HOUSING FINANCE POLICY CENTER

HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

October 2023

Special Feature with
Down Payment Resource

ABOUT THE CHARTBOOK

The Housing Finance Policy Center's (HFPC) mission is to produce analyses and ideas that promote sound public policy, efficient markets, and access to economic opportunity in the area of housing finance. *At A Glance*, a monthly chartbook and data source for policymakers, academics, journalists, and others interested in the government's role in mortgage markets, is at the heart of this mission.

We welcome feedback from our readers on how we can make *At A Glance* a more useful publication. Please email any comments or questions to ataglance@urban.org.

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Down Payment Resource data to Understand the Impact of Down Payment Programs

How DPA can boost home sales in a high-rate environment

Purchasing a home has become more difficult in recent years. Higher mortgage rates and still elevated house prices have combined to significantly reduce homebuying affordability. And amid higher rates, purchase mortgage denial rates spiked.

Down payment assistance (DPA) is one tool that could help potential homebuyers achieve homeownership. Specifically, DPA could help potential first homebuyers whose share of agency purchase loans has been largely flat since 2020. The most common barrier for accessing homeownership is saving for a down payment. DTI contributes to over a third of purchase mortgage denials (p.9), and high interest rates have been pushing DTI ratios up in 2022 and 2023. Down payment assistance can increase borrowers' cash-to-close (CTC) and reduce their debt-to-income ratio (DTI), helping buyers get approved for a purchase loan. Homeownership, in turn, can help families build generational wealth.

Amid the buyer challenges posed by higher interest rates, the Housing Finance Policy Center partnered with Down Payment Resource for our October 2023 special feature to analyze DPA programs over 2022. Down Payment Resource connects homebuyers with the down payment help they need and provides tools for housing professionals to help them along the way. The analysis in this special feature includes key characteristics of DPA programs, shows the share of originations across the 10 largest MSAs that would qualify for DPA, and the share of denied loans that could potentially have been salvaged with DPA. One consistent theme is that DPA targets potential buyers with fewer financial means.

Many DPA programs are designed to help financially constrained households

As of Q2 2023, there are 1,676 active (funded) DPA programs in the US. In 2022, 60.7 percent of programs contribute a set dollar amount to a borrower's down payment, with a median contribution of $15,000. 22.1 percent of programs contribute a percent of the sales price, on median 10 percent. Another 9.5 percent of the programs contribute a percent of the loan amount, the median contribution in these cases is 5 percent (p. 5).

To better target homebuyers more likely to require greater finance assistance, 72.7 percent of DPA programs impose income limits. 45.3 percent of all programs have an income cap of 80 percent of area median income. In addition, 62.1 percent of programs have a first-time homebuyer requirement. A third of programs have a minimum FICO requirement, the median of which will only give down payment assistance to borrowers whose credit score is above 640 (p.6).

Almost half of originated purchase mortgages are eligible for DPA

43.6 percent, of purchase loans for 1–4-unit properties in the top 10 MSAs in the US would be potentially eligible for down payment assistance (p.8). Across channels, FHA and USDA loans are most likely to be eligible at 79.8 and 81.9 percent, respectively. In addition, FHA and USDA loans are generally eligible for a greater number of programs than Conventional or VA loans.

DPA could have potentially helped salvage thousands denied a purchase mortgage

Across the top 10 MSAs, 30.7 percent of denied loans could potentially have been salvaged with DPA. For a loan to be potentially salvageable, a purchase loan applicant must be eligible for a DPA program but primarily denied the mortgage due to DTI or CTC.

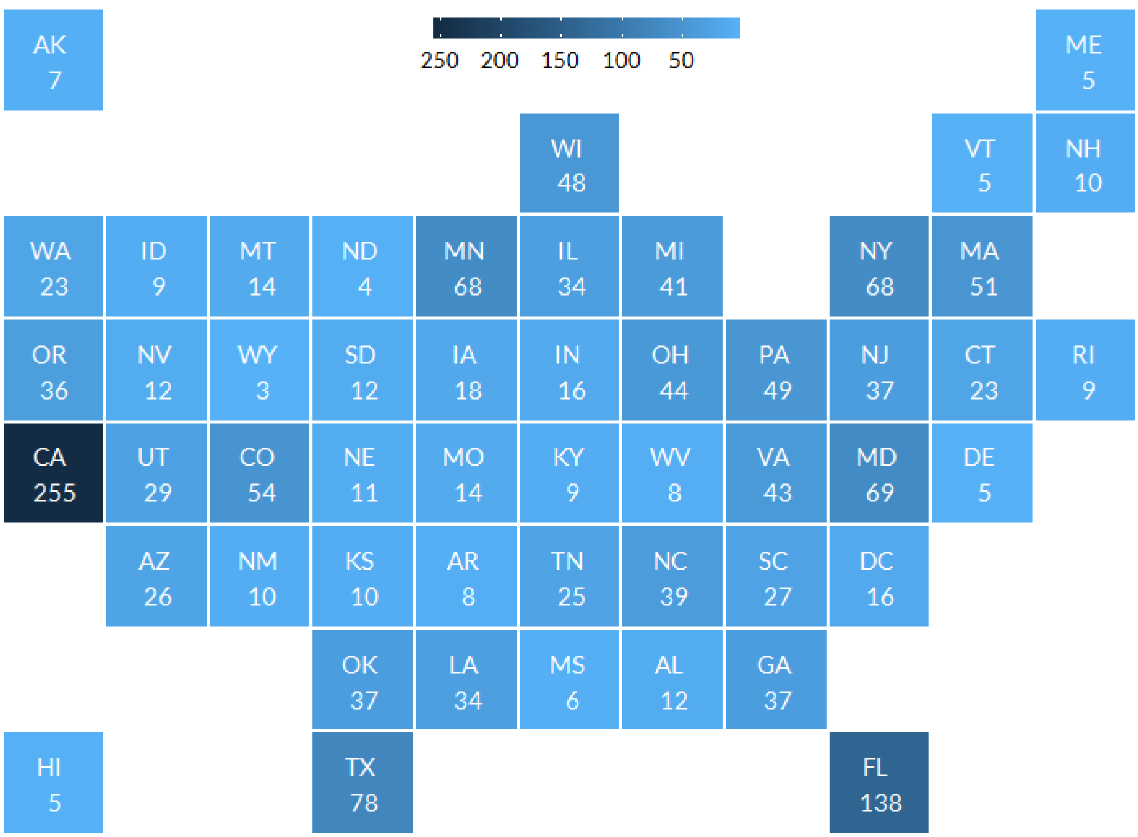
Over the 10 largest MSAs, approximately 46,000 denied applicants were potentially salvageable (p.10-11). In seven of the 10 MSAs, denied FHA loans had a greater likelihood of being potentially salvageable with DPA. In the other three MSAs, denied USDA loans had the greatest likelihood of being potentially salvageable, although the absolute numbers of USDA loans were small.

This is a truncated version of the HFPC At A Glance October Chartbook, you can find the **full version here**.

Down Payment Assistance Programs by State

The map below shows the number of funded down payment assistance (DPA) programs in each state. Nationally, there are 1,676 funded DPA programs as of 2023 Q2. Most programs of these are based in one state but 25 operate across states or nationally. California has by far the most DPA programs. This is likely due to high housing costs and low homeownership rates in California. According to the 2022 American Community survey, the homeownership rate in California if 55.8 percent. This is significantly lower than the national homeownership rate of 65.2 percent. 29.7 percent of homeowners with a mortgage in California spend 35 percent or more of their household income on housing, compared to only 21.3 percent nationally.

Down Payment Assistance Programs



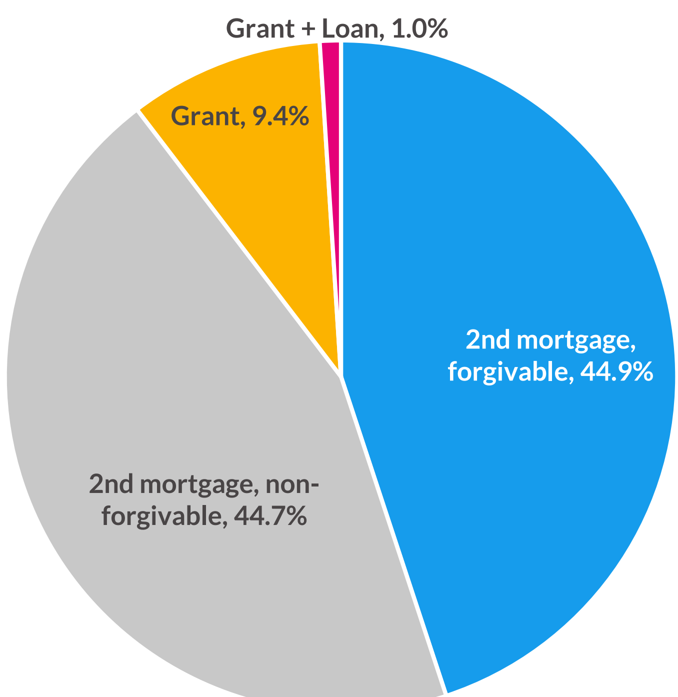
Sources: Down Payment Resource, 2022 American Community Survey and Urban Institute Calculations.

Special Data Feature: Down Payment Resource

Characteristics of Down Payment Assistance Programs

- Down payment assistance programs tend to take two forms: second mortgages or grants. 89.6 percent of down payment assistance programs active as of August 2023 are second mortgages, 9.4 percent are grants and 1.0 percent include both a second mortgage and grant.
- 81.9 percent of second mortgages are deferrable, the borrower starts paying back the down payment assistance several months or years into the mortgage. The median waiting period for payment assistance programs is 10 years.
- About half, 53.9 percent, of down payment assistance programs are forgivable and 94.2 percent of forgivable DPA programs are fully forgivable. When there is a waiting period for DPA forgiveness, borrowers wait a median 60 months or 5 years.
- 60.7 percent of programs contribute a set dollar amount to a borrower's down payment, with a median contribution of $15,000. 22.1 percent of programs contribute a percent of the property value, on median 10 percent. Another 9.5 percent of the programs contribute a percent of the loan amount, the median contribution in these cases is 5 percent.
- 82.2 percent of DPA programs are provided by municipal governments, nonprofits or state HFAs. Other types of program providers include state housing corporations, employers and tribal organizations.
- 8.7 percent of 2nd mortgage programs and 20.4 percent of grants are part of combined homebuyer assistance programs. These programs are usually offered by Housing Finance Agencies (HFAs) where the down payment assistance is packaged with one of the HFA's affordable first mortgage products as opposed to being a standalone DPA program that a lender can use with their in-house mortgage products.

Down payment assistance programs by type and forgiveness

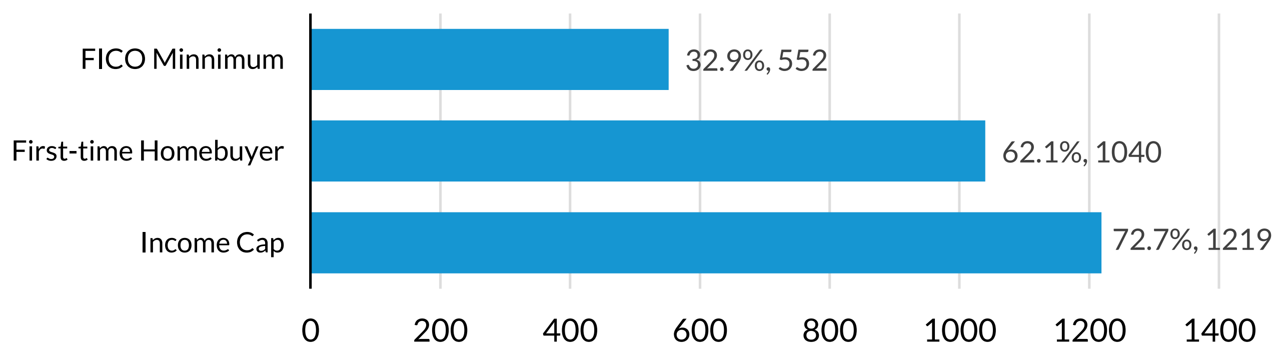


Source: Down Payment Resource and Urban Institute.

Borrower Requirements for Down Payment Assistance

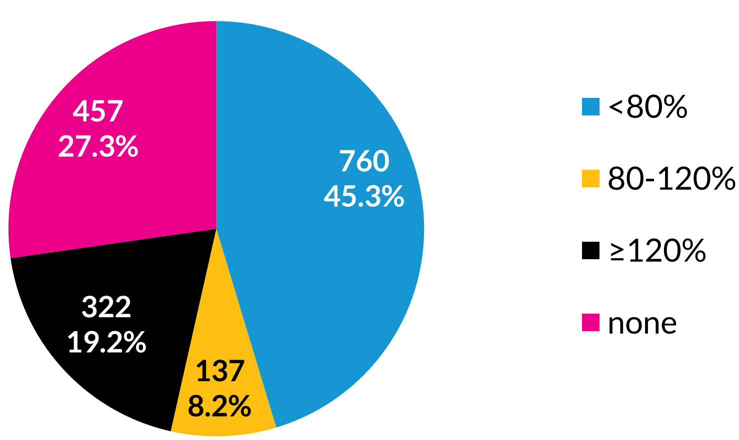
- Half, 51 percent, of DPA programs require a set borrower contribution. Among programs with a set borrower contribution, half require a dollar amount, on median $1,000, and half require a percent of the sales price, on median 2 percent.
- 62.1 percent of DPA programs have a first-time homebuyer requirement.
- 72.7 percent of programs have an income maximum. 45.3 percent of programs have an income cap of 80% area median income or less, 19.2 percent of programs have an income maximum of 120% area median income or more.
- 5.8 percent of programs include an equity sharing requirement. In this case the investor who funded the down payment assistance gets a share of the property appreciation from the time of purchase to when the owner eventually sells or pays off their mortgage.
- 32.9 percent of programs enforce a credit score minimum, the median credit score minimum for programs with a requirement is 640.

Borrower Requirements for Down Payment Assistance



Source: Down Payment Resource and Urban Institute Calculations.

Down Payment Assistance Programs by Income Limit



Source: Down Payment Resource and Urban Institute Calculations.

Down Payment Assistance by Loan Type

The table below shows the number and percent of 2022 purchase mortgages potentially eligible for down payment assistance in the 10 largest metropolitan statistical areas (MSAs). This includes eligibility for all DPA programs, about 82.5 percent of which currently have funding. In Atlanta, 51.6 percent of homebuyers were eligible for assistance, the average loan amount of these mortgages was $405,000, eligible borrowers had a median household income of $104,000, the average borrower is eligible for 1.6 DPA programs (one or two programs) and the median amount of assistance a borrower could receive was $5,000. Across these MSAs, FHA and USDA loans are most likely to be eligible for assistance. Average DPA assistance is generally highest for conventional and VA loans because loan amounts are generally higher for these borrowers and down payment assistance is often a share of the property or loan amount.

MSA	Loan Type	Loans Eligible for Assistance	% Eligible for Assistance	Median Loan Amount ($)	Median Income ($)	Average Programs Eligible for Assistance	Median DPA $
Atlanta-Sandy Springs-Roswell, GA	All	88,171	51.6%	$405,000	$104,000	1.6	$5,000
	Conventional	63,929	43.7%	$435,000	$116,000	1.5	$5,000
	FHA	16,743	82.9%	$315,000	$81,000	1.8	$6,537
	VA	6,997	48.9%	$385,000	$98,000	1.5	$5,000
	USDA	502	82.0%	$245,000	$74,000	1.8	$7,500
Chicago-Naperville-Elgin, IL-IN-WI	All	112,910	42.2%	$325,000	$98,000	10.9	$8,750
	Conventional	88,274	33.6%	$345,000	$108,000	10.6	$8,750
	FHA	20,152	77.9%	$255,000	$76,000	12.2	$8,787
	VA	4,388	42.2%	$315,000	$91,000	10	$8,750
	USDA	96	82.0%	$185,000	$63,500	7.7	$9,050
Dallas-Fort Worth-Arlington, TX	All	109,161	49.5%	$415,000	$118,000	10.1	$16,862
	Conventional	81,994	42.7%	$455,000	$128,000	9.2	$17,812
	FHA	17,442	82.9%	$325,000	$92,000	13.3	$14,962
	VA	9,547	47.3%	$415,000	$111,000	10.1	$17,812
	USDA	178	82.0%	$285,000	$85,000	14.8	$13,537
Houston-The Woodlands-Sugar Land, TX	All	92,747	53.3%	$345,000	$108,000	9.7	$14,012
	Conventional	64,792	45.2%	$385,000	$121,000	8.6	$14,962
	FHA	19,922	82.9%	$285,000	$86,000	12.5	$13,062
	VA	7,869	48.9%	$355,000	$102,000	9.9	$14,962
	USDA	164	82.0%	$235,000	$76,000	14.6	$11,162

Sources: Down Payment Resource, Home Mortgage Disclosure Act (HMDA) 2022, Federal Housing Administration (FHA), eMBS and Urban Institute.

Notes: MSA = Metropolitan Statistical Area; DPA = Down Payment Assistance; VA = US Department of Veteran Affairs; USDA = US Department of Agriculture. Based on 2022 HMDA purchase originations. For DPA eligibility estimates we assume household size of 3 and first-time homebuyer shares to be 50.2 percent for conventional, 82.9 percent for FHA, 50.9 percent for VA and 82.0 percent for USDA loans.

Down Payment Assistance by Loan Type

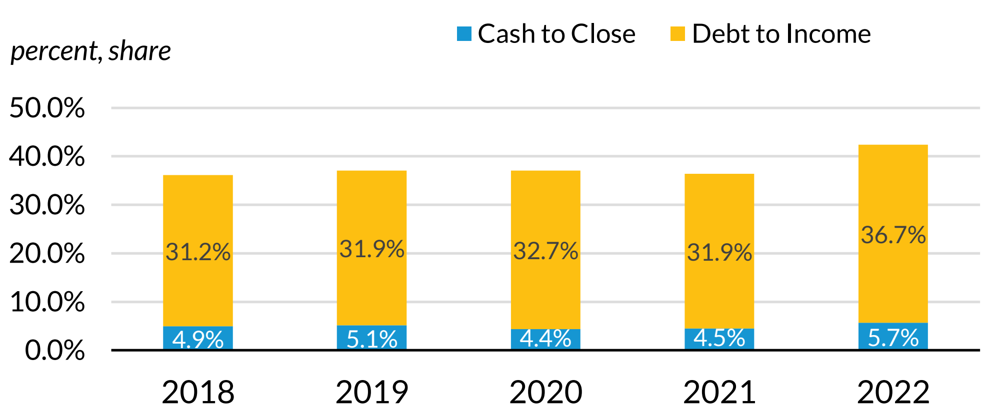
MSA	Loan Type	Loans Eligible for Assistance	% Eligible for Assistance	Median Loan Amount ($)	Median Income ($)	Average Programs Eligible for Assistance	Average DPA $
Los Angeles-Long Beach-Anaheim, CA	All	69,513	37.3%	$855,000	$175,000	12.5	$34,437
	Conventional	60,731	32.1%	$905,000	$185,000	12.2	$34,912
	FHA	6,684	82.1%	$625,000	$135,000	13.6	$29,687
	VA	2,088	42.8%	$755,000	$141,000	13.5	$33,487
	USDA	10	82.0%	$375,000	$116,000	15.5	$17,812
Miami-Fort Lauderdale-West Palm Beach, FL	All	57,403	37.3%	$445,000	$116,000	8.3	$15,000
	Conventional	46,369	30.1%	$485,000	$128,000	8.2	$15,000
	FHA	8,720	77.9%	$385,000	$90,000	8.7	$15,000
	VA	2,313	36.6%	$475,000	$109,000	7.9	$16,387
	USDA	1	82.0%	$155,000	$92,000	12	$10,000
New York-Newark-Jersey City, NY-NJ-PA	All	141,037	37.8%	$595,000	$143,000	6.9	$15,000
	Conventional	121,341	32.1%	$625,000	$150,000	7.1	$15,000
	FHA	17,139	75.4%	$495,000	$116,000	6.2	$15,000
	VA	2,496	41.7%	$515,000	$122,000	5.9	$15,000
	USDA	61	82.0%	$235,000	$78,500	5	$15,000
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	All	67,546	49.3%	$355,000	$102,000	5.4	$8,000
	Conventional	51,677	41.7%	$395,000	$114,000	5.4	$8,000
	FHA	12,439	81.2%	$255,000	$74,000	5.8	$11,000
	VA	3,170	45.3%	$345,000	$95,000	5.1	$11,035
	USDA	260	82.0%	$255,000	$83,000	7.9	$8,201
Phoenix-Mesa-Scottsdale, AZ	All	70,472	38.8%	$455,000	$103,000	4.3	$22,515
	Conventional	52,991	31.1%	$495,000	$111,000	4.4	$23,655
	FHA	10,654	76.3%	$375,000	$84,000	4	$20,116
	VA	6,693	38.7%	$455,000	$97,000	4	$22,728
	USDA	134	81.2%	$295,000	$73,000	1.8	$14,012
Washington-Arlington-Alexandria, DC-VA-MD-WV	All	81,968	37.6%	$555,000	$136,000	12.5	$10,625
	Conventional	59,394	31.6%	$585,000	$144,000	12.4	$11,375
	FHA	10,218	76.3%	$415,000	$104,000	14.5	$9,625
	VA	11,830	33.6%	$565,000	$142,000	10.4	$10,625
	USDA	526	82.0%	$315,000	$86,000	9	$8,122
Top 10 MSAs	All	683,951	43.6%				
	Conventional	499,238	36.2%				
	FHA	134,873	79.8%				
	VA	47,911	42.5%				
	USDA	1,929	81.9%				

Sources: Down Payment Resource, Home Mortgage Disclosure Act (HMDA) 2022, Federal Housing Administration (FHA), eMBS and Urban Institute.
Notes: MSA = Metropolitan Statistical Area; DPA = Down Payment Assistance; VA = US Department of Veteran Affairs; USDA = US Department of Agriculture. Based on 2022 HMDA purchase originations. For DPA eligibility estimates we assume household size of 3 and first-time homebuyer shares to be 50.2 percent for conventional, 82.9 percent for FHA, 50.9 percent for VA and 82.0 percentfor FSA/RHS loans.

Reasons for Mortgage Denial in 2022

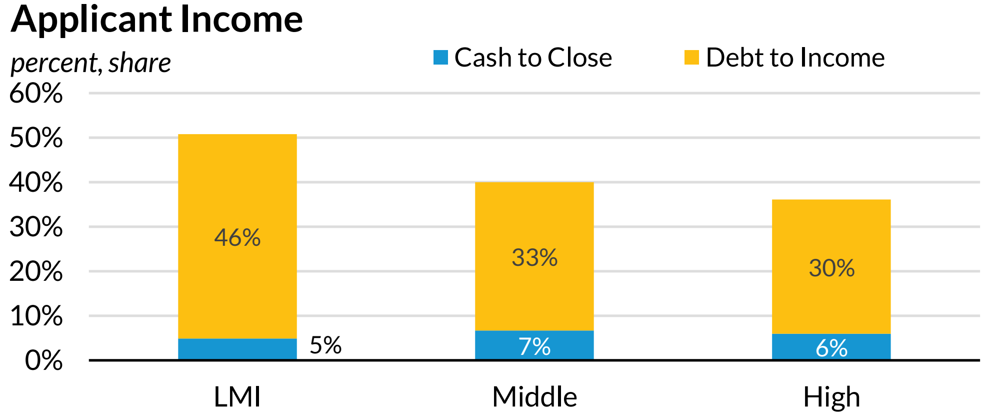
Down Payment Assistance (DPA) helps borrowers overcome the high upfront cost of homeownership. We quantify the volume and share of denied homebuyer applicants who might have been able to secure a mortgage if they had DPA. Applicants denied for a high debt-to-income ratio (DTI) could utilize assistance to pay a higher down payment than otherwise possible, decreasing their loan amount and DTI. Borrowers denied for insufficient cash to close (CTC) could likewise put more into their down payment and closing costs with down payment assistance. In 2022, 36.7 percent of denied applicants looking to secure a first lien purchase mortgage for a 1–4-unit owner occupied home were denied for a high DTI and 5.7 percent for insufficient CTC. Half of low to moderate (LMI) applicants were especially likely to be denied for DTI or CTC. The share of applicants denied purchase mortgages for these reasons increased in 2022 from 36.4 to 42.4 percent. We use the phrase "potentially salvageable" as we recognize that down payment assistance would not have been sufficient to qualify all borrowers denied due to CTC or DTI.

Potentially Salvageable share of Denied Loans by Year



Source: HMDA and Urban Institute.

Potentially Salvageable Share of Denied Loans in 2022 by Applicant Income



Source: HMDA and Urban Institute.
Note: Income categories determined by area median income (AMI) LMI <= 80% of AMI; middle 80-120% AMI; High >= 120% AMI.

Potentially Salvageable 2022 Denied Loans (by MSA)

The table below shows the share of declined purchase loans for 1–4-unit owner-occupied properties that may have otherwise been approved with the help of a down payment assistance program. DPA can lower the loan amount for a more favorable debt-to-income ratio (DTI) or provide cash to meet the necessary cash-to-close (CTC). The table covers the 10 largest metropolitan statistical areas by population. The analysis suggests that a not insignificant proportion of loans would be salvageable with down payment assistance. Across many MSAs, declined FHA borrowers had a high likelihood of benefiting from down payment assistance.

	Denied Loans	Count of DPA Eligible	DPA Eligible and Denied for DTI or CTC	% of Declined Loan Apps Potentially Salvageable
Atlanta-Sandy Springs-Alpharetta, GA				
Total	9807	6433	2422	24.7%
Conventional	5824	3564	1320	22.7%
FHA	2992	2175	845	28.2%
USDA	84	72	17	20.2%
VA	907	622	240	26.5%
Chicago-Naperville-Elgin, IL-IN-WI				
Total	10439	5562	2151	20.6%
Conventional	6161	3019	1074	17.4%
FHA	3835	2311	993	25.9%
USDA	19	13	4	21.1%
VA	424	219	80	18.9%
Dallas-Fort Worth-Arlington, TX				
Total	10646	9300	4319	40.6%
Conventional	6791	5546	2428	35.8%
FHA	2837	2820	1502	52.9%
FHS/RHS	38	37	16	42.1%
VA	980	897	373	38.1%
Houston-The Woodlands-Sugar Land, TX				
Total	10494	8455	3969	37.8%
Conventional	5983	4608	2054	34.3%
FHA	3567	3061	1566	43.9%
USDA	47	39	18	38.3%
VA	897	747	331	36.9%
Los Angeles-Long Beach-Anaheim, CA				
Total	7219	4681	1979	27.4%
Conventional	5803	3349	1384	23.8%
FHA	1165	1125	499	42.8%
USDA	10	7	5	50.0%
VA	241	200	91	37.8%

Source: Down Payment Resource, Home Mortgage Disclosure Act (HMDA) 2022, Federal Housing Administration (FHA), eMBS and Urban Institute.

Note: DPA = Down Payment Assistance, DTI = Debt to Income Ratio, CTC = Cash to Close , MSA = Metropolitan Statistical Area, VA = US Department of Veteran Affairs, USDA = US Department of Agriculture. Based on denied 2022 HMDA purchase originations, excluding 6.7 percent of denied loans missing critical data.

Special Data Feature: Down Payment Resource

Potentially Salvageable 2022 Denied Loans (by MSA)

	Denied Loans	Count of DPA Eligible	DPA Eligible and Denied for DTI or CTC	% of Declined Loan Apps Potentially Salvageable
Miami-Fort Lauderdale-Pompano Beach, FL				
Total	10292	7719	2796	27.2%
Conventional	8108	5775	1914	23.6%
FHA	1852	1679	784	42.3%
USDA	1			0.0%
VA	331	265	98	29.6%
New York-Newark-Jersey City, NY-NJ-PA				
Total	15759	8886	3827	24.3%
Conventional	12052	6416	2563	21.3%
FHA	3341	2236	1163	34.8%
USDA	14	12	4	28.6%
VA	352	222	97	27.6%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD				
Total	5329	2930	1252	23.5%
Conventional	3256	1708	691	21.2%
FHA	1714	1043	499	29.1%
FHS/RHS	45	33	11	24.4%
VA	314	146	51	16.2%
Phoenix-Mesa-Chandler, AZ				
Total	6673	5714	2697	40.4%
Conventional	4402	3496	1638	37.2%
FHA	1582	1571	793	50.1%
USDA	34	34	18	52.9%
VA	655	613	248	37.9%
Washington-Arlington-Alexandria, DC-VA-MD-WV				
Total	6479	3996	1789	27.6%
Conventional	4062	2526	1145	28.2%
FHA	1662	988	468	28.2%
USDA	41	32	12	29.3%
VA	714	450	164	23.0%
Grand Total	**150924**	**106458**	**46370**	**30.7%**

Source: Down Payment Resource, Home Mortgage Disclosure Act (HMDA) 2022, Federal Housing Administration (FHA), eMBS and Urban Institute.

Note: DPA = Down Payment Assistance, DTI = Debt to Income Ratio, CTC = Cash to Close , MSA = Metropolitan Statistical Area, VA = US Department of Veteran Affairs, USDA = US Department of Agriculture. Based on denied 2022 HMDA purchase originations. , excluding 6.7 percent of denied loans missing critical data.

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