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Don't Worry, Housing Only "Feels" Unaffordable

Housing, at least according to Freddie Mac vice president and chief economist Sean Becketti, isn't unaffordable. It **just feels that way**. Becketti, in a recent post on the company's *Perspectives* blog, says the media is full of headlines that decry the costs faced by homebuyers today. He cites several, including a recent one from *Business Insider*, "An affordable-housing shortage in the US is about to get worse," as an indication of how the current environment feels to most people, but he says, "Housing is at near-record affordability, and I can prove it."

His **proof** is the Housing Affordability Index (HAI) developed by the National Association of Realtors (NAR). This is perhaps the most-widely-cited measure of housing affordability and is currently at **record highs**. This means, Becketti says, "the median-income family has more than enough income to qualify for a mortgage to buy the median-price house."

There are however **reasons** why homeownership feels out of reach to so many. First, housing is **expensive**. Nationally, prices are higher than they were in 2006, the peak before the housing downturn and have risen an average of more than 6 percent every year since hitting bottom in 2012. They show no signs of slowing down. In contrast, incomes have not keep pace, increasing only 2.4 percent on average in each of those years.

Second, the **tight inventory** of existing homes increases the perception that homes are unaffordable. Marketing time is at record lows, lots of sales are all-cash transactions, and bidding wars are common. The problem is exacerbated because many homeowners are reluctant to put their homes on the market for fear they won't find a new one. The imbalance between the supply of homes and the demand for them drives price increases and serves to transform the perception of unaffordability into actuality.

Homebuyers are **uncertain** if they can qualify for a mortgage, but Becketti states measuring income against home prices, as the NAR index does, is only part of the story. There is the issue of whether borrowers can document that their income is stable, a problem for the self-employed and those working in the gig economy. What about a borrower's credit score, is it high enough or does a borrower even have one? There are millions of "credit invisibles" who lack sufficient credit history on which to calculate a credit score.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.27%	-0.08	0.00
15 Yr. Fixed	5.65%	-0.20	0.00
30 Yr. FHA	5.67%	-0.05	0.00
30 Yr. Jumbo	6.49%	-0.06	0.00
5/1 ARM	6.05%	-0.16	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.47%	-0.69	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: 9/6

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%

There are other qualifications as well, the **level of deb**t carried by the borrower (debt-to-income ratios are the most common reasons mortgage applications are rejected). Does the borrower have enough cash for a down payment? Becketti says this is one area where help is available. Freddie Mac's Home Possible Advantage® mortgage that allows borrowers to put as little as three percent down, and that modest amount can be a gift from a family member or a government grant.

Becketti says that despite these hurdles, the HAI is correct, mortgage payments today are more affordable than at almost any time in history.

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