The Down Payment Report

News and Data on Residential Down Payments

June 2019

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Low Down Payments and the Economy

Widespread unaffordability and the largest generations of new homebuyers in history are changing the way leaders in residential real estate think about down payment assistance. Created as a tool to help put underserved families on the path to homeownership, today down payment assistance plays a larger role in the real estate economy.

Last year the Urban institute found that persistent myths about down payments were helping to keep 19 million millennials from buying homes, even though they have the income and credit score to qualify for a mortgage.

Educating the public about payment assistance programs is important to the housing and real estate industries as much as consumers. For example, in June the Mortgage Bankers Association launched an affordable housing initiative to develop stronger and more effective affordable housing partnerships in both the policy and business arenas. (See news story on page 5.) Working together, we can increase awareness of down payment options.

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THE DPR INTERVIEW

Down Payments and Debt Burdens

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

Mark Palim, Vice President and Deputy Chief Economist, Fannie Mae

Dr. Palim is responsible for overseeing Fannie Mae's corporate macroeconomic and housing forecasting functions. In addition, he manages multi-disciplinary partnerships across the company to address specific business issues facing Fannie Mae.

Late last year Fannie Mae's researchers conducted a survey of homeowners and renters to find out how much they know about credit requirements, including down payments, when qualifying for a mortgage. Some of the questions in the 2018 survey followed up on a similar survey in 2015 to see whether attitudes or knowledge about qualifying for a mortgage has changed. The results of that survey were published in June. (See news story on page 4)

Q. Did the survey results surprise you? In terms of knowledge about down payments, is this something that you didn't expect?

I wasn't that surprised. I would have liked to have seen their knowledge increase, particularly because one reason that we conducted this survey is that in other consumer surveys we ask people who aspire to own a home about barriers to ownership. Down payments were typically cited as the leading barrier. So that led me to want to see how much people actually understand about the requirements to qualify for a mortgage. I would have liked to have seen some improvement given that we have had low down payment mortgages going back to the GI bill and FHA. But, if the lack of knowledge had existed that long, then three years is not long enough for that to change.

Q. You make the point that both owners and renters seem to be more conservative in the amount they will need for a down payment. Are new buyers becoming more aware that they will incur less debt if they can afford to put down more?

If you look at other data, then you do see over time some "small c" conservatism in this cycle in the average amount of debt that people are willing to take on. As you look at people who transition to homeownership, the debt levels that they carry today are a little bit less than they used to be. I'm not suggesting that's a bad thing. I think it's appropriate. People will have to decide what is the right level of debt for them.

Q. In your question on the barriers to getting a mortgage, saving for a down payment and closing costs came in fourth. Do you think there is a lower level of concern today about saving for a down payment?

I think that having a sufficient amount of savings to make the transition to homeownership successfully and having a sufficient credit rating is still a top concern. The answers move around a little bit from sample to sample.

(DPR Interview continued)

Q. You found that most owners would use a 20 percent down payment today rather that a 15 percent down payment as they answered in 2015, but renters who plan to buy a home would still put down 15 percent. Does that suggest to you that owners would advise first-time buyers to put down more than 15 percent?

It would suggest that they would do that because of the benefits of putting down a larger down payment. You would not need to get MI on a conforming loan and, generally speaking, you would carry a lower debt level That helps you with the unexpected costs of ownership.

Q. Could it be that owners are more willing to put down 20 percent because they can afford to due to the higher levels of equity that they have in their homes today?

Yes, that's a perfectly reasonable hypothesis. I don't think anybody wants to incur more debt than they need to.

Q. You found that consumers' perception that the average amount lenders expect them to put down is increasing from 15 to 20 percent. Why do you think that is?

I think it's interesting that this question says "expect" versus "require" in both surveys. It's not unfair for people to think that when they answer "expect" it doesn't have to be the minimum requirement. They could intuitively capture the notion that granting credit isn't just the function of a single number but the weighting of the different risk factors in the loan. Also, the notion that the prudent thing to do is to put down 20 percent has been in the national culture for a long time.

Down Payment Assistance

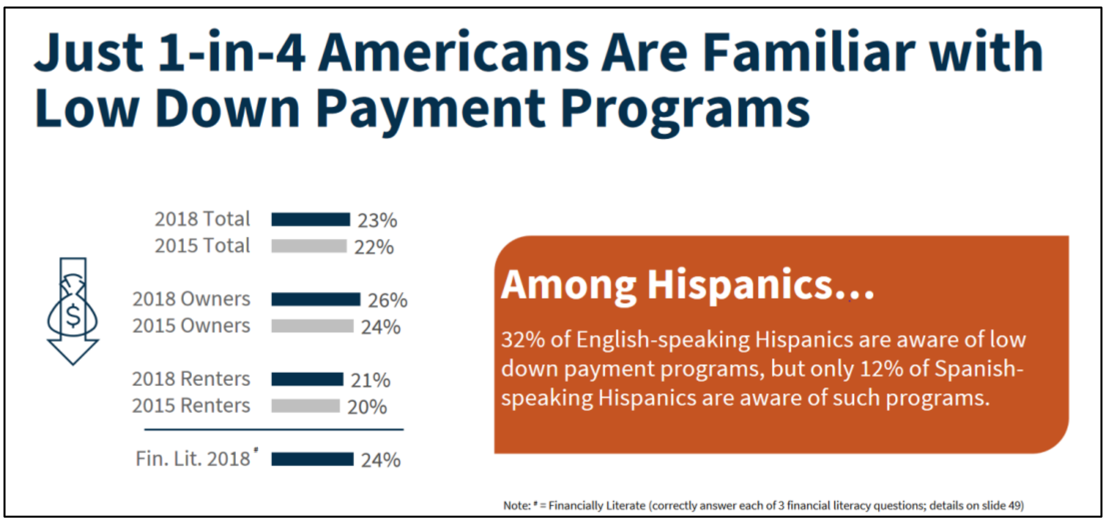
Down Payment Perception Getting Worse

Ignorance about how large a down payment is needed to qualify for a mortgage is worse today than it was three years ago, delaying first-time buyers' entry into homeownership or discouraging them altogether, according to 2018 survey just released by Fannie Mae.

Even though consumer confidence about the mortgage process has grown modestly since 2015, consumer understanding about what it takes to qualify for a mortgage has not improved since 2015.

Owners and renters still:

- Overestimate the minimum credit score necessary to qualify for a mortgage;
- Overestimate the minimum down payment necessary to qualify for a mortgage; and
- Remain unfamiliar with low down payment programs.



Since 2015, when Fannie Mae conducted a similar survey, awareness of the down payment option has not improved in several areas:

- The size of down payment that owners expect lenders to require has risen from 15 percent to 20 percent.
- The average consumer now prefers to make a larger down payment. The median down payment size has risen from 15 percent to 20 percent since 2015.
- Only 17 percent of consumers know that the minimum down payment available is 1 to 5 percent.
- Only 23 percent of consumers are familiar with low down payment programs.

"We would have liked to have seen a knowledge increase, said the author of the study, Mark Palim, Vice President and Deputy Chief Economist for Fannie Mae. "One of the reasons we did this survey is that in a consumer survey we asked people who aspire to own a home whether there were barriers to homeownership. Down payments and credit scores were the leading barriers."

Affordability

MBA Launches Affordability Initiative

On June 13, the [Mortgage Bankers Association](#) launched a new strategic initiative to help develop stronger and more effective affordable housing partnerships in both the policy and business arenas.

These partnerships will promote more sustainable, affordable homes for purchase and rental by underserved people and communities, especially minorities and low-to-moderate-income Americans. MBA is developing a work plan set around a series of objectives designed to better understand the nature of the problem and why previous efforts have failed and to build and nurture partnerships in support of affordable housing policy and business practices.

Steve O'Connor, a 23-year veteran of MBA and currently its Senior Vice President for Public Policy and Industry Relations, will assume the new role as Senior Vice President for Affordable Housing Initiatives.

Lower Rates Greatly Reduce Monthly Payments

Last year's rising mortgage rates meant that monthly mortgage payments were rising much faster than home prices. Rising rates and rising prices combine to push up monthly payments faster than rates or prices alone.

For example, in November 2018 the U.S. median sale price rose about 4 percent year-over- year, but the principal and interest payment on that median-priced home surged 17 percent because mortgage rates had risen a percentage point, according to CoreLogic's Andrew LePage.

Now that rates are rising at a slower pace than prices, the annual growth rate of the typical monthly payment has dropped below the growth rate for prices. As a result, some forecasts are predicting that by the end of the year, the mortgage prices buyers face for the rest of the year will only rise by a slight amount or even fall.

The U.S. median sales price of $222,482 in March 2019 was up 3.5 percent year over year, down from an 8 percent annual gain in March 2018. Despite the 3.5 percent increase in purchase prices, the typical mortgage payment rose only 1.9 percent because of a roughly 0.1-percentage-point decline in mortgage rates over the prior year. By comparison, In March 2018, the typical mortgage payment's annual gain was 11 percent thanks to a 0.2-percentage-point annual gain in mortgage rates.

For buyers concerned about the impact of a smaller down payment on their monthly payments, declining mortgage rates offer an unusual opportunity to lock in monthly payments that are significantly lower than they were at this time last year.

Millennials

Millennials Worry More About Paying off Student Debt Than Saving For a Home

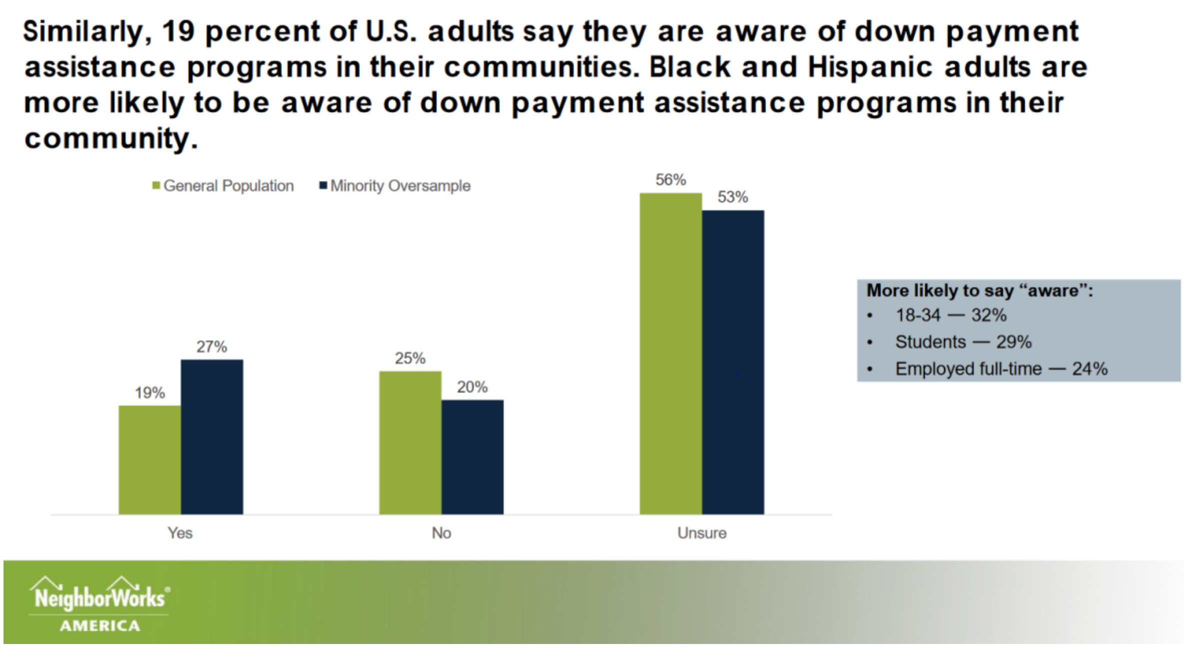
About one third of millennials (ages 18-34) believe paying off their student loan debt is their top financial priority, ahead of paying down credit cards. Saving for a home came in third in a new national consumer survey by NeighborWorks America.

Some 34 percent of millennials say paying off student loans is their top priority. Paying down credit card debt came in a close second at 31 percent. Saving for a down payment was far down on their list of priorities. In fact, 60 percent said they would rather rent than buy a home.

Overall, a majority (70 percent) of the 1,000 surveyed called the home buying process complicated but believe owning a home increases financial stability (77 percent) and half said they would feel less successful (52 percent) if they never purchase their own place, down from 60 percent in 2018.

The unemployed, those without a college degree and those making less than $40,000 a year are struggling to paying off debts, too, the survey says. And though two-in-three Americans say they have money set aside for a rainy day, only one-in-four are “very confident” when it comes to their ability to withstand a financial emergency.

“We understand young adults struggle with student loans and other obstacles to buying a home. If they visit a financial coach early in their professional lives, they can navigate their financial lives responsibly,” said NeighborWorks America President and CEO Marietta Rodriguez. “Financial coaches help people set and reach goals, such as living debt-free, and can help consumers create and maintain a budget to spend and save for the things that are important and pay back loans on time.”



Generation Z

Tomorrow’s Buyers Value Diversity

Generation Z, 18- to 24-year-olds who are entering the age bracket for first-time home buying, is the first generation in American history with a preference for buying homes in culturally diverse neighborhoods, according to a Homes.com survey released at the National Association of Real Estate Editors on June 27.

Polling more than 1,000 young adults in the Gen Z age bracket, the survey is the first to examine how Generation Z and millennial habits differ across several facets of homebuying.

The survey found that 58 percent of future Gen Z homebuyers prefer a diverse community compared to 12 percent who prefer a homogeneous neighborhood. Gen Z’s commitment to diversity has important ramifications for national housing policy, cross-cultural enrichment, and the evolution of a post-racial definition of the American Dream.

Misconceptions about down payments. The Gen Z homeownership survey also found that Gen Z-ers have misconceptions about down payments. Despite the availability of lower-cost down payments like those required with 3.5 percent FHA loans, many young homebuyers believe they will need to save for two or three years to meet down payment obligations unless they get financial help from friends and family. That scenario is unlikely unless they live in an expensive market or don’t use a low-down payment loan.

The vast majority of Gen Z-ers expect to buy a home. 86 percent of respondents reported they plan to become homeowners someday. Only 5 percent don’t, and the remaining 9 percent are unsure. Since Gen Z is even larger than the millennial generation, strong home demand can be expected for many years to come.

Most expect to buy their first homes before age 35. Specifically, 14 percent anticipate purchasing homes between ages 18-24, 48 percent from 25-29, and 25 percent between 30-34. If they succeed, they will follow the same schedule as Generation X and Baby Boomers. They will also achieve a much higher homeownership rate than millennials, who were stymied by high unemployment and low income levels for young workers from 2008 to 2013.

Proximity to work is Generation Z’s top priority in selecting a place to live. When asked to rank the most important considerations in deciding where to live, proximity to work (71 percent) as well as to friends and family (52 percent) surpassed urban location (25 percent), proximity to shopping (24 percent) and access to nightlife (12 percent). That means that employers located in suburban and ex-urban areas will find it easier to attract Gen Z employees.

FHA

FHA Ban on Dreamers Goes to Hill

Senator Bob Menendez, (D-New Jersey) introduced the Homeownership for Dreamers Act on June 20 to prevent federal housing agencies, including FHA, Fannie Mae and Freddie Mac, from refusing to finance mortgages to DACA (Deferred Action for Childhood Arrivals) recipients just because of their immigration status.

Testifying in Congress last December, HUD Secretary Ben Carson said it would "surprise" him if DACA recipients were being turned down for the loans.

Media outlets including BuzzFeed and HousingWire found that HUD policy on DACA applicants had quietly changed, according to lenders, industry associations, and young immigrants hoping to buy their first homes. HousingWire reported that both the Connecticut Housing Finance Agency, the Idaho Housing and Finance Association and at least ten FHA lenders are advising lenders that although Deferred Action for Childhood Arrivals (DACA) immigrants are in the United States legally, under the new administration they are not considered to have lawful residency.

In early June, a HUD official finally admitted the policy had changed. "Because DACA does not confer lawful status, DACA recipients remain ineligible for FHA loans," Len Wolfson, a Department of Housing and Urban Development official, wrote in a letter to California Democratic Rep. Pete Aguilar.

Two Bills to Reduce the Cost of FHA Financing Head for House Floor

Legislation to terminate FHA's requirement that borrowers retain mortgage insurance for the life of their loans and a bill to require HUD to provide a 25-basis-point discount on the FHA upfront insurance premium for first-time homebuyers who complete a HUD-approved housing counseling program passed the House Financial Services Committee June 14.

The Community Home Lenders Association supported the bill limiting mortgage insurance, calling the FHA's current policy discriminatory against borrowers. "The FHA Life of Loan policy is unfair to FHA borrowers because it significantly overcharges them," the CHLA wrote, estimating the additional cost to be $15,000.

"The Life of Loan factor can tilt a borrower to a refinance out of FHA and into a conventional loan, even when the savings are limited and the traditional wisdom about refinancing calculations argue against a refinance," the group wrote. "The result is that FHA loses many seasoned loans, along with the revenue that goes with those loans."

Both bills, plus legislation to protect DACA members' rights to FHA loans, will next be scheduled for the House floor.

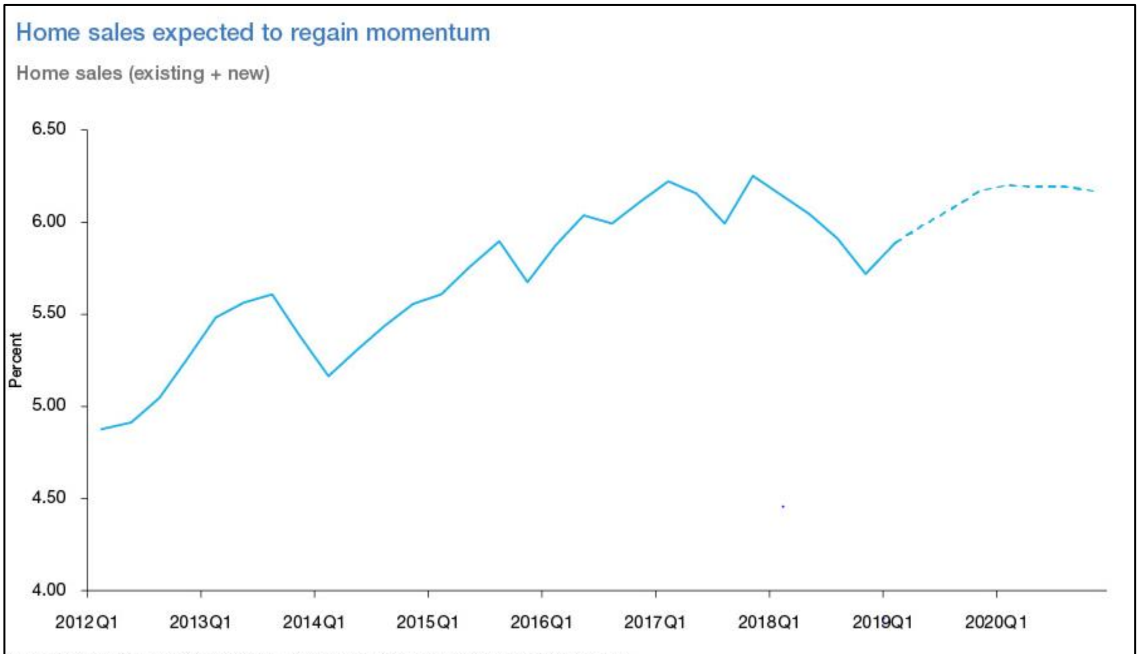
Rate Forecast

Lower Rates Prompt Freddie Mac to Sweeten its 2019 and 2020 Forecasts

Sometimes bad economic news is good news for home sales. Trade tensions, higher gas prices and the waning effects of last year's tax cut may drive down growth from 3.1 percent in the first quarter to only 2.2 percent by year's end. Next year growth may slow even more, to 1.8 percent.

Freddie Mac's economists have revised their forecast for 10-year and 1-year Treasury rates for the balance of 2019 and 2020. Mortgage rates will follow Treasury yields with the 30-year fixed-rate mortgage averaging 4.1 percent in 2019, before increasing modestly to 4.2 percent in 2020. As of the first week of June, the U.S. weekly average 30-year fixed mortgage rate was 3.82 percent, the lowest since September of 2017.

"Low mortgage rates, along with a strong labor market, will help housing markets post modest growth over the next year and a half. We anticipate home sales to reverse the 2018 slump and come in stronger at 6.03 million in 2019 before surpassing 2017 levels and increasing to 6.19 million in 2020," says the new forecast.



Source: U.S. Census Bureau, Freddie Mac June 2019 Economic and Housing Research Forecast
Note: Dashed line indicates forecasted data.

Down Payment Data

Generation Z and Millennials

April 2019

Source: Ellie Mae millennial tracker)

	Gen Z (18 to 24)	Millennials (25 to 35)
Median loan size	$116,164	$198,848
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%

Conventional, FHA, VA

Sources: Ellie Mae Millennial Tracker, Ellie Mae Origination Reports

MAY	LTV	DTI	FICO	APROVAL RATE	CLOSING TIME/DAYS
ALL LOANS	80	25/38	728	77.8%	44
CONVENTIONAL	81	24/35	753	75.3%	43
FHA	95	29/46	674	76.0%	44
VA	98	26/42	709	76.7%	46
MILLENIALS	86	25/38	723		42
GEN Z	89	29/39	767		37

Key Facts

Data Highlights From This Issue

- A national survey of owners and renters by Fannie Mae found that consumers still overestimate the minimum credit score necessary to qualify for a mortgage, overestimate the minimum down payment necessary to qualify for a mortgage, and remain unfamiliar with low down payment programs.
- About one third of millennials (ages 18-34) believe paying off their student loan debt is their top financial priority. Saving for a home came in third in a new national consumer survey by NeighborWorks America.
- Despite the availability of lower-cost down payments like those required with 3.5 percent FHA loans, many young homebuyers believe they will need to save for two or three years to meet down payment obligations unless they get financial help from friends and family in a new survey by Homes.com.
- Legislation eliminating FHA's "life of loan" policy on mortgage insurance has cleared committee and is headed to the House floor.
- Falling mortgage rates are reducing the size of monthly payments, making it easier for buyers to use low down payments without significantly raising their monthly payments.
- Low mortgage rates also caused Freddie Mac's economists to revise their home sales forecasts upward for 2019 and 2020.

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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