Down Payment RESOURCE

The Down Payment Report

News and Data on Residential Down Payments

February 2018

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The Difference Education Makes

Empirical research has proven the effectiveness of homeownership education in reducing delinquency and defaults. From HUD and the GSEs to the smallest local homeownership assistance programs, homeownership education for first-time buyers today is encouraged and often mandated. Programs that teach responsible homeownership and money management skills are making lending to first-time buyers safer.

In this edition, we profile Homewise, a New Mexico non-profit whose innovative model may be a path to homeownership for underserved Americans using low down payments, supports buyers throughout the homebuying process, from assessment to servicing their mortgages. Homewise was the subject of a recent Urban Institute report based on a study published in the current Journal of Housing Economics.

To become "buyer ready," Homewise clients attend workshops on home buying and money management. Homewise offers them incentives to participate in a program to learn how to save. Their staff work with each client to assess their progress.

The Homewise clients begin with deficient savings, income and creditworthiness and higher levels of debt. Homewise homebuyers have lower default rates on average than other purchasers in the area, they also have lower credit scores and median incomes than the other purchasers – characteristics that are usually associated with higher default rates.

Effective education, low interest loans and the Homewise model can turn even the most disadvantaged adults into successful homeowners.

Rob Chrane

CEO, Down Payment Resource

December Average Down Payments at a Glance

Loan Type	Average LTVs (percent)	Average Down Payments (percent)
All loans	79	21
Millennials	87	13
FHA Purchase	96	4
Conventional Purchase	80	20
VA Purchase	98	2

Source: Ellie Mae Origination Insight Report and Millennial Tracker

First-time Homebuyers

First-time Buyer Share Rebounds as Year Ends

The percentage of existing homes purchased by first-time buyers rebounded in December, rising from 29 percent of existing home sales in November to 32 percent according to the National Association of Realtors' existing home sales release. December's gain also reflected a smaller pool of total sales, declined 3.6 percent from November.

During the fourth quarter, the first-time homebuyer market share has vacillated during the fall months from 29 percent, which tied an all-time low, to 33 percent in October, the highest share in 2017. The fourth quarter average was 31.1 percent.

Despite the December recovery, the first-timer share is still experiencing a three-year decline. NAR's 2017 Profile of Home Buyers and Sellers, which is based on survey buyers and sellers whose transaction took place between July 2016 and June 2017, reported that first-time buyers accounted for 34 percent of annual home sales. The 2016 Profile reported an annual first-time homebuyer share of 36 percent of sales and over the 38-year history of the Profile the average market share for first-time buyers is 39 percent.

What Does the New Tax Law Mean for First-Time Buyers?

With significant changes to the tax code taking effect this year, homeowners and prospective buyers are revising their plans to take advantage of its sweeping changes. Here's an analysis based on information from the National Association of Realtors and NerdWallet.

Tax Rate Reductions. Joint filers with incomes of $77,400 to $400,000, which will include most first-time buyers, will see their tax rates decline from two to four percent when they file their 2018 taxes next year.

Mortgage Interest Rate. Changes in the mortgage interest rate—lowering the cap to mortgages worth one million to $750,000 from 1 million and excluding interest paid on home equity loans—would affect only the wealthiest first-time buyers directly. The changes will make second homes and equity loans more expensive for first-time buyers in the future.

State and Local Taxes. The new law limits the amount of property taxes and other state and local taxes to $10,000 a year. First-time owners, as well as current owners, will lose the ability to deduct thousands of dollars that they can deduct in 2018, increasing the cost of homeownership, especially in high tax states like New York and California.

Student Loan Interest Deduction. Potential first-time buyers and their parents who have been burdened with student loan debt will still be able to deduct up to $2,500 of interest on their student loan debt.

Personal Exemptions. Personal exemptions for filers and their dependents, worth $4,150 each in 2017, was eliminated in the new tax law.

Moving Expenses. Taxpayers have been able to deduct some moving expenses related to their employment, but this deduction is eliminated in the new act.

Standard Deduction. Taxpayers must decide whether to take the standard deduction or itemize their deductions. In the past, most homeowners have itemized to take advantage of the mortgage interest deduction and the deduction for state taxes, including property taxes. The new law doubles the size of the standard deduction from $6,000 to $12,000, or $24,000 on a joint return. According to Zillow's Alexander Casey, under the current setup, roughly 44 percent of U.S. homes are worth enough for it to make sense for a homeowner to itemize their deductions and take advantage of the mortgage interest deduction. Under the new law, that proportion of homes drops to 14.4 percent.

Impact on First-time Buyers. NAR's research department modeled examples of homeowners as different income levels, mortgage sizes, and family sizes.

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(Tax Law continued)

A single first-time buyer who purchases a condo costing $205,000 and takes out a 30-year fixed rate mortgage at 4% interest. She puts down 3.5 percent. Assuming she buys early in 2018, her first-year mortgage interest would total $7,856, and she would pay real property taxes of $2,050. Under the old law, her taxes for 2018 would fall by $2,098; Under the new law, her taxes would rise by $30. Moreover, the difference between renting and owning was $2,098 under the prior law but shrinks to $637 ($6,060 - $5,423), or $53 per month.

A family of five with an income of $120,000 that buys a $425,000 home with a 10 percent down payment on a 30-year fixed mortgage at a 4 percent. Under the old law, they would save $3,219 by buying. Under the new law their taxes would decline only $100, but if they had remained renters, they would receive a tax cut of almost $2,400. Under the prior law, the tax benefit of buying a home was $3,219. Under the new law, they will get a tax cut $948 ($8,999 - $8,051), a much weaker incentive to buy.

Millennials

Twenty Percent of Millennials Worry They Will Never Afford Homeownership

Millennials are much better at managing their money than most people think, but they believe the stereotype about themselves. Too many are stressed out over finances and lack confidence that they will ever be able to afford their dreams-like owning a home.

The latest Bank of America Better Habits Millennial Report found that 64 percent believe the myth that their generation is not good at, managing money and 75 percent think their generation overspends compared to past generations. Two out of three are saving; most keep a budget yet one in four millennials often worry about their finances.

As a result, many are lowering their expectations and rethinking their dreams.Some 21 percent worry about not having enough for retirement and 20 percent worry that they will never be able to afford to own a home.

Though their stress may be increasing, so are their savings. Their top priorities are saving for emergency funds (64 percent), retirement (49 percent) and saving to buy a house (33 percent).

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Young Millennial Buyers Drive Rise in Homeownership Rate

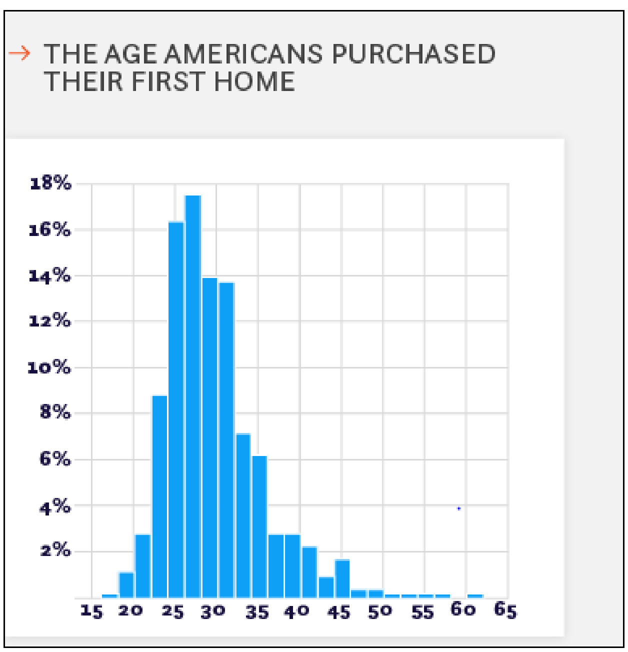
The national homeownership rate rose every quarter in 2017, rising 1.2 percentage points in the fourth quarter and 1.5 points during the year. At 64.2 percent, the rate reached its highest level since the first quarter of 2014, according to fourth quarter data from the Census Bureau.

Younger homeowners are driving the rebound. The rate for homeowners age 35 and younger reached 36 percent in the fourth quarter, the s highest level since the second quarter or 2013. After falling .4 percent in first quarter, the rate for younger owners rose every quarter for the balance of the year.

National housing economists hailed the turnaround as a good omen for 2018.

- "After bouncing around near 50-year lows for the past few years, the national homeownership rate finally seems to be gaining sustainable, meaningful upward momentum. The fourth quarter of 2017 was unseasonably strong, driven by buyers determined to make a deal in a highly competitive market," wrote Zillow Senior Economist Arron Terrazas.
- "This is noteworthy since 18 – 35-year-olds represent the largest potential group of homebuyers that aren't yet homeowners (roughly the millennial demographic), and 35 to 44-year olds (roughly Gen X) represent the demographic that was most impacted by the foreclosure crisis. Increases in homeownership amongst these two cohorts are a sign that the scars of the Great Recession are finally starting to heal and provide a source of optimism that the owner-occupied segment of the housing market will continue to grow throughout the remainder of this economic cycle," commented Trulia's Chief Economist Ralph McLaughlin.
- "After eight years of recovery, homebuyers have employment and confidence that they will keep their jobs so that they can now take the plunge into homeownership," said Realtor.com's Joseph Kirchner.

A new survey of non-homeowners by Comet Financial Intelligence also found that future Millenial buyers are planning to own a home before they turn 35, later than Baby Boomers and members of the Silent Generation.



Homeownership Assistance

Non-profit's Model Reduces Low Down Payment Risk

Homewise, a New Mexico non-profit organization that promotes homeownership, may have invented a new way to deliver sustainable homeownership to buyers who don't have enough money for a traditional down payment, according to a new study from the Urban Institute.

The Homewise model requires clients make a very low down payment, yet avoids the need for mortgage insurance. Homewise requires clients to put only 2 percent down on their homes, then provides a second mortgage for 18 percent of the purchase price with conventional interest rates and terms. The combination of the second mortgage and the low-down payment enables clients to avoid paying for private mortgage insurance on their first mortgage which pays for the remaining 80 percent of the purchase price.

The first mortgage is resold on the secondary market to raise capital for additional clients, and Homewise holds on to the riskier second mortgage so that the client pays only a 2 percent down payment while still eliminating the need for mortgage insurance. Homewise services both loans so that they can monitor loan performance on each loan and quickly intervene if there is a problem.

Homewise differs from many other programs by offering services and products supporting homeownership in a vertically integrated model, from initial inquiry through to the final financing of the mortgage and post-purchase products and services. This full-service approach enables Homewise to transition clients from one step to the next within the same organization, potentially reducing the drop-off associated with each transition. Vertical integration also allows Homewise to be financially self-sustaining by generating fees to help offset the cost of-of services that do not pay for themselves.

In addition to financial and homeownership counseling, Homewise requires clients to participate in a savings program that makes saving automatic each month. Unlike other non-profits, Homewise offers real estate sales and development services in addition to financing and servicing.

In the Urban Institue study, some 46 percent of Homewise's clients were between 25 and 39 years old, and 84 percent were first-time buyers. About two-thirds (68 percent) had an income below the local average median income. Fourteen percent of Homewise clients had no monthly debt at intake, while just under 32 percent and half had monthly debt equal to 10 percent of their monthly income or greater. About one-third (32 percent) had credit scores below 15 percent had scores between 640 and 680. Nearly one-third of clients (32 percent) had strong credit scores, above 720.

Some 23 percent of Homewise's clients successfully closed on a home. Some 73 percent of clients increased their savings during the time they were working with Homewise. Of the 521 clients whose loans Homewise serviced from 2009 through 2013, 5.6 percent were ever delinquent (30 days late) on any of their loans. Of the clients' loans, 6.8 percent were ever delinquent. Of all 521 clients, 2.5 percent were 30 days late once, 1.9 percent were 30 days late twice, and a handful were late more than twice.

Homewise's 90-day delinquency rate was 1.1 percent for all loans serviced between 2009 and 2013. This rate is well below the serious delinquency rate of FHA-backed loans. FHA 90-day delinquency rates went from about 7.5 percent at the beginning of 2009 to a little under 7.3 percent by the end of 2013, with highs in between at almost 9.5 percent.

Program News Across the Nation

As home prices rise, fewer residents benefit from mortgage assistance in Southwest Colorado

Durango, CO Herald, January 7, 2018 Mortgage assistance through the HomesFund is designed to help working families buy homes, but as housing prices rise, it is tougher for the nonprofit to aid residents.

The number of households the nonprofit was able to help in 2017 fell to 17 from 26 households the previous year, Executive Director Lisa Bloomquist Palmer said.

The nonprofit helped more families in 2017 than it did in 2015 and 2014, but overall the number of people who can get help shrunk.

“That slice of the pie, that slice of the people we can serve that meet our income limits and can afford to purchase a home with our subsidies and meet our other requirements, including our credit requirements, got smaller,” Palmer said.

The nonprofit can provide funds to people in La Plata County who make less than 80 percent of the area median income, a number that varies by family size. More

State ends federal foreclosure aid with millions unspent

Orlando Sentinel, January 39, 2018 Florida on Wednesday will close its three largest Hardest Hit federal housing-aid programs — years early — with $88 million left unspent.

State officials say they are pleased they helped tens of thousands of struggling Floridians by spending 92 percent of Florida’s $1.1 billion share of federal funds. Officials are closing three opportunities for Floridians — mortgage principal reduction, mortgage help for the unemployed and underemployed, and aid on delinquent home loans.

State officials said the program was a success, despite data showing that Florida was behind other states in helping financially underwater homeowners. More.

She escaped Hurricane Harvey. Now she's a first-time homeowner

Hannibal, (MO) Courier Post -Jan 17, 2018 Rita Webster, who had rented her entire life, called NECAC last year after hearing about agency homeownership programs from a Bowling Green sister, Penny Dixon. For Rita Webster, timing was everything.

She bought a house in Bowling Green through the USDA Rural Development 502 Direct Loan Program administered by the not-for-profit North East Community Action Corporation (NECAC) after living for 26 years in Texas — leaving the Lone Star State just before Hurricane Harvey swamped her Houston apartment complex. More.

Record Number of Programs Available to Buyers

The Down Payment Resource [Fourth Quarter 2017 Homeownership Program Index] (HPI) reports a new record high number of homebuyer programs — now 2,507 — available for today's homebuyers. In addition, the programs remained well funded during 2017. More than 87 percent (87.4%) of programs currently have funds available for eligible homebuyers. While individual program funding can vary, overall funding trends for homebuyer programs across the country remain roughly unchanged from the previous quarter.

Down Payment Resource communicates with 1,309 program administrators to track and update the country's wide range of homeownership programs, including down payment and closing cost programs, grants, Mortgage Credit Certificates, affordable first mortgages and more. Homebuyer programs are managed and funded from a wide and diverse array of sources, each with its own requirements, nuances and limitations. The role of these administrators can vary, but generally, they approve participating lenders who are trained on the program guidelines and approved to originate, process and close specific homebuyer programs.

Program administrators include state and local housing finance agencies, cities and counties, non-profits and employers.

THE DPR INTERVIEW

Tax Reform and First-time Buyers

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

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Q. What, if any, impact do you think the new tax law will have on first-time buyers this year?

Very minimal. As April 15 approaches, they are filing taxes based on the old tax law, so the new law is not on their radar. Under the new law next year, given their smaller mortgages, they are very likely under the mortgage and property tax limits. For first-time buyers, the new tax law is a non-event.

Q. Do you think that first-time buyers will itemize?

No. They will not itemize. They will feel comfortable knowing that they could itemize, but I think that as they run the numbers, most will take the standard deduction rather than itemize.

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(THE DPR INTERVIEW continued)

Q. Over the next few years, the size of the tax cut will decrease. *Will that make it harder on first-time buyers to get into the market?*

I think that people who are really running the numbers and look at the standard deduction and renting versus buying, they may see that in the past the mortgage interest deduction was an added incentive. Now that incentive is no longer there.

I think that overall, broadly speaking, given life circumstances like getting married, having a child, or just to improve their financial standing, most consumers recognize that homeownership is a path to long term wealth accumulation. So, I don't think that the marginal changes in incentives will impact first-time homebuyers all that much, especially in 2018.

Q. As you look ahead this year, what's the outlook for first-time buyers?

I think that sales to first-time buyers will be marginally higher in 2018. There has been some delay in household formation, but given that the economic expansion is seven, eight years running, this delay in household formation should be petering out. That will be a strong incentive to buy a home.

Commentary

Down Payments on the Record

"I can't even begin to tell you what this means to me, I have not had a garden since I was 10. I'm going to love that. Being able to barbecue and have family over, it just means the world to me."

— Jim Schoch, new homeowner thanks to NeighborWorks Dakota Home Resources, Black Hills Pioneer, February 1, 2018

"The state of housing is, to a great extent, being determined by Millennials -- after moving out of their parents' basements and forming households, the next step tends to be having kids. The largest home-buying generation since the baby boomers is growing up."

— Barry Ritholtz, Bloomberg News, February 2, 2018

"Some already dangle those rewards – a recently expired teachers' contract offered workers a 3 percent pay hike for living in Hartford. If there's some incentive for them to relocate – down payment assistance or an increase in pay – something catchy that could draw them into cities."

— Hartford Councilman Thomas "TJ" Clarke in the Hartford Courant, January 26, 2018

"Think most millennials wouldn't be caught dead buying their parents' hulking 10,000-square-foot McMansions? You're right — they want 20,000 square feet instead."

— Money Magazine, February 2, 2018

About the Down Payment Report

A monthly 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 Real Estate Economy Watch.

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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 2,400 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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