

THOMAS R. GLEASON

Breaking the no-down-payment barrier

OCCASIONALLY, a benchmark that we thought would stand forever is surpassed. Roger Maris's (and Mark McGwire's) home run records are bested. The stock market breaks 10,000. For years, the conventional wisdom said that these things couldn't happen. But eventually they did.

For decades, the mortgage-banking equivalent of the sub-minute mile has been the no-down-payment mortgage loan. It simply can't be done, said the powers that be. Home buyers must have some investment in their homes. If they don't, and the going gets rough, they'll walk away with nothing to lose.

At MassHousing, we disagree,

which is why we have three 0 percent down payment loan programs for buyers with modest incomes.

The no-down-payment loan could be the future of the mortgage industry. MassHousing was one of the first lenders in Massachusetts to go to 5 percent down payments and then to 3 percent. Soon after, many banks followed suit.

The conventional wisdom behind down payments is understandable. Buyers who put money down have a bigger investment in a home, and there's less risk for the lender. But the reality is that in Massachusetts, fewer and fewer people of modest means can save

enough money to buy a home. We need to increase the buying power of the consumer, and the biggest barrier to home ownership is a down payment.

What about the notion that borrowers who have put no money down are more likely to walk away from their homes?

First, we have found that people will not give up their piece of the American dream without a fight. They'll agree to take second jobs or sell other assets. This is especially true of low- and moderate-income first-time home buyers. It is true even with borrowers putting as little as 1.5 percent of their own money into a home.

Second, the number of two-

come households is rising, and many can afford a substantial monthly mortgage payment. They just haven't been able to save tens of thousands of dollars for a down payment.

Finally, while at the outset a borrower who has made no down payment has no equity in his or her home, that changes quickly. With every mortgage payment, home owners have a greater stake in their homes. As their net worth grows, they will be less likely to leave.

Down payments can also leave borrowers cash poor. People who have put their life savings into a home may have no way to pay for a broken furnace or a few roof

once they've moved in. A 0 percent down payment loan leaves a cushion for emergencies.

MassHousing currently has the fewest number of delinquent home owner loans it has ever had, even as our down payment requirements have eased. Why? We underwrite our loans aggressively, our borrowers must have good credit, and home buyer counseling is required for first-time buyers making down payments of less than 5 percent. We also service most of our loans ourselves, allowing us to address delinquencies quickly and to tailor "workouts" to the individual needs of the borrower. We are confident that these practices will yield success with the 0 percent down loans as well.

Private lenders are playing a critical role in our 0 percent down programs. As such, they have a stake in their success and will be

able to see firsthand whether this approach will work. Small, community-based banks are providing their own capital for the municipal worker and commuter programs, while MassHousing is insuring the loans. One of our programs will be funded with MassHousing's tax-exempt bond funds, while a network of banks across the Commonwealth will originate the loans.

MassHousing is confident that these no-down-payment programs will help people buy a home while demonstrating to the larger banking community that it is not only possible but necessary to break that barrier once and for all.

Thomas R. Gleason is executive director of MassHousing, an agency that makes loans to low- and middle-income families.