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PRODUCT & SERVICE GUIDE

Congress Considers \$15,000 First Time Homebuyer Credit

A refundable, advanceable tax credit of up to \$15,000 for first time homebuyers, being considered in future tax and economic stimulus legislation, could catapult millions of renter households into first-time homeownership, a new Zillow analysis suggests.

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While Congress has already passed billions in aid over the past year to provide homeowner and renter relief, housing will remain a key area of focus through 2021 — especially as Congress continues to grapple with decreasing affordability.

Zillow research found that with a 3.5% down payment on a 30-year mortgage with a 3% interest rate, about 9.3 million renter households in the U.S. (27.4%) would spend less than a third of their income on the monthly payment for the median home sold in their metro in 2020. An advanceable tax credit would remove for them what two-thirds of renters cite as the single biggest barrier to homeownership — [saving for a down payment](#). Other hurdles include qualifying for a mortgage and job security.

A tax credit could be even more beneficial to renters in relatively more affordable metros, like Pittsburgh (40.5% could afford a median mortgage), Cincinnati (39.7%), Cleveland (39.0%), and St. Louis (38.5%). Costly California metros like Los Angeles (10.1%) and San Jose (12.1%) have some of the smallest share of renters that could afford a mortgage, but the program would still significantly impact thousands in those regions.

“Legislation that reduces barriers to homeownership could allow millions of renter households to finally enjoy the stability and wealth-building owning a home can provide,” said Zillow economic analyst Alexandra Lee.

Lawmakers have floated ideas surrounding the introduction of legislation that would create a refundable, advanceable tax credit of up to \$15,000 for first-time homebuyers, similar to first-time homebuyer credits approved by Congress during the Great Recession. Unlike those credits, the recently proposed advanceable tax credit could be used at the time of purchase, which could jumpstart potential homebuyers lacking down payment savings.

Nationally, renter households are [estimated to save 2.4% of their income each year](#). At that rate it would take a typical renter about 14 years to save \$15,000. Considering the [low rates at which renters are able to save](#), a \$15,000 advanceable credit could push them years ahead toward home buying, potentially covering the entire down payment. In 2020, a 3.5% down payment on a typical home sold was less than \$15,000 in 40 out of the largest 50 U.S. metros. In 30 out of the largest 50 metros,

even a 5% down payment on the typical U.S. home would be completely covered by a \$15,000 tax credit.

However, such a tax credit could also have some unintended consequences. Down payment assistance does not completely help those who face additional hurdles to enter homeownership. Therefore, even though a tax credit for first-time homebuyers would likely stimulate minority homeownership, it could still disproportionately benefit white and Asian Americans who are better positioned to buy because of better access to credit and higher incomes. Also, recipients could only benefit from the credit if enough homes at affordable price tiers are available on the market. Competition for homes remains fierce with [homes selling at a historically fast pace](#). This strong demand, coupled with tight inventory, is contributing to rapidly rising prices, which could also inadvertently affect the utility of the tax credit for those who need it the most.

Across the largest 50 U.S. metros, white renter households make up a significantly larger share of those that could afford the monthly mortgage payment. Asian households also fare relatively well — in almost all metros (48 of 50 largest) they make up a slightly larger share of potential buyers. Conversely, Black (49 of 50 metros) and Hispanic (42 of 50 metros) renter households make up a disproportionately smaller share of potential buyers.

“Policies targeting the systemic inequities in our financial system — including reforming the credit reporting system — could help disadvantaged households get their foot in the door and close the racial homeownership gap,” said Lee.

Methodology

Renters household income data was sourced from 2019 1-Year American Community Survey microdata, accessed via IPUMS. Zillow calculated the monthly payment on the median home sale price across 2020, assuming a 3.5% down payment, a mortgage rate of 3%, a mortgage insurance premium of 0.7%, and including metro-level estimates of insurance and property tax rates.

Proportions of renters and potential buyers by race are compared in a two-proportion z-test. Only statistically significant differences at the 5% level are reported in the discussion of metros with disproportionate potential buyers by race.

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