The Down Payment Report

News and Data on Residential Down Payments

March 2019

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The Millennial Phenomenon Continues

Something unusual caught my eye in the latest Homeownership Rate release from the Census Bureau. For ages 30 to 44, the rate grew by nearly two full points in a year's time.

Nearly one-half of the millennial population is now 30 years old or more. In a study on millennials last year, which was commissioned by Down Payment Resource and Freddie Mac, researchers at the Urban Institute found that an average of 36 percent of millennials who do not have a mortgage are "mortgage ready," meaning they can afford a median priced home in their market with a down payment of 5 to 10 percent.

The millennial phenomenon is reaching prime homebuying age. The blip in the 30 plus age group is a reminder that millennials, many of whom delayed homeownership, will dominate residential real estate for years to come. Millennials now account for a quarter of all home sales and more mortgage originations than any other age group.

In this issue, we have news about millennials on many fronts, from their purchase sentiment to their use of low down payments to make it possible for them to buy.

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In this issue:

THE DPR INTERVIEW

Why this is a good year to buy

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

Issi Romem, Chief Economist, Trulia

Issi Romem leads Trulia's Economics Research Team, where he provides industry insights on both national and local housing market trends, demographic shifts and economic policies that impact buyers and renters. He is currently a fellow at the Terner Center for Housing Innovation at the University of California, Berkeley, where he also taught as an adjunct professor of economics.

Q. If you were a first-time homebuyer, what would you be doing this year?

Buying a home is not just a financial investment. Life circumstances are at least as important as finances when making home buying decisions. If you are at the point when you want your children to have a backyard, then that should weigh into your decision (provided you can afford to buy a home). Even if it is not the perfect time to buy in terms of where the market is headed, you should weigh one thing against the other and give plenty of weight to your family's needs (again, provided you can afford to buy a home).

Having said that, we are probably due for either a mild price downturn in the next couple of years or an extended period of flatter housing price growth—it's hard to say which of the two it will be. There's no good reason to believe that we are going to see a drop off in housing prices of the type we saw 10 or 12 years ago, but I would be skeptical if prices continue to rise at the same pace as they have in the last five years. It is hard to say now if we are at a slightly higher price level than we will be a year from now or at a slightly lower level. So waiting for the market to dip and to try and buy right then is a very risky strategy. In my opinion, if you are ready to buy, it probably doesn't make sense to wait in order to time the market.

Q. So that would make a first-time buyer think about a low down payment if he didn't have the cash in hand or help from his family?

Yes, that would be a reasonable route to go now. It is hard to say where rates are going to go. No one, including the Fed itself, knows right now. I would be surprised if rates were to rise sharply in the next couple of years, and I expect we will remain in a relatively low interest rate environment compared to historical levels. But whether we'll be 4 percent of 5.5 percent, I don't know. We won't be going up to 8, 9 or 10 percent any time soon, and rates might even drop somewhat depending on what happens in the economy.

(continued)

(DPR Interview continued)

Q. If a first-time homebuyer decides not to buy now and waits a few years, do you think that the supply of lower-priced homes will get any better this year?

Inventory for sale has begun growing a little as home sales begin to falter, but they remain at an historic low, especially for entry-level homes. Gradually, things could get better since builders are finally shifting towards building lower end units. If you look at what the National Association of Home Builders puts out, they track the sizes of the average and median new homes. In the last couple of years the size of the median new home has fallen a little which suggests they are shifting in the direction of entry-level homes. However, given the small amount of new housing that is approved and built relative to demand in the expensive coastal cities, new construction in these cities is going to skew towards the higher end. For that to change, the amount of new housing being built needs to grow an order of magnitude.

Millennials

New households growing fastest in affordable markets

According to housing stock data from the Census Bureau's Housing Vacancy Survey, the count of total households in the U.S. rose to 122.4 million in Q4 2018, up from 120.1 million one year earlier.

Young households – 44 and under – have seen the largest increase over the past quarter. Households headed by those younger than 35 years old and those 35 to 44 are seeing the largest gains, increasing from 36 and 58.9 percent to 36.5 and 61.1 percent, respectively over the past year.

The number of homeowner households has increased by 1.7 million over this period, while the number of renter households has declined by 167,000. Homeowner household numbers have been rising since the third quarter of 2015, while renter household formations have trended downward.

The fourth quarter of 2018 was the fifth consecutive quarter that owner-occupied households grew by more than a million, at 1.7 million new owner households. At the same time, the number of new renter households either fell six out of the past seven quarters with a decrease of 167,000 households. This suggests that the increase in the homeownership rates is at least partly due to households making a switch from renting to owning. What's more, total household growth has topped 1 percent for five straight quarters, which is positive news for the housing industry at large. This streak represents the longest and largest magnitude of household growth in more than 12 years.

According to CoreLogic mortgage application data, millennials are buying homes at the highest rates in the more affordable Midwest, Mountain West and Northeast markets. Conversely, they are buying homes at the lowest rates in more expensive markets, like coastal California and Florida. For example, millennials make up the largest share of purchase mortgage applicants in Pittsburgh, Pennsylvania (57 percent), Provo, Utah (56 percent) and Rochester, New York (55 percent), but make up the lowest share of mortgage applicants in Sarasota, Florida (24 percent), Cape Coral, Florida (30 percent) and Ventura, California (32 percent).

Millennials choose affordable markets over trendy metros

Millennials are settling on more affordable markets while making lower down payments, according to new data from Realtor.com. According to the report, enough millennial homebuyers consider affordability above of other factors that many of them are moving to housing markets that previous generations regarded as less desirable – like Buffalo, N.Y., which tops the most affordable markets for millennials.

“The stereotype that millennials primarily choose to buy homes and live in large metro areas isn't the reality,” said Javier Vivas, director of economic research at Realtor.com. “Results show millennials' expansion is more heavily conditioned by affordability than in prior years, so their eyes are set on less traditional secondary markets where homes and jobs are now available and plentiful.”

“Within the last year, millennials have moved to affordable areas with strong job markets where they have more buying power,” Realtor.com said. “At the end of 2018, the median price of a mortgaged home purchased by millennials was $238,000, $26,000 less than the median price of a home mortgaged by baby boomers and $51,000 than Generation X.”

Realtor.com data also revealed that since 2015, millennials have consistently made lower down payments than any other generation. The average down payment for millennials was 8.8% of the purchase price in December 2018, while Generation X was at 11.9% and baby boomers at 17.7%.

“Given that the majority of millennial homebuyers are searching for their first homes and do not bring equity from a previous home, it's no surprise they are putting down smaller down payments,” wrote Realtor.com. “This is likely a driver of their activity in more affordable markets, where their money goes further.”

Top Millennial Markets

The top millennial markets are more affordable on average, having an Affordability Score of 0.96 on average compared to 0.83 for the nation overall at the end of 2018. They are also far more affordable for the 25 to 34 year old age group, with an Affordability Score of 0.94 for this age group compared to 0.80 nationally.

In general, millennials also have more earning power in these markets, with the 25 to 34 year old age group earning a median income of $63,000 in these markets compared to $61,000 nationally. Six of the 10 markets have a higher median income for this age group than the national figure, however the remaining four are within $5,000 of the national amount.

Metro	Millennial Share of 2018 Mortgages	Millennial Share of 2017 Mortgages	2017 to 2018 YY Difference	Millennial Score
Buffalo-Cheektowaga-Niagara Falls, NY	56%	48%	8.8%	1
Pittsburgh, PA	52%	47%	5.2%	0.96
Milwaukee-Waukesha-West Allis, WI	51%	46%	4.8%	0.92
Cincinnati, OH-KY-IN	52%	48%	4.3%	0.91
Columbus, OH	51%	46%	4.8%	0.9
St. Louis, MO-IL	50%	46%	3.6%	0.78
Boston-Cambridge-Newton, MA-NH	48%	43%	4.3%	0.76
Indianapolis-Carmel-Anderson, IN	47%	42%	4.7%	0.75
Cleveland-Elyria, OH	49%	45%	3.7%	0.75
Baltimore-Columbia-Towson, MD	48%	44%	3.8%	0.73

Millennials lead decline in home purchase sentiment

The net share of Americans who think that this is a good time to buy has fallen from a 12-month high of 41 percent in December to 38 percent in February, according to Fannie Mae's latest Home Price Sentiment Index. This decline during the months that prospective buyers are making plans for the coming real season is a cause for concern.

The National Association of Realtors' (NAR) annual Aspiring Home Purchasers Profile, which tracked buyer sentiment by age groups over 2018, found a similar decline. Over the course of the year, non-homeowners' perceptions that now is a good time to buy a home decreased by four points.

NAR's study broke down the data by age group, providing an additional reason to be concerned about sales in in 2019. Home buying plans by millennials, the age group that now accounts for one third of all home sales, are fading fast.

Age:	34 or under	35 to 44	45 to 54	55 to 64	65 or over
A Good Time	48%	50%	52%	63%	51%
Not a Good Time	52%	50%	49%	37%	49%

Are seniors who age in place hurting first-time buyers?

A recent Freddie Mac Insight report explored the proposition that seniors who stay longer in their homes are a cause of the inventory shortage plaguing first-time buyers. They found that this trend accounts for about 1.6 million houses held back from the market through 2018, representing about one year's typical supply of new construction, or more than half of the current shortfall of 2.5 million housing units.

The amount of homes retained by seniors is likely to grow as both the number of seniors increases and the barriers to staying in place are reduced.

"This highlights the importance of addressing barriers to the production of new housing supply to accommodate long-term housing demand," the report concluded.

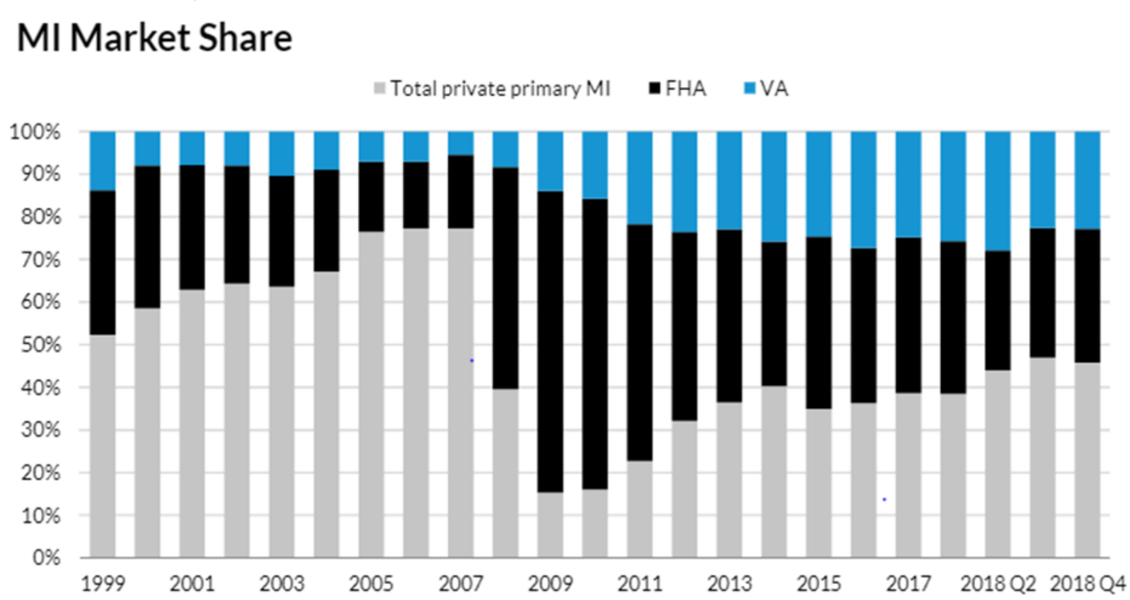
Mortgage Insurance

PMI boomed last year

Last year was a good one for private mortgage insurers. All six companies were profitable and they continued to grab market share from the FHA, according to new data from the Urban Institute.

Purchase volume, where private mortgage insurers generate most of the new insurance written, slowed in 2018, though this year's home sales prospects are somewhat better.

At the end of the first quarter of this year, new, tougher capital standards to do business with Fannie Mae and Freddie Mac go in effect, with the legacy companies feeling the greatest impact and government-sponsored enterprise reform, on which the future of the MI industry depends.



Source: Urban Institute

Mortgage insurance activity via the FHA, VA and private insurers declined from $173 billion in Q4 2017 to $151 billion in Q4 2018, or 12.6 percent. In the final quarter of 2018, private mortgage insurance written decreased by $13.99 billion, FHA decreased by $8.59 billion and VA decreased by $5.61 billion from the previous quarter, reflecting seasonality. In the fourth quarter of 2018, the VA share grew from 22.4 percent to 22.8, while the private mortgage insurers share fell from 46.4 to 45.8 percent and the FHA share remained constant compared to the previous quarter.

Mortgage Brokers: FHA credit quality has deteriorated

Will the Trump Administration be more interested in cutting FHA's mortgage premium to be more competitive with conventional lenders?

The National Association of Mortgage Brokers wants FHA Commissioner Brian D. Montgomery, who declined requests last year to reduce FHA's mortgage insurance premium, to to rethink its position on the MIP.

In a letter to Montgomery, 2019 NAMB President Richard M. Bettencourt Jr. complained that the "credit quality of borrowers using an FHA loan has deteriorated" after Fannie Mae and Freddie Mac introduced their HomeReady and HomePossible products that offered conventional loans at 3 percent down and with mortgage insurance premiums lower than the FHA product.

"We are concerned that FHA is only attracting the lowest credit score and highest debt-to-income borrowers who ultimately puts the Mutual Mortgage Insurance Fund at a greater risk for loss," Bettencourt wrote.

NAMB's proposal, Bettencourt continued, was either the implementation of a pilot test or a "tier pricing structure for credit scores similar to conventional loan market where higher credit scores earn a lower annual renewal for the borrower."

Bettencourt added this type of product would enable the FHA to meet its Congressionally mandated two percent cash reserves for the Mutual Mortgage Insurance Fund (MMIF).

"Tier price for credit scores similar to conventional market-higher credit score earns a lower annual renewal," Bettencourt stated, noting that many FHA borrowers are refinanced into 97 percent conventional loans after one year, resulting in a lower or eliminated MIP. "This structure of FHA leads to less revenue coming to the MMIF from loans that are seasoned and paying into the fund and is a fundamental flaw in the FHA program."

January Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	86	14
Generation Z	87	13
FHA Purchase	95	5
Conventional Purchase	80	20
VA Purchase	97	3

Sources: Ellie Mae Origination Insight Report and Millennial Tracker

First-time Buyer Market Share Trends

Sources	Share	Trend
2018 Profile of Home Buyers and Sellers	33%	Down from 34% in 2017
January Realtors Confidence Index	29%	Up from 28% in 2017
January Existing Home Sales	29%	Down from 32% in December
August AEI First-time Buyer Share	58% of all agency purchase loans	Up from 57% in August 2017

Key Facts

Data Highlights From This Issue

- Since 2015, millennials have consistently made lower down payments than any other generation. In December, the average down payment for millennials was 8.8 percent of the purchase price.
- It's not true that millennials primarily choose to buy homes in expensive urban markets. More millennials are buying homes in affordable metros like Buffalo, New York and Milwaukee, Wisconsin according to a study by Realtor.com.
- The percentage of millennials taking out FHA loans has been falling about one percentage point a year. Only 34 percent off millennials borrowed from FHA last year.
- According to the latest Census data, the number of homeowner households has increased by 1.7 million over this period, while the number of renter households has declined by 167,000. Homeowner household numbers have been rising since the third quarter of 2015, while renter household formations have trended downward.
- The net share of Americans who think this is a good time to buy has fallen from a 12-month high of 41 percent in December to 38 percent in February, according to Fannie Mae's latest Home Price Sentiment Index.
- The National Association of Mortgage Brokers claims the credit quality of FHA borrowers has deteriorated" after Fannie Mae and Freddie Mac introduced their HomeReady and HomePossible products that offered conventional loans at 3 percent down.

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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