

Headwinds for Homeownership

Policies to Support American Dream



THE **ECONOMY** CONFERENCE  2018

APRIL 9-11, 2018
WASHINGTON HILTON HOTEL
WASHINGTON, DC

NCRC 

Key Policy Areas & Levers

- Credit Box and Underwriting Standards (Credit score, LTV, DTI, etc)
- Lending to the underserved (ex. LMI, minority)
- Government role in housing reform – FHA and VA
- Housing availability & affordability (supply)
- Rise of single family rental
- Mortgage Servicing
- Growing Role of nonbanks and FinTech

Excessively Tight Credit is Keeping Many Credit Worthy Individuals out of Homeownership

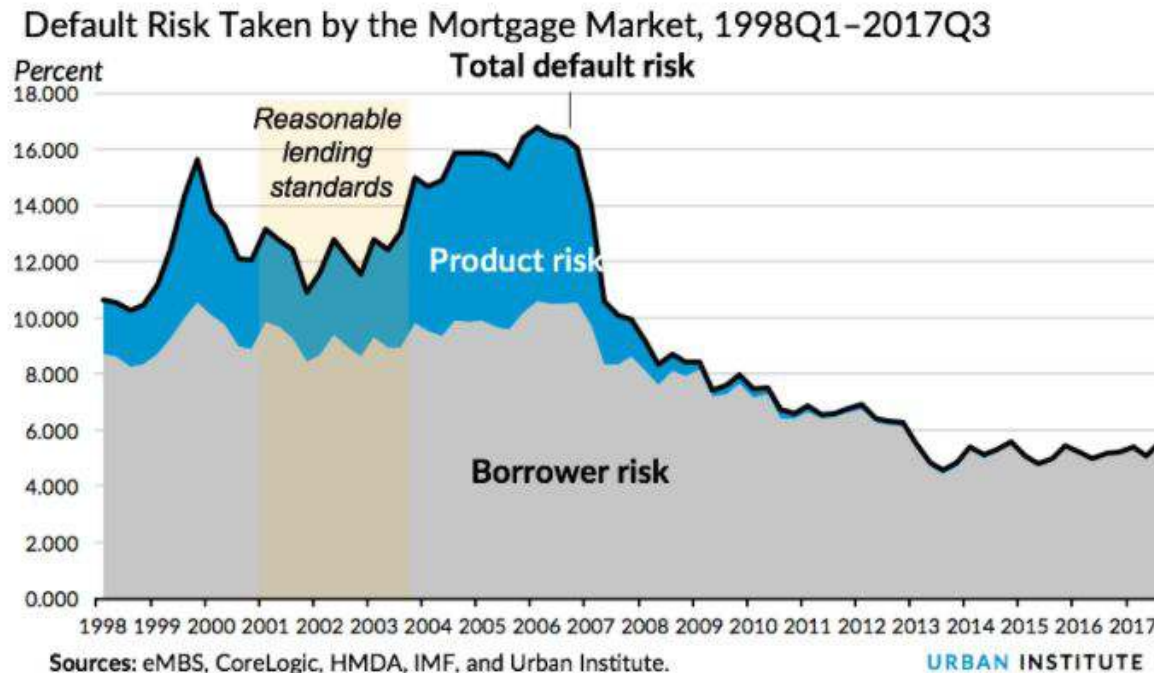
Cumulative missing loans, 2009-2015: **6.3** million and growing

Why: no default risk tolerance

2001-2003: reasonable lending standards

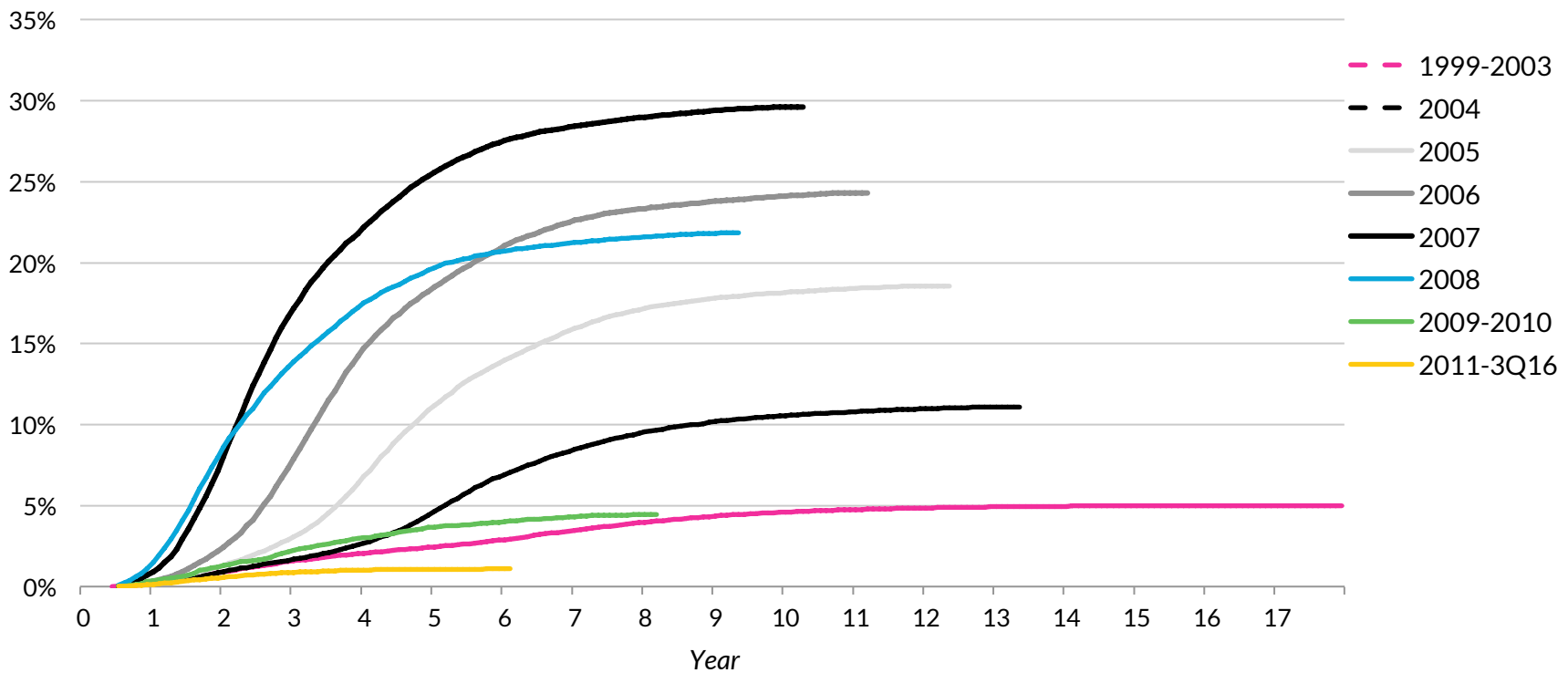
All product risk has been eliminated

Tight borrower underwriting risk profile requirements (credit score, income, etc.)



Today's loans outperform by historical standards. There is room to expand.

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



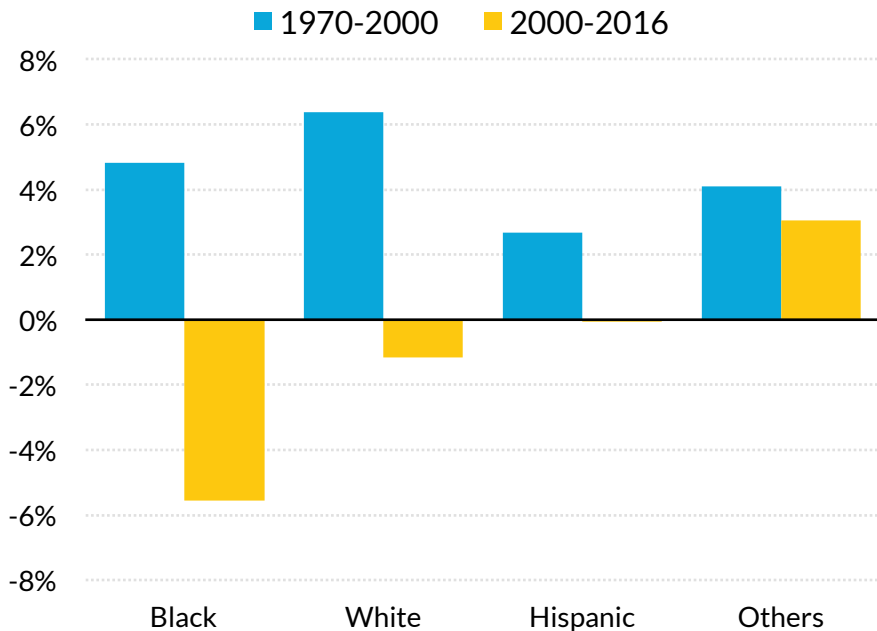
Source: Fannie Mae Single Family Loan Level Credit Data.

Blacks experiencing slowest recovery, losing all homeownership gains made over last 50 years.

All gains in black homeownership since the Fair Housing Act have been erased since 2000

No major US city has come even close to closing the gap between black and white homeownership.

Percentage-point change in homeownership rate



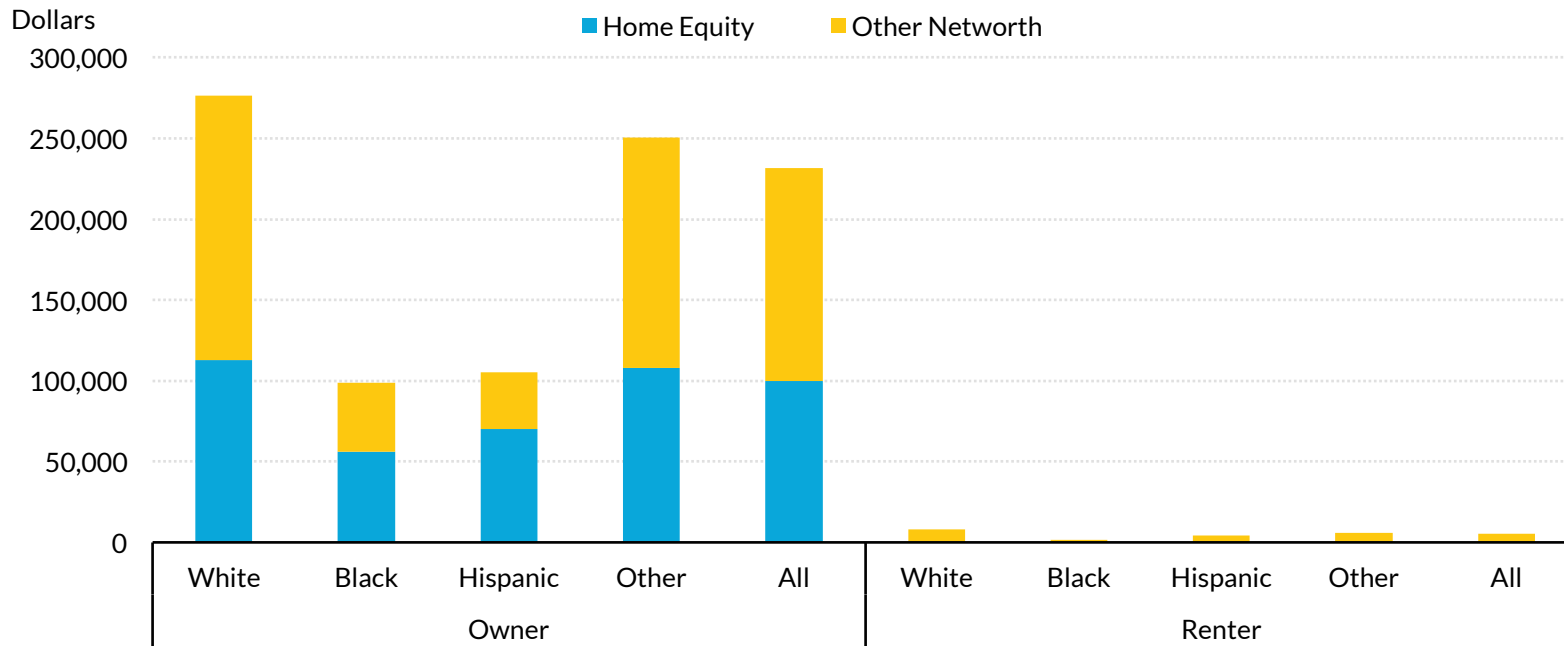
Source: US Census Bureau, American Community Survey, and Urban Institute.



Source: American Community Survey and Urban Institute. Note: Data as of 2016.

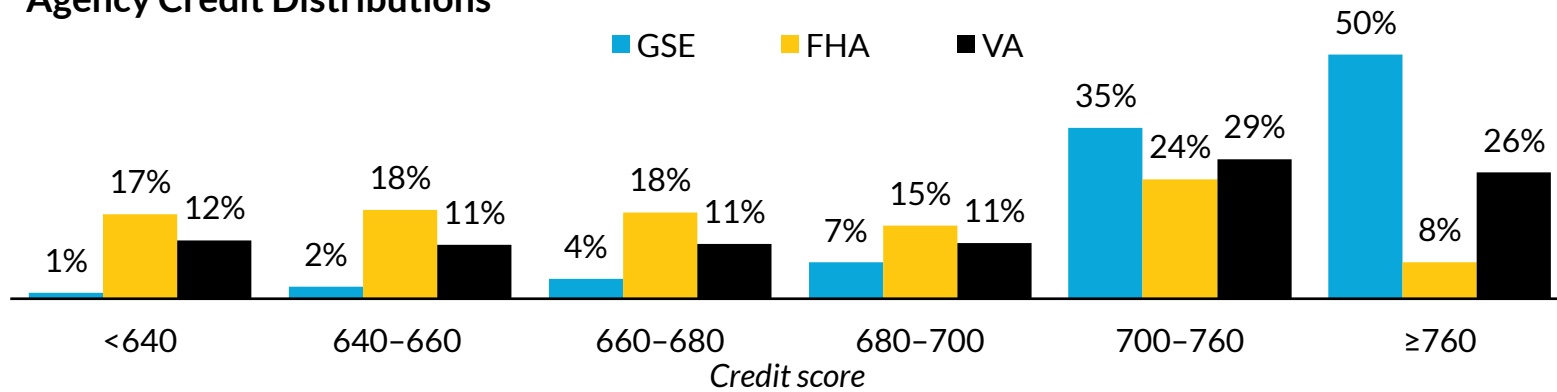
Homeownership Builds Wealth

Home equity is the most important source of net worth, particularly for Black and Hispanic families

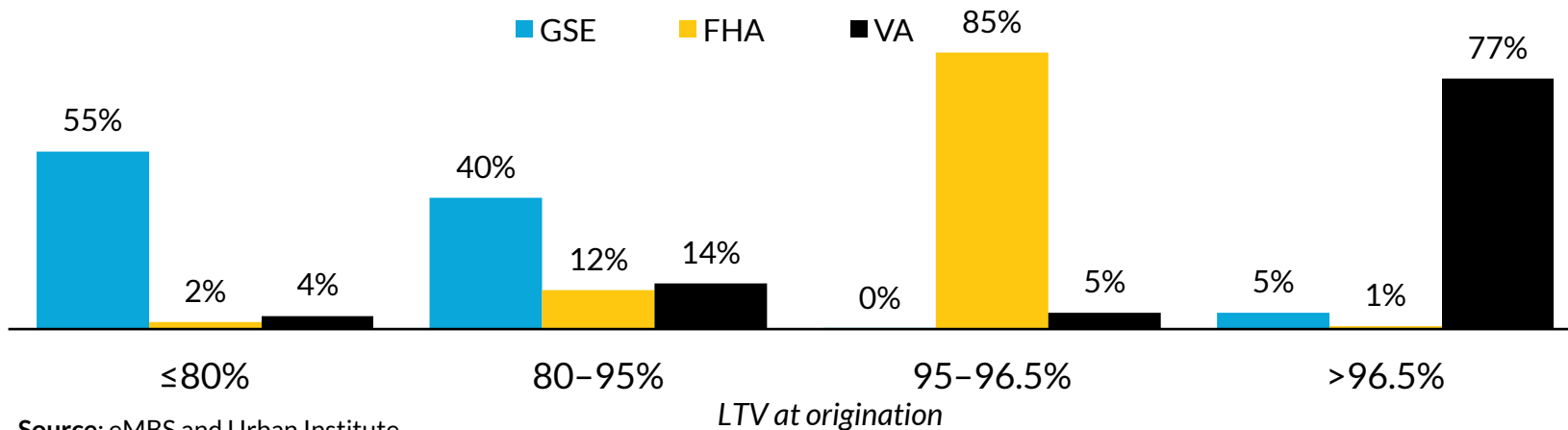


FHA and VA provide access for borrowers with lower credit with low down payment

Agency Credit Distributions



Agency Loan-to-Value Ratio Distributions



Source: eMBS and Urban Institute.

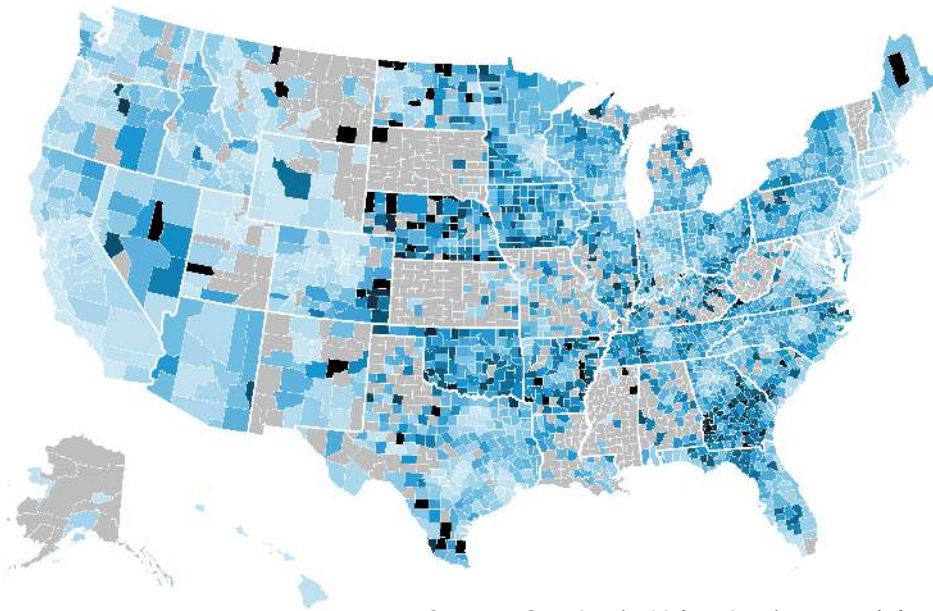
Note: Based on purchase originations.

Small dollar mortgages could expand homeownership opportunities for LMI households

Small dollar home sales are more widespread throughout the US than most realize, but these sales are rarely financed with a mortgage.

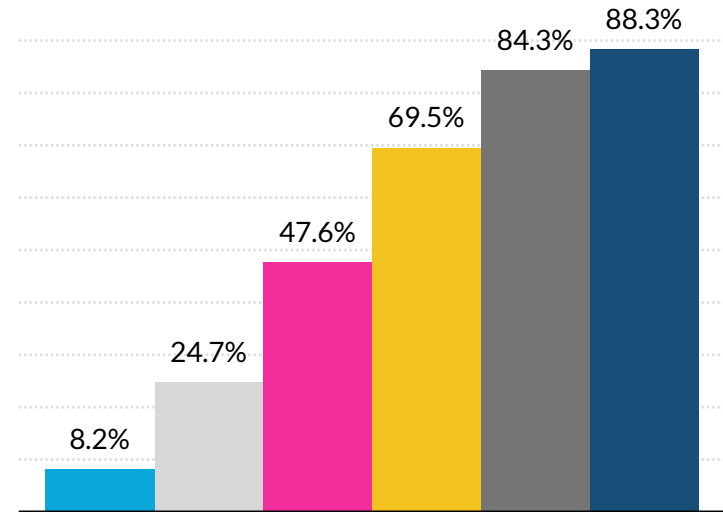
Share of home sales \$70,000 and under

0-20% 20-40% 40-60% 60-80% > 80% No data



Share of home sales financed by a mortgage, by sales price

\$10,000-30,000 \$30,000-50,000
 \$50,000-70,000 \$70,000-\$100,000
 \$100,000-150,000 \$150,000-300,000

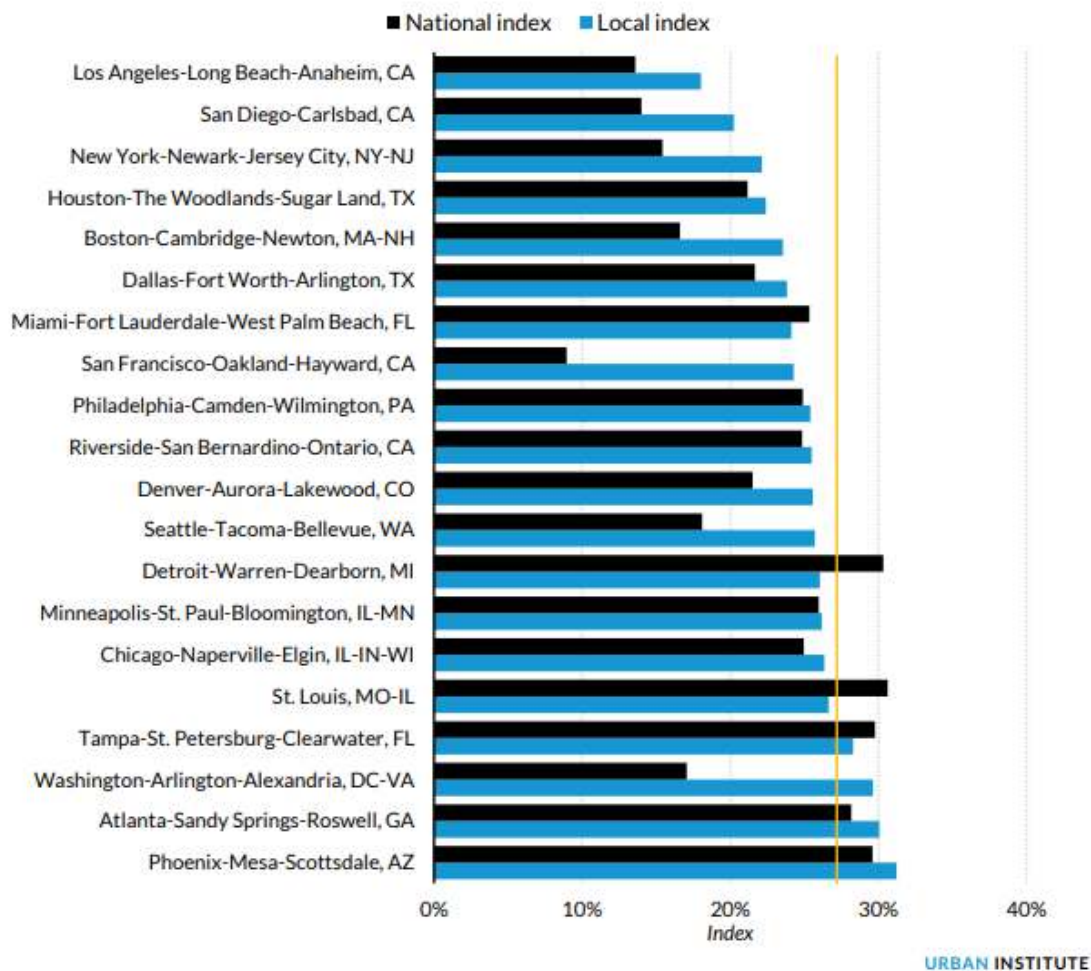


Source: CoreLogic, Urban Institute, and the Federal Reserve Bank of Chicago.
 Note: Data as of 2016

Housing affordability for renters index (HARI)

The local HARI shows how affordable homeownership is to current renters in the 20 most-populous MSAs. A local index of 25 percent indicates that 25 percent of renters in a given MSA earn enough to purchase a house in that area. The local HARI ranges from 18 to 31 percent.

The national HARI shows in which of the 20 most-populous MSAs will migrating renters have the best chance of being able to afford to buy a home. The national HARI ranges from 9 to 31 percent, depending on the region into which the renter might move, assuming the renter keeps his or her current income.



A shortage of housing supply nationwide

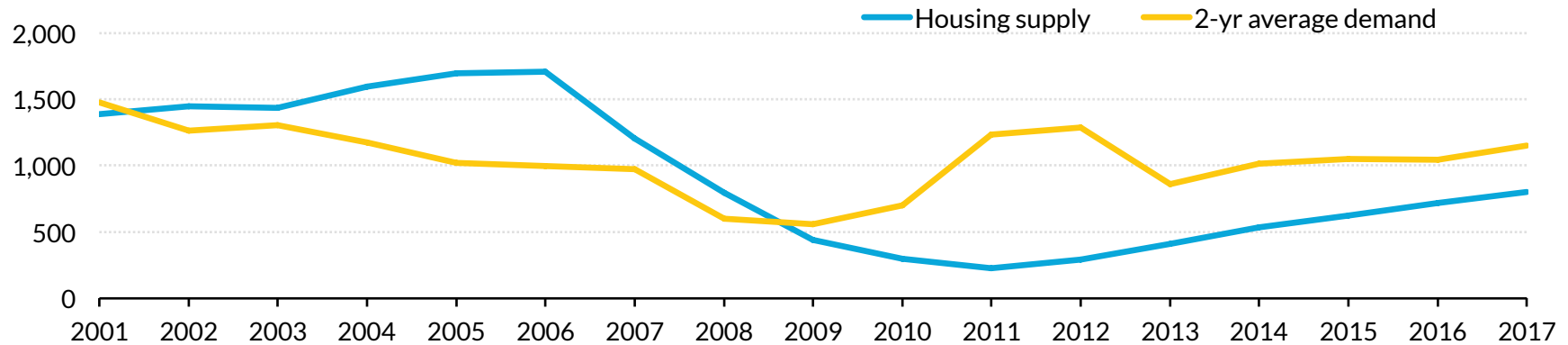
The Supply/Demand Picture 2017
(in thousands of units)

	1-4 family	5+ family	Total
Private Residential Completions	785	347	1132
Manufactured housing			92
Gross new supply			1224
<i>less: Obsolescence Rate</i>			422
Net new supply			802
Household formation			1150
Difference			-348

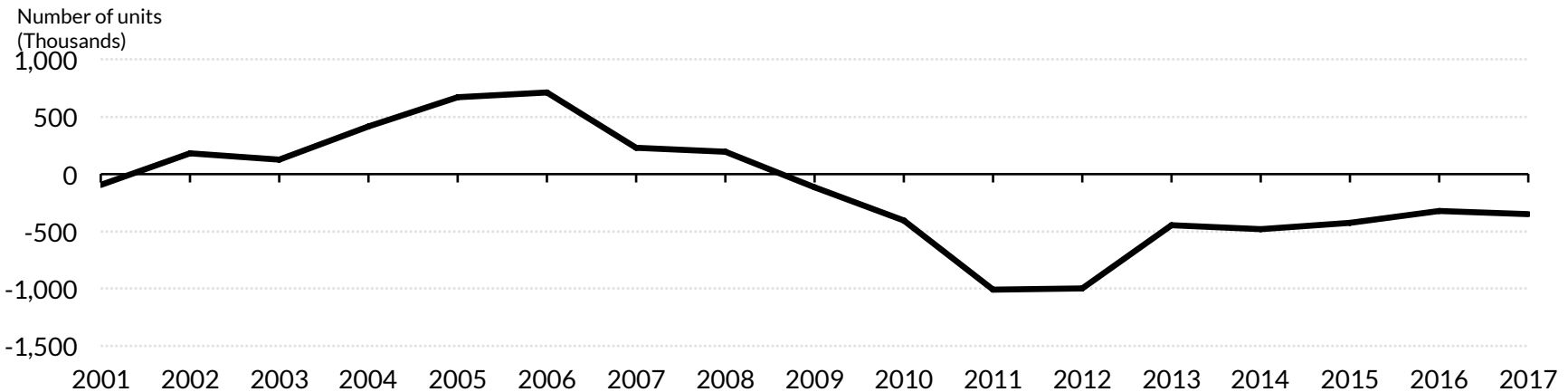
Sources: U.S. Census Bureau, Urban Institute estimates

Supply and demand over time

Supply and Demand for Housing

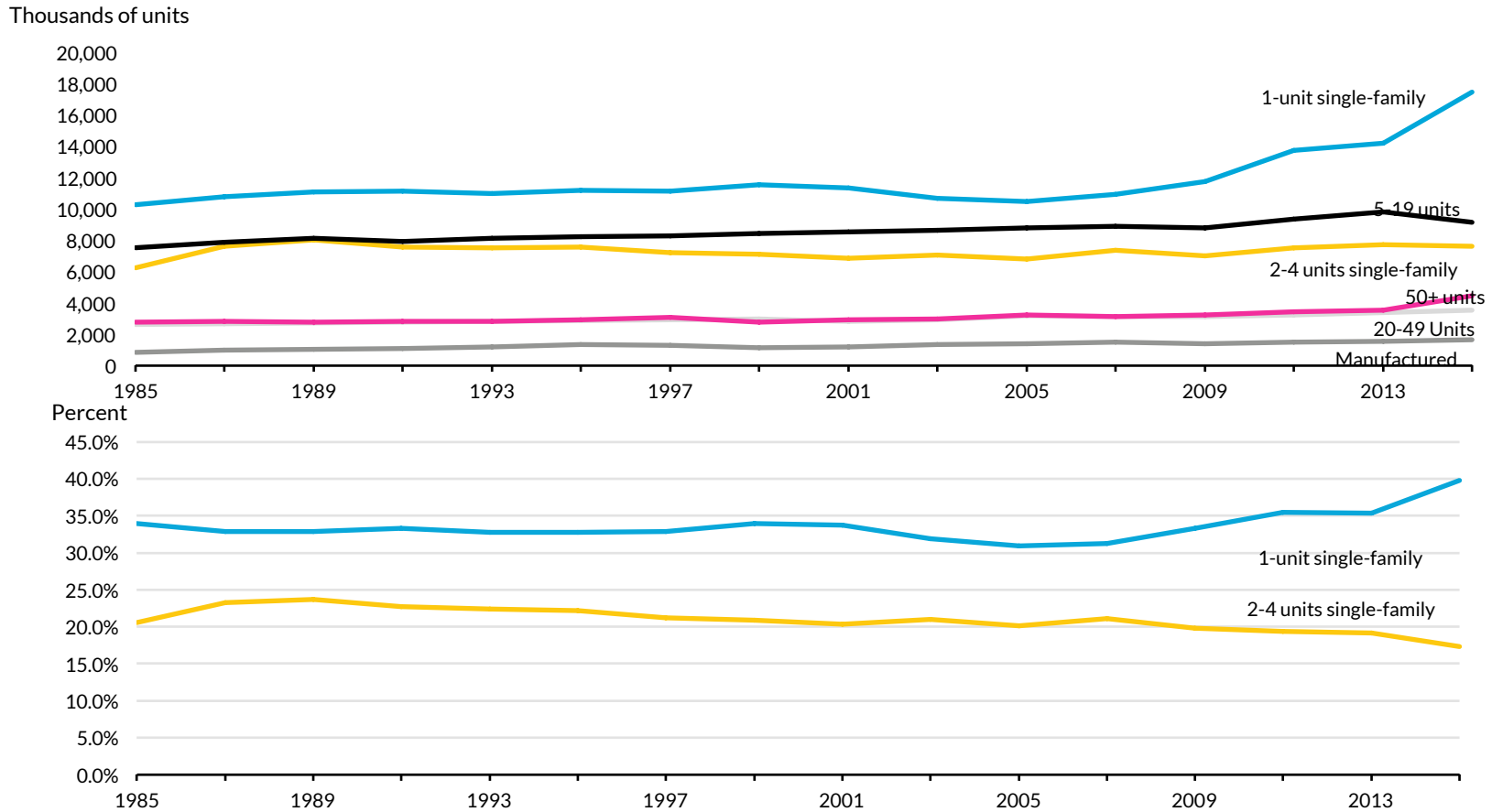


Difference Between Housing Supply and Housing Demand



Sources: U.S. Census Bureau, Urban Institute estimates

What role does Single Family Rental play in homeownership?



Source: American Housing Survey, Urban Institute calculations

Institutional Investors have a small share

- Assume the total institutional share is 300,000 units
- That is 1.7% of the 17.5 million 1 family rental units in the US, it is 0.7 percent of the total rental units in the US.
- RentRange estimates that 45% of the single family rentals are owned by investors who own only a single unit, 85% are owned by investors who own 10 units or less.

Other Institutional Investors	
Participant	# of Homes (Units)
Residential Capital Management	7,700; 6,500 on behalf of investors
Jacksonville Wealth Builders	2,000
Gorelick Brothers Capital	1,460
Haven Homes	1,253
MACK Companies	1,200
Landsmith	1,000
Transcendent Investment Management	598
Firm Capital American Realty Partners	565
Broadtree Homes	506
Bridge Tower	425
Total	15,507

Sources: Keefe, Bruyette & Woods' s Single- Family Rental Primer, 5th edition.; Amherst Capital Management, U.S. Single Family Rental-An Emerging Institutional Asset Class, November, 2016; Urban Institute Compilation.

Mortgage Servicing plays a key role in access to credit

Skyrocketing costs.

The cost to service a performing loan tripled between 2008 and 2015; the cost to service a nonperforming loan increased fivefold.

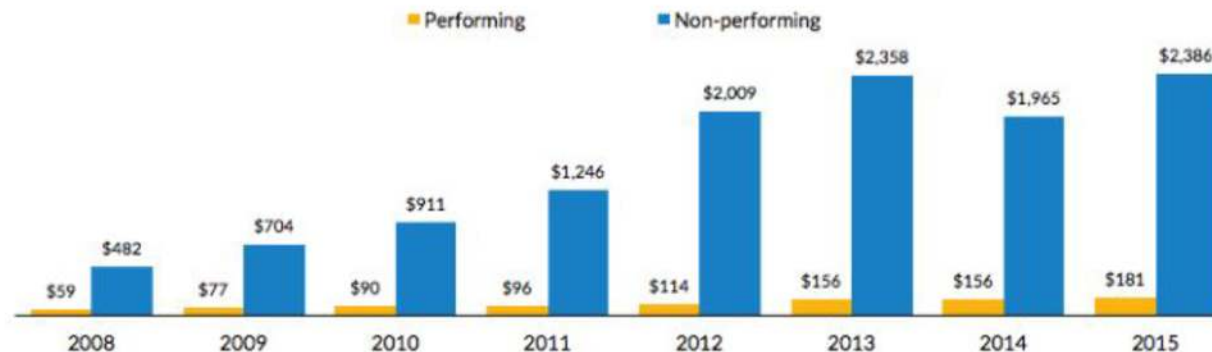
Drop in lending to vulnerable populations.

Between 2006 and 2015, loans to low-and moderate-income borrowers decreased 35%; loans to black and Hispanic borrowers dropped 64%.

Domination of Nonbank Servicers

From 2013 to 2016, share of nonbanks servicing FHA loans increased from 35% to more than 70%. Share of GSE nonbank servicing went up from 30% to 50%.

Servicing costs per loan have increased dramatically



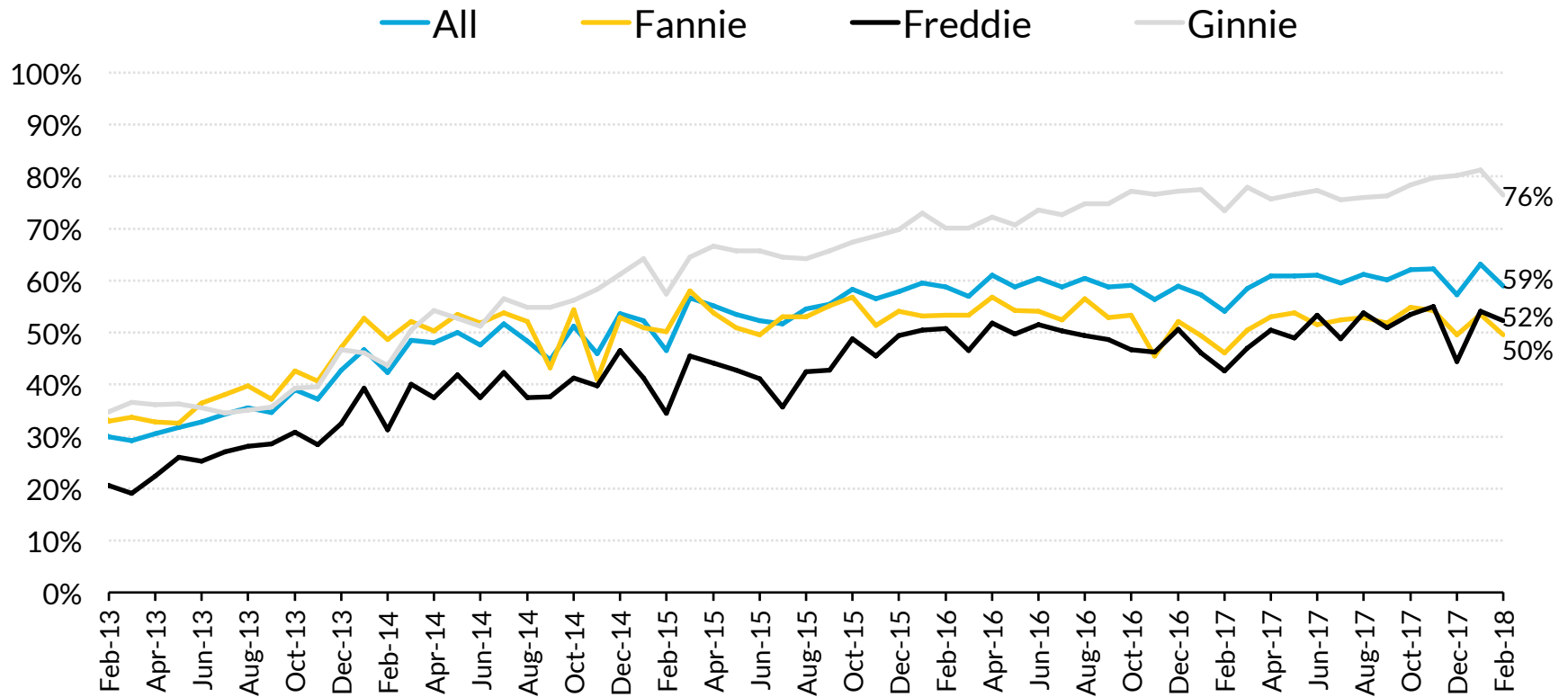
Source: Mortgage Bankers Association.

Note: Non-performing loans = loans where borrowers are at least 30 days delinquent.

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Growing Role of Nonbanks and Technology Firms (FinTech)

Nonbank Origination Share: All Loans



Sources: eMBS and Urban Institute.

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