4 HOMEOWNERSHIP

With mortgage credit still tight and foreclosures relatively high, the national homeownership rate continued to trend downward in 2015. Although low inventories of homes for sale are keeping prices on the rise, homeownership in many metropolitan areas remains affordable by historical standards and most Americans continue to believe that owning a home is a sound financial investment. The ongoing recovery in the economy may reinvigorate demand for homeownership, although how quickly a rebound might occur remains an open question.

HOMEOWNERSHIP RATE DECLINES

The decade-long slide in homeownership is unprecedented in American history, with the national rate down more than 5 percentage points from the 69.0 percent peak in 2004, to just 63.7 percent in 2015 **(Figure 19).** The persistent decline reflects the lack of growth in the number of homeowner households at a time of robust growth in the number of renter households. According to the Housing Vacancy Survey, the number of renter households hit 42.6 million last year, an increase of 1.4 million from 2014 and some 9.3 million from 2004. Meanwhile, the number of homeowner households slipped to 74.7 million in 2015, down 87,000 from 2014 and up just 431,000 from 2004.

While homeownership rates for households of all ages and races/ethnicities have fallen, the size of the declines varies across groups. The largest drop has been among 35–44 year-olds, with rates dropping nearly 11 percentage points from 69.2 percent in 2004 to 58.5 percent in 2015. By comparison, the homeownership rate fell about 8 percentage points among households under age 35, about 7 percentage points among households aged 45–54, about 6 percentage points among households aged 55–64, and just 2 percentage points among households aged 65 and over. As a result, homeownership rates for all but the oldest age group are now lower than in 1994. In fact, the national rate remains near its 1994 level only because of the overall aging of the population, which means that increasing numbers of households are now in the age groups when homeownership rates are highest.

Following these declines, the gap between black-white homeownership rates widened, while the gap between Hispanic-white rates narrowed slightly. The share of white households that owned homes in 2015 was down 4.0 percentage points from the 2004 peak, to 71.9 percent. Meanwhile, the homeowner share of all minority households fell 4.3 percentage points, ending 2015 at 46.7 percent. Over this same period, the share of black households owning homes dropped 6.7 percentage points, to 43.0 percent, while the share of Hispanic households owning homes declined 2.5 percentage points, to 45.6 percent.

FORECLOSURES BACKLOG AND SLUGGISH HOMEBUYING

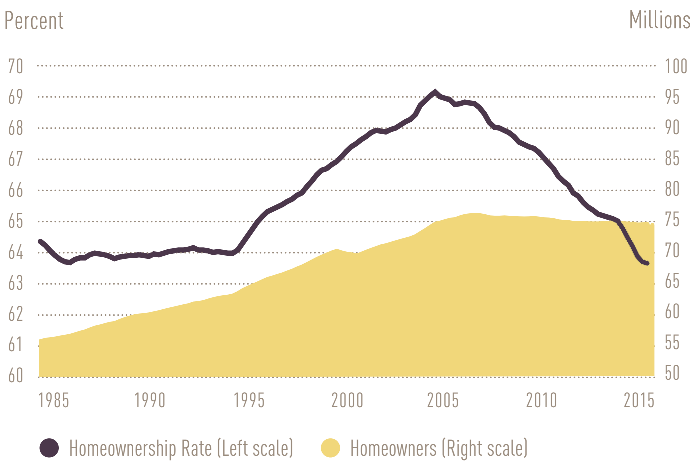
The overhang of foreclosures has contributed to the continued slump in homeownership. Although on the decline, distressed sales are still well above pre-crisis levels **(Figure 20).** According to CoreLogic data, the total number of foreclosure completions, short sales, and deed-in-lieu of foreclosure transactions for one- to four-family properties averaged 55,900 per month in 2015. This figure is down from a peak of 120,200 per month in 2010, but only a small improvement from the 67,100 monthly average in 2014. By comparison, foreclosure-related sales ran at just 19,900 per month from 2000 to 2005.

However, foreclosures are likely to continue to recede in the coming years. The Mortgage Bankers Association reports that the inventory of properties in the foreclosure process totaled 688,000 units in the fourth quarter of 2015, a significant improvement over the 929,000 units in 2014 and the high of 2.1 million in 2010. This is the smallest inventory since 2007, with declines occurring in all but three states (Delaware, Massachusetts, and Rhode Island) last year. In addition, new foreclosure starts and loan delinquencies also fell in 2015. Only 140,000 foreclosures were started in the fourth quarter of 2015, a drop of 48,000 from a year earlier. The share of owners with mortgages that were seriously delinquent on their loans (90 or more days past due or in foreclosure) stood at 3.4 percent at the end of 2015, down from 4.5 percent at the end of 2014 and a high of 9.7 percent in 2009.

With foreclosures on the decline, the future trajectory of the homeownership rate depends largely on the speed of recovery in home purchases, particularly among first-time buyers. According to NAR data, the share of sales that were first-time purchases dipped from 33 percent in 2014 to 32 percent in 2015, down from 40 percent in 2003–2005. In addition, Current Population Survey data indicate that in 2015, only 2.7 percent of US households moved into homes purchased within the last year, compared with 4.7 percent in 2000 **(Figure 21).** While this measure has trended upward in each age group since 2013, the speed of recovery in coming years remains uncertain.

FIGURE 19

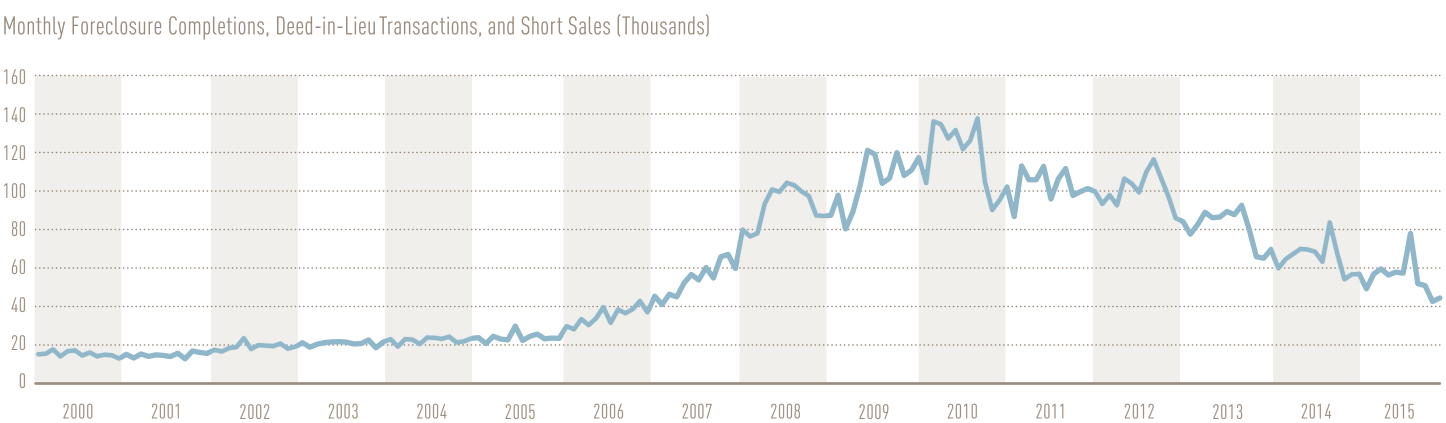
With No Growth in the Number of Owners, the National Homeownership Rate Fell Again in 2015



Note: Data are four-quarter rolling averages.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 20

Distressed Sales Have Declined But Remain above Pre-Crisis Levels

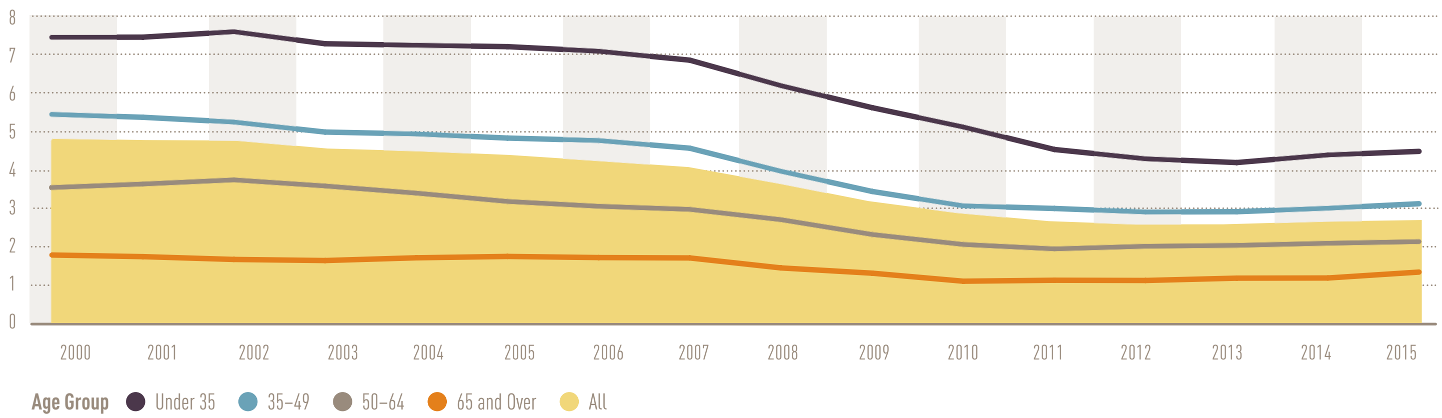


Source: JCHS tabulations of CoreLogic data.

FIGURE 21

Homebuying Activity Is Still Depressed But No Longer Declining

Share of Households that Purchased Homes in the Previous Year (Percent)



Notes: Home purchases are equal to the number of homeowners that moved in the preceding year. Data are three-year trailing averages.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

The slowdown in homebuying does not appear to be due to household attitudes or perceptions of risk, as most Americans still believe that homeownership is a sound financial choice. According to a 2015 Demand Institute survey, 78 percent of household heads agreed with the statement "I think homeownership is an excellent investment," while only 6 percent disagreed. Although renters were somewhat less favorable, more than 67 percent agreed that homeownership is an excellent investment, and just 10 percent disagreed. Younger renter households were especially positive on this point, with 75 percent of renters below age 40 agreeing about the financial value of homeownership.

A recent Joint Center analysis of the University of Michigan's Panel Study of Income Dynamics data illustrates the wealth-building potential of sustained homeownership. For example, the median increase in real net wealth among households that remained homeowners between 1999 and 2013 was $91,900, including a $37,100 gain in home equity. Households that bought homes between 1999 and 2009 and were able to sustain homeownership through 2013 also saw significant growth in net wealth of $85,400, including a $46,000 increase in home equity. To be sure, homeownership is not without risks. The median household that bought a home in 1999–2009 but did not continue to own a home through 2013 lost $2,800 in net wealth. Meanwhile, the median household that rented throughout this period saw no change in net wealth.

AFFORDABILITY OF HOME PRICES

While home prices have rebounded from their 2011 lows, they are still affordable by historical standards. The real median sales price of existing homes climbed 6.6 percent in 2015 to $222,400, while the real median price of new single-family homes rose 4.7 percent to $296,400. Despite this increase, the NAR Housing Affordability Index—comparing median household income to the mortgage payment on a median-priced home—suggests that affordability declined only slightly last year.

Low mortgage interest rates helped, with the average rate on 30-year fixed-rate loans holding below 4.0 percent for most of 2015 and standing at 3.6 percent in April 2016. These low rates kept the increase in principal and interest payments for a median-priced home in 2014–2015 to just 2.6 percent, lifting the median payment to $834 **(Figure 22).** Using a broader measure of households' total monthly expenditures on housing and utilities from the American Community Survey, the real median monthly housing cost for homeowners who moved into their units within the previous year rose 4.8 percent in 2013–2014, to $1,203.

At the metropolitan level, however, affordability varies dramatically. At one extreme, the ratio of median home price to median household income in the Rockford (Illinois) metropolitan area was just 1.8 in 2014, compared with 3.9 for the nation as a whole. But at the other extreme, the price-to-income ratio in Honolulu was 9.1 in 2014. This range illustrates the sharply different market conditions that would-be homebuyers face depending on their location.

STUDENT LOAN DEBT AND DOWNPAYMENT PRESSURES

Although home prices remain generally affordable, rising student loan debt has eroded the amount of income that households have to spend on a home purchase. According to the

Survey of Consumer Finances, the share of all US households with outstanding student loan debt increased from 12 percent in 2001 to 20 percent in 2013. At the same time, the median outstanding loan balance rose from $10,500 to $17,000, with 36 percent of borrowers in 2013 owing more than $25,000 and 17 percent owing more than $50,000.

While households of all ages have taken on additional student loan debt, the largest increase has been among the young. Some 39 percent of households aged 20–39 carried student loan debt in 2013, compared with 19 percent of households aged 40–59 and 5 percent of households age 60 and over **(Figure 23).** Among this older group, outstanding debt may be a combination of loans taken out to pay for their children's education and their own mid-life educational costs.

For young renters that want to buy homes, student loan debt can add considerably to the debt-to-income ratio that lenders use to determine eligibility for mortgage loans. Among 20–39 year-olds with student loan debt payments, the mean loan payment in 2013 ranged from 4 percent of income among renters in the highest income quartile to 15 percent of income for renters in the lowest income quartile. These payments are on top of student loan borrowers' other non-housing debt payments, which consumed on average another 4 percent of income for renters in the highest income quartile and 7 percent of income for renters in the lowest income quartile.

Accumulating a downpayment presents an additional challenge. The 2013 Survey of Consumer Finances indicates that 12 percent of renter households had no savings in transaction or retirement accounts or other financial instruments. Among the other 88 percent of renter households, the median value of all financial assets was just $3,000. By comparison, a 5 percent downpayment on a median-priced existing home in 2015 was $11,100.

The Federal Housing Administration (FHA), which offers loans with downpayment requirements as low as 3.5 percent, has traditionally been a critical source of mortgage credit for households unable to put large amounts down on a home purchase. Fannie Mae and Freddie Mac also lowered their downpayment requirements from 5 percent to 3 percent in 2015, introducing loan products that target first-time homebuyers who otherwise meet underwriting criteria and complete pre-purchase homeownership education and counseling. Fannie Mae and Freddie Mac also strengthened their partnerships with state housing finance agencies, which are another vital source of downpayment assistance and related first-time homebuyer programs. Both efforts may help to reduce the obstacles that first-time homebuyers face in qualifying for mortgages, particularly in high-cost markets where downpayment thresholds are a significant barrier.

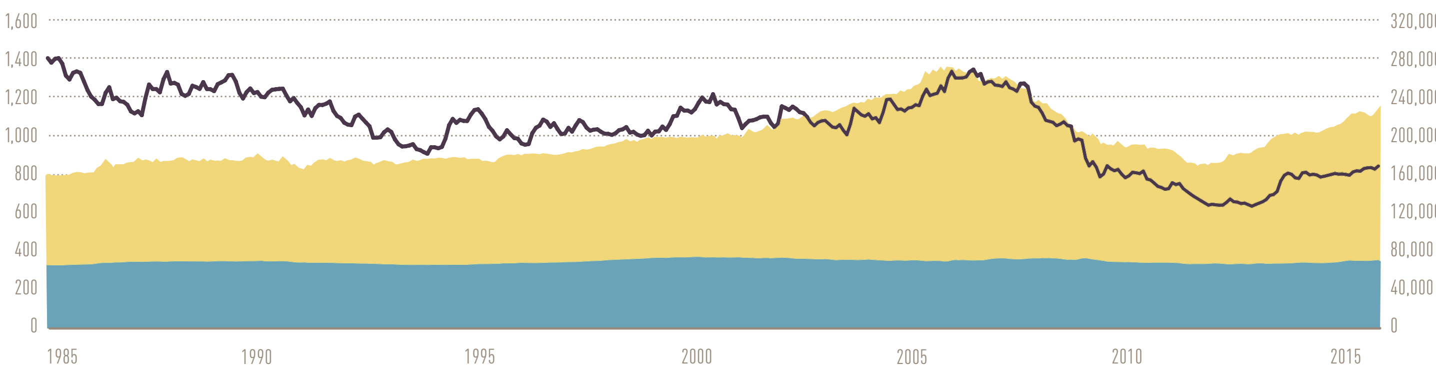
TIGHT MORTGAGE MARKET CONDITIONS

The number of first-lien mortgage originations for owner-occupied home purchases increased only incrementally from its 2011 low, reaching 2.8 million in 2014. While originations are still below their 2000 levels, Fannie Mae and Freddie Mac both

FIGURE 22

Despite Rising Prices, Mortgage Payments Have Remained Relatively Low

2015 Dollars



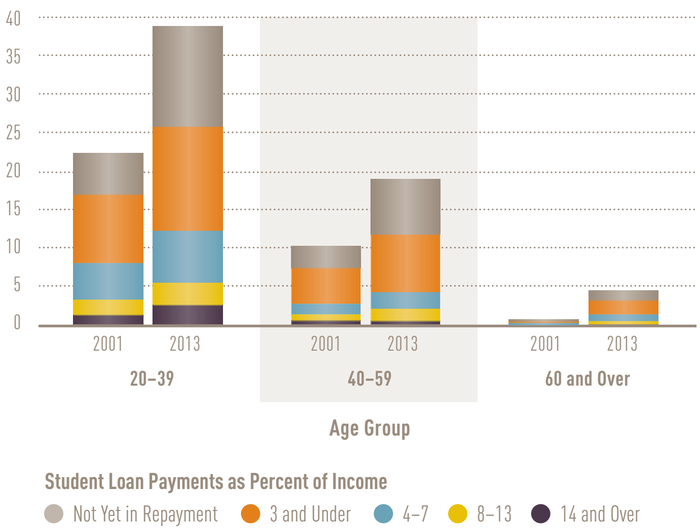
Monthly Mortgage Payment on Median-Priced Existing Home (Left scale)
Median Home Price (Right scale)   Median Family Income (Right scale)

Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Home prices are adjusted using the CPI-U for All Items less shelter. Monthly mortgage payments include principal and interest, and assume a 30-year, fixed-rate mortgage with a 20% downpayment.
Source: JCHS tabulations of NAR, Single-Family Existing Home Prices; Moody's Economy.com, Median Family Incomes; and Freddie Mac, Primary Mortgage Market Surveys.

FIGURE 23

Many Younger Households Have to Devote a Significant Share of Income to Student Loan Payments

Share of US Households (Percent)



Note: Households not yet in repayment have student loans in deferral due to schooling, military service, emergency hardship, or other reasons.
Source: JCHS tabulations of Federal Reserve Board of Governors, Surveys of Consumer Finances.

project modest growth in home purchase mortgage volumes to continue in 2016 and 2017.

Meanwhile, mortgage credit remains tight for borrowers unable to meet strict underwriting standards. The Urban Institute's Housing Credit Availability Index indicates that credit conditions changed very little in 2015 and were only slightly looser than at their post-recession trough. Similarly, the MBA's Mortgage Credit Availability Index does not show a clear trend in 2015 and confirms that market conditions remain relatively tight.

As a result, lending to households with less than perfect credit histories has fallen off. CoreLogic data indicate that loans to homebuyers with observed credit scores below 700 declined from 33 percent of first-lien mortgages in 2010 to just 27 percent in 2014. This tightening of standards has, however, kept cumulative default rates on Fannie Mae and Freddie Mac's 2011–2014 loans well below those for any prior loan vintage from 1999 to 2010. Taken together, these trends suggest that recent growth in the number of conventional mortgage originations has been primarily to low-risk borrowers.

Tight credit conditions limit access to homeownership, particularly for low-income and minority households. Home Mortgage Disclosure Act (HMDA) data show that the share of mortgage loan originations to low- and moderate-income homebuyers fell from 36 percent in 2010 to 27 percent in 2014. Over this same period, the share of originations to black homebuyers edged down from a modest 6 percent to 5 percent, while the share to Hispanic homebuyers remained steady at about 8 percent.

In 2015, FHA, Fannie Mae, and Freddie Mac all took steps to expand mortgage credit availability. In addition to introducing lower downpayment options, both Fannie Mae and Freddie Mac updated and clarified their origination and servicing standards, as well as policies for repurchase requests, in an effort to reduce the credit overlays applied by many lenders. FHA took similar steps and also lowered its mortgage insurance premium from 1.35 percent to 0.85 percent. Despite these and other moves, however, measures of mortgage credit availability showed that conditions remained tight in the first quarter of 2016.

CHANGES IN MORTGAGE ORIGINATION CHANNELS

The weakness in mortgage originations in 2015 was accompanied by changes in the regulatory environment resulting from the rollout of Dodd-Frank Act provisions and other rulemaking. These changes, along with recent enforcement actions, may have dampened lending activity as lenders adjust to the new standards.

The Ability to Repay rule (also known as the Qualified Mortgage rule), which took effect in January 2014, requires mortgage loan originators to collect more income documentation and verify applicants' ability to afford new loans. Although noting slight reductions in the share of high-priced loans following implementation, a Federal Reserve Board analysis of HMDA data concluded that the new rule "did not materially affect the mortgage market in 2014." In the future, however, the rule may have larger impacts if credit conditions loosen sufficiently to increase lending to higher-risk borrowers.

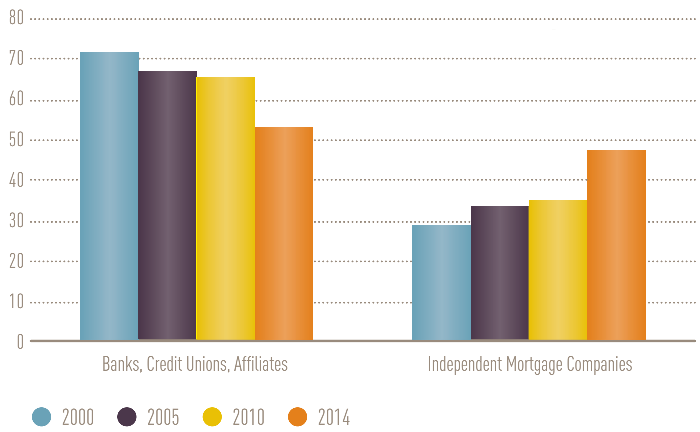
Building on these changes, the Consumer Financial Protection Bureau's "Know Before You Owe" rule was rolled out in October 2015, revising the disclosure documents that lenders must provide borrowers. Lenders have argued that the new disclosure forms raise origination costs and lengthen the time required for some closings. However, it is still too early to know whether any increase in origination costs will dissipate once lenders adjust to the new standards, or to determine whether the new disclosure forms substantially improve borrowers' experiences.

At the same time that the regulatory environment is changing, the types of institutions originating and funding loans are also undergoing a shift. Between 2010 and 2014, independent mortgage companies continued to grow their market share from 35 percent of home purchase mortgage originations to 47 percent **(Figure 24).** In contrast, the bank share declined steadily from 50 percent to 40 percent over this same period. Meanwhile, Fannie Mae and Freddie Mac remain the primary funding source for

FIGURE 24

Independent Mortgage Companies Have Increased Their Share of the Home Purchase Loan Market

Share of Originations (Percent)

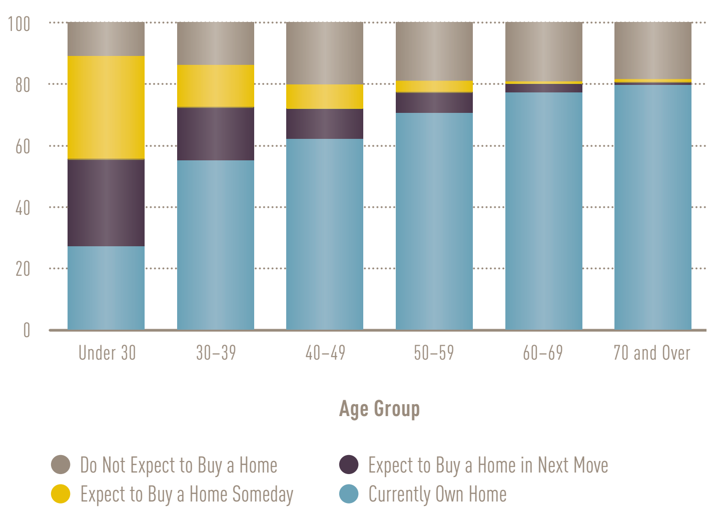


Notes: Originations include all first-lien home purchase mortgages for one- to four-family, owner-occupied, site-built homes. Affiliates include mortgage companies owned by a bank, credit union, or its parent company.
Source: N. Bhutta, J. Popper, and D. Ringo, The 2014 Home Mortgage Disclosure Act Data, *Federal Reserve Bulletin* 101(4), November 2015.

FIGURE 25

The Vast Majority of Households Either Own Homes or Expect to in the Future

Share of Survey Respondents (Percent)



Source: JCHS tabulations of The Demand Institute, 2015 Consumer Housing Survey data.

mortgage originations, with private-label securities accounting for less than 5 percent of gross issuance of new mortgage backed securities.

THE OUTLOOK

In the short term, tight credit conditions, the limited supply of homes for sale, and relatively high foreclosure volumes may continue to push down the national homeownership rate. Over the long term, however, demographic patterns, household attitudes, and economic conditions are likely to play larger roles in shaping the market.

The aging of the large millennial generation has the potential to produce millions of new homeowners in the coming years. In fact, most Americans believe that homeownership is not only desirable but also attainable **(Figure 25).** A 2015 Demand Institute survey found that 83 percent of respondents expected to own homes in the future. Among renters, 52 percent expected to own homes, including 28 percent who anticipated buying a home with their next move, and 24 percent who expected to buy "someday." Moreover, especially large shares of younger renters expect to become homeowners, including 85 percent of those under age 30 and 69 percent of those aged 30–39.

The ability of these households to buy homes will depend on future economic, housing, and credit conditions. While these factors are difficult to predict, slowing foreclosures and the relative affordability of homeownership suggest that the owner-occupied housing market is likely to recover. The coming years will be instructive about the extent to which improving economic conditions translate into broader demand for homeownership, as well as into increases in the supply of homes accessible to entry-level homebuyers.