U. S. Department of Housing and Urban Development
Washington, D. C. 20410-6000

October 17, 1995

ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

MEMORANDUM FOR: The Secretary

FROM: Michael A. Stegman

SUBJECT: FHA's Importance to First-Time Homebuyers

While the number of first-time homebuyers using FHA insured mortgages has declined in 1995; more of FHA's business is going to first-time homebuyers.

In 1994, 459,851 first-time homebuyers used FHA insured mortgages. Extrapolating data gathered through August, approximately 350,000 first-time homebuyers will use FHA in 1995. However, the rate of use by first-time homebuyers has increased. In 1994, among FHA insured mortgages used to purchase a home rather than refinance one, 67.0 percent were used by first-time homebuyers. In 1995, this percentage has increased to 70.5 percent.

cc:
Nicolas Retsinas, H

U.S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

FAX TRANSMITTAL

DATE: October 20, 1995

TO: Molly Brostrom FAX NO: (202) 456-7028

COMPANY: PHONE: (202) 456-5561

FROM: Sarah Rosen PHONE: (202) 708-3600

NUMBER OF PAGES (including cover page) 4

MESSAGE: ATTACHED DOCUMENTS

SHOULD YOU ENCOUNTER ANY PROBLEMS WITH THIS FAX

PLEASE CALL LYNN HOLMES (202) 708-3600

FAX PHONE NUMBER IS (202) 708-2580

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

October 20, 1995

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MEMORANDUM

TO: Molly Brostrom

FROM: Sarah Rosen

Sarah

RE: FHA Loan Limits Information

Attached please find the information that you requested concerning FHA loan limits and the Clinton Administration's efforts to raise them.

If you have any further questions, please feel free to call me at (202) 708-3600.

FHA MORTGAGE INSURANCE LOAN LIMITS
CLINTON ADMINISTRATION RECORD

Background

- o FHA provides mortgage insurance to encourage lenders to make homeownership possible for people who need lower downpayments and more flexible underwriting than are permitted by the private market. Congress establishes limits on the loan amounts that FHA can insure.

- o The limits consist of:

  - a base limit (known as the "floor") that is generally applicable, except in high-cost areas;

  - the high-cost area limit, equal to 95% of area median house price, that is applicable in any area that amount exceeds the base limit; and

  - the high-cost area ceiling, above which the high cost area limit cannot go, regardless of area median house price.

- o During the 1980s, there were few changes in the loan limits. House-price inflation increasingly limited FHA to a smaller proportion of the market.

- o Increasing the loan limits, would:

  – Expand homeownership opportunities to more middle-class American families locked out of homeownership for lack of a downpayment, especially those in expensive housing markets like California.

  – Restore to pre-1980 levels the proportion of the market eligible for FHA.

  -- Strengthen the actuarial soundness of FHA Mutual Mortgage Insurance Fund by diversifying its business.

- o Mortgage bankers, realtors, and homebuilders have actively supported loan limit increases; private mortgage insurers (PMIs) have led the opposition, arguing that higher limits would allow FHA to compete more with the private sector.

- o In reality, most FHA borrowers use FHA because they are ineligible for private mortgage insurance. They need the lower downpayment, more generous debt ratios, and tolerance of credit blemishes that FHA allows. Those who qualify for private mortgage insurance take that lower-cost option. FHA doesn't compete.

History of Loan Limit Changes

- In the spring of 1992, when the floor was $67,500 and the high-cost area ceiling was $124,875, Candidate Clinton pledged to raise the high-cost area limit to 95% of area median houseprice without a ceiling.

- That same year, before the election, Congress raised the high-cost area ceiling to $151,725, but left the floor at $67,500.

- In 1994, the Administration proposed legislation to raise the high-cost area ceiling to 85% of the limit applicable to loans purchased by Fannie Mae and Freddie Mac (the conforming loan limit) -- about $172,675 – and increased the floor to the average purchase price of an area, as determined by the Mortgage Revenue Bond program. Each limit would be indexed.

- The housing authorization bill passed that year by the House of Representatives adopted the Administration formula for the ceiling and raised the floor to 50% of the conforming loan limit (about $102,000), indexing both.

- A Senate bill took a more modest approach, raising only the floor to $77,000.

- The Senate bill failed to reach the Senate floor and no authorizing legislation was enacted in 1994.

- In the absence of authorizing legislation, the FY 1995 HUD Appropriation bill raised the floor modestly to 38% of the conforming loan limit (from $67,500 to $77,197). The bill also indexed both the high-cost ceiling and the floor.

- In 1995, two Republicans on the House Banking Committee offered a proposal to raise the FHA loan limits in Reconciliation, but the proposal was withdrawn in exchange for a leadership commitment to block increases in FHA premiums.

- Also in 1995, Senator Mikulski offered an amendment to the FY96 HUD/VA Appropriations bill to restore funding to the President's National Service Corporation financed by additional revenue produced by raising FHA loan limits. The amendment was defeated 52 to 47, although the vote hinged more on support for the National Service than for FHA.

In Summary

- Significant improvement in the FHA high-cost area ceiling was achieved by Congress in 1992 after the President's pledge. Since his election, the Administration has sought to further increase the loan limits, but with only limited success as efforts were stymied in Congress by the PMI lobby.

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

06-Sep-1996 11:43am

TO: Pauline M. Abernathy
TO: Jonathan Orszag

FROM: Molly Brostrom
Domestic Policy Council

SUBJECT: fyi

Background on $1000 reduction in FHA closing costs, as stated in President's Radio Address last week:

1) In late 94/early 95, the Administration reduced the cost of the FHA up-front premium from %3.0 to %2.25 of the value of the home (an action HUD has authority for, to a certain limit and at certain times). This resulted in a $600 reduction in cost for the average FHA homebuyer.

2) In June 1996, at the National Homeownership Conference, the President announced another reduction, from %2.25 to %2.0, for first time homebuyers who participated in counseling (this reduction went into effect 9/1/96). This was another $200 redcution for the avge FHA hbuyer.

3) Through streamlining, new technology, etc. at FHA, this Administration has made FHA more efficient and less costly for lenders and thus less cost is passed on to buyers. HUD has estimated this reduction at $200, and is backed by the Mortgage Bankers Assoc. [Caution on this is that the $200 savings is not all in closing/up-front costs; BUT the $200 is supposed to be a conservative estimate.]

Combining those three actions, we have reduced FHA closing costs for 1st time h-buyers by $1000.

The controversy we all vaguely recall is this:

The up-front premium is financeable, i.e. much of it can be rolled into long-term mortgage, and thus it can be (has been) argued these actions reduce the monthly mortgage payment by only a few dollars. We argue: 1) over time, this $1000 savings is even greater ($5000 if financed over 10/30? years); and 2) (snide response), a few dollars each months means a lot to middle class America.

Let me know if you have questions. Bottom line is I don't think the President needs correcting.

9/6
Sara Rosen, FHA

2 types insurance premium
1) up-front (Congress raised it) We ↓'d by 25% in late 94 or early 95
3.0 to 2.25%
2) annual for mortgage

1) $600

Another: June – Nat'l H'sh Conf: 2.25% → 2.0
↓ of 11% for
1st time h-buyers who took counseling
went into effect @ beginning of this month

2) $200

Avge FHA h-buyer: of $800

3) Other $200 → HUD has made particip. ~~be~~ easier > lower cost,
more efficient for lenders who participate, lending
Mortgage Bankers' support less bureaucratic < 5 times @ closing – 5 times
less costly for lenders – thus less passed on to buyers

caution: not all in up-front but conservative estimate

Controversy: up-front premium is financeable –
$1-3 thus @ closing, only need 3% of appraised value of home
over 10-30

Agt: real savings bee over time ⇒ results in $5000 if ~~a~~financed

- Joe Murack talked to Retailers
- HUD provided options to W.House

THE WHITE HOUSE
WASHINGTON

(2/3)

who take counseling

Limited to 1st-time home buyers
counseling would ↓ default costs

① cash constrained: up front premium; financed - pt of mortgage → ∴ in effect only small amt ($1) reducing monthly mortgage payment

but for some people, does represent!

② counseling:
no systematic evidence that it helps in ↓'g default
anecdotal evidence: against or neutral

= No scoring savings → $90M ↑ annually $ added to deficit

HUD: $100M if everyone used
only for 1st-time using counseling
est. 50%

→ $35M

THE WHITE HOUSE
WASHINGTON

Jim Park

(2.25% of mortgage)
- FHA up-front prem's higher than priv mkt → safety + soundness - (1.5%) doesn't impact fund (prelim assmt)

- w/ better education → lower default

2 messages: Pres for homebuying + for education

∴ only get highest risk people (adverse selection)
- need some comp. edge

• yes, sounds better rhetorically than is economically

- Joe Murack talked to Petersen
- HUD provided options to W House

THE WHITE HOUSE

WASHINGTON

(2/3)

who take counseling

Limited to 1st-time home buyers

counsel'g would ↓ default costs

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• yes, sounds better [illegible], this is economically

COWH

REDUCING CLOSING COSTS FOR FIRST-TIME HOMEBUYERS

The upfront cost of buying a home is one of the biggest barriers to homeownership for many first-time homebuyers, minority families, and moderate-income families. FHA is committed to reducing closing costs for American homebuyers by $1,000 over the course of the Clinton Administration's first term. This represents a 25% reduction in upfront closing costs for an FHA-insured loan.

A major component of the closing costs for any loan is the upfront premium paid by the borrower for mortgage insurance. The President is asking FHA to consider reducing its upfront mortgage insurance premium by 11 percent (or 25 basis points) for first-time homeubyers who complete an accredited homeownership education program. This will reduce closing costs an average of $200 per first-time homebuyer, or $75 million a year for all first-time homebuyers who benefit from FHA mortgage insurance. At the same time that this change reduces their closing costs, it also better prepares first-time homebuyers to assume the responsibilities of homeownership because they will have participated in homebuyer education courses.

This new first-time homebuyer premium reduction is the second major action FHA has taken to reduce closing costs for moderate-income Americans since the Clinton Administration took office. FHA reduced its upfront mortgage insurance premiums by 25 percent in 1994, reducing closing costs roughly $600 for the average FHA homebuyer.

FHA is also aggressively reducing the time it takes to process a FHA loan, by automating its application process and using automated systems. These streamlining measures will further reduce borrower closing costs by a minimum of $200 per homebuyer on average.

All of these changes are designed with consideration for the health of the FHA insurance fund. The FHA insurance fund is the strongest it has ever been as measured by independent actuarial and audit reviews, and under the vigilant oversight of the Clinton Administration, will become even more robust in future years.

By the time the Clinton Administration has finished reforming FHA, it will have reduced average borrower closing costs by $1,000, a 25 percent drop in costs. This will make it easier for the children of moderate- and middle-income Americans to start out on the ladder of homeownership.

The Homeownership "Mantra" (further elaborated in attached document.)

There are four fundamental principles we will follow to achieve the goal of adding 8 million additional homeowners by the year 2000:

Maintain a strong economy. In order for the average American to be able to buy and own a home, economic performance must remain strong: New jobs must be created, inflation must be low, and the interest rate on a mortgage must be within reach.

Cut the costs of buying and owning a home. Inefficiencies that add to the cost of housing need to be eliminated, and ways to make housing more affordable must be found.

Make it easier to buy and own a home. The complexity in buying a home can be minimized through homeowner counseling and education. Homeowner education also assists new homebuyers in being able to keep and maintain their homes after the mortgage is signed.

Expand opportunities to buy a home. People-based and place-based strategies must be put in place to address those families locked out of the housing market due to past discrimination or false perceptions of investment risk in their communities.

Working together, the goals of the National Partners in Homeownership will soon become a reality.

[This can be in a side-bar, or incorporated into the text below each corresponding heading.]

Cut the Costs of Owning and Buying a Home.

production and financing

Unnecessary costs and inefficient use of existing resources increases the cost of owning and buying a home. Some of these costs and inefficiencies are hidden from the consumer, but they have a direct impact on a family's ability to buy a home. For some families, despite their ability to be good borrowers, lack of income for downpayment and closing costs are barriers to homeownership. Innovative building techniques and housing production methods that reduce costs sometimes have difficulty being adopted.

A successful strategy to promote homeownership must take action to reduce the costs of purchasing, building and rehabilitating homes to make them more affordable. Regulatory barriers that add hidden increases to the cost of housing must be streamlined or eliminated.

THE FEDERAL HOUSING ADMINISTRATION (FHA): COMPETING VISIONS

DOLE PROPOSAL[1]	CLINTON APPROACH
Would effectively **eliminate FHA.**	Has **restored** FHA's financial health and **reinvented** its outdated bureaucracy, creating a streamlined, modern, public insurance company
Would **shut door to homeownership** for hundreds of thousands of families each year. Dole's FHA could not serve many helped by today's FHA.	Has **expanded FHA's reach** to more families, through premium reductions and underwriting flexibility. FHA helped 1.2 million first-time homebuyers in the last three years.
Would **increase the cost of homeownership** - lenders would charge higher rates in the absence of the government guarantee.	Has **lowered the cost of homeownership** through the National Homeownership strategy's public-private partnership, lower interest rates, and reduced FHA premiums.
Would pay generous **fees to private mortgage insurers** for doing business they already do.	Seeks **partnerships** with private insurers to reach markets yet underserved by either.
Would be unable to stem **plummeting house prices** during local, regional, and national recessions.	Has fought to preserve FHA's ability to **protect home equity** by stabilizing markets during recessions.
Would **increase the budget deficit**, by eliminating a program that each year produces hundreds of millions of dollars to offset other government expenses.	Has improved FHA's financial health so that it has contributed approximately **$4.5 billion to deficit reduction** during the last three years.
Would narrowly **target FHA to only selected homebuyers**, leaving many of those FHA serves today without homeownership and threatening the actuarial health of the insurance fund.	Has fought to keep **FHA available for moderate-income homebuyers who the private sector cannot or will not serve** while maintaining a diverse insurance fund to protect the taxpayer against losses.
Would require **higher downpayments and closing costs, better credit histories, and lower debt ratios** for FHA eligibility -- criteria used by the private sector -- excluding many who need FHA's more flexible terms.	Has kept FHA available to those who need **lower downpayments, financed closing costs, family gifts, and flexibility on credit** to qualify for a loan.
Would provide only partial insurance, causing lenders to **steer away from inner city, rural, minority, and lower income borrowers.**	Has **expanded FHA's role in underserved communities** through outreach, consumer education, flexible criteria, and promotion of homeownership counseling.

[1] S. 1145 -- Proposal of HUD Elimination Task Force, Senator Dole original co-sponsor

ANALYSIS OF THE HOMEOWNERSHIP PROVISIONS OF S. 1145, THE HOUSING OPPORTUNITIES AND EMPOWERMENT ACT
Original Sponsors: Senators Faircloth, Abraham, and Dole

- Would effectively **eliminate FHA**, which over the last 62 years has helped almost 24 million American families become homeowners while never costing the taxpayers a dime.

- Would **shut door to homeownership** for hundreds of thousands of families each year.

  - Over the last 3 years, FHA has insured mortgages for almost 3 million families. Many of these would have been left without a homeownership option under the Dole proposal.

- Would **increase the cost of homeownership** for thousands of others.

  - Lenders would charge higher interest rates to those FHA-type borrowers that they continue to serve in the absence of government-backed, 100% insurance.

- Would represent a **taxpayer giveaway** to a few politically well-connected, private mortgage insurance companies by paying them fees for serving borrowers that they already serve, while reducing pressure on them to keep prices low and serve underserved markets.

- Would **eliminate a program that stabilizes economies** during local, regional, or national downturns. As a result, during a recession, home prices will drop faster, more Americans will loose their equity in their homes, and more displaced workers will find themselves stuck, unable to sell their homes to relocate for new job opportunities.

- Would reduce federal revenues and **increase the budget deficit.**

  - Each year, FHA and GNMA produce hundreds of thousands of dollars in revenues that offset other government expenses. These would be lost.

Specific Provisions

- **Sell portfolio.** Would sell off existing FHA single family insurance portfolio and expect sale to produce at least $500 million in proceeds to create a new insurance fund.

    - A Reagan Administration report by OMB, Treasury, and HUD concluded that private investors would be unlikely to pay the government an adequate price. CRS concluded that sale of FHA was "a bad idea."

    - Sale of FHA portfolio would actually add to the budget deficit because the expected net premium income from that portfolio produces revenues that would be lost.

- **Remove federal backing.** Would create a new insurance fund without the full faith and credit of the federal government.

    - In the absence of the federal guarantee, investors will charge more for their capital, increasing the cost of homeownership for some and leaving some -- particularly inner city and rural residents, minorities, and lower-income families -- without homeownership choices.

- **Narrowly target and exclude.** Would restrict the new insurance fund to serving only those who are:

        - below 80% of median income; or
        - below 125% of median income and a first-time homebuyer; or
        - below 125% of median income and living in an economically depressed area.

    - Those FHA borrowers who do not fall within these categories would be locked out of homeownership.

        - For example, a worker laid off in company downsizing, who moved to find new work, lost money on the sale of a first home, and has inadequate downpayment for a conventionally financed new home, would become a renter, rather than get another chance at homeownership through today's FHA program.

    - Targeting contradicts basic premise of insurance -- diversification of risk. By concentrating, makes new insurance fund more susceptible to changing economic conditions. First recession could put new fund out of business.

- **Use conventional underwriting.** Would require that the underwriting be based on criteria currently used by the private sector under GSE affordable lending programs.

  - Currently FHA underwriting would allow, but these GSE programs would preclude, homeownership for a borrower who:
    - Needs to finance of closing costs
    - Pays higher proportion of income for debt
    - Has a less than perfect credit history
    - Wants to use a family gift for closing costs or downpayment

  - Thus, those who FHA serves today will be left without a homeownership choice.

- **Offer only partial insurance.** Would require that the insured mortgages only receive partial insurance leaving the lender exposed for at least 65% of the mortgaged amount.

  - Lenders predict that partial insurance alone without other changes would reduce number of homeowners served by almost 25%, with far greater impact on lower-income, minority, inner city, and rural borrowers. During economic downturns, reduction in service would be far greater.

- **Enrich private mortgage insurers.** Would require that a private entity share risk on each mortgage insured by the new fund, administer the insurance program, and receive, in addition to a portion of the premium, an "administrative" fee.

- **Remove pressure on conventional market to serve underserved.** Would allow private mortgage insurers to say that they are serving underserved markets, yet the government would be bearing risk on loans that the private sector currently is insuring on their own and paying the private insurers a fee for that privilege.

- **Eliminate Ginnie Mae.** Ginnie Mae is a success story that produces government revenue each year, lowers homeownership costs, and offers a low risk mechanism for large and small investors to make capital available to meet the needs of underserved housing markets.

DRAFT

FHA Fact Sheet

- The Federal Housing Administration (FHA) was founded in 1934.
- Approximately $400 billion portfolio for single-family and multifamily insurance is in force — as big as a Fortune 100 company. Single-family insurance makes up almost $352 billion of the portfolio, with multifamily about $47 billion.
- In 62 years, FHA's basic homeownership program has not cost taxpayers a single dime.

What is FHA?

The Federal Housing Administration (FHA) is a government-owned mortgage insurer that is part of the U.S. Department of Housing and Urban Development. FHA's mission is to expand the nation's homeownership and rental housing opportunities, meeting needs that the private sector cannot meet on its own. The bulk of FHA's insurance is for single-family and multifamily housing, though hospitals and nursing homes are also insured.

FHA insures single-family home mortgages for homebuyers who have shown that they are capable of homeownership, but lack the savings, income or credit histories to qualify for a conventional mortgage.

Does FHA provide mortgages?

No. Banks, mortgage companies and others lend money for mortgages; FHA mortgage insurance gives lenders assurance that loans will be repaid.

Why is the government in the mortgage insurance business?

Lenders consider some loans "too risky" without the assurance of payment that FHA can provide.

How is FHA funded?

FHA's single-family mortgage insurance fund is totally self-sufficient, meaning no tax dollars are spent. Funding comes from mortgage insurance premiums that homeowners pay. The premium payments go into a fund called the FHA Mutual Mortgage Insurance (MMI) fund from which claims are paid.

What is the advantage to being a government entity?

FHA has a unique and powerful tool: the backing of the full faith and credit of the U.S. government. When FHA provides mortgage insurance, it extends that backing as protection against the borrower's default. With FHA insurance, lenders or investors are willing to extend their own credit for housing or in neighborhoods they might otherwise consider "too risky."

FHA serves as a catalyst by extending the reach of different funding sources to create affordable housing for more people.

Helping Homebuyers . . .

- In 62 years, FHA has made homeownership possible for 24 million families throughout the nation.

- In FY 1995, FHA insured 568,000 single-family mortgages. More than 359,000, or 68 percent, of the mortgages made to purchase a home were for first-time homebuyers.

- The average income of buyers securing FHA-insured loans in FY 1993 was roughly $40,000, compared to $58,000 for those using conforming conventional financing.

- In FY 1994, 43 percent of FHA-insured owner-occupied home purchase mortgages were written for homes valued under $70,000. By comparison, homes using private mortgage insurance to purchase homes valued under $70,000 was 23 percent.

- In 1994, 48 percent of home purchase loans for African-American homebuyers and 41 percent of home purchase loans for Hispanic homebuyers in metropolitan areas were FHA-insured (excluding VA loans, loans above FHA loan limits, and mobile homes).

- FHA has streamlined requirements for its 203K program which allows borrowers to finance the purchase and repair of an older home. The program served more than 8,400 buyers in FY 1995; that number is projected to double in FY 1996.

- FHA created the Home Equity Conversion Mortgage (HECM) which helps older, cash-poor but house-rich homeowners to use their equity for income and to stay in their homes. More than 14,800 seniors have been helped to date.

Helping Communities . . .

- During FY 1995, over 30 percent of FHA-insured loans have gone to families living in census tracts underserved by the private sector.

- When the 1980s recession hit the "oil patch" states, FHA kept insuring home mortgages in those states, heading off further property value declines. Private mortgage insurers stopped doing business in those states during the difficult years.

Improving Financially . . .

- In FY 1994, the fund that backs FHA single-family insurance (the MMI fund) virtually achieved the 2.0 percent target ratio set by Congress for Year 2000 — six years ahead of schedule. The "ratio" is the level of fund reserves in relation to insurance in force. The ratio reached 1.99 percent in FY 1994, up from 1.44 percent in FY 1993.

PROSPECTS FOR POTENTIAL HOMEOWNERS ARE IMPROVING

TALKING POINTS

- Homeownership continues to be a key aspiration of Americans.

  - Nine out of ten Americans believe people are better off owning their homes.

  - And of the third of American households who rent, only 1 in 4 prefers renting to owning.

- **Benefits.** Homeownership is good for society, because it allows people more choice:

  - It allows people to more carefully tailor or customize their living arrangements to their specific needs or situation;

  - Renters have a more limited selection of housing. While there are exceptions, generally renters are more apt to be limited to the "one-size-fits-all" mid-range where investor/landlords can expect to have broadest appeal and marketability.

  - Moreover, renters must get permission to make alterations or for uses that might affect the property, such as having a pet.

- Homeownership is also good for society because it helps to reinforce qualities of responsibility and self reliance as well as providing a means by which the average person can accumulate savings, helping to increase a person's stake in society and even the distribution of wealth:

  - Research indicates that on balance children of homeowners are more likely to graduate from high school, less likely to commit crime, and less likely to have children as teenagers than are children of renters. This finding is especially pronounced when comparing lower income homeowner and renter households.

  - For homeowners, almost 60 percent of their wealth is the form of home equity.

- **Past Homeownership Trends.** Homeownership in America has witnessed dramatic changes in the last 100 years.

  - In the 50 years prior to World War II, the homeownership rate fluctuated between 48 and 43 percent.

  - However, after 1940, FHA and VA innovations in mortgage finance along with significant growth in incomes, household formation, and intraurban infrastructure, helped the homeownership rate to shoot up nearly 18 points, reaching 61.9 percent in 1960.

- In the twenty-year period from 1970 to 1990, homeownership experienced modest but steady growth and then retrenchment.

- In the seventies, low and stable interest rates, high levels of house price inflation, growing numbers of families earning higher real incomes, and the baby boom generation's coming of home-buying age pushed the homeownership rate to a record high of 65.6 percent in 1980.

- The eighties, on the other hand, were characterized by a decline in real income at the beginning of the decade, weaker house price appreciation, lower rates of household formation, and extremely high interest rates, such that the homeownership rate finished that decade at 63.9 percent.

- The more challenged groups, racial and ethnic minorities, young households and households with children, were closed out of the housing market during the 1980s as the combination of slow income growth and increasing rents made saving for home purchase more difficult, and increasing interest rates pushed monthly mortgage payments out of reach of more households.

- The share of families with children living in owner-occupied homes fell by 7 percentage points between 1980 and 1991.

o **1990s.** The environment for homebuying has improved dramatically in the 1990s raising the homeownership rate to 65.1 percent by the end of 1995:

  - Relatively low interest rates and stable home price appreciation have substantially lowered the monthly cash cost of homeownership compared with that required throughout the 1980s. While in the early 1980s, families with median income were 20 to 30 percent short of the income necessary to qualify for purchase of the median priced home, their income is now 20 to 30 percent more than is necessary to qualify.

  - Annual surveys show that first-time buyers became a driving force in the homebuying market in the 1990s, increasing their share from 40 percent of home sales through the 1980s to over 47 percent since 1992.

  - Roughly 30 percent of those first-time buyers from 1992 to 1994 were never-married singles, a record number. Single-parent and divorced households also represented an increasing share of homebuyers.

- Immigration is also adding to the numbers of first-time buyers in the market and through the 1990s will help offset declines with the aging of the baby boom generation.

o **Industry Initiatives.** Not only have economic conditions become more conducive to a sustained increase in homeownership, but the mortgage lending industry has begun to make major improvements in underwriting and marketing techniques to address lending disparities such as those documented in Boston Reserve Bank study. Lenders, private mortgage insurers, and the GSEs (Fannie Mae and Freddie Mac) have begun to offer more customized products for underserved borrowers (such as three-percent downpayment mortgages).

o **Impact of Initiatives.** HMDA and GSE data suggest that the new industry initiatives, permitting more flexibility while maintaining prudent underwriting standards, may be having an impact:

- Between 1991 and 1994, conventional loans to low-income and minority families grew at much faster rates than loans to higher income and white families.

- For instance, the following Table shows the changes for 1993 and 1994:

Borrower Characteristics:	Percentage Change in Origination Volume from Previous Year 1993	1994
All Borrowers	17%	18%
Income Less Than 80% AMI	38%	27%
Income Greater Than 120% AMI	8%	13%
Black	36%	52%
Hispanic	25%	42%
Non-Hispanic White	18%	16%

(note: AMI = Area Median Income)

- Fannie Mae's and Freddie Mac's financing of housing for low- and moderate-income families has also increased from about 25 percent of the GSEs' combined business in 1992 to more than 40 percent in 1995.

o There are a large **number of potential beneficiaries** from the industry's recent affordability initiatives. A study by The Urban Institute reports that there appears to be a significant population of lower-income renters with a high potential for homeownership and relatively low credit risk.

- Approximately 10.6 percent (2.15 million) of low- and moderate-income renters who did not become homeowners in 1992 had a higher estimated probability of becoming owners than half of the renters who did become owners while at the same time having a lower than average probability of defaulting on their mortgage.

- In other words, not only do the vast majority of renters want to become homeowners, but research shows that a large number of them are qualified to do so.

Urban Policy Brief

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Homeownership and Its Benefits

At the request of President Clinton, the U.S. Department of Housing and Urban Development (HUD) is working with dozens of national leaders in government and the housing industry to implement the National Homeownership Strategy, an unprecedented public-private partnership to increase homeownership to a record-high level over the next 6 years. The ideal of homeownership is so integral a part of the American Dream that its value for individuals, for families, for communities, and for society is scarcely questioned. This paper provides a brief survey of research into the nature and significance of homeownership's presumed benefits, particularly for lower income households and other underserved populations.

Introduction

The desire for homeownership is deeply rooted in the American psyche. Owning a home embodies the promise of individual autonomy and of material and spiritual well-being that many people sought in coming to this country. In addition to its functional importance and economic value, homeownership has traditionally conveyed social status and political standing. It is even thought to promote thrift, stability, neighborliness, and other individual and civic virtues.

story

Throughout this century, there has been bipartisan support for Federal policies designed to encourage homeownership. Herbert Hoover called the owner-occupied home "a more wholesome, healthful, and happy atmosphere in which to raise children." Lyndon Johnson promoted homeownership as part of a strategy for addressing the urban ills of the 1960s, declaring that "owning a home can increase responsibility and stake out a man's place in his community....The man who owns a home has something to be proud of and reason to protect and preserve it." Ronald Reagan said that homeownership "supplies stability and rootedness."

President Bill Clinton has linked increasing homeownership to the challenge of expanding opportunity for working families. Speaking to the National Association of Realtors in November 1994, he expressed a national consensus that "more Americans should own their own homes, for reasons that are economic and tangible, and reasons that are emotional and intangible, but go to the heart of what it means to harbor, to nourish, to expand the American Dream."

However, the American Dream became more distant for many during the 1980s, as the national homeownership rate fell from its historic high of 65.6 percent in 1980 to only 64.1 percent in 1991. The decline has been sharpest among segments of the population for whom access to the homebuying market has traditionally been most difficult. The homeownership rate for very low-income families with children fell by almost one-third, from 39 percent to 27 percent, between 1980 and 1991. Even among moderate-income households, homeownership dropped by 10 percent. Homeownership rates stagnated at approximately 43 percent for blacks, while homeownership among Hispanics fell from 43 percent in 1980 to 39 percent in 1991.

Perhaps most alarming has been the decline in homeownership among families under age 35, when most first-time homebuying occurs and the preference for ownership is strongest. In 1980 almost 45 percent of families in this age cohort owned a home; by 1991, the percentage stood at less than 38 percent.

To reverse this trend, President Clinton directed HUD Secretary Henry G. Cisneros to work with leaders in the housing industry, representatives of nonprofit groups, and officials at all levels of government to develop a National Homeownership Strategy that would increase ownership opportunities among populations and communities with lower than average homeownership rates.

This unprecedented public-private partnership is founded on a deeply rooted and almost universally held belief that homeownership provides important advantages that merit continued public support. The National Homeownership Strategy cites four fundamental benefits:

- "Through homeownership, a family...invests in an asset that can grow in value and...generate financial security."
- "Homeownership enables people to have greater control and exercise more responsibility over their living environment."
- "Homeownership helps stabilize neighborhoods and strengthen communities."
- "Homeownership helps generate jobs and stimulate economic growth."

The validity of some of these assertions is so widely accepted that economists and social scientists have

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