The Down Payment Report

News and Data on Residential Down Payments

Report Released: September 19, 2019

September 2019

Flip the Script on Homebuyer Risk

Risk-based pricing dictates that lenders raise interest rates for borrowers who put down less than 20 percent on a mortgage. That policy may be increasing rather than decreasing the risk of default.

New research from the JP Morgan Chase Institute found that a lower down payments may reduce the risk of default because they leave borrowers with enough liquidity to meet emergencies. Previous research by the Institute showed mortgage modifications that increase borrower liquidity reduced default rates, and modifications that increased borrower equity but left them underwater did not impact default.

Default closely followed a loss of liquidity regardless of the homeowner's equity, income level, or payment burden. Homeowners with fewer than three mortgage payment equivalents of liquidity defaulted at higher rates regardless of income level or payment burden. In short, liquidity may be a more important predictor of mortgage default than equity, income level, or payment burden.

The study's authors suggest that a pilot program encouraging borrowers to make a slightly smaller down payment and use the residual cash to fund an "emergency mortgage reserve" account might lead to lower default rates. If so, we need to change underwriting standards from the down payment amounts to the borrower's ability-to-repay using their total debt-to-income ratio at origination.

Rob Chrane

CEO, Down Payment Resource

In this issue:

THE DPR INTERVIEW

MBA Tackles Affordability

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

Steve O'Connor, Senior Vice President for Affordable Housing Initiatives

In June, the Mortgage Bankers Association launched a new initiative to help develop affordable housing partnerships to promote more sustainable, affordable housing. Steve O'Connor, a 23-year veteran of MBA, is heading up the program.

Q. Why has the Mortgage Bankers Association launched this initiative?

There is an affordability housing crisis in our country, and MBA wants to be a more engaged participant in finding solutions. We are taking more of a leadership role, particularly in forming partnerships where we can be an advocate and leverage our brand for policy solutions at the national level and the state and local levels through our state MBAs. We are looking to join other coalitions to advance their goals where they are aligned with the broader objective of affordable housing.

On the business side, we are looking to partner with stakeholders in the marketplace in a way that we may not have worked in the past, with MBA being a convener pulling together lenders, mortgage insurers, and other members of the affordable housing ecosystem−HFAs, Federal Home Loan Banks, GSEs, housing counselors, different community groups and non-profits. How can we come together and collaborate to find solutions to critical problems like increasing the minority homeownership rate?

Q. Often the problems you cite come down to a question of risk. The mortgage lending industry has changed dramatically, but today some people say that we are approaching an environment reminiscent of the subprime crisis in 2007 and 2008. Do you think there is a trade-off between risk and affordability?

I don't believe we are at risk of repeating the sorts of things that led to the run-up in subprime and then the crisis because of the guard rails that are in place as a result of Dodd-Frank. We've got a new, dedicated regulator focused on the consumer, the CFPB. You've got all the rules of Dodd-Frank from the ability to repay to the TILA – RESPA Integrated Disclosure. So I think there are a plethora of protections that weren't in existence before the crisis.

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(DPR Interview continued)

We want to be innovative in a responsible way to reach more borrowers. Responsible innovation is happening in different ways, such as credit scoring, credit approval, and new ways to evaluate the credit-worthiness of consumers; and different ways to underwrite borrowers, particularly multigenerational borrowers pooling income or millennials who decide to buy a house together.

One of the key ways to assist first-time homebuyers is down payment assistance programs, and there is a host of them today. Not only are many consumers unaware of these programs, but many industry practitioners, such as Realtors or loan officers, are not aware of down payment assistance programs and many of those who are aware of them are not utilizing those programs. Why not? Innovations in those programs might make them more user-friendly.

That's a perpetual challenge, and you would think that with modern technology we would have found better ways to get the information out, but it's clear that whatever we are doing isn't working. It's not just the messages; it's the messengers. Part of what we want to do is to think about who the right messengers are. Who will consumers listen to? Perhaps we need different partners, and that's part of what we will be reviewing at the MBA.

FHA

HUD Drops Controversial Rule Requiring HFA Documentation for FHA Loans

On August 11 the Department of Housing and Urban Development rescinded a proposed rule that would require state and local housing finance agencies (HFA) to provide extensive documentation for borrowers receiving down payment assistance to qualify for an FHA mortgage.

A US District Court judge in Utah issued an injunction stopping implementation of the rule just days before it was scheduled to take effect.

The documentation requirements initially proposed required that each FHA loan application utilizing HFA assistance include a current legal opinion stating that the property is located within HFA's territorial jurisdiction and documentation that the actual transfer of funds occurred before closing.

The court ruled on a suit brought by the National Homebuyers Fund, a non-profit with six offices in five states that work on a national basis, and the Chenoa Fund, a tribal-owned down payment assistance program that works through a federally chartered subsidiary, CBC Mortgage. Both argued that the proposed HUD rule unfairly treated down payment assistance organizations that operate on a national basis.

New FHA Condo Rules Take Effect in October

October 15th is the start date for the long-awaited new Federal Housing Administration (FHA) rules that expand the number of condos it will insure in a single project and introduce single-unit approvals.

Here are the key changes:

- The new rules extend certifications from two years to three.
- Approved condominium projects must have a minimum of 50 percent of the units occupied by owners for most projects. FHA previously required at least 75 percent occupancy.
- Projects with owner-occupancy rates as low as 35 percent will be eligible for FHA approval based on the project's financial and operational stability. Previously FHA required that at least 50 percent of units in a condominium be owner-occupied.
- For single-unit mortgage approvals, individual condominium unit applying for an FHA insured loan must be located in a completed project that is not FHA-approved. Projects that are not approved and have fewer than ten units may have no more than two FHA-insured units. For condominium projects with ten or more units, no more than 10 percent of individual condo units can be FHA-insured.
- FHA will now insure up to 75 percent of condominium unit mortgages in a condo project. Previously approval was limited to 50 percent of the units.
- Commercial/non-residential space within an approved condominium project cannot exceed 35 percent of the project's total floor area.

New condo rules from the FHA could allow for the financing of an additional 60,000 condo loans each year. Currently, of the more than 150,000 condo projects across the country, only 6.5 percent are approved for FHA financing.

Both Fitch Ratings and Moody's released positive reports on the credit impact of the new rules on HFAs.

"The new guidelines will benefit many HFAs, especially those in high-priced states, by expanding the availability of condos for their core market: first-time homebuyers," Moody's stated. "The resulting increase in loan originations, a credit positive for HFAs, will translate into increased revenue and balance sheet assets while allowing HFAs to continue delivering on their affordable housing mission. At the same time, the increased demand should help to alleviate the overall lack of affordable housing supply, which continues to constrain HFA loan production."

Millennials More Likely to Tap Retirement Accounts for Down Payment Funds

Facing rising costs of living and incomes that are not keeping up, about one out of eight Millennials saving to buy a home (15 percent) report taking funds from their retirement accounts to help to make a down payment on a home. About twice as many Millennials as Boomers (7 percent) or Gen Xers (8 percent) are raiding their retirement accounts for down payment funds, according to a new Bankrate survey of Millennials, Gen X and Baby Boomer homebuyers.

Millennials have formed households at a later age than earlier generations, make less than Boomers at the same age and carry more debt. The median net worth of households headed by Millennials (ages 20 to 35 in 2016) was about $12,500 in 2016, compared with $20,700 for households headed by Boomers the same age in 1983. The median net worth of Gen X households at the same age was about $15,100.

Shortages of homes for sale, notably smaller starter homes, coupled with the demand from Millennial buyers who were finally in a position to buy, pushed home prices to a new high in the second quarter. The immediate result was a crisis in affordability that is keeping as many as 19 million mortgage-ready millennials in rentals. Now rising down payment and closing costs are lengthening the time it takes to save for a down payment.

Economists at the National Association of Realtors have found that over the last six years, home prices increased 47 percent while wages rose just 16 percent. Homebuyers need to spend nearly two-thirds of their salary increase to keep pace with mortgage payments.

One worrisome finding shows that Millennials are almost twice as likely to dip into their retirement savings than other generations to fund their housing costs, which can spell trouble later on.

"With Americans not saving enough for retirement, tapping a 401(k) account to pay for a house can hurt Millennials' financial security in their later years," said Bankrate's mortgage analyst Deborah Kearns.

Down payment ignorance plays a role

Just over half of all U.S. adults in the survey, 51 percent, didn't know the minimum down payment required to buy a home. Another 1 in 4 (28 percent) said 20 percent or more of the purchase price is required. Only 2 percent of all adults in the survey said the minimum down payment is in the 0 to 5 percent range.

Older generations are typically able to save enough for a down payment faster than Millennials. Of those who were able to save in under ten years, Baby Boomers needed two years and six months while Gen Xers needed two years and nine months. Millennials needed a full three years. Most Gen Xers and Boomer buyers are move-up buyers, using the equity they receive from the sale of their first homes to make down payments on their new ones.

"They (Millennials) are trying to exhaust all their options, and they're certainly doing that at higher levels than the other generations," Kearns told Marketwatch.

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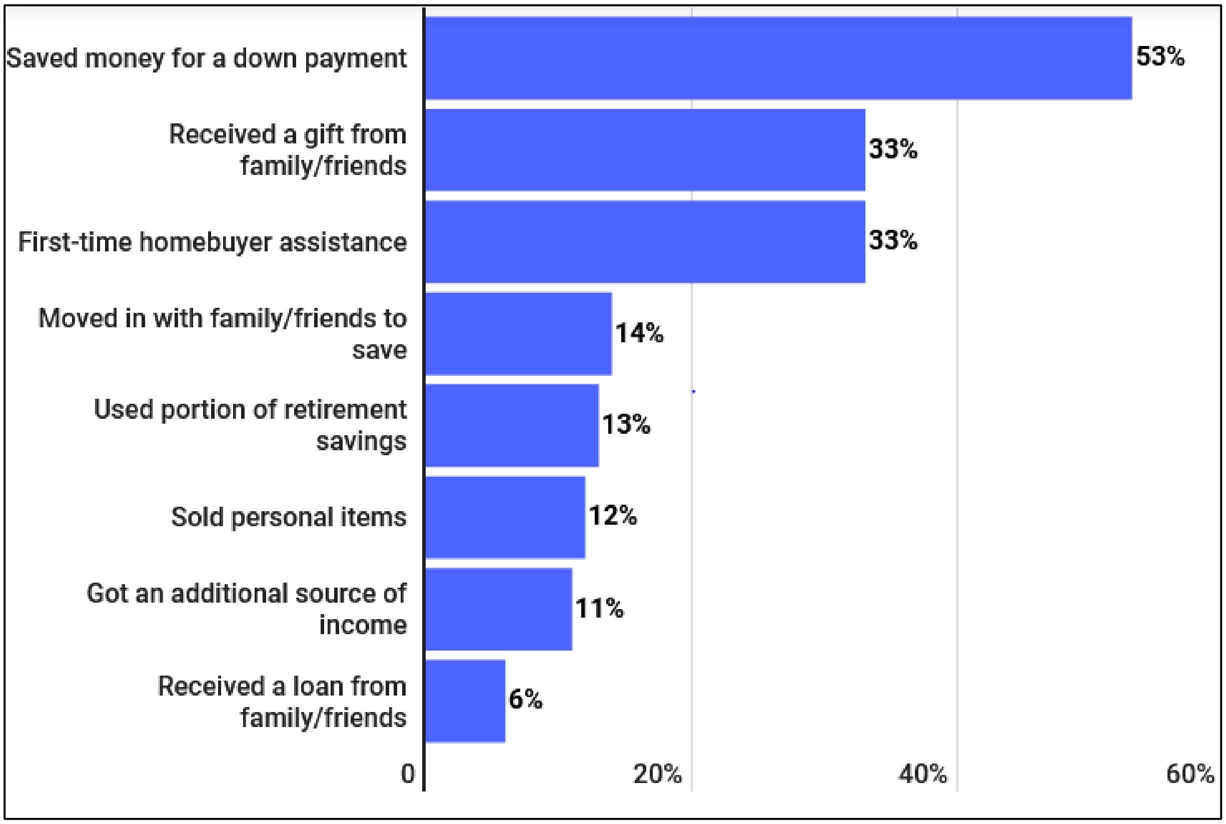
Bankrate found that 13 percent of Millennials tapped their retirement funds for down payments, and 33 percent used homebuyer assistance.



Millennials more likely to use down payment assistance

Millennials were more likely than other age groups to use a down payment assistance program or grant -- 33 percent of Millennials, compared with 27 percent of Gen Xers and 15 percent of Baby Boomers. The Bankrate survey reveals Millennials are using multiple strategies and sources to fund their down payment and closing costs.

Half of all adults tap their retirement funds early

Magnify Money, a personal finance site, found that retirement fund withdrawals are on the rise. Some 52 percent of adults in the September 5 survey admitted to tapping their retirement savings account early for a purpose other than retiring and making a down payment on a home is the second most frequent reason for early withdrawals

Seventeen percent of them are using the money to help them make a down payment on a home. Some 27 percent in the Magnify Money study said that they have never thought about how much money they'll need in retirement.

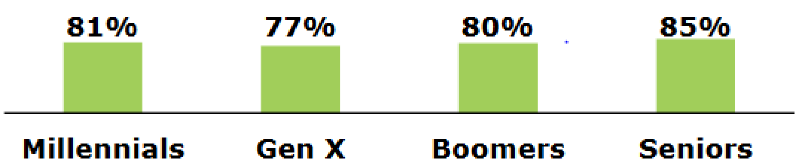
Lack of Affordable Homes Frustrates Millennial Buyers

Four out of five (81 percent) of prospective Millennials planning to buy homes in the next 12 months can afford to buy fewer than half the homes listed in their markets and only 20 percent of Millennials expect their home searches to get easier in the months ahead, according to the National Association of Home Builders' second quarter Housing Trends Report.

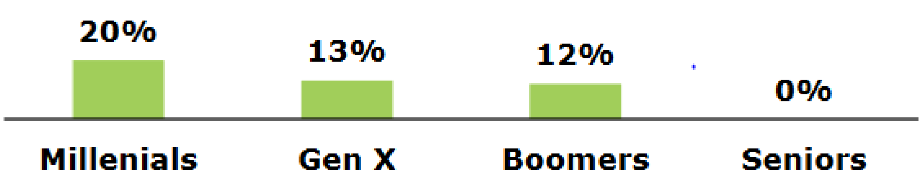
More than half of Millennial buyers (52 percent) have been looking for a home for three months or more and eight out of ten Millennials can't afford half the homes for sale and 20 percent of Millennials, more than older age groups, have given up trying to find a home.

Seventy-seven percent of Millennials trying to buy this year are first-time buyers and 58 percent of all buyers in the second quarter were first-time buyers.

Eight out of ten Millennials can't afford half the homes for sale in their markets



One out of five Millennials plan to quit looking, more than older buyers.



Homeownership Assistance Programs

Programs Not Just For First-time Buyers

Down Payment Resource's latest Homeownership Program Index reports an increase in the share of programs without a first-time homebuyer requirement – now 41 percent, up 2 percent from the pervious index.

A common myth about homeownership programs is that they are only available to first-time homebuyers. In fact, more of today's programs can serve repeat and move-up buyers. Most programs use HUD's defination of a first-time homebuyer – someone who has not owned a home in the past three years.

CalHFA Introduces New Program for Native Americans

CalHFA's Single Family Lending Division has added a new home loan program to help Native Americans in California become homebuyers through the Department of Housing and Urban Development's Section 184 Indian Home Loan Guarantee Program.

The program provides competitive interest and mortgage insurance rates and can be paired with CalHFA's MyHome or School Teacher and Employee down payment programs. Borrowers may layer various other gift or grant programs including, but not limited to, the Federal Home Loan Bank's WISH program, or tribal assistance funds.

"We are pleased to be able to offer this opportunity to Native American homebuyers," said CalHFA Executive Director Tia Boatman Patterson. "Homeownership is a proven way to transfer wealth between generations, and Native Americans—whether on tribal lands or in California as a whole—are underrepresented as homeowners."

Fitch: HFAs Address Affordability Gap

State and local housing finance agency down payment assistance programs are helping to address the growing affordable housing gap, a Fitch Ratings report said.

"State Housing Finance Agencies (SHFA) continue deleveraging existing bond programs, strengthening their financial positions and making them more prepared for increased bond issuance," the report noted.

The supply of homes for first-time buyers and the loss of rental units, particularly in the public sector, drive the gap. Wage stagnation, changes in regulations, and the increase of corporate ownership of housing creates a supply deficit in turn that leads to rising home prices and lower affordability.

States issue bonds to fund the down payment assistance programs, making the SHFA loans more attractive to potential homebuyers. The average share of SHFA loans with a down payment over 20 percent was almost 33 percent, while the share with a 3.5 percent down payment that many state and local agencies offer is nearly 30 percent.

"SHFA's single-family mortgage programs are anticipated to become gradually competitive as mortgage rates continue to rise," the Fitch report said.

Down Payment Data

August Loan Data: Generation Z and Millennials

August	Generation Z (18 to 24)	Millennials (25 to 34)
Median loan size	$174,728	$269,836
Conventional share	62%	74%
FHA share	33%	22%
VA share	0%	2%

Source: Ellie Mae Millennial Tracker

Comparison of First-time and Repeat Homebuyers

	GSEs		FHA		GSEs and FHA	
Characteristics	First-time	Repeat	First-time	Repeat	First-time	Repeat
Loan Amount ($)	245,843	273,378	214,548	237,064	233,478	268,209
Credit Score	742	757	668	673	713	745
LTV (%)	88	80	96	94	91	82
DTI (%)	36	36	43	44	39	37
Loan Rate (%)	4.42	4.33	4.59	4.48	4.49	4.35

Source: Urban Insitute August Chartbook

August Originations

August	LTV	DTI	FICO	RATE
All loans	78	24/37	734	4.07
Conventional	81	24/36	754	4.77
FHA	95	28/44	676	4.11
VA	98	24/36	703	4.11
Millennials	86	24/37	730	4.19
Gen Z	88	28/38	712	4.21

Sources: Ellie Mae August Origination Insights Report and Ellie Mae Millennial Tracker

Key Facts

Data Highlights from this Issue

- Research from the JP Morgan Chase Institute recommends borrowers make a slightly smaller down payment and use the residual cash to fund an "emergency mortgage reserve" account as it might lead to lower default rates.
- Withdrawals from retirement accounts to fund down payments are increasing, especially among Millennials, which may result from ignorance about their down payment options.
- Forty-one percent of homeownership programs tracked by Down Payment Resource are not limited to first-time buyers.
- HUD has tabled its FHA rule to require extensive documentation from housing finance agencies and non-profits.
- New regulations to make more condos eligible for FHA financing take effect October 15.
- Four out of five Millennial buyers cannot afford to buy half the of the homes in their markets and 20 percent expect and one out of five has quit looking for a home.
- The Mortgage Bankers Association (MBA) is planning to join with other groups to address the affordability crisis.

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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Down Payment Resource (DPR) creates opportunity for homebuyers, Realtors and lenders by uncovering programs that get people into homes. The company tracks approximately 2,500 homebuyer programs through its housing finance agency partners. DPR has been recognized by Inman News as "Most Innovative New Technology" and the HousingWire Tech100™. DPR is licensed to Multiple Listing Services, Realtor Associations, lenders and housing counselors across the country. For more information, please visit DownPaymentResource.com and on Twitter at @DwnPmtResource.

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