COMMENTARY

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By Janneke Ratcliffe

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Ratcliffe reflects on comments made at the Bipartisan Housing Council's 2014 Housing Summit, "Housing America's Future: New Directions for National Policy." Ratcliffe's panel focused on why creditworthy Americans find it so difficult to obtain a mortgage.

Yesterday, HUD Secretary Henry Cisneros commented on the administration's strategy to raise the national homeownership rate by closing the minority-white homeownership gap. A very important point, indeed.

HUD had decomposed the national homeownership rate into buckets by race, income, and possibly age; they realized that if big gaps within these buckets were narrowed, the needle on the national homeownership rate could be moved.

I imagine that this realization is why policy-makers became so focused on a single, national homeownership rate metric, rather than on specific homeownership gaps and homeownership rates among subgroups. This focus was, ultimately, a distorted, singular goal in itself, when it should have been used as a diagnostic to measure progress on closing gaps and broadening the benefits of homeownership for more people.

Here's a snapshot of how we did with those gaps.

(It is instructive to note that the U.S. Census only reports the age, race and income homeownership decomposed rates back to 1994).

The black-white homeownership gap is at 29.4 percent, and not including 2013, is at its highest level since the data begins in 1994. This gap was narrowest in 2000 – before the boom in subprime loans and private label securities (PLS) began. The gap started at about 28 percent and fell to 26 percent by 2000. It bounced around that number for several years and began to widen in the second half of 2004. Those two points were hard fought, but were gained in the 1994-2000 period, not in the mid-2000s.

The Hispanic-white gap is more heartening. Today it is at 27.1 percent, after beginning around 30 percent in 1996. This is net progress over the long term. The gap was at its lowest – 25 percent – in 2007, but had reached 26 percent as early as 2000. Again, the bulk of the progress in narrowing the gap was made before 2000, then giving back a little since the foreclosure crisis.

In looking at income gaps, the below median income vs. above median income gap is currently 29.7 percent, just a tick better than the 30 percent starting gap in 1994. This gap was **highest** in 2007, at 32.1 percent.

Finally, we can examine homeownership rates by age. There is much talk about millennials and homeownership, and as we learned from Dowell Myers yesterday, housing is driven by demographics. The homeownership rate for households under 35 years is 35.9 percent, the lowest point on record since 1994, when it was 37.1 percent. In 2004, it climbed to a peak of 43.6 percent – 6.5 points! Once again, this increase occurred before the peak of risky lending.

All of these background statistics lead to these key points:

- **The overall homeownership rate at any given point in time – as Dowell showed us – should be understood as a composite, not as a monolithic number**. We cannot entirely control the national homeownership rate through policy. Talk of "did we push too far?" or "what is the right national number?" is misguided. The national number will vary depending on the composition of the population and the homeownership rates of the subgroups. Therefore, to say that the 1994 national rate is the right number suggests that homeownership rate in 1994 for black households, or any other subgroup, is the right number, and that generalization does not hold.

- **Lending and economic conditions do make a difference within subgroups and thus, can move the overall needle.** But it is important to assess which conditions are most effective at moving that needle.

    - The focused effort from 1995 to the early 2000's had a profound success, of which we must not lose sight.
    - The loose and risky lending behavior that occurred from 2004-2007, which also accelerated house price appreciation and thusly created an affordability problem, did **not** work. In fact, it ultimately dented homeownership. So, for those who think that 2004-2007 was about growing the homeownership rate, I would disagree strongly. We need to distinguish between the pre-2003-4 era and the post.

Why are the gaps widening today?

We are in the aftermath of the crisis. Households and communities disproportionately served by risky loan products are still suffering the aftershocks. Remember, the homeownership rate is a function of new entrants minus those who exit homeownership. Exits from homeownership have hit minority borrowers much harder by far.

There is a lack of access to credit. As a nation, we have a real hairball of access to credit problems. We could point to many individual factors, but at the end of the day, it is all tangled and we are all tangled in it. What is missing to solve the problem is what we had in 1995 – **the will** to do something about it.

A sound approach to expanding the homeownership rate

In the period from 1994 through the early 2000s, we saw real effort to expand the homeownership rate sustainably. This effort occurred through innovation accompanied by testing, incremental change, a supportive economic environment and a **stable** housing market. The GSEs and depositories working under CRA were making real progress in finding safe ways to expand homeownership to young, minority, lower income households and communities.

How? For the past decade, we have studied one such program – a secondary market program for affordable mortgages. The mortgages in this program are made by banks around the country and securitized through Fannie Mae, using recourse from a nonprofit (Self-Help), with a $50 million grant from the Ford Foundation. Between 1999 and 2004 the program funded close to 50,000 mortgages to borrowers with a median income below $40,000; half of whom had credit scores below 680, and most whom put down **less** than 5 percent. Participating households are 40 percent minority, 40 percent single female headed, and tend to be younger. Guess what? Even during the crisis, they held their own and the portfolio performed incredibly well. You can learn more about the program by reading our book, *Regaining the Dream: How to Renew the Promise of Homeownership for America's Working Families (www.ccc.unc.edu/regainingthedream)*

What's the takeaway message? That when we have the will to expand homeownership, we certainly have the tools to do it. And, this goal can be accomplished without compromising safety and soundness. In fact, it is a bigger risk to safety and soundness in the long term to keep credit so tight. We heard why from Dowell yesterday – population trends make expanding credit access imperative.

Researchers Kevin Park and Roberto Quercia, with collaboration from the Harvard Joint Center for Housing Studies, examined demographic forecast implications for the homeownership rate. They overlaid the demographic projections with different underwriting and affordability regimes: the "normal" period in 1997, the 2005 regime – high underwriting flexibility but rising unaffordability, and the 2011 conditions of tight underwriting but good affordability. The population is shifting to younger, more minority, lower-wealth households. For these households, underwriting flexibility and affordability will make all the difference in homeownership rates. In, fact our research estimates that, through these practices, roughly 10 million home-owning households can be created by 2035.

The benefits of homeownership as a long term economic benefit depend on three factors:

1. **House price trends**, which are largely out of the control of policy-makers. However, a relatively low rate of house price appreciation (3 percent) makes the user cost of homeownership better than renting for our sample over the period from purchase to today.
2. **Longevity of homeownership –** the longer someone is a homeowner, the better. That is the problem with the big delay in homeownership that is trending for millennials and minorities. White households tend to achieve homeownership earlier and sustain it over a greater period of their lives, and this has the effect of widening the racial wealth gap.
3. **The way homeownership is financed.** This is where the affordable, long-term, fixed-rate mortgage is important. Not only does it result in a much better performance, but today's rates are a financial gift to those who get a loan. The difference between a 4 percent loan and a 6.5 percent loan at $200,000 is $2,500 a year (more than 10 percent). Over just five years, that is a $12,000 benefit. But who is getting access to this benefit? Not enough households and not those who need it the most. This benefit is certainly not fairly shared between minority, younger and low- to moderate-income households.

The nation needs to expand homeownership among the aforementioned subgroups for a robust economic future. This principle should be the guiding force to housing finance reform.