The Down Payment Report

News and Data on Residential Down Payments

April 2020

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Pandemic Impacts Entry Level Buyers

Unemployed or laid off by the pandemic, thousands of prospective first-time homebuyers are struggling to make ends meet. For many of those who are eligible, unemployment compensation is too little too late.

Even when sympathetic landlords and creditors are willing to delay payments, unemployed breadwinners have no choice but to turn to their savings, including emergency savings and savings for down payments. It's a blessing that they have a cushion for a crisis like this one.

When their lives return to normal, these first-time buyers will be able to start over to restore their homeownership dreams. By that time, perhaps new home builders and move-up buyers will restore more affordability to markets across the nation.

With thousands of options, including more than 2,000 state and local down payment assistance programs, access to low down payments will lead the recovery. Our team is monitoring the impact to down payment assistance programs. Currently, every state HFA is open and accepting reservations (read more on page 10).

Stay safe and be well,

Rob Chrane, CEO, Down Payment Resource

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THE DPR INTERVIEW

Protecting credit during the COVID-19 crisis

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

Rebecca Steele, President and CEO National Foundation for Credit Counseling

Rebecca Steele is the President and Chief Executive Officer of the National Foundation for Credit Counseling (NFCC). Rebecca brings more than 20 years of experience managing some of the nation's largest and complex residential mortgage banking businesses. This includes experience in managing retail mortgage originations, managing servicing portfolios, and working directly with national housing nonprofits and consumer advocates.

Q. What can prospective homebuyers do to protect their credit should they be laid off or lose their jobs during the COVID crisis?

Communication and fast action are essential for keeping your financial obligations on track during a significant financial disruption, following layoffs or income reduction. In the case of the current coronavirus pandemic, most major lenders and credit card issuers have programs in place to help people keep their accounts in good standing while giving them a temporary break on monthly payments. People should first contact a nonprofit credit counseling agency for guidance regarding their circumstances and, when necessary, follow that with communication with outreach to lenders and creditors to request payment relief and other available benefits. The same discussion should also take place with utility providers, landlords, and other service providers that require regular payments.

Q. Which is better to weather the crisis -- access to savings or credit?

Drawing from emergency savings is the preferred way to manage through this crisis in situations where there has been a reduction or loss of income. Still, the reality that many Americans face is that they simply don't have enough savings set aside for that purpose. Keep in mind that the recommended minimum amount of emergency savings should equal to three months of net income per household. That makes it considerably harder for individuals and families to avoid borrowing to cover necessary expenses when they don't have those funds available.

(continued)

(DPR Interview continued)

Q. Recent research by Freddie Mac and the Urban Institute suggests that credit education early in life may be the most effective way to improve homeownership rates among African Americans. What is your view?

While I agree with the findings of that research, I also believe that the effort to improve homeownership rates for African Americans and other underserved populations shouldn't end there. One of the greatest tragedies of our lifetime is the fact that there are fewer African American homeowners now as a percentage of the population than there were just before the implementation of fair housing legislation in the late 1960s. That is a tremendous disgrace and is not the result of one systematic failure, but several. Apart from early financial education in schools, a more deliberate and focused approach is necessary to reach African American renters with the message that they can have a realistic pathway toward reaping all of the benefits of homeownership. That is the intent of our Envisioning Homeownership program and a mission about which we are very passionate.

Q. What can be done to improve credit management skills among young buyers?

Getting debt under control can be difficult, especially for young buyers who may be juggling student loans, in addition to high-interest credit card debt and auto loans. The key to success is finding the right balance between financing and managing the flow of income for ongoing expenses, including the prioritization of savings. Having money set aside in a savings account can help reduce dependency on debt at times when there are unexpected expenses or financial setbacks. Without the safety net of savings, debt management becomes difficult and, in some cases, impossible. Credit counseling can play an essential role for those who have already fallen behind on their creditor payments and need assistance getting back on track affordably. For others who are struggling but still managing to stay afloat, those same credit counseling resources can provide budget and financial guidance to make money management less stressful.

Q. Anything else you want to share with our audience?

A sizable number of renters who believe that they have no pathway toward homeownership are actually in a position to become homeowners sooner and more affordably than they might expect. Having expert advice and a network of support helps people overcome the barriers, perceived or real, that stand in the way of success. That's where the services offered by NFCC Member agencies can help remove the obstacles that stand between prospective homebuyers and their dream of homeownership.

Millennials and Gen Z

COVID-19 crisis hits young buyers the hardest

Millennials who have been saving to buy a home are losing ground quickly, and the longer the COVID-19 crisis lasts, the more significant will the its effect on Millennials and members of Generation Z.

Just four months ago, housing economists predicted that 2020 would be a red-letter year for young buyers who have struggled with record-high prices, a shortage of starter homes for sale, and vicious competition from investors and fellow Millennials.

“As a group, Millennials (those born 1981-1997) will take more than half of all mortgages next year. For the first time, Millennials’ share of mortgage originations will surpass 50 percent in the spring, outnumbering Gen X and Baby Boomers combined,” forecasted Realtor.com's George Ratiu on December 4, 2019.

Almost overnight, the outlook for young buyers turned from good to challenging:

- Younger workers suffered a disproportional loss of jobs when shelter-in-place orders shut down the hospitality, travel, entertainment, and other “nonessential” service industries. Millennials make up 40 percent of employment in higher-risk industries overall.
- Millions of younger workers are short-term, temporary, independent contractors in flexible jobs ranging from computer programming and software development to driving for Uber, working in restaurants and handyman services. These gig workers account for about 10 percent of the national workforce. Independent contractors are the first to be laid off.
- A recent poll found that Gen Zers — people currently between the ages of 8 and 23, according to the Pew Research Center — are three times more likely to report losing their jobs or being put on leave as a result of the coronavirus. Many are watching their planned post-grad jobs or paid internships disappear before they've even gotten their diploma.
- In March, 20 percent of those who cannot work from home lost their jobs. But for those who can work remotely full-time, the layoff rate was just 3 percent.
- Gig workers are primarily independent contractors. Unlike full-time employees, they receive no benefits, such as employer-sponsored health care and unemployment insurance. Those who lost their jobs by the coronavirus crisis—even temporarily— have no safety net.

Nearly half of workers aged 25 to 44 and one-quarter of those aged 16 to 24 who work in higher-risk industries are in danger of losing their jobs and many of them have no unemployment insurance.

Generally, first-time buyers obtain mortgages at the same age they did before the financial crisis. However, when broken down by race and ethnicity, African American borrowers become first-time buyers noticeably later. In 2018, the median first-time black borrower was six years older than the median non-Hispanic white borrower. In 2002, the age gap between black and white first-time borrowers was just two years. (Source: CFPB report)

COVID-19 challenges today's homeownership dreams

Even before the pandemic hit, 57 percent of Generation Z and 53 percent of Millennials said they were planning to purchase their first homes within five years. Now 55 percent are delaying their search, while 32 percent are searching for more affordable homes, according to a new survey by Clever Real Estate.

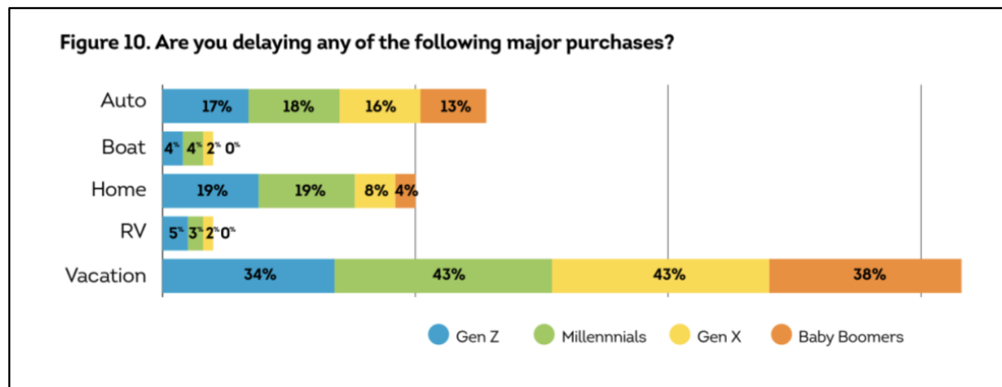
Stereotypes to the contrary, Millennials have been adopting better money habits. In 2015, only 33 percent had $15,000 or more saved, and only eight percent had at least $100,000. Today 63 percent are saving, 54 percent are budgeting, and 57 percent have a savings goal. Nearly half 47 percent have saved more than $10,000, and 16 percent have $100,000 or more in the bank, according to Bank of America's 2018 Better Money Habits Report.

How are they faring now?

Two new studies, one from TransUnion and another from Clever Real Estate have current data describing the impact COVID-19 is having on millions of prospective first-buyers, both Millennials (ages 25 to 34) and members of Generation Z (18 to 24).

TransUnion's research found that Millennials and Generation Z are suffering financially more than any other age group. While 59 percent of Americans said their household income was negatively affected by the virus, the percentages were more pronounced for Millennials (68 percent) and Gen Z (63 percent). The research found that Millennials (79 percent) and Gen Z (74 percent) were among the most concerned about their ability to pay bills and loans in the next month.

Thirty-eight percent of young buyers have put their plans on hold



Source: TransUnion

Clever found that 75 percent of Americans believe that the economic effects of COVID-19 will be worse than those of the 2008 Great Recession. Half of Americans believe their savings will run out before the end of April. Over 80 percent of home buyers are delaying purchasing or are now planning to spend less due to COVID-19.

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(COVID-19 continued)

Home buying plans are postponed

Some 38 percent of Generation Zers (18-24) said they're delaying their search and 31 percent that they're looking for cheaper homes. Among Millennials (25-34), 55 percent are delaying their search now, while 32 percent are searching for more affordable homes (Clever). Nineteen percent of Millennials say they are delaying home purchases (TransUnion).

Savings are disappearing quickly

Some 32 of Gen Zers have never had any emergency savings, and an additional 20 percent said that they can't make their savings last through the end of April. Among Millennials, 40 percent have less than $500 in savings for emergencies, 27 percent report never having any emergency savings. An additional 28 percent of Millennials can't stretch their savings past the end of April (Clever). Thirty-seven percent of Gen Z, and 40 percent of Millennials are dipping into their savings to pay bills (TransUnion).

Young workers are increasing their debt load to pay bills

Twenty-five percent of Gen Zers have taken on additional debt to pay their bills. Thirty percent of Millennials have taken on other debt. Overall, one out of four adults is taking on additional debt to pay for essentials during the coronavirus-related lockdowns (Clever).

First-time Homebuyers

CFPB's "Snapshot" chronicles the impact of low down payments on first-time buyers

In March, the Consumer Protection Finance Bureau (CFPB) issued a new analysis of first-time buyers that focuses on the transition from renting to owning, taking into consideration ways that first-timers differ from other buyers. These include no home equity to insulate them from rising housing costs and no history of mortgage payments to support their credit history.

Noting that first-time homebuyers have accounted for about half of all home sales and half of all home purchase mortgages since 2002, the CFPB snapshot included the following highlights.

First-time buyers have maintained high LTV ratios for 17 years. First-time buyers have been able to maintain a 50 percent share of sales for the past 17 years not just because rising incomes. Lower loan-to-value ratios have helped young buyers secure financing. During the run-up to the financial crisis, the median LTV increased by five percent, and has since remained at this higher level.

First-time buyers realized they don't need to put down 20 percent. During the run-up to the financial crisis, the median LTV increased by five percentage points, and it has since remained there, and first-time buyers maintained a 50 percent market share.

(continued)

(CFPB continued)

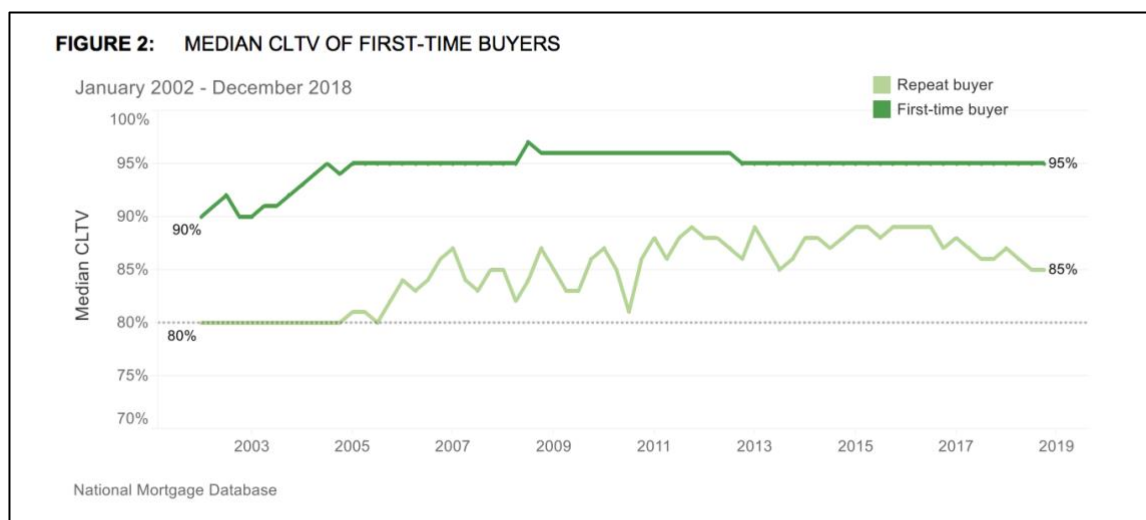
First-time buyers weathered tightening of credit and debt standards. Loose lending standards during the housing boom made it possible for buyers to afford more expensive houses. Following the financial crisis, lenders tightened credit and debt standards. Smart credit management became a necessary step to enter homeownership. By 2018, the median credit score of first-time buyers was 32 points higher than in 2002, yet first-time buyers maintained a 50 percent market share.

First-time buyers have migrated away from the private market and are now more likely to turn to the GSEs. FHA's low down payments initially attracted young buyers during the recovery, but now most first-time buyers are taking out loans that are purchased by the GSEs. Additionally, the GSEs introduced their own low down payment programs in 2014, which made the GSEs more competitive for borrowers with higher credit scores. First-time buyers today are taking out more FHA loans and government-guaranteed loans than they were in 2002.

First-time buyers in expensive MSAs have generally been older than in less affordable areas. The median age of first-time buyers declined in most MSAs in the years before the financial crisis. The median age in higher-cost MSAs has since increased to levels higher than in 2002, while in many lower-cost MSAs the median age has returned to pre-housing boom levels.

The median LTV and DTI for rural first-time borrowers are lower than for urban buyers, although the gap has narrowed since 2002. Even though rural borrowers tend to have lower incomes in comparison to their urban counterparts, the median rural borrower also has had lower DTIs over the past 15 years. An increase in USDA and FHA loans in rural areas has raised LTV levels.

First-time buyers' use of low down payment loans has raised LTV levels for years.



Last year's first-time buyers needed only a 6 percent down payment

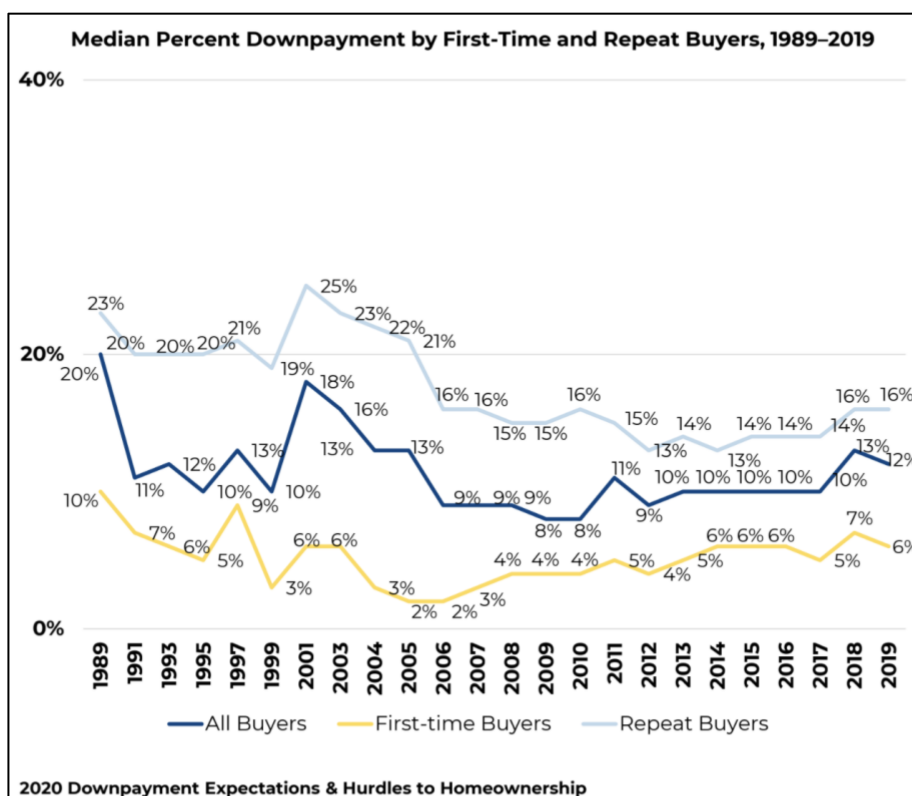
A new report from the National Association of Realtors (NAR) found that the median amount that first-time buyers used for their down payments was only 6 percent. The finding was one point lower than the first-time buyer median in the same survey taken a year previously and two points lower than the 8 percent reported in NAR's 2019 Profile of Home Buyers and Sellers.

Though lower than it was last year, the first-time median was only 5 percent in 2017 and 4 percent in 2013.

NAR surveyed homeowners, Realtors, and consumers from the last half of 2018, and the first six months of 2019. Consumers surveyed separately said they believe a median of 20 percent is needed for a down payment.

The survey also found that:

- In 2019, 32 percent of first-time buyers and eight percent of repeat buyers received a gift or loan from a relative or friend towards the downpayment of their home purchase.
- Twenty-one percent of homeowners surveyed said they received down payment assistance from a parent or relative.
- Millennials were the age group that was most successful in getting help for down payments. Twenty-four percent of Millennials and 19 percent of members of Generation Z received support from parents or friends to make their down payments.
- A majority of Realtors – 65% – said that in the last five years they have had clients receive down payment assistance from a parent or relative.
- Some 26 percent of first-time buyers and seven percent of repeat buyers said that saving for a down payment was the most challenging task in the home buying process.



Down payments

Chase lowers LTVs to 80 percent

Moving to mitigate lending risk stemming from the novel coronavirus disruption, JP Morgan Chase is raising standards for its mortgages and eliminated making loans with LTVs above 80 percent as of April 13.

Customers who apply for a mortgage after that date will need a FICO score of at least 700 and will be required to make a down payment equal to 20 percent of the home's value or more.

The new credit standards do not apply to JPMorgan's roughly four million existing mortgage customers or to low and moderate-income borrowers who qualify for its "DreaMaker" product, which requires a minimum of 3 percent down payment and 620 credit score.

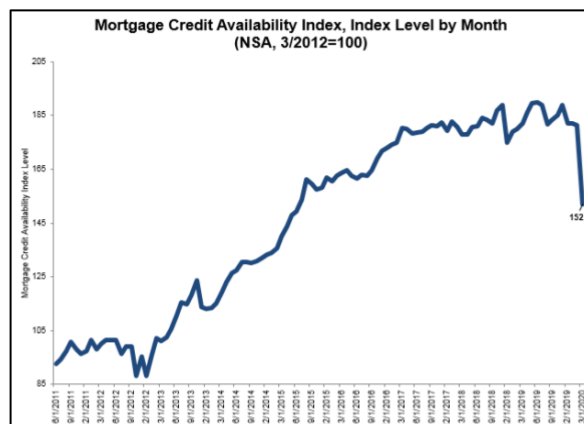
"Due to the economic uncertainty, we are making temporary changes that will allow us to focus on serving our existing customers more closely," Amy Bonitatibus, chief marketing officer for JP Morgan Chase's home lending business, told Reuters. The bank was the fourth largest U.S. mortgage lender in 2019, according to Inside Mortgage Finance.

Other lenders raised lending standards but stopped short of leaving the low down payment market. Wells Fargo raised the minimum credit score requirement for home equity lines to 720 due to concern over the economic impact of COVID-19.

Effective April 3, 2020, U.S. Bank added several overlays for government loans, including FHA, VA, and USDA. It increased its minimum FICO score to 680 and set a maximum debt-to-income ratio of 50 percent. Now the bank requires borrowers to have a minimum FICO score of 700 with a maximum DTI of 43 percent when any funds used for closing costs or down payment are not borrower's funds or gift funds, according to HousingWire.

A HousingWire investigation found more than a dozen rate sheets from various lenders scattered across the country that showed some lenders have indeed raised their minimum FICO scores for FHA loans.

According to the Mortgage Bankers Association, mortgage credit availability has reached a near five-year low in March. A benchmark index for mortgage credit availability dropped by 16 percent, with availability for all types of loans declining. The availability of conventional loans dropped 24 percent in March, while jumbo loan availability dipped 36.9 percent. Government loans, which include USDA, VA, and FHA mortgages, fell 6.6 percent.



Down payment assistance program trends

Down Payment Resource is closely monitoring the impact of COVID-19 on down payment assistance programs. You can find detailed weekly updates on a new resource page. Here are the latest highlights:

Local DPA programs: While some municipal and non-profit DPA providers are pausing (temporarily suspending) their DPA programs, we're seeing a majority of local DPA providers - certainly outside of COVID-19 hot spots - remain open for business (virtually) and accepting applications. Remote work may slow the application process in some cases, but many are doing all they can to support their pipeline of homebuyers as well as their real estate and lending partners.

State HFAs: All state housing finance agencies are open virtually and accepting reservations.

Program changes: The market is very fluid, so some products and pricing options are suspended. HFAs are quickly reacting to Fannie, Freddie, HUD and other guidance. Early Payment Default and forbearance are the hot topic.

New Temporarily Suspended DPA category: In the Down Payment Resource database, we added a new program funding status called "Temporarily Suspended" to reflect this temporary status of any agencies/programs who are closed and not accepting applications due to COVID-19. We will add alerts and notes to any impacted programs to capture the latest news and policies.

Fannie and Freddie crack down on income verification and allow desktop appraisals

In light of the number of layoffs and furloughs created by lockdown and shelter-in-place orders, Fannie Mae and Freddie Mac are asking lenders to take additional steps to verify employment status. Instead of verbal verification, lenders may obtain:

- An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment;
- A year-to-date paystub from the pay period that immediately precedes the note date;
- Bank statements.

When a borrower is using self-employment income to qualify, the lender must verify the existence of the borrower's business within 120 calendar days before the note date from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible.

During this period, the GSEs recommend that lenders practice additional due diligence to ensure the most recent information is obtained "to qualify income applicants to meet income requirements in light of the 17 million Americans who are applying for unemployment."

Desktop appraisals allowed

Since appraisers are having difficulty getting into homes for inspections, Fannie Mae and Freddie Mac are allowing desktop and exterior appraisals, which can be conducted through either exterior-only inspections or desktop-only appraisals. Fannie Mae and Freddie Mac traditionally offer an appraisal waiver for low LTV refinance under their automated underwriting systems. Both GSEs appear to have expanded the LTV range for these waivers. Also, they are permitting exterior only appraisals for Fannie-to-Fannie and Freddie-to-Freddie refinancings.

Down Payment Data

April 2020 Loan Data: Millennials

	Millennials
FICO	715
LTV	88
DTI	28/38
RATE	3.725%
Market Shares	CON 60%, FHA 34%, VA 1% Other 5%

Source: Ellie Mae Millennial Tracker

March Purchase Loans

	LTV	DTI	FICO	RATE*
All loans	76	24/36	742	3.65
Conventional	81	23/36	756	3.65
FHA	95	28/43	677	3.76
VA	98	25/41	712	3.48
Millennials/Gen Z (18-34)	85	26/36	731	3.72

Data are for 30-year fixed-rate purchase loans.

Sources: Ellie Mae Origination Reports and Millennial Tracker

Key Facts

Data Highlights From This Issue

- Moving to mitigate lending risk stemming from the novel coronavirus disruption, JP Morgan Chase is raising standards for its mortgages and eliminated making loans with LTVs above 80 percent. Other lenders raised lending standards but stopped short of leaving the low down payment market. Wells Fargo raised the minimum credit score requirement for home equity lines to 720 due to concern over the economic impact of COVID-9.

- Fannie Mae and Freddie Mac allow desktop and drive by appraisals for mortgages where homes that are under orders to shelter in place.

- Nearly half of workers aged 25 to 44 and one-quarter of those aged 16 to 24 who work in higher-risk industries are in danger of losing their jobs and have no unemployment insurance.

- Thirty to 50 percent of Millennials and members of Generation Z who want to buy homes have put their plans on hold because of the COVID-19 crisis.

- Thirty-seven percent of Gen Z and 40 percent of Millennials are tapping their savings, including their savings toward a down payment, to pay bills. Twenty-five to 30 percent of young buyers have taken on additional debt to pay bills.

- Low down payment loans have increased first-time buyers' loan-to-value ratios by 5 percent over the past 17 years, helping them maintain a 50 percent market share in home purchases. First-time homebuyers weathered the tightening of credit and debt standards during the recovery and are more likely to use government or government-insured financing because of their low down payment options.

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. Contact him at scook@commsconsulting.com.

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Down Payment Resource (DPR) helps its business partners connect buyers to the down payment help they need through its award-winning technology. The company tracks funding status, eligibility rules, benefits and more for approximately 2,400 homeownership programs. DPR was 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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