Down Payment RESOURCE

The Down Payment Report

News and Data on Residential Down Payments

July 2018

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Low Down Payments and Rising Prices

At the midpoint of 2018, market conditions for the nation's 2.1 million first-time buyers have continued to deteriorate. By the end of the first quarter, the median listing price for available starter homes was 9.6 percent higher than they were a year ago. Through May, prices for all existing homes reached an all-time high after increasing for the 75th straight month of year-over-year gains. Supplies of starter homes fell 14.2 percent in the first quarter and by May existing home inventories were 6.1 percent lower than they were in May 2017, falling year-over-year for 36 consecutive months.

It's no coincidence that demand for low down payment loans has been so strong over the past year. The median down payment by all millennials rose to 13 percent in May, up from 12 percent in March. At least three state housing finance agencies report they have set new records for low down payment loan closings over the past six months. Other state and local HFAs report they have been very active over the home buying season and may reach capacity before the end of the year. (This month's DPR Interview with NCSHA's Stockton Williams on page 7 highlights HFA innovations.) Through the fourth quarter of 2017, at Down Payment Resource we reported a record number of homebuyer programs.

In hundreds of local markets where prices have been appreciating rapidly, low down payment mortgages make it possible for first-time buyers to buy before prices and interest rates rise even higher. There's no doubt that in the least affordable markets low down payment loans provide access to homeownership for middle-class first-time buyers.

Rob Chrane

CEO, Down Payment Resource

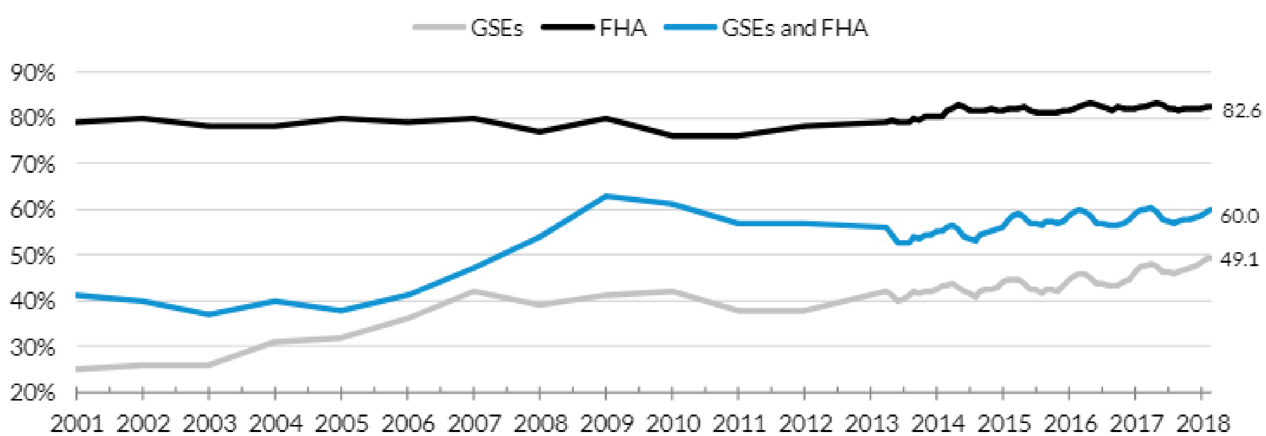
May Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	87	13
FHA Purchase	96	4
Conventional Purchase	81	19
VA Purchase	98	2

Source: Ellie Mae Origination Insight Report and Millennial Tracker

First-Time Homebuyer Share

In March 2018, the first-time homebuyer share of GSE purchase loans was 49.1 percent, its highest level in recent history. The FHA has always been more focused on first-time homebuyers, with its first-time homebuyer share hovering around 80 percent; it stood at 82.6 percent in March 2018. The bottom table shows that based on mortgages originated in February 2018, the average first-time homebuyer was more likely than an average repeat buyer to take out a smaller loan and have a lower credit score and higher LTV and DTI, thus requiring a higher interest rate.



Sources: eMBS, Federal Housing Administration (FHA) and Urban Institute.
Note: All series measure the first-time homebuyer share of purchase loans for principal residences.

March 2018

Source: Urban Institute Chartbook, June 2018

Down Payment Assistance

Demand for Homeownership Assistance Strains State and Local Resources

The soaring cost of down payments and unprecedented demand from first-time buyers are straining the resources of state and local housing finance agencies across the nation.

The nation's largest housing finance agency, CalHFA, helped more than 7,400 first-time homebuyers purchase a home in the fiscal year 2017 by financing over $2 billion in first mortgages. The volume of down payment assistance was an all-time high for California's state housing finance agency.

"We've helped more than 14,000 California families buy their first home in the past two years, and I'm thrilled with the additional program options we now have available to help even more families in the coming months and years," said CalHFA Executive Director Tia Boatman Patterson.

CalHFA has significantly expanded its product offerings and terms to provide more financing solutions and to reach a more inclusive homebuyer demographic. New product solutions include manufactured housing, leaseholds, land trusts, Accessory Dwelling Units (ADUs) and a Limited 203K program. Adjusted eligibility requirements provide special assistance to veterans and disaster victims, and will soon help homebuyers on Indian land. Additionally, expansion and simplification of income and sales price limits have allowed CalHFA to meet more of the needs of low and moderate-income borrowers in California, where the median home price now tops $600,000.

Rhode Island's state housing finance agency funded a record 523 mortgages with a volume of over $104.9 million during the first quarter of 2018, the highest first quarter for closings in housing's 45-year history.

"It is a great time to buy a home in Rhode Island," said Barbara Fields, Executive Director of RIHousing. "Our strong first quarter numbers can be attributed to housing's robust offering of programs and services. Thanks to the work of our partners, we are creating opportunities for new and seasoned homebuyers across the state. And we're on pace to help even more Rhode Islanders put down roots in the coming months."

RIHousing offers an extensive line of loan options for first-time homebuyers, current homeowners and Rhode Islanders looking to improve their homes. Last year, housing launched the First Down program – a down payment assistance program designed to increase homeownership opportunities for first-time homebuyers in six Rhode Island communities.

One of the nation's smaller state agencies, the North Dakota Housing Finance Agency, set a seasonal record for serving first-time home buyers. NDHFA's FirstHome loan reservations total in May was 185 percent higher than last year, with 262 loans in May for $44 million in financing. During the same period in 2017, NDHFA recorded 141 loan reservations.

(continued)

(Demand for homeownership assistance continued)

“Homeownership rates in North Dakota declined during the energy boom with many incoming households choosing to rent,” said NDHFA's executive director Jolene Kline. “If our purchase activity is indicative of more households becoming homeowners, that is a good thing for North Dakota because homeowners are more invested in their community.”

To date, the average loan has been just under $167,000 in 2018. The limit for single-family homes purchased is $271,164 to $303,882, depending on household size and the county in which the property is located. With conventional financing at 4.25 percent and NDHFA at 3.75 percent, the payment on a $200,000 loan is about $60 less per month,” said Dave Flohr, NDHFA homeownership division director.

Tennessee’s $60 million in federal down-payment assistance, which as meant to last through 2020, will probably only make it to Labor Day based on demand in Memphis and elsewhere. The Tennessee Housing Development Agency administers the funds from the U.S. Treasury that were allocated starting in early 2016. The assistance of $15,000 per homebuyer for a down payment and closing costs is “almost entirely” responsible for the mortgage volume. The funding from the “Hardest Hit Fund” of the Treasury goes to ZIP codes hit hardest by the recession to encourage homeownership.

“The intent with this program … is to bring people back to some of the neighborhoods that are a little slower recovering from the downturn,” said Ralph Perrey, executive director of the Tennessee Housing Development Agency. “I think the principal ingredient in bringing neighborhoods back is not just the investment, but the presence of an invested homeowner who is going to be there for five, seven, ten years.”

FHA

Montgomery’s Inbox is Full

After waiting for six months to be confirmed by the Senate after the Senate Banking, Housing, and Urban Affairs Committee approved his nomination, Brian Montgomery officially returned to the helm of the Federal Housing Administration (FHA) on May 23, a position he held previously under the Bush administration.

No FHA MIP cut this year. At the top of Montgomery's inbox were calls to reconsider the cut of 25 basis points in MIP's annual premium, after President Trump vetoed the proposal early in 2017. FHA’s Mutual Mortgage Insurance Fund declined in 2017 after reaching the 2 percent capital ratio mandated by Congress in 2015. Montgomery made it clear that in light of the fund’s 2017 performance, no premium cut was in the offing.

Pressure for new condo rules. In late June, 171 members of Congress finalized new rules that would relax some restrictions on certifying condos for FHA loans. “For nearly two years, Realtors have pushed the Department of Housing and Urban Development to finalize its rule streamlining and simplifying the process of securing a condominium loan,” said NAR President Elizabeth Mendenhall.

False Claims Act. The Administration is reducing the use of the False Claims Act to encourage more lenders to participate in FHA lending.

Priority on fixing FHA’s infrastructure. Montgomery told DS News that updating FHA’s technology infrastructure and filling the agency's vacancies were his primary focus this year. “We are in the fix-it mode,” Montgomery said.

FHA Purchase Loans Lose Market Share

FHA has been losing the competition for low down payment borrowers since reaching a 32.9 percent market share in 2009. Since 2016, when Fannie Mae and Freddie Mac both launched first-time buyer products featuring down payments as low as 3 percent, FHA's market share has declined steadily. From 22.4 percent of the purchase mortgage market in 2016, FHA's share fell to 19.5 percent in 2017. So far this total FHA loans (purchase and refi) are vacillating between 11 and 9.9 percent of the mortgage market since the first of the year in MBA's weekly applications report.

HomeReady Comparison

Benefits	HomeReady	FHA
Required down payment	3%	3.5%
Cancellable mortgage insurance*	Yes	No
Immediate appraisal orders from lenders	Yes	No
Free from geographic restrictions on loan amounts	Yes	No
Day 1 Certainty™ freedom from reps & warrants available	Yes	No

Source: Fannie Mae website

"The FHA share of loans is down because of a combination of two factors," says Daren Blomquist, senior vice president for Attom Data Solutions. "The housing market continues to be a tough environment for low-down payment buyers to compete — particularly low-down payment buyers with lower credit scores. Secondly, that still-small pie of first-time homebuyers is being divided up into more pieces by additional low-down payment programs that are coming online."

Another measure of FHA's declining fortunes is the comparative market share of private mortgage insurance versus FHA mortgage insurance. Total insurance-in-force for the private mortgage insurance grew 10.6 percent last year over 2016, according to a Keefe, Bruyette & Woods report. FHA mortgage insurance coverage grew by 4.7 percent year-over-year. FHA ended the year with $1.17 trillion of insurance-in-force, while the private companies had $1 trillion (the pre-crisis peak of private mortgage insurance-in-force was $1.02 trillion at the end of 2008), resulting in a 53.8 percent/46.2 percent market share split. Just four years ago, FHA made up 60 percent of total IIF, while private MI had 40 percent, according to National Mortgage News.

Millennials

Trulia Survey: A Time for Trade-offs

Market conditions are squeezing Millennial buyers so hard that many are facing a tough choice: either put homebuying plans on hold or be willing to make a significant compromise on their wish list of “must have” features, according to a new Harris survey commissioned by Trulia.

The survey found:

- The vast majority of Millennials (87 percent) are encountering obstacles that are delaying their homebuying plans at this time, more than any other age group (68 percent of Gen Xers, ages 37- 53, and 47 percent of boomers (ages 54 - 73). In fact, 98 percent of Millennials planning to buy in the next year say they’ve encountered obstacles that are keeping them from buying a home. The most significant barriers are rising home prices (40 percent), saving enough for a down payment (31 percent), and poor credit history (26 percent).
- Millennials are facing problems that older generations may not have had to address. Not having a stable job (17 percent) and student debt (15 percent) are two obstacles that have hindered their homebuying decisions. They are more than twice as likely to have experienced these obstacles compared to Gen Xers (7 percent and 6 percent, respectively) and boomers (7 percent and 1 percent, respectively).
- Millennials are more likely than older generations to be willing to consider trade-offs in both the home and the neighborhood where they would like to live. Some 84 percent say that they’d be willing to give up one or more home features compared to 78 percent of Gen Xers and 6 percent of boomers. Nearly nine out of ten (89 percent) say they’d be willing to give up one or more desirable neighborhood features.

First-time homebuyers face both low inventory and high prices for homes that are older and of worse quality than other generations have dealt with in the past. Faced with these challenges, Millennials have to recalibrate their home and neighborhood expectations to reflect the choices available to them. The features Millennials are most willing to forego are (in order): garage (34 percent, recently updated kitchen (32 percent), square footage (30 percent), storage space (29 percent) and recently updated bathroom (28 percent).

THE DPR INTERVIEW

NCSHA's Stockton Williams on Homeownership Assistance

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

Stockton Williams was appointed executive director of the National Council of State Housing Agencies (NCSHA) in April. He came to NCSHA from the Urban Land Institute (ULI), where he served as Executive Vice President of Content and Executive Director of the Terwilliger Center for Housing. Before joining ULI, Williams was Managing Principal of HR&A Advisors' Washington, D.C office. He previously served as Senior Advisor in the U.S. Department of Housing and Urban Development and the U.S. Department of Energy. Joining him for the interview was Greg Zagorski, Senior Legislative and Policy Associate with NCSHA.

Q. Last year the Administration planned to eliminate funding for Community Block Grants and the HOME Investment Partnership Program. What is the outlook for these programs in the coming fiscal year?

Even though the House and Senate appropriations committees have done their work and passed their respective versions of the HUD FY 2019 appropriation, it's not clear we will have a final bill by the beginning of the fiscal year October 1. It's hard to forecast where some of the funding levels will come out compared to last year, which saw significant increases in a number of important federal housing programs for the first time in several years. NCSHA and many other organizations are working had to ensure that the FY 19 funding bill at least maintains current-year funding levels.

Q. How has the crisis in housing affordability impacted state housing finance agencies?

Housing affordability for low- and moderate-income homeowners and renters has always been the mission of state HFAs. On the homeownership side, down payment assistance has been an increasingly important tool for agencies over the past decade. More than 70 percent of HFA borrowers – nearly 100,000 – benefited from down payment assistance in 2016. Twenty-seven states provided DPA to 80 percent or more of their program borrowers in 2016. HFAs usually provide down payment assistance along with low-cost mortgages; the combination enables more families to become homeowners. However, down payment assistance is just one piece of the puzzle that HFAs are providing to sustain homeownership. The proactive servicing, the homeownership counseling, the multi-touch process that generally characterizes HFA single-family programs that accompany down payment assistance are also essential to the highly successful performance overall of HFA single family lending.

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(THE DPR INTERVIEW continued)

Q. Is the demand for more down payment assistance from state HFAs putting additional pressure on agencies' ability to finance DPA loans?

Many states are experiencing much more demand than they can meet for affordable homeownership. An increasingly problematic barrier is a lack of supply. There just are not enough affordably priced existing or new homes for low- and moderate-income households to buy buyers in many markets. That's constraining the HFAs' ability to meet needs.

The agencies use a variety of sources, structures, and strategies to fund down payment assistance. Some finance down payments through state appropriations or federal funds. Many generate resources internally through their bond issuances, which is often a more scalable and sustainable source of capital. The assistance itself may come to the borrower as a grant, soft second mortgage, or forgivable loan.

Q. With programs like Maryland's initiative to help borrowers pay off student loan debt or New York's targeted down payment assistance to address local needs for educated workers, are state HFAs becoming sources of innovative and creative new approaches?

Yes. There are many examples. In addition to the ones you mentioned, I would highlight:

- Wyoming Community Development Authority's Home$tretch -- a forgivable, 0% loan product that won an NCSHA award last year.
- The Vermont Housing Finance Agency's use of state tax credits to support DPA for first-time homebuyers; and
- The Tennessee Housing Development Agency's data-driven investment of Hardest Hit Fund dollars to revitalize struggling neighborhoods through DPA-supported affordable homeownership.

Down Payment RESOURCE

Commentary

Down Payments on the Record

"The soaring home prices all around the country have made it more difficult for buyers to come up with enough money for a down payment. But lenders have caught on to the idea that there are plenty of buyers out there who aren't in danger of defaulting on their loans; they just need a little wiggle room when it comes to the hard cash they have to bring to closing. That means we can all say hello to the low down payment mortgage option and its many variations."

— *Twelve Low Downpayment Mortgages* by Amy Dobson, Forbes, July 10, 2018

"The down payment. Cue the dramatic, fear-filled suspense music. Yeah, it's scary. Coming up with enough cash to put down when buying a house is the single biggest roadblock for most hopeful home buyers. But how much do you really need?"

— *What Down Payment is Required* by Hal Bundrick, NerdWallet, May 7, 2018

"If the homeownership rate for Millennials had stayed the same as previous generations, there would be about 3.4 million more homeowners today."

— Urban Institute Tweet, July 12, 2018

"My experience of buying my first home was much like riding the rickety wooden roller coaster at Michigan Adventures, which I did this past weekend — exhilarating, fun yet a little uncomfortable and all the while making my stomach queasy."

— *For first-time home buyers, the experience is about learning lessons along the way* by Ryan Schlehuber, Daily News, July 12, 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 Real Estate Economy Watch.

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Contact: info@downpaymentresource.com. Media inquiries: tshell@downpaymentresource.com