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Article 23

Homeownership for the Long Run

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HOMEOWNERSHIP FOR THE LONG RUN

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ABSTRACT

U.S. homeownership rates have largely recovered since the depths of the Great Recession, except for Black Americans. In 2019, 42 percent of Black households owned a home, compared to 73 percent of white households. Currently, about two thirds of households own their home, a rate of homeownership that has prevailed in the U.S. since mid-century. However, whether this rate can be sustained over the next decades is in question. Black and Hispanic/Latinx homeownership rates have remained far below that of the white non-Hispanic rate. In addition, the homeownership rate for younger households is now below its level prior to the 2000s housing boom and bust. In this paper, we discuss what is known about homeownership outcomes and policies: in particular, how borrowing constraints and housing affordability are impacting current homeownership outcomes; how the trajectory of homeownership rates over time from pre-Great Depression through the current period reflects lending regimes; and how future trajectories based on projected demographic trends and lending environments imply a very different future for U.S. homeownership outcomes. We also present policy interventions that could help to change the course of these trends and support sustainable access to homeownership.

INTRODUCTION

During the 20th century, the U.S. transformed from a nation of renters to a nation of homeowners. Homeownership became accessible for most and associated with achieving the American Dream (McCabe 2016; Goodman and Mayer 2018). Can this access to homeownership for the long term be sustained over the coming decades?

The first two decades of the 21st century have raised concerns as to whether such access to homeownership is sustainable for the long run. The financial crisis, which originated in lending policies in the first of these decades caused 8 million households to lose their homes to foreclosure (Levitin and Wachter 2020) before recovery and the onset of the Pandemic in 2019. While white homeownership rates

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have largely recovered from post-recession lows, Black homeownership and young households' homeownership rates both remain 5 percentage points below their respective 2004 peaks as of the first quarter of 2021 (U.S. Census 2021) despite record low interest rates.

There is increasing recognition of the need for proactive targeted policies to provide access for racial and ethnic groups historically excluded from homeownership. The need is for policy interventions to address persistent homeownership gaps which are for Black households similar to those prevailing before the adoption of the 1968 Fair Housing Act (Acolin et al. 2019).

Homeownership receives strong popular and policy support in the U.S. A large majority of the population, 87 percent, indicated in a recent survey that owning a home is important to achieving a good life (Fannie Mae 2020). Even in the immediate aftermath of the housing bust, around 85 percent of the population considered owning superior to renting (Fannie Mae 2011). Homeownership is widely acknowledged as the primary means to build wealth (with 85 percent of households affirming that owning leads to building wealth and being better off financially and with 81 percent of minority households stating that view).

Empirical evidence supports these beliefs. Homeownership in the U.S. has promoted wealth-building through appreciation and the forced savings associated with repaying a self-amortizing mortgage. Moreover, homeownership and the fixed rate long term mortgage protects against housing insecurity associated with renting when markets cause prices and rents to rise. Importantly, increased residential stability is one of the mechanisms identified as contributing to the better educational outcomes of children of homeowners (Green and White 1997). There are also substantial financial risks associated with owning a home with varying levels of appreciation across space and over time, as the Great Financial Crisis (GFC) demonstrated (Bayer et al. 2016). The ability to build wealth through homeownership requires the household to be able to sustain homeownership during economic downturns (Goodman and Mayer 2018, Goodman 2021, Wachter 2021).

Expanding sustainable access to homeownership, particularly for lower income and minority households, requires a housing finance system that is stable and not subject to periodic crises (Fetter 2013; Wachter and Acolin 2015). The Dodd-Frank Act (DFA) did much to stabilize the financial system in the aftermath of the GFC, but the government sponsored enterprises (GSEs) which together with Ginnie Mae, provide two-thirds of mortgage finance are still in a state of limbo, with their ultimate structure yet to be determined (Levitin and Wachter 2020). More broadly, macro prudential policy as a preventative to crises is still a work in progress in the U.S. (Hanson et al. 2011).

In the U.S., the response to the GFC was to raise borrowing constraints to borrowing to levels that were significantly higher than those prevailing in 2000, prior to the onset of the drastic increase in risky leverage that gave rise to the GFC (Acolin et al. 2016a). In addition, the financial structure shifted with bank portfolio lending replaced by government backed debt originated by nonbanks (McCoy and Wachter 2017b). Moreover, while the DFA specified qualified mortgages (QM) which would receive certain benefits to investors to assure repayment in default as excluding mortgages with "toxic" terms, new regulatory changes will now enable high debt to income ratios similar to those that led to high defaults in the GFC (McCoy and Wachter 2019; Levitin et al. 2012). Hence, ensuring a mortgage system structure that will promote stability is still in question.

Without intentional pro-homeownership strategies, homeownership is unlikely to expand in coming decades (Acolin et al. 2016b). As of mid-2021, the U.S. housing market is still incorporating the shock of the COVID-19 pandemic on the economy and on household preferences. The current low interest rate environment is a positive factor supporting demand for homeownership, and in the longer-term population aging is also expected to lead to higher homeownership.

However, increasing housing prices and rents due to supply constraints, coupled with limited growth in income can create a discouraged renter effect in which households delay becoming homeowners, as rents continue to rise, making saving for a down payment more difficult (Acolin et al. 2016b; Acolin and Wachter 2017). The delayed access to homeownership has implications for wealth building, as being able to purchase at an earlier age has been shown to be associated with more equity accumulation (Goodman and Zhu 2021).

In addition, the increasing demographic diversity will result in lower homeownership rates if the minority homeownership gap is not addressed. Minority households are less likely to be homeowners, even after controlling for differences in measurable endowments and this gap has remained persistent over time (Acolin et al. 2019c; Choi et al. 2019).

Targeted actions are needed to support access to credit for first- time homeowners, particularly for minority groups, without excess leverage. Easing credit across the board with consequent underpriced credit risk can temporarily increase housing consumption at the intensive margin rather than expand the extensive margin, that is the number of homeowners sustainably (Acolin et al. 2017). The lax lending associated with the former in the context of inelastic supply, associated lax lending may provoke bubbles and busts (Favara and Imbs 2015; Pinto 2021). And will not lead to sustainably higher homeownership rates.

This paper provides an overview of the trends in homeownership outcomes over the past decades, with a particular emphasis on the role of financial institutional features that impact homeownership. It then discusses the implications of current demographic trends and forecasted changes in age and racial/ethnic composition for the future of homeownership. It concludes with a discussion of institutional features that can support inclusive and sustainable homeownership going forward.

I. The Past of Homeownership

A) Homeownership Trends: 1900-2021

The U.S. homeownership rate has grown from about 45 percent in 1900 to more than 60 percent since 1960, reaching 68 percent in the late 1990s and then rising to 69 percent in 2004 before falling to 63-64 percent in the aftermath of the Great Recession. Throughout that time, a persistent feature has been a large minority homeownership gap (Fig. 1).

Between 1900 and 1930, less than half of households owned their homes and the homeownership rate remained relatively stable, ranging between 45 and 47 percent (IPUMS 2021). It then decreased to 44 percent in 1940 in the aftermath of the Great Depression (IPUMS 2021). During that period, access to homeownership was limited due to high required down payments of more than 50 percent and high mortgage payments due to the short term of mortgages. This meant that most urban households were renters.

As shown in Figure 1, in the 20-year period from 1940 to 1960, the homeownership rate increased by 18 percentage points to 62 percent, transforming the U.S. into a majority homeowner nation (IPUMS 2021). Fetter (2013) established the role of government interventions in mortgage markets in explaining a substantial portion of that increase. As a result of New Deal legislation, the "American Mortgage" (Green and Wachter, 2005) offered a long-term self-amortizing fixed-rate product that was affordable. The new product was also safer than the pre-WWII "bullet" short-term mortgage whose large, required balloon payments caused massive defaults in the Great Depression and a default rate of nearly 50 percent (Levitin and Wachter, 2020). The transformation of the housing finance system to long-term self-amortizing mortgages resulted in increased access to homeownership. Importantly, this was accompanied by the opening of the suburbs with the building of circumferential highways. As a result of these and the post WWII economic expansion, homeownership became an affordable alternative to renting for a large majority of white households. However, racial gaps persisted as redlining and restrictive land deeds limited access to mortgages for minorities in cities and suburbs, respectively (Schill and Wachter, 1995).

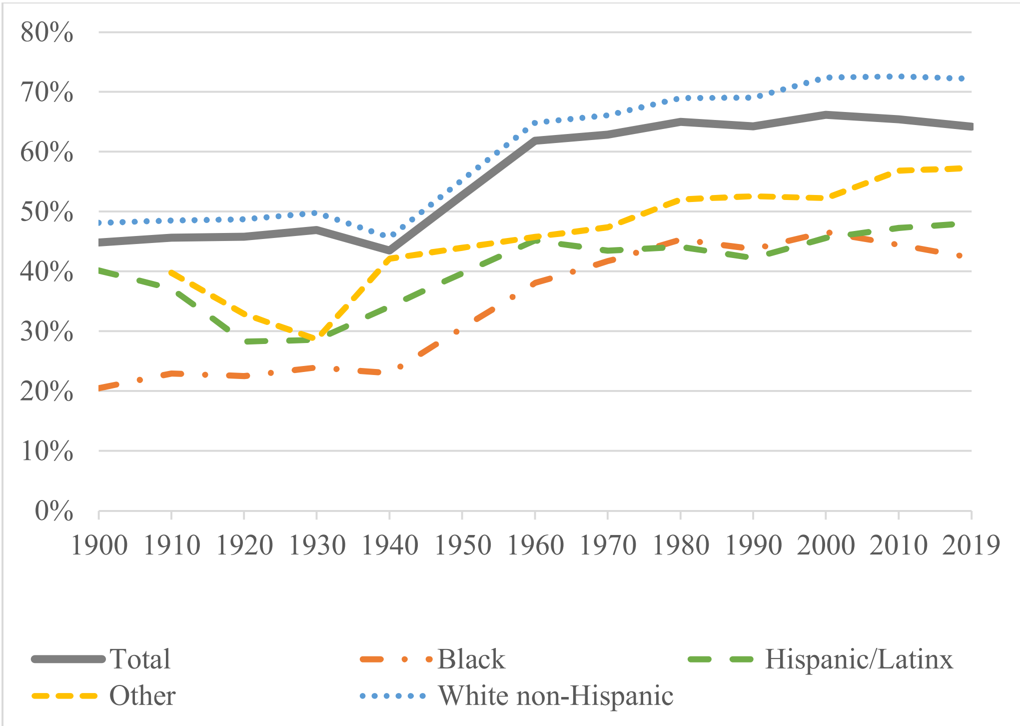

Figure 1
Homeownership Rate, Overall and By Race/Ethnicity: 1900-2019
Source: U.S. Census 1900-2010 Decennial Census and 2019 1-Year American Community Survey. Data processed from IPUMS (2021)

From 1960 to the mid-1990s, the homeownership rate changed very little. First time homeownership rates also remained relatively steady and high in this period, as 40-43 percent of young householders between the ages of 18 and 29 owned their home and a larger share owned their home than lived with their parents. For most of this period, as shown in Figure 2, over two thirds of young people were able to live independently and, of these, around 50 percent became homeowners by age 30, so that around 40 percent of young adults were homeowners, compared to only 25 percent in 2019.

This metric combining household formation and homeownership has shifted in recent decades, accelerating in 2010 with substantially more young adults now living with their parents than owning a home (47 vs. 25 percent as of 2019).

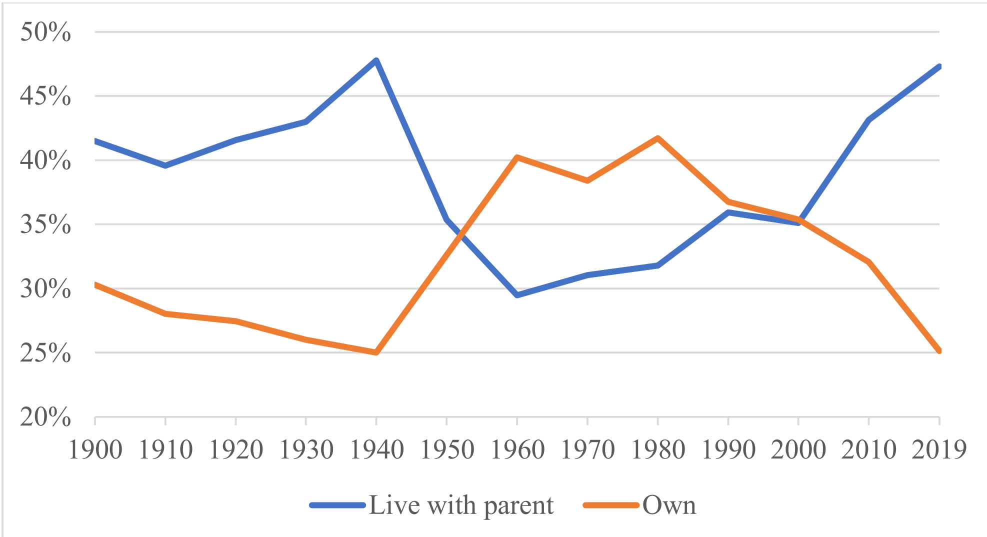

Figure 2
Share of Young Adults (18-29) Living with their Parents and Owning: 1900-2019
Source: U.S. Census 1900-2010 Decennial Census and 2019 1-Year American Community Survey. Data processed from IPUMS (2021)

While most commentators focus on the homeownership rate, it is useful to consider this metric which tracks the share of the population who are homeowners. In recent years, not only has a smaller share of young households became homeowners, but a smaller share of young adults formed households with a larger share continuing to live with their parents, with a near majority of young adults now living with their parents (Acolin and Wachter, 2021).

It is to be expected based on standard life-cycle theory that younger households are less likely to be homeowners, and lower income households are also less likely to own (Henderson and Ioannides 1983; HUD 1994). For young individuals with changing employment and household arrangements, the high transaction costs associated with owning can make renting a superior alternative. Lower income households receive limited tax benefits from owning and are more likely to experience income volatility that can make owning riskier in case of negative income shocks. However, age and income composition effects do not explain the growth of the share of young households who do not own over time (Acolin and Wachter, 2021).

Moreover, the expansion of the aggregate homeownership rate between 1940 and 1960 and its relative stability since the 1960s mask major and persistent disparities across sociodemographic groups. The gap in homeownership between racial/ethnic groups can in part be explained by differences in income and wealth endowment factors, but a substantial unexplained portion remains. The "unexplained" portion has varied over time but increased to 19 percentage points for Black and 23 percentage points for Latinx in 2013 compared to 12 and 19 percentage points in 1989 (Acolin et al. 2019).

In 1940, while the homeownership rate for white non-Hispanic households was 46 percent, it was 23 percent for Black households (a 23-percentage points gap) and 34 percent for Hispanics or Latinx (a 12-percentage points gap). This homeownership gap remained relatively constant until the mid to late 1990s, a period of strong enforcement of the Community Reinvestment Act and GSE goals, when rates increased across demographic groups and racial and ethnic gaps declined (Acolin et al. 2019c; Bostic and Surette 2001; Bostic and Robinson 2003), as discussed further below.

B) The role of mortgage access and borrowing constraints in past homeownership outcomes

Access to affordable mortgage products plays a major role in whether and when households can access homeownership. Most homebuyers, particularly first-time buyers, rely on mortgages to purchase their home. Mortgage terms including interest rates and maturity affect how much households can afford given their income. The credit box, defined by underwriting criteria including three leading factors of maximum Loan to Value (LTV) ratio, Debt to Income (DTI) ratio and credit scores, affects both the maximum amount lenders will lend to borrowers as well as whether they will lend to them at all. This is because mortgage markets are an example of rationed credit markets where borrowing constraints are used to limit moral hazard rather than pricing and due to the high transaction and information costs associated with establishing credit risk (Stiglitz and Weiss 1981).

In the post-World War II period, it is possible to distinguish four credit regimes characterized by differing levels of borrowing constraints and homeownership outcomes. First, the transition period from the 1940s to the 1960s when government entities were established in the aftermath of the Great Depression, particularly the Federal Housing Administration (FHA) and Fannie Mae in the secondary market, contributed to the standardization of mortgage products with long terms, self-amortizing payments, and lower down payments (Fetter 2013; Wachter and Acolin 2015). Combined with opening up of the suburbs and sustained economic growth, this credit regime turned the U.S. into a nation of homeowners.

From the 1960s to the early 2000s, the "American mortgage"—30-year fixed-rate mortgage with no prepayment penalty—became the predominant mortgage product and sustained a stable homeownership rate around 64-65 percent (Green and Wachter 2005), with the main change during that period not in the primary market but in the secondary market in the aftermath of the Savings and Loans (S&Ls) crisis in the 1980s that shifted the source of funds from mortgages from portfolio lending to securitization.[3] With economic prosperity and enhanced CRA lending and GSE goal enforcement in the 1990s, homeownership increased to 68 percent in 2002 with Black homeownership reaching 48 percent (U.S. Census 2021). Policies such as the 1968 Fair Housing Act, the 1977 Community Reinvestment Act, and the 1992 Government Sponsored Enterprise Act, among others, explicitly included in their objectives remediating the disparate access to homeownership by removing barriers to credit. The result was higher homeownership rates across racial and ethnic groups and lower disparities. These loans were sustainable and did not result in higher default rates (Pinto, 2021). Overall homeownership increased by 5 percentage points from 1994 to 2004 (Figure 3) to 69 percent while homeownership rates were projected to increase to 65 percent based on HUD projections of fundamentals by the mid-1990s (HUD 1994).

The policies of the 1990s to expand homeownership appear to have been effective in increasing homeownership rates by 3-4 percentage points, including for minority households (Eggers and Burke 1996; Bostic and Surette 2001). As noted above, the literature shows that these changes took place in the context of strong economic growth, coupled with increased enforcement of the CRA, along with the implementation of the GSEs "affordable housing goals" (Bostic and Surette 2001; Bostic and Robinson 2003; see An et al. 2007; Bostic and Gabriel 2006, Gabriel and Rosenthal 2008 for other views on GSE lending. The expansion in homeownership during the 1994-2004 period took place with limited changes in overall lending standards (contrarily to what happened with the mortgage boom from 2004 to 2006).

In the 2003-2007 period marked by substantial deregulation, a third credit regime emerged that accompanied a substantial increase in the supply of mortgage credit (Levitin and Wachter 2011; 2013; 2020) with risky and often unverified and fraudulent lending terms (Levitin and Wachter, 2020). This credit expansion was not the result of a change in household borrowing potential (with neither an interest rate nor income shock) but took place through the relaxation of underwriting standards, the growth of non-traditional mortgage (NTM) adjustable (often teaser-rate) products funded through private label securities which comprised more than 50 percent of originations. The expansion of credit contributed to increasing house

[3] During the 1980s the homeownership rate declined slightly as a result of undercount adjustments by the Census Bureau in the 1990 Census and of low real income growth in the 1980s (HUD 1994).

prices unsustainably to bubble levels (Acolin et al. 2019a; Adelino et al. 2016; Levitin and Wachter 2011; 2013; 2020; Mian and Sufi 2015).

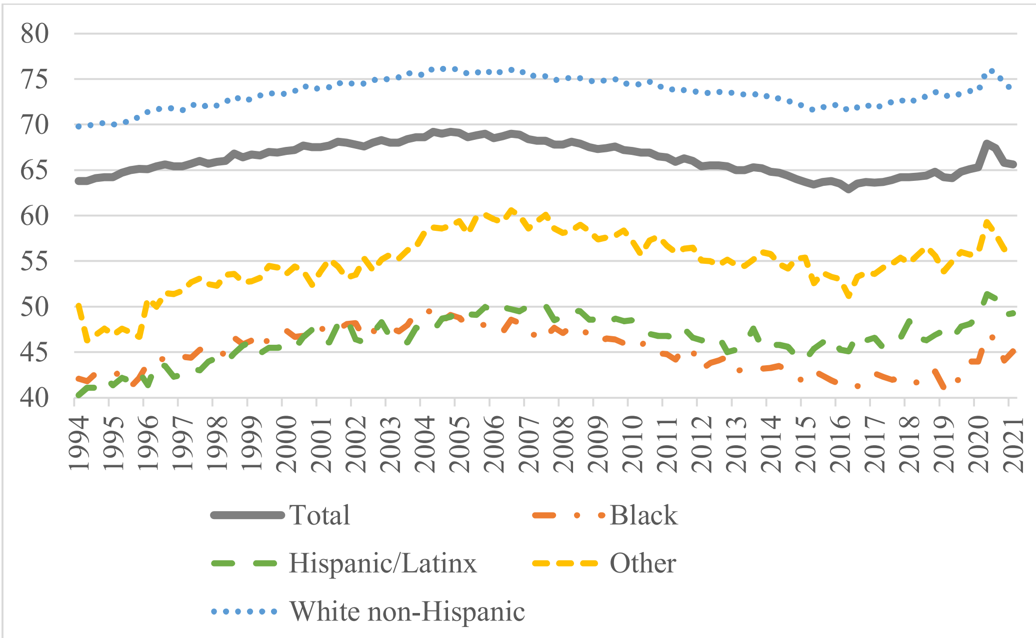

Figure 3A
Homeownership Rate, Overall and by Race/Ethnicity: Quarterly Q1 1994 – Q1 2021
Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, April 27, 2021.

The unsustainable leverage expansion and resulting credit crisis increased defaults to over 10 percent in the aggregate, with one-third of NTM mortgages in default (Levitin and Wachter, 2020). The costs experienced by lenders associated with having underpriced risk gave way to a fourth credit regime with heightened borrowing constraints that contributed to homeownership rate being estimated 2.3 percentage points lower during the 2010-2013 period than they would have been if constraints had remained at the 2001 level prior to the credit expansion of the third regime (Acolin et al. 2016a). During that latest regime, the 30-year fixed-rate mortgage returned as the prevalent mortgage product representing over 75 percent of all mortgages, with over 70 percent securitized through the GSEs and Ginnie Mae and less than 30 percent of mortgages remaining on portfolio (Urban Institute 2021).

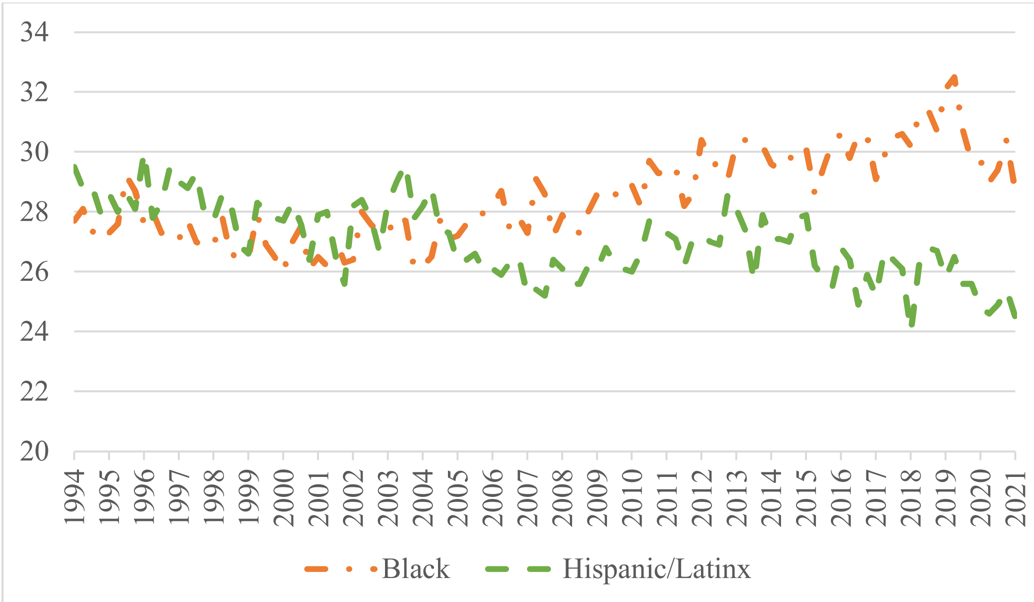

Figure 3B
Homeownership Gap for Black and Hispanic/Latinx relative to White non-Hispanic: Quarterly Q1 1994 – Q1 2021
Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, April 27, 2021.

The economic decline brought about by the COVID-19 pandemic was met by forbearance policies that prevented the major increase in unemployment from driving a default crisis. As of the first quarter of 2021, delinquency rates remain elevated at 6.4 percent but has declined rapidly from an 8.2 percent peak in the second quarter of 2020 and the percentage of loans in the foreclosure process was only 0.5 percent, an historical low since the first quarter of 1982 (MBA 2021). As of mid-2021, historically low mortgage rates have led to higher homeownership rates and have not been accompanied by a loosening of lending standards with borrowers' LTV and DTI remaining below historical levels and FICO scores elevated, continuing the fourth lending regime. At the same time, borrowing constraints and the underwriting criteria, as operationalized, have implications for homeownership access, particularly for first time homeowners.

Existing research has shown the importance of borrowing constraints in affecting tenure decisions and how changing lending regimes affect their impact (Linneman and Wachter 1989; Haurin et al. 1996; Acolin et al. 2016a). Historically, the LTV constraint has been shown to be especially binding as households without wealth are subject to maximum LTVs (Acolin et al. 2016a). Borrowing constraints, including insufficient credit score and income, affect the timing of the homeownership transition as younger households are likely to be subject to these constraints (Gabriel and Rosenthal 2005; Haurin et al. 1996), particularly in the absence of parental support (Gyourko et al. 1999; Lee et al. 2020). This limits access for younger households whose parents are less likely to be homeowners and able to help with a down payment, which contributes to further maintain inequality in homeownership outcomes beyond differences in individual endowment such as permanent income (Acolin et al. 2019c). This means that increasing educational outcomes among minority households alone, while important, would be insufficient to close the homeownership gap despite progress on that dimension (Myers et al. 2019), as black households with a college education remain less likely to own than white households without a high school degree (Goodman and Mayer 2018).

If done sustainably, actions to support credit access are potential venues to increase homeownership and decrease minority homeownership gaps. Policies such as the 1968 Fair Housing Act, the 1977 Community Reinvestment Act, and the 1992 Government Sponsored Enterprise Act, among others, included in their objectives remediating the disparate access to homeownership by removing barriers to credit. Institutions such as the FHA, Fannie Mae, Freddie Mac and Ginnie Mae along with the mortgages they securitize and guarantee also have the potential to increase access to homeownership for all households by making mortgage products available. The next section reviews the status of homeownership in the aftermath of the Great Recession and accompanying regulation and industry shifts.

The mortgage boom of the mid 2000s and subsequent bust had major impacts on the structure of the U.S. mortgage market and on access to credit for first time homebuyers. Evidence shows that the mortgage booms had both demand and supply side drivers but that the underpricing of risk and accompanying expansion of non-traditional mortgage (NTM) products were important factors (Acolin et al. 2017; Levitin and Wachter 2011; 2013; 2020).

At the individual level, the expansion of the mortgage market was associated with more of an increase in borrowing on the intensive rather than extensive margin—taking on more debt rather than new households becoming homeowners—and the credit expansion did not disproportionally lead to an increase in homeownership among marginal borrowers (Adelino et al. 2016).

In addition, at the local level, areas that experienced larger increases in NTMs experienced higher increases in homeownership, but these gains were not disproportionately in areas of low to moderate or minority households and much of these gains were reversed during the Great Recession (Acolin et al. 2017) with many households who had purchased using these products losing their homes to foreclosure, short sales, or transitioning back to renting. On aggregate, the homeownership rate reached 69 percent in 2004 (one percentage point higher than in 1998) and did not increase from 2004 to 2006 during the peak of the mortgage boom before decreasing to 63 percent in 2016 and experiencing only a slow recovery afterward with the number of first-time homebuyers remaining durably depressed (Acolin et al. 2018). Minority, young, and low- to moderate- income households experienced a particularly sharp and sustained decline in homeownership (Bayer et al. 2016). The increase in leverage that resulted in the largest decline in housing prices in U.S. history was neither accompanied by nor caused by an increase in homeownership. Appropriate macro prudential policies to prevent such booms and busts can limit housing price volatility and consequent foreclosure crises and limit risk and pricing for risk going forward. Maintaining lending standards is a pro-homeownership policy for the long term.

II. CURRENT HOMEOWNERSHIP TRENDS

The mortgage landscape that emerged from the Great Recession is still evolving. Overall, there is an increased share of mortgages backed by the government and a smaller share issued by depository taking institutions. In addition, the credit box remains tighter than it was prior to the housing boom and the spread between risk free assets and mortgage rates has increased, reflecting realized risks in mortgages (McCoy and Wachter 2020; Urban Institute 2021). Fannie Mae and Freddie Mac, responsible for guaranteeing 59 percent of the mortgages issued in 2020, remain in conservatorship, a statute that was intended to be temporary when they entered it in 2008, and securitization of mortgages insured by FHA/VA represent another 18 percent of the market (by comparison, combined, they represented less than 40 percent of the market between 2004-2006). In addition, the relative role of bank and non-bank mortgage issuers (or shadow banks) has changed substantially with non-banks representing above 50 percent of the market in 2015 compared to about 30 percent in 2007. This shift, along with the increased reliance on automated underwriting systems, has resulted from regulation and technological innovation (Buchak et al. 2018).

Credit standards, as noted, have remained tight and there is substantially lower levels of borrower and product credit risk than during the housing boom and the normal lending conditions prior. Urban Institute's Housing Credit Availability Index estimates total default risk around 5-6 percent between 2011 and 2020 compared to 16 percent during the 2004-2006 credit boom and 12 percent estimates of reasonable lending standards (Urban Institute 2021). Tight lending standards contributed to the aggregate decrease in homeownership in the aftermath of the Great Recession (Acolin et al. 2016a). Despite the long run economic expansion prior to the COVID-19 pandemic and the injection of liquidity by the Federal Reserve Bank, lenders did not increase the amount of credit risk they took on with the lowest 10 percentile of credit score around 650 (compared to 600 prior to 2008). This results from both a reaction by lenders to the losses from mortgages during the Great Recession along with the implementation of lending reforms in its aftermath, including the 2010 Dodd-Frank Act, that have increased issuer responsibility to verify borrower ability to repay and created overlays that discouraged excessive risk taking (McCoy and Wachter 2019; 2020). The maintenance of credit standards, and the limited growth in leverage, enabled the adoption of the CARES Act forbearance policies and the implementation of fiscal and monetary policies that were integral to the recovery of the economy from Covid-19. Contrary to the post GFC experience when banks could not lend even though interest rates plummeted, the large equity position of most homeowners enabled them to refinance without undue risk. The lower rates then translated into a major financial transfer to borrowers and helped to support the recovery (Goodman et al. 2001, Wachter forthcoming).

By the first quarter of 2019, the U.S. homeownership rate stood at 64.2 percent, 5 points below the 2004 peak, and Black homeownership rates at 40.6 percent, 8 points below the 2004 peak (U.S. Census 2021). The long-term impact of the COVID-19 pandemic on housing markets remains uncertain, but from the first quarter of 2019 to the first quarter of 2021 the homeownership rate increased to 65.6 percent in a context of historically low mortgage rates (although rapid house price appreciation has as of this writing now counterbalanced this rate decline). Among households under 35 years old, the homeownership rate increased even more substantially from 35.4 percent in the first quarter of 2019 to 38.1 percent in the first quarter of 2021, still substantially below the 2004 peak of 43.6 percent (U.S. Census 2021). In addition, this household-based measures masks the fact that a larger share of young adults did not form their own households during that time. When looking at personal homeownership, defined as the share of individuals who are owning or whose spouse is owning the units in which they live, the decline is even more pronounced from 40 percent in 2004 to 33 percent in 2021 (Acolin and Wachter forthcoming).

Preference changes and new work-from-home technology have contributed to demand for housing in more remote suburbs. Homeownership rates increased in all but the most expensive metro areas, with demand, as shown by house prices, increasing more in outlaying more affordable locations (Wachter et al. forthcoming). While the post-Covid-19 technology is here to stay, this is unlikely to lead to further increases in homeownership over the long run, as discussed in the following section. Minority-majority gaps, particularly the Black-white gap are likely to persist as well, in the absence of new policy initiatives.

III. The Future of Homeownership: projected trends

The long-term future of homeownership is a function of demographic fundamentals such as factors like age, household structure, and fertility rate and economic trends like permanent income and consumer debt (student debt in particular). In the absence of changes in affordability and borrowing constraints, long term demographic changes are unlikely to result in substantial increases in homeownership.

The future age structure of the population and its racial/ethnic composition can be forecasted with relatively high accuracy for the next decade and even several decades out (with some uncertainty due to potential changes in fertility and immigration). The U.S. Census in 2017 provides population projections by age, race and ethnicity up to 2060. Other factors that will determine homeownership outcomes are highly uncertain, but historical levels and experiences of regions with different housing market conditions can be used to develop plausible scenarios.

In 2016, *Cityscape* (Acolin et al. 2016b; Haurin 2016; Myers and Lee 2016; Nelson 2016) published a series of papers examining the possibility for the U.S. homeownership rate to decline by 20 percentage points by 2050, back to the 43-44 percent homeownership rate experienced prior to World War II. These studies differed in some of these assumptions but all underscored potential headwinds for homeownership although unlikely to lead to a majority of renters.

The four studies modeled two main changes for which data are available: population composition by age and race/ethnicity as of 2050. Despite favorable age evolution with an overall aging of the population, homeownership was estimated to be likely to stay stable or decline if the minority homeownership gap remained stable in the context of an increasingly diverse population. In addition, while the studies did not attempt to project credit conditions in 2050, several highlighted that homeownership could be further lowered if tight credit constraints, along with high prices, high rent costs, and student debt, maintained homeownership for younger households at lower rates than in prior decades. The limited purchasing power of younger households has implications for the intergenerational transition of the housing stock from older baby-boomer households to millennial and generation Z households (Nelson 2020).

In addition, Acolin et al. (2016b) explored the effect of potential slow household formation and homeownership access for young adults, following earlier work by Goodman et al. (2015), combined with homeownership rates by age and race/ethnicity (producing nine scenarios). The homeownership rate in a scenario based on the projected changes in age structure and minority share would be 61 percent by 2050 in a scenario where attainments were similar to those experienced over the 1990 to 2010 period.

The projections included scenarios in which housing rents and prices across the nation would converge with current rates observed in California due to housing supply constraints becoming more prevalent nationwide and assumed that due to the lack of intergenerational wealth transfers, minority gaps would persist. The results from these combined downward trends produced a scenario where the U.S. homeownership rate could fall below 50 percent by 2050 if young households experienced similar levels of homeownership attainments as in the 2000s and overall homeownership rate by group converged with California, due to high housing prices throughout the nation.

Goodman and Zhu (2021) show that the net growth in households between 2020 and 2040 is expected to come entirely from nonwhite households, with Hispanic households expected to represent half of the new households, Asian households at 30 percent, and Black households at 20 percent, while white households are expected to experience a decline during that period. They emphasize the importance of supporting access to homeownership for younger minority households who are expected to represent the main source of new homeowners between 2020 and 2040. They also demonstrate the possibility for a continued decline in homeownership rate for most age groups and for Black households if current trends continue.

These scenarios are not predictions, but rather they identify possible conditions that would affect the U.S. homeownership rate in coming decades. Changes in economic growth, mortgage and housing market conditions, or household preferences could lead to very different homeownership outcomes as could targeted policy changes at the federal and local levels to support access to homeownership for young and minority households as discussed in the next section.

IV. INTERVENTIONS FOR SUSTAINABLE HOMEOWNERSHIP

The U.S. homeownership rate increased only moderately between 1970 and 2020 and the minority homeownership gap remained virtually unchanged. Increasing access to homeownership remains a widely popular goal, but demographic and market trends alone are unlikely to deliver on that goal. Sustaining and increasing access to homeownership in the U.S. can be supported through affirmative actions by the federal and state and local governments, as well as by profit and non-profit institutions.

As discussed in this paper, the U.S. experienced a dramatic expansion in homeownership in the past. Within 20 years the homeownership rate grew from 44 percent in 1940 to 62 percent in 1960, fundamentally changing the reach of homeownership through a mix of innovation in housing finance and infrastructure expansion. Since then, the homeownership rate in the U.S. has remained relatively constant, with Black homeownership rates persistently 30 percentage points below that of white households. The U.S. homeownership rate is in the bottom half of high-income countries, and it has lost rank between 1990 and 2015 as more countries reached over 70 percent homeownership rate (Finland and Sweden for example: Goodman and Mayer 2018) despite having a policy framework that largely favors homeowners over renters and does not offer the level of stability for renters that some European countries provide (Acolin 2020).

To overcome persistent racial and ethnic gaps in homeownership rates, demand and supply approaches must be utilized, together, as demand side policies alone will run up against supply constraints causing prices to rise and raising homeownership barriers. There is a chronic undersupply of housing and particularly of affordable entry-level homes for first-time homebuyers. This shortage prevents LMI households, who are disproportionately people of color, from attaining homeownership and the intergenerational wealth building opportunity that homeownership provides.

Entry-level product tends to be the most challenging to build—largely the result of zoning constraints (for example, large swaths of neighborhoods zoned as single family detached (one-unit only) (Freddie Mac 2021). The impact of zoning restrictions is particularly large in metropolitan regions with growing employment (Gyourko and Krimmel 2021).

Gentrification has also limited the supply of naturally occurring affordable housing in central cities. Not only is the undersupply through new construction of smaller home growing faster than others (Freddie Mac 2021), but gentrification has reversed the economic filtering mechanism and has reduced the supply of affordable housing in newly prosperous urban areas (Couture et al. 2021). Hence, initiatives to preserve existing affordable housing are important (Freeman and Schuetz 2017).

On the demand side, innovations could be explored to expand access to mortgage loans without threatening financial stability. These include alternative credit data reporting and scoring methods that have the potential to expand the pool of eligible borrowers while controlling lender risk taking. In addition, the GSEs could catalyze research and development efforts for alternative underwriting methods that are inclusive of LMI borrowers and persons of color. The GSEs could also advance the design of rehabilitation loan products to preserve existing housing and to overcome appraisal gaps. Research to explore furthering funding of community land trust mortgages and designing lease-to-own loan programs may also be helpful in gentrifying neighborhoods.

The structure of the housing finance system itself can affect the risks and costs of mortgage lending. Loan-level price adjustments imposed by the GSEs after the GFC to incorporate the risk of that event contribute to lower lending to LMI households and people of color. As discussed in Cooperstein et al. (2021), the lower returns on capital required by a utility framework could enable far lower loan level price adjustments. The FHFA enterprise capital framework also imposes new capital and liquidity requirements on the GSEs that significantly increase guarantee fees passed on to customers, disproportionately impacting LMI households, and that should be reviewed. More generally, a stable financial structure that prevents procyclical expansion of credit could minimize financial cycles and housing price volatility (McCoy and Wachter, 2017a) and lower perceived and actual credit risk and mortgage costs.

Current policy shifts being considered to increase first-time homebuyers' access to funding for down payments include a program that would provide up to $25,000 in down payment assistance for "first-generation," low-income homebuyers who are "economically- and socially-disadvantaged." (Housing is Infrastructure Act of 2020). Such a program could help mitigate the structural inequality and housing discrimination discussed in Hanifa (2021), which discusses how high-income black homeowners continue to pay higher interest rates than low-income white homeowners.

There is growing support for the potential of down payment assistance programs as a tool to address the wealth constraint, which has been shown to be most binding of the borrowing constraints and to disproportionately affect minority households whose parents are less likely to be able to assist with a down payment (Choi and Ratcliffe 2021). Although down payment assistance would enable those who can access mortgage markets to purchase a home, it would make little difference for the millions who face structural barriers to mortgage credit, which is why additional effort along the lines discussed above to enable access to mortgage credit for people of color would be useful.

These reforms will have limited impact without corresponding solutions to increase the actual supply of affordable housing. Recent focus on economic infrastructure has illuminated the importance of affordable housing to increase economic opportunity. The Biden administration's proposed infrastructure package includes over $300 billion in tax credits, grants, direct spending and partnerships to protect and increase the supply of affordable housing in areas with economic opportunity (White House 2021). Affordable housing is a key piece of the nation's economic infrastructure. In addition to the federal government, state and local governments have a key role to play in addressing barriers to building more housing in their communities, particularly in areas that are experiencing sustained employment growth.

In addition to increasing access, it is important to ensure that the LMI households that have achieved homeownership are not disproportionately impacted by the economic disruption that was wrought by the pandemic. Although only roughly 2.2 percent of GSE loans remain in CARES Act forbearance, given the over $7 trillion in Agency MBS outstanding, this represents $154 billion of mortgage loans. Given the systemic importance of these securities, it will be critical that authorities continue to emphasize payment deferral and loan modification as the primary loss mitigation waterfall options for homeowners that clearly experienced hardship.

V. CONCLUSION

Homeownership remains central to the aspirations of a large share of the U.S. population. However, without active policies to support access to sustainable mortgage products and lower barriers to supply, homeownership rates are unlikely to increase substantially, and the minority homeownership gap is likely to remain substantial in coming decades. The 2000s housing boom and bust made dramatically clear the financial benefits and risks associated with homeownership and the consequences for households when homeownership is not sustained. The credit expansion through the increased prevalence of non-traditional mortgages funded through private label securities was accompanied by rapid housing price growth but limited expansion in overall homeownership, and in particular no closing of the long-standing minority homeownership gap.

Neutrality in policy between renter and owner choice can be desirable if renters are able to achieve security of tenure and can be relatively insulated against rising housing costs through long-term rental contracts. This is not the case in the U.S. where homeownership remains an important element of achieving residential stability and building wealth. As rents and housing prices rise, homeownership provides stability for families with consequent improved educational outcomes. Policies to support homeownership are aligned with public opinion's stated desire for homeownership. In order to expand homeownership sustainably and address the minority homeownership gap, interventions need to be targeted toward first time homebuyers.

Actions are required to support a stable housing finance system that provide affordable long-term credit to a broad range of borrowers in a way that sustainably expands the lending production possibility frontier. In addition, innovative programs to provide down payment and closing cost assistance to alleviate the wealth constraint and maintain price to income low to address the income constraints are needed to address existing inequalities in access to credit and access to parental wealth.

Without actions from the federal, state, and local governments along with foundations, non-profits, and employers to support access to homeownership to a broad segment of the population, it is possible that the homeownership rate will decline from the 63-65 percent level that has characterized the last 50 years. Addressing the barriers to homeownership is not at odds with the stability of the financial system, and, in fact, long term affordable access to mortgages requires assuring that stability.

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