The Down Payment Report

News and Data on Residential Down Payments

June/July 2020

Report Released: June 30, 2020

Low down payments and home price stability

When the pandemic closed down most of the nation in March, home sales plummeted, buyers stopped shopping, and sellers stopped listing their homes for sale. Initially, sales fell as well, and fears grew that weak demand would lead to another housing recession.

But that didn't happen.

In the final weeks of March, and the first two weeks of April, pending sales also fell, as buyers tried to deal with the challenges posed by closing on a home during the pandemic. By mid-April, sales started to rise, and prices resumed their pre-pandemic path.

A surge of first-time buyers led the way. Attracted by the prospect of buying a home without igniting a bidding war and sick of paying more in rent than they would for a mortgage, technologically savvy young buyers were not intimidated by virtual showings and e-closings.

Low down payments make it possible for nearly half of buyers under 30 years old (43 percent) to buy. Even more, would have done so but for a tightening of lending standards by lenders who are facing pandemic-related threats such as the unexpected costs of mortgage forbearance, early payment defaults, and the shortage of mortgage credit.

Stay safe and be well,

Rob Chrane, CEO, Down Payment Resource
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In this issue:

THE DPR INTERVIEW

State HFAs remain stable during the COVID-19 crisis

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

Stockton Williams
Executive Director
National Council of State Housing Agencies (NCSHA)

The NCSHA advocates on behalf of state housing finance agencies (HFAs). As a group, state HFAs are the leading source of affordable mortgage financing for low- and middle-income borrowers. State HFAs provide $25 - $30 billion annually in financing for 150,000 to 160,000 home buyers. The average income of the typical state HFA borrower is under $60,000, and their average mortgage amount is roughly $170,000.

Q. Are the pandemic-related financial burdens that state governments are dealing with having an impact on state housing finance agencies?

The COVID-19 crisis and related issues have put huge financial burdens on local and state governments. State housing finance agencies are concerned about the impact of the pandemic throughout their states and within their housing markets. Fortunately, the agencies themselves are, without exception, very well-capitalized. No state housing finance agency relies on taxpayers to fund its operation.

State HFAs support affordable homeownership mainly by funding loans through an originating lender and providing down payment assistance. Their traditional source of funding for mortgage loans is tax-exempt municipal bonds. Around mid-March, the market for all municipal bonds became frozen, which caused major concerns for the HFAs.

Fortunately, the CARES Act and other actions by the Federal Reserve helped stabilize the municipal bond market. State HFAs were among the most active bond issuers asking Congress for relief. Over the past two months, more than 20 housing finance agencies have accessed the municipal bond markets to fund affordable homeownership and rental housing. Though the market still presents challenges on a day-to-day basis, state HFAs, unlike some other issuers, have been successful at raising capital when they need it. One reason is that every state housing finance agency and all of state HFA homeownership programs are highly rated.

The other source of funding for state HFAs homeownership programs is the secondary market for mortgage-backed securities, which has been an increasingly important outlet since the Great Recession. While some issuers have had challenges, in the main, state housing finance agencies have been able to fund their down payment assistance and homeownership programs with mortgage-backed securities as well as bonds.

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Q. During the pandemic, a large number of conventional lenders of all sizes have reduced their participation in low down payment programs by abandoning their own low down payment products, dropping out of FHA or other federal first-time buyer programs, or simply lowering their loan-to-value ratios. Have your members seen any lenders stepping away from their programs?

The last several months have been a tumultuous time for the mortgage finance system and everyone who is involved with providing housing lending. There have been lenders who have pulled back from originating loans for low- and moderate-income borrowers for a variety of reasons, including general economic stress, or pivoting to do more business in refinances since rates are so low. There is also a lot of concern, which, frankly, state HFAs share, about some of the actions FHFA, FHA, Fannie, and Freddie have taken and not taken. Those have all contributed to uncertainty in the markets.

More often than not, we are hearing that state housing finance agencies are doing as much or more business than they were at this time a year ago, and in a number of cases, they are doing more. A handful of state HFAs have even told us that they have had record production in recent months. Whether a given lender has pulled back some or put on pause a business relationship with a given HFA, the overall trend is there is actually more housing finance agency lending through mortgage lenders of all kinds over the last several months.

Because of the general uncertainty in the housing markets and because the federal government has taken so many different steps, some originating lenders have just said, “Hey, wait a second. Let's get a sense of the lay of the land here.” So a lot of what you see could be short term, but in general, our members are doing as much or more lending than they did at this point last year.

Q. Eighteen months ago, the Urban Institute did a study that found that 19 million Millennials are mortgage-ready, but many are still renting because they think they need to put down 20 percent. Since then, there has been some progress in that issue. Do you believe that the role state HFAs play is becoming known to more borrowers?

In some cases, progress has been made, but there is so much more to do, especially in the context of the social unrest that has been gripping the country. It is not news that we have a considerable income, savings, and wealth gap between whites and people of color. What the country is dealing with now demands new urgency to get at the underlying systemic issues as well as the apparent barrier that sadly still exists. Homeownership is not the only way to build a more equitable society, but homeownership must be a part of that solution because it helps to build family wealth. State housing finance agencies plan to play an even more significant role in making that happen going forward.

First-time Buyers

Young buyers drive pandemic demand

Across the nation and in 39 of the 50 most populous U.S. metros, list prices rose in the first quarter of 2020 by an average of 4 percent year-over-year. The number of active listings dropped by 19 percent year-over-year, according to NerdWallet's First-Time Home Buyer Metro Affordability Report for the first quarter.

List prices fell during the quarter in just six of the nation's 25 largest metros. List prices in Houston, Minneapolis, and Louisville, dropped the most, about 4 percent. Prices rose 10 percent or more in six of the largest markets. List prices in Los Angeles rose 21 percent, followed by Philadelphia (+12 percent), Phoenix (+10 percent), and San Diego (+8 percent).

In just a few large metros, houses were more affordable than they were in the first quarter of 2019. List prices in Houston, Minneapolis, and Louisville, Kentucky, dropped the most from 2019. Active listings rose in only Minneapolis (-8 percent) and San Antonio (-3 percent).
In the face of supply shortages, declining affordability, and pandemic-caused problems to the process of buying a home, a surge of first-time buyers' purchases powered a dramatic turnaround in home sales.

The first-time buyer share of sales rose from 32 percent in February to 36 percent in April, an unprecedented expansion that began in March continued through the spring. By the week of May 25, purchase mortgages jumped 19 percent over a year ago, and bidding wars went “bananas” with homes “flying off the shelves”, said Redfin's Glenn Kellman.

More than 45 percent of homes under contract in the week of May 15 were on the market for less than two weeks.

“It seems that nothing can deter homebuyers. Seasonally adjusted demand for the week of June 1 – June 7 is now 25 percent higher than it was pre-pandemic in January and February, marking the eighth straight week of rising demand,” said Kellman.

First-timers dominated April sales

Though total 2020 sales through April were 19 percent lower than they were in 2019, purchase mortgage applications made by first-time homebuyers were 6 percent less than the same week in 2019. Over the same period, purchase applications by repeat homebuyers dropped 29 percent, according to CoreLogic.

First-time buyer purchases helped to raise the homeownership rate in the first quarter to 65.3 percent, the highest since 2013. However, activity started to slow during the second week of February and was running below the pace of 2019 for repeat homebuyers. Home-purchase loan applications picked up after the second week of January 2020 for both types of homebuyers, with the highest surge for first-time homebuyers.

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(*Young buyers drive pandemic demand* continued)

“Bidding wars also jumped in May because homebuyers felt they were starting to get more clarity around where the economy was headed, with cities around the nation lifting stay-at-home orders. This gave house hunters more confidence to compete,” said Redfin lead economist Taylor Marr. “But with coronavirus cases back on the rise in many states, only time will tell whether that confidence is sustainable.”

Table 1: First-time Homebuyers versus Repeat Homebuyers, comparing April 2020 Home-Purchase Loan Applications with April 2019

	April 2019		April 2020	
Characteristic (averages)	**First-Time**	**Repeat**	**First-Time**	**Repeat**
Credit Score	719	745	724	747
LTV (%)	91	82	93	84
DTI (%)	38.3	37.2	37.3	36.4
Age	34	42	33	41
Loan Amount ($)	250,604	315,018	260,642	318,601
Loan Interest Rate (%)	4.52	4.44	3.49	3.45
Monthly Payment ($) *	1,273	1,584	1,169	1,422

*Calculation is based on assumptions that all loan applications are 30-year and fixed-rate loans

Source: CoreLogic Loan Application Data

Nearly three-quarters of first-timers plan to buy within 12 months

A Lending Tree survey taken in May found that the pandemic itself is motivating first-time buyers. Some 73 percent of first-time buyers and 66 percent of Millennial renters told LendingTree that they plan to buy within the next 12 months.

Nearly two-thirds (65 percent) of all buyers surveyed say the coronavirus pandemic has had an impact on how much money they plan to spend on a new home. Among those who said the epidemic had influenced their plans, 44 percent plan to buy a less expensive home, and the remaining 21 percent want a more expensive home. Among the latter group, 28 percent of first-time buyers said they'll buy a pricier home.

“This remarkable turnaround seems mostly driven by first-time homebuyers jumping into the market. These borrowers are younger, more technologically savvy and open to virtual tours,” wrote Tobias Peter of the American Enterprise Institute.

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(*Young buyers drive pandemic demand* continued)

By the week of June 13, very low inventories were restraining sales and pushing up prices. Median listing prices were growing at 4.6 percent over the same week last year, just above the pace seen pre-COVID. New listings were down 20 percent, and total inventory was down 27 percent. Time on market was16 days slower than last year as it takes longer to find a buyer and complete a sale in the current markets.

Demand hit bottom in April and now exceeds last year's level by 25 percent as of June 12 in Redfin's Homebuyer Demand Index.

Source: Redfin

The first-time buyer share of sales reached 36 percent in April in NAR's Realtor Confidence Index, up from 32 percent in February, as a wave of first-time buyers.

Low Down Payments

Lenders raise standards, lower LTVs

Mortgage lenders face a host of increased risks related to the pandemic, including the financial impact of 4.2 million mortgage loans in forbearance and 12 percent of borrowers who are behind on payments. With recession-level unemployment, failing small businesses closed by the pandemic, and a sinking economy, they are trying to reduce their exposure to risk.

Many are lowering loan-to-value ratios to as low as 20 percent and terminating or temporarily ending their low down payment products. Many have quietly stopped participating in down payment assistance programs, including FHA, USDA, and VA. Some simply lowered their loan-to-value standards to 80 percent or less, and raised other standards like FICO scores and debt-to-income ratios for borrowers who want low down payment loans.

Leading lenders require 20 percent down

Some of the nation's largest lenders are leading the way. JPMorgan Chase increased its minimum lending standards, including lowering its minimum LTV to 80 percent. Chase raised its minimum FICO credit score to 700 on purchase mortgages. A JPMorgan spokeswoman said the bank's changes are temporary and due to the unclear economic outlook.

Bank of America significantly tightened its standards for loans to homeowners wanting to borrow against their equity. Flagstar Bank, increased its minimum credit score for FHA loans to 660 and raised to 680 the score required for low down payment loans backed by the USDA. The minimal credit score it will accept from borrowers is now 720, up from 660. Navy Federal Credit Union stopped offering FHA loans altogether.

Lowering LTV requirements may not achieve the reduction in risk lenders seek. Evidence is growing that low down payment loans, when used with homeownership education, reduce the risk of default by first-time buyers. Recent studies by the JP Morgan Institute and the Joint Center for Housing Studies found that low down payment loans accompanied by homeownership education may reduce risk. They leave new owners with more cash to see them through the first years of adjusting to the costs of homeownership.

Stricter standards contribute to a critical shortage of mortgage credit

Instead of helping lenders survive the pandemic, widespread tightening of lending standards is contributing to a critical shortage of mortgage credit. Credit availability began shrinking in late March when the economy shut down, and millions of people lost their jobs, and lenders immediately began to tighten their lending standards.

According to the latest Mortgage Credit Availability Index from the Mortgage Bankers Association, the availability of loans has fallen to its lowest level since December 2014. "There was a reduction in supply across all loan types, driven by a further pullback in investors' appetites for loan programs with low credit scores and high [loan-to-value ratios]. Credit tightening was observed at both ends of the market, with less availability of low down-payment programs designed for first-time homebuyers, as well as for conforming and non-conforming jumbo loans," said the MBA's Joel Kan.

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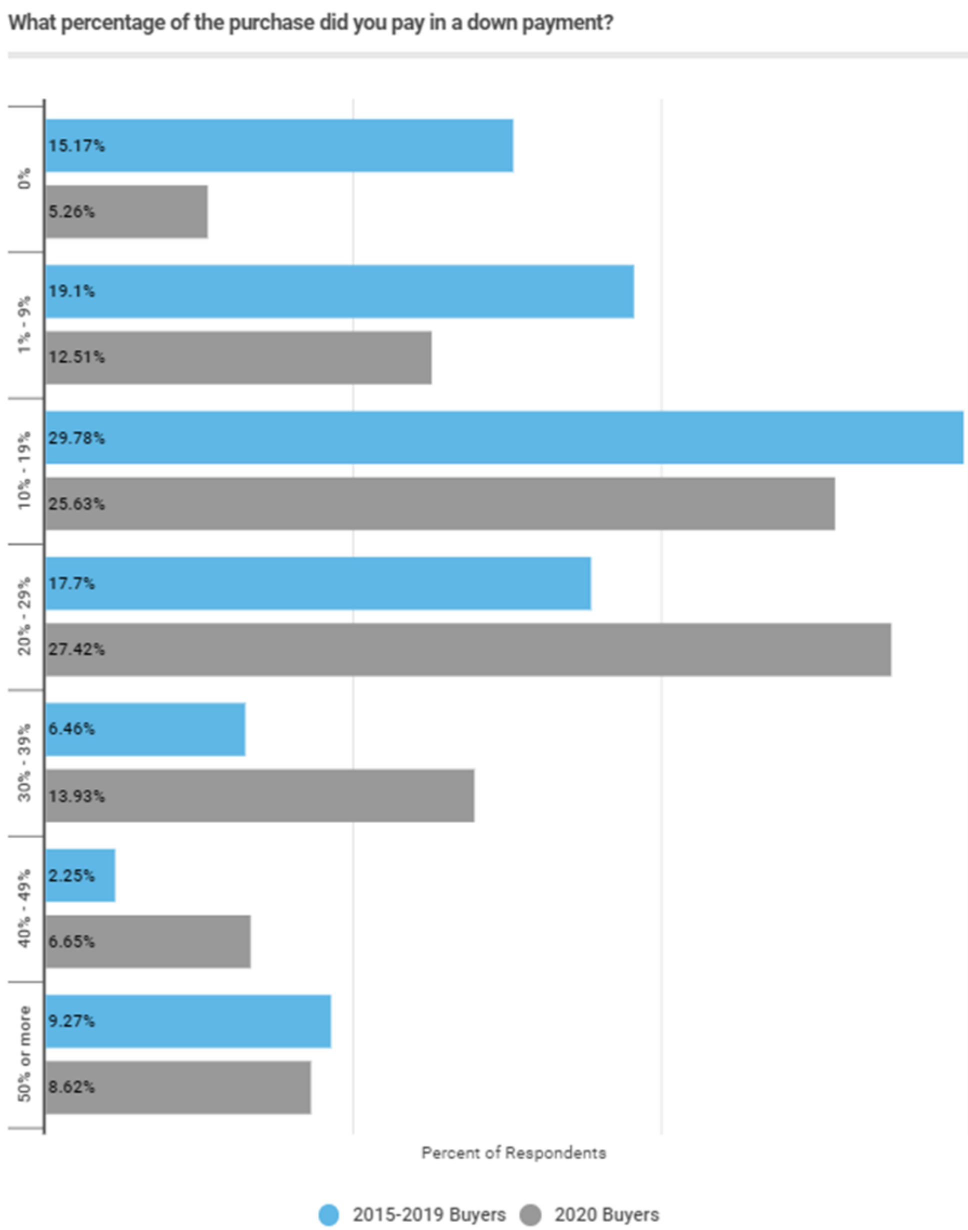
In a May 14 post on its blog, Down Payment Resource®, which tracks approximately 2,400 homeownership programs, said that only 34 of the programs in its database are temporarily suspended – only 1.5 percent of total programs across the country. All state Housing Finance Agencies (HFAs) are open and accepting reservations.

Tighter standards raise 2020 buyers' down payments by 20 points

A survey of 2020 buyers by Clever Real Estate found that 56 percent put down 20 percent or more in 2020 compared to 35.65 percent of all new buyers. Fifty-eight percent of 2020 buyers are getting their down payments from savings.



Source: Clever Real Estate

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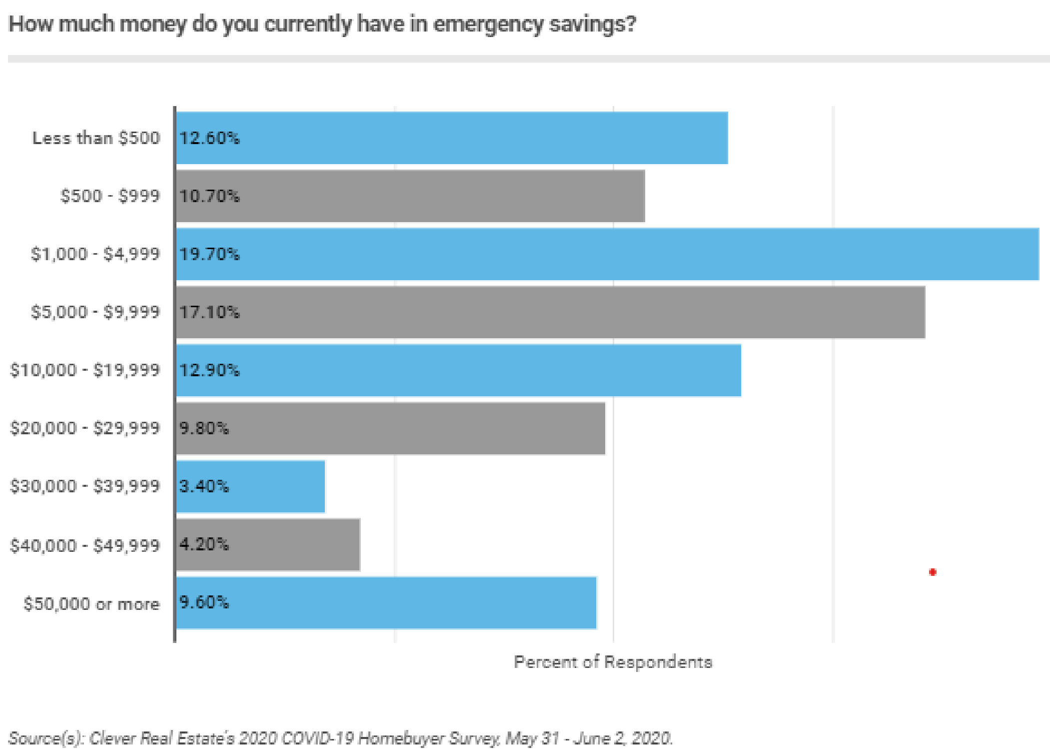
(*Lenders raise standards, lower LTVs* continued)

Higher down payments leave new owners vulnerable

The unexpected larger down payments left them with new owners with less cash on hand. More than 40 percent have less than $10,000 available for emergencies, and more than half aren't their full monthly mortgage payments.



Blue line represents 2020 buyers, and gray line represents 2015-2019 buyers

Source: Clever

Millennials

Lost savings put Millennials' dreams on hold

For most first-time buyers, the most challenging barrier on the road to homeownership is saving for the down payment. Low-down payment options available today have cut the time it takes to save 5 percent or 3.5 percent by half or more, according to a new analysis from Realtor.com.

It still takes Millennial renters looking to transition to homeownership years to save for a down payment. As of April, the median listing price of a home in the United States was $320,000. A down payment of 10 percent would mean $32,000 in savings in preparation for this major life decision. Among counties with populations over 100,000, the average Millennial household expenses are $3,770 per month, with a median monthly household income of $4,240 after taxes.

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The cost of one month's expenses

During the pandemic, many prospective homebuyers have lost or been furloughed from their jobs and were forced to draw from these down payment savings to cover everyday living expenses. If a typical Millennial household had to use its down payment savings to pay for living expenses, it would take nine months additional months of saving ten percent of take-home pay to recoup just one month's expenses.

Six months of unemployment can cost four more years of saving

If the pandemic forces a Millennial family to tap its savings for six months, the average household will need 53 months — over four years — to recoup lost savings, assuming that household incomes will return to their pre-COVID levels. In some of the most popular housing markets with Millennials, including San Francisco, Nashville, Seattle, and Denver, it would take much longer to recover that money because of higher expenses relative to income, according to the study. Should more major lenders increase their minimum down payment to 20 percent.

All 593 counties in this analysis indicated needing between 8 and 10 months of savings to recoup a single month's expenses. The San Francisco Bay Area and Williamson County, TN (Nashville) top the list of toughest markets to recover savings, requiring ten months of saving to make up for one month of expenses. If households in these markets need to lean on their down payment savings for six months, it will take five years to recoup those losses.

Saving for a 20 percent down payment takes 16 more years than a 10 percent down payment

In addition to the right balance of income and expenses, homeowner hopefuls in these markets also face list prices often much higher than the national rate. Eight of the top ten toughest markets had a median listing price higher than the national price of $320,000 in April.

Moreover, if more major lenders increase their minimum down payment to 20 percent, Millennials in San Francisco who were aiming for a target of 10 percent would need to save for an additional 16 years to meet that new lending criterion. Millennials in San Francisco who were aiming for a target of 10 percent would need to save for an *additional 16 years* to meet those new lending criteria.

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Even though San Francisco has the highest Millennial incomes in the country, it also has the highest expenses, primarily due to the very high cost of housing. Therefore, saving money becomes even more challenging in that market.

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Ten toughest markets to recoup savings

	County	Monthly Median Income After Tax[a]	Monthly Savings (10 percent of income)[b]	Monthly Expenses	Months of Saving to Recoup 1 Month of Expenses	Months of Saving to Recoup 6 Months of Expenses	Years of Saving Needed for Additional 10 percent Down Payment
1	San Francisco, Calif.	$8,179	$818	$8,179	10	60	16.2
2	Williamson, Tenn. (Nashville)	$6,180	$618	$6,180	10	60	9.2
3	King, Wash. (Seattle)	$5,815	$582	$5,704	9.8	59	10.4
4	Douglas, Colo. (Denver)	$6,622	$662	$6,479	9.8	59	8.1
5	Forsyth, Ga. (Atlanta)	$6,679	$668	$6,428	9.6	58	5.1
6	Ascension Parish, La. (New Orleans)	$4,788	$479	$4,565	9.5	57	4.8
7	Shelby, Ala. (Birmingham)	$4,795	$479	$4,540	9.5	57	6
8	Howard, Md. (Baltimore)	$6,370	$637	$6,023	9.5	57	7.8
9	Midland, Texas	$4,707	$471	$4,445	9.4	57	6.5
10	Pulaski, Ark. (Little Rock)	$3,233	$323	$3,048	9.4	57	5.5

Source: Realtor.com

Minority Homeownership

Hispanic homeownership is on the rise, but more is needed

The homeownership rate among Hispanic Americans reached 47.5 percent this year. The rate increased for the fifth consecutive year in 2019, according to the National Association of Hispanic Real Estate Professionals' annual report.

Hispanics established 435,000 new households in 2019, accounting for 31.4 percent of the net growth in homeownership. Among them are 4.9 million "mortgage ready" Hispanic Millennials.

Key findings from the report:

- Had 10 percent of those 4.9 million "mortgage ready" Millennials been converted to homeowners in 2019, the Hispanic homeownership rate would have reached 50.3 percent, an all-time high.
- California, the most populous Latino state, saw the greatest net outflow of Latinos at 205,000. Texas benefited from the highest inflow of Latinos, with a net gain of 102,000 people. Houston and Dallas were among the top five markets with the highest number of Hispanic homebuyers in 2018.
- According to the National Association of Home Builders (NAHB) Housing Market Index, immigrants make up a disproportionate and increasing share of the construction labor force. In 2018, immigrants accounted for 24.3 percent of the overall construction labor force, compared to 16.6 percent of the non-construction market.
- NAHREP estimates that the number of culturally competent Latino realtors and mortgage professionals will need to double in the coming years to meet the growing demand from Hispanic buyers.
- The Hispanic population helped pull the nation out of a devastating housing recession. In 2015, it became the first ethnic demographic to show an increase in its post-recession homeownership rate. This year presents a new set of economic challenges in the wake of a global pandemic that will undoubtedly disrupt the housing market, possibly for years to come. The youthfulness, work ethic, and commitment towards homeownership will propel the Latino community in a post-pandemic economic recovery.

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TOP 20 MARKETS WITH THE MOST MORTGAGE READY HISPANIC MILLENNIALS (MRHM)[f]

OPPORTUNITY AREA	COUNTY NAME	"MORTGAGE READY" HISPANIC MILLENNIALS	SHARE OF MRHM THAT CAN AFFORD (3% DOWN)	TOTAL # OF MRHM THAT CAN AFFORD MEDIAN PRICED HOME	ANNUAL HOUSING STOCK INDICATOR (2019)[g]
1	MCALLEN-EDINBURG-MISSION, TX	17,800	94%	16,700	6.6
2	MIAMI-FORT LAUDERDALE-WEST PALM BEACH, FL	270,800	18%	47,600	5.7
3	NEW YORK-NEWARK-JERSEY CITY, NY-NJ, PA	471,000	5%	21,000	4.8
4	SAN ANTONIO-NEW BRAUNFELS, TX	70,300	65%	45,400	4.2
5	RIVERSIDE-SAN BERNARDINO-ONTARIO, CA	188,100	8%	14,500	3.5
6	PHILADELPHIA-CAMDEN-WILMINGTON PA, NJ, DE, MD	39,700	54%	21,500	3.4
7	DALLAS-FORT WORTH-ARLINGTON, TX	143,500	48%	68,700	3.4
8	CHICAGO-NAPERVILLE-ELGIN, IL-IN-WI	185,200	34%	62,600	3.4
9	LAS VEGAS-HENDERSON-PARADISE, NV	49,200	25%	12,000	3.3
10	LOS ANGELES-LONG BEACH-ANAHEIM, CA	645,500	1%	7,600	3.3
11	EL PASO, TX	17,300	92%	15,800	3.1
12	OKLAHOMA CITY, OK	11,700	80%	9,400	3.1
13	ATLANTA-SANDY SPRINGS-ROSWELL, GA	53,600	38%	20,600	3.0
14	AUSTIN-ROUND ROCK, TX	49,900	22%	10,900	2.9
15	TUCSON, AZ	20,400	45%	9,200	2.8
16	DETROIT-WARREN-DEARBORN, MI	16,200	74%	12,000	2.7
17	ORLANDO-KISSIMMEE-SANFORD, FL	73,800	29%	21,500	2.6
18	BAKERSFIELD, CA	29,700	40%	11,900	2.6
19	TAMPA-ST. PETERSBURG-CLEARWATER, FL	41,000	44%	18,000	2.5
20	PHOENIX-MESA-SCOTTSDALE, AZ	85,400	20%	17,000	2.4
TOTAL				463,900	

Down Payment Data

May Millennials

Median loan size	$202,789
FICO	733
LTV	85
DTI	24 / 35
RATE	3.509%
Market Shares	CON 77%, FHA 20%, VA 1% Other 2%

Source: Ellie Mae Millennial Tracker

May Purchase Loans*

	LTV	DTI	FICO	RATE
All loans	74	23/35	750	3.43
Conventional	82	23/35	755	3.44
FHA	96	28/45	682	3.45
VA	98	23/41	716	3.24
Millennials/Gen Z (18-34)	84	23/35	735	3.51

*Data are for 30-year fixed-rate purchase loans.
Sources: Ellie Mae Origination Reports and Millennial Tracker

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. Contact him at scook@commsconsulting.com.

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