DETROIT NATIVE SUN

To afford a monthly mortgage payment, middle-class Americans need $127.000 down

PRNewswire/ -- To comfortably afford a typical U.S. home, a home buyer making the median income needs to put down nearly $127,750, or 35.4%, a new Zillow® analysis shows. Five years ago, when mortgage rates were hovering just above 4% and the typical home was worth about 50% less, that home would have been affordable with no money down.

That $127,750 down payment is what a household making the median income would need to put down when purchasing a typical U.S. home — valued at about $360,000 — so that the monthly mortgage payments take up no more than 30% of that household's monthly income.

The enormous gap between the down payment needed now and five years ago underscores how the pandemic fueled a scorching-hot housing market, and why the rise in mortgage rates in the time since has cooled the market. Stubbornly high mortgage rates have pushed both buyers and sellers to the sidelines. With so few homes for sale, competition is stiff among the remaining buyers.

"Down payments have always been important, but even more so today. With so few available, buyers may have to wait even longer for the right home to hit the market, especially now that buyers can afford less. Mortgage rate movements during that time could make the difference between affording that home and not," said Skylar Olsen, chief economist at Zillow. "Saving enough is a tall task without outside help — a gift from family or perhaps a stock windfall. To make the finances work, some folks are making a big move across the country, co-buying or buying a home with an extra room to rent out. Down payment assistance is another great resource that is too often overlooked."

To save up $127,750, it would take a household making the median income about 12 years (assuming its members save 10% of their income each month with a 4% annual return). It's no wonder then that 43% of last year's buyers used a gift from family or friends for at least part of their down payment, the highest share since at least 2018.

There are still affordable pockets of the U.S. In 10 major metropolitan areas, the typical home is affordable to a median-income household with less than 20% down. Pittsburgh boasts the most affordable housing market. A median-income household there could afford the monthly payments on a typical home even with no money down.

California is on the other end of the affordability spectrum. A median-income household in San Jose would need to put down more than $1.3 million to afford the mortgage payments on a typical home — that's more than the typical home is worth in every other major market. In Los Angeles, a median-income household would need an 81.1% down payment ($780,203) to afford the typical home, the highest in the country. This helps explain why many California metros have seen population losses since 2020, as long-distance movers target areas with more affordable housing.

For those who qualify, down payment assistance can amplify savings and help a buyer enter homeownership more quickly. In Minneapolis, for example, the average amount of down payment assistance available across the metro is just under $22,750, according to data from Down Payment Resource. A median-income buyer in Minneapolis without down payment assistance would need a 27% down payment to comfortably afford the typical home. With $22,750 in down payment assistance, they would need to put 21% down.

"Homeownership is the primary source of net worth and generational wealth for most Americans, and declining affordability is making it harder for average earners to get their foot in the door of an entry-level home. Luckily, there are more than 2,373 down payment assistance programs nationwide with at least one program in every county and 10 or more programs available in 2,000 counties," said Down Payment Resource Founder and CEO Rob Chrane. "In fact, down payment assistance providers have responded to the difficult housing market by increasing the number of programs offered and expanding inventory options with support for manufactured homes and owner-occupied multi-unit homes."

House hunting? Here's how to secure a lower mortgage rate

(StatePoint) If you're hesitant to buy a home right now due to high interest rates, you can use this time to learn how interest rates work, and to take steps to secure a lower interest rate when you are ready to buy.

Defining Mortgage Rates

A mortgage rate is the interest rate you pay on the money you borrow to buy your house, and a lower rate increases your purchasing power. Even a small difference in your interest rate can make a big difference in your payments over the life of your loan. That's why it's important to watch mortgage rates closely when house hunting.

Lenders set a mortgage rate for each individual based on several factors, including current market rates and individual credit history. You can determine how much your monthly payments would be at different rates using Freddie Mac's Fixed-Rate Mortgage Calculator at myhome.freddiemac.com/resources/calculators/fixed-rate-mortgages.

Improving Your Loan Application

Boosting your credit score is one of the best ways to improve your chances of qualifying for a loan and lowering the interest rate you are offered. Some proactive steps you can take to build and maintain your credit include:

- Making payments on time.
- Using as little of your credit limit as possible.
- Paying the full amount due, or at least more than the minimum amount due, on your credit cards.
- Opening and maintaining credit accounts in your own name.
- Keeping only a few credit cards or credit accounts open.
- Paying down debts.
- Reviewing your credit reports annually.
- Disputing inaccuracies in your credit report.
- Trying to have credit inquiries made strategically within a limited time period when comparison shopping for mortgages and loans.

Lenders will also look at your debt-to-income (DTI) ratio when making a decision about your loan application, as it is an important marker of your overall financial health. As a guideline, your monthly debt-to-income ratio should be 33% to 36% or less. Representing how much of your monthly income you are using to pay your debt, this handy calculator can help you determine your DTI: myhome.freddiemac.com/resources/calculators/debt-to-income-ratio-calculator.

To learn more about smart credit management, use Freddie Mac's CreditSmart online courses found at creditsmart.freddiemac.com.

Shopping Around

In addition to improving your credit and reducing your DTI, you can also potentially get a lower interest rate and avoid certain lender fees by shopping around. Freddie Mac research shows that similar borrowers may receive notably different rates based on the lender, and that homebuyers can potentially save $600 to $1,200 annually by applying for mortgages from multiple lenders. It's generally a good idea to get three to five quotes. During this process, you can use this Mortgage Worksheet to identify the best lender and mortgage option for you: myhome.freddiemac.com/resources/mortgage-comparison.

If you're in the market to buy a home, watch mortgage rates carefully. And when you are ready to buy, don't take the first mortgage offered. Be sure to shop around and ask about opportunities to secure a lower rate.