The Down Payment Report

News and Data on Residential Down Payments

January 2020

Report Released: January 23, 2020

Risk and the Perception of Risk

Fannie Mae, Freddie Mac and the Federal Housing Administration now guarantee almost $7 trillion in mortgage-related debt, 33 percent more than before the housing crisis. With memories of the Great Recession still fresh, concern is growing that a repeat of the 2007 housing crash would devastate both the federal budget and the national economy.

The growth of mortgage-related debt results from the longest expansion of the nation's housing sector in history, a recovery made possible by the federal takeover of the two GSEs 11 years ago. Both homeowners and taxpayers have done well as a result of that decision. The recovery drove borrower equity to an all-time high in the first half of 2019, and Fannie and Freddie have returned to the Treasury $100 billion more than they received in government support.

The success of low-down payment loans is making homeownership possible to some first-time buyers in even the most expensive markets. Now FHFA seeks to facilitate the privatization of the GSEs by making them more attractive to private investors by reducing the perception of risk posed by low down payment loans in the GSE's portfolios. There is now evidence that low-down payment loans lower default risk because buyers enter homeownership with more cash to meet unanticipated expenses.

Fortunately, borrowers who make too much to qualify for the new income limits in the Home Possible and HomeReady programs can find other options on Down Payment Resource.

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In this issue:

THE DPR INTERVIEW

HFA Flexibility Drives New Demand for DPAs

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

Tonya Todd, Housing Director, Hilltop Securities

Tonya Todd is a national leader in the affordable housing industry, including the first-time homebuyer and purchase mortgage markets. Ms. Todd works closely with housing finance agencies, their lenders, Fannie Mae, Freddie Mac, mortgage insurance companies and other industry partners to support down payment assistance programs across the nation. She led the affordable housing team for over seven years at Mountain West Financial, a regional lender in California, and spent nearly nine years at Bank of America managing the Master Servicing of Housing Finance Agency programs with hundreds of participating lenders.

Ms. Todd is the recipient of the 2019 Beverly Faull Affordable Housing Leadership Award from Down Payment Resource.

Q. What can state and local HFAs do to increase demand for their programs?

HFAs can grow their programs with more down payment assistance (DPA) options and other financial structures to appeal to more borrowers. Not one size fits all when it comes to down payment assistance needs. Some borrowers may need 5 percent or more for a down payment, whereas other borrowers may only need 3 percent and would prefer a lower first mortgage rate. And in many markets, borrowers over the low-income limits (80 percent of AMI) are in need of down payment assistance. With TBA programs, HFAs can adjust their program income limits to further meet the needs of their communities.

To meet the demands of lenders offering more financing structures, HFAs can achieve lower rates and higher lender compensation. Lender compensation is certainly a driver in increasing the demand for the DPA programs due to the loan officer (LO) compensation rules which require that each LO be paid the same on all of their production. Having competitive economics will increase lender participation and having a program structure that lenders support is one of the most crucial features of an attractive DPA program. Developing compelling programs will unleash the true potential for HFAs reaching many low-to-moderate income borrowers.

Q. Are tax credits an effective way to attract borrowers?

I believe a Mortgage Credit Certificate (MCC) is one of the greatest tax credits and secrets for first-time homebuyers. Because an MCC can save a homeowner some serious money over the life of their mortgage loan, MCC programs are very good to use with non-bond first mortgages to ensure our first-time homebuyers can take advantage of this special federal income tax credit.

(continued)

(DPR Interview continued)

Q. Should more HFAs require homeownership education?

Yes, homebuyer education is undoubtedly important, especially for first-time homebuyers, as it teaches them how to prepare for homeownership and how to finance and purchase the home, which all supports sustainable homeownership. The purpose of up-front education is to help individuals fulfill the dream of homeownership as well as understand the responsibilities that come with owning a home.

Many HFAs allow for interactive online homebuyer education courses so it makes planning the training easy and convenient. The courses really help first-time homebuyers understand the credit requirements and how to manage their money for their mortgage payment and household-related expenses.

Q. Are you concerned that the privatization of Fannie Mae and Freddie Mac will reduce their purchases of low down payment loans?

The changes to the GSEs undoubtedly will impact the affordable housing space. While Fannie Mae and Freddie Mac have been a key channel with their HFA Preferred and HFA Advantage programs, lenders are starting to shift their attention back to FHA programs, primarily due to Fannie and Freddie’s recent income limitations of 80 percent AMI on their affordable housing programs. There are many moderate-income borrowers who struggle with saving for a down payment, especially in high-cost markets, and with lower income limit restrictions, these borrowers will not have the same opportunity to utilize conventional mortgages as they once had.

Looking ahead, I do think it’s still a good year for first-time buyers despite industry changes. There are many DPA options, especially with HFAs who have alternate financing structures, such as TBA, that are available for borrowers, despite their income. I would encourage HFAs to continue to be creative so they can always stay relevant and top-of-mind when serving their communities.

There are numerous advantages to owning a home, especially with rising rents in many markets. First-time homebuyers have lots of options and with resources like Down Payment Resource, they can locate current programs in their areas that are currently available.

GSEs

FHFA Puts Pressure on GSE Low Down Payment Loans

Seeking to sweeten their portfolios to attract future private investors and to prepare for a downturn, Fannie Mae and Freddie Mac took the first steps last summer to reduce the GSE's participation in low down payment mortgages.

Effective July 20, Fannie and Freddie lowered income limits for borrowers participating in their Home Possible and HomeReady first-time buyer programs from 100 percent of the area median income (AMI) to 80 percent of the AMI, including properties in low-income census tracts.

Cutting back on the low down payment loans and exposure to deeply indebted borrowers to sweeten their appeal to private investors such as the Federal Housing Finance Administration (FHFA) lays the groundwork for the privatization of the two housing GSEs, according to recent coverage by the Wall Street Journal and the Washington Post. Low-down-payment loans are considered riskier because a small drop in home prices can leave borrowers owing more than their homes are worth.

"While average borrower credit scores are better today – 746 in the first half of 2019 compared to 706 in 2004 – the Enterprises' shares of low-down payment and high debt-to-income mortgages are now higher than in 2004. Among 2019 Enterprise loan acquisitions, 20 percent had down payments of 5 percent or less, nearly double the rate in 2004, and nearly 30 percent had high debt-to-income ratios (exceeding 43 percent) compared to 27 percent in 2004," FHFA Director Mark Calabria testified in October.

New Loan Limits Take Effect

As of January 1, new limits on conforming loans guaranteed by Fannie Mae, Freddie Mac and FHA increased. The new ceiling increased to $510,400 from $484,350 in 2019. In high-cost areas, the limit will go up to $765,600 (from $726,525).

Fannie Mae, Freddie Mac, and FHA

The loan limits are based on FHFA's Housing Price Index, which increased by 5.38 percent since last year, and vary by county. Here is a county-by-county list of the new limits for Fannie Mae and Freddie Mac.

VA

As of January 1, the VA no longer sets a cap on the size of its loans. Now qualifying veterans can buy higher-value homes with VA guaranteed loans. However, participating lenders can still issue a cap on loans they make.

USDA

While there is no maximum USDA loan size, the USDA maximum loan is amount is calculated on the applicant's ability to qualify. For more information on income eligibility, click here.

Ginnie Mae

On January 1, Ginnie Mae's maximum loan limits did not change. Maximum loan amounts for single-family homes that have been in effect since 2017 range from $453,100 for states in the contiguous U.S. and Puerto Rico and $679,650 for Alaska, Hawaii, Guam and U.S. Virgin Islands.

FHA

Hopes Dim for FHA MI Premium Cut

Two years has passed since the Trump Administration suspended cut in the upfront FHA mortgage insurance premiums just seven days before it was to take effect. The Obama Administration-approved rate cut would have reduced the annual FHA mortgage insurance premium on new mortgages from the current 0.85 percent to 0.6 percent. The reduction would have shaved $1,250 annually off the payments on a $500,000 mortgage.

In November, HUD reported that the mutual mortgage insurance fund's net worth increased from $46.8 billion to $66.6 billion in one year. The MMI funds capital reserve ratio stood at 4.84 percent, which is more than double the mandated 2 percent minimum.

Noting that FHA buyers are paying premiums higher than necessary to cover taxpayer risks, on November 14 the National Association of Realtors asked FHA to reduce the premium, noting that "current FHA buyers are paying premiums higher than necessary to cover taxpayer risks. As a result, NAR urges the FHA to consider reducing premiums and eliminating the life-of-loan policy."

In an October 31 interview, HUD Secretary Ben Carson said he would like to see the MMI Fund more than double its mandated threshold of 2 percent before any changes are made to FHA mortgage insurance rules or premiums.

Down Payment Assistance

Down Payment Assistance Awareness Improves

Headlines from a 2014 survey sponsored by NeighborWorks America shocked lenders, agents, policymakers and housing finance agencies coast to coast. Some 70 percent of consumers said they didn't know that low down payment programs are available for middle-income homebuyers in their community, said headlines in Inman News and elsewhere. A 2015 Fannie Mae survey confirmed the findings: 73 percent of Millennials said they were unaware of lower down-payment options.

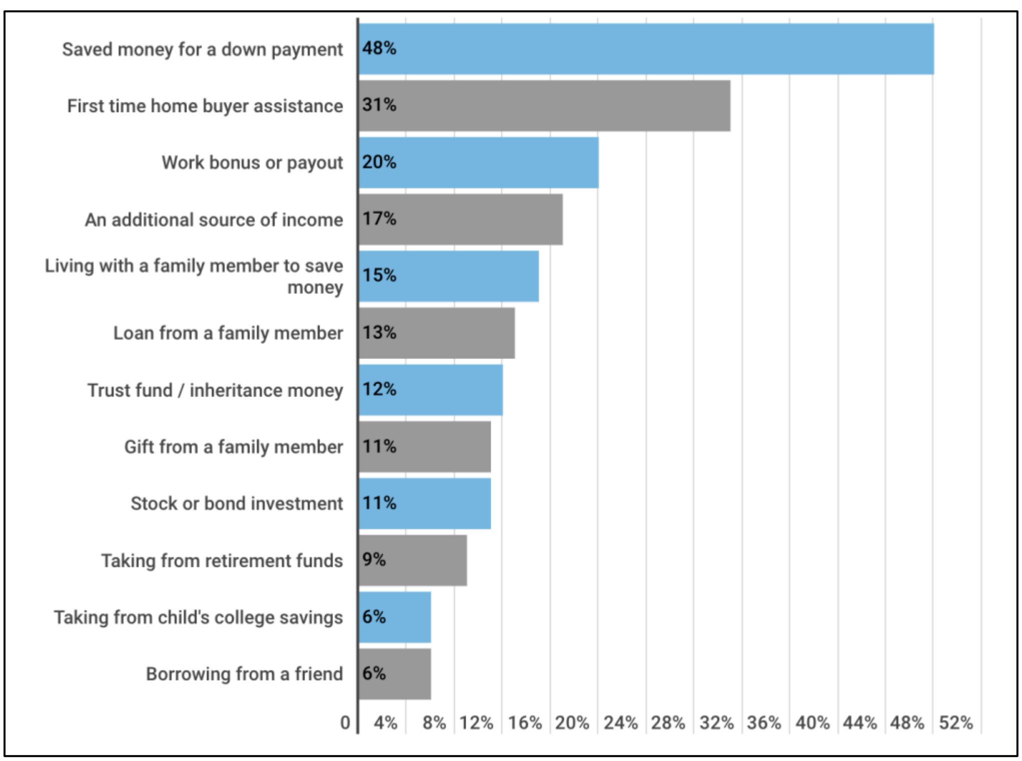
Five years later, a Clever.com survey found 31 percent of Millennial buyers said they used first-time homebuyer assistance to augment their first home—more than any other source of assistance, including a second job, living with parents or withdrawal from a retirement fund. Buyers also said that saving for a down payment was their biggest barrier to homeownership.

Millennials

Highlights from New 2020 Millennial Home Buyer Report

Clever.com conducted its second annual Home Buyer Survey, surveying 1,000 Americans who planned to purchase a home in 2020. Respondents answered 21 questions about their finances, plans, and desires related to their future home:

- Over 25 percent of Millennial homebuyers planning to buy this year have less than $1,000 in savings, and nearly 60 percent have less than $10,000. Even with a slender savings account, those Millennials are planning on purchasing a home that costs $210,000 on average.
- Seventy percent of Millennials plan to put down less than 20 percent.
- Nearly 25 percent of Millennials said they hope to spend less than $100,000 on their new home, compared to about 17percent in 2019. Similarly, fewer are planning to spend between $100,000 and $400,000.
- About 44 percent of the Millennials in the study said they have outstanding debt (besides an existing mortgage), 23 percent of whom owe over $10,000.
- In addition to saving more toward a down payment and closing costs than other generations, 31 percent of Millennial homeowners say they will use first-time homebuyer assistance programs, compared to 29 percent of Gen Xers.



Millennials Buy More Expensive Homes With Larger Loans

Millennial purchases of more expensive homes and are rising faster than older generations, creating a widening price gap between age groups, according to Realtor.com's 2019 Generational Propensity Report.

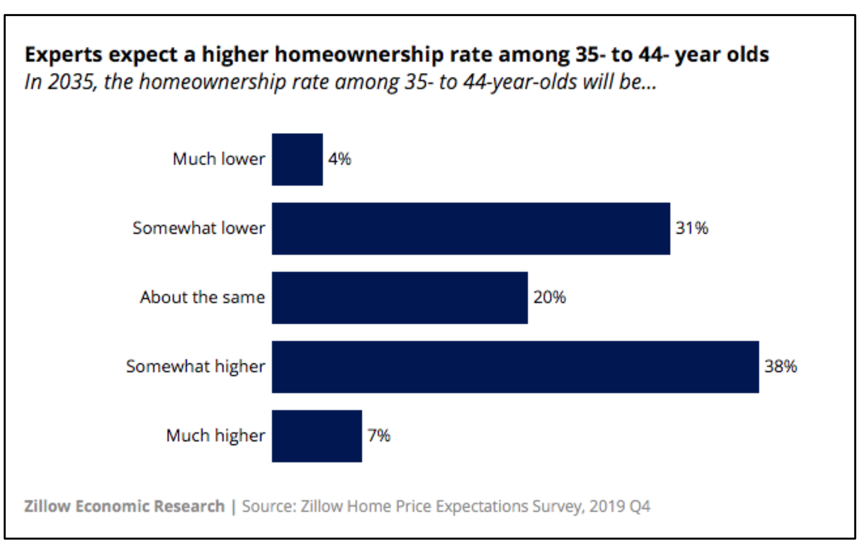
- By the end of the third quarter of 2019, the Millennial share of primary home loan originations grew to 46 percent from 43 percent last September. The Generation X and baby boomer shares continued to fall to 35 percent and 17 percent this year, from 37 percent and 18 percent last year.
- Millennials increasingly are purchasing more expensive homes at a higher rate than older generations, as Generation X and baby boomers only increased their purchase prices by 5 percent and 2 percent, respectively. The median price of a primary home purchased by Millennials rose by 6 percent into $250,000 in September 2019.
- Despite Millennials' price increase, a price gap between the generations persists, with Generation X buying homes that are $49,900 more expensive and baby boomers buying homes that are $19,900 more expensive than Millennial purchases.

Generation Z

Experts: Gen Z Will Raise the Homeownership Rate

This year the oldest Millennials will begin turning 40, ending a decade full of new and old barriers to homeownership that worsened just as the bulk of Millennials entered their prime home-buying years. The homeownership rate among 35-to-44-year-olds took a beating. The standard for 35- to 44-year-olds fell from 66 percent to 60 percent even as the overall homeownership rate rebounded to 64.8 percent after bottoming out at 62.9 percent in 2016.

By 2035, when the oldest Gen Zers begin to reach 40, a panel of 100 economists, analysts and real estate experts expect conditions to be slightly more favorable and the homeownership rate among 35- to-44-year-olds will be higher than it is today. Almost 4 in 10 experts (38 percent) of those who participated in the most recent Zillow Home Expectations Survey predict the homeownership rate among 35- to 44-year-olds to be somewhat higher in 2035, compared to 31 percent who said they expect it will be slightly lower and 20 percent who said it will be about the same.

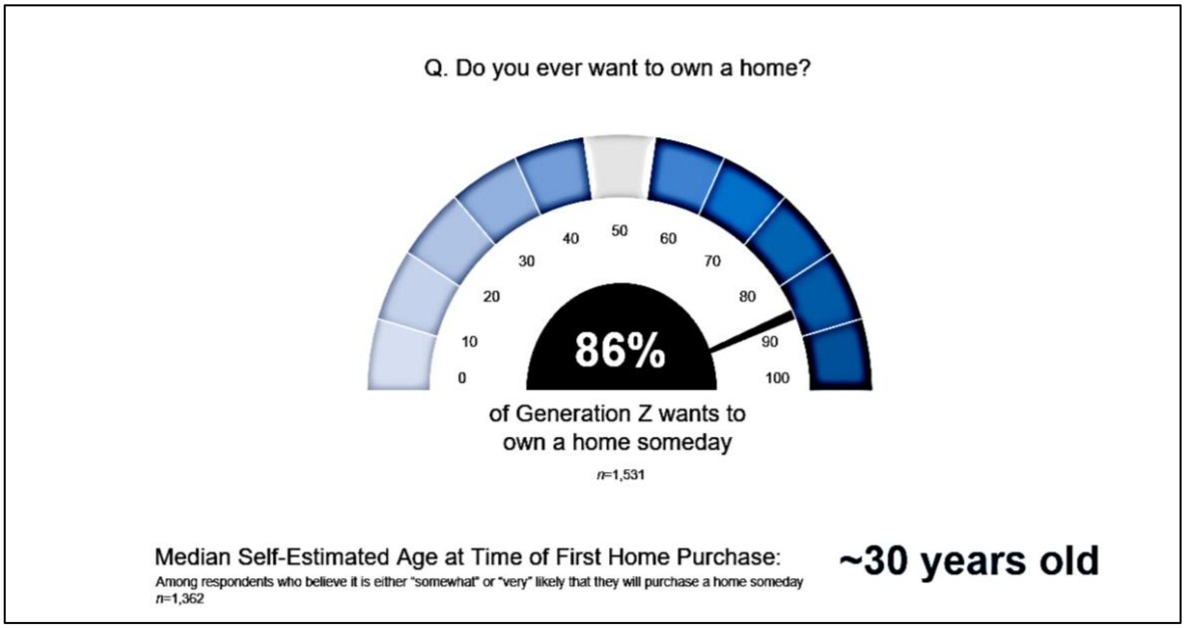


Homeownership Barriers Don't Faze Generation Zers

Generation Z has strong, positive views of homeownership, and the overwhelming majority (86 percent) want to own a home someday, according to a new survey by Freddie Mac. Gen Z does, however, see the following as obstacles to homeownership: home prices (92 percent), saving for a down payment (82 percent), and unstable job or job change (68 percent). For those who plan to pay for college, student debt is considered a significant obstacle (54 percent).

Gen Zers expect to be 30 years old when they make their first home purchase compared to the current median age of 33 for first-time homebuyers.

Source: Freddie Mac



Homeownership Education

Freddie Mac Launches New Online Homebuyer Education Program

In early January, Freddie Mac launched a new, free, online homeownership education course called CreditSmart® Homebuyer U. It offers six educational modules, each focused on a critical learning principle relating to money management, credit, getting a mortgage, the home buying process and preserving homeownership.

According to a recent Freddie Mac survey of the Generation Z cohort (ages 14-23), respondents reported that while they have received financial education at home and are at least somewhat confident in their future economic well-being, 65 percent of Gen Z respondents report they are not confident in their knowledge of the mortgage process.

“This survey data also reveals that while members of Gen Z aspire to homeownership, an education program like CreditSmart Homebuyer U is needed and can make a positive impact not only on today’s aspiring homeowners but on future generations as well,” said Danny Gardner, Senior Vice President, Single-Family Affordable Lending and Access to Credit at Freddie Mac. “The goal of this exceptional program is to empower those who are pursuing the dream of homeownership with the knowledge to make informed, responsible decisions.”

CreditSmart Homebuyer U is the latest addition to the CreditSmart suite of financial and homeownership education curricula that have been in place for the last 18 years. CreditSmart Homebuyer U satisfies education requirements for Freddie Mac HomeOne℠ or Home Possible® mortgage loans and aligns with the National Industry Standards on Homeownership Counseling and Education (pre-purchase content).

Bank of America Introduces Free Video Series

Designed to simplify the home buying process for first-time buyers, Bank of America’s new First-Time Homebuyer Online Edu-Series™ features Bank of America experts providing guidance and tips on homebuying.

The six-episode, on-demand series, hosted by BuzzFeed’s Hannah Williams, covers vital aspects of homebuying and teaches viewers smart strategies to shift attitudes from “How do I do this?” to “I can do this.” Video topics include:

- Five Stages to a Home of Your Own
- Preparing Your Finances
- Prepare, Prequalify and Get Preapproved
- Find a Home and Make an Offer
- Apply for a Mortgage
- Close Your Loan and Move-In

Most homeowners (88 percent) agree that buying a home is the best decision they have ever made, according to Bank of America’s Homebuyer Insights Report. However, 95 percent of prospective homebuyers face barriers to owning, including 42 percent who feel they lack support/advice and don’t know where to start.

2020 Forecasts

	2019	2020
30-year fixed Rate		
Fannie Mae	3.9	3.6
Freddie Mac	3.9	3.8
MBA	3.7	3.7
Purchase Originations ($B)		
Fannie Mae	$1.28	$1.37
Freddie Mac	$1.26	$1.33
MBA	$1.27	$1.30
Median Home Prices		
NAR Existing homes	$271,300[1]	$270,400
Fannie Mae New Homes	$322,000	$326,000
FHFA Purchase-only Index	4.3	3.1
New Homes		
MBA New Home Starts (Single Family)	885,000	920,000
MBA New Home Sales	690,000	726,000
Total Home Sales		
Fannie Mae	6.03 million	6.14 million
Freddie Mac	6 million	6.2 million
First-time Buyers	2016-2018	2020-2022
TransUnion	6.67 million	8.2 million

[1] November 2019 price

2019 Year in Review: News Highlights

FEBRUARY

Buy younger, retire richer

A study from the Urban Institute finds that the younger that first-timers buy, the wealthier they will be by the time they are 60 years old.

MARCH

PMI boomed in 2018

2018 was an excellent year for private mortgage insurers. All six companies were profitable and continued to grab market share from the FHA, according to data from the Urban Institute.

MAY

Use of HFA and non-profit down payment assistance doubles over two years

A Freddie Mac consumer survey found that the share of buyers using financing from local governmental and non-profit sources doubled between 2013 and 2016.

JUNE

Study flips the script on homebuyer risk

Research from the JP Morgan Chase Institute found that a lower down payment may reduce the risk of default because they leave borrowers with enough liquidity to meet emergencies.

JULY

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, according to National Association of Home Builders' Housing Trends Report.

AUGUST

HUD drops controversial rule requiring HFA documentation for FHA Loans

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.

SEPTEMBER

Millennials more likely to tap retirement accounts for down payments

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 make a down payment on a home, according to a Bankrate survey.

OCTOBER

Fed Study finds HFA down payment assistance doesn't inherently increase default risk

A study by the St. Louis Federal Reserve found that while delinquency rates for FHA purchase loans with down payment assistance are generally higher than for loans without DPA, the differences indefault rates disappear when controls for ethnicity and race are introduced.

NOVEMBER

Number of first-time homebuyers expected to rise

A TransUnion analysis projects at least 8.3 million first-time homebuyers will enter the mortgage market between 2020 and 2022.

Down Payment Data

November 2019 Loan Data: Millennials

	Millennials
Median loan size	$206,665
FICO	729
LTV	84
DTI	23/36
Market Shares	CON 73 percent, FHA 22 percent, VA 2 percent

Source: Ellie Mae Millennial Tracker

November Purchase Loans

	LTV	**DTI**	**FICO**	**RATE***
All loans	77	24/37	736	3.97
Conventional	80	23/36	755	4.04
FHA	95	28/43	679	3.93
VA	98	25/41	712	3.67
Millennials	85	24/36	729	3,93

*30-year fixed

Sources: Ellie Mae Origination Reports and Millennial Tracker

Key Facts

Data Highlights From This Issue

- To prepare for privatization, the Federal Housing Finance Agency is seeking to reduce low down payment loans in GSEs' portfolios and exposure to deeply indebted borrowers. In June, Freddie Mac and Fannie Mae lowered the income limits on their first-time buyer programs to 80 percent of area income.
- Loan limits increased for conforming and FHA loans increase this year. VA eliminated loan limits.
- Two years after President Trump vetoed it, hope is fading for a reduction in FHA's upfront mutual mortgage insurance premium.
- Nearly one out of three Millennial buyers plan to augment their savings with down payment assistance, a dramatic turn-around from five years ago when 70 percent of consumers said they didn't know that low down payment programs are available for middle-income homebuyers in their community.
- Seventy percent of Millennial buyers plan to put down less than 20 percent.
- Gen Zers expect to be 30 years old when they buy their first homes, three years younger than the current median age of 33 for first-time homebuyers.

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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