

# Now's The Time



How the Housing Crisis  
Has Created An  
Unprecedented  
Opportunity for Working  
Families to Achieve  
Financial Security

A Study by Homewise, Inc.  
Santa Fe, New Mexico  
With the Support of  
The McCune Charitable Foundation  
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**homewise**<sup>®</sup>

*your partner in homeownership*

*The mission of Homewise is to help working New Mexicans become successful homeowners in order to achieve financial security, strengthen families and increase the economic and social vitality of our communities.*

This report was authored by Michael Loftin, Executive Director of Homewise and Emilee Ford.  
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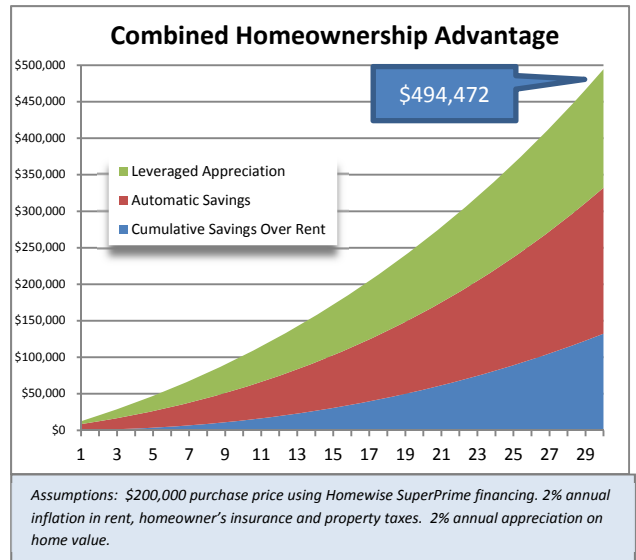
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*Executive Summary*

Fueled by the greatly expanded use of sub-prime loans, housing prices experienced an extraordinary boom in the past several years, only to be followed by a historic and painful bust. The tumult that has caused prices to drop has also eroded confidence in homeownership, leading many to question whether the average family should buy a home, can buy a home, or even wants to buy a home.

But these unprecedented market conditions, combined with the enduring wealth-building benefits of homeownership, have created an extraordinary opportunity for families to build long term financial security through smart home purchase. Homeownership's financial benefits build on each other to give ownership a significant advantage over renting. Homeowners stabilize their household budgets by locking in their housing payments (typically the biggest monthly expense). They build automatic savings through equity building, and they create wealth through leveraged appreciation. The typical owner who purchases a \$200,000 home in today's market will amass a homeownership advantage of nearly half a million dollars over 30 years compared to renting.



Today, many more families are able to secure these benefits after being locked out of the market for years, thanks to increased affordability. Home prices have dropped significantly from their peak and interest rates are at a historic low. The result is that the income needed to purchase the median priced home has dropped 50% in Santa Fe and 39% nationally since their respective peaks. With lower incomes required, more households can afford to buy -- 22.5 million *more* households in the United States compared to 2006. While tightened credit standards (a reaction to the disastrous use of subprime loans), may temper that affordability, hundreds of organizations like Homewise continue to prepare homebuyers to overcome challenges of credit score, debt, and savings in order to help them meet strict mortgage standards and become strong, successful owners.

The unprecedented opportunity for families to secure their financial futures through homeownership is fleeting and will diminish as interest rates rise and existing inventory is absorbed. With such a moment at hand, we should be hearing calls for a renewed commitment to homeownership. But instead, the confusion of the tumult has taken its toll on policy makers and the media, who are moving away from policies that support home purchase and casting doubt on the working family's ability to achieve homeownership. In order to take advantage of the present opportunity, it is essential that public policies and industry practices help working families purchase their first home prudently, with sound underwriting standards and healthy financial behaviors. The current opportunity will not be with us forever – now is the moment to work overtime to take advantage of it.

## *Introduction*

Volatile. Tumultuous. Unpredictable. Turbulent. There is no shortage of dark adjectives to describe the economic conditions of the past several years. Fueled by a greatly expanded use of sub-prime loans, housing prices experienced an extraordinary boom only to be followed by a historic and painful bust. Graphs showing this trend read more like schematics for a hair-raising roller coaster than an economic analysis. That economic roller coaster has caused many, even longstanding advocates of homeownership, to ask some basic questions: Is homeownership a smart financial choice? Are people able to buy? And even if people can buy, do they want to buy? Such questions are the natural result of a financial collapse that caused economic panic and unprecedented changes in financial and home purchase markets. As we emerge from the crash, the panic has given way to lingering confusion about the appropriateness of homeownership for the average American family. The instinct to pull away from homeownership after a bust in the market is not a surprising one. Considering the current market conditions, it is the wrong instinct. A historic combination of low prices and interest rates, combined with the enduring benefits of homeownership, has created an unprecedented opportunity for families to obtain long term financial security through smart homeownership. With that opportunity at hand, now is the time to recommit to homeownership.

## *Is Homeownership a Smart Financial Choice?*

Housing is a basic human need and, for the typical family, it is the largest portion of the monthly budget. Most households consider two basic options for their housing: rent or own. Compared to renting, homeownership offers significant benefits as a tool for promoting long term financial security. The homeownership advantages include stable housing payments, wealth creation through equity building, and the power of leveraged appreciation.

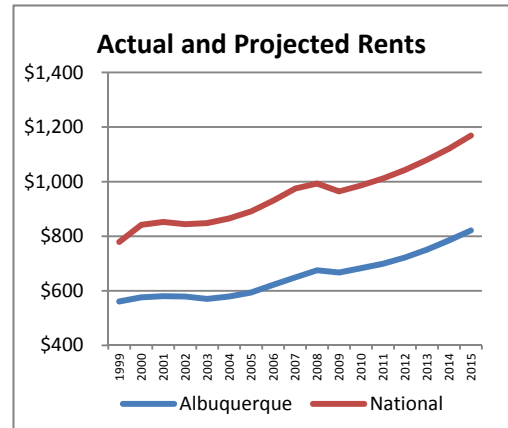
### Stable Housing Payments

For most families, the cost of housing is the single biggest expense in the monthly budget. Homeowners enjoy the advantage of stability in their housing payment throughout their tenure in a home. There are no other line items in the family budget that can be locked into place for 30 years or more. Food, health care, utilities, gas, clothing, entertainment and other expenses are all subject to continued inflation. For owners, the only portions of the housing payment subject to increase are taxes and insurance. The principal and interest payment, by far the largest portion of the housing payment, remains steady. In contrast, rent is unpredictable and is subject not only to inflation, but also to market fluctuation caused by shifts in supply and demand. Homeowners are shielded from volatility in the housing markets. They lock in the housing payment when they purchase and their payment remains steady even as prices rise and fall around them. In contrast, renters cannot lock in their housing payment and are subject to unpredictable rises.

While many focus solely on the appreciation benefits of homeownership, this stability benefit is equally important to a family's long term financial success. Locking in their biggest monthly expense gives the household the predictability to plan ahead financially and contribute to other long term financial goals. And over the years as incomes grow and the housing payment remains steady, that additional margin

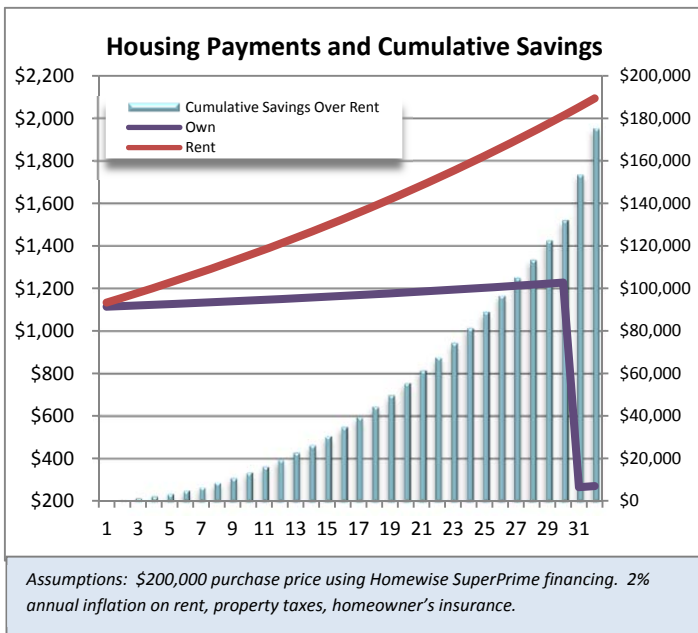
can be dedicated to other uses, including savings for college, retirement, and emergency reserves, instead of paying higher rents.

There are indications of the rental market tightening, causing rents to increase with projections for future increases. For example, according to a recent analysis by Reis Services LLC., rents in the Albuquerque metro area have steadily increased since 1999 with an average year over year increase of 2.43%. The national trend is similar and for both, rents are projected to increase at an even faster rate in the coming years. For the Albuquerque area, rents are projected to increase 3.3% in 2012, 4% in 2013, and 4.5% in 2014.



As the cost of renting increases while the cost of owning remains stable, the owner begins to accumulate significant savings over the years. Comparing the monthly costs for the owner, who purchases a \$200,000 home using Homewise Super Prime financing<sup>1</sup>, and the renter in a similar home, shows how the monthly ownership advantage grows each year. Assuming that the renter's and owner's monthly payments start out equal, and assuming a modest 2% inflation each year, the total housing

payment for a renter increases 22% in just 10 years. By comparison, the owner's housing payment increases only 4% in 10 years because the inflation only impacts taxes and insurance. This advantage continues to increase as rental inflation builds on itself. In the 31<sup>st</sup> year, just in time for retirement, the owner has paid off his loan and his monthly housing payment plummets to just the taxes and insurance. Meanwhile, the renter's payment has increased 85%. Over the years, this savings adds up significantly. In year 30, the cumulative savings of the owner compared to the renter is just over \$130,000 and grows even faster once the owner's mortgage is fully amortized. In just the next two years, the



cumulative savings increases by about \$45,000 to reach a total of about \$175,000.

The assumption that the monthly costs for renters and owners are equal in the first year may strike some as incorrect. In fact, most people assume that buying home will result in an increased monthly

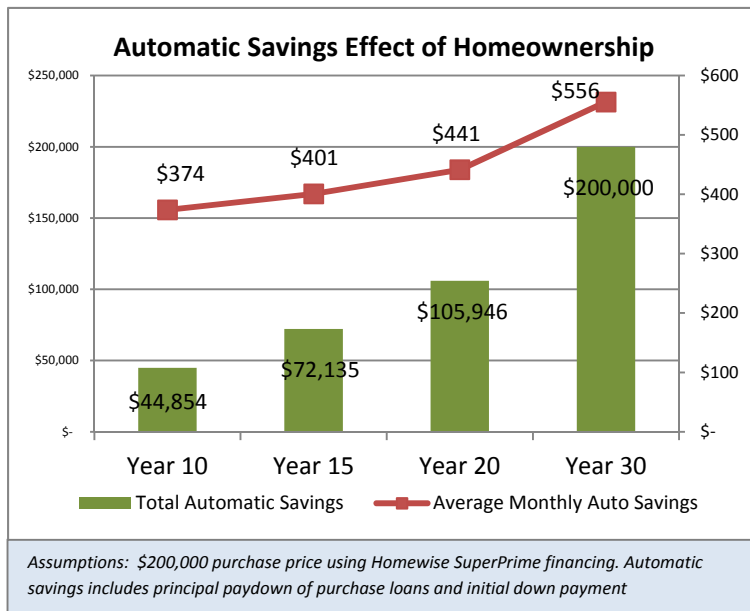
<sup>1</sup> Homewise SuperPrime financing combines a first mortgage at the current rate for a 30-year fixed rate conventional mortgage with a second mortgage provided by Homewise. Current first mortgage rate is assumed at 4%, the rate on the Homewise second is 5.5% and down payment and closing costs are assumed at 2.5% each.

housing payment, according to Fannie Mae's National Housing Survey. This increase, however, is also a function of the renter moving *up* to a better home. With today's combination of low prices and low interest rates, the cost of buying can actually be lower than renting the *equivalent* home. This is true in Santa Fe according to Homewise's recent analysis of costs for renting and owning comparable homes. For example, a 3 bedroom/2 bathroom home in Tierra Contenta has a sales price of \$203,500 which results in a monthly payment of \$1,131. The rent for that unit is \$1,350, giving the owner an immediate savings, and that savings will continue to grow over the years.

**Wealth Building**

By itself, the stability benefit of homeownership is enough to give it a compelling advantage compared to renting. But the stability advantage is just one benefit of ownership. Homeownership serves a dual purpose: it provides the basic human need of safe and decent housing, and it serves as an investment vehicle to help families build wealth.

The first way homeownership builds wealth is as a savings tool. Part of each monthly mortgage payment is essentially being paid back to the owner in the form of principal paydown. In essence, this serves as an automatic savings plan for the owner, increasing the owner's net assets each month as he



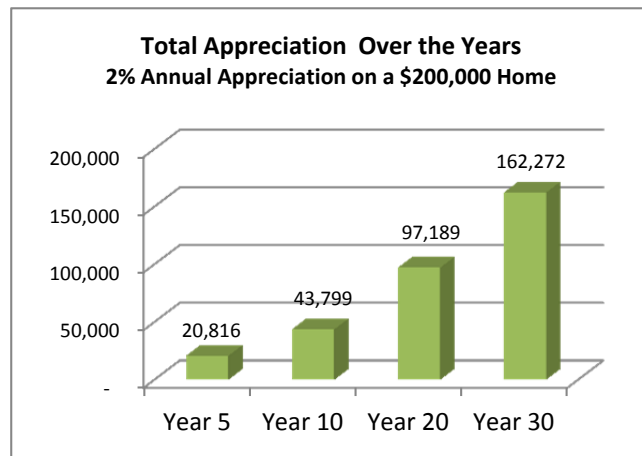
pays down his loan. It is as if the owner has set up an automatic plan that transfers funds each month into a savings account (with the added benefit that this savings account also provides him shelter). The value of this savings plan grows over time as the portion of the payment that is credited toward principal each month increases. In contrast, the amount of a rent payment directed toward the renter's net assets is steady. It is, and always will be, zero.

The graph, based on a typical \$200,000 home purchased in today's market, shows how an owner's equity increases over the years as the loan balance is paid down. This benefit is *solely* the result of paying down the principal and doesn't factor in any appreciation in the home's value. By year 10, the cumulative value of the automatic savings is almost \$45,000. That would be the same as the owner transferring \$374 to a savings account every month for 10 years. The value of the savings plan grows as the entire loan amount is paid down and the owner has accumulated \$200,000 of savings.

By contrast, a renter does not enjoy the benefit of this built in, automatic savings plan since no part of his housing payment goes toward his net assets (though it does go toward his landlord's net assets). Any automatic monthly savings the renter wants to set aside will have to be *in addition to* his housing payment, adding cost to the monthly budget and requiring impressive financial discipline. And remember, the renter's monthly housing expense is subject to volatility and increase. As housing costs grow, setting aside savings each month would become more challenging. By contrast, the owner's savings is built in to his principal and interest payment, which is locked in for 30 years. His house is the piggy bank where he can live.

Appreciation and Leverage

The principal paydown effect of homeownership is like automatically transferring funds into a savings account each month. However, any good savings account provides interest on those deposits. So too, does homeownership, in the form of appreciation. Even modest appreciation in the home's value has a powerful cumulative effect on the homeowner's wealth. For an owner who purchases a \$200,000 home and enjoys 2% annual price growth, appreciation will total over \$20,000 in just 5 years, and will grow to more than \$162,000 over 30 years. The benefit of this appreciation is *on top of* the automatic savings effect described above. Even with the volatility the market has experienced in the past few years, it is still realistic to project appreciation. Since first quarter 1999, the average year over year increase in home prices (measured quarterly) in Santa Fe has been 4.6%. Nationally, the price change since 1999 shows an average 3% increase per year. Even with the recent drop in the market, today's prices show the annual growth that allows a homeowner to build wealth with the power of compound appreciation.



A savvy investor may find a projection of 2% annual appreciation to be low at first glance, and may even think that homeownership compares badly to other investment options. But that first glance misses one of the most powerful wealth building features of homeownership: leverage. Homeownership provides appreciation on the *entire value* of the home even though the homeowner has put up only a portion of that value in cash. This leverage amplifies the return on the homeowner's initial investment so that the overall return on investment is much higher than the simple annual rate. For example, say a person has \$10,000 cash to invest. If he puts that in an investment vehicle that earns 10% annual appreciation (a great rate of return!), he would earn \$1,000 appreciation in that first year:

$$\$10,000 \times 0.10 = \$1,000$$



Now, say that person uses his \$10,000 to buy a house, putting his cash toward down payment and closing costs in order to purchase a \$200,000 home. Even if he gets a much lower annual appreciation rate of 2%, his actual appreciation is *four times higher* because of the power of leverage:

$$\$200,000 \times 0.02 = \$4,000$$

Typically, only professional or institutional investors can take advantage of the power of leverage to increase their rate of return. Homeownership is likely the only vehicle that allows the individual to achieve this kind of investment leverage (and he achieves it while also meeting the basic human need of housing). In contrast, the renter has to address the needs of housing and financial planning separately, making room in his monthly budget for both his rent and a regular contribution to an alternate investment vehicle. He also has to display impressive financial discipline, making those regular deposits month after month, even while his rent is subject to increase.

How much would that regular contribution have to be for a renter to catch up to the homeowner using the alternate savings vehicle? If we continue to assume the generous 10% annual appreciation for the alternate investment (such as the stock market) and the modest 2% appreciation on homeownership, we can determine the amount the renter would have to set aside each month to catch up to the owner. The renter's required monthly contribution decreases slightly each year since, in this scenario, we are assuming a very generous and steady 10% return for the stock market and a conservative 2% appreciation on home prices. However, even with the 10% return, the renter has to set aside a significant amount of funds each month to catch up to the homeowner:

Amount the Renter Must Invest Each Month to Keep Pace with Homeowner's Wealth			
Year	Net Value of Investment	Owner's Monthly Required Payment	Renter's Monthly Required Payment
5	\$ 43,633	Housing Payment Only	Rent + \$351 per month
15	\$141,309	Housing Payment Only	Rent + \$233 per month
30	\$362,272	Housing Payment Only	Rent + \$73 per month

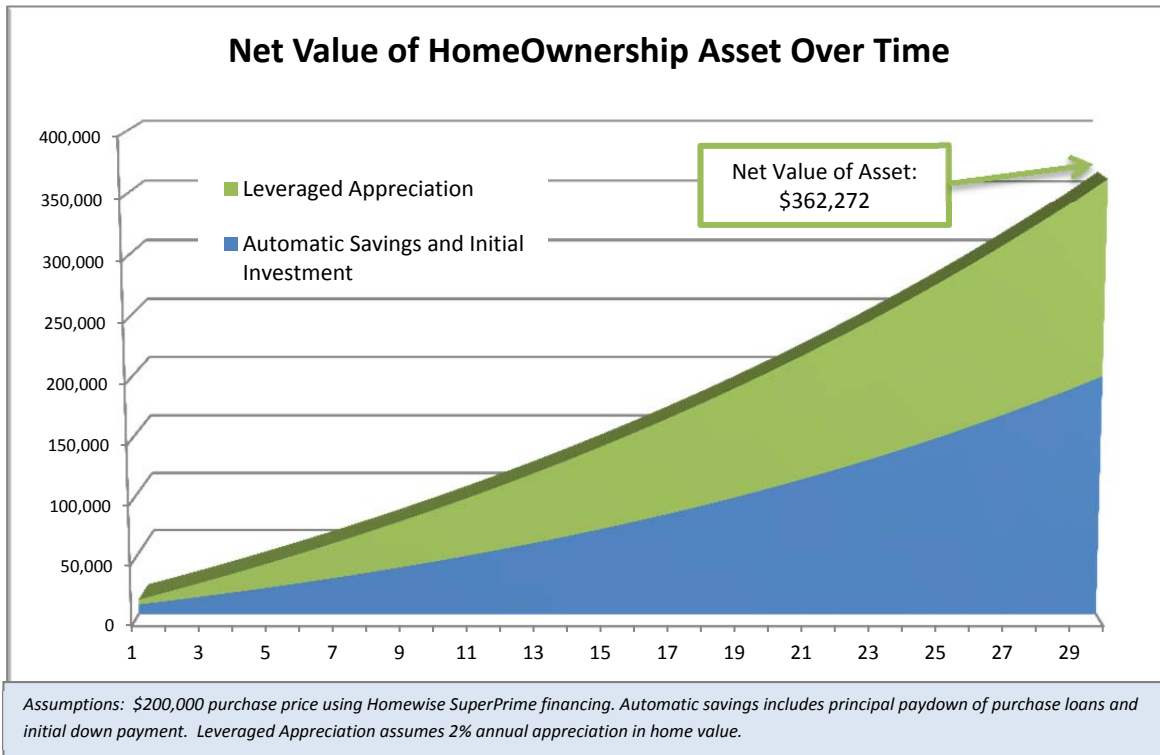
As the chart above shows, the renter who wants to reach the same net assets in 15 years as the homeowner needs to pay his rent *plus* an additional \$235 per month, year after year. The homeowner simply has to make his mortgage payment. And, with home prices and interest rates so low in today's market, it is reasonable to assume that a homeowner will have the same, or even lower starting monthly payment than the comparable renter. Consider what a household could do with an additional \$235 in their monthly budget! The homeowner could use that additional money to invest further in a retirement account or their children's college fund and build even more wealth and long term security. They could set it aside in an accessible rainy day fund to protect themselves from unpredictable life



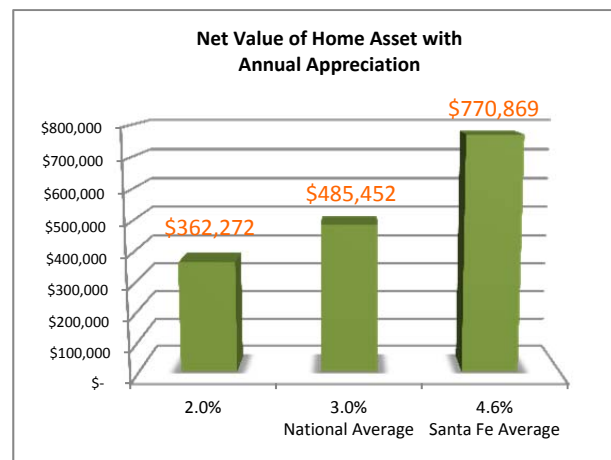
challenges like sickness or job loss. And just as importantly, they could have a little more fun – perhaps work in a few more vacations – without sacrificing long term financial security.

Combined Power of Wealth Building

The table above starts to convey the true power of homeownership as a tool for building wealth because it combines the power of the automatic savings, appreciation and leverage factors that are built into homeownership. This graph demonstrates how those factors layer to build wealth over time.



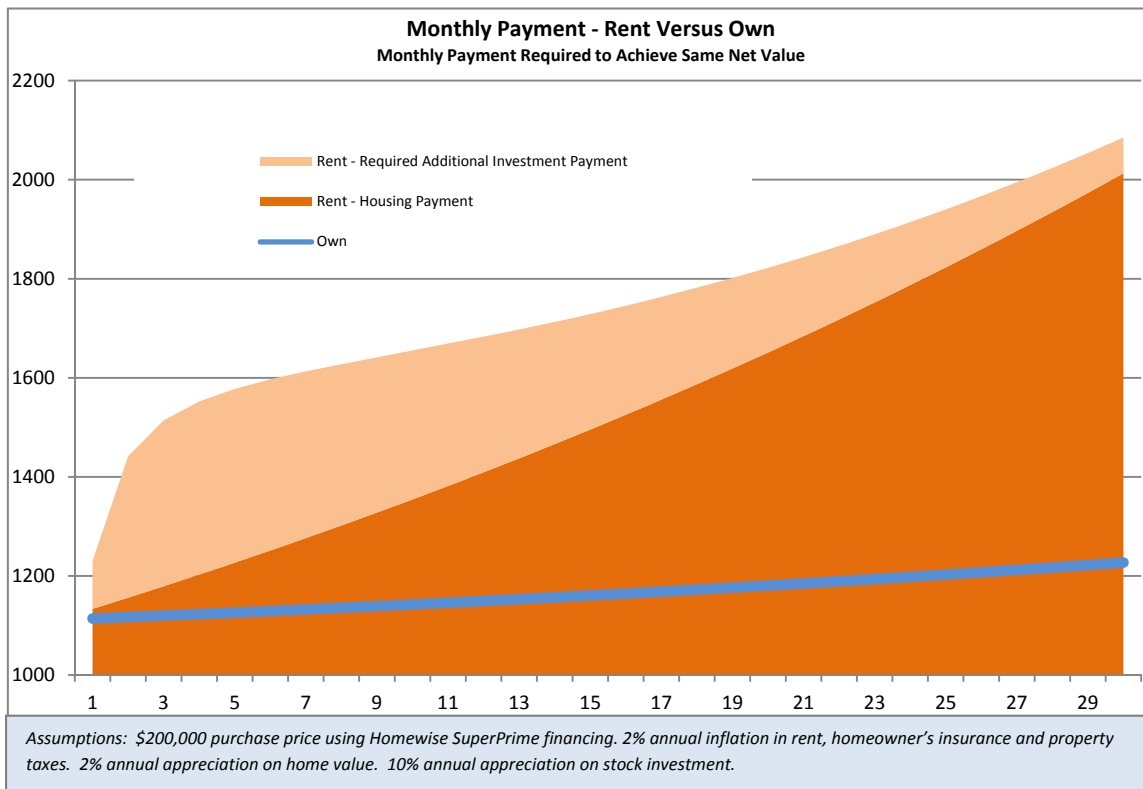
Starting from an initial cash investment of \$10,000 used for the down payment and closing costs, our homeowner has built a net wealth of over \$360,000 just by making his monthly housing payment. Again, this assumes a very modest 2% annual appreciation which is actually a conservative estimate when we look at past performance. Since 1999, the average year over year change in the national median home prices (measured quarterly) has been just over 3%. And in Santa Fe, that average annual growth has been about 4.6%. These appreciation rates factor in the sharp drop we have seen recently in home prices.



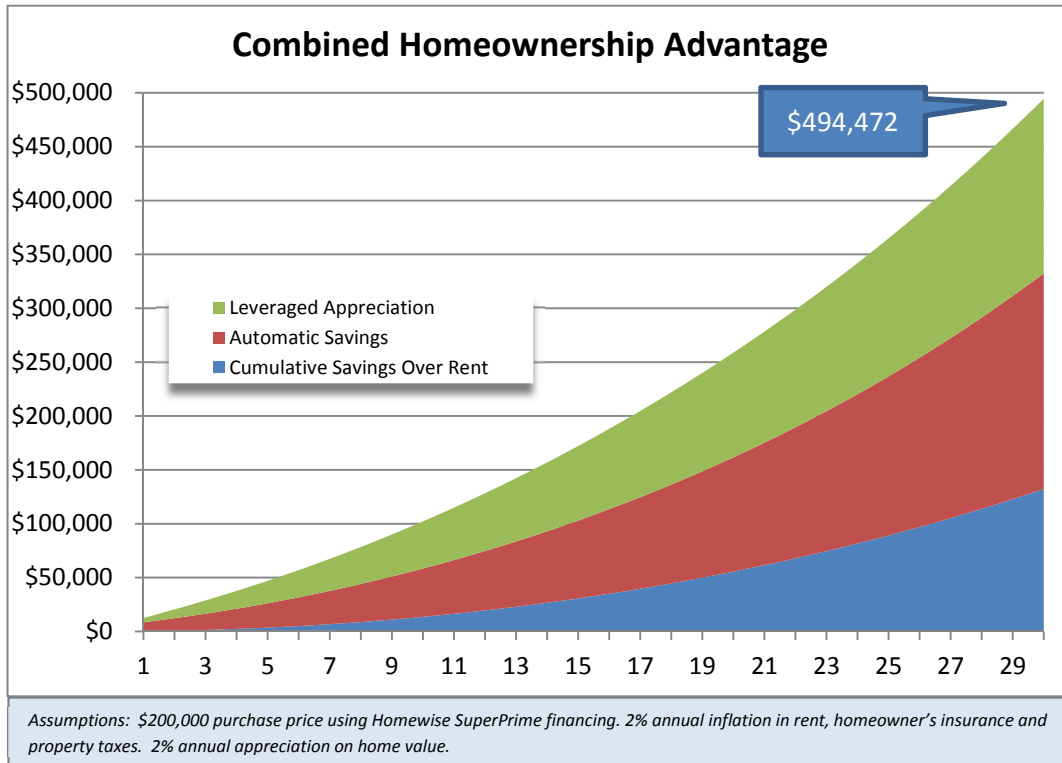
When we use those appreciations rates, the wealth building effect of homeownership is even more powerful, as shown in the graph. What would it take for a renter to build the same level of wealth by

investing in the stock market when we compare it to homeownership with that slightly higher home appreciation rate? With just 3% appreciation in home prices instead of 2%, the renter's monthly catch up price is even higher, almost \$500 every month on top of his housing payment in the first five years.

When we combine these layers of financial benefits, we see how the homeownership advantage grows over the years. The chart below shows the total monthly housing cost the renter and owner would incur to achieve the same net value. The renter's monthly payment includes both his rent, which is increasing due to inflation each year, and the amount he needs to invest in the stock market to match the owner's wealth. The owner's monthly payment includes just his housing payment, only impacted by the inflation on taxes and insurance. This chart again assumes the modest 2% homeownership appreciation compared to an aggressive 10% annual stock market growth and demonstrates how much more the renter will pay each month just to keep pace with the homeowner. Over 30 years, the homeowner's housing payment increases just 10%, while his initial cash investment grows into a net wealth of over \$360,000. In contrast, the renter's monthly payment has to increase 84% to keep pace with the homeowner's wealth. In year 30, the renter's monthly housing payment is \$898 more than the homeowner's.

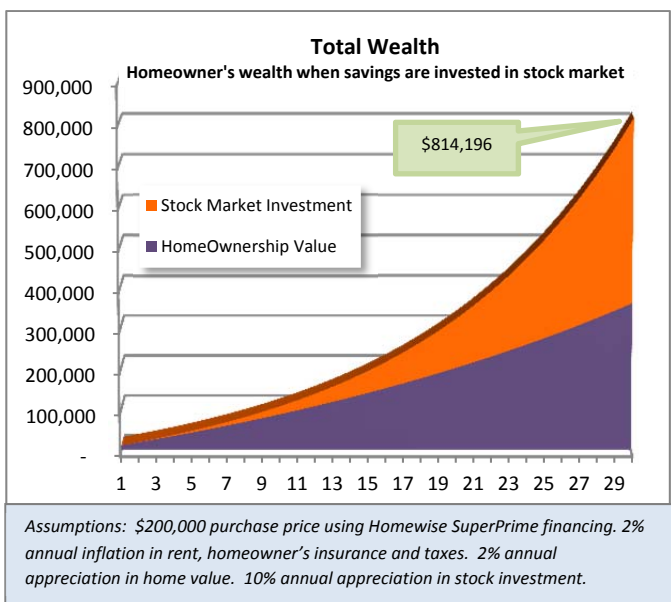


That monthly homeownership advantage accumulates over the years to support the owner's long term financial security. The next chart demonstrates the combination of the accumulated savings compared to renting, the automatic savings achieved through principal paydown, and the leveraged appreciation gained on the home. Over 30 years, the homeownership advantage grows to almost half a million dollars.



#### Supporting Additional Investment

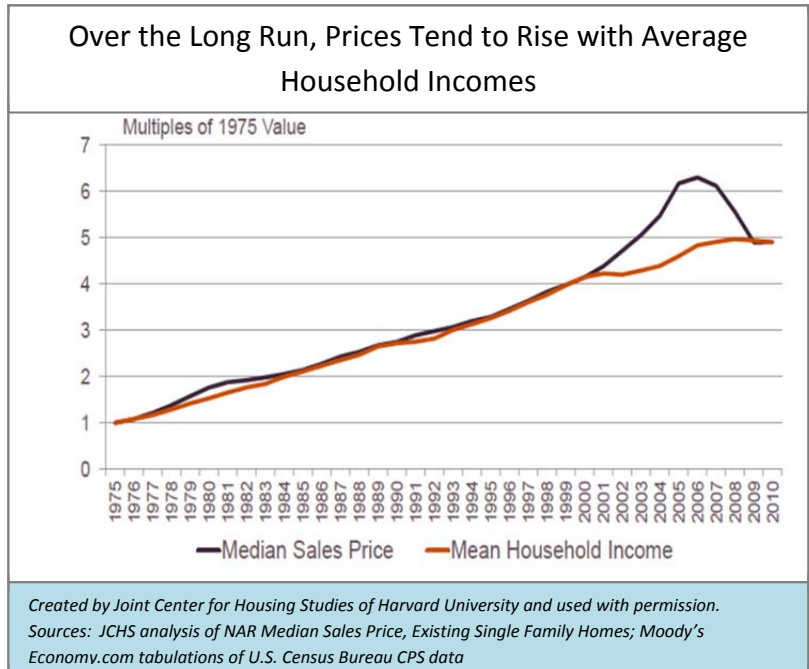
The monthly and cumulative ownership advantage is compelling. But even though homeownership is a strong investment tool, few would advise a homeowner not to also save additional funds through other vehicles, such as the stock market. The first benefit of homeownership discussed above – stability – provides a continued advantage. Because the homeowner has locked in his largest monthly expense, he has more discretionary income over the years to invest. How much additional wealth could the homeowner build just by investing the amount he saves compared to the renter? With the same 10% return we assumed for the renter, the homeowner builds additional wealth of almost



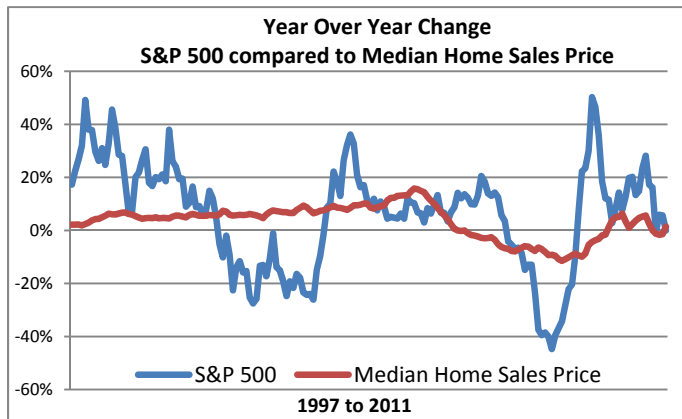
\$450,000 on top of the net value of his home asset for a total net wealth of over \$800,000. By contrast, the renter paying *the same* combination of housing and investment payment each month would only build about \$360,000 over the 30-year period.

Volatility and Risk

A discussion of whether homeownership is a good choice for the typical American household must also consider the risk of home purchase. Falling home prices remind potential buyers that there is risk in homeownership and the market is volatile. When prices are at their low, buyer confidence also tends to be at a low, as potential buyers see the impact of market volatility. Homeownership serves the dual purpose of housing and investment, and like other investments there is risk along with the reward. Timing of a home purchase matters and the last few years have been unusually volatile. As shown in the graph produced by the Joint Center for Housing Studies of Harvard University, home prices since 1975 have generally kept pace with incomes. Starting in about 2000, home prices dramatically outpaced incomes until the peak in 2006, creating the distinct bubble on the graph and showing how unusual the recent boom was. Since that peak, prices have returned to follow the historically expected trend line of incomes, thereby correcting for that unsustainable boom. For owners who bought, or obtained home equity loans, during that bubble, the impact of the resulting bust was financially negative. But prudent investors should look *forward* as they make investment decisions and the analysis of home prices and data supports the conclusion that home prices have returned to their historical trend line, tracking incomes in a generally upward long-term direction.



Home purchase as an investment undoubtedly includes risk, as do all investment vehicles. Reviewing the year over year change in home prices and the same change in the S&P 500 gives us a good comparison of the relative volatility of these investment vehicles. As the graph demonstrates the S&P 500 has experienced far more dramatic year to year changes since 1997 than housing prices.



In both investments, the timing of the purchase and the resale matter. Just as there is a natural tendency for people to pull their money out of stocks every time the market crashes, so too is there a understandable instinct to fear homeownership after such a historic drop in prices. But in both cases, the successful investor will fight that instinct to flee, knowing that the bottom of the market creates the best opportunity to buy low.

And in both cases, investors are better insulated from short term volatility if they take a long term approach. Other investment vehicles carry less risk than home purchase or stocks, but their return is commensurately lower. Since these investments don't offer the power of leverage that homeownership does, the wealth-building gap between these investments and homeownership would be even greater than the gap illustrated above with the stock market investments.

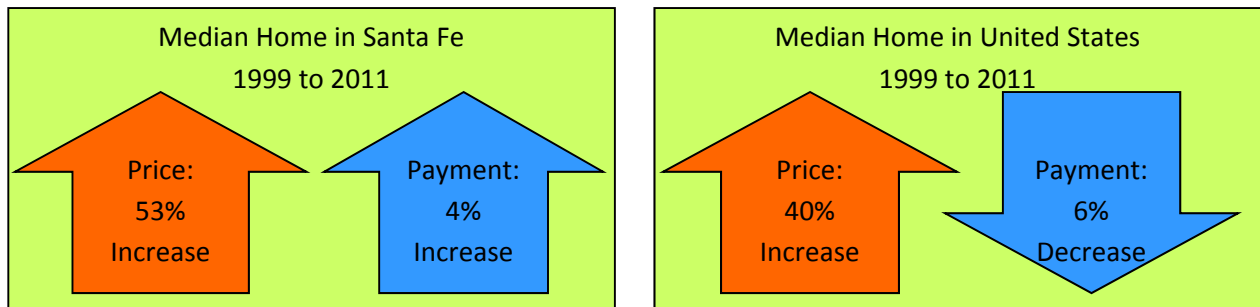
Buying a home at the low point in the market helps insulate the homeowner from future risk and volatility. A homebuyer, who purchased in 1999, just a few years after the most recent low point in national housing prices, would have paid \$134,800 for the median priced home. In 2011, after a drop in prices that matched the Great Depression, the median home was priced at \$186,300, an increase of 38%. A homeowner who had to sell at the bottom of the bust would have been protected from loss *if he bought low to begin with*. This historical reminder reinforces the opportunity presented by the current market to buy low, locking in not only low prices, but also historically low interest rates, that will help shield him from future volatility.

### *Are People Able to Buy In Today's Tight Credit Conditions?*

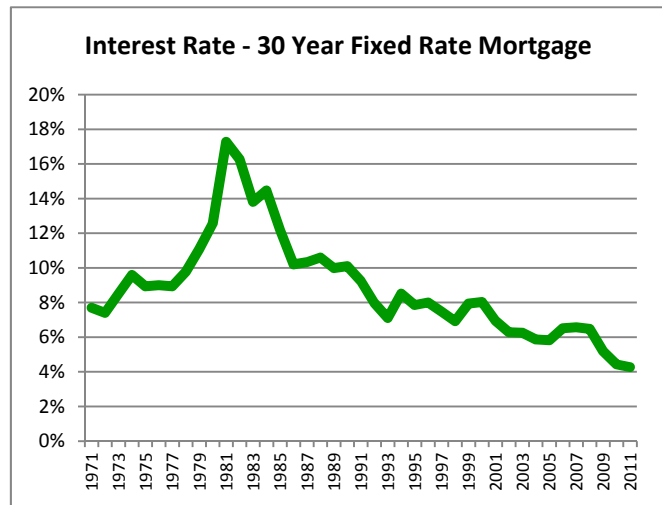
Even with the benefits of homeownership so strong, another nagging question remains: *can* people buy? In the wake of the subprime loan fueled foreclosure crisis, lending standards have tightened and mortgage financing is more difficult to obtain. This reaction is not altogether unreasonable though perhaps reflects some measure of over-correction. There can be little argument that certain loan products – stated income loans, interest only loans, negatively amortizing loans, and their many variants – were unwise and should not have been used in the traditional home purchase marketplace. The instinct to tighten standards is therefore reasonable, if a little overdue. The national discussion of lending challenges is having its impact on both renters and owners. In Fannie Mae's National Housing Survey 3<sup>rd</sup> Quarter 2011, 75% of renters felt it would be difficult for them to qualify for a mortgage today. In addition, 75% of all respondents said they think it will be harder for their children or the next generation to buy a home than it is today. But to borrow a phrase from Mark Twain, reports of homeownership's death have been greatly exaggerated. Today low prices and interests rates have opened homeownership to millions of households that have been previously locked out. And with the right strategy, challenges to obtaining credit can be overcome.

Increased Affordability

The current market's combination of low prices and interest rates is unprecedented, making homeownership affordable and attainable for households that had been previously locked out. With the goal of buying low in mind, today's market presents the best opportunity in decades to purchase a home. Even though Santa Fe prices have increased by more than 50% since 1999, the payment on the median home has only increased 4%. Nationally, the payment is *lower* even though the median price is 40% *higher*.

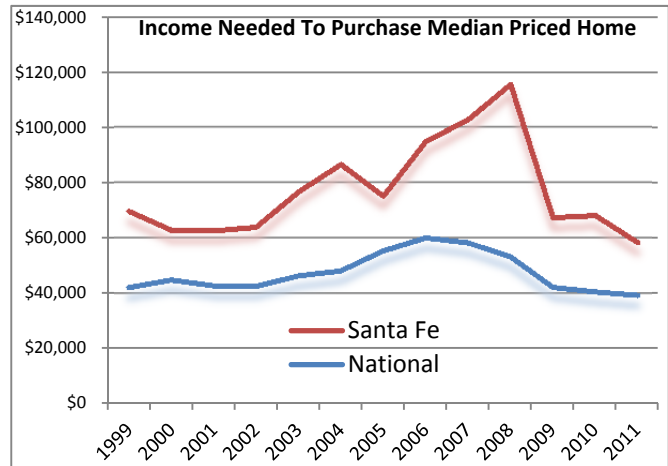


This counter-intuitive drop in payments is a function of the dramatic drop in interest rates. In the last 30 years, the interest rate on a 30-year conventional mortgage has fallen over 70%, and this decrease in rates is the primary factor creating the unprecedented affordability for today's home buyer. The low interest rates are the result of decisions by the Federal Reserve to keep the federal funds rate (the rate banks charge one another on overnight loans) low in an effort to stimulate the economy. The federal funds rate influences the rate on consumer loans, including mortgage rates. In December 2011, the Federal Reserve announced that it would keep the federal funds rate at a target range of 0% – 0.25% in an effort to encourage continued economic growth. At the current range of 0% -0.25%, the federal funds rate cannot be lowered any further. As the economy improves, threats of inflation will rise, and the Federal Reserve will be expected to raise rates. Home prices are likely to rise as the economy improves as well. While no one can predict exactly when and how interest rates will change, it seems clear that the historically low rates have nowhere to go but up. While the combination of historically low prices and interest rates is a temporary one, today's homebuyers will lock in the benefits for their entire tenure in the home.



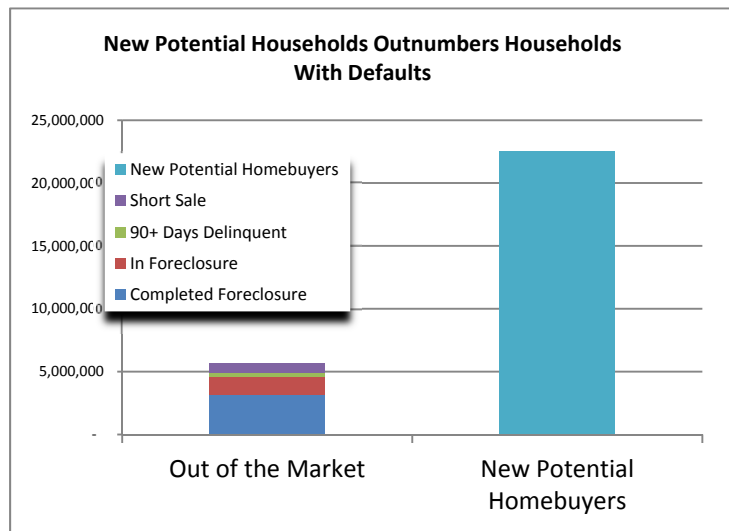
More Households Can Buy

Because the monthly cost of owning has dropped, the income needed to purchase a home has also fallen, allowing more households to enter the home purchase market. At Santa Fe's peak in home prices, a household would have needed a yearly income of about \$115,000 to purchase the median priced home. Today, a household earning just over \$58,000 can purchase the median home, a drop of almost 50%. Nationally, required incomes have dropped as well, from a high of \$60,000 at the peak in 2006 to an income of \$39,000 in 2011.



Many analyses of the home purchase market point out that millions of homeowners have gone through foreclosure or some other form of default, and will therefore be unable to purchase for some years to come. Their penalty window may vary from 2 years to 7 years, depending on the type of default and circumstances surrounding it. However, even with these families held out of the market, millions more families can enter the market for the first time in years, thanks to the improved affordability illustrated above. The addition of these new potential buyers compensates for the buyers who must sit on the sidelines while their financial profiles recover.

In fact, the growth of households that can now afford homeownership significantly outnumbers the incidents of foreclosures and other defaults since 2008. The chart below shows this comparison. Combining all of the completed foreclosures, loans currently in foreclosure, loans that are 90 days or more delinquent and completed short sales since 2008, shows that an estimated 5.6 million loans have resulted, or will soon result, in a default, according to data from CoreLogic<sup>2</sup>. However, analysis by



Harvard's Joint Center for Housing Studies shows that over 70 million American households earned enough income to support the purchase of the median priced home in 2010. By comparison, only 48 million households earned enough to support purchase in 2007. That is an increase of 47% and means

<sup>2</sup> This is a rough estimate of the number of households that are out of the market because of default. These estimates may undercount households locked out because of job loss or bankruptcy. However, these estimates may also double count some households since they don't account for multiple defaults by the same borrower.

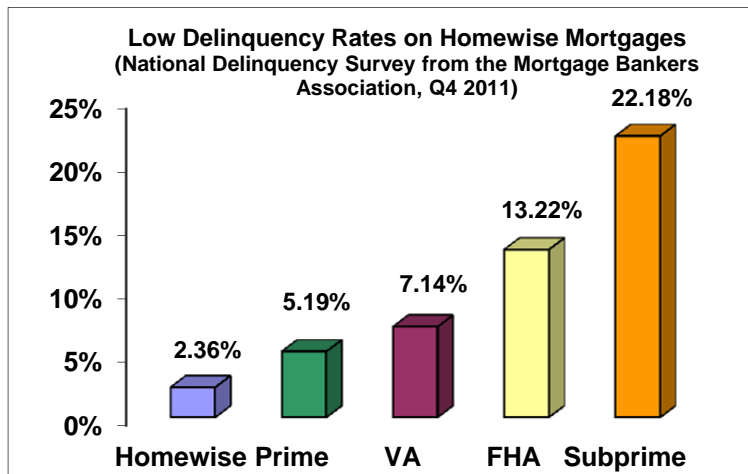


another 22.5 million households can purchase today compared to 4 years ago. In Santa Fe, an estimated 21,280 households can purchase the median priced home today, compared to just 11,414 in 2008, an 86% increase in potential homebuyers. Admittedly, it is difficult to compile the number of households who have suffered some default event that will preclude them from home purchase in the next few years. However, even if the estimate above is doubled, the number of new potential homebuyers still far outweighs the number of defaulted owners.

Credit Obstacles

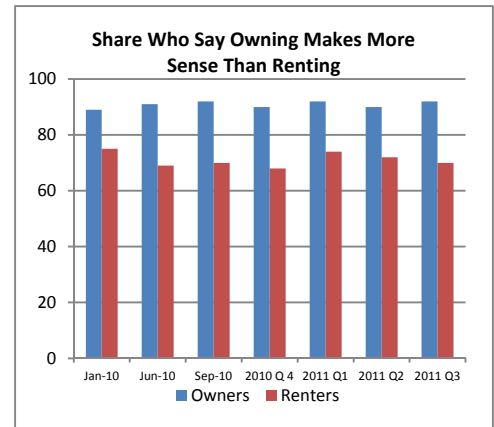
Among the 70 million potential homebuyer households there are undoubtedly potential buyers who do not meet mortgage qualification standards because of issues such as low credit score, high debt, or insufficient savings. Stricter lending standards have increased the number of households in this category, and this challenge is often cited as another reason to feel discouraged about homeownership's current prospects. Since 2006, the average FICO score for an FHA borrower has increased from 630 to 700. The reliance on government insured mortgages has increased 542% since 2006, an indication of stricter down payment requirements for conventional loans.

However, mortgage qualification challenges are not incurable conditions. No one is born with bad credit. It is a result of behavior, and behavior can change. There are hundreds of non-profit homeownership organizations, like Homewise, that know how to help people improve their credit habits so they can qualify for a good, fixed-rate mortgage and become strong, successful homeowners. The experience of Homewise customers demonstrates how potential buyers can improve their credit profiles, especially when guided by trained home purchase advisors. Last year, Homewise buyers increased their credit scores an average of 59 points and decreased debt an average of \$48 per month. In addition, they increased savings an average of \$5,500. Due to the pre-purchase preparation of the buyer, Homewise buyers are successful and have delinquency rates below even prime conventional mortgages, as shown in the chart below. With home prices and payments at historic lows, and the financial benefits of ownership at a historic high, homebuyer preparation agencies have more reason than ever to help their clients become mortgage-ready.



### *Do People Want to Buy?*

So far in this analysis, we have demonstrated that homeownership is still a smart financial choice, and that millions of households are able to buy in today's market. But the housing market is fretting over another nagging thought: do people even want to buy? Given continuing unease about the housing market and economy, the public's feelings about homeownership are understandably mixed. According to Fannie Mae's National Housing Survey, a majority of respondents feel that homeownership will be harder to attain and the share of renters who say they intend to buy in the next three years has fallen from 57% in 2003 to 39% in 2010.



However, despite the increased worries, homeownership is still viewed very favorably, and a majority of renters still aspire to be homeowners. In the recent survey, 70% of renters say that owning makes more sense than renting. In addition, 80% of respondents said they would prefer to live in a neighborhood where most people are owners. A majority, 64% of respondents, feel that buying a home is a safe investment, compared to 46% who feel mutual funds are a safe investment. Existing owners have maintained a positive outlook on ownership, despite the recent volatility. Even after the barrage of negative headlines over the last several years, 96% of owners responded that homeownership has been a positive experience for them and their families. Perhaps even more surprisingly, among those owners who are underwater in their homes, 93% still say ownership has been positive. While people may doubt their own ability to achieve homeownership, their view that owning a home leads to a better quality of life, more security and financial benefits has endured.

### *Now's The Time*

The benefits of homeownership are not difficult to understand. When compared to renting, purchasing a home is a very smart financial choice. Owning a home stabilizes the family's biggest monthly expense, creates an automatic savings plan by paying down mortgage principal, and, even at low home appreciation rates, provides a very good return on investment. Homeownership is an incredibly powerful engine helping working people improve their long-term financial security – which is why homeownership has been one of the primary drivers in expanding America's middle class. It is also not hard to see how today homeownership is more accessible than it has been for decades, due to lower home prices and historically low mortgage interest rates.

So why are we not hearing more about the incredible opportunity for working families take advantage of homeownership and help secure their long-term financial wellbeing? Instead of helping people better understand the potential benefits of purchasing a home in a favorable market, many media stories are questioning the viability of homeownership and trumpeting the benefits of renting – a focus that would have been a lot more appropriate during the housing boom when home prices were artificially pumped up by subprime mortgage lending and rampant speculation.

Instead of focusing on the incredible number of households who can now afford to purchase a home as a way to restore health to the housing market, policy makers are instead focusing on speculative housing strategies that ignore this incredible pool of new potential buyers. For example, in February 2012, the Federal Housing Finance Agency (the agency that oversees Fannie Mae and Freddie Mac, which were specifically created to support homeownership) announced a pilot project to sell pools of single family properties to large rental investors. The program is designed for institutional investment groups (to pre-qualify as bidders, companies must submit a 34 page application and have at least \$5 million in assets) and requires the buyers to hold the units as rentals for a minimum number of years. This program was designed following a request for information issued by FHFA, U.S. Department of Housing and Urban Development, and the U.S. Department of the Treasury to solicit ideas on how to dispose of large batches of properties in bulk sales. Individual homebuyers, and even organizations in the position to help families purchase their first home, are not eligible to take advantage of discounted prices for which these homes are being sold.

No similar request has been issued on how federal policy could best help the millions of Americans, who for years were priced out of homeownership, take advantage of the current opportunity. These federal agencies could have solicited responses to the question: "What are strategies to help American households overcome their challenges and take advantage of today's exceptional affordability?" Instead it seems like federal housing policy has left behind its historic commitment to helping the middle class access homeownership in favor of another round of investor speculation in the housing market.

Unfortunately, the same factors that have caused confusion for policy makers and the media, have also caused confusion among the households who could benefit the most from purchasing a home in the current market. The present homeownership opportunity is a temporary one; interest rates will at some point increase and, as the existing inventory of homes is absorbed, prices will also rise. In order to take advantage of the present opportunity, it is essential that public policies and industry practices help working families purchase their first home prudently, with sound underwriting standards and healthy financial behaviors.

Now is the time to promote home purchase strategies that create successful homeowners over the long-term. There are organizations across America, like Homewise, that know how to prepare solid, successful homebuyers. We should learn from the best practices of these organizations and develop and implement a new homebuyer preparation system with a focus on creating new homeowners in a way that propels them on a path to long-term financial security. This homebuyer preparation system should avoid past lending practices that adjusted underwriting standards to poor buyer credit histories and instead helps buyers improve financial habits in order to qualify for a good mortgage, a mortgage that helps improve their long-term financial prospects.

The current opportunity will not be with us forever – now is the time to work overtime to take advantage of it.

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