

# Bridging the Down Payment Gap

*Preparing for the First-time  
Homebuyer Opportunity*



Mainstreet  
Organization of  
Realtors



We make home possible®

Freddie Mac, Rick Padilla  
October 13, 2010

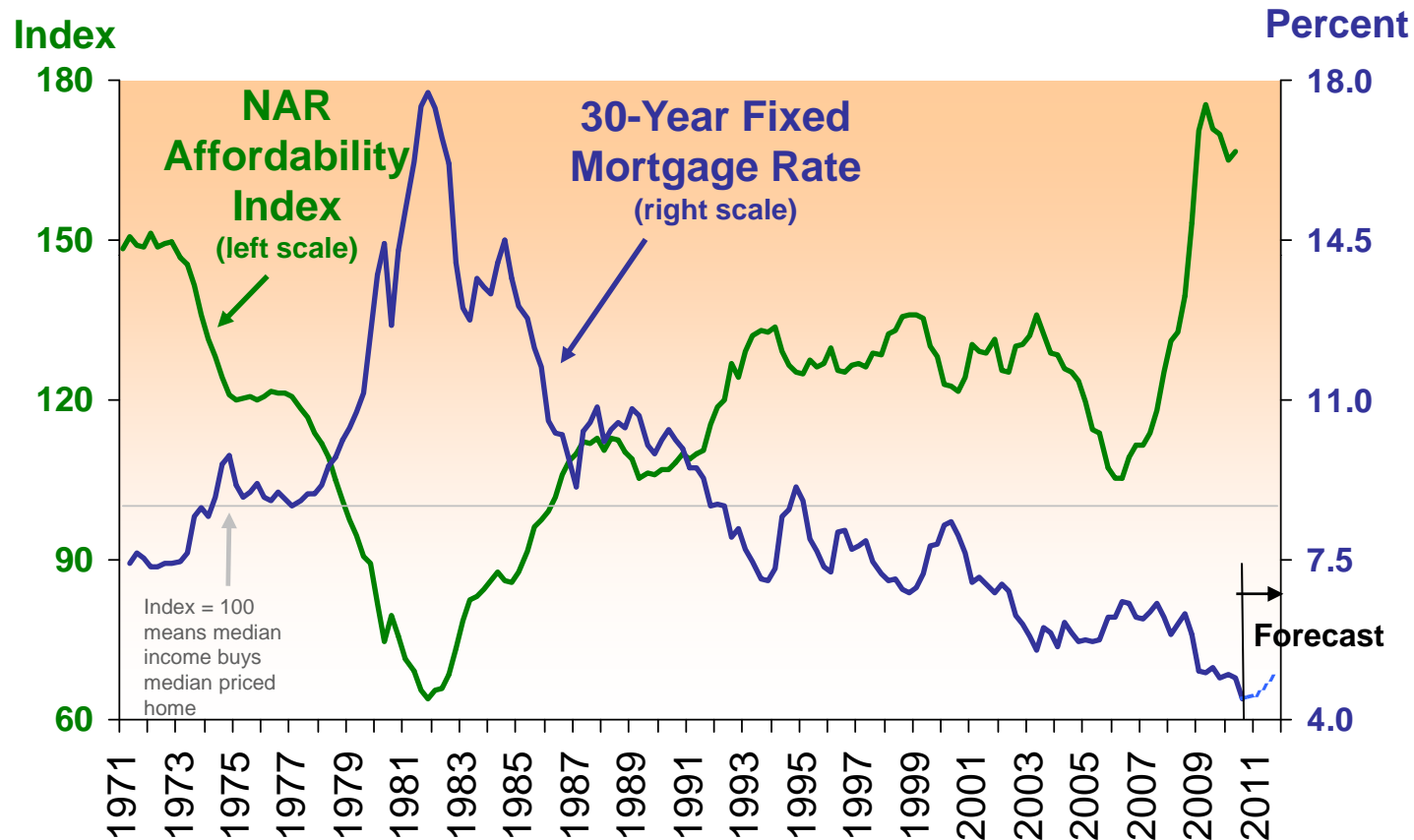
## **Today's Presentation**

- It's a Great Time to Buy
- Today's First-time Homebuyers
- Bridging the Gap: Down Payment and Closing Cost Resources
- Putting These Programs into Action for Your Business and Your Clients



**It's a Great Time to Buy!**

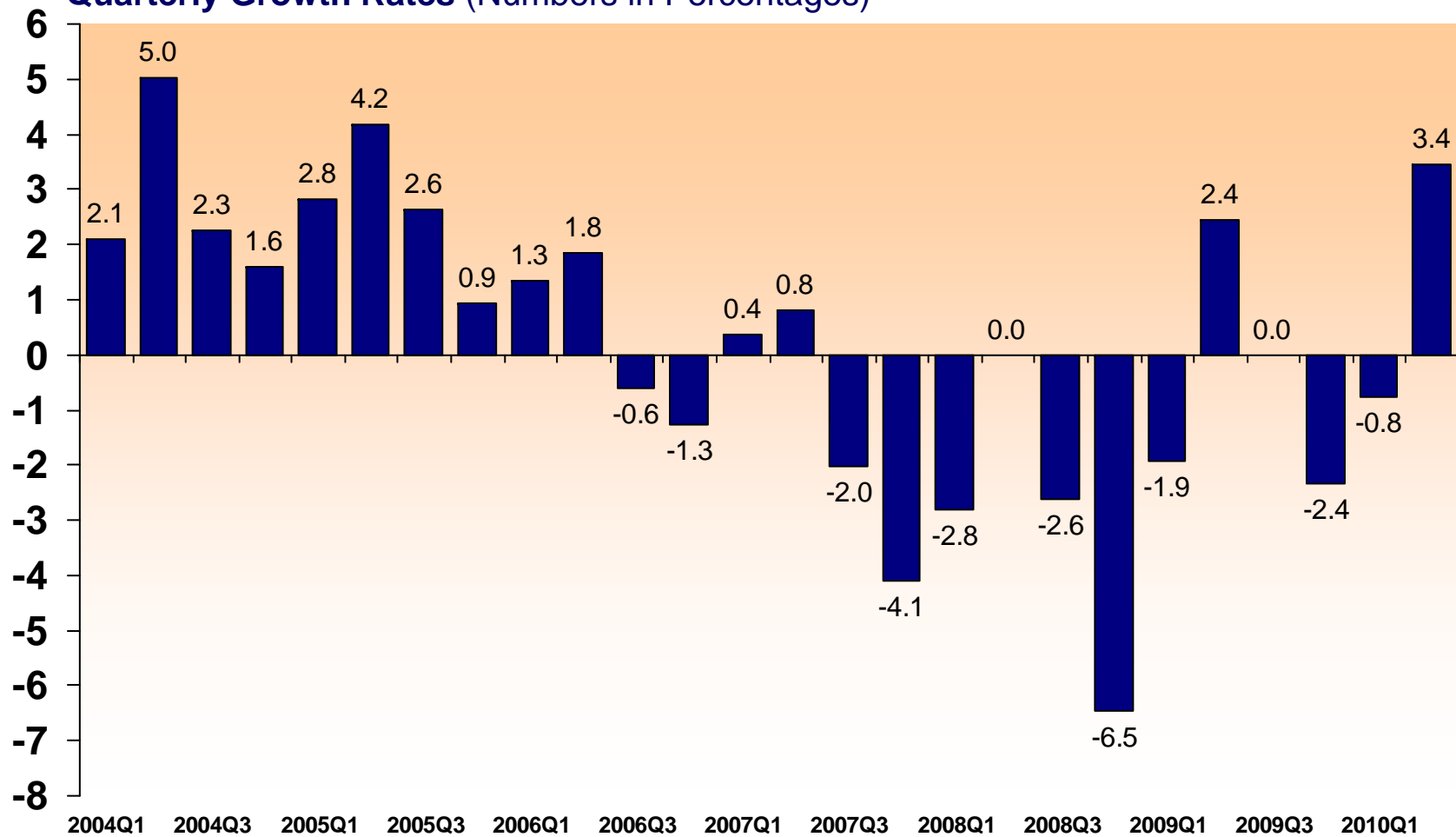
# Low Interest Rates & Lower Home Prices Have Increased Homebuyer Affordability



Source: National Association of Realtors Composite Housing Affordability Index – (% of median priced home affordable on median income with conventional mortgage and 20% down), seasonally adjusted; Freddie Mac Primary Mortgage Market Survey® and September 2010 Outlook.

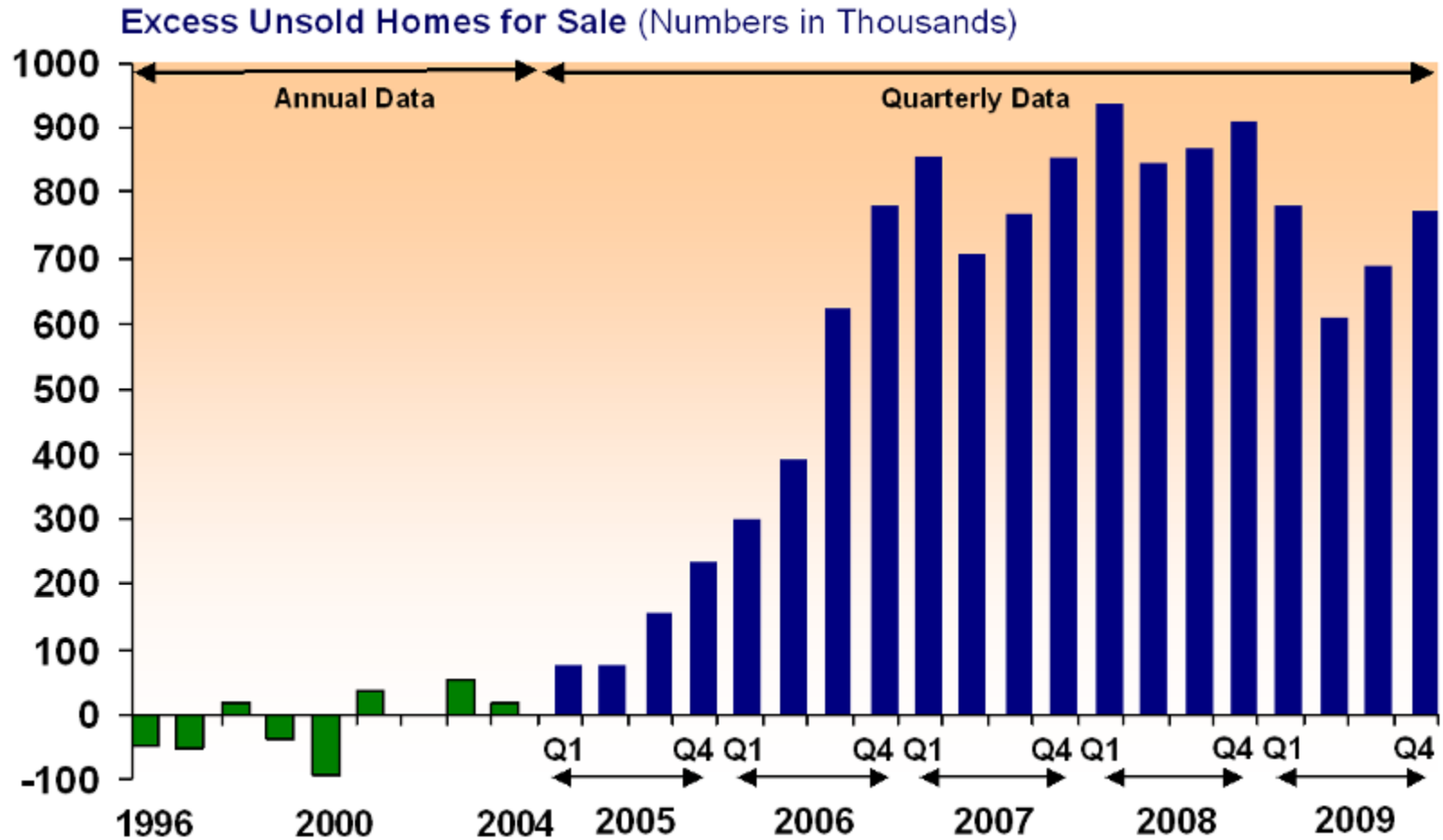
# National House Prices Have Experienced a Cumulative Decline of 17% Since June 2006

**Quarterly Growth Rates (Numbers in Percentages)**



*Note: National home prices use the internal Freddie Mac Index, which is a value-weighted based on Freddie Mac's single-family portfolio. The US index is a monthly series; quarterly growth rates are calculated as a 3-month change based on the final month of each quarter. Source: Freddie Mac*

# Housing Stock High at Lower Prices



Source: Bureau of Census (1996-2004: Annual Data, 2005Q1-2009Q4: Quarterly Data)

Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).



# Market Drivers Influence Purchase Patterns

### Past Few Years (2005 – 2007)

- Consumers anxious to become homeowners to catch the appreciation wave
- Minimal savings required for down payment
- Homeownership viewed as a short-term investment (Market Created Equity)
- Equity used as ATM for other purposes beyond homeownership
- Consumers took advantage of exotic low initial payment mortgages

### Today (2010)

- Consumers waiting on the sidelines for prices to bottom out or the market to stabilize
- Consumers unsure whom to trust
- Savings now required for down payment and closing costs (5%-20%)
- Homeownership a longer term investment (Homebuyer Creates the Equity)
- Consumers feel unprepared for mortgage obligation
- Consumers seeking simple mortgage products with no surprises

### Summary

- The demographic profile of homebuyers has not changed.
- The value proposition of becoming a homebuyer has changed for most consumers, resulting in a change in their behavior and approach toward homeownership.
- New value proposition is long-term investment versus short-term reward/ATM.

**Given these changes, how do we attract, prepare, and serve well-qualified homebuyers going forward?**

## Borrower Segments

### First-Time Homebuyer

- Anxiety over housing prices
- Lack of down payment
- Inability to find financing
- Lack of information

### Trade-Ups

- Lower equity in existing home
- Challenges of selling home
- Fear of declining house values

### Re-entering the Market

- Repairing credit
- Fear of unemployment/foreclosure
- Lack of down payment

## Challenges

## Universal

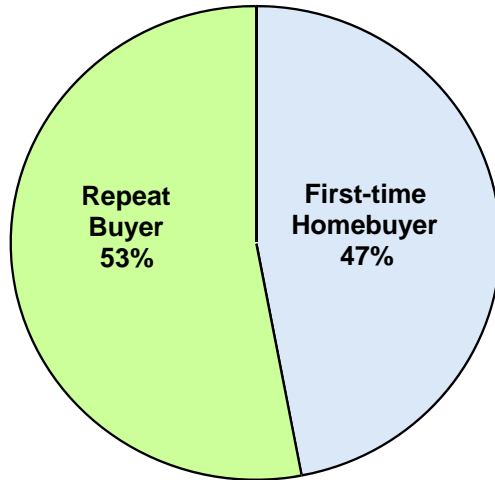
- Fear of making wrong choices
- Fear of foreclosure
- Fear of unemployment
- Fear of continuing decline in home prices (investment loss)
- Not the right time to buy
- Monthly payment and cash upfront issues
- Down payment struggles
- Costs are higher for credit scores from 620 –640



# Who Are Today's First-time Homebuyers?

# First-time Homebuyers Today

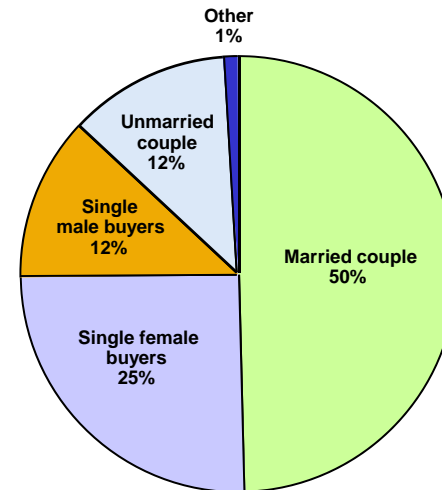
2009 Homebuyer Profile



## First-time Homebuyer – Demographic Characteristics

- Share increased from 41% in 2008 to 47% in 2009
- Married couple represent 50% of FTHBs
- Single female buyers represent 25% of FTHBs
- Single male buyers represent 12% of FTHBs

First-time Homebuyer Demographics



# Age of First-time Homebuyers

## Homebuyer Age

- First-time homebuyers are typically younger than repeat buyers.
- More than half of first-time homebuyers were between 25-44 years old.
- Typical homebuyer is 39 years old (median age).

Age of Homebuyer	
18–24	6%
25–34	34%
35–44	22%
45–54	18%
55–64	13%
65–74	6%
75 and over	2%

# Projected Population 2010-2025

## Projected Population Increase -- 2010-2025

### White

2010	246,630	
2015	256,306	(3.92%)
2020	266,275	(7.97%)
2025	276,281	(12.02%)

### Black

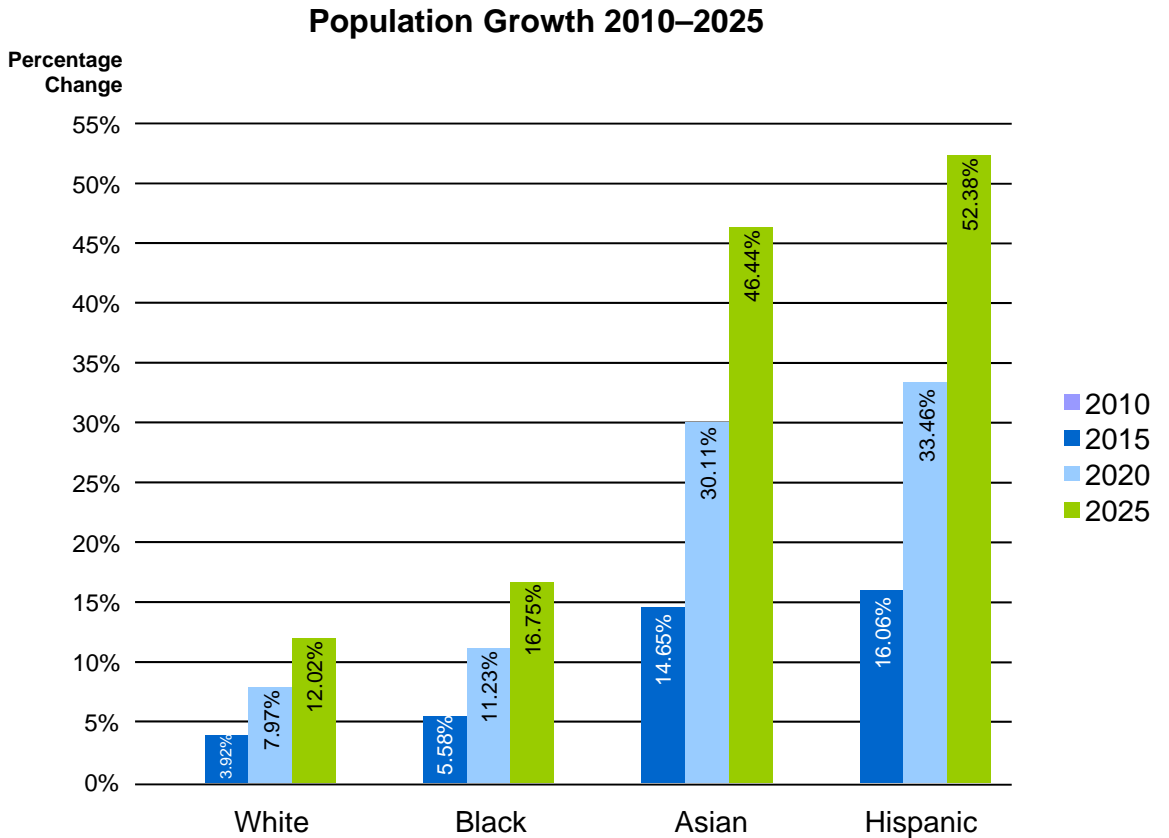
2010	39,909	
2015	42,137	(5.58%)
2020	44,389	(11.23%)
2025	46,594	(16.75%)

### Asian

2010	14,415	
2015	16,527	(14.65%)
2020	18,756	(30.11%)
2025	21,109	(46.44%)

### Hispanic

2010	49,726	
2015	57,711	(16.06%)
2020	66,365	(33.46%)
2025	75,772	(52.38%)





# Down Payment and Closing Cost Assistance Resources

# Sources of Funds

- **Assistance** from a variety of sources is available for mortgage-ready, well-qualified first-time homebuyers who need a little bit more to **bridge the gap**:
  - **Mortgage Credit Certificates**; and
  - **Down payment and closing cost** assistance (grants and deferred seconds) offered through either **HUD's HOME Investment Partnerships Program** or the **Community Development Block Grant Program** that are used to administer programs on the state or local level. Examples of such programs include the American Dream Downpayment Initiative and the **Neighborhood Stabilization Program**.
  - Assistance may be limited to **first-time homebuyers** and/or low and **moderate-income homebuyers**, depending on the assistance program.
- **Homebuyer education** counseling is often required, but not always.

# Types of Down Payment Assistance

## **Grants**

- Grants are funds that do not have to be paid back, but often have to be paid back if the borrower sells his or home within a certain period of time.

## **Deferred Seconds**

- Many down payment assistance programs come in the form of a second mortgage that has a low interest rate and/or deferred payments.

# Mortgage Credit Certificates

- **Issued** by certain **state or local governments** (including state housing finance agencies), MCCs generally allow homeowners to claim around 20 percent of the annual interest on their mortgage as a federal tax credit every year for the life of the original first mortgage (details vary by state).
- **Amount of credit** per mortgage loan **capped** by Internal Revenue Service @ **\$2,000** per year.
- Mortgage lenders often **use** the estimated amount of the **credit** on a monthly basis as **additional income** to help the potential borrower qualify for the loan.

# How Mortgage Credit Certificates Work

## Borrower receives an MCC for:

30% credit  
\$200,000 mortgage  
30-year, fixed-rate  
6% interest rate

## Allowable Tax Credit:

Mortgage Interest Paid (First Year): \$11,933

X

0.30 (30% MCC Credit)

=

**Total Credit: \$3,579**

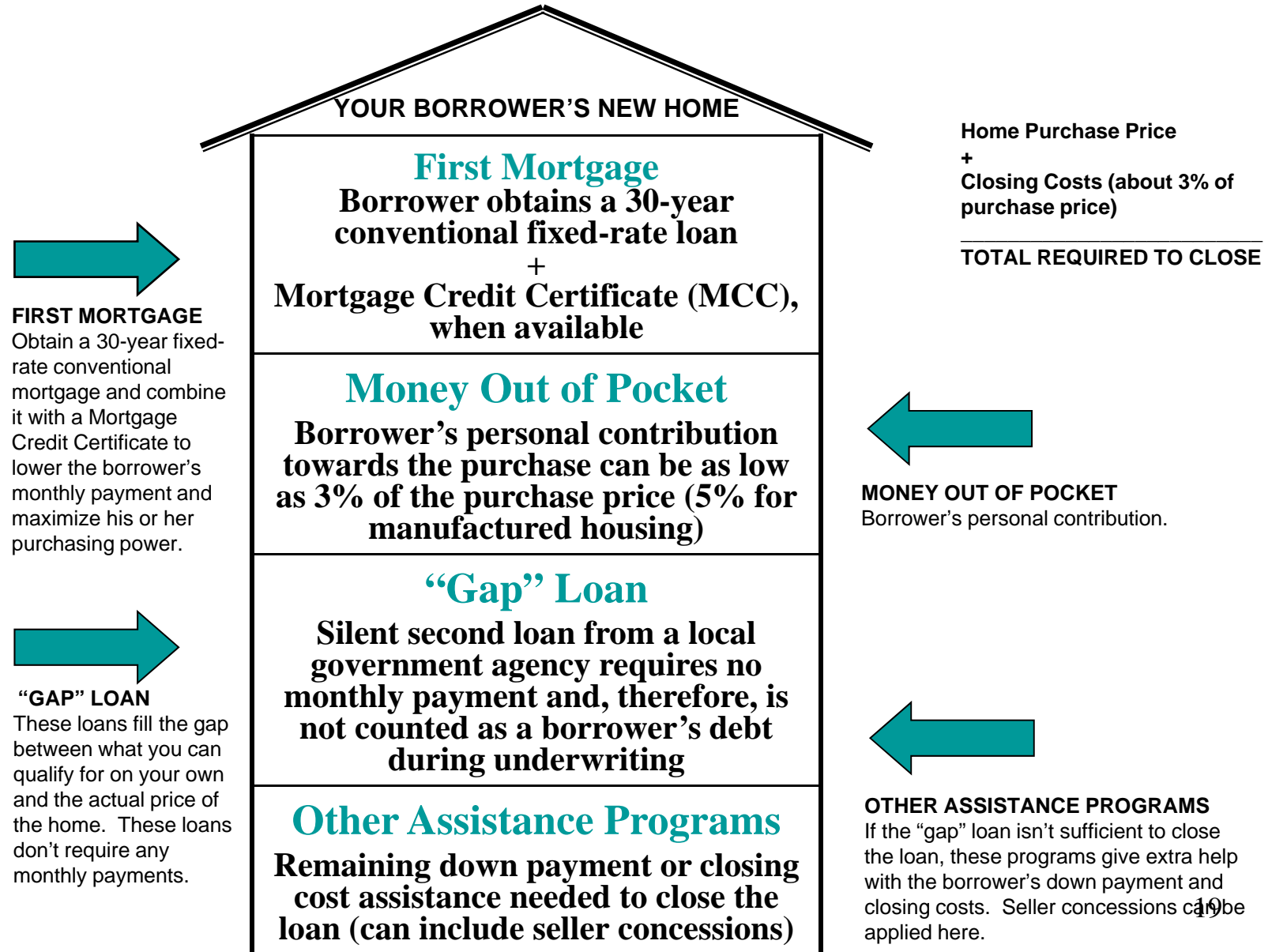


## Results:

- Total tax credit in this example exceeds IRS limit of \$2,000
- Homebuyer reports a \$2,000 credit on tax return
- Homebuyer may continue to receive a tax credit for as long as they remain in home and retain mortgage

*For illustrative purposes only. Borrowers should always check with their tax advisor to determine any potential tax benefits.*

# How Government Grants and Loans Can Help Borrowers Buy Their First Home





# **Pulling this all together into a Plan to Grow Your Business: Outreach Efforts and Activities**



## How Strategic Markets Helps You Build New Business and Sustain Homeownership

### **Preserving Homeownership**

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Increase your presence with homeowners who may be eligible for a Making Home Affordable modification or refinance. We'll partner with you at consumer events and work with you on new ways to reach consumers.

### **Creating Business Opportunities**

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Our team is strategically positioned to provide you with a set of unique resources and expertise to proactively help you achieve multiple business objectives.

### **Preparing Borrowers for Homeownership**

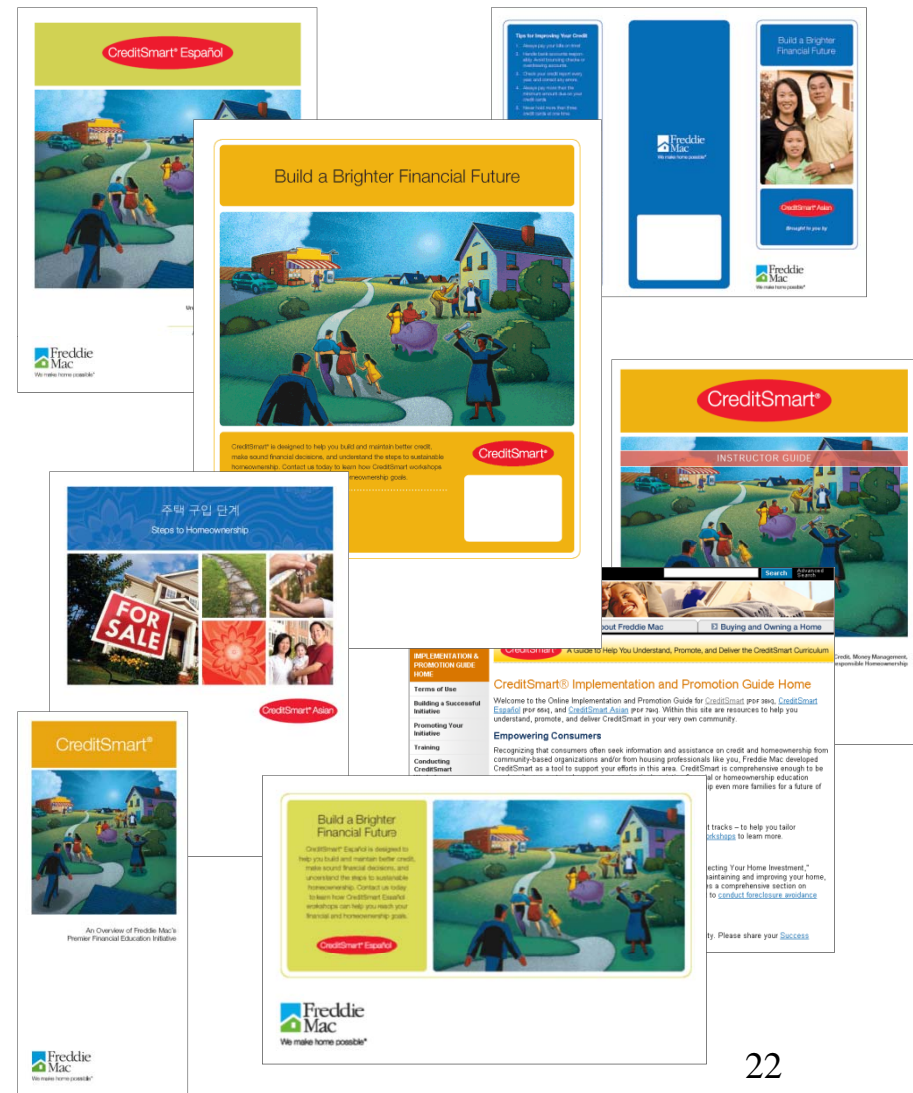
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Strengthen your new business development strategy with solutions to assist you in reaching first-time homebuyers.

# CreditSmart® Teaches Consumers About Credit, Money, and Homeownership

## Tools:

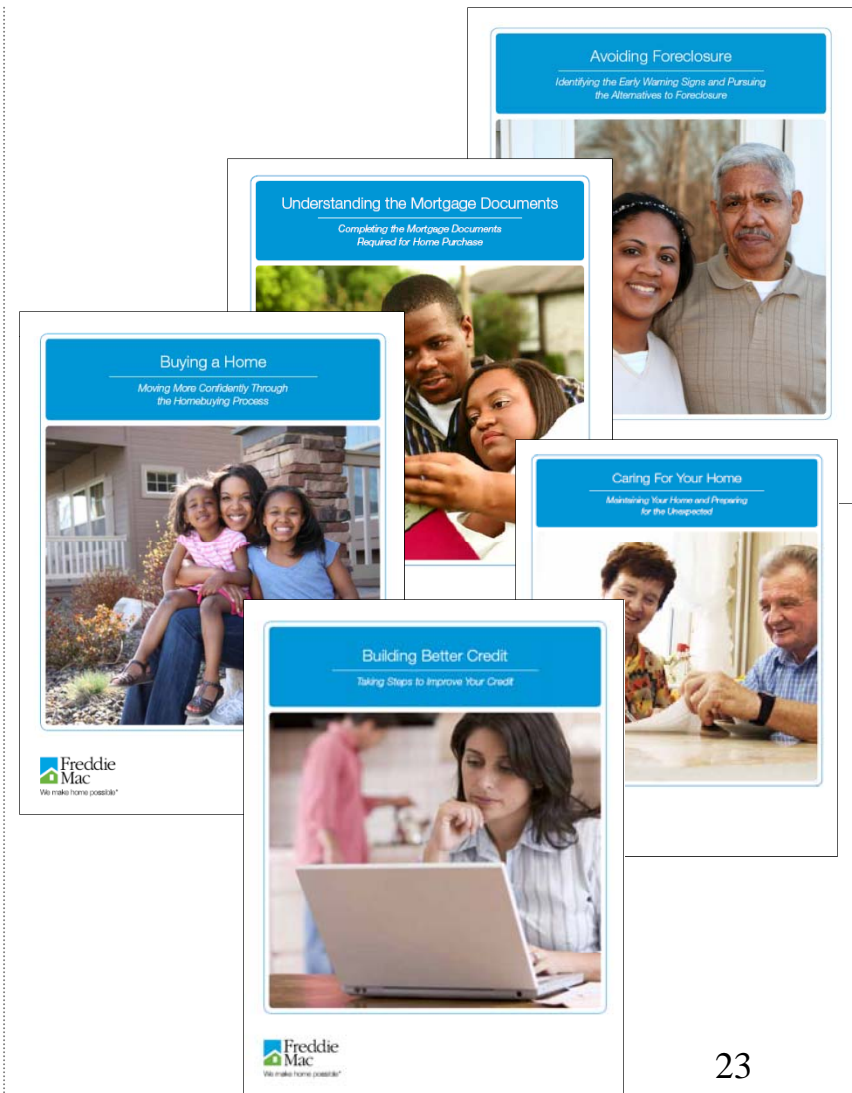
- Comprehensive Instructor Guide includes speaker notes, worksheets, glossary, and more.
- User-friendly workshop presentation on CD helps instructors emphasize key points.
- Information-packed Consumer Workbook includes worksheets, case studies, and glossary.
- Abridged curriculum provides review of all topics. Great resource for housing fairs, festivals, counseling, etc.
- The Online Implementation and Promotion Guide gives instructors around-the-clock access to workshop tools, activities, games, etc.
- Participants access easily customizable flyers, ads, brochures, and more.



# Consumer Education Series Helps You Reach and Teach

## Tools:

- Free downloadable set of consumer education brochures.
- Nine-part series spans a range of topics from “Dispelling the Myths of Homebuying” to “Getting Back on Track After Foreclosure.”
- Brochures can be used individually or as a set; they can be used independently or as part of an initiative.
- Brochures are easily downloadable and localizable with logo and your contact information.





# Community Stabilization



- We **bring together** municipalities, nonprofits, lenders, and other **stakeholders** in local communities.
- Through these **coalitions**, we support comprehensive initiatives that address each area's housing challenges and promote stable neighborhoods.
- "Take Root" campaigns for use by local coalitions **support** new **homeownership** opportunities and reduce the number of vacant properties.
- Solutions promote **foreclosure avoidance** and encourage homeowners to seek assistance so they can stay in their homes and in their neighborhoods, whenever possible.
- Options to generate **workforce-housing** initiatives that bring together employers, lenders, and others, and encourage employees to live where they work.



## Buying a Home?

Take Root Denver makes housing more accessible and affordable for families across Denver.

- Home Search**  
Find Your New Home
- About Take Root**  
Mission & Participants
- Buying A Home**  
Steps to Homeownership
- Keeping Your Home**  
Preservation & Foreclosure Prevention

### Home Search



- Available Homes** Safe and energy efficient homes at an affordable price.
- Neighborhoods** Explore 11 Denver neighborhoods each with its own personality.

[Find Your Home](#)

### Message From The Mayor



"Welcome to Take Root Denver, a new resource connecting you with home ownership opportunities throughout Denver. Together with our community partners, the City offers a wide variety of programs and services to assist residents with calling Denver 'home sweet home.'"

— Mayor John Hickenlooper

Take Root Denver is a valuable resource that provides free, trustworthy assistance to help you purchase and keep your new home, in addition to alternatives to foreclosure.

### Buying A Home

Take Root Denver offers comprehensive consumer education, credible housing professionals, a list of eligible properties, trusted lenders, and financial assistance. Our participants will lead you every step of the way. With your determination and our programs, you and your family will soon settle into your new home located in a sustainable and revitalized neighborhood.

### Keeping Your Home

If you already own your Denver, Colorado home and are having a difficult time, need a modification, or if your Colorado home has decreased in value and you want to refinance, we are here to help. By understanding foreclosure, what may lead up to it, and the foreclosure process, you can be in a better position to recognize and address potential problems that may impact your ability to make every mortgage payment on time.

### Take Root Participants





Home Search

About Take Root

Buying A Home

Keeping Your Home



### Neighborhoods

- Athmar Park
- Barnum
- Green Valley Ranch
- Mar Lee
- Montbello
- North East Park Hill
- Skyland
- Swansea
- Villa Park
- West Colfax
- Westwood

### Buying A Home

- Home Search
- Homeownership Education
- Expect More
- Get To Know Your Neighborhood
- Steps To Homeownership
- Home Buyer Assistance
- Lender Information

### Buying A Home

Congratulations! You are considering becoming a homeowner. Take Root Denver makes housing more accessible and affordable for families across Denver.

Buying a home is a big step and assuming a mortgage for that home is a big responsibility. Make sure you are ready for a financial commitment that could last several decades.

### Foreclosure Listings

- [Nationwide Listings](#)  
Provided by: HomeSteps, the real estate division of Freddie Mac
- [Local Listings](#)  
Provided by: Your Castle Real Estate

### Mortgage Calculator

Sale price (\$)

Down payment (%)

Interest Rate (%)

Term (years)

Estimated Payment:

Use On-Line tools to know Everything About  
Everyone:

[www.city-data.com](http://www.city-data.com)

[www.mybestsegments.com](http://www.mybestsegments.com)

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