



# HOMEOWNERSHIP



The downtrend in homeownership stretched to a decade in 2014. Rates fell across nearly all age groups, incomes, household types, and markets despite the affordability of first-time homebuying. Recent trends point to continued declines in the share of households owning homes, although signs of a turnaround in household income growth and some easing of lending constraints may mean that the pace of decline is set to slow.

## HOMEOWNERSHIP TRENDS

The national homeownership rate slid for the 10th consecutive year in 2014, off 0.6 percentage point to 64.5 percent (**Figure 22**). The downtrend continued in early 2015 with a first-quarter reading of just 63.7 percent—the lowest quarterly rate since early 1993. The 233,000 drop in homeowner households last year brought the total decline since the 2006 peak to 1.7 million.

The weakness in homeownership extends across all regions of the country and nearly all metropolitan areas, including inner cities, suburbs, and non-metro areas. And while recent estimates suggest that homeownership rates may be firming in some areas, there is no evidence so far of a significant rebound.

With the exception of Detroit, major metros with the largest declines in homeownership are all within the Sunbelt states, where high foreclosure rates amplified the impacts of the Great Recession. At the top of the list are Las Vegas and New Orleans (both with an 8.5 percentage-point drop in homeownership), and Bakersfield (with an 8.3 percentage-point drop). The worst-hit markets generally experienced a much sharper cycle in home prices and incomes than metros that were more sheltered from the housing boom and bust.

## NEIGHBORHOOD LOSSES

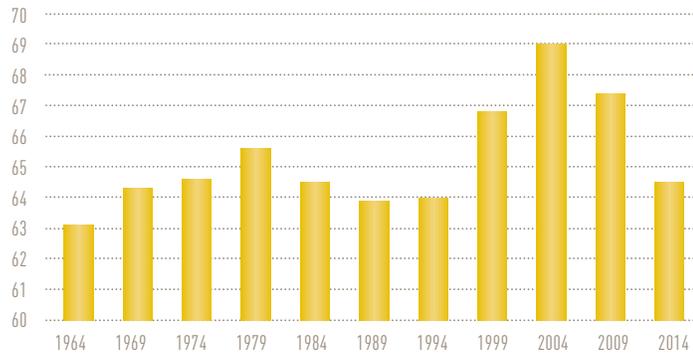
Of the nearly 50,000 census tracts for which consistent data are available, roughly one-tenth saw at least a 10 percentage-point drop in homeownership between 2009 and 2013, with the average neighborhood in this category posting a 14 percentage-point decline. Although starting out slightly above the national average, homeownership rates in these neighborhoods ended the period at just 54 percent. As a result, these 5,000 or so communities accounted for nearly 95 percent of the decline in homeowner households in 2009–13.

While found across the country, more than a quarter of the communities with outsized homeownership declines are located in the populous states of California, Texas, and New York. The states with the highest shares, however, are those hardest hit by the foreclosure crisis, including Nevada, Arizona, and Georgia (**Figure 23**).

FIGURE 22

### The Recent Homeownership Rate Decline Has Erased the Increases in the 1990s and 2000s

US Homeownership Rate (Percent)

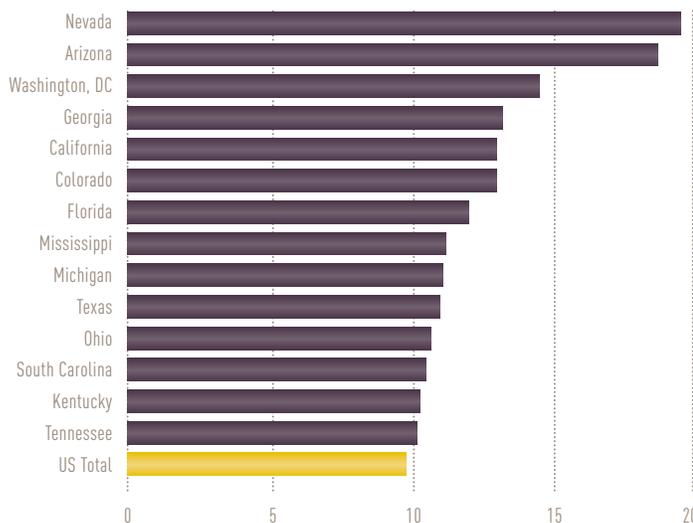


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 23

### Nevada and Arizona Had the Highest Concentration of Neighborhoods with Severe Homeownership Rate Declines

Share of Tracts with Homeownership Rate Declines of at Least 10 Percent (Percent)



Note: Data include only census tracts with consistent geographic boundaries and at least 500 people in both survey periods.  
Source: JCHS tabulations of US Census Bureau, 2005-9 and 2009-13 Five-Year American Community Surveys.

Communities with the largest losses of homeowners were formerly similar to the typical US neighborhood. For example, the high-distress areas had only slightly higher average vacancy rates (12.2 percent vs. 10.9 percent), slightly lower median household incomes (\$54,000 vs. \$59,000), slightly lower median home values (\$238,000 vs. \$254,000), and identical shares of single-family homes (69 percent). The biggest difference, however, is that these neighborhoods had a significantly higher share of minority residents. Given the concentration of risky lending and foreclosures in these neighborhoods, it is no surprise that minority communities suffered the most severe losses in homeownership after the downturn.

A large decline in homeowner households in any community is clearly cause for concern. Not only does it reflect the uprooting of a substantial share of existing residents, but the financial stresses that both produced and resulted from the foreclosure crisis further undermine neighborhood stability. Indeed, with the sharp falloff in owning, these communities have experienced the greatest declines in incomes and increases in poverty since the crash. Coupled with large losses of household wealth, these neighborhoods have also seen a great reduction in buying power to support local businesses and invest in the housing stock. In consequence, there is a continued need for policy responses to mitigate the lingering effects of the housing crisis at both the household and community levels.

#### DECLINES AMONG KEY HOUSEHOLD GROUPS

While the national homeownership rate is now back to its 1993 level, rates for key household groups have receded even further (Figure 24). Indeed, the rate for 35-44 year olds is down 5.4 percentage points from the 1993 level and back to a level not seen since the 1960s. These households were in the prime first-time homebuying years just before the housing crisis hit, and therefore particularly vulnerable to the drop in home values. With household incomes falling as the recession began, many homeowners in this age group were unable to keep up with their mortgage payments. For those who had not yet bought homes, the ensuing decade was a challenging time to enter the market.

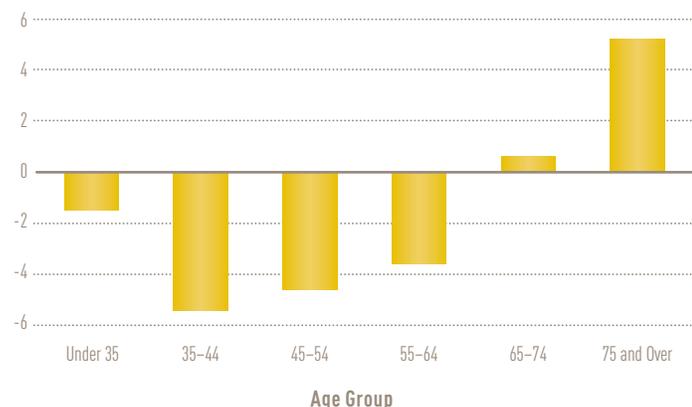
In contrast, homeownership rates among older households have held nearly steady and remain above levels from the mid-1990s. In combination with their growing numbers, consistently high homeownership rates among households aged 65 and over have helped to prop up the national rate. Indeed, if not for the aging of the population, the overall homeownership rate would have dropped even further than it has.

Meanwhile, the growing minority share of the population is exerting a downward pull on the US homeownership rate because of their lower rates of owning. In addition, homeownership rates among minority households fell much more sharply after the housing market crash, reversing some of the modest progress made toward closing the white-minority homeownership gap since the early 1990s. As of 2014, the homeownership rate for minorities as a group remains 25.5 percentage points

FIGURE 24

### The Drop in Homeownership Among 35–44 Year Olds Has Been Especially Severe

Change in Homeownership Rate 1993–2014 (Percentage points)

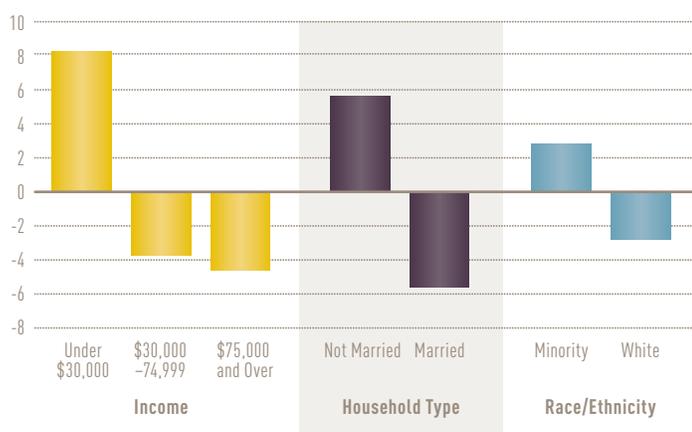


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 25

### Today’s Younger Households Are Increasingly Likely to Have Characteristics Associated with Lower Homeownership Rates

Change in Share of 25–34 Year-Old Households 2003–13 (Percentage points)



Source: JCHS tabulations of US Department of Housing and Urban Development (HUD), American Housing Surveys.

lower than that of whites. Nonetheless, despite falling homeownership rates in recent years, the numbers of Hispanic and Asian/other households owning homes have continued to rise as their shares of all households have climbed.

Homeownership losses even extend to married couples with children, one of the household types most likely to own homes. Indeed, the rate among these households fell some 6.1 percentage points from its mid-2000s peak, outrunning the decline for any other household type and pushing homeownership rates back to early 1990s levels as well.

#### THE SLOWDOWN IN FIRST-TIME HOMEBUYING

Homeownership rates among households aged 25–34 have plunged by more than 9 percentage points since 2004, and now stand 3 percentage points below the 1993 level. Since members of this age group typically make up just over half of all first-time homebuyers, the market remains particularly weak. Indeed, the National Association of Realtors reports that the first-time buyer share of home purchases fell from 38 percent in 2013 to 33 percent in 2014—near historic lows and well below the 40 percent share typical before the bust. This decline is particularly striking given the movement of the large millennial generation into this age group and the relative affordability of homebuying.

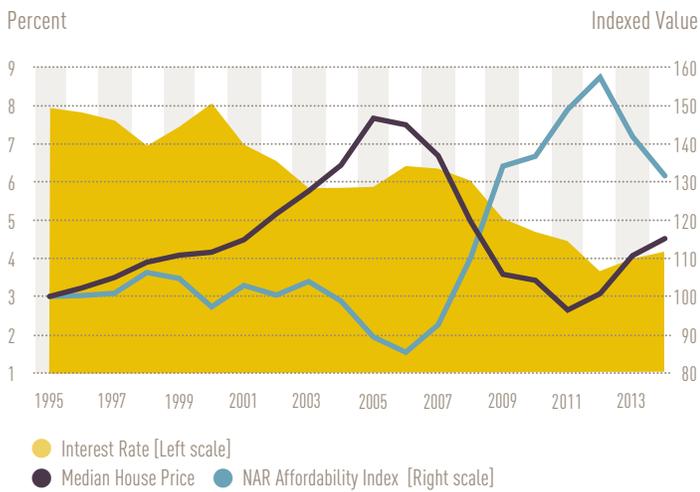
But many young adults are under severe financial pressure. The real median household income of 25–34 year olds in 2013 was down 5 percent from 2004. At the same time, nearly half of renters in this age group face housing cost burdens and almost as large a share are saddled with student loan debt, making it next to impossible to save for even a modest downpayment.

Other long-term demographic trends are part of the explanation (Figure 25). In particular, age at first marriage and childbearing has been on the rise, especially since the recession. Given that first-time homeownership often follows these life events, these delays have helped to depress homebuying overall. In addition, the millennials are the most racially and ethnically diverse generation in history, with minorities making up 45 percent of individuals aged 10–29. The lower homeownership rates of minorities, combined with their growing presence in the housing market, have thus contributed to the lower share of today’s young adults owning homes.

Now that the millennials are adding to the populations of several cities, there is some evidence that more young adults will continue to prefer urban settings and be less likely to buy single-family homes than members of previous generations. The higher rentership rates among young adults and more rapid growth of core counties in metropolitan areas relative to rates from a decade ago are consistent with this view. But no distinct trend toward urban or higher-density living is evident among households buying homes for the first time. In fact, recent buying patterns are roughly consistent with those of a decade ago, with nearly half of first-time buyers purchasing homes in

FIGURE 26

## Low Interest Rates Continue to Hold Down the Costs of Homeownership



Note: Prices are adjusted to constant 2013 dollars using the CPI-U for All Items.

Sources: JCHS tabulations of NAR Affordability Index and NAR Single-Family Median House Price, annualized by Moody's Analytics; US Census Bureau, Current Population Surveys; Freddie Mac Primary Mortgage Market Surveys.

suburban areas and 31 percent buying homes in center cities. Moreover, the vast majority (91 percent) of first-time buyer households purchased single-family homes.

### CHANGES IN AFFORDABILITY

Despite rising prices, homebuying in most parts of the country remained more affordable in 2014 than at any time in the previous two decades except right after the housing crash (Figure 26). In 110 of the 113 largest metros for which at least 20 years of price data are available, payment-to-income ratios for the median-priced home were still below long-run averages. And in nearly a third of these metros, ratios were 20 percent or more below those averages.

Based on the NAR standard that mortgage payments cannot exceed 25 percent of income, the median household could afford the median home in all but 10 metros in 2014. Moreover, as of the end of the year, Trulia estimates indicate that the cost of owning was cheaper than renting in all of the 100 largest metro areas.

But conventional measures of affordability may underestimate the challenges of first-time homebuying and overestimate the pool of qualified homebuyers. Under the Consumer Financial Protection Bureau's qualified mortgage rule, the maximum debt-to-income ratio (including payments for property taxes,

insurance, and non-housing debt) is 43 percent. By this measure, only 36 percent of renters in the 168 large metros with 2014 price data could afford a 30-year fixed-rate mortgage on a median-priced home in their areas, assuming a 5 percent downpayment. Among the key 25–34 year-old age group, the share was somewhat higher at 42 percent. Nevertheless, given that their median net wealth was less than \$5,000, typical renters in this age group would be able to meet the 5 percent downpayment requirement in only 5 of the 168 metros.

### MISSED REFINANCING OPPORTUNITIES

Many homeowners have taken advantage of currently low interest rates to refinance their mortgages. As of the 2013 American Housing Survey, nearly 41 percent of owners with mortgages report having refinanced, and the majority of those who did had refinanced within the previous five years.

With the help of these refinancings, the average mortgage interest rate reported by owners declined from 6.0 percent in 2009 to 4.7 percent in 2013. According to Freddie Mac's Refinance Report, the average refinancing in the fourth quarter of 2014 meant a 1.3 percentage point reduction in the mortgage interest rate, cutting the borrower's monthly interest by 23 percent or \$104 for every \$100,000 borrowed.

But even though the interest rate on a 30-year fixed-rate mortgage was below 4 percent throughout 2012 and into the first five months of 2013, about a third of owners with mortgages in 2013 still paid rates above 5 percent. Many of these households would benefit from refinancing. Indeed, 38 percent of owners with mortgages that have moderate housing cost burdens, as well as 43 percent of those that have severe burdens, pay relatively high interest rates. And despite the availability of assistance through the Home Affordable Refinance Program (HARP), 40 percent of owners with negative equity also pay more than 5 percent interest on their mortgages.

Minority and lower-income homeowners are more likely to pay these high rates. More than 40 percent of Hispanic and black households with mortgages report paying interest rates above 5 percent, compared with less than a third of white and Asian/other minority households (Figure 27). Higher interest rates are partly due to the fact that these owners are the most likely to be highly leveraged and unable to refinance outside of HARP, with 25 percent of Hispanic borrowers and 29 percent of black borrowers in negative equity positions. Lower-income households, along with owners of lower-value homes, are also much more likely to have high-rate mortgages.

### CONTINUING CREDIT CONSTRAINTS

To capitalize on today's low interest rates, households need access to credit. But for current owners and potential first-time buyers alike, tight underwriting standards have made mortgage credit hard to come by. After taking record losses in the mort-

FIGURE 27

### Many Minority and Low-Income Homeowners Are Missing Out on the Opportunity to Refinance

Share of Owners Paying More than 5% Interest on Their Mortgages (Percent)

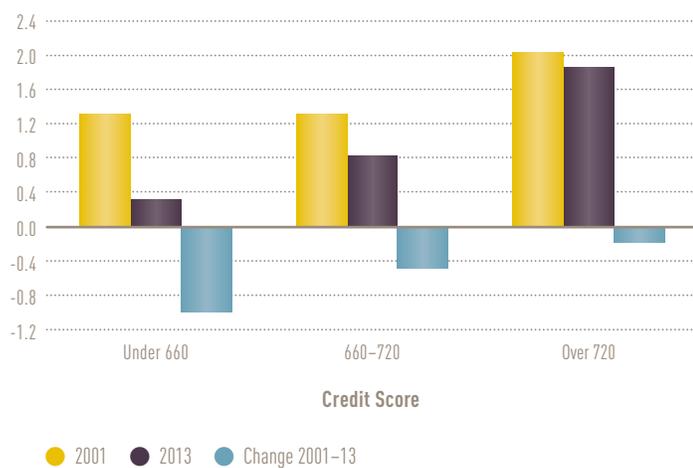


Notes: White, black, and Asian/other households are non-Hispanic. Hispanic households may be of any race. Moderate (severe) cost burdens are defined as housing costs of 30–50% (more than 50%) of household income.  
Source: JCHS tabulations of HUD, 2013 American Housing Survey.

FIGURE 28

### Lending to Borrowers with Even Moderate Credit Scores Has Dropped Below Pre-Boom Levels

Number of Purchase Loans Originated (Millions)



Source: Urban Institute.

gauge market meltdown, lenders now face greater risk of having to buy back loans that default and of paying much higher servicing costs for delinquent borrowers. As a result, they have overlaid their own more stringent credit requirements with even stricter standards for borrowers.

Indeed, purchase lending to applicants with low and even moderate credit scores is lower than in 2001 (Figure 28). Since lending to borrowers with top scores declined much less, the share of loans going to this segment increased from 44 percent in 2001 to nearly 62 percent in 2013. Of course, the fallout from the recession—declining incomes, impaired credit, and mounting student loan debt—has also served to dampen demand for home loans over this period.

In an effort to expand credit access, the Federal Housing Finance Agency took steps in 2014 to change the conditions under which lenders are liable for defaulted loans sold to Fannie Mae and Freddie Mac. In addition, the government sponsored enterprises extended the availability of guarantees for loans with 97 percent loan-to-value ratios. State housing finance agencies have also expanded their programs providing low- and no-downpayment loans to low-income, minority, and younger borrowers. Finally, FHA substantially reduced the upfront mortgage insurance premium on loans it insures. So far, though, continuing concerns about being hit with penalties for defaulted loans may be dampening lender willingness to offer these loans, which are a key source of financing for the first-time buyer market.

In the wake of these changes and the ongoing recovery in home prices, credit constraints may be loosening modestly. Although the majority of institutions polled by Fannie Mae suggest that credit standards remained relatively steady in 2014, a Federal Reserve Board survey indicates that more bank officers reported easing than tightening credit in the second half of 2014 and the first quarter of 2015.

A variety of measures have been developed in recent years to more precisely gauge the availability of mortgage credit. For example, the MBA's Mortgage Credit Availability Index, which essentially weighs lender guidelines on acceptable loans with different loan terms and purposes, suggests that credit standards have eased since early 2012. Even so, the index remains well below levels in the early 2000s.

Alternatively, an Urban Institute index relies on the estimated probability of default for newly originated loans, which indicates the degree of risk that lenders are willing to tolerate. By this measure, loans originated in the first three quarters of 2014 posed about a 5 percent risk of default—well below the level evident in 2001–03 before the riskiest lending practices took hold in the market. In fact, the degree of risk in 2014 was even lower than in 2010–13, suggesting that credit by this measure continued to tighten last year.

Yet another yardstick of mortgage credit availability is the denial rate on loan applications reported under the Home Mortgage Disclosure Act (HMDA). Although denial rates reflect borrowers' willingness to attempt to obtain loans as well as lender underwriting, they do provide some indication of which borrowers have a more difficult time securing financing. According to 2013 HMDA data, 12 percent of applicants for home purchase loans were denied financing. The rate was especially high (20 percent) for African-American applicants—nearly twice that for white borrowers. Hispanics fared slightly better, with a 17 percent denial rate. Meanwhile, low-income borrowers were denied purchase loans 2.5 times more often than upper-income borrowers.

The geographic concentration of minority loan applicants has meant that many communities have been disproportionately affected by tight credit. Although purchase loan originations rose across all types of census tracts in 2012–13, the growth rate in majority-minority areas was just 8 percent—half that in areas with mixed or predominantly white populations.

#### THE OUTLOOK

As troubled as the market has been in the last few years, most households—regardless of race/ethnicity, age, and lifestyle—still consider homeownership a positive goal. According to Fannie Mae's National Housing Survey for the fourth quarter of 2014, 82 percent of respondents thought that owning made more financial sense than renting. Even among renters, 67 percent agreed with this statement. Both shares have changed little from results in the fourth quarter of 2010.

Although most want to own a home someday, younger renter households perceived a variety of financial barriers ahead. Among those aged 18–39, 92 percent expected to buy homes eventually, but 62 percent thought it would be difficult to get a mortgage. The main obstacles they anticipated to obtaining home loans include insufficient savings to make a downpayment and pay for closing costs (42 percent) and an insufficient credit history (47 percent).

Given the consistently strong preference for owning, future trends in the national homeownership rate will depend on whether households have the means to achieve this goal. Demand for homeownership should pick up as the economic recovery continues, but whether mortgage credit will be widely available to satisfy stronger demand remains to be seen. And as long as homeownership remains the primary vehicle for low-income and minority households to build wealth, it will be vital to provide opportunities to keep homebuying within reach of those with both the desire and ability to succeed at this goal.