



## REAL ESTATE: No-down-payment Mortgages Are Gone -- But Never To Return?

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By Amy Hoak

CHICAGO (Dow Jones) -- No-down-payment mortgages have been scarce lately. But in the past several weeks they've become virtually non-existent. And it doesn't appear they will return any time soon.

While Fannie Mae and Freddie Mac still have products that allow borrowers to finance 100% of their home purchase (albeit at a higher cost), recently the major private mortgage insurance companies have backed off from insuring these loans, said Bruce Brown, a certified mortgage planning specialist with First Security Mortgage Co., in Kansas City, Mo.

Mortgage Guaranty Insurance Corp., for example, changed its guidelines last week to exclude coverage of 100% mortgages. At a minimum, borrowers need a 3% down payment and a credit score of at least 680 to be eligible for coverage. In selected markets where home prices are declining, a 5% down payment is the minimum required.

Genworth Financial is another mortgage insurance firm that recently stopped covering 100% loans. In some cases, it's willing to cover loans with 3% down payments; in all markets it will cover a loan that involves putting 5% down, said Mark Goldhaber, senior vice president of industry affairs for Genworth Financial.

Lenders generally require private mortgage insurance for loans that cover more than 80% of the purchase price.

"It's obvious why they're making these changes," Brown said of the insurance companies. "They have to eliminate the losses they're taking." Mortgage insurance companies have been hit hard by the increasing number of defaults and foreclosures, he pointed out.

At MGIC, the changes to underwriting of low loan-to-value loans -- as well as increases to the pricing on some products -- were made due to the recent performance of loans with those characteristics, said Michael Zimmerman, senior vice president of investor relations. But the changes, he said, also reflect a return to more historically normal underwriting standards.

"The more equity that a borrower has -- or, if you will, skin in the game -- in any investment, the more likely they are to have a higher degree of responsibility toward it," he said.

Goldhaber said that those in the mortgage industry also have a responsibility to put homeowners into the proper mortgage product. These days, it's irresponsible to give people a loan for 100%, he added.

"In soft markets like we have today, with declining home-price appreciation, to put someone in a zero down is really inappropriate," he said. "It's the kind of product choice that gets consumers in trouble."

Many people have been finding themselves upside down on their mortgages when the price of the home drops and they end up owing more than the home is worth.

"Putting a person in a zero-down mortgage means in many cases they will lose value on home before they even have the curtains hung," Goldhaber said.

Other ways to 100%

That said, while the conventional no-down-payment products may have disappeared, there are still ways to buy a home without a down payment, said A.W. Pickel, CEO of LeaderOne Financial in Overland Park, Kan., and former president of the National Association of Mortgage Brokers.

"You have to broaden your definition of no-down payment," he said, adding that loan options are available, if not in the form they were in before.

A gift from a family member or a community grant can take the place of a down payment, for example, he said. And down-

payment assistance programs are available to help those seeking loans backed by the Federal Housing Administration, he added.

They're not offered now, but shared-appreciation programs might also be available, where investors share in the appreciation of a home in exchange for assistance at the purchase, Pickel said. He expects companies to get more creative and come up with other solutions too.

"You will see more unique products coming out," he said, as companies search for ways to help down-payment challenged buyers get into a new home.

But as of now, there are fewer options than there were before for would-be buyers who don't have ample cash reserves. And Brown sees that as an overreaction.

He believes consumers should have the option of financing their entire purchase -- even if it comes with extra fees or higher rates. Someone who doesn't have a lot of cash, but is a good credit risk, for example, should have that option, he said.

"In a lot of ways, we're creating an environment for investors," he said, as the number of renters is sure to grow. "Think of how many people would be in the market over the next several years if they could be in a house for no money down. Those people have no option but to remain renters."

A possible return?

In fact, the existence of no- and low-down-payment loans were one of the biggest reasons the homeownership rate rose during the housing boom, said Bob Walters, chief economist of Quicken Loans. Some sought these loans even if they could put money down, Pickel said.

"Everyone bought into the idea that if you can borrow money, it's better than using your own," Pickel said. "I don't think that's completely gone," he said, but added that now people have woken up to a sobering reality that home prices don't always go up and that putting money down might be in their best interest as a homeowner.

No one knows if, when and how these no-down payment loans will return en masse. But many people in the industry think they'll be gone for a good while.

"I don't want to say never, but my gut tells me it will be a long time before we see mortgage insurers pop back into the 100% market," Brown said.

If they do return, borrowers will likely need spectacular credit and the local housing market they're buying in will probably need to be a "prime market," that is, they'd need to have a small percentage of second homes and investor homes, said Anthony B. Sanders, professor of finance and real estate at Arizona State University's W. P. Carey School of Business.

"Markets such as Phoenix, Las Vegas and San Diego have higher percentage of second home/investor loans and viewed as being 'speculative' markets subject to dramatic downturns," he said in an email interview. Lenders still may be hesitant to make no-down-payment loans even after housing prices hit bottom, he said.

"But bear in mind that credit events in the mortgage market move in cycles and we swear to never repeat the same mistakes ... until we collectively forget about the last cycle," he added.


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