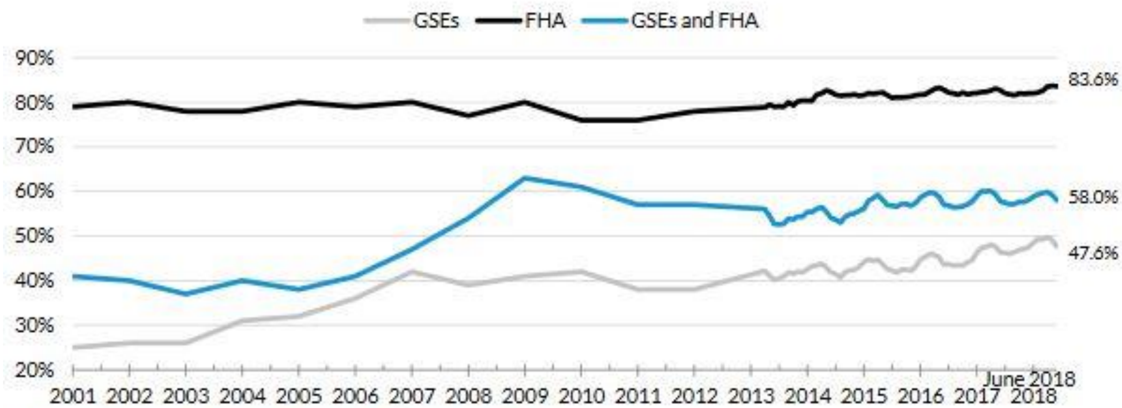
Source: [September Urban Institute Chartbook]

STATE OF THE MARKET

FIRST-TIME HOMEBUYERS

First-Time Homebuyer Share

In June 2018, the first time homebuyer share of purchase loans was elevated for both FHA and conventional mortgages, reflecting the negative impact of higher interest rates on the "trade-up" buyer. FHA, which has always been more focused on first time homebuyers has a near record first time homebuyer share of 83.6 percent in June 2018, the share has traditionally been around 80 percent. The GSE share in June 2018 was 47.6 percent, just slightly off its highest level in recent history. The bottom table shows that based on mortgages originated in June 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.

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 ($)	236,304	262,792	206,089	227,938	224,187	257,813
Credit Score	739.9	755.3	670.0	676.5	711.9	744.0
LTV (%)	87.4	78.8	95.6	94.0	90.7	80.9
DTI (%)	36.1	36.5	43.3	44.2	39.0	37.6
Loan Rate (%)	4.83	4.73	4.92	4.84	4.87	4.74

Sources: eMBS and Urban Institute.
Note: Based on owner-occupied purchase mortgages originated in June 2018.

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Zillow: Half of First-timers Rely on Gifts

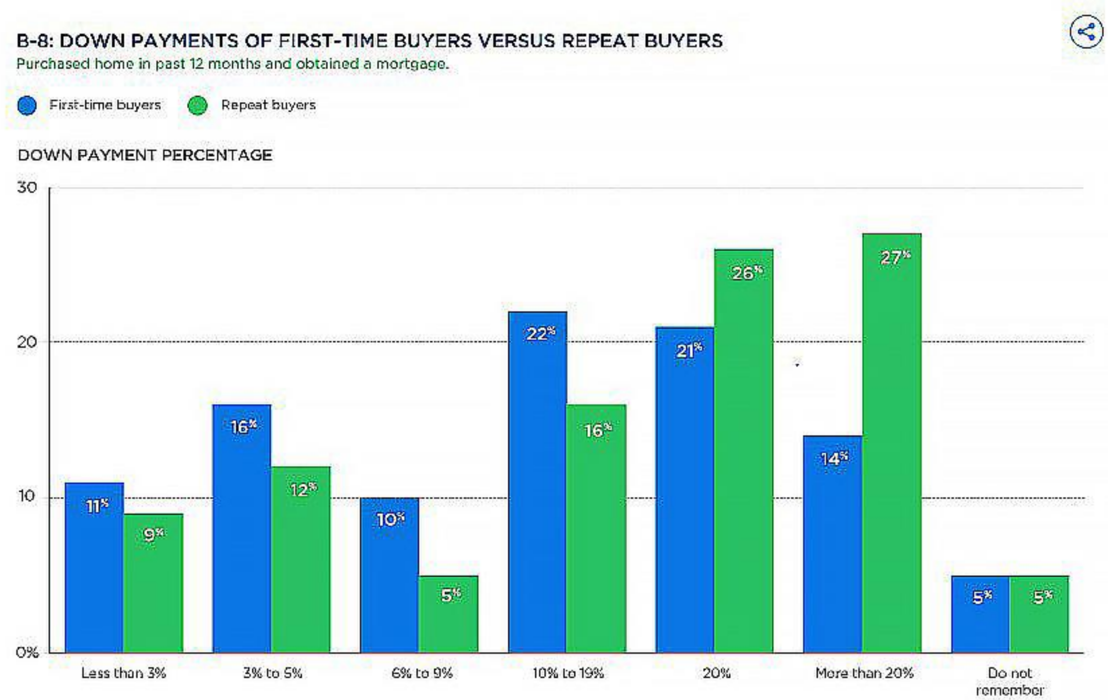
Half of first-time buyers who use a mortgage rely on two or more sources for their down payment, compared with 37 percent of repeat buyers. First-timers who obtain mortgages are more than twice as likely as repeat buyers to receive help from family and friends and, when they do, it's for a larger share of the down payment, according to the [Zillow Group Report on Consumer Housing Trends 2018](#).

On average, 21 percent of down payments come from a gift or loan from family or friends, compared with 9 percent for repeat buyers. Millennials, who are now between the ages of 24 and 38, comprise 42 percent of the nation's homebuyers and 61 percent of first-time buyers.

Gifts from family and friends have likely increased in importance as younger buyers are squeezed by high rents, stricter credit requirements, student loan debts and hefty down payment requirements as home values climb. First-time buyers are more likely to make sacrifices to stay within budget. The most common trade-offs: buying a smaller home (21 percent compared with 14 percent of repeat buyers), buying a home without the preferred finishes (22 percent versus 14 percent) and increasing commute times to work or school (21 percent versus 13 percent).

Only 35 percent of first-time buyers are putting down 20 percent or more.

Source: [Zillow](#)



Down Payments

New Urban Institute Study: Homeownership Barriers Keeps Renters Renting

Widespread unfamilitarity of how much homebuyers need to save for a down payment and low down payment options available is helping to keep as much as one-third of mortgage-ready millennials in rentals, according to a new study on barriers to accessing homeownership by the Urban Institute.

Even though they consider saving for a down payment to be the most significant barrier to buying a home, 65 percent of Millennial renters think they need a down payment of 15 percent or more to qualify for a mortgage. The national median down payment by first-time buyers has fallen from 20 percent to 5 percent over the past 12 years.

Ignorance includes HFA programs

Most of the growth in lower down payments has occurred in federal low-down payment options, including FHA, VA, Freddie Mac, and Fannie Mae, which now account for 60 percent of first-time buyers' mortgages, a 20 percent gain over the past 12 years. Only 23 percent of consumers were familiar with low-down payment programs, including the more than 2,500 down payment assistance programs offered by state and local housing finance agencies, according to the study, which was commissioned by Down Payment Resource and Freddie Mac.

"With rising home prices, access to sustainable mortgage credit is often possible only with low down payment loans. Down payment assistance programs offered through state housing finance agencies and by many lenders can help more people achieve homeownership. We need to increase the visibility of these programs and ensure mortgage borrowers know about available assistance," the study concluded.

Up to 19 million Millennials are mortgage-ready and can buy

The Urban Institute study looked at two other significant barriers to homeownership, credit, and affordability. Credit access remains tight by historical measures, and median credit scores have risen considerably over the past decade. The only credit metric to loosen is the debt-to-income ratio.

Despite tight credit conditions, the researchers found about 19 million Millennials in 31 metros have credit profiles and income that are sufficiently strong to qualify for a mortgage and afford a median priced home in their market.

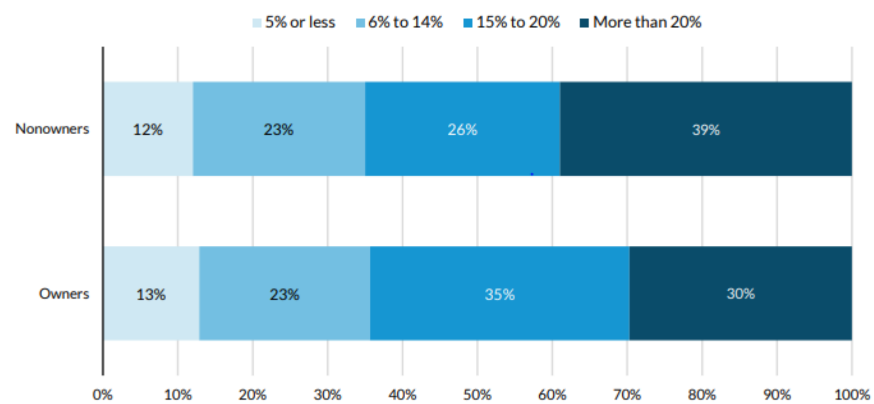
"As the credit box opens, educating consumers about low-down payment mortgages and down payment assistance is critical to ensuring homeownership is available to more families," the study said.

(continued)

(continued: Urban Institute study)

The study includes two tools to help consumers learn more about down payment assistance. An interactive map allows users to see and compare 16 market variables for each state and provides links to Urban Institute research on access to credit, affordability, and down payments. Consumers (and mortgage professionals) can gauge their knowledge of down payment assistance by taking a down payments quiz.

What Percentage Is Needed for a Down Payment?



Sources: National Association of Realtors and the Urban Institute.

Where to find mortgage-ready renters

A blog post on September 26 by the Urban Institute's Laurie Goodman and Sarah Strochak listed markets five markets with the highest and lowest shares of mortgage-ready Millennial renters.

Areas with the Highest and Lowest Shares of Mortgage-Ready Millennials

Metropolitan statistical area	Share of mortgage-ready millennials	Share of mortgage-ready population that can afford a home
Smallest mortgage-ready share		
Memphis, TN-MS-AR	25%	99%
Indianapolis-Carmel-Anderson, IN	26%	98%
Las Vegas-Henderson-Paradise, NV	29%	96%
San Antonio-New Braunfels, TX	30%	98%
Cincinnati, OH-KY-IN	30%	99%
Largest mortgage-ready share		
New York-Newark-Jersey City, NY-NJ-PA	45%	75%
Boston-Cambridge-Newton, MA-NH	45%	85%
Los Angeles-Long Beach-Anaheim, CA	42%	78%
Seattle-Tacoma-Bellevue, WA	40%	80%
San Diego-Carlsbad, CA	40%	78%

Source: Freddie Mac calculations using anonymized credit bureau data.
Notes: According to the National Association of Realtors' methodology, if a consumer's quarterly household income is greater than or equal to the annual mortgage payment on a median-priced house (assuming a 10 percent down payment, 4 percent mortgage rate, and 30-year contract), that house is affordable. Based on September 2016 data. Full results for all 31 metropolitan statistical areas can be found in Laurie Goodman, Alanna McCargo, Edward Golding, Bing Bai, and Sarah Strochak, *Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability* (Washington, DC: Urban Institute, 2018).

Median Down Payment Reached New High in Q2

The median down payment on single family homes and condos purchased with financing in Q2 2018 was $19,900, up 19 percent from $16,750 in the previous quarter and up 18 percent from $16,925 in Q2 2017 to a new record high going back as far data are available — Q1 2000.

The median down payment of $19,900 was 7.6 percent of the median sales price of the homes purchased with financing during the quarter, up from 6.6 percent in the previous quarter and up from 6.6 percent in Q2 2017.

Among 103 metropolitan statistical areas analyzed for median down payments, those with the largest median down payments for homes purchased in Q2 2018 were San Jose, California ($306,000); San Francisco, California ($220,000); Los Angeles, California ($130,000); Oxnard-Thousand Oaks-Ventura, California ($115,400); and Boulder, Colorado ($107,750).

Other metro areas with median down payments of $60,000 or higher in the second quarter were San Diego, California ($90,400); Boston, Massachusetts ($79,925); Seattle, Washington ($70,100); Fort Collins, Colorado ($68,050); Bridgeport, Connecticut ($63,550); New York, New York ($62,108); and Naples, Florida ($60,000).

In the second quarter, the median down payment was $19,900, a 19 percent increase from $16,750 in the previous quarter and 18 percent from $16,925 in the same quarter last year. It was also a record high going back to the first quarter of 2000.

High Rents Put Homeownership Out of Reach

Only 44 percent of renters' homes are affordable for first-time buyers and almost two-thirds agree high rent is making it impossible to save for a future house, according to the annual NeighborWorks America at Home survey.

Regionally, many living in the Northeast and the West believe homeownership is out of reach. Median house prices track significantly lower in the Midwest ($291,000) and South ($284,000) than for those in the Northeast ($490,000) and West ($390,000). Fewer than half of U.S. adults think houses are affordable for first-time buyers.

In addition to high rent, people of color and millennials say lack of a down payment and weak or bad credit are their greatest obstacles to buying. Some 85 percent of adults with student loan debt and 87 percent of Millennials reported worrying about their debt some, most or all of the time. One in three Americans has delayed purchasing a home, or know someone who has, due to student loan debt. Those under 30 (58 percent), African-Americans (55 percent) and Hispanics (54 percent) reported having some amount of student loan debt.

The NeighborWorks America survey found people who do not currently own homes may not be on track to achieve that goal. Of renters (31 percent of adults), just one in ten say they have enough savings to afford a down payment on a home purchase. The vast majority (70 percent) say they definitely or probably do not have those savings.

Legislation

Senator Warren's Housing Bill Includes New Down Payment Assistance Programs

In late September, Senator Elizabeth Warren's (D-MA) introduced comprehensive legislation addressing affordability issues in the wake of the housing recovery. While the bill is not expected to be seriously considered by the current Congress, it may become a model for legislation following the midtern elections.

It provides half a trillion dollars over 10 years for affordable-housing programs funded by raising the estate tax to Bush-era levels. An outside study by Mark Zandi at Moody's Analytics found that raising the estate tax would ensure the bill does not create a deficit.

Under the bill, first-time homebuyers living in lower-income, formerly redlined or officially segregated areas would qualify for down payment assistance grants to start building home equity and close the racial wealth gap created by the legacy of segregation. The program gives formerly segregated communities a boost when getting mortgages, which homeowners then pay off themselves.

The bill also invests $2 billion to support borrowers still recovering from the financial crisis with negative equity on their mortgages.

Down Payment Assistance Across the Nation

Tennessee Housing Development Agency raises income cap

The THDA has increased the maximum household income for qualified buyers to more than $100,000 in Williamson and other Middle Tennessee counties to qualify for a home loan with down payment assistance. Starting August 1, the maximum income for a one- or two-person household to buy a home in Davidson and surrounding counties will be $89,880, an increase of $7,440.

New Mexico agency launches new down payment-assistance program

The New Mexico Mortgage Finance Authority (MFA) has announced the release of HomeNow, which is a down-payment assistance loan available to lower-income, first-time homebuyers. HomeNow is a zero-percent interest rate loan that is non-amortizing, which means that there are no monthly payments required.

The program provides homebuyers who earn no more than 80 percent of the area median income (AMI) with a loan equal to 8.0 percent of the sales price of the home, or $8,000, whichever is less. Dona Ana County's area median income is currently around $38,700 for a family of four, according to the Mesilla Valley Public Housing Authority's website.

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(continued: Down Payment Assistance Across the Nation)

Wisconsin City launches DPA program to attract homeowners

The Menominee City Council has approved a private/public funded program to attract new homeowners to the city. The Home Sweet Menomonie program would provide down payment assistance for someone buying a single-family home in the city.

Employees from participating businesses will be eligible to borrow up to $10,000 for a down payment. Funding for the program comes from private, nonprofit and public dollars. The loans are available on a first-come, first-served basis.

“The recession spurred the movement of young people to big cities, particularly those from rural America,” program organizer Dan Ostermann said in a statement. “This down payment assistance program intends to reverse that trend for Menomonie.”

College football playoffs help Bay Area teachers buy homes

Although the College Football National Championship at Levi's Stadium in Santa Clara, CA doesn't take place until January of next year, the Bay Area Host Committee (BAHC) is already following through on its word to help support local educators as part of its philanthropic commitments leading up to the big event.

Officials with the BAHC and the College Football Playoff (CFP) Foundation Wednesday announced a joint partnership with San Francisco-based Landed, whose mission is to help essential professionals, such as teachers, build financial security near the communities they serve. The company is working with public school districts to help make homeownership a reality through financial coaching and down-payment assistance.

"We believe in aiding the essential professionals who uphold our children and our society," said Landed co-founder Alex Lofton. "Partnerships like this one prove there's a collective will here in the Bay Area not only to discuss the housing challenges that have reached a crisis point for too many people — including our educators —but to address this problem through innovation and shared action."

As part of a year-long campaign by the BAHC and the CFP Foundation's Extra Yard for Teachers program to provide support to Bay Area educators, officials have made a $150,000 contribution to Landed, which will award direct grants to help educators with the cost of purchasing a home locally.

THE DPR INTERVIEW

Are we at a turning point in the housing economy?

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

Odeta Kushi, Senior Economist, First American Financial Corporation

Odeta Kushi prepares analysis, commentary and forecasts on trends in the real estate and mortgage markets. Kushi's conducts research around demographic trends, millennials and homeownership. She also monitors and analyzes quarterly surveys and economic data related to the housing industry. Her research has been published in leading business and industry trade publications, such as *Business Insider, HousingWire* and *Inman News*.

Q. What's your outlook for first-time buyers over the next six to 12 months? Are times getting better for first-time buyers?

I don't see the real estate market at a turning point, but rather an inflection point. I'm not quite ready to say that we are seeing a switch from a seller's to a buyer's' market. House prices are a reflection of supply and demand. As the housing supply increases relative to demand, as we are beginning to see in some higher priced coastal markets, price appreciation will start to slow down. Rising prices and modestly increasing mortgage rates have started to reduce affordability, particularly for first-time home buyers. Some home buyers, specifically first-time millennial homebuyers, are becoming discouraged and may be temporarily "boycotting" the market.

We are seeing some slow down in price appreciation in our Real House Price Index. In our most recent release, 21 of the 50 cities that we track experienced a monthly decline in their real, consumer house-buying power-adjusted price level. In the next six months, I expect that inventory levels will start to increase, and potential buyers will have a greater selection of homes to choose from.

But, I wouldn't expect the level of supply to change dramatically since buyers in many markets are scooping up homes as soon as they are listed. I don't necessarily see the supply issue going away. The shortage of inventory has been severe, and we will need to see increases in new home construction to keep up with the wave of millennial homebuyer demand.

(continued)

(THE DPR INTERVIEW continued)

Q. Do you think the barriers first-time buyers are facing will create a generation of renters?

The misnomer that millennials are the renter generation is just that, a misnomer. First-time homebuyers, many of them millennials, have prioritized furthering their education and thus delayed getting married and having children, which are critical lifestyle triggers to buying a first home.

We are already beginning to see the impacts of millennial first-time homebuyer demand, as the oldest of the millennials age into homeownership. Despite the challenges they face - student loan burdens, difficulties saving for a down payment, and affordability challenges - millennials continue to cite homeownership as quintessential to the American Dream. We expect to see an uptick in homeownership due to the impending wave of millennial first-time homebuyer demand.

Q. What about the perception among many potential new homebuyers who believe they have to wait until they can save enough for a 20 percent down payment? Do you think that there a lot of young people out there who could be buying but aren't?

Absolutely. We have some evidence of that. According to our second quarter Real Estate Sentiment Index, 35.3 percent of title agents and real estate professionals surveyed cited the limited supply of homes they like as the primary obstacle to potential homebuyers becoming a homeowner. The second most cited obstacle was overall affordability (30.1 percent), followed by down payment (28.3 percent). Many first-time home buyers believe they need a 20 percent down payment in order to buy a home, when in reality, the average down payment amount for first time buyers now ranges between 5 and 10 percent.

Q. When you looked at the new Urban Institute study that just came out, what did you think was interesting?

I think that the most interesting finding is that more than 19 million millennials in the 31 largest metropolitan statistical areas (MSAs) have the credit and income to purchase a home. The study found that persistent myths regarding down payment may be holding these would-be homebuyers back. Many millennials believe they need a much higher down payment in order to buy a home, when in reality the median down payment in the U.S. in 2017 was 5 percent.

These findings are important as they serve as a reminder that educating potential first-time homebuyers is crucial - many millennials could qualify for a mortgage, and have the income to afford a house, so the down payment could be the main hurdle.

Commentary

Down Payments on the Record

"The (Urban Institute) analysis also noted that there is limited awareness of state programs that provide grants and loans to make homeownership more attainable. Average assistance in various states ranges from $2,436 to $21,171."

— Down-payment myths may be holding back millennial homeownership by Francis Monfort, Mortgage Professional America, October 8, 2018

"The time it could take millennials today to raise the minimum down payment required, on average, for a home in some major markets is downright scary."

— The lowdown on down payments by Chris Shannon, Yarmouth County Vanguard, October 1, 2018

"Teachers are the most valuable resource we have in this country, and the lack of affordable housing for educators has a direct effect on the quality of education for young people nationwide, including the Bay Area," said CFP Foundation Executive Director Britton Banowsky.

— Football helping Bay Area teachers afford homes, ABC 7 News, September 12, 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 Communications Consulting. Contact him at scook@commsonsulting.com.

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