

# Credit Risk Retention:

*The 20 Percent Down Payment and the 25 Percent Home Equity Rules*



Debby Lindsey-Taliefero, Ph.D.  
Howard University Center on Race and Wealth  
Howard University Center for Banking Education

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By Debby Lindsey-Taliefero, Ph.D., Howard University Center on Race and Wealth, and  
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### **Background**

In this report, the Center on Race and Wealth and Center for Banking Education at Howard University (the HU Centers) analyze the Qualified Residential Mortgage (QRM) requirements proposed under Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The HU Centers' goal in this report is to shed light on the racial impact of the proposed rules for down payment and refinancing on mortgage borrowers.

The HU Center on Race and Wealth is a research institute that seeks to enrich the national dialogue on the issues that affect racial wealth disparities in the United States. The HU Center for Banking Education's primary objective is to train well-qualified graduates for career opportunities in the banking industry. The HU Centers are particularly concerned about the impact on African Americans, Hispanics, and the racial wealth disparities of the proposed QRM down payment rule and the 25 percent refinancing requirement. The HU Centers understand the intent of these proposals and the importance of more prudent underwriting standards. The HU Centers have demonstrated, however, that these rules will make it considerably difficult for many African American and Hispanic households to obtain a mortgage or benefit from rate reduction refinancing of their existing mortgages.

**20% Down Payment Rule:** This proposed regulation will result in extending the number of years for all households to save for both the downpayment and closing costs. In addition, it will have a statistically and significant disparate impact on African Americans and Hispanics as compared to non-Hispanic white households.

Using 2009 median income,<sup>1</sup> housing and saving data, Table (1) shows that a typical family earning \$50,221 and saving at the national average rate of about 5.3 percent would have to save for 16.2 years to raise the 20 percent down payment plus 5 percent closing costs to buy a house priced at \$172,100.<sup>2</sup> When this analysis is broken down by race and ethnicity, a much direr picture emerges for African American and Hispanic families. For instance, African American families, that earned the median income of \$33,463, would have to save for 24.3 years to meet the 20 percent down payment and 14.6 years to meet a downpayment of 10 percent.

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<sup>1</sup> Median household income based on 2009 American Community Survey.

<sup>2</sup> House price based on National Association of Realtors median sales price of existing single-family home.

Similarly, for Hispanic families earning the median income of \$39,323, it would take 20.3 and 12.2 years of savings to meet the down payments of 20 percent and 10 percent downpayment requirements, respectively.

Although all households will be adversely impacted by the 20 percent down payment rule, African Americans and Hispanics will be disproportionately impacted compared to non-Hispanic white households. These findings clearly show that Hispanic and African American families will experience an additional 5 to 9 year additional delay as compared to white families before they can realize their dream of homeownership. The HU Centers have confirmed that the differences in the number of years to save between white and Hispanic households ( $t = -14.32$ ,  $p = .01$ ,  $N = 51$ ) and white and African American households ( $t = -9.73$ ,  $p = .01$ ,  $N = 51$ ) are statistically significant. In other words, such differences are real and unlikely to be attributed to chance occurrences. Given the existing wealth disparities between these minority groups and non-Hispanic whites, the proposal if adopted will serve to exacerbate and perpetuate disparities while diminishing the net wealth condition of African Americans and Hispanics.

**Table (1)**

<b>Years for Median Income Family to Save for Down Payment by Race/Ethnicity, All States</b>						
	All	White	Black	Hispanic	Asian	Other
<b>Home Price</b>	\$ 172,100	\$ 172,100	\$ 172,100	\$ 172,100	\$ 172,100	\$ 172,100
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 43,025	\$ 43,025	\$ 43,025	\$ 43,025	\$ 43,025	\$ 43,025
'@10%	\$ 25,815	\$ 25,815	\$ 25,815	\$ 25,815	\$ 25,815	\$ 25,815
'@5%	\$ 17,210	\$ 17,210	\$ 17,210	\$ 17,210	\$ 17,210	\$ 17,210
<b>Median Income</b>	\$ 50,221	\$ 53,131	\$ 33,463	\$ 39,923	\$ 68,780	\$ 39,122
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 2,662	\$ 2,816	\$ 1,774	\$ 2,116	\$ 3,645	\$ 2,073
<b>Time in Years</b>						
'@20%	16.2	15.3	24.3	20.3	11.8	20.8
'@10%	9.7	9.2	14.6	12.2	7.1	12.5
'@5%	6.5	6.1	9.7	8.1	4.7	8.3

Source: Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single –family home.

The conclusions are supported by an examination six jurisdictions --Los Angeles County, CA; Cook County, IL (Chicago); Harris County, TX (Houston); Clark County, NV (Las Vegas); Philadelphia County, PA; Fulton County, GA (Atlanta); and the District of Columbia. In the Appendix, Table (2) through Table (8) present the county and the impact of the 20% downpayment rule. These counties were selected because they have large minority homeownership levels and racially diverse populations.

Hispanics make up 36.4 % of the population of Los Angeles County. The median income of a Hispanic family in 2009 was \$44,268 and the median home price \$333,900. It would take a typical Hispanic family 16.3 years to save for the down payment and closing costs to purchase the median priced home. The situation is even worst for Hispanics in Philadelphia County, PA where it is projected to take 44 years to save enough to buy the median priced home. Hispanic time-to-save for homeownership would not fare well in other regions of the country as well. For example, Harris County, TX (Houston) the Hispanic projected time-to-save for homeownership is 19.2 years, and for Fulton County, GA (Atlanta) the Hispanic projected time-to-save for homeownership is 19.2 years.

African Americans comprise 41.4% of the population in Washington, DC. In DC, the African American projected time-to-save for homeownership is 19.5 years. The African American projected time-to-save for homeownership in other jurisdictions is as follows: Cook County, IL 21.4 years; Fulton County, GA 21.7 years; and Los Angeles, CA 19.5 years.

It looks like Hispanic and African American families that form while couples are in their mid-twenties will be middle aged by the time they have saved enough to purchase the median priced home based on the proposed 20% down payment rule. This rule will slow demand for home purchases, prolong the housing slump, and create a negative effect on housing related industries such as home furnishings, carpeting, painting, home appliances...etc.

**25% Equity Rule.** The HU Centers are also concerned about the QRM restriction on refinancing mortgages, which may require at least 25 percent equity in the property in order to refinance. Using 2011 first quarter property data based on “County Land Sale Records”<sup>3</sup> and borrower’s estimated race using surnames and demographics,<sup>4</sup> the HU Centers were able to estimate the racial impact of the 25% Equity rule for refinancing on borrowers.

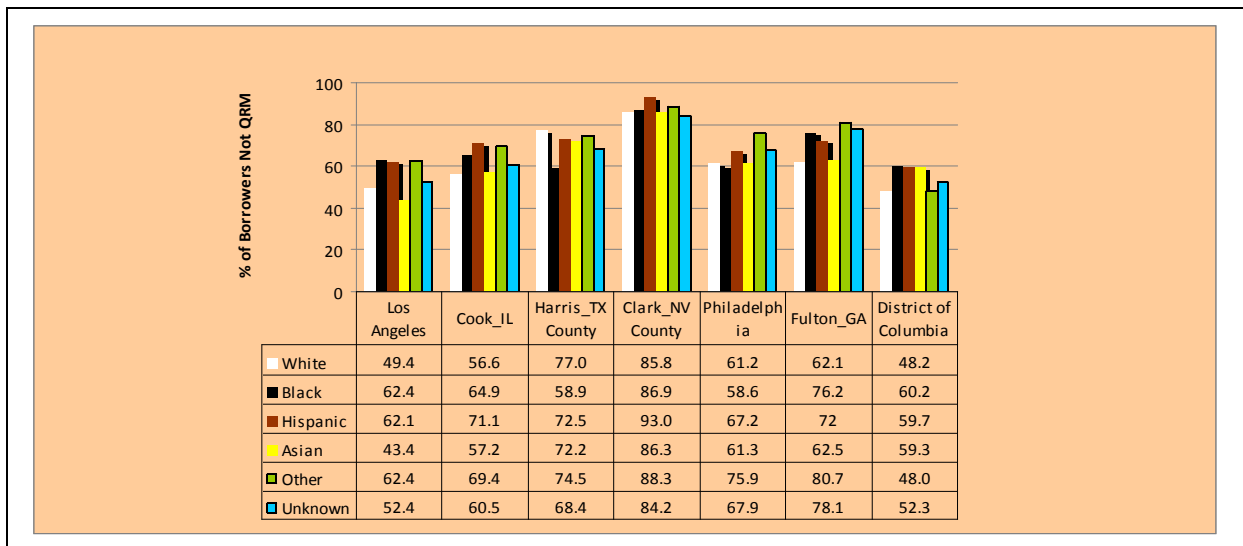
Figure (1) shows the percentage of borrowers by race that **would not** qualify as QRM under the proposed rule of 25 % equity for refinancing. Under the proposed rule, the Hispanic borrowers will be hit hard. In Clark County, NV, 93 percent of the Hispanic borrowers’ loans **would not** qualify as QRM. This scenario is played out repeatedly in Harris County, TX, Fulton, GA, and Cook County, IL. In all of these counties more than 70 percent of the Hispanics **do not** qualify as QRM. For African Americans, 76.2 percent of the borrowers’ loans in Fulton, County, GA **would not** qualify as QRM. In Clark County, NV, 86.9 percent of African American borrowers’ loans **would not** qualify. Over 60 percent of African American borrowers loans in Los Angeles County, CA, Cook County, IL, Fulton County, GA and Washington DC would **not quality** as QRM.

<sup>3</sup> DataQuick; Property appraisal estimated by DataQuick’s Automated Valuation Model (AVM)--PropertyFinder 2G.

<sup>4</sup> Estimated by Compliance Tech’s RaceEstimation™ algorithm.

The 25% Equity Rule is projected to hurt white borrowers as well but not as much as it would African Americans and Hispanics. White borrowers' loans in Clark County, NV (Las Vegas) and in Harris County, TX (Houston) 85.8% and 77%, respectively, **would not** qualify as QRM. Over 60% of white borrowers' loans **would not** qualify in Philadelphia or Fulton County, GA.

**Figure (1): 25%\_Rule for Refinancing: Percent of Borrowers' Loans Not QRM by Major Counties**



Source: "County Land Sale Records" and Property Appraisal provided by DataQuick and borrower' race estimated by Compliance Tech's RaceEstimation™ algorithm.

Based on the HU Centers' findings, it is concluded that the threshold on the minimum down payment of 20% and the 25% home equity under the proposed QRM rules has been set at a punitively high level and that certain minorities, who have had historically low homeownership rates, will be most disadvantaged by these rules. Furthermore, since it is widely accepted that homeownership is vital to wealth accumulation, these measures will only perpetuate existing racial wealth disparities. Therefore, it is our strong appeal that the proposed down payment and home equity thresholds be reconsidered and revised downward.

The HU Centers suggests that the down payment threshold should be set at 5 percent, but used with some combination of mortgage insurance to enhance creditworthiness and lower credit risk. Even the 5 percent down requires the average family to save for more than 6 years to accumulate savings to purchase a home. For the African American and Hispanic families this would translate into required saving of about 9 years. With respect to the proposed 25% equity rule, borrowers should be required to have 5 percent equity plus mortgage insurance.

The correction of the mortgage market should not be made on the backs of the household borrowers, but should be done by sound, well documented, and monitored fair lending practices. The HU Centers appreciate the opportunity to comment on a proposed rule that could have a dramatic adverse impact on the wealth creating opportunities of African American and Hispanic households.

## Appendix

**Table (2)**

Years for Median Income Family to Save for Down Payment by Race/Ethnicity, Clark County, Nevada						
	All	White	Black	Hispanic	Asian	Other
<b>Home Price</b>	\$ 142,900	\$ 142,900	\$ 142,900	\$ 142,900	\$ 142,900	\$ 142,900
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 35,725	\$ 35,725	\$ 35,725	\$ 35,725	\$ 35,725	\$ 35,725
'@10%	\$ 21,435	\$ 21,435	\$ 21,435	\$ 21,435	\$ 21,435	\$ 21,435
'@5%	\$ 14,290	\$ 14,290	\$ 14,290	\$ 14,290	\$ 14,290	\$ 14,290
<b>Median Income</b>	\$ 53,505	\$ 55,432	\$ 41,258	\$ 44,573	\$ 63,386	\$ 53,365
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 2,836	\$ 2,938	\$ 2,187	\$ 2,362	\$ 3,359	\$ 2,828
<b>Time in Years</b>						
'@20%	12.6	12.2	16.3	15.1	10.6	12.6
'@10%	7.6	7.3	9.8	9.1	6.4	7.6
'@5%	5.0	4.9	6.5	6.0	4.3	5.1

Source: Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single – family home.

**Table (3)**

Years for Median Income Family to Save for Down Payment by Race/Ethnicity, Philadelphia County, Pennsylvania						
	All	White	Black	Hispanic	Asian	Other
<b>Home Price</b>	\$ 215,900	\$ 215,900	\$ 215,900	\$ 215,900	\$ 215,900	\$ 215,900
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 53,975	\$ 53,975	\$ 53,975	\$ 53,975	\$ 53,975	\$ 53,975
'@10%	\$ 32,385	\$ 32,385	\$ 32,385	\$ 32,385	\$ 32,385	\$ 32,385
'@5%	\$ 21,590	\$ 21,590	\$ 21,590	\$ 21,590	\$ 21,590	\$ 21,590
<b>Median Income</b>	\$ 37,045	\$ 46,769	\$ 29,460	\$ 22,972	\$ 38,836	\$ 21,597
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 1,963	\$ 2,479	\$ 1,561	\$ 1,218	\$ 2,058	\$ 1,145
<b>Time in Years</b>						
'@20%	27.5	21.8	34.6	44.3	26.2	47.2
'@10%	16.5	13.1	20.7	26.6	15.7	28.3
'@5%	11.0	8.7	13.8	17.7	10.5	18.9

Source: Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single – family home.



**Table (4)**

Years for Median Income Family to Save for Down Payment by Race/Ethnicity, Harris County, Texas						
	All	White	Black	Hispanic	Asian	Other
<b>Home Price</b>	\$ 153,100	\$ 153,100	\$ 153,100	\$ 153,100	\$ 153,100	\$ 153,100
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275
'@10%	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965
'@5%	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310
<b>Median Income</b>	\$ 50,567	\$ 57,642	\$ 36,280	\$ 37,520	\$ 59,176	\$ 37,252
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 2,680	\$ 3,055	\$ 1,923	\$ 1,989	\$ 3,136	\$ 1,974
<b>Time in Years</b>						
'@20%	14.3	12.5	19.9	19.2	12.2	19.4
'@10%	8.6	7.5	11.9	11.5	7.3	11.6
'@5%	5.7	5.0	8.0	7.7	4.9	7.8

Source:

Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single – family home.

**Table (5)**

Years for Median Income Family to Save for Down Payment by Race/Ethnicity, Los Angeles						
	All	White	Black	Hispanic	Asian	Other
<b>Home Price</b>	\$ 333,900	\$ 333,900	\$ 333,900	\$ 333,900	\$ 333,900	\$ 333,900
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275
'@10%	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965
'@5%	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310
<b>Median Income</b>	\$ 54,467	\$ 59,858	\$ 41,972	\$ 44,268	\$ 64,390	\$ 41,657
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 2,887	\$ 3,172	\$ 2,225	\$ 2,346	\$ 3,413	\$ 2,208
<b>Time in Years</b>						
'@20%	13.3	12.1	17.2	16.3	11.2	17.3
'@10%	8.0	7.2	10.3	9.8	6.7	10.4
'@5%	5.3	4.8	6.9	6.5	4.5	6.9

Source:

Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single – family home.

**Table (6)**

Years for Median Income Family to Save for Down Payment by Race/Ethnicity, DC						
	All	White	Black	Hispanic	Asian	Other
<b>Home Price</b>	\$ 308,600	\$ 308,600	\$ 308,600	\$ 308,600	\$ 308,600	\$ 308,600
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275
'@10%	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965
'@5%	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310
<b>Median Income</b>	\$ 59,290	\$ 99,401	\$ 36,948	\$ 46,821	\$ 137,713	\$ 40,962
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 3,142	\$ 5,268	\$ 1,958	\$ 2,482	\$ 7,299	\$ 2,171
<b>Time in Years</b>						
'@20%	12.2	7.3	19.5	15.4	5.2	17.6
'@10%	7.3	4.4	11.7	9.3	3.1	10.6
'@5%	4.9	2.9	7.8	6.2	2.1	7.1

Source:

Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single –family home.

**Table (7)**

Years for Median Income Family to Save for Down Payment by Race/Ethnicity, Atlanta						
	All	White	Black	Hispanic	Asian	Other
<b>Home Price</b>	\$ 123,500	\$ 123,500	\$ 123,500	\$ 123,500	\$ 123,500	\$ 123,500
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275
'@10%	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965
'@5%	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310
<b>Median Income</b>	\$ 56,162	\$ 84,825	\$ 33,305	\$ 37,636	\$ 76,213	\$ 37,636
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 2,977	\$ 4,496	\$ 1,765	\$ 1,995	\$ 4,039	\$ 1,995
<b>Time in Years</b>						
'@20%	12.9	8.5	21.7	19.2	9.5	19.2
'@10%	7.7	5.1	13.0	11.5	5.7	11.5
'@5%	5.1	3.4	8.7	7.7	3.8	7.7

Source:

Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single –family home.

**Table (8)**

<b>Years for Median Income Family to Save for Down Payment by Race/Ethnicity, Chicago</b>						
	<b>All</b>	<b>White</b>	<b>Black</b>	<b>Hispanic</b>	<b>Asian</b>	<b>Other</b>
<b>Home Price</b>	\$ 199,200	\$ 199,200	\$ 199,200	\$ 199,200	\$ 199,200	\$ 199,200
<b>Downpayment+Closing costs (est. '@5%)</b>						
'@20%	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275	\$ 38,275
'@10%	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965	\$ 22,965
'@5%	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310	\$ 15,310
<b>Median Income</b>	\$ 52,539	\$ 61,902	\$ 33,759	\$ 43,372	\$ 66,280	\$ 43,169
<b>Saving Rate</b>	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
<b>Savings</b>	\$ 2,785	\$ 3,281	\$ 1,789	\$ 2,299	\$ 3,513	\$ 2,288
<b>Time in Years</b>						
'@20%	13.7	11.7	21.4	16.7	10.9	16.7
'@10%	8.2	7.0	12.8	10.0	6.5	10.0
'@5%	5.5	4.7	8.6	6.7	4.4	6.7

Source:

Median household income based on 2009 American Community Survey and House price based on National Association of Realtors median sales price of existing single –family home.

## Contributors

### Center on Race and Wealth: Housing and Mortgage Finance Research Team

Debby Lindsey-Taliefero, Ph.D. – Mentor Research Fellow

Chola Milambo, Ph.D. – Research Fellow

Adji Fatou Diagne – Research Associate

Bintou Lingani – Research Associate

Alexander Revia – Research Associate

### Center for Banking Education

William Brent, DBA, Associate Professor of Finance, Director

Debby Lindsey-Taliefero, Ph.D., Associate Professor of Economics

Lynne Kelly, Ph.D., Assistant Professor of Finance

Russell M. Price, Ph.D., Assistant Professor of Finance

William Barbee, Ph.D., Associate Professor of Finance

L. Jide Iwarere, Ph.D., Associate Professor of Finance

### For More Information, Contact:

Center on Race and Wealth

202-865-8582

Or

Debby Lindsey-Taliefero, Ph.D.

Research Fellow, Center on Race and Wealth

& Associate Professor of Economics

Howard University School of Business

Washington, DC 20059

202-806-5100

[dlindsey@howard.edu](mailto:dlindsey@howard.edu)

