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Fear of Homebuying

Why Financially Able Households May Avoid Homeownership

by Donald S. Bradley and Peter Zorn

They will give you the loan, but what they are really saying is, "Mrs. Smith, you can buy this house but you have to eat beans for years."

I have the fear of getting rejected. If I got everything together, they might reject me for a loan My greatest fear is being taken ... they give you a good deal and it falls through.

I would give my right eye tooth to own ... I would sell my soul to the devil to own my own property. ... The only reason why I don't is I have never been able to get together the down payment ... those thousands of dollars.

CAPTURED IN THESE REMARKS IS THE FRUSTRATION OF THREE renters—one African American, one Hispanic and one White—who all long to own their own homes. For reasons that go beyond purely financial considerations, however, these renters have been unable to join the ranks of the nation's homeowners.

Indications are that they are not alone. After rising dramatically between the 1940s and the 1970s, the national homeownership rate

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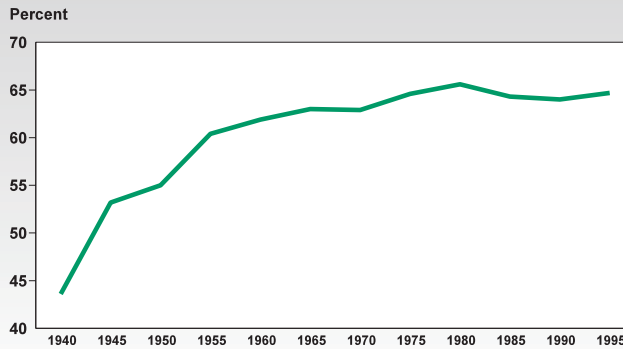
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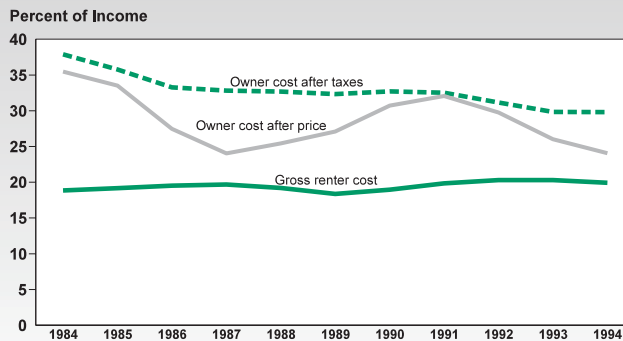
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FIGURE 1: Homeownership Rates, 1940-1995



Sources: HUD, U.S. Census Bureau

FIGURE 2: Comparative Costs of Owning and Renting



Note: Owner cost after taxes is mortgage payment on median-value house plus utilities minus tax savings. Owner cost after price appreciation is after-tax cost adjusted by estimated annual house-price appreciation. Gross renter cost is contract rent plus utilities. Income is median family income of married couple renters aged 25 to 29.
Source: Joint Center for Housing Studies

peaked in 1980 at 65.5 percent and then fell or stagnated until 1995, when it rose by roughly 1 percentage point (Figure 1).

This trend reflects a complicated mix of financial and demographic factors. Yet, it is particularly disappointing given the past decade of falling interest rates, stable housing prices and mortgage-industry efforts to make homebuying more affordable and accessible.

Between 1984 and 1994, the average cost of renting, including utilities, rose to 20 percent from 19 percent of a young household's income. During the same period, the average cost of owning, including utilities, tax savings and expected property appreciation, declined by more than a third of a household's income to 24 percent (Figure 2). These gains in the comparative advantages of owning over renting have not resulted in any increase in the ownership rate,

with the exception of last year's up-tick.

Why, then, do people who appear financially capable of becoming homeowners—and who have financial incentives for doing so—continue to rent?

A possible answer, drawn from a recent series of focus groups, is a lack of comfort with the homebuying and financing process, an obstacle that can prove as daunting as financial challenges. Many renters simply feel too ill-at-ease with either the risks or the complexities of ownership to undertake the necessary steps to find, finance and take legal title to a home.

Faces Behind the Frustration

The homeownership trends of younger and minority households are particularly troubling (Figure 3). Homeownership among younger White households, aged 25 to 34 and born in this country, dropped to 50.9 percent in 1990 from 57.4 percent 10 years earlier. Likewise, African-American and Hispanic ownership rates declined to 23.2 percent from 31.5 percent and to 32.4 percent from 37.6 percent, respectively.

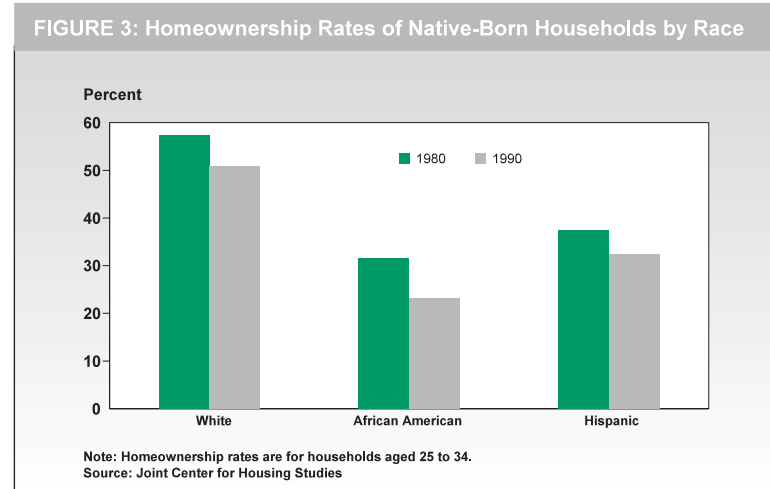
To look at what is happening behind the statistics, Freddie Mac sponsored focus-group discussions among Dallas and Philadelphia residents representing both economically stable renters whose incomes are sufficient to buy a home and

recent, first-time homebuyers. (See “Soft Research for Hard Questions,” page 26.) Each session consisted of racially or ethnically homogeneous groups of Hispanics, African Americans or Whites and was facilitated by a moderator of the same race or ethnicity. In addition, a panel of real estate agents specializing in first-time and minority homebuyers was assembled in each city. In total, 125 people participated in 12 focus-group discussions.

During the two-hour sessions, the groups examined the following questions: What barriers do renters face to becoming homeowners? How might these barriers differ for minorities? What steps can be taken to overcome these barriers?

On the whole, the participants offered opinions that correspond with previous research showing that homeownership fosters family self-sufficiency, expands economic and social opportunities and promotes community stability. Specifically, they brought up benefits such as long-term economic security, increased privacy and control over living space, a better environment for raising children, a place for self-expression and the fulfillment of the “American Dream.”

The participants also recognized, however, that the decision to own a home is a serious one, involving long-term commitment



and, frequently, real sacrifice on a personal level.

Owning a home is like having a child ... it's that kind of commitment. (African-American renter)

I would have to get a job I hate to pay the mortgage. I think there is more to life than that. (White renter)

You sign your life away when you sign for a house. (African-American renter)

Aware of these costs, some participants in our focus groups are happy to remain renters. Within this subgroup are individuals who because of age, type of job or lifestyle are either not interested in owning at all or are merely delaying ownership.

Yet, a significant block of people who are discontent with renting also emerged. Some are convinced they are unable to

qualify for ownership and, for them, financial stumbling blocks are real and compelling obstacles.

What I would like and what is realistic are different. I would like to buy next year. I have been educating myself for months but have been cut back at my job. I don't know now if I can save enough money ... it will realistically be a long time. (African-American renter)

Right now I couldn't afford [to buy a house]. My budget would be the first thing on my mind. (White renter)

Interestingly, in many instances, perceptions of the financial requirements necessary to obtain a mortgage are distorted. There is, for example, a tendency to exaggerate the necessary size of the down

Soft Research for Hard Questions

The “hard numbers” approach to addressing policy questions goes only so far. Frequently, the statistical and survey information needed is not available to answer important questions. At other times, the narrowness of the quantitative data forces policymakers to use proxies for what they really want to know. For example, decision makers may wish they had more detail or the opportunity to reword a question to elicit clearer responses. Moreover, the cost and time it takes to collect meaningful hard numbers often preclude obtaining new information.

Consequently, decision makers are turning more frequently to in-depth interviews, focus-group panels and other qualitative research approaches for insights into difficult policy questions. These “soft research” techniques offer unique advantages and disadvantages in their own right.

On the plus side, open-ended, in-depth interviews and dynamic focus-group panels can provide important reality checks as to the accuracy of our perceptions about our research subjects (Do all potential first-time buyers subscribe to the move-up housing-ladder concept?). Interviews and focus groups can test the validity of operational assumptions (Do the current approaches to educating renters about the homebuying process go far enough towards making them comfortable with the idea?). They also can help gauge the feasibility or likely reaction to alternative ways of doing things (How acceptable would renters find different educational efforts?).

The softer approaches can offer a convenient way of pinpointing the deficiencies of numbers-driven research, previewing the likely reaction to new programs and identifying new ideas that push the envelope. In addition, this type of research typically costs less and takes less design and completion time than statistically representative surveys.

For all of its virtues, however, qualitative research has some built-in limitations. Although the softer approaches often can identify the nature of the problem (What are the perceptual and attitudinal barriers to ownership?), they do not provide information on the size of the problem (How many feel that way?). In addition, statements and perceptions drawn from such research are largely suggestive and not conclusive. That is due both to the limited number of participants who engage in the exercise and to the non-random nature of their selection (How representative of all renters are the perceptions of the renters with which we talked?).

With these cautions in mind, however, qualitative research techniques offer an efficient and effective way of providing thought-provoking information for business and policy decision-making.—**Donald S. Bradley, senior economist**



payment and the futility of applying for a loan. Some participants seem confused by or unaware of the opportunities for low-down-payment mortgages, the availability of lower-cost housing and the increased willingness of lenders to accept nonstandard credit histories.

Homebuying Paralysis

Even more striking is the host of fears that immobilize some of the focus-group participants. In many instances, their perceptions and feelings actively prevent them from taking the needed steps to realize their ownership aspirations. Participants express concern that they will purchase the “wrong” house or that it will be a lemon.

A house is a money pit—once you own, you're never finished fixing [it]. (African-American renter)

As soon as you buy a house, everything starts to deteriorate, so you have to spend money on repairs. I would rather just rent. (White renter)

I'm worried about my home [warranty] insurance. Once it expires after one year, I'm afraid the house might fall apart. (Hispanic owner)

These fears extend to the neighborhood, as well.

I'm picky, so I would worry if the neighborhood went down or if they built a prison in the back. (White renter)

You don't know how [a neighborhood] is going to change. One day you'll have people moving in, sniffing stuff and smoking stuff. ... You'd be stuck in the neighborhood. (Hispanic renter)

Participants also worry about what may happen in the future. They view the world as such an uncertain and potentially unfriendly place that the long-term commitment and planning required for ownership is frightening.

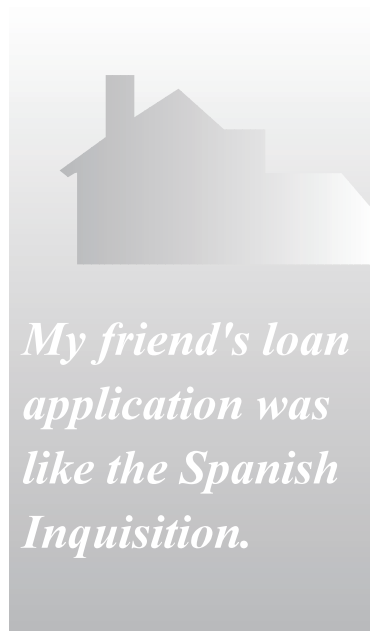
How can you sign a piece of paper saying you are going to pay \$800 for the next 30 years when you don't know what is going to happen next year? (African-American renter)

For most people it is the biggest investment of your life. ... It's an investment that can become more expensive, interest rates can go up, ... taxes increase. (White renter)

Employment security and future income are of particular concern.

I've had the experience of being unemployed off and on. My husband has, too. With renting,

the worst thing that could happen is I have to move to a less expensive apartment. I'm not going to be standing there with tears in my face because I'm losing my home. (White renter)



I'm afraid of "buyer's remorse" ... waking up the next morning and feeling "what have I done?" I might lose my job ... (White renter)

Things have changed. My parents could depend on income coming in ... could buy a house. Things have changed. There is no job security. (African-American renter)

The mortgage-lending process is another daunting challenge.

Many perceive it as overly complicated, forbidding and demeaning.

My friend's loan application ... it was like the Spanish Inquisition. [It was] the most complicated thing I've ever seen. (White renter)

The loan process was stressful. They never told me, "Yes, you are OK." (Hispanic owner)

Before you go to the lenders, be prepared to be embarrassed. (African-American renter)

Real estate agents and mortgage lenders, too, bring out anxieties in the participants. Most perceive them as potentially untrustworthy and uninformed.

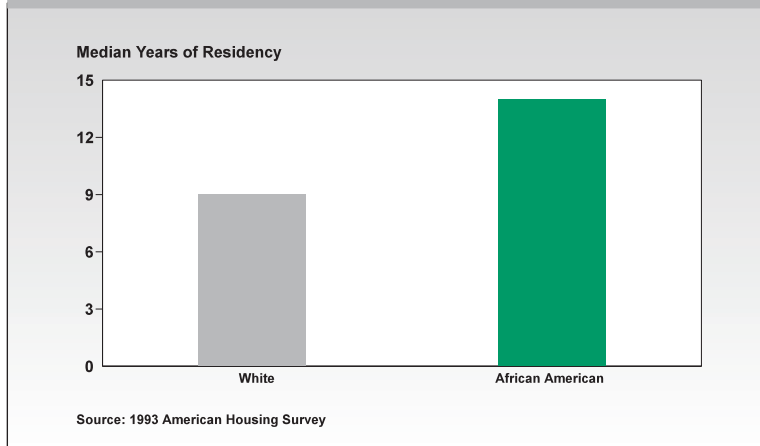
... communication with the Realtor and mortgage company was bad. They were Realtors from hell. They were useless. (Hispanic owner)

Bad information, that's what it comes to. There's a lot of bad information and misinformation. (Hispanic renter)

Differences Across Cultures

The focus-group discussions revealed a strong similarity in perceptions across cultures. African Americans, Hispanics and Whites all regard the process of homebuying as complex and

FIGURE 4: Median Years of Homeowner Residency by Race



uncertain. Consequently, a critical level of comfort is required by individuals in each group before they actively will pursue homeownership.

Nonetheless, some perceptions and behaviors among the groups do vary, although the differences are more of degree than kind. In general, African Americans and Hispanics, as compared to Whites, seem somewhat more likely to be concerned with the risks of ownership, be frustrated by the homebuying and financing process and to assign greater importance to the barriers. Whites, too, express frustration about the same risks and process but tend to regard them more as inconveniences than as insurmountable obstacles.

When discussing financial barriers to ownership, African-American participants mention previous credit history more frequently than do Hispanics or Whites.

I'd have trouble with the credit requirements I won't be able to go through a conventional lender. (African-American renter)

An application for a mortgage is harder than it should be. That doesn't make sense. ... If you put up the down payment, why do they have to check on your mortgage credit ... ? They have the house if you don't pay. (African-American renter)

Hispanic participants, on the other hand, tend to focus on debt, both overall undesirability of debt and the long amortization period of mortgages.

It is not a very good feeling to owe something. (Hispanic owner)

... if I don't have the money for what I want ... I just wait

until I have the money. Why should I go into a deeper hole? (Hispanic owner)

I went through college without getting a loan. ... It's hard to say I will have to pay 20 to 30 years before I can say it's mine. (Hispanic renter)

Achieving the overall level of comfort necessary to become a homeowner appears to pose greater difficulty for African Americans than for Whites. Perhaps because of this, the African-American participants also are less likely to embrace the "housing ladder" concept of trading up to successively more expensive and appealing homes. Coincidentally, the latest American Housing Survey shows that African-American owners typically tend to stay longer in their homes than do White owners (Figure 4). Again, comments made by our African-American participants suggest one possible explanation for the longer tenancy lies with the view of a first home as a permanent purchase and not a "starter" home.

The first-and-last home mentality effectively throws up an additional barrier for African Americans. They appear to hold their first homes to a relatively high standard. As a result, they frequently cannot afford the type of house they want, in a neighborhood they like.

I don't want to be paying for a house forever. ... The neighborhoods aren't that good. (African-American renter)

I can't afford to buy a house in the same neighborhood that I'm renting in. If you rent, you can get up and move if the neighborhood changes. (African-American renter)

This concern with quality, combined with a suspicion of the homebuying process and longer expected tenure of ownership, may explain the greater importance African Americans attribute to the “inspection and appraisal” process conducted by the Department of Veterans Affairs (VA) and the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). Not only do the African Americans in our focus groups highly value the inspections, but they perceive them as assurances of economic and physical soundness.

We went through the VA — they inspected the house and found things that needed to be fixed. We got the owner to reduce the price and fix these things. ... We didn't have to put money down and could put the down-payment money into the house. (African-American owner)



I bought a HUD [foreclosed] house. ... I like it. HUD gave me a good deal. The previous owner had stripped the house but HUD put all new stuff in. ... It was like a new house. (African-American owner)

A greater suspicion among African-American participants of real estate gatekeepers—real estate agents, mortgage lenders and lawyers—appears to encourage the use of nontraditional housing-search and mortgage-financing mechanisms (such as going directly to the owner and using direct owner financing), the compilation of greater information in order to become less dependent on gatekeepers for answers, and the aggressive questioning of the advice and actions of real estate professionals.

I don't have faith in Realtors at all. ... I'm not going to deal with them. (African-American renter)

It's like dealing with doctors. ... You have to outsmart the lenders ... get a second opinion. (African-American renter)

The object is to cut out the bank. They have high rates and too much authority over who they lend to. (African-American renter)

Alleviating the Anxieties

The complexity and mystery of the homeownership process can add considerably to the fear and discomfort of those contemplating their first home purchase. Locating a desirable house in a decent neighborhood, negotiating a fair price finding trustworthy information on which to base decisions, choosing a mortgage lender and mortgage product, qualifying for a mortgage, and understanding the closing costs and legal commitments of the settlement process—each of these represents a significant hurdle for many of the renters in our focus groups.

In response to these hurdles, the focus-group participants universally sought a simpler, more straightforward process.

I am not looking for an investment to make money. I want it for my family. I don't want to be drawn into the whole real estate thing. ... I wish it were simple. (Hispanic renter)

When you buy a house, you can get your fingers burned ... It would be good if there was somewhere you could go where things are standard, with someone you could trust. (Hispanic renter)

They want to deal with people who are competent, fair and trustworthy.

Realtors should be on top of everything and tell you what to do. They should treat you like you're a relative or a friend. I could have been treated better by my Realtor. (African-American owner)

All the different people, the banks ... they were working my nerves. So, I went to a [home-owner] counseling service that talked me through the process. They knew everything I needed to know. (White owner)



As an individual, you are in the "Land of the Giants." You need to have somebody looking out for you. ... A lot of people today need some sort of representative. This is one of the most important transactions we are going to make in our lives. (African-American owner)

And, in response to the complexity of homebuying, participants put a premium on knowledge.

A lot of people don't have the knowledge; it is knowledge more than anything else. If you've got that knowledge and come to the banks, they might consider it ... (African-American renter)

Educate yourself about the market. ... There's a lot of educating to do. (African-American renter)

I need "Buying a Home 101." The basics [are] all I want to know. (Hispanic renter)

Future Challenges

Our focus-group discussions on the homebuying process identified a strong desire for simplification and education. The housing industry already has begun to respond to the latter demand through the production of many first-time homebuyer pamphlets and programs that take cultural variations into account.

Far less appreciated, however, are the barriers that complexity and uncertainty can create for many aspiring owners. Absent sufficient comfort with these factors, many renters cannot consider ownership a viable option. Efforts to increase homeownership and mortgage-application rates are unlikely to have a significant impact unless they address this comfort issue. To be effective, intervention strategies must include the specific aim of allaying the fears and concerns that unnerve renters about homeownership.smm