Government-Mandated Down Payment Standards Would Harm the Economy, Deny Homeownership to Credit-Worthy Families

Fact Sheet *August 13, 2013*

Down Payment Mandates Risk Destabilizing the Housing Market

Mandating down payment standards would make the housing market and overall economy worse instead of better. A successful housing market needs new homeowners available to purchase properties. If mandated down payment standards went into effect – instead of letting the market determine appropriate down payment standards – then fewer families could become first-time homebuyers. For example, using 2010 figures that include closing costs, it would take the typical family *22 years to save for a 10% down payment,* and *14 years for a 5% down payment*. Closing costs for fees and escrow often require another 3% in savings.

This decreased demand for housing would result in falling housing prices. In this situation, existing homeowners would lose equity in their homes, possibly pushing them underwater on their mortgage and even into default. As a result, down payment mandates could undermine the nascent housing market recovery and plunge the economy into turmoil.

Lower-Down Payment Mortgages Provide Sustainable Access to Credit for Borrowers

Borrowers can succeed in mortgages with lower down payments. For example, CRL's affiliate Self-Help has purchased 52,000 mortgages worth $4.7 billion, and these lower-down payment loans have performed well – even during the crisis:

- 72% of borrowers made less than a 5% down payment;
- Median borrower income was $30,792; and
- This portfolio has a delinquency rate that is twice lower than all subprime fixed-rate mortgages, 1.7 times lower than prime adjustable-rate mortgages, and four times lower than subprime adjustable-rate mortgages.[1]

It was unaffordable and abusive loans that fueled the recent housing bubble, not lower-down payment mortgages. The recent Ability to Repay and Qualified Mortgage reforms address these problems directly by restricting risky features such as high origination fees, interest-only payments and no-doc loans.

Down Payment Mandates Would Harm Lower-Wealth Families & Communities of Color

Mandated down payment levels would harm lower-wealth households, including a disproportionate number of African-American and Latino households. A UNC-CRL study[2] found that among borrowers who took out a mortgage from 2004-2008 and were current on their mortgage payments through February 2011:

- A 10% down payment mandate would have excluded 60% of successful African-American and 50% of successful Latino borrowers from getting the mortgage they received;
- A 5% down payment mandate would have excluded 33% of successful African-American and 22% of successful Latino borrowers from getting the mortgage they received.

With households of color accounting for an estimated 70% of household growth through 2023,[3] down payment mandates could exclude a large portion of the market from accessing affordable mortgages.

[1] *Setting the Record Straight on Homeownership*, UNC Center for Community Capital, Research Brief (2012).
[2] Quercia, Ding and Reid, *Balancing Risk and Access: Underwriting Standards for Qualified Residential Mortgages*, UNC Center for Community Capital and Center for Responsible Lending (Revised March 5, 2012).
[3] *The State of the Nation's Housing 2013*, Joint Center for Housing Studies at Harvard University (2013).