



Locked Out of a Home

The Impact of a 10% Down Payment Requirement on Prospective Home Buyers

CRL Issue Brief

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Federal regulators are proposing to mandate down payment requirements up to 20% on future home loans. Their proposal is part of the proposed standards for defining a “Qualified Residential Mortgage,” or QRM. This brief updates and supplements “*Don’t Mandate Large Down Payments on Home Loans*,” published by CRL in March 2011.¹

Our analysis shows that a 10% down payment on QRM loans would make homeownership out of reach for many average American families—even creditworthy families with a stable income and steady savings.

As shown in the chart below, a family with median income would need to save for 10 years before accumulating a sufficient down payment. This estimate assumes that during these years families would have to devote **all** of their savings to this down payment, and save nothing for retirement, education, or emergency funds.

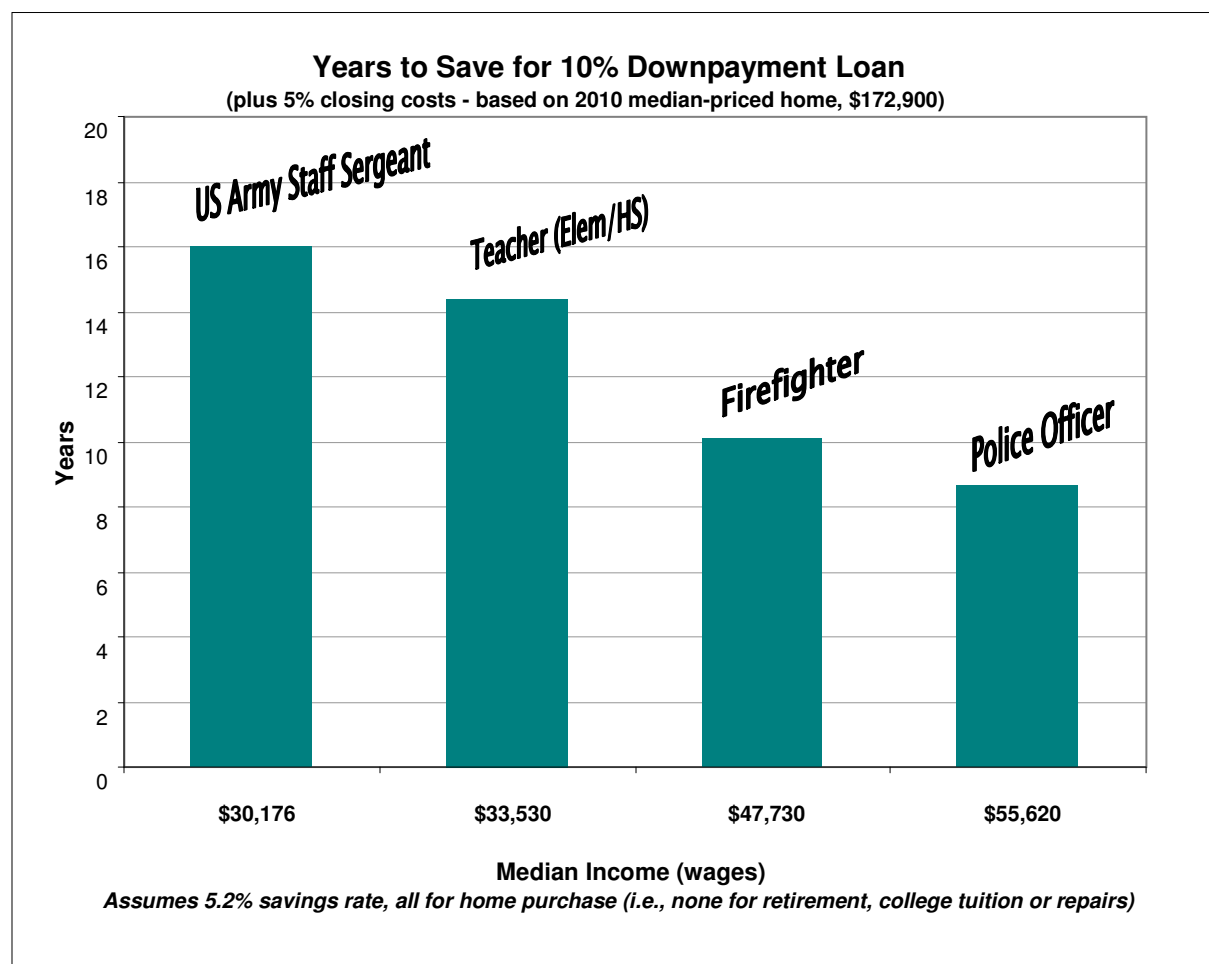
Years to Save a 10 % Down Payment for an Average US Home		
Median house price (2010)	\$	172,900
Down payment of 10%	\$	17,290
Closing costs (5%)	\$	7,781
Total Cash Required at Closing	\$	25,071
Median annual household income	\$	50,474
Personal savings each year (based on 5.2% national savings rate)	\$	2,625
Number of years required to build down payment + closing costs @ national savings rate		10

Data sources described in Note ²

For families of color, the bar is even higher. It would take the average African-American household 15 years to accumulate a 10% down payment and 5% closing costs, and average Latino households would need 12 years to do so.

Years to Save a 10 % Downpayment by Race/Ethnicity				
	All US Households	African-American Households	Latino Households	
Median annual household income	\$ 50,474	\$ 33,209	\$ 38,572	
Personal savings each year	\$ 2,625	\$ 1,727	\$ 2,006	
Number of years required to build downpayment + closing costs @ national savings rate	10	15	12	

Similarly, a high down payment requirement would virtually ensure that many public service employees and military service members would be denied the opportunity to buy a home.³



Denying these groups the opportunity to buy a home also robs them of the financial benefits that accrue to homeowners: among households earning between \$20,000 and \$50,000, those who own homes have 19 times the wealth of those who rent.⁴ These families and their communities are also denied the social benefits of homeownership, including better educational achievement and civic participation, improved household health, lower crime rates, and more stable communities, among others.⁵

And importantly, shutting out creditworthy borrowers from the housing market would significantly impair the market's recovery and our nation's economic rebound.

¹ Available at <http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/dont-mandate-large-down-payments.html>.

² Median home price from National Association of REALTORS® *Median Sales Price of Existing Single-Family Homes for Metropolitan Areas* available at <http://www.realtor.org/research/research/metropriprice>. Personal savings rate also from the National Association of REALTORS based on data from the Bureau of Economic Analysis, www.bea.gov/newsreleases/national/pi/pinewsrelease.htm. Median annual income (wages and after-tax) from US Census Bureau *Current Population Survey 2009* available at http://www.census.gov/hhes/www/cpstables/032010/rdcall/1_001.htm

³ Median income by occupation from the Bureau of Labor Statistics *Occupational Employment and Wages, May 2010*. Statistics for specific occupations cited available at <http://www.bls.gov/oes/current/oes253999.htm>, <http://www.bls.gov/oes/current/oes332011.htm>, and <http://www.bls.gov/oes/current/oes332011.htm>. Army sergeant salary from [salary.com](http://www.salary.com) at <http://www1.salary.com/E6-Staff-Sergeant-Army-Salary.html>

⁴ Joint Center for Housing Studies. *The State of the Nation's Housing 2010*.

⁵ National Association of Realtors. *Social Benefits of Homeownership and Stable Housing*, August 2010.