The Down Payment Report

News and Data on Residential Down Payments

January 2019

Report Released: January 22, 2019

The Year to Come

Last year low down payments and down payment assistance played a critical role in the nation's real estate economy, making it possible for hundreds of thousands of young families to become homeowners.

- More buyers used low down payments than ever before. More than half of all homebuyers (52 percent) and 60 percent of Millennial buyers in 2018 put down less than 20 percent of the purchase price.[1] First-time homebuyers, who put down only an average of only 5 percent, accounted for over half of all purchase mortgages securitized by Fannie Mae, Freddie Mac, and Ginnie Mae during the second quarter of 2018.
- In the first three quarters of 2018, the homeownership rate for Millennials, the age group most dependent on low down payments, improved more than any other. Buyers age 35 and below, who put down an average of 14 percent, reached the highest homeownership rate for their age group in five years.[2]
- Low down payments made it possible for first-time buyers to overcome soaring prices, depleted inventories, and rising mortgage rates. To buy a home in 2018, first-time buyers turned to a record number of homeownership programs from state and local housing finance agencies, and Freddie Mac and Fannie Mae.

Today some 19 million Millennials have the credit and the income to purchase a home, but conditions for first-time buyers may be even more difficult this year than they were in 2018.[3] We must continue to expand the role of HFA programs by making young buyers aware of local and state programs created to help them overcome the down payment barrier.

Rob Chrane

CEO, Down Payment Resource

[1] https://www.zillow.com/report/2018/buyers/money-home-financing/
[2] https://www.elliemae.com/millennial-tracker
[3] https://www.urban.org/urban-wire/more-19-million-millennials-31-us-cities-are-ready-become-homeowners

November Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	86	14
FHA Purchase	95	5
Conventional Purchase	80	20
VA Purchase	97	3

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
November Realtors Confidence Index	33%	Up from 28% in 2017
November Existing Home Sales	33%	Up from 32% in October and 29% in 2017
August AEI First-time Buyer Share	58% of all agency purchase loans	Up from 57% in August 2017

December LTVs by Credit Score

Source: Lendingtree

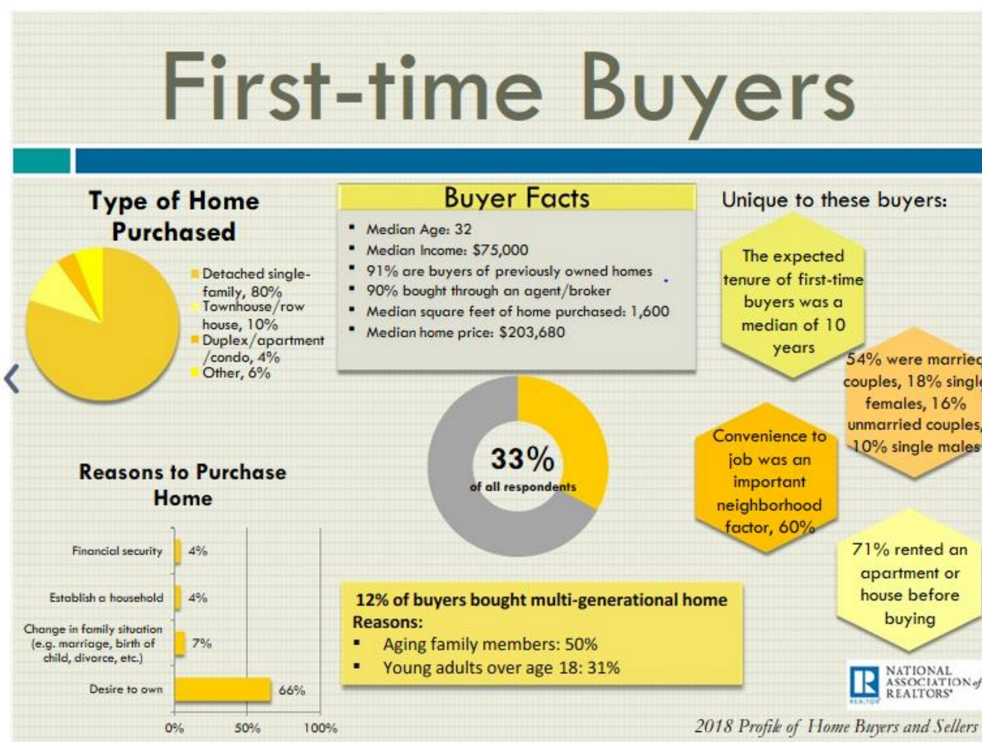
Purchase Mortgage Offers by Credit Score

Purchase

FICO Range	Average APR	Average Down Payment	Average Loan Amount	Average LTV	Lifetime Interest Paid*
All Loans	5.17%	$54,217	$224,609	82%	$217,901
760+	4.98%	$72,169	$245,568	80%	$208,473
720 - 759	5.04%	$50,930	$224,615	84%	$211,440
680 - 719	5.33%	$34,958	$209,426	87%	$225,914
640 - 679	5.76%	$66,176	$198,337	76%	$247,777
620-639	5.86%	$56,084	$192,037	77%	$252,929

lendingtree

First-time Buyers



Source: 2018 Profile of Home Buyers and Sellers

THE DPR INTERVIEW

Affordability and Gentrification in Atlanta

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

John O'Callaghan serves as the President and CEO of Atlanta Neighborhood Development Partnership, Inc. (ANDP) where he leads the organization's policy, lending, and housing development programs aimed at ensuring mixed-income housing opportunity near job centers across metro Atlanta. Established in 1991, ANDP was created to address the diminishing supply of affordable housing and reclaim declining neighborhoods in its city core. During its 28-year history, ANDP's footprint has expanded support for the creation of housing for people of low-to-moderate incomes throughout the entire metropolitan Atlanta region.

This dedicated work has resulted in the investment, building or renovation of more than 11,000 housing units in the region. In 2019, the ANDP will develop between 85 and 100 single-family homes, most of which will be the acquisition and rehab of foreclosure-impacted properties. In addition to its work as a developer, ANDP is also a community development financial institution that lends to developers of affordable housing, both multifamily and single-family. Currently, ANDP is leveraging its development, capital, advocacy, and community engagement efforts to address the aftermath of the region's foreclosure crisis and its impact on neighborhoods.

Mr. O'Callaghan is the first recipient of The Beverly Faull Affordable Housing Leadership Award from Down Payment Resource. The award honors the memory of an accomplished real estate industry veteran and one of DPR's first employees. Beverly Faull was a tireless advocate for the company's mission of helping homebuyers to access down payment programs. The award recognizes someone who has demonstrated leadership in providing more access to homeownership and affordable housing finance solutions.

Q. How has ANDP evolved over its 28-year history?

The most significant evolution has been our service area. We initially served in-town Atlanta neighborhoods but recognized the need to support a larger portion of the region, especially the south metro. The city and the south metro area suffered disproportionately during the foreclosure crisis and the subsequent recession. Initially, we focused exclusively on the most impacted neighborhoods, which in metro Atlanta were mostly African American communities. Today we are focused on neighborhoods that have recovered from a market standpoint but have unusually high rates of gentrification, and suburban areas with some of the highest rates of underwater mortgages 11 years after the recession.

One of the causes of gentrification was the erosion of the homeownership base during the crisis. Investors bought these properties and didn't maintain them well, making it very easy for developers to tear down the old stock and build expensive housing. We believe that restoring stable homeownership is an antidote to high rates of gentrification. Our work will continue to evolve as we focus on affordable homeownership in these areas -- as well as suburban areas that have high rates of underwater mortgages. (continued)

(Down Payment Interview continued)

Q. Gentrification and affordability are truly national issues. How can mixed-income neighborhoods survive the pressure for gentrification?

I believe that seeding homeownership with very little subsidy in neighborhoods that are underwater, while market prices are low, is the best investment against gentrification. The subsidy we need for that development gap is small. Meeting that gap would allow us to serve homeowners below 80 percent of area median income. On a per unit basis, subsidies amount to far less than the amount that is needed to build a new apartment.

As we seed the neighborhood with ownership, we are fostering wealth creation of our homeowners. We are now studying the wealth created and hope to share the results in a few months. Early analysis shows substantial wealth creation for our low-income families. Investment in homeownership either through down payment assistance or filling the gap between what it costs to buy and rehab a house and its market value isn't that large. The impacts of these investments are long-term.

Q. As you look at the year ahead, what are your priorities for 2019?

For us, continuing to grow our scale is essential. Three years ago we were probably, in terms of unit impact, the largest nonprofit serving metro Atlanta. Since then, we have doubled our lending, we have doubled our production of single-family homes, and we have doubled our multifamily portfolio. We believe that we are going to need to double production again in the next few years to keep up with just a fraction of the need.

Atlanta Mayor Keisha Lance Bottoms made a billion-dollar affordable housing campaign commitment and is working to implement it. We believe that within the city, there may be some new resources and we are doing some exciting work in the suburbs as well. We have initiated a $20 million investment plan that we announced this past summer in DeKalb County with their CEO, Michael Thurman. For us, the challenge is to serve more renters and homebuyers and develop affordable housing on an increased scale.

Q. As you look ahead to 2019, what will be your greatest challenges?

Funding for some of the most impactful down payment programs comes from the Hardest-Hit funds. These are about to run out. Replacing down payment dollars is critical to making homeownership possible. Also, down payment assistance provides an incentive for folks who have been renting to go into the market and see what might be out there.

I am also worried about rising interest rates because affordability is getting impacted. Families we served seven or eight years ago are able to benefit from increased home equity and the wealth it creates. Many of them had mortgages below four percent. As mortgage rates climb to five and potentially up to six percent, I think that adds future risk.

Down Payment Trends

Do buyers in cheaper markets put down less?

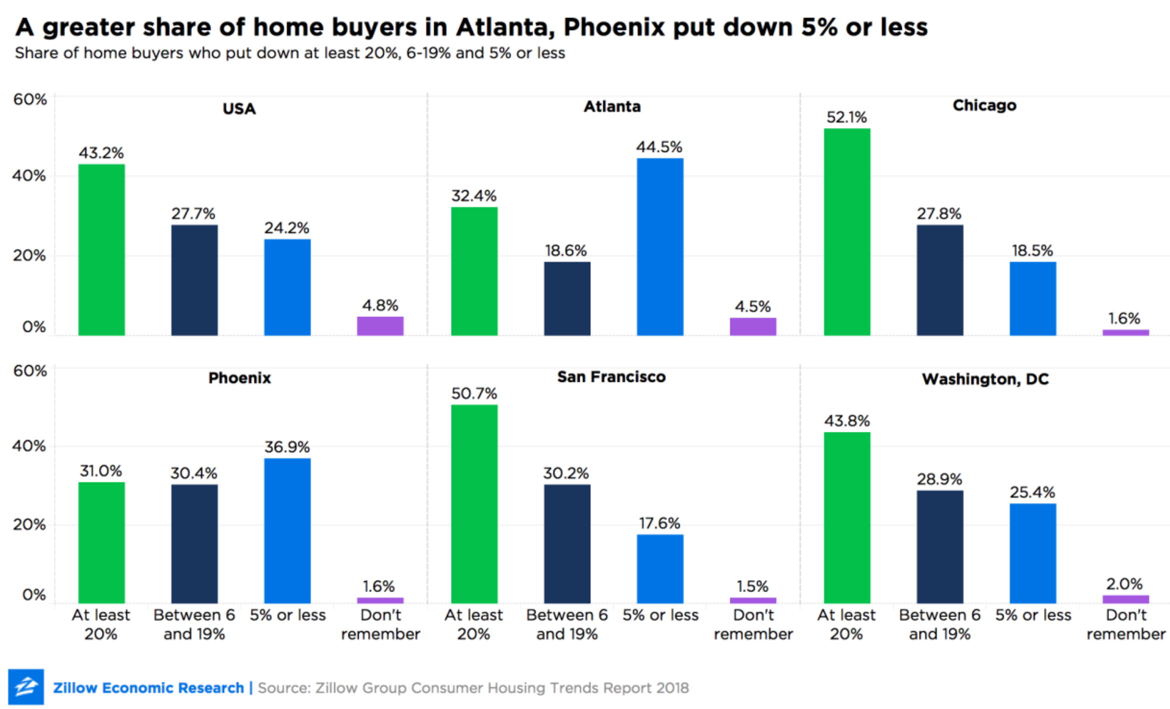
Do buyers in markets with lower than average monthly payments put down a smaller percentage of the sale price than those in more expensive markets?

A new analysis of five of the nation's largest markets by Zillow's economists suggests that buyers who have to make smaller than average monthly payments put down less and those who must make more substantial monthly payments put down a larger share of the purchase price.

Zillow found that nationally, 24.2 percent of buyers put down 5 percent or less. The share is much higher in Atlanta, where a whopping 44.5 percent of buyers put down 5 percent or less, and Phoenix, where 36.9 percent do. The median mortgage payment in both metros is $1,131 a month, which is lower than the median mortgage payments in Chicago ($1,336), Washington, D.C. ($1,850), and San Francisco ($2,158). Atlanta and Phoenix also have the smallest share of buyers who put down the traditional 20 percent or more when they bought a home. In Atlanta, it's 32.4 percent and in Phoenix, 31 percent.

When making a down payment, 35.9 percent of rural buyers put down 5 percent or less. Comparatively, only 24.7 percent of suburban buyers and 16.9 percent of those buying homes in urban parts of the country do the same, Zillow found.

"With mortgage rates rising, the size of a down payment takes on even greater importance. It can make the difference between a monthly mortgage payment that's affordable and one that stretches a household's budget too thin," the report concluded.



The shutdown and homeownership programs

In general, housing is faring better than many other sectors during the longest shutdown in federal government history, which began on December 22. Things could have been worse without the housing industry's clout, which kept mortgage approvals on track.

Both FEMA and the IRS furloughed non-essential employees. On December 26, FEMA announced it would not process applications for flood insurance and only two days passed before industry groups led by the National Association of Realtors convinced FEMA to staff applications for flood insurance so that sales in flood zones could close.

When the shutdown prevented the IRS from verifying tax returns from mortgage applicants, the Mortgage Bankers Association led the charge to get 400 IRS clerks back to work on January 7—made possible by the fact that lenders' fees pay their salaries. In a January 9 statement, the IRS advised that "it will take time to bring this service up to normal operating status... It may initially take longer than the standard 72-hour turnaround time for the IRS to process these requests."

Borrowers' Social Security numbers must be validated prior to the home sale under its rules or Fannie Mae will not purchase the loan. Fannie Mae has temporarily revised its policy to enable lenders to obtain the verification prior to delivery of loans.

Here's how other programs important to homeownership are faring:

HUD and FHA. About 95 percent of the agency's 7,497 workers were furloughed, leaving a skeleton staff. FHA can endorse single-family loans except for reverse mortgage loans (HECM) and Title 1 loans used for home improvements, repairs, and rehab. HECM and rehab loan programs are capped by an annual appropriation and won't be available until the government reopens. FHA cannot process loans that require assessment by an FHA underwriter or any other intervention by FHA personnel.

Other HUD agencies. Grants are open for business as usual at http://www/grants.gov/ HUD's websites will not be updated. All state and regional offices will be closed, and HUD has limited resources to answer emergency calls. For more information, see https://www.hud.gov/program_offices/housing/sfh/title/ti_abou

USDA loans (Sections 502, 503, 504)*.* USDA is closed. Direct and guaranteed loans for rural residents financed by the US Department of Agriculture's Rural Development Service are not being processed.

Housing statistics from HUD, FHFA, and the Census Bureau (Commerce) will not be available until the government reopens. The Federal Reserve will remain open but may be hampered by a lack of data from the Commerce Department (BLS and Census). The January new home starts release due January 17 was postponed and the Q4 2018 Homeownership report due January 29 will be postponed if the government does not open by then.

FHFA will be open for business as usual, as well as **Fannie Mae** and **Freddie Mac**, which are congressionally chartered companies.

VA Loans. The Veterans Administration and all its programs, including VA home loans, were fully funded under appropriations legislation that was passed by Congress earlier in 2018 and is not subject to the shutdown.

Private Mortgage Insurance

Rethinking PMI

Tim Lucas' December 15 article in The Mortgage Reports, "Avoiding PMI is costing you $13,000 a year," isn't the only recent coverage that is helping borrowers re-think the relative costs and benefits of low down payments and private mortgage insurance.

From Realtor.com: "3 Reasons Why PMI Saved Me Money—Really!"

"Today, the average interest rate on a 30-year fixed mortgage hovers just under 5%. It's been creeping upward over the past several years, but it's still a far cry from the 1980s, when mortgage rates surpassed 18%—a time when home buyers were wise to pay down their homes on the front end as much as they could.

For my husband and me, the biggest benefit of PMI was that it freed up the money we had set aside for a down payment, and allowed us to put that cash toward other expenses—like renovating our turn-of-the-century home, and paying off my husband's grad school loans (which carried a higher interest rate than our mortgage)."

From the Washington Post, October 15, 2018:

"And what people also need to know is that private mortgage insurance has become much more affordable in recent years. [If you put] less than 20 percent down, you have to deal with [PMI] in some way, meaning you either have to take two mortgages or pay a higher rate or pay PMI. But what I would say to your readers is the monthly carrying cost of PMI has decreased. If you're buying with less than 20 percent down, from a financing standpoint, it's not as expensive as it used to be. There's a lot of creative ways to pay PMI these days. It used to be you just paid it monthly. Now you can opt for a higher rate. You can finance it on top of the loan. You could buy it out in a lump sum. You could split the premium. You could pay part of it upfront and in a reduced monthly amount. They've gotten really creative with PMI," said Craig Strent, CEO of Apex Home Loans.

From the Washington Post, October 6, 2018:

"Private mortgage insurance allows people to become homeowners faster, because they don't have to wait to save 20 percent for a down payment," said Claudia Merkle, president of National Mortgage Insurance Corp. "Even if you have cash, you may want to make a lower down payment and use the cash to buy down your mortgage rate for a few years to make the payments more affordable or to keep in the bank for emergencies."

From the Wall Street Journal, September 3, 2018:

"While paying PMI can be frustrating, the reality is that PMI makes homeownership more accessible to many Americans who lack the cash needed to put down a full 20 percent of a home's sale price. For a borrower with a conventional mortgage, PMI can be canceled once the person's loan-to-value ratio is less than 80. (Borrowers with FHA loans do not have this benefit, as mortgage insurance premiums (MIPs)—the equivalent of PMI for FHA loans—generally can't be canceled on loans issued later than June 2, 2013."

Millennials

Checking in on the American Dream

If 2018 was the Year of the Millennials, what will 2019 bring? Initial signs are a cause for worry.

The latest NAR consumer sentiment survey shows that 75 percent of non-homeowners and 90 percent of owners still consider homeownership is part of their American Dream. But turning those dreams into reality may even be tougher this year than last. NAR's Q4 Homeownership Opportunities and Market Experience Survey (HOMES) report found that for the second straight quarter, consumer enthusiasm about home buying, at 63 percent, was the lowest level since the study started in 2015. Seventy-three percent of consumers think that this is a good time to sell a home, the lowest level of enthusiasm among sellers over the pad 12 months.

“Consistently fast-rising home prices well in excess of income growth over recent years left buyers frustrated while slowly enticing would-be sellers to consider listing,” said NAR's Lawrence Yun. However, fewer consumers believe prices are rising. In the fourth quarter, only 63 percent of consumers said they believe home prices have increased over the past year, seven percentage points lower than in the third quarter.

Bankrate's Financial Outlook Survey, conducted December 14-16, 2018 found that most Americans (55 percent) don't expect their financial situation to improve in 2019. This includes 12 percent who think their status will be worse and 44 percent who believe it will stay the same.

“If you think about, first of all, that just in general, the erosion of confidence in institutions and then you think about essential developments in recent years with respect to government shutdowns, the divisive nature of national politics and the lack of the ability on the part of elected leaders to forge productive and constructive solutions to major problems — it is understandable why people may feel that way,” says Mark Hamrick, Bankrate's senior economic advisor.

Political gridlock, more debt and an increase in the cost of living are three reasons the financial outlook this year for many Americans seems bleaker than last. When asked what will cause their financial situation to get worse this year, nearly 1 in 5 say rising interest rates.

The one bright spot in the Bankrate survey is Millennials, who are significantly more optimistic than their parents. Nearly 60 percent of young adults between the ages of 18 and 37 say their financial circumstances this year will get either somewhat better or much better. Given the crushing amount of student debt they're managing, even the “young and hopeful” have their doubts when it comes to buying a home.

“Young people have been held hostage to the cost of secondary education, and one of the consequences includes buying a home,” Hamrick told the Down Payment Report.

Among Americans' top financial goals for 2019, buying a home ranks sixth out of six, behind paying down debt, budgeting better, saving more for retirement and emergencies, and investing more.

Bankrate estimates roughly 10 million Americans (4 percent of the survey) say that buying a new home is their primary financial goal in 2019, including only 7 percent of Millennials (ages 18-37).

Down Payment Report News Highlights - 2018

In many ways, events of the past year changed the role that down payment options play in the nation's real estate economy. Here are highlights from the 2018 editions of The Down Payment Report:

January 2018

Lower down payments increase monthly mortgage payments

An Urban Institute study found that loans with lower down payments require more substantial monthly payments. Low payments leave larger principals to pay off, and those principals create more interest over time. At current interest rates, the share of a family's median income needed for the monthly payment with a 20-percent-down mortgage would be about 22 percent and about 24 percent with a 3.5 percent down payment.

February 2018

Millennial homeownership rate reaches five year high

The homeownership rate for homeowners age 35 and younger reached 36 percent in the fourth quarter of 2017, the highest Millennial homeownership rate since the second quarter or 2013.

A record number of down payment assistance programs

Down Payment Resource reports that a record high number of homebuyer programs – 2,507 -- are now available to today's homebuyers. The programs were well funded during 2017.

March 2018

FTHB confidence in the ability to save for a down payment declines

A survey by ValueInsured found that confidence in buying a home is rising among most buyers, but not first-time buyers. Only 35 percent said they could afford a down payment, a 9-point drop during the 12-month period in which the survey was conducted.

Access to low down payments necessary to achieve Hispanic homeownership

The Hispanic Wealth Project, created by the National Association of Hispanic Real Estate Professionals (NAHREP) to build a blueprint for Hispanic wealth creation, advocates access to affordable, low down payment financing to achieve the goal of 50 percent homeownership for Hispanics.

April 2018

Young buyer confidence shrinks as sales season opens

Confidence in buying a home among buyers younger than 35 fell 7 points over the past year according to a NAR consumer survey, and NAR's annual report on generational trends found that prices for young buyers rose 17.4 percent over the past two years compared to 6.8 percent for all age groups. The first-time buyer share of sales settled at 29 percent in the first two months of the year, down from 34 percent in 2017.

May 2018

Young homeowners help to increase homeownership

Rising homeownership rates for Millennials and Hispanics drove the national homeownership rate to 64.2 percent in the third quarter of 2018. The homeownership rate for young buyers is up to 9 points higher than it was in the first quarter of 2016. The homeownership rate among Hispanics increased 0.8 percentage points to 48.4 percent, its highest level since Q1 2010.

June 2018

State HFA loans have fewer delinquencies and defaults

Defaults and delinquencies in loans backed by state housing finance agencies are 20 to 30 percent lower than conventional mortgages. Minimum credit standards, screening, and monitoring of originations, preventive servicing and homebuyer education programs contributed to the HFAs' success, according to a study financed by Fannie Mae.

July 2018

Competition cuts FHA's market share

FHA has been losing the competition for low down payment borrowers since reaching a 32.9 percent market share in 2009. Since 2016, when Fannie Mae and Freddie Mac both launched first-time buyer products featuring down payments as low as 3 percent, FHA's market share has declined steadily.

Demand for HFA loans strains resources

The soaring cost of down payments and unprecedented demand from first-time buyers are straining the resources of state and local housing finance agencies across the nation. The nation's largest housing finance agency, CalHFA, helped more than 7,400 first-time homebuyers purchase a home in the fiscal year 2017 by financing over $2 billion in first mortgages, a new record.

August 2018

First-time buyers raid retirement funds for down payments

A 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.

Millennials' homeownership rate trails older generations

A study by the Urban Institute found that Millennials' homeownership rate is trailing preceding generations by eight percentage points. Delayed household formation, student debt, and higher rents were among the cases cited.

September 2018

Homeownership barriers keep renters renting

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, but 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.

October 2018

First-timers rely on gifts

Over half of first-time buyers are relying on financial support from their families for some or all of their down payments, and only 35 percent are putting down 20 percent or more, according to Zillow's Group Report on Consumer Housing Trends 2018.

Median down payment reaches new high

The median down payment on single family homes and condos purchased with financing in Q2 2018 reached $19,900, up 19 percent from $16,750 in the previous quarter and up 18 percent from $16,925 in Q2 2017, a new record high. The median down payment was 7.6 percent of the median sales price.

November 2018

Millennial homeownership rate reaches a new peak

Despite soaring prices, rising mortgage rates and low levels of affordable homes for sale, in the third quarter, the Millennial homeownership rate rose for the 20th straight quarter and reached its highest level since the fourth quarter of 2013.

Student debt cuts Millennial net worth by 75 percent

According to an analysis of Federal Reserve data, the average net worth of a Millennial with student loan debt is only 25 percent of the net worth for Millennials without student loan debt. The average net worth of a Millennial with student loan debt is $29,087, compared to $114,376 for a Millennial without student loan debt.

December 2018

Nearly half of all Millennials haven't saved a penny for a down payment

Nine out of ten Millennial renters want to purchase a home, but few have plans to do so shortly; 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 survey by ApartmentList.

Commentary

Down Payments on the Record

"With the Federal Housing Administration operating with limited staff, loans may be delayed, which will leave buyers unable to complete their purchase. Zillow estimated that as many as 39,000 mortgages could have been affected."

— Liz Frazier Peck in Forbes The Real Financial Impact Of The Government Shutdown On Workers, January 14, 2019

"Life is full of regrets. There are those unfortunate fashion choices, such as shoulder pads, hammer pants, and the mullet. There's your crazy ex. (What were you thinking?) And then there's everything you did wrong when you bought your first home."

— Clare Trapasso in Realtor.com First-Time Home Buyer Hell: Their Biggest Mistakes and Regrets, January 11, 2019

"If you believe the latest survey — no need to specify which survey here, they're all virtually the same — there's very little millennials can't do. Except, of course, save for retirement, control their spending and keep their grubby young hands off luxuries like coffee and avocados."

— Arielle O'Shea in Nerdwallet Don't Believe the Hype About Millennials and Money, September 21, 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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