

THE DREAM IS STILL ALIVE

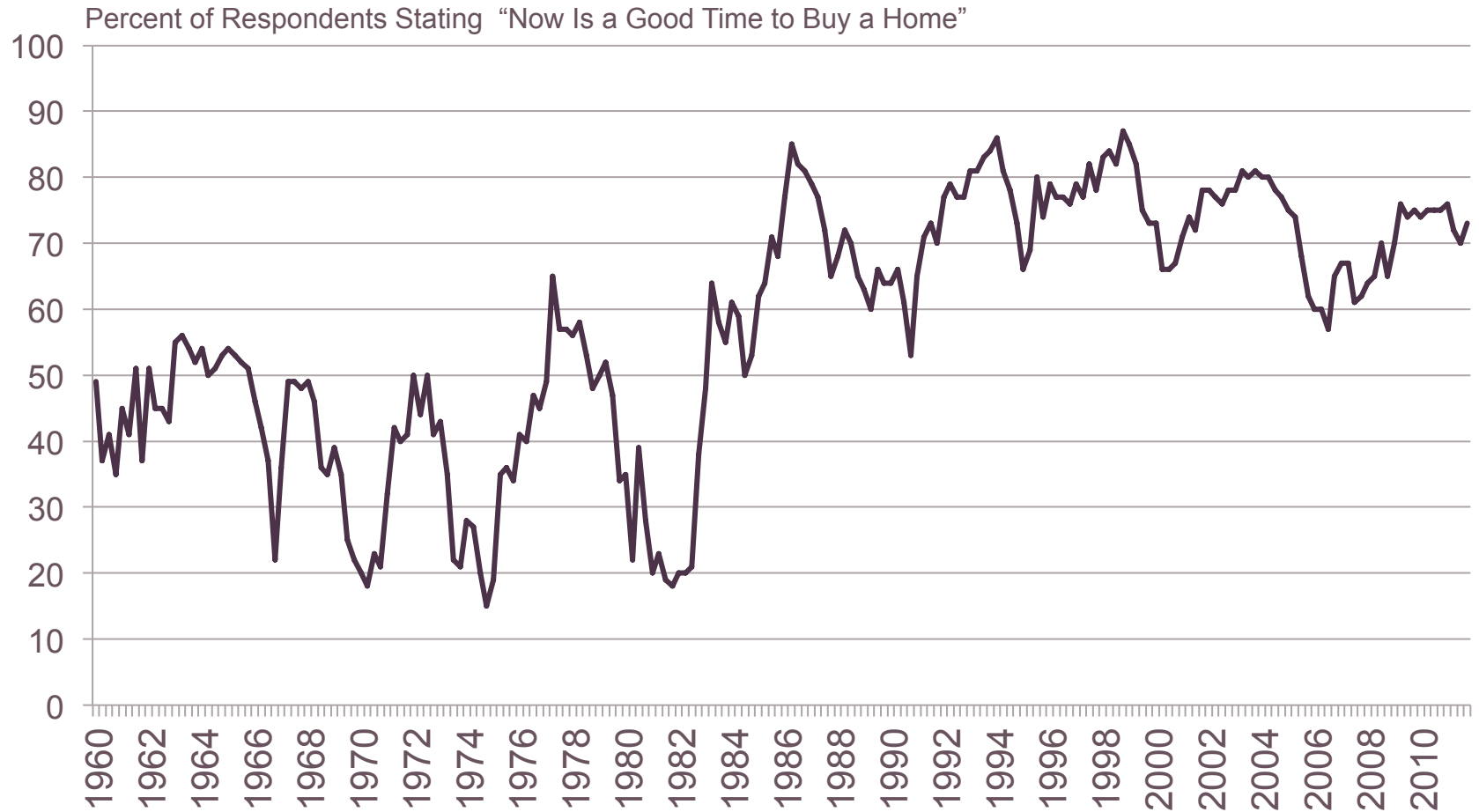
Federal Reserve Bank of Atlanta

Eric Belsky
May 2013

Future of Homeownership in the US

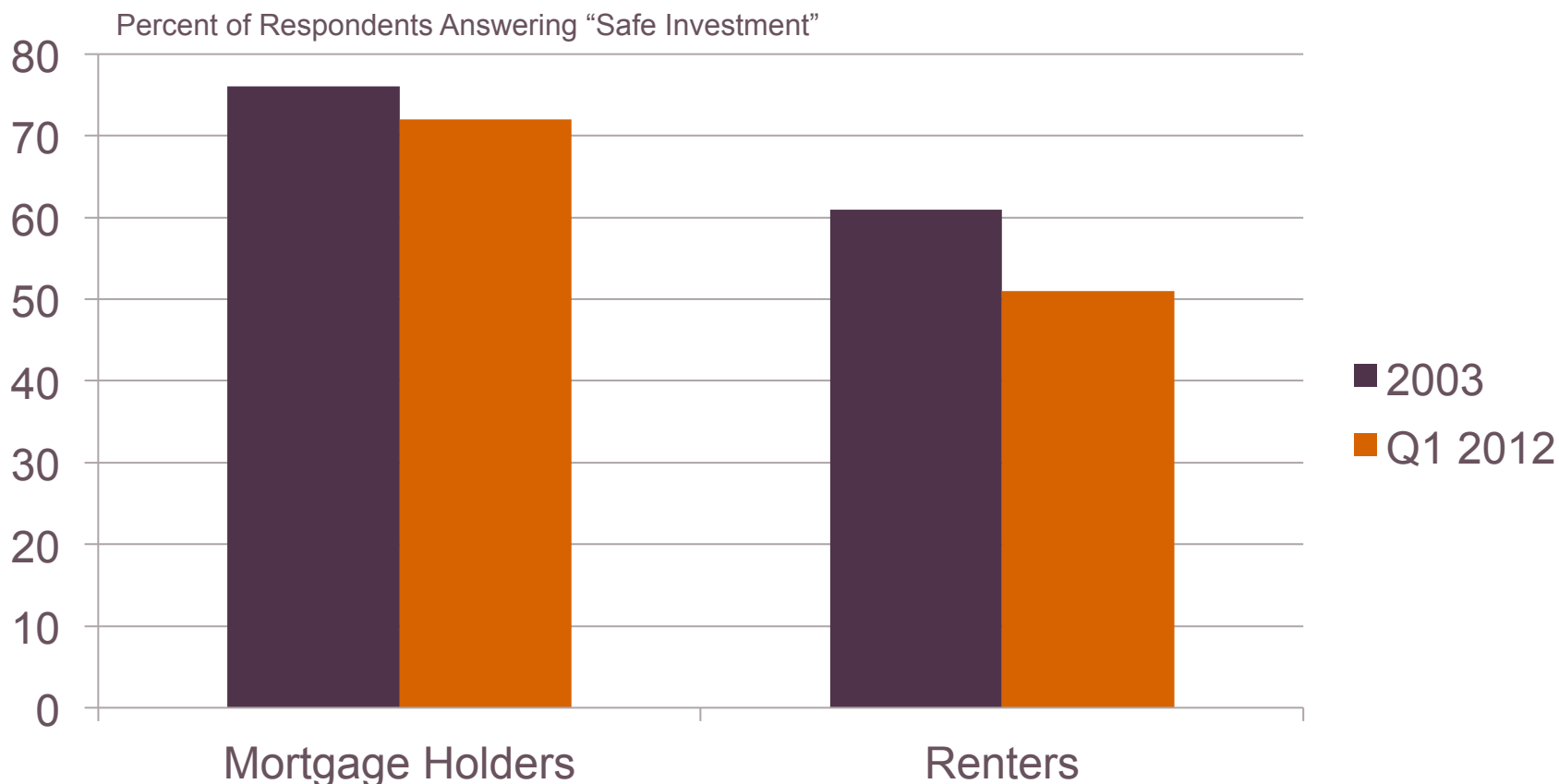
- View of home as safe investment took biggest hit, especially among renters
- Overwhelming share of people expect to buy a home at some point in the future
- Housing and credit market conditions have an unambiguous impact on the propensity to own
- With rents and home prices back on the rise in many markets, homeownership may well stage a rebound
- But credit constraints may block the path and exacerbate pernicious wealth disparities

Opinions on “Good Time to Buy” Took a Surprisingly Small Recent Dip Despite Cycling with Market Conditions



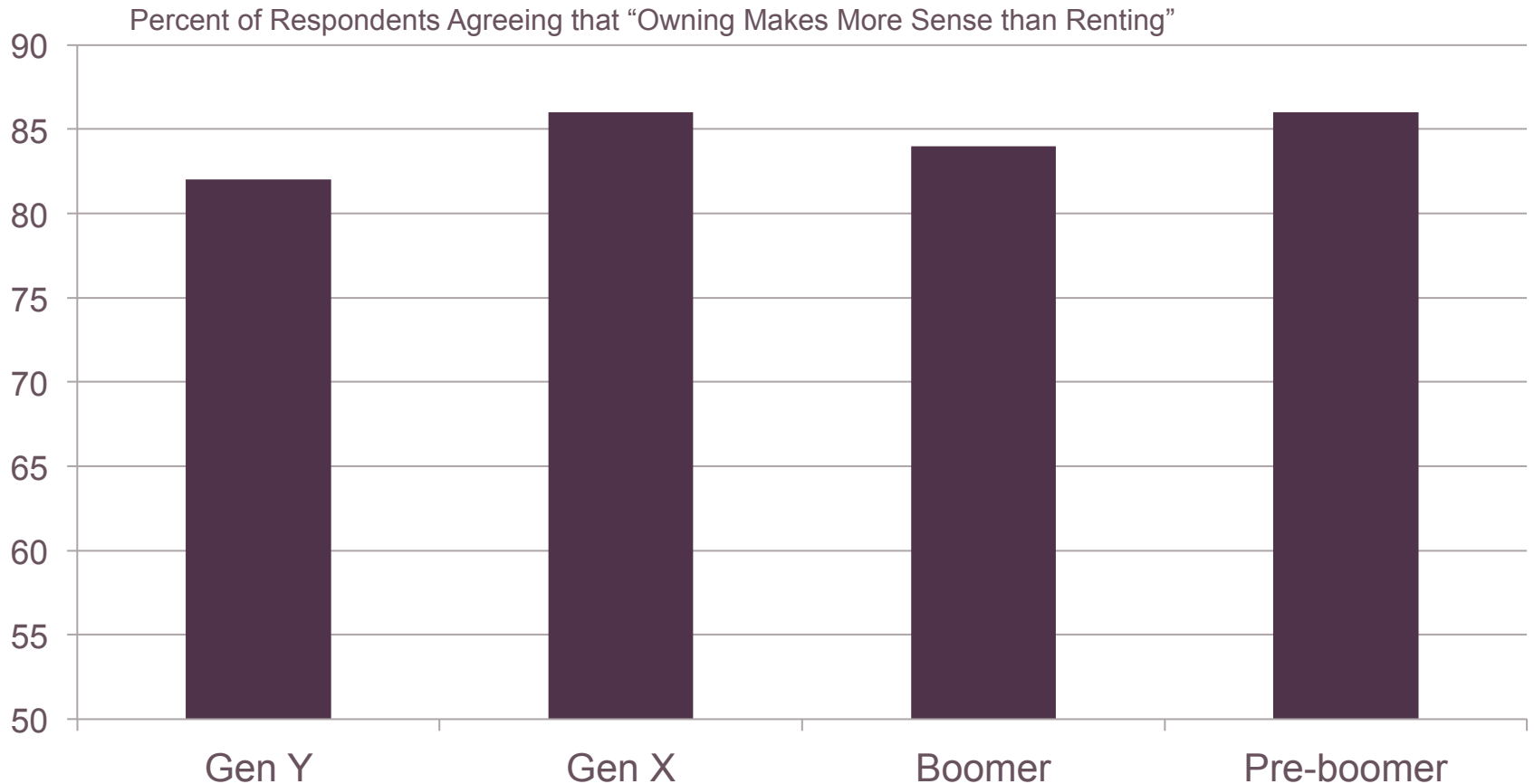
Source: Thomson Reuters & University of Michigan, Survey of Consumers.

Perceptions of Housing as a Safe Investment, At Least Among Renters, Took a Big Hit



Sources: Fannie Mae, National Housing Survey, 2003 & Q1 2012.

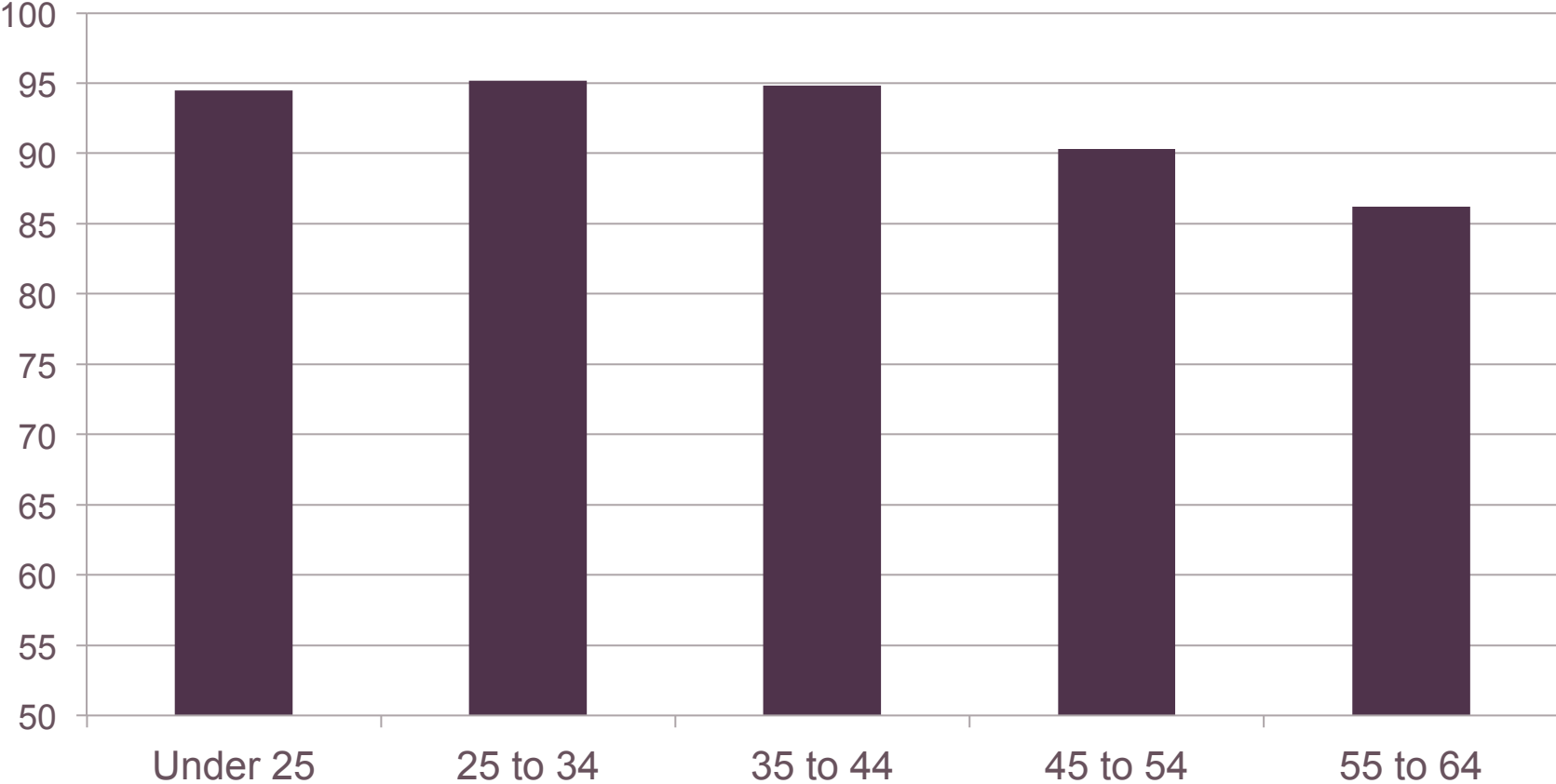
Majority of All Age Groups Think Owning Makes More Financial Sense Than Renting



Source: Fannie Mae, National Housing Survey Q1 2012.

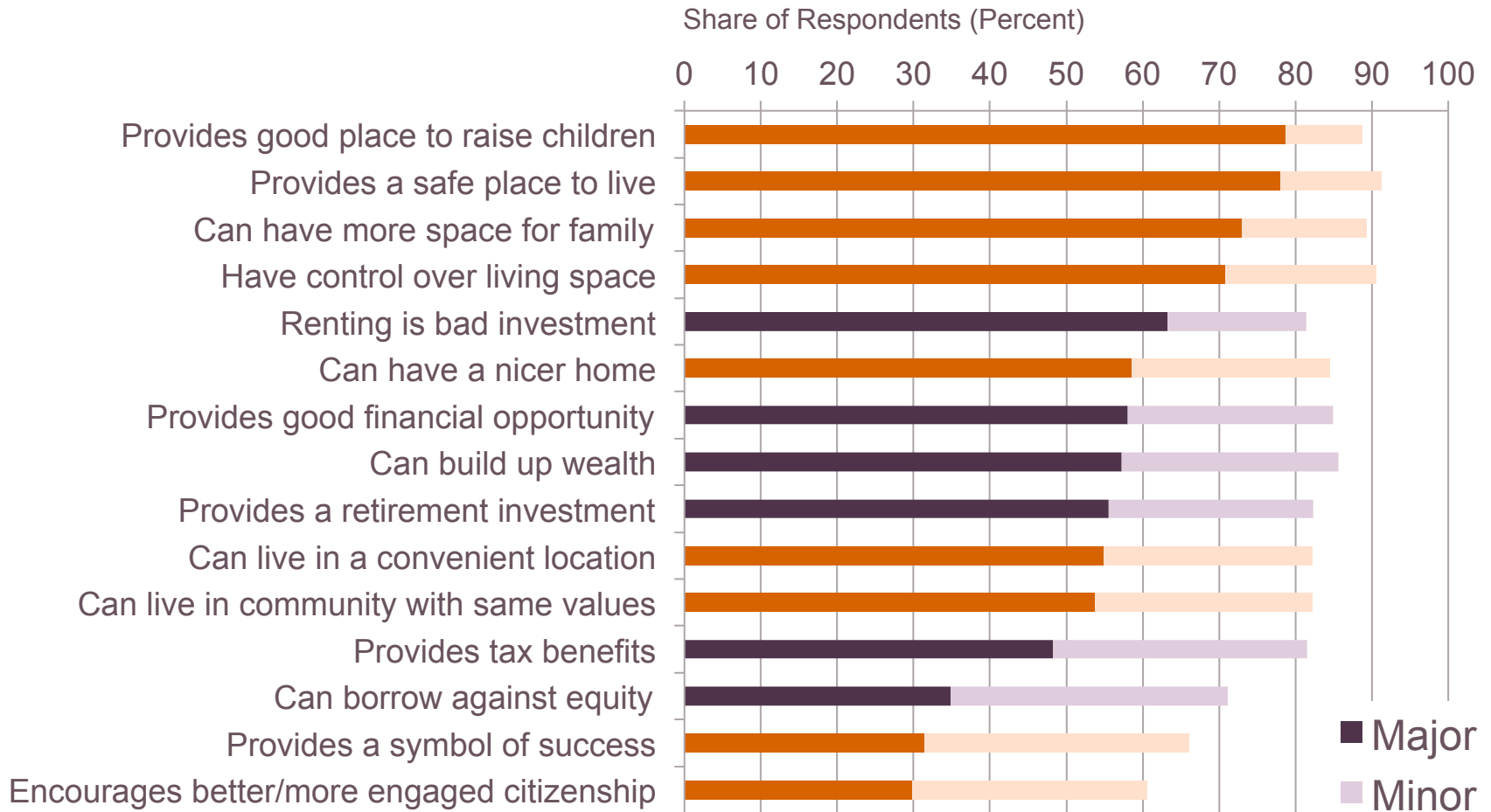
Overwhelmingly, People Expect to Buy in the Future All

Percent of Respondents Who Expect to Buy a Home at Some Point in the Future



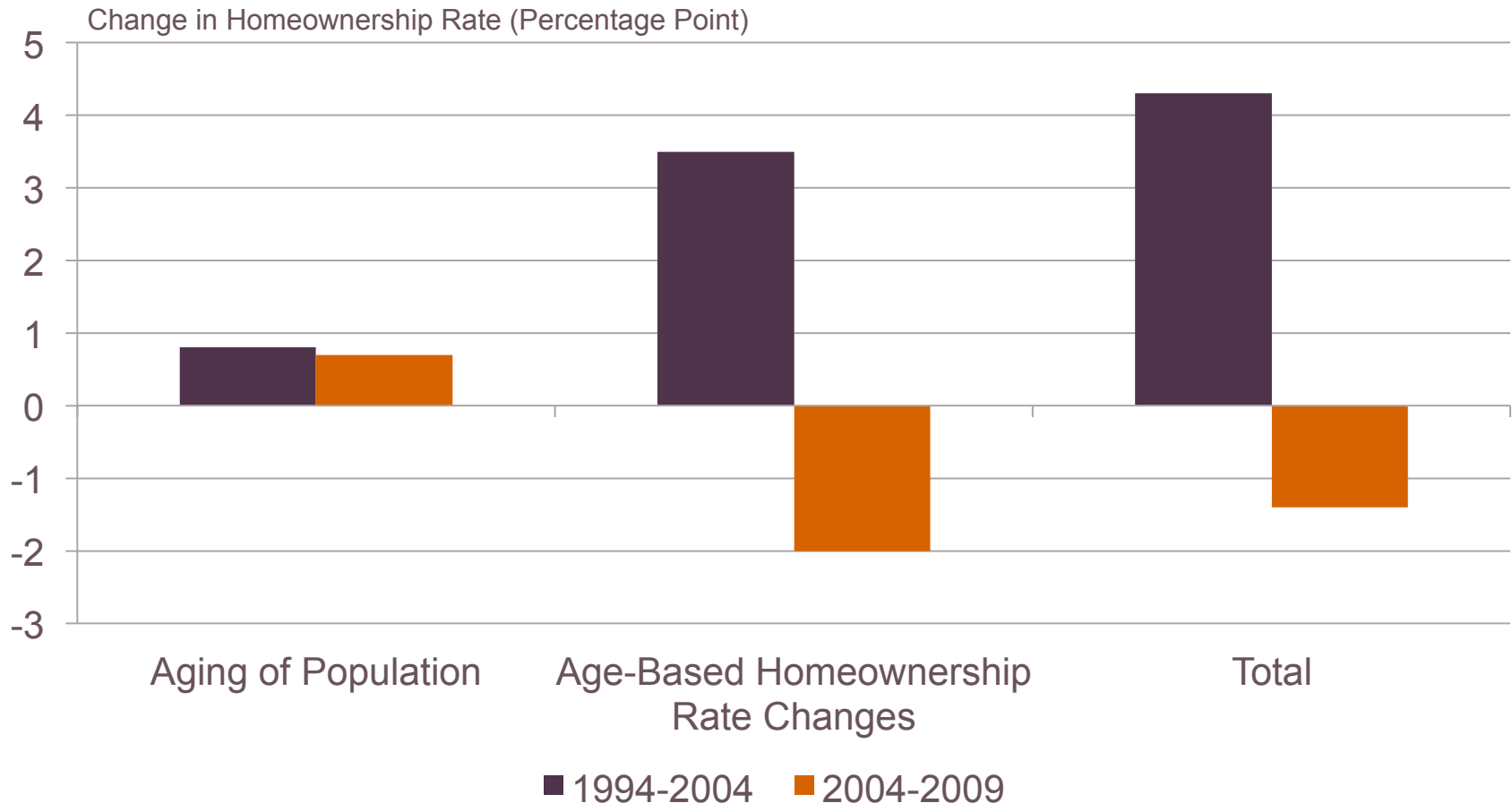
Source: Drew and Herbert, 2012. Based on Fannie Mae National Housing Survey 2010-2012.

Lifestyle Issues Top List of Reasons for Buying a Home



Note: Orange bars are considered lifestyle reasons while purple bars are considered financial reasons for buying a home.
Source: Drew and Herbert, 2012.

Changes in Age-Specific Ownership Rates Drove Boom and Bust in National Homeownership

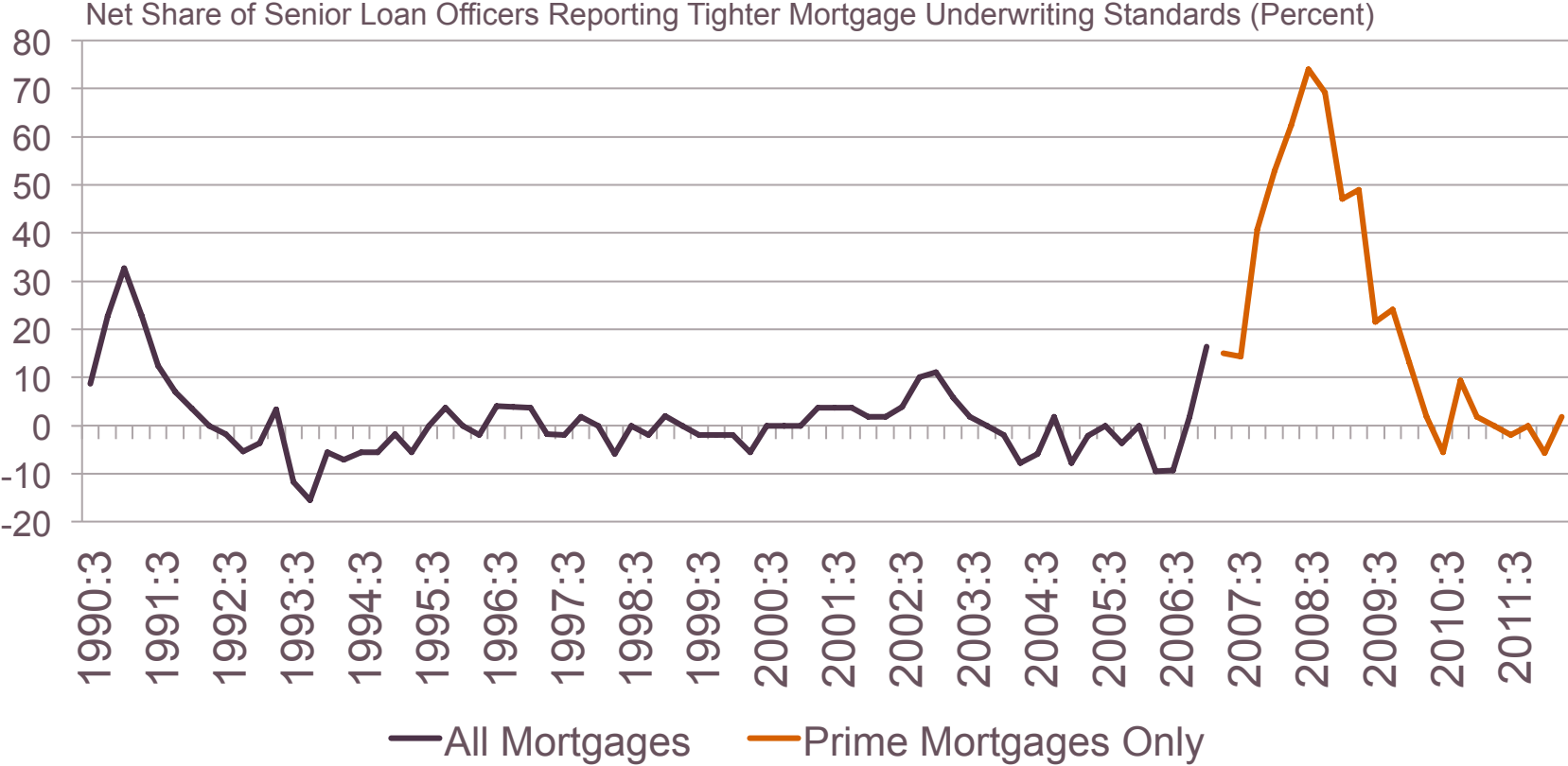


Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

Housing and Credit Market Conditions Have Powerful Impact on Tenure Choice

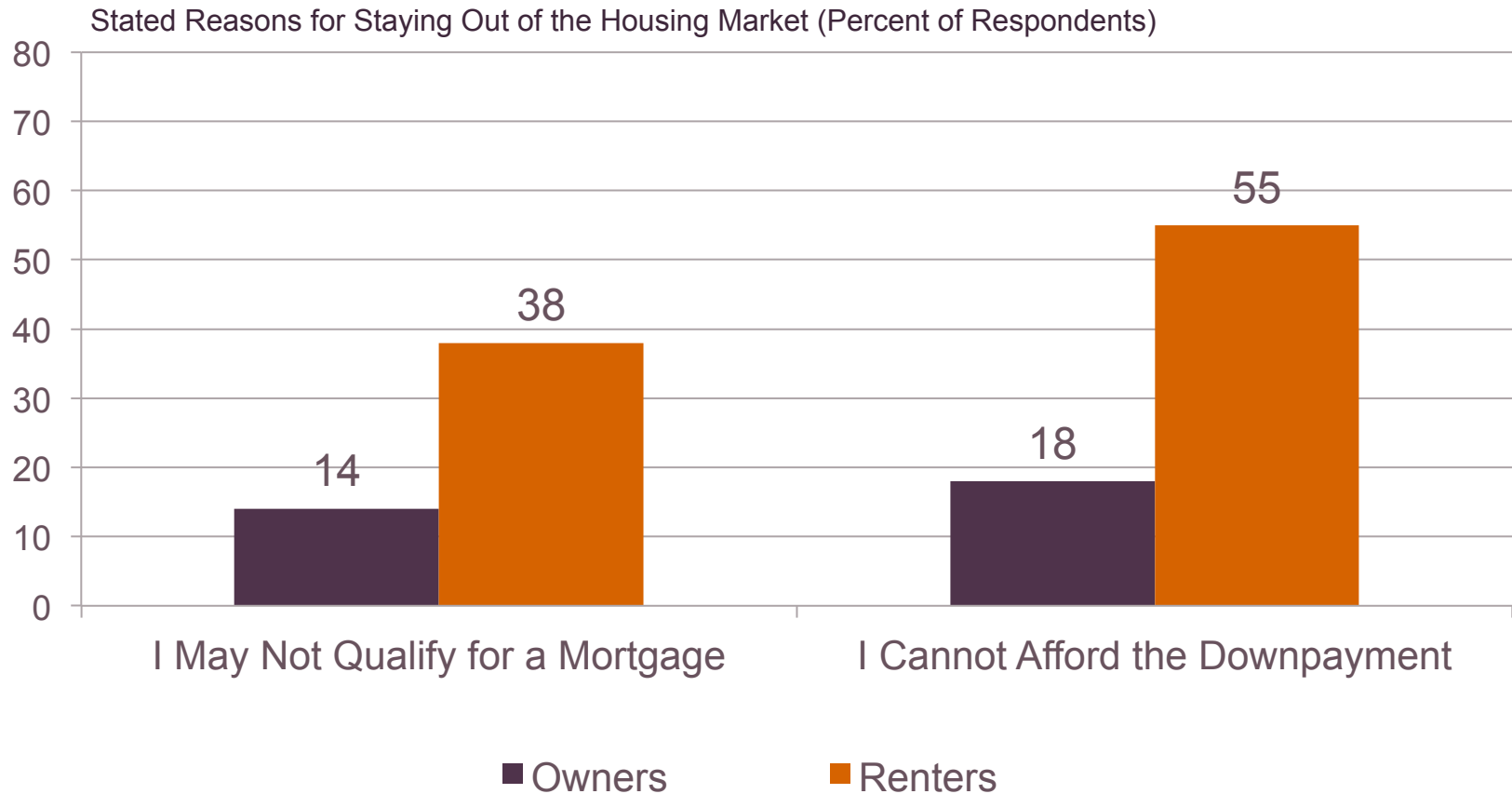
- Gabriel and Rosenthal (2011) found that if coefficients on key proxies for tightness in underwriting from 2005 were applied to 2000, national homeownership rate in 2000 would have been 6.2 percentage points higher
- Rosenthal (2002) found that, all else equal, if all borrowing constraints (including on past credit problems) in 1998 had been lifted the homeownership rate would have been 4 percentage points higher

Loan Officers Report Tighter Credit Standards



Note: Data series for all mortgages was replaced by individual series for prime and subprime loans in 2007.
 Source: JCHS tabulations of the Federal Reserve Board, Senior Loan Officers Survey.

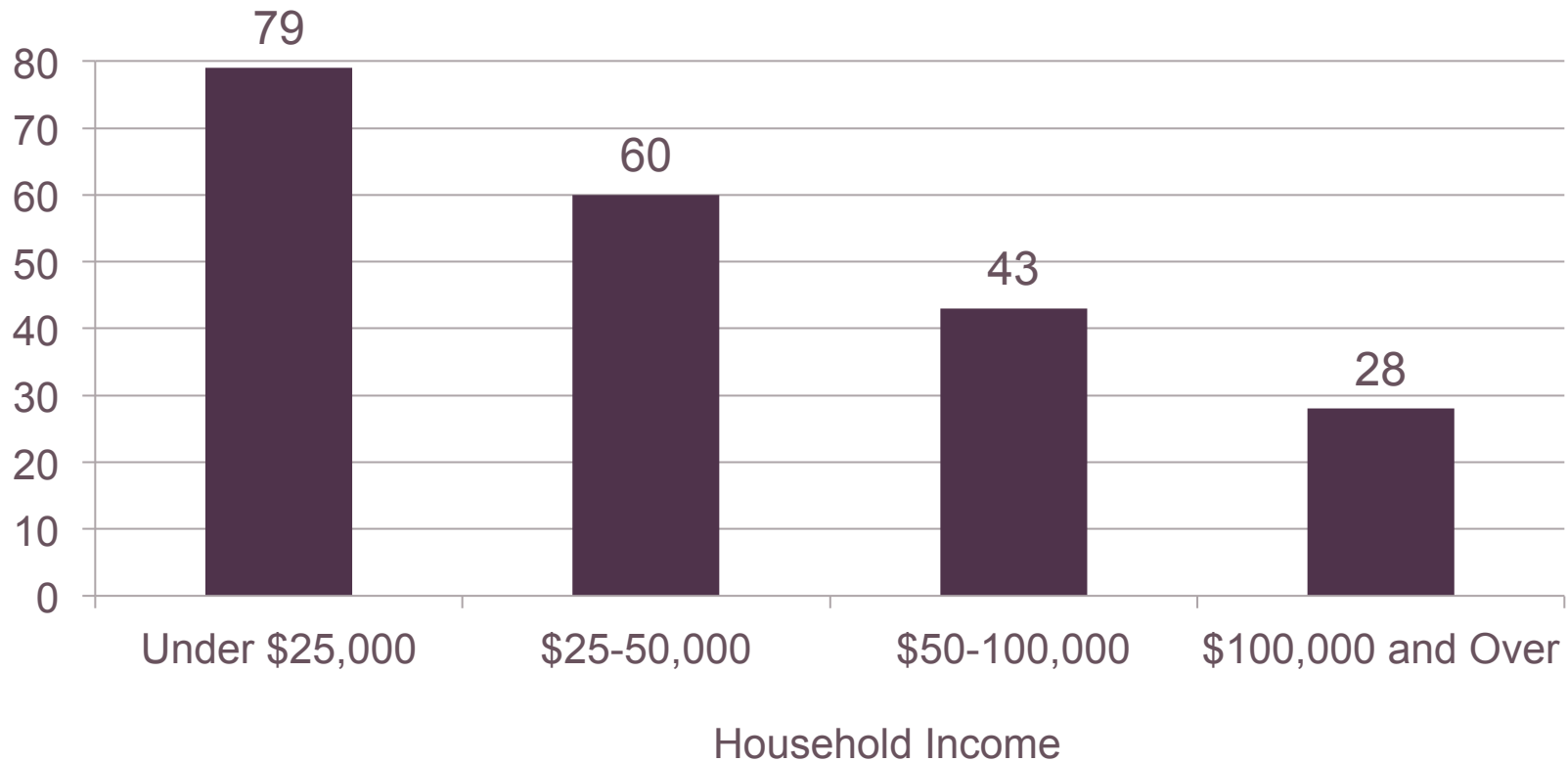
Financing Constraints Weigh Heavily on Perceptions, Likely Keeping Some Out of Market



Source: Hanley Wood Housing 360 Survey, 2011.

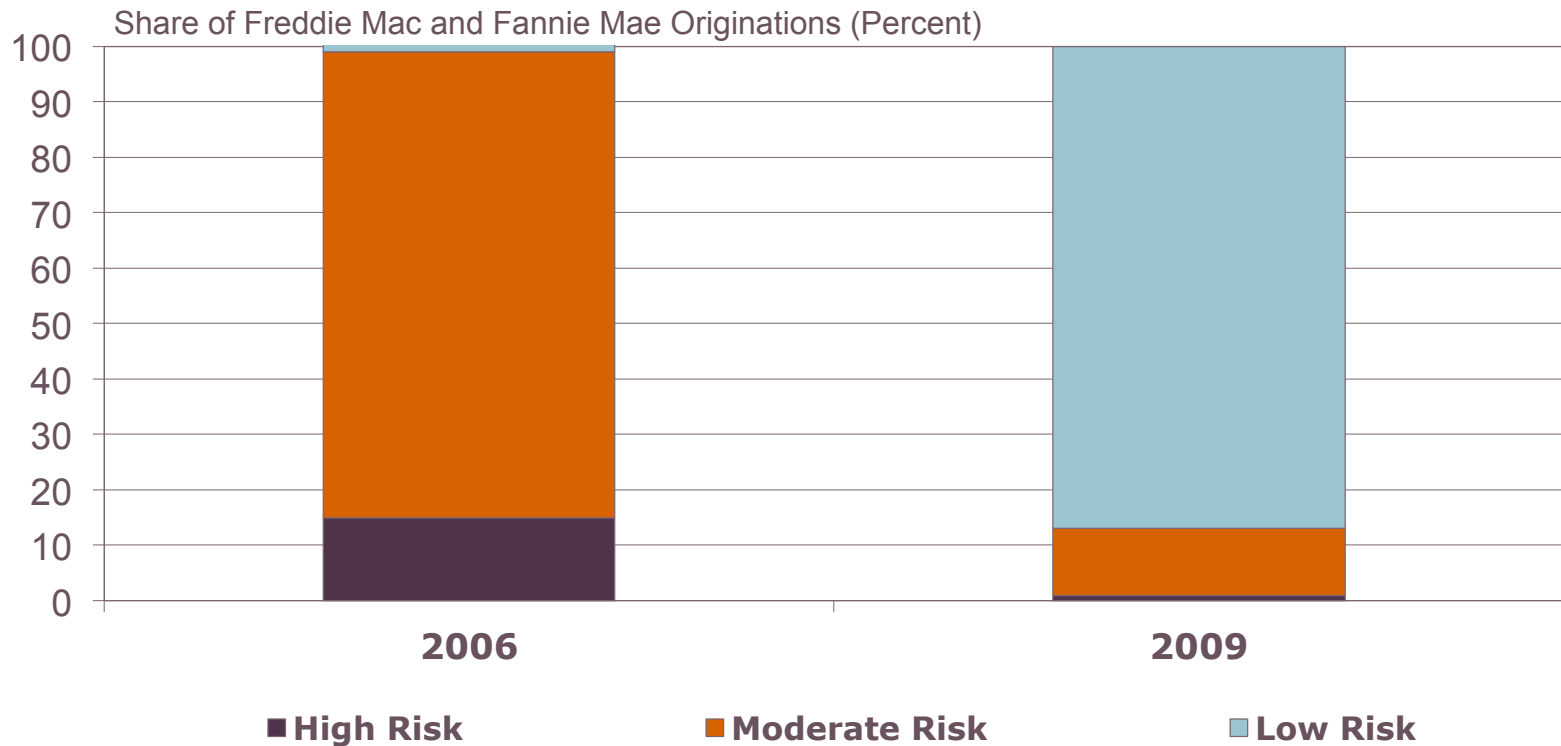
... And Those with the Lowest Incomes Most Keenly Feel the Challenges in Getting Mortgages

Share Stating Mortgage Accessibility Today is Difficult (Percent of Respondents)



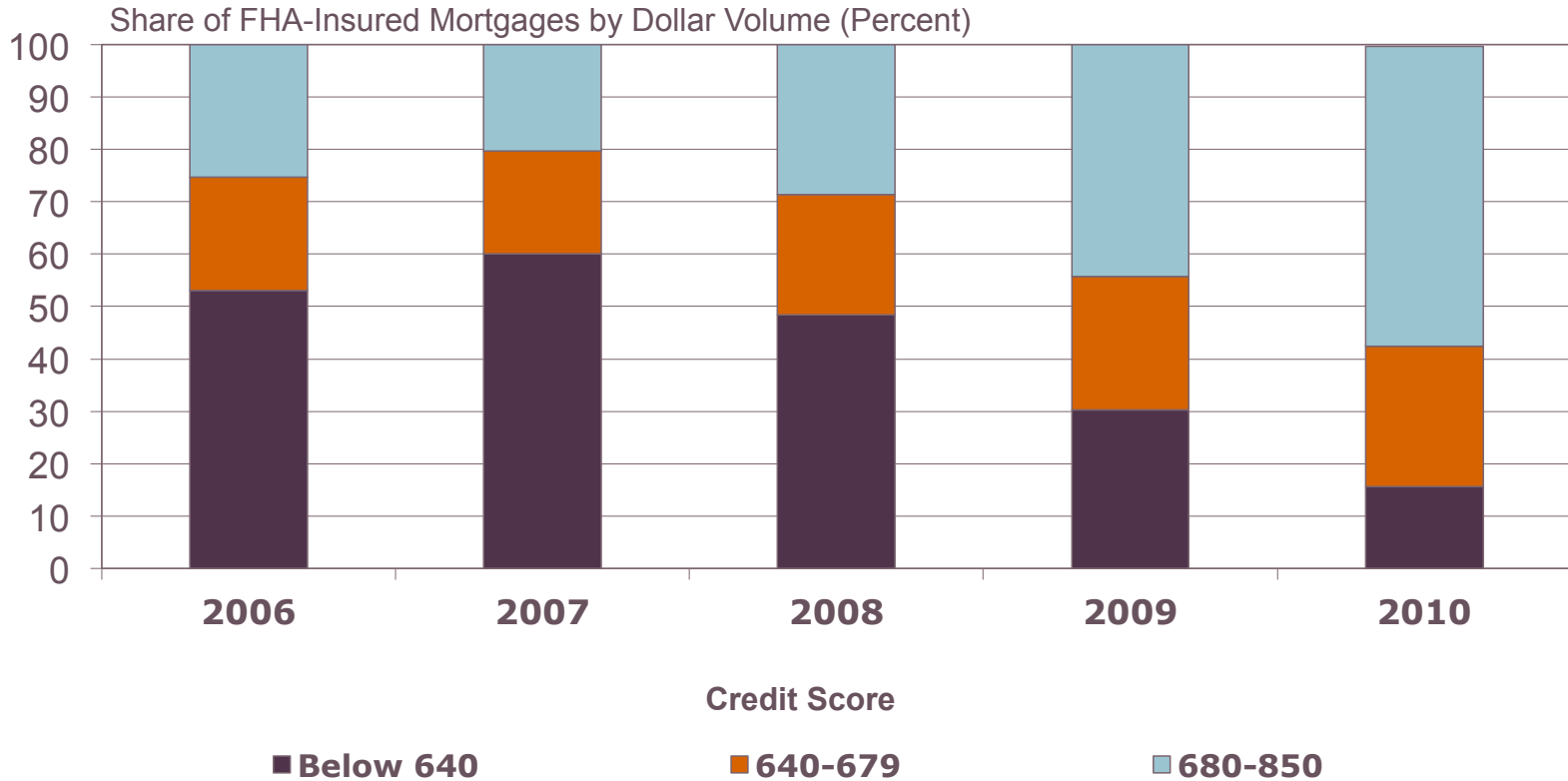
Source: Fannie Mae National Housing Survey, 2011:Q3.

Fannie and Freddie Have Shifted Dramatically Toward Lower-Risk Loans



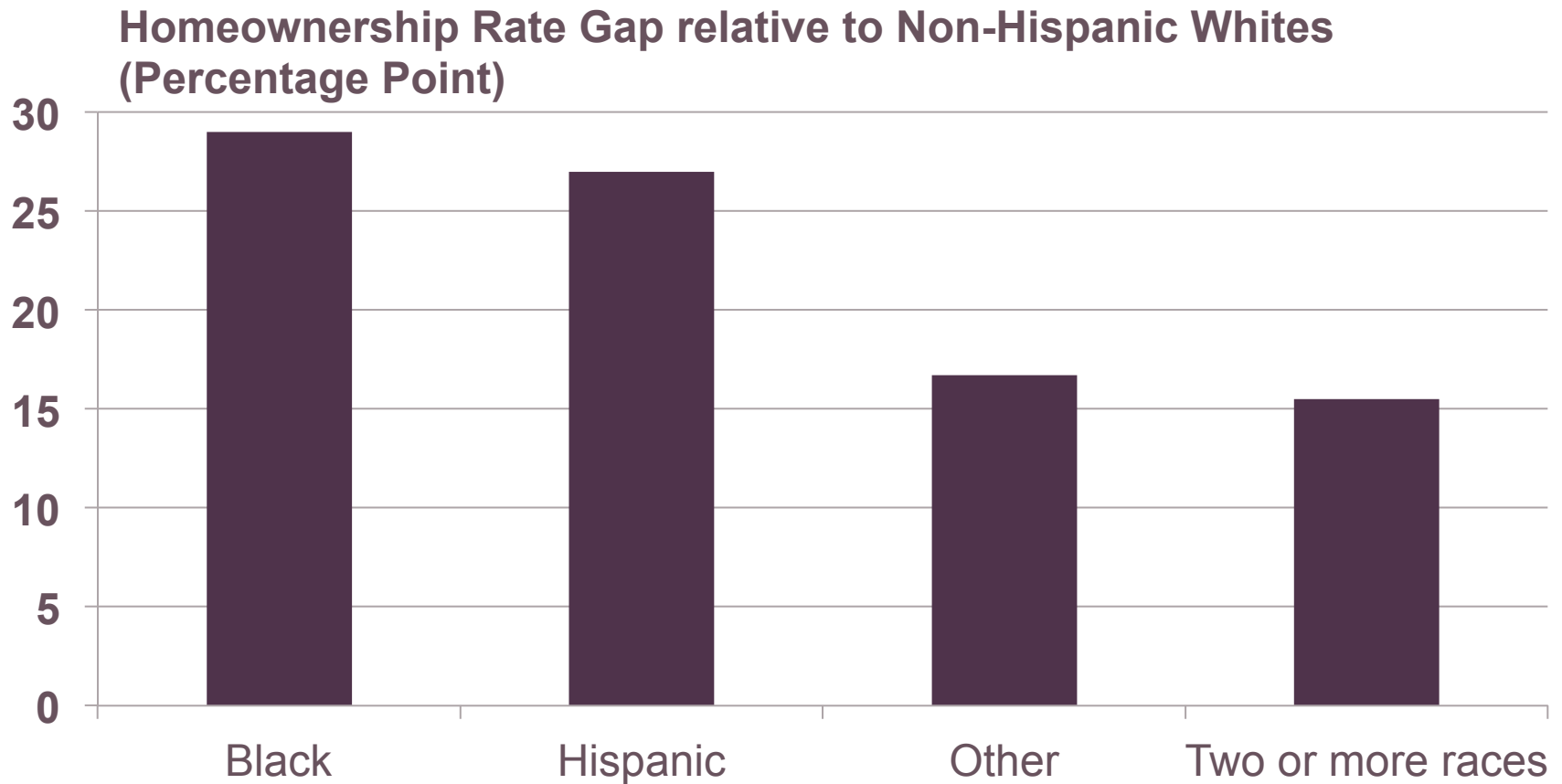
Notes: High (low) risk loans are to borrowers with credits scores under 690 (above 750) and have loan-to-value ratios above 85% (below 75%).
Source: Barclays Capital, *GSEs: Back to the Future, US Interest Rates Strategy, 2009*.

FHA Credit Scores Distributions Have Shifted Towards Higher Scores



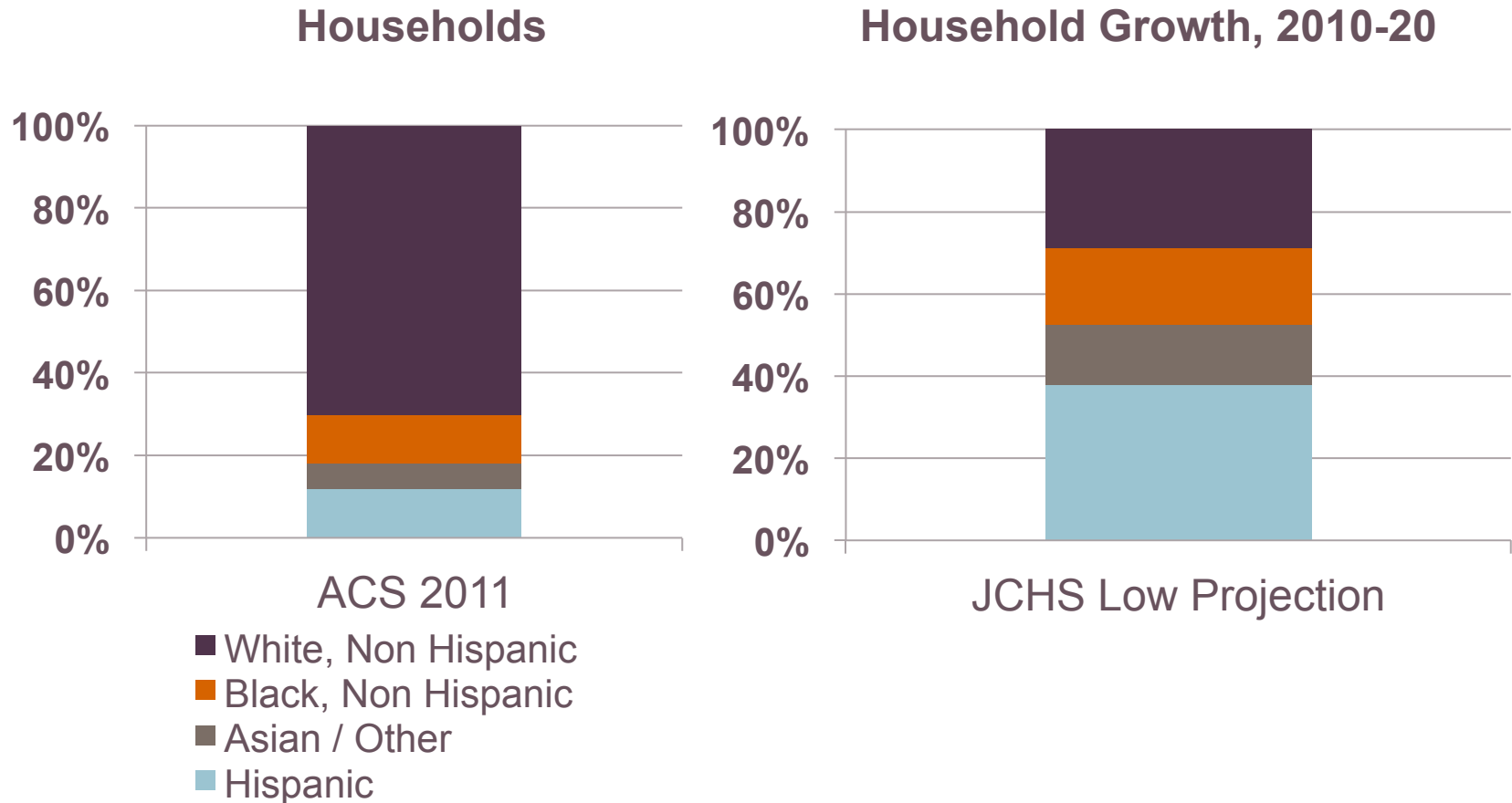
Note: FHA data exclude records with no credit score information.
Source: US Department of Housing and Urban Development.

Minority Homeownership Gaps are Wide



Note: Black, multi-race, and other householders are non-Hispanic. Hispanics may be of any race.
Source: US Census Bureau, Current Population Survey/Housing Vacancy Survey, Q2 2012.

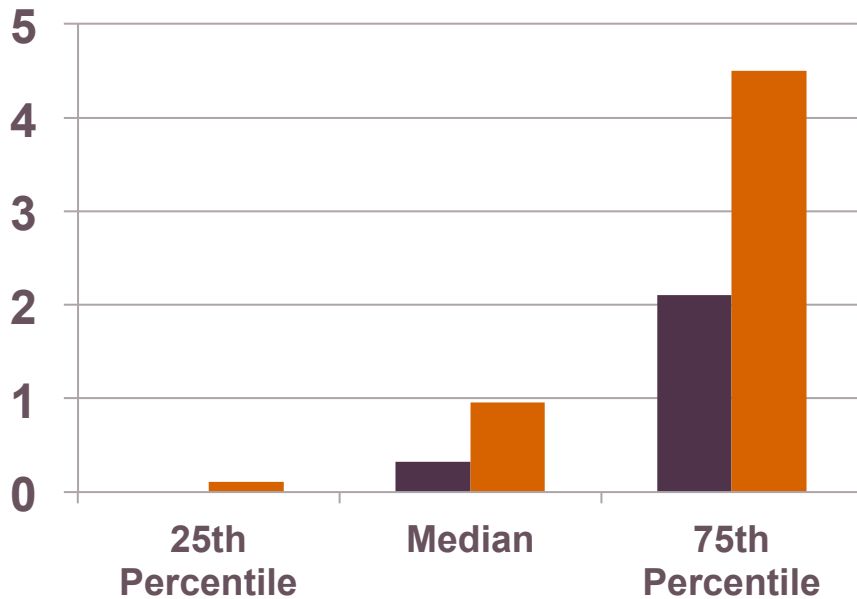
Minorities Will Drive Household Growth



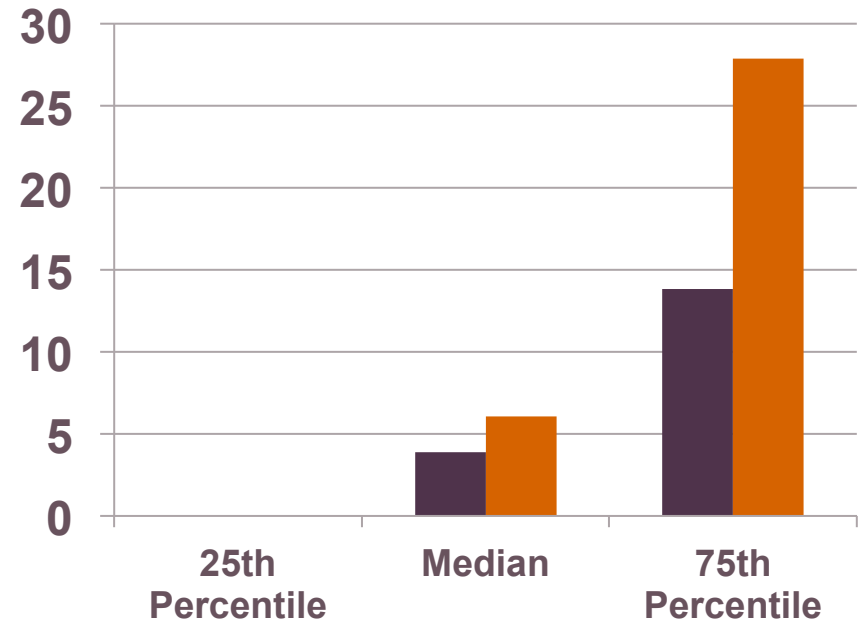
Sources: JCHS 2010 Household Growth Projections and US Census Bureau, 2011 ACS

Renters Have Minimal Savings and Wealth

Cash Savings (Thousands of dollars)



Total Net Wealth (Thousands of dollars)



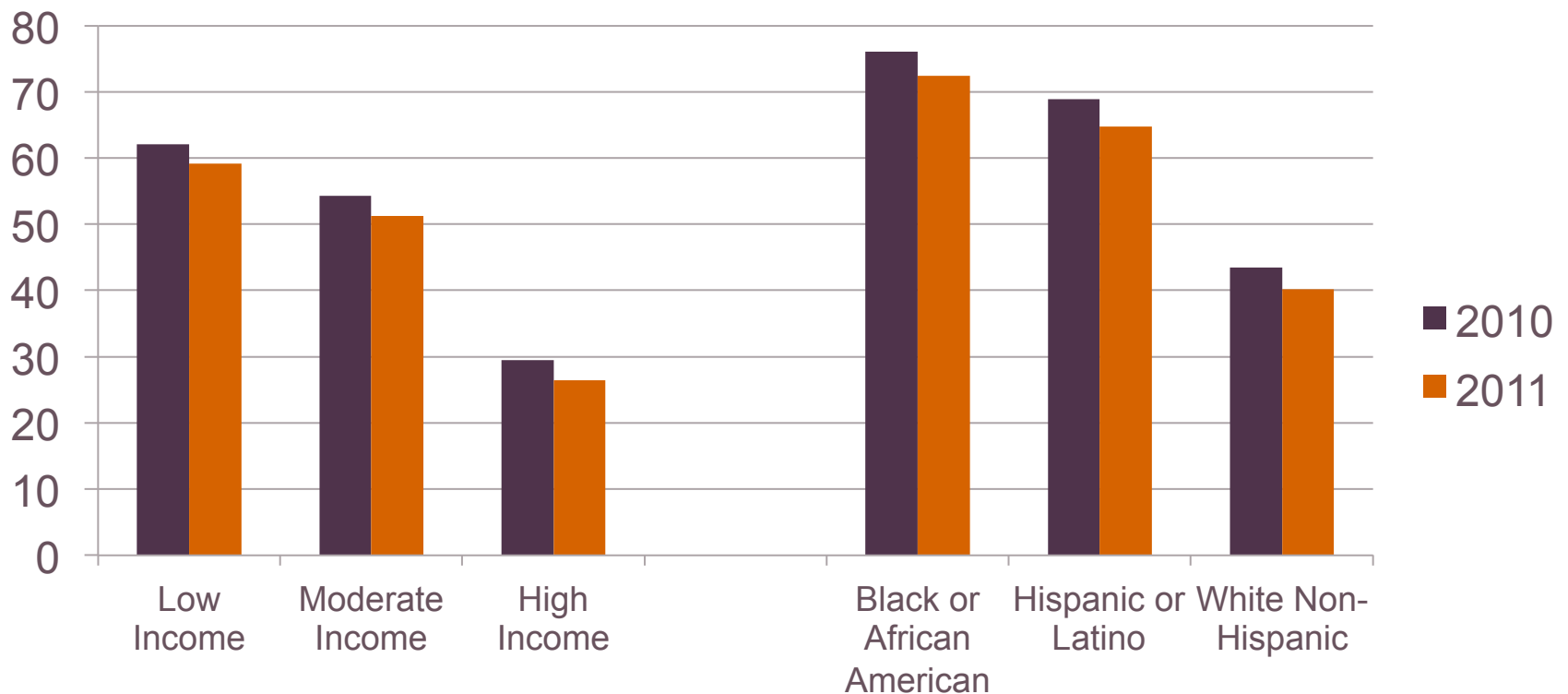
■ Minority

■ White, Not-hispanic

Notes: Data for Renters only. Cash savings includes checking, saving, CD and money market accounts.
Source: JCHS tabulations of 2010 Survey of Consumer Finances.

What Happens to FHA is Especially Important to The Fledgling Recovery

Share of Home Purchase Loans with Federal Backing (Percent)



Notes: Federally backed loans include FHA/VA and USDA Rural Housing loans. Low income is defined as less than 80 percent of area median income (AMI), moderate income is between 80 and 120 percent of AMI, and high income is above 120 percent of AMI. White householders are non-Hispanic; Hispanics may be of any race; Black households may also be Hispanic.

Source: JCHS tabulations of 2010 and 2011 Home Mortgage Disclosure Act published tables.

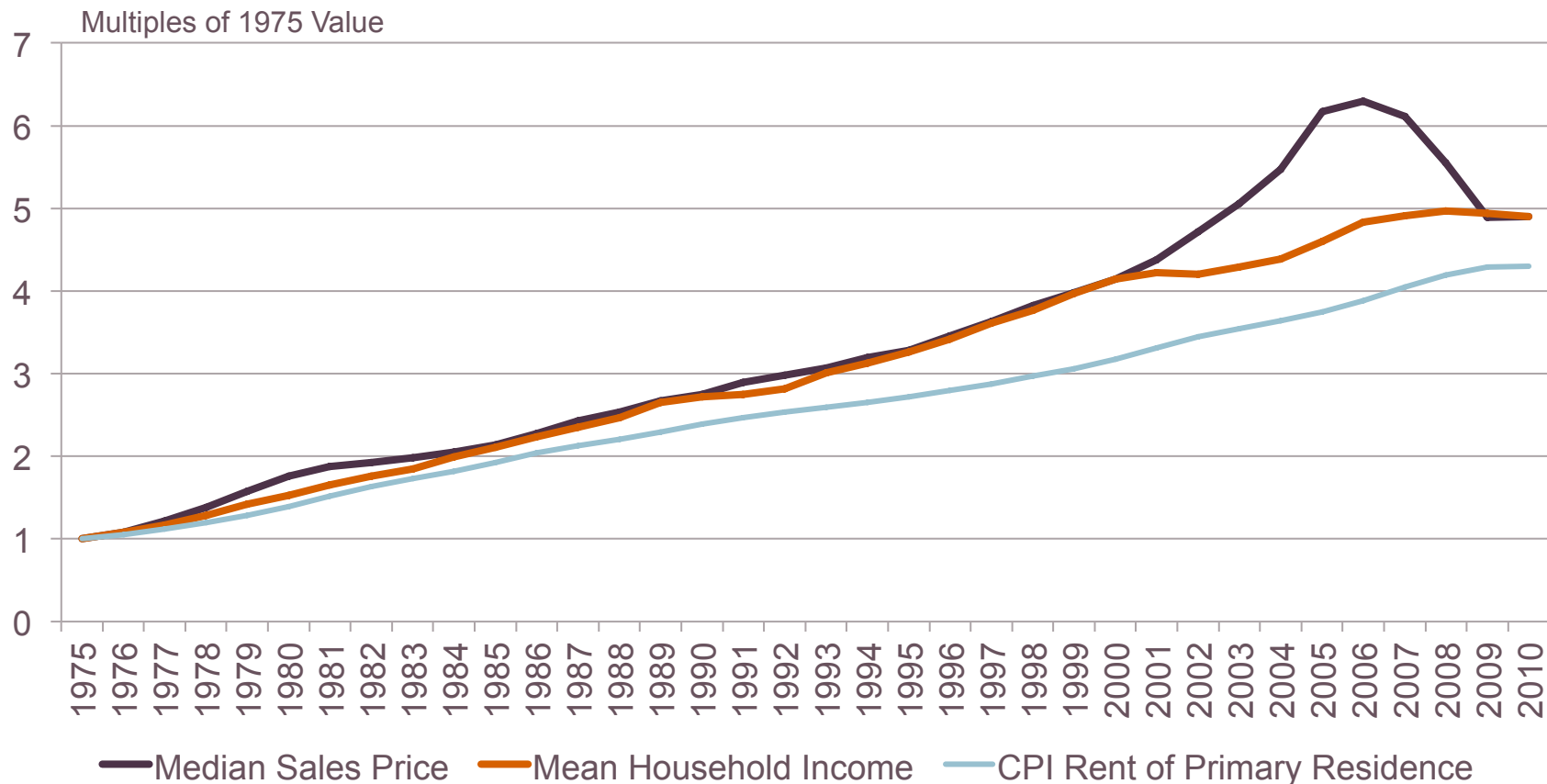
Why Homeownership Likely Will Persist

- People aspire towards it and intend to buy
- Most think it makes more financial sense than renting
- People associate homeownership with better communities and places to live
- People have many other nonfinancial reasons to own
- Owning a home is the only significant leveraged investment most households can make

Why Homeownership Likely Will Persist

- People that consume housing have to own or rent and owning allows them to pay down principal rather than landlords' and provide landlord with a risk-adjusted rate of return
- Homeownership can be an important form of forced savings
- Homeownership has substantial benefits, and the MID and RED are not larges of them
- During periods of home price and rent appreciation, homeownership can provide a hedge against inflation
- Over long periods housing costs and prices tend to rise at about the rate of inflation

Over Long-Run, House Prices Tend to Rise With Average Household Incomes and Rents Rise But Lag Them

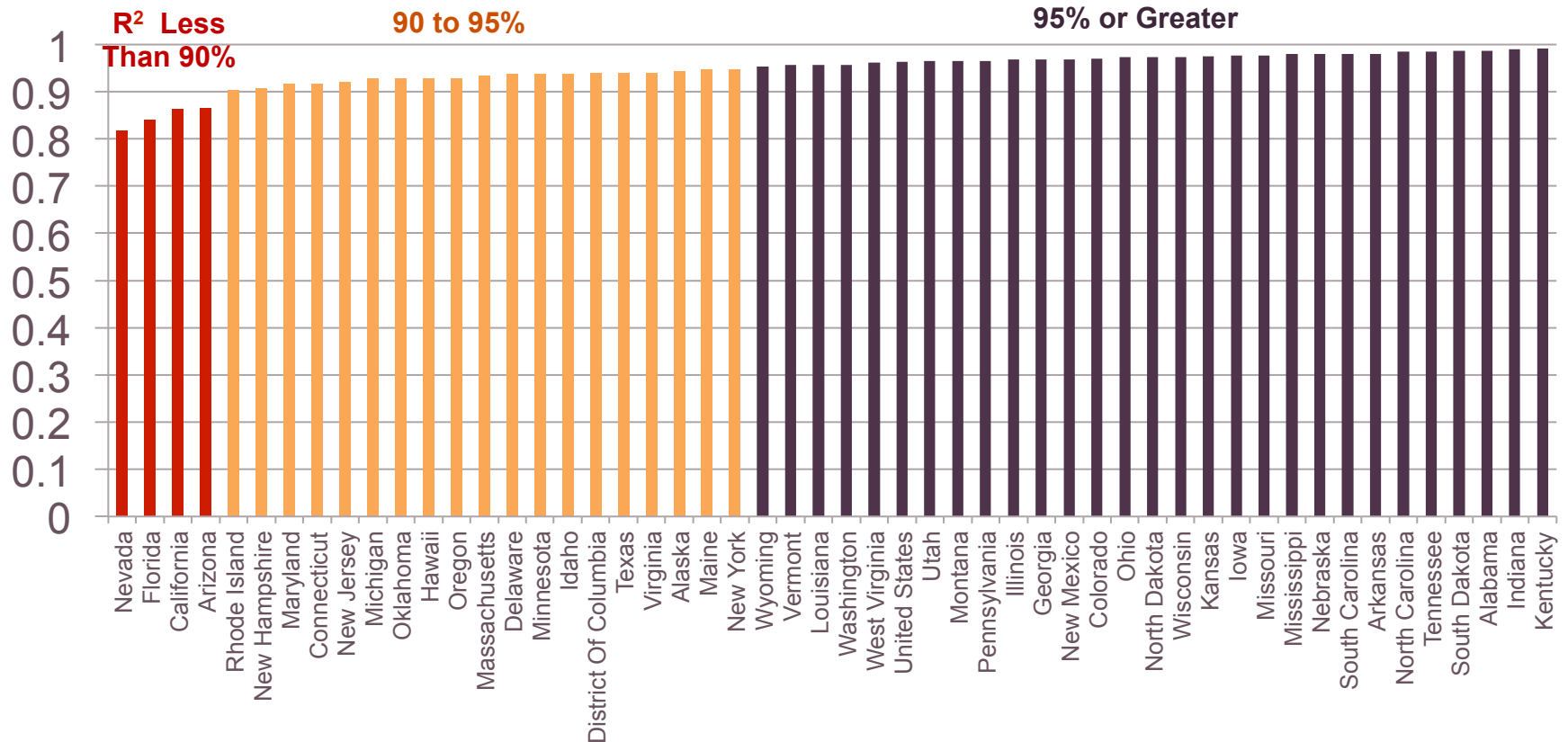


Note: All values are in nominal dollars.

Sources: NAR Median Sales Price, Existing Single Family Homes; Moody's Economy.com tabulations of US Census Bureau CPS data; Federal Reserve Economic Data tabulations of Bureau of Labor Statistics Consumer Price Index.

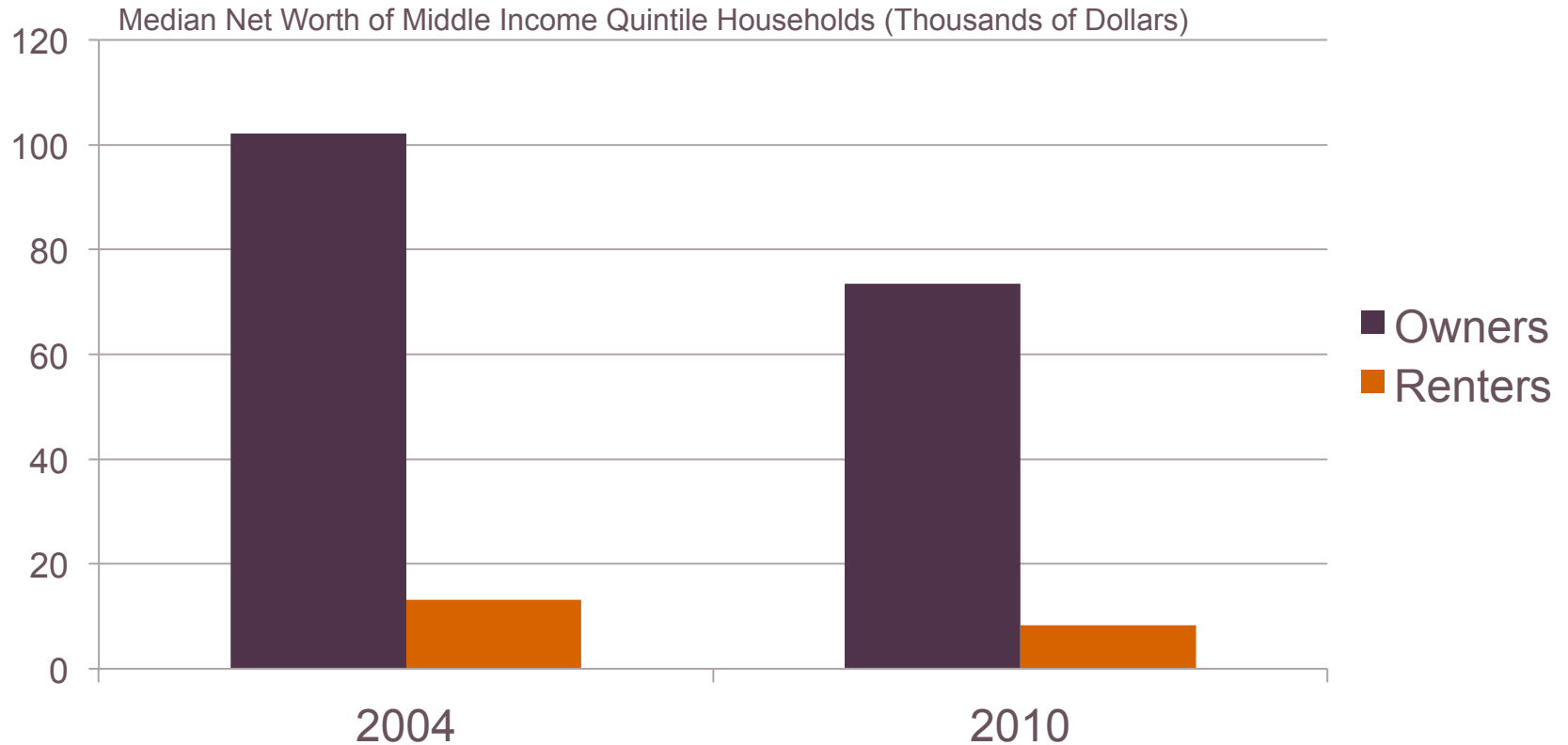
In the Long Term, State House Prices Follow Per Capita Incomes

R-Squared (Regressing HPI to Per Capita Income, 1975-2011)



Sources: JCHS tabulations of FHFA HPI and US Bureau of Labor Statistics data, via Moody's economy.com

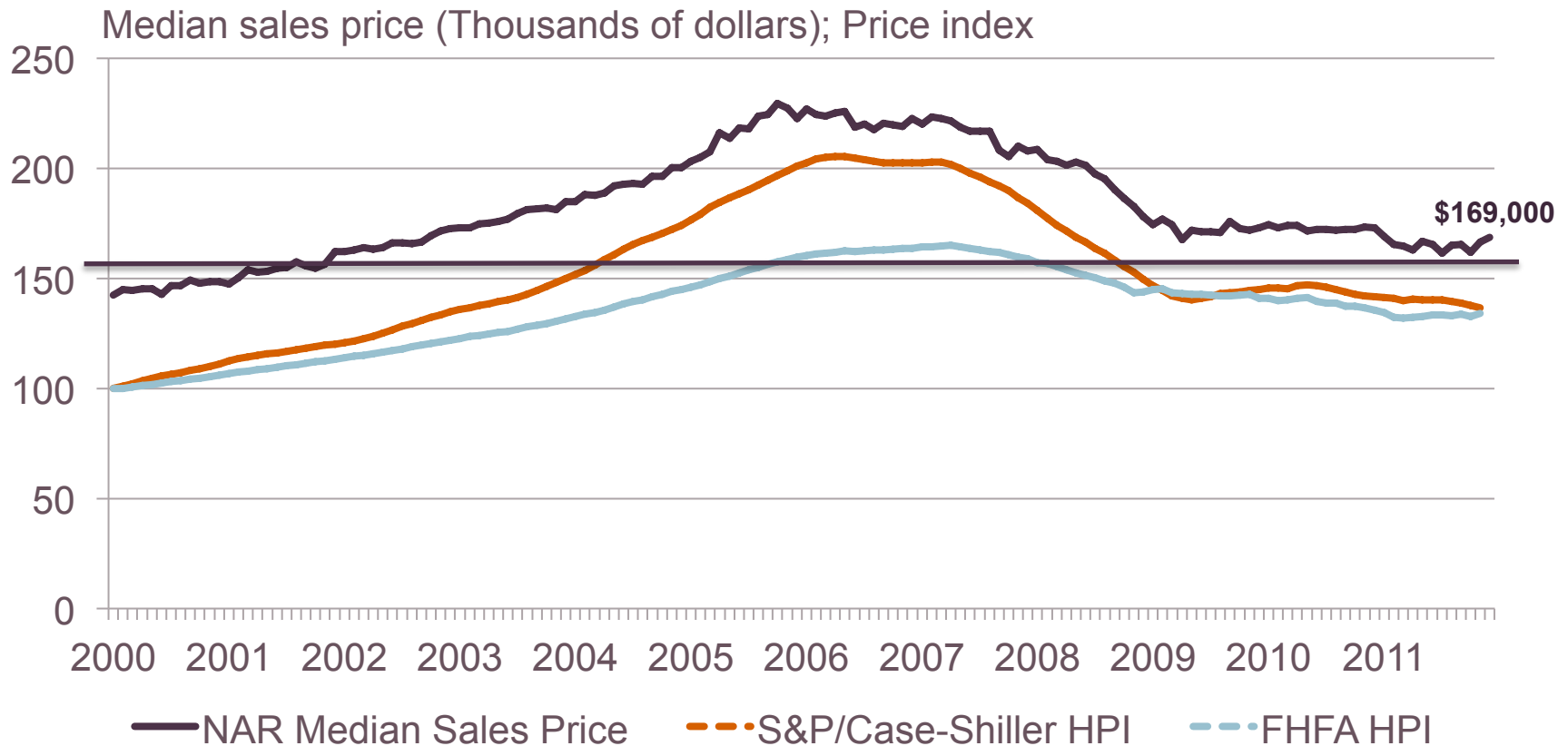
Homeownership Has Mattered Profoundly to Wealth Accumulation Even After Crude Control for Income



Note: All values are in 2010 dollars, for the middle income quintile.

Source: Joint Center tabulations of Board of Governors of the Federal Reserve System, Survey of Consumer Finances.

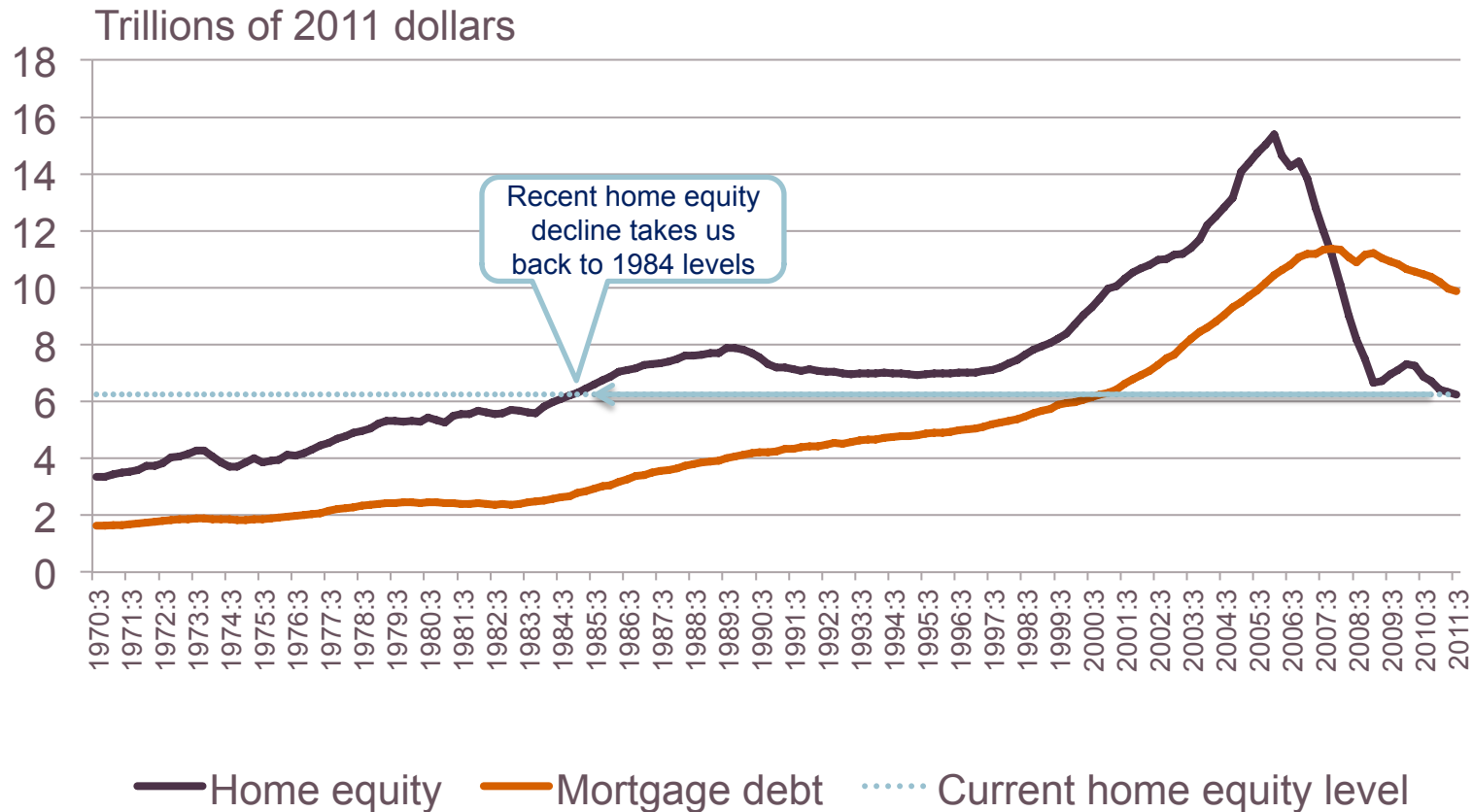
Still, Timing of Purchases Matters



Notes: All values are seasonally adjusted and in nominal dollars.

Sources: National Association of Realtors, Median Sales Price Existing Single-Family Homes; S&P/Case-Shiller Single-Family Home Price Index; and FHFA Purchase-Only Home Price Index.

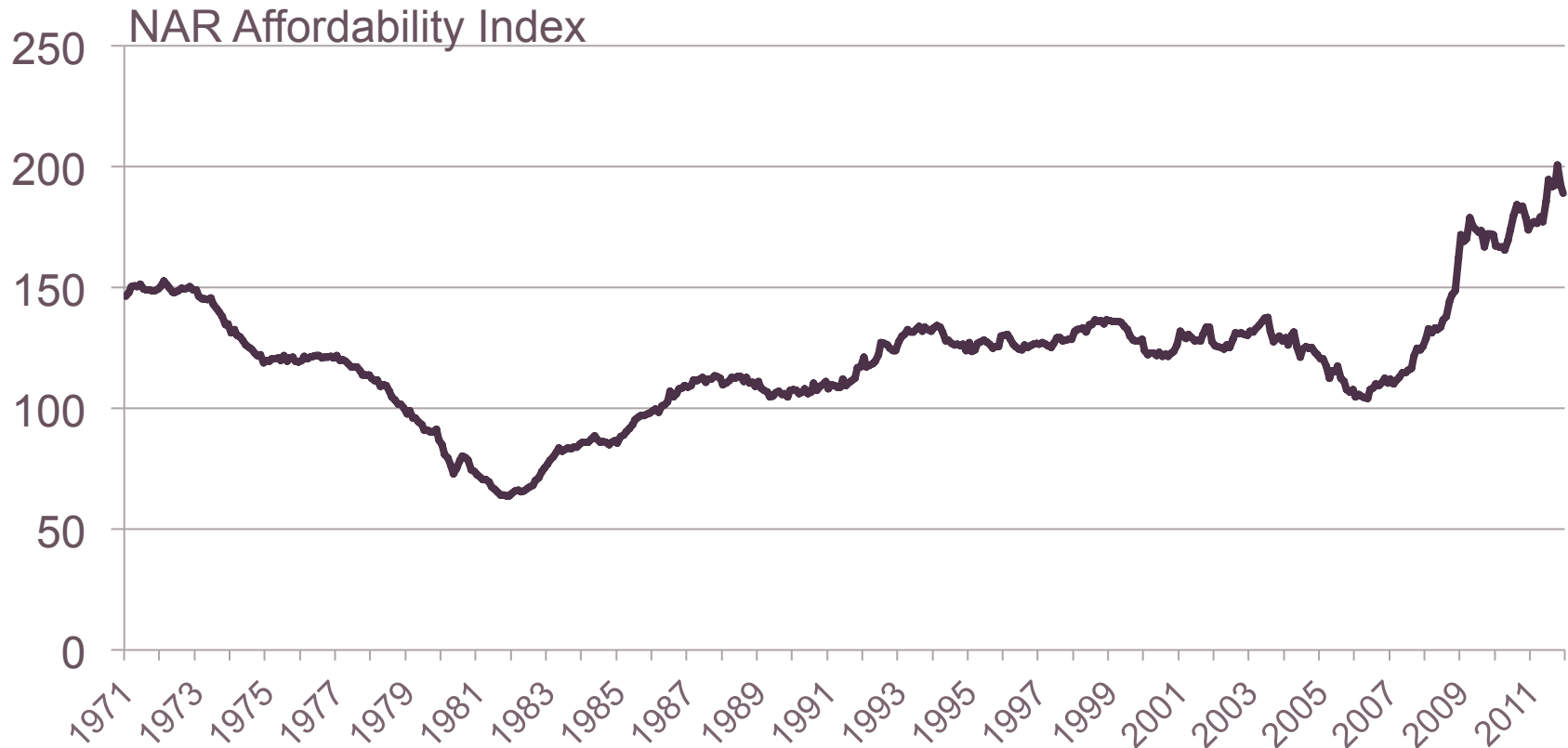
And, Stating the Now Obvious, Owning Carries Risk as Well as Potential Reward



Note: Dollar values are adjusted for inflation by the CPI-U for All Items.

Sources: Federal Reserve Board, Flow of Funds, Balance sheet tables.

Homeownership Is at Its Most Affordable Since At Least 1971

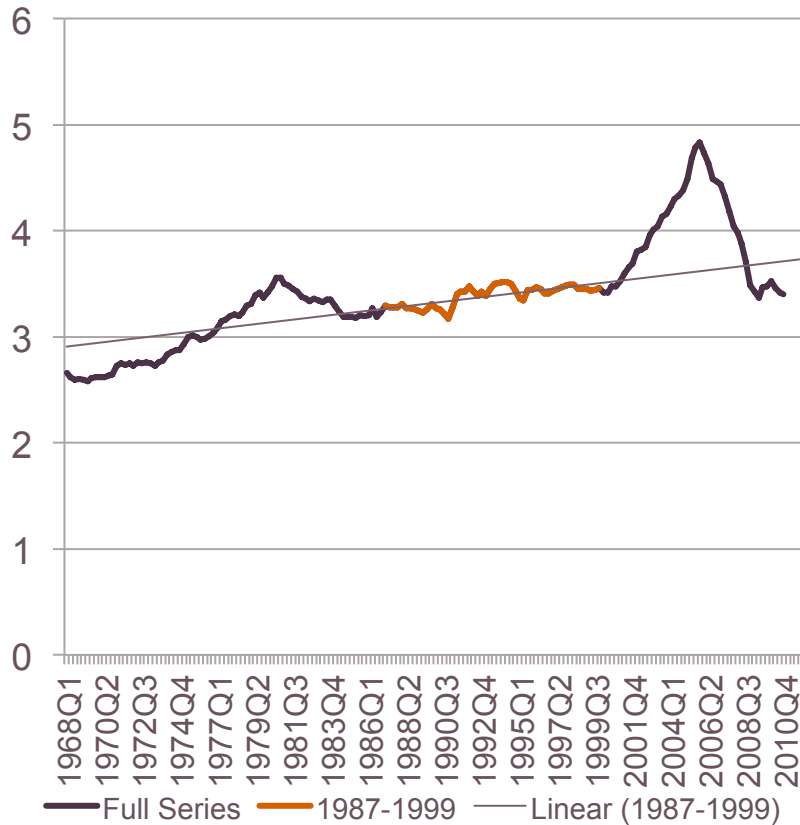


Notes: According to the NAR (<http://www.realtor.org/topics/housing-affordability-index/methodology>) a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. Their calculations assume a 20 percent down payment and a qualifying ratio of 25 percent.

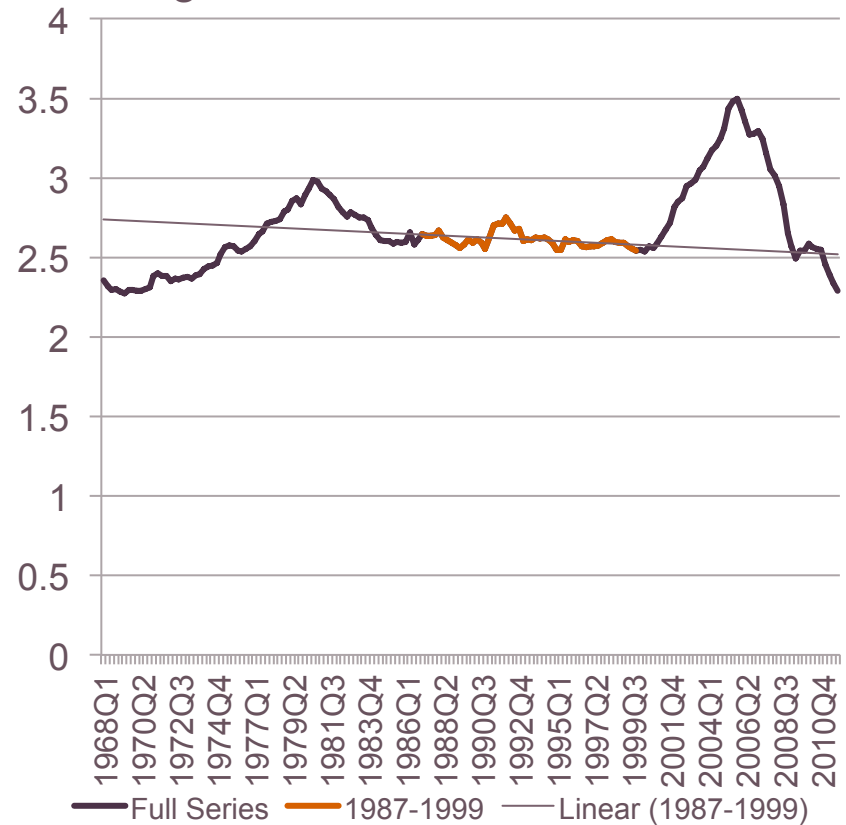
Source: NAR Composite Affordability Index.

Nationally, Price to Income Ratios Remain Below Trend

NAR Median Price to:
Median Household Income



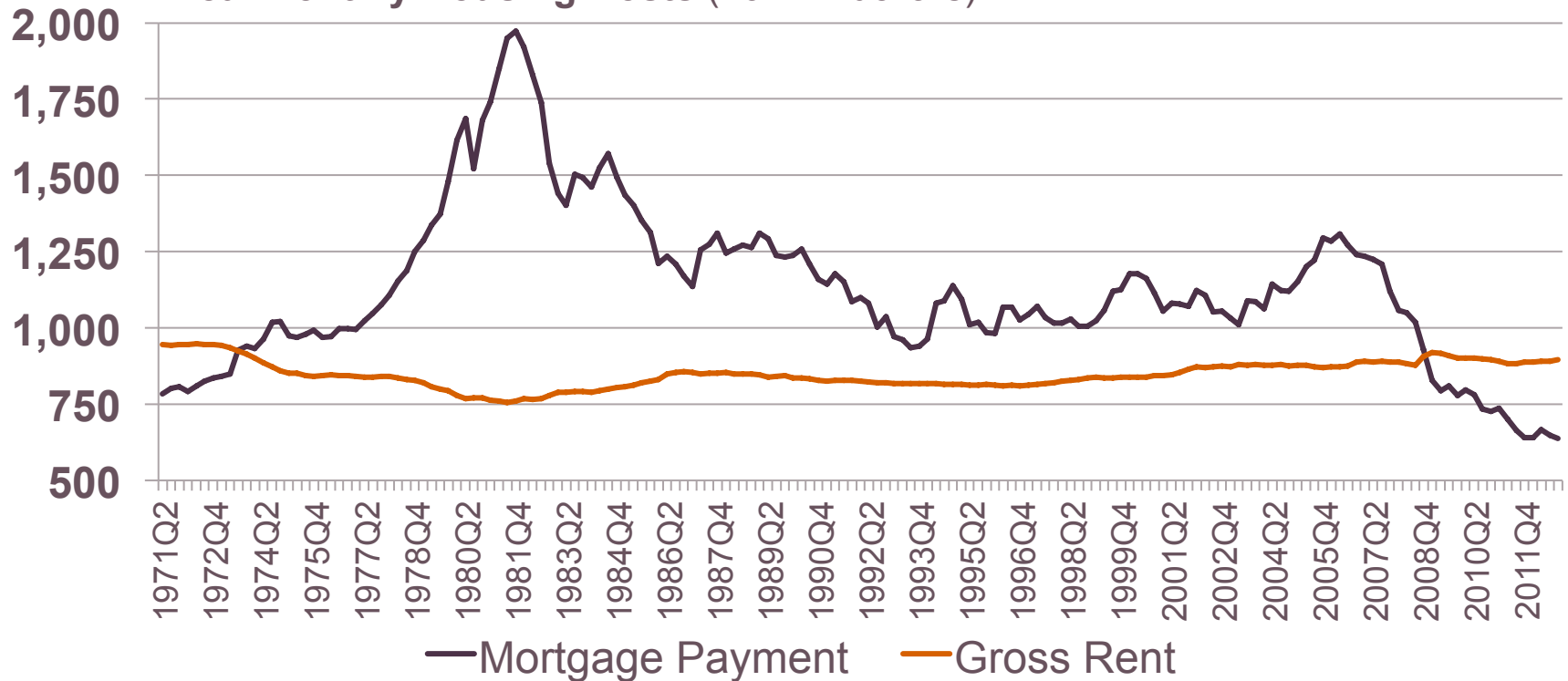
NAR Median Price to:
Average Household Income



Sources: National Association of Realtors (NAR) Median Sales Price Existing Single Family Homes (SA); US Census Bureau, Current Population Surveys

And Mortgage Payments Have Become More Affordable Relative to Rents

Real Monthly Housing Costs (2012:4 dollars)



Notes: Monthly mortgage payments are based on the median existing home price from the National Association of Realtors® and assumes a 20 percent downpayment and a 30-year fixed-rate mortgage at the average rate for the quarter reported by Freddie Mac. The monthly gross rent is the median gross rent from the 2011 American Community Survey indexed to the Consumer Price Index for Rent of Primary Residence. Both series are adjusted for inflation to 2012:4 dollars using the CPI-U for All Items.

Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Survey; National Association of Realtors®, US Census Bureau, 2011 American Community Survey; and US Bureau of Economic Analysis, Consumer Price Indices.