

DESPITE FORECLOSURES, SUB-PRIME LENDING INCREASES HOMEOWNERSHIP

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Homeownership is at the heart of the American dream. The effects of the current turmoil in the mortgage market on homeownership are therefore sending shock waves across political and financial arenas. Amid predictions that 2 million households

could lose their homes, federal and state legislators are struggling with an appropriate regulatory response. Ironically, new legislation aimed at protecting borrowers could curtail sub-prime lending and ultimately block millions more from homeownership.

The sub-prime loan market has come under intense scrutiny and frequent attack over the past year. Despite generating about 1.3 million loans for first-time home buyers in the period 2000-2006, the sub-prime mortgage market has resulted in a net ownership loss of 854,674 units, according to the Center for Responsible Lending (CRL).¹

However, following the basic approach taken by CRL, we find that even with rising foreclosure rates, the nation has actually seen a net gain in homeownership of 434,683 units for the period.

To arrive at this estimate, we use CRL assumptions with one important exception. CRL assumes that 25 percent of all loans for home purchases are made to first-time home buyers. But it calculates the number of sub-prime foreclosures based on all first-lien, owner-occupied sub-prime loans. This includes not only purchases of homes by first-time purchasers but also purchases of second homes and purchases by investors. Rather than use CRL's calculation, we compare all purchase-loan foreclosures to the same types of loans to first-time home buyers. Since CRL's data are proprietary, we rely on LoanPerformance (LP) data for our calculations. We were also able to nearly duplicate the results obtained by CRL using this dataset.

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Table 1 shows both CRL's and our calculations. CRL finds a net homeownership loss in every year over the period 2000-2006, totaling 854,600 units for the entire period. In contrast, we find a net homeownership gain in every year, or 434,683 units nationwide for the period. We obtain the nationwide figure by adjusting the LP data-which accounts for between 40 percent and 50 percent of all subprime mortgage loans-by 42 percent. (Comparing LP data with national aggregate data from Inside Mortgage Finance, we arrived at the 42 percent figure.)

CRL has asserted that the sub-prime market has generated more than \$2 trillion in home loans and that those loans "will lead to a net loss of homeownership for almost one million families."² However, we find that when one strictly matches the same kinds of loans, the result is a net gain of nearly half a million units.

More generally, it appears that continued access to credit (that is, to sub-prime mortgage loans) does help those home buyers who would otherwise have trouble obtaining credit to realize their dreams of homeownership. Indeed, without the sub-prime loan market, it is clear that many individuals-perhaps one million or more-would have been denied access to the credit needed to become first-time homeowners.



¹ Center for Responsible Lending, "Subprime Lending: A Net Drain on Homeownership," March 27, 2007, 2.

² Ibid.

Table 1 : Net Homeownership Gain or Loss Due to Sub-prime Mortgage Lending : Center for Responsible Lending (CRL) Calculations vs. Calculations Based on LoanPerformance (LP) Data

Crl Calculutions				LP Data / Calculations				LP Data / Calculations
Year	Estimated number of first - time home buyers using sub-prime mortgages ¹	Foreclosures on sub - prime mortgages ²	Net homeownership gain (loss) ³	Estimated number of first - time home buyers using sub - prime mortgages ⁴	Foreclosures on sub-prime mortgages ⁵	Net homeownership gain (loss) ⁶	Nationwide net homeownership gain (loss) ⁷	CRL foreclosures rate used in calculations ⁸
		b	c=a-b		e	f=d-e	g=f/42%	h
2000	87,651	133,126	(45,475)	30,726	17,944	12,782	30,433	14.6
2001	80,856	105,464	24,608	26,953	12,398	14,554	34,653	11.5
2002	85,883	102,252	16,369	33,920	13,297	20,623	49,103	9.8
2003	120,807	181,464	60,657	71,306	34,512	36,794	87,604	12.1
2004	219,180	348,345	129,165	115,657	72,632	43,024	102,439	15.7
2005	324,361	632,302	307,941	141,314	109,660	31,654	75,368	19.4
2006	354,172	624,631	270,459	103,282	80,146	23,135	55,083	19.4
Total	1,272,910	2,127,584	854,674	523,156	340,589	182,567	434,683	16.3

¹ Applying the CRL assumption-that 25 percent of purchase, first-lien, owner-occupied sub-prime originations are for first-time homebuyers-to CRL proprietary data.

² CRL foreclosures on first-lien, owner-occupied sub-prime mortgage

³ Number of first-time homebuyer minus number of foreclosures, using CRL proprietary data.

⁴ Applying the CRL assumption-that 25 percent of purchase, first-lien owner-occupied sub-prime originations are for first-time homebuyers, using LP data.

⁵ Foreclosures on purchase, first-lien,owner-occupied sub-prime mortgages, using LP data.

⁶ Number of first-time homebuyer minus number of foreclosures, using LP data.

⁷ Nationwide net homeownership gain (loss) is based upon the assumption that LP samples capture 42 percent of all sub-prime mortgages loans.

⁸ These are the foreclosure rates used in CRL's calculations and theLP-data calculations

