Office of the Comptroller of the Currency

ON POINT

ECONOMIC AND POLICY INSIGHT FROM THE OCC

First-Time Homebuyers Affected by Historical Challenges

This article examines first-time homebuyers' participation in the market since 2000 and how first-time buyers are adjusting to historically challenging conditions such as higher down payments and mortgage burden. Since peaking in late 2020, home sales—particularly those of existing homes—have declined significantly. Rising home prices and mortgage rates have worsened affordability. At the same time, homeowners with low mortgage rates may be reluctant to put their homes up for sale ("rate lock-in" effect),[1] which has curtailed the inventory of existing homes for sale and mitigated the typical downward pressure on home prices as mortgage rates rose. First-time buyers have been especially affected by these developments.

First-Time Buyers Account for Nearly Half of Financed Home Purchases

Between 2000 and 2024, first-time buyers made almost half—49 percent—of all financed home purchases.[2] See figure 1. Thus, first-time buyers constitute a major segment of demand for existing homes. In search of the "American Dream," first-time buyers are the main source of new financial activity, wealth creation, and transmission within the ownership space of the housing market. Over the years various policy initiatives have sought to support that dream by smoothing some of the rough patches for first-time buyers.

- During the 1990s, strong economic growth and momentum from the National Affordable Housing Act of 1990[3] propelled the first-time buyer share close to 57 percent of all financed home purchases by early 2000.

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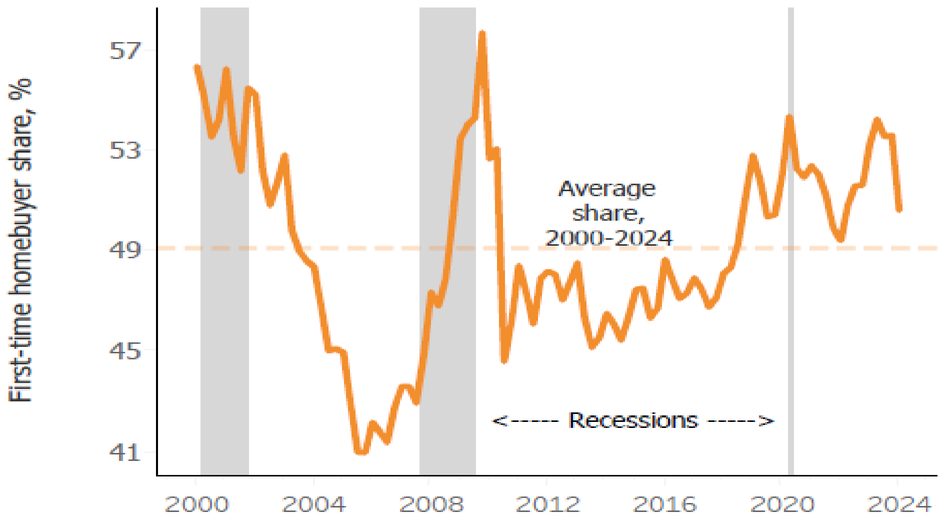
[1] The "rate lock-in" effect refers to homeowners who may be reluctant to put their homes on the market because the interest rate on their mortgages is historically low. The average mortgage rate for homeowners who either purchased or refinanced their existing mortgages between the second half of 2020 and the beginning of 2022 was around 3 percent. As of May 2024, the average mortgage rate for new mortgages was 7.76 percent. This difference in interest rates would increase the monthly payment for the average-priced home ($495,100) by $1,170—or more than 70 percent—assuming a 20 percent down payment.

[2] The first-time buyer share is based on data from the National Mortgage Database (NMDB®) and excludes all-cash purchases reported by the National Association of Realtors (NAR).

[3] The principal goals of the Cranston–Gonzalez National Affordable Housing Act of 1990 were (1) to help families who were not homeowners save for a down payment on the purchase of a home, and (2) to retain the affordability wherever feasible of dwelling units produced for low-income families with federal assistance.

- To further expand homeownership, President George W. Bush signed the 2003 American Dream Downpayment Act[4] into law to provide first-time buyers assistance with down payments and closing costs.
- Climbing home prices in the lead-up to the 2006 housing bubble triggered a decline in the first-time buyer share. In response Congress passed the Housing and Economic Recovery Act (HERA) early in 2008. Among other provisions, HERA offered first-time buyers[5] a tax credit or interest-free loan equal to 10 percent of the purchase price, up to a maximum of $7,500.[6] These benefits were in effect from April 2008 to July 2009.
- After HERA, other policies[7] further boosted first-time buyer participation above 50 percent of all financed home purchases. With the expiration of incentives in late 2010, the first-time buyer share declined and remained below 50 percent until late 2018.

Figure 1: First-Time Homebuyer Share of Home Purchases, 2000–2024



Sources: Census Bureau, NAR, and calculations based on National Mortgage Database (NMDB®) data as of July 2024.

Note: The first-time buyer share is calculated by dividing the number of first-time buyers who financed a transaction by the total number of financed home purchases.

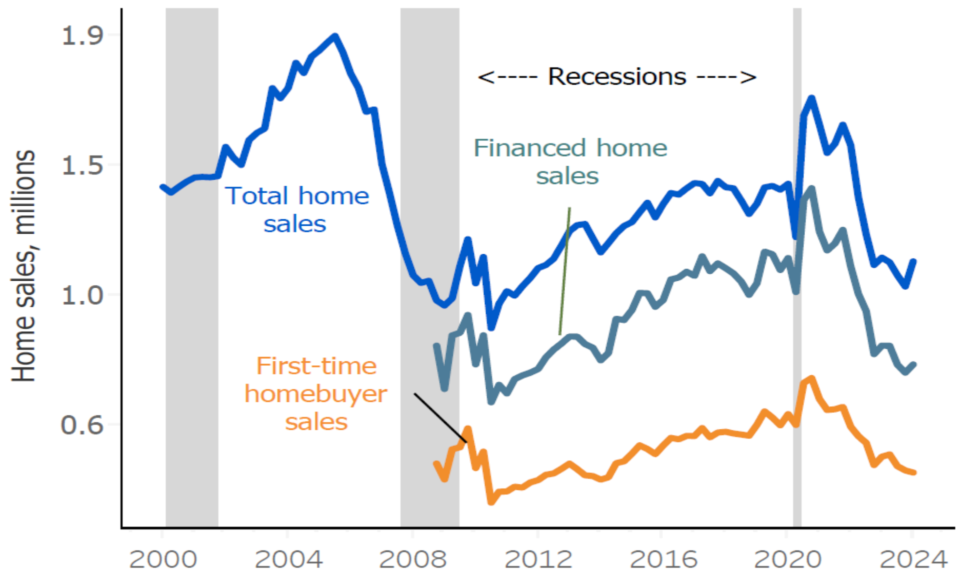
[4] The American Dream Downpayment Act served as an extension of provisions included in the National Affordable Housing Act of 1990 and added aid toward mortgage closing costs.

[5] Federal policies related to the U.S. housing downturn defined a "first-time buyer" as any individual without an ownership interest in any principal residence during the three-year period prior to the purchase date of the home eligible for federal credit.

[6] At the inception of HERA, the tax credit for first-time buyers was defined as an interest-free loan to be repaid over 15 years beginning in 2011. Eligibility for the first-time buyer tax credit was limited by applicant income.

[7] Congress enacted the American Recovery and Reconstruction Act (ARRA) early in 2009 to extend certain provisions of HERA and eliminate the repayment requirement for the interest-free loan unless a buyer resold their property within three years of purchase. Under ARRA, the tax credit was increased from $7,500 to $8,000. The Workers, Homeownership, and Business Assistance Act of 2009 extended the duration of ARRA benefits from November 2009 to June 2010. The first-time buyer tax credit was further extended to September 30, 2010.

Figure 2: Home Sales, 2000–2024



Sources: Census Bureau, NAR, and calculations based on NMDB® data as of July 2024.

Note: First-time buyer sales are calculated by applying the first-time buyer share from the NMDB to total home sales, excluding all-cash home sales from NAR.

The COVID-19 pandemic produced another decline in the first-time buyer share. The strong rebound of repeat buyer[8] purchases in the second half of 2020 outweighed first-time buyer purchases, resulting in a decline in the first-time buyer share of purchases, even though the number of financed sales to first-time buyers increased. See figure 2. The boost to first-time buyers from low mortgage rates during the pandemic years was short-lived, as higher housing prices rapidly worsened affordability, a key consideration for home buyers along with factors including income and housing availability.

Changes to Traditional First-Time Buyer Profile: Down Payments

For first-time buyers, a major challenge is coming up with a down payment, which can be exacerbated by rising home prices. Unlike repeat buyers, first-time buyers cannot leverage existing home equity for a down payment and must fund it from other sources. Despite the availability of mortgage products[9] that require relatively low down payments, the average down payment—as a percentage of the purchase price—for successful first-time buyers tends to be larger during booming or extremely tight housing markets historically.

As shown in figure 3, the average down payment for first-time buyers was close to 20 percent in the early 2000s housing boom, and it shot up to that level again during the more recent tight housing markets. A marked difference between these two periods is that in the early 2000s,

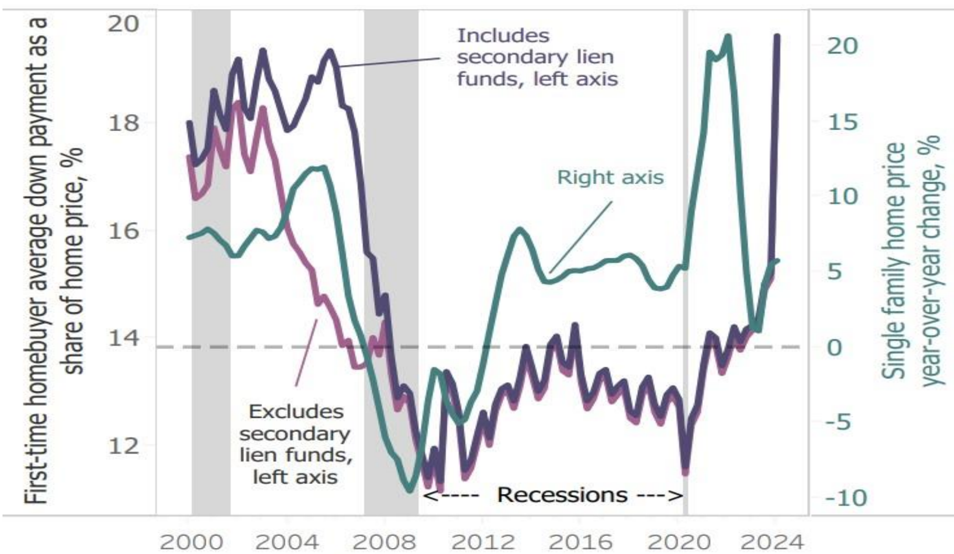
[8] A “repeat home buyer” is a buyer who owned a home that was their principal residence during the prior three years.

[9] The Federal Housing Administration requires a minimum down payment of 3.5 percent of the property value with the payment of mortgage insurance. Government-sponsored enterprises purchase mortgages originated with down payments as low as 3 percent of the property value with private mortgage insurance.

larger down payments were often achieved with “piggyback” loans.[10] Such arrangements largely disappeared from the market in the wake of the 2008–2009 housing crisis. Consequently, more recent first-time buyers had to find other ways to finance their down payments.

Many of those more recent first-time buyers did enjoy financial tailwinds from the potential excess savings generated by pandemic-era transfer payments, the suspension of federal student loan payments, and possible savings from the rise of telework.[11] These factors enabled at least some first-time buyers to increase their down payments. As a result, the average down payment for *successful* first-time buyers climbed back up to the 20 percent range. However, first-time buyers are likely to face additional financial constraints at the margin going forward as growth in wages and salaries continues to lag home price growth, excess savings are depleted,[12] student loan payments resume,[13] and telework is cut back.

Figure 3: First-Time Homebuyers’ Average Down Payment as a Share of Home Price and Year-Over-Year Change in Single-Family Home Price



Source: Calculations based on the NMDB® and Intercontinental Exchange (ICE) as of July 2024.

Note: The average down payment as a share of home price for first-time buyers was derived from the reported average combined loan-to-value ratio (CLTV) excluding home equity lines of credit for first-time buyers at origination.

[10] Andrew Leventis, “The Relationship Between Second Liens, First Mortgage Outcomes, and Borrower Credit: 1996-2010,” *FHFA Working Paper 14-3*, September 2014.

[11] Aly J. Yale, “Homebuyers Are Using Pandemic Savings to Make Down Payments,” *Money*, November 10, 2020; Daniel De Vise, “Working From Home Saves Americans $6,000 on Food, Commute, Clothes,” *USA Today*, October 16, 2023.

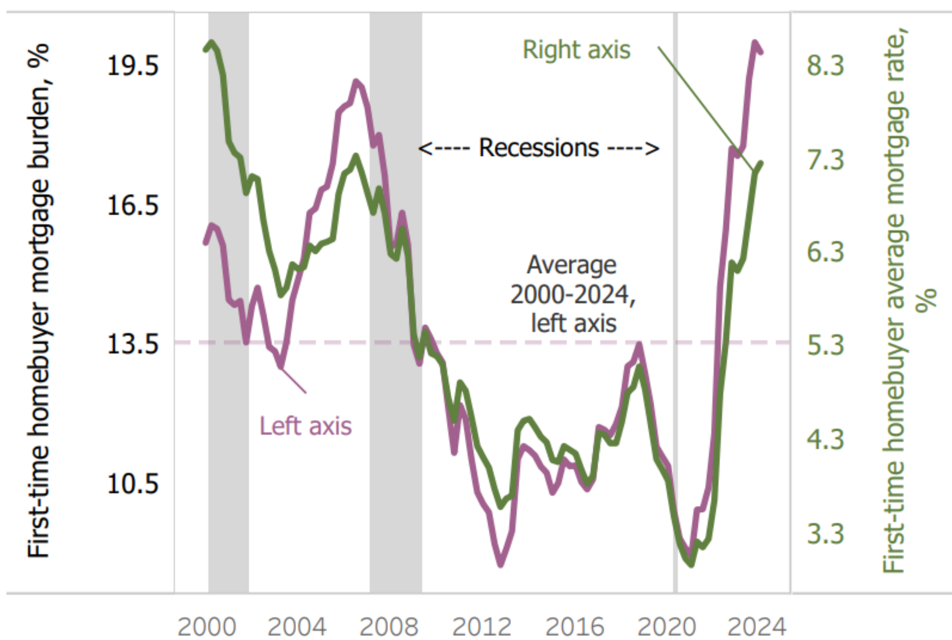
[12] Hamza Abdelrahman and Luiz Edgar Oliveira, “Pandemic Savings Are Gone: What’s Next for U.S. Consumers?,” *Federal Reserve Bank of San Francisco*, May 3, 2024.

[13] Michael Dinerstein, Constantine Yannelis, and Ching-Tse Chen, “Debt Moratoria: Evidence from Student Loan Forbearance,” *National Bureau for Economic Research*, May 2023.

First-Time Buyers' Mortgage Burden Higher Today Than During Early 2000s Housing Boom

In addition to the challenges of accumulating a sufficient down payment, first-time buyers are facing heavier mortgage burden. Between 2000 and 2024, their mortgage burden—the ratio of a monthly mortgage payment[14] to a buyer's income at origination—averaged 13.5 percent. See figure 4. Mortgage burden tends to be more reactive to changes in mortgage rates instead of typically less volatile changes in home prices or buyers' income. From 2003 to 2007, the mortgage burden reached a high of 19 percent of buyer income. That level was surpassed in the last quarter of 2023 when mortgage burden rose to 20 percent—its highest level in the past 24 years—despite first-time buyers having higher down payments.

Figure 4: First-Time Homebuyer Average Mortgage Payment–to–Income Ratio and 30-Year Mortgage Rate



Source: NMDB® data and calculations as of July 2024.

Note: The mortgage payment was calculated using the mortgage balance derived by applying the NMDB-reported average CLTV ratio at origination for first-time buyers to the purchase price. The mortgage payment assumes a 30-year term with a fixed rate based on the NMDB-reported average mortgage rate for first-time buyers. Only contributions toward principal and interest are included in the monthly mortgage payment. Monthly income is the NMDB-reported average annual income for first-time buyers at origination divided by 12.

[14] The mortgage payment was calculated using the mortgage balance derived by applying (1) the NMDB-reported average combined loan-to-value ratio (CLTV) at origination for first-time buyers to (2) the purchase price. The CLTV includes all liens except home equity lines of credit on the property at origination. The mortgage payment assumes a 30-year term with a fixed rate based on the reported average mortgage rate for first-time buyers from the NMDB. Only contributions toward principal and interest are included in the monthly mortgage payment. Monthly income is the NMDB-reported average annual income for first-time buyers at origination divided by 12. The CLTV is used to calculate the mortgage balances at origination because the NMDB mortgage payment–to–income ratio or front-end ratio is based on first liens only. This limitation underestimates the housing burden during the 2003–2007 period when the use of secondary mortgages was elevated. Additionally, the mortgage payment in the NMDB front-end ratio may or may not include escrow payments. Those escrow payments were composed mainly of homeowners' insurance and property taxes.

Mortgage burden excludes homeowners' insurance premiums and property taxes. Because insurance premiums and property taxes rise in lockstep with home prices, those costs grew particularly fast during the pandemic.[15] These rising insurance and property taxes on top of an elevated mortgage burden are another reason the first-time buyer share continues to decline post-pandemic.

The Point

First-time buyer participation in the market depends on the level of homeownership affordability. As pandemic-related savings diminish, first-time buyers are facing greater challenges in meeting down payment requirements, which can further reduce their access to the market.

[15] Aly J. Yale, "Home Insurance Premiums Are Way Up—Here's How to Lower Yours," *Wall Street Journal*, May 28, 2024; ATTOM Team, "Property Taxes on Single-Family Homes Up 7 Percent Across U.S. in 2023, to $363 Billion," *ATTOM*, April 3, 2024; Chris Clow, "U.S. Property Taxes Increased Twice as Fast in 2023 Compared to Prior Year," *Housingwire*, April 4, 2024.