

## First-time home buyers feel the pinch from economic slump



A house for sale on Carmel Place in Rutland Town is shown Sunday.

Patricia Minichiello / Rutland Herald

By Bruce Edwards  
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For would-be first-time home buyers, the quest to get into that home is more challenging today and likely to remain that way until the economy turns around, according to housing advocates in the state.

The ripple effects of the Great Recession, including a high unemployment rate and little job growth, has contributed to the slowdown in home sales but is more problematic for first-time buyers.

“The first-time home buyer situation in the current housing market is different from what we’ve seen before,” said Erhard Mahnke, coordinator of the Vermont Affordable Housing Coalition. “First of all, first-time home buyers have the advantage of among the lowest interest rates we’ve seen in a very long time. However, because of the meltdown of the housing market in the last few years there are some pretty stringent new requirements.”

The median price of a single-family home sold in Vermont last year was \$195,000, a 6.25 percent decline from 2008 when the median price was \$208,000, according to Vermont Housing Data ([www.housingdata.org](http://www.housingdata.org)).

The median price in Chittenden County was \$255,000; in Rutland County, \$150,000 and in Washington County \$177,000.

The number of single-family homes sold has fallen as well. Last year, 3,731 single-family homes sold, a 5 percent decline from 2008 when 3,933 homes sold.

Vermont Housing Data is a joint project of VHFA and the center for Rural Studies at the University of Vermont.

Mahnke said it's a good time to buy a home for someone with excellent credit, who has the hefty down payment and a steady job. He said the market is not so good for everyone else.

Citing the latest VHFA affordable housing report, "Between a Rock and a Hard Place," Mahnke said to buy a median price existing home (single-family, condominium, mobile home with land) in Vermont requires an annual income of \$57,000 and \$15,000 in down payment, closing costs and other fees.

He said 80 percent of the state's non-farm jobs have a median wage less than \$57,000 a year.

The Vermont Housing Finance Agency is a major lender for first-time home buyers. Sarah Carpenter, the VHFA executive director, and other housing experts said the expiration this spring of the federal home buyer tax credit took away a significant financial incentive. Added to that, she said is tighter credit brought on by the economic downturn that was led by the housing crisis.

The volume of VHFA loans has plummeted in the last two years from 993 loans totaling \$144.8 million in 2007 to just 95 loans totaling \$11.6 million last year.

Carpenter said the drop in lending at VHFA can be traced to two factors: conventional loans are more competitive and the lack of federal mortgage insurance.

"It's slower for VHFA, because our ability to get competitively rate long-term financing has really been capped by the capital markets," Carpenter said.

VHFA has also relied on U.S. Department of Agriculture Rural Development mortgage insurance program. The program was suspended this spring when it reached its authorization limit. It meant first-time home buyers had to find private mortgage insurance, which is far more difficult, Carpenter said.

She said the good news is that Congress recently reauthorized the USDA mortgage insurance program, which should help home buyers.

The drop in first time home sales is reflected in a decline in home buyer education enrollment. The classes are run by the NeighborWorks Alliance of Vermont.

"Interestingly enough, our homeowner education class enrollment has gone down in the last few months since summertime has hit, and it's hard to know exactly why," said Mary Cohen of NeighborWorks of Southwestern Vermont, which holds classes in Bennington, Rutland and Addison counties. "Obviously, the economy is a factor."

Cohen also said the \$8,000 tax credit had been “a real incentive.”

She cited tighter credit as another factor.

“Two years ago just about anyone could get a mortgage and now it feels like the pendulum has swung so far the other way,” she said.

Through the first six months of the year, she said four graduates of the home buyer course purchased homes at an average price of \$157,000.

Harry Sanderson, a senior housing counselor with the Central Vermont Community Land Trust, said the housing market for first-time buyers will take up to two more years to turn around.

“The biggest challenge is jobs,” Sanderson said.

He said even potential buyers with a job may not be willing to take the financial risk given the shaky nature of the economy.

Sanderson said enrollment in the monthly home buyer education course has dropped dramatically.

He echoed others who said the expiration of the home buyer tax credit took away the incentive for many buyers.

Sanderson also said lenders are more cautious and that even a late payment can affect a loan decision on a mortgage.

Chris Donnelly of the Champlain Housing Trust said home prices in the state haven't declined much while “incomes certainly haven't gone up.”

Enrollment in the housing trust's home buyer course has declined from two years ago, a reflection of the economy, he said.

According to Donnelly, the Burlington course draws an average of 25 to 30 people while courses held in St. Albans attract an average of 15 a month.

The courses, which are offered statewide, educate potential home owners on subjects including gauging readiness to buy a home, budgeting and credit, shopping for a home, obtaining a mortgage loan, home inspections, closing costs and access to discounts and special loan products.

Housing advocates say those who complete the one-day course stand a better chance of obtaining a mortgage.

Champlain Housing Trust has used federal stimulus money to put more affordable homes on the

market.

“We’re using some federal stimulus money to buy foreclosed homes, rehab them, and then sell them to income-eligible families and then make them permanently affordable through our community land trust,” Donnelly said.

The Farmers Home Administration is in the process of tightening its lending standards, raising the minimum credit score and requiring a greater share of closing costs be borne by the buyer.

Because Vermont is less dependent on FHA loans than almost any other state, the impact of the tighter standards will be minimal, said Carpenter of the VHFA.

Carpenter said the VHFA minimum credit score of 620 is already higher than the one proposed for FHA loans.

She said the higher credit score is a necessary threshold to safeguard people from buying a home they can’t afford. Carpenter said that’s one of the problems that lead to the current housing meltdown in the first place.

“People with low credit scores would be at risk,” she said. “Our experience is people with a 500 score are very stretched financially.”

The current VHFA rate for a 30-year-fixed mortgage last week was 4.95 percent, slightly above the market rate offered by banks.

But Carpenter said mortgage rates don’t tell the whole story. Closing costs and other fees increase the price of what a borrower has to pay. She said VHFA has the ability to lower those costs to the point where a VHFA interest rate can be more favorable.