The Down Payment Report

News and Data on Residential Down Payments

May 2019

Report Released: May 21, 2019

Facing Minority Homeownership

If you believe in the power of homeownership to nurture family life, create wealth and build safer, stronger communities, as I do, then you may share my distress at the state of minority homeownership.

Last quarter, the African American homeownership rate fell to its lowest point on record, lower than it was at the passage of the Fair Housing Act in 1968 and even earlier, when millions of Americans lived in segregated communities. Today the African American rate of 41.1 percent is more than 30 points lower than the rate for white Americans. The homeownership rate of African American millennials stands at 13 percent today compared with 37 percent for white millennials.

At a Congressional hearing earlier this month, Alanna McCargo, Vice President, Housing Finance Policy at the Urban Institute presented a five point strategy to improve minority homeownership. It included a call to strengthen government programs, not just FHA and VA, but also the thousands of homeownership programs sponsored by state and local governments.

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In this issue:

THE DPR INTERVIEW

Down Payment Perceptions and Reality

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

Len Kiefer, Deputy Chief Economist, Freddie Mac

Len Kiefer helps develop Freddie Mac's forecasts on the U.S. economy and housing markets. He serves as Freddie Mac's subject matter expert on affordable housing, prepayment and default modeling and predictive analytics. We asked Kiefer about Freddie's recent research on down payments and the barriers that are keeping millennials from buying today.

Q. In your latest survey of homebuyers, were you surprised to see that the use of down payment assistance from non-profits and government agencies doubled from 2013 to 2016?

Those are two interesting points in time. We were tracking originations of the year 2013 and that was a very different point in time in housing recovery cycle than where we are today, and if you looked at more recent data the down payment assistance would be even higher than it was in three years ago. We are seeing a lot more first-time buyers and those are the buyers that are most likely to use those sources. Our data and FHA data as well are showing that a lot more first-time buyers are coming into the marketplace.

Q. The use of low down payments has been growing despite the myth that you must put down 20 percent or more. Have you seen any impact from the myth?

Yes, but it is hard to quantify how much that is discouraging potential buyers, but I think that is true. I've seen similar results in the survey research that we have done and have talked to our team that works with housing finance agencies about this and it's a real challenge. Folks seem to have that perception and that creates a challenge because potential buyers may not be out there looking. However, I think the real challenge for buyers today who are out there looking is that there just aren't many houses to buy out there.

In our ongoing consumer research with renters and buyers, one of the things we track is perceptions how much they put down. In 2017, about 55 percent of buyers said they put down 20 percent or more and by 2019 the share went from 55 to 35. The sample is small, but that might be an age effect. There were more first-time buyers in the marketplace in 2019 than 2017 and they are less able or less interested in putting down 20 percent, so low down payment options are increasingly popular.

Q. Were first-time buyers more likely to delay buying?

That wouldn't surprise me, knowing how high home prices have moved. Affordability is a continuing challenge. Even though price growth has slowed down, prices are still rising in most markets. Rents have also been rising faster than income, so that ability to save up for a down payment is a challenge. That's not too surprising to me. If only the 20 percent option were there, they would just be out of the market entirely.

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(DPR Interview continued)

Q. Saving for a down payment is just one of many barriers that millennials and first-time buyers face today. Is this belief that getting a mortgage requires 20 percent down just one more straw on the camel's back? Do you think it could encourage people who want to buy a home to end up renting?

I don't think so. That might be true for some, but I think if you look at the millennial generation as a whole, they are a little young for homeownership on average. The median age is still in the twenties and the median age of a first-time buyer today is 30 or 32. They are at a point in life when a lot of people are very interested in homeownership. I think that where you are seeing rising interest in homeownership, you see a big trend up in the data for under-35 year-olds. On the whole, when all is said and done you may see the generational homeownership rate down a little bit, but in general interest in homeownership has been pretty stable.

Down Payment Assistance

Use of State and Local HFA Down Payment Assistance Doubled in Four Years

Freddie Mac's February 18–21 consumer survey [Perceptions of Down Payment Consumer Research,] found that the share of buyers using financing from local governmental and non-profit sources doubled between 2013 and 2016.

Over the same period, reliance on savings, IRAs and other assets fell from, 79 to 70 percent of respondents.

Percent of the respondents using different sources for the down payment

	Sources of down payment					
Year	Savings, Inheritance Retirement Account, Other Assets	Proceeds from the sale of another property	Assistance or loan from a nonprofit or government agency	A second lien, home equity loan, or home equity line of credit	Gift or loan from family or friend	Seller contribution
2013	79%	23%	5%	0%	23%	15%
2014	75%	25%	7%	2%	22%	16%
2015	73%	28%	8%	4%	22%	17%
2016	70%	31%	10%	4%	23%	16%

Note: The percentages do not add up to 100 percent as the respondents chose more than one option in some instances.

Belief in the 20 percent myth is growing

The survey also found that during the same period, the percentages of both renters and homeowners believe that they need to put down 20 percent or more to get a mortgage increased by three points. Surprisingly, more homeowners than renters say they need to put 20 percent or more down. This year, 31 percent of owners think they need 20 percent down.

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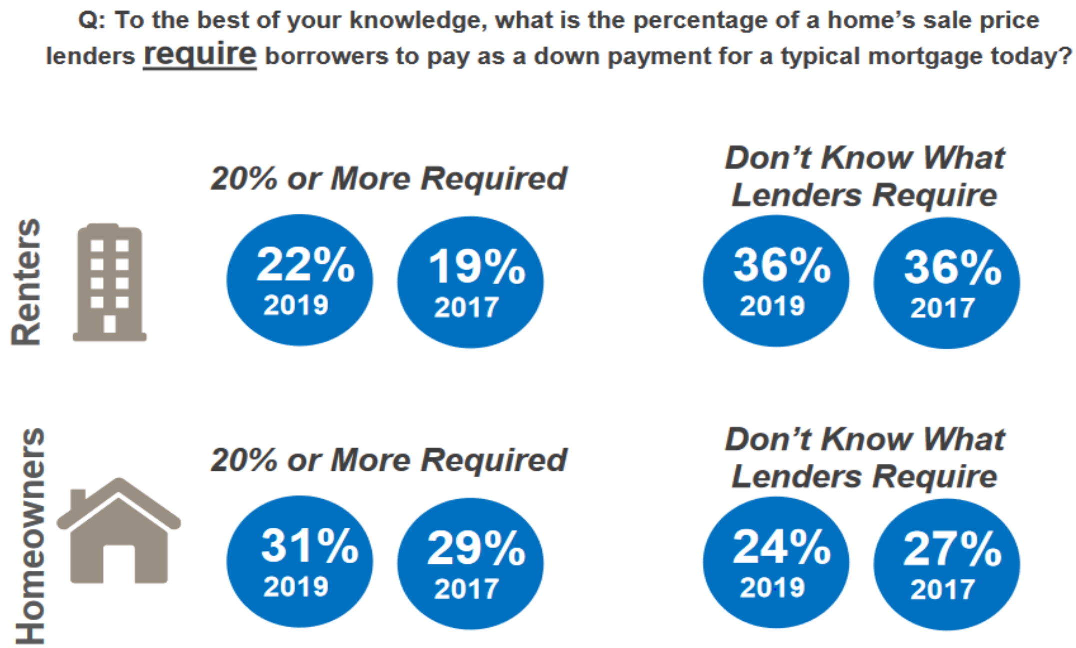
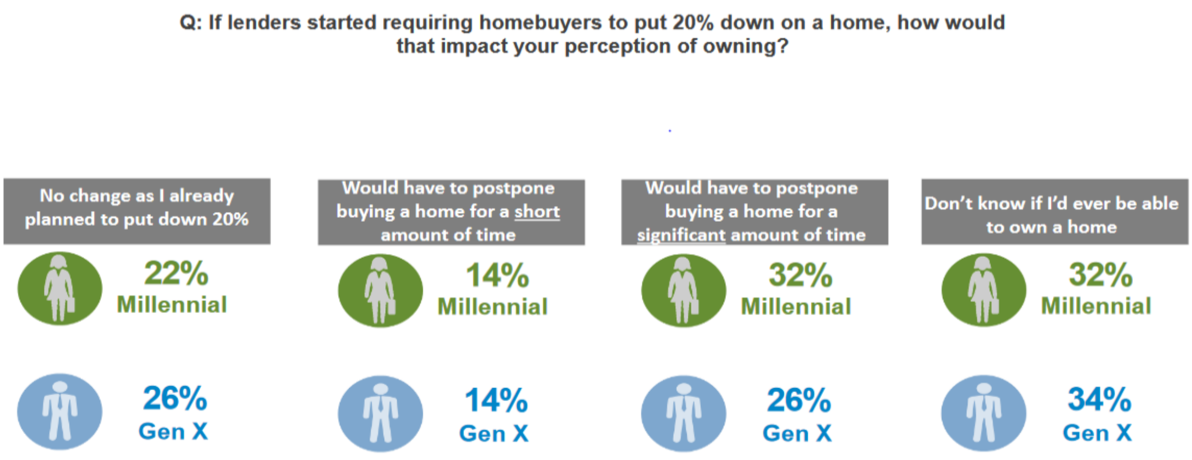


Twenty percent myth is postponing homeownership

If they were required to put down 20 percent, 32 percent of millennials and 26 percent of Generation Xers said they would have to postpone their home buying plans for a significant amount of time.



Source: Perceptions of Down Payment Consumer Research

The Latest "Scoop" on Down Payment Assistance

The My Home section of Freddie Mac's web site provides buyers the real scoop on down payment assistance and links to Down Payment Resource, the National Council of State Housing Agencies and the National Association of Local Housing Agencies.

The article reported that the average down payment among first–time homebuyers in 2016 was 6 percent and 14 percent for repeat buyers, according to the National Association of Realtors.

It included a comparison showing the size of down payments and the difference in monthly payments for a 5 percent versus a 20 percent down mortgage.

A $200,000 Home: 5% Down vs. 20% Down

	5% Down Payment	20% Down Payment
Down Payment Amount	$10,000	$40,000
Loan Amount	190,000	$160,000
Mortgage Term	30–year fixed rate	30–year fixed rate
Interest Rate	4.5%	4.5%
Monthly Mortgage Payment (Principal + Interest)	$962.70	$810.70
PMI	$80.75*	$0
Total Monthly Payment (Excluding Property Taxes, Insurance)	$1,043.45	$810.70

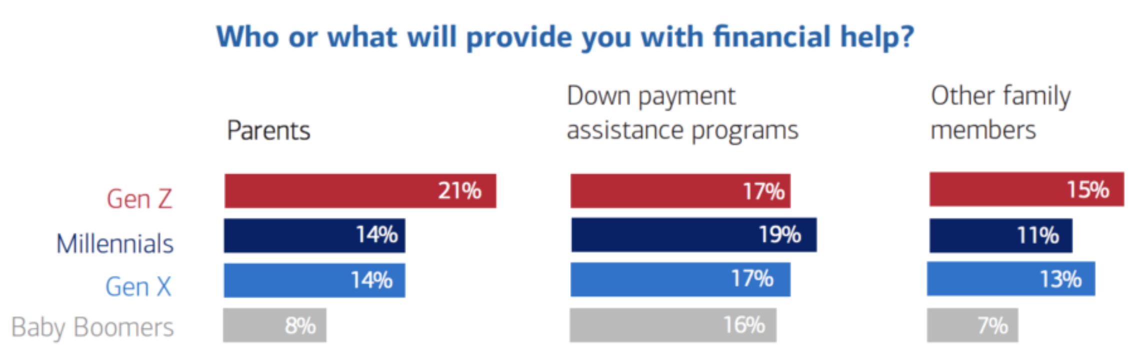
*Assumes a PMI rate of 0.51% — in this case, applicable with a conventional loan until you have 20% equity in your home or for the life of the loan with an FHA loan.

Source: "Get the Real Scoop on Down Payments"

Bank of America survey shows importance of financial help

According to the latest Bank of America Homebuyer Insights Report, a majority of prospective Gen Z homebuyers between the ages of 18 and 23 want to buy within the next five years, and more than half are already saving for a home.

While young prospective buyers identify saving for a down payment and closing costs as the top barrier to buying, they see it as less of a challenge than other generations do. They also are considering assistance from family members and down payment assistance programs to make buying a home possible.



Minority Homeownership

House Hearings Spotlight the State of Minority Homeownership

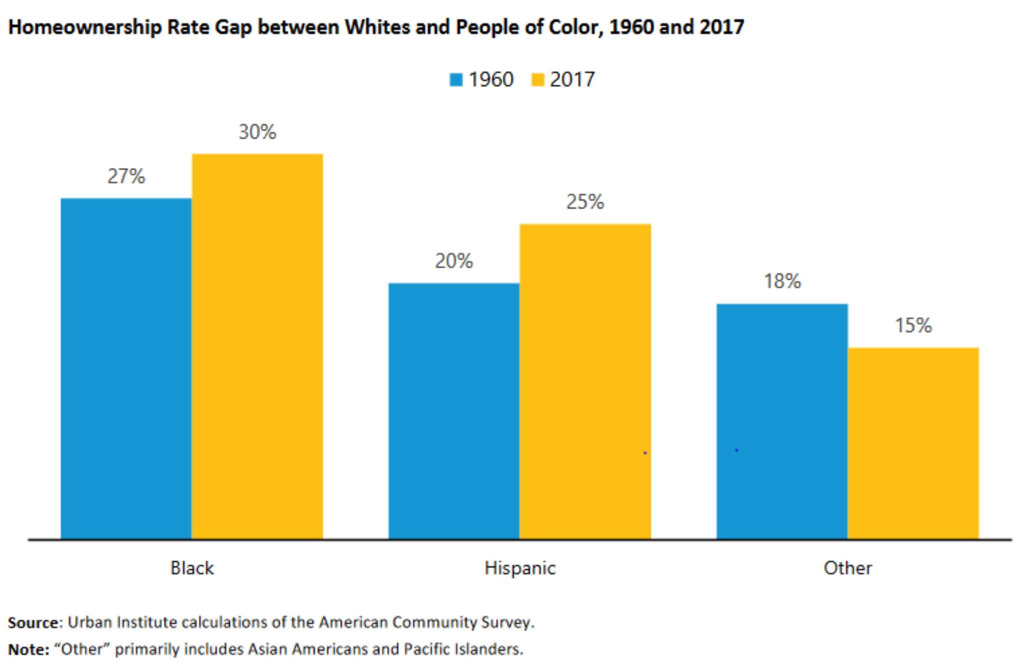
Alanna McCargo of the Urban institute outened a five-point plan to address the chronic gap in homeownership that has persisted for decades.

"A significant racial and ethnic homeownership gap persists in our country: the homeownership rates of blacks, Hispanics, and other communities of color are 30, 25, and 16 points, respectively, lower than the rate for whites. These gaps are large by every measure, and they are worse than the gaps that existed when private race-based discrimination was legal. We have not simply failed to make progress; we are losing ground. And we cannot continue to go backward."

The Urban Institute's plan includes a major role for local down payment programs:

Securing enough cash for closing and a down payment is a barrier to homeownership. More than half of renters view a down payment as the major obstacle to buying a home. Also, many are unaware of available low down payment mortgage options, or of the vast number of down payment assistance programs available locally.

Increasing the visibility of and access to down payment programs will be especially beneficial to young black home buyers, who are less likely to receive parental support than white young adults. Designing and implementing down payment and savings programs, making them easy to access through counseling, real estate, and lending professionals, and enhancing overall awareness of the available state, city, county, and federal programs would help black households and renters who could be first-time buyers access homeownership. New ideas that ensure priority and focus on funneling down payment capital to historically redlined communities will help ensure that needed capital and support is made available in the places and to the people who need it the most.



HUD Reviews Down Payment Assistance for FHA loans

HUD has temporarily delayed guidelines that require specific documentation of FHA down payment assistance provided by government entities that provide all or a portion of borrowers' share of FHA's 3.5 percent down payment. HUD said the delay, which lasts until July 23, will give state and local housing finance agencies (HFAs), Native American tribes and other governmental bodies that provide down payment assistance time to prepare the documentation that confirms the government entities' role when providing down payment assistance.

FHA policy allows family members, employers, non-profit organizations and governmental entities to contribute to a borrower's down payment. About 40 percent of FHA borrowers receive assistance to make their down payments.

FHA prohibits sellers or anyone else who would benefit from the sale or will be reimbursed for the sale to contribute to a borrower's down payment. The new guidelines from HUD are intended to clarify an existing rule and would require federal, state or local government housing agencies to supply a modified obligation letter, along with documentation for the governmental providers jurisdiction in which the property is located.

"Down Payment Resource is committed to providing the most accurate and up-to-date information on affordable lending programs across the country. We have already initiated outreach to the providers of all programs in DPR and will closely track and make updates to program requirements as necessary," said Rob Chrane, CEO of Down Payment Resource.

FHA Returns to 2016 Credit Standards

FHA has implemented its plan to tighten credit requirements by requiring manual underwriting for mortgages with credit scores below 620 and a ratio of debt to income above 43.

In a March 14 letter to approved lenders and other stakeholders, FHA announced that the new standards were taking effect. FHA will "carefully monitor the impact of this change and is preparing to implement additional changes to maintain a better balance of managing risk and fulfilling its mission," the agency stated.

The move reverses a 2016 decision to loosen standards. The FHA's chief risk officer Keith Becker, the Wall Street Journal reported, estimates that as many as 40,000 or 50,000 potential borrowers—4 percent to 5 percent of FHA-insured mortgages—will be affected as the agency tightens lending standards via its Total Mortgage Scorecard to reduce exposure to failed loans.

More than half of FHA-insured forward mortgage purchase transactions during the last fiscal year consisted of mortgages where the borrower had a debt-to-income ratio above 50 percent and the average credit score dropped to 670, the lowest level in a decade. More than 28 percent of new forward mortgage endorsements in the first quarter had credit scores below 640, while 13 percent had credit scores below 620 – a nearly 19 percent increase over last year.

First-time Homebuyers

More Than Half of First-timers Compare Lenders

Some 52 percent of first-time buyers consider more than one lender when choosing a mortgage and one out of five (29 percent) actually apply for a mortgage to more than one lender, according to data from LendingTree's platform.

Just 24 percent of first-time homebuyers said they were very familiar with the different types of mortgages available, compared to 52 percent of repeat buyers. However, first-time buyers were more likely to say they shopped to search for better loan terms at 22 percent compared to just 16 percent for repeat buyers.

LendingTree's latest survey also found:

Nearly a quarter (24 percent) of millennial first-time homebuyers want to own a home before getting married.

On the flip side, this means just over 3 in 4 millennial buyers (76 percent) want a marriage before a mortgage. Additionally, 27 percent of millennial buyers are postponing parenthood until they've achieved homeownership. Among homebuyers of all ages, nearly two in five are waiting to get a pet until after purchasing a house.

First-time buyers often underestimate how long it takes to get to the closing table.

Misunderstandings about the mortgage closing process underscore the importance of homebuyer education. Nearly half of first-time buyers believe the mortgage closing process will take 15-30 days and about 14 percent) believe it'll take less than 15 days. The average time to close is 43 days, according to data from mortgage tech firm Ellie Mae. Most mortgage closings happen within 45 to 60 days. Additionally, just over a quarter (26 percent) have the required documents necessary to complete a mortgage application.

More than a quarter (26 percent) of first-time buyers have poor credit.

Just 15 percent of first-time buyers have a score of 740 or higher. Nearly 2 in 5 (38 percent) aren't satisfied with their credit score, yet more than a quarter of those who are dissatisfied haven't taken steps to improve their score. By contrast, more than 70 percent of repeat homebuyers are satisfied with their credit score.

Zillow: Tsunami Wave of Millennials Will Swamp Real Estate Markets

Though the current housing market is softening, a coming wave of young buyers will swamp the starter home market with high demand and low supply. The resulting stiff competition among buyers will worsen the affordability crisis, according to the latest prediction from Zillow.

For the past several years, the housing market has been characterized by shrinking inventory and higher prices, particularly in the least expensive third of homes – the homes most likely to be targeted by first-time home buyers. These starter homes have gained 57.3 percent in value over the past five years, a median increase of $47,600, while for-sale inventory in this price range has fallen by 23.2 percent. Over the same period, the most expensive third of homes gained 26 percent in value and homes in the middle third appreciated 36.8 percent.

Generation Z is on the Move

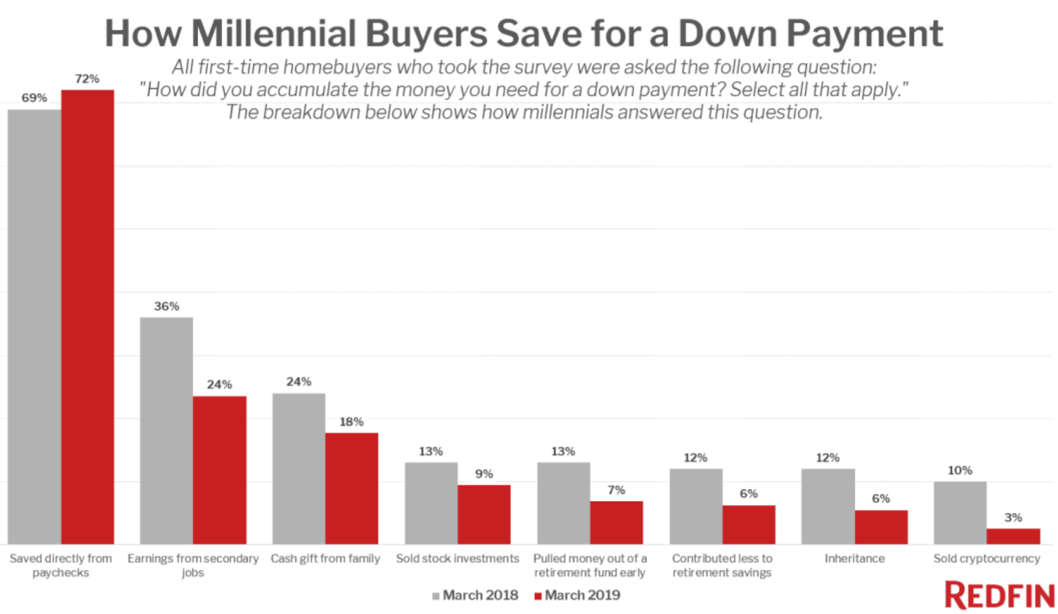
Millennials dominate home buying today, but Generation Z is on the move too. Gen Z, the largest generation in American history, has learned a lot about homeownership, according to the latest research from Bank of America and other sources.

(New data set based on Ellie Mae millennial tracker)

	Gen Z (18 to 24)	Millennials (25 to 35)
Median loan size	$164,757	$202,158
Conventional vs FHA vs VA	55% / 40% / 0%	69% / 27% / 2%
Average DTI	29/39	25/38
Average LTV	88	86
Average Down Payment	12%	14%

Redfin: Three Out of Four Millennial Homebuyers Are Saving From Regular Paychecks

The combination of strong wages and the housing market stalling late last year means that more buyers can save for their down payment using their primary income alone. Seventy-two percent of millennial homebuyers this year indicated they had saved for a down payment directly from their paychecks, up from 69 percent last year, according to the latest research from Redfin. The survey did not ask about down payment assistance.



January Average Down Payments at a Glance

APRIL	LTV	DTI	FICO	APROVAL RATE	CLOSING TIME/DAYS
ALL LOANS	77	29/44	728	74.8%	43
CONVENTIONAL	81	24/35	753	76.5%	43
FHA	95	29/44	675	74.6%	43
VA	98	26/42	708	77.3%	46
MILLENIALS	86	25/38	723		42
GEN Z	89	29/39	767		37

Sources: Ellie Mae Origination Insight Report and Millennial Tracker

Comparison of First-time and Repeat Homebuyers

	GSEs		FHA		GSEs and FHA	
Characteristics	First-time	Repeat	First-time	Repeat	First-time	Repeat
Loan Amount ($)	233,525	258,647	209,082	221,496	223,465	252,545
Credit Score	738	753	668	674	709	740
LTV (%)	88	79	95	94	91	82
DTI (%)	36	37	44	45	39	38
Loan Rate (%)	4.91	4.82	5.04	4.95	4.96	4.84

Sources: eMBS and Urban Institute.
Note: Based on owner-occupied purchase mortgages originated in January 2019.

Source: Urban Insitute April Chartbook

First-time Buyer Market Share Trends

Sources	Share	Trend
2018 Profile of Home Buyers and Sellers	33%	Down from 34% in 2017
Realtors Confidence Index	33%	Up from 32% in March
March Existing Home Sales	33%	Up from 30% in March

Key Facts

Data Highlights From This Issue

- FHA has implemented its plan to tighten credit requirements by requiring manual underwriting for mortgages with credit scores below 620 and a ratio of debt to income above 43.
- Use of down payment assistance from government agencies and nonprofits doubled from 2013 to 2016, from 5 to 10 percent of all mortgages.
- A greater percentage of homeowners than renters believe all mortgages require a 20 percent down payment.
- If they had to put 20 percent down, 36 percent of millennials and 40 percent of Generation Z (18-24) would have to postpone buying a home.
- Nearly a quarter (24 percent) of millennial first-time homebuyers want to own a home before getting married.
- First-time buyers often underestimate how long it takes to get to the closing table.
- Some 52 percent of first-time buyers consider more than one lender when choosing a mortgage and one out of five (29 percent) actually apply for a mortgage with more than one lender.
- Seventy-two percent of millennial homebuyers this year indicated they had saved for a down payment directly from their paychecks, up from 69 percent last year.
- The average down payment among first-time homebuyers in 2016 was 6 percent and 14 percent for repeat buyers.
- Today the African American homeownership rate of 41.1 percent is more than 30 points lower than the rate for white Americans.

About the Down Payment Report

A regular 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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