Renters, Homeowners & Investors: The Changing Profile of Communities
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Renters, Homeowners & Investors: Five Years of Crisis

SANDY BRAUNSTEIN: I'm very pleased to be here today especially with my co-panelists. And these are definitely people who need no introduction. There's bios in your materials and we want to get right to the heart of the matter. So I will just briefly say I've got Eileen Fitzgerald here who is the CEO of NeighborWorks America and Eric Belsky who is the Managing Director of the Joint Center for Housing at Harvard. And that's--I think that's good for introductions.

Good.

So, everybody has got their clickers hopefully, right?

Yeah.

Good. So we thought, you know, what we want to do with this panel, there's a couple of things. One is we'd like to kind of frame up and have some very high level discussion about the major issues that will be discussed through a lot more detail later today. So, I know that, you know, we've got this audience of experts here and everybody is going to be burning to say something about this, and we didn't allow time for questions or comments from the audience for this panel. But I just want to assure everybody upfront that each of these issues is going to be discussed in a lot more detail later in the day in specific panels. And for those panels, there is lots of time for questions and comments, and we really do want to have a lot of interaction and we want to hear what you're thinking about these issues and we want you to ask questions and make comments. But for now, we're going to focus on Eric and Eileen in terms of these issues to hear some of their thoughts about them. But given that--we thought we've got these experts, the one place we wanted to get some input is that we're going to use these clickers for--and ask a couple of questions which will get you to answer and then we're going to have some discussion of them up here. Also because we have this cool toy, we thought we might as well use it right at that. So, the first question, can -- so, a lot of people are talking about where are we in the recovery in terms of housing. And there's a lot of data out there and I think what we, you know, heard is that it's really mixed around the country. And one of the things about these questions, we are kind of forcing you to make a choice because if we have one of the answers up there, it depends. Everybody would click "it depends", right? So we wanted to kind of narrow this down and force you to make a choice. So the first question is how would you describe where we are in the housing prices in the communities that where you work, where your organization works or you work personally. And so, the first answer is the "worst is behind us." The second answer is "the worst is here." And the third one is the "worst is yet to come." And so, if everybody could click in their answers now, please?

[Pause]

Do we--

Can we phone a friend for these? [Laughter]

Probably the friend you'd want to phone is somewhere in this audience, right?

The results are up.

Okay, all right. So, well, that's kind of encouraging. 51 percent said the worst is behind us, 32 percent though think the worst is here, but only 17 percent think the worst is yet to come.

And that's interesting. So, with that I'd like to turn to the panel and ask Eileen and Eric. Could you talk a little bit about one is--maybe if you're willing to share with us how you answered that question, but also in relation to what you see, Eileen, certainly, your organization has people on the ground all over the country and what are you seeing in terms of where we are in the recovery, and Eric, you guys do a ton of research on this. So we'd like to hear what your thoughts are on this issue.

EILEEN FITZGERALD: So, I did pick the--I mean B too. And, you know, it's a little bit of a challenge between one and two. I do think we're not free assuming that we don't have a total fiscal melt down. So I'd like to think optimistically that the States aren't going to go bankrupt and we're going to get to some consensus. We do worry about that a lot because many affordable housing programs, in particular, and subsidies have been cut at the State level. California is kind of a classic example with the redevelopment authority. So, I think it's not clear yet how that is all going to play out. You know, so the reason I went to two is I think the impact on the communities where we work, you know, low and moderate income communities, minority communities, is still very unclear, right? And certainly, the number of homes going into foreclosure, I think, fairly consistently has gone down, and that's a real positive. However, we're also seeing that, you know, the window of affordability has almost disappeared in so many places. And, you know, as Dr. Stein said, before, you know, this balance of having rental availability and, you know, homeowners back in communities, and one of our concerns is that so many communities have been snapped up by all cash investors and some of those investors bring lots of good things to the table and others do not. So the concern about what will happen in those communities, will they be further destabilized over a few years? Will they be disinvested in and, you know, the fabric that makes a community which is not all rental and not homeownership in many of those communities is really at risk. So those are some of the factors that we worry about.

ERIC BELSKY: So, I guess, I would answer that I think, you know, when you look at the broader housing market in most places, the worst is behind us. So I think a large part of it is how you define worst and in what context. So, clearly in many markets inventory for sale continue to fall while demand is starting to come up, which is resulting in a rebound in home prices in a number of areas which is generally thought of as a positive unless, of course, you're one of the people who's a first time buyer in which case it's becoming a little less affordable, and interest rates are also starting to creep back up. So in the affordability standpoint, well, the recovery of the market in terms of prices, in terms of construction, in terms of sales is all very positive for the broader economy, for first time buyers it's becoming a little less affordable and is likely to become little less so over time. When you're looking at rental markets of course, rents are going up. So if your definition of "is the worst behind us" and you're a renter and you're getting a rent increase this year and then the next year you're getting another rent increase, and a year from then you're getting yet again another increase, I think they would say that, you know, for them a difficulty and hard to bear. In terms of what's going on in communities, low income communities, moderate income communities especially, it's also a really challenging question as to what's happening. I think there's no question that there has been, over the last two or three years, an enormous amount of turnover of properties going from people who had previously owned homes to investors who are now renting those homes out. So you have a lot of change in the community, and relative to the alternative which is homes that are stranded in some part of the foreclosure process, how many of you could get a--you can hit A on your dial or, you know, how many of you have seen, you know, serious issues around homes that are just stranded in some foreclosure or abandonment process? That's the worst, right, for a neighborhood. So to the extent that the movement and the deployment of capital which has been at scale, there's no question, there's at least four million homes have changed hands out of foreclosure, and by most estimates, about half of that or more has gone into investors homes who are renting them out. That's been the stabilizing of--forcing the community, it's kept, frankly, rents are rising more because it's kept the rental supply from being even more constrained. But is the worst behind us really has to do with--will the people who purchased those properties are clearly taking risk and doing it, find that they're meeting their cash flow expectations in a way that really permits them to maintain the properties? My guess is that most of the people investing in the space are going in under the assumption that at some point they want to sell the home for markup and therefore want to maintain it in decent condition, but wanting to and being able to based on the rents that you're able to achieve, the amount of turnover you're getting, the complexities of things that can go wrong in a home, some of them may find that they're unable to really hard to tell in particular places how that's going to pan out. I do know that in a number of instances, private sector players are going to places where nonprofit organizations have decided they don't think that there's a possibility of earning a decent kind of payback or to be able to sustain their operations, yet the private sector is taking risk there. So the question is the private sector right and they're going to make a big return, or is the private sector going to turn out to have gone into some communities where they're not even going to really be able to keep these things leased up. So, I think, Governor Stein said it right. It's a complex situation. The way you answer this question depends on where you sit. If your investor price is going up, that's a great thing. And they've gone up pretty substantially in several markets as best I can tell from different data sources. There's double digit increases in the price at which REO are selling in some of the hardest hit states, the sand states, so called, in California, I guess, is sand and mountain and ocean and all of that. But Nevada, Arizona places like that, and all those things are creating a potential for those investors to earn a return. And the biggest issue I think, and then I'll leave it there, is what kind of credit is going to be available for permanent take out to a home buyer in the sense that many people at some point may want to become homeowners again. And if they're able to it'll change the dynamic very much. If they're unable to, a lot of these things are going to remain rentals a long time, and it will depend on whether people were able to pencil out really a way to keep them maintained.

SANDY BRAUNSTEIN: Okay, thank you. We're going to talk more about investment and we're going to talk more about rental versus homeownership on the third go-round, but I want to move on to the second 'cause, Eric, you brought up a lot of issues around investment, but I want to probe that a little bit more. But first, I want to ask the next question. Could you put up the second question for the clickers? So there is a lot of discussion out there now, and many of you in this room we've had discussions with--about investment, investors, large scale investors coming in versus people, individuals buying properties and nonprofits buying properties. And so we would like to ask this question of you. On balance, what impact will large scale corporate investments in distressed single family housing have on neighborhoods? One is a stabilizing effect, two is neutral, and three is destabilizing. And if you could, click your answers in now.

[Silence]

Okay. Interesting. Okay, so 26 percent feel there's--could be a stabilizing influence, and two--number two for neutral, 20 percent, but 54 percent feel that private large scale private investment will be destabilizing. So it's really interesting. I'm going to turn to Eileen and Eric on this one to talk more about it. But I just wanted preface that with, you know, we've had some of these conversations internally at the Federal Reserve, and it's a really interesting conversation. So the people in my world, from the community development segment, are concerned about the large scale private investment absentee investors, absentee ownership, you know, what that's going to do to the character of communities and all those things that come with that? And then we have some of our economists on the other side who are just very happy that the markets are moving again. And if that means that, you know, private investors are coming in and putting up, you know, big chunks of cash and buying a lot of them. They don't see, really, the downside in that because it means that the housing markets are starting to move. And so, you know, it is that kind of "where you stand kind of depends where you sit" kind of discussion, but I think there are a lot of facets to this. And so, I'd like to probe some of that with Eileen and Eric is what are you seeing--what are your feelings--first of all, how did you answer the question and why is it that you feel that way? And Eileen, do you want to go first? I see you smiling and nodding.

EILEEN FITZGERALD: Well, I answered destabilizing. And I focused really on the neighborhood way [inaudible]. I focused on the neighborhood word. I think if that's said on the macroeconomy, it would be hard to answer that and say destabilizing. But that's not what the question is. So, you know, it's hard. I mean we're--private investment is a key element of any strong community. So at no point would I be saying "Gee, you know, we don't want that private investment." I think our challenge right now is how the private investment, essentially, is crowding out, you know, kind of community investment is, you know--unfortunately we don't have great data on this, but anecdote after anecdote across the country, I have examples of families bidding on houses, not even being able to see the inventory. They have mortgage credit. They are good credit risk. They have their down payment and they lose the home. So, you know, part of--as a person who cares deeply about affordable housing communities, you know, I kind of feel like we're going to be--you know, let's imagine we had a billion dollars, right, and essentially we have lost--by the next two years, we'll have lost that billion dollars because we didn't get folks into the housing, we're going to wind up paying that subsidy in some way or another. So that--you know, that just seems like a kind of poor choice of how to spend their money. So that feels destabilizing as well. We at--NeighborWorks does a training institute many of you know several times a year, and I met with many of our NeighborWorks organizations last week and I was asking about credit on the ground which is always kind of a mystery. And it's really interest--it was very interesting though how most of them had some relationship with a regional bank, a larger community bank where they were getting first mortgages in the 600 credit scores. You know, and some of those through FHA, but a lot of them were portfolio products. And the bigger issue honestly was inventory and being able to access it. Now there are still communities, you know, where home buyers don't want to buy and where investors are not buying, right? And unfortunately there is very few resources to help turn those communities around. But for those that are places that are somewhat, you know, desirable to think about being a homeowner or a renter, I guess are--you know, at the end of the day we're just very worried about losing, you know, essentially losing that subsidy. If there was a way and, you know, we had many conversations with lots of folks, those in the affordable housing field with investors, you know, in our perfect world we would qualify an investor before they could play at scale, and I think it's that large scale that we worry about the turnaround, letting properties depreciate. But, you know, they obviously have helped bring back the market. So...

Is it--can I follow up a little bit on that before I turn, Eric? When you say people, you have the anecdotes of people who have lost home, you know, they're trying to get a home and they can't get it, is it because the investors are just moving--can move much more quickly, you know, and bring cash to the table, and it takes longer for the individual homeowner to get their financing lined up? Is that the major reason?

ERIC BELSKY: You know, there seems to be a couple of things. I mean, one they are sometimes, you know, something akin to bulk sale--I won't say it's exactly like a bulk sale--but there is some transaction going on and that property doesn't actually--the inventory doesn't hit the regular market. There is clearly, you know, realtors are an important part of this equation, and some realtors are doing a phenomenal job in working to stabilize their communities and other cases. They are assisting those larger scale investors. So when it does actually get into the system, it's never really getting to kind of MLS place, or it's getting there so quickly and out again. The price--and then the third I think is preference for all cash versus just the assumption that even with someone coming in either pre-qualified or good credit that it's going to take longer. So there is an execution on the part assumedly of the services that just prefers to get rid of that, and that's an issue we have all be talking with them literally at this point for years about, I'm not sure through a lot of avail, especially in the markets that, you know, are not the most distressed market. So I think it's all three of those things.

Okay, so I guess what I'd say is first of all, I didn't read the question so that's just classic. So I didn't catch the neighborhood. So I said stabilizing, and stabilizing because I do think that capital coming into markets especially where it's hard to get conventional credit for a home buyer is a plus because otherwise those units are going to fall in value because the level of demand relatively the supplies is going to 'cause them to continue to fall. I do think--when you think about the question, you know, specifically it talks about the corporate investment by which I think you mean, you know, kind of larger scale. And this--so it's a little bit of a distinction between just investors coming into markets who are paying cash because it's very difficult to get financing if you want to be an investor, unless it's kind of this private equity kind of capital that comes in. And by the way that's the highest cost capital that's looking--needs to get a pretty good return. And so I'll talk about the corporate side of this in a second by which I think it's largely, you know, private equity that's coming in. The crowd out effect. There's no question about it. It's difficult. The inventories are lean in a lot of places that aren't places where there is concentrated foreclosures. Where there are concentrated foreclosures you have a lot of people who are willing to put cash down on the table. And, you know, from a broker's perspective, from the seller's perspective, there is a strong appeal. So unless the seller, in this case a bank or whoever has it in REO, is insisting that they can get a much higher recovery by holding out for a bona fide home buyer, which by the way you could make very strong argument for because there is a ton of research and it's very sound research that shows that foreclosed homes tend to sell at a very significant discount, part of it because they're in poor condition, but partly because they're distressed sales and someone wants to, you know, kind of cut their loss and get it off their books. So you could imagine there is an argument to be made, but the reality is very significant fractions of this and there's been city studies that range from a third to more than half, just in the ones that I have seen, of the homes that have come on the market that go to an investor presumably paying for cash and moving quickly. So in that respect I think, you know, it makes it difficult, but the reality is that if they weren't in the market and you are trying to get homes for all the home buyers that qualify, you might not have enough buyers relative to the homes. It's just that, you know, it's going to be a local by local thing. In terms of the "corporate side" of this, the large scale capital I think that you can--you know, I hate to over-generalize anything, and I think that it depends on the model that they're trying to operate under. I've heard it said and I've seen it myself that some of these funds have very, what they think, is sophisticated sort of software to try to assess where to pick properties. They are not just willy-nilly doing it. They're doing it in places that they think have a much stronger long-run potential to keep them occupied or to be able to see price appreciation. And in that respect they're probably coming in, and if anything, you know, making choices that are, in theory again, informed and therefore probably a positive force if their models are right. But then there are going to be others I think who pay less attention, less due diligence. The bigger issue to me I guess on this corporate side is not so much a little bit what you said, Eileen. It's not so much whether they are corporate or not, it's how they're acquiring their properties. So if they're doing this kind of, you know, retail, they're looking at a retail property from place to place, that's one thing. My bigger concern is, you know, large bulk sales in which some portion of the units that are going to be sold is a little bit like the, you know, the bad apples in the cart. You know you're selling a bag full of apples, you stick a bunch of old, you know, bad ones in the cart. Everyone knows they're in the cart. They don't know exactly how many there are or what they are. Those things go to, you know, an entity that's going to view these things as being valueless, where in fact liabilities. And it's a question of what they do with it, who picks them up after that if they have any sensibility about it. I worry about that kind of bulk transaction that could lead to some subset of properties falling at the hands that are just going to kind of leave them as an option on a long-term redevelopment of a community or, you know, you buy a note and you decide not to foreclose because things are vacant and you don't want to have title on it. That's the real concern for me in this potential for large purchases that, you know, I guess associate with corporations being the ones, or private wealth picking them up.

SANDY BRAUNSTEIN: Can we talk a little bit more about like really low value properties and how do we get those moving in the market place? And is there, you know, any value in moving them, is demolition the way to go on a lot of these? What are you seeing, Eileen?

EILEEN FITZGERALD: You know, I think the low value properties you have to look at the context of the community. So, you know, is it a low value property in a larger kind of community or metro area where there is a more robust housing market, and there's jobs, and it's just about how do I transform that community, remarket that community, maybe--you know, kind of the classic things in community development we have done, get crime under control, build an ownership stock. And I do think there is places where that is the case, and then there are places where the more macroeconomy in that area. You know, there's a lot of out migration. There's just too much housing and not enough demand. And in that case I think trying to, you know, put a lot of investment in there is probably throwing good money out of bad and after bad and we have to think about demolishing thoughtfully, you know, lots of good work on this, about doing that in a strategic ways so you'll still leave a sense of community. Obviously, there's a lot of challenging local politics. You know, the walk-aways, lien releases, there's several things out there that concern us if those are not also done strategically, and the capacity, especially in those situations of local governments, or county governments, to take on this. So, even to get to the point of a strategic demolition if you're similarly there with all of these low value properties, what happens? So, there's very little--and that I mean, you know, NSP was kind of out there to help with that some. Now they're, you know, that's winding down. So, that's a real concern. So, I do think it's important though to, you know, to compare those two markets and think about whether you can have the potential to turn it around.

So, Sandy as you know, I have a pretty distinct view on this and I really applaud the Federal Reserve and it's one of the areas where the work at the Federal Reserve be influential and important, and clearly you have, I think, you know, perhaps the finest research staff on the planet here, and they've been looking at some of these issues of low value properties. They've been looking at issues of vacancies trying to get more concrete information. And I think, you know, they've already done something, some of that today, but even doing more is important. My view is that this is a very important public policy issue. And if you think the market is going to deal with this in a way that results in, you know, the right kind of community process and public outcome, I have real doubts about it. We do know for a fact because we've already seen it and I know some people in the room, some foundations who've been involved with this for example, where they're trying to test the boundaries of some of these low value properties. And what they found is that people who have them and view them as liabilities, actually I think account for them not even a zero value that they can give away. They might need to be demolished--something or there's a strong demand to renovate them in the neighborhood, whatever it is. And as a result, you have a situation where people are--could've, you know, making decisions about what's going to happen here and they cost money. And at some point, the private sector just isn't going to want to write checks to get them off of their balance sheets. They'll try to find other players who will take them for, you know, next to nothing over the small amount of money and they're not going to be the nonprofit players who realize "I have to have a significant amount of money either to demolish or rehab this thing." And I think those decisions especially if they're going to involve demolition obviously are really decisions that are important public policy decisions. That's why I think--and, you know, Governor Duke has said this many times, and I think it's right that this whole land bank effort is really important and to think it through in a more material way, it's completely under resourced. Many states have not even, you know, started to make movement and getting into direction where those things can occur. But I think this is the key issue because you talk about the things that are damaging the communities. My colleagues at the Furman Center I think, you know, I have one here today, just released a study last week on the impact of foreclosure in crime they studied in New York. And they talk about a blockface so you have to read the paper. This is a plug. You have to read it carefully. What a blockface is, but they're finding one vacant units, if I read it correctly, you know, creates a two point--I think six or seven percent increase in the incidence of violent crime and other forms of crime. So, this is a big issue. You can't let places have large numbers of no to zero, or negative value, or low value properties, you know, hang out there. The other thing is the Fed said is--even Fannie and Freddie and FHA which generally, for a lot of reasons, don't have the worst properties, they tend to maintain them better, but they had, I guess, that I think five percent of them were worth 20,000 dollars or less if that's even, or you know, the right thing. So to have a land bank that can cleanse the title and lean on all those kinds of issues, deal with tax, you know, in rem kind of things. That's really I think important.

SANDY BRAUNSTEIN: Okay. Thank you. Eileen, I do have one other follow up, you mentioned NSP. You know, and they were--with somewhere around seven billion I think total in that. So I'd like to know from your perspective was the money helpful, has it made a difference? What's your thoughts on that?

EILEEN FITZGERALD: I think it's absolutely made a difference. You know, I'm sure many of us in the room might have chosen to leverage it more, target it differently. On the other hand, it's still got, you know, absent that seven billion dollars I do think many communities would be in a worse space. You know, we wish that there was a little more patience and pressure and credit for leveraging. You know, that money did not go as far as it could have. And in many markets, it was not used as strategically as it could be. But that being said, which is true or probably virtually, any subsidy that is out there, there are several markets where I think it did stop--help stop a decline, where it did help start--you know, we'll now hear that neighborhoods that might have been more NSP-like have now attracted some investment. So, that's going to take some good research to test that out in a few markets. But anecdotally, the fact that NSP, you know, properties cost a lot more now that they did three years ago, I think is a statement of bringing that investment into that community. So--and I do, you know, however, we deal with that, the communities are still really distressed of the fact that there is no source to kind of help do that is really worrisome.

ERIC BELSKY: So, I--you know, my view of this is a little bit like Eileen's in that no public policy is usually implemented smoothly and perfectly. When you think of the context in which this happened, I mean people were basically in shock. The Federal government was trying to design a program to get some dollars out into the community as much as they, you know, could get through Congress. And those dollars were--had to be deployed within a pretty short timeframe. So, you knew that it would be challenging and over time clearly a lot of the rules that didn't make sense like, you know, you have to keep having a five or 15 percent, you know, less than the appraised values. Well, that's kind of interesting. So, what you're saying is we've got make sure we're buying properties that just drag down the market. I mean, you know, some of the things just didn't make sense in hindsight. So things like that changed. My view is that we need a lot more of that. We need it in a much more organized way. Now with the benefit of hindsight and a little beyond the trauma, although, you know, many communities are not beyond the trauma, but I think in Washington perhaps. I remember talking to Raphael Bostic who's the

Assistant Secretary for Policy Development and Research at HUD and he said, "One of my key take-aways is that, you know, it's really hard to design policies and programs like that when you don't really have a good understanding of the delivery mechanism and how it's going to respond or react, but over time they study it, they look at it, they can do it." You know, that's why I think, you know, things like Rebuild America--those things, you know, would make a difference. The biggest issue is I think there just weren't enough dollars. So I serve on, you know, the Mayor in Boston's Advisory Panel on housing, and, you know, the amount of money we got in absolute dollars at first round on a formula basis was, you know, you could barely do anything with it. I'd rather have some money to do something with than no money, but it was really not material enough. So, I think even with the set of rules with it, just been a larger amount of money it would have a bigger impact obviously. But I--you know, I think that--that's why I say an organized public policy response, and I think, you know, State Federal level. If we really want to deal with some of these communities that have been really severely affected, you're going to need something like that or you're going to have what we've had for generations with some subset of communities or just long-term, really distressed, except we're going to have more of them and they're going to be more distressed.

SANDY BRAUNSTEIN: Okay. Thank you. We're going to move on to our third and last question. So, we touched on this briefly in the first question, homeownership versus rental. So, for our third question, how long do you think the decline in homeownership rates resulting from the crisis will last? One to three years, four to nine years, ten years or longer?

[Pause]

I'm surprised.

Okay. One to three years only 9 percent. That's not very encouraging. Four to nine years, 53 percent. And 10 years or longer 38 percent. So, in discussing this, you know, I'd like to get into a little bit more than just the decline in the homeownership rates, but how important is it for us to be striving towards this homeownership rate? You know. What is the right balance here between homeownership and rental? And is there, you know, some of this I think is a kind of cultural thing. In America, it's always been the American Dream. Everybody should own their chicken in every pot, everybody owns their own home, kind of thing and should that change? You know, given what's happened. We're in a new paradigm or, you know, given the importance of homeownership is an asset building mechanism which it has been, you know, should we still be striving for everybody to do homeownership, so?

I'll just say very quickly and then turn it to Eileen. I'm curious what she'll say, but I think the abstract, you know--in the abstract, there's a lot of reasons to think that homeownership does make a great deal of sense. And in reality, if you look at the past, you know, X number of years, even, you know, including and containing this big downturn to what Governor Stein said which is exactly righ,t for people who have been in their homes for a long time, they still have substantial amount of equity. They have as much equity as they did, you know, in 2006, no. Was the amount of equity they had in 2006 a illusory and in some way very impermanent? Yes. So, I think, you know, on a long run basis, it looks like if you believe the world generally has some degree of inflation which is right for most periods and right for most long stretches, and you know that basically, you know, prices and rents tend to rise at least with inflation, they generally go up with real incomes, then, you know, does this question of do you remain in a rental market where you're going to be paying higher rents or do you buy a home? The other thing of course is when you buy a home, now I know you can re-finance, and a lot of people did, treated their homes like "piggy banks." But the reality is most people eventually pay down a very large--or--completely their homes. And this is really important because it's a niche for generational wealth transfer thing. So the reason why minority white differences and wealth are so much more dramatically worse than they are in income is essentially a home. These people were able to pass down their homes as an inheritance to their children and their children got cash out of it. Some of which they brought back in the housing market which is I think why things tend to go up more than just income because there's a wealth effect that gets plugged into this. So, I think it's really important. In terms of this, you know, issue. I was asked this by a reporter last night and, you know, "Is there anything new under the sun?" And frankly I'll turn to Eileen now because NeighborWorks has been saying for I don't know how long, you know, you need a full cycle lending model. There's ways to lend more or less responsibly, clearly the less responsibly, you know, one out for a period of time to major negative consequences. But it's not rocket science. There is enormous amount of work that's understood about how you can serve people who, you know, have low down payments or may have to stretch their incomes a little further but not do all three at the same time, you know, with a low credit score. Those guys I think don't layer the risk. So, I think also, you know, I also often get asked a question "Is this the new normal?" And I said "I think this is still the abnormal." And me, I think we do reset to a more normal world, and a more normal world is rents going up and house prices going up at some gradual way recycles within them. And you have to understand it and you have to think about it and you have to be well briefed and counseled about what this implication is. And most people make the biggest financial decision of their lives which is very intimidating on their future uncertainty, and we know all those from behavioral economics, without really knowing what the right answer is going to be, but, you know, those rules of thumb that the longer you're likely to be there, the more likely it's to be the right decision carry some weight. I think it's very important societally to look at this. This question of "what's the right balance between owning and renting" never made sense to me. People used to talk about the optimal homeownership rate and I thought that just a fictitious--I don't know. But I think you could have a meaningful debate about what's a reasonable level of expected probability that someone is going to default or at least let them know what the, you know, model suggests those probabilities may be, things like that. But I think its role has been significant. And when you look at other possible ways to accumulate assets again, Governor Stein, hit it right on the head. You have to live somewhere and you have to make that payment anyway. And it's the really only way a low income person ever gets an offer to make a leveraged investment. You can't just walk away from all those things. You have to look at them and then figure out how to do this responsibly for people who want to and those who choose not to or don't want to take that risk, you know, renting is a completely noble endeavor in life.

EILEEN FITZGERALD: So, you know, I think--again, looking at the question to me, the decline in homeownership rates is a question that assumes a continued decline as opposed to stabilizing out where it is. So, I will not expect the homeownership rate to increase substantially in the next several years, but I--you know, 'cause I'm in the small category this time. I don't really expect it to decline a lot further. I also think that some level, you know, we're talking about like 64 to 69 percent, right? You know, so, I actually pulled this chart. So, you know, 19--a little 1985 it went below 64 percent, right, which is--since I guess 1980 about the lowest and even before then. So, I mean, that's not like some massive cultural shift. You know five percent, you know, we think about politics and how things shift between five percent. So, sometimes I feel like we are probably spending a lot of energy on the wrong conversation there, but I think no matter what, this country will be a majority of homeowners. I can't see that ever changing. So whether it's 62, 64, 69, you know. There seems to be some number that maybe it gets too high and maybe that says it's approaching the high 60s, but that's also dependent on what's the housing stock available. You know, we like to talk about the financing but not think about the fact that, you know, people also got very used to buying homes that may be, you know, gave them more space than was necessary, right? So, you can imagine ways that you also think about homeownership and what really is the kind of place someone needs to live.

Just one quick thing. Just so you know, when you ask people, and this Fannie Mae has been doing this, what percentage of people plan to buy a home at some point in the future? It's 19 out of 20 of them for anyone under the age of 45. 45 to 54, it's I think 9 out of 10. And that's because some of them just think they're going to stay where they are for the rest of their life. People, you know, want to a buy a home for a lot of reasons. I wrote an old paper about it, Not So Fast which, is this conclusion that homeownership rates are going to stay down for some extended period of time 'cause--and less credit just really becomes impossible. I don't think that's going to happen. There is a strong will out there, you know, for this. And to your point, you know, there's this question "Is it going to decline further?" You know, I think these rates are going to really be governed by access to credit almost more than anything else once we get beyond the thought that you're going to have an 80-year trauma every five years.

Yes. So, I think, you know, when we certainly are seeing in communities across the country a pretty strong demand for homeownership, you know, consistently across the board, more folks actually interested in pre-purchase education. I think, you know, realizing that the market is a little more uncertain. So, maybe being a little more patient than they had been five or six years ago. The, you know, a place where that is right now not as true for example is on Long

Island. So, for the last couple of years they had really strong homeownership demand and I think because of the impact of the storm, real like lots of local articles about insurance rates, property taxes, you know, and that's totally understandable, right? And they are absolutely seeing that, that folks who have credit, you know, ready to buy, have a down payment actually are holding back. But not surprising and I--my guess is that probably doesn't last more than a year or two. You know, I think the stability that--and certainty that it gives folks obviously it is also impacts your job mobility, but I don't think that families and individuals don't move to different cities just because they own a home. In general, people are, you know, oriented to a family, a community that the first choice is not to just suddenly pick up especially once they have, you know, more roots to that community. So, if, you know, if you're in that space then being in--feeling more in control of your situation versus, you know, most places are not like New York City that have phenomenal tenant protections, right? So, if you're in most of the United States, you are not very in control of your situation over a five-year horizon at all. So, you know, I think those are a lot of the factors that are beyond, "Is this an investment?" You know, I think where senior housing goes is going to impact this answer some, right? We have--you think about seniors actually are a substantial portion. Eric probably knows the percentage, but--have high homeownership rates. You know, again in a building equity, it creates certainty for them that sometimes being in a rental situation doesn't. We all know that they're also probably over housed. So, I think, you know, if all of a sudden the next ten years, we came up with some very creative good way that seemed to work for seniors. You could see a change in the homeownership rate related to that.

One thing I'd say just on this control issue, ask people why they want to own a home, and of course financial reasons used to be at the top of the list. Now, they've taken a, you know, a notch down because a lot of people encounter difficulties. But there's so many things that are associated in people's minds with homeownership. But one of the most important ones was the one you mentioned which, you know, I've heard--I remember the first person really drive this home to me Fran Justa who's just an amazing person who was in New York in neighborhood housing services there. And she basically said "Look, you know, for a lot of these people, it's just having control. It's having a sense that they got a fixed-rate mortgage. They kind of know what most of their payment is going to be like. And it's that they can't be arbitrarily told that this place is no longer being rented." And to them, it's an arbitrary thing even though from an investor's point of view, it may be a very deliberate thing. You know, they're selling it or whatever. But for people who live that experience, who felt that this was their home and someone says "Sorry, we're not losing it out anymore. We're converting it into a condo," or "We're selling this single family home you're renting." It's really, really, you know, upsetting to them. And they don't want to have to live through it. So, it's really an interesting constellation of forces that I think--yes motivates people to do this. Although as I said, it is a financial decision. It's one done under uncertainly. It matters. And, you know, for many, many, many people over many years, it's proven to be a way that people have been able to build wealth.

SANDY BRAUNSTEIN: Okay. And with that, I'd like to thank our panelists and please show them some appreciation and we're going to--

[Applause]

[Inaudible discussion]