

The American Dream of homeownership is an important marker of success and prosperity in the United States. This dream that anyone, regardless of their background, can one day call themselves a homeowner, is deeply rooted in our country's history and identity.

Homeownership can bring opportunities for stability, security, and wealth-building felt for generations. Yet for many—especially people of color and low-income families—achieving that dream can be an uphill battle.

Housing insecurity was a problem long before the arrival of COVID-19, but now a dwindling housing supply has pushed homeownership beyond reach for many low- and moderate-income American families. Increasing mortgage rates, skyrocketing home costs, and a lack of access to and awareness of resources have all contributed to what many are calling the Affordable Housing Crisis.

What Is the Affordable Housing Crisis?

Homeowners and renters across the U.S. have witnessed home prices and rents surge, leaving many to wonder whether affordable housing even exists. In May 2022, the White House announced the Housing Supply Action Plan, which promised to ease the burden of housing costs over time by boosting the supply of quality housing in every community.¹ However higher mortgage rates may be putting homeownership even further out of reach.

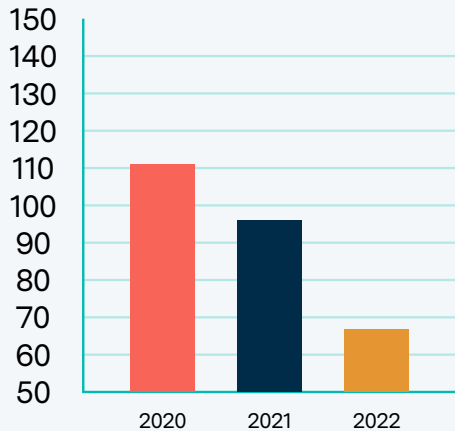
At the start of the pandemic, historically low mortgage rates made homeownership more attainable for some, but affordability of median home prices in relation to median household income has dropped since 2020. Lower rates sparked a buying frenzy in

a market that was already dealing with a housing shortage.

This competitive market pushed many first-time buyers to the sidelines, who could not afford to compete with cash buyers or aggressively priced offers. The National Association of Realtors' (NAR) First-Time Buyer Index dropped 43.3 points since 2020, from 111.9 to 68.6 in 2022. At the end of 2022, the median price for a starter home reached \$333,700 with a qualifying yearly income of \$83,232; however, the median income for first-time buyers was only \$57,138.²

As such, some prospective buyers have been unable to find affordable housing, leading many to label the current situation as an Affordable Housing Crisis.

(NAR) First-Time Buyer Index



The lack of affordable housing can have significant consequences, including inability to advance from renter to homeowner, housing insecurity, lost or delayed opportunities to build wealth, and increased financial stress. It can also impact communities as a whole, as it can lead to displacement, decreased economic mobility, and social inequality.

What Can Affect Housing Affordability?

Several key factors, including the existing stock of housing supply listed for sale or under construction, changes in housing demand in a particular geographic area, and mortgage rates, may influence housing affordability.

Supply and Demand

Housing supply was tight in 2021, hitting a historic low of 1.9 months of supply in January and February 2021.³ But the housing supply shortage began long before the pandemic.

After the Great Recession of 2008, new home construction significantly decreased.⁴ Fewer new homes were built between 2008 and 2018 than in any decade since the 1960s.^{ibid} By 2019, it was estimated that the U.S. was short 3.8 million homes to buy or rent.^{ibid} During the pandemic, the materials

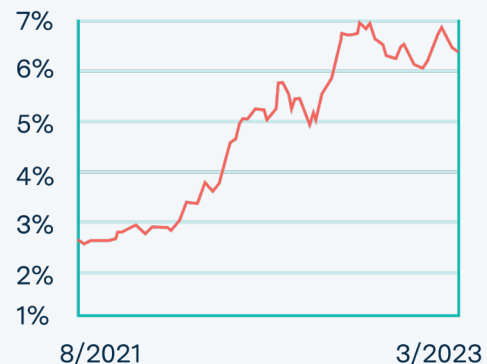
and labor shortage worsened this trend.^{ibid} In January 2023, building permits for new residential construction were down 27.3% compared to the year before, helping fuel the surge in home prices.⁵

As of January 2023, there were 2.9 months of supply at the current sales pace.⁶ This remains unchanged from December 2022, but up from 1.6 months of supply the year before when bidding wars were common occurrences nationwide.^{ibid} While supply has slightly improved, it is still not enough to meet demand.

Mortgage Rates

Interest rates were significantly lower during the height of the pandemic, attracting more buyers into the housing market. As inflation climbed to a 40-year high in 2022, the Federal Reserve raised interest rates and rapidly moved the Federal Funds Rate from near-zero to 4.75-5%.⁷ This caused the mortgage interest rate for a 30-year fixed-rate mortgage to increase to nearly 7.0% in March 2023 from 2.77% for loans with similar characteristics in August 2021.⁸

Mortgage Interest Rate for a 30-Year Fixed-Rate Mortgage



According to CoreLogic, rising interest rates eroded housing affordability, leading to a nearly 60% jump in monthly payments by the end of 2022.⁹ This contributed to a weakening of consumer sentiment and now more homebuyers wait on the sidelines

for rates to decline. Likewise, current homeowners that have secured a mortgage loan at historically low interest rates are reluctant to sell and purchase a new home at a significantly higher interest rate.¹⁰ This reduction in housing affordability has affected first-time buyers at greater rates than other homebuying groups such as existing homeowners who have enjoyed the benefits of home price appreciation. Many first-time homebuyers have been priced out of the market due to the high interest rates coupled with rising real estate prices.

Home Prices

As of August 2022, the median single-family home price was \$338,692, according to the homegenius Home Price Index provided by homegenius Real Estate LLC.¹¹ This represents an 8% increase between February 2022 and August 2022.^{ibid} Since March 2020, homes have appreciated \$88,000, on average.^{ibid} But after hitting an all-time high for monthly annualized appreciation at 18.8% in June 2022, appreciation rates have slowed significantly to 10.6%.¹²

A study by the Urban Institute found that 80% of homes that were on the market at the end of 2022 were not affordable for households earning the median income or less.¹³ Housing affordability appears to vary by location, suggesting that federal and local efforts that focus on supply and demand could potentially ease cost burdens.¹⁴

How Does Housing Affordability Affect People of Color?

Historically, benefits of homeownership have not been shared equally in the U.S., especially for underrepresented communities and people of color.

Historic Discrimination

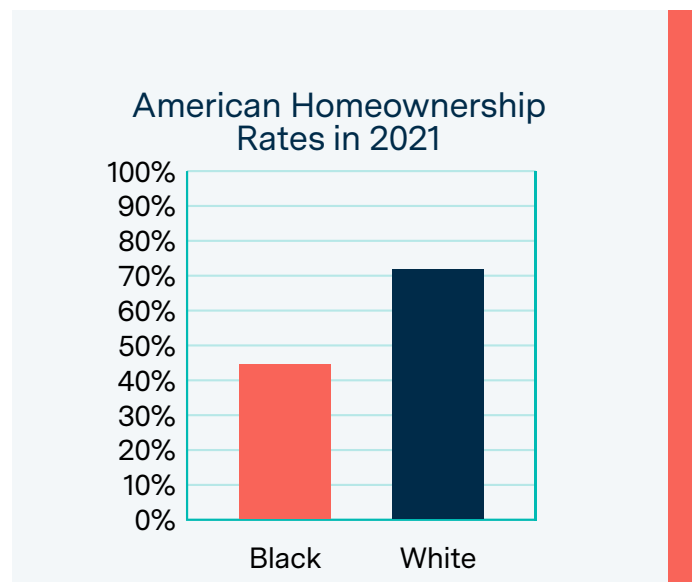
Housing discrimination can perpetuate housing and wealth disparities for people of color and may be one of the contributing factors to the enduring homeownership

gap. The number of housing discrimination complaints increased significantly in 2021, according to the National Fair Housing Alliance's 2022 Fair Housing Trends Report. There were 31,216 housing complaints in 2021, an 8.7% increase compared to 2020, but most cases typically go unreported.¹⁵

Discriminatory practices can have negative effects on people of color for generations. For example, according to NAR Vice President of Policy Advocacy Bryan Greene, "...Black would-be home buyers, on average, have less family wealth, lower income and more debt due to past redlining..."¹⁶

Regardless of whether discrimination is the primary culprit, statistics bear out that underrepresented communities and people of color have been disadvantaged in the homebuying market. For instance, the national homeownership gap between Black and White Americans expanded by 1.5 percentage points from 2010 to 2021.¹⁷ In 2021, the Black homeownership rate was 44.0% versus the White homeownership rate of 72.7%.¹⁸

A 2021 study by Freddie Mac also found evidence that appraisers' opinions of value are more likely to fall below the contract price in Black and Latino census tracts.¹⁹ According to the study, 12.5% of properties in predominantly Black census tracts



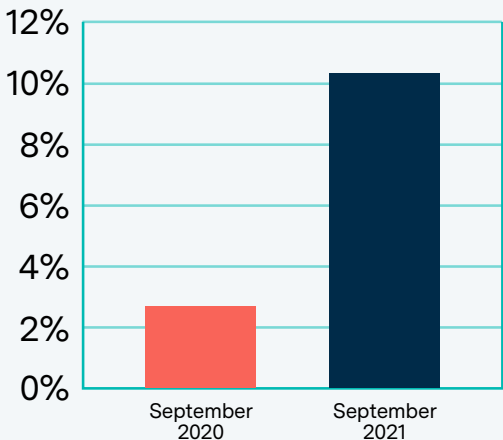
received appraisal values lower than the contract price compared to 7.4% in White census tracts. In Latino census tracts, this disparity was even greater.^{ibid} Approximately 15.4% of appraised properties in Latino census tract areas fell below contract prices.^{ibid}

Financial Instability

Potentially because of the barriers to homebuying discussed above, more people of color turn to renting and many of those who are renters do not have financial situations conducive to purchasing a home. For instance, approximately 54% of Black renter households spend more than 30% of their monthly income on rent, more than any other group.²⁰ About 30% of Black renters are “severely cost-burdened” and spend more than 50% of their income on rent, representing nearly 2.5 million households.^{ibid}

Rent cost fluctuation may affect financial stability and make it difficult for families to accumulate enough savings for a down payment on a home. Citing data from CoreLogic, a 2022 report released by the Joint Center for Housing Studies of Harvard University pointed out that rent amounts in over half of the nation’s largest markets increased by double digits in 2021 for single-family homes, from a 2.6% annual rate in

Rent Cost Fluctuations



Radian’s Approach to Equitable and Affordable Housing for All

With so many complex factors at play, it can be difficult to know where to begin to address the Affordable Housing Crisis. This is why the Radian family of companies is taking steps to be part of the solution and investing in affordable housing for all.

The Radian approach to equitable and affordable housing is based on the following:

Outreach and Education

This includes training collaborations with mortgage lenders and government-sponsored enterprises (GSEs) and a homebuyer perks program, offered by homegenius Inc., consisting of educational information and incentives for achieving homeownership that can serve as a model for lowering barriers to homeownership.

Programs

Our decades of experience in the analytics of underwriting low-down payment and low- and moderate-income borrowers make Radian well-positioned to support the development of reliable and affordable programs—such as renovation programs and non-traditional credit programs or special purpose credit programs developed by lenders in accordance with state and federal laws.

Underwriting

Radian is an active participant in residential mortgage industry efforts to consider alternatives to traditional underwriting, such as the use of rental and utility payments. Additionally, Radian Guaranty analyzes credit bureau data to further assess credit factors that are predictive of mortgage insurance risk

Preservation

Working closely with servicers and GSEs, Radian Guaranty monitors our loss mitigation inventory and we work with servicers to ensure that borrowers are receiving appropriate support and clear communication of loss mitigation options.

Research

Through our library of information and industry research, we are monitoring trends and staying at the forefront of best practices. Leveraging our knowledge in the analytics and reporting of low-down payment mortgages, we have utilized numerous publicly available data sets and Radian Guaranty’s portfolio data to report on metrics and insights that can help us focus our efforts and measure success.

September 2020 to 10.2% in September 2021.²¹ In the third quarter of 2021, nearly 25% of Black renters were behind on rent as well as 19% of Latino renters.^{ibid}

On the other hand, fixed mortgage payments can give homeowners greater stability, helping families build wealth and setting them up for success.

Lack of Access to Resources and Information

When it comes to homeownership education, people of color have often been overlooked by businesses and real estate professionals that serve prospective homebuyers. For example, according to the Brookings Institution, a factor contributing to the number of unbanked or underbanked people of color is that by 2021, majority Black census tracts were much less likely to have a bank branch than non-majority Black neighborhoods.²² This, may lead to many first-time homebuyers including people of color holding misconceptions about the homebuying process. For example, many believe that a 20% down payment is the minimum requirement to qualify for a home purchase.²³

In addition to the misconceptions on down payment requirements there is also a lack of clarity at closing and families often encounter unexpected fees that can add up to hundreds or even thousands of extra dollars in comparison to their White counterparts.²⁴

Benefits of Homeownership

There are many benefits of homeownership, including but not limited to the following seven:

1. Increased Financial Stability and Generational Wealth

Unlike rent, which can increase every year, mortgage payments may remain the same throughout the life of the loan depending on the loan characteristics and payment terms. When a homeowner has a fixed mortgage payment with the same, or largely the same,

monthly principal and interest payment on their loan, they can start building valuable equity. This gives homeowners the ability to invest savings in other areas of their life like their families, education, or retirement.

2. Better Educational Outcomes

Owning an affordable and stable home may have positive educational outcomes for children.²⁵ Studies show families that live in affordable housing and can choose which neighborhood to live in have children who attend schools with higher attendance rates, graduation rates, better reading and math proficiency, and lower dropout and violence rates.²⁶

3. Improved Health

Safe housing can help lower the risk of exposure to dangerous environments. Living in unsafe conditions can contribute to health inequities and health problems, like chronic illnesses and poor mental health.²⁷

4. Increased Sense of Community

Homeowners tend to stay in their neighborhoods longer than renters, which brings greater stability to the area.²⁸ Higher rates of mobility give people less time to build long-term relationships with their neighbors. Therefore, residential stability can strengthen social ties within communities. Boosting homeownership can raise positive social outcomes, but only if homeownership brings housing stability.

5. Greater Safety

Neighborhoods with more homeowners are more likely to have less crime. It is easier to recognize criminal activity in a stable neighborhood with extensive social ties.²⁹ The NAR's research on crime and homeownership shows that homeowners may be less likely to become crime victims.³⁰

6. Potential Tax Savings

You may be able to receive a deduction for your mortgage interest payments and property taxes paid on your primary residence each year if you file an itemized federal income tax return.

7. Appreciation of Market Value

Not all home values rise and fall at the same rate, but property values typically keep up with inflation. For example, appreciation values have averaged between 3.5% to 3.8% nationwide per year.³¹ A higher value can lead to homeowners potentially making a profit when they decide to sell.

mortgage loan applications compared to their population percentage.³⁴

In 2020, among all mortgage loan applicants, 4.9% of White applicants in Philadelphia were denied a conventional home loan compared to 14.3% of Black applicants.³⁵

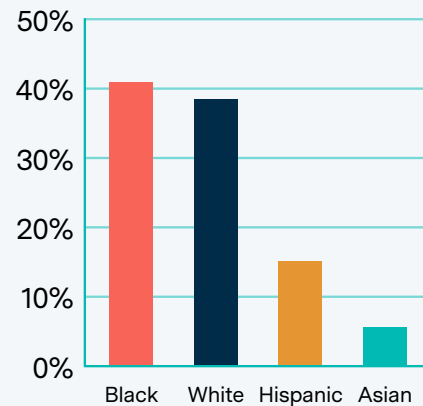
Spotlight on Philadelphia

Philadelphia, like many cities across the country is affected by disparities in housing affordability.

Slower Growth in Homeownership Rates

The four largest racial groups in the City of Philadelphia are Black³² (40.8%), White (38.5), Hispanic (15.4%), and Asian (7.4%). But according to the CFPB, the number of mortgage loan applications may be disproportionately small for Black people in Philadelphia. For example, HMDA data from 2020 shows that approximately 45.8% of loan applicants are White while approximately 17.8% are Black.³³ Based on this information, the Black population in Philadelphia may be underrepresented in

Racial Makeup of Philadelphia



Applications are most commonly denied for the following reasons:

- Debt-to-income ratio
- Credit history
- Collateral
- Credit application incomplete

Higher Home Costs, Lower Income

While the homeownership gap (59% for White Philadelphians vs. 47% for Black Philadelphians in 2015) in Philadelphia is smaller than the U.S. overall, little progress has been made in the past 30 years.³⁶ One contributing factor to the widening gap in homeownership rates may be access to credit be the difference in household income between White and Black Philadelphians.^{ibid}

Household incomes for Black Philadelphians have struggled to keep up with rising home costs in Philadelphia. Over the last 20 years, the inflation-adjusted median home value in Philadelphia almost doubled, while the median household income among Black Philadelphians declined. During this same time period, the median home value in the city increased from 2.5 times the median income of Black households to more than five times the current median income of Black households.^{ibid} According to the Federal Reserve Bank of Philadelphia, expanding the affordable housing supply could benefit low-income families.^{ibid}

CONVERGENCE Philadelphia: Increasing Homeownership Opportunities for Diverse Households

In 2022, Radian Group Inc. became a Cornerstone Partner of CONVERGENCE Philadelphia, an initiative led by the Mortgage Bankers Association that aims to increase homeownership among Black, Hispanic, and other diverse households in Philadelphia, Pennsylvania. The initiative aims to address key homeownership challenges identified by MBA research. Radian is serving as one of three Cornerstone Partners on this initiative, along with Wells Fargo and TD Bank. In 2022, Radian contributed to the planning, outreach, and research in preparation for the initiative's launch on March 15, 2023. For more information on CONVERGENCE and the launch event: please visit: <https://www.mba.org/advocacy-and-policy/convergence/convergence-philadelphia/convergence-philadelphia-launch-event>.

Affordable Housing Initiative

Radian's Affordable Homeownership Initiative was established to further address access to affordable and sustainable homeownership, with a particular focus on closing the homeownership gap for underserved communities. Managed by a working group that collaborates across Radian's businesses, this initiative seeks to leverage our company's unique position across the mortgage and real estate ecosystem to find innovative and collaborative solutions that will improve access and affordability to homeownership within traditionally underserved communities. Our initiative builds upon our relationships with industry participants and consumer-focused organizations, our research and analytics capabilities in support of low-down payment financing, and our extensive training and education platforms.

Affordable and equitable housing challenges vary by location and collaborating locally can be critical to closing the homeownership gap. Engagement with trusted groups and organizations, such as local government, community groups, and non-profits is key to understanding local housing issues. Radian is in a position to actively contribute, collaborating with others, and demonstrate that we are a leader in addressing the Affordable Housing Crisis. First-time, low-to-moderate-income, and minority borrowers are key to the mortgage insurance business and the inability to access affordable housing exacerbates societal issues. This is exactly where Radian can be the most influential and impactful.

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