The Down Payment Report

News and Data on Residential Down Payments

November 2018

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Millennials Continue to Drive the Homeownership Rate

In the third quarter, the national homeownership rate for homeowners younger than 35 reached 38.6 percent, its highest level in five years. In fact, over the past year the homeownership rate for buyers under the age of 35 improved more than any other age group.

The homeownership data from the Census Bureau is even more remarkable in light of the market conditions young buyers face. With prices rising at the rate of 7 percent per year, mortgage rates breaking 5 percent for the first time in seven years, and a continuing drought in affordable homes, millions of first-time buyers have been postponing their ownership plans.

Rising prices and falling rates of household formation have increased the time it takes to save for a 20 percent down payment to 7.2 years—depressingly long for young buyers who are already older than their parents were when they bought their first home.

Despite these barriers, young buyers' homeownership numbers have been improving faster every quarter. The reason is the abundance, accessibility and quality of low down payment mortgages today. Currently the median down payment for a first-time buyer is only 7 percent of the purchase price, far below the traditional 20 percent.

A recent study by Freddie Mac found that not even rising prices will be enough to stop the coming surge in Millennial and Generation Z homeownership. As these massive generations age, the homeownership rate of young adults will rise to at least 55.9 percent by 2025 under the most pessimistic price scenario. Read about homeownership rates and other important news in this month's Down Payment Report.

Rob Chrane

CEO, Down Payment Resource

September Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	88	12
FHA Purchase	95	5
Conventional Purchase	80	20
VA Purchase	97	3

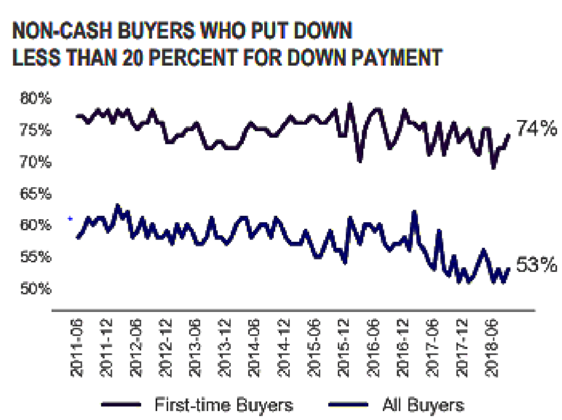
Source: Ellie Mae Origination Insight Report and Millennial Tracker

Q3 Millennial Buyer Confidence

Age:	34 or under	35 to 44	45 to 54	55 to 64	65 or over
A Good Time	52%	58%	65%	73%	70%
Not a Good Time	48%	43%	35%	27%	30%

Fewer Millennials than older buyers are confident that this is a good time to buy a home.

Source: Third Quarter NAR HOME Report



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October LTVs by Credit Score

Source: Lendingtree

FICO Range	Average APR	Average Down Payment	Average Loan Amount	Average LTV	Lifetime Interest Paid*
All Loans	5.27%	$60,361	$233,938	82%	$232,069
760+	5.12%	$80,263	$256,880	79%	$224,515
720 - 759	5.18%	$56,128	$232,708	83%	$227,347
680 - 719	5.42%	$38,016	$215,606	86%	$239,956
640 - 679	5.76%	$67,896	$198,689	75%	$258,151
620-639	5.86%	$54,538	$196,043	77%	$263,659

lendingtree

*Lifetime interest paid is calculated based on the overall average loan amount to enable comparison.

Millennials

Student Debt Cuts Net Worth by 75 Percent

According to a new analysis of Federal Reserve data, the average net worth of a Millennial with student loan debts is only 25 percent of the net worth for a millennial without them. It's no surprise that the data suggest student loan debt is preventing some millennials from saving for retirement or buying homes.

The analysis by MagnifyMoney, a LendingTree website, found that Millennial households with student loan debt have:

- An average net worth of $29,087, compared with $114,376 for student loan-free households;
- Forty-six percent less in their savings and checking accounts (median balance of $5,500 vs $10,180 for those without student loans); and
- About $21,160 in retirement savings versus an average of $39,905 for those with no student loan debt.

Student loan debt also results in lower rates of homeownership among Millennial graduates with student loans (34 percent) than among those without (36 percent). Those Millennials who have managed to buy a home generally end up with a lower-value home and a bigger mortgage compared to their contemporaries with no student loan debt, the study found.

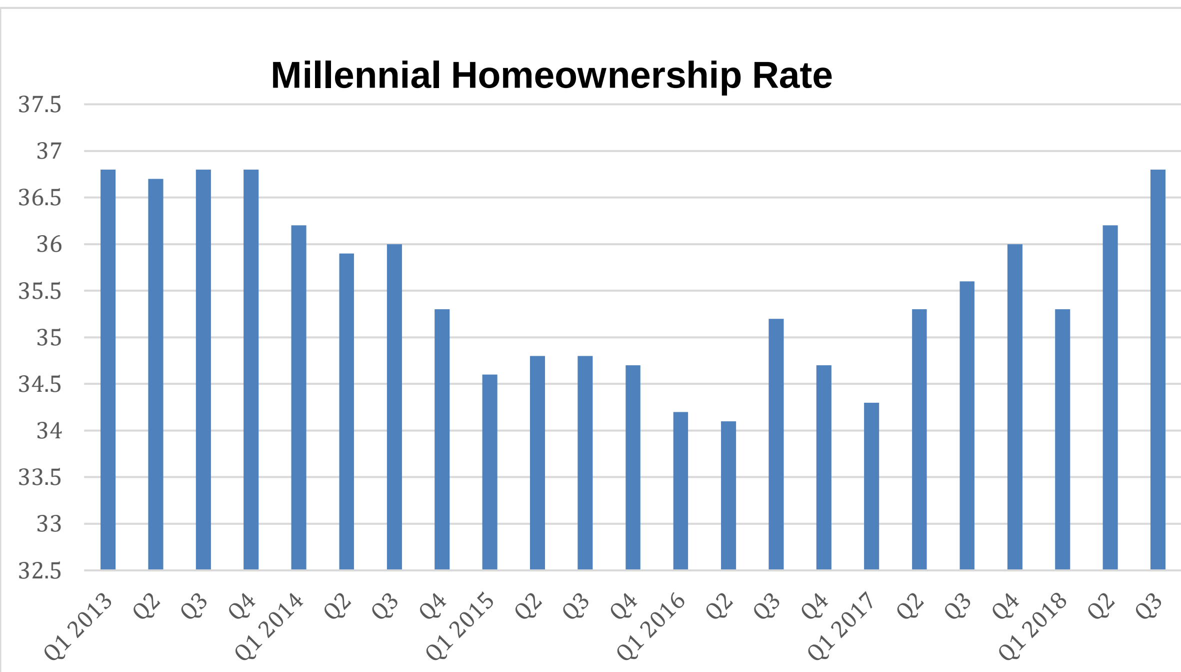
Millennial Homeownership Rate is Highest in Five Years

Despite soaring prices, rising mortgage rates and low levels of affordable homes for sale, in the third quarter, the Millennial homeownership rate (under 35 years old) rose for the 20th straight quarter and reached its highest level since the fourth quarter of 2013.

The Q3 millennial rate rose one basis point from the second quarter and 1.2 percentage points from a year ago, more than any other age group. However, at 36.8 percent, the rate for owners younger than 35 is by far the lowest of all age groups.

In 2016, the millennial rate hit a low of 34.1 percent and generated national concern over the decline in homeownership among the largest generation in history as this cohort entered their peak household formation and homebuying years. In 2015, the Urban Institute estimated that millennials had followed the same pattern as older generations, there would be 3.4 million more homeowners.

The national homeownership rate remained statistically unchanged, inching up to 64.2 percent in the fourth quarter. The national rate was up from 63.7 percent in 2017 and 63.9 percent in the third quarter.



Source: US Census Bureau

The rates for 35 to 44-year-old owners and for 45 to 54-year-olds declined in the third quarter, and the rates for older owners ages 55 to 84 and 65 and older increased.

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(Millennial Homeownership Rate Continued)

The third quarter also saw flat to declining homeownership rates among blacks and Hispanics. Black homeownership edged up marginally to 41.7 percent. The Hispanic rate fell for the third consecutive quarter to 46.3 percent. By contrast, the white homeownership rate increased for the second consecutive quarter to 73.1 percent, increasing the wide gap between the black and Hispanic rates.

Seven-year forecast: Millennial rate rises to 55.9 – 60 percent

In a study published in June, Freddie Mac economists concluded that higher housing costs are the primary reason for the drop in young adult homeownership rates. They found that housing costs explain about half of the decline. Changes in sociological factors such as declining marriage and fertility rates explain much of the rest.

Using 2016 data as a starting point, the study set out three scenarios for future growth in young adult homeownership:

- Under a baseline scenario, the homeownership rate of young adults will rise to 58.1 percent by 2025, assuming economic conditions in 2025 remain the same as 2016 economic conditions. The Millennial rate in 2016 was 35.4.
- Under an optimistic scenario, the homeownership rate of young adults could rise as high as 60 percent by 2025 – 1.9 percentage points more than in the baseline. This scenario assumes economic conditions improve by 2025. Household incomes go up by 15 percent for each age cohort and race/ethnicity group, and labor force participation, self-employment, and unemployment rates reach 2000 levels
- In a pessimistic scenario, the homeownership rate of young adults only increases to 55.9 percent by 2025 – 2.2 percentage points less than baseline. Housing market conditions deteriorate while keeping the labor market outcome variables and income fixed. The housing supply persists in falling short of demand, and real house prices and rents rise an additional 20 percent by 2025.

Bank of America Survey: Owning a Home is Still Top Millennial Priority

According to the latest Bank of America Homebuyer Insights Report, nearly three out of four millennials (72 percent) say owning a home is a top priority, second only to being able to retire (80 percent), and far outranks getting married (50 percent) and having children (44 percent).

The report found that many millennials equate homeownership with personal (53 percent) and financial (45 percent) success. Prospective millennial buyers also associate the purchase of a home with being mature (47 percent), acting like an adult (47 percent) and feeling independent (36 percent).

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(Bank of America survey continued)

80%	50%	72%	44%	61%
Being able to retire	Getting Married	Owning a home	Having children	Travelling the world

The report also found that renters have serious misconceptions about buying a home:

- Forty-nine percent believe that 20 percent down is required to buy a home.
- Forty-three percent believe they must pay private mortgage insurance if they don't put 20 percent down.
- Nearly one in four believe they need to have a "perfect" credit score to be considered for a mortgage.

The annual Bank of America survey found that current renters are torn when it comes to the "own vs. rent" debate, with 49 percent believing renting long-term will be more expensive than buying a home. The other half (51 percent) say renting will be just as or less expensive than owning. Yet, 69 percent believe their rent will continue to rise every year or every other year.

Millennials Shorten Stay

Despite the fact that they are buying their first homes much later in life that older generations, Millennials plan to sell their first homes twice as quickly as the average seller.

Home tenure dropped one percent last ear, and now the average American family moves after living in their home nine years. Recently CoreLogic reported that young Millennial owners and renters plan to move in four to five years.

Down Payment Trends

Buyers Must Save 1.5 Years Longer for 20 Percent Down Payment

Buyers need an additional year and a half to save enough to put 20 percent down today than they did 30 years ago, according to calculations by Zillow. Using national median incomes and current median home values, Zillow's Skylar Olsen writes that buyers these days need a total of 7.2 years to make a 20 percent down payment on median-valued home compared to 5.7 years in 1988.

The calculations found that median home prices, not the saving habits of today's first-time buyers, account for the long waiting time. Assuming today's first-timers are saving at the same 10 percent rate as previous generations, most first-timers need 18 more months to save. The reason is that record home values have outstripped incomes at such a pace that it would take much longer for a first-time buyer now to save for a down payment. The calculations use national median incomes and national median home values.

Using median income and home prices for major metros, Zillow found that In four markets, the time it would take to save for a 20 percent down payment is actually shorter than it was 30 years ago.

Lending Tree: Down Payment Percentages

It makes sense that higher prices will require larger down payments, but data from LendingTree's October mortgage offers repots shows that loan-to-value ratios reflect borrowers' creditworthiness. Borrowers with mid- to high-range FICOs (640 to 760) were able to make down payments with higher LTVs than those with FICOs below 630. Borrowers with FICOs over 760 also had slightly lower LTVs. These loans also are for the most expensive houses and buyers are more likely move-up buyers or luxury buyers who can afford to make larger down payments.

Purchase Mortgage Offers by Credit Score

FICO Range	Average APR	Average Down Payment	Average Loan Amount	Average LTV	Lifetime Interest Paid*
All Loans	5.27%	$60,361	$233,938	82%	$232,069
760+	5.12%	$80,263	$256,880	79%	$224,515
720-759	5.18%	$56,128	$232,708	83%	$227,347
680-719	5.42%	$38,016	$215,606	86%	$239,956
640-679	5.76%	$67,896	$198,689	75%	$258,151
620-639	5.86%	$54,538	$196,043	77%	$263,659

Source: Lending Tree

(continued: Down Payment Precentages)

LendingTree found that:

- Average down payment percentages for conventional 30-year, fixed-rate purchase mortgage offers stayed about the same from the second quarter to the third quarter, rising 0.03 percentage points (18.02 percent to 18.05 percent).
- At the same time, average down payment amounts decreased by nearly 10 percent in the third quarter, falling from $52,480 to $47,265.
- The average loan amount offered to potential homebuyers fell around $28,000 from $285,903 in Q2 to $257,749 in Q3.

“By finding these averages, we hope to give potential homebuyers an idea of what they can expect to put down when buying a home,” said Tendayi Kapfidze, said LendingTree’s chief economist. “Buyers in more expensive states require larger down payments to compete in expensive markets. Lower price states have lower down payments.”

States with highest down payment percentages (or lowest LTVs) were California, Hawaii, and Delaware. States with the lowest down payment percentages (or highest LTVs) were California, Washington DC and New York.

Down Payment Assistance

USDA Loans Lower Red States’ Down Payments

Before the midterm elections, Realtor.com compared homeownership conditions between counties carried by Donald Trump and those won by Hillary Clinton in the 2016 election.

Trump won 2,625 counties compared to Clinton's 487. But Clinton won the expensive, diverse, and crowded big cities while Trump swept the inexpensive, more sparsely populated rural America. Realtor.com compared housing data from red and blue counties, including internal price listings, home sizes, and the percentage of new construction in each county. They calculated buyers' median down payments and credit scores through Optimal Blue, a digital mortgage trading platform. They used Nielsen for income and general housing demographic data and U.S. Census Bureau for population information.

The researchers found stark differences between America's red and blue real estate—everything from the cost of homes, the number of places being built, the credit scores it takes to buy a home, and the huge impact a single government housing program can have.

"Not only are people living in different political realities, but they're contending with very different housing realities and paying different amounts for it," says Mark Muro, senior fellow in the metropolitan policy program at the Brookings Institution, a think tank based in Washington, DC.

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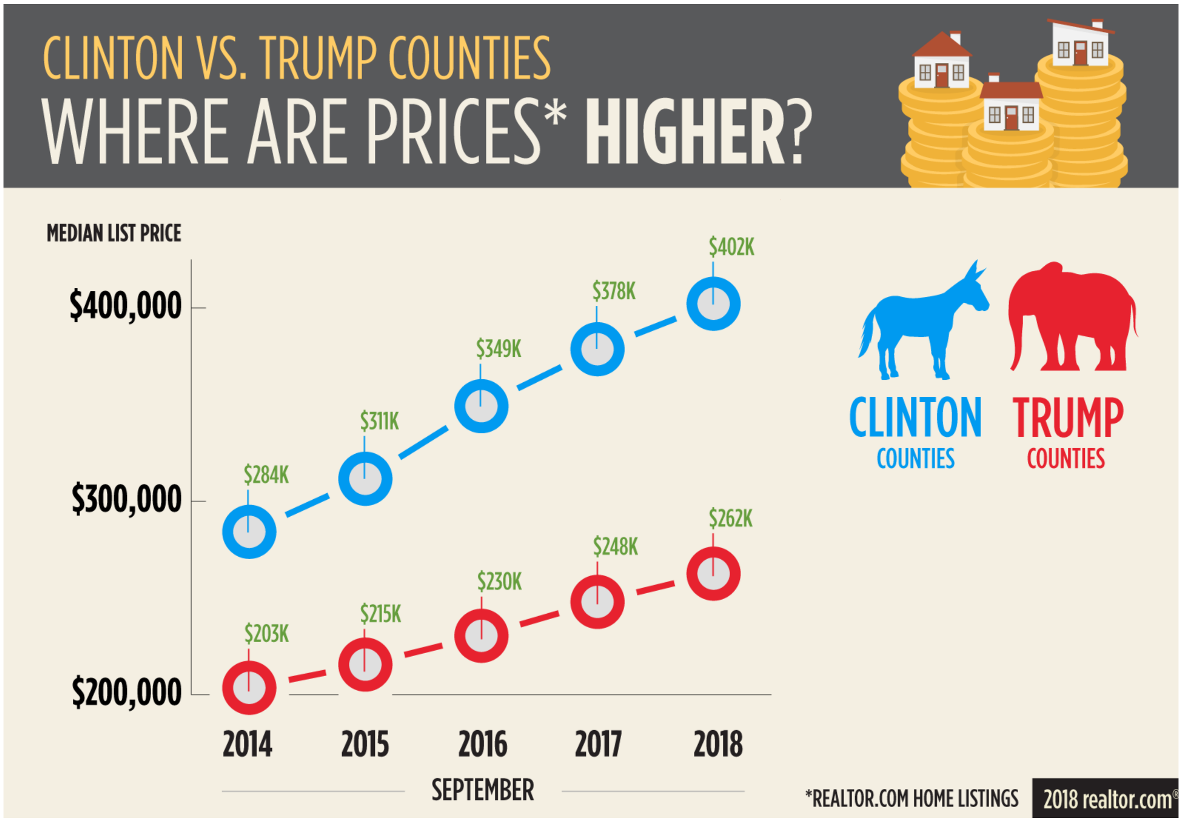

The median home list price was $262,612 this past September in counties that voted Republican in 2016. That's 12 percent lower than the national median of $295,000 and 53.1 percent lower than the $402,200 median price in counties that went Democratic. Clinton won 31 counties that are more expensive than Trump’s most expensive county.

To buy those houses, one would expect to see large down payments in the more expensive blue counties and smaller down payments. That’s what happened. Buyers plunked down a median 10.2 percent of the purchase price in blue parts of America and 5.4 percent in red swaths of the country.

But the reason that low down payments are smaller in Trump Country is due not so much to home prices as a popular federal program that spends $2.5 billion a year to help rural residents buy, build and rehab housing with grants or 3 percent down loans—the USDA direct and guaranteed rural housing program.

Down Payment Assistance Across the Nation

Mobile The City of Mobile is making it easier for police officers and firefighters to buy their first home. A new Public Safety Down Payment Assistance Program is now available for first responders. First responders who qualify can receive up to $20,000 for their down payment and closing costs. If the home they purchase is a formerly blighted property, they can get up to $30,000.

“Not only does homeownership improve these first responders’ quality of life, but it improves their neighbors' quality of life too,” Mayor Sandy Stimpson said in a news release.

Las Vegas In Las Vegas, nearly $19,000,000 is committed to helping about 1,007 home buyers since May 1, 2018, with down payments of up to $20,000. Nevada Affordable Housing Assistance Corporation says they're averaging about 32 new home buyers per day. With just over half of the money allocated for the Hope Bring You Home Down Payment Assistant Program distributed in two months, they are encouraging interested potential home buyers to move quickly before funds run out.

Austin Despite affordable home prices, coming up with a down-payment or qualifying for a mortgage can still be challenging for many families. The Texas Department of Housing and Community Affairs, or TDHCA, has several options for first-time homebuyers to overcome these hurdles. It’s important to note that the people who have not owned a home in at least three years qualify as first-time homebuyers for TDHCA programs.

Salem Overall, about 62 percent of Oregonians own homes, and overall the rate of homeownership in the state is slightly lower than in 2000. But state data show stark differences among ethnic groups. In Oregon, about 65 percent of whites and 63 percent of Asian Americans own homes as of 2017. Meanwhile, only about 35 percent of black Oregonians do. But buyers aren't always aware of the extra help they can get to close a home purchase — or what they need to be eligible for that help. Oregon already has a number of programs in place to help people borrow for a home, but some observers say that not enough people know about those opportunities.

Boston MassHousing has launched a new down payment assistance program intended to lower the barriers to homeownership that working households often face. The program will allow creditworthy low, moderate and middle-income households to achieve homeownership without having to make a down payment. Qualified first-time homebuyers will be able to finance up to 100 percent of the purchase of their first home. MassHousing currently finances up to 97 percent of a home purchase price.

Down Payment® RESOURCE

THE DPR INTERVIEW

Vermont Housing Finance Agency

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

The Vermont Housing Finance Agency pioneered the use of state housing tax credits to provide down payment assistance to low- and moderate-income buyers. After the 2008 recession, home buying in Vermont lagged considerably due to the state's higher than average closing costs, rates of student loan and auto debt and the gap between starting salaries and home prices. In 2015 the Vermont Legislature created a first-time homebuyer down payment assistance program, using state housing credits to provide up to $5,000 in down payment assistance for low and moderate-income Vermonters who need help with a down payment but are otherwise ready to buy their first home. The programs have helped over 800 first-time homebuyers.

Sarah Carpenter, Executive Director

Last month the National Council of State Housing Finance Agencies recognized the Vermont program with an Award for Program Excellence for pioneering the use of state housing tax credits to provide down payment assistance to low- and moderate-income Vermonters We interviewed VHFA's executive director, Sarah Carpenter.

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(THE DPR INTERVIEW continued)

Q. How does a homebuyer apply for your program?

Buyers should start by contacting a participating lender, with whom we work closely. All of our participating lenders can be found on our website, www.vhfa.org. Borrowers can talk to them about our first mortgage program and our down payment assistance program. They can talk to the lender about how much they want to borrow and can determine which VHFA mortgage program best fits their needs. The buyer will also need to complete homebuyer counseling through one of the state homeownership centers.

Q. What are some of the difficult aspects for the first-time homebuyer?

Most of our borrowers are buying at the lower end of the price range. There is a lack of affordable, high- quality housing stock available on the market. Many first-time borrowers who begin the home buying process discover that they are in need of credit repair or have outstanding debt that they need to pay down before they can apply for a mortgage. So they may need to slow down a bit and work with one of the local homeownership counseling agencies.

Q. What are the advantages of programs using state tax credits over traditional down payment assistance programs?

The funding source is more stable in many ways. Having the banks buy the credits and using their investments to create the equity we need is not as painful as getting the state to provide direct funding. As a small housing finance agency, we don't have many options for additional appropriations, or large amounts of cash on hand. A down payment program with a higher loan rate seemed counterproductive.

This is also a great opportunity for any investor in Vermont, particularly our local financial institutions. It's easy to sell the credits, and there is a lot of demand. It's a very simple program from an administrative point of view. However, the most important part of the process was to start by educating the public and legislators about the importance of down payment assistance for first-time buyers.

Down Payment® RESOURCE

Commentary

Down Payments on the Record

"No avocado toast jokes here. Yes, a lot has been written already about the question of millennials and homeownership. But as a new report demonstrates, the stakes are high enough that when an entire generation takes a step backward in accessing ownership, it's worth a little extra attention."

— Andrea Riquier, Missing millennial homeownership endangers the American Dream, Marketwatch, July 12, 2018

"It's hard for normal class people to afford to get into a house, and you know put $20,000, $30,000 up for down payment. That's a lot of money."

— First-time buyer Quentin Carswell on getting a loan from a traditional bank. Quoted in Thousands line up for zero-down-payment, subprime mortgages by Diana Olick, CNBC, October 12, 2018

"Yes, 11 percent of millennial homeowners say they regret not making a bigger down payment. But the vast majority don't express such a regret."

— 12 First-Time Home Buyer Mistakes and How to Avoid Them by Holden Lewis, Nerdwallet, June 26, 2018

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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