Homeownership Up, But Home Equity Flat

WHILE HOMEOWNERSHIP RISES, HOME EQUITY STAGNATES

But Lower-Income and African-American Families Make Gains

Washington, D.C., November 16, 2000 -- At a time when homeownership has risen to a record high of 67 percent, home equity has not increased nationally, even declining somewhat, according to an analysis of Census Bureau data prepared by Freddie Mac housing economist Frank E. Nothaft for the Consumer Federation of America (CFA). Specifically, between 1989 and 1999, average home equity per homeowner declined, in inflation-adjusted (1999) dollars, from $91,000 to $89,500.

The analysis also found that, during the 1990s, home equity did increase for lower-income and African-American households. Between 1989 and 1999, homeowners with incomes below area medians saw their home equity increase by an average of 6 percent, from $76,000 (in 1999 $s) to $80,400. In the same period, African-American homeowners experienced average home equity growth of 12 percent, from $53,400 (in 1999 $s) to $59,700.

In a separate public opinion survey undertaken by the Opinion Research Corporation International (ORCI) for CFA, more than half of respondents (51 percent) said that a significant decline in home equity was bad for the country. One apparent reason for this concern is the belief by a large majority of Americans that it is important to have paid off a mortgage by retirement. 89 percent of survey respondents said "by retirement, it is important to own a home, with a paid-off mortgage, to reduce housing costs."

"In a period when income and wealth have grown rapidly, it is worrisome that home equity has been stagnant," said Stephen Brobeck, CFA Executive Director. According to Federal Reserve Board research, home equity remains a large part (50 percent) of household net worth. For low- and middle-income families, it represents a large majority of this net wealth.

"The good news is that both homeownership and home equity have grown among lower-income families," added Brobeck. "Aggressive public and private policies, coupled with a buoyant economy, have helped many less affluent households build wealth through homeownership."

Home Equity and Low Down Payment Loans Important Factors in Stagnant Home Equity

According to the Freddie Mac analysis, one important reason for stagnant home equity is increased borrowing by homeowners on their home equity. Another reason is an increase in the number of first-time homeowners using low down payment mortgages.

Between 1989 and 1999, the ratio of mortgage debt outstanding to the value of all homes increased from 31% to 34%. That trend largely reflected lower down payments as a percentage of mortgage loans and increases in home equity borrowing. According to Federal Reserve Board research, about two-fifths of the growth in outstanding mortgage debt in the late 1990s represented home equity loans and cash-out refinancing.

Between 1989 and 1999, the proportion of homeowners carrying home equity debt rose from 58 percent to 61 percent. Growth in the number of first-time homebuyers, who generally make lower down payments, and in the number of homeowners who cash out some of their equity through refinancing, explains much of the increase in overall leverage.

The ORCI survey found that, in the past five years, about one-fifth of homeowners had borrowed on their home equity, with loans averaging $36,000. Nearly one-third of these borrowers (31 percent) refinanced consumer debt, and one-quarter of the borrowers said they were concerned about repaying this debt.

Younger Households Lose Home Equity and Increased Related Debt

The Freddie Mac analysis found that home equity increased for age groups older than 55, but declined for groups under this age. In 1999, households headed by someone younger than 45 years of age had 14 percent less equity than their counterparts of a decade earlier.

The report also found that mortgage loan to value ratios had increased, between 1989 and 1999, for each age group under the age of 65. For households between the ages of 35 and 54, in this period these debt ratios increased by about 16 percent.

"Over the past decade, younger households have increased homeownership but decreased home equity," said Brobeck. These families should be cautious about taking out home equity loans."

Consumers Voice Caution About Home Equity Borrowing

In the ORCI survey, 95 percent of respondents said that "homeowners should be more cautious in taking on this debt." 62 percent said homeowners should be "much more cautious."

In addition, survey respondents looked very unfavorably on the idea of consumers being able to use a credit card to borrow on their home equity. 83 percent said this was a bad idea, with 65 percent saying it was a "very bad idea." This concern increased with the age of survey respondents, with the proportion saying it was a very bad idea rising from 44 percent among those 18-24 years of age to 79 percent for those over the age of 65.

"Despite the rise of home equity borrowing, most Americans believe that homeowners should be cautious about 'spending' this equity by borrowing or cashing it out," said Brobeck.

Advice to Homeowners About Home Equity Loans

CFA recommends that homeowners use caution before borrowing on their home equity. First of all, borrowers should understand that they are draining their home equity, the most important source of savings for low- and middle-income families.

Second, homeowners should try to limit home equity loans to "capital improvements" -- such as home improvement, education, or business start-ups -- and medical emergencies. Consumers should not use home equity loans to finance current consumption. If they use home equity loans to pay off consumer debts, they should make certain that they not take on additional consumer debt. These debts can significantly increase the risk of insolvency.

Research Based on Recent Data

The Freddie Mac report was based U.S. Census Bureau data collected as recently as 1999. These data were used to calculate the distribution of home equity accumulation and housing-related leverage, as explained in the study's appendix.

The national opinion survey was conducted by CARAVAN Opinion Research Corporation International (ORCI). Telephone interviews were conducted among a national probability sample of 1004 adults 18 years of age and older living in private households in the continental United States. Interviewing for the survey was conducted during the period of June 29 to July 2, 2000. All participants were contacted via random digit dialing to ensure a representative sample of consumers nationwide. The margin of error is plus or minus 3 percent.

CFA is a non-profit association of some 270 pro-consumer groups that seeks to advance the consumer industry through advocacy and education.

TABLE 1: HOME EQUITY AND LEVERAGE BY AGE

	Under 35	35-44	45-54	55-64	65 & over
Home equity*					
1989	$57,100	$83,400	$100,500	$108,400	$104,700
1999	$49,200	$71,600	$93,400	$112,100	$111,500
% change	-13.8%	-14.1%	-7.1%	3.4%	6.5%
Leverage**					
1989	53.2%	42.4%	32.5%	20.1%	8.9%
1999	57.5%	49.5%	37.5%	23.4%	8.0%
% change	8.1%	16.7%	15.4%	16.4%	-10.1%
*Equity per household in 1999 dollars. **Aggregate loan-to-value ratio.					

TABLE 2: HOME EQUITY AND LEVERAGE BY INCOME

	Below Area Median	Above Area Median
Home equity*		
1989	$76,000	$100,400
1999	$80,400	$95,500
% change	5.8%	-4.9%
Leverage**		
1989	22.2%	33.9%
1999	20.0%	39.6%
% change	-9.9%	16.8%
Source: American Housing Survey, U.S. Bureau of the Census		