



Homeownership: Progress And Work Remaining

Summary: Owning one's own home is one of the defining elements of the American dream. But, only a few years ago, this part of the dream seemed to be fading away. After 40 years of continuous progress, homeownership became less achievable and the nation's homeownership rate actually declined in the early 1980's. As the eighties continued into the mid-nineties, the homeownership rate stagnated and remained virtually unchanged.

Making homeownership more attainable has always been a goal but the National Partnership for The National Partners in Homeownership – a coalition of 66 national groups representing the housing industry, lenders, non-profit groups and all sectors of government – gave the goal renewed emphasis and vitality. In late 1994, the Partnership and Administration set as a national goal raising the homeownership rate to 67.5 percent by the end of the year 2000. This goal was met during the third quarter of 2000. The Department, as part of its Annual Performance plan under the Government Performance and Results Act, has set a new goal of 70 percent by the end of 2006.

This remarkable turnaround in the homeownership rate is attributable to both broad economic factors and to specific policy initiatives. As a result of the rising homeownership rate and the nation's growing population, a total of 70.1 million families owned homes in 1999. There were 7.7 million more homeowners as of September 2000 than when the National Partnership began. This progress is attributable to many factors. Balancing the federal budget allowed the Federal Reserve to lower interest rates, creating the most favorable climate for financing a home since the 1960s. Strong economic growth and low unemployment boosted consumer confidence to

record levels and encouraged many families to consider homeownership for the first time. A surging stock market created wealth that allowed parents and grandparents to help young Americans afford their first home. The Department reinforced these economic incentives with policy initiatives focused on broadening homeownership. Enforcement of the Community Reinvestment Act and the Home Mortgage Disclosure Act was strengthened. The Department of Housing and Urban Development (HUD) used its oversight of Fannie Mae and Freddie Mac to encourage those entities to reach out to low income borrowers and areas underserved by the private market. Finally, a revitalized FHA has substantially increased lending to African-Americans, Hispanics, and other traditionally underserved groups and, in doing so, has worked to increase homeownership opportunities of these segments.

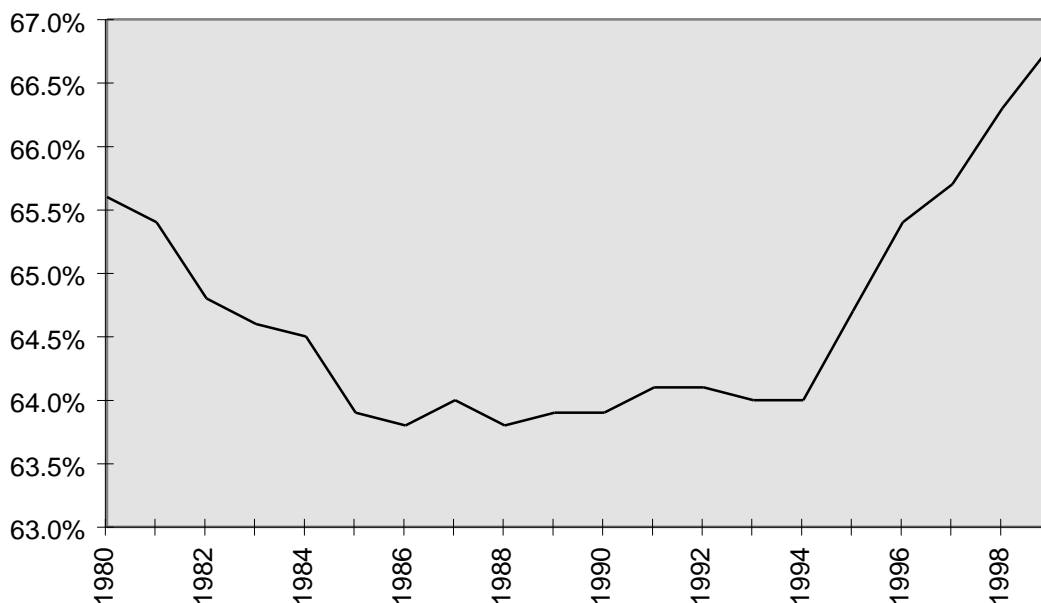
This issue brief reviews long-term trends in homeownership, looks at recent progress, assesses the sharing of the recent progress among groups, and discusses the roles of FHA, HUD's monitoring of the GSEs, enforcement of Community Reinvestment Act, renew emphasis on equal opportunity and fighting discrimination, and HUD's partnerships with industry and private organizations.

Trends in the National Homeownership Rate

According to Decennial census data, the homeownership rate fluctuated around the 45 percent level from 1890 to 1940, rose rapidly from 1940 to 1960, and then increased slowly thereafter until 1980. Between 1980 and 1990 a decline was recorded. This decline can be further documented using annual data from the Census Bureau's Current Population Survey. As the following chart shows, the national homeownership rate declined from 1980 to 1986, remained virtually unchanged through 1994, and then rose steadily from 1995 through 1999.¹

¹ The annual data come from the Current Population Survey and do not match exactly the rates obtained from a Decennial census.

Homeownership Rate: 1980 to 1999



Homeownership Progress Widely Shared

The following table shows how the increase in homeownership rates from 1993 to 1999 affected major racial and ethnic groups and was distributed between central cities and suburbs. The category of OTHER includes Asian Americans, Native Americans, and Pacific Islanders. The 1999 rates reported in the following table are record highs for every group reported.

	1993	1999
NATION OVERALL	64.0	66.8
WHITE (non-Hispanic)	70.2	73.2
BLACK (non-Hispanic)	42.0	46.7
HISPANIC	39.4	45.5
OTHER (non-Hispanic)	50.6	54.1
CENTRAL CITIES	48.6	50.4
SUBURBS	70.3	73.6

There were 57.7 million white, 6 million African American, 4.2 million Hispanic, and 2.2 million Asian American, Native American and Pacific Islander homeowners in 1999 – all record high annual numbers and annual percentage rates. A total of 40 percent of the net new homeowners since 1994 are minorities – even though minorities account for just 24 percent of the population. In addition to hitting annual record highs in 1999, the African American and Hispanic homeownership rates continued growing twice as fast as the white homeownership rate.

These gains are not simply the result of demographic shifts in the American population. Evidence from the American Housing Survey shows that the demographic changes made a relatively small contribution to the improvement of the national homeownership rate. This suggests that the improved national economic environment brought about by balanced budgets, low interest rates, low unemployment, high consumer confidence along with HUD efforts to promote homeownership through a stronger FHA, more demanding goals for the GSEs, renewed vigor in enforcing CRA and equal opportunity requirements is contributing to the recent homeownership progress.

The Work Ahead - Closing the Gaps

Despite this progress, serious gaps remain. In 1999, the minority homeownership rate (47.4 percent) was 25.8 percentage points lower than the homeownership rate for non-Hispanic whites (73.2 percent). The gap in 1994 was 26.8 percentage points. The following table shows the change in the gaps for the various subgroups of the minority population over this period.

	Gap in 1994	Gap in 1999
All Minorities	26.8%	25.8%
Non-Hispanic Blacks	27.5%	26.5%
Hispanics	28.8%	27.7%
Other Non-Hispanic	19.2%	19.1%

In 1999, households with income less than the median income had a homeownership rate (51.2 percent) that was 27.4 percentage points lower than the homeownership rate for households with above median income (78.6 percent). The gap in 1994 was 28.7 percentage points.

In 1999, the central city homeownership rate (50.4 percent) was 23.2 percentage points lower than the suburban homeownership rate (73.6 percent). The gap in 1994 was 21.8 percentage points.

A Stronger FHA Contributed to the Progress

FHA has traditionally been the mechanism used by borrowers who have difficulty obtaining mortgage financing in the private conventional market. It has long been recognized as the major source of funding for first-time, low-income, and minority home buyers. As indicated by the following points, the combination of a strong economy and significant program and policy changes has allowed FHA to expand on its traditional role.

- The share of FHA-insured home purchase loans going to first-time buyers has increased from 67 percent in 1993 to 82 percent in year 2000. In total,

over this period, FHA has helped 4.3 million first-time home buyers realize their dream of homeownership.

- The share of FHA home loans accounted for by African-American and Hispanic homeowners increased from 19.5 percent in 1993 to 34.0 percent in the year 2000 (through August of 2000). Similarly, the share for all minorities increased from 22.5 percent to 41.8 percent during this period.
- FHA plays an important role in financing homeownership for traditionally underserved families. While FHA insured 21 percent of all home purchase loans originated in metropolitan areas during 1999, it insured 42 percent of loans for African-American and Hispanic borrowers. FHA also insured approximately three out of ten home loans originated in underserved areas (i.e., low-income and high-minority census tracts).
- Even with the substantial increase in affordable lending by conventional lenders during the 1990s, FHA has maintained – and in some cases even increased – its role in the low-income and minority mortgage market. FHA's share of the mortgage market for African-American and Hispanic borrowers increased from 39 percent in 1993 to 42 percent in 1999, while its shares of the low-income borrowers and underserved areas markets were about the same in 1999 as they were in 1993. Thus, while the conventional market has been improving its affordable lending performance, there has been no replacement of the important role that FHA has traditionally played in providing access to mortgage credit for historically underserved borrowers.

Because of the importance of FHA insurance for those groups with large housing gaps, HUD has taken a number of steps to enhance the usefulness of FHA insurance. These include lower insurance premiums, higher loan limits, consolidation and streamlining of loan processing to increase speed and improve consistency, and strengthening of the appraisal process. In addition, FHA has introduced automated underwriting through Freddie Mac and Fannie Mae and has been developing and testing its own FHA mortgage scorecard.²

Promoting Progress Through Monitoring the Secondary Mortgage Market: Setting Housing Goals for Fannie Mae and Freddie Mac

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 affirmed and strengthened HUD's role as mission regulator for Fannie Mae and Freddie Mac, the government-sponsored enterprises (GSEs) in the secondary mortgage market. HUD's primary responsibility under this 1992 GSE Act has been the establishment of goals for the GSEs' purchase of mortgages for targeted groups of borrowers. These include low- and moderate-income (low-

² For a more detailed discussion of FHA, see *Issue Brief: FHA's Impact on Homeownership Opportunities for Low-Income and Minority Families During the 1990s*. Office of Policy Development and Research, Department of Housing and Urban Development, January 2000.

mod) families, families living in underserved areas, and special affordable families (very low-income families and low-income families in low-income areas).

In December 1995 HUD issued detailed regulations establishing these goals for 1996-99 at higher levels than had prevailed during the 1993-95 transition period. HUD also undertook detailed analyses of home mortgage denial rates and loan origination rates to better target the underserved areas goal. As a result of this research, this goal was redirected toward low-income and high-minority census tracts, whether located in central cities or suburban portions of metropolitan areas.

Both GSEs have surpassed all of their housing goals in the 1996-99 period—for example, in 1999 the GSEs averaged 46 percent on the low-mod goal, 27 percent on the underserved areas goal, and 17 percent on the special affordable goal. Fannie Mae's performance has generally exceeded Freddie Mac's performance, but this pattern was reversed on two of the three goals in 1999.

In October 2000 HUD sharply increased the levels of the goals for 2001-03 relative to previous levels—for example the low-mod goal was raised from 42 percent in 1996-2000 to 50 percent in 2001-03. The underserved areas goal will rise from 24 percent to 31 percent, and the special affordable goal from 14 percent to 20 percent.³

Increased Enforcement of Community Reinvestment Act

The Community Reinvestment Act (CRA), a federal law that requires lenders to make loans to all segments of the communities they serve, has resulted in some \$1 trillion in loans to people in low- and moderate-income neighborhoods since it was enacted in 1977. A significant portion of these funds has been used for mortgage lending that has boosted homeownership. Under CRA, lenders have made significant progress in reaching underserved communities. A recent report for the Treasury Department showed that banks and thrifts increased the share of their mortgage originations to low-income borrowers and borrowers in low-income communities from 25 percent in 1993 to 28 percent in 1998.⁴ The administration has both tightened the criteria used to measure CRA compliance and expanded the range of business opportunities allowable only to lenders with a satisfactory CRA rating. The incentive of institutions to meet their CRA obligations was enhanced by the Financial Modernization Act of 1999, which

³ For a more detailed discussion of the GSE housing goals, see *Issue Brief: HUD's Affordable Lending Goals for Fannie Mae and Freddie Mac*. Office of Policy Development and Research, Department of Housing and Urban Development, January 2000.

⁴ See Robert E. Litan, Nicolas P. Retsinas, Eric S. Belsky, and Susan White Haag, *The Community Reinvestment Act After Financial Modernization: A Baseline Report*, U.S. Department of Treasury, April 2000.

granted expanded business opportunities to depository institutions only if they have satisfactory CRA ratings.

Summary

The homeownership rate has been eclipsing record after record for the last several years. This resurgence follows declines in the eighties with stagnate and unchanging rates through the mid-nineties. Improved overall economic conditions with the record long recovery contributed heavily to this homeownership increase. But administration and HUD efforts have also contributed to the improved access to homeownership. These efforts include a revitalized FHA, more demanding goals for the GSEs, renewed emphasis on CRA and equal opportunity enforcement, and numerous other activities such as the Million Homes initiative⁵. While this homeownership progress is widely shared across racial, ethnic and locational groups, gaps remain. Maintaining the overall progress and closing these racial and ethnic gaps are the work remaining.

⁵ The Building Homes in America's Cities initiative is a partnership between HUD, the National Association of Home Builders, and the U.S. Conference of Mayors. The goal is to produce an additional million homes in America's cities over the next decade -- an additional 1,000,000 new housing units in the next ten years.

**Appendix: Homeownership Rates by Race and Ethnicity
1983-Present**

Period	Non-Hispanic			Hispanic
	White	Black	Other	
1983	69.1	45.6	53.3	41.2
1984	69.0	46.0	50.9	40.1
1985	69.0	44.4	50.7	41.1
1986	68.4	44.8	49.7	40.6
1987	68.7	45.8	48.7	40.6
1988	69.1	42.9	49.7	40.6
1989	69.3	42.1	50.6	41.6
1990	69.4	42.6	49.2	41.2
1991	69.5	42.7	51.3	39.0
1992	69.6	42.6	52.5	39.9
1993	70.2	42.0	50.6	39.4
1994	70.0	42.5	50.8	41.2
1995	70.9	42.9	51.5	42.0
1996	71.7	44.5	51.5	42.8
1997	72.0	45.4	53.3	43.3
1998	72.6	46.1	53.7	44.7
1999	73.2	46.7	54.1	45.5

Source: Current Population Survey, Bureau of the Census

Note: The annual data come from two sources: for years 1983 to 1993, the source is the March demographic supplement of the Current Population Survey; and for years 1994 and later, the data are the average of the 12 monthly Current Population Surveys/Housing Vacancy Surveys.