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Can Expanded Minority Homeownership Stabilize Housing?

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For most of this year, the level of mortgage applications made no great progress upwards. But one strategy for bumping up applications—and, by extension, stabilizing the housing market—could involve the expansion of homeownership among the nation's minority communities.

Indeed, the sooner that housing is stabilized, the better. According to data from the Mortgage Bankers Association's (MBA) Weekly Mortgage Applications Survey for the week ending July 11, the Market Composite Index decreased 3.6 percent on a seasonally adjusted basis from one week earlier. On an unadjusted basis, the Index increased 20 percent compared with the previous week.

Even more dramatic is the seasonally adjusted Purchase Index decreasing eight percent from one week earlier, to its lowest level since February 2014, while the unadjusted Purchase Index increased 16 percent compared with the previous week and was 17 percent lower than the same week one year ago. The average loan size for purchase applications was $268,500, the lowest amount since February 2014.

Oddly, the closest thing to stability in the MBA's data was the Refinance Index, which barely decreased 0.1 percent from the previous week. The refinance share of mortgage activity increased to 54 percent of total applications from 52 percent the previous week.

So how can expanded minority homeownership levels bring order to the housing market? For starters, consider the shift in demographics: The 2010 U.S. Census determined that approximately 36.3 percent of the population was part of a racial or ethnic minority group, while the Pew Research Center forecasts that non-Hispanic whites will become a minority in the U.S. by 2050. This is already playing out in the housing market: According to The State of the Nation's Housing 2014 issued last month by Harvard University's Joint Center for Housing Studies, the white share of homeowners fell from 86 percent to 77 percent between 1993 and 2013, while the Hispanic share climbed from four percent to nine percent, while the Asian market share increased from two percent to six percent.

The Harvard Survey also found that as of 2011, 32 percent of all first-time buyers were minorities, with Hispanics constituting 14 percent of that market, while first-time homebuyers were more likely to be foreign born (16 percent) when compared with current homeowners (10 percent).

But the Harvard Study detailed considerable disparities in the white-minority homeownership levels. As of last year, the difference in white-black homeownership rates stood at 29.5 percentage points while the gap in white- Hispanic homeownership rates measured 27.3 percentage points.

Another study from earlier this year, conducted by Zillow and the National Urban League, A House Divided: How Race Colors the Path to Homeownership, further detailed homeownership data disparities. This survey determined that whites (who make up 63 percent of the total population) filed 64.8 percent of all mortgage purchase applications in 2012, whereas African-Americans (12.1 percent of the population) only filed six percent of all purchase applications and Hispanics (17.3 percent of the population) filed 9.4 percent of all applications.

The Zillow-National Urban League study also found disparities in applications for Federal Housing Administration (FHA) mortgages: 57.4 percent of African American applicants and 60.3 percent of Hispanic applicants filed for an FHA loan, while only 30.1 percent of white applicants went this route.

Previous efforts under President Bill Clinton and George W. Bush Administrations to aggressively boost minority ownership have been cited by many housing industry experts as contributing to the housing bubble, due to acute changes in underwriting and an emphasis on the quantity of loans versus the quality of mortgages being originated—and these efforts are seen by many as having a deleterious effect on minority homeownership.

“We know the mortgage crisis had a disproportionate impact on people and families of color,” said Nikitra Bailey, vice president at the Center for Responsible Lending in Durham, N.C. “Many families of color were pushed out of the mortgage market due to foreclosures. Today, mortgage credit is tight and African Americans and Latinos are not able to access credit at the rate that would promote building a new level of homeownership.”

Dr. Mark A. Calabria, director of financial regulation studies at the Washington, D.C.-based Cato Institute, is highly supportive of expanding minority homeownership rates, but he is not eager to see history repeat itself.

“The objective should be closing the gap in a responsible way,” Dr. Calabria explains. “Loosening underwriting standards has more potential to destabilize the housing market in the long run.”

Dr. Calabria views this challenge by identifying housing affordability as the key obstacle for expanding minority homeownership.

“The single most important thing to do is look at housing costs,” he continues. “In cities where it is affordable to live and there is a decent supply of housing, there is a much higher homeownership rate for minorities across the board. But in cities where it is expensive to live, it is difficult for everyone and the gap in homeownership rates is wider.”

Dr. Calabria adds that the need for a stronger economic environment and more higher-income jobs will also drive this effort further. “There are limits to substituting credit for income,” he says.

But this doesn’t mean that the federal government should step away from the subject completely. Jason Madiedo, president and CEO of Las Vegas-based Venta Financial Group and president of the National Association of Hispanic Real Estate Professionals (NAHREP), called on the government-sponsored enterprises (GSEs) to step up with a responsible strategy.

“The agencies need to reintroduce or flip the switch on their low downpayment programs,” Madiedo says. “Fannie and Freddie previously allowed loan-to-value to be extended to 97 percent. But they pulled that off the shelf a few years ago and have it down to 95 percent. That percentage makes so much of a difference for homeowners—the difference between going to the FHA and going to conventional lenders.”

Madiedo adds that this approach would help raise mortgage applications levels. “There would be definitely be more options,” he says. “Now, if people do not qualify, they have to save more money [for a downpayment], and that could take many years to save that much more money.”

But on the other hand, Edward Pinto, resident fellow and co-director of the International Center on Housing Risk at the American Enterprise Institute (AEI) in Washington, D.C., questions whether housing finance priorities need to be re-evaluated.

“We have policy in the U.S. that promotes people not paying off their mortgages,” Pinto says, adding that the federal government should not encourage borrowers to bury themselves under debt. “We’ve spent trillions of dollars in highly leveraged risky loans to drive these numbers up. But black homeownership has barely budged.”

For Pinto, the correct approach to the situation involves an older approach to lending.

“In my opinion, we should go back to what we know works: Lower leverage,” Pinto continues. “The only time we had a housing policy that made sense was when there was low leverage on financing from the 1930s through the early 1960s—it was a combination of FHA and private lending, with virtually all low-risk loans. Homeownership soared from 47 percent in 1940 to 62 percent in 1960—it went up for both blacks and whites.”

Of course, today’s mortgage origination procedures are vastly different from those of previous generations. Maxine Fitzgerald, executive director of Portland Community Reinvestment Initiatives Inc. in Portland, Ore., observes that because many potential minority homebuyers are new to the process, the need for financial literacy counseling is important.

“The process is much more complicating than before,” Fitzgerald says. “It is most definitely the responsibility of the buyer to familiarize themselves with the process. And the lenders also play a role in this—they want to have successful buyers.”

But while encouraging new homebuyers is a welcome idea, Dr. Juliet Elu, chairwoman of the economics department at Morehouse College in Atlanta, points out that it was also crucial not to forget existing homeowners that are eager to acquire new residences, but are currently unable to move because they have underwater mortgages.

“A lot of minorities are still in houses that are worth less than what they owe the bank,” says Dr. Elu. “If banks can get to these people to refinance, that would be very, very helpful.”