CRL

Center for Responsible Lending

DATA POINT:

April 2021

Hardship for Renters: Too Many Years to Save for Mortgage Down Payment and Closing Costs

Christelle Bamona

It would take 14 and 11 years respectively for Black and Latino renter households at each of their median incomes to acquire enough funds to afford a 5% down payment and associated closing costs for a median-priced home.

Saving for a mortgage down payment is a significant barrier to homeownership that particularly hits communities of color. We calculate how long it would take for a typical renter household to save for a mortgage down payment and closing costs for a median-priced house ("Years to Save") and further disaggregate these calculations by race/ethnicity, household type, location, and occupation. We also discuss the impact of student loan borrowing on wealth and liquid savings for young households that have attained at least a bachelor's degree and the likely impact on Years to Save of repaying student debt. The findings that follow reflect a dire need for targeted down payment assistance and other programs such as student debt relief that would clear a path to homeownership. Notably this need is based on household financial status *before* the devastating health and economic impacts of the Covid-19 pandemic and is therefore likely to be even greater than represented here going forward.

Years to Save for Down Payment Impacted by Race and Other Demographics

Assuming an annual savings rate of 5%,[1] a renter household earning the national median income in 2019[2] ($46,640) would be saving $2,465 a year towards a mortgage down payment. Therefore, it would take 11 years[3] for a prospective homebuyer to save $26,000, enough to put 5% down and afford the associated closing costs of a median-priced home[4] ($321,500).

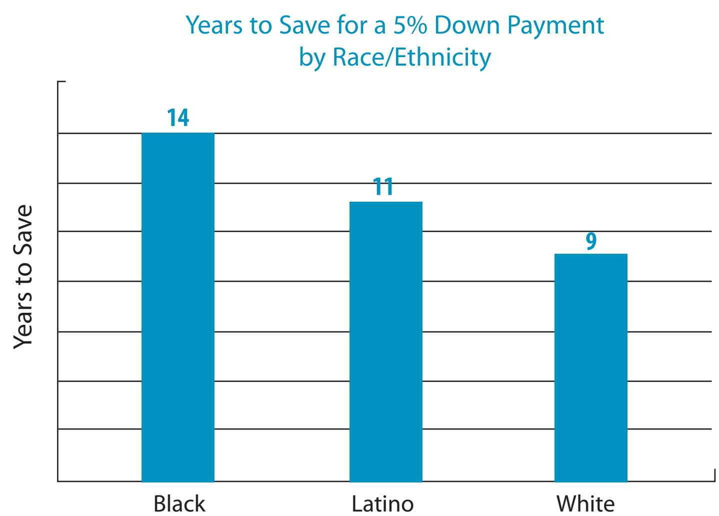
Table 1: It Can Take the Typical Worker About 11 Years to Save for a Median-Priced Home

	Down Payment Requirement			
	20%	10%	5%	3%
Cash Required for Down Payment	$ 64,300	$ 32,150	$ 16,075	$ 9,645
Cash Required for Closing Costs	$ 9,366	$ 9,743	$ 9,931	$ 10,007
Total Cash Required at Closing	$ 73,666	$ 41,893	$ 26,006	$ 19,652
Number of Years Required to Save Required Cash	**30**	**17**	**11**	**8**

Source: CRL calculations based on median income from the 2019 Current Population Survey, median home price from the U.S. Census Bureau, personal savings rate from the U.S. Bureau of Economic Analysis, and closing costs from NerdWallet. Note: Numbers may differ slightly from actual due to rounding.

Black households are falling further behind other racial/ethnic groups in homeownership, and Latino households continue to trail white households.[5] CRL estimates that it would take 14 and 11 years respectively for Black and Latino renter households at each of their median incomes to acquire enough funds to afford a 5% down payment and associated closing costs for a median-priced home.[6] In contrast, white renter households need 9 years to save for a 5% down payment, thus benefiting from an earlier entry into homeownership and its wealth-building advantages (Figure 1).

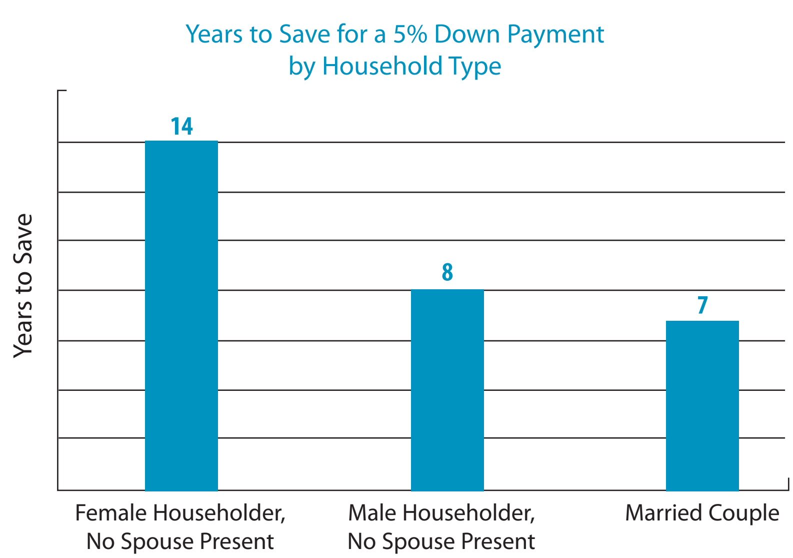
Figure 1: White Households Can Get on the Homeownership Path 5 Years Earlier than Black Households



Source: CRL calculations based on median income from the 2019 Current Population Survey, median home price from the U.S. Census Bureau, personal savings rate from the U.S. Bureau of Economic Analysis, and closing costs from NerdWallet. Note: Numbers may differ slightly from actual due to rounding.

We compared renter households with children (married couple, male householder, female householder) and estimated that, with a median income of $35,000—well below the $73,000 median income for married couples—the typical single mother would need roughly 14 years to accumulate the necessary funds to make a 5% down payment on a median-price home.

Figure 2: Given Their Low Income, Families Headed by a Single Mother Face More Challenges to Saving for a Down Payment

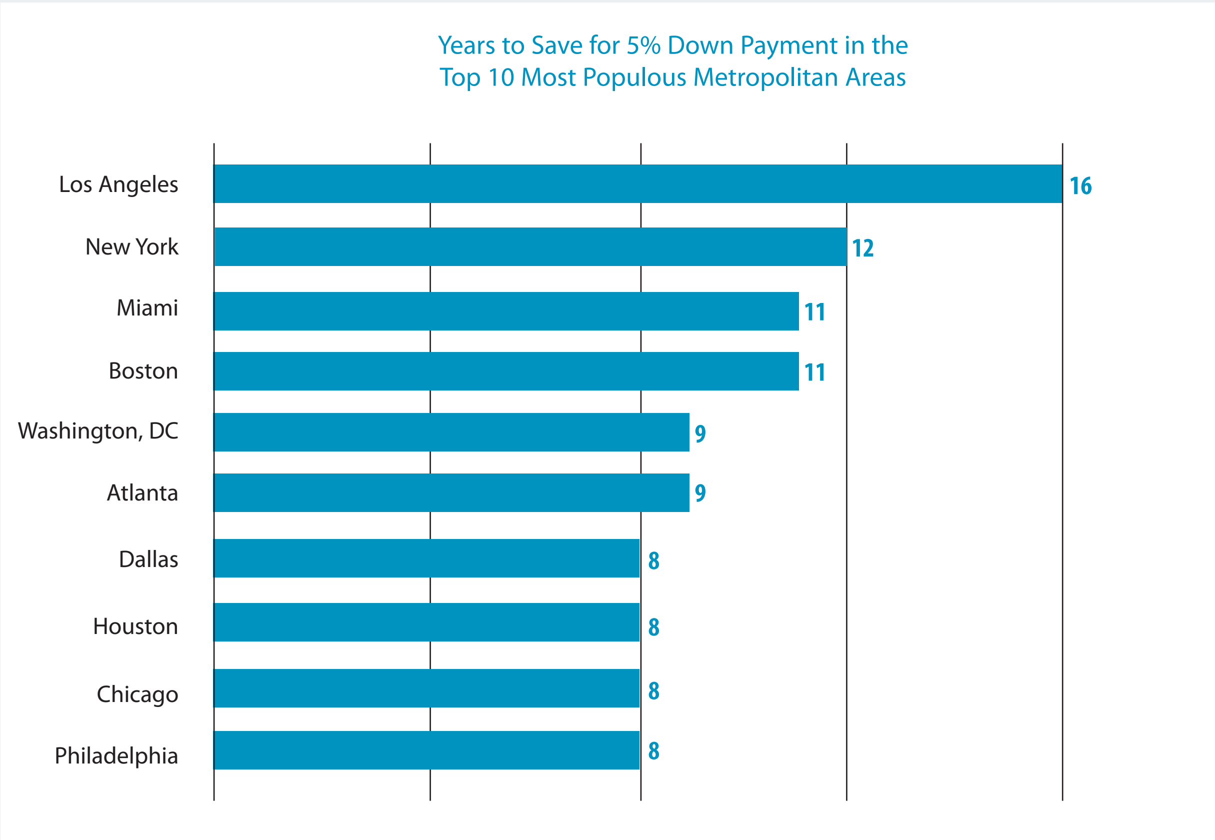


Source: CRL calculations based on median income from the 2019 Current Population Survey, median home price from the U.S. Census Bureau, personal savings rate from the U.S. Bureau of Economic Analysis, and closing costs from NerdWallet. Note: Numbers may differ slightly from actual due to rounding.

House prices and income levels vary considerably across the country. We estimated how many years it would take for a typical renter household making the area's median income to save for a median-priced house. The graph below shows the number of years to save for a 5% down payment in the top 10 most populous metropolitan areas.

Home prices in expensive markets such as Los Angeles compound the difficulty of saving for a mortgage down payment. The median sale price in Los Angeles in 2019 was 11 times greater than the area's median income for renter households. As shown in Figure 3, it would take a prospective homebuyer in the Los Angeles metro area earning the local median income roughly 16 years to save for a 5% down payment on a median-priced home.

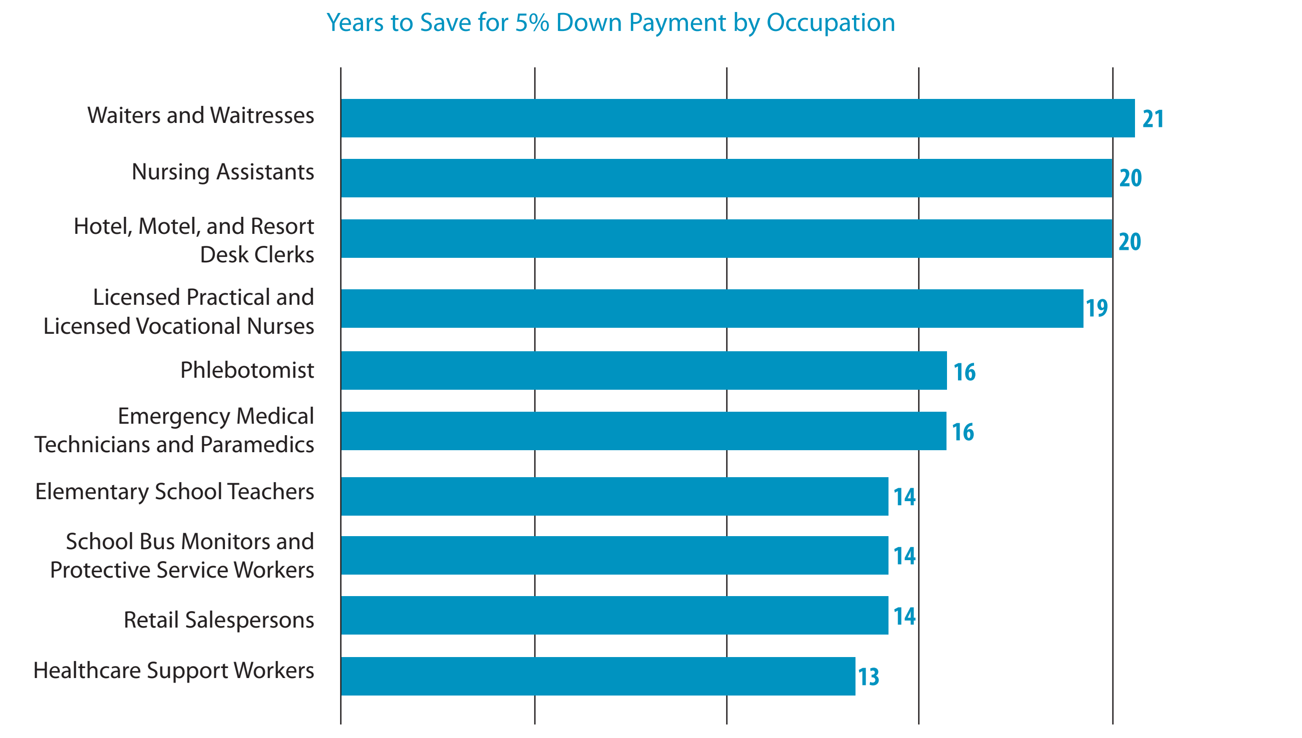
Figure 3: Los Angeles Requires the Most Years to Save for a Down Payment



Source: CRL calculations based on 2019 home price data from the National Association of Realtors, income data from U.S. Bureau of Economic Analysis, personal savings rate from the U.S. Bureau of Economic Analysis, and closing costs from NerdWallet. Note: Numbers may differ slightly from actual due to rounding.

Based on median earnings for various occupations, we estimated that it would take between 13 and 21 years for low- and middle-income workers highly affected by the Covid-19 pandemic (either as essential workers or workers in industries hard hit by job loss) to save for a 5% down payment and closing costs for a median-priced home.[7]

Figure 4: A Nursing Assistant Earning the National Median Wage Would Need Two Decades to Save for a 5% Mortgage Down Payment for a Median-Priced Home



Source: CRL calculations based on 2019 median income by occupation from the U.S. Bureau of Labor Statistics, median home price from the U.S. Census Bureau, personal savings rate from the U.S. Bureau of Economic Analysis, and closing costs from NerdWallet. Note: Numbers may differ slightly from actual due to rounding.

Wide Wealth Gap Between Older Millennial Homeowners and Renters

Using data from the 2019 Survey of Consumer Finances (SCF), we analyzed the financial profile of those aged 30 to 38 (Older Millennials).[8] The data suggest that the median net worth, cash savings, and assets of Older Millennials vary dramatically between households owning a home and renter households (Table 2). Among Older Millennials, homeowner households have 17 times the median assets of renter households and 20 times the net worth of renter households. The wealth gap between these two groups is likely driven by homeownership, which remains a primary way to build wealth.

Table 2: Among Older Millennials the Net Worth of Homeowners Is 20 Times the Net Worth of Renters

	Older Millennials	Homeowners	Renters
Median Net Worth	$43,100	$119,750	$6,100
Median Cash Savings	$4,080	$7,500	$2,030
Median Assets	$128,400	$348,800	$20,000

Source: CRL calculations based on data from the Survey of Consumer Finances, 2019. Note: Numbers may differ slightly from actual due to rounding.

The Effect of Student Debt on the Pursuit of Homeownership

Further, our analysis of the SCF reveals that saving for a down payment may be a big hurdle for young households that hold student debt. Continuing to restrict our dataset to renter households headed by an Older Millennial, we analyzed the wealth patterns between two groups: (1) households making payments on their student loan debts and (2) households without an outstanding student loan balance.

As shown in Table 3, young renters with outstanding student loans ("Indebted") are financially worse-off than their counterparts without them ("Debt-Free"). For instance, among bachelor's degree holders, those without outstanding student debt had a median net worth of $62,400 in 2019, but those with outstanding student loans had a median net worth of $-4,860. These gaps also exist for cash savings and assets.

Table 3: The Struggle To Save for a Down Payment Is Exacerbated by the Burden of Student Loan Debt

	Associate Degree		Bachelor's Degree		Graduate Degree	
Student Debt Status	Debt-Free	Indebted	Debt-Free	Indebted	Debt-Free	Indebted
Median Net Worth	$18,950	($7,590)	$62,400	($4,860)	$68,650	($65,629)
Median Cash Savings	$4,000	$645	$9,000	$5,300	$16,200	$9,600
Median Assets	$40,000	$6,810	$62,400	$37,600	$81,400	$56,100

Source: CRL calculations-based data from the Survey of Consumer Finances, 2019.

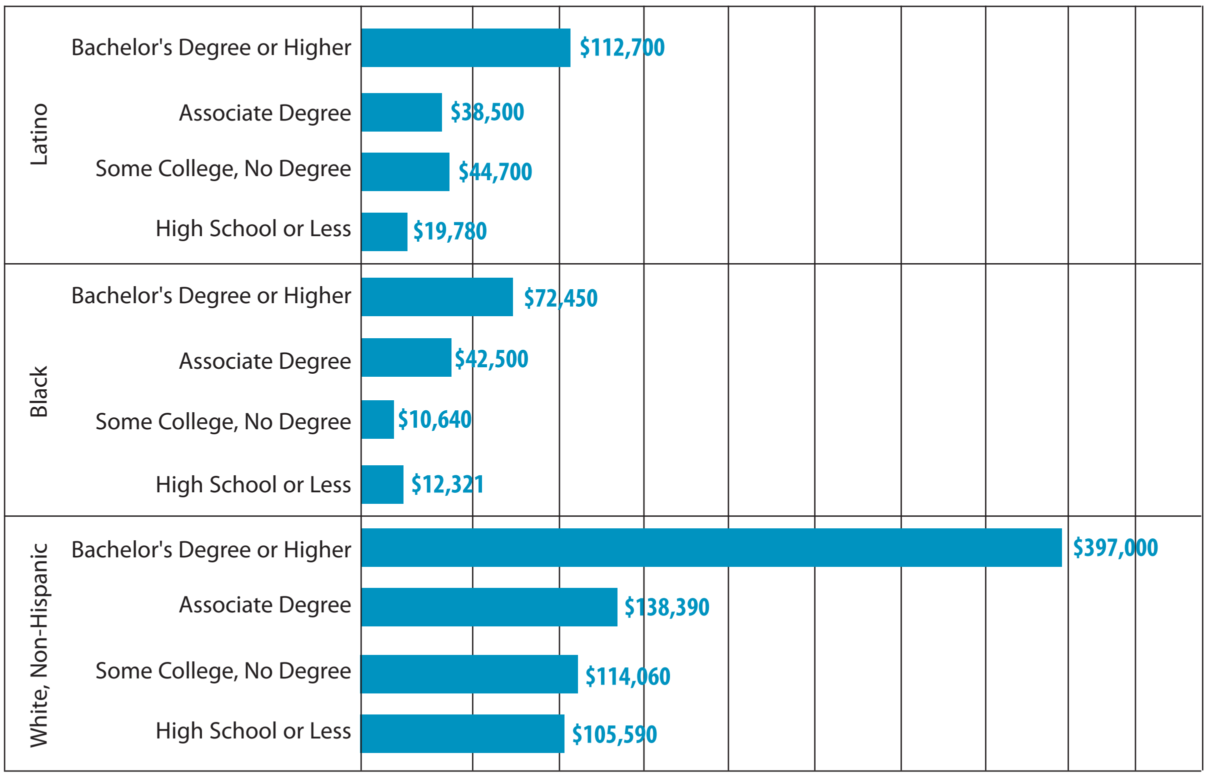
Clearly, high educational attainment is no guaranty that households will realize the dream of homeownership. This is especially true for highly educated young Black households who face the impediments of lower incomes, lower cash savings, and lower family wealth endowments *along with* greater burdens of student debt relative to similarly educated white peers. For example, recent research by the Urban Institute found that young (35 and under) Black college graduates earned on average $25,000 less in household income than white college graduates. They were also more likely to take out student loans (77% vs. 56%), and conditional on borrowing, had over $1,400 more in student loans. The same research found that these same young Black college graduates had far lower home ownership (30%) than not only young white college graduates (49%) but also slightly lower homeownership than young white high school dropouts (32%).[9]

Clearly, high educational attainment is no guaranty that households will realize the dream of homeownership.

In terms of the impact of student debt on Years to Save, research from the Federal Reserve suggests that each $1,000 increase in student debt for a household delays homeownership by approximately four months.[10] Thus, even ignoring lower incomes, lower savings, and lower parental endowments for young Black households, we calculate that student debt overall (taking into account both households that borrow and those that don't) increases Years to Save by over 39 months for young Black college graduate households compared to their white peers.[11] Alternatively, if we compare a typical "borrowing" Black household with $42,954 in student debt from the same Urban Institute study, to a white or (less likely) Black household with *no* student debt, Years to Save is almost 172 months (over 14 years) longer for the indebted household.

Ultimately, these multiple disadvantages translate into the persistence of the racial wealth gap for all households of all ages, even for educated households as reflected in Figure 5 below, where we find that the typical Black household whose head earned a bachelor's degree or higher has roughly **half** the wealth of a white family whose head's highest level of education is an associate degree. The typical Latino household headed by someone with a bachelor's degree or higher has slightly less wealth than a white family whose head left college without a degree.

Figure 5: Racial Wealth Gap Persists Despite Higher Level of Education



Source: CRL calculations-based data from the Survey of Consumer Finances, 2019, median net worth including both renter and homeowner households.

Conclusion

Homeownership remains out of reach for many Black and Brown households particularly in certain locations and occupations. Homeownership rates of Blacks and Latinos remain far below that of whites, and Black homeownership is almost as low as it was 50 years ago, a few short years after the passage of the Fair Housing Act in 1968, which prohibited common exclusionary housing practices.[12]

Left unaddressed, the racial disparities in homeownership will continue to widen and have dramatic consequences on the economy and our society.

Though all prospective homebuyers face a challenging housing market, Black and Latino households must surmount other obstacles beyond those their white counterparts face. Discrimination, economic inequality, and predatory lending are continuing to affect communities of color disproportionately. Left unaddressed, the racial disparities in homeownership will continue to widen and have dramatic consequences on the economy and our society. Policymakers should prioritize targeted down payment assistance programs to help address these gaps.

Further, this analysis also shows that, even with the attainment of a bachelor's degree, young households that carry student debt face additional challenges when it comes to saving for a down payment. The most obvious channel that can negatively affect homeownership for student debt holders is reduced disposable income that could be used to save for a mortgage down payment. In addition, student loan debt can affect a borrower's credit characteristics (credit score and debt-to-income ratio), thus impacting the outcome of a mortgage application—even if down payment assistance is available. Therefore CRL has called for providing relief targeted to current and future student loan borrowers, including across-the-board student loan forgiveness of $50,000, increasing the Pell Grant for low-income students, increasing state funding for higher education, and reforming income-based repayment.[13] These reforms will assure that households struggling with unaffordable student debt burdens can also benefit from down payment assistance.

Endnotes

[1] Our savings rate assumption is derived from the U.S. Bureau of Economic Analysis's (BEA) annual savings rate of 7% for 2019. However, since BEA's savings rate is based on take-home pay, not gross income, it translates to 5.285% rate for gross income, assuming a combined federal, state, and local tax rate of 30%: https://www.bea.gov/data/income-saving/personal-saving-rate

[2] Median Income for 2019 is from the Current Population Survey, available at https://cps.ipums.org/cps/

[3] Assuming a 4.1% interest rate, closing costs on a median home price are estimated using NerdWallet's Closing Costs Calculator and include appraisal fee, home inspection fee, application fee, attorney's fee, prepaid interest, loan origination fee, property tax, homeowners insurance premium, title insurance, and title search fee: https://www.nerdwallet.com/article/mortgages/closing-costs-calculator

[4] Median Home Price for 2019 is from the U. S. Census Bureau, available at https://www.census.gov/construction/nrs/historical_data/index.html

[5] https://www.census.gov/housing/hvs/files/currenthvspress.pdf

[6] The median income for cash renters in 2019 was $34,100 for Black households, $44,000 for Latino households, and $52,132 for White households.

[7] Note that this occupational analysis is for all wage earners (both homeowners and renters) due to the lack of data by occupation on renting households only. If anything, these results would understate the years to save because they include the (generally) higher incomes of homeowners.

[8] The Federal Reserve Board defines Millennials as "members of the generation born between 1981 and 1996." In 2019, Millennials were between the ages of 23 and 38. Because wealth accumulation patterns may not be particularly informative for people who are still in college, we examine wealth patterns among "Older Millennials," born between 1981 and 1989 (age 30–38 in 2019).

[9] Choi, Jung Hyun and Laurie Goodman. 2020. Why Do Black College Graduates Have a Lower Homeownership Rate Than White People Who Dropped Out of High School? Washington, DC: Urban Institute. See: https://www.urban.org/urban-wire/why-do-black-college-graduates-have-lower-homeownership-rate-white-people-who-dropped-out-high-school

[10] Mezza, A.; Ringo, D.; Sherlund, S.; & Sommer, K. 2020. "Student Loans and Homeownership," Journal of Labor Economics, University of Chicago Press, vol. 38(1), pages 215–260. See: https://www.journals.uchicago.edu/doi/pdfplus/10.1086/704609

[11] Using the Urban Institute data on young, educated households mentioned in the prior paragraph, we calculated student debt burden for Blacks (average Black household total debt of $39,849 multiplied by 83% share that is student debt) compared to whites (average white household total debt of $33,242 multiplied by 70% share that is student debt). The difference of $9,805 is divided by $1,000 and multiplied by four months to get the increase in Years to Save of approximately 39 months.

[12] In the fourth quarter of 2019, the homeownership rate for Black householders was 44%, while the rate for Hispanic (of any race) homeownership was 48.1%. The homeownership rate for non-Hispanic white householders was 73.7%. In comparison, the 1970 Census reported that only 42.6% of Black households and 43.8% of Hispanic households owned their homes compared to 66.8% of white, non-Hispanic households. The 2019 data reported here are from the U.S. Census Bureau's Quarterly Residential Vacancies and Homeownership Report: https://www.census.gov/housing/hvs/files/currenthvspress.pdf. The 1970 data are from the U.S. Census Decennial Survey and reported by HUD: https://www.huduser.gov/publications/pdf/homeownershipgapsamonglow-incomeandminority.pdf

[13] See: https://www.responsiblelending.org/research-publication/road-relief-supporting-federal-student-loan-borrowers-during-covid-19-crisis.