



The Down Payment Report

News and Data on Residential Down Payments

December 2017

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Education, Education, Education

During my years as a real estate broker, I recruited and trained many new Realtors. At some point, I noticed that many who became successful were former teachers.

I once asked a top agent in Atlanta to what she attributed her success. She replied that selling is all about educating people and that the key to her real estate career was her training and experience as a teacher.

To achieve that level of success, you need energy, drive, persistence and the willingness to do whatever it takes to succeed.

In this issue of the Down Payment Report—and, many others before it—we see that study after study shows how little first-time home buyers know about the path to homeownership, especially when it comes to down payment requirements and options.

The world needs real estate agent and mortgage loan officer “teachers” more than ever. Those who take the time to learn the full range of options for buyers will be rewarded with more commissions, referrals, and the satisfaction that comes from helping people become successful homeowners.

Rob Chrane

CEO, Down Payment Resource

October Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	87	13
FHA Purchase	96	4
Conventional Purchase	80	20
VA Purchase	98	2

Source: [Ellie Mae Origination Insight Report](#) and [Millennial Tracker](#)

First-time Homebuyers

First-time Buyer Share Rebounded in October

First-time buyers share of home purchases bounced back October after falling in September, but on the annual basis, first-timers are experiencing a slow decline. First-time buyers accounted for 32 percent of existing home sales in October, up from 29 percent in September, but their share was still one point lower in October than it was a year ago, according to the National Association of Realtors' [Existing Sales Report](#).

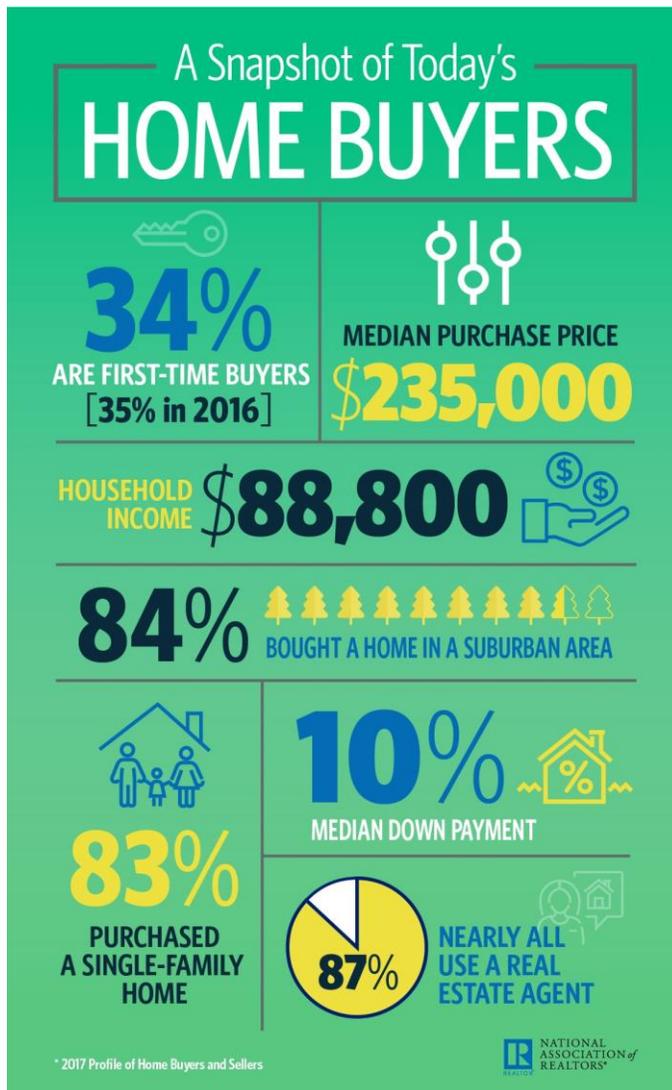
NAR's [2017 Profile of Home Buyers and Sellers](#), which is based on a survey of buyers who purchased their homes between July 2016 and June 2017, reported that first-time buyers accounted for 34 percent of home sales. A year ago, the 2016 edition of the Profile set the first-time buyer share at 35 percent. Over the 38-year history of the Profile, the average market share for first-time buyers is 39 percent.

“The dreams of many aspiring first-time buyers were unfortunately dimmed over the past year by persistent inventory shortages, which undercut their ability to become homeowners,” said Lawrence Yun, NAR chief economist. “Solid economic conditions and millennials in their prime buying years should be translating to a lot more sales to first-timers, but the unfortunate reality is that the nation's homeownership rate will remain suppressed until entry-level supply conditions increase enough to improve overall affordability.”

(First-time Buyer Share Rebounded continued)

The 2017 Profile also found that the typical down payment for first-time buyers fell to 5 percent, down from 6 percent in the 2016 Profile, matching the lowest average down payment since 2013. Meanwhile, higher home values likely gave more sellers the wherewithal to use the cash from their recent sale to make a bigger down payment on their new home purchase (14 percent; 11 percent in 2016). Repeat buyers' sales proceeds from their previous purchase (55 percent) surpassed their own personal savings (50 percent) this year as a larger source of their down payment.

Some 41 percent of first-time buyers indicated they have student debt (40 percent in 2016). The typical debt balance also increased (\$29,000 from \$26,000 in 2016), and over half owe at least \$25,000. Additionally, of the 25 percent who said saving for a down payment was the most difficult task in the buying process, 55 percent said student debt delayed saving for their home purchase.



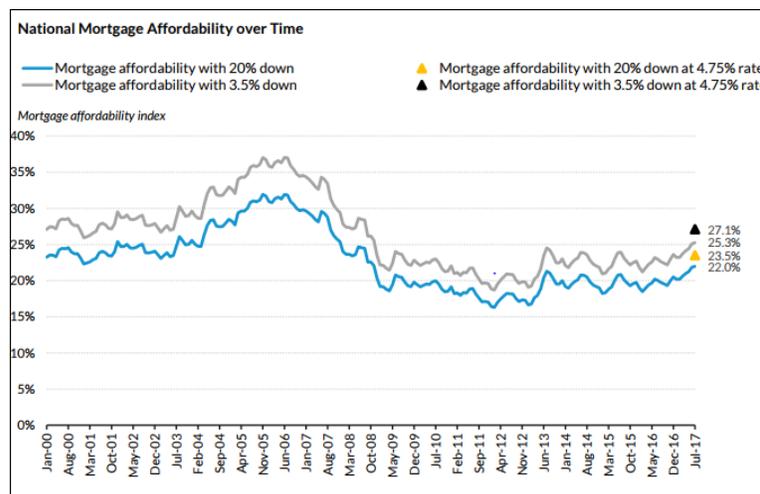
Urban Institute: Increase Visibility of Down Payment Programs

A new report on credit access and affordability by the Urban Institute’s Housing Finance Policy Center commissioned by Down Payment Resource and Freddie Mac suggests many renters could be owners if they had taken advantage of down payment assistance and other affordable lending programs in 2016.

The [Barriers to Homeownership: Down Payments, Credit Access, and Affordability](#) Report focused on the three most significant barriers to homeownership: saving for a down payment, accessing mortgage credit and housing affordability.

Key Findings

- Because of today’s tight credit environment, many borrowers have been shut out of the market and have not been able to take advantage of low interest rates and affordable home prices.
- However, only 23 percent of consumers are familiar with low down payment programs. Forty percent say they do not know how much of a down payment lenders expect and another 30 percent erroneously believe that lenders expect 20 percent or more.
- Yet lower down payments have become increasingly important to buyers over the past ten years as FHA and VA programs expanded. The median loan-to-value (LTV) ratio for purchase money mortgages has increased from 80 to 95 percent.
- On a national basis, smaller down payments of 3.5 percent are slightly (2 percent) less affordable than a down payment of 20 percent.
- Generally, smaller down payments make owning less affordable than renting in more expensive markets like San Francisco and Seattle and more affordable than renting in less expensive markets like Chicago and Pittsburgh.
- Ignorance about down payment options has kept renters from buying homes, especially where smaller down payments make buying home cheaper in renting.
- Low down payment programs, which can support middle-income borrowers in some high-cost markets, are widely available on a local level across the nation.



(Urban Institute continued)

In today's heated markets where both prices and rents are rising, renters can access credit and become homeowners only with the help of low down payment mortgages. In less expensive markets, smaller down payments make ownership more affordable than renting. Yet borrower data shows that many consumers are not taking advantage of these programs that could provide greater access to credit and homeownership.

"We need to increase these programs' visibility and ensure borrowers in mortgage transaction know about assistance they could be getting. Not all down payment assistance programs are created equal, and they come in different forms. These programs often include consumer education or housing counseling that allow potential borrowers to better understand whether homeownership is right for them. Homebuyers need to be better educated and made aware of the benefits and costs of these programs," the report concluded.

2018 Forecast: Cost of Down Payments Will Rise

New forecasts from Zillow and CoreLogic call for home prices to continue to rise in 2018, though not as quickly. Renters hoping to become first-time buyers next year will have to save \$600 dollars more a month than this year and wait longer in 2018 in order to accumulate enough for a 20 percent down payment.

Zillow predicts the median home value will rise \$6,275 a year from now, according to [Zillow's home value forecasts](#). The average U.S. buyer will need to save an additional \$105 a month, or \$1,260 next year, to make a 20 percent down payment on a median valued home. In markets where prices are rising faster, home values are expected to rise as much as \$35,934 by this time next year. A buyer in 2018 will then need \$7,188 more for a down payment on the median home than they would today. For those saving on a monthly basis for a future home purchase, that equates to putting away an additional \$599 a month just to keep up with home value appreciation.

[CoreLogic](#) forecasts prices will increase by 4.2 percent on a year-over-year basis from October 2017 to October 2018. Buyers will need to save a proportional amount more to accumulate enough for a down payment.

Student Loan Debt

Fannie Mae Launches Pilot Project on Student Loan Debt

As awareness grows that student loan debt is a significant barrier to homeownership for college graduates, Fannie Mae is [pilot testing](#) a new concept to help graduates pay off their student debt at the same time that they qualify for a mortgage on a new home.

New student loan debt originations continue to increase: 2015 graduates with student loans left school with about \$34,000, up from only \$20,000 just ten years before. Having student loans dampens homeownership rates at every level of education, and higher debt balances are associated with even lower homeownership rates, according to the [New York Federal Reserve Bank](#). A September study by the [National Association of Realtors](#) and American Student Assistance found that student loan debt is delaying home purchases by a median of seven years.

Fannie Mae has enlisted ten home builders to participate in a test-and-learn pilot project that requires builders to provide financial assistance that borrowers must use to pay off a portion of the student loan debt for buyers of their homes.

The idea for the project originated from a new program from [Eagle Home Mortgage](#), the lending arm of national homebuilder Lennar. Eagle Home Mortgage wanted to find out whether expanding the interested-party contribution limitation on GSE loans will help buyers burdened with student debt become homeowners. Fannie Mae gave Lennar a 90-day period to begin testing the program before it was opened to nine other builder-affiliated lenders who are also Fannie Mae customers.

“In recent years, we’ve seen apprehension, particularly amongst younger buyers, to take out a mortgage while they were working to pay off student debt,” said Doug Cropsey, senior vice president of secondary marketing at Eagle Home Mortgage. “We tried to have some out-of-the-box thinking in partnership with Fannie Mae to break down this student debt barrier, whether it be real or psychological.” Cropsey said the collaborative partnership worked to design and solidify a program to solve a widespread housing challenge.

“Our lenders are in the market with boots on the ground where they see and hear first-hand from homebuyers on ways lenders could better serve them,” said Jonathan Lawless, vice president of customer solutions at Fannie Mae. The pilot program was refined and vetted by Fannie Mae’s risk and legal department experts.

Under [Eagle Home Mortgage’s Student Loan Debt Mortgage Program](#), at closing Lennar contributes up to 3 percent of the purchase price to pay down student loans incurred while attending universities, colleges, community colleges, trade schools and other certificate-granting programs. It is not intended for parents who may have taken loans to finance a child’s education. Buyers may be eligible for other incentives offered by Eagle Home Mortgage, such as credits toward closing costs.

State HFA Programs Address Student Debt to Attract Grads

To attract educated professionals who are having trouble qualifying for a mortgage because of student loan debt, state housing finance agencies are launching new programs to help them become homeowners. Here are a few, each of which require homeownership education for the buyer:

[Maryland's "You've Earned It" and SmartBuy Initiatives](#). Maryland offers attractive financing and closing cost assistance for move-in-ready properties. The program provides borrowers up to 15 percent of the sales price to help pay remaining student loan debt. The borrower must buy in a targeted area or be a first-time buyer or an honorably discharged veteran.

[Ohio's "Grants for Grads"](#) program provides college graduates a 2.5 percent or 5 percent loan for down payment assistance. Down payment assistance is forgiven after five years as long as the borrower remains in the state of Ohio. Borrowers must be first-time buyers and meet income, purchase price limits and credit requirements.

[New York's Graduate to Homeownership Program](#) helps recent college graduates to become first-time homeowners. The pilot program, which is available in eight cities participating in Governor Cuomo's Downtown Revitalization Initiative, offers subsidized low-interest rate mortgages, a down payment assistance loan of \$3000 or 3 percent with no additional fees up to a maximum of \$15000, and a homebuyer education course. Borrowers must first-time buyers and have graduated from an accredited college or university with an associate's, bachelor's, master's or doctorate degree within the last 48 months.

FHA

Private Mortgage Insurers Gain on FHA

Private mortgage insurers gained on FHA during the third quarter in the market for purchase mortgages, according to an analysis by [Inside Mortgage Finance](#). The GSE's securitized \$64,59 billion with private MI during the quarter, a 28.5 percent increase over the third quarter of 2018, more than three times the 9.5 percent increase in FHA loans securitized by Ginnie Mae.

Although the FHA program remained a favorite among first-time homebuyers, private mortgage insurers saw a substantial gain in the segment. In the third quarter, first-time homebuyers comprised 74.1 percent of FHA purchase loans, but the dollar volume of such loans pooled in Ginnie MBS rose just 9.1 percent, data showed, said IMF.

THE DPR INTERVIEW

The Urgency to Educate

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

Laurie Goodman is co-director of the Urban Institute's Housing Policy Center and supervised the research team that wrote: ["Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability."](#)



Q. Was there anything in the survey's findings that surprised you or that struck you as unusual?

We have spent a lot of time looking at access to credit information over the last couple of years, so there was nothing that struck me as unusual in that regard. However, looking at the survey results, I was reminded that people don't have a good understanding of how much of a down payment they need to buy a home. I knew there were a lot of programs available for down payment assistance, but it was more than I realized, and I was happy to discover that a larger percent of applicants qualify for at least one of these programs.

Q. Do you have a ballpark estimate of how many potential buyers might be living in apartments right now just because they don't know about these programs?

No, that's difficult to estimate since you'd need to determine who has not applied for a mortgage – that's not a number anyone tracks.

Q. Does the efficacy of using a low down payment vary by the market?

Yes. The efficacy of using a low down payment loan varies based on what you can afford to put down up front, what you can afford to pay each month and by what the home prices are in your area, all of which vary by market. A borrower who puts down 3.5 percent often cannot afford to put down 20 percent but can afford to make a higher monthly payment. Most borrowers would prefer to put down 20 percent and enjoy the lower monthly payment if that was an option.

(THE DPR INTERVIEW continued)

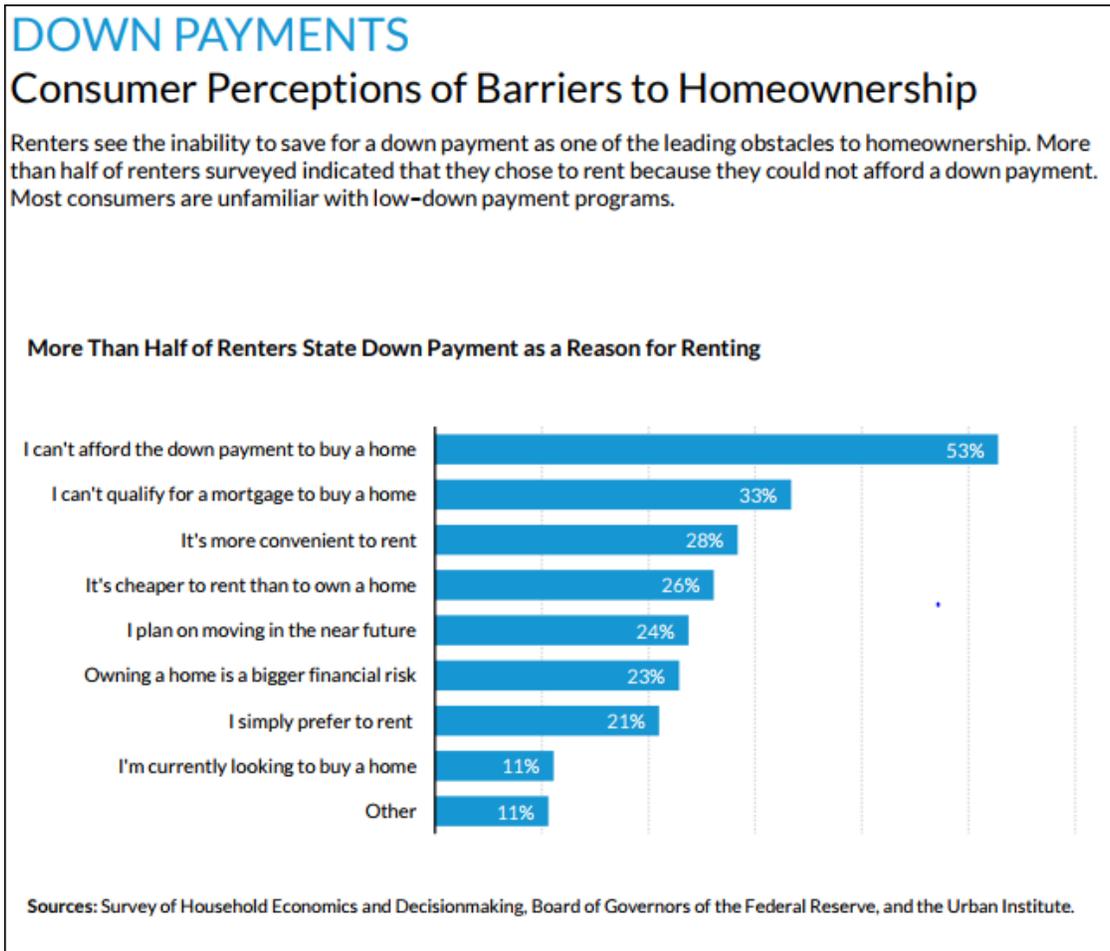
Q. Are we inviting another housing bust by the prevalence of low down payment programs?

No. First of all, today we are screening borrowers more effectively to see if they can afford to make the payment. Income documentation is much more stringent than it has ever been. Also, credit scores have gone up dramatically. Moreover, we are clearly not in a housing bubble. In fact, [a supply shortage](#) in many markets will put upward pressure on home prices for years to come. Given that, low down payments in combination with other strong characteristics make for very good mortgages.

Q. If you were to do a follow-up study, what would you look at?

Two things:

1. How many renters are sitting in apartments because they do not know about these programs? This the deter ratio and, as I said above, it's hard to know how we could obtain this.
2. How many renters and recent home purchasers know about these programs and decide not to take advantage of them and why don't they use them?



Commentary

Down Payments on the Record

“As the credit box opens, educating consumers about low–down payment mortgages and down payment assistance is critical to ensuring homeownership is available to more families.”

- The Urban Institute. [“Barriers to Homeownership: Down Payments, Credit Access, and Affordability”](#). November 2017.

“To incentivize saving, some states are passing laws allowing aspiring homeowners to create first-time buyer down payment savings accounts. The accounts function similarly to 529 college savings plans that let people deposit money earmarked for a specific purpose.”

- Jonathan Lawless, vice president of customer solutions in Fannie Mae's Single-Family Business in [National Mortgage News](#), November 17, 2017

“More than ever, there’s no one size fits all mortgage, and buyers will want to work with lenders who can help them evaluate multiple options.”

- Rob Chrane, CEO, Down Payment Resource in [The MReport](#), December 2017

“If buying a house takes your checking account down to \$1,000, it’s probably too expensive.”

- Chantel Bonneau, a financial adviser at Northwestern Mutual, quoted by Kathryn Vasel in [CNN Money](#).

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 Real Estate Economy Watch](#).

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