The Down Payment Report

News and Data on Residential Down Payments

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The Wealth Effect of Buying Young

A new study from the Urban Institute finds that the younger that first-timers buy a home, the wealthier they will be by the time they are 60 years old. There is a $72,000 difference in the median housing wealth of those who bought their first home between ages 25 and 34 and those who waited until they were 35 to 44.

"Deferring home purchases could have long-term economic consequences for millennials and the nation's economic well-being," concluded the study's authors, Jung Hyung Choi and Laurie Goodman. The Millennial homeownership rate is about 38 percent, just over half the national rate and about eight percentage points lower than that of the two previous generations (Gen X and Baby boomers) at the same age (25 – 34).

But nearly half of Millennials have yet to save a dime for a down payment and nearly two-thirds will have to save two decades or more to afford a 20 percent down payment. Only taking advantage of the options available today to buy with a down payment of 5 percent or less will most Millennials and Generation Zers have a chance to realize the wealth effect of buying young that could mean so much to them in their golden years.

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THE DPR INTERVIEW

A Tough Year for First-time Homebuyers

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

Danielle Hale, Economist, realtor.com®

Danielle Hale is responsible for developing and translating real estate trend data into consumer and industry insights. She also leads realtor.com's team of the industry's top analysts and economists with the goal of providing deeper and broader housing insights to people throughout the home journey, industry professionals, and thought leaders.

Before joining realtor.com in July 2017, Hale spent nearly a decade as an economist and policy researcher at the National Association of Realtors. As managing director of housing research, Hale oversaw the production of closely followed housing market data, including NAR's monthly pending and existing home sales indices and quarterly home price reports.

Q. How do you see the market this year for first-time buyers?

For buyers overall, it is going to be a tough market in 2019, but there are some bright spots. One of them is that there are more homes available for sale, though we are still not seeing much entry-level or affordable housing inventory in the market. Overall there are more homes for sale, but they are concentrated in the pricier markets like San Jose or Seattle, and they tend to be in the more expensive price tiers in those markets. If you are looking for an entry-level home or a home priced under $200,000, it is still going to be a little tough to find, and it is probably going to be more expensive than what you would have had to pay for the same home last year.

Q. Do you think that first-time buyers may be stretching their budgets too far in order to get into the market?

Home prices are higher than they were a year ago in most markets. Though they have come down in the last couple of months mortgage rates are roughly in line with year-ago levels. Thus, it is more expensive to take out a mortgage today.

Q. If you were a first-time buyer, what would you do in 2019?

I would save as much as I possibly could because the more that you have saved up gives you greater options as far as putting money down for a down payment or buying points to get a lower interest rate. It's also a good idea to have some savings on hand so that you have a cushion in the bank for any unexpected costs in the process of closing on your home and moving in.

Q. Do you think that low down payments are making it easier for people to buy in markets that they otherwise couldn't afford?

Low down payments can be a good thing for folks who have difficulty saving up for a down payment, but paradoxically, when you think about ongoing monthly costs the lower your down payment is, the higher your monthly costs will be. A lot of the data that I have seen actually suggest that people are putting down slightly higher down payments than in previous years in response to rising home prices. It makes the monthly payment a bit more affordable.

Millennials

Buy Younger, Retire Richer

Every year that a Millennial puts off buying their first house will cost them thousands of dollars in lost equity by the time they turn 60.

A new study by economists at the Urban Institute puts hard numbers behind the thesis that the earlier you buy your first home, the more equity you will make by the time you retire.

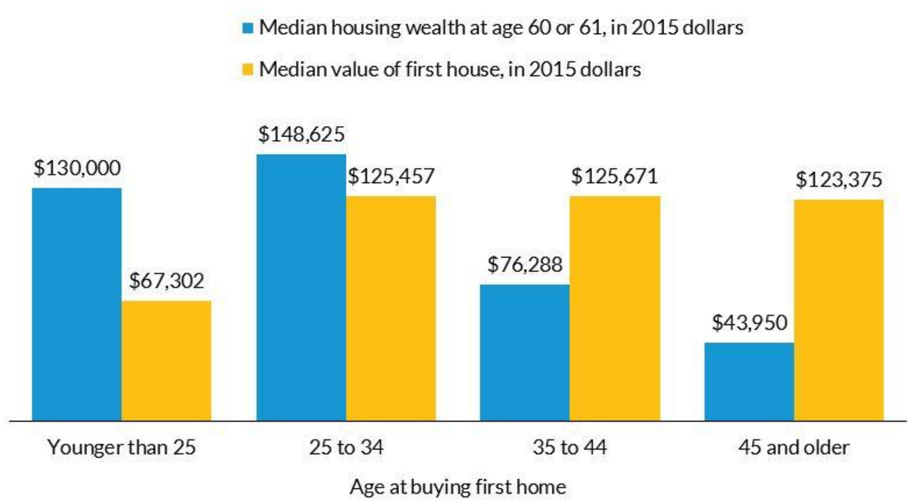
The study found that homeowners who bought their first home before they reach 34 are financially better off in their sixties, which could have long-term economic consequences for Millennials who are deferring their first home purchase. Today's older adults became homeowners at a younger age than today's 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 equity, they have the largest return on their housing investment. The ratio between the median home equity at age 60 or 61 and the 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.

Median Home Equity at Age 60 or 61 and Median Value of First Home



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

URBAN INSTITUTE

Buyers Avoid Low Down Payments in the Nation's Hottest Markets

The climate for first-time buyers in the nation's hottest housing markets is so tough that buyers are making the highest down payments they can afford in order to compete for available, affordable housing, according to a ranking of "Best-cities for first-time homebuyers" compiled by LendingTree from data from recent purchase loan offers. LendingTree reports the hottest markets now feature both the highest average down payment percentages as well as the highest average down payment amounts.

As well as down payment size and percentage, the six factors chosen by LendingTree's Chief Economist Tendayi Kapfidze to measure first-time buyer friendliness included a share of buyers using FHA, average FHA down payments, percent of borrowers with credit scores below 680 and the Housing Opportunity Index (HOI) for the area. The HOI comes from the National Association of Builders and Wells Fargo.

The dubious honor for the six highest average down payment percentages went to New York, San Diego, San Jose, San Francisco, Denver, and Los Angeles. Four of the six markets also ranked at the top of LendingTree's list of markets with the most competitive buyers.

Kapfidze confirmed that buyers in markets where demand is strongest are making the most competitive bids that they can. Buyers who can't put down 20 percent in the markets below aren't winning the competition. The combination of highest prices, highest down payment amounts and the highest down payment percentages are putting additional pressure on first-time buyers in those markets.

Rank	Metro	Down payment	Down payment %	% of buyers using an FHA mortgage	Average FHA down payment as % of the average down payment for all loans	% of buyers with <680 credit score	HOI
42	New York	$79,190	20%	15.83%	29.49%	15.02%	30.8
45	San Diego	$96,453	19%	19.08%	31.79%	11.84%	18.4
47	San Jose, Calif.	$144,214	20%	10.94%	26.68%	4.69%	13.9
48	San Francisco	$128,627	21%	9.84%	27.13%	11.40%	11.1
49	Denver	$74,317	19%	15.49%	38.80%	16.81%	51.5
50	Los Angeles	$95,418	18%	14.13%	33.55%	9.19%	9

Gen Z

$304 a Month for 12 Years?

An 18-year old member of Generation Z will need to save *$304 every month for the next 12 years* to buy a median-priced home with a 10 percent down payment plus closing costs, according to a new analysis by realtor.com.

But where they buy changes the forecast considerably.

The analysis, which includes a 13-year forecast for median home prices in top 100 metros and different down payment savings plans, projects Generation Zers will need to save $1,962 per month to live in San Jose. The next most expensive markets are San Francisco ($1,439/mo.) followed by Los Angeles ($979/mo.), Honolulu ($946/mo.), and Oxnard, Calif. ($877/mo.).

In the top ten most expensive metros, members of Generation Z will need to save an average of $948 a month, starting on their 18th birthday, to afford a 10 percent down payment and typical closing costs by the time they turn 30 years old.

20 percent down?

On average, for the ten most expensive metros in the U.S., a 17-year old will need to save $1,645 a month for a 20 percent down payment and closing costs at the age of 30. But a 10 percent down mortgage requires saving $697 less every month. While 20 percent has historically been the benchmark, the realtor.com study suggested Generation Zers should consider varying levels of down payments when planning to purchase a home, especially in higher cost metros in the U.S.

"The most important thing a member of Generation Z can do is to start saving as much as possible early on and let compound interest do the heavy lifting for them. They may also want to consider more affordable areas or different down payment amounts. Some widely available programs allow down payments as low as 3 percent, but a lower down payment can mean higher ongoing monthly costs. As with most decisions, there are pros and cons, and a buyer needs to think these through to determine what's best for them." said Danielle Hale, realtor.com's chief economist.

For a complete list of saving rates for the top 100 markets see the news release.

FHA

Rising Prices Pushed Up 2019 Loan Limits

Robust increases in median housing prices raised FHA's 2019 loan limits in 3,053 counties, while in 181 counties, FHA's loan limits will remain unchanged. By statute, the median home price for a metropolitan statistical area is based on the county within the MSA that has the highest median price. It has been Housing and Urban Developments' long-standing practice to use the highest median price point for any year since the enactment of the Housing and Economic Recovery Act.

The 2019 minimum national loan limit or floor of $314,827 is set at 65 percent of the national conforming loan limit of $484,350. This floor applies to those areas where 115 percent of the median home price is less than the floor limit.

Low Down Payments

Lenders Look Up to Low Down Payments

By more than a 30 percent margin, 80 percent of lenders participating in Fannie Mae's Q4 2018 Lenders Sentiment Survey said low down payment mortgages help to narrow the affordability gap for low-and-moderate-income homebuyers.better than other mortgage products.

When asked to evaluate the helpfulness of various loan programs to enhance housing affordability for low- and moderate-income homebuyers, lenders rated low down payment mortgages highest (44 percent). Next were mortgage loans covering renovation costs (18 percent), loans for condominiums (17 percent), and loans for manufactured homes (17 percent). In contrast, loans for home construction (11 percent) and loans for energy-efficiency installation costs (5 percent) are seen as less helpful.

7 Markets With the Greatest Potential Impact of Down Payment Assistance

The Down Payment Resource Third and Fourth Quarter 2018 Homeownership Program Index (HPI) reports that the number of total programs decreased to 2,524, down just three programs from the second quarter. More than 85 percent (85.8 percent) of programs currently have funds available for eligible homebuyers, down one percent from the second quarter.

According to the Urban Institute's Barriers to Accessing Homeownership report, 36 percent of 2017 mortgages, across 31 of the largest U.S. cities, were eligible for down payment help. The HPI analyzed the impact down payment assistance could have on seven markets with the greatest percentage of 2017 purchase mortgage loans eligible for down payment help.

7 markets with the greatest potential impact of down payment assistance

Market	2017 loans eligible for assistance	Average down payment assistance	Mortgage ready renters under 40 who can afford median priced home in their market
Riverside-San Bernardino-Ontario, CA	48%	$11,642	558,360 (94% of mortgage ready renters)
St. Louis, MO-IL	42%	$4,040	387,090 (99%)
Baltimore-Columbia-Towson, MD	42%	$3,786	368,300 (95%)
Phoenix-Mesa-Scottsdale, AZ	39%	$12,104	493,050 (95%)
Houston-The Woodlands-Sugarland, TX	39%	$2,906	924,140 (98%)
Austin-Round Rock, TX	39%	$5,889	299,290 (97%)
Memphis, TN-MS-AR	39%	$12,104	136,620 (99%)

December Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	85	15
Generation Z	88	12
FHA Purchase	95	5
Conventional Purchase	80	20
VA Purchase	98	12

Sources: Ellie Mae Origination Insight Report and Millennial Tracker

First-time Buyer Market Share Trends

Sources	Share	Trend
2018 Profile of Home Buyers and Sellers	33%	Down from 34% in 2017
January Realtors Confidence Index	31%	Down from 32% in 2017
December Existing Home Sales	32%	Down from 33% in November
Q3 2017 AEI First-time Buyer Share	57.6% of all Q3 agency purchase loans	Up from 56.9% in Q3 2017

Commentary

Down Payments on the Record

"Young people should feel no shame in asking their parents or grandparents for assistance in this major investment — assuming they can afford the monthly mortgage payments afterward. This will likely be the most important investment of their life, and if they don't act soon, they could get outpriced for good."

— Young homebuyers turn to parents for a down payment by Bandon Pringle, Washington Examiner, February 15, 2019

"The key to being successful when purchasing your first home is purchasing a home that is significantly less than what you qualify for."

— 5 millennials who became homeowners in their 20s share their best advice for buying your first house by Hillary Hoffower, Business Insider, January 30, 2019

"One thing is true for everyone, though — you shouldn't think it's "conservative" to make a large down payment on a home. Similarly, you shouldn't think it's "risky" to make a small down payment. The opposite is true. About the riskiest thing you can do when you're buying a new home is to make the largest down payment you can. It's conservative to borrow more."

— Before Making A 20% Mortgage Down Payment, Read This by Dan Green,The Mortgage Reports, February 16, 2019

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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