The Down Payment Report

News and Data on Residential Down Payments

December 2018

Report Released: December 18, 2018

Is Change in the Air?

As the year ends and real estate markets slow down during the winter months, fundamental changes seem to be underway. After a three-year drought, inventories of existing homes for sale are finally stabilizing and relieving pressure on home prices. Prices are still rising in most markets but at significantly slower rates. Higher prices and rising rates have slowed home sales as buyers take stock of the changing environment.

Some economists believe these changing dynamics are early indicators of the end of what Robert Shiller is calling the third biggest housing boom in modern history. Shiller isn't convinced that the boom days are numbered, but others foresee a buyer's market by 2020.

It's no secret that the crisis in affordable housing is keeping prospective first-time buyers in rentals. The Urban Institute estimates some 21 million Millennials are mortgage ready but still sidelined in today's market.

Today, buyers can find a wide assortment of low-down payment options from federal, state and local governments as well as conventional lenders and Fannie Mae and Freddie Mac. Plus, approximately 36 percent of 2017 loans would have qualified for down payment assistance – that's help that 76 percent of buyers don't know about.

Rob Chrane

CEO, Down Payment Resource

October Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	88	12
FHA Purchase	95	5
Conventional Purchase	80	20
VA Purchase	98	2

Source: Ellie Mae Origination Insight Report and Millennial Tracker

First-time Buyer Market Share Trends

Sources	Share	Trend
2017 Profile of Home Buyers and Sellers	33%	Down from 34% in 2017
October Realtors Confidence Index	31%	Down from 32% in 2017
October Existing Home Sales	31%	Down from 32% in September
August AEI First-time Buyer Share	58% of all agency purchase loans	Up from 57% in August 2017

November LTVs by Credit Score

Source: Lendingtree

Purchase

FICO Range	Average APR	Average Down Payment	Average Loan Amount	Average LTV	Lifetime Interest Paid*
All Loans	5.35%	$59,974	$230,260	82%	$232,857
760+	5.20%	$77,531	$251,149	79%	$225,009
720 - 759	5.26%	$56,552	$230,775	83%	$227,855
680 - 719	5.50%	$38,486	$212,562	86%	$240,397
640 - 679	5.87%	$69,559	$199,357	75%	$259,714
620-639	5.96%	$59,151	$191,106	77%	$264,351

First-time Buyers

2019 Forecast: Tough Times Continue for First-time Buyers

In November, leading housing economists at the GSEs, housing trade associations, real estate websites, think tanks and financial institutions traditionally release their forecasts for the coming year. These are preliminary and often change significantly as the new year begins. In recent years, for example, few economists foresaw the inventory drought that has dominated markets over the past four years. However, these preliminary forecasts are important, because they set expectations for journalists, policy-makers and consumers.

We gathered forecasts from a number of leading economists and consolidated their findings to give a consensus of expert opinion. The forecasts addressed the most important factors expected to dominate residential real estate: mortgage rates, inventories, prices and sales expectations. Then we analyzed them through the lens of prospective first-time buyers who are thinking about making the leap to homeownership next spring.

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(2019 Forecast continued)

Times are changing, but not very quickly. Stabilizing inventories and sluggish sales in the last three quarters of 2018 are signaling an end to the third largest boom in history. The long-lived seller's market is losing steam and in 2019 prices will increase at a slower rate than they did this year, but not by much. Some forecasts have annual price appreciation as low as 2 percent and one forecasts more than 5 percent, but less than in 2018. However, prices will continue to rise. Affordability will continue to be the most important barrier first-time buyers face. Most forecasts see prices flattening out, but not falling, in 2020 and 2021.

"The biggest unknown about the housing market next year is whether the recent negative trends will persist, or the market will adjust to the shock of higher mortgage rates and resume modest growth," says the Freddie Mac forecast.

Mortgage rates will rise to 5 percent. Economists expect the Federal Reserve to raise rates at least once next year to reach an average of 4.9 to 5.3 percent, slightly higher than the 4.6 percent average rate in 2018.

Sales will be flat. After falling about 1.6 percent this year, economists expect sales of existing homes to recover slowly, rising 1 to 2 percent next year. New home sales will rise as much as 5 percent, reaching 12 percent of the market.

Markets will change from the top down. Inventories for mid-priced homes will recover before affordably priced homes. Prices of starter homes will not soften as quickly as more expensive homes. First-time buyers will be the last to see the end of the seller's market.

Millennials will buy the most homes. Millennials will continue to make up the largest segment of buyers next year, accounting for 45 percent of mortgages, compared to 17 percent of Boomers, and 37 percent of Gen Xers. While first-time buyers will struggle next year, older Millennial move-up buyers will have more options in the mid-to upper-tier price point and will make up the majority of Millennials who close in 2019.

Lack of Affordability is Lengthening Home Search

House hunting is taking longer during the affordability crisis, as buyers put in additional time trying to find the perfect home. Fifty-four percent of active buyers say they've been trying to find the right home for three months or longer, according to the National Association of Home Builders' Housing Trends Report poll.

Buyers say the biggest delays that are stretching out their home search is finding a home at an affordable price (49 percent), followed by not being able to find a home with the desired features they want (40 percent) or in their ideal neighborhood (38 percent).

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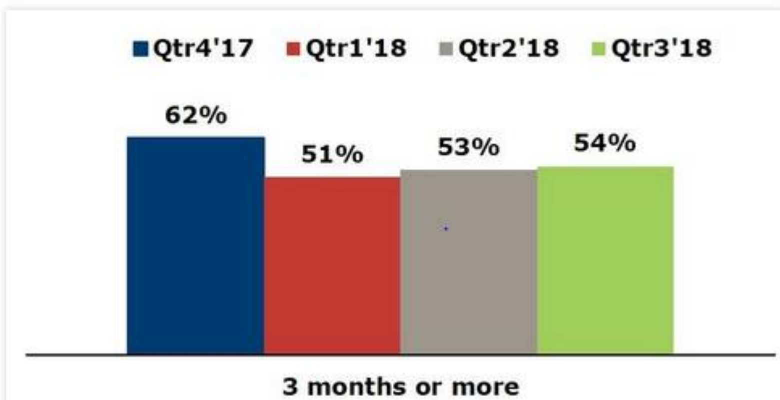
(Lack of Affordability Continued)

Most of the prospective buyers surveyed say they refuse to give up and will keep looking until they find the right home. The NAHB survey found that buyers who are unable to find a home over the next few months plan to:

- 61% will continue looking until the "right" home opens up in a preferred location
- 37% will expand their search area
- 23% will accept a smaller/older home than originally intended
- 18% will give up trying to find a home until next year or later
- 16% will buy a more expensive home than they originally intended.

Share Looking for a Home for 3 Months or Longer
(Percent of Active Home Buyers)



New Entry-level Homes are Getting Smaller

New single-family home size decreased during the third quarter of 2018. New home size has been falling over the last three years due to an incremental move to additional entry-level home construction, according to the [National Association of Home Builders.] Median single-family square floor area decreased to 2,320 square feet. Average (mean) square footage for new single-family homes decreased to 2,495 square feet.

The post-recession increase in single-family home size is consistent with the historical pattern coming out of recessions. Typical new home size falls prior to and during a recession as homebuyers tighten budgets, and then sizes rise as high-end homebuyers, who face fewer credit constraints, return to the housing market in relatively greater proportions. This pattern was exacerbated during the current business cycle due to market weakness among first-time homebuyers and supply-side constraints in the building market. But current declines in size indicate that this part of the cycle has ended, and size will trend lower.

Millennials

Nearly Half of All Millennials Haven't Saved a Penny Towards a Down Payment

Nine out of ten Millennial renters want to purchase a home, but few have plans to do so in the near future; 34 percent expect to wait five years or more. Even so, nearly half, 48 percent, of all renters who plan to buy, have yet to save a penny towards a down payment, according to a new survey by ApartmentList.

The survey also found that two-thirds of Millennial renters would require at least two decades to save enough for a 20 percent down payment on a median-priced condo in their market. Just 11 percent would be able to amass a 20 percent down payment within the next five years.

ApartmentList's chief economist, Ivan Popov, told the Down Payment report that they use the 20 percent threshold in their surveys of renters even though most first-time buyers choose mortgages requiring 10 percent or less down because 20 percent is still the industry standard.

"There's a common effect between these two findings (the lack of savings and the time it takes to save for a 20 percent down payment) and it is hard to disentangle them. The low down payments that we see in the data are a result of the fact that the money for a 20 percent down payment just isn't there," Popov said.

The study also found that:

- 72 percent of Millennial renters who plan to purchase a home cite affordability as a reason that they are delaying homeownership, with 62 percent pinpointing a lack of down payment savings specifically. Forty-eight percent of millennial renters have zero down payment savings, while just 11 percent have saved $10,000 or more.
- Student debt is keeping homeownership out of reach for many Millennials. The study estimates that 23 percent of college graduates without student debt can save enough for a down payment within the next five years, compared to just 12 percent of college graduates who are currently paying off student loans. That said, those without a college education fare worst, with just six percent able to save a down payment within five years.
- Down payment help from family can make homeownership more attainable, but this benefit accrues primarily to the highest earners. Of Millennial renters who expect to receive assistance with a down payment, those with incomes over $100,000 per year expect to receive $51,172 on average, which is over ten times the average expected assistance of $4,358 for those making less than $25,000.

Owners Who Buy Young Fare Better in their Sixties

A new study by economists at the Urban Institute found that homeowners who bought their first home before they reach 34 are financially better off in their sixties, which could have long-term economic consequences for Millennials who are deferring their first home purchase. Today's older adults became homeowners at a younger age than today's young adults.

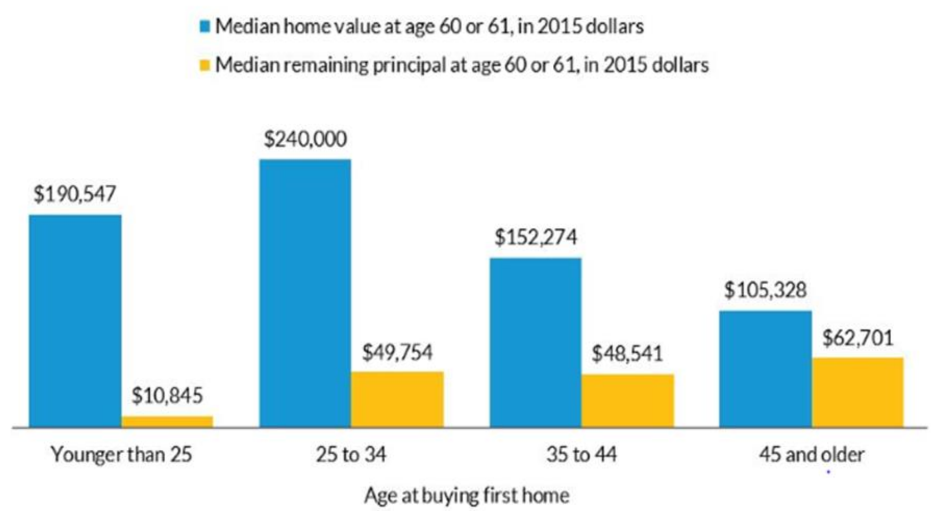
Half the older adults in the study bought their first house when they were between 25 and 34 years old, and 27 percent bought their first home before age 25. But only 37 percent of household heads ages 25 to 34 and 13 percent of those ages 18 to 24 owned a home in 2016.

The youngest buyers have lower incomes, are less educated, and buy lower-priced homes. The median first-home value for these buyers is less than $70,000, while the median first-home value is around $125,000 for the other three groups.

But even though these younger homeowners ended up with less median equity, they have the largest return on their housing investment. The ratio between the median home equity at age 60 or 61 and median price of the first home decreases with the age owners bought their first homes. The ratio is highest for those who bought their first home before age 25 and lowest for those who bought their first homes after age 44.

Owners who bought before age 25 have a lower median house value when they are older but have lower mortgage debt because they have owned their home longer. Their median remaining principal is less than $11,000, considerably lower than owners who bought later in life.

Median Home Value and Remaining Mortgage Principal at Age 60 or 61



Source: Urban Institute calculation using Panel Study of Income Dynamics.

URBAN INSTITUTE

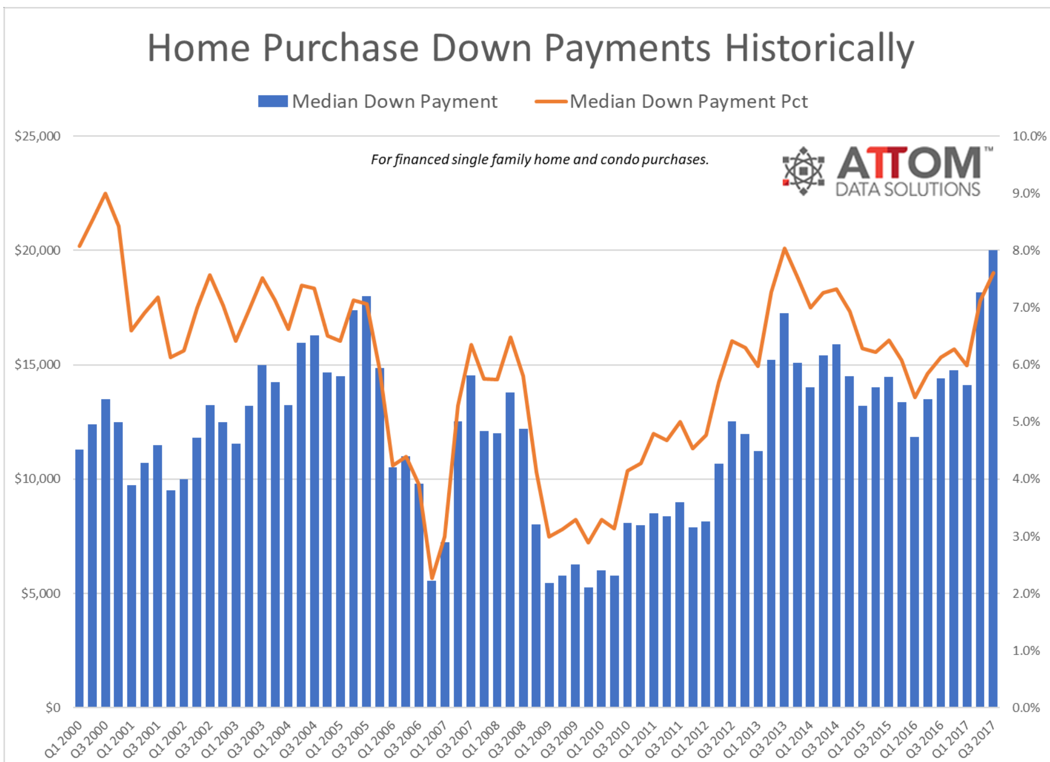
Down Payments

Competition Pushes Down Payments to New Highs

The median down payment for single family homes and condos purchased with financing in the third quarter was $20,000, up from $18,161 in the previous quarter and up from $14,400 in Q3 2016 to a new high as far back as data is available, Q1 2000, according to [ATTOM Data Solutions.]

The average down payment was 7.6 percent of the median sales price of $263,000 for financed home purchases in the third quarter, up from 7.1 percent in the previous quarter and up from 6.1 percent in Q3 2016 to the highest level since Q3 2013 — a four-year high.

"Buying a home has become a full-contact sport in many markets across the country, and buyers with the beefiest down payments — not to mention all-cash buyers — are often able to muscle out those with scrawnier savings," said Daren Blomquist, senior vice president with ATTOM Data Solutions. "Despite the increasingly competitive nature of homebuying, the number of residential property purchase loans nationwide increased to a 10-year high in the third quarter."



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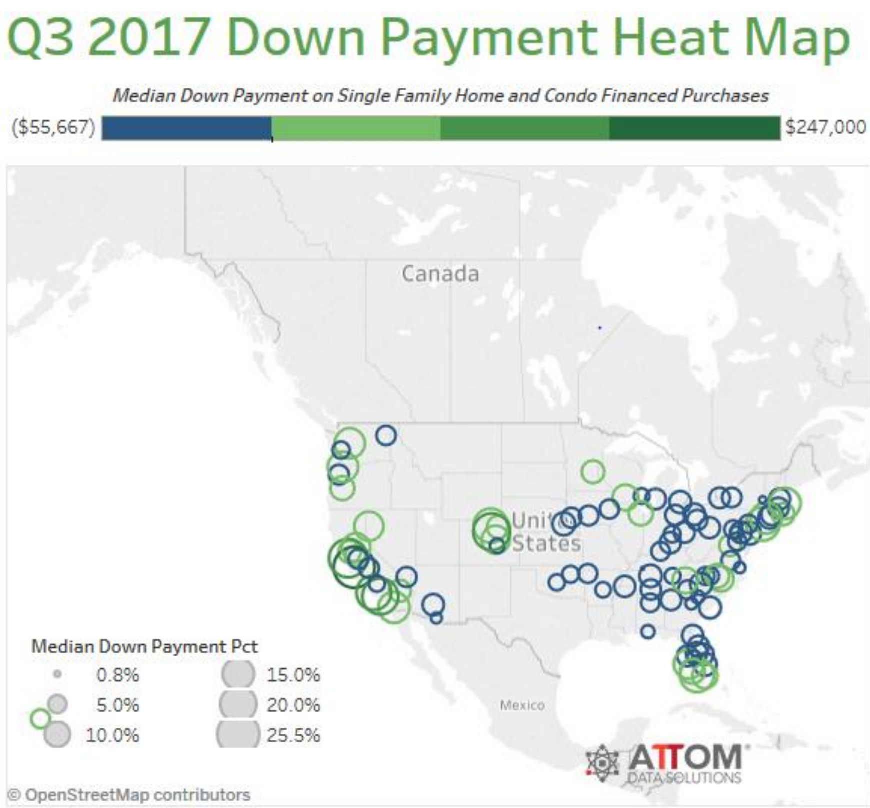
The report also found that 23.4 percent of all purchase loan originations on single-family homes in Q3 2017 involved co-borrowers — multiple, non-married borrowers listed on the mortgage or deed of trust — up from 22.8 percent in the previous quarter and up from 21.1 percent in Q3 2016. The share of co-borrowers increased from a year ago in 33 of 38 U.S. cities analyzed in the report (87 percent), including Las Vegas, Nevada; Houston, Texas; San Antonio, Texas; Phoenix, Arizona; and Colorado Springs, Colorado. Cities with the highest share of co-borrowers in Q3 2017 were San Jose, California (51.1 percent); Miami, Florida (42.7 percent); Seattle, Washington (36.7 percent); Los Angeles, California (30.4 percent); and Portland, Oregon (30.1 percent).

FHA loans accounted for 12.9 percent of all residential property loans originated in the third quarter, down from 13.6 percent in the previous quarter and down from 13.2 percent in Q3 2016. VA loans accounted for 6.6 percent of all residential property loans originated in the third quarter, up from 6.5 percent in the previous quarter but down from 7.5 percent in Q3 2016.



Freddie Mac Accepts More Sweat Equity

Freddie Mac will now allow borrowers to use “sweat equity” to cover their entire down payment.

The GSE is expanding sweat equity parameters of its Home Possible program. Under the expansion, certain borrowers will be able to get credit as their full down payment for materials and labor completed by a borrower to improve a house before closing on the property.

“The Home Possible sweat equity offering supports the renovation of aging homes and provides borrowers with an additional form of down payment instead of cash, particularly in rural areas,” Freddie Mac said. “Borrowers can use sweat equity with no limits on the amount that can be applied to the down payment, provided the labor performed is completed in a skillful manner to support the appraised value—and is certified by an appraiser.”

Commentary

Down Payments on the Record

"Money is left on the table every year because no one knows about these (down payment assistance programs)."

> — Alanna McCargo, vice president of housing finance policy at the Urban Institute quoted in USA Today, November 13, 2018

"Millennials are making up the key share of buyers as their income increases and as they start and grow their families. Realtor.com expects Millennials will account for 45% of mortgages with 37% going to Gen Xers and 17% to baby boomers in 2019."

> — Realtor.com's 2019 Housing Forecast Is Pretty Interesting by Ellen Paris, Forbes, November 28, 2018

"Millennials aren't intentionally killing homeownership, or marriage, or having kids; they just don't feel like they can afford it."

> — By Gabi Del Valle Millennials prioritize owning a home over getting married or having kids, Vox Media, October 10, 2018

"We're seeing an increasing number of people choose low down-payment loans and take advantage of down-payment assistance programs. Lenders are trying to streamline the process for using gift funds for down payments, too, although they're still very careful to document the source of the money."

> — Michael Fratantoni, chief economist for Mortgage Bankers Association, quoted in The Washington Post, December 6, 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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Contact: info@downpaymentresource.com. Media inquiries: tshell@downpaymentresource.com