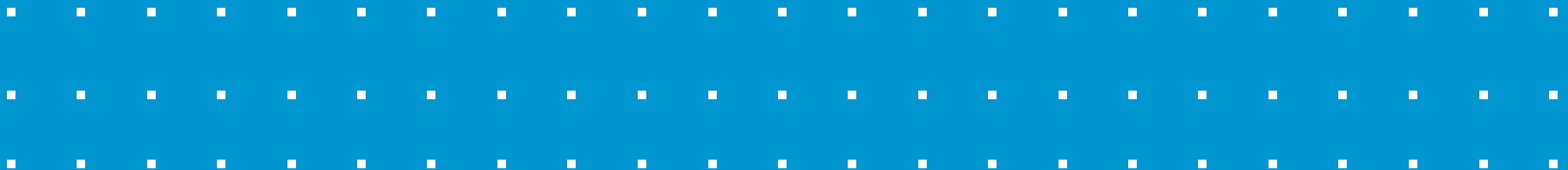




Credit Conditions and the Low Homeownership Rate

Laurie Goodman
Co-Director, Housing Finance Policy
Center
Urban Institute

Sustainable Homeownership Conference
2017
Berkeley CA
June 9, 2017

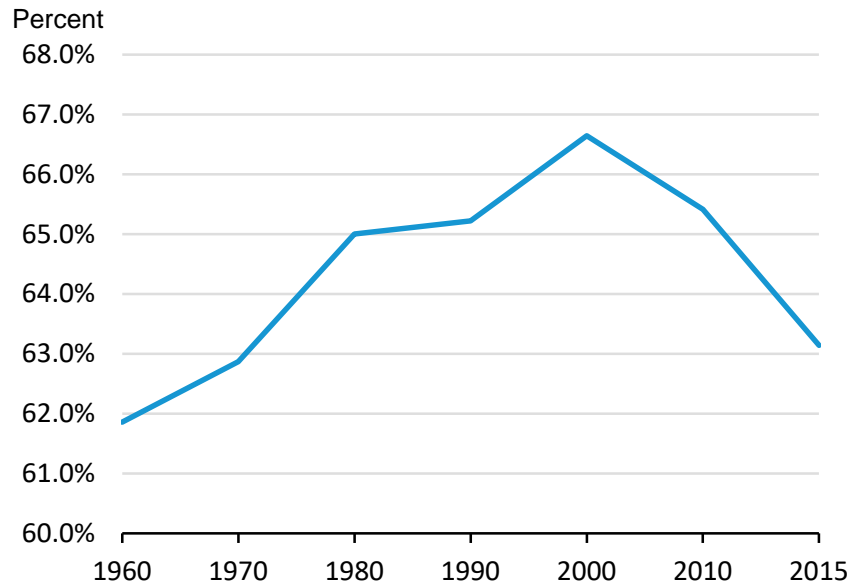


Outline

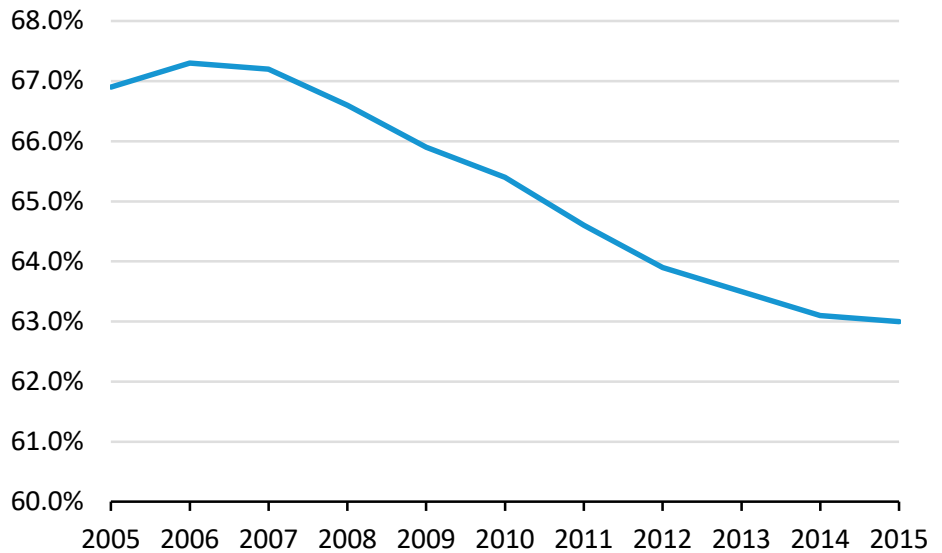
- The overall homeownership rate has been falling, its inverse, the rental rate has been rising. That trend has accelerated during the post-crisis period.
- The overall aging of the population, which increases the homeownership rate, basically offsets the decrease in the share of non-Hispanic white households.
- Factors exerting a downward pull on the homeownership rate:
 - The great recession
 - A higher median age at first marriage
 - No increase in real incomes
 - Student loan debt for those who do not graduate
 - Very tight mortgage credit
 - Subtle change in attitude toward homeownership
- Tight credit availability stems from lenders imposing overlays due to rep and warrant risk, litigation risk under the False Claims Act and the high cost and uncertainty associated with servicing delinquent loans. While the GSEs have made great strides to give lenders certainty, much more work remains to be done at the FHA. And the FHA is the more economic provider of high LTV loans, particularly to those with lower credit scores.
- The consequences of tight credit will grow over time. In particular, homeownership is the way most households build wealth. Choking off this important wealth building channel is likely to contribute to growing inequality. We need to take actions to open the credit by (1) tolerating a higher probability of default, (2) looking closely at alternative credit scoring as well as credit scoring with multiple borrowers and (3) looking at better ways to capture variable income and multiple incomes.

Homeownership rates are falling

Homeownership rate, 1960-2015



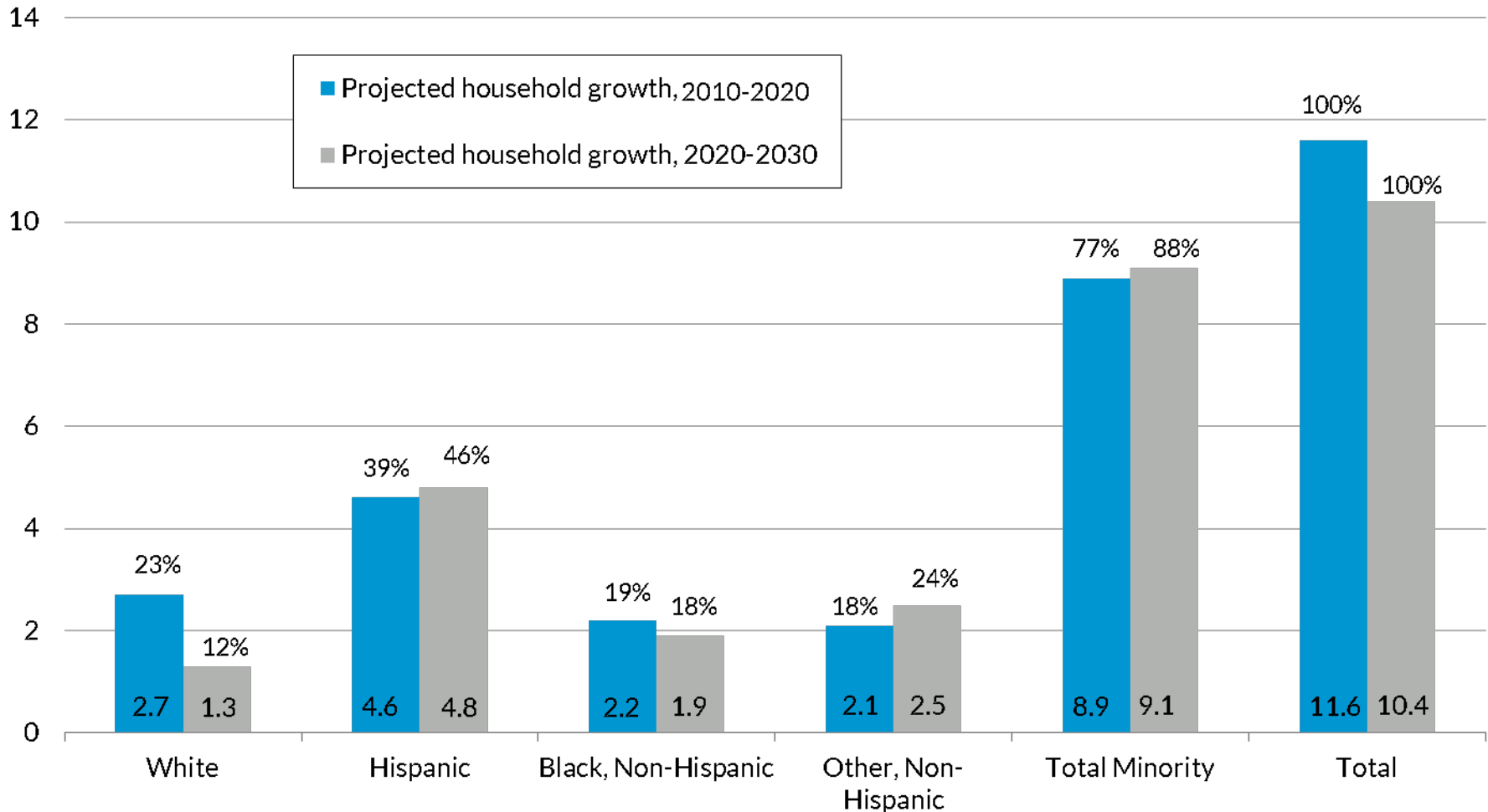
Homeownership rate, 2005-2015



Sources: U.S. Census, American Community Survey

Projected Household Growth by Race and Ethnicity

Net new households, millions



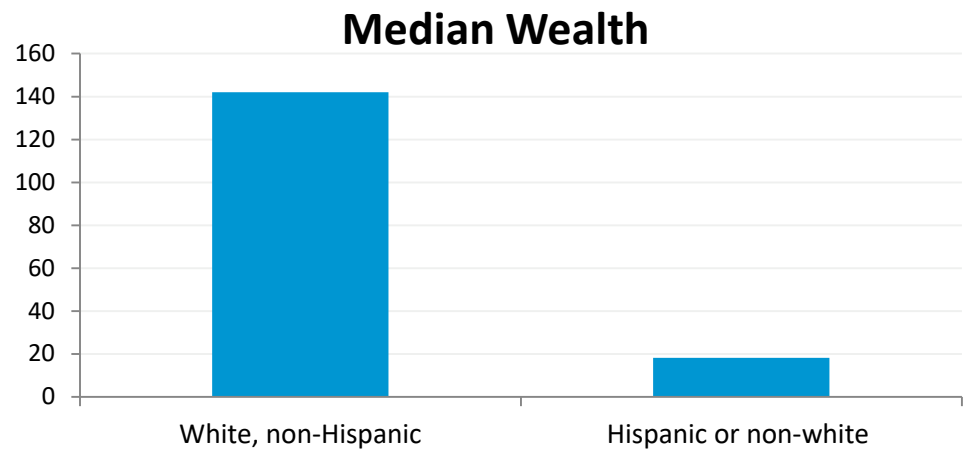
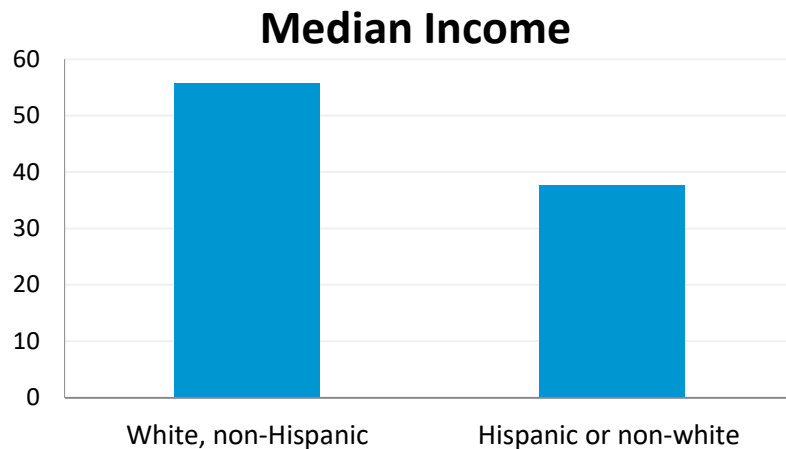
Source: Goodman, Laurie, Pendall, Rolf, and Zhu, Jun. "Headship and Homeownership: What Does the Future Hold?" Urban Institute, June 2015.

Homeownership differs by race, partly due to income and wealth

Homeownership Rate by Race/Ethnicity

	1990	2000	2010	2015
Total	65.3	66.2	65.1	63.1
White	70.0	72.9	72.2	71.1
Black	45.3	47.3	44.3	41.2
Hispanic	43.2	47.3	47.3	45.3
Other	53.4	52.7	56.3	55.5

Household Financial Characteristics by Race and Ethnicity, 2013



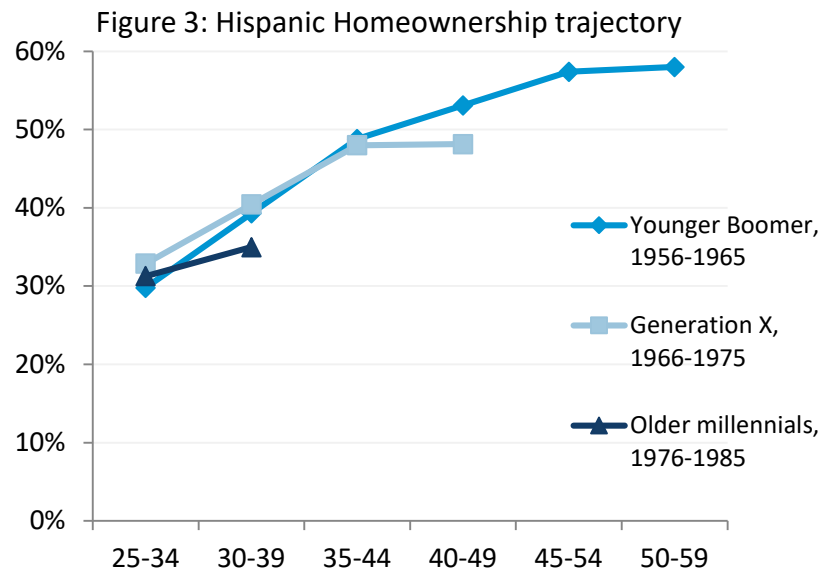
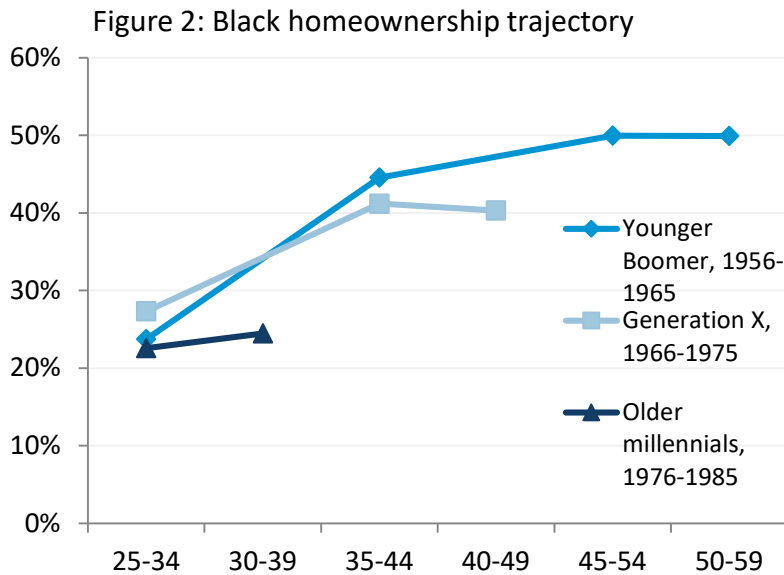
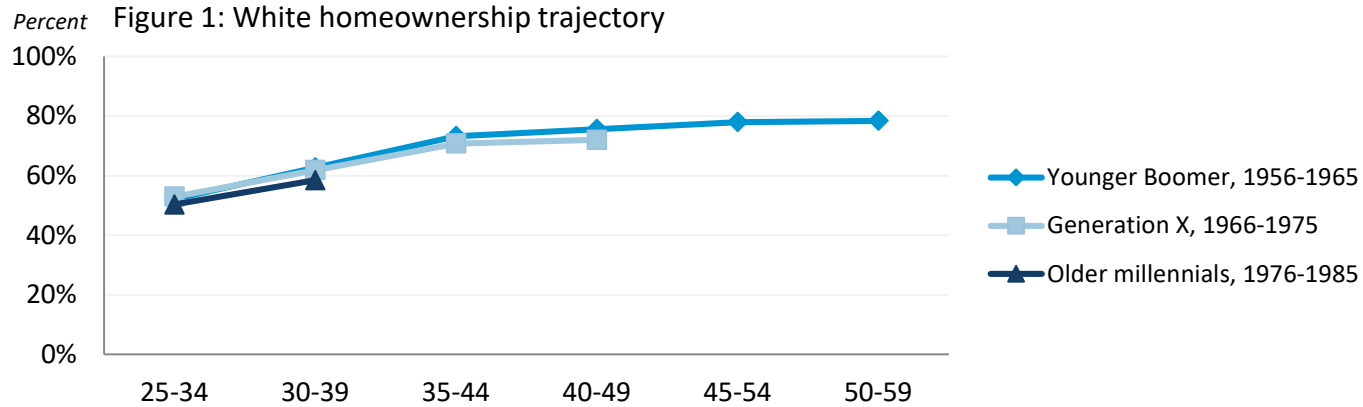
Sources: top: 1990, 2000, 2010; American Community Survey 2015.; bottom: Federal Reserve Bulletin, September 2014.

Homeownership rates declined for most age groups

Homeownership Rate by Householder Age					
	1990	2000	2010	2015	
15-24	17.1	17.8	16.1	13.1	
25-34	46.3	46.0	42.0	37.0	
35-44	67.3	66.8	62.3	56.3	
45-54	76.3	75.5	71.5	68.4	
55-64	80.6	80.3	77.3	75.0	
65-74	79.4	81.3	80.2	79.7	
75-84	72.4	76.9	77.9	79.0	
85+	64.2	66.9	66.2	69.2	
Total	65.2	66.6	65.1	63.1	

Sources: US Census 1990, 2000, 2010; American Community Survey 2015.

Homeownership trajectories, lower and flatter

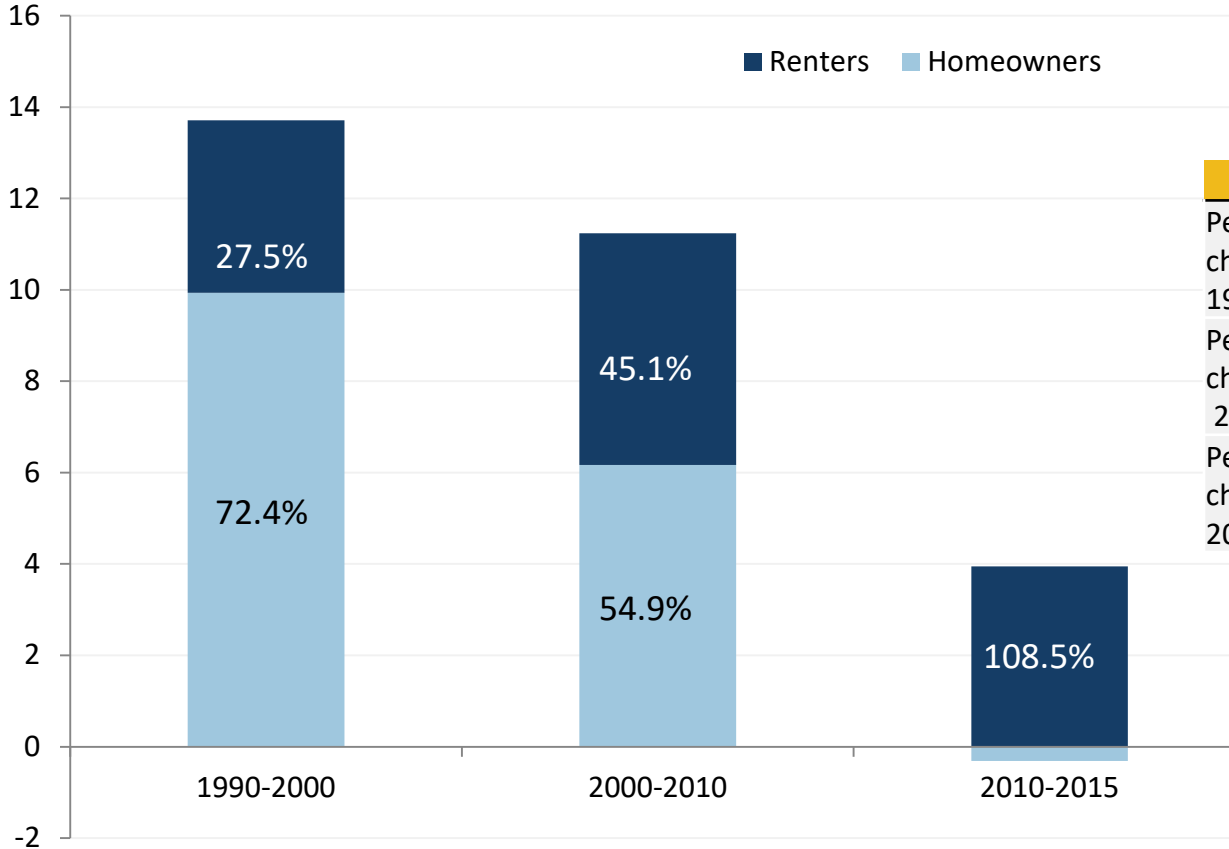


Sources: U.S. Census 1990, 2000, 2010, American Community Survey 2015

Rental growth has been high in recent years

Number of Net New Households

Millions of households

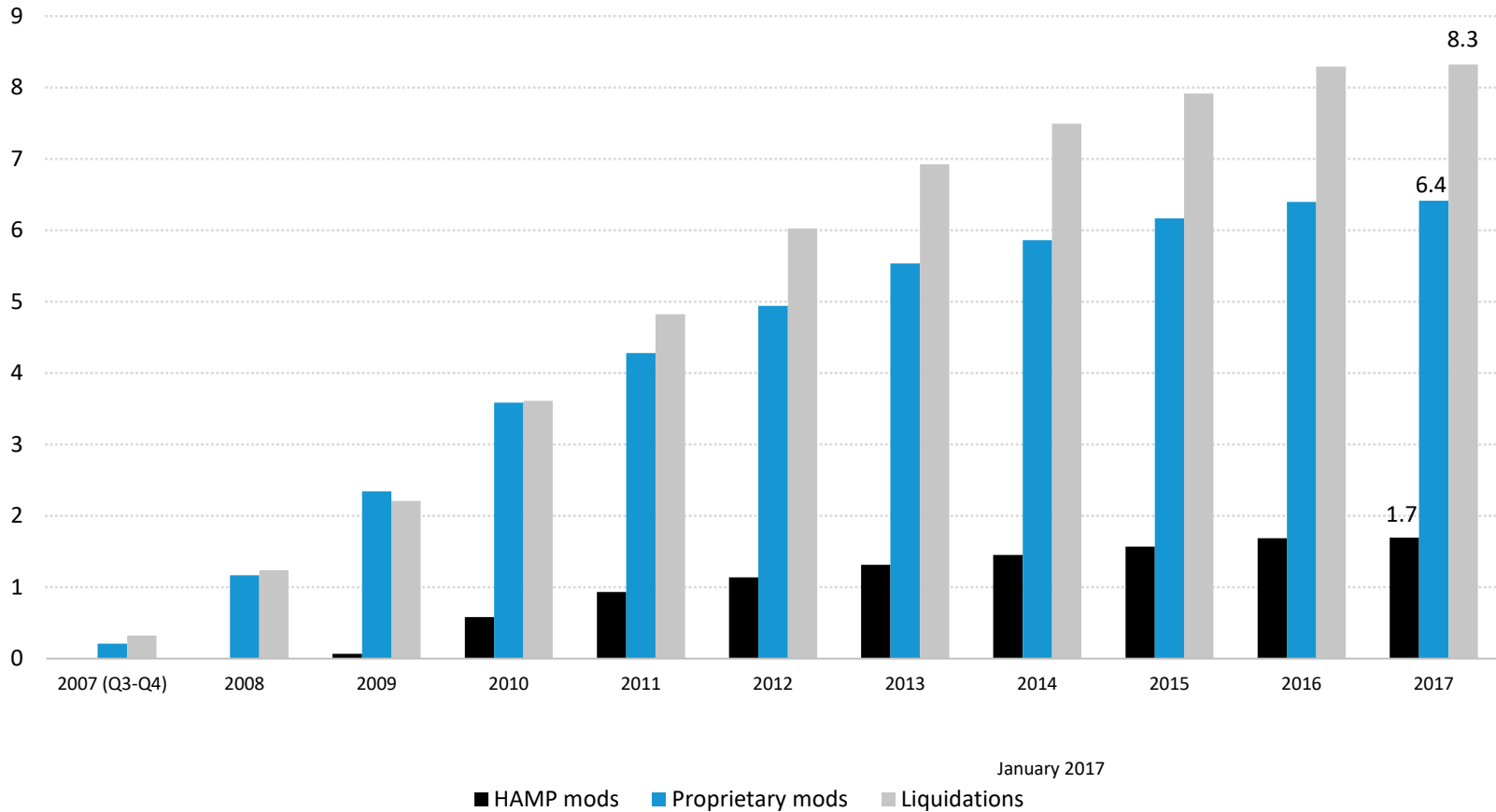


	Households	Owners	Renters
Percent change, 1990-2000	14.94%	16.59%	11.84%
Percent change, 2000-2010	10.65%	8.84%	14.20%
Percent change, 2010-2015	3.18%	-0.41%	9.97%

Sources: U.S. Census 1990, 2000, 2010, American Community Survey, 2010, 2015, Urban calculations

Cumulative Modifications and Liquidations

Number of loans (millions)



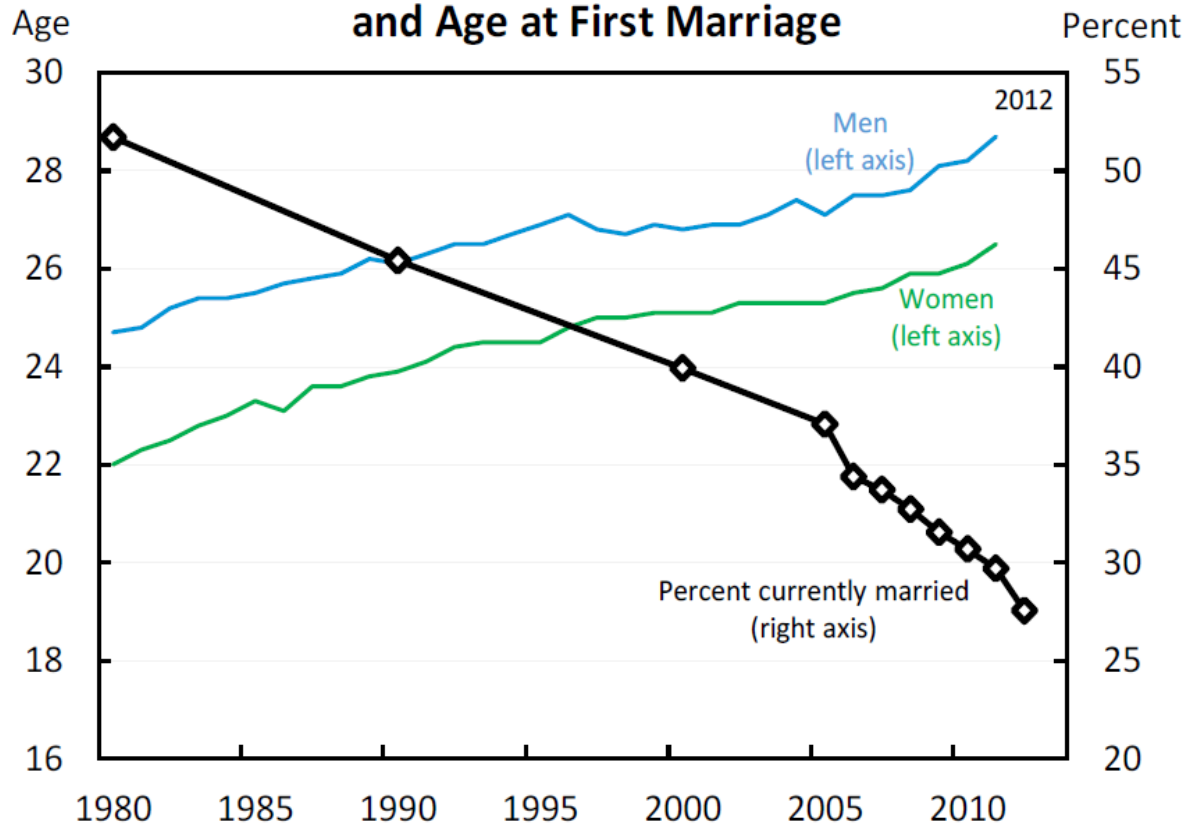
Sources: Hope Now Reports and Urban Institute.

Note: Liquidations includes both foreclosure sales and short sales.

Age at first marriage has increased

Share of 18-34 Year Olds Currently Married and Age at First Marriage

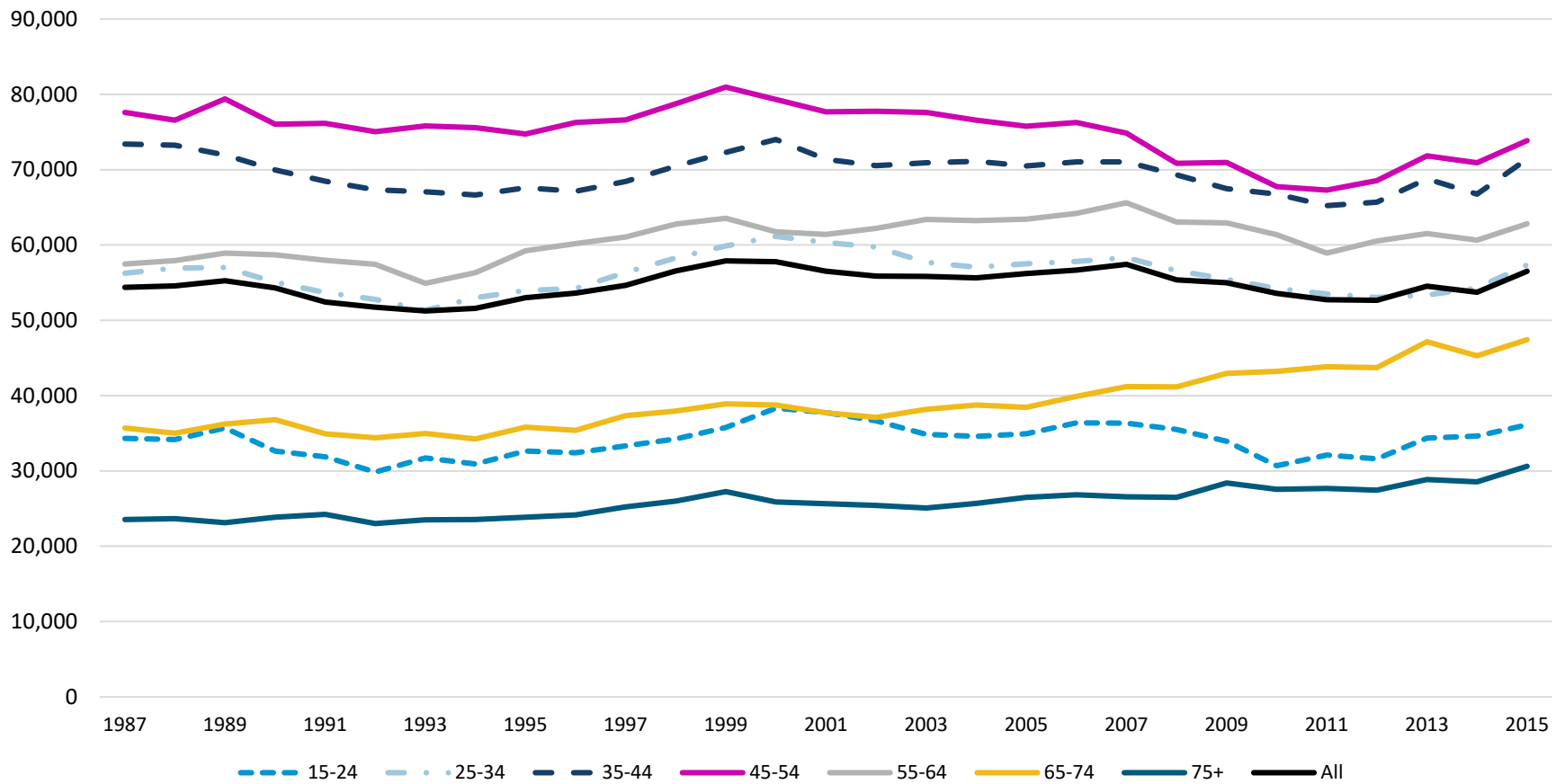
Figure 3. Share of 18-34 Year Olds Currently Married and Age at First Marriage



Source: U.S. Census and American Community Survey; CEA calculations

Real incomes are flat

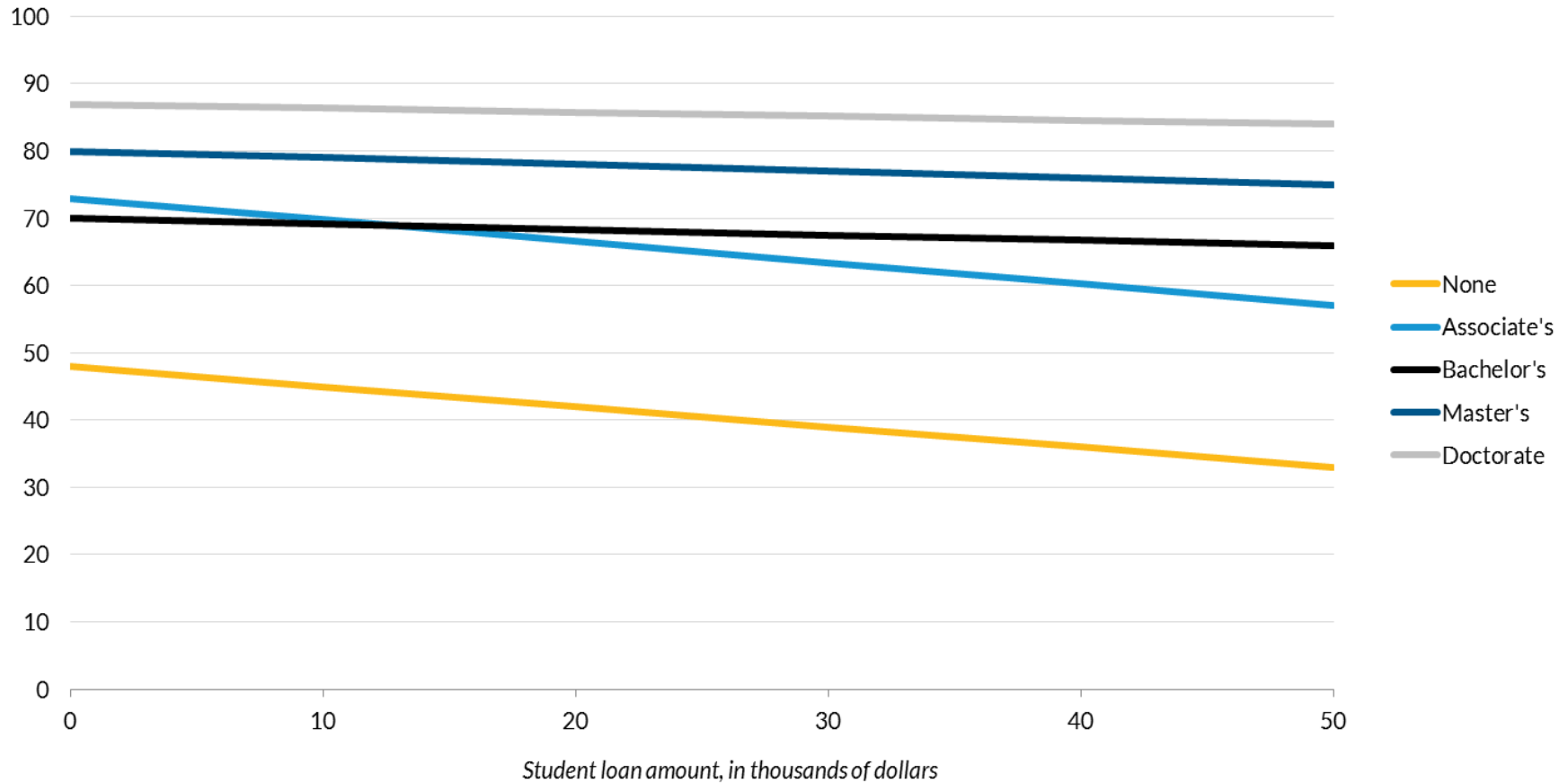
Median Household Income, Real 2015 \$ in Thousands, by Age of Householder



Sources: U.S. Census Bureau Current Population Survey and Urban Institute.

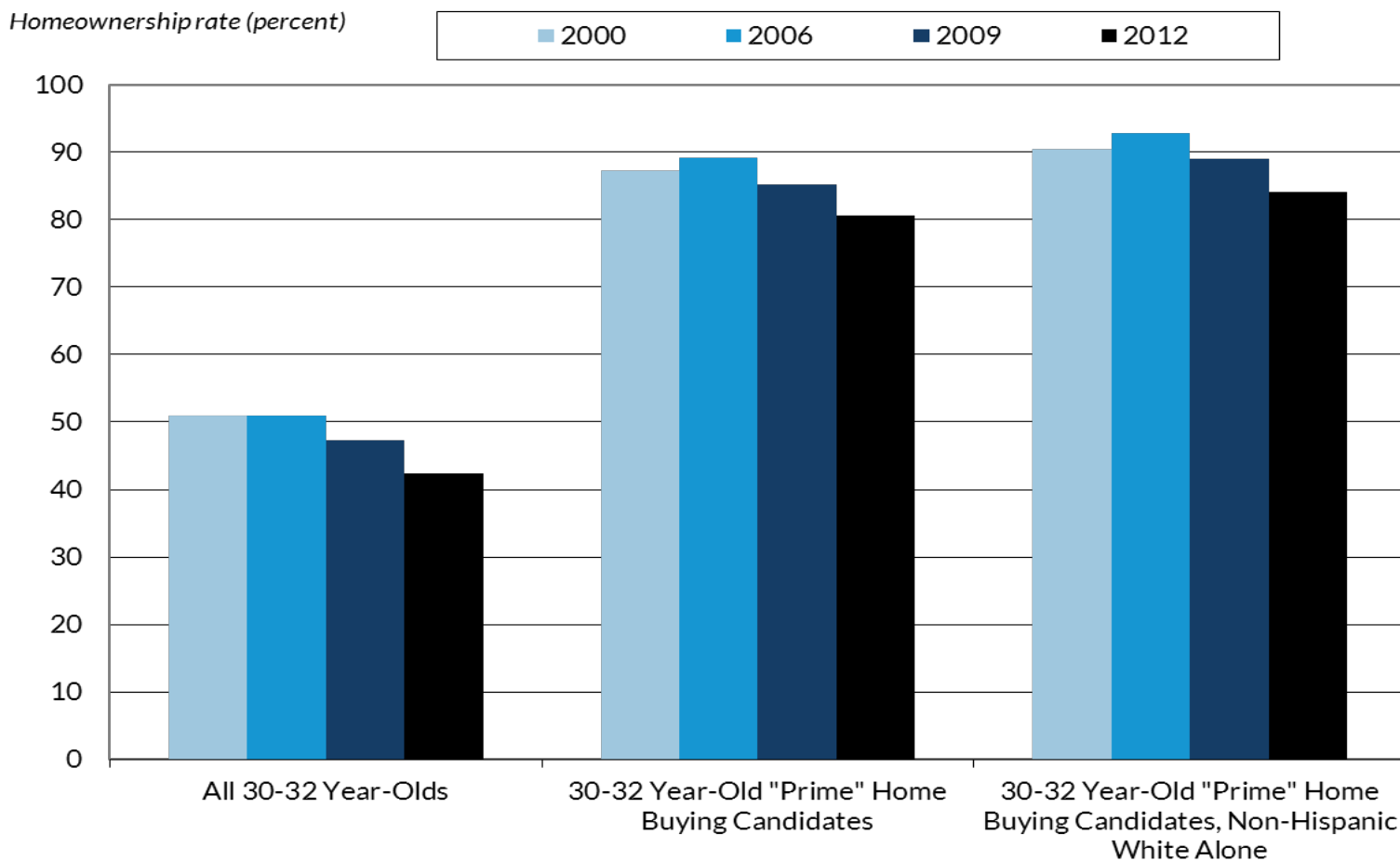
Homeownership sensitivity to student debt

Probability of homeownership



Source: "Yes, First-Time Buyer Demand is Weak. But Stop Blaming Student Debt," Zillow Real Estate Research, September 16, 2015. <http://www.zillow.com/research/student-debt-homeownership-10563/>

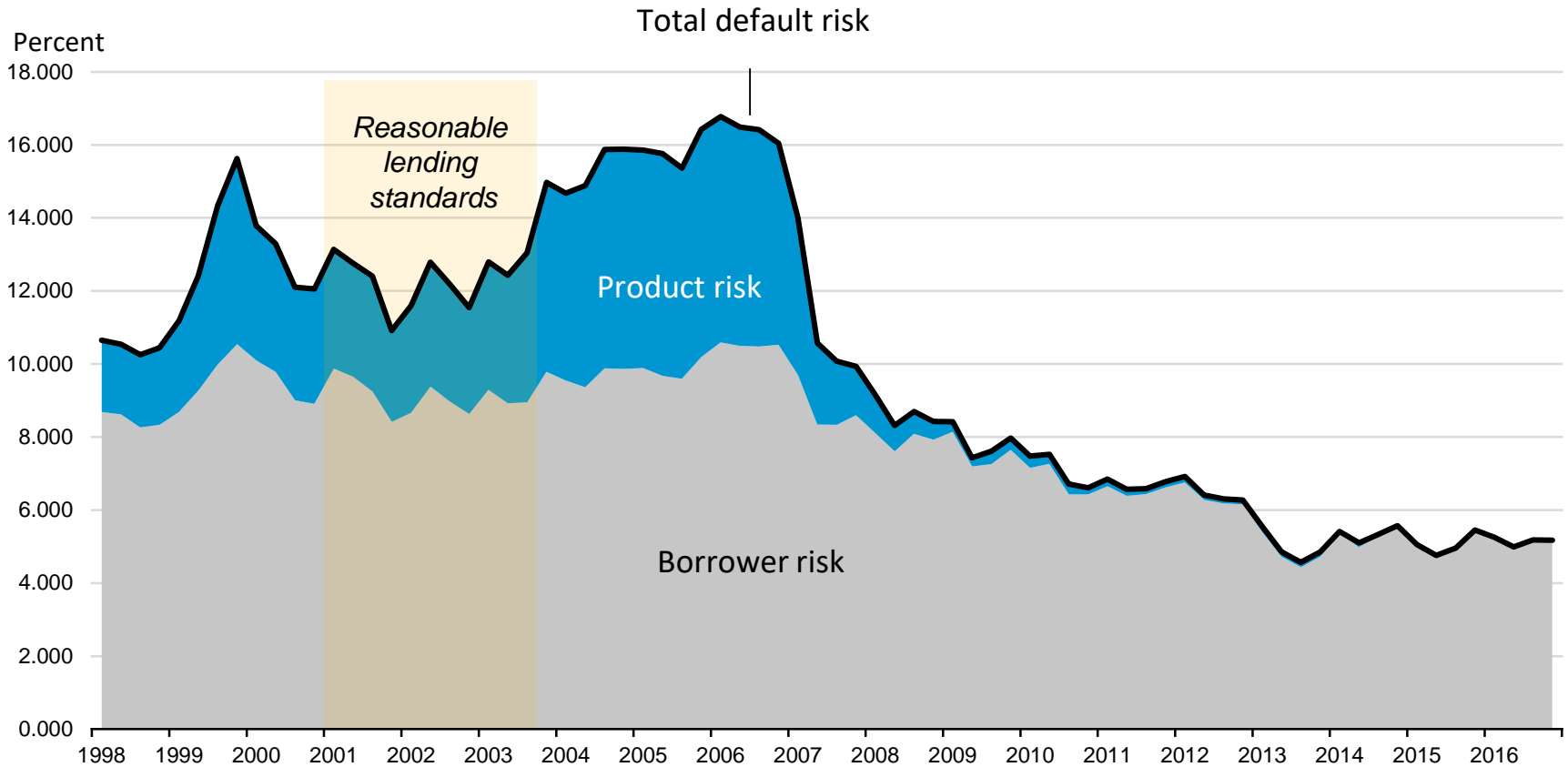
Homeownership is falling among young adults, even “prime” home buying candidates



Source: Fannie Mae Economic and Strategic Research. “Housing Insights” brief Volume 4 Issue 4, August 18, 2014.

Housing Credit Availability Index (HCAI)

Default Risk Taken by the Mortgage Market, 1998Q1–2016Q4



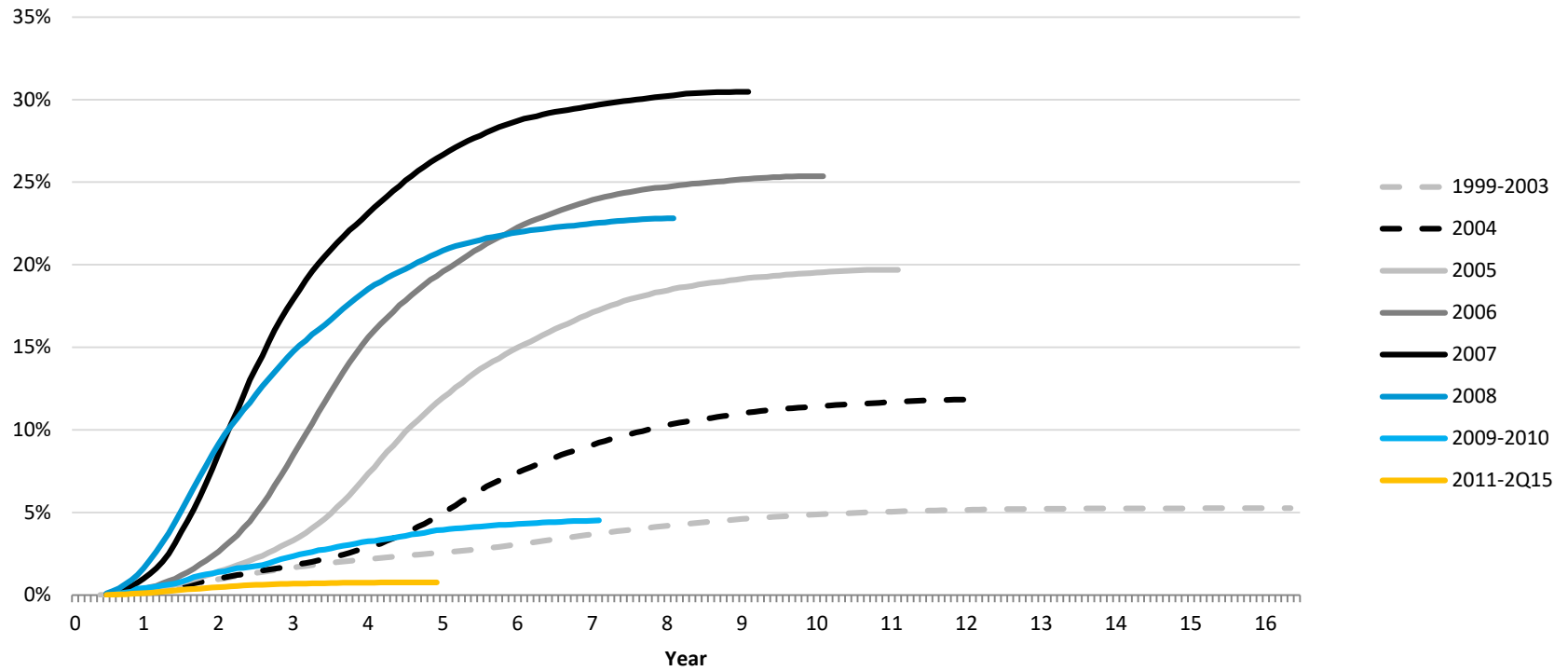
Sources: eMBS, CoreLogic, HMDA, IMF, and Urban Institute.

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Fannie Mae Cumulative Default Rate by Vintage Year

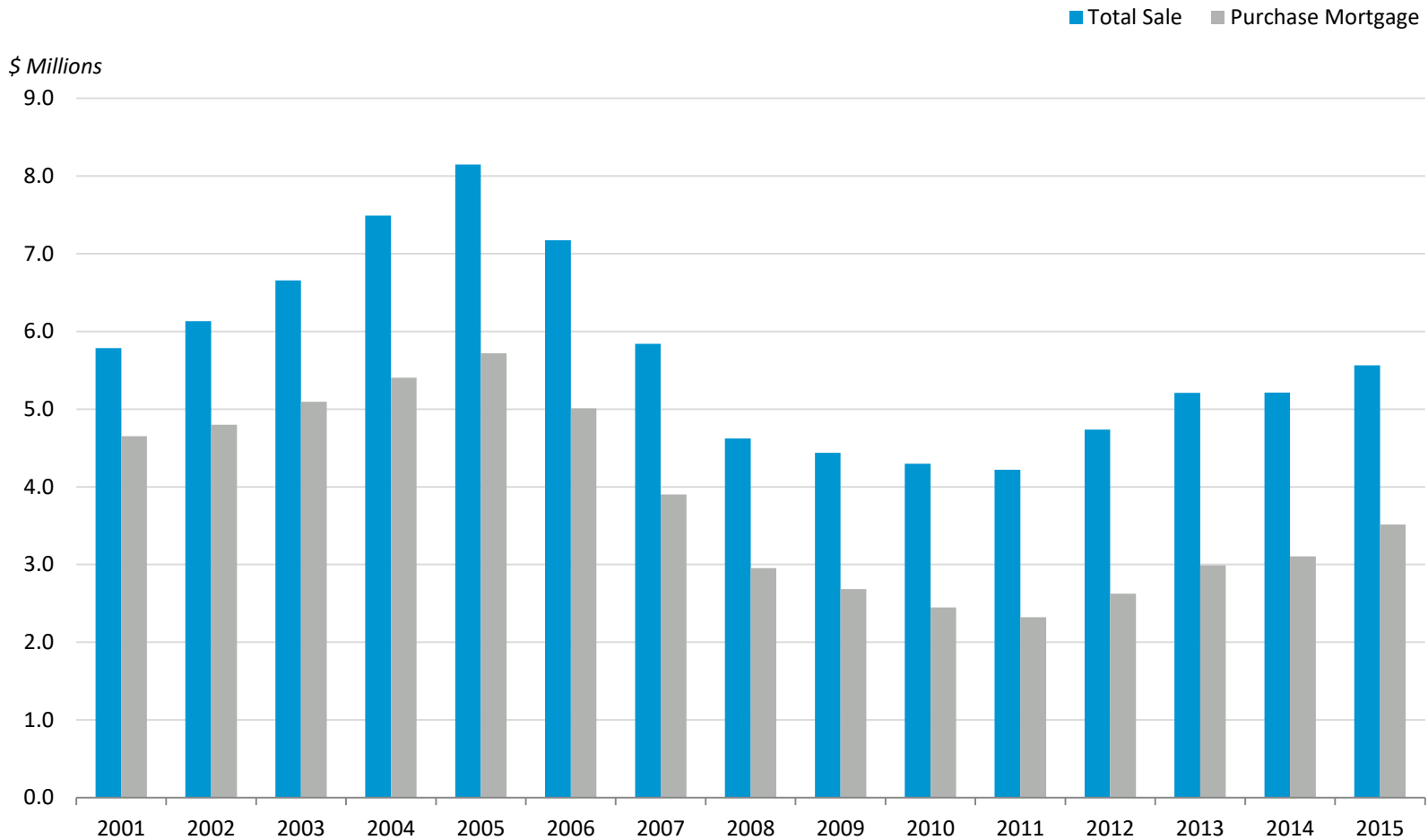
Default rate for loans with FICO <700 and 80-90 LTV

Default rate, percent



Sources: Fannie Mae Single Family Loan-Level Dataset and Urban Institute calculations

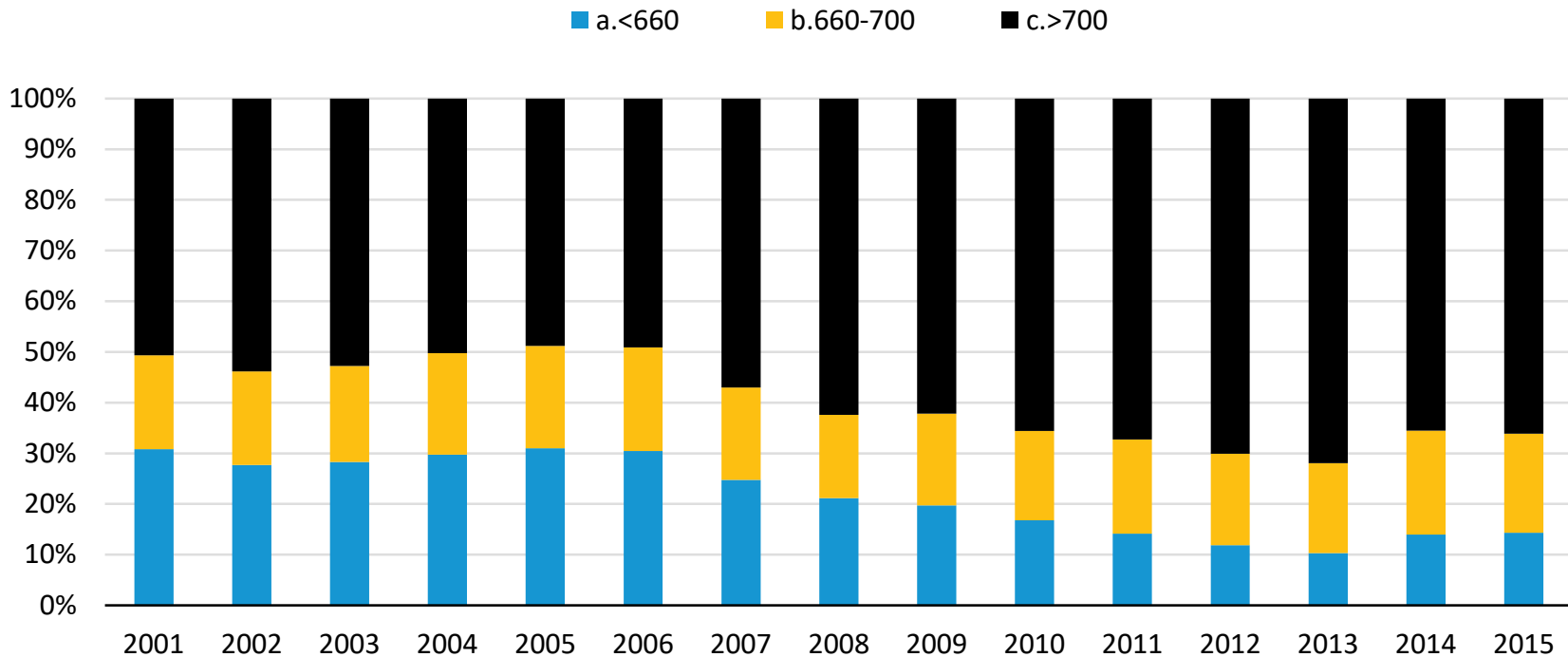
Purchase mortgage volume has dropped



Sources: CoreLogic database, HMDA, Urban Institute Calculations

The share of borrowers with strong credit has increased dramatically

FICO Score Distribution of New-Purchase Borrowers



Sources: HMDA, CoreLogic, eMBS, and the Urban Institute.

How many purchase loans are missing because of credit availability?

Loan category	2001, scaled to HMDA	2015, scaled to HMDA	Actual Percent decline	2015, assuming no constraint >700	Difference between >700 unconstrained and actual
CL-HMDA merged loans, <660	1,433,986	503,013	64.9%	1,414,087	911,074
CL-HMDA merged loans, 660-700	861,047	686,073	20.3%	849,099	163,026
CL-HMDA merged loans, >700	2,356,516	2,323,816	1.4%		
CL-HMDA merged loans, Total	4,651,549	3,512,903	32.4%		1,074,099

Cumulatively, 6.3 million loans are missing from 2009-2015.

Sources: Urban Institute Calculations from HMDA and CoreLogic data

False Claims Act Settlements and Litigation

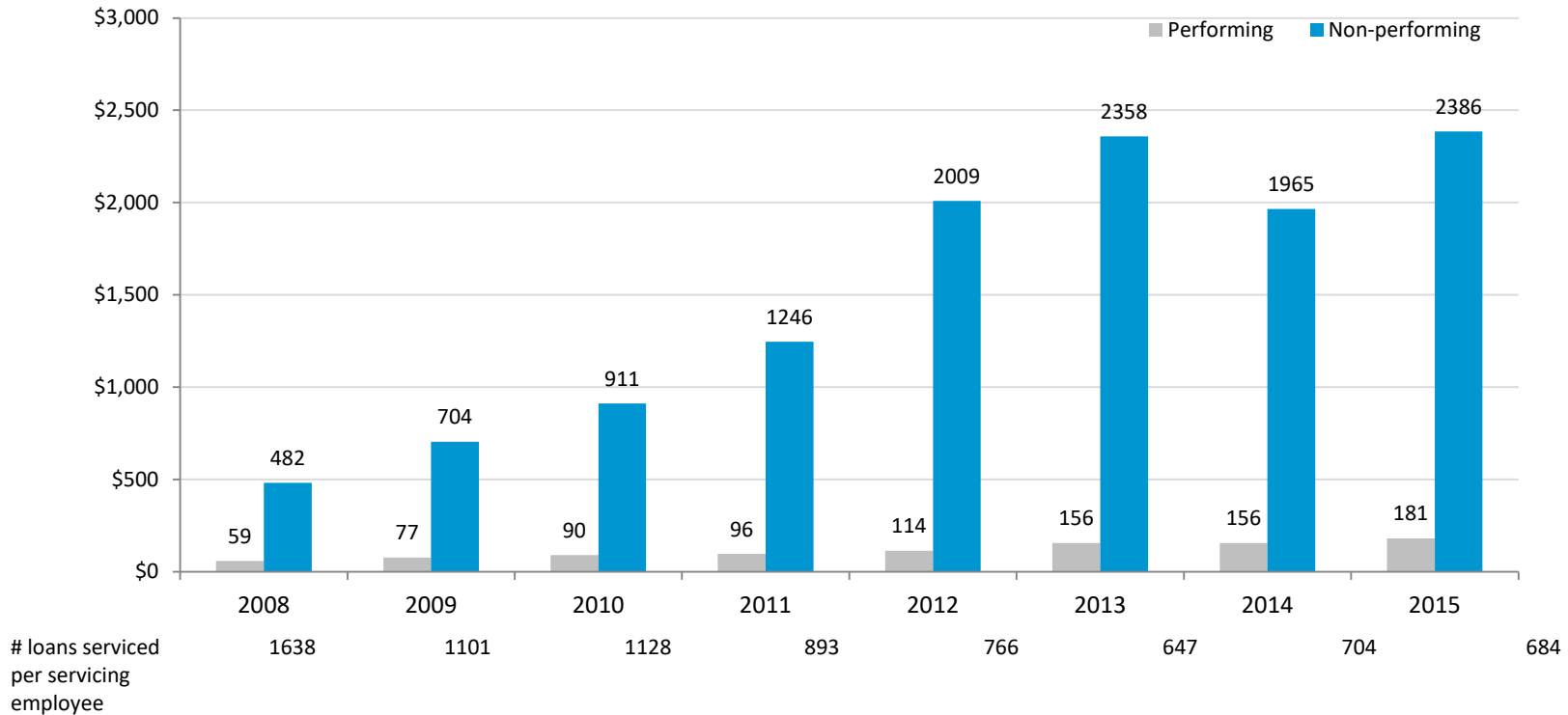
Firm	Settlement Date	Amount
Citi	Feb-12	\$158.3 mil
Flagstar Bank	Feb-12	\$132.8 mil
Bank of America	February 2012 (NMS), August 2014 (broader settlement)	\$1 bil (NMS), \$1.85 bil (broader settlement)
DB/Mortgage IT	May-12	\$202.3 mil
Chase	Feb-14	\$614 mil
US Bank	Jun-14	\$200 mil
SunTrust	Sep-14	\$418 mil
MetLife	Feb-15	\$123.5 mil
First Horizon/First Tennessee	Jun-15	\$212.5 mil
Walter Investment Management Corp	Sep-15	\$29.6 mil
Wells Fargo	Apr-16	\$1.2 bil
Freedom Mortgage	Apr-16	\$113 mil
M&T Bank	May-16	\$64 mil
Regions Bank,	Oct-16	\$52.4 million
Branch Banking and Trust (BB&T)	Oct-16	\$83 million
Primary Residential Mortgage	Oct-16	\$5.0 million
Security National Mortgage Co.	Oct-16	\$4.25 million
Litigation in Process		
Quicken Loans	--	--
Guild Mortgage	--	--

Sources: Urban institute, various press releases from the U.S. Department of Justice Office of Public Affairs, and other press reports

Servicing costs per loan are way up, but productivity is down

Cost for Servicing a Performing vs. Non-Performing Loan

Cost of servicing
per loan

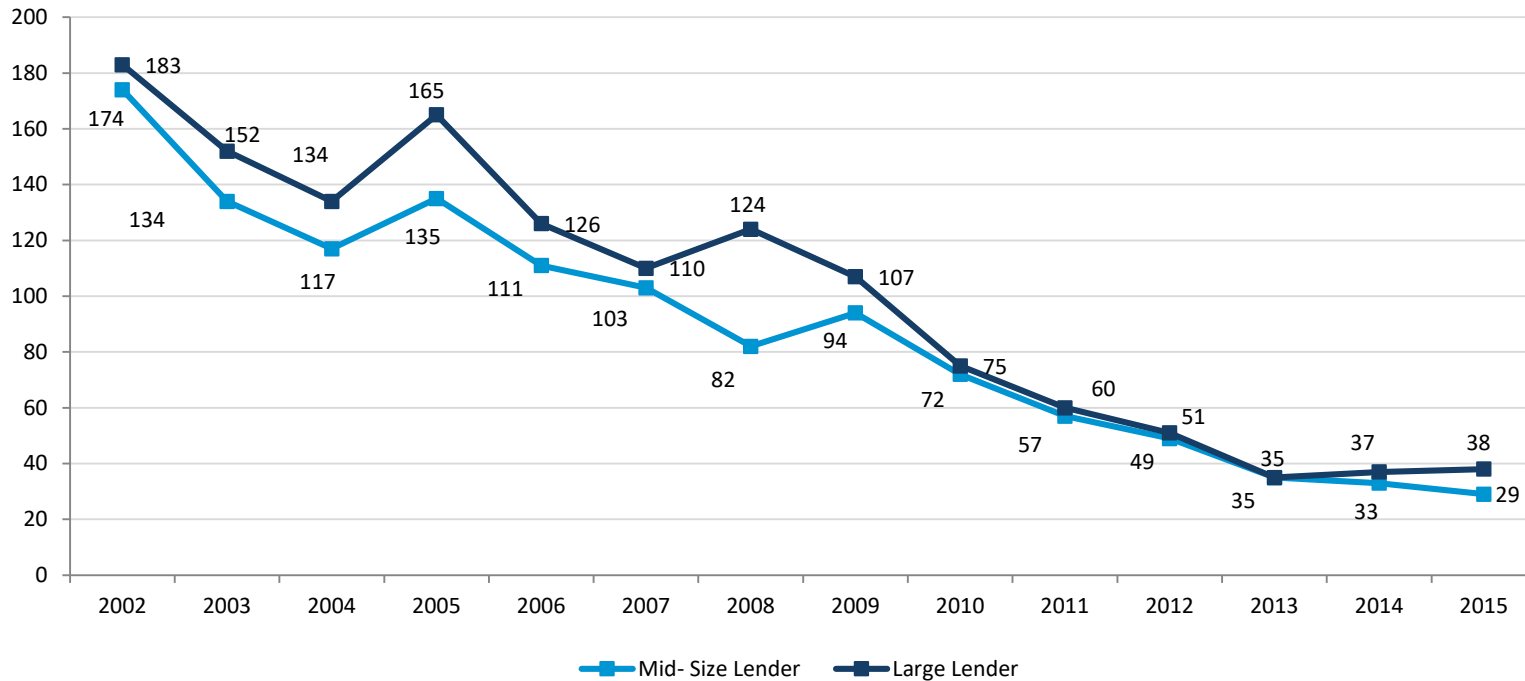


Source: Mortgage Bankers Association (MBA)

Mortgages are more time consuming to underwrite

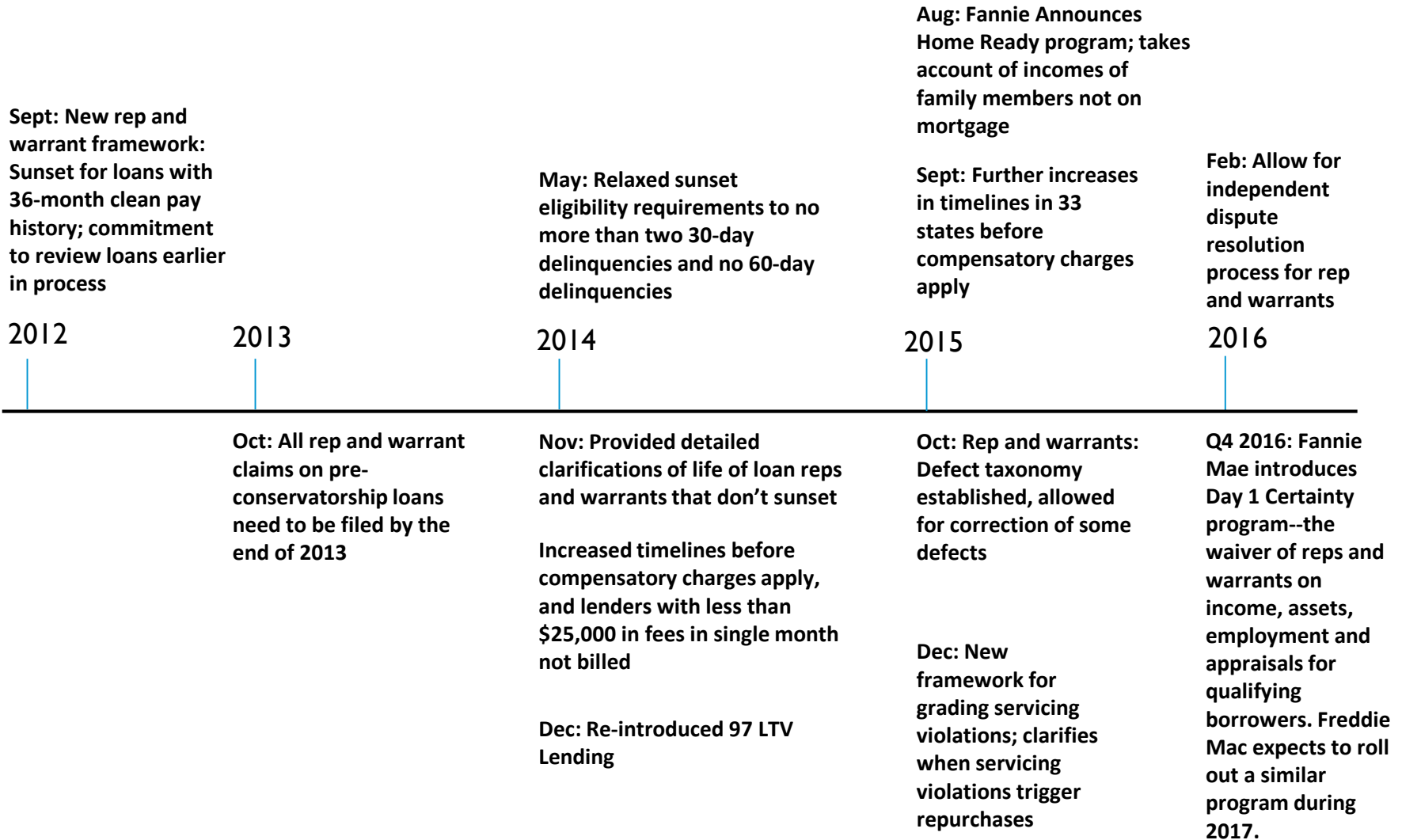
Retail Applications for Large and Mid-size Lenders

Applications per retail underwriter
per month



Sources: Peer Group Program conducted by Mortgage Bankers Association and STRATMOR Group

GSE Actions to Open Up the Credit Box



FHA Actions to Open Up the Credit Box

Jan: Annual mortgage insurance premium was reduced.

June: Released the defect taxonomy, which is a new method for grading defects and severity.

Feb: First legal action deadline no longer inconsistent with CFPB rules.

Due diligence timelines for each stage were lengthened.

Addressed vague and problematic property preservation and conveyance standards (Defined conveyable condition and increased repair allowances).

2015

2016

Still to Do

Aug: Introduced the Supplemental Performance Metric, to mitigate the adverse effects of the Compare Ratio on lenders who serve higher risk borrowers.

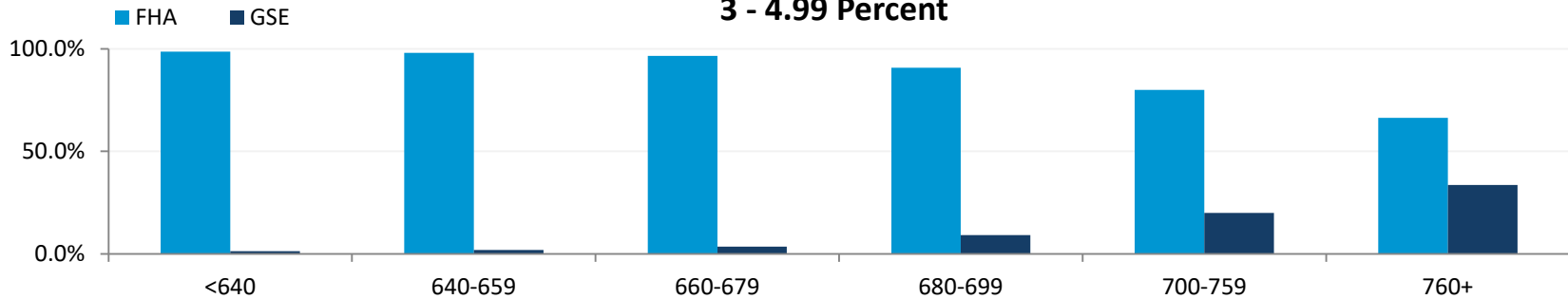
Sept: Release of the new FHA guidebook, which put together 900 mortgagee letters.

Tie the taxonomy to the False Claims Act and to indemnification.

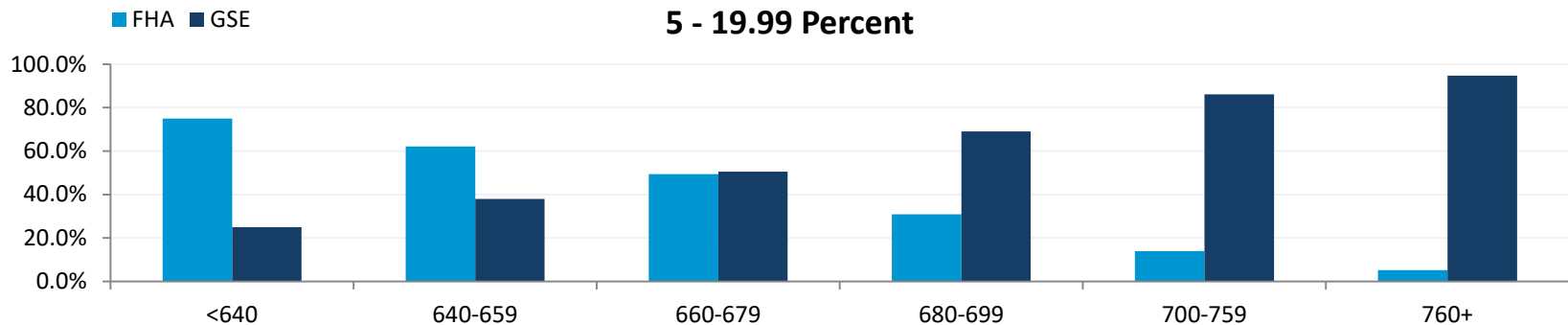
- FHA servicing needs to be revamped.
- Due diligence timelines are still too short, and are set for each stage rather than the entire process.
 - The conveyance requirements are problematic; repair allowances are still too low.
 - Lender responsibility after conveyance is also an issue.

FHA Captures the Riskier Borrowers

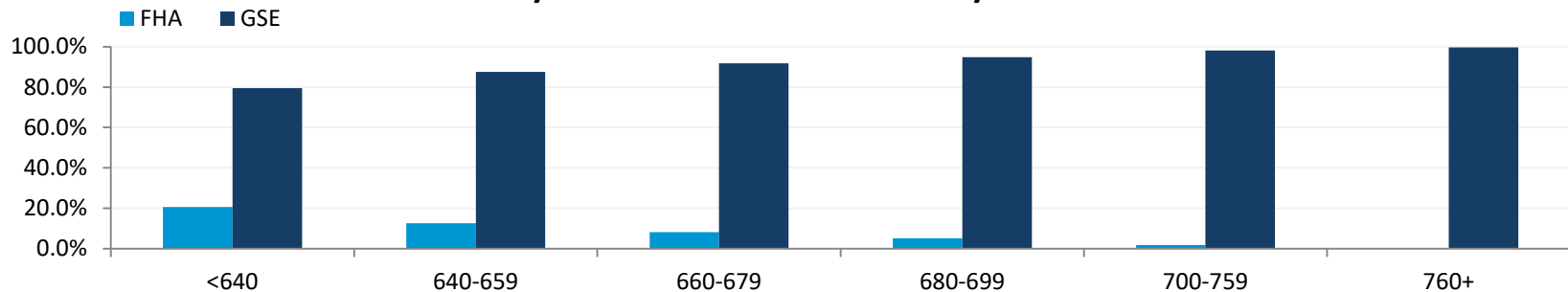
Channel Choice by Credit Score When Down Payment is
3 - 4.99 Percent



Channel Choice by Credit Score When Down Payment is
5 - 19.99 Percent



Channel Choice by Credit Score When Down Payment is 20 Percent or More

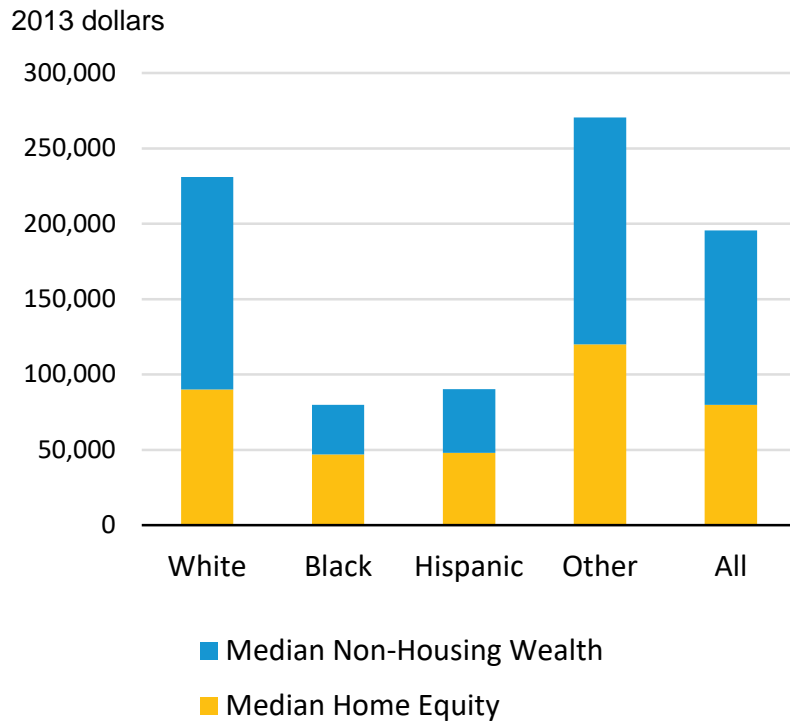


Source: eMBS and the Urban Institute.

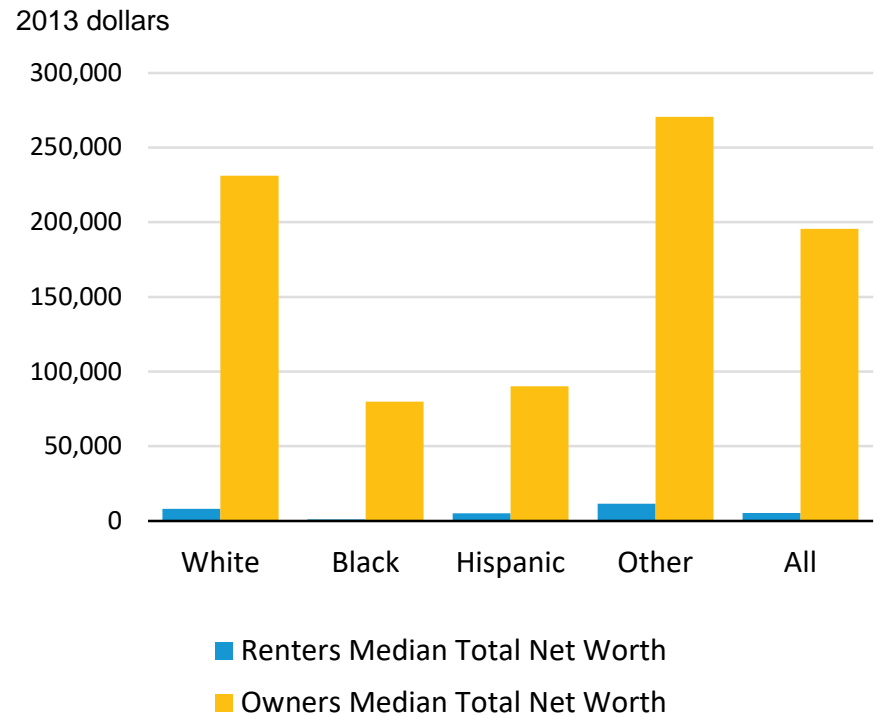
Note: 2016 purchase and refinance mortgage.

Homeownership has historically been the best way to build wealth

Owners, Home equity as a portion of total wealth



Owners vs. Renters, Total Wealth



Sources: JCHS tabulations of Federal Reserve Board, 2013 Survey of Consumer Finances.

Rate rises are often accompanied by a relaxation of credit standards

Year	Loan Count	Total Original UPB (\$B)	Average Original UPB (\$)	Credit Score	Original Combined Loan-to-Value (CLTV) Ratio	Original Loan-to-Value (LTV) Ratio	Original Debt-to-Income (DTI) Ratio	Weighted Average Coupon (WAC)
1999	1,095,017	137.9	125,942	712	77.6	77.5	33.2	7.3
2000	786,272	103.7	131,824	712	78.8	78.2	35.2	8.1
2001	1,755,361	259.5	147,803	715	76.2	75.5	33.7	7
2002	1,682,959	261.7	155,507	718	74.8	73.8	34	6.5
2003	1,927,030	311.2	161,474	725	73.5	72.1	32.8	5.7
2004	1,127,941	188.1	166,761	718	75.3	73.6	35.6	5.8
2005	1,691,627	289.3	171,017	725	72.2	70.5	36.3	5.8
2006	1,260,389	226.5	179,724	724	74.2	71.7	37.6	6.4
2007	1,220,022	223.8	183,469	725	75.8	73	37.8	6.3
2008	1,179,071	240.2	203,676	742	72.5	70.7	37.2	6
2009	1,973,348	423.1	214,415	763	67.7	65.9	32.3	4.9
2010	1,269,786	265.1	208,760	764	68.6	67.1	32.2	4.6
2011	952,698	207.8	218,075	765	69.3	67.9	32.3	4.3
2012	1,327,587	295.3	222,435	767	69.9	68.6	31.4	3.6
2013	1,297,019	282.9	218,109	760	72.5	71.4	32.5	3.8
2014	967,258	212.2	219,368	752	76.8	76	34.4	4.3
2015	1,003,423	159.8	230,480	754	75	74.2	34.3	3.9
Total	22,516,808	4,159.40	184,723	740	72.9	71.5	34.1	5.4

Sources: Freddie Mac Single-Family Loan Level Dataset Summary Statistics

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