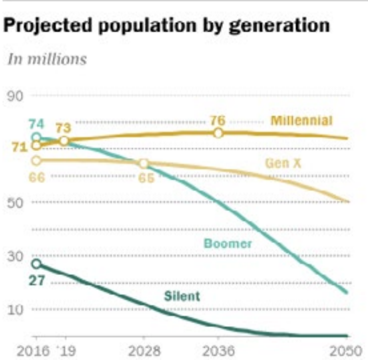
September 2019
White Paper

HUD Policy Chokes Your Homebuying Purchasing Power

FHA Guidelines Challenge College-Educated Millennial Homebuyers



Note: Millennials refer to the population ages 20 to 35 as of 2016.
Source: Pew Research Center tabulations of U.S. Census Bureau population projections released December 2014 and 2016 population estimates.
PEW RESEARCH CENTER

Since the start of the great recession in the last decade, much has been written about the millennial's lack of interest in homeownership. The conversation leaned more toward 'the loss of the American dream' and outlined living with parents as the preferred housing practice of this now 23 to 38-year-old demographic group, born between 1981 and 1996. Despite this background, it may come as a surprise that 89% of millennials actually want to buy a home, according to a recent poll by Inc.Com.

Pew Research reports that the American millennial population hovers close to 73 million people.

Building Industry Association of San Diego County
Sales & Marketing Council

April Gingras, SMC President

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In 2019 the millennial demographic is expected to lead the population, surpassing the baby boomer demographic which peaked in 1999 at 79 million but now measures 72 million and declining. If the census and polling is correct this means that nearly 6.5 million millennials want to buy a home but are not doing so.

What Stands in the Way of Millennial Homeownership?

"American Homeownership: Dream Delayed" reports that 72% of millennials cite 'affordability' as the number one challenge to ownership, followed closely with 62% citing down payment as the number one obstacle facing millennials who want to buy a home.

72%

of millennials cite 'affordability' as the number one challenge to ownership.

Apartment List

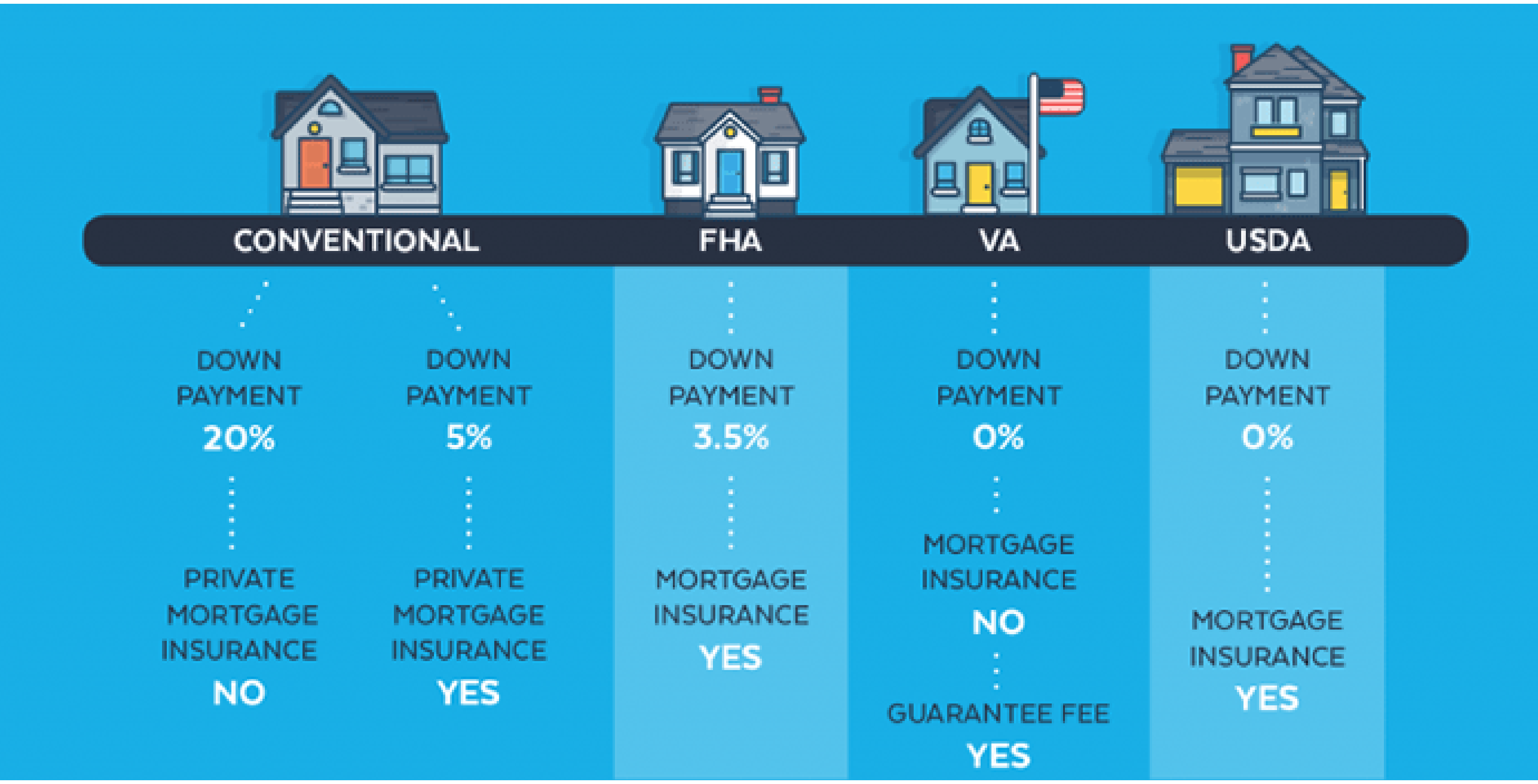
This well-documented, housing-affordability crisis has come to the attention of many locally and nationally. Government regulations, policies, processes, and fees cause long and costly delays in housing development. Government bureaucracy is estimated to represent an average of 25% of the cost of a new home nationally and as much as **41% of a new home locally.** > Click for Housing You Matters Report.

BIA San Diego County is a leading voice for reform in housing development. The BIA proactively educates politicians and policy makers about the real economics of what it takes to build a new home in San Diego County and how onerous policy decisions have a negative impact on housing availability and affordability in our area.

VA & FHA Down Payment Alternatives Provide Relief

The U.S. Department of Housing and Urban Development (HUD) establishes national, mortgage-underwriting guidelines and plays a vital role in potentially alleviating part of the affordability crunch experienced by millennials.

VA and FHA loans have been the gateway home-financing option for entry-level, credit-challenged, and/or first-time buyers for decades. Their historically flexible guidelines regarding debt-to-income ratios, lower credit score requirements, treatment of debt, internal mortgage insurance, and acceptance of non-occupying co-borrowers have helped clear hurdles in home financing.



https://www.atlanticbay.com/blog/finances/6-ways-to-buy-a-house-with-little-to-no-money-out-of-pocket

VA Loans

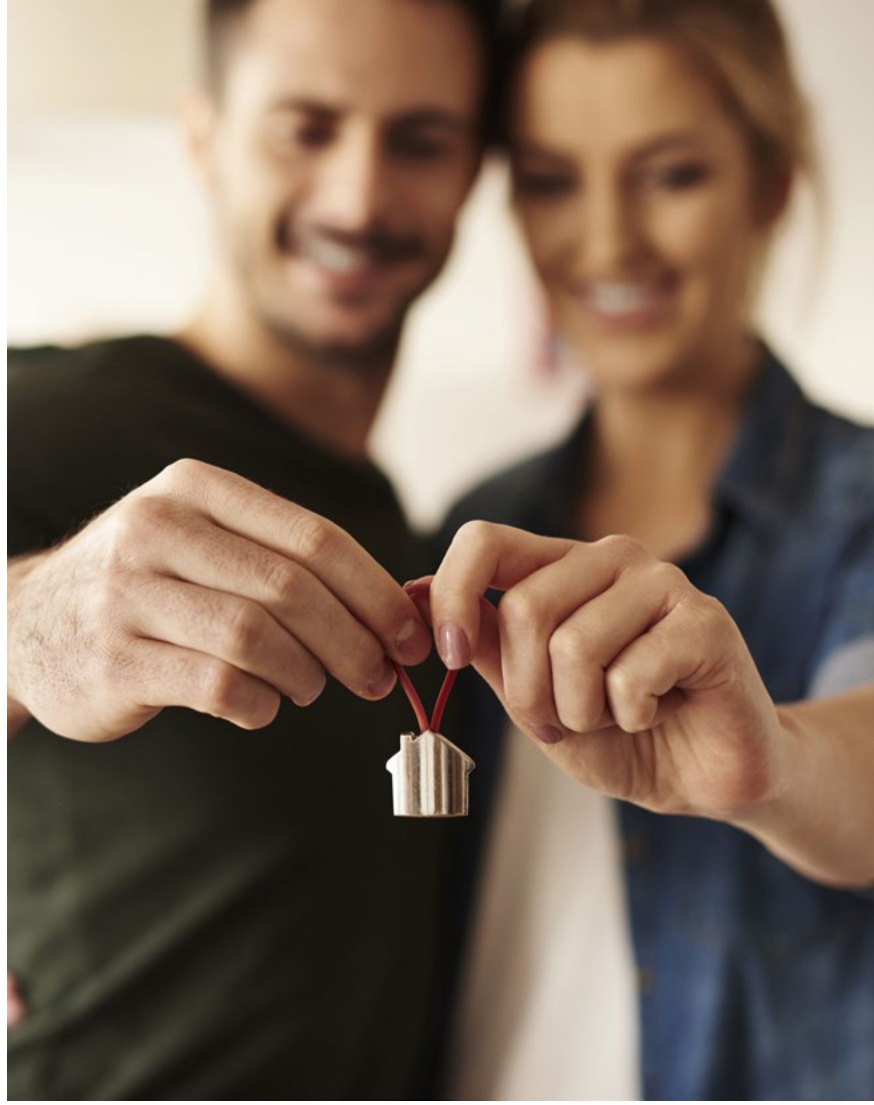
Qualified military veterans can take advantage of no or low-down payment VA home loan options. These programs do not have an absolute bottom-line credit score restriction, no mortgage insurance requirement, flexible seller contributions, and financing allowances for VA funding fees incurred. This gives VA-financed purchasers the ability to buy a home with literally no money down.

National policy has also been very understanding on the treatment of student debt to the VA purchaser. VA guidelines will exclude 12 months of deferred student loans in qualifying payments. They will also allow a calculation at 5% annually or the actual payment for those with payments that are active or will begin in less than 12 months. To further assist veterans with disabilities who have student debt, on August 21st, President Trump signed an executive order that forgives all student loan debt for any permanently disabled veteran.

Federal Housing Administration (FHA) Loans

In the past, FHA loan programs have provided the easiest way for non-veteran millennials to overcome affordability and down payment challenges to home ownership. The FHA program pairs nicely with state and locally provided down-payment assistance programs as well.

FHA loans are federally insured but are issued by banks and private lenders who follow guidelines for loan qualifications issued by HUD. FHA loan guidelines include down payments as low as 3.5%, acceptance of gift funds as down payments, broad debt-to-income ratios, inclusion of non-occupant co-borrowers, and up to 6% seller contribution are just some of the terms providing the first-time or credit-challenged buyer with an opportunity to obtain financing at market rates and terms.



$37,000

Average Student Debt

Changes in FHA Guidelines Hurt Millennials Most

According to a 2018 Forbes report, student-loan debt is estimated at 1.5 trillion dollars with the average student burdened with more than $37,000 of debt, second only to mortgage debt. California leads the nation in student-loan debt with 120 billion dollars of debt owed by 3.7 million borrowers.

Previously, millennials (who are most burdened by this debt) were able to seek monthly payment relief via deferment plans with lenders that allow for changes in terms of payment that are consistent with their ability to repay, given their post-graduate employment and career growth. Prior to 2015/2016, FHA/HUD recognized such deferment or repayment plans and used the recalculated payments in assessing debt-to-income ratios in FHA policies and guidelines.

HUD Changes Discourage Prospective Millennial Homebuyers

Through 2015 and 2016 HUD amended its FHA guidelines making significant changes that have directly affected millennials' ability to buy a home by adjusting their policies on how student-loan debt is treated on a mortgage application and in evaluating debt-to-income ratios. The Mortgagee Letter issued by the department on April 13, 2016 states in part:

> *Regardless of the payment status, the Mortgagee must use either the greater of 1 percent of the outstanding balance on the loan; or the monthly payment reported on the borrowers credit report, or the actual documented payment, provided the payment will fully amortize the loan over its term.*

HUD Policy Lessens Affordability for Prospective Home Buyers with Student Debt

The median home price in Southern California is now $527,500, up about $100,000 since 2016. While the FHA has provided greater loan availability by increasing maximum loan limits, now at $690,000 for San Diego, its tightening of qualifying criteria has made actually obtaining an FHA loan more difficult than ever.

The case studies below demonstrate the differences in pre and post 2016 qualifying scenarios and purchase decisions for actual home buyers.

CASE STUDIES

Case Study 1

Current FHA Rules Cause Buyers to Lose $100,000 in Buying Power

First-time buyers had a father co-signing with them. They had income-based, student-loan payments, with total student loans of $109,000 between two of the buyers.

Actual student loan repayment amount: $422/month.

Post 2016 FHA guideline rule payment used in qualification: $1,093/month (more than double the amount they are actually required to pay).

How did the rule affect the homebuyer purchase?

The buyer bought a **one-bedroom condo instead** of the two-bedroom condo they actually needed.

Case Study 2

Should Have Bought in 2015. New FHA Rules Impact Homebuyer Purchase Decision

These homebuyers earn $9,000 a month and have $40,000 in deferred student loans. They found their dream house and, under the old rules, they qualified for its price up to $590,000. Post 2016 FHA guidelines reduced their qualification ability by $65,000.

How did the rule affect the homebuyer purchase?

The buyer **bought a condo instead** of the detached family home they wanted.

Case Study 3

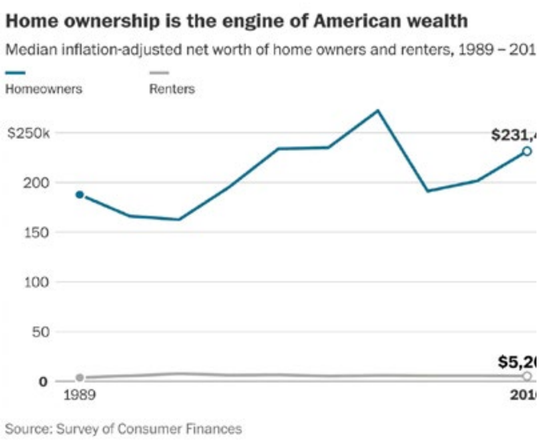
Non-borrowing Spouse is Getting an Education – Decides Not to Buy at All

Under pre 2016 FHA guidelines, this couple qualified for a home purchase of up to $485,000. Current guidelines lowered their qualification amount by $165,000.

How did the rule affect the homebuyer purchase?

The buyers decided to **not buy** at all.

The great news is that these policies can be undone.



By unwinding the 2015/2016 changes in HUD/FHA guidelines, millennials and others with student-loan debt will have the door to FHA financing reopened, increasing their opportunities for home ownership and their ability to create a more stable financial future for them and their families.

With a greater opportunity to own, millennials will be able to wealth build through equity in their home and take advantage of the tax savings with mortgage interest deductions. Research indicates that a homeowner's net wealth is around 44% greater than that of a renter.

If you support this policy change, engage with your local Bulding Industry Assocation and The National Association of Homebuilders (NAHB.org) and any other avenues available to support.

Meet the 3 authors

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Lori Asaro is actively involved in the new home sales and marketing industry, partnering with small and medium-sized builders and developers to deliver optimum results for communities throughout San Diego and Imperial Counties. Her marketing efforts and her sales teams have been recognized by the BIA of San Diego County, BIA SoCal and through NAHB's "Nationals" Awards for top achievement.

Lori serves as Past Chair of BIA's SMC Board, Board member of BuildSd PAC and on the Board of Trustees for the National Sales and Marketing Council. Lori is a San Diego native who outside of BIA enjoys time with her family and is the proud Grandma to grand dog Olivia.

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Shannon Gaunt currently serves on the BIA San Diego board of directors, membership committee, icon committee, Ygen Mentor and a member of the Sales and Marketing Council.

We're looking for experts like you!

Have a whitepaper you'd like to share or write for the SMC? Contact our White Paper Committee Chair directly, Lori Asaro at lori.asaro@gmail.com and cc smc@biasandiego.org and provide your name, contact information, and subject matter for consideration.

- Don't worry about formatting, we'll do that for you.
- Write about something you know.
- It should be educational, but still engaging.
- 1,000 words is ideal for this purpose.
- Provide citations if referencing other material.
- Provide links.
- Add pictures.
- Provide a Bio and your picture.

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