The Down Payment Report

News and Data on Residential Down Payments

November/December 2021

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Creating first-generation homeownership.

As we put the finishing touches on the final Down Payment Report of the year, Congress has yet to complete work on the Build Back Better reconciliation bill, including a new first-generation down payment assistance (DPA) program that could change the face of homeownership for decades to come.

Many believe that a first-generation DPA program may help to shrink the racial homeownership gap. Between a fifth and a quarter of all homebuyers receive help from relatives for a down payment. Yet, a White child is two times more likely to receive an inheritance than a Black or Hispanic one, and nearly twice as many White families as Black families can afford to make a $3,000 gift.

It is well established that young adults who grow up in family-owned homes are much more likely to become homeowners themselves than those who have never experienced the benefits of homeownership, such as wealth-building. A first-generation DPA program will introduce hundreds of thousands of families to a legacy of homeownership that will carry on for generations.

Happy holidays and best wishes for the new year,

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In this issue:

THE DPR INTERVIEW

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

First-time Buyers in 2022

Dr. Jessica Lautz
Vice President, Demographics and Behavioral Insights
National Association of REALTORS®

The core of Dr. Lautz's research focuses on analyzing trends for both NAR members and housing consumers. Through management of surveys, focus groups, and data analysis, she presents new and innovative ways to showcase results. She discusses research findings in major media outlets and international presentations. In 2021, Dr. Lautz was named one of Housing Wire's Women of Influence, a list representing 100 of the most influential women in leadership in the housing industry.

Q: Is the market share of first-time buyers increasing?

The market share of first-time buyers went up last year, rising to 34 percent from 31 percent. There are two reasons why this happened. The first is that first-time homebuyers had more help from mom and dad to buy their first homes last year than they have had in the past. The second thing that we are seeing is a wave of Millennials that is increasing the number of first-time buyers.

Q: How do you see 2022? Is it going to be a better year for first-time buyers?

We will see slightly higher interest rates, and it will still be difficult for first-time buyers. We know that home prices will continue going up, but hopefully not at the double-digit rates that we have seen in the past year.

Q: In terms of inventory, it seems as though nothing will change for the better any time soon. Do you agree?

I would say that many older owners have been hoping to stay in their homes, and if they decide that they do need to sell, we could see some improvement. Also, supply chain issues are starting to lessen, which could help new construction, but we still need four and a half to six and a half million homes that we are missing right now, and that's a lot of inventory.

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Q: Do you see any hope on the horizon for new home construction next year?

I think that it is more likely that there may be more renovation of existing structures such as hotels, motels, or office spaces because there is less reliance upon supplies. Even renovating existing homes could help first-time buyers.

Q: One of the things that has been difficult for first-time buyers is the level of competition in many markets, which was just extraordinary. With higher interest rates, do you think competition might decline slightly?

Unfortunately, investors and vacation home buyers are less likely to finance their purchases, so interest rates may not be as important to them. We already see that the average of five offers per sale has fallen to three. Conditions for first-time buyers will still be challenging. There is still a lot of competition, but the trend is in the right direction.

Q: In competitive environments, we've heard that many sellers have not been considering bids with FHA loans because of their concern that the government inspection required by FHA might increase the owners' closing costs or lower the sales price. Do you think FHA loans will continue to compete at a disadvantage next year?

I can tell you that we have looked at that issue, and we surveyed our members. We asked how many of their clients had a problem with FHA loans or VA loans. We found that half our members said that they had clients who would not accept either FHA or VA loans over conventional loans or all-cash offers. It is hard for FHA to compete with conventional financing and even harder to compete with all-cash buyers.

Q: Several years ago, NAR published a consumer study that found 39 percent of renters believe they need to put down more than 20 percent to buy a home, and a major shudder went through the mortgage industry. Do you think that's changed? Do you think that awareness of low-down payment options is higher today?

No, unfortunately, I think that is one of the least understood options among potential home buyers out there. Even with FHA and other programs out there that allow three and a half percent down, I think a lot of people out there are unaware of those programs. I don't believe that attitudes have changed.

Q: More and more prospective young buyers are growing frustrated, tossing in the towel and giving up hope that they will ever buy. The rental industry calls them "lifestyle renters." Do you think that there just won't be enough homes to buy for the people who want to buy them?

I think inventory is a real concern, and home prices are a real concern. But whether you look at NAR data or Federal Reserve data, or any number of other data sources, I think that people will still want to own a place of their own and have the comfort of homeownership.

DOWN PAYMENT ASSISTANCE

New First-generation Program is Within Striking Distance

As the Christmas recess looms, Congress is close to creating the most ambitious federal down payment assistance program in history, and the first exclusively for first-generation and first-time buyers.

On November 19, the House passed the Build Back Better Act, also known as the reconciliation bill or the social policy bill. Should it pass the Senate, both bodies would vote a final version that irons out differences in the two versions before it is sent to the President.

The House version contains a major new federal down payment assistance program for first-generation buyers.

First Generation Downpayment Fund. This new fund would receive $10 billion through FY 2026 to be distributed to qualifying first-generation home buyers through two channels:

- States would receive $6.9 billion for the new first-generation down payment assistance program.
- Some $2.3 billion will be awarded competitively to nonprofits who distribute down payment grants directly to first-generation, first-time homebuyers.

The amount of down payment per homebuyer would not exceed either $20,000 or 10 percent of the purchase price. Eligible expenses include down payment assistance, closing cost assistance, and interest rate reductions. Funds also could be used to finance pre-purchase modifications needed to make a home accessible for the buyers or members of their household.

If the homebuyer abandons the property within five years, he or she will have to repay the grant. HUD is allowed to increase the maximum assistance amount for homebuyers considered economically disadvantaged.

First-generation home buyers are defined as first-time buyers whose parents or legal guardians, to the best of the individual's knowledge, do not own a principal residence, nor have they owned one in the past.

The bill also contains:

- **HOME Investment Partnerships Program.** The bill also includes $10 billion for the HOME Investment Partnerships Program, which builds, purchases, and rehabs affordable homes for low-income families; and
- **Community Development Block Grants.** These grants include the construction, purchase, and rehabilitation of affordable homes for low-income families.
- **Housing Trust Fund.** The bill would provide $14.925 billion for the Housing Trust Fund through FY 2026.
- **Small Dollar Demonstration Program.** The bill will provide $100 million for a HUD-insured small-dollar mortgage demonstration program.

FIRST-TIME BUYERS

Pandemic Woes Constrain Single Women Buyers

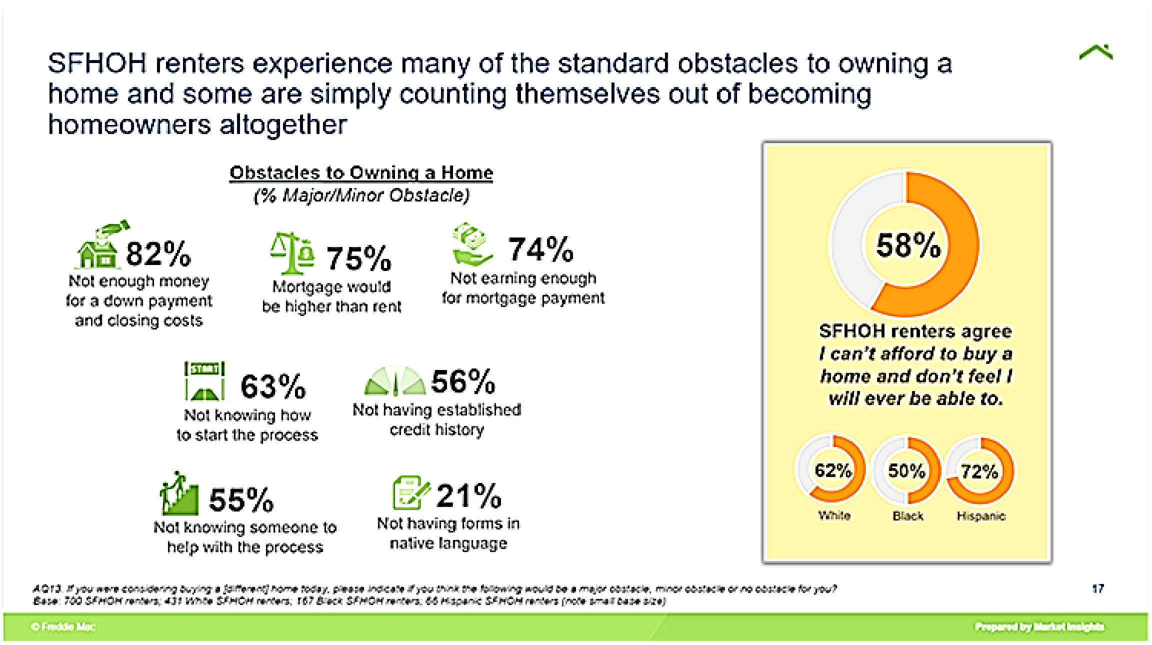
Hailed as a powerful force in the housing market last year, potential single women homebuyers are falling victim to economic woes generated by the pandemic.

Credited with "propping up the first-time homebuyer segment" nine months ago, 60 percent of single women renters now believe that homeownership is out of the question, according to an April Freddie Mac survey released in mid-October.

Some 82 percent of single female heads of household (SFHOH) renters say they don't have enough money for a down payment or closing costs. Roughly 75 percent also believe a mortgage would be higher than their rent or don't earn enough for a mortgage payment.

Many women had their work situations disrupted during the pandemic. Among those who dropped out of the workforce, a staggering 75 percent have not returned. Black and Hispanic women more frequently struggle to provide for their households and fear they will not recover financially in the next year, if ever. Generation X and younger respondents also struggle financially and feel stressed about the future.

"The COVID-19 pandemic has had disparate economic impacts nationwide, particularly on women who are heads of their households, such as single moms and caretakers," said Pam Perry, Single-Family Vice President of Equitable Housing. "While the survey showed some feel confident in their knowledge of finances and building credit, many lack confidence in the possibility of homeownership."



Source: Freddie Mac

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Are Millions of First-time Buyers Tossing in the Towel?

An analysis of 5.9 million rental applications by the RentCafe website concluded that a 20 percent rise in 2021 rental applications resulted from "Millennials who were forced to give up on the American dream."

Some 43 percent of Millennials who applied for rentals in 2021 and earned over $50,000 exceeded the 36 percent share of Millennials who applied to rent last year and earned more than $50,000, "a sum which would have allowed for homebuying."

Rental applicants in 2021 earned roughly $4,300 more than last year's applicants. “This means even wealthier Millennials resort to renting in the current house market," said RentCafe. “High-earning Millennials are behind a recent boom in lifestyle renting."

Surprisingly, of the top 50 cities ranked by Millennial renter applications, 43 are small, with populations under 300,000. Macon, GA, led the nation with an 83 percent rise in rental applications from Millennials earning over $50,000, followed by Mesa AZ, with a 78 percent increase.

Large cities where "homebuying suddenly became mission impossible" saw surges in high-earning Millennials applying for rent. Indianapolis saw a 51 percent increase in Millennial renter applicants who earn over $50,000, followed by Las Vegas, where applications from wealthier Millennials grew by 43 percent.

High prices encourage a boom in co-buying

There's nothing particularly new about two unrelated people buying a home together. In these days of double-digit appreciation, it's the only way many first-time buyers can leap to homeownership. In 2021, co-buying will account for one out of four home sales, according to a survey by a site called "Gocobuy.com."

Unmarried couples have practiced co-buying for decades, but today's high prices encourage another kind of co-buying—unrelated roommates. At the outset of the pandemic from April to June 2020, 11 percent of buyers purchased as an unmarried couple and 3 percent as "other" (e.g., roommates), according to data from the National Association of Realtors. That is up from 9 percent and 2 percent respectively in 2019.

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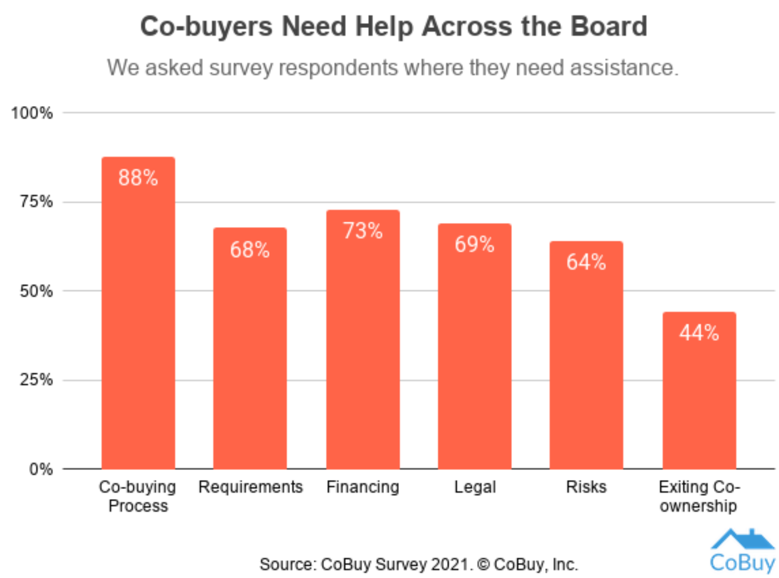
Co-buying creates some potential problems:

- One partner's financial condition will impact both parties on a mortgage application, negatively impacting the party in better shape since both are technically liable for the entire mortgage payment. Thus, the lowest credit score and worst debt-to-income ratio could result in a higher interest rate or rejection.
- Both parties are tied to the same mortgage, so if one cannot or doesn't make payments, both people are held responsible, regardless of who is making timely payments.
- Both parties must agree on repairs or improvements, which can be difficult if one person lacks adequate funds or motivation.



Co-buying can be challenging.

FHA

FHFA and FHA Loan Limits Will Rise 18 Percent in 2022

Double-digit price increases in 2021 drove the 2022 loan limits for FHA and conventional loans up by about 18 percent. VA loan limits were abolished in 2020, so VA loans must conform to the same limitations set by FHFA for conventional loans.

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Higher loan limits allow borrowers to take out larger loans without using a jumbo loan and keep homeownership affordable even in places where home values have greatly appreciated in recent years. However, the significant increase is not seen as a good idea in some quarters.

"Approaching a $1 million loan limit highlights the need for Congress and the administration to think hard about how much support taxpayers should provide the mortgage market," said Ed DeMarco, president of the Housing Policy Council, an industry group focused on housing finance, told the Orange County Register.

For loans purchased by Fannie Mae and Freddie Mac, the Federal Housing Finance Agency (FHFA) set the baseline conforming loan limit for 2022 at $647,200, an increase of 18 percent over 2021's limit. The new ceiling loan limit for one-unit properties in most high-cost areas is now $970,800—or 150 percent of $647,200.

FHFA 2022 limits for one-unit properties

Low-Cost Areas	Medium-Cost Areas	High-Cost Areas
$647,200	$647,201 - $970,799	$970,800

Almost every county will see higher FHA limits in 2022 due to double-digit appreciation in 2021. The FHA national low-cost area mortgage limits are set at 65 percent of the national conforming limit of $647,200 for a one-unit property.

FHA 2022 limits for one-unit properties

Low-Cost Areas	Medium-Cost Areas	High-Cost Areas
$420,680	$420,681 - $970,799	$970,800

PMI

Legislation Introduced to Restore PMI Deduction

During the Great Recession in 2007, to temporarily provide a little relief to suffering homeowners, Congress passed legislation allowing them to deduct the PMI premium they paid in 2007. Initially scheduled to expire after one year, the deduction managed to survive by one or two-year extensions. This legislative feat continued every year for a decade until the deduction finally died at the end of 2017.

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The PMI deduction returned two years ago when it was tacked onto an appropriations bill, allowing homeowners to retroactively deduct their premiums paid in 2017 and 2018. It also included a phase-out for taxpayers with incomes over $100,000 ($50,000 each for couples filing jointly), and it goes away entirely for those earning more than $109,400.

Once again, the PMI deduction is expiring at the end of this year. Once again, the wheels are in motion to restore it, make it permanent, and increase the phase-out trigger to $200,000 in annual income. Legislation backed by US Mortgage Insurers was introduced in the House on December 1st.

DOWN PAYMENT ASSISTANCE AROUND THE NATION

Mobile AL

On December 8, the City of Mobile, Alabama, will be offering enhanced down payment assistance to qualifying frontline healthcare workers and active certified teachers. "I think we all learned during the COVID-19 pandemic just how vital our healthcare workers are to public health and safety," said Mobile Mayor Sandy Simpson

Sedona AZ

Sedona, AZ, announced a new down payment assistance program starting in 2022. Up to $10,000 of borrowed funds can be matched with up to $25,000 in assistance funds for 2.5-to-1 match. Housing Solutions of Northern Arizona will administer down payment assistance programs and educate residents on homeownership for the next three years. The new program comes after a 2020 housing study found extreme housing gaps and future demand for 250 units. After the study was completed, median house prices rose to over $800,000 from the $562,500 house median cost in 2019.

Burlington VT

Champlain Housing Trust will use a $500,000 grant to help 40 Vermont families get into affordable homes in Burlington, VT. The grant from NeighborWorks America was one of only two made nationwide and will support Champlain Housing Trust's shared equity program. Potential homeowners are offered down payment assistance, while private and public resources are used to create permanently affordable homes. The housing trust's shared equity program now includes nearly 650 homes, making it the most extensive program of its kind in the country.

Lincoln, NB

Some $3 million from the State of Nebraska and $3 million from the Nebraska Investment Finance Authority created $6 million for new down payment assistance programs in Lincoln, NB. NeighborWorks Lincoln is one of three area nonprofits receiving $2 million each to revitalize and build new affordable homes, which will help the city meet a goal of 5,000 new or rehabilitated affordable homes by 2030.

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Clovis, NM

The City of Clovis provided the land and $86,000 in down payment assistance to help Roman Delgado, a US Navy Veteran, his wife Myra, and their four children move from a crowded apartment into a new Habitat for Humanity home. Habitat has built the fourth home in this neighborhood in partnership with the City of Clovis, and this is the second home built exclusively for a veteran family.

Rochester, NY

A $1 million experiment aims to build approximately 50 homes in Rochester and reduce potential fees to keep housing affordable. The plan, which met with unanimous council approval, will contribute $500,000 to the Coalition for Rochester Area Housing to create new homeownership opportunities, focusing on reducing the housing gap for people of color. Another $500,000 would be committed to implementing a fee-waiver pilot program for developing homes for families earning 50 percent to 60 percent of the area median income and offering city-owned land for below-market prices for affordable housing projects. Taryn Edens, the city's manager of housing and neighborhood services, said the programs would be combined with a county program offering $10,000 down-payment assistance loans for new homes.

Minneapolis, MN

“Raising a low-income family's monthly income enough to support a 30-year mortgage can be hard.

Helping someone come up with a down payment, on the other hand, is pretty cheap in many cases. We just need to make it easier.

There is down payment assistance available. But the well-intentioned efforts in the state so far have led to the creation of more than 70 such assistance programs, by the count of the St. Paul-based nonprofit Minnesota Homeownership Center (MHC).

‘It's a frustrating ecosystem,’ said Julie Gugin, the center's president, something her agency has heard from all parts of the system, from the real estate agents to nonprofit and government program managers.

Even the pros, the state's real estate agents and mortgage bankers, find the down payment assistance landscape here a confusing mess.

That is why the MHC, along with groups like the Minnesota Realtors, have a project underway — with two goals. The groups hope to see more money allocated for down payment programs and for the process to become a lot cleaner, simpler and less complex for qualified buyers to get that financial help."

From "The maze to get down payment assistance must be simplified" by Lee Schafer, Minneapolis Star-Tribune.

Down Payment Data

December 2021 Loan Data: Millennials and Gen Z

Average loan size	$215,848
FICO	720
LTV	88
DTI	23/35
Market Shares	CON 70 percent, FHA 20 percent, VA 1 percent

Source: ICE Mortgage Technology Millennial Tracker

September 2021 Purchase Loans

	LTV	DTI	FICO	RATE
All loans	72	24/36	740	3.15
Conventional	81	24/35	755	3.17
FHA	95	30/43	676	3.20
VA	97	27/41	720	2.85

Source: ICE Technology Origination Insight Report

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 2,300 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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