Housing Sustainability Plan
White Paper

By

J. Lennox Scott

Chairman and CEO, John L. Scott Real Estate

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Federal Government Support For A National First Time Home Buyer Down Payment Assistance Program

Benefits of National DPAs

- **Create the foundation for a healthy, sustainable residential housing market**

- **Create an estimated 400,000 additional sales on an annual basis**
    - 250,000 qualified first time buyers
    - 150,000 repeat buyers (chain reaction of sales)

- **Help absorb inventory of distressed properties**

- **Stop downward pressure on pricing by reducing month's supply of inventory**

- **Increase over $4 billion in state and local taxes on annual basis**
    - 400,000 sales X $10,850 (Local/State Taxes)* = $4,340,000,000

- **Create economic vitality for U.S. Economy**
    - Producing Higher Federal Income Tax Revenue

- **Secure/create over 250,000 jobs***

* Washington Research Council Impact Report (see page 6)

National Down Payment Assistance – The Key To Housing Sustainability

By J. Lennox Scott, Chairman and CEO, John L. Scott Real Estate

The Federal Home Buyer Tax Credit provided the shot in the arm that the housing market needed to help stimulate the U.S. economy. But in the absence of a tax credit and with increasingly stringent lending standards that require sizable down payments, many would-be, first time home buyers are getting squeezed out of the market. First time buyers are critical to the overall health of the U.S. economy because their purchases stimulate a chain reaction of home sales up the price points. Furthermore, every time someone buys a home it helps strengthen the economy through associated purchases, such as furnishings, home improvement projects, and the like. It also results in thousands of dollars of state and local tax dollars.

Many first time buyers are in a strong position to buy but lack the necessary 3 ½% down payment. In talking to my agents, I would estimate that at least 30% of all first time buyers are in need of some form of down payment assistance. These are buyers who have stable employment, healthy credit scores, and mortgage-debt-service-to-household-income ratios that are in alignment. Some of those who lack a down payment are fortunate enough to be gifted funds from family or other private means, but many look to state financing agencies for support.

Unfortunately, our state's financing agencies are facing funding problems of their own because of the challenges in the private capital markets. One possible solution is a "national down payment assistance program" which would provide state housing financing agencies with direct funding or a guarantee of funding support from the Federal Government. The funds would in turn be used to provide repayable down payment assistance to qualified first time home buyers at the closing table.

Similarly, in 2009 the USDA enacted changes that provided assistance to millions of homebuyers who did not have the down payment funds required by conventional loan programs. USDA loans currently stand alone as the only zero money down program available to borrowers that have not served in the military. And like their conventional counterparts, the USDA program adheres to strict underwriting standards, assessing each borrower's credit, income, and cash flow. As a result, the agency's portfolio of loans has a low default and delinquency rate.

The motivation behind a national down payment assistance program is not about getting buyers into homes by any means; it's about providing support to responsible parties who are in a position to buy but lack the current down payment requirements. Under the proposed plan, funds provided to buyers would be repaid through a monthly payment that is wrapped together with the cost of their first mortgage. This type of program has the potential to bring in an additional 400,000 homebuyers annually, resulting in $4.3 billion in state and local taxes every year as well as higher Federal Income Tax revenue.

The following pages provide a detailed account of the need for and benefits of a National Down Payment Assistance Program.

The Proposal

Federal Government Help For State DPAs

State Housing Finance Agencies are heavily reliant upon the private capital markets for down payment assistance funding. As a result, State Agencies are facing funding problems because of the economic challenges in these markets. One possible solution is a "National Down Payment Assistance Program" which would provide direct funding or a guarantee of funding support from the Federal Government. This would help ensure that our State Housing Finance Agencies have access to a stable source of funding for first time homebuyers.

Why This Funding Is Important

1) A first time homebuyer down payment assistance program will benefit first time buyers while providing local, state and federal tax revenues and sustaining/creating jobs.

2) With this program an additional 250,000 first time homebuyers will be able to purchase a home (this will generate another 150,000 subsequent sales by repeat buyers). These first time buyers are qualified to buy but lack the funds needed for a down payment. They are employed, they have good credit, and their mortgage debt/household income ratio is in alignment. (Approximately 30% - 50% of first time buyers need down payment assistance to purchase a home.)

3) The down payment assistance money would be repayable in a 15-year-second-mortgage. ****The loan would be made by State Housing Finance Agencies so that the money could be used at the closing table for a down payment****

4) This is not a sub-prime or seller-funded program. It is for qualified first time buyers similar to the successful VA and USDA down payment assistance programs.

5) With the expiration of the homebuyer tax credit and in the face of rising interest rates, both of which are certain to slow home sales activity, we need a sustainable program that will create economic vitality for the U.S. economy.

6) Most states already have a first time buyer down payment assistance program, but they are helping only a fraction of those who are qualified. There are many more qualified first time buyers in need of financial support because they lack the down payment.

7) Some first time buyers are fortunate enough to be gifted funds for their down payment, but those without this advantage should not be penalized.

8) First time buyers would be required to attend a homeownership class; this has proven to lower default rates substantially.

9) Income limits for first time buyer eligibility is 120% of Median

10) Single payment would combine DPA monthly payment with first mortgage monthly payment

11) The more affordable price ranges are the most secure and stable

12) With the history of low default rates, this program would create a sustainable housing market for the future.

WASHINGTON RESEARCH COUNCIL *Impact Report*

January 21, 2008

THE ECONOMIC AND FISCAL IMPACTS OF FIRST-TIME HOME BUYERS

ACKNOWLEDGEMENT

Washington Research Council has produced this report with funding from the Washington Association of REALTORS®. The results of this analysis are the sole responsibility of the Washington Research Council.

Executive Summary

Washington REALTORS® is recommending to the Governor and Legislature a package of housing market strategies to boost the Washington State Economy.

On the demand side, the goal of Washington REALTORS® is to stimulate an additional 12,000 first-time home buyers. The primary strategy for reaching this goal is to expand funding for the Washington State Housing Finance Commission's down payment assistance programs, which provide second mortgages to help low and moderate income first-time buyers bridge the gap between the purchase price of the house and the amount that can be financed through a first mortgage.

Summary Impacts of 12,000 First-Time Buyers

Economic	
Employment (Full-Time Equivalent)	***8,533***
Employee Compensation	***$340.3 million***
Output	***$1.35 billion***
State Revenue	
Real Estate Excise Tax	*$84.4 million*
Sales Tax	*$32.6 million*
Business & Occupation Tax	*$11.8 million*
Property Tax	*$1.5 million*
Total	*$130.2 million*

Washington REALTORS® have asked the Washington Research Council to oversee the production of estimates of the economic and state tax revenue impacts that would follow from reaching the goal of 12,000 additional first-time home buyers. This report presents those estimates, which have been prepared with the help of two outstanding experts on the state's economy. The impact estimates for output, employment and income have been prepared by Glenn E. Crellin, who for 15 years has been Director of the Washington Center for Real Estate Research at Washington State University in Pullman. The revenue estimates have been prepared by Dr. ChangMook Sohn, who, before retiring last year, served for 25 years as Executive Director for Washington State's Economic and Revenue Forecast Council.

In summary, we project that 12,000 additional first-time buyers would generate about 8,500 jobs, paying $340 million in wages and benefits. Gross domestic product of the state would rise by $1.35 billion. This economic activity would generate about $130.2 million in additional revenue for the state within a two-year period. Of this, $84.4 million would be real estate excise tax, $32.6 million in sales tax, 11.8 million in business and occupation tax, and $1.5 million in property tax.

WASHINGTON RESEARCH COUNCIL
108 S Washington St., Suite 406
Seattle WA 98104-3408
206-467-7088
fax: 206-467-6957
www.researchcouncil.org

Other Key Items To Building A Sustainable Housing Market

1. **USDA**

   Recognize the importance of funding for this program. Provide a temporary increase in funding to restart lending under the USDA program and begin looking into providing a consistent source of funding that would eliminate the possibility of program suspensions in the future.

2. **Loan Limits**

   The current method of calculating loan limits unfairly impacts high cost areas like Seattle and Bellevue where housing costs are higher than the surrounding area within the MSA. Increase loan limits to 150% of the median sales price with the current maximum limitation of $729,750. Alternatively, apply the “sub-area” designation provided for under the American Recovery and Reinvestment Act and increase the loan limits to 150% of median.

3. **FHA Condo Guidelines**

   FHA has made a number of changes to the approval guidelines for condominiums. Currently FHA operates under a set of temporary guidelines through 12/31/10. On 1/1/11 new guidelines will take effect.

   Part of these new guidelines will be a reduction in the percentage of loans FHA will allow within a given condominium project, also known as concentration. Currently the concentration is a maximum of 50%, but on January 1st, 2011 concentration will decrease to 30%. This reduction will negatively impact the market and may result in increased defaults on FHA loans. We are already hearing of lower prices being offered on condominium projects that are not FHA approved. By decreasing the concentration from 50% to 30%, the resulting loss of the ability to purchase a condominium unit with an FHA loan will further pressure sales prices and ultimately lead to higher defaults and subsequent losses for FHA – the very thing FHA is trying to avoid by implementing changes to the condominium guidelines.

Background Concepts

Interest Rate Increases

MBA economists predict rates on 30-year fixed-rate mortgages will gradually rise to 5.4 percent during the fourth quarter of this year, reaching 6 percent in the last three months of 2011, and averaging 6.6 percent in the fourth quarter of 2012.

Interest Rates		Decrease in Purchase Power
Current	4.65%	
Year end 2010	5.4%	- 8%
Year end 2011	6.0%	- 14%
Year end 2012	6.6%	- 20%

Reestablish Momentum Before Interest Rates Rise

Buyer Pool is down by 35%

- 23% - Under water home loans (home worth less than debt)
- 12% - First time buyers (Represents 40% of all sales; 30% do not have down payment)
- **35% - Fewer Buyers in the Market Place**

Echo Boom Generation – 76 Million Strong

- This generation will add huge economic vitality to the U.S. economy
- Many will need first time buyer down payment assistance

Bifurcated Market by price ranges

- More affordable
  - First time buyer market
  - Lower month's supply; more stable prices
- Above the mid-price point
- High end

Foreclosure Rates

USDA 100% Financing Available	1.72%
VA 100% Financing Available	2.46%
FHA	3.57%
Jumbo-Conf Prime	0.18%
Conventional Prime	2.09%
Non-Conf Prime	5.23%
ALTA	11.65%
Subprime	14.24%

Statistics provided by NAR