Dan Clifton
Principal Broker and Mortgage Guru, Clifton Mortgage Services, LLC
NMLS # 284174
670 N Orlando Ave Suite 101 Maitland, FL 32751

Office: 888-681-0777 x1001
Mobile: 407-252-3039
Fax: 866-512-0169
dan@cliftonmortgageservices.com
View My Website

Millennial Homeownership Headwinds Worrisome for Future

It is the largest generation in U.S. history and Millennials may also set a record as the one whose behaviors have been most heavily researched. Despite the hours of study and pails of ink, the direction the generation's members will ultimately take in their lives still has the nation a bit flummoxed. This may **especially be true** of their decisions about shelter.

The Urban Institute (UI) just completed another large study on young adults born between 1981 and 1997. That, compared to earlier generations, they are more tech-savvy, racially and ethnically diverse, better educated, and marry later in life, explains some but not all of their performance to date as homeowners. The UI team* finds that the **37 percent rate of homeownership** within the generation in 2015 was lower than both of the preceding generations, (Gen X and Baby boomers) at the same age, 45.4 and 45.0 percent respectively.

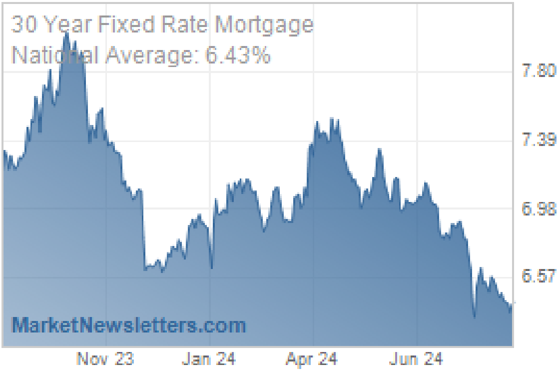
UI put some numbers to the demographic and social differences displayed by the generation. First, being **married** increases the probability of owning a home by 18 percentage points after accounting for other factors. If the marriage rate among that age group in 2015 had bbeen the same as in 1990, Millennial homeownership would be about 5 points higher.

The generations greater racial diversity also **takes a toll** on homeownership statistics. Non-Hispanic white households have higher homeownership rates than all other racial groups, so the increasing diversity of millennials pulls those numbers lower. The same racial composition among Millennials as existed for that age group in 1990 would indicate a homeownership rate 2.6 points higher than currently exists .

Along with delaying marriage, Millennials have also put off child bearing. **Having a child** increases the probability of owning a home by 6.2 percentage points among those who are married.

Yet the researchers also found that even among white households that are married, with children, and even with substantial income, the homeownership rate is 2 to 3 percentage points lower than earlier generations. Obviously other factors are at play, some of them defined as attitudinal.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

The preference of educated Millennials to move to more expensive **urban centers** has contributed to their **lower** homeownership rate. In high-cost cities the housing supply is inelastic and within large metro areas, Young adults additionally migrate to the counties with a more urban environment where prices have increased more than in surrounding areas. This shift in preference was mostly observed among those who are higher educated. The supply of affordable housing has declined overall during the last decade, but this is especially true in areas where Millennials prefer to live.

Another factor is **rent**; a 1 percent increase in a household's rent-to-income ratio **decreases** the likelihood of homeownership by 0.07 percentage points.

Obtaining a mortgage has become **more challenging** over the last ten years. The process is unwieldy, and underwriting has not adapted to the unstable and non-traditional labor market and tightening credit standards.

Higher education is a **two-edged sword**. While it has only a minor impact on the homeownership rate, a 1 percent increase in education loan debt decreases the likelihood of owning a home by 0.15 percentage points.

A child's likelihood of being a homeowner increases by 9 percentage points if his or her **parents** are homeowners, and a 1 percent increase in parental wealth increases a child's likelihood of being a homeowner by .016 percentage points.

Various combinations of these factors are **worrisome** for the future. UI says, even though they found little impact from education on the homeownership rate, the gap in rates between the more educated and less-educated population has grown significantly compared to previous generations. It increased from 3.3 to 9.7 percentage points between 1990 and 2015. Less educated millennials could be falling behind in homeownership because of their unstable incomes and rising rents.

Left unchecked, current trends will result in **even greater wealth disparities** among white, black and Hispanic millennials. While millennial homeownership has dropped for all race and ethnic groups since 2005, the black homeownership rate has been continuously lower and has dropped further than the other groups since 2000. As minorities are less likely to own homes and share in that type of wealth creation, intergenerational transfer of homeownership further explains the persistent racial and ethnic disparities in homeownership.

The UI team concludes with several policy recommendations to support Millennial homeownership. The first is to enhance homeowner education and awareness. Studies indicate that households with higher financial literacy have both higher income and homeownership rates. Enhancing financial knowledge could also help bridge the gaps between racial and ethic groups and educational levels. Among the suggestions are to provide fun and easy games and training courses online and initiating well designed financial literacy courses in high school and college. Those courses might also inoculate young adults against some of the pitfalls of student loan debt.

Millennials cite **downpayments** as a barrier to homeownership and seem unaware both of low down payment programs offered by most lenders and of the availability of downpayment assistance. This information should be part of financial literacy programs as a long-term solution, but Millennials could be helped more immediately by greater availability of and incentives for homebuyer education.

The mortgage process should be made more accessible. A first step would be streamlining the application process. UI says the average application contains more than 800 pages of material and the process is ripe for the rise of fintech lenders who can process applications 20 percent faster than traditional lenders and with no apparent increase in defaults. However, first-time buyers, despite their tech savvy, use available **fintech** resources for mortgage applications less than older groups, partly because they lack the necessary financial and lending knowledge.

The **government** could play a role here as FHA is a predominant source of financing for first-time homebuyers, but its archaic systems make it difficult to streamline this part of the process. Giving the FHA more funding for systems upgrades to improve and streamline its mortgage origination process would help.

Another policy recommendation is to **improve underwriting**, finding better ways to capture creditworthiness. Small changes such as including rent, cell phone, and cable bills in credit scoring and finding ways to include non-traditional source of income need to be institutionalized.

The report also recommends policies to increase the **supply of new houses** while constraining the cost to build them. Purchasing and developing land is a major contribution to building costs and land-use and zoning regulations play a role. Regulations cost builders more in fees and time to obtain approvals and as housing becomes more unaffordable in areas with restrictive zoning and land use regulations, federal aid for housing subsidies dry up.

Because zoning and land-use regulations are local, it is difficult to execute a national policy to alleviate excessive ones and their local nature makes it unattractive for local governments to change unless they are sure their neighbors will do the same. States could provide financial incentives to cities that limit or reduce regulation, such as reallocating housing subsidy dollars. Some states have adopted laws allowing them to override some local restrictions.

* Jung Hyun Choi, Jun Zhu, Laurie Goodman, Bhargavi Ganesh and Sarah Strochak