

Managing Your Money: "Housing and Public Policy--the Bubble, Present, and Future"

PLATO (Participatory Learning and Teaching
Organization)

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Overview

- Current Conditions
 - Local Market – doing ok?
- Understanding the ‘bubble’
- Role of Subprime & Hot Markets
- The Great Recession
- Recovery & Prospects
- Policy Issues

Housing Market Today: Local Stats

DANE COUNTY MLS Jan-Aug 2010

- # New Listings 8,066
- # Sales *3,813
- Average Sale Price \$232,009
- Median Sale Price \$205,000
- Total # Active Residential Listings at end of Period 4,667

- Sales reported as of September 13, 2010

Months Supply of Inventory for Single Family Homes/Condos

DANE COUNTY

August 2010 - **10.21** Months

August 2009 - 11.06 Months

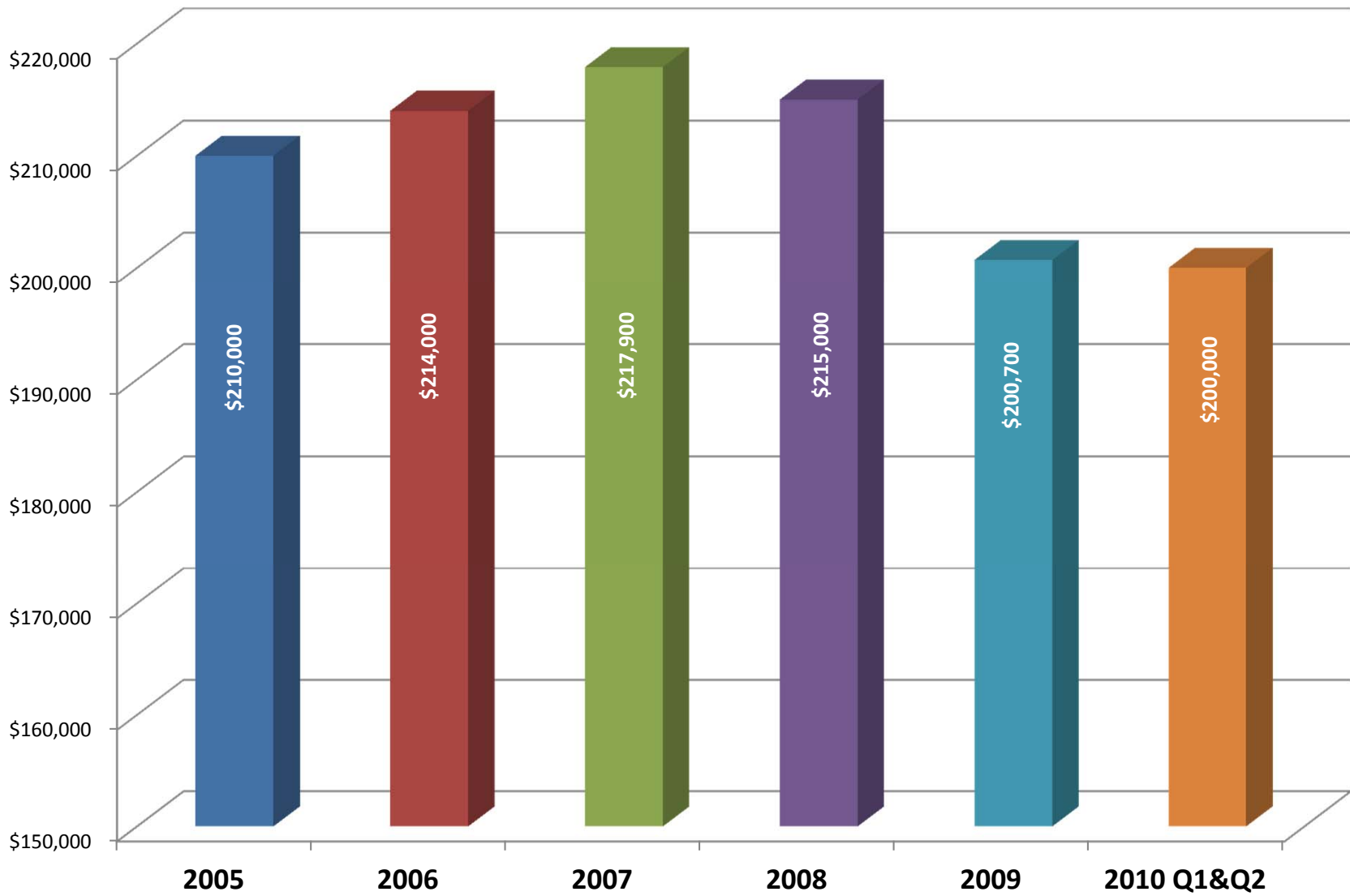
August 2008 - **11.25** Months

All South Central WI FINANCING / TERMS OF SALE AUG 1 – AUG 31 2010

CASH	191
CONVENTIONAL	529
FVA/FHA	91
WHEDA	5
SELLER	4
OTHER	15

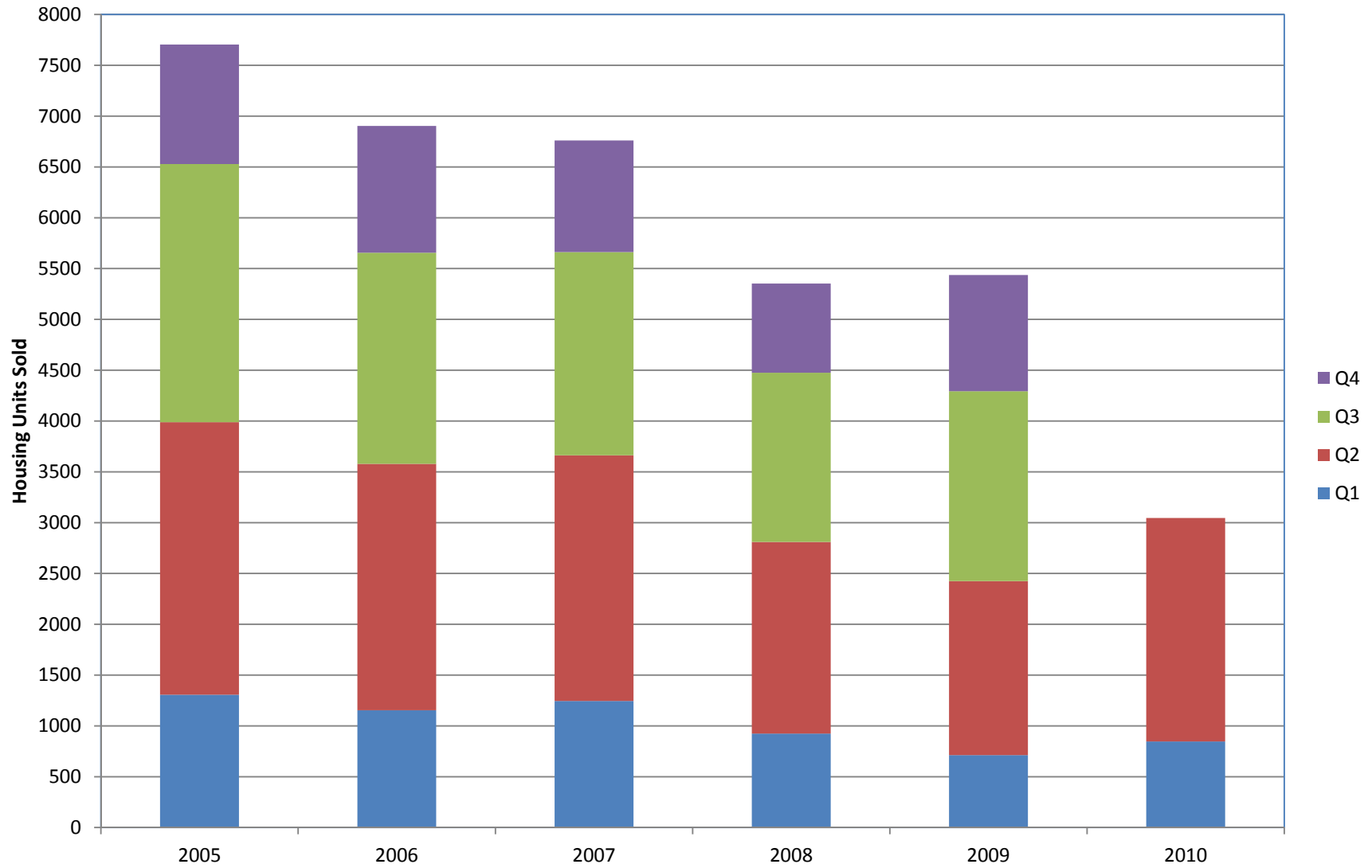
Source: South Central Wisconsin Multiple Listing Service (MLS)

Dane County Median Home Prices



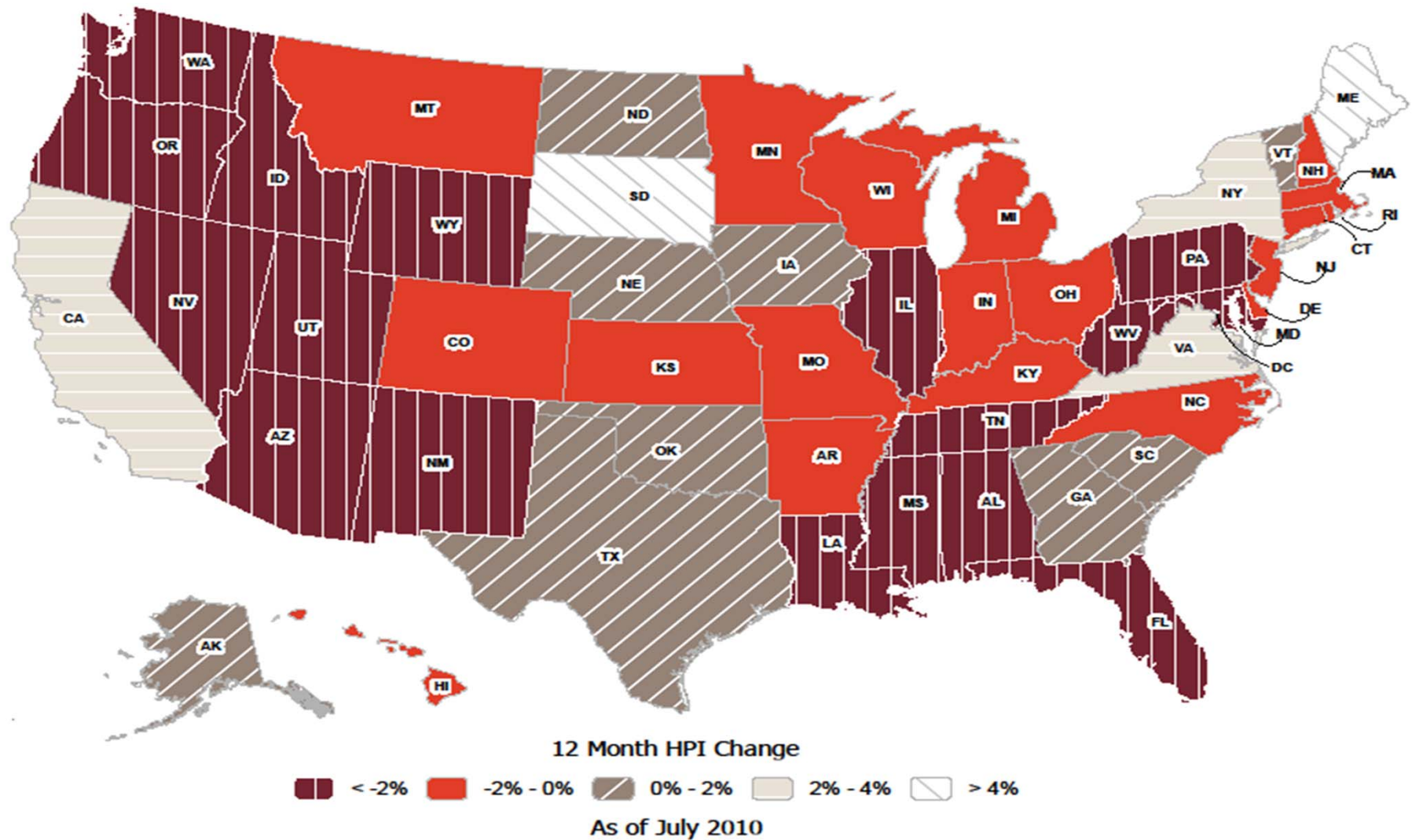
Data courtesy of Wisconsin Realtors Association

Dane County Number of Home Sales by Year/Quarter

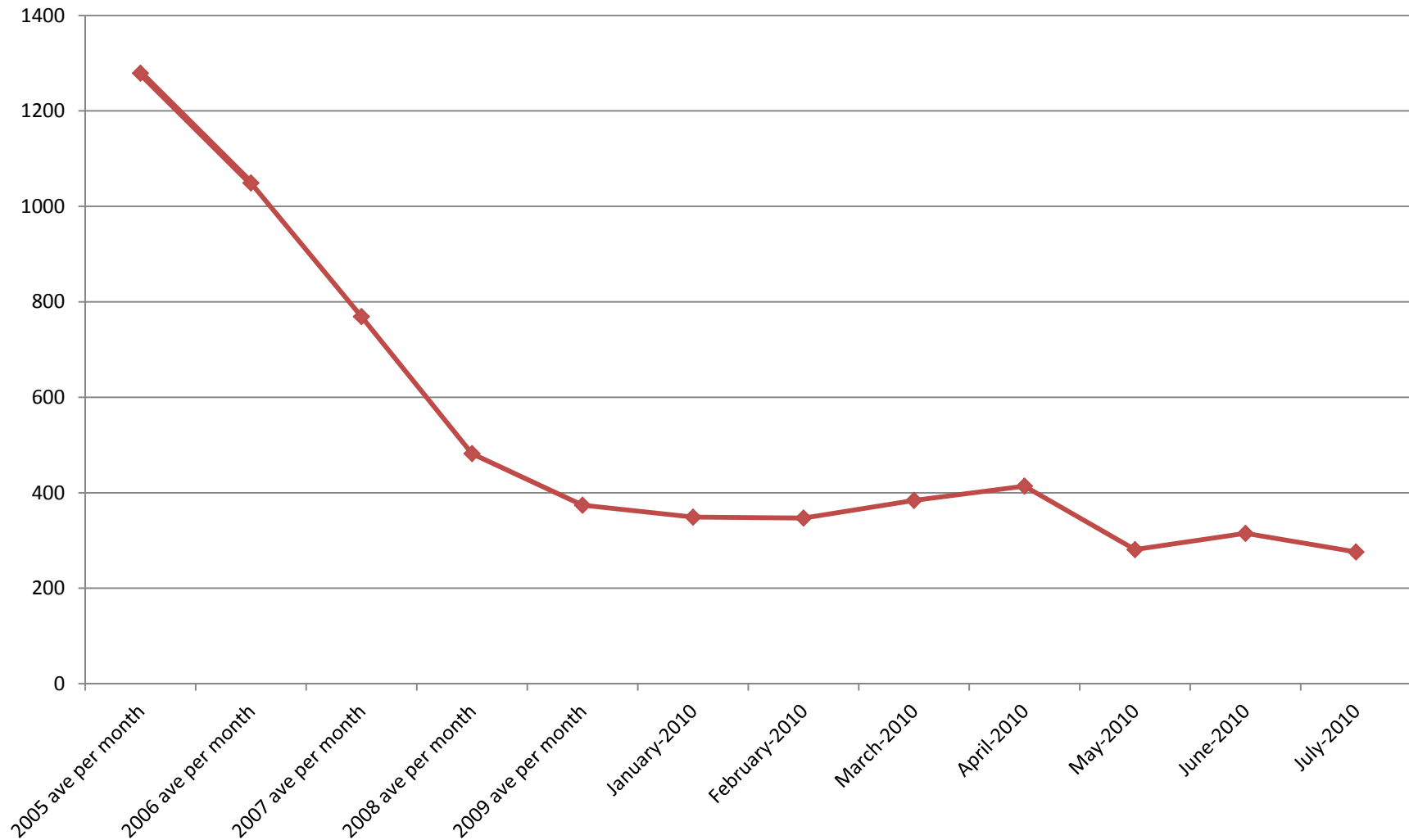


Data courtesy of Wisconsin Realtors Association

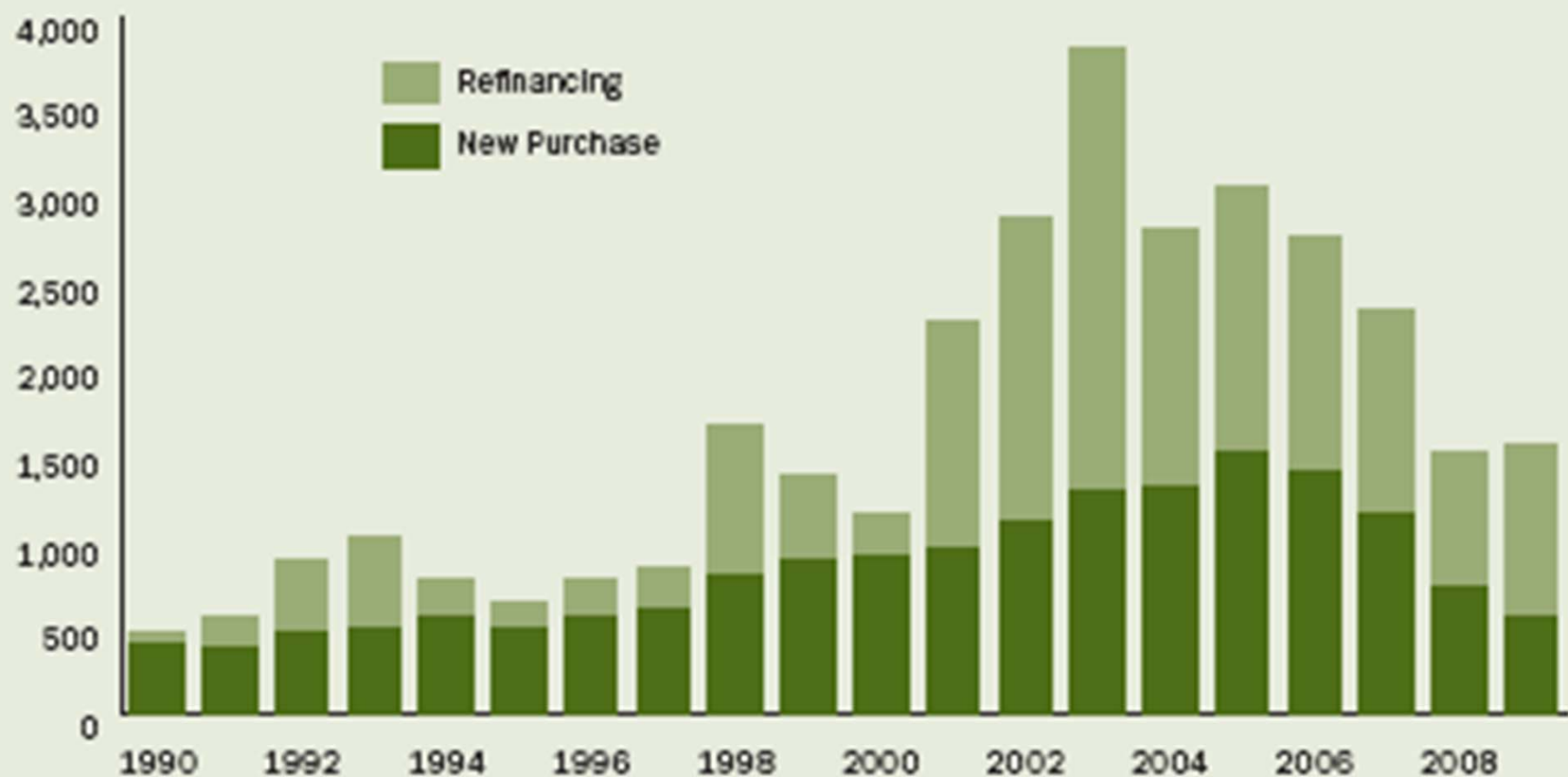
Housing Market Today: Nat'l Stats



NEW CONSTRUCTION Single Family Homes: Average Homes Sold per Month Nationally



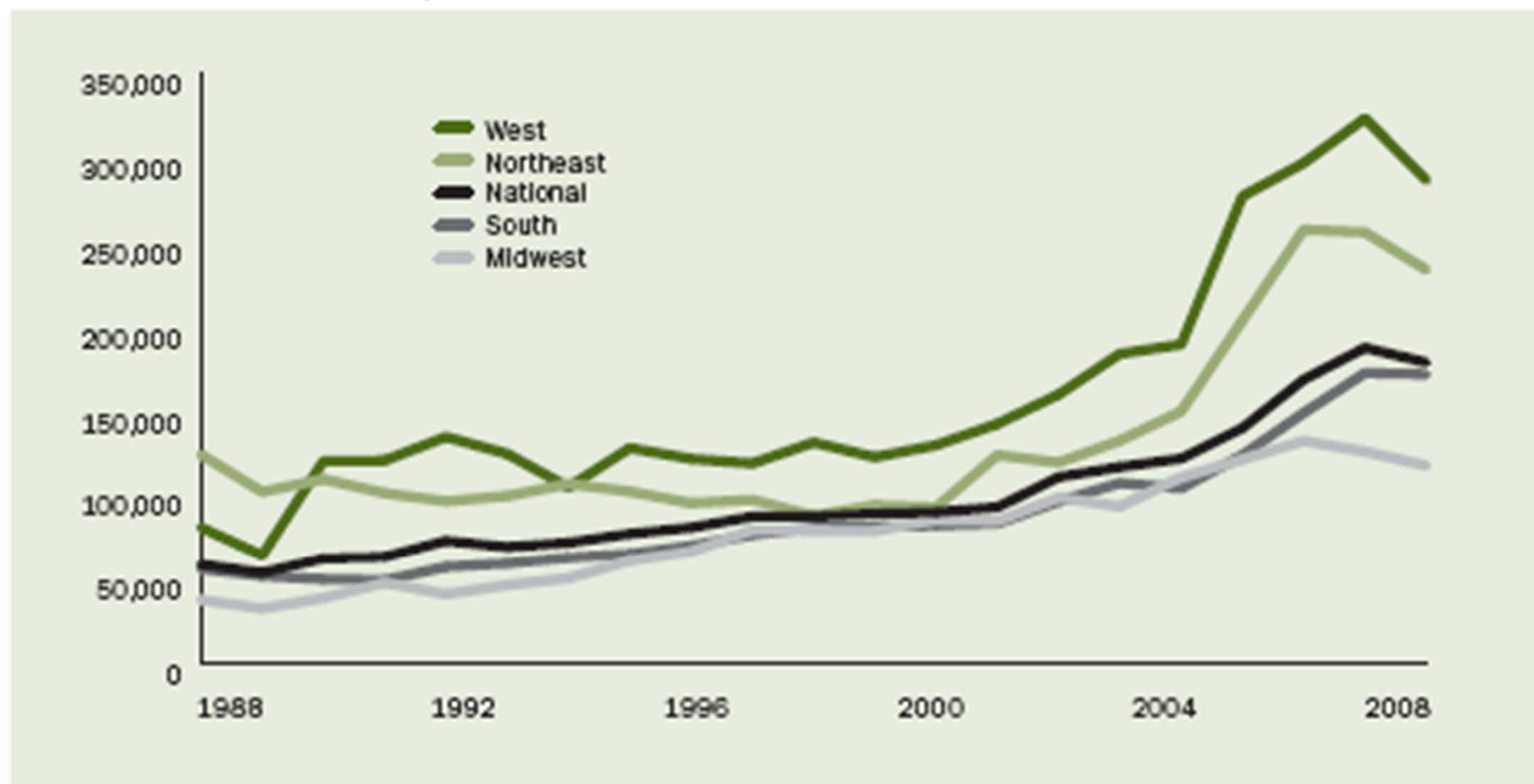
Mortgage Origination of 1-4 Family Units, 1990-2009



Source: Mortgage Bankers Association. Estimates for 2008 only include Q1-Q3.

Figure 2

Median Sales House Prices, 1988–2008

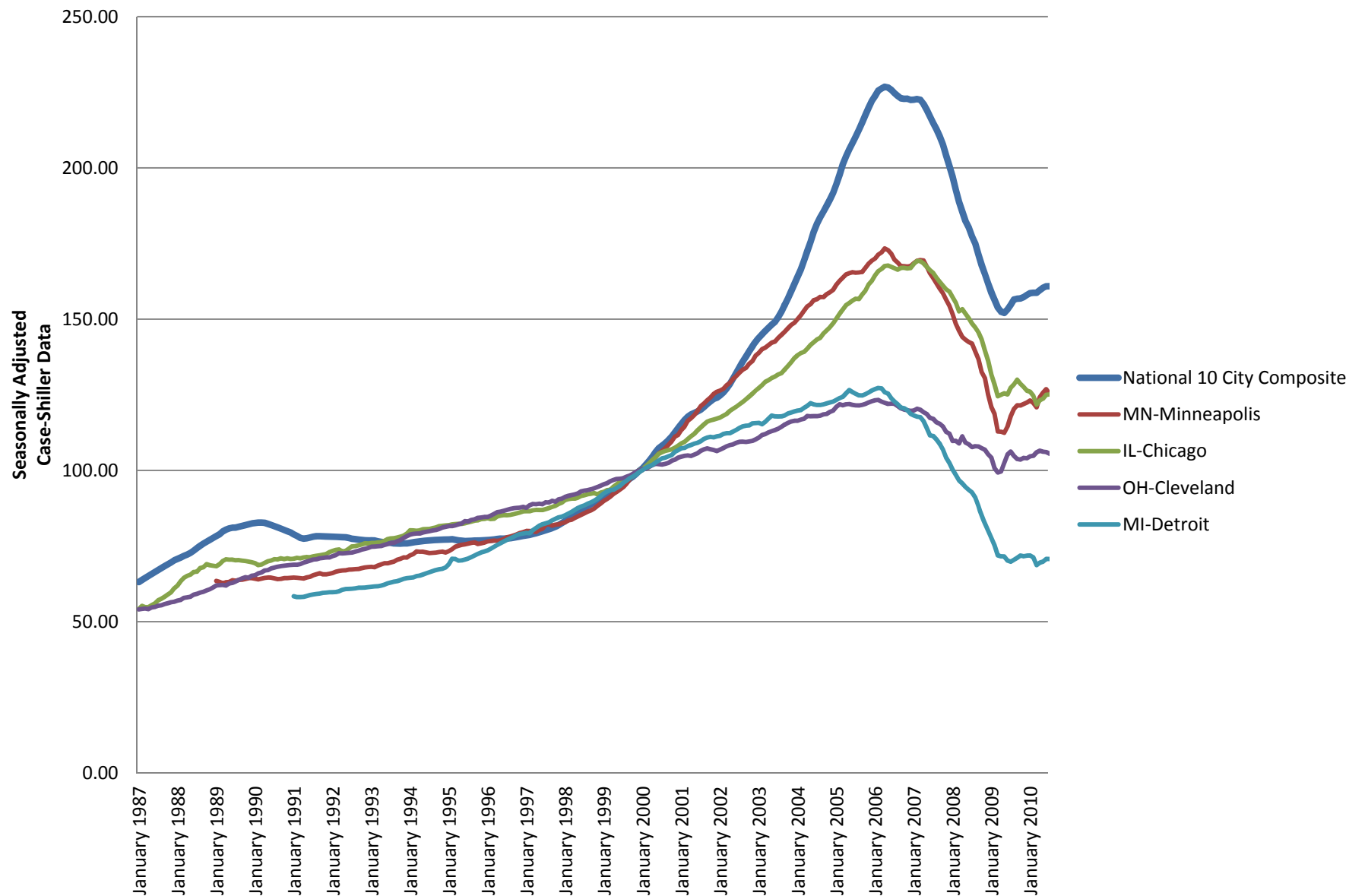


Source: Current Population Survey / Housing Vacancies and Homeownership

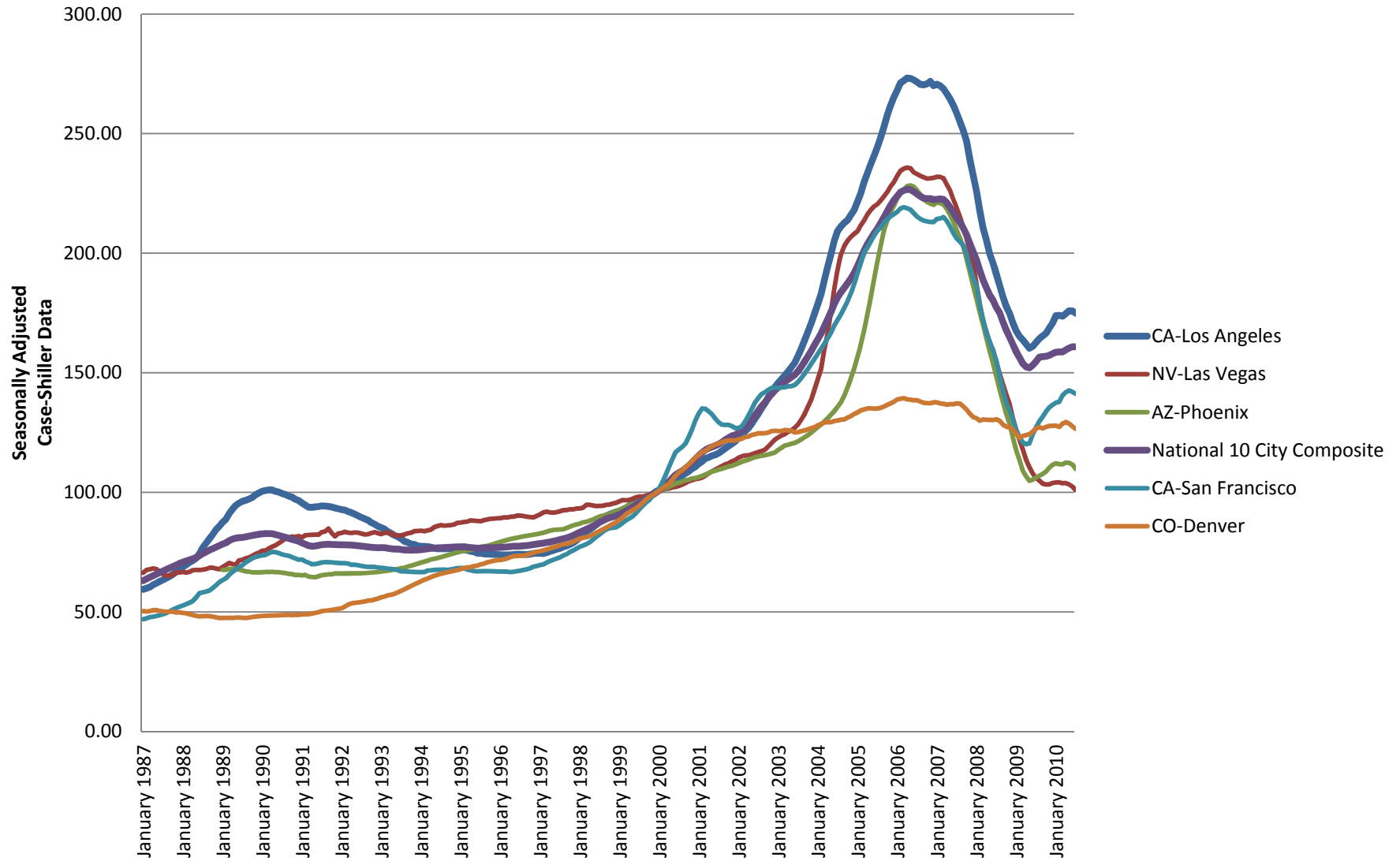
Hot Market Effects



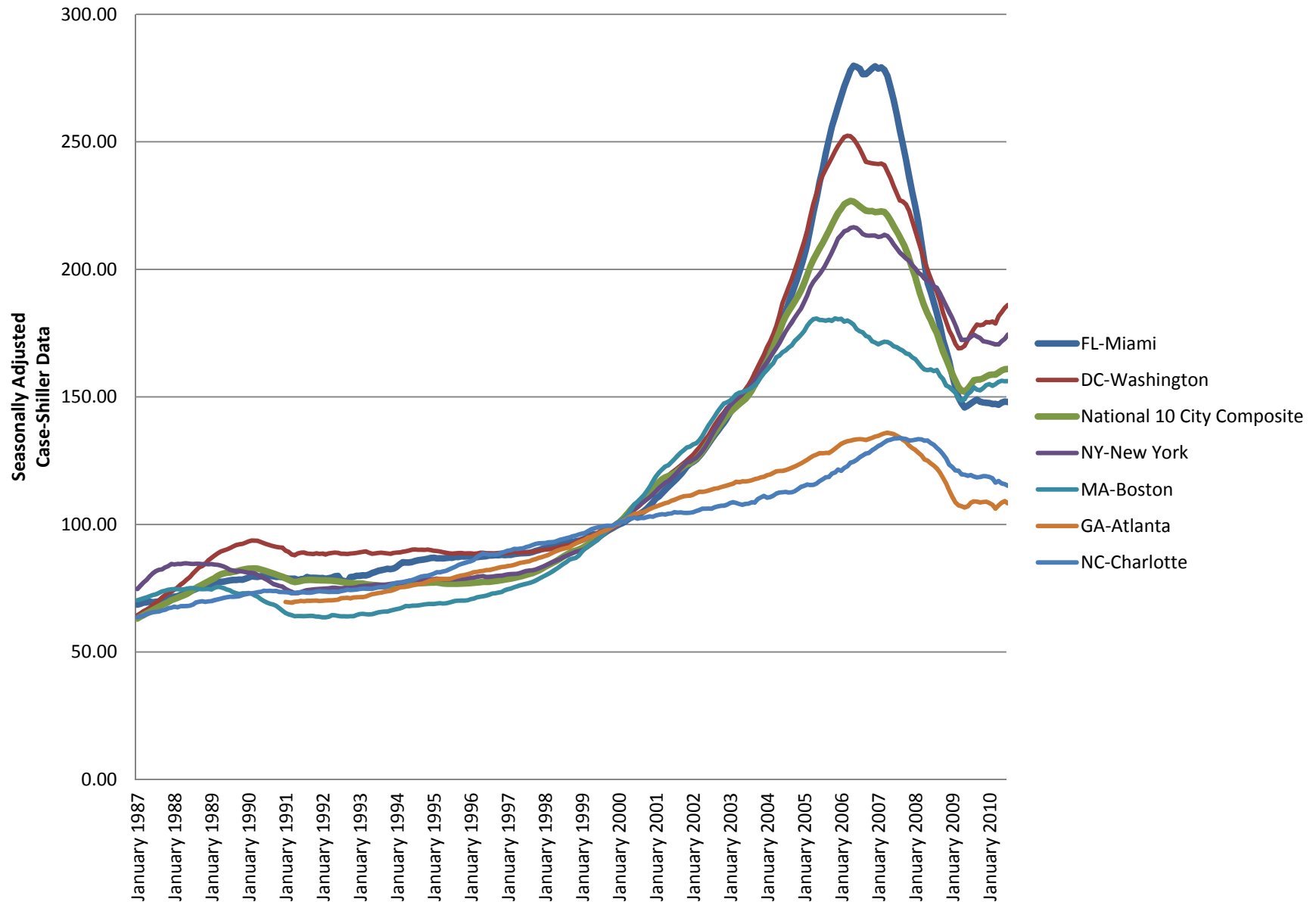
Midwest Housing Prices Through July 2010



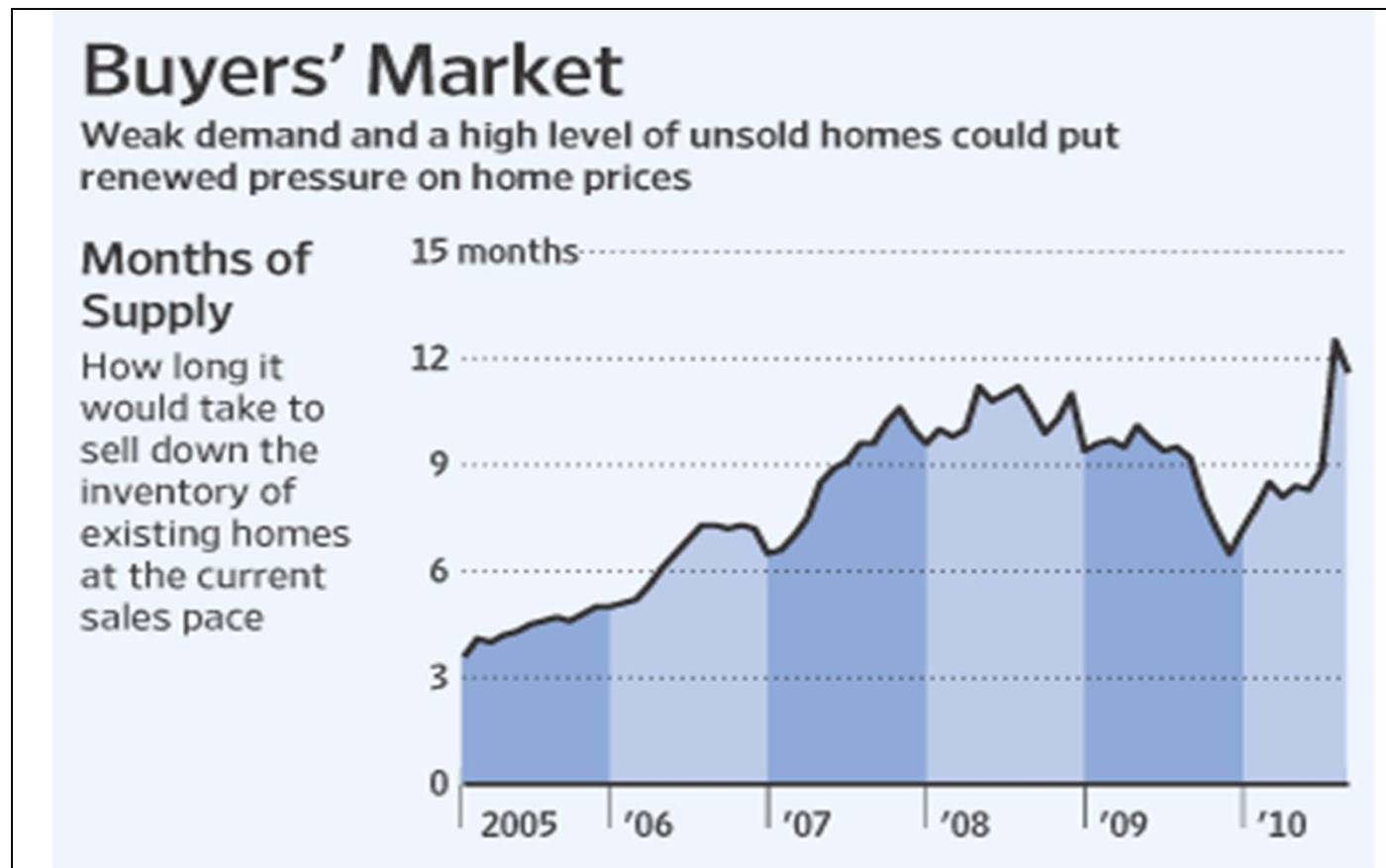
Boom and Bust in the West--But Far Less Extreme in Denver Through July 2010



Housing Prices on the Eastern Seaboard Through July 2010



Inventory

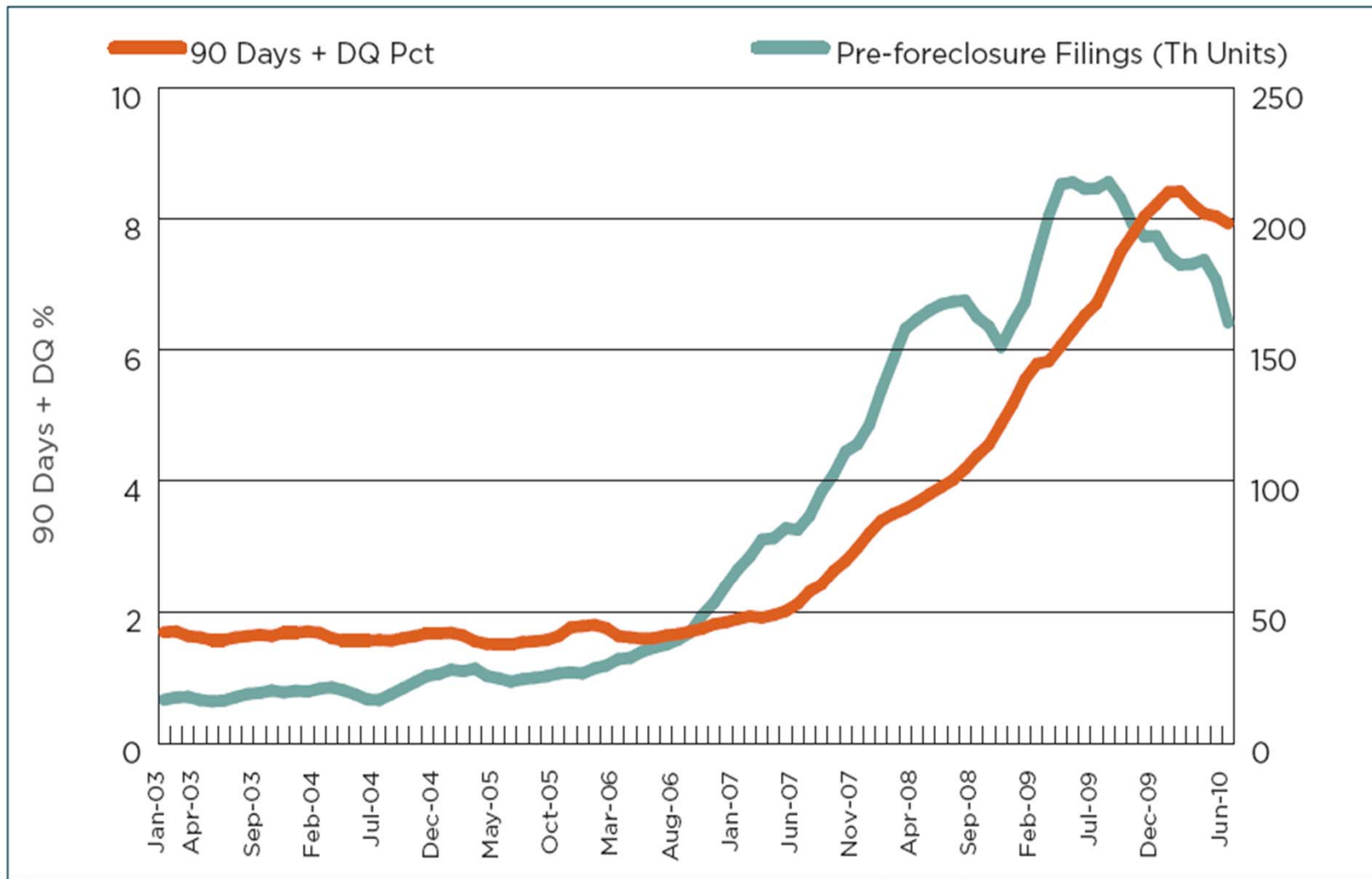


“Stuck and Staying Stuck”

Says the Wall Street Journal, September 24, 2010

Foreclosures

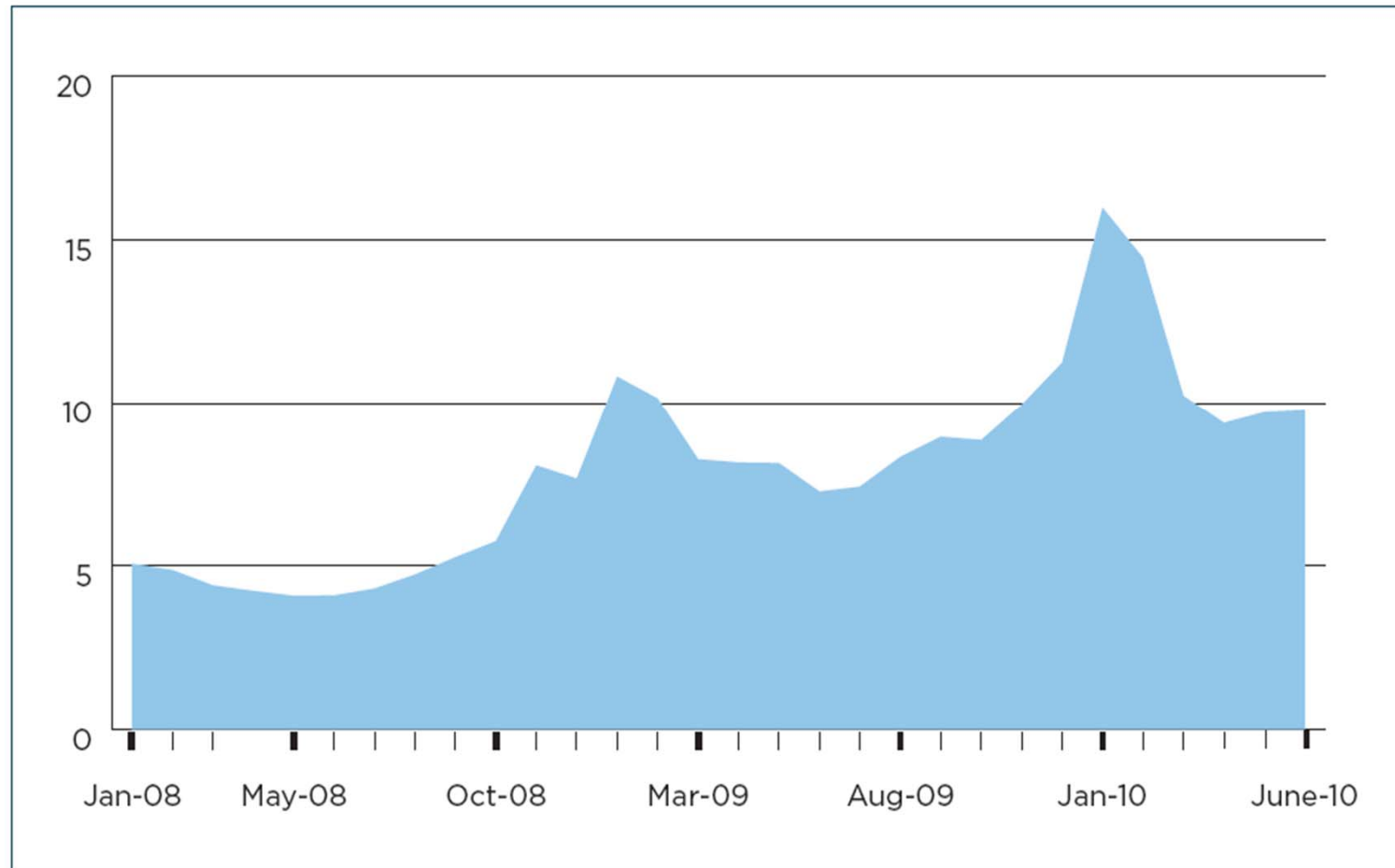
FORECLOSURE FILINGS



Courtesy of CoreLogic, formerly First American Corporation, www.corelogic.com

More Foreclosures Coming?

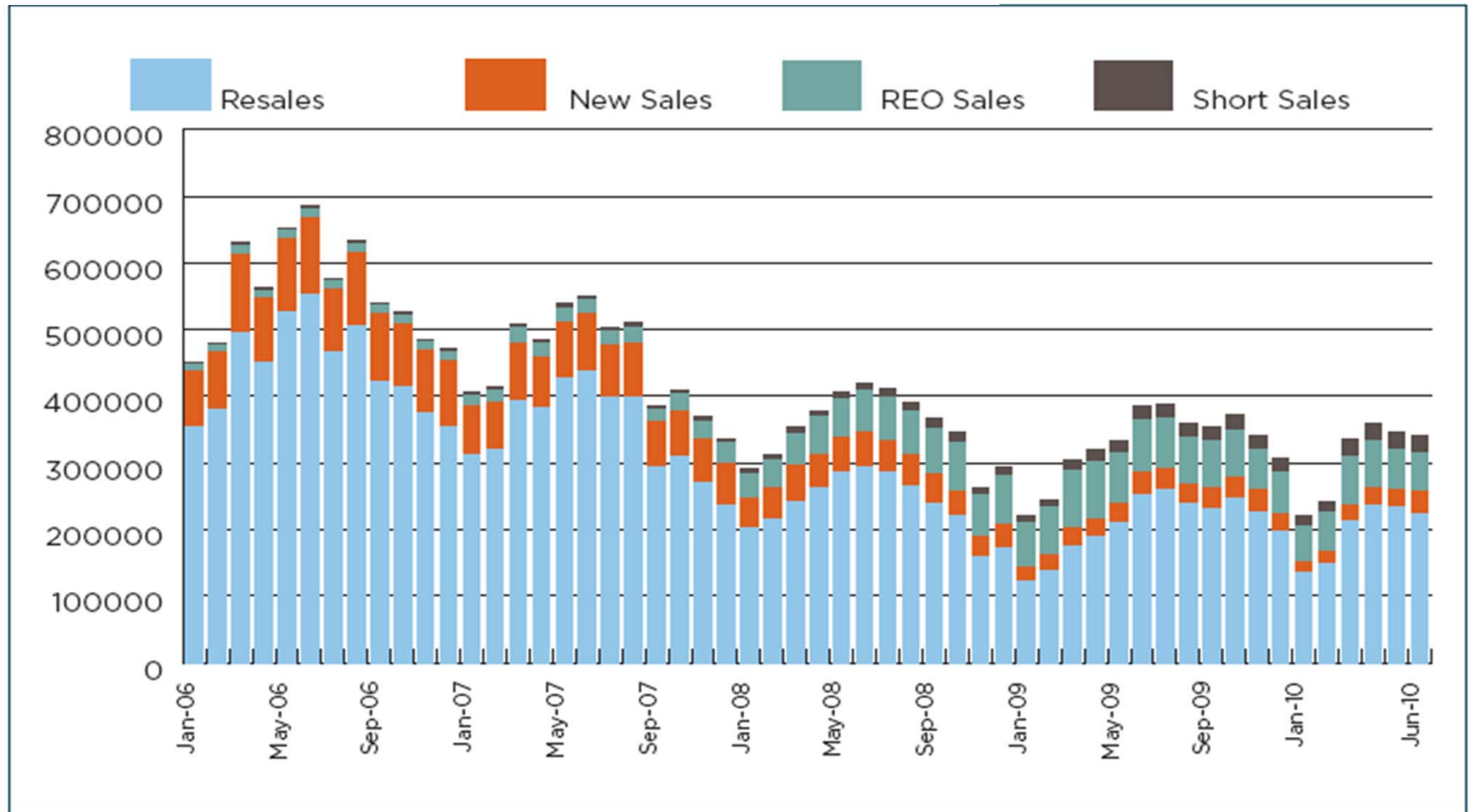
MONTHS SUPPLY SERIOUSLY DELINQUENT LOANS



Courtesy of CoreLogic, formerly First American Corporation, www.corelogic.com

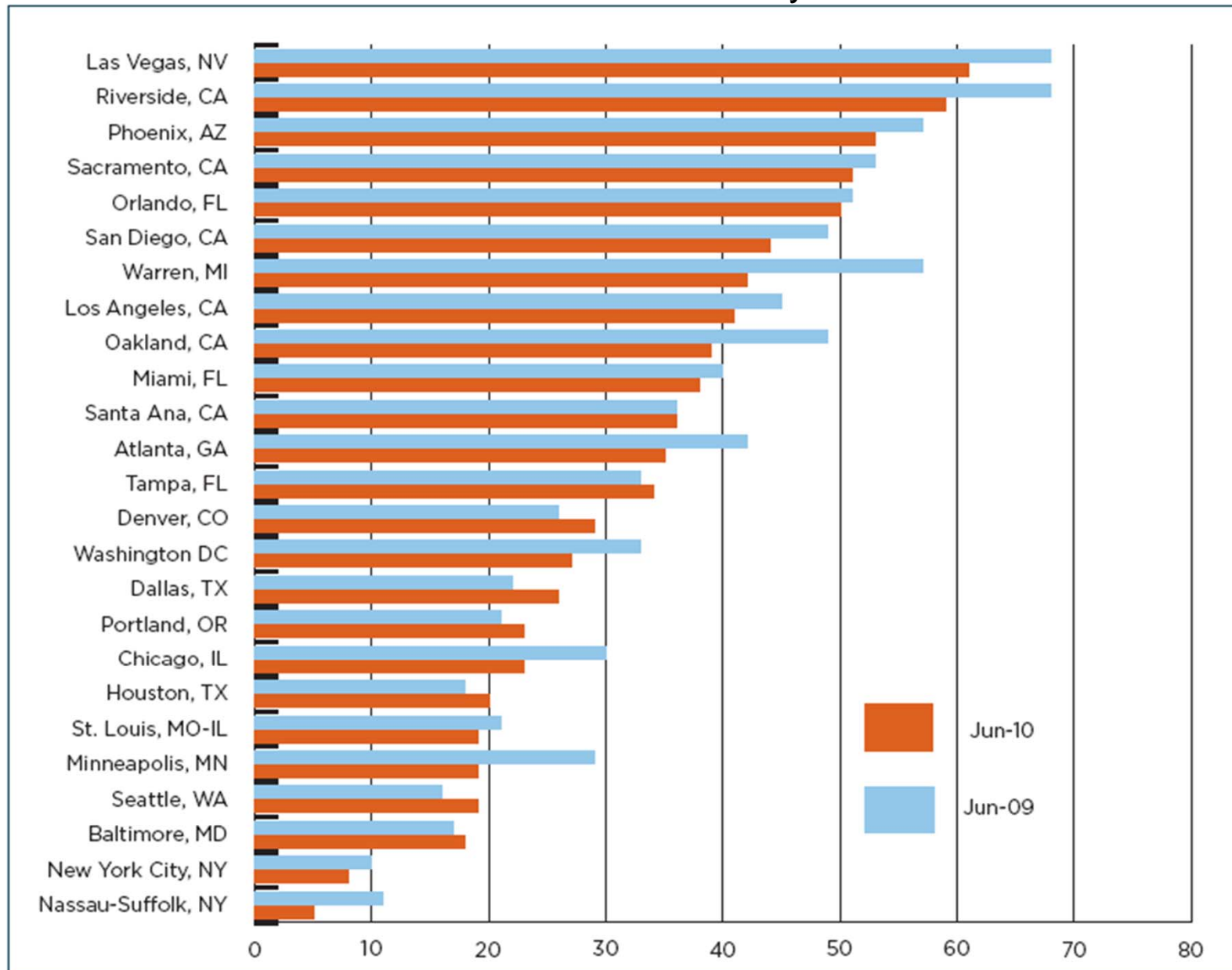
Foreclosures Move The Market

National Home Sales by Segment



Foreclosures and Distressed Sales

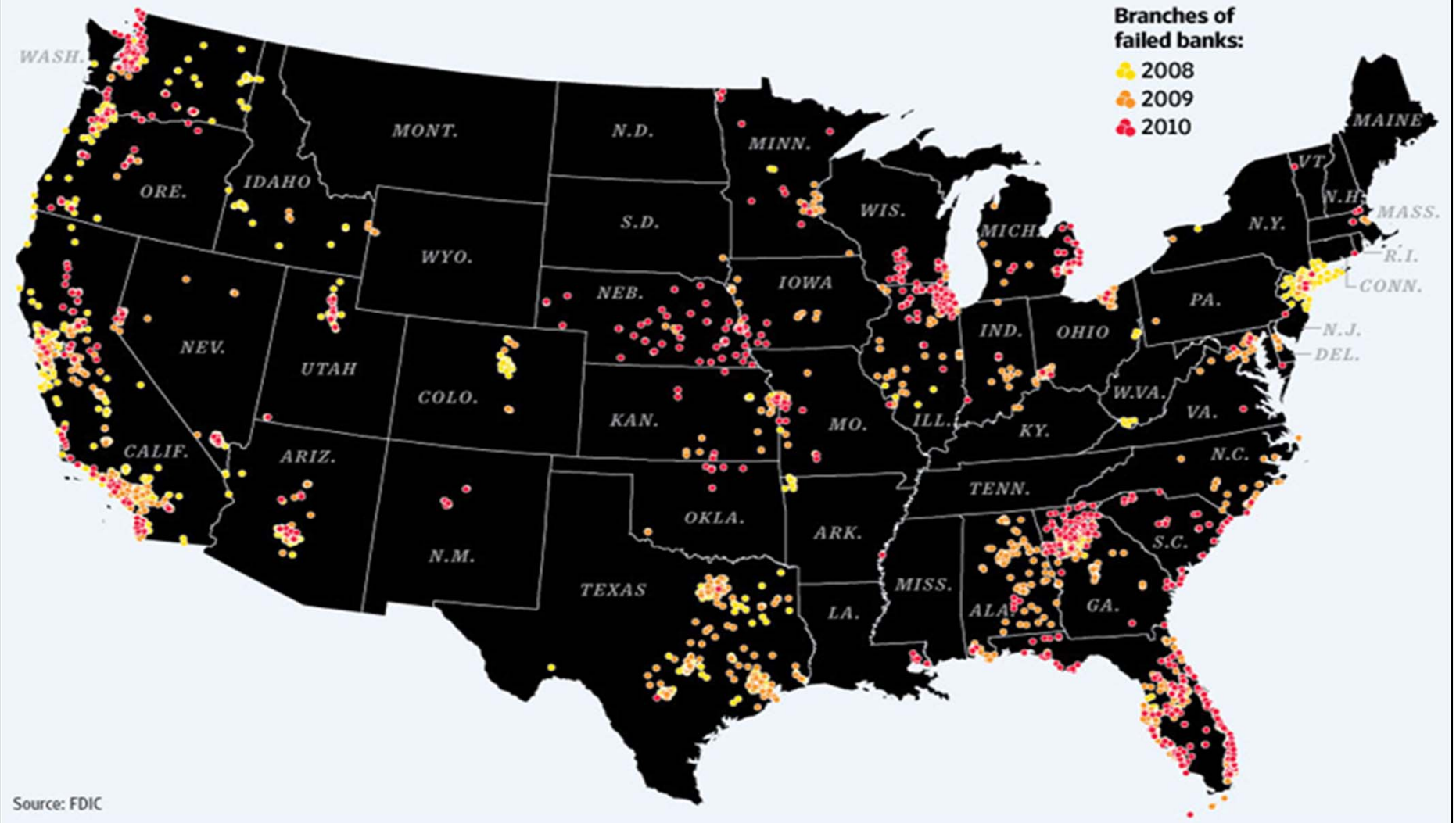
Distressed Sales Share by Market



Bank Failures

Dead Branches | The spread of U.S. bank failures since the beginning of 2008

Explore an interactive map and database of bank failures at WSJ.com/Finance



"Banks Keep Failing, No End in Sight" Wall Street Journal, 9/27/10

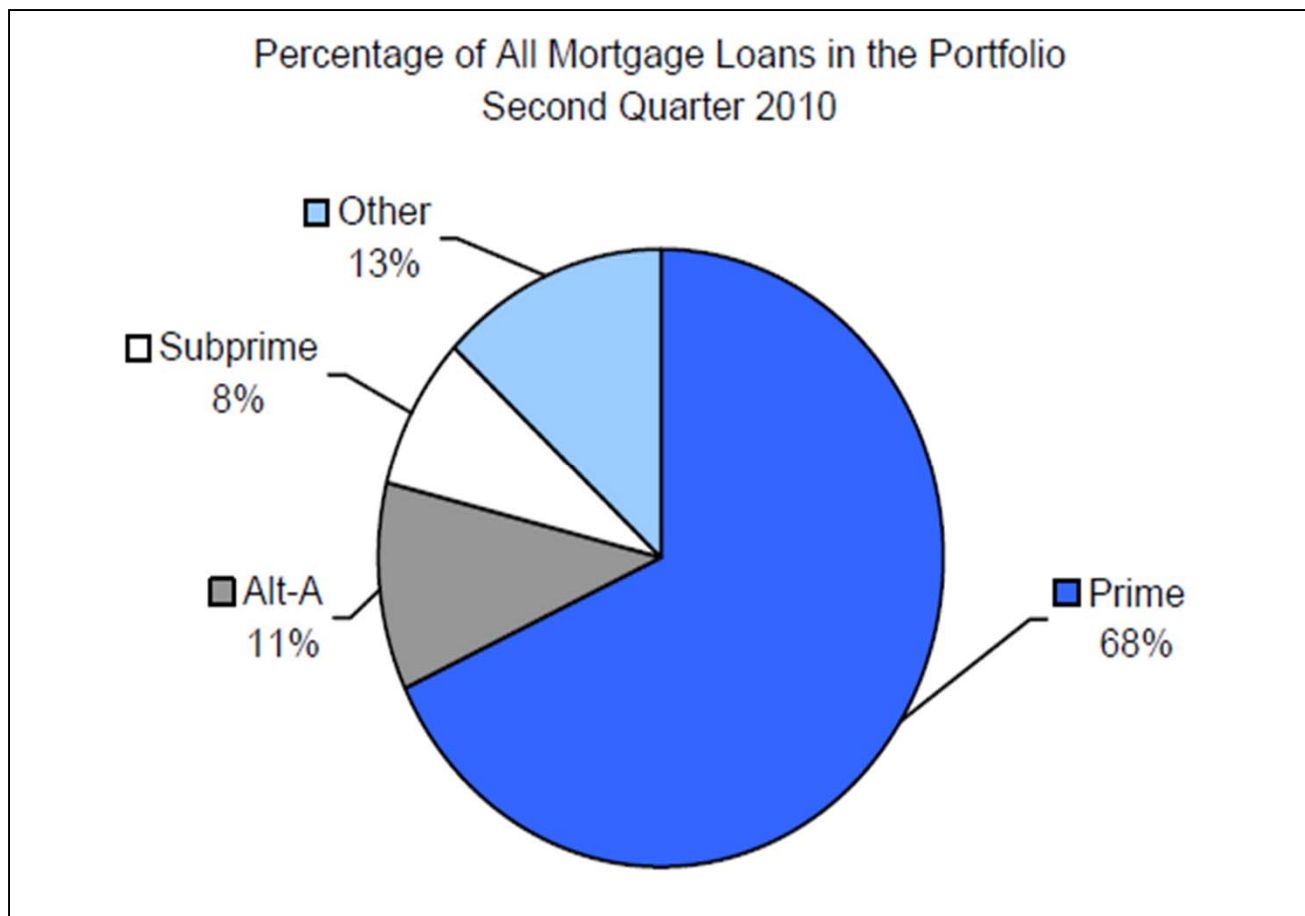
Subprime Lending

The OCC uses three categories of mortgage creditworthiness based on the following ranges of borrowers' credit scores at the time of origination (Approximately 13 percent of mortgages in the portfolio were not accompanied by credit scores and are classified as "other." This group includes a mix of prime, Alt-A, and subprime mortgages):

Prime—660 and above

Alt-A—620 to 659

Subprime—below 620



Seriously Delinquent Mortgages

Mortgages that are 60 or more days past due and all mortgages held by bankrupt borrowers whose payments are 30 or more days past due.

Table 12. Seriously Delinquent Mortgages
(Percentage of Mortgages in Each Category)

	6/30/09	9/30/09	12/31/09	3/31/10	6/30/10	1Q %Change	1Y %Change
Prime	3.0%	3.6%	4.2%	4.1%	3.8%	-7.6%	23.5%
Alt-A	10.3%	12.0%	13.5%	12.2%	11.4%	-7.1%	10.8%
Subprime	17.8%	20.1%	22.4%	20.0%	19.4%	-2.8%	9.2%
Other	5.2%	6.3%	7.2%	6.6%	6.8%	2.4%	31.1%
Overall	5.3%	6.2%	7.1%	6.5%	6.2%	-5.3%	16.1%

Source: United States Office of Comptroller of Currency, 2nd Quarter Report 2010

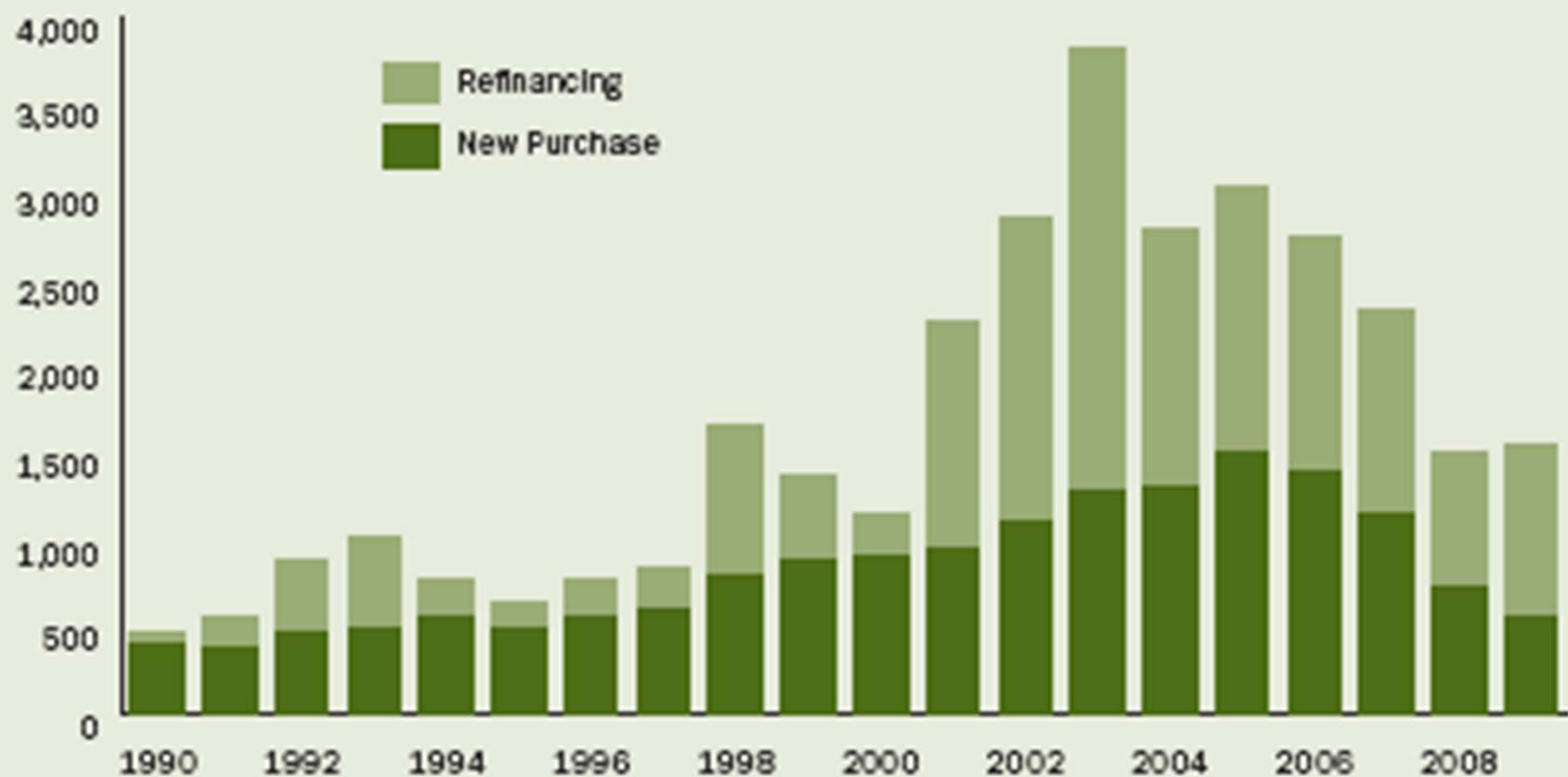
“Underwater”

Nationally as of April
2010:

- 10,971,000 Mortgages
are in Negative Equity
23% of Mortgages!

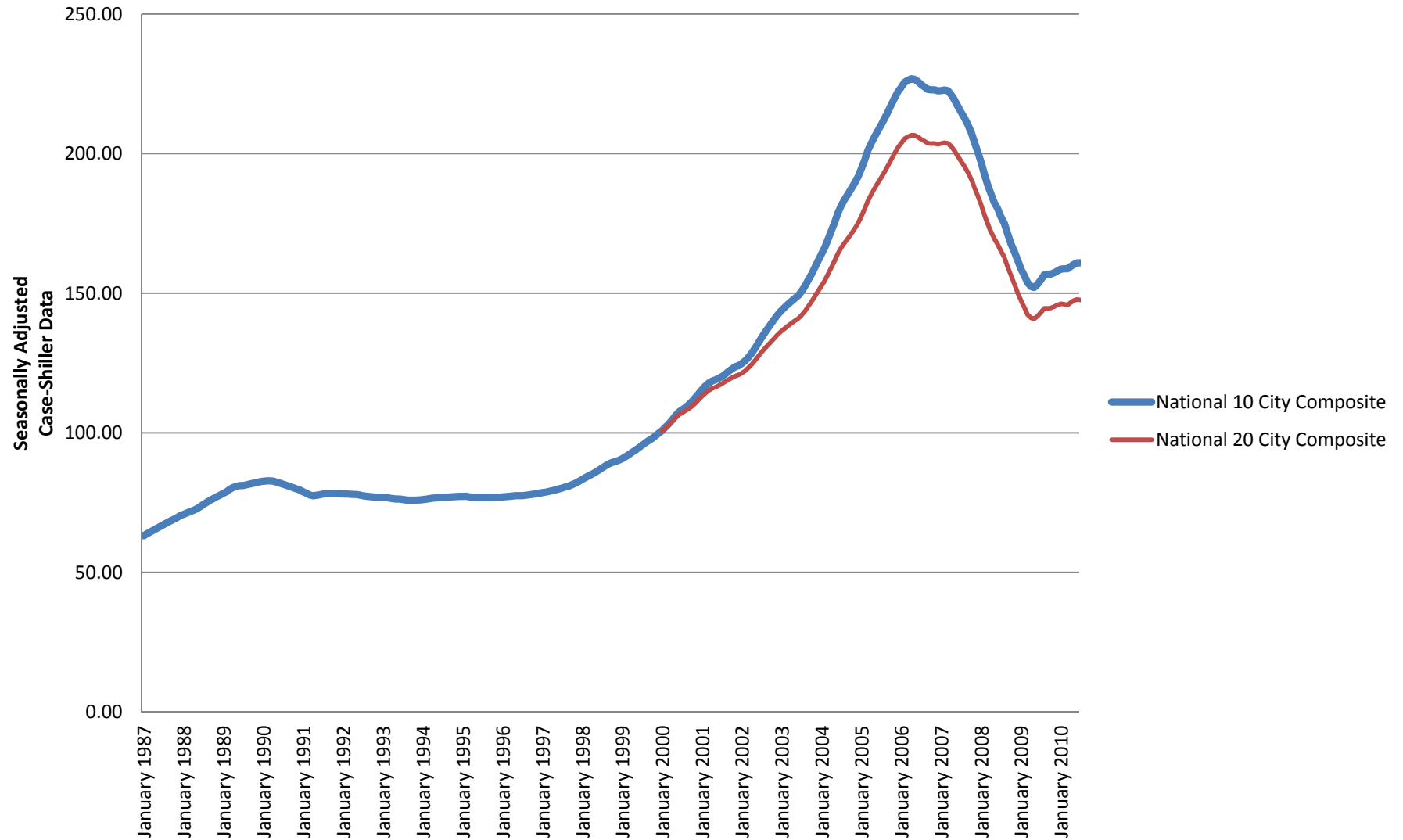


Mortgage Origination of 1-4 Family Units, 1990-2009



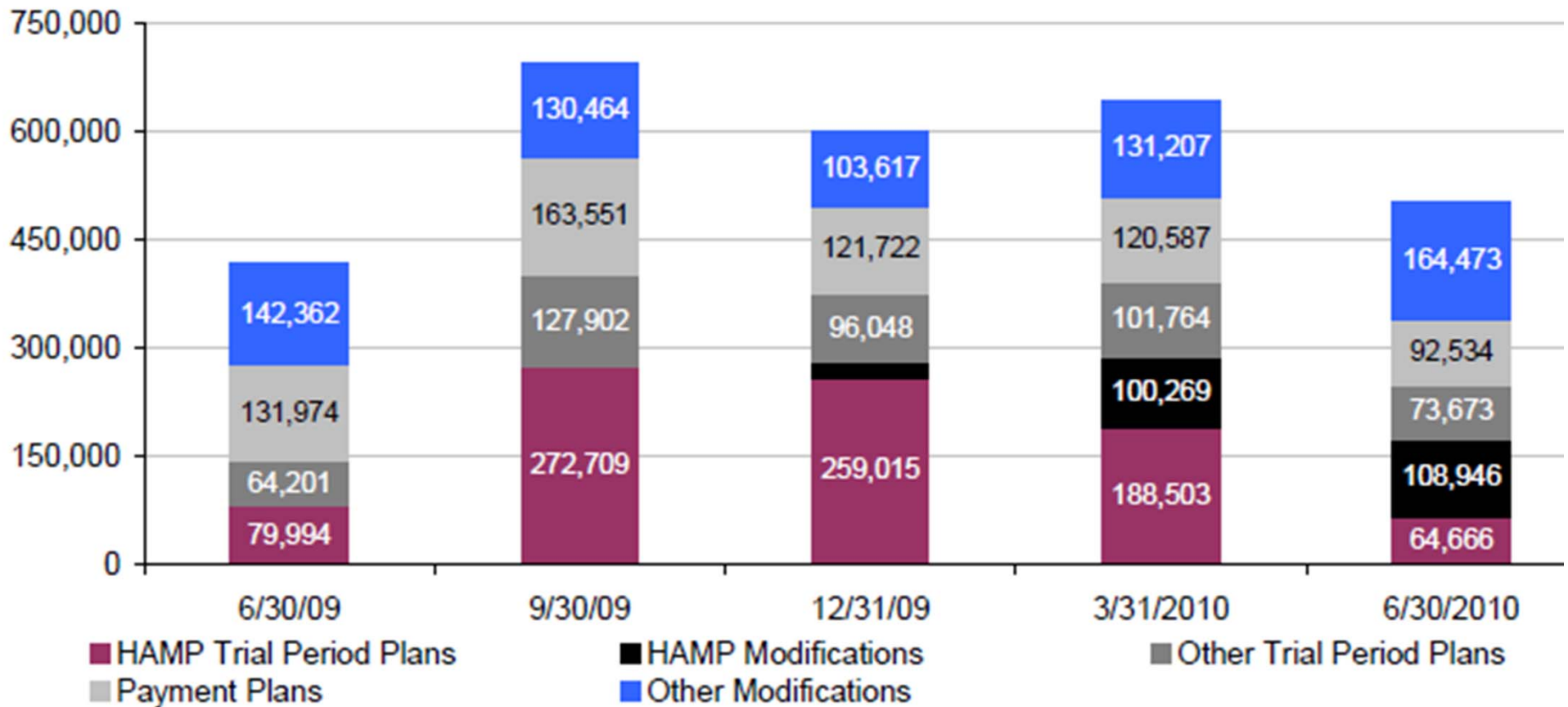
Source: Mortgage Bankers Association. Estimates for 2008 only include Q1-Q3.

National Housing Prices Through July 2010



Other Modifications

Figure 7. Number of New Home Retention Actions



Source: United States Office of Comptroller of Currency, 2nd Quarter Report 2010

Newly Initiated Home Retention Actions Relative to Newly Initiated Foreclosures

- Servicers implemented more than 1.7 times more new home retention actions—loan modifications, trial period plans, and payment plans—than new foreclosures during the second quarter.

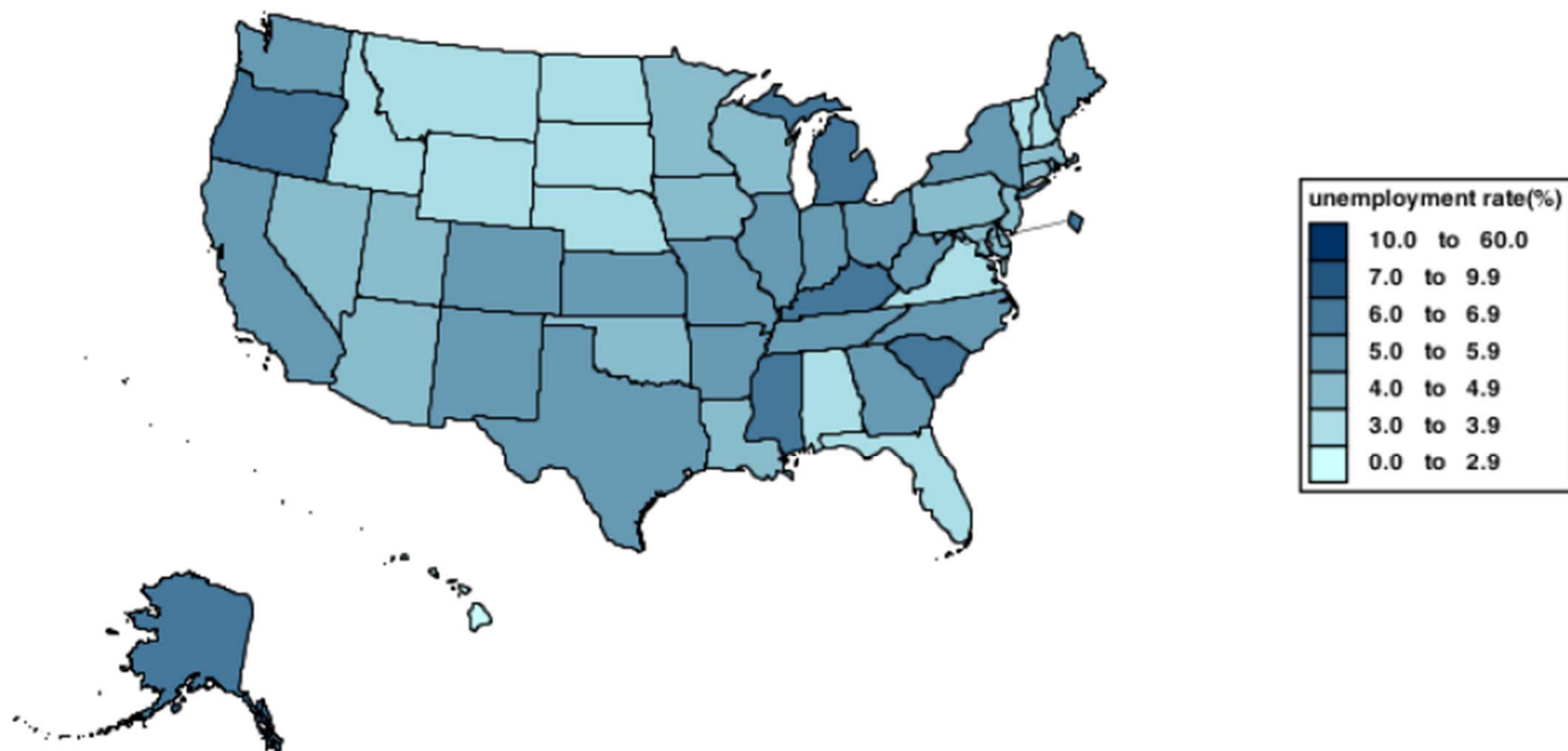
Table 17. Newly Initiated Home Retention Actions by Risk Category
(Percentage of Newly Initiated Foreclosures)

	6/30/09	9/30/09	12/31/09	3/31/10	6/30/10	1Q %Change	1Y %Change
Prime	70.8%	165.9%	171.0%	155.5%	139.5%	-10.3%	97.0%
Alt-A	135.1%	207.1%	219.9%	195.9%	198.5%	1.3%	46.9%
Subprime	195.0%	224.8%	248.7%	209.0%	253.7%	21.4%	30.1%
Other	143.0%	181.8%	148.5%	147.3%	147.1%	-0.1%	2.9%
Overall	113.4%	188.4%	192.3%	173.3%	172.7%	-0.4%	52.3%
Newly Initiated Home Retention Actions	418,531	695,409	601,081	642,330	504,292	-21.5%	20.5%
Newly Initiated Foreclosures	369,226	369,209	312,520	370,536	292,072	-21.2%	-20.9%

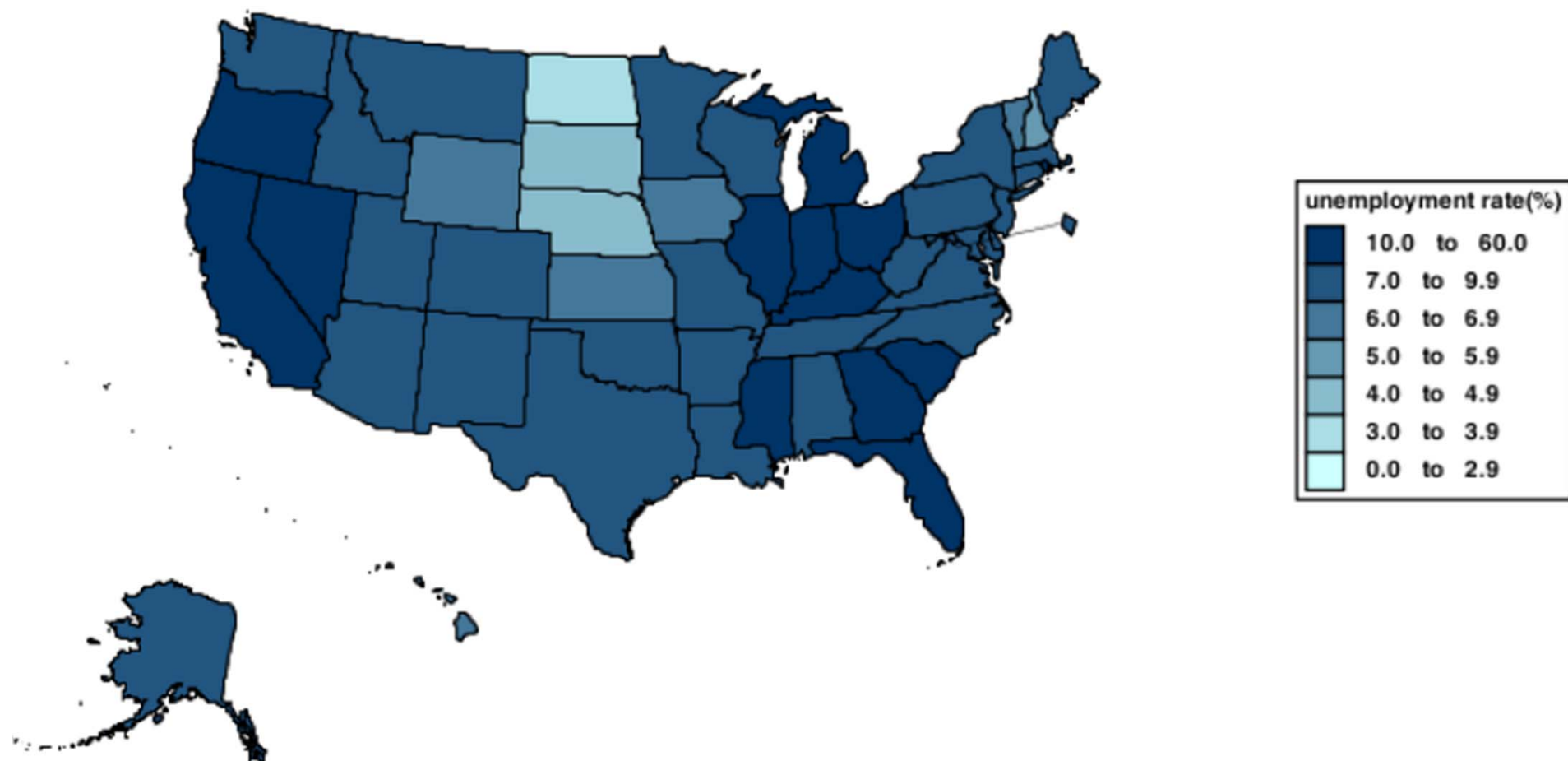
Source: United States Office of Comptroller of Currency, 2nd Quarter Report 2010



Unemployment rates by State, seasonally adjusted, August 2005

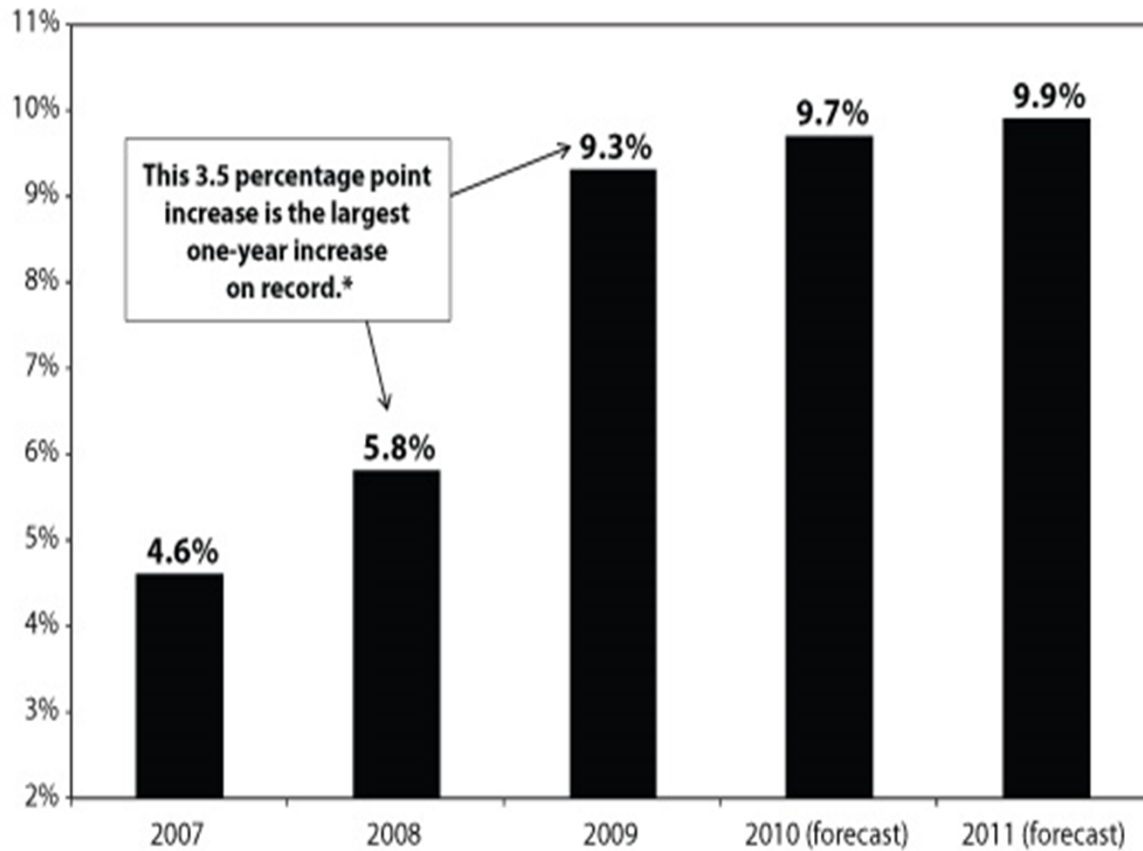


Unemployment rates by State, seasonally adjusted, August 2010



Unemployment

Average annual unemployment rate, 2007-11



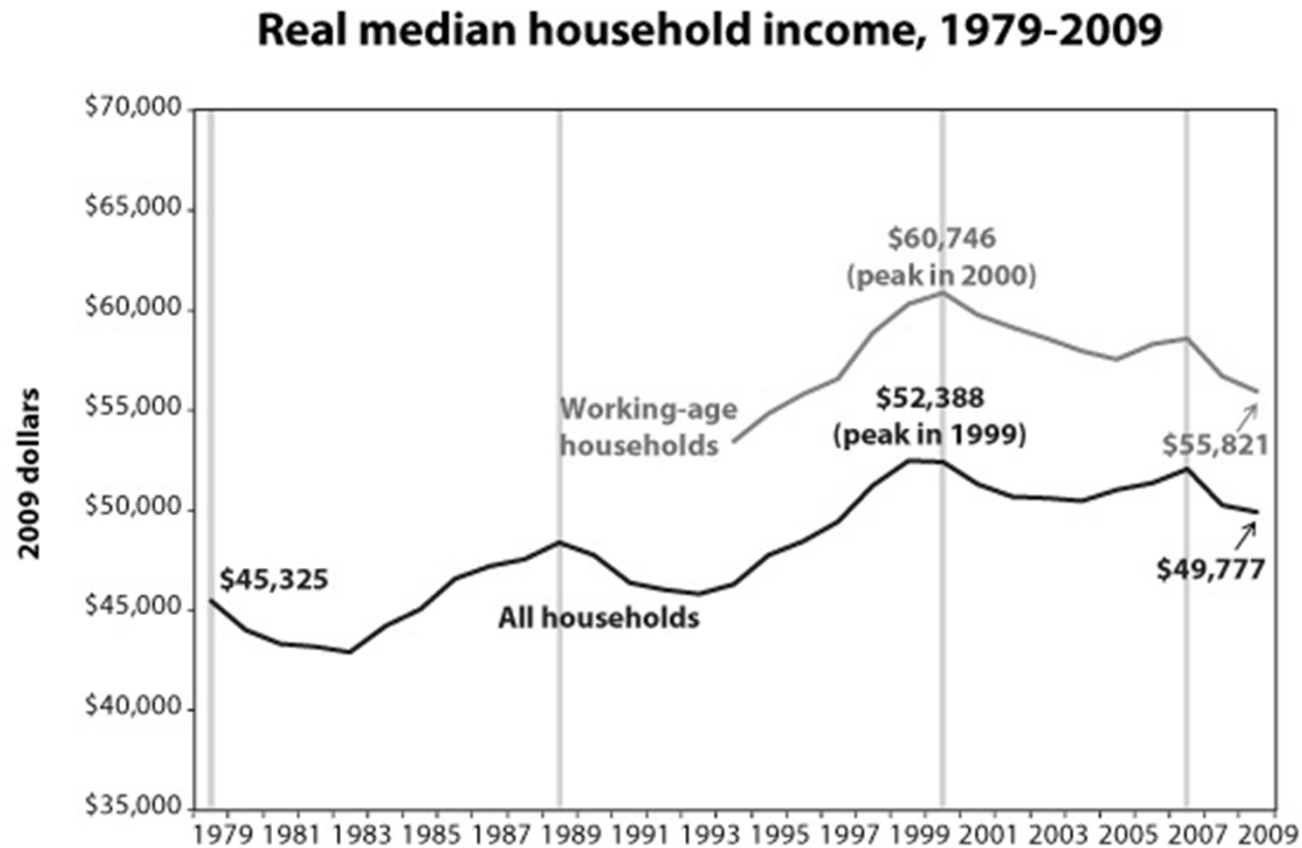
* This data series goes back to 1948.

Source: Authors' analysis of Bureau of Labor Statistics data.

- **Unemployment Rate (Aug 2010)**

- US: 9.6%
- WI: 7.7%
- Dane, WI: 5.4%

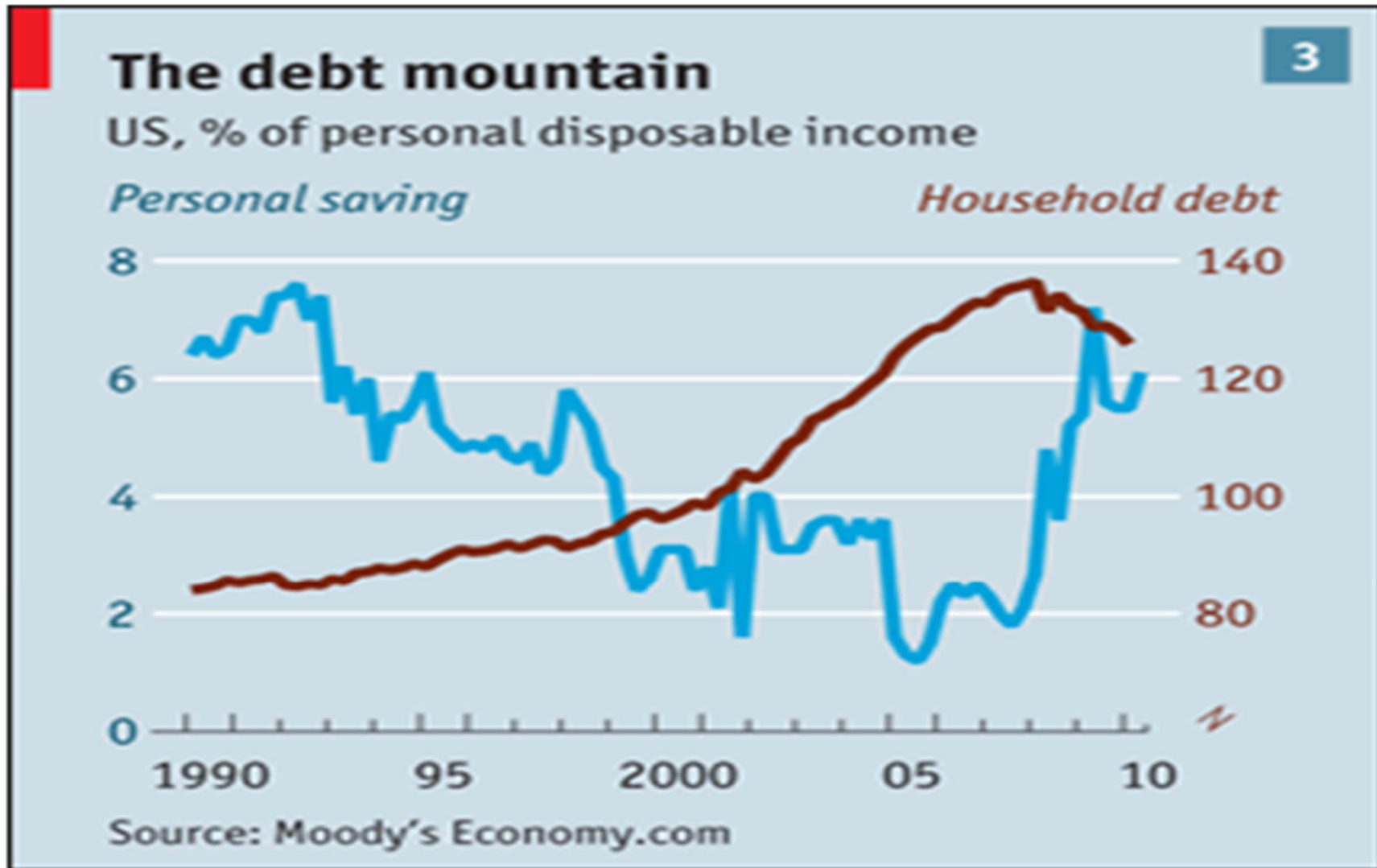
“The Lost Decade”



Note: Vertical lines indicate the start of recessions. Median income for workers under age 65 starts in 1994.

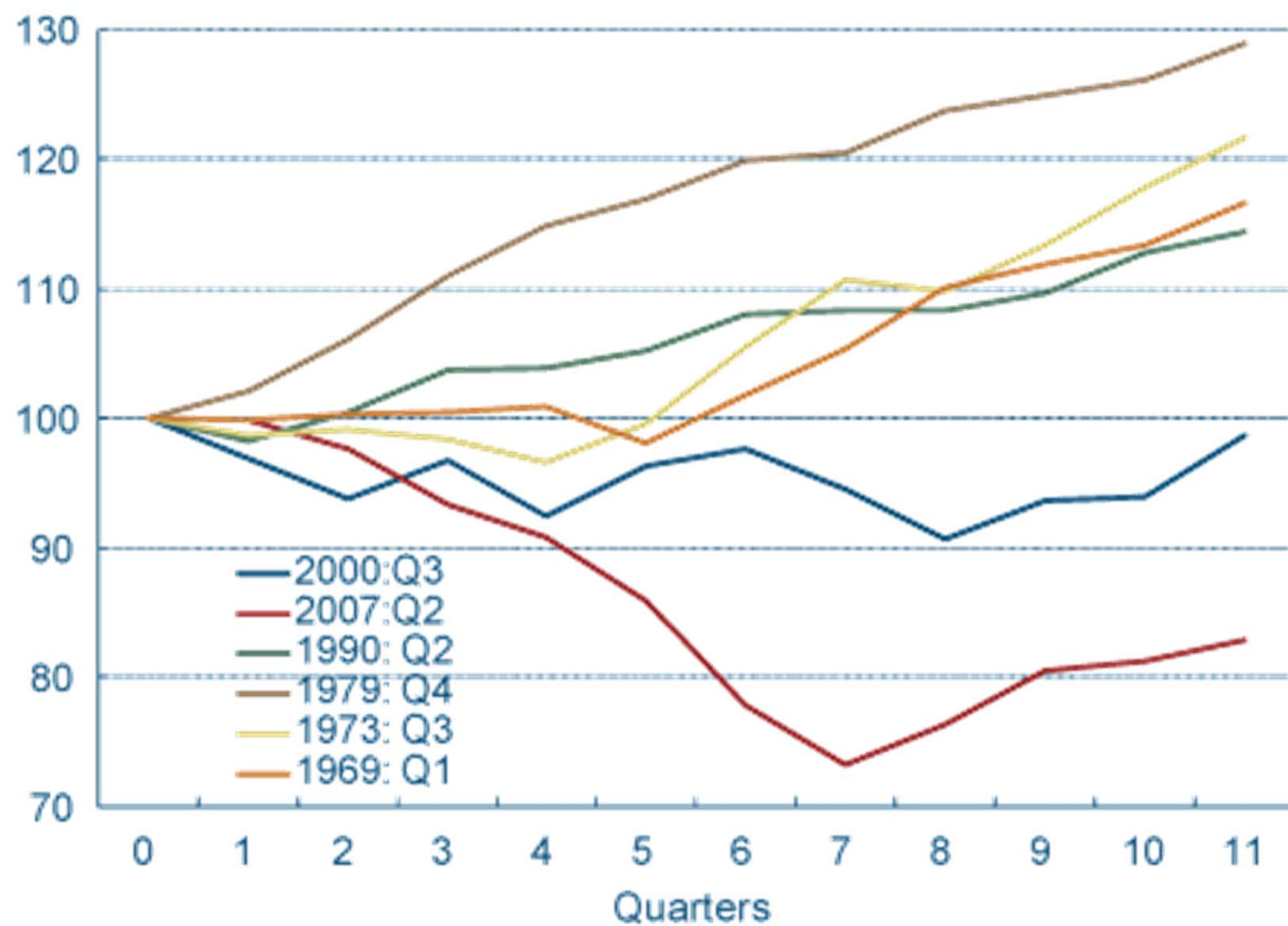
Source: Author's analysis of U.S. Census Bureau data.

Shifting Balance Sheets



Households' Net Worth During Recessions

Index (starting quarter=100)



Sources: Flow of Funds Accounts of the United States.

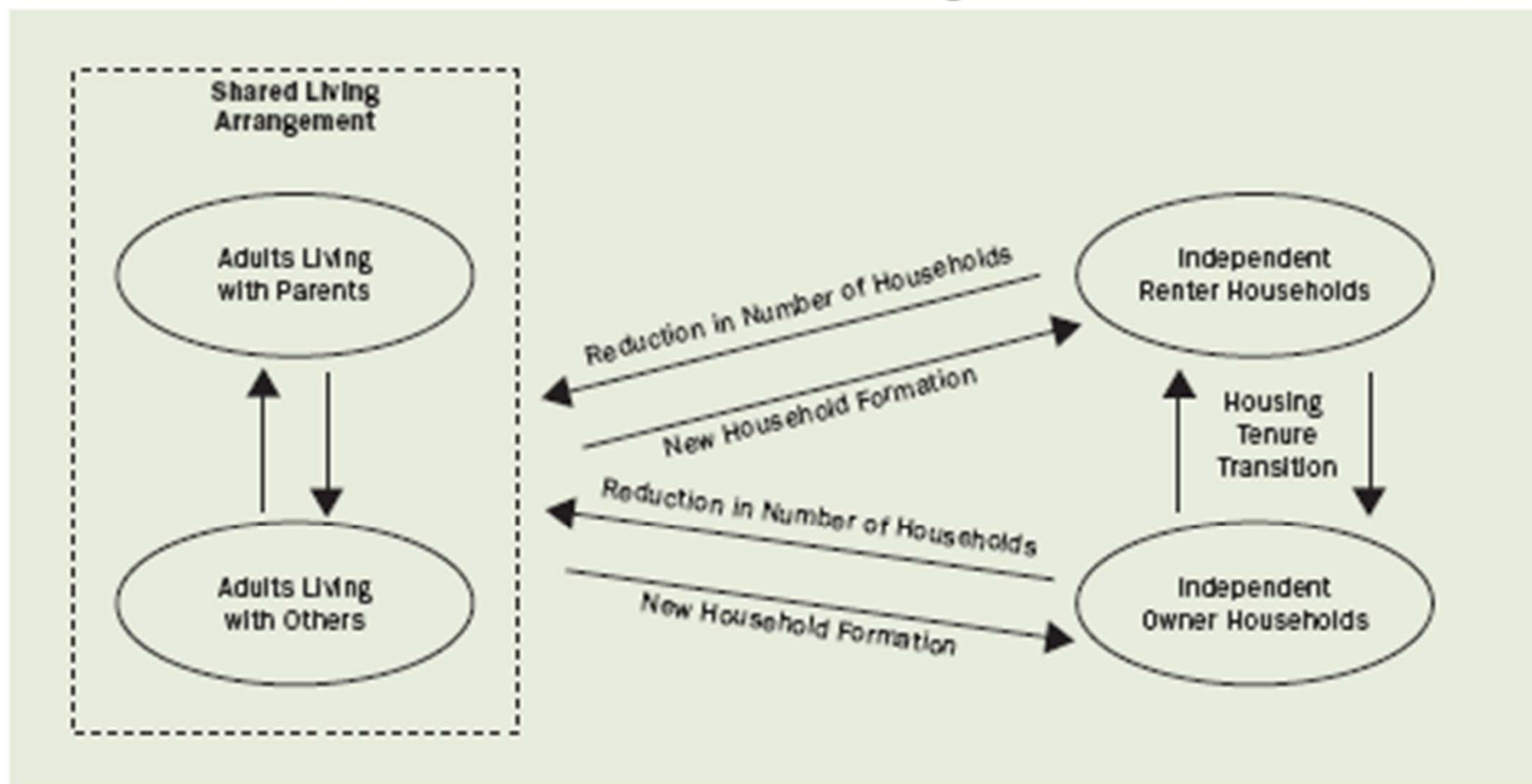
Homeownership Trends: Household Formation

- National Homeownership rate declined from over 69% to just over 67%
- Homeownership rates for some minority groups fell even further
- Homeowner vacancy rates have increased
- Rental vacancy rates have also increased

So... what is happening?

Homeownership Trends: Household Formation

Illustration of the Process of Household Formation and Housing Tenure Choice



Demand Weak

- # US households dropped by an estimated 1.2 million between 2005 and 2008 (in 80 largest MSAs)
- Population increased by 3.4 million



Policy Issues

- HAMP (Home Affordable Mortgage Program) Modifications
- GSEs (Government Sponsored Enterprises)
- FHA (Federal Housing Authority)
- MID (Mortgage Interest Deduction)
- Reverse Mortgages (also know as HECM: Home Equity Conversion Mortgage)

Policy: HAMP

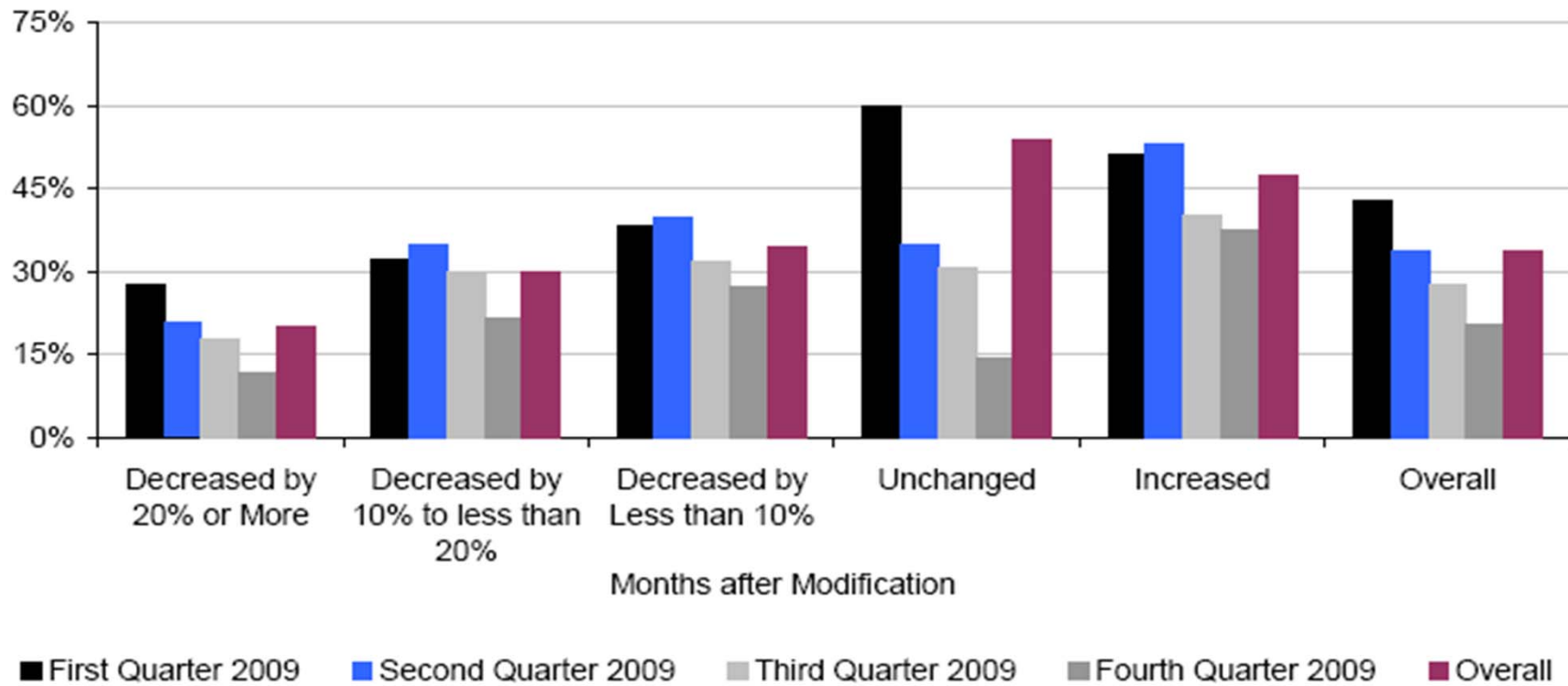
- 108,946 HAMP modifications second quarter of 2010
 - up more than 8.7 percent from previous quarter
 - 64,666 new trial plans
 - 10.8 % re-default rate

Table 32. Performance of HAMP Modifications Compared with Other Modifications*			
(60 or More Days Delinquent)			
	Number of Modifications	3 Months after Modification	6 Months after Modification
HAMP Fourth Quarter 2009	20,679	7.9%	10.8%
Other Fourth Quarter 2009	103,617	12.1%	22.4%
HAMP First Quarter 2010	100,269	10.5%	--
Other First Quarter 2010	131,207	11.6%	--

*Data include all modifications that have had time to age the indicated number of months.

Re-Default Rate on Modified Loans

Figure 14. 60+ Delinquency 6 Months after Modification by Change to Monthly Payments



Source: United States Office of Comptroller of Currency, 2nd Quarter Report 2010

Policy: Tax Credit

Housing and Economic Recovery Act of 2008 (HERA)

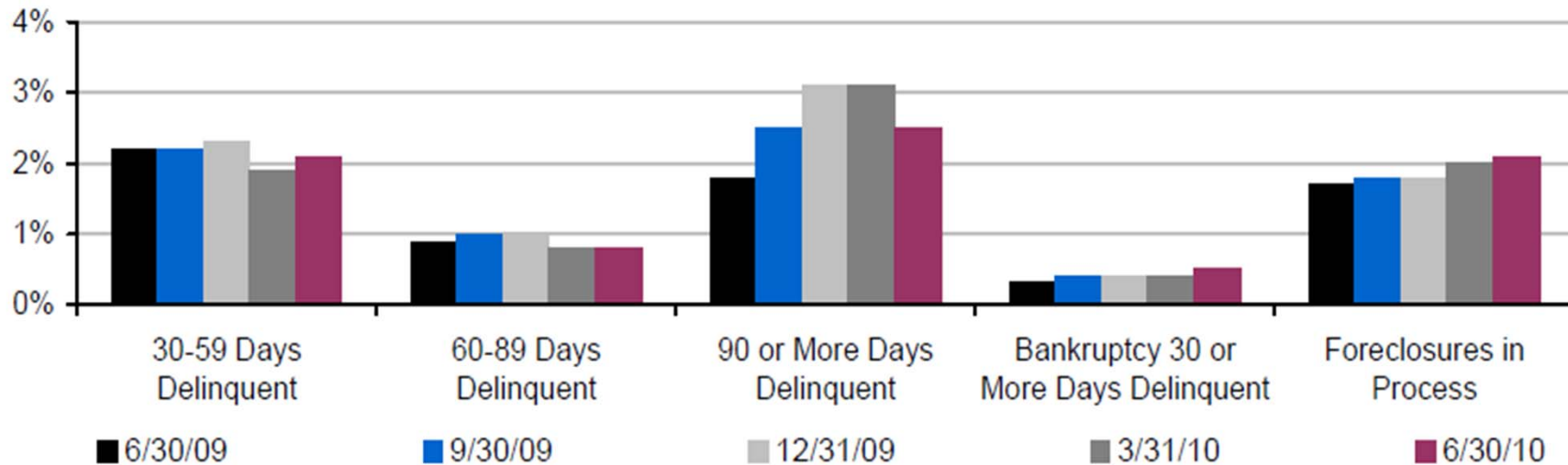
- April 8, 2008 – Jan 1, 2009: Tax credit equal to 10% of purchase price (up to \$7500) to be repaid over 15 years: Virtually an interest-free loan
 - Jan 1, 2009 – contract signed by April 30, 2010: Maximum Credit increased to \$8,000, and repayment requirements eliminated as long as the taxpayer retains the residence for 36 months.
 - Congress estimated that \$13.6 billion would be paid to taxpayers for the Homebuyer Credit in the HERA.

The GSEs

- GSEs (Government Sponsored Enterprises) make up 62% of loans
 - 58 percent Fannie Mae
 - 42 percent Freddie Mac
- Currently under conservatorship

The GSE's

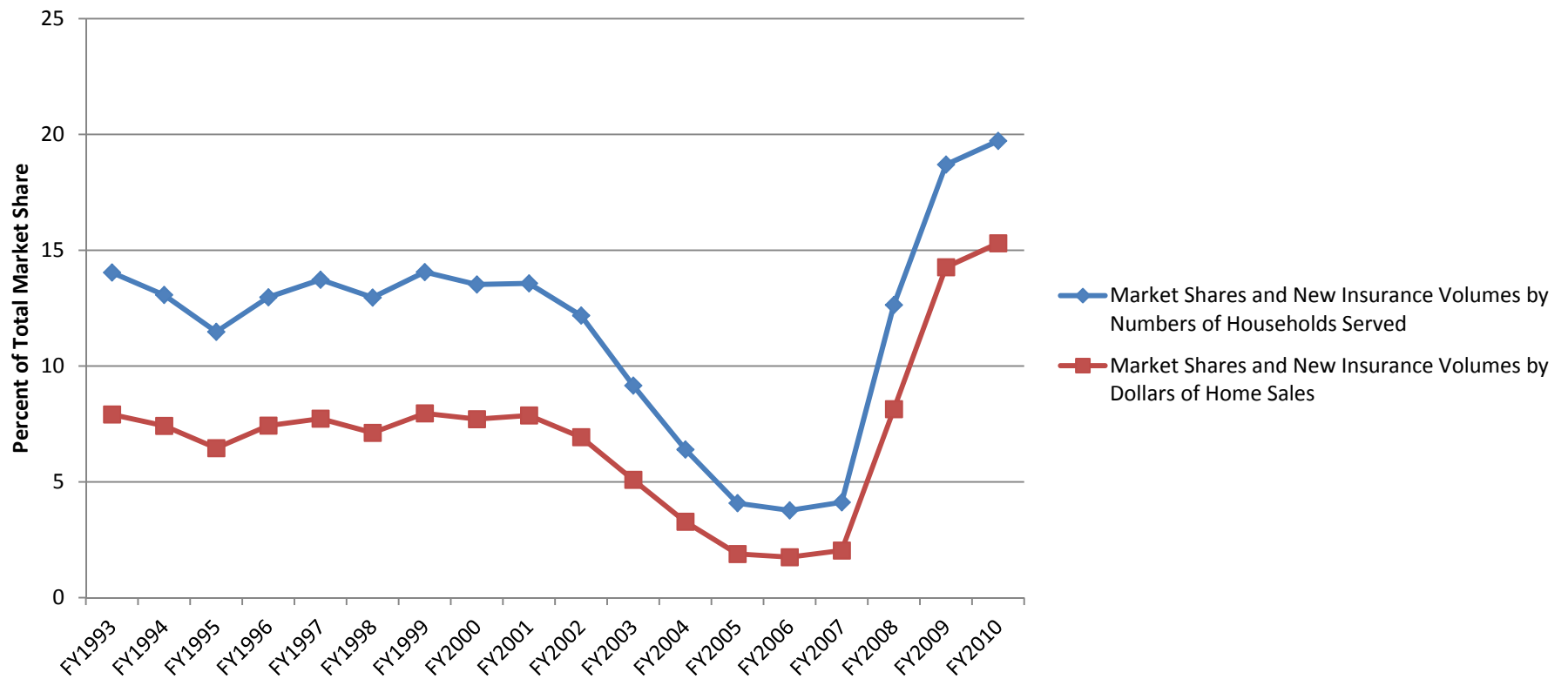
Performance of GSE Mortgages



Source: United States Office of Comptroller of Currency, 2nd Quarter Report 2010

FHA

FHA Single Family Activity in the Home-Purchase Market Through May 2010

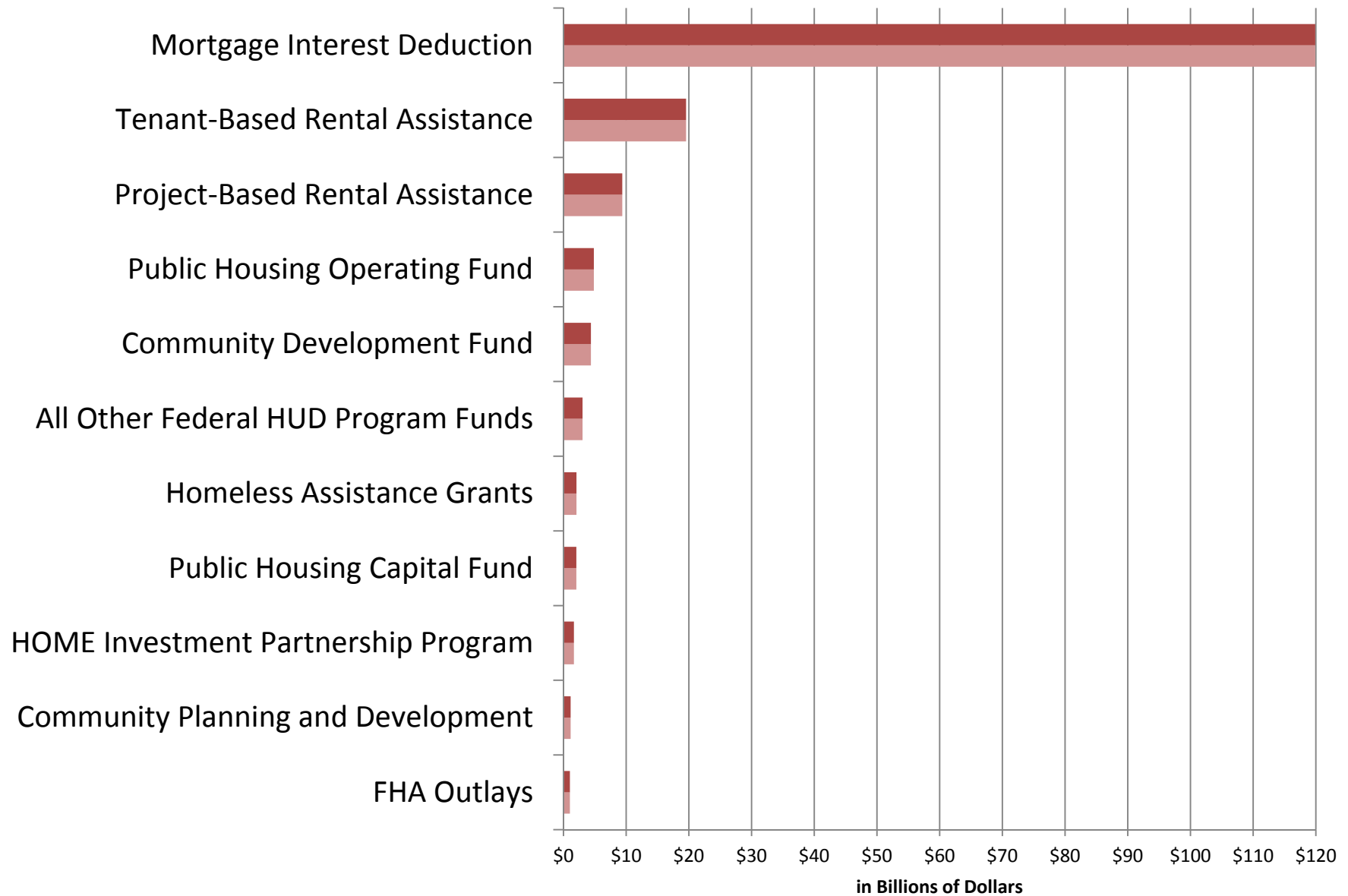


US Department of Housing and Urban Development (HUD)

Mortgage Interest Deduction (MID)

- Nearly 80% of the benefits from mortgage-interest and property-tax deductions go to the top 20% of taxpayers in terms of income
 - Only 3.5% of the benefits go to people in the bottom 60% of income earners
- Most lower- and middle-income homeowners don't qualify for the deductions because they don't itemize deductions on their tax returns
 - In 2007, households with adjusted gross incomes of at least \$200,000 accounted for 30% of all mortgage-interest deductions, by dollar value

**2011 Budgeted Program Outlays (OMB) compared to
2011 Federal Tax Expenditure Estimate (Joint Committee on Taxation)**



Reverse Mortgages

- HECM (Home Equity Conversion Mortgage)
Amount is Based on:
 - Age of the youngest borrower
 - Current interest rate
 - Lesser of appraised value or the HECM FHA mortgage limit or the sales price
- Costs include:
 - Origination Fee; Closing Costs; Mortgage Insurance Premium (MIP); Servicing Fee; Interest Rate

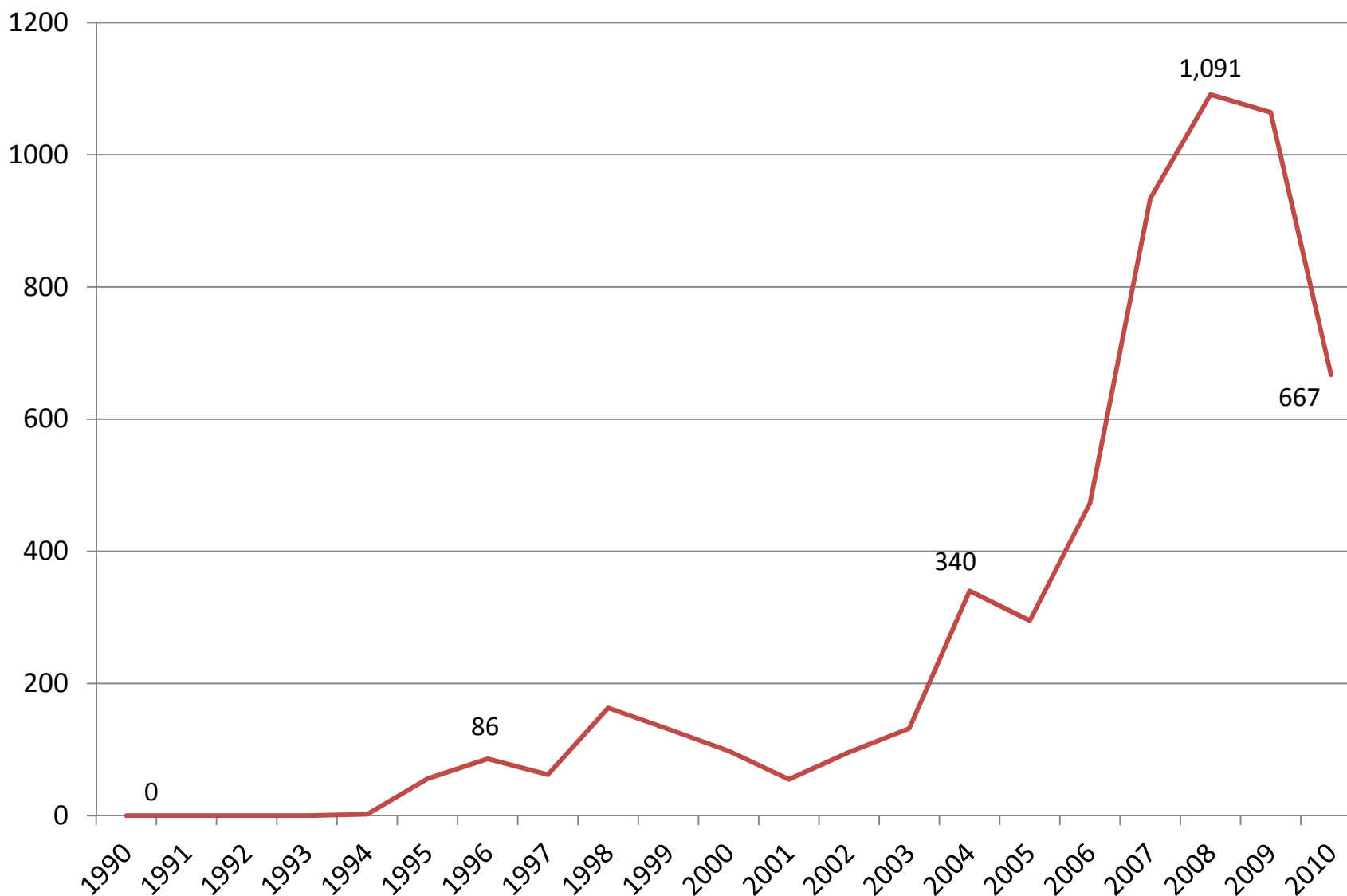
HECM Requirements

- **Borrowers Must**

- Be 62 years of age or older
- Own the property outright or have a small mortgage balance
- Occupy the property as their principal residence
- Not be delinquent on any federal debt
- Participate in a consumer information session through an approved HECM counselor

Number of HECMs in Wisconsin by Fiscal Year (10/1 - 9/30)

Note 2010 Figures through 7/31/2010



Source: HUD <http://www.hud.gov/offices/hsg/rmra/oe/rpts/hecm/hecmmenu.cfm>

Looking Ahead?

- **The National Bureau of Economic Research: “recession ended in June 2009.”**
 - While GDP is up by extending output per worker
 - Increases in productivity and GDP typically precede expanded hiring during an expansion. <http://www.nber.org/cycles/sept2010.html>
- **National Association of Realtors: “without a recovery in confidence, buyers will continue to hesitate.”**
 - http://www.realtor.org/research/economists_outlook/quicktakes/forecast_update_100110
- **Bloomberg Business Week: forecast new home sales 295,000 annual pace (May at 282,000 record low)**
 - <http://www.businessweek.com/news/2010-09-24/sales-of-u-s-new-homes-lower-than-forecast-in-august.html>
- **National Association of Home Builders: “expect substantial gains in housing demand through 2011 and 2012”**
 - http://www.nahb.org/reference_list.aspx?sectionID=138

Back to Basics

- Job creation
- Consumer confidence
- Stabilization in foreclosures
- Demand: Household formation
- Spending cautiously (as income recovers)
- Access to credit with restraints

