SOLUTIONS for AFFORDABLE HOUSING

Closing the Black Homeownership Gap

Join the conversation!

#Solutions2019
#HousingtotheHill

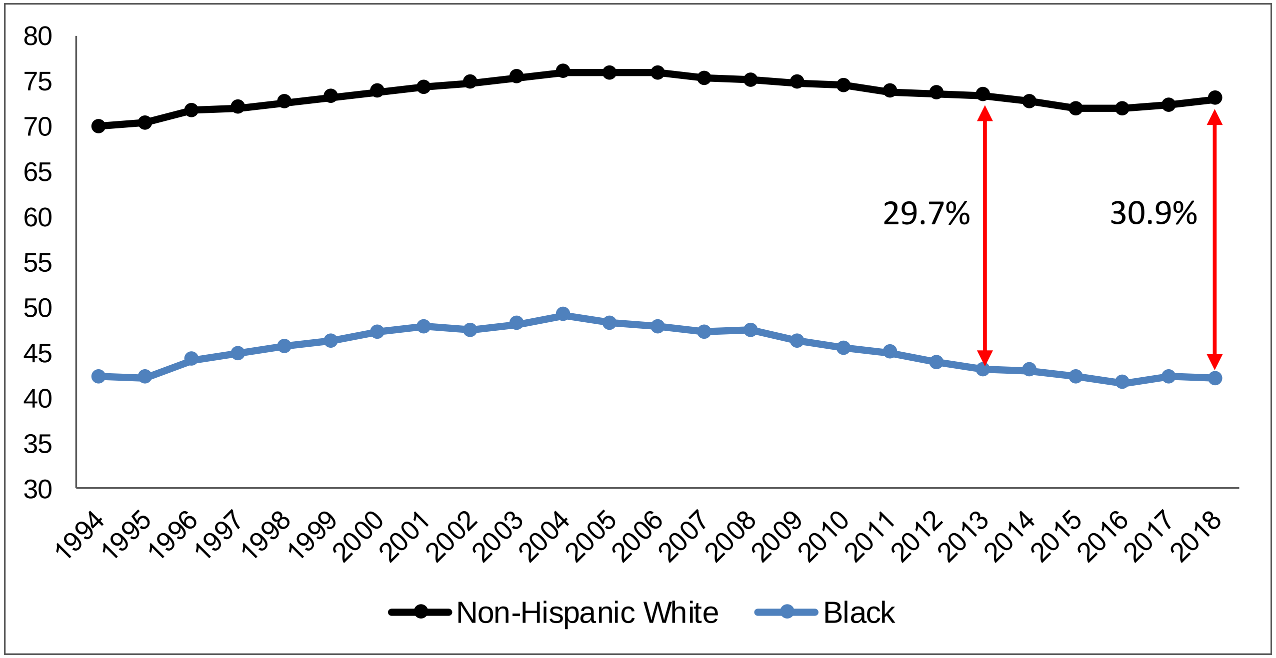
NATIONAL HOUSING CONFERENCE

NHC Closing the Black Homeownership Gap Research Examples

Cindy Waldron
Vice President
Research and Analytics
Affordable Lending and Access to Credit

Freddie Mac
We make home possible®

Homeownership Rate, 1994-2018



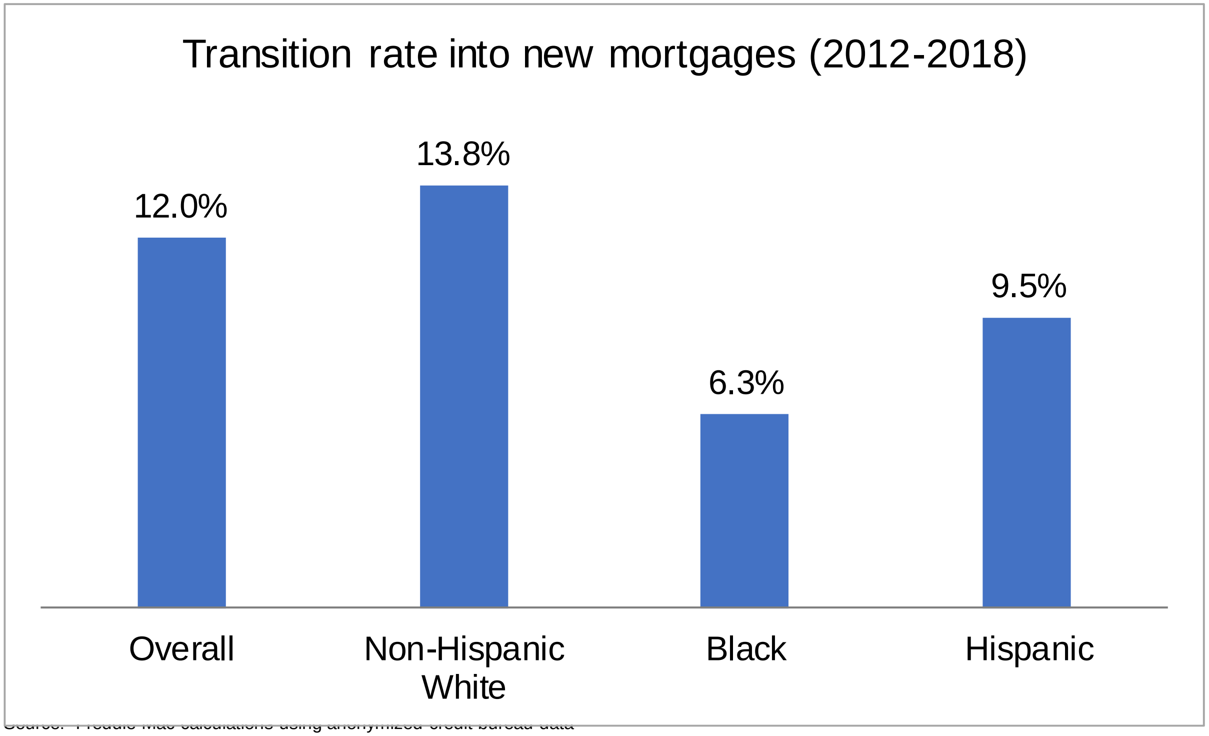
Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, April 25, 2019.

- African Americans are 30 percentage points less likely than white households to own a home, and the gap is widening over time.

Racial Gap In Mortgage Transition

- "Role of Credit Attributes in Explaining Homeownership Gap in the Post-Crisis Period, 2012 – 2018" (L. Brown and J. Dey, 2019)
  - » Uses uniquely constructed anonymized credit bureau data to analyze the racial gap in transition into mortgage ownership by 2018 for a sample of households who were renters in 2012.
  - » Investigates the more recent trends for consumers acquiring new mortgages, including the role of "credit" characteristics.
  - » Sheds light on racial patterns in transition for consumers acquiring new mortgages.

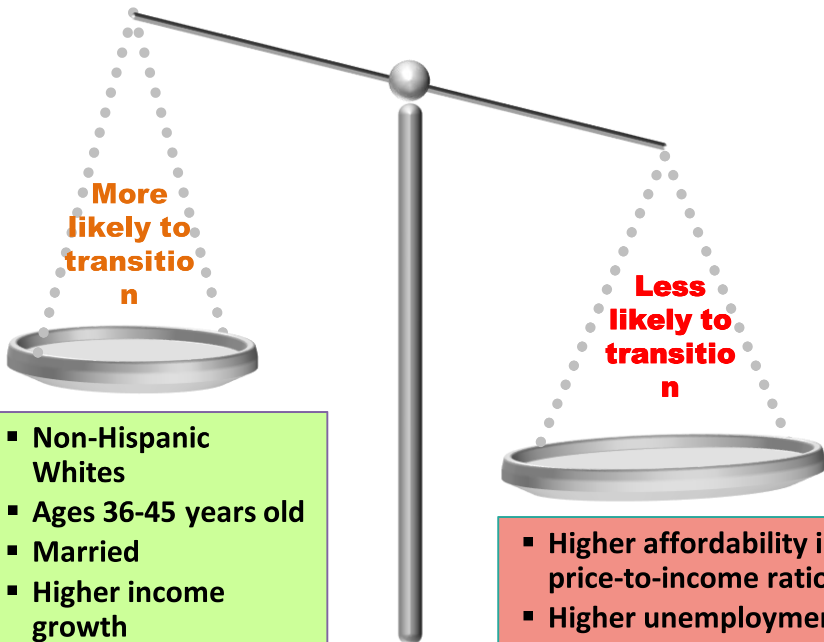
Racial Mortgage Ownership Patterns (2012-2018)



Source: Freddie Mac calculations using anonymized credit bureau data

- African Americans and Hispanics are roughly one-half and two-third as likely to enter mortgage ownership as Non-Hispanic Whites respectively.

What Are The Big Drivers Of Transitioning Into New Mortgages?

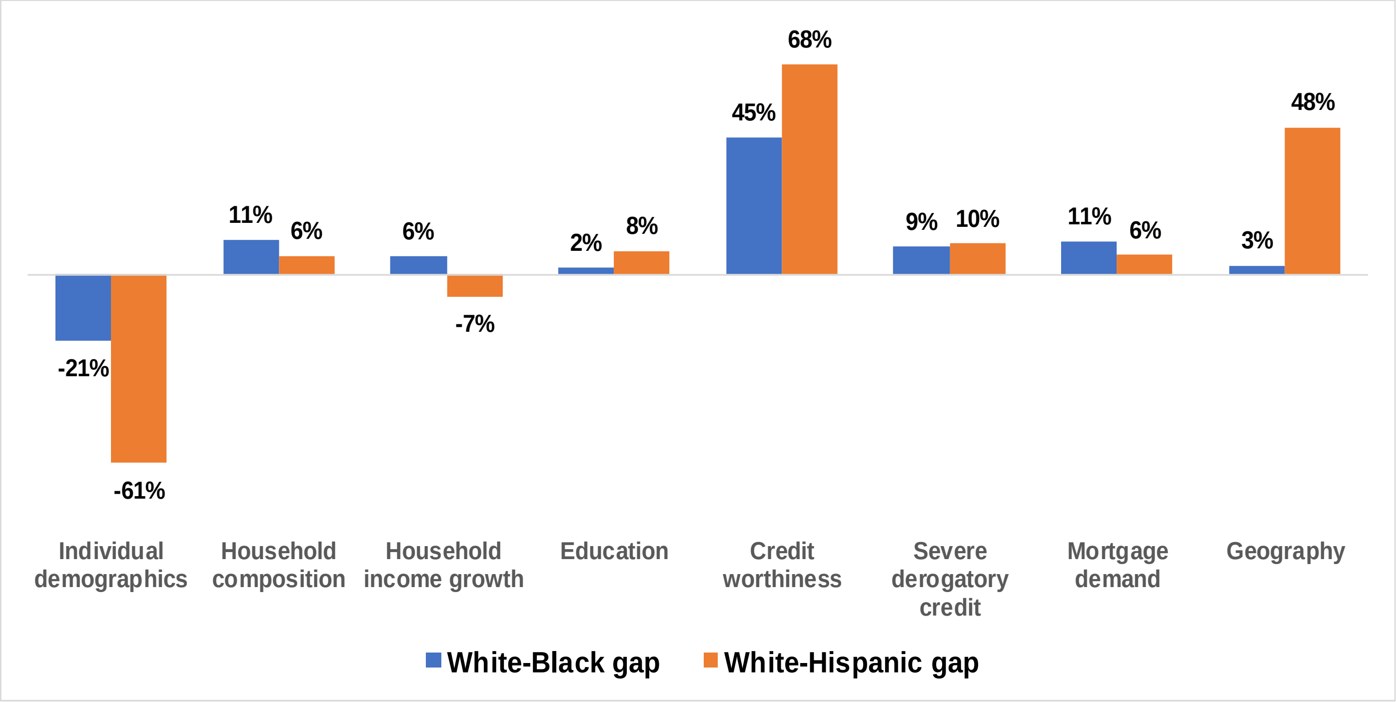


- Non-Hispanic Whites
- Ages 36-45 years old
- Married
- Higher income growth
- Higher FICO scores
- Have inquired for mortgages in past

- Higher affordability index (house price-to-income ratio)
- Higher unemployment rate
- Higher student loan DTI
- Higher delinquencies
- More recent bankruptcies
- With thin files/missing FICO scores

- Compared to Whites, Blacks are typically
  - » skewed younger, are more likely to be single, have lower household income growth
  - » have lower FICO, missing FICO, are more likely to have delinquencies and are less likely to have inquired for mortgages

To What Extent Racial Gap In Transition Rate Explained By Racial Differences In Characteristics?



- *Credit Worthiness* contribute substantially to the White-Black gap.
- While *Household Composition* and *Income Growth* matters in explaining the White-Black gap, *Geography* explains virtually none of the gap.

Source: Freddie Mac calculations using anonymized credit bureau data. Based on Blinder-Oaxaca decomposition of White-Black gap in transition rates into mortgage ownership.

Decomposing White-Black Gap In Transition Rate By State

Source: Freddie Mac calculations using anonymized credit bureau data. Based on Blinder-Oaxaca decomposition of White-Black gap in transition rates into mortgage ownership.

- *Geography* contributes substantially to White-Black gap in areas where affordability is challenged.

Defining “Mortgage Ready”

- We define “Mortgage Ready” as non-mortgage owners of ages 45 and younger, who have credit characteristics to qualify for a mortgage.

Non-Mortgage Owner (Age ≤ 45)

“Mortgage Ready”

- FICO ≥ 620
- DTI ≤ 25
- No foreclosures in 84 months
- No bankruptcies in 84 months
- No severe delinquencies in 12 months

Note: Mortgage readiness – Based on research criteria ***not*** actual underwriting.

“Mortgage Weak”

- FICO < 620 **and/or**…
- DTI > 25
- Foreclosures in 84 months
- Bankruptcies in 84 months
- Severe delinquencies in 12 months

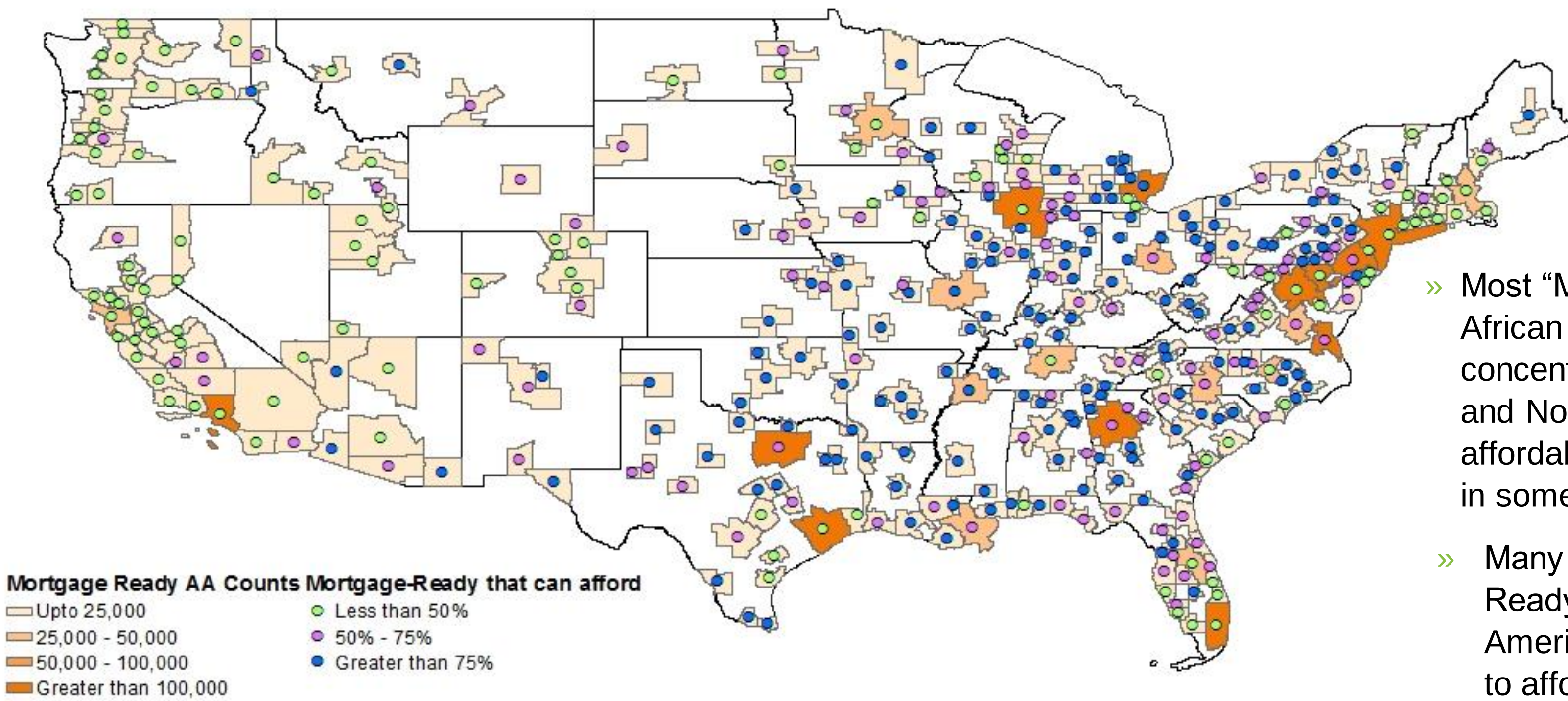
How Many Are “Mortgage Ready”?

	Overall Population		African Americans	
	Freq (million)	Percent (%)	Freq (million)	Percent (%)
"Mortgage Weak"	56.1	49	11.3	72
"Mortgage Ready"	**37.0**	**32**	**3.0**	**19**
Mortgage Owner	21.1	18	1.4	9

Source: Freddie Mac calculations using anonymized credit bureau data with individuals aged 45 and younger for Sep 2018.

- 37 Million “Mortgage Ready” Overall Population
- 19 percent of African Americans are “Mortgage Ready” (approximately 3.0 Million)

Where Are The "Mortgage Ready" African Americans - Are Those Locations Affordable?



- Most "Mortgage Ready" African Americans are concentrated in South and Northeast, and affordability is threatened in some of those areas.
- Many "Mortgage Ready" African Americans earn enough to afford a typical house in their areas.

Source: Freddie Mac calculations at the CBSA-level using anonymized credit bureau data and Freddie Mac Home Value Explorer data for Sep 2018. Note: According to NAR's methodology, if a consumer's quarterly household income is greater than or equal to the annual mortgage payment on a median priced house (under the assumption of 3% down payment, 4% mortgage rate, 30 year contract), then that house is affordable for him.

Percent of Respondents using Different Sources of Down Payment

Year	Sources of down payment					
	Savings, Inheritance Retirement Account, Other Assets	Proceeds from the sale of another property	Assistance or loan from a nonprofit or government agency	A second lien, home equity loan, or home equity line of credit	Gift or loan from family or friend	Seller contribution
2013	79%	23%	5%	0%	23%	15%
2014	75%	25%	7%	2%	22%	16%
2015	73%	28%	8%	4%	22%	17%
2016	70%	31%	10%	4%	23%	16%

Source: Freddie Mac Economic and Housing Research report, May 2019. Note the percentages do not add up to 100 percent as the respondents chose more than one option in some instances.

- Savings or other assets including retirement funds and inheritance are dominant source of down payment
  - The share of homebuyers who use proceeds from sale of another property went up.
  - The share of homebuyers who use gift monies or seller contribution remained constant.

Different Sources of Down Payment By Race (2016)

Race	Savings, retirement account, inheritance, or other assets	Proceeds from sale of another property	Assistance or loan from a nonprofit or government agency	A sceond lien, home equity loan, or home equity line of credit	Gift or loan from family or friend	Seller contribution
White	68%	32%	8%	3%	22%	14%
African American	74%	10%	30%	5%	22%	22%

Source: National Survey of Mortgage Originations (NSMO) data and Freddie Mac calculations

- Compared to Whites, African Americans rely
  - less on proceeds from sale of another property as source of down payment.
  - more on savings, assistance from government or non-government agencies or seller contribution to meet their down payment requirements.

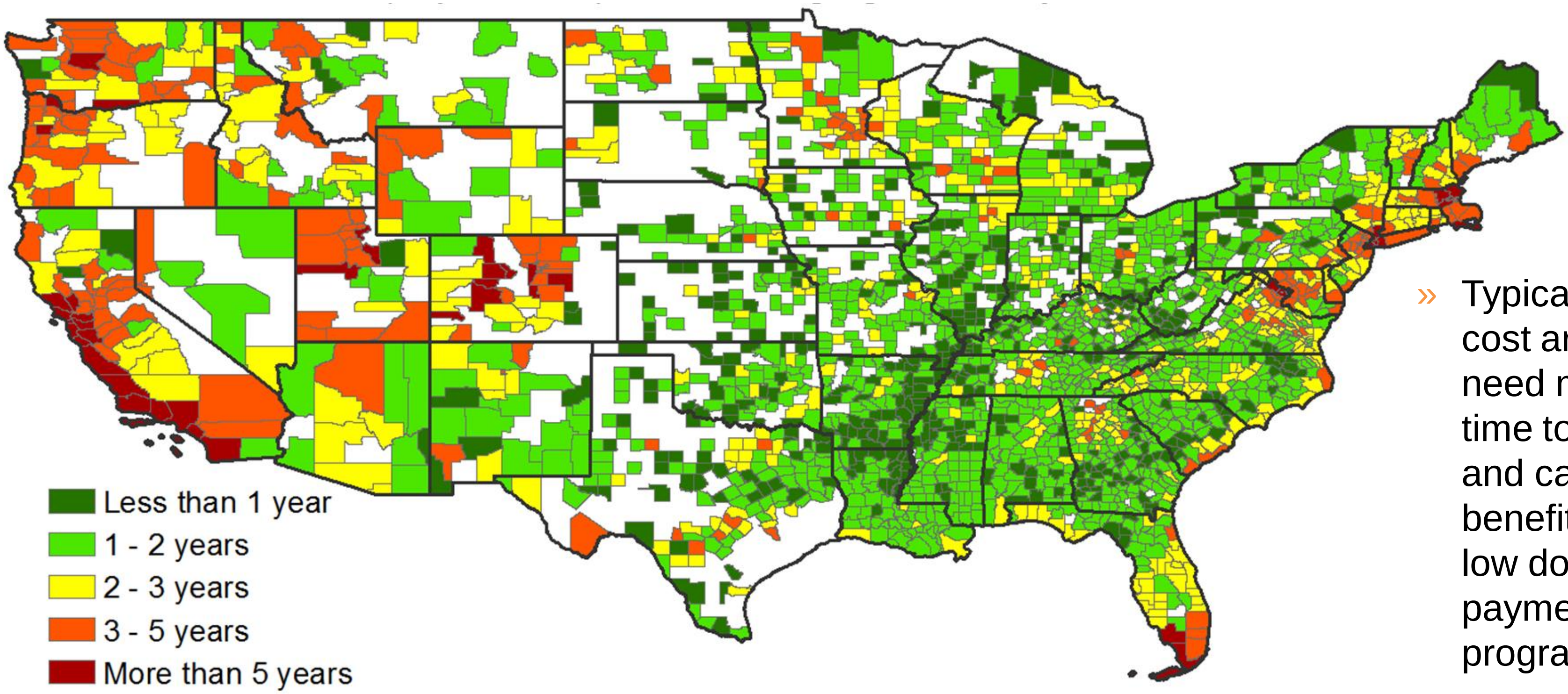
Time To Save For “Mortgage Ready” Population By Race/Ethnicity

Race/Ethnicity	"Time to Save" (year)			Monthly Net Income	Median House Price (SFH)
	20% down	5% down	3% down		
Non-hispanic Whites	14.4	3.6	2.2	$4,326	$243,076
African Americans	15.4	3.8	2.3	$3,679	$215,774
Hispanics	24.5	6.1	3.7	$3,588	$349,351
Asians	23.5	5.9	3.5	$4,485	$428,789

Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018. Time to Save is calculated by dividing down payment requirements by monthly savings. According to Bureau of Economic Analysis, average personal savings rate is 6.7% of net income in 2018. We estimate net income by subtracting both federal and state taxes from gross income at the individual-level.

- Minorities need longer time to save than Whites
  - » White-African American gap is the lowest since African Americans typically do not live in more expensive areas compared to Whites.

Time to Save (3 Percent Down) for "Mortgage Ready" African Americans



» Typically, high cost areas need more time to save and can benefit from low down payment programs.

Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018. Time to Save is calculated by dividing down payment requirements by monthly savings. According to Bureau of Economic Analysis, average personal savings rate is 6.7% of net income in 2018. We estimate net income by subtracting both federal and state taxes from gross income at the individual-level.

Cindy Waldron
Vice President
Research and Analytics
SF Affordable Lending Analytics and Research
Email: Cynthia_Waldron@freddiemac.com

SOLUTIONS
for AFFORDABLE HOUSING

Q&A

Join the conversation!

#Solutions2019
#HousingtotheHill

NATIONAL HOUSING CONFERENCE