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

<table>
<thead>
<tr>
<th>Sales Price Range</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000-30,000</td>
<td>8.2%</td>
</tr>
<tr>
<td>$30,000-50,000</td>
<td>24.7%</td>
</tr>
<tr>
<td>$50,000-70,000</td>
<td>47.6%</td>
</tr>
<tr>
<td>$70,000-$100,000</td>
<td>69.5%</td>
</tr>
<tr>
<td>$100,000-150,000</td>
<td>84.3%</td>
</tr>
<tr>
<td>$150,000-300,000</td>
<td>88.3%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Income Bracket</th>
<th>Average Loan Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;40% of the AMI</td>
<td>$88,000</td>
</tr>
<tr>
<td>40–80% of the AMI</td>
<td>$132,000</td>
</tr>
<tr>
<td>80–100% of the AMI</td>
<td>$172,000</td>
</tr>
<tr>
<td>100–140% of &gt;140% of the AMI</td>
<td>$201,000</td>
</tr>
<tr>
<td>&gt;140% of the AMI</td>
<td>$260,000</td>
</tr>
</tbody>
</table>

Distribution of lending volume in LMI areas, by income bracket

<table>
<thead>
<tr>
<th>Income Bracket</th>
<th>National</th>
<th>Bank</th>
<th>Nonbank</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;40% of the AMI</td>
<td>36%</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>40–80% of the AMI</td>
<td>44%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>80–100% of the AMI</td>
<td>25%</td>
<td>12%</td>
<td>27%</td>
</tr>
<tr>
<td>100–140% of &gt;140% of the AMI</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>&gt;140% of the AMI</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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

A FIVE-POINT FRAMEWORK

Reducing the Black Homeownership Gap

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

- 10K-70K
- 70k-150k
- 150k-300k
- >300k

**GSE Channel**

- 10K-70K
- 70k-150k
- 150k-300k
- >300k

**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:

- ADU, Seattle area
- 2-4 Unit, Bronx NY
- MH Community, Coles Point, VA
- Condos, Baltimore
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.
Stay connected to our research

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  - @MyHomeMatters: Co-VP Alanna McCargo
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