Freddie Mac Single-Family

Podcast Transcript:

Affordable Housing: How Affordable Housing Supports Minority Homeownership

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Elsa Lloyd (00:00:01) I'm your host, Elsa Lloyd and this is honest conversations. honest conversations is a show that provides listeners with a greater perspective on how race, housing and wealth intersect what experts are doing to close the gap. My guest today is a senior economist in the single-family client and community engagement at Freddie Mac. Today, it will have an honest conversation on affordable housing and how it impacts minority homeownership. Joe, welcome to our show.

Jaya Day (00:00:24) Thank you.

Elsa Lloyd (00:00:25) Before we dive into today's conversation, can you let us know more about yourself? How did you enter the housing finance sector? And what does your role at Freddie Mac entail?

Jaya Day (00:00:33) Sure. So I'm a senior economist at Freddie Mac a little bit on how I ended here. So after I finished my college in India, I came to the US from grad school, I finished my Masters and PhD in economics from the Ohio State University. My first job was in academia where I spent several years teaching and researching before moving to Freddie Mac. during my tenure at the university, I was conducting research on the impact of housing crisis on national, national and local labor markets. So that was like a stepping stone my stepping stone into entering the housing market. I was very intrigued and wanted to further detail on various instruments of wealth, such as residential wealth, and how that will fare post crisis. When I was offered this role at Freddie Mac, I was beyond excited because it gave me the opportunity to deep dive into this topic with appropriate resources and technology. And Freddie, I do research on housing finance issues related to affordability and access to credit. I also provide thought leadership in making the rich research actionable and identify data driven solutions.

Elsa Lloyd (00:01:41) Right. So your research is partly why we wanted you here today because so extensive, and we wanted to discuss some of the data that we've discovered. Recent data from the US Census Bureau indicates that while us homeownership rose in the fourth quarter of 2020, it fell for black Americans, Jr. The pandemic has undoubtedly impacted communities of color disproportionately linked to a higher homeownership gap. So how has COVID-19 impacted the affordability of minority Americans when compared to the overall population?

Jaya Day (00:02:09) Sure, even pre pandemic pre COVID black white homeownership gap was pretty substantial. And it started widening post Great Recession, the gap exceeded 30% in 2018, which is larger than what it used to be before the Fair Housing Act was passed the subprime mortgage crisis, it disproportionately affected the homeowner, the black homeowners, as the new mortgage originations declined, while foreclosures and other reversals in homeownership increased, wiping out any gains in black homeownership right before the financial crisis. And prior research have shown various factors such as you know, the racial disparity in household endowments such as income and financial wealth, housing costs and institutional barriers to have contributed to the gap. Now, this gap may be exacerbated post crisis, a post pandemic crisis, due to the disproportionate impact of the pandemic on the communities of color. The pandemic has led to a sharp decline in employment as we all know, and black and Latinos have been hit hardest by the stay at home orders. And they as they are overrepresented in low wage jobs and in jobs that cannot transition to remote work. They had the biggest drop in employment and the pen after the pandemic hit and have had unequal recovery. According to Freddie Mac's research, 1/3 of the jobs are recovered for blacks as compared to 60% for whites since April. Furthermore, the mortgage credit box is tied to making it difficult for borrowers with without pristine credit to obtain conventional mortgages. So according to MBA mortgage credit availability index declined significantly since March 2020, which is indicated indicative of tightening lending standards. So with soaring house prices due to low interest rate environment and lack of inventory, as well as declining wages, affordability challenges of black potential black homeowners is exacerbating making it difficult for them to transition into home mortgages as compared to whites.

Elsa Lloyd (00:04:24) So okay, so this leads me to our next question. So Freddie Mac recently shared a report on inequality and housing, which highlights research and analytics on major barriers to minority mortgage ownership, explain the unequal housing recovery across minority groups. And the report Freddie claims the role of credit attributes and explaining the homeownership gap between whites and minorities since the financial crisis, the last between 2012 and 2018. Can you dive a little deeper, you touched on it a little but can you dive a little deeper into this finding and how credit is impacting minority homeowners now in in the future for those who want to be homeowners? Sure.

Jaya Day (00:05:00) So let me first step back and talk a little bit about the motivation behind this this study. So we basically wanted to investigate how slower or faster recent minority first time homebuyers are getting home mortgages compared to white first time homebuyers, especially during the recovery period from the Great Recession. So we for that purpose. To that end, we analyze a group of consumers likely not to be homeowners in 2012, and track them how many obtained or transitioned into home mortgages by 2018. And they found that blacks and Hispanics were respectively, one half and two thirds as likely as whites to transition into new obtaining new mortgages by 2018, suggesting an uneven recovery recovery, even after a well documented documented housing crisis. We then investigated the role of credit attributes, among other factors in explaining this racial gap in transition rate into new mortgages. And our findings suggest that the racial difference and credit attributes contribute most in explaining the racial gap in transition rate. blacks and Hispanics are more than more likely than whites to have lower credit scores, missing scores, insufficient and inadequate credit histories, higher delinquencies, bankruptcies and higher debt liabilities, making them less likely to qualify for home mortgages. This way, the experiences of the two minority groups are very similar. Our research implies that counseling and credit education opportunities could help prepare the minorities to be in a better position to qualify for mortgages, access to alternative credit data, such as you know, telecommunications, rental payment, bank statements utilities can accurately gauge or identify the credit worthy consumers with insufficient credit histories, but no derogatory credit. We also found that there are some key differences in the experiences of the two minority groups. For example, while geography, which includes the measures of house prices and unemployment rate at the local county level, explains substantial part of the white Hispanic gap and transition rate in an aggregate nationally because they are more concentrated in the high cost areas. It doesn't explain much of the wide blackcap nationally. Having said that, the barriers to mortgage ownership can be very localized. For example, these geographic factors are important barriers to homeownership for blacks living in New York in the state of New York, mainly because they are concentrated in high cost city centers. So low down payment programs and products can help overcome these geographic geographic barriers in those high cost areas.

Elsa Lloyd (00:07:54) As we talk about these sorts of programs that can help these people what are some initiatives that Freddie Mac has launched to address affordable housing? I know party offers low downpayment products, but can you name some of them and what they do?

Jaya Day (00:08:05) Sure, so I believe a better understanding of role of credit is important for step in home buying process. Credit Counseling, and education can go a long way to help the minority groups and closing the gap and putting them in better position to qualify for mortgages. It can also help them sustain their mortgages to build wealth, build wealth, and right out of the next economic crisis. So we have two big initiatives in this direction. First is credit smart, a free online homeownership education curriculum that provides key learnings on financial education, credit restoration, budget management and primary principles that can empower the consumers to become more confident and knowledgeable about their future homeowner purchase decisions. And then the second is our 14 borrower help centers and housing agencies with housing counselors who can assist with credit counseling and restoration that and money management and establishing budget that is customized or individual based on their particular situation and needs. And of course, we have these low downpayment products, which are, since downpayment is an important barrier to homeownership. So for assistance with that, we have home possible which is which offers low to moderate income borrowers the downpayment as low as 3%, along with greater credit flexibility. We also have home one, which offers 3% down payment to qualified first time homebuyers. It is an access to credit product, and it doesn't have any income limits. So it's a solution for first time homebuyers in high cost areas. Currently, our affordable product impossible is actually it's penetrating very well in the minority space, especially in the black borrower space.

Elsa Lloyd (00:09:55) So this brings me to our last question day and as we wrap this conversation, I'd like to ask on probably my favorite question that i like to ask each honest conversation guest but you mentioned some of the products that he has available for educating minority home owners my question for you is what can the rest of the industry do today to address the gap and lastly what is your biggest area of concern for minority home ownership

Jaya Day (00:10:18) right so let me start with the second question and then we can proceed about like what can they be to do about those gap barriers so they are in my mind there are two key barriers to minority homeownership first is the lack of knowledge and education about their credit profiles and various mortgage financing options available out there i think the mortgage industry has an opportune opportunity to help educate and guide current and future borrowers in strengthening credit for homeownership and also sustaining that several areas where they need to educate the current and future borrowers so for example industry can go above and beyond in educating minority existing homeowners about various assistant program assistance programs such as loan modification payment difference for forbearance which which would benefit them to stay put in their homes after a crisis like this pandemic further the lenders need to you know start early in educating potential borrowers about their credit scores and how they can use credit as a tool for example understand how to build and maintain strong credit such as obtain one or two credit cards and pay them on time clarify misconceptions about how how high a credit score is needed to qualify for mortgages and then understand how to resolve credit dispute another misconception that needs a lot of education or myth a lot of myth is there and needs to be busted is regarding how much money is needed to put for downpayment to put for down payment so according to urban institute's report 68% of renters think tank down low downpayment is the biggest barrier to homeownership and 65% of them think that they need at least 15% down so there is a lot of misconception about downpayment and you know most people who are not homeowners vastly overestimate the amount of downpayment they need to qualify for mortgage and for low to moderate income minority borrowers living in high cost areas that's very constraining so i'm so i feel like a lot of education is needing immediate tap to bust the myth that 20% down payment may not be necessary in fact the median downpayment in 2018 was only 5% so lenders need to use a lot of counseling and credit education opportunities to kind of remove or clarify these misconceptions another big concern for minority homeownership is lack of affordable housing stock so chronic housing stock shortage was prevalent even pre pandemic and now it may just exacerbate even more so even if we identify you know potential creditworthy borrowers with pristine credit we will not be able to resolve this issue or close the gap without addressing the supply side shortage of housing supply can put further pressure on affordability so industry needs to identify solutions that can help expand the affordable housing to minority especially living in the high cost areas so for example freddie mac freddie mac we have choice home which supports conventional cybil financing for factory built homes as long as it meets hud code and we also have choice innovation which is affordable housing preservation product which allows borrowers to use some of their own loan money to pay for home renovations so we need products like those to bridge this affordable housing stock shortage gap so to conclude I believe i believe multiple strategies are needed to close the gap over time for example in the short term lenders can work with the low hanging fruit identify creditworthy black consumers living in portable areas with adequate housing stock and help them access home mortgages with the aid of various low down payment programs and products of the in the medium term lenders can work with the consumers with insufficient and inadequate credit history but no derogatory credit or what we call the clean pin fires lenders need to provide credit counseling to these for future borrowers and teach them how to use credit as a tool the lenders can also explore alternative credit scores bank and utility statements and other ways to evaluate their creditworthiness and in the long term lenders can target consumers with severe delinquencies and other derogatory credit provide counseling and credit education so they can rebuild their credit and bounce back. That would be my two cents.

Elsa Lloyd (00:15:07) All right, Jay, I want to thank you for joining us today as a guest. Thanks for having and listeners. Join us next Wednesday for some more honest conversations.