

An Update on Minnesota's Homeownership Gap

EMHI Summit

Michael Grover* and John Patterson

November 9, 2009

* The views expressed here are those of the author and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.



Presentation Overview

- Key findings from the American Community Survey
 - Number of emerging market homeowners leveled-off in 2008
 - Emerging market homeownership rate increased to 46.5 percent, and the “rate gap” decreased to 31.5 percentage points
 - Hispanic/Latino homeowners had the largest numerical and percentage increase since 2007
- Mortgage delinquencies and foreclosures
 - Areas with elevated levels of problem mortgages also have a larger share of emerging market homeowners
 - A look back at 2006 foreclosure notices
- Looking Forward: Factors influencing homeownership
 - There are a lot of potential first-time homebuyers in emerging markets
 - Lower sales prices and interest rates help, but barriers still exist



American Community Survey

- In full release in 2005
- In 2008, 77,323 households were sampled and surveyed in Minnesota:
 - Occupied and vacant housing units that were interviewed by mail, telephone, or personal visit methods between January 1 - December 31.



Defining “Emerging Markets”

- Includes all Hispanic / Latino
- Black / African American
- American Indian / Alaska Native
- Asian
- Native Hawaiian or Pacific Islander
- Multiple and Some other race categories

→ NOTE: Please answer BOTH Questions 7 and 8.

7. Is Person 1 Spanish/Hispanic/Latino? Mark the "No" box if not Spanish/Hispanic/Latino.

No, not Spanish/Hispanic/Latino Yes, Puerto Rican
 Yes, Mexican, Mexican Am., Chicano Yes, Cuban
 Yes, other Spanish/Hispanic/Latino — Print group. ↗

8. What is Person 1's race? Mark one or more races to indicate what this person considers himself/herself to be.

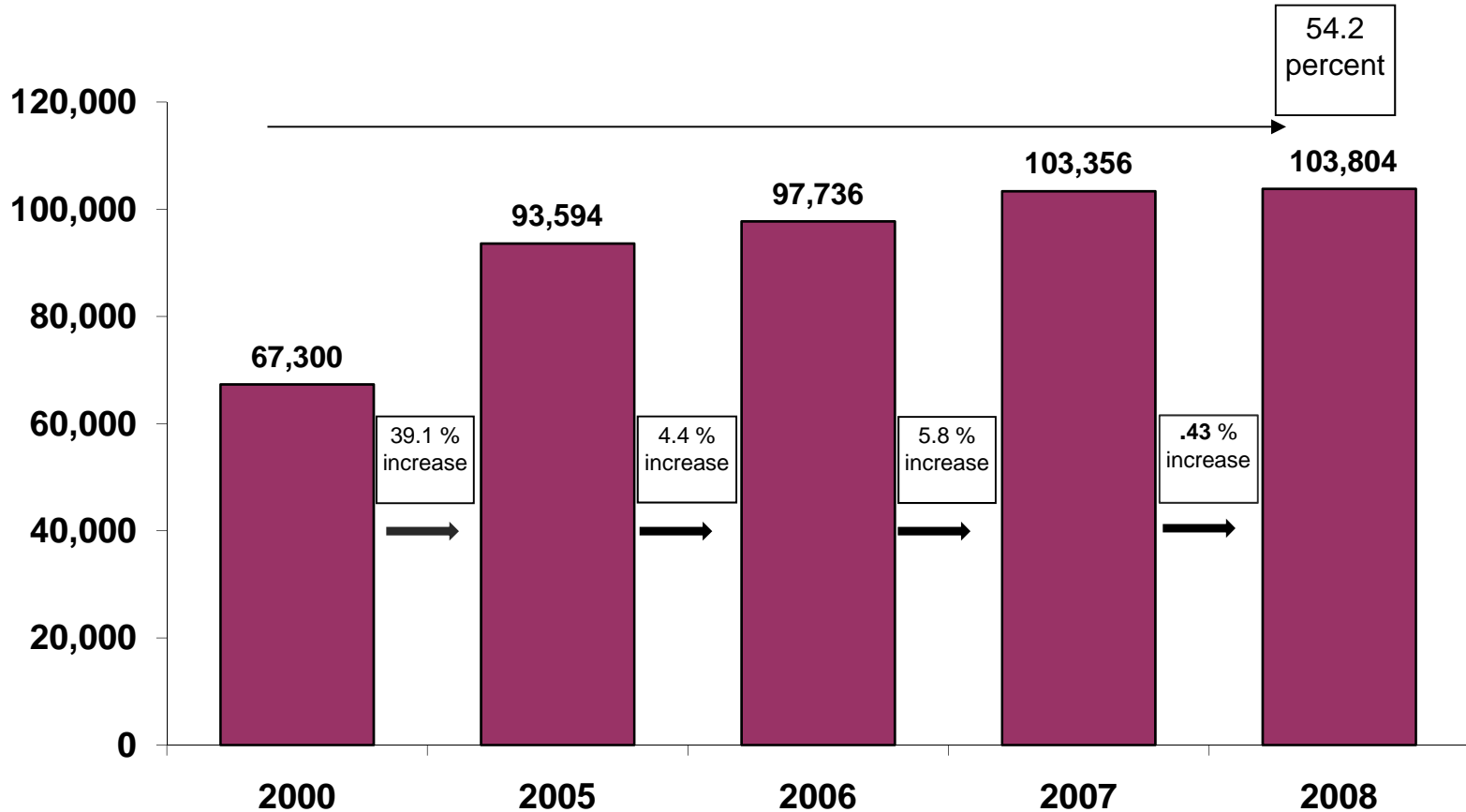
White
 Black, African Am., or Negro
 American Indian or Alaska Native — Print name of enrolled or principal tribe. ↗

Asian Indian Japanese Native Hawaiian
 Chinese Korean Guamanian or Chamorro
 Filipino Vietnamese Samoan
 Other Asian — Print race. ↗ Other Pacific Islander — Print race. ↗

Some other race — Print race. ↗



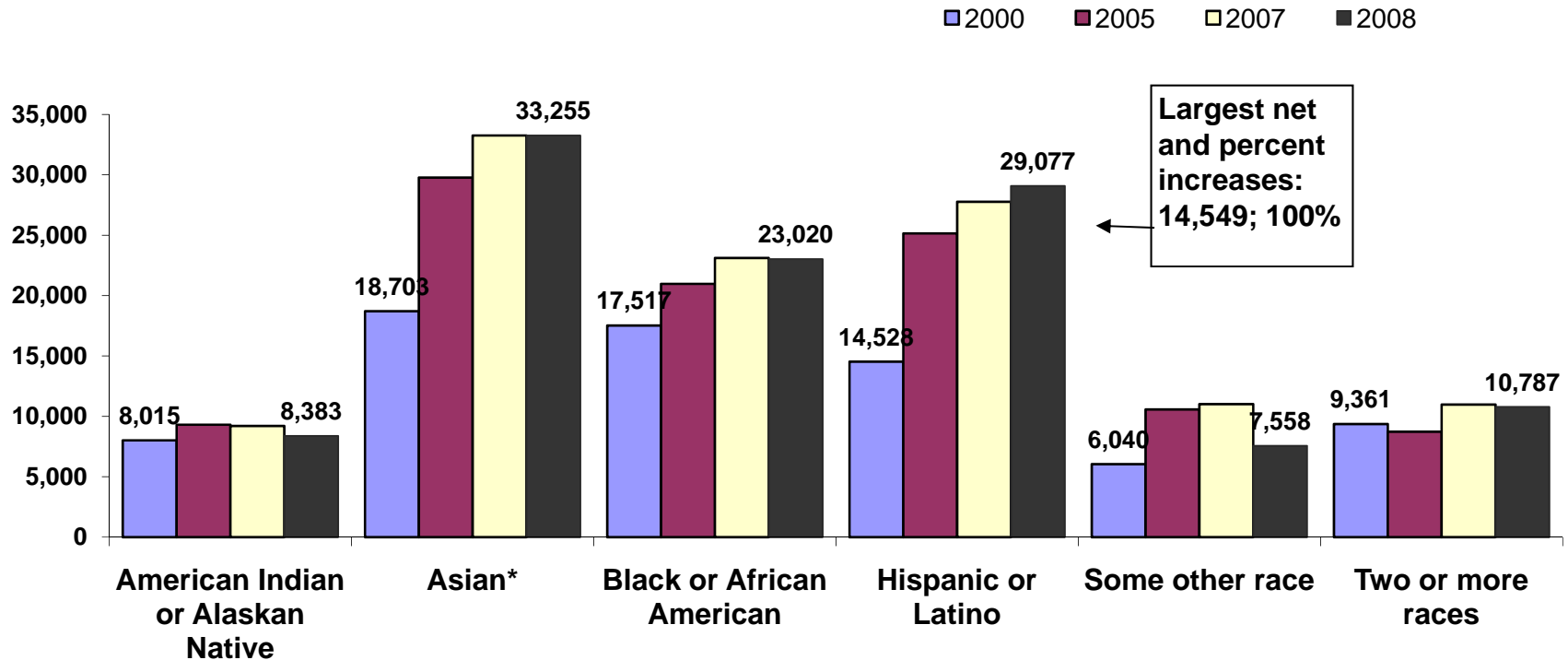
Emerging Market homeowners



Sources: U.S. Census 2000 and American Community Survey, 2005, 2006, 2007, and 2008.



Owners by race and ethnicity

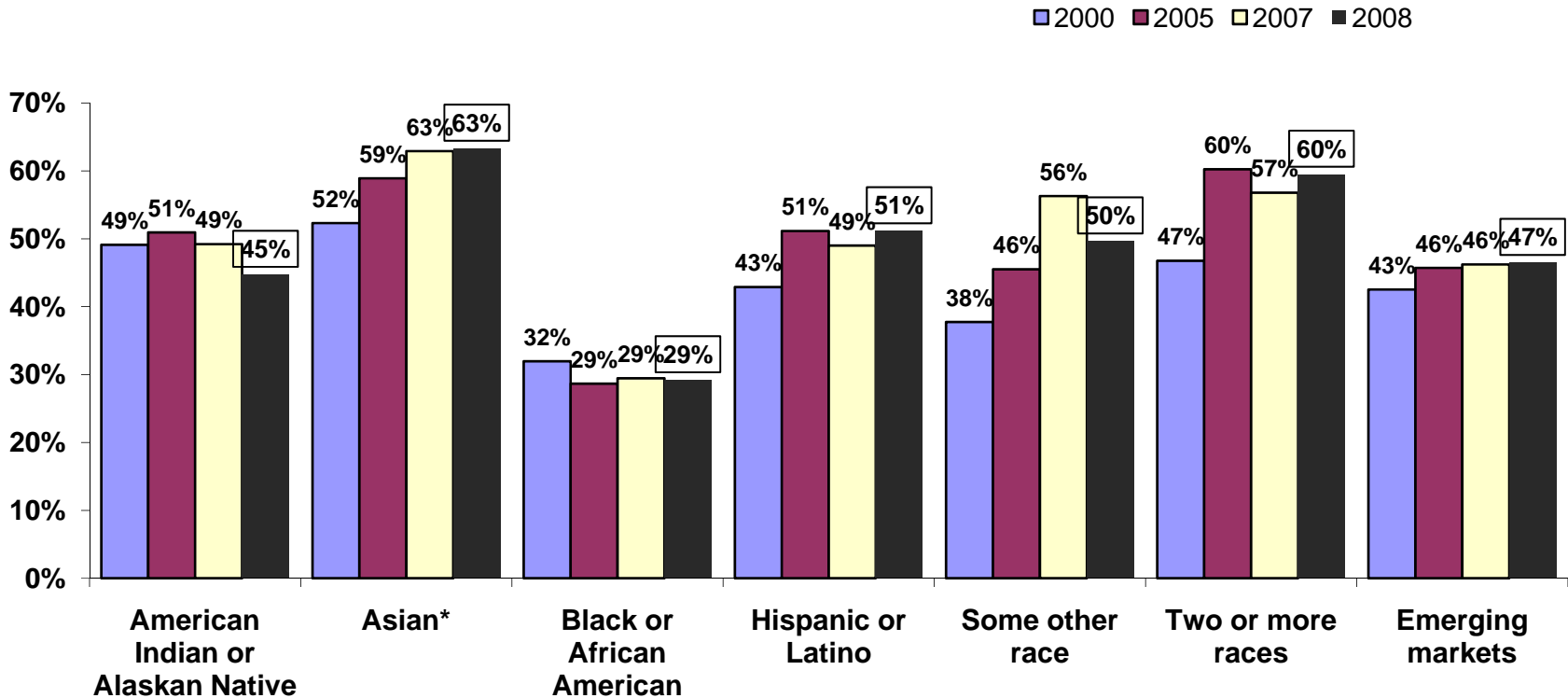


Sources: U.S. Census 2000 and American Community Survey, 2005, 2007, and 2008.

* Category includes Asians and Native Hawaiians or other Pacific Islanders.



Homeownership rates, 2000-2007

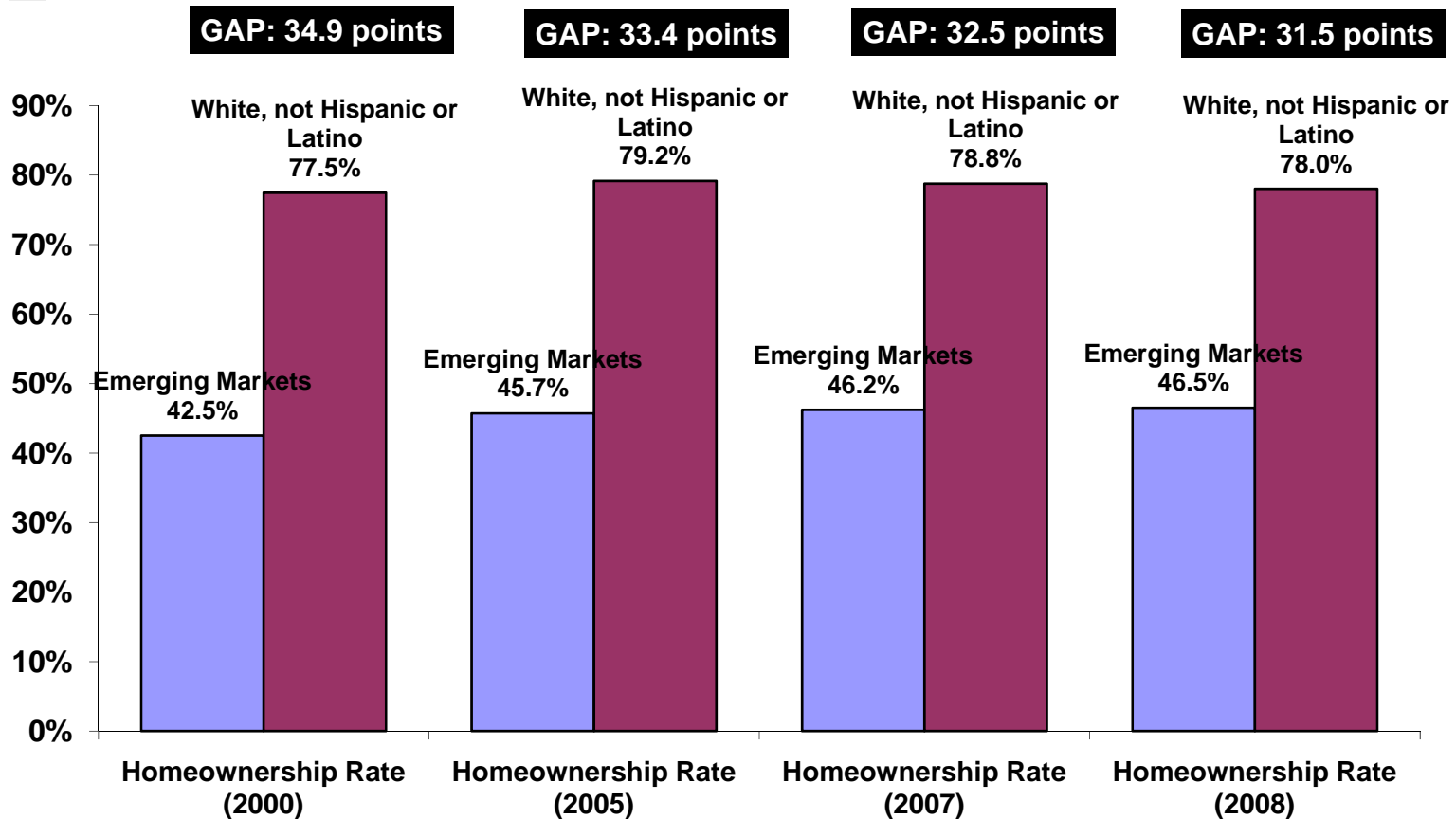


Sources: U.S. Census 2000 and American Community Survey, 2005, 2007, 2008.

* Category includes Asians and Native Hawaiians or other Pacific Islanders.



Homeownership rate gap narrows



Sources: U.S. Census 2000 and American Community Survey, 2005, 2007, and 2008.



Minnesota relative to the nation in 2008

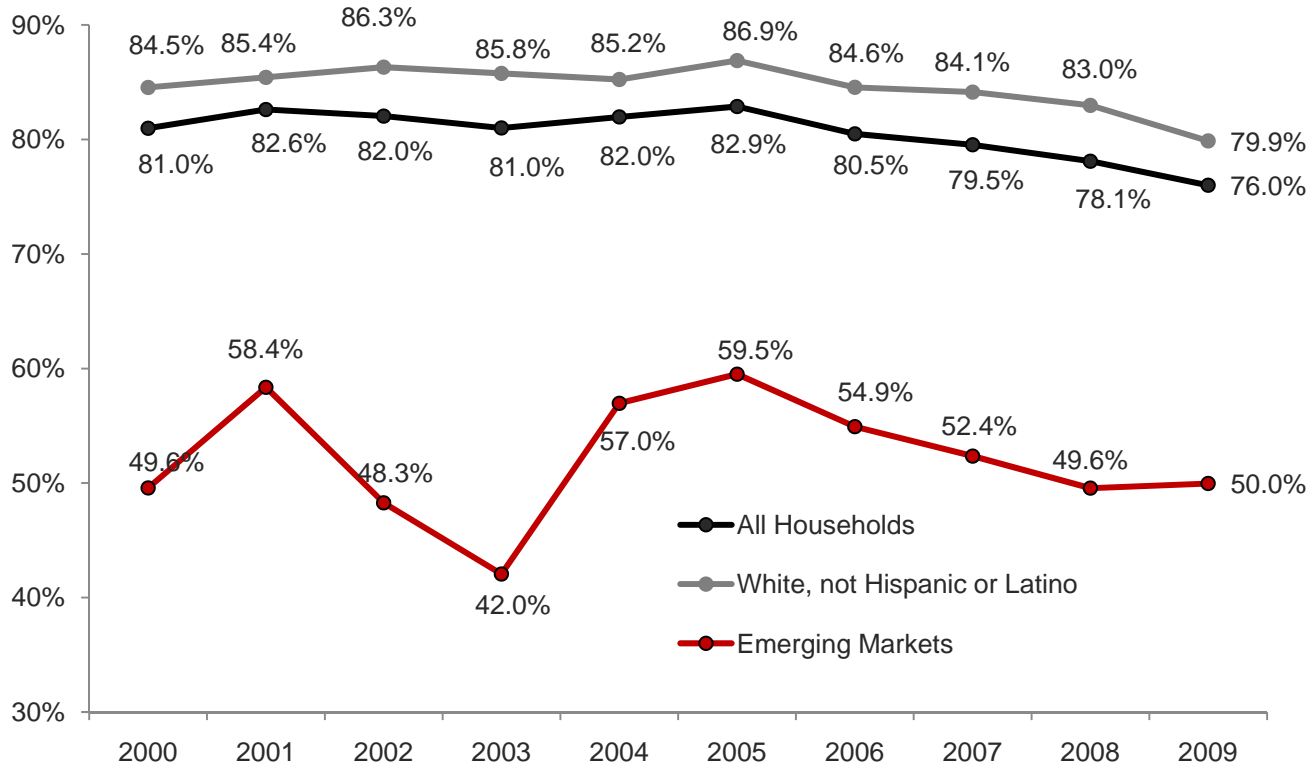
- Highest overall homeownership rate (74.7 percent)
- Fifth highest homeownership rate for White, not Hispanic or Latino, households (78.0 percent)
- 39th highest Emerging Market homeownership rate (46.5 percent)
- 7th largest gap in homeownership rates (31.5 percent)

Source: U.S. Census Bureau, American Community Survey, 2008.



What will happen in 2009?

Minnesota Homeownership Rate Estimates, 2000-2009



Source: IPUMS-CPS.



Mortgage delinquencies and foreclosures

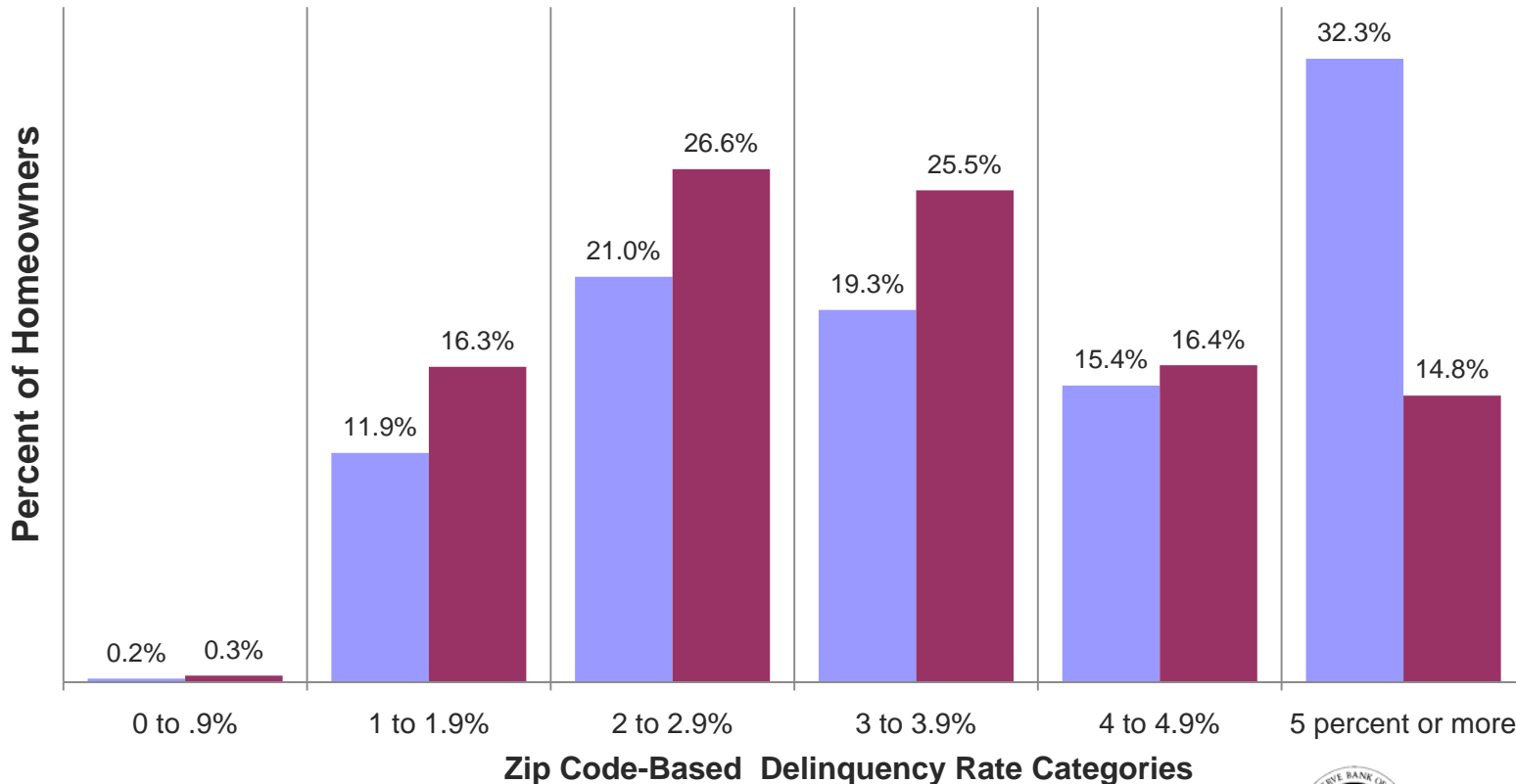
- Mortgage delinquency and foreclosure rates are at historically high levels
- Evidence suggests that areas (i.e., zip codes) with elevated levels of problem mortgages also have a larger share of emerging market homeowners
- Several recent studies suggest that emerging market homeowners have a higher incidence of foreclosure



Mortgage delinquencies and foreclosures

Distribution of Homeowners by Race (2000) and Mortgage Delinquency Rate Categories (June 2009)

■ Emerging Markets ■ White, not Hispanic or Latino

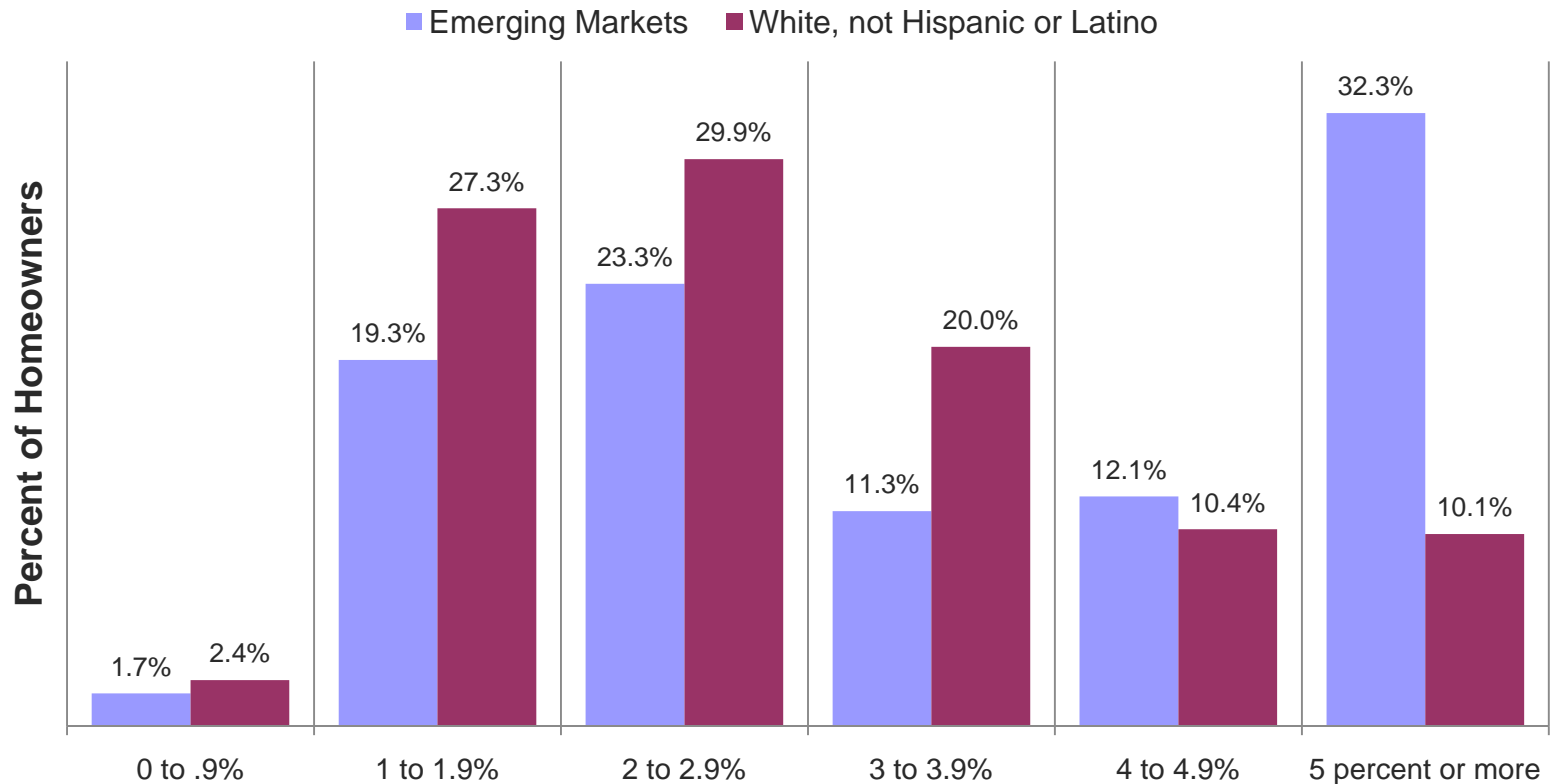


Data sources: San Francisco FRB estimates of June 2009 LPS Analytics and 2000 U.S. Census. Includes Zip Codes with more than 500 mortgaged housing units.



Mortgage delinquencies and foreclosures

Distribution of Homeowners by Race (2000) and Mortgage Foreclosure at Categories (June 2009)



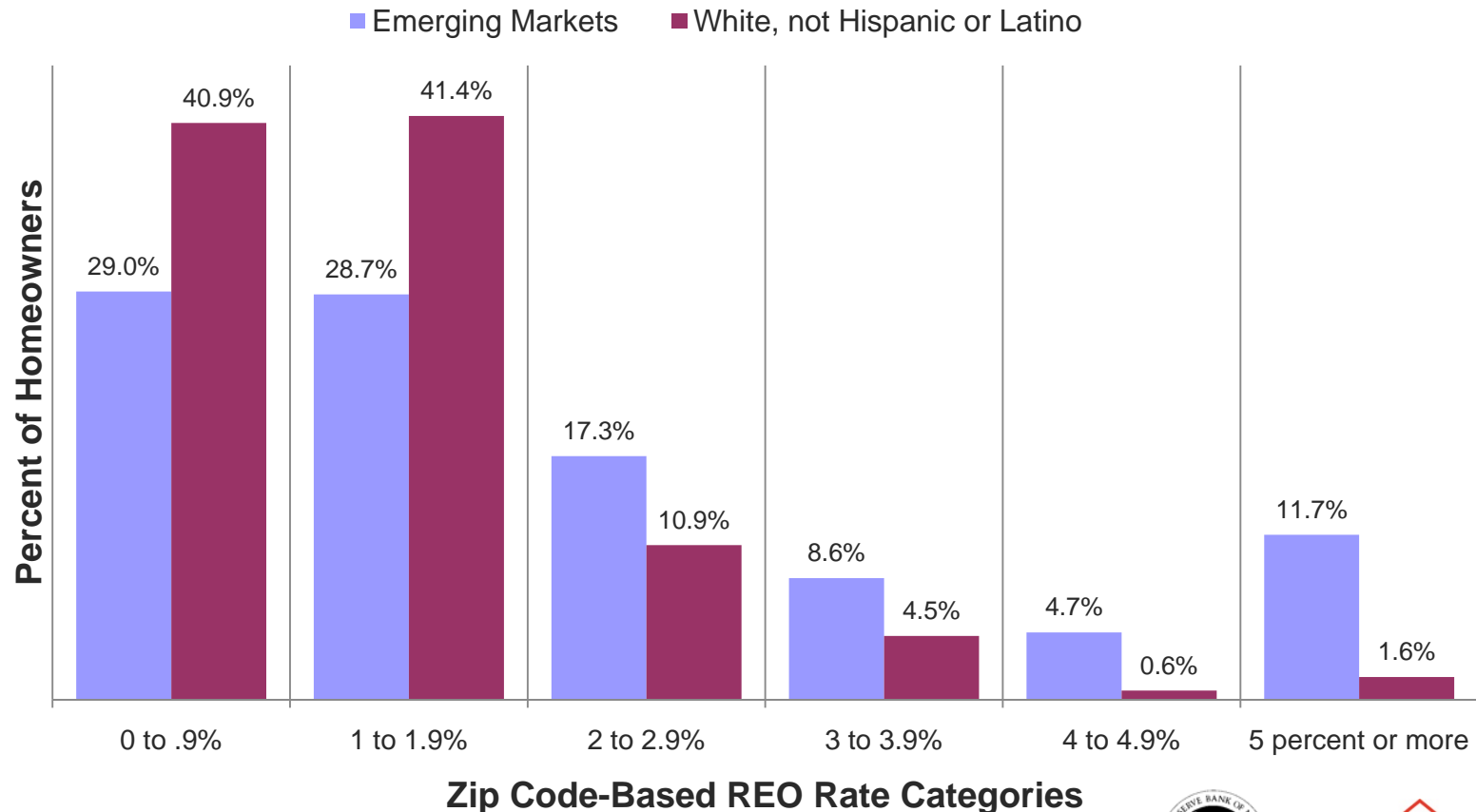
Zip Code-Based Foreclosure Rate Categories

Data sources: San Francisco FRB estimates of June 2009 LPS Analytics and 2000 U.S. Census. Includes Zip Codes with more than 500 mortgaged housing units.



Mortgage delinquencies and foreclosures

Distribution of Homeowners by Race (2000) and REO Rate Categories (June 2009)



Data sources: San Francisco FRB estimates of June 2009 LPS Analytics and 2000 U.S. Census. Includes Zip Codes with more than 500 mortgaged housing units.

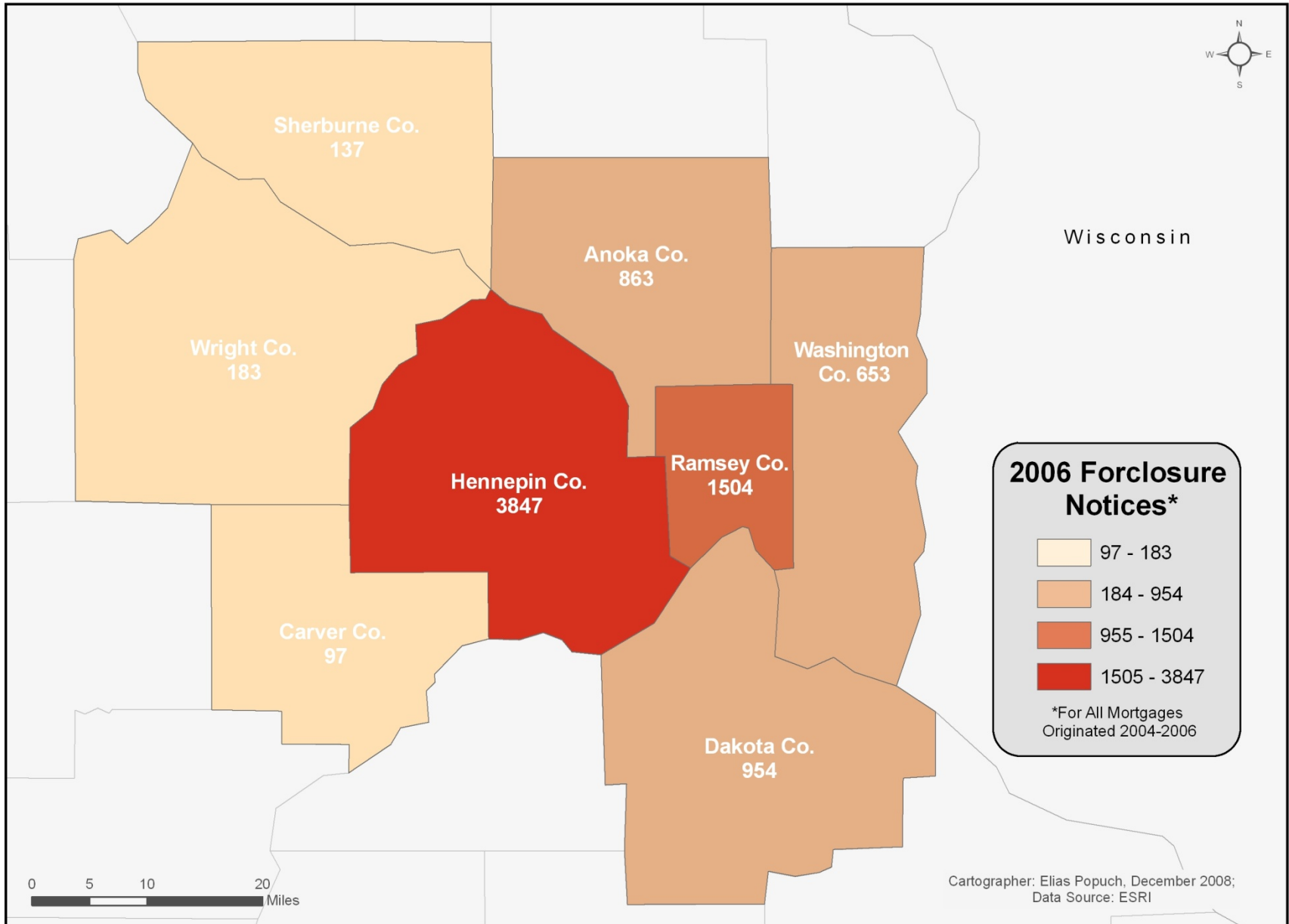


Mortgage delinquencies and foreclosures

- What about *individual* emerging market homeowners?
 - We lack good data to determine the effect of foreclosures on the number of emerging market homeowners
 - Match of 2006 foreclosure notices to Home Mortgage Disclosure Act (HMDA) data (2004-2006)



2006 Foreclosure Notices, by County



Mortgage delinquencies and foreclosures: 2006 notices

- **Numbers:**

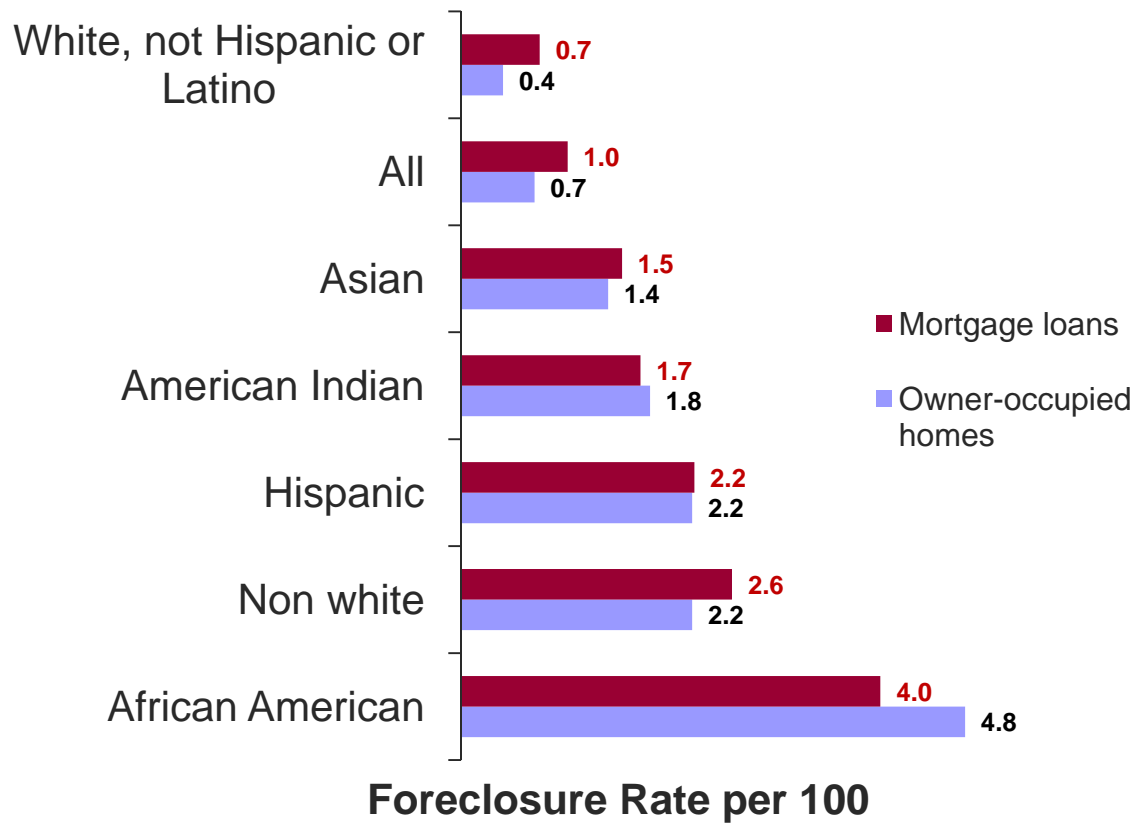
- White, not Hispanic or Latino, households had 55 percent of foreclosures (2,970)
- Emerging markets households had 29 percent (1,560)

- **As a percent of all owner-occupied households:**

- Emerging markets households over-represented
- White, not Hispanic or Latino, households under-represented



Mortgage delinquencies and foreclosures: 2006 notices



Mortgage delinquencies and foreclosures: 2006 notices

- Summary of preliminary findings:
 - Emerging markets households had a higher incidence of foreclosure, compared to White, not Hispanic or Latino, households
 - Emerging markets foreclosures were more likely related to the purchase of a house, as opposed to a loan refinance
 - Households in foreclosure in 2006, regardless of race and income, had to stretch to afford their mortgage

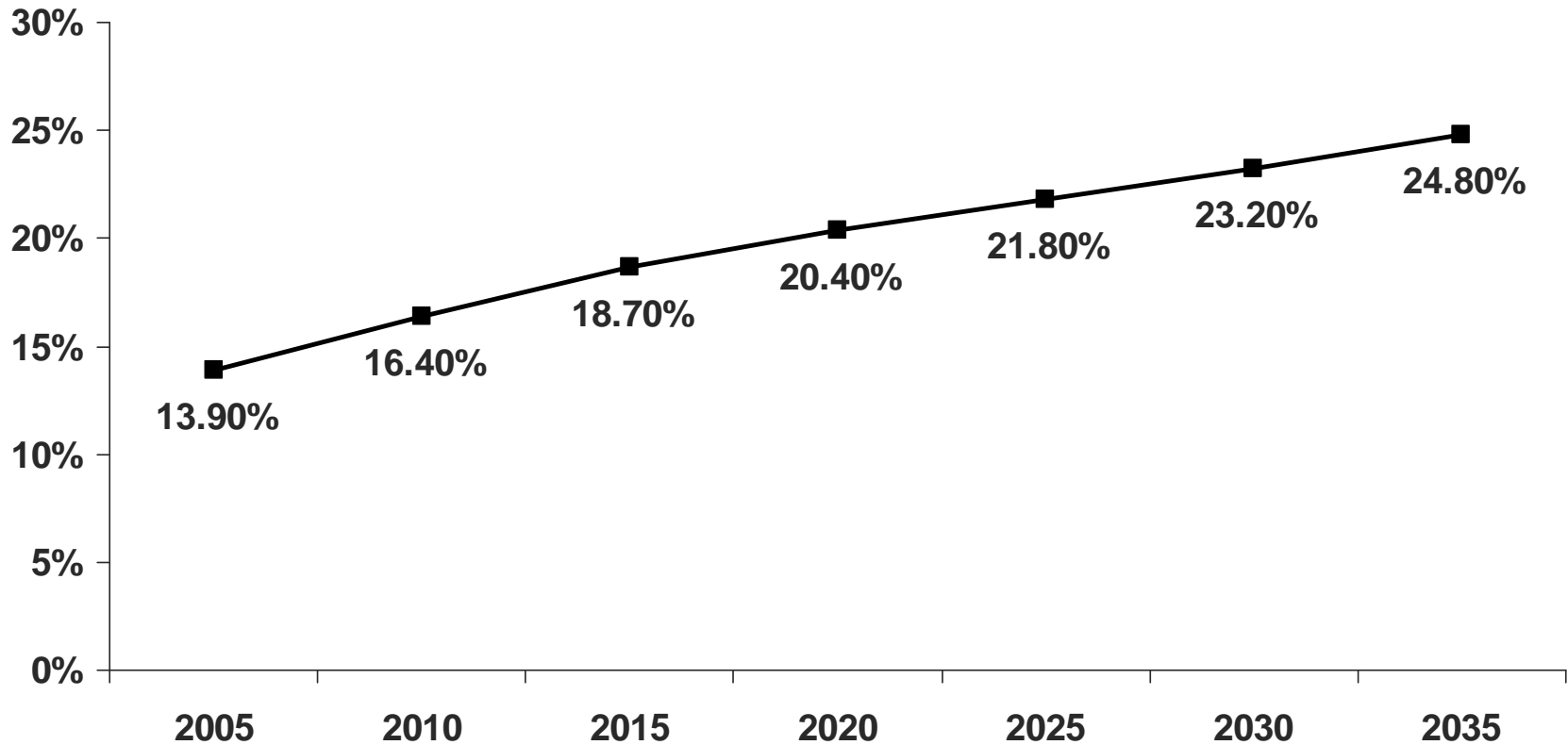


[Looking Forward]

- Looking Forward: Factors influencing homeownership
 - There are a lot of potential first-time homebuyers in emerging markets
 - Lower sales prices and interest rates help
 - Barriers still exist



MN: Emerging Market Projection – Percentage of Population



Source: Minnesota State Demographic Center, *Minnesota Population Projections by Race and Hispanic Origin, 2005 to 2035* (January 2009)

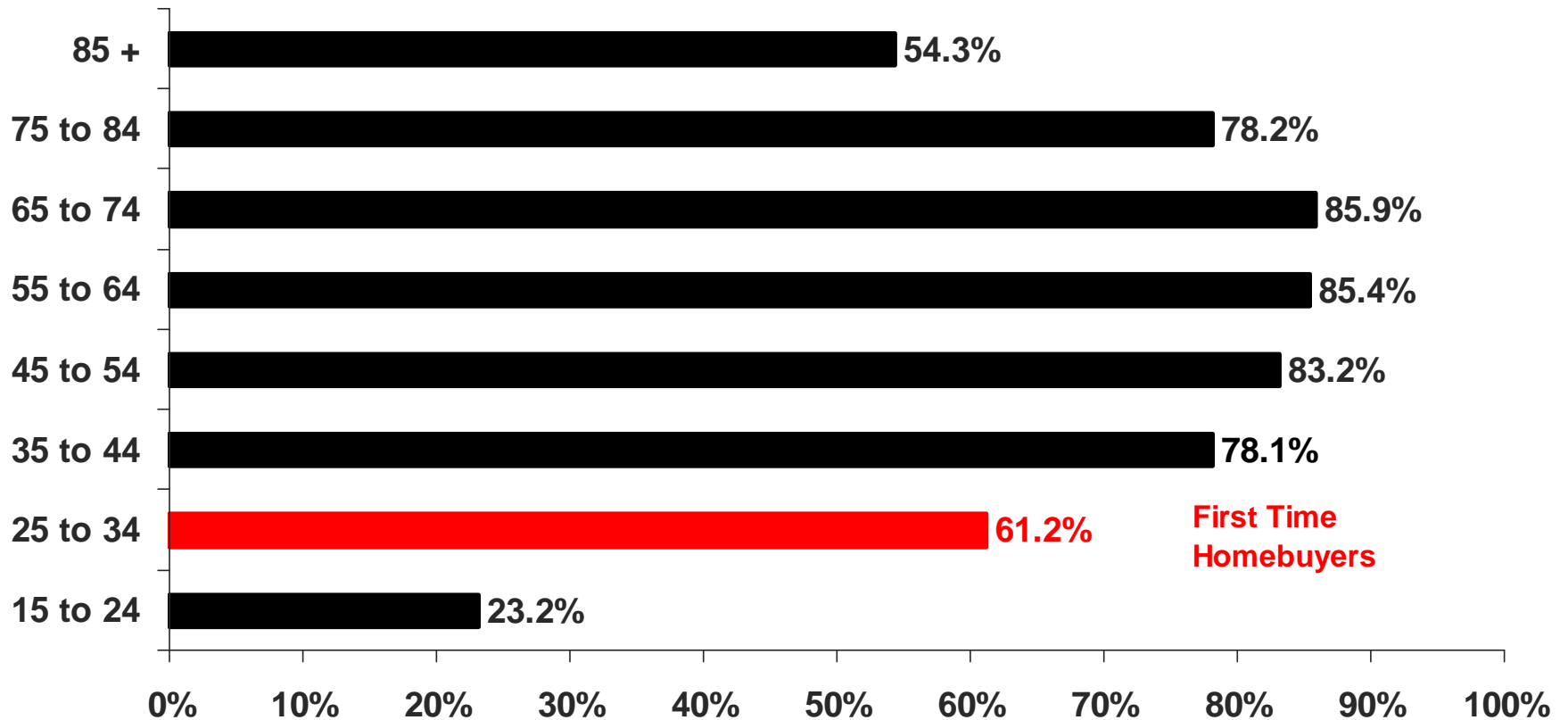


Factors Influencing Homeownership

- **Age:** People tend to start buying their homes in their late 20s
- **Family structure:** Married couples are more likely to transition to homeownership
- **Income:** Homeownership requires a stable source of household income of a certain level
- **Employment opportunities:** A local job market has to provide the stable jobs that enable homeownership
- **Overall housing market:** Lower interest rates or alternative financial structures can enable increased homeownership
- **Sustained homeownership:** Longer spells of owning a home can help increase the overall rate of homeownership



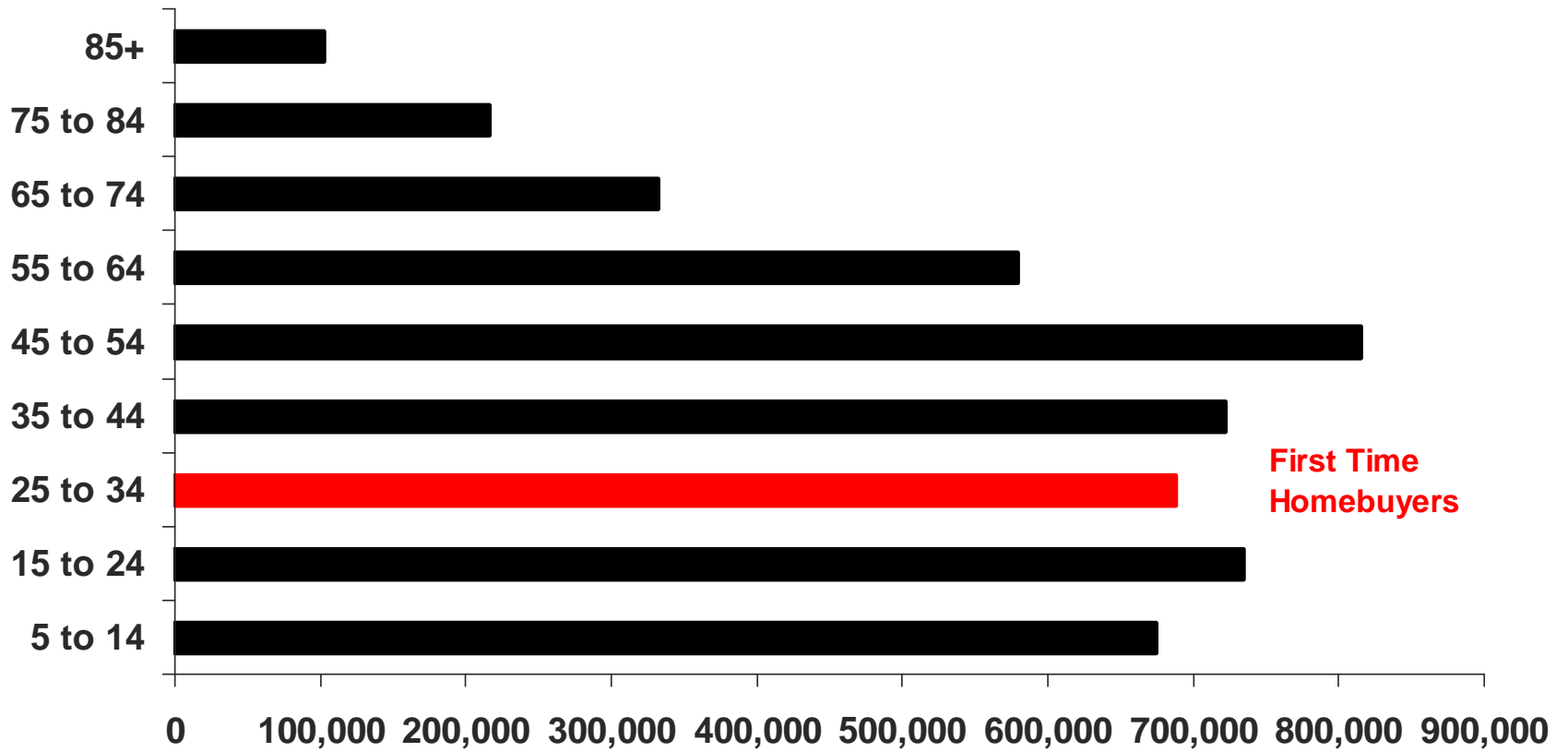
MN: Homeownership Rates by Age of Head of Household, 2008



Source: Census Bureau, American Community Survey, 2008



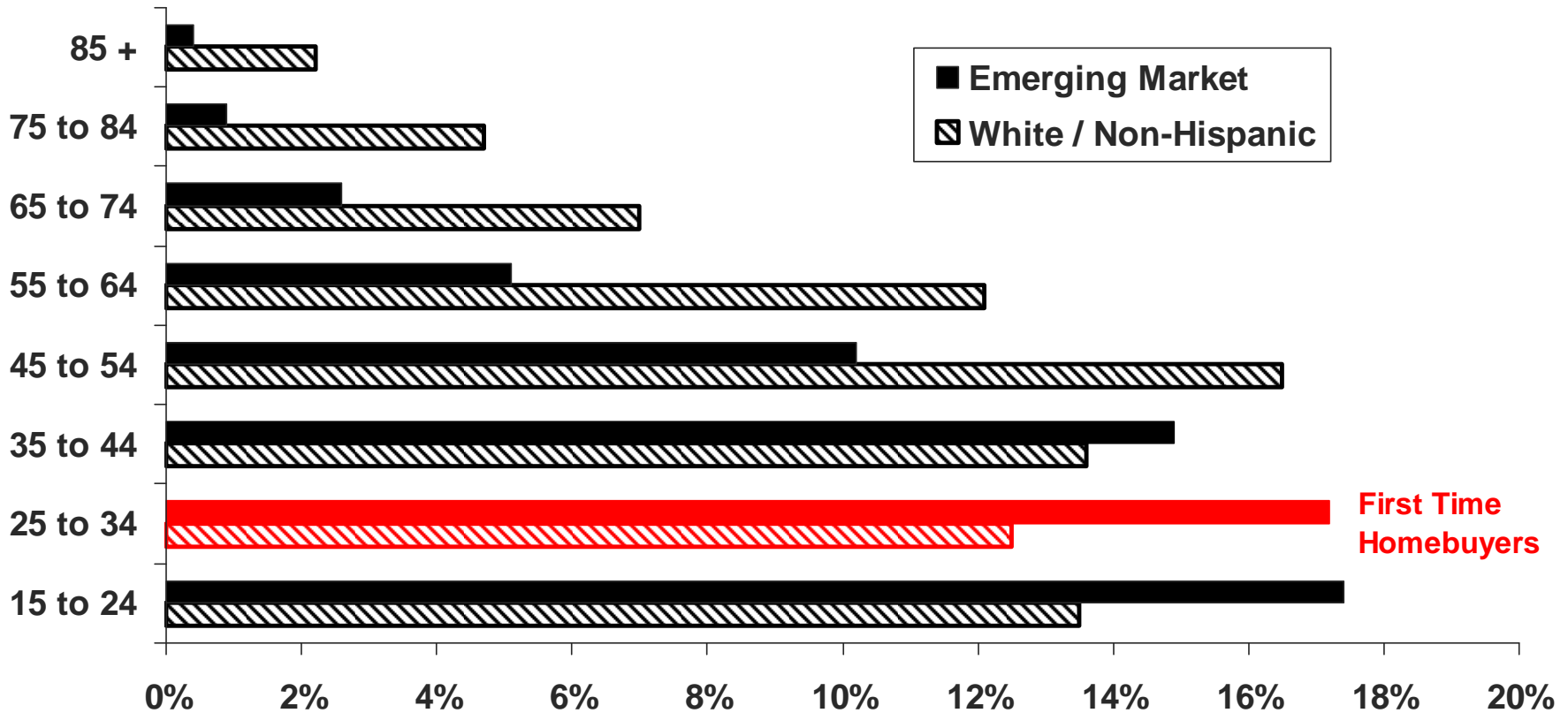
MN: Population by Age, 2008



Source: Census Bureau, American Community Survey, 2008



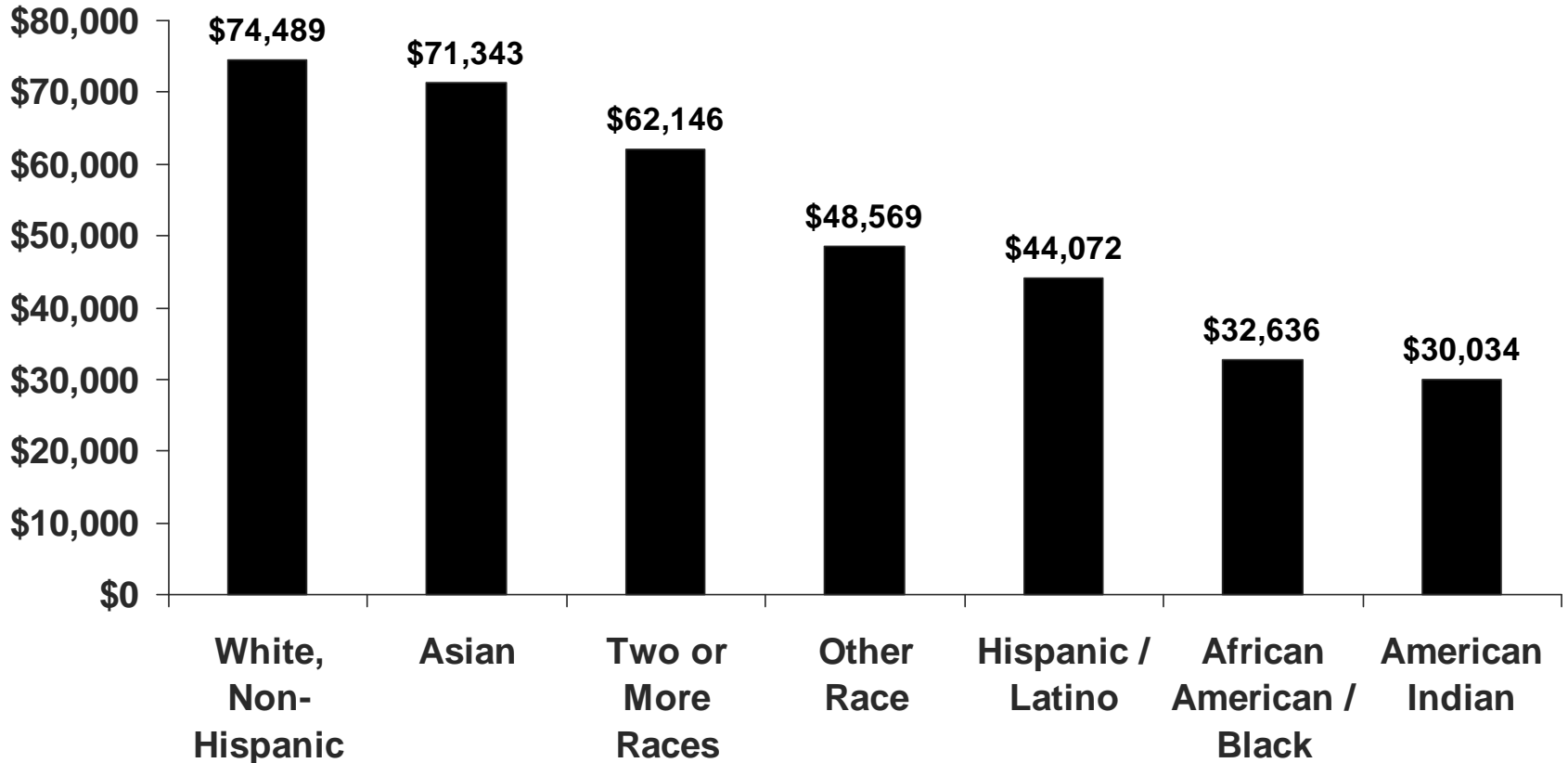
MN: Percentage of Population by Age, 2008



Source: Census Bureau, American Community Survey, 2008



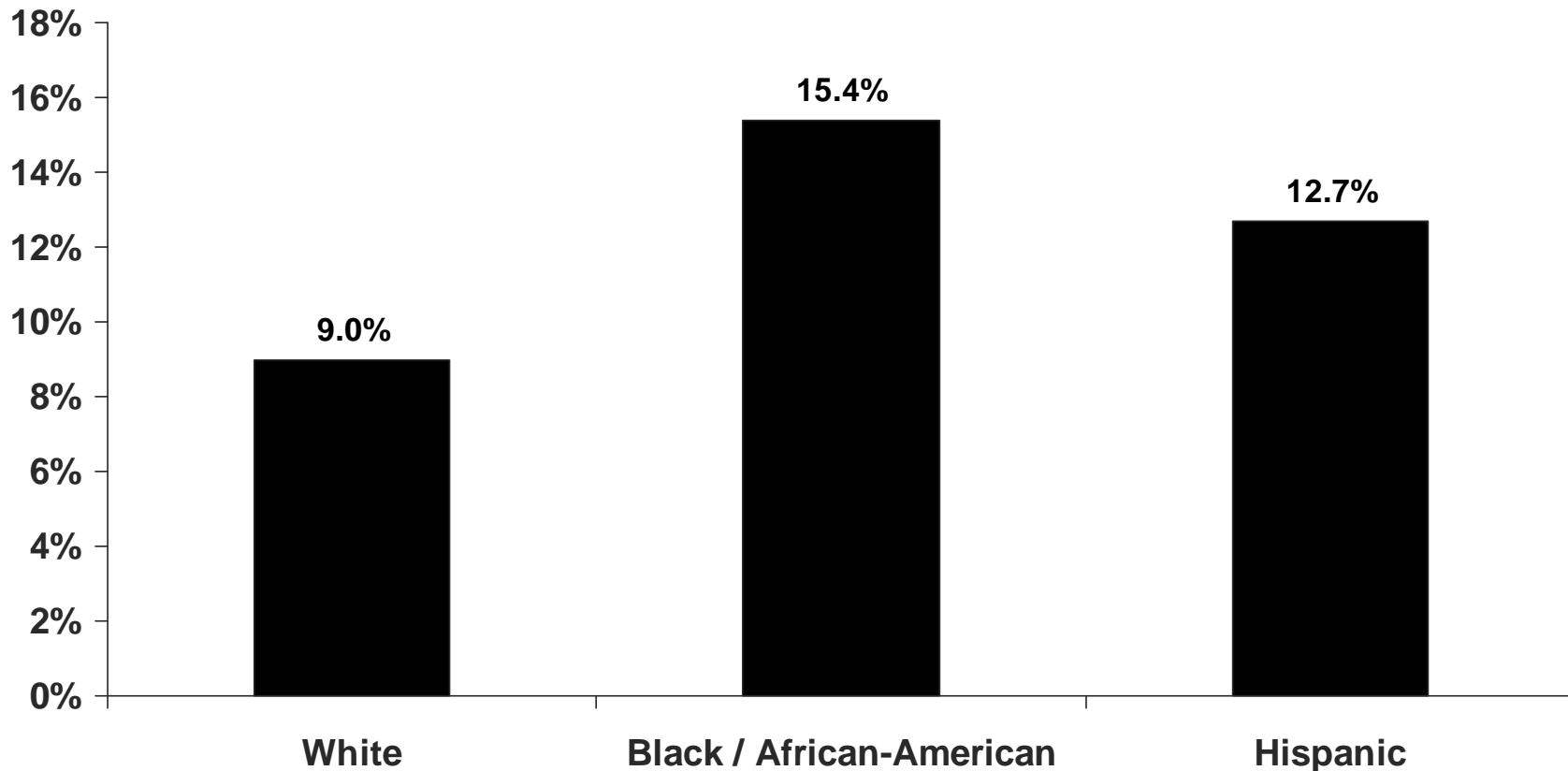
MN: Median *Family* Income by Race, 2008



Source: Census Bureau, American Community Survey, 2008



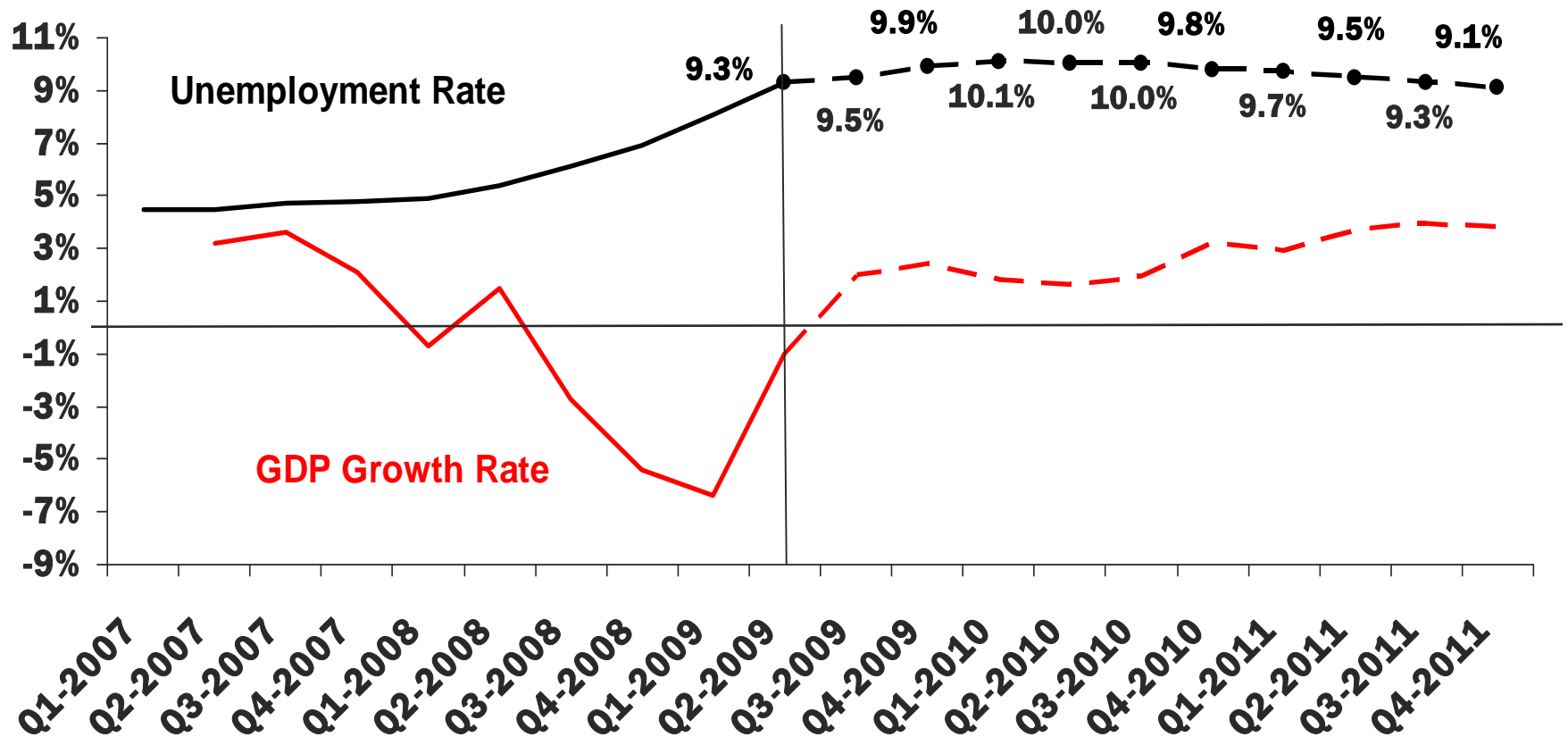
US: Unemployment Rate by Race and Ethnicity, Sept. 2009



Source: Bureau of Labor Statistics, Current Population Survey, September 2009



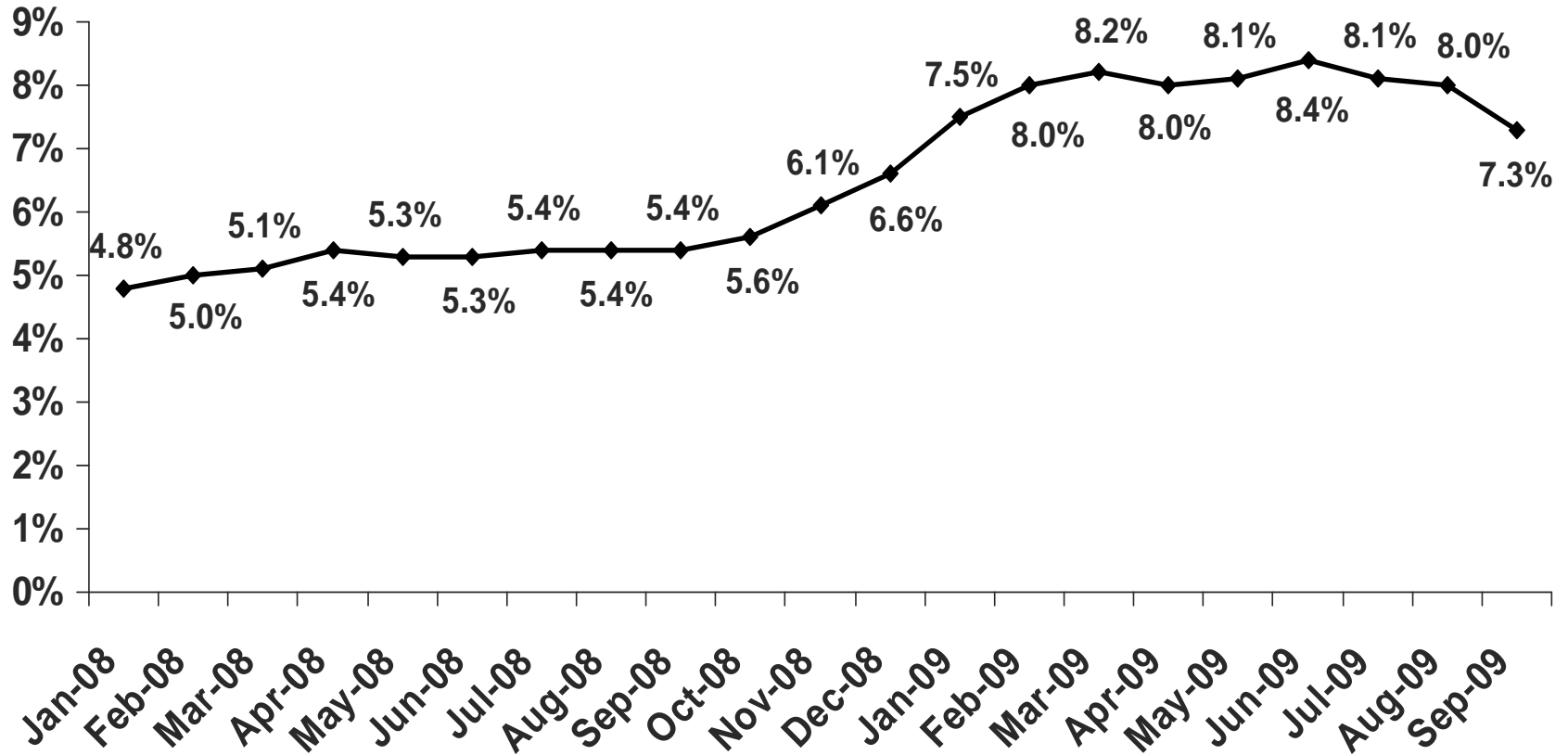
U.S.: Global Insights - Economic Forecast



Source: Global Insights, August 2009



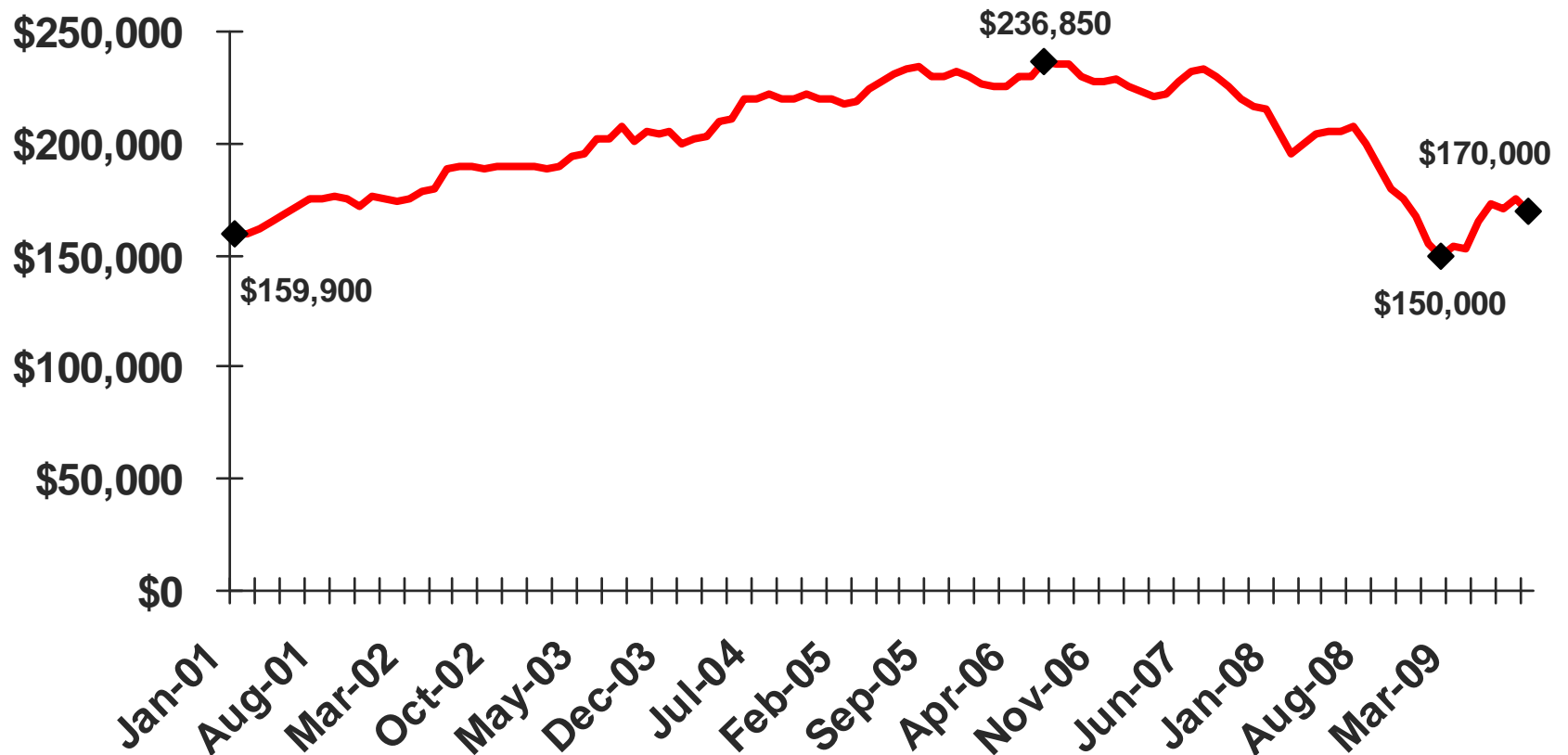
MN: Unemployment Rate



Source: MN Department of Employment and Economic Development



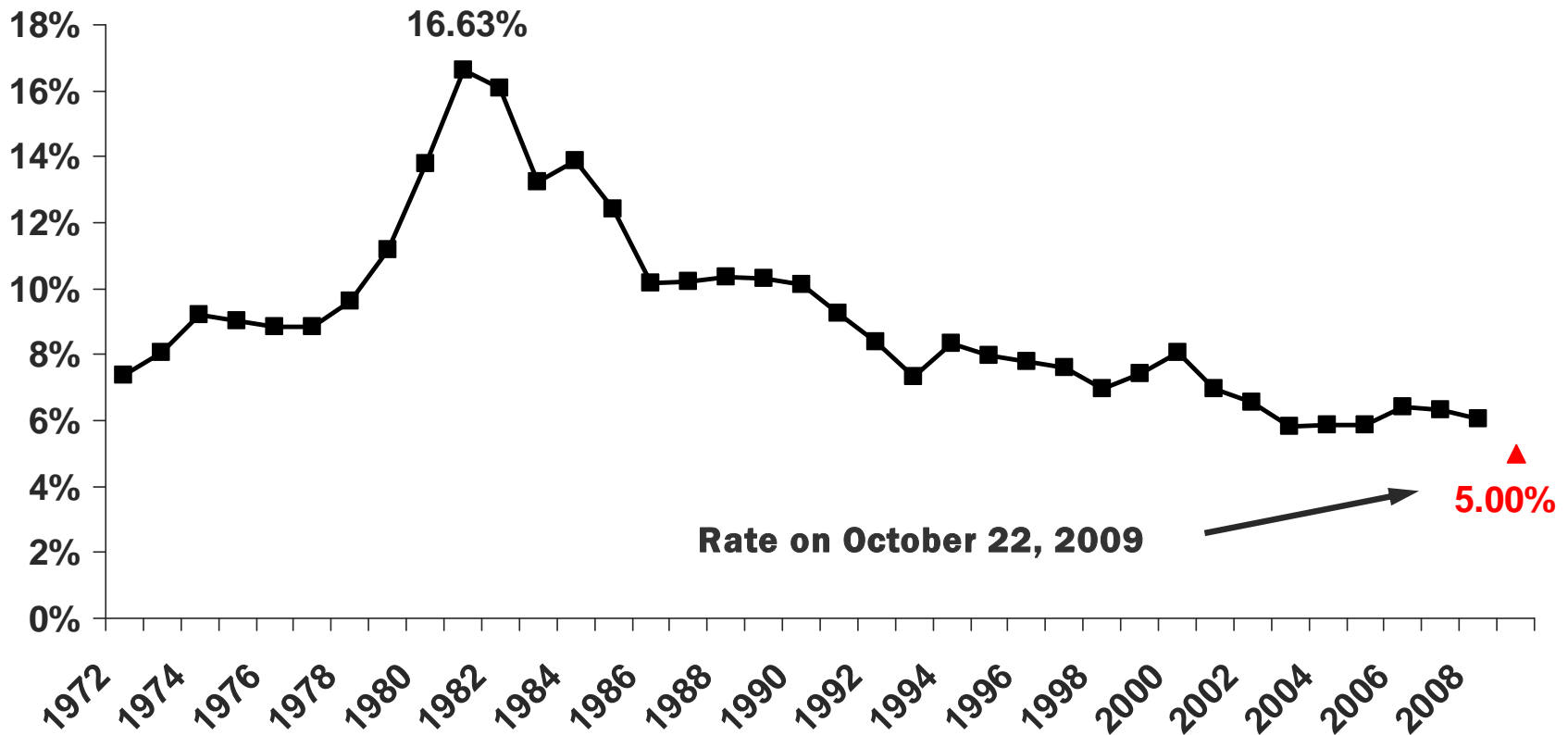
Twin Cities Metro Area: Median Home Sale Price



Source: Minneapolis Area Association of Realtors



Interest Rate: 30-Year, Fix-Rate Conventional Home Mortgages



Source: Federal Reserve reporting of Primary Mortgage Market Survey from Freddie Mac



Historically Low Interest Rates

- Federal Reserve Bank buying \$1.25 trillion dollars of Mortgage Banked Securities from Fannie Mae and Freddie Mac.
 - From January 2009 to March 2010
- Lowered mortgage rates
 - Policy announced on November 25, 2008
 - November 20, 2008 - 6.04%
 - January 15, 2009 - 4.96%
- What will happen after March 2010?



[For more information, contact:]

Michael Grover

Manager

Community Affairs, Federal Reserve Bank of Minneapolis

90 Hennepin Avenue, Minneapolis, MN 55401

Phone: 612-204-5172

E-mail: michael.grover@mpls.frb.org

www.minneapolisfed.org

John Patterson

Director of Research and Evaluation

Minnesota Housing

400 Sibley Street, Suite 300, St. Paul, MN 55101

Phone: 651-296-0763

E-mail: john.patterson@state.mn.us

www.mhfa.state.mn.us

