The Down Payment Report

News and Data on Residential Down Payments

Report Released: March 19, 2020

March 2020

COVID-19 and Homeownership

With the effects of COVID-19 top of mind, we are closely monitoring the potential impact on housing. Our lender partners tell us they are busy managing extreme refinance demand due to the Fed's dramatic rate cuts.

It also presents an interesting opportunity among renters who have seen their rents, but not wages, increase steadily in recent years. Homeownership may be a much more affordable option if they can overcome the down payment hurdle.

Will this historic rate cut signal to buyers to act now or will it have a limited impact? In this issue, we highlight what some economists are saying about the potential impact of a zero percent rate on homebuyers.

Housing is a necessity for everyone at every time. And, in today's environment, having a safe place to call home is more important than ever. What if more consumers knew about down payment assistance programs that could help make buying a home more affordable and accessible? Across the nation, communities and organizations are expanding valuable down payment programs. Plus, in the wake of coronavirus housing finance agencies are expanding online homeownership courses and processes, keeping it business as usual.

As the need for down payment help grows among renters, real estate and mortgage professionals have a unique opportunity to lead and educate. If done well, there will be long-term wealth building and positive community effects.

Rob Chrane, CEO, Down Payment Resource

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In this issue:

THE DPR INTERVIEW

Credit education is the key to closing the black-white homeownership gap

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

Jaya Dey, Senior Economist, Freddie Mac

Dr. Jaya Dey is a senior economist at Freddie Mac and co-author of the Role of Credit Attributes in Explaining Homeownership Gap in the Post-Crisis Period, 2012-2018, which found that African Americans and Hispanics are one-half and two-thirds as likely to transition into new mortgages as whites. The study suggests that increasing funding for counseling and credit education programs intended to assist potential minority homeowners may reduce the racial gap in transition rate.

Q. To what extent is racial discrimination a cause of the widening gap between white and minority homeownership?

In our analysis we found that credit characteristics explain most of the white-minority gap in transition rate to new mortgages. Combined with social demographic and macro factors, credit factors are able to explain around 66 percent of the white-black gap in transition rates. However, there is 34 percent of the gap that we cannot explain. The explanation of this residual gap is unclear, although some of it may be due to racial differences in factors such as assets, wealth, consumers' perception about the required down payment, and other historical factors which we cannot measure in our data.

Q. Do you think that the use of trended credit will have a positive impact on minority homeownership?

Any new ways of assessing creditworthiness can definitely allow us to be more comfortable around our ability to accurately assess risk. To the extent that the risk can be tailored and priced to low-to-moderate income people and to minority populations, we could expect that this could lead to an expansion of access to credit and close the homeownership gap.

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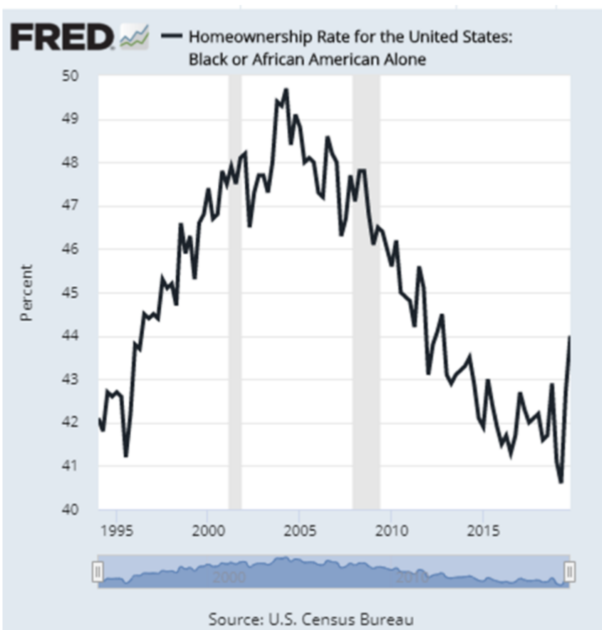
(DPR Interview continued)

Q. Since creditworthiness is so important to reducing the white-black homeownership gap, do you think that a concerted effort to provide universal credit education would reduce the gap without an improvement in relative income?

Yes, absolutely. In our research we found that overall, lower credit profiles are mostly responsible for the white-minority gap in transition rate. Minorities not only have lower FICO scores but in general they have more missing credit scores and insufficient credit histories. Also, the FDIC's report on banked and unbanked populations shows that blacks are significantly more likely to be unbanked and underbanked compared to whites. Increasing funding for counseling and credit education programs focused at teaching potential minority homeowners how to build credit and use it as a tool to enter and sustain homeownership can definitely reduce the racial homeownership gap.

I think multiple strategies are needed to close the homeownership gap over time. In the short term, lenders can target those who are creditworthy and can afford homes in their areas with adequate housing stock to climb the ladder of homeownership with the aid of various low down payment programs. In the medium term, lenders can target consumers with thin files but no derogatory credit histories and teach them how to use credit as a tool through counseling, financial education and homebuyer education programs. In the long term, lenders can work with consumers with severe delinquencies so they can get rid of derogatory credit events from their credit histories, rebuild their credit and bounce back.

You can read more about this issue in the Urban Institute's research paper, Explaining the Black-White Homeownership Gap: A Closer Look at Disparities across Local Markets.



African American homeownership plummeted during the Great Recession.

First-time Homebuyers

What does a zero percent rate mean for first-time buyers?

Rates were already extraordinarily low even before the Federal Reserve began to cut rates to stimulate the economy struggling with the COVID-19 pandemic. After the first cut of the federal funds rate by half a percent on March 3, we saw refinancings surge, but purchase mortgages rose only six percent. What can we expect next?

Mortgage rates may not respond as expected

The average fixed rate for a 30-year mortgage rose to 3.36% last week, up slightly from an all-time low of 3.29% the prior week, according to Freddie Mac. That's almost a full percentage point lower than 4.31% a year ago.

Despite the target rate going lower, mortgage rates may not necessarily follow, according to Keller Williams Chief Economist Ruben Gonzalez in Inman News.

"It's also important to note that a federal funds rate near 0 percent does not dictate a further drop in mortgage rates," Gonzalez said. "As the perceived risk toward people's ability to pay increases, we will see the spread between the 10-year Treasury and the 30-year mortgage increase. Meaning that we could see 10-year Treasury rates go down, and mortgage rates go up. The link direct tracking between the two can break when things start to look riskier."

However, new research suggests that low down payment loans actually decrease lender risk. (See the November 2019 issue of The Down Payment Report.)

The Mortgage Bankers Association announced they are working closely with policymakers and stakeholders to help lenders and borrowers navigate the market through a range of solutions.

Buyers may feel less urgency

Fear that they will miss the extraordinary rate decreases in 2019 is putting pressure on many first-time buyers to buy now. However, the coronavirus rate cuts may be relieving some of that pressure as buyers now see long-term support.

"By acting swiftly to tamp rates down and pledging ongoing support, the Fed may have flattened the curve in the housing market, diminishing some of the urgency households may have felt to buy or refinance now less they miss out and keeping demand strong further into the future," Realtor.com's chief economist Danielle Hale told Forbes.

Lower rates can't solve two key problems

The rate cuts can't address two key problems for most first-time homebuyers -- a lack of a down payment and a shortage of inventory of affordable homes. Now, with buyers working remotely and online researching their options, mortgage and real estate professionals are working swiftly to educate buyers about online education options and homeownership counseling, virtual home tours, and e-signing documents.

The good news is that interest rates won't be a barrier for first-time homebuyers. It's time for buyers to look towards low down payment home financing and down payment assistance to make the purchase even more affordable.

Millennials

Median down payment by youngest Millennials rises to 8 percent

Buyers in their twenties are putting down a median of 8 percent, an increase from 6 percent in 2019, but the median down payment for all buyers fell from 13 to 12 percent over the past year, according to National Association of Realtors' Home Buyer and Seller Generational Trends Report for 2020. The annual report, which is now in its seventh year, found that buyers in their thirties are also putting down slightly more this year. The median down payment by older Millennials rose to 10 percent from 9 percent in 2019.

Debt is delaying younger Millennials' (22 to 29) ability to save for a down payment by two years. For older Millennials (30 to 39) debt is delaying saving for a down payment by three years.

Student loan debt is delaying saving for a down payment by 59 percent of young Millennials and 57 percent of older Millennials. Some 46 percent of younger Millennials and 38 percent of older Millennials have student loan debt, a decline of 42 percent of older Millennials in 2019.

Saving for a down payment ranks fourth for the seventh straight year as the most difficult step in the home buying process for all Millennials, followed by paperwork and understanding the homebuying process.

Savings topped the sources that both older (72 percent) and younger (85 percent) Millennials used for a down payment. Gifts from relatives and friends ranked second (20 percent of older Millennials and 27 percent for younger Millennials). Only 7 percent of older Millennials and 4 percent of younger Millennials tapped their 401K for pension plans for down payment money.

First-time homebuyers account for 88 percent of younger Millennial buyers and 52 percent of older Millennial buyers.

High debt to income ratios caused most rejected applications. High DTIs were responsible for 38 percent of rejected applications from buyers aged 22 to 29 and 44 percent of rejections for buyers in their thirties, an increase of about 200 percent over the 2019 report. High DTIs accounted for just 10 percent of youngest buyers' rejections and 21 percent of rejections suffered by buyers in their thirties. Among all buyers, high DTIs accounted for 35 percent of all rejections this year, up from 17 percent last year.

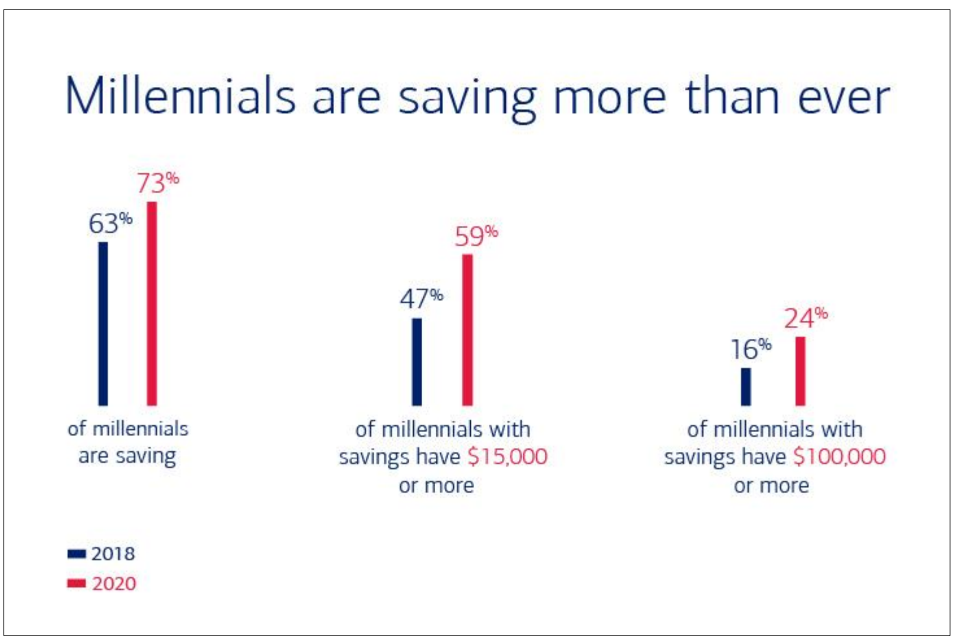
Low credit scores also increased. This year low credit scores were the next greatest cause of rejected applications, accounting for 23 percent of rejections suffered by buyers in their thirties,17 percent of rejections suffered by buyers in their twenties and 21 percent of all buyers' rejections. Last year 17 percent of all rejections were caused by high scores.

Only 17 percent of younger and older Millennials are buying in **urban locations**. Some 49 percent of younger Millennials and 53 percent of older Millennials are choosing suburbs, followed by rural areas (21 percent of younger Millennials and 18 percent of older Millennials).

Millennials juggle high debt with long-term goals

Millennials (ages 24-41) are saving more for their futures than ever before, according to the Bank of America Better Money Habits® Millennial Report. One-quarter who are saving for down payments have stocked away at least $100,000, up from 16 percent in 2018. However, despite financial successes, more than half of all Millennials say they feel behind financially compared to where they thought they would be, and another 33 percent feel financially behind their peers.

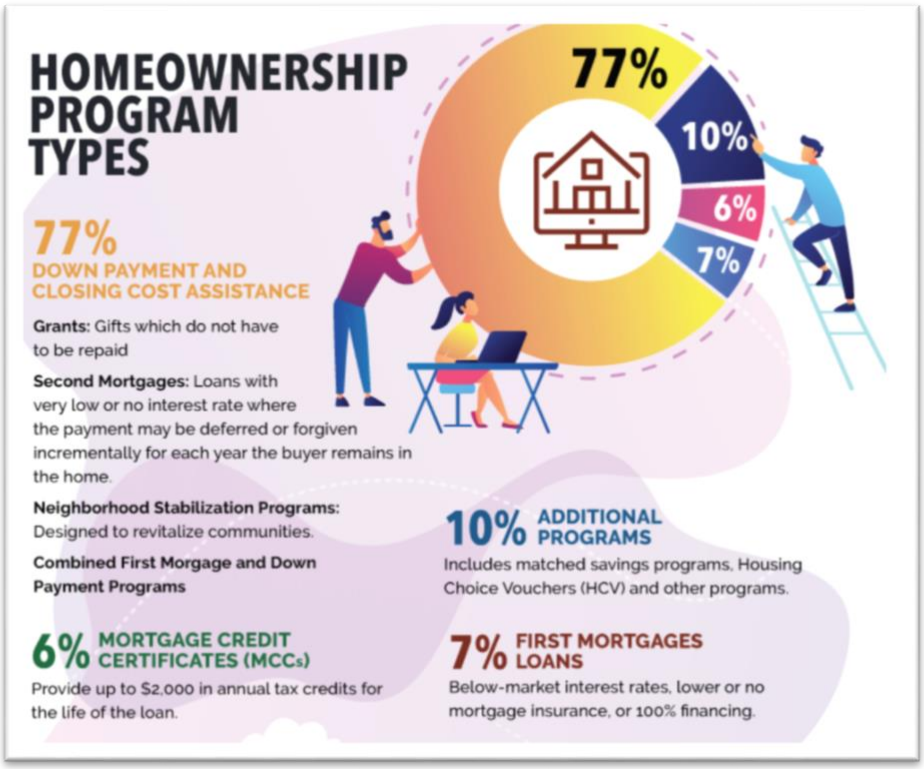
- While they confront substantial debt levels, Millennials are also financially preparing for “next chapter” goals – such as starting a family, buying a home and saving for the future.
- The 76 percent of Millennials carry debt of some kind, including credit card debt (37 percent) and student loans (25 percent). Excluding home loans, one in six owes $50,000 or more.
- Seventy-six percent of Millennials carrying debt say they can’t achieve their personal and financial goals because of it, including buying a first or nicer home (42 percent), saving for the future (40 percent) and starting or growing a family (21 percent).
- Ninety percent are willing to make sacrifices to achieve a financial goal, including cutting back on dining out (70 percent), eliminating vacations (35 percent) and downsizing their home (21 percent).
- Fifty-seven percent would rather stay in a less desirable job with a higher salary instead of taking a more desirable job with a lower salary. Fifty-two percent would rather work harder today and retire early, instead of working longer and having more free time.



Source: Bank of America Better Money Habits® Millennial Report

Growth in share of DPA programs and programs for community servants

Down Payment Resource's latest Homeownership Program Index (HPI) found there are 2,451 homeownership programs now available in the U.S. and 83% currently have funds available for homebuyers. The HPI reports an increase in the share of down payment and closing cost assistance programs (77%) and programs designed to serve community servants (11%) such as police officers, veterans, firefighters, healthcare works, and educators.



Across the Nation

San Diego launches DPA program for police

San Diego officials announced a new program to help San Diego police officers afford housing down-payments within city limits.

The San Diego Police Officer Home Buyer Down-Payment Assistance Program will provide down-payment assistance to eligible San Diego law enforcement officers in the form of five-year, zero-interest loans of up to $50,000.

The San Diego Police Department has struggled with the recruitment and retainment of officers in recent years, and they believe the city's lack of affordable housing to be a contributing factor. Less than 30 percent of the city's law enforcement officers actually live within city limits, according to estimates from the San Diego Police Officers Association.

Participating banks will contribute an initial combined amount of $500,000, and the city will contribute $250,000. All funds will be used solely to provide down-payment assistance, according to the city.

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Pennsylvania legislation creates first-time buyer savings accounts

The Pennsylvania First-Time Home Buyer Savings Account Act would allow eligible Pennsylvanians to open special savings accounts to be used for the purchase of a home. The bill also allows for individuals to take state tax deductions for savings toward expenses such as closing costs or a down payment.

To be eligible, residents must be first-time homebuyers or have not owned or purchased a home in the three years leading up to the purchase. Contributions up to $50,000 could be made to savings accounts over a 10-year period. There would be an annual contribution cap of $5,000 for single taxpayers and $10,000 for those filing jointly.

The program is estimated to result in up the sale of more than 4,000 more homes annually. The bill passed the state Senate in February and is awaiting consideration in the House of Representatives.

Delaware launches Homes for Grads

The Delaware State Housing Authority has launched a new program providing discounted rates to attract recent college graduates to the state. Homes for Grads will provide a reduced mortgage rate of 50 basis points on DSHA's Preferred Plus loans, which include down payment and settlement assistance. DSHA will work with its participating lenders to offer the Homes for Grads program to recent college graduates, including those with student loan debt.

Florida may raid affordable housing fund again

With revenues raised from taxes on real estate sales, Florida's Sadowski Fund was created to increase affordable housing. Though housing costs have increased, the state legislature has used the fund the balance the state budget, shifting more than $2 billion over the past 12 years, according to the Naples Daily News.

Local governments receiving the funds decide how they are used, and many designate the money to go toward down payment and closing cost assistance for first-time homebuyers. Teachers are among those most likely to tap into the available money because their income is low enough to qualify, but stable enough to meet standard mortgage requirements.

This year, the House's budget would pull $240 million from the fund and the Senate and Governor DeSantis' seek to fully fund the Sadowski Affordable Housing Trust Fund at $387 million. The Sadowski Housing Coalition a nonpartisan collection of over 30 statewide organizations, is urging that Sadowski funds be used for their intended purpose.

Homeownership aimed at building African Americans' wealth in DC

In the District of Columbia, about 50 percent of African American households own their homes, compared to more than 70 percent of white households — a roughly 20 percentage point gap, according to the Urban Institute. Other metropolitan areas have gaps as high as 51 percent, but Washington's disparity is significant for a region with such a robust black middle class, according to a report by WAMU radio.

A lack of black homeownership is the main reason white households in D.C. reported a net worth 81 times greater than the city's U.S.-born black households in 2014. Meanwhile, rising property taxes and intensifying pressure to sell have prompted many of the city's existing black homeowners to cash in their equity.

The District of Columbia, Maryland and Virginia all offer financial assistance to first-time homebuyers with moderate or low incomes. D.C.'s Home Purchase Assistance Program, which provides zero-interest down payment loans and closing cost assistance, distributed 343 loans in the 2019 fiscal year. Of those, 85% went to black applicants, according to D.C.'s Department of Housing and Community Development, which administers the program.

Updated 2020 and 2021 Forecasts

	2020	2021
30-year fixed Rate		
Fannie Mae	3.3	3.1
Freddie Mac	3.8	3.8
MBA	3.7	3.7
Purchase Originations ($B)		
Fannie Mae	$1.40	$1.45
Freddie Mac	$1.26	$1.33
MBA	$1.30	$1.325
Median Home Prices		
NAR Existing homes	$268,300	$270,400
Fannie Mae New Homes	$334,000	$344,000
FHFA Purchase-only Index	4.6	2.5
New Homes		
MBA New Home Starts (Single Family)	940,000	975,000
MBA New Home Sales	734,000	754,000
Total Home Sales		
Fannie Mae	6.20 million	6.22 million
Freddie Mac	6.2 million	6.3 million

First-time Buyers	2020-2022
TransUnion	8.3 to 9.2 million

[1] November 2019 price

Down Payment Data

March 2020 Loan Data: Millennials

	Millennials
Median loan size	$212,531
FICO	731
LTV	84
DTI	24/36
Market Shares	CON 72 percent, FHA 23 percent, VA 2 percent

Source: [Ellie Mae Millennial Tracker]

January Purchase Loans

	LTV	**DTI**	**FICO**	**RATE***
All loans*	76	24/37	738	3.96
Conventional	80	23/36	755	4.03
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

- Social demographic and credit issues account for about 66 percent of the gap between black-white homeownership rates, according to research by Freddie Mac Senior Economist Jaya Dey. Credit issues include thin credit, poor credit and no credit at all.

- The National Association of Realtors' (NAR) Home Buyer and Seller Generational Trends Report found that the median down payment for buyers in their twenties rose two points to 8 percent over the past year but the median down payment for all buyers fell from 14 to 12 percent.

- The NAR report also found that high debt-to-income ratios are the leading cause of rejected mortgage applications from younger buyers. Rejections due to high DTIs more than doubled over the past year. The second leading cause for rejected mortgage applications is credit profiles.

- The Pennsylvania state legislature is considering a bill to empower buyers to establish tax advantaged saving accounts to help them save for down payments.

- Down Payment Resource's latest Homeownership Program Index found there are 2,451 homeownership programs now available in the U.S. and 83% currently have funds available for homebuyers.

- One quarter of Millennials who are saving for the future have saved at least $100,000 according to a new Bank of America study.

- Seventy-six percent of Millennials in the Bank of America study are carrying so much debt that they can't achieve their personal and financial goals because of it, including buying a first or nicer home (42 percent), saving for the future (40 percent) and starting or growing a family (21 percent).

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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