



## Homeownership

The national homeownership rate marked its ninth consecutive year of decline in 2013, affecting most segments of the population. The drop among minorities is particularly troubling, given their growing presence in the housing market. While affordability conditions remain favorable, rising home prices and interest rates—along with continued tight credit—have made homebuying more of a stretch for some households. These shifts could mean that fewer Americans will be able to become homeowners in the future.

### HOMEOWNERSHIP TRENDS

The US homeownership rate slipped again in 2012–13, edging down 0.3 percentage point to 65.1 percent (**Figure 18**). The number of homeowner households also fell for the seventh straight year with a drop of 76,000. However, these declines are the smallest reported since 2008, suggesting that the bottom may be in sight.

The slide in homeownership rates has been most dramatic among younger adults—the age groups most active in both the first-time and trade-up markets. From 2004 to 2013, rates for 25–34 year olds were down nearly 8 percentage points and for 35–44 year olds some 9 percentage points. But homeownership rates for middle-aged households have also fallen by at least 4 percentage points. Looking over a longer timespan, the Current Population Survey shows that homeownership rates for all 10-year age groups between 25 and 54 are at their lowest point since recordkeeping began in 1976. In sharp contrast, homeownership among households aged 75 and older is near a record high.

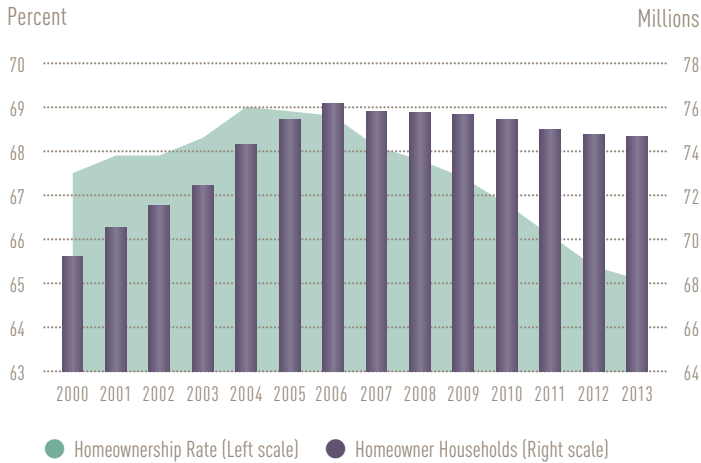
The decline in homeownership rates among minority households has also been sharp. Measured from previous peaks, rates have fallen 6 percentage points among black households and 4 percentage points among both Hispanic and Asian/other households. By comparison, the dip for white households was just 3 percentage points. Homeownership rates among some racial/ethnic groups may, however, be stabilizing. In particular, the rates for Hispanic and Asian/other households were essentially unchanged in 2013.

These disparate patterns have expanded the white-minority homeownership gaps (**Figure 19**). From 25.9 percentage points in 2001, the difference in white-black rates increased more or less steadily to 29.5 percentage points in 2013. The gap in white-Hispanic homeownership rates also widened by 1.7 percentage points in 2007–13, to 27.3 percentage points.

As the population grows more diverse, the persistently large difference in white-minority rates will put downward pressure on the national homeownership rate. This is already apparent among younger age groups, which have experienced both the strongest growth in minority shares over the past two decades and the largest drop in homeownership. For example, homeownership rates for adults aged 35–44 fell a full 5.5 percentage

FIGURE 18a

**With the Number of Homeowners Falling, the Homeownership Rate Continues to Drift Downward...**



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

**THE CHANGING FACE OF FIRST-TIME HOMEOWNERS**

Despite recent setbacks, minority households account for an ever-larger share of homeowners, particularly among younger age groups. Between 1993 and 2013, the white share of homeowners fell from 86 percent to just 77 percent. At the same time, the Hispanic share climbed from 4 percent to 9 percent, while the Asian/other share increased from 2 percent to 6 percent.

Minorities make up an even larger, and growing, share of the first-time homebuyer market. At last measure in 2011, 32 percent of all first-time buyers were minorities, with Hispanics alone accounting for 14 percent. First-time homebuyers are also more likely to be foreign born (16 percent) compared with current homeowners (10 percent). This is particularly true among Hispanic households, where 49 percent of first-time buyers are immigrants.

The growing presence of minorities and foreign-born households in the market has the potential to shift the age distribution of first-time buyers. While the median age of white first-time buyers is 29, the median age for black first-time buyers is 37. The median ages of Hispanic and Asian/other first-time buyers fall somewhere in between.

Still, most other characteristics of first-time homebuyers have changed little over time. First-time buyers are typically younger adults, with two-thirds under age 35 and 84 percent under age 45 (Figure 20). They are also likely to be married—particularly those in the 25–34 year-old group, where marriage rates tend to differentiate buyers from renters. Indeed, married couples are 49 percent of first-time homebuyers in this age group but just 30 percent of all similarly aged renter households. Married couples make up an even higher share (62 percent) of all other homeowners in this age group.

In addition to marital status, higher incomes are a major determinant of first-time homebuying. The share of first-time buyers with annual incomes over \$75,000, at 34 percent, is nearly three times that of renter households (13 percent).

But compared with a decade ago, fewer of today’s younger adults are married and fewer have high incomes. As a result, fewer fit the traditional profile of a first-time homebuyer. On the contrary, recent household growth among younger adults is concentrated in the types least likely to buy homes. For instance, the number of younger married-couple households—with homeownership rates averaging near 62 percent—dropped by more than 914,000 households in 2003–13. Meanwhile, the number of younger single-person and non-family households—whose homeownership rates averaged just 33 percent over the decade—increased by 1.0 million.

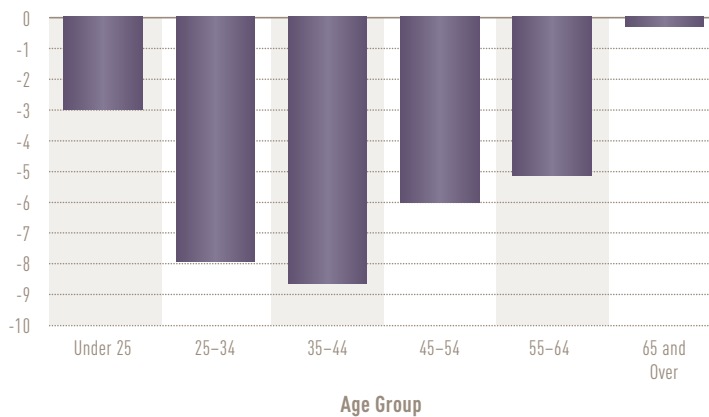
**DETERIORATING AFFORDABILITY**

While still relatively affordable by historical standards, the cost of homeownership is on the rise. The median price for existing homes jumped 10 percent from the end of 2012 to the end of 2013, while interest rates notched up from about 3.5 percent

FIGURE 18b

**...Especially Among Younger Adults**

Change in Homeownership Rate, 2004–13 (Percentage points)



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

points from 1993 to 2013. About 4.0 percentage points of this decline reflect the shift in the racial/ethnic composition of this age group during this period, while just 1.5 percentage points is due to the drop in homeownership rates for each racial and ethnic group. With the growing minority presence in housing markets, it will be important to expand homeownership opportunities for these households in order to maintain demand for owner-occupied housing.

FIGURE 19

### The Gaps Between White and Minority Homeownership Rates Have Again Widened

Difference in Homeownership Rates (Percentage points)

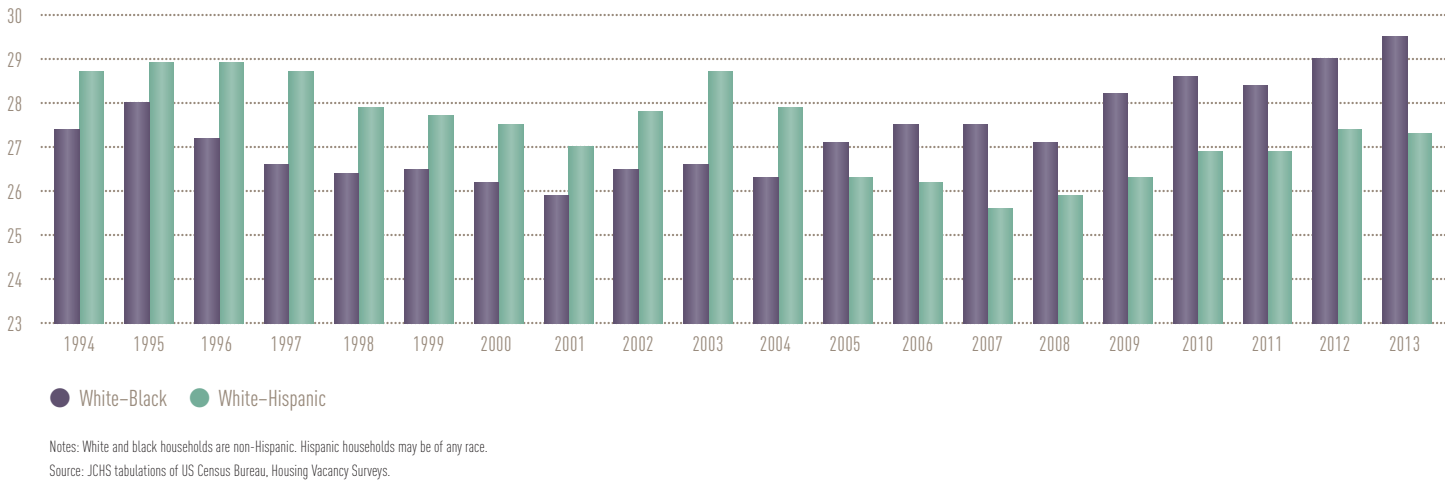
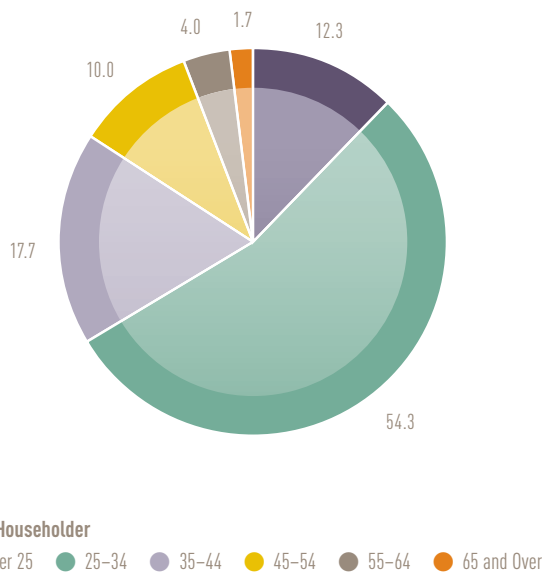


FIGURE 20

### Most First-Time Homebuyers Are Between the Ages of 25 and 34

Share of First-Time Homebuyers (Percent)



to almost 4.5 percent. Given a 20 percent downpayment and a 30-year fixed-rate mortgage, these increases pushed up the monthly payment on a median-priced home by a substantial 23 percent by year-end. Nevertheless, at \$780, the monthly mortgage payment for this median-priced home would have been a record-setting low in real terms at any point prior to 2010.

The trend is much the same at the metropolitan level. Between 2012 and 2013, mortgage payments on the median-priced home were up 10–20 percent in 34 of the 84 largest metros for which annual data are available, and more than 20 percent in another 14. In fact, payment-to-income ratios rose in every metro area covered as incomes stagnated or increased at rates that lagged the growth in housing payments.

Even so, payment-to-income ratios are well below their long-run averages in all metros for which historical data are available. Indeed, based on NAR’s affordability cutoff of 25 percent of income for mortgage payments, households earning the median income could afford to buy homes in all but six metros in 2013.

Many homebuyer affordability measures consider only median household income, which far exceeds the income level for many renters that might make the transition to ownership. Looking instead at the incomes of renters within each market, it is possible to estimate the pool of potential buyers that could afford a typical home. Under the new qualified mortgage rule, would-be buyers have to meet a 43 percent debt-to-income ratio, factoring in payments for property taxes, insurance, and non-housing debt.

By this standard, 36 percent of renters in the top 85 metros had sufficient income in 2013 to qualify for a home purchase loan for the median-priced unit in their areas, assuming a 5 percent downpayment, average tax and insurance rates in their markets,

and non-housing debt of 8 percent of household income. But homeownership would still be a big financial stretch for renters in metropolitan areas along the coasts. In the 12 most expensive markets, less than 30 percent of renters could afford the median-priced home, with shares reaching as low as 13.0 percent in Honolulu and 13.5 percent in San Francisco. In the 15 least expensive metros, more than half of all renters could meet the affordability criteria. Many of these areas were hard hit by the foreclosure crisis, including Atlanta, Grand Rapids, Las Vegas, and several Florida metros.

### CREDIT CONSTRAINTS

To take advantage of today's relatively affordable conditions, most homebuyers have to finance their purchases with mortgages—a challenge in an environment of tight credit. As a positive sign, the most recent Home Mortgage Disclosure Act (HMDA) data show an increase in lending for all types of buyers in 2011–12. Nevertheless, home purchase loan volumes are still well below pre-boom levels and not all groups have benefited equally from the pickup in lending. For example, the volume of loans extended to both white and Asian/other borrowers increased a strong 15 percent or more for the year, while lending to Hispanics was up just 7 percent and to blacks a modest 5 percent (Figure 21). The disparities across income groups are similar. Lending jumped 16 percent among high-income borrowers in 2011–12, but just 9 percent among low-income borrowers.

Hispanics and blacks were also much more likely to have their applications rejected. Indeed, denial rates for conventional purchase mortgages among Hispanics (25 percent) and blacks (40

percent) are nearly two to three times those among whites. Furthermore, these disparities worsened in 2011–12, with denial rates for white households falling while those for Hispanics edged up slightly and those for blacks rose 3 percentage points. Meanwhile, low-income households (earning less than 50 percent of area median income or AMI) were the only group to see their denial rates increase. In 2012, the share of these applicants that received rejections was more than a third—nearly 14 percentage points higher than those with moderate incomes (50–79 percent of AMI) and more than three times higher than those with high incomes (120 percent or more of AMI).

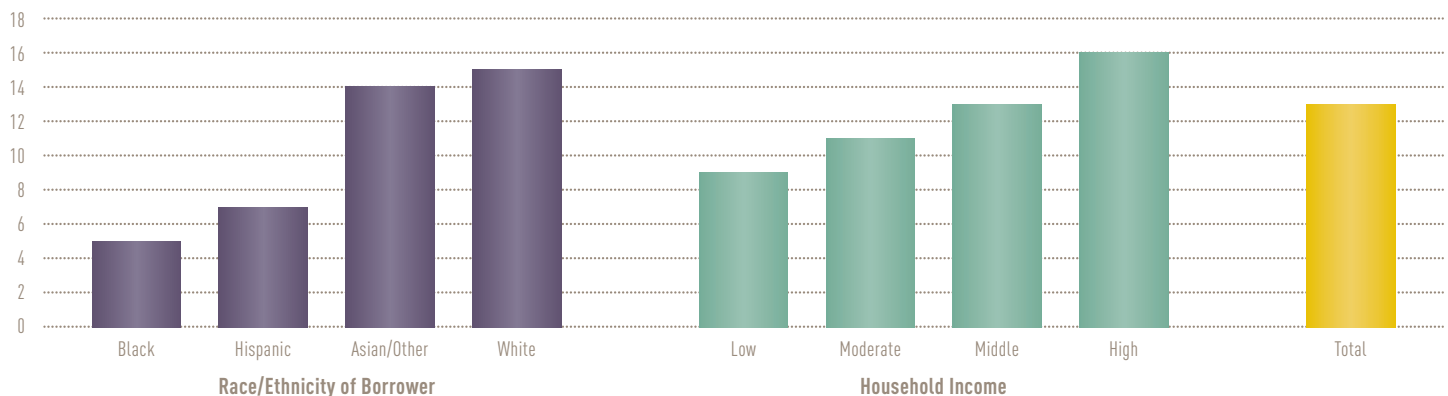
Many factors have played a role in the sluggish recovery of the home purchase loan market in recent years, including falling household incomes and uncertainty about the direction of the economy and home prices. But the limited availability of mortgage credit for borrowers with less than stellar credit has also contributed. According to information from CoreLogic, home purchase lending to borrowers with credit scores below 620 all but ended after 2009. Since then, access to credit among borrowers with scores in the 620–659 range has become increasingly constrained, with their share of loans falling by 6 percentage points. At the same time, the share of home purchase loans to borrowers with scores above 740 rose by 8 percentage points.

Meanwhile, the government sponsored enterprises (GSEs) have also concentrated both their purchase and refinancing activity on applicants with higher credit scores. At Fannie Mae, only 15 percent of loans acquired in 2013 were to borrowers with credit scores below 700—a dramatic drop from the 35 percent share averaged in 2001–04. Moreover, just 2

FIGURE 21

## Growth in Home Purchase Lending to Minorities and Lower-Income Borrowers Still Lags

Change in Number of Loans Originated, 2011–12 (Percent)



Notes: Data include only first-lien loans to owner-occupants for one- to four-unit properties. White borrowers are non-Hispanic. Hispanic borrowers include only white borrowers of Hispanic origin. Asian/other includes American Indians, Alaska natives, and native Hawaiians or other Pacific Islanders. Low- (moderate-/middle-/high-) income borrowers have household incomes below 50% (50–79%/80–119%/120% or more) of area medians. Source: Neil Bhutta and Glenn B. Canner, Mortgage Market Conditions and Borrower Outcomes: Evidence from the 2012 HMDA Data and Matched HMDA-Credit Record Data, *Federal Reserve Bulletin*, November 2013.

percent of originations were to borrowers with credit scores below 620. The percentage of Freddie Mac lending to this group has remained negligible.

Yet another drag on the mortgage market recovery is the high cost of credit. For borrowers who are able to access credit, loan costs have increased steadily. To start, interest rates climbed from 3.35 percent at the end of 2012 to 4.46 percent at the end of 2013. This increase was tempered somewhat by a slight retreat in early 2014. In addition, the GSEs and FHA raised the fees required to insure their loans after the mortgage market meltdown, and many of these charges remain in place or have risen. The average guarantee fee charged by Fannie Mae and Freddie Mac jumped from 22 basis points in 2009 to 38 basis points in 2012. In 2008, the GSEs also introduced loan level price adjustments (LLPAs) or additional upfront fees paid by lenders based on loan-to-value (LTV) ratios, credit scores, and other risk factors. LLPAs total up to 3.25 percent of the loan value for riskier borrowers and are paid for through higher interest rates on their loans.

FHA mortgage insurance premiums have also risen. Following new legislation in 2010 allowing higher limits, FHA raised its annual premiums to 85 basis points for loans with LTVs at or below 95 percent and 90 basis points for loans with LTVs above 95 percent. At the same time, FHA lowered its upfront premium to 100 basis points. Since then, the annual mortgage insurance premium has increased 45 basis points, with loans above \$625,500 charged an additional 20 basis points. In 2013, FHA extended the length of time that annual premiums are in effect and increased the upfront premium to 175 basis points. For the first-time borrower putting down 3.5 percent on a home

valued at 85 percent of the median, the new FHA premiums raised annual insurance costs from only \$808 in 2007 to \$1,699 in 2013 (Figure 22).

Credit conditions may, however, have eased slightly last year. Average credit scores for Freddie Mac loans edged down from 756 to 749 while those for Fannie Mae loans dipped from 759 to 751. In addition, the share of mortgages acquired by Fannie Mae to borrowers with scores below 700 increased 4.3 percentage points in 2012–13.

Meanwhile, average credit scores for FHA loans declined from nearly 700 in 2012 to about 690. FHA also reports a downward shift in the distribution of loans to the 620–719 range. Even so, a recent assessment by the Urban Institute found that much of this change simply reflects the migration of borrowers with moderate credit scores from FHA into the GSE market, which has pushed down average scores in both market segments. Thus, while the credit box may have widened, the easing of constraints is much more modest than the drop in average scores suggests.

#### THE OUTLOOK

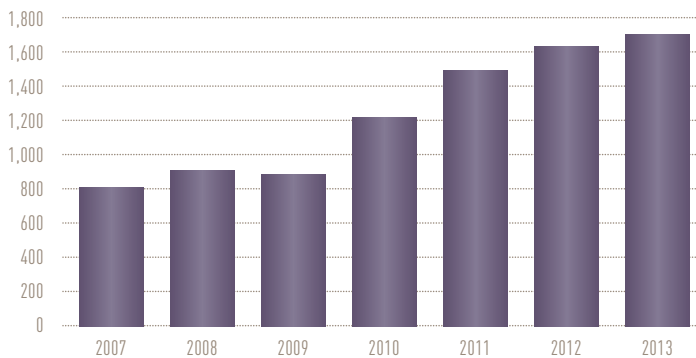
The US homeownership rate fell again last year, marking almost a decade of declines. While there are few signs of an immediate turnaround, the strengthening economy will eventually lift household incomes—a key driver of housing demand. And despite recent increases, house prices and interest rates still favor the homebuyer.

Nevertheless, many younger adults find themselves with lower incomes and in family and household circumstances that are less conducive to homeownership. Furthermore, minorities, who historically have much lower homeownership rates, will account for an increasing share of first-time homebuyers. If mortgage markets cannot accommodate the limited financial resources of this new generation of households, there is a real possibility that fewer Americans will be able to enjoy the benefits of homeownership in the future.

FIGURE 22

### Higher FHA Insurance Premiums Have Added Substantially to First-Time Buyer Costs

Annual FHA Mortgage Insurance Costs (Dollars)



Notes: Initial costs assume a 30-year fixed-rate mortgage with a 3.5% downpayment and a constant home price equal to 85% of the NAR median in 2013. Costs also assume the upfront mortgage insurance premium is rolled into the loan and that the interest rate is the FHA average for that fiscal year. The rate for 2013 is the partial fiscal year average through May.

Source: JCHS tabulations of FHA mortgage letters, FHA actuarial reviews, FHA interest rate, and NAR median existing single-family home price data.