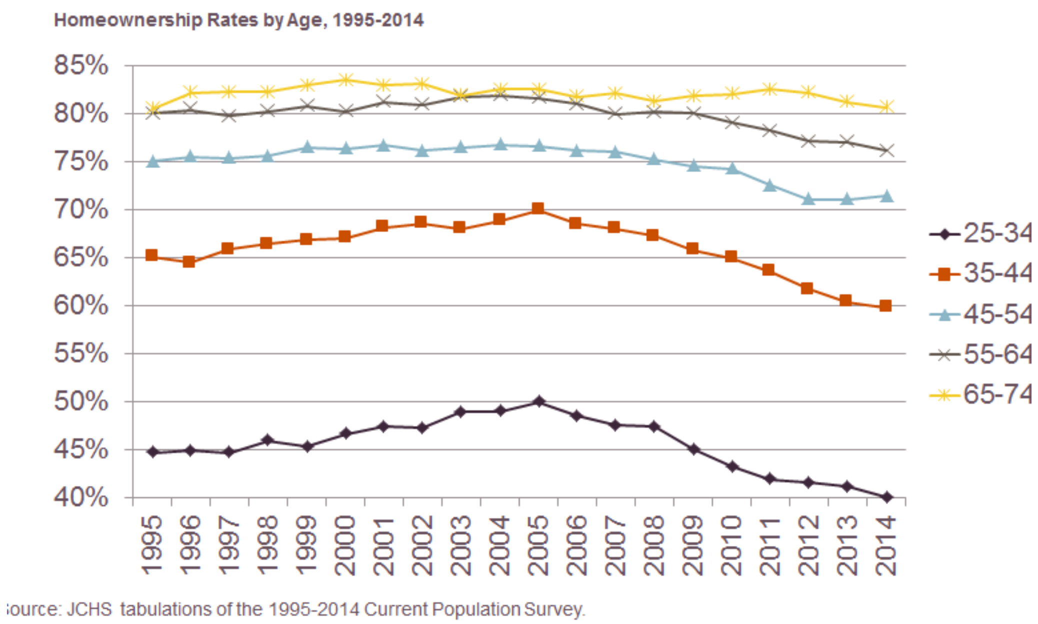
Down Payment Assistance: A Good Investment for Vermont

Economic pressures and demographic shifts are depressing homeownership rates among young Vermonters and their peers nationwide. To help Vermont continue to reap the well-documented benefits that homeownership brings to individual households, their neighborhoods and the greater community, policy makers can create tools that make home buying more economically feasible. Reducing the upfront financial burden of down payment and closing costs could help retain young Vermonters who might otherwise choose to buy homes in a state with lower home prices and put homeownership within reach of would-be first time homebuyers who will otherwise continue renting.

Economic and demographic factors are suppressing home buying among young people

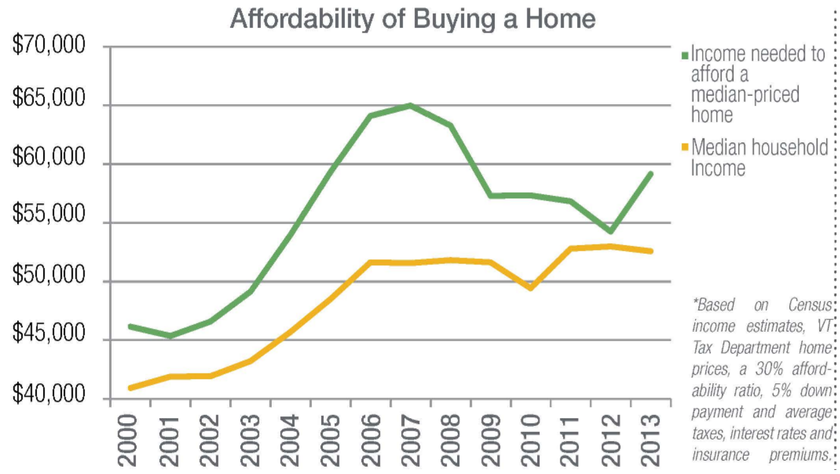
Young adults have historically driven the pace of the U.S. home purchase market. Forty-one percent of all buyers were under the age of 35, according to the National Association of Home Builders study of 2011 Census Data. However, when both demographic characteristics and economic conditions make home buying less attractive, young adult homeownership rates can fall precipitously, as happened after the collapse of the housing market in 2005. Without counteracting measures from policy makers, the combination of these forces will shape the homeownership rates of young adults in the future.



Economic reasons are the greatest deterrent to home buying among young adults

Economic factors, including rising home prices, rents, closing costs and student loan debts coupled with the downswings in employment and earnings challenging many working age potential homebuyers since the recession are likely to be the biggest drags on homeownership, according to Harvard's Joint Center.

Rents and home prices are increasing faster than incomes



When rent rises faster than income, it becomes harder for a potential first-time homebuyer to save cash for upfront costs. The median gross rent in Vermont increased by 14% between 2007 and 2013, while median renter income remained stagnant, according to the latest American Community Survey estimates.

Unfortunately, the median-priced home in Vermont remains out of the reach of households with median incomes. Although the recession-induced drop in mortgage interest rates helped mitigate the imbalance between incomes and home prices in Vermont, rates are expected to increase this summer, after the Federal Reserve's June meeting. This will make the mismatch between incomes and home prices an even greater deterrent for young homebuyers, especially in towns with higher than average home prices.

Closing costs are on the rise

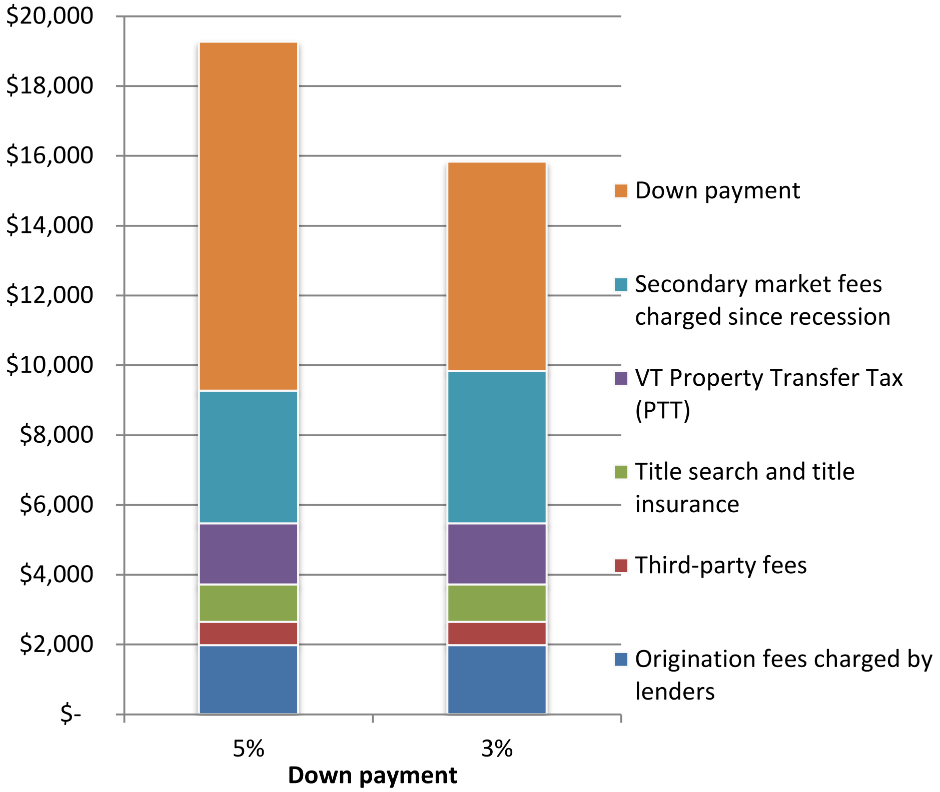
Compared to their older counterparts, younger home buyers are likely to have lower salaries and fewer years for saving the upfront cash needed to cover the down payment and closing costs required to buy a home. The median age of VHFA homebuyers is 30—far less than the median age of 38 among all homebuyers. According to Bankrate.com, closing costs rose 5.7% in 2013 alone.

Vermonters pay higher closing costs than the national average. Bankrate.com estimated that buyers of homes in Vermont paid average lender and third party fees of $2,649. For buyers of a Vermont home priced at $200,000, the state's property transfer tax adds another $1,750 to upfront closing costs.

These buyers would also need to bring to closing another $1,070 for the cost of the title search and title insurance. Since the recession, these homebuyers would also likely face $3,800 in secondary market fees, assuming they planned to make a down payment of five percent of the home's price.

This means that the average Vermont homebuyer with a five percent down payment would need to save a grand total of $19,000 for closing costs, down payment and secondary market loan fees—as much as a minimum wage worker earns in a year. Buyers who are able to obtain a mortgage requiring only a three percent down payment would still need to bring about $16,000 to the closing table.

Average closing costs in Vermont

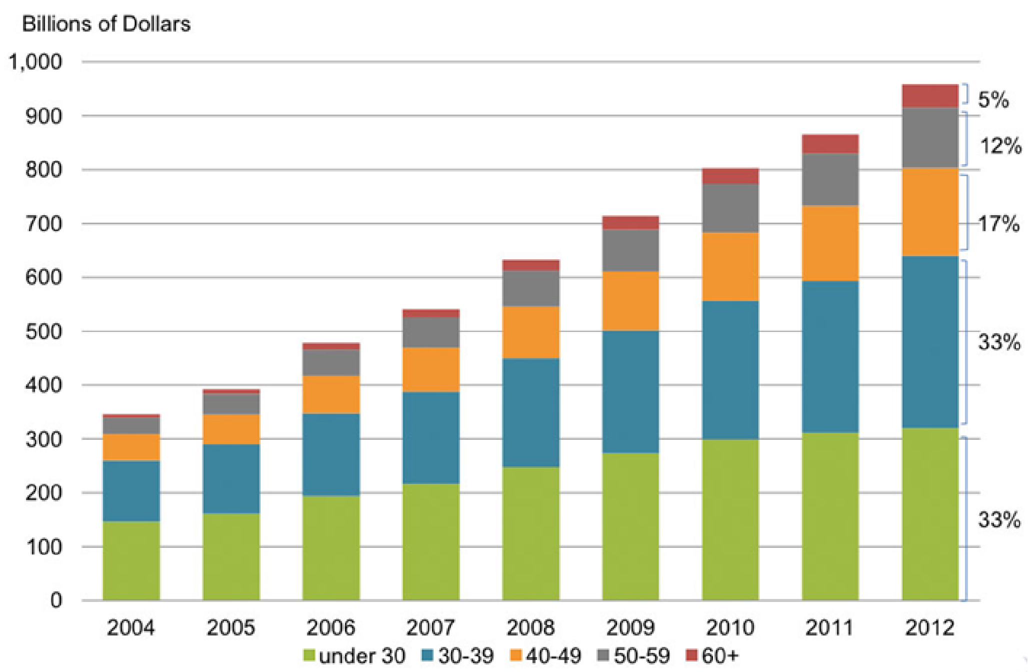


Source: VHFA analysis of information from Bankrate.com, Law Offices of Fred Peet, Vermont Attorney's Title Corporation and FNMA. Third-party fees exclude title search and title insurance. Origination fees charged by lenders exclude discount points. Assumes a home price of $200,000.

Student loan balances are on the rise

Young people in peak home buying years are shouldering increasing levels of student loan debt leaving fewer resources available for housing. Among Vermont graduates, 63% have student loan debt, with an average balance of $28,299.

Total student loan balances on the rise



Source: FRBNY Consumer Credit Panel / Equifax

Demographic and life-style trends are also suppressing home buying among young adults

Although not as influential in reducing homeownership rates as the economic factors described earlier, demographic and life-style trends are contributing to the fall in home buying among young adults, according to Harvard's Joint Center. The largest demographic contributors to the decline in homeownership among young adults are smaller shares of married couples, higher shares of minorities and immigrants, and higher shares of young adult households living in center cities versus suburbs.

Increasing homeownership among young Vermonters is a sound investment

The long-term financial and societal benefits of an increased homeownership rate make relatively small expenditures to increase homeownership among qualified potential buyers extremely cost-effective. Studies repeatedly show that even when controlling for household characteristics like income and parental education, households that own their homes are more likely to produce positive societal benefits-- such as educational performance of children, more civic participation and volunteering and better health-- and less likely to cause negative societal costs—such as crime and welfare dependency. The reasons for these outcomes are complex but likely include the housing stability (reduced moving), social ties and personal long-term commitment and responsibility that accompany handling a 30-year mortgage.

In addition to social benefits, the financial benefits of homeownership and a healthy housing market are also well documented. Homeowners spend more on goods and services, propelling the local economy. Individual homeowners accumulate wealth as mortgage principal is paid off. When a young adult is encouraged to buy a home in Vermont, area employers also gain a potentially much-needed long-term human resource.