

Closing the Credit Gap and Opening the Door to Home Lending

Federal Reserve Bank Policy Summit

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In low cost communities across the country, access to credit is a major obstacle



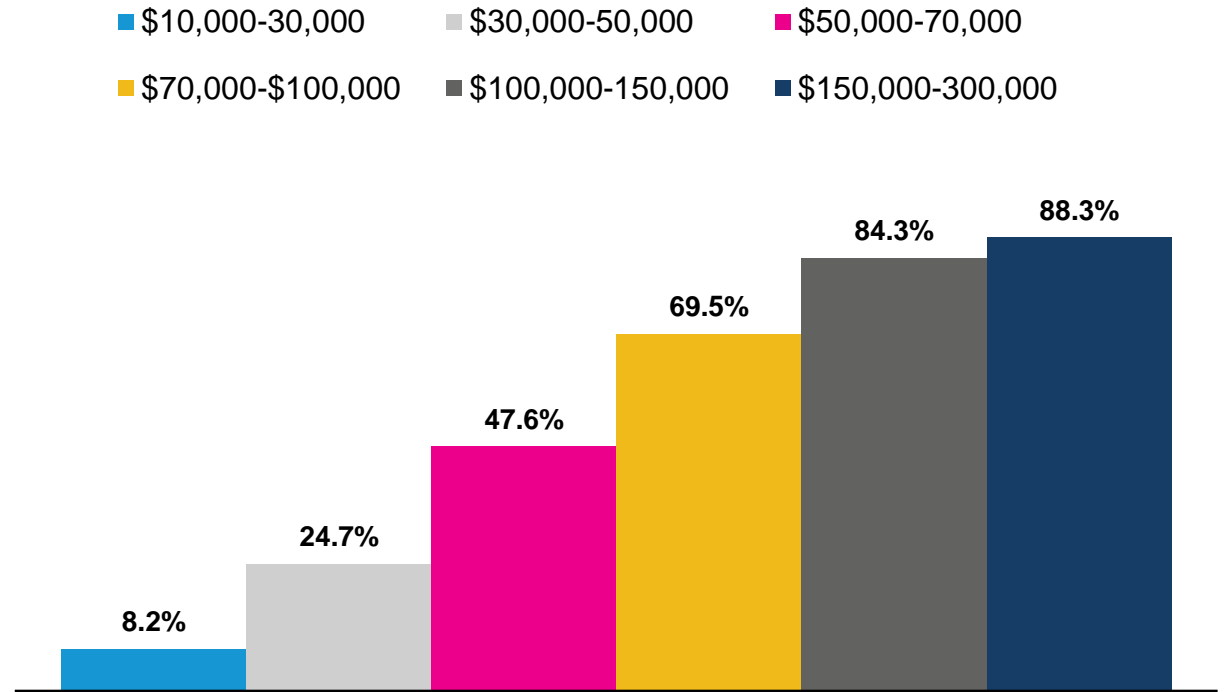
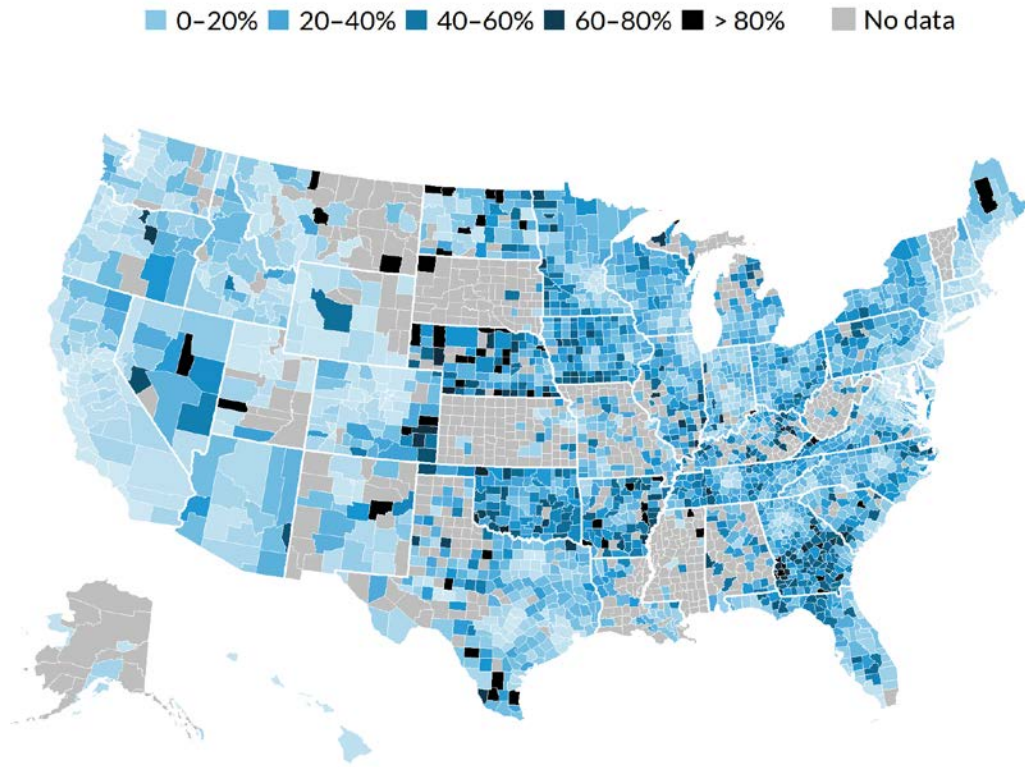
Image: A residential street in
Detroit (my photo)

Small dollar mortgages offer opportunities to expand access to homeownership

Though widespread throughout the US, small dollar sales are rarely financed with a mortgage.

Share of homes sold for \$70,000 or less

Share of home sales financed by a mortgage, by sales price

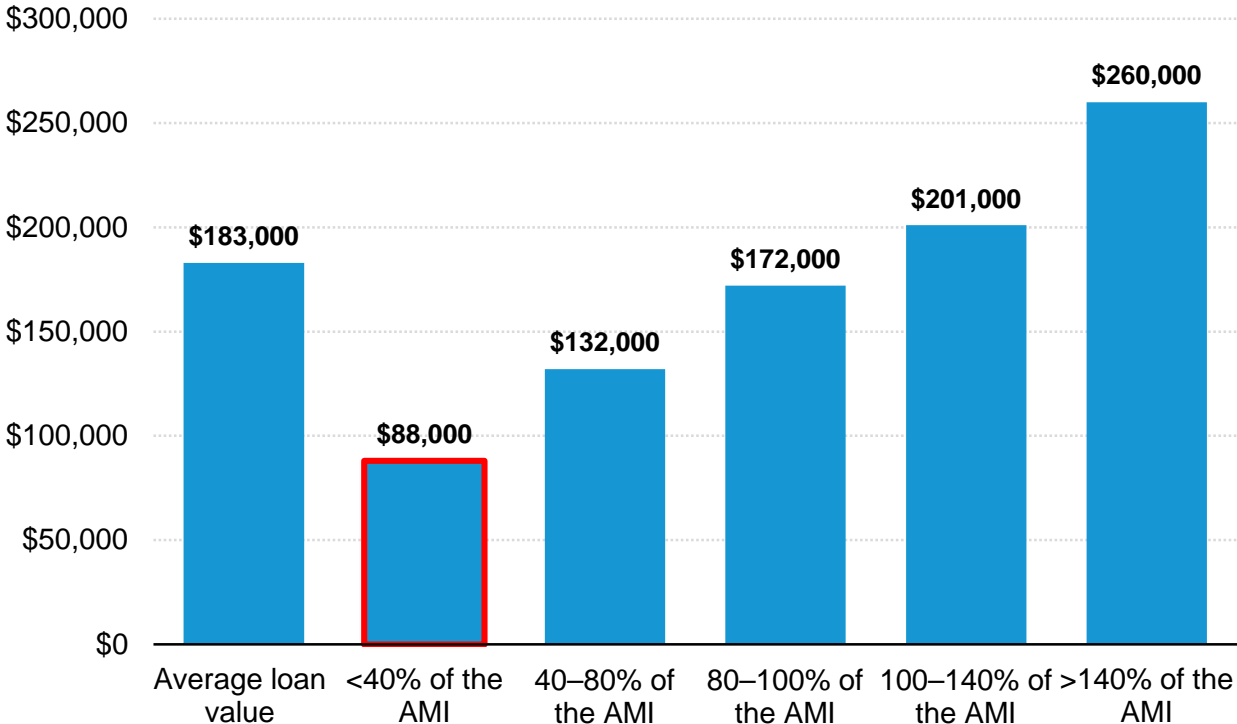


Source: CoreLogic, Urban Institute, and the Federal Reserve Bank of Chicago.

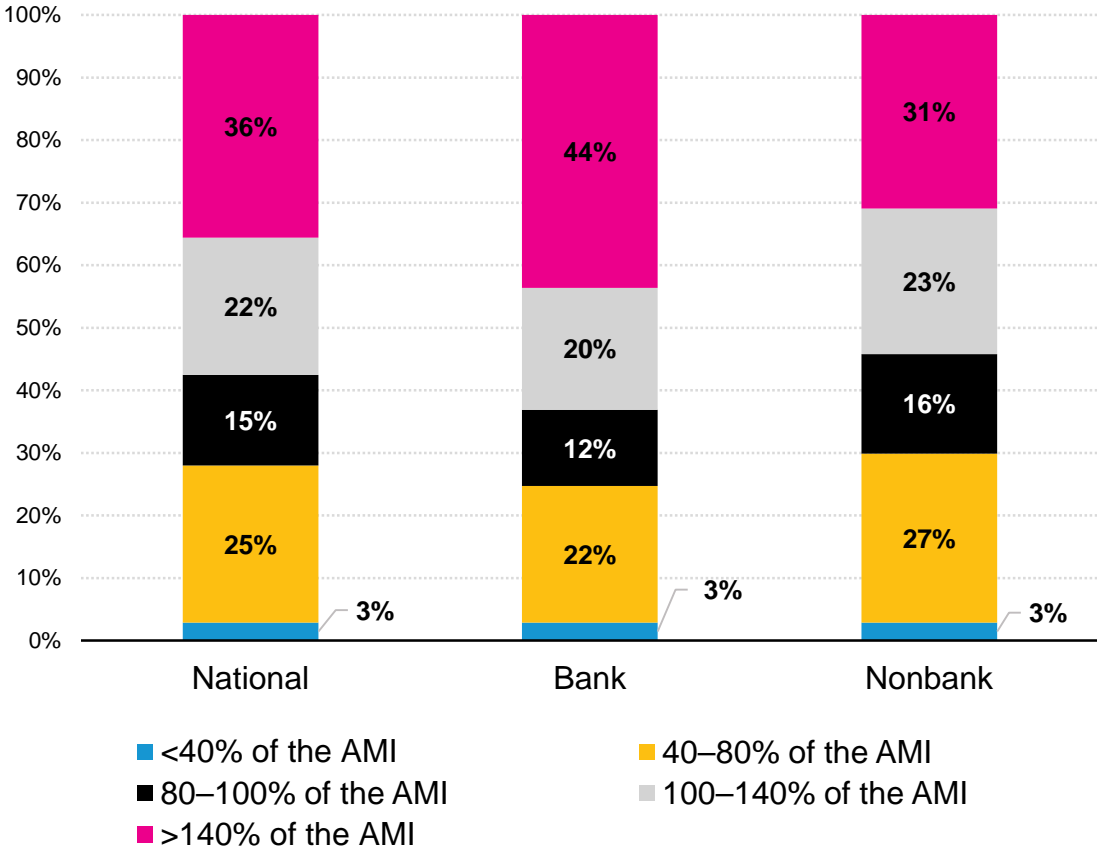
Note: Data as of 2016

Low-income borrowers demand smaller-mortgages but receive significantly less lending, even in low-income areas

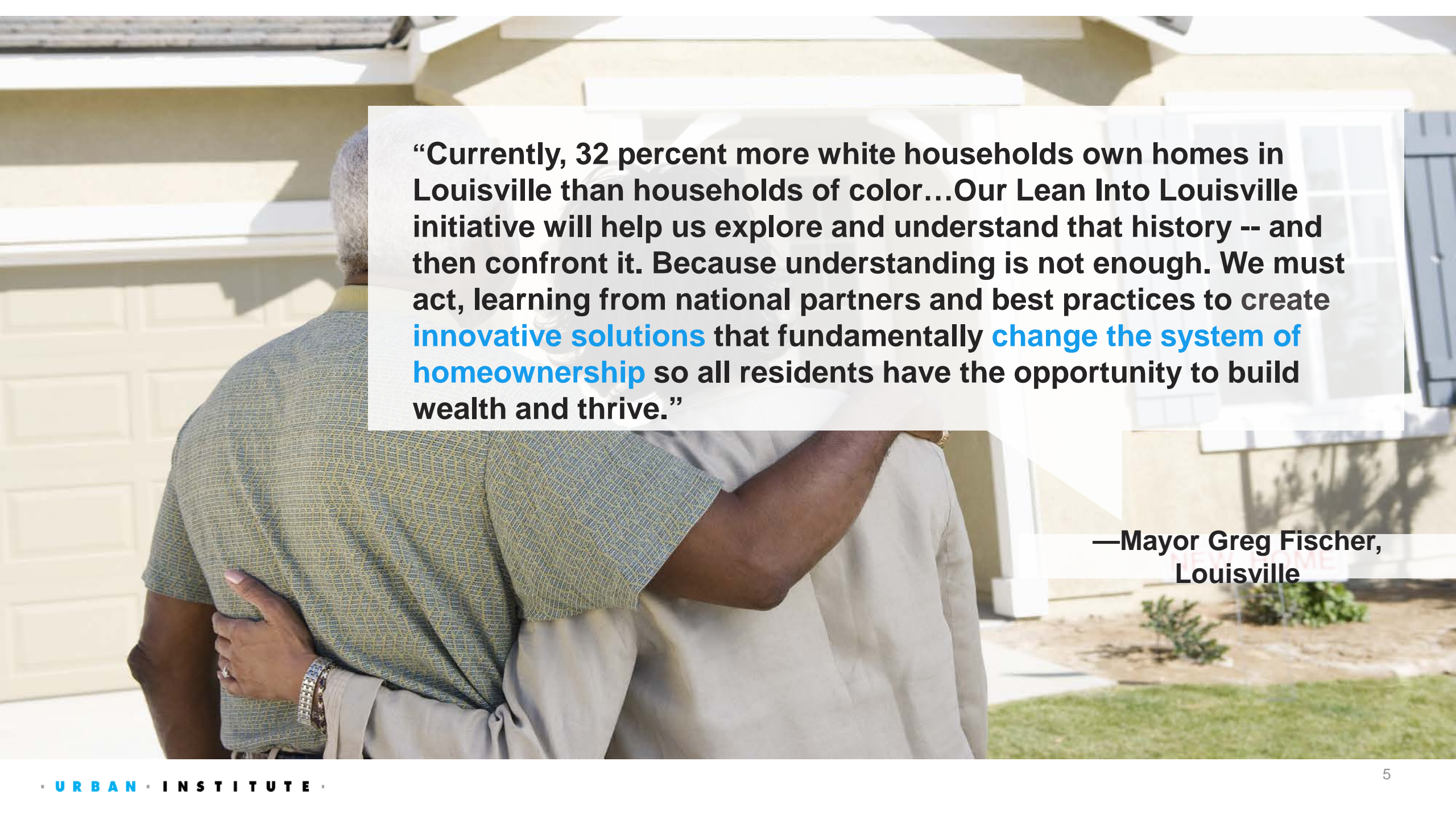
Average loan size in LMI areas, by income bracket



Distribution of lending volume in LMI areas, by income bracket



Sources: Urban Institute calculations from 2016 Home Mortgage Disclosure Act data.
Note: LMI = low-to-moderate income. LMI area is defined as a census tract with a median income less than 80% of the area median income

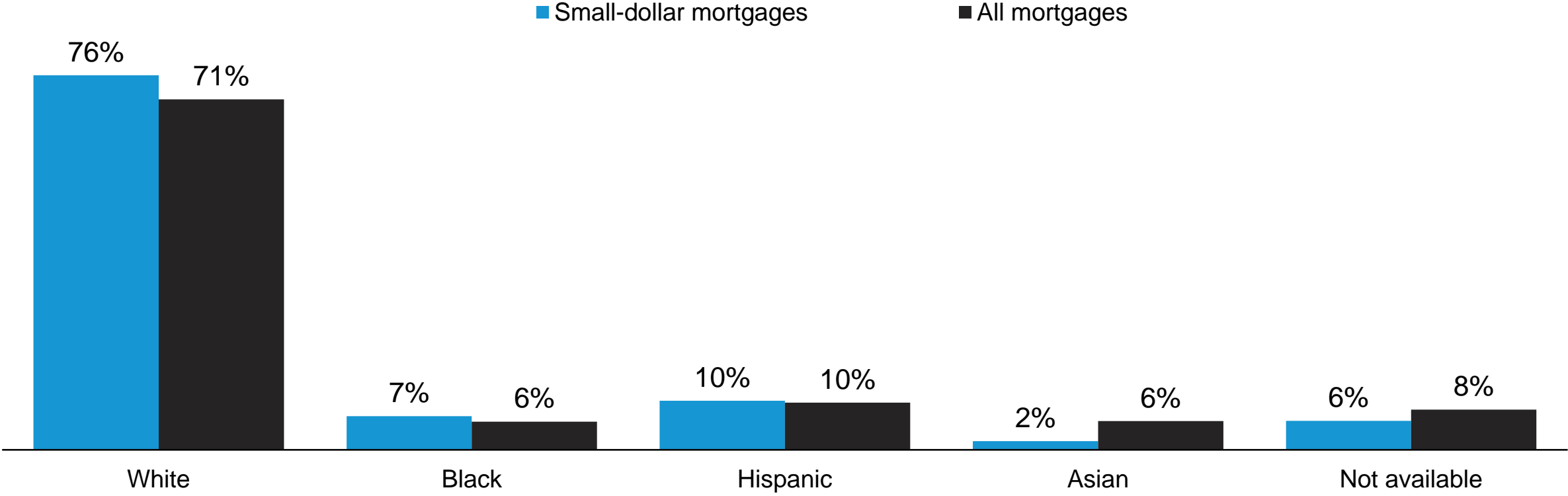


“Currently, 32 percent more white households own homes in Louisville than households of color...Our Lean Into Louisville initiative will help us explore and understand that history -- and then confront it. Because understanding is not enough. We must act, learning from national partners and best practices to create **innovative solutions** that fundamentally **change the system of homeownership** so all residents have the opportunity to build wealth and thrive.”

—Mayor Greg Fischer,
Louisville

Small-dollar mortgages by race or ethnicity

Percent of mortgages, by size



Source: HMDA, Urban Institute, and the Federal Reserve Bank of Chicago
Note: Based on purchase mortgage originations from 2009 to 2016

Small-Dollar Mortgages and Building Bridges to black Homeownership



ADVANCE POLICY SOLUTIONS AT THE LOCAL LEVEL

- Responsibly expand small-dollar mortgages for purchase and renovation (micromortgages)
- Reform local land-use and building codes and revisit zoning laws and regulations



TACKLE HOUSING SUPPLY CONSTRAINTS AND AFFORDABILITY

- Explore and expand production of affordable housing types such as manufactured housing and factory-built housing
- Improve single family 2- to 4-unit preservation, financing, and credit underwriting



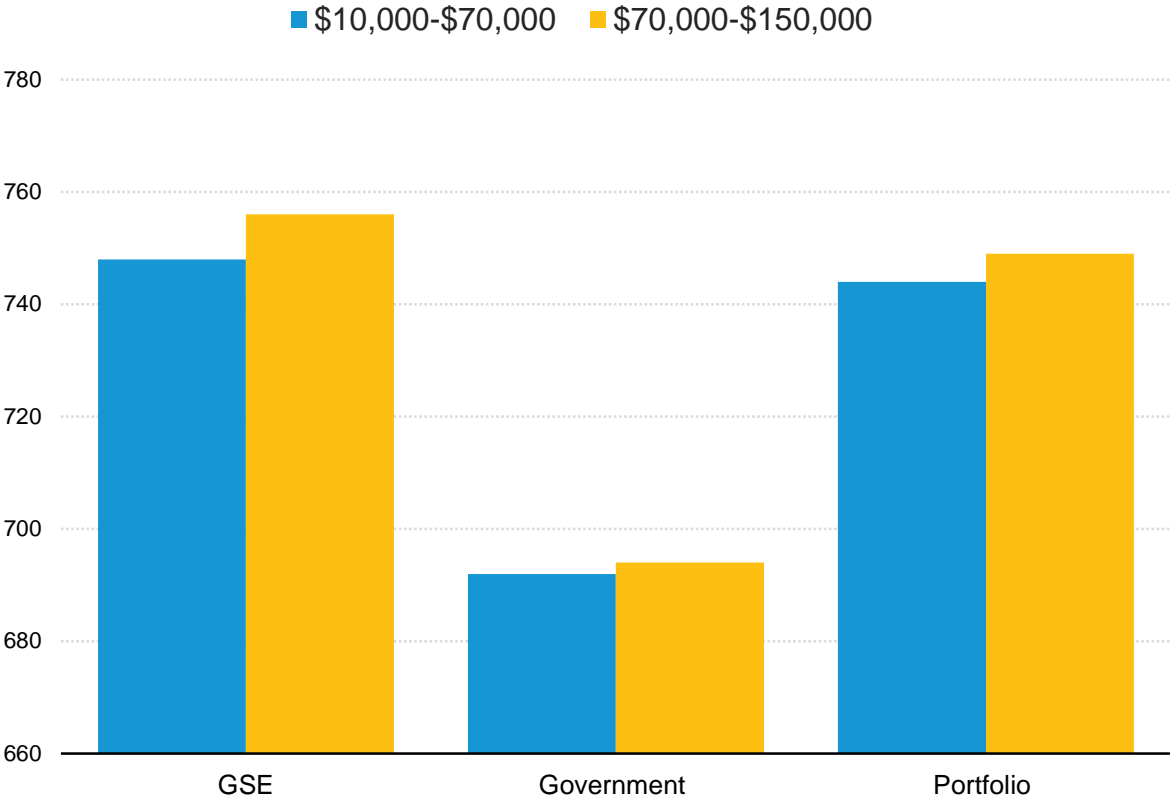
PROMOTE AN EQUITABLE AND ACESIBLE HOUSING FINANCE SYSTEM

- Increase visibility, access, and types of down payment assistance programs
- Count diverse sources of income to qualify for a mortgage

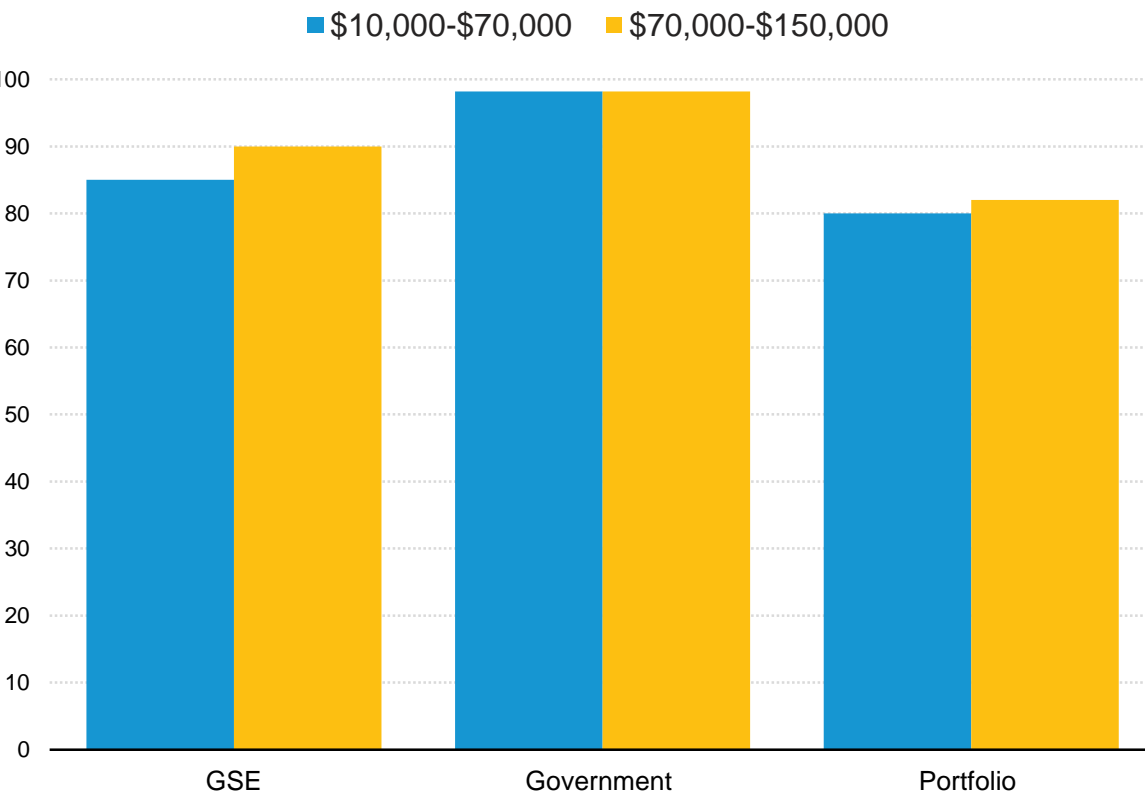
Source: Urban Institute, [Building Black Homeownership Bridges](#)

Credit profiles of small-dollar borrowers mirror those of medium borrowers

Average FICO, 2018



Average loan-to-value (LTV), 2018

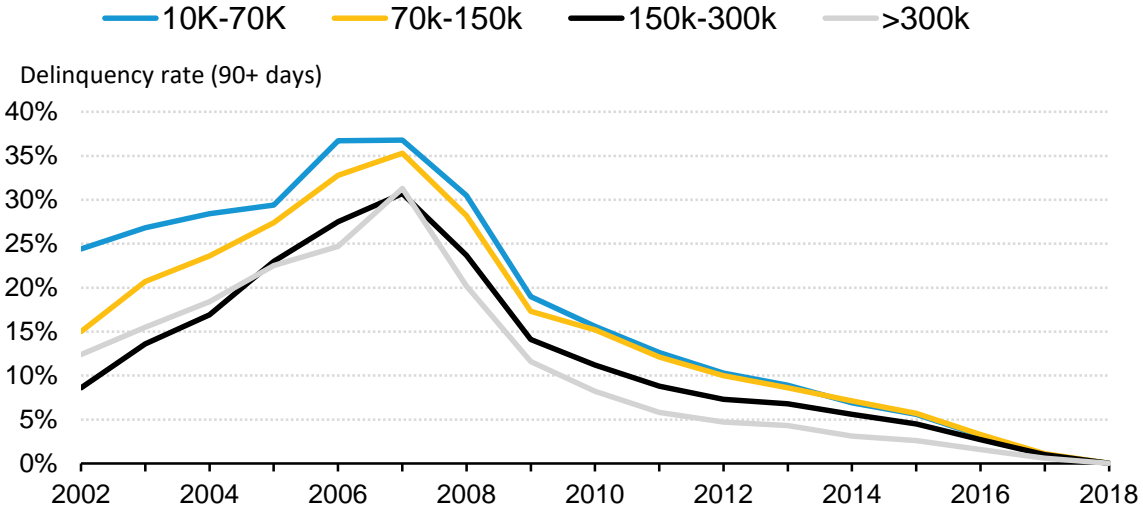


Sources: CoreLogic and the Urban Institute

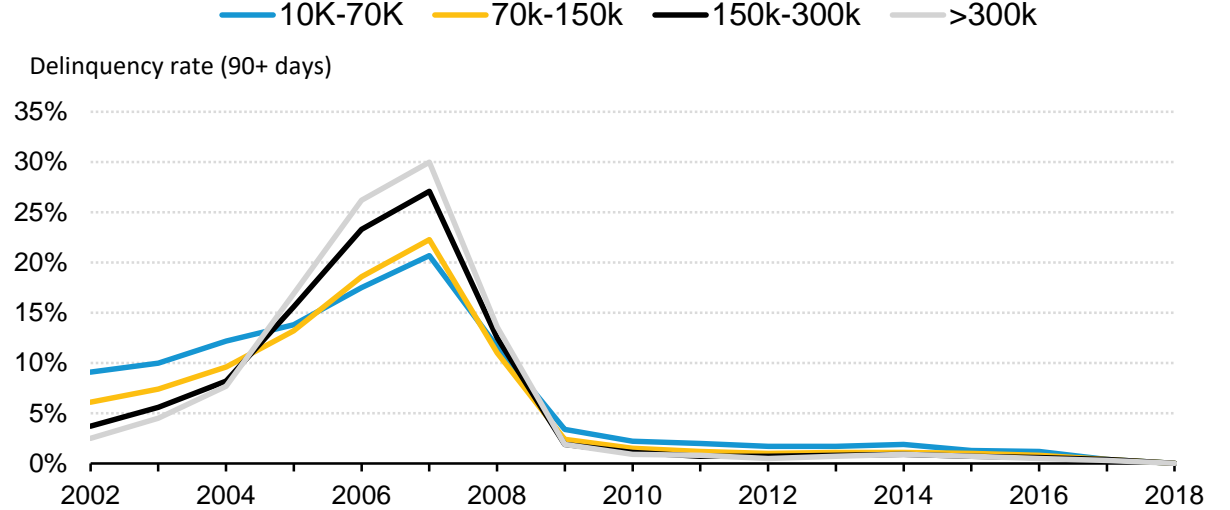
Small-dollar mortgages perform similarly, if not better, than larger mortgages

Delinquency performance by loan size, by channel

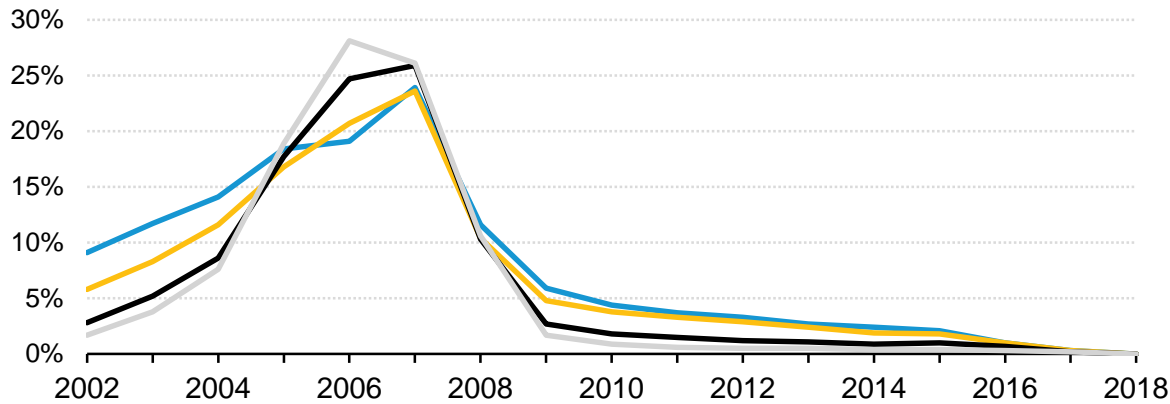
Government Channel



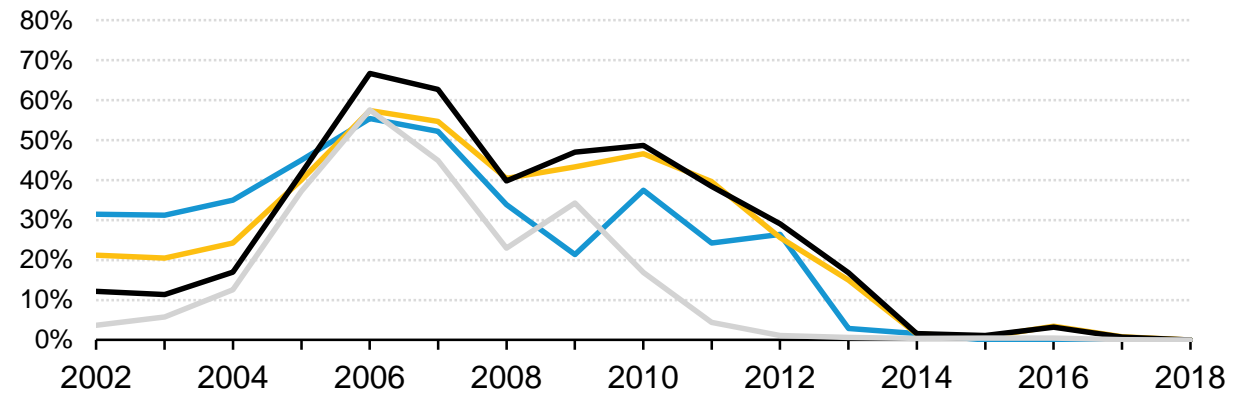
GSE Channel



Portfolio Channel



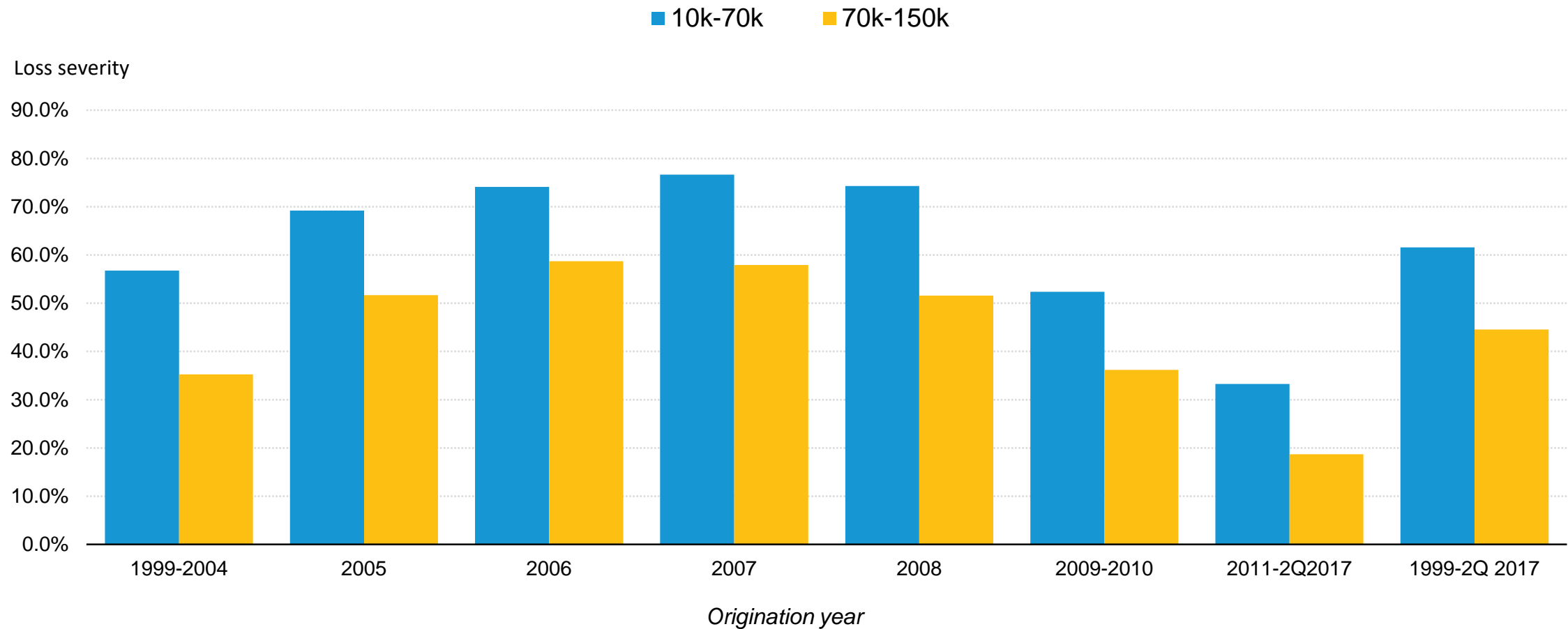
PLS Channel



Sources: CoreLogic and the Urban Institute

Loss severity on small-dollar loans is larger

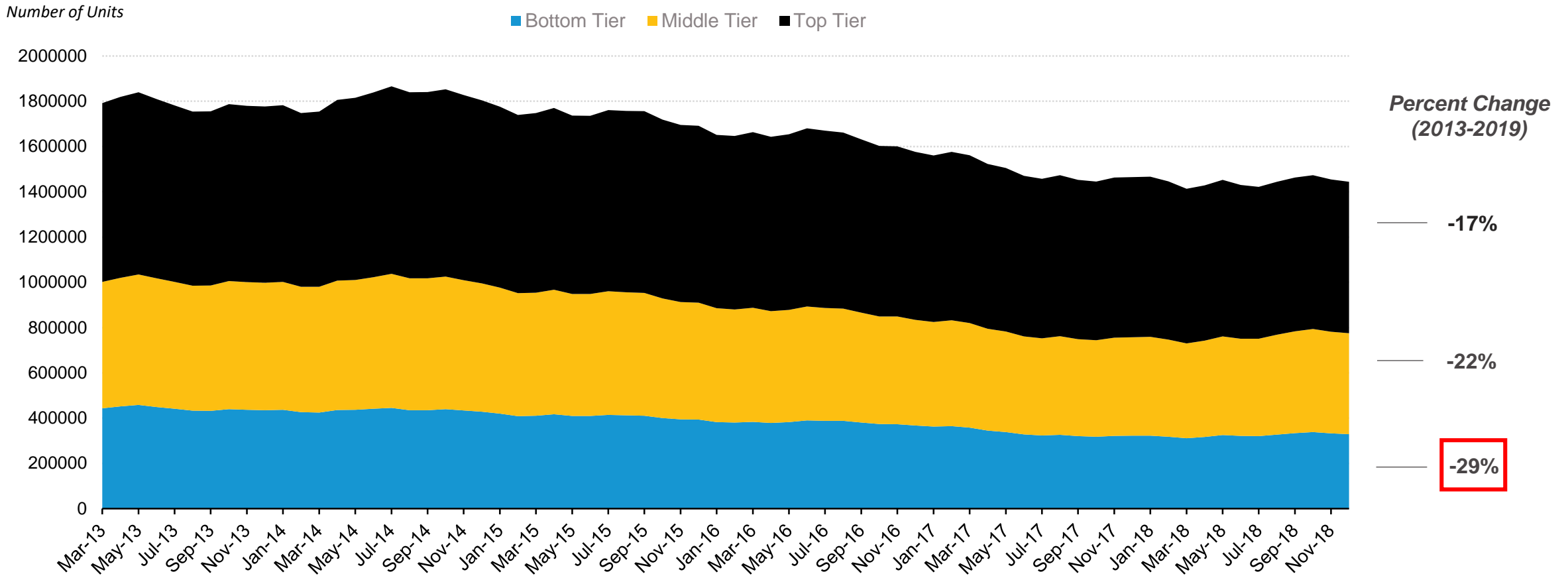
Loss severity by loan size and origination year



Sources: CoreLogic and the Urban Institute

A tightening market - Lowest price-tier housing inventory is declining at the fastest pace

Share of Housing Supply by Home Value

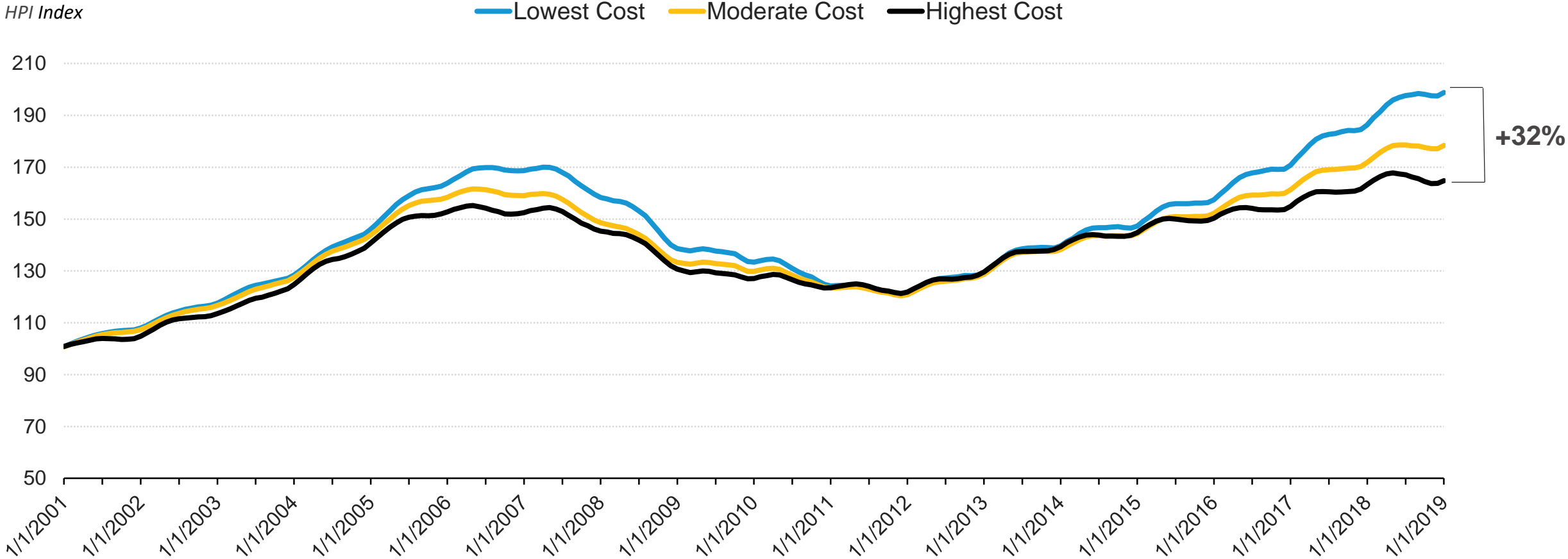


Source: Urban Institute Calculations from Zillow Estimates

Note: Zillow defines top, middle and bottom tier homes as those that fall in the top, middle and bottom third of all home values respectively in a given geography (includes single-family and condominium units) data as of Jan. 2019.

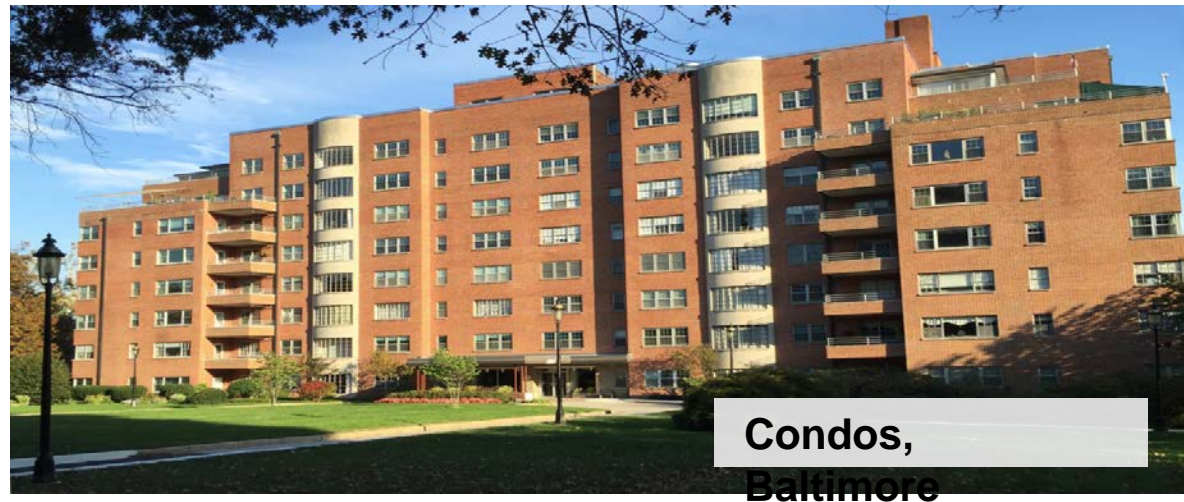
Price appreciation of the lowest cost housing has outpaced the rest of the market since the crisis

HPI Growth by Price Tier



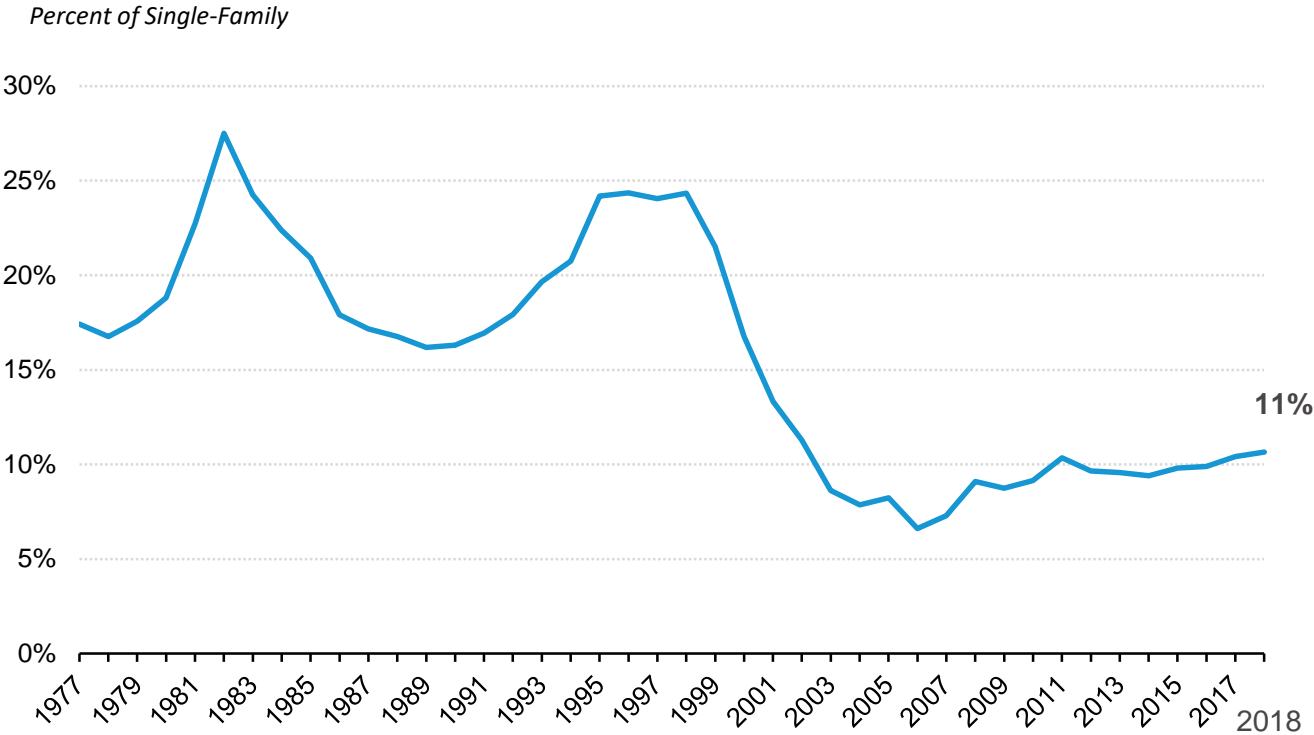
Sources: Black Knight HPI and Urban Institute. Data as of February 2019,

Affordable housing types that could benefit from small-dollar purchase or renovation financing



Shrinking affordable housing types– the number of Manufactured Housing units shipped is low in a historical context

Manufactured Housing as a Percent of Single-Family



Lending for manufactured housing (MH)

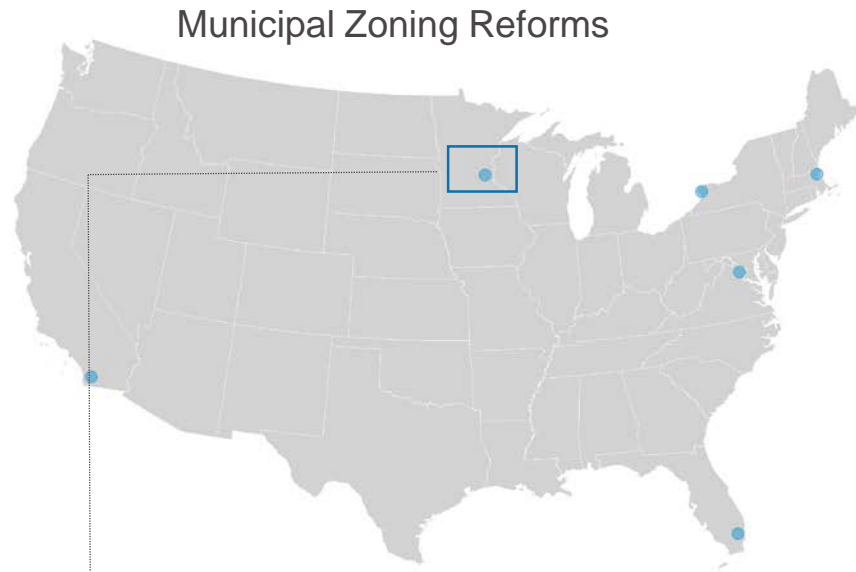
- MH lending is concentrated – the top 5 lenders made 32% of loans in 2017, double that of the top 5 single-family lenders.
- In 2017, 81 percent of shipped manufacture housing units were purchased using chattel loans.
- A driver of small loans - average loan size of \$72,000 compared to \$199,000 for SF homes.

Source Top: US Census Bureau Manufactured Housing Survey, Urban Institute: [Manufactured homes could ease the affordable housing crisis. So why are so few being made?](#)

Source Bottom: US Census Bureau Manufactured Housing Survey, US Census Bureau Building Permits Survey

Improving Access: Produce More Low-Cost Housing

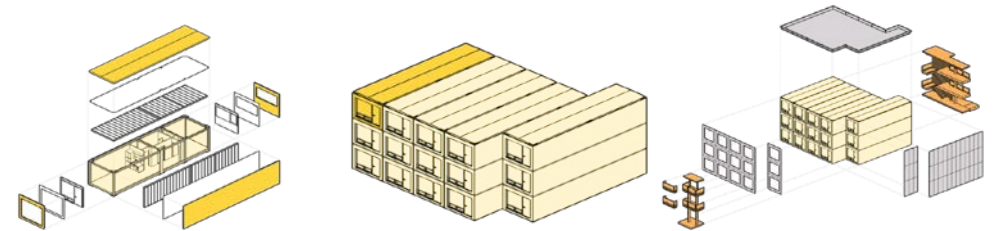
- **Zoning and Land Use Reform:** In response to 21st century housing needs and preferences, mayors and local planners are modernizing local zoning and land use regulations so builders and developers can produce more housing at a lower cost.



Minneapolis recently eliminated all single-family zoning and allowed triplexes to be built anywhere in the city.

- **Innovate Design and Construction:** Private builders and developers are innovating design and construction techniques to reduce development costs and provide more housing on less land.

- Accessory dwelling units
- Pre-fabricated and modular units
- **Design Build Delivery (Below)**



Source: Blokable

We need to increase the availability of affordable homes and small-dollar mortgages to make them accessible

Small-Dollar
Mortgages
Are SCARCE



Illustrations by Shannon Ryan/Made With Relish

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Check the Housing Finance Policy Center [website](http://www.urban.org/center/hfpc) regularly:
www.urban.org/center/hfpc

The screenshot displays the Housing Finance Policy Center website. At the top, there is a navigation bar with links for 'About', 'Staff', 'Publications', 'Projects', 'Events', 'Urban Wire Posts', 'In the News', and a 'More' dropdown. A blue button labeled 'SUPPORT URBAN INSTITUTE' is in the top right corner. The main content area features a large line chart titled 'Housing Finance at a Glance: March'. The chart shows two data series, one in blue and one in yellow, with a significant dip in the yellow series. Below the chart are navigation arrows. To the right of the chart, the text reads: 'Housing Finance at a Glance: March. The most recent edition of At A Glance, the Housing Finance Policy Center's reference guide for mortgage and housing market data.' Below this is a 'LATEST WORK' section with three items: 1. 'WORKING PAPER :: HOUSING AND HOUSING FINANCE' titled 'What Fueled the Financial Crisis?' by Laurie Goodman and Jun Zhu, dated April 4, 2018, with an aerial view of a residential neighborhood. 2. 'URBAN WIRE POST :: HOUSING AND HOUSING FINANCE' titled 'Where can renters afford to buy homes?' by Laurie Goodman and Jun Zhu, dated March 29, 2018, with a photo of a person walking in a hallway. 3. 'RESEARCH REPORT :: HOUSING AND HOUSING FINANCE' titled 'Housing Affordability: Local and National Perspectives' by Laurie Goodman, Wei Li, and Jun Zhu, dated March 28, 2018, with a photo of a modern house.