The Down Payment Report

News and Data on Residential Down Payments

May/June 2021

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Low down payments and the pandemic

For first-time buyers, buying an affordable home during the pandemic has been a challenge. Competition is brutal.

This year, multi-bid sales increased from a national median of 3.3 offers per sale in January to 5 per sale in April. Bidding wars are breaking out even in Midwest markets like Kansas City and Chicago, where nearly a third of all listings are competitive today. Redfin reports that almost three out of four of all offers written by its agents are for multi-bid competitions.

Many media outlets and buyers' agents advise first-time buyers to put down at least 20 percent to reduce the risk of a low appraisal and illustrate financial stability. Yet, even as bidding wars escalate, 70 to 72 percent of first-time buyers' purchases feature down payments smaller than 20 percent—a number that has remained constant during the pandemic.

Nearly three out of four first-time buyers put down less than 20 percent during the pandemic, and first-timers' purchases accounted for at least 30 percent of America's home sales every month. Just some food for thought.

Kind regards,

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In this issue:

Down Payment Assistance Legislation

A Congressional Agenda for First-time Buyers

In place of the Down Payment Report Interview, we are publishing an excerpt from An Essential Role for Down Payment Assistance in Closing America's Racial Homeownership and Wealth Gaps by Michael Stegman and Mike Loftin of the Urban Institute. The article includes this review of legislation introduced in Congress in the first quarter of 2021.

A Biden Campaign Promise of a Down Payment Tax Credit

As a presidential candidate, Joe Biden campaigned on investing in America's housing to the tune of $640 billion over ten years. His sprawling agenda would devote $300 billion to expand the supply of new affordable housing and make rental assistance available over time to all who qualify. In addition, to help families buy their first home and begin to build wealth, Biden proposed creating a new refundable, advanceable tax credit of up to $15,000 to help offset down payment and closing costs, "helping millions of families lay down roots for the first time."

Although the proposal lacked details, Zillow estimated that such a tax credit could cover the entire down payment for homes in 40 of the 50 most populous metropolitan statistical areas and, at prevailing savings rates, would "push some renters 14 years ahead toward homeownership." The Urban Brookings Tax Policy Center has estimated a version of the Biden tax credit proposal to cost roughly $25 billion annually. One challenge of this approach to DPA is operationalizing the tax credit's advanceable feature such that it is delivered to each recipient at the closing table, a challenge given the Internal Revenue Service's technology and resource constraints.

529-Type Tax Exempt Savings Accounts

In February 2021, Representatives Gregory W. Meeks (D-NY), Al Green (D-TX), and Joyce Beatty (D-OH), reintroduced the American Dream Down Payment Act to allow potential homeowners to create tax-exempt savings accounts to go toward a down payment and closing costs on a principal residence. This measure includes no federal matches of individual contributions. In the current low-interest-rate environment (which minimizes the impact of compounding savings) and lacking a federal match, this proposal is unlikely to gain much legislative traction or to be effective if enacted.

Down Payment Toward Equity Act of 2021 Discussion Draft

A potentially more significant legislative proposal was circulated at a recent hearing by Representative Maxine Waters (D-CA), chair of the House Committee on Financial Services. The Downpayment Toward Equity Act of 2021 would provide more targeted down payment grants of up to $25,000 to first-generation homebuyers with incomes up to 120 percent of the area median income (or up to 180 percent of the area median income in high-cost markets). The program would be administered by the U.S. Treasury and be delivered by formula to states, primarily through HFAs.

HFAs would be encouraged, but not required, to "contract with local nonprofits, CDFIs, minority depository institutions, housing counseling agencies or community development credit unions" to administer grants to eligible households to help cover down payment costs, closing costs, and costs to reduce the interest rates on eligible mortgages.

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Unlike many federal programs that prohibit "double dipping," the Waters proposal would allow these grants to be used in conjunction with other types of public or private down payment and other homebuyer assistance. Grants to eligible families would take the form of a five-year forgivable loan to enable the federal government to recapture some of the DPA if the recipient fails to occupy the home as a primary residence for at least that long. Finally, because Waters' goal is to help close the racial homeownership gap, the legislation would require any agency administering the program to have an approved plan to affirmatively further fair housing, and with some exceptions, consumers receiving aid would be required to complete a homebuyer education program.

The Center for Responsible Lending DPA Proposal

The Center for Responsible Lending (CRL) proposal bears significant similarities to Waters' discussion draft with respect to eligibility and targeting down payment support to first-time, first-generation homebuyers with incomes up to 120 percent of the area median income. But CRL offers a variation on Waters' approach to the role of CDFIs and other types of lenders in a national DPA program, calling for a bifurcated delivery system.

Specifically, CRL recommends Congress direct half the available resources to state HFAs, by formula via HUD, and the other half to the CDFI Fund, which would use a competitive process to direct resources to local organizations "with the capabilities and commitments to administer [the] funds to achieve the Program's overall objectives" (Bailey 2021, 41). CRL makes clear that notwithstanding the CDFI Fund's role in administering this part of the program, local CDFIs would have to compete for funding along with other qualified local organizations who can reach targeted mortgage applicants through retail and wholesale channels. In addition to CDFIs, other organizations that CRL identifies as qualified "targeted DPA administrators" are Federal Home Loan Banks, community development credit unions, nonprofit community lenders, minority depository institutions, and for-profit banks and nonbank mortgage lenders who create special-purpose credit programs.

To ensure a focus on serving people of color and other underserved populations, CRL would require the appointment of a broadly diverse and expert consumer advisory board to advise and consult with the CDFI Fund on critical program functions, policies, and processes. It also calls for strong reporting and a federal study to assess whether the program, "in conjunction with any other extant efforts," is remedying discrimination and narrowing the racial homeownership gap or whether race-conscious measures are required to do so (Bailey 2021, 36).

Bank Funded DPA

Broad public calls for racial justice are being heard in the C-suites of the nation's financial institutions, resulting in expansions of their financial support of Black homebuyers and communities of color, going well beyond their traditional Community Reinvestment Act commitments. In announcing a recent pledge of $30 billion to help narrow the racial wealth gap, JPMorgan Chase CEO, Jamie Dimon, acknowledged the need for his institution "to do more and do better to break down systems that have propagated racism and widespread economic inequality, especially for Black and Latinx people." As part of this commitment, some $8 billion will help fund 40,000 mortgages to Black and Hispanic homebuyers, by doubling down payment grants to $5,000; $4 billion will help another 20,000 people of color refinance into lower-cost loans, including help toward closing costs to the tune of $2,500, with an additional $500 if borrowers complete a financial counseling course. Wells Fargo, Bank of America, U.S. Bank, Fifth Third Bank, and others are also enacting similar initiatives.

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Perhaps the furthest along is Wells Fargo's NeighborhoodLIFT program, a $60 billion lending commitment the bank initiated in 2017 in partnership with the nonprofit NeighborWorks America to increase the number of Black homeowners by at least 250,000 by 2027. Since its inception, NeighborhoodLIFT has helped more than 60,000 Black families buy homes, in part by reducing their out-of-pocket costs through forgivable, interest-free down payment loans, with no required payments if the homeowner lives in the house for at least five years.

Bank of America offers two programs to help eligible consumers over the up-front cash hurdle. A lender credit of up to $7,500 can be used for closing costs or to permanently buy down the mortgage interest rate. A recoverable down payment grant of up to 3 percent of the home price, up to $10,000, is available for use with two Bank of America mortgage products. The DPA may be due upon sale, refinance, transfer, or loan repayment or if the senior mortgage is assumed during the loan term.

About the Authors

Michael Stegman is a nonresident fellow at the Urban Institute, a visiting professor at Duke University's Sanford School of Public Policy, and distinguished professor emeritus and founding chair of the department of public policy at the University of North Carolina (UNC) at Chapel Hill. Previously, he was senior policy adviser for housing in the Obama White House at the National Economic Council, following three years as counselor to the secretary of the U.S. Treasury for housing finance policy. Stegman was assistant secretary for policy development and research at the U.S. Department of Housing and Urban Development (HUD) in the Clinton administration and was deputy assistant secretary for research at HUD during the Carter administration.

Mike Loftin is CEO of Homewise Inc., a nonprofit social enterprise promoting sustainable homeownership in a way that improves the long-term financial well-being of modest-income families. Loftin led the creation and implementation of Homewise's comprehensive business model that seamlessly integrates all the steps of the home purchase process. Before his work at Homewise, Loftin was a community organizer in Chicago.

New bill creates zero-down loans for teachers, first responders

Legislation introduced in May would create a new zero-down loan program for teachers and first responders that would require only a one-time upfront mortgage insurance premium up to 3.6 percent of the loan's principal.

Sponsored by Reps. John Rutherford (Florida), Al Lawson (Florida), John Katko (New York), and Bonnie Watson Coleman (New Jersey), the new loan program would be modeled after the V.A. Home Loan Program and administered by FHA.

Police, firefighters, emergency medical technicians, paramedics, and teachers would qualify for the HELPER Act (Homes for Every Local Protector, Educator, and Responder).

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.

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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. 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.

House passes bill to align FHA appraisals with GSEs

On May 18, the House passed The Homebuyer Assistance Act of 2021 to make it easier for buyers to find appraisers for FHA loans. In addition, federal standards set for FHA appraisers would be brought in line with the federal minimum requirements already in place for other home mortgages, particularly those purchased by Fannie Mae and Freddie Mac.

"This legislation is a commonsense revision to current appraisal requirements which will make FHA mortgages accessible to more Americans." said the bill's sponsor, Congressman Brad Sherman (D-CA).

Down Payment Assistance

DPA could turn 5 million households into first-generation owners

Down payment assistance for first-generation buyers could reduce intergenerational wealth disparities significantly, according to a new analysis by two researchers at the Urban Institute, Jung Hyun Choi and Janneke Ratcliffe.

The median wealth of white young adults' (ages 18 to 34) parents ($215,000) far exceeds the typical wealth of Black ($14,397) and Latinx ($34,980) young adults' parents. As a result, coming up with enough savings for a down payment and closing costs is the biggest obstacle first-time buyers face.

Down payment assistance can break this cycle. In addition to closing the gap between the first mortgage and the cost of buying the home, DPA can leave borrowers with cash reserves for repair needs or other expenses. Because buyers borrow less for the first mortgage, DPA can also lead to lower payments and more significant home equity when the DPA is a grant or forgiven over time.

Homebuyer education courses, often required for DPA, can help borrowers make sound decisions about financing, the home they buy, and sustaining homeownership.

The number of renting households that could become first-generation owners with the help of down payment assistance ranges from 2.51 to 5.37 million, depending on the definition of eligible households.

First-time Buyers

First-time buyers stick with low down payments during bidding wars

Even though bidding wars are breaking out in markets nationwide, the use of low down payments had not declined through April, according to NAR's Realtor Confidence Index. Some 71 percent of first-time buyers put down less than 20 percent in April 2021, equal to March and one point higher than in April 2020.

To reduce the chance of a low appraisal, expedite loan approval and impress sellers, many experts advise first-time buyers to put down at least 20 percent, but it's not necessary. Down payment programs are available and can assist buyers with down payment and closing costs.

Other data from the April RCI paint a picture of how tough it is for first-time buyers today. Over the past 12 months:

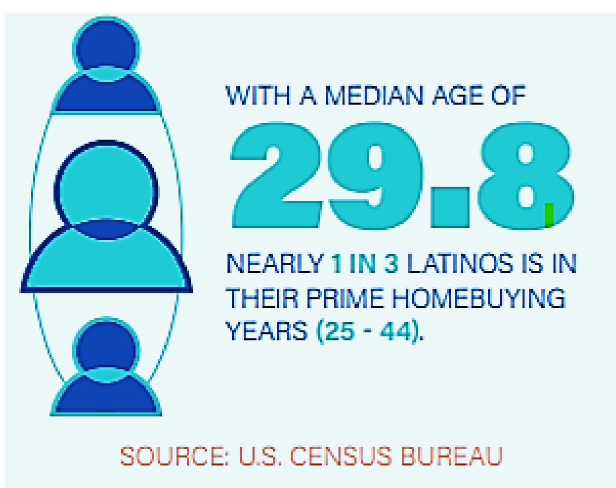
- Sales to first-time buyers are down from 36 to 31 percent.
- Cash sales have increased from 15 percent to 25 percent of sales.
- The average home sale in April had more than five offers, up from 2.5 a year ago.

Minority Homeownership

Latinos increased homeownership rate in 2020

For the sixth consecutive year, Latinos increased their homeownership rate, despite the pandemic. Over 600,000 Latinos purchased a home with a mortgage in 2020, an increase of 13.0 percent from 2019, according to the National Association of Hispanic Real Estate Professionals' 2020 State of Hispanic Homeownership Report.

In 2020, nearly half (43.6 percent) of Latino homebuyers were under 34 compared to 37.3 percent of the general population. Over the past decade, Latinos have accounted for over 50 percent of homeownership growth in the U.S. With a median age of 29.8, Latinos are almost 14 years younger than the non-Hispanic White population. Age is one of the factors driving homeownership growth. Nearly one in three Latinos is currently in the prime homebuying years of 25-44.



Why homeownership is less expensive for minorities than renting

A new [Urban Institute brief](#) by Mike Loftin, CEO of Homewise Inc, makes the case that homeownership is much more affordable than renting over time, even for low and very low-income households and all races and ethnicities.

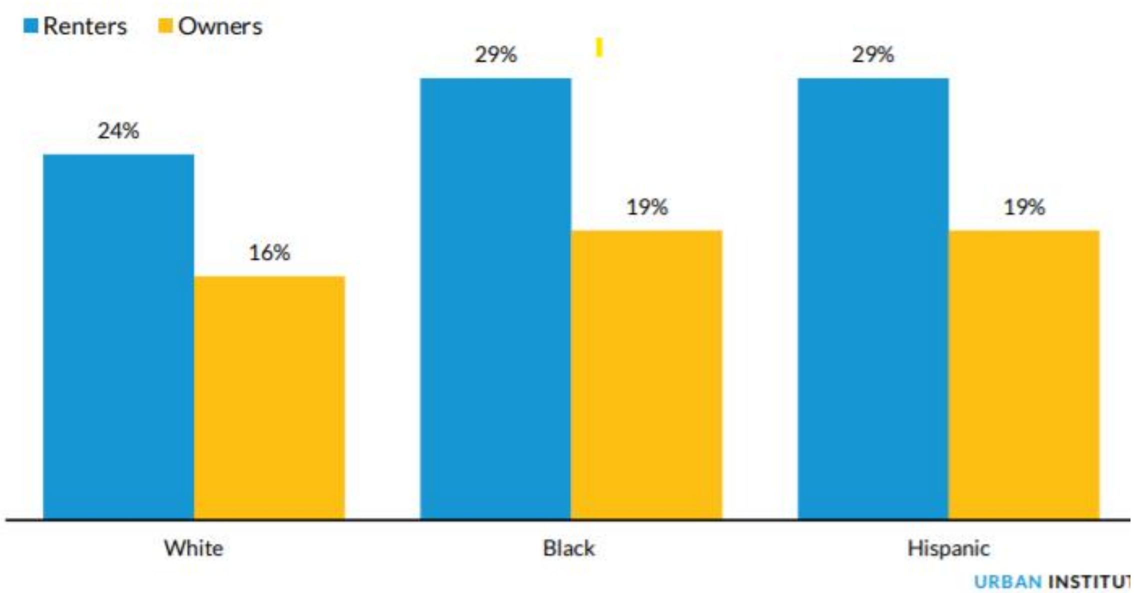
Loftin argues that in households with annual incomes less than $50,000, renters spend an average of 34 percent of their income on housing while owners spend only 24 percent, controlling for income.

Similarly, for households earning less than $20,000, homeowners spend 38 percent of their income, and renters spend 48 percent. Black and Hispanic homeowners have lower housing expense ratios than White renters. The median housing expense ratio for Black and Hispanic homeowners is 19 percent, while the typical White renter household spends 24 percent of its income on housing.

Over time, homeowners and renters have starkly different economic outcomes. Homeownership's major affordability benefit is that it stabilizes what is likely the homeowner's most significant monthly expense, assuming a buyer has a fixed-rate mortgage, which most American homeowners do. The only portion of the homeowner's housing expenses that can increase is taxes and insurance. The principal and interest portion stay the same for 30 years.

FIGURE 2

Share of Income Spent on Housing, by Race or Ethnicity



Source: 2019 American Community Survey.

Note: The data are limited to households with annual incomes greater than or equal to annual housing expenses.

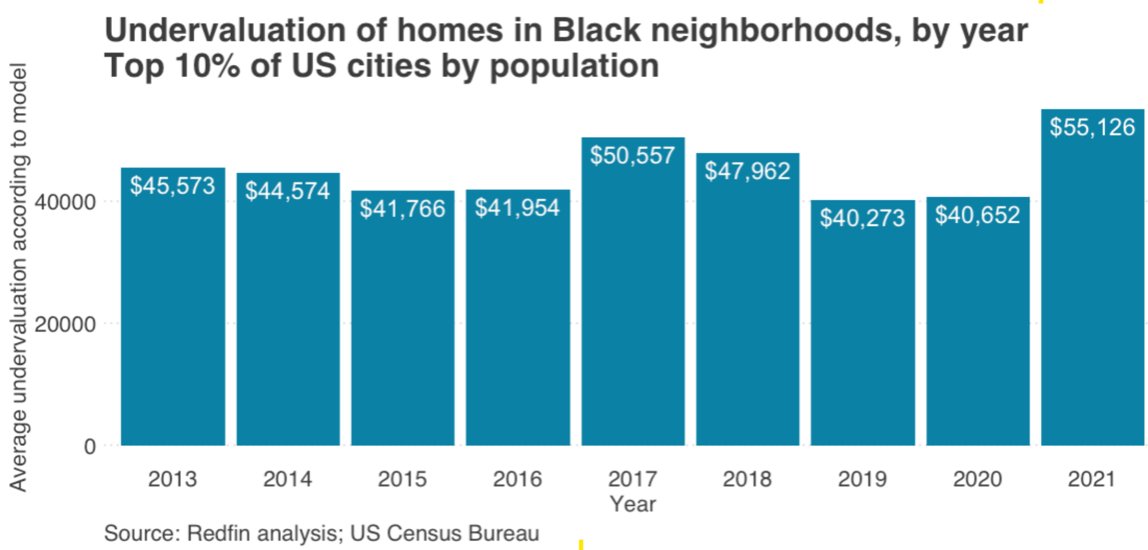
Source: [Urban Institute](#)

The legacy of redlining costs the average Black owner $46,000

The average home in a primarily Black neighborhood nationwide is worth $46,000 less than a comparable home in a primarily White community, according to a new Redfin analysis of value estimates for 7 million homes that were listed and sold from 2013 through February 2021.

"Today's Black homeowners are missing out on $46,000 worth of wealth due to racist housing policies that were outlawed in the 1960s and continuing biases among homebuyers and housing professionals in parts of the home buying process like appraisals and mortgage lending—and that's $46,000 that would multiply as the years go on and benefit future generations," said Reginald Edwards, a senior economist at Redfin. "Our analysis rules out all the factors that are typically associated with home value and still finds a significant difference between the values of otherwise nearly identical homes in similar Black and White neighborhoods. We're left with bias and systemic racism to explain the variation in home values."

Just over 44 percent of Black Americans own the home they live in, versus 74.5 percent of Whites. The Black families who do own their homes have less equity than other races, with median home equity of $89,000 in January 2021 versus $113,000 for white families.



The value gap between homes in Black and white neighborhoods has held steady over the last eight years, fluctuating just slightly year by year.

Down Payment Assistance across America

New Michigan program targets 236 zip codes

The Michigan State Housing Development Authority (MSHDA) offers $10,000 in down payment assistance. To buyers in 236 targeted zip codes.

The MI 10K DPA Loan is offered as a second mortgage for a maximum amount of $10,000 toward the down payment on a home and closing costs. It is a 0% non-amortizing loan due upon sale or transfer of the property, so borrowers do not have monthly payments on the DPA loan.

"With the MI 10K DPA Loan, we're offering resources that help individuals and families remove barriers to homeownership and build wealth, which we believe will lead to stronger, more sustainable communities across Michigan," said Mary Townley, director of MSHDA's homeownership division.

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. In addition, 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 down payment or closing costs.

Down Payment Data

Millennials and Gen Z

Median loan size	$200,589
FICO	758
LTV	88
DTI	28/37
Market Shares	CON 63 percent, FHA 31 percent, VA 1 percent

Source: ICE Mortgage Technology Millennial Tracker - April 2021

April Purchase Loans

	LTV	DTI	FICO	RATE
All loans	72	22/35	747	3.22
Conventional	81	25/35	759	3.25
FHA	95	29/44	679	3.23
VA	98	26/41	723	2.95

Source: Ice Mortgage Technology Origination Insight Report, April 2021

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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