

Homeownership, Low-Income Households, and Financial Stress

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Kimberly Manturuk, Sarah Riley and Janneke Ratcliffe

Center for Community Capital
*Research and analysis on the
transformative power of capital*





The Evolving Debate: Low-Income Homeownership



Financial risks & benefits



Responding to crisis events



Psychological well-being





Research Questions

How does homeownership affect psychological factors?

- General stress
- Financial stress
- Overall satisfaction with financial situation

How does homeownership affect the housing decisions people make during the crisis?

- Selling vs. retaining property
- Owners returning to renting

The Community Advantage Program (CAP)

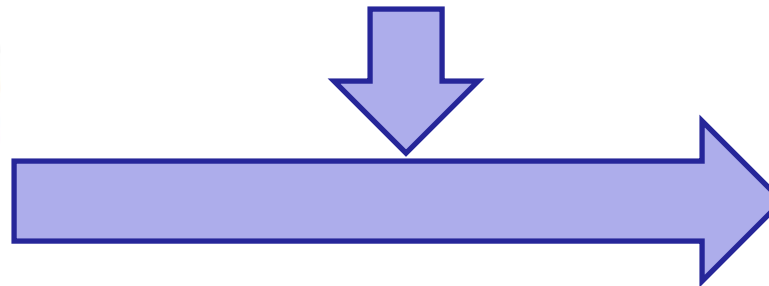
Lenders make conventional mortgages to “risky” borrowers



Mortgages sold to Fannie Mae/serviced by lender



Self-Help guarantees risk



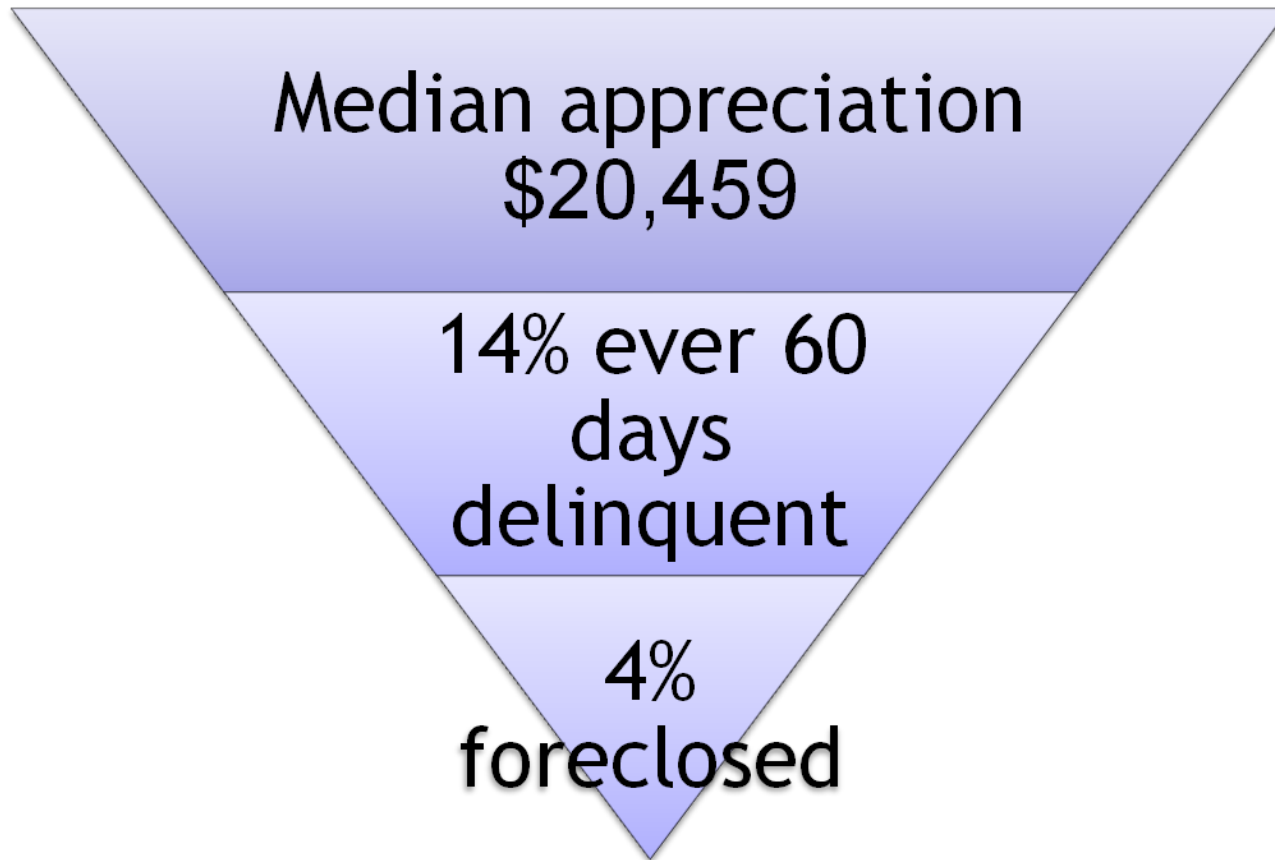


The Community Advantage Program Fundings - 1998 to Present

- 46,000 loans
- \$79,000 median loan
- \$31,000 median income (60% AMI)
- 41% female headed household
- 39% minority homebuyers
- 44% FICO 660 & under
- 69% loan-to-value > 95%

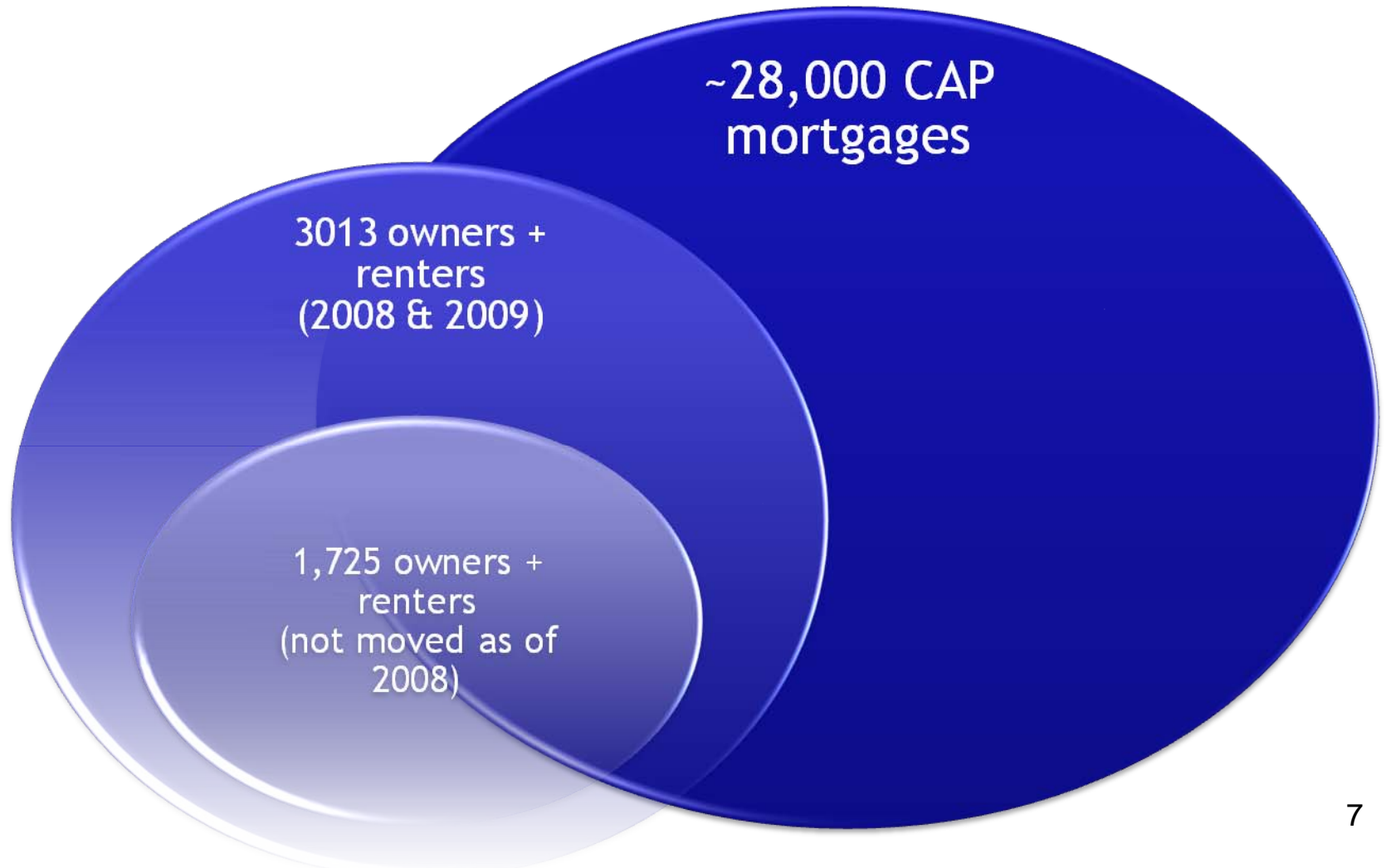


Performance through 2009





Analytic Samples





Outcome Variables



General
stress

Financial
stress

Financial
satisfaction

Tenure/
Mobility





Predictor Variables

Demographics

- Age
- Race
- Income
- Education
- Gender
- Employment
- Family composition

Trigger events

- Unemployment
- Reduced income
- Unexpected expenses
- Negative equity

Geography

- Dwelling type
- Region



Propensity Score Weighting

Logistic model
predicting
homeownership

Predicted
probability of
homeownership

Propensity
score weights
adjust for
selection

$$\omega(W, x) = \frac{W}{\hat{e}(x)} + \frac{1 - W}{1 - \hat{e}(x)}$$



Results of Stress Analysis

General stress

- Homeowners ↓
- Midwest & west ↑

Financial stress

- No homeownership effect
- Unexpected expense ↑

Financial satisfaction

- Homeowners ↑
- General stress ↓



Results of Tenure & Mobility Analysis

Stayed in CAP home

- More unexpected expenses
- Less likely to have negative equity

Moved, kept CAP home (38)

- Borrowed from friends/family
- Stressed about paying mortgage

Sold CAP, bought new home (30)

- Generally positive experiences
- Half felt mortgage too high

Sold CAP, rented new home (10)

- Stress reduced 2008 to 2009
- Fewer financial stress triggers



Does Negative Equity Predict Default?

43 cases went 90 days delinquent
2008-2009

- Only 2 had negative equity
- 24 had unemployment or lost income
- 21 had unexpected expenses
- 2 filed for bankruptcy

Negative equity increased likelihood
of moving



Discussion

Homeownership reduced perceived stress

- No difference in financial stress between owners and renters
- Homeowners feel more in control, satisfied

Negative equity predicts tenure change

- The most stressed homeowners gained relief when they returned to renting
- Homeowners who moved but could not sell remained stressed