



## A Government-Mandated 10% Down Payment: Bad for Families, the Housing Market and the Economy

CRL Issue Brief

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### Q&A

#### **If we allow low down payments on mainstream mortgages, won't we risk repeating the subprime fiasco?**

No. Poor underwriting and toxic loan terms drove the subprime crash, not low down payments. Consider the different performance of typical subprime loans—which were packed with risky features—and FHA loans, which lacked the risky features but typically had low down payments. Subprime default rates were three to four times higher than those for FHA loans made to comparable borrowers.

#### **Shouldn't borrowers have "skin in the game"?**

Yes, and the market can set the appropriate amount. Three percent down for a lower-income family may be just as effective as a personal investment as 20% for a wealthier family.

Because of existing wealth disparities, families of color generally don't benefit from family assistance or inheritance to the same extent as white families. One study showed that 27% of white home buyers received some help from their families in making a down payment, while nearly 90% of African Americans relied entirely on their own savings.

Many families who can pay their mortgages on time don't have wealth reserves for a large down payment. Decades of lending have shown that low down payment lending can be successful. Excluding millions of good borrowers from the mainstream mortgage market would be a serious mistake—slowing housing recovery and dragging down the economy when we most need healthy growth.

#### **With a 10% Down Payment:**

**Lower and middle-income families who could be successful homeowners would be locked out the lower-cost, mainstream housing market. Existing wealth disparities would get even worse.**

Given median housing prices and incomes, it would take over *20 years* for the average family to save a 10 percent down payment plus closing costs.

For Latino families with median income for that group, it would take 26 years to save enough for a 10% down payment. For African-American families, it would take 31 years.

For loans made during 2004 – 2008, a 10% down payment would have made a mainstream mortgage out of reach for **60%** of African-American and **50%** of Latino borrowers who are currently successful homeowners.

#### **The costs far outweigh the benefits.**

Looking at the market as a whole: If a 10% down payment requirement and new mortgage rules had been in place between 2000 and 2008, about 30% of families who received mortgages would have been denied a mortgage. And the default rate on mortgages would have gone down by only one percentage point.

#### **Sources**

*Balancing Risk and Access: Underwriting Standards for Qualified Residential Mortgages* (Quercia, Ding, and Reid, 2012)

"*The Transition to Home Ownership and the Black-White Wealth Gap*," (Charles and Hurst; Universities of Michigan and Chicago, 2000).