The Down Payment Report

News and Data on Residential Down Payments

March/April 2021

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Homeownership Education Saves Mortgages

Two years ago, HUD released the short-term results of its massive First-Time Homebuyer Education and Counseling Demonstration. Preliminary data found that education increases home purchases by young buyers and increases their satisfaction with the home buying process. Remote courses are more popular than in-person ones.

The data were only 12 to 18 months old at the time the report was written. Determining how homeownership education affects such critical issues as mortgage sustainability, success at purchasing a home, and managing credit and debt over a more extended period requires more time. We expect a final report later this year.

Federal, state, local and non-profit housing and housing finance agencies have embraced homeownership education and counseling for decades because it works. The HUD study and similar research will help educators design programs that are even more effective.

Hopefully, the study's final results will convince doubters of the vital role homeownership education plays in helping first-time buyers become successful owners.

Stay safe and be well,

Rob Chrane
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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.

Education is the Key to Successful Homeownership

Sylvia Alvarez
Executive Director
Housing & Education Alliance

Sylvia is the founder and executive director of the Housing & Education Alliance, a HUD housing counseling agency serving over 48,000 Tampa Bay residents. She co-authored "The American Nightmare: Strategies for Preventing Surviving and Overcoming Foreclosure". It was endorsed by Freddie Mac and translated into Spanish by NAHREP. It is used by consumers and HUD housing counselors throughout the US. Sylvia was appointed to the Consumer Advisory Board, serves on the JP Morgan Chase Advisory Board and recently joined the Greater Tampa Realtor's Government Affairs Committee.

Q: Why is homeownership education important to lenders and Realtors?

Education is the key and the starting point. There is so much to learn. It's too easy to make a mistake, and then people come back for foreclosure counseling. I wish that it was mandatory for every first-time home buyer, and people who have not owned a home or bought a house in three years, because things change in just that short amount of time. It really is essential that people know what they're doing, know what they're getting into, and know what choices they have to make. They shouldn't wait until the last minute when they're beginning to close. Homebuyer education is the first right step in the homebuying process.

Q: How much of a competitive advantage would a lender have by finding the best homeownership course for his clients?

It's huge. When we were in the process of developing our course, we took other courses to see how we could do better, where students get the certificate before they take the course. Lenders who refer people to companies like that are not doing themselves any justice. An uneducated borrower will be riskier and will not know what to do, who to call, what processes to put in place…all the things that they learn about when working with a HUD-approved housing counselor.

Most other courses taught great lessons, but we felt their delivery methods could be improved. It's like everything else. What we're trying to teach is complicated. When we created our course, we began with a fresh perspective. We added games, cartoons, and funny videos to make it more fun. Our course is created using EDU-tainment. It keeps the students engaged, entertained and they retain more. Since COVID, we've adopted our course for live classes via Zoom. At the end of the eight hours, you would not believe how people react. They don't want the class to end. They felt involved, were engaged, and they loved it. The humor and interactivity make a big difference.

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(*DPR Interview* continued)

We're amazed at what has happened to this business. Twenty years ago, my work was nowhere near as rewarding for the students and for me as it is today. Back in the old days, all we had were PowerPoints. You can imagine! After eight hours, people's eyes were glassy. There's too much technical information. About ten years ago, the first online homebuyer education course came out. Ours has been out four years. We took three courses by competitors. It was great information, but we felt our clients needed something a little bit softer, not so regimented, data-driven, and complicated. So, when we did our research, we wanted to do things differently, make things more interactive, where you're not just looking at a screen with somebody reading a narrative.

Q: Should lenders reward first-time buyers who sign up for education?

Since the ruling by the CFPB that lenders can support housing counseling agencies for their work in getting clients mortgage-ready, we've seen a shift in the way lenders think about HUD housing counseling agencies. They see us as partners, who not only help clients, but also improve on the risk that lenders take on when making a loan. A lot of them are waking up.

Several lenders have approached us to partner, and we've turned down several. We've chosen to work with lenders who get it. Not every lender has programs that provide the best options for our buyers.

It's a less risky proposition for lenders when they know the buyer is educated and knows how to avoid getting into trouble. So, we do have lenders we work with that get it. It's good for everybody. Nobody wins when a house is lost to foreclosure. Studies have proven that every home lost to foreclosure translates to 2.5 jobs lost in the economy. Lenders are seeing the value in it. Homebuyer education is good for everyone.

As far as incentives, I work with a lender who gives their clients a $250 certificate for home improvements if they graduate from the course. In some cases, they'll shave a little off the rate for those buyers who can prove they have taken a course. Every lender should do something like that and promote it.

Q: What do you do differently for a Latino or Black audience? Aside from the language, what do you do that is different?

We made our course culturally sensitive. You remind me of something funny. Our HomeTRACK Online course was recently released in Spanish - HomeTRACK en Español. In Spanish cultures, there's a thing called a chancleta. It means a slipper or flip-flops, but it also strikes fear in the hearts of children who have misbehaved. Latin grandmothers and mothers can throw a chancleta like a boomerang with deadly accuracy. To make our course seem real and alive, we have three couples and a single mom taking the course as virtual students together. One of the couples is Juan and Maria Perez. He's the clown of the class. He's always making comments, saying the wrong thing, and his wife gets upset with him. So, whenever that would happen, it was in the script that this chancleta would come flying across the screen. Someone said, "You know, in some cultures, that's a very ugly thing and incites fear." So to be culturally correct, we removed that piece from the course. In Spanish cultures, we would die laughing if we saw that.

Down Payment Assistance Across America

Former CalHFA Head Joins Biden Administration

Tia Boatman Patterson, a former executive director of the California Housing Finance Agency, will join the White House Office of Management and Budget as the associate director for housing, treasury, and commerce in the new administration.

Ms. Boatman Patterson began serving on the CalHFA's board of directors in 2012 and was appointed as Executive Director just two years later by Governor Jerry Brown. During her tenure, Boatman Patterson oversaw the expansion of CalHFA from less than $100 million in lending the year before she took over to nearly $5 billion last fiscal year.

She also established CalHFA's downpayment assistance program, which offers a deferred-payment junior loan to first-time homebuyers.

Illinois helps student homebuyers pay off student loan debt

The Illinois Housing Development Authority's SmartBuy program helps homebuyers pay off student loan debt if they buy a home in the state.

The program, which launched in December, will pay eligible Illinois residents 15 percent — up to $40,000 — of a new home's purchase price to help pay off their student loan debt.

SmartBuy will also give between 500 and 1,000 new lower income homeowners a 30-year, fixed-rate first mortgage with a deferred $5,000 for down payment or closing cost assistance.

New Jersey Expands DPA for Closing Costs

New Jersey Governor Phil Murphy's fiscal year 2022 budget proposal calls for an expansion of the New Jersey Housing and Mortgage Finance Agency's Down Payment Assistance program to a record 2,000 families, including EMTs, teachers, restaurant staff, and delivery drivers, by paying up to $10,000 of their out-of-pocket closing costs.

Pennsylvania HFA launches Two Purchase Assistance Programs

In mid-March, the Pennsylvania Housing Finance Agency launched two new DPA programs to help buyers pay closing costs and down payments. PHFA's K-FIT program provides a forgivable second loan, with 10 percent forgiven each year over ten years. No monthly payment is required. A K-FIT loan provides 5 percent of the purchase price or appraised value with no maximum dollar amount. All borrowers requesting K-FIT funds must have a minimum FICO score of 660. Borrowers obtaining K-FIT funds must complete homebuyer education counseling regardless of their credit score. PHFA's new Homebuyer Purchase Assistance program is a $500 grant to help buyers pay either a down payment or closing costs.

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Fort Collins offers 6 percent down and closing costs

Fort Collins, CO has opted into the Denver metroDPA down payment assistance program, which offers 30-year fixed rate mortgages with up to 6 percent down payment and closing cost assistance. The down payment assistance is zero-interest and is forgiven after three years as long as you remain in the home and have made regular mortgage payments.

Michigan program targets Zip codes

The Michigan State Housing Development Authority is offering down payment assistance for qualified residents looking to purchase a new home in targeted Zip codes.

Those living within the 236 eligible zip codes can now apply to receive up to $10,000 to cover down payment and closing costs. The program offers a zero percent interest, non-amortizing loan that will be due when the homeowner sells or transfers the property.

Louisville increases DPA budget and funds a new program to help long time homeowners stay in revitalized neighborhoods

In the city's 2021 fiscal year budget, Louisville's Metro Council included more than $7 million toward the Office of Housing and Community Development's Down Payment Assistance and Home Repairs Programs. In fiscal year 2020, just under $4 million was allocated to those programs. The budget also provides for about 350 DPA applications to be approved. This program's goal is to increase access to affordable housing so longtime neighbors are included. Those who previously couldn't afford a home can build equity. When revitalization happens, community members are included, not pushed out.

Down Payment Legislation

Zillow: Biden tax credit will turn 9 million renters into owners

A new analysis by Zillow's economists found that the $15,000 tax credit proposed by the Biden Administration would cover the down payments for 9.3 million renters to become homeowners.

Zillow calculated the monthly payment on the median home sale price in 2020, assuming a 3.5 percent down payment, a mortgage interest rate of 3 percent, a mortgage insurance premium of 0.7 percent, and including metro-level estimates of insurance and property taxes.

According to an estimate from TransUnion, the Biden credit would be enough to provide down payments of 3.5 percent for more than all first-time buyers expected to buy their first homes between 2020 and 2022. The legislation has not yet been introduced. HousingWire reports that the money would be available to borrowers upfront at the time of closing. With previous tax credits, borrowers paid the money out of their pocket to buy the house and were reimbursed at tax time.

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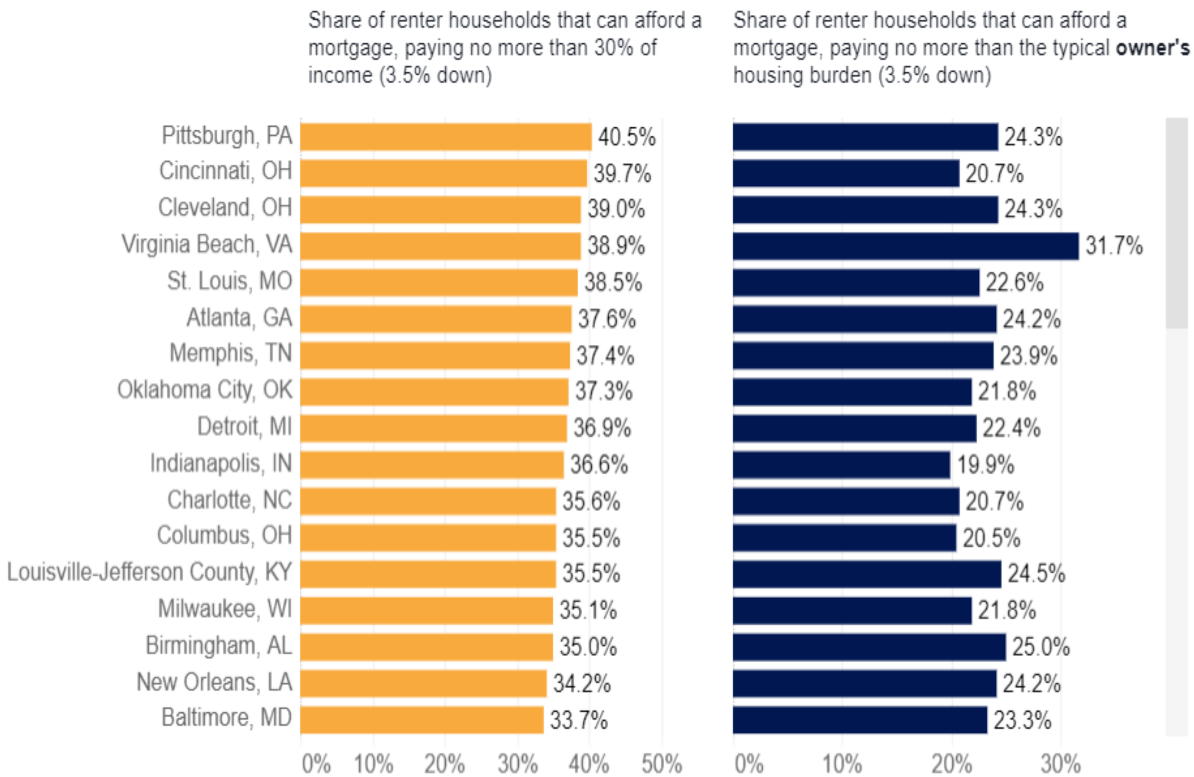
(*Down Payment Legislation* continued)

The $15,000 tax credit could provide a 3.5 percent down payment equal to down payments required in 40 of the nation's 50 largest metros. Without the tax credit, Moody's Analytics estimates that the average renter household would have to save 2.4 percent of their annual income every year for 14 years to save $15,000 for a down payment.



Source: Zillow

Millennials

Are happy days ending for young buyers?

After the heady days in the second quarter of 2020, Millennials aren't optimistic that they will improve anytime soon, according to a December survey by Apartment List of Millennials who wish they weren't paying rent. Some are willing to take risks while rates are still low, but inventories are still meager, and prices are still rising.

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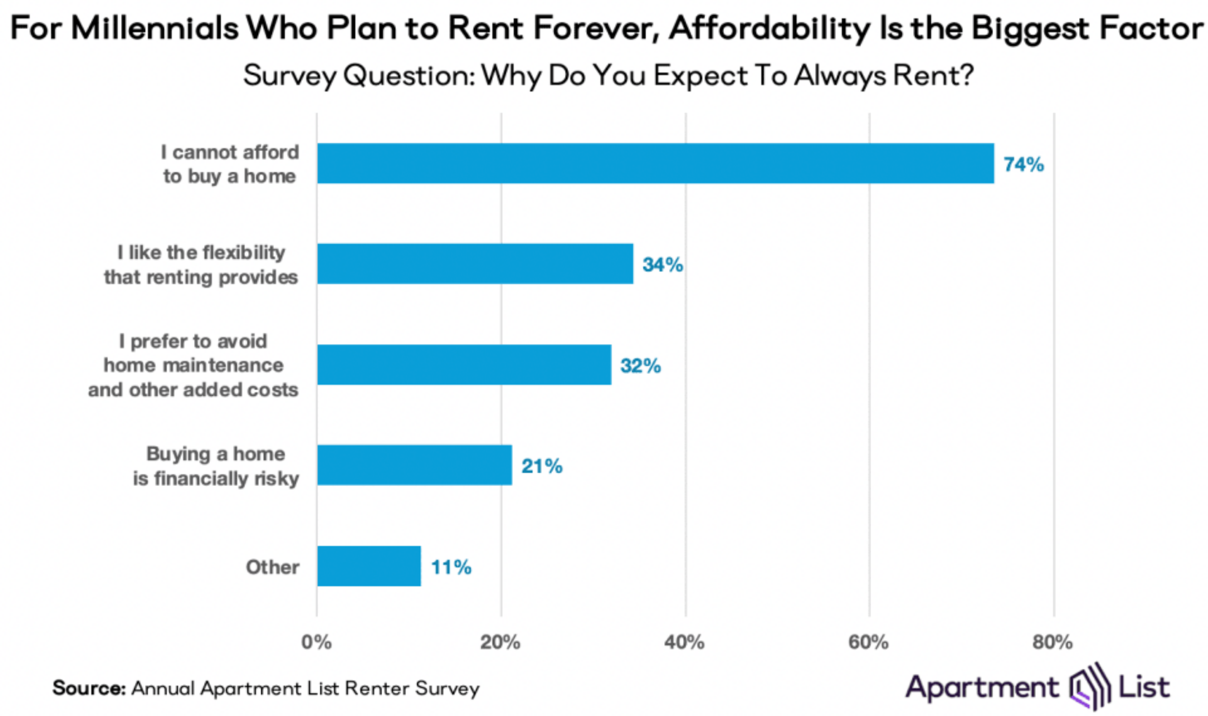
As young renters reel from an economy battered by the pandemic, more and more believe they will never own a home. In 2020, 18 percent of Millennial renters said they plan to rent forever, up for the third consecutive year from 12 percent in 2019 and 11 percent in 2018. Even among Millennials who plan to buy a home, 63 percent report having no money saved for a down payment.

Among those who plan to rent forever, 74 percent say they cannot afford homeownership, significantly more than those who cite the potential lifestyle benefits of renting, including added flexibility (34 percent) and avoiding unforeseen maintenance and expenses (32 percent). Some 21 percent of committed renters say that buying a home is financially riskier than renting one.

Some 63 percent do not have any dedicated down payment savings set aside, and only 15 percent have saved over $10,000. The up-front costs of homeownership remain a massive roadblock for many renters. Sixty-two percent said the down payment is why they are waiting, compared to just 31 percent who cited recurring monthly payments.



Ellie Mae: Millennials like FHA's low rates

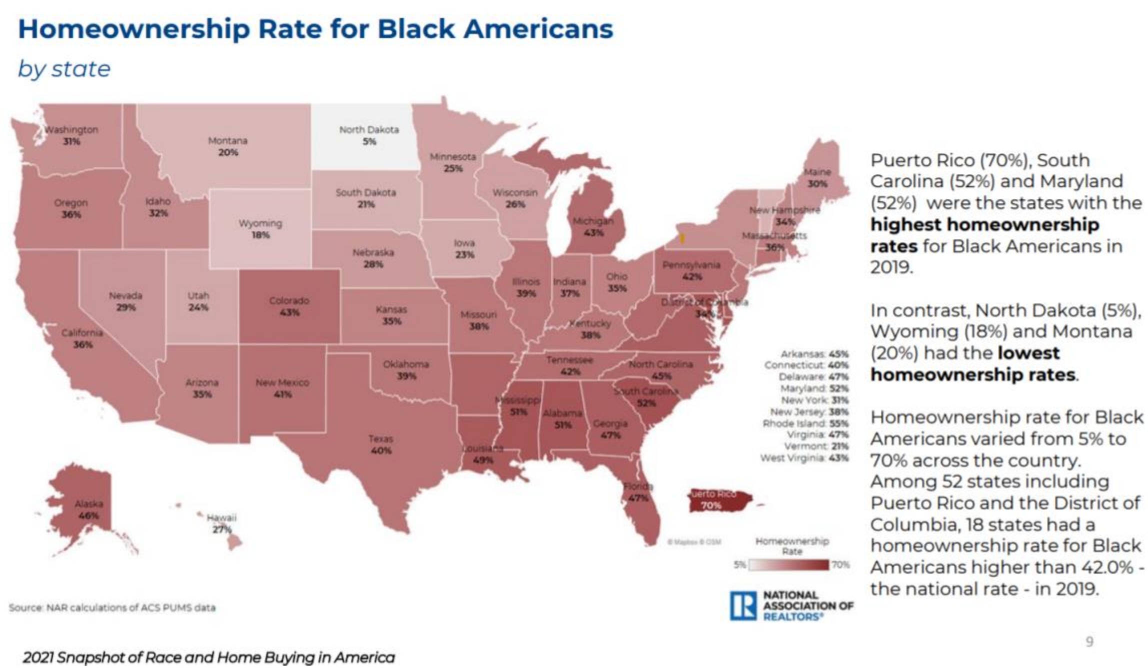
FHA rates continued to decrease to historic lows in October, spurring Millennials to take advantage of the government-backed home financing option, according to the latest Ellie Mae Millennial Tracker™. Sixteen percent of home loans closed by Millennial borrowers in October were FHA loans, secured with an interest rate of 2.99 percent. That is the lowest these rates have been since Ellie Mae began tracking these data in 2016.

Ninety-three percent of all closed FHA loans to Millennials were for purchases in October, down one percentage point from September, while 7 percent of them were for refinances. Purchase loans closed by Millennial borrowers – across all loan types – held steady month-over-month at 56 percent.

Minority Homeownership

Highlights from NAR's 2021 Snapshot of Race and Home Buying in America

- Seventy-one percent of Asian Americans, 54 percent of Hispanic Americans, and 43 percent of Black Americans can afford to buy the typical home compared to 63 percent of White Americans.
- The US homeownership rate was 64.2 percent in 2019. At 69.8 percent, the rate for non-Hispanic white Americans exceeds the national rate. However, the Black homeownership rate – 43 percent – represents a Black-white homeownership gap of almost 30 percent. The homeownership rates for Asian Americans and Hispanic Americans are 60.7 percent and 48.1 percent, respectively.
- Black households – 43 percent – are more than twice as likely as white households to have student loan debt, with a median student loan debt for Black households of $40,000 compared to $30,000 for white families.
- Black applicants were rejected for mortgage loans at a rate 2.5 times greater than white applicants – 10 percent vs. 4 percent, respectively.



Sources: [NAR's 2021-Snapshot-of-Race-and-Home-Buying-in-America]

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Nationally, homeownership will decline, but Black homeownership will decline more

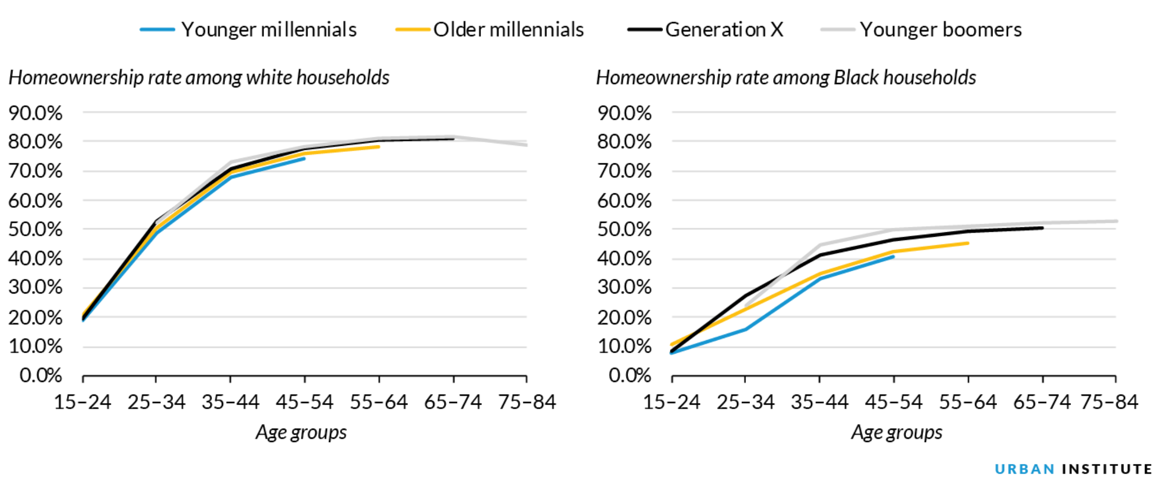
Two recent studies by the Urban Institute foresee a sea of change in ethnic homeownership over the next 20 years: The overall homeownership rate and the Black homeownership rate share will each shrink by one percent. The Hispanic homeownership rate will be the only racial category to increase, and it will be three times where it was in 1990.

The national homeownership rate will modestly decline from 65 percent to 62 percent between 2020 and 2040. Though this may seem like a modest decline, it will have an enormous impact on each successive generation in their prime homebuying and equity-building years, especially Black millennials and Black seniors. Their population's rapid aging will produce a higher share of senior households.

Younger Millennials, who will reach ages 45 to 54 by 2040, will have a homeownership rate of 64 percent, versus 72 percent for younger boomers at the same age (an 8 percentage-point difference). The homebuying rate in the prime homebuying years (ages 25 to 44) will decline by 6.5 to 9.0 percentage points between the boomers and younger generations.

Black Millennials, who will reach ages 45 to 54 in 2040, will have a homeownership rate of 41 percent, compared to the 50 percent homeownership rate among younger Black boomers at the same age — a 9 percentage-point difference. Meanwhile, younger White millennials who reach ages 45 to 54 in 2040 will have a homeownership rate that is only about 4 percentage points lower than it was for younger white boomers when they were the same age.

By 2040, the homeownership rate will decline for all races, but Black homeowners will experience the greatest losses



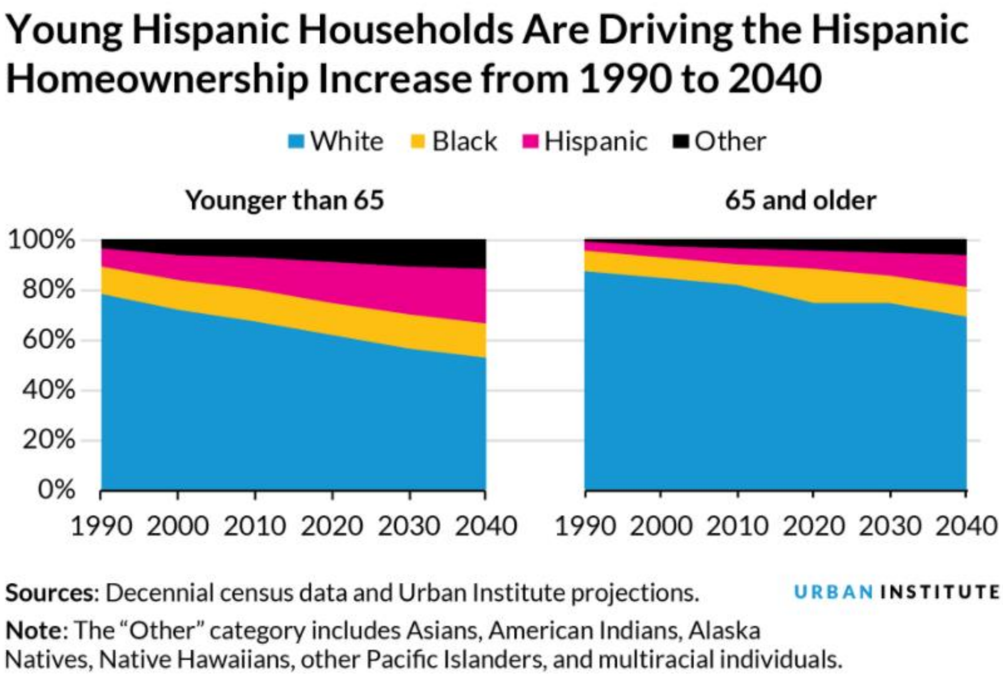
Sources: Decennial censuses, American Community Surveys, and Urban Institute projections.
Notes: Younger boomers (born 1956 to 1965) are ages 56 to 65 in 2021. Members of Generation X (born 1966 to 1975) are ages 46 to 55 in 2021. Older millennials (born 1976 to 1985) are ages 36 to 45 in 2021. Younger millennials (born 1986 to 1995) are ages 26 to 35 in 2021. People ages 25 to 44 are in their prime homebuying years.

Sources: Urban Institute

By 2040, one of five young households will be Hispanic

In 1990, just 7.3 percent of young families (headed by someone younger than 65) were Hispanic. By 2020, that had more than doubled to 16.4 percent. The Urban Institute projects that this share will continue to increase in the next two decades and that by 2040, more than 20 percent of young households will be Hispanic — triple the share in 1990.

The Hispanic household share will likely explode because today's Hispanic population is much younger than other racial and ethnic groups — meaning they are aging into their prime years for household formation over the next 20 years.



To meet the demand, the Urban Institute recommends expanding the use of down payment assistance, expanding access to mortgage credit, and an increased supply of affordable housing that allows for more multigenerational living at the local level.

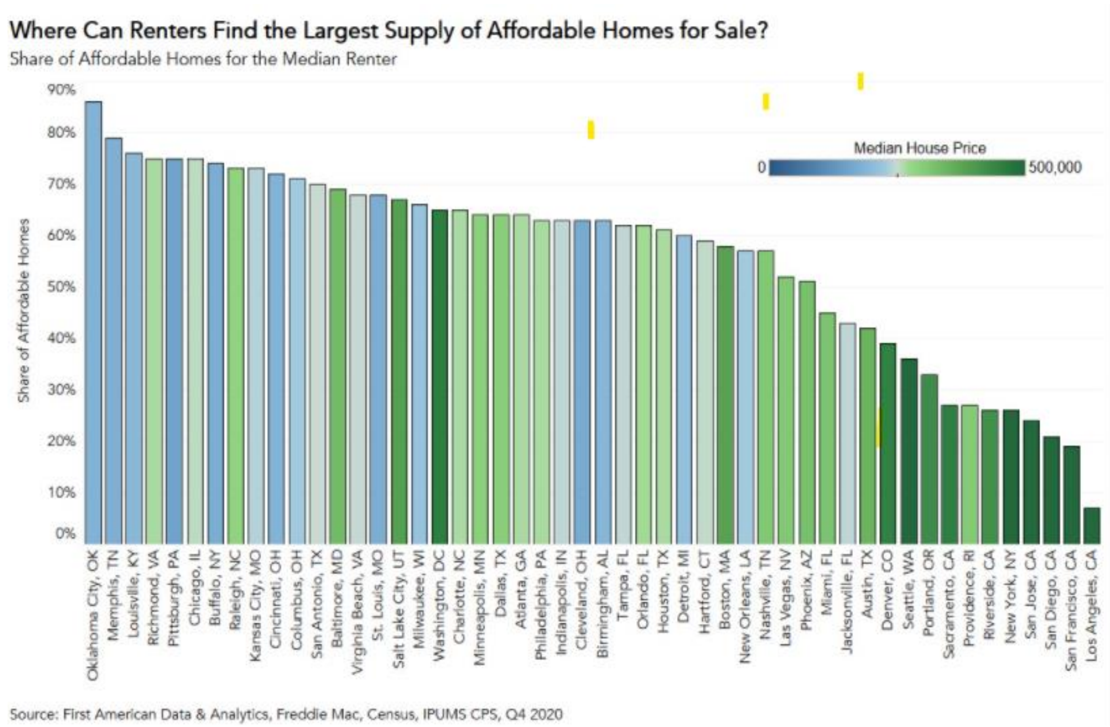
"The industry needs not only to build more housing but build to fit the lifestyles of the coming wave of homeowners who are more likely to be a part of multigenerational families. Builders will likely experience considerable demand for multigenerational housing from both the nearly 5 million new Hispanic homebuyers and from the 2.7 million new Asian and other homeowners," the study concluded.

First-Time Homebuyers

Most affordable markets are based on buying-power

Low mortgage rates increase house-buying power and thus improve affordability for potential first-time buyers. They also boost demand and accelerate house price appreciation, which in turn reduces affordability.

First American has rated affordability on a renter's house-buying power. The larger the share of homes for sale that the renter can afford to buy, the more affordable the market.



Sources: First American Data & Analytics

The most affordable city on the list is Oklahoma City, where the median renter could afford 86 percent of the homes for sale. In the fourth quarter of 2020, the median house price in Oklahoma City was $184,000, and the median renter's house-buying power was $329,000.

The least affordable city is Los Angeles, where the median house price in the fourth quarter of 2020 was $737,000, but the median renter's house-buying power of $373,000 left only 7 percent of the homes sold in Los Angeles that are affordable.

Down Payment Data

February 2021 Loan Data: Millennials and Gen Z

Median loan size	$194,830
FICO	716
LTV	89
DTI	28/38
Market Shares	CON 63 percent, FHA 33 percent, VA 0 percent

Source: ICE Mortgage Technology Millennial Tracker

February Purchase Loans

	LTV	DTI	FICO	RATE
All loans	70	23/34	753	2.89
Conventional	81	23/35	757	2.94
FHA	95	29/44	682	2.96
VA	98	23/37	737	2.66

Source: ICE Mortgage Technology Millennial Tracker

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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