



Understanding America's Homeownership Gaps

*2003 Fannie Mae
National Housing Survey*



FannieMae

Our Business Is The American Dream

At Fannie Mae, we are in the American Dream business. Our Mission is to tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans. Because having a safe place to call home strengthens families, communities, and our nation as a whole.



The 2003 Fannie Mae National Housing Survey

The research firm of Penn, Schoen & Berland Associates conducted the 2003 Fannie Mae National Housing Survey.

The national representative sample was comprised of 715 adults, age 18 years of age or older. Three additional subsamples were also conducted of minorities including: 259 African-American adults, 236 English-language dominant Hispanic adults, and 235 Spanish-language dominant Hispanic adults.

The interviews took place between December 17, 2003 and January 6, 2004.

Interviews with English-language dominant Hispanics were conducted in English and interviews with Spanish-language dominant Hispanics were conducted in Spanish.

The margin of error is plus/minus 3.7 percent for the national sample, 6.2 percent for the African-American sample, and 6.5 percent for the Hispanic samples. The margin of error is higher for results drawn from smaller subgroups.

Chairman's Message

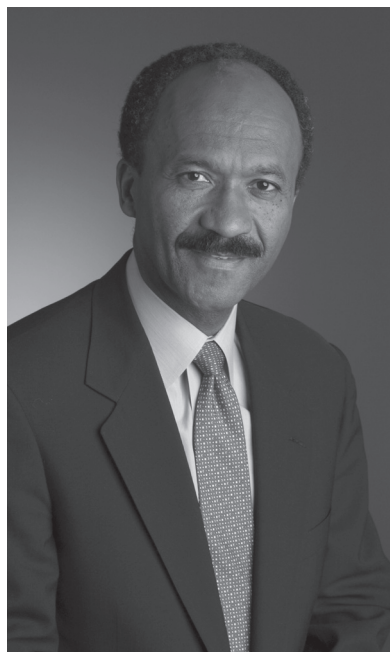
Fannie Mae's 12th annual National Housing Survey offers telling insight into how Americans feel about homeownership, their ability to buy a home, and the obstacles to increasing homeownership.

The American Dream of homeownership has never been a more powerful lure, nor has it ever been so achievable. Despite the lingering effects of recession and a weak labor market, optimism over housing is strong. Two-thirds of those who responded to our 2003 survey agree that it is a good time to buy a home and 61 percent view homeownership as a safe investment with a lot of potential.

In almost every respect, 2003 was the greatest year for housing in America's history. Housing sales were at all-time highs. Mortgage interest rates dropped to their lowest level since the late 1960s. Mortgage originations were up more than 40 percent from just the year before, coming in at a remarkable \$3.7 trillion, as consumers bought homes or refinanced their existing mortgage. Fannie Mae also had one of our best years ever. Along with our lender partners, we delivered \$1.4 trillion in financing to serve a record 10.4 million families.

Much more needs to be done, however, to deliver the American Dream. The results of this survey will help Fannie Mae achieve our expanded American Dream Commitment to underserved families, especially minority Americans. We are committed to creating six million new homeowners (including 1.8 million minority families) over the next ten years, helping families keep their homes, and expanding the supply of affordable homes where they are needed the most. By helping us to understand the persistent housing gaps, this survey will help guide the way.

Since 1992, Fannie Mae has used our annual National Housing Surveys as a tool to gain greater understanding of America's emerging housing needs and to gauge the progress our company and our industry have made in removing barriers to homeownership. Our first survey found that potential home buyers did not have reliable information about the home-buying process. In response, Fannie Mae launched a groundbreaking consumer outreach effort. In 1996, the Fannie Mae Foundation took over these consumer outreach efforts, which have



provided millions of renters with free guides and online information explaining what steps they must take to move into a home of their own.

Over the years, our surveys have identified an array of challenges that required concerted, focused responses. As we learned more about the hurdles that down payment and closing costs represented, we developed new mortgage products and devised underwriting experiments that redefined creditworthiness. We've uncovered new ways to make the home-buying process less intimidating and more accessible. Past surveys have explored the public's perception of subjects such as the health of our nation's cities and its comfort level in using technology to get a home loan.

While each year's survey takes a close look at a different issue or market segment, we have seen a universal theme year after year: Americans of all ages, incomes, and ethnic backgrounds believe deeply in homeownership and will go to great efforts, if necessary, to realize their American Dream of owning a home.

Our 2003 National Housing Survey offers a special look at America's Spanish-language dominant Hispanic households and English-language dominant Hispanic households. It reflects our industry's progress in serving these critical emerging markets – and highlights the challenges still ahead. Let me summarize what I believe are the survey's key insights:

- Despite the initiatives of recent years, there remains a sizable **information gap** between the general public and minority communities regarding homeownership and the home-buying process.

- **Affordability gaps** are also formidable for the group we have termed “seekers,” those who began the home-buying process, but did not take it to completion. This segment represents nearly 10 percent of all households, and over one-third of all renters.
- There is still a perceived **credit gap**, as many minority respondents believe they cannot access the credit needed to buy a home when, in fact, they may easily qualify for a low-cost loan.
- The survey found that there is a **confidence gap** that must be bridged if we are to increase minority homeownership rates. Many potential minority homeowners still believe the process of finding a home, applying for a mortgage and getting a home loan involves obstacles that place homeownership beyond their reach. Or they may feel they don’t have individuals or institutions they can turn to and trust to help them through the process.

One of the key findings in this year’s report is that Spanish-language dominant Hispanic households are not as confident as other groups going into the home-buying process. Yet the survey also reveals that Spanish-language dominant Hispanic households maintain extremely high aspirations and are very optimistic about homeownership, despite having less accurate information about the home-buying process than other groups. That is particularly important considering that over the next two decades the Hispanic population – fueled largely by immigration – is expected to increase by 75 percent. English-language dominant Hispanics and African Americans have more accurate information than Spanish-language dominant Hispanics, but they still trail the general public in having accurate information about key areas of the mortgage process.

Fannie Mae and its many housing partners around the nation are determined to close America’s homeownership gaps. During the past ten years, Fannie Mae has worked with our partners to bring more than \$3 trillion in housing capital to underserved communities throughout the nation. As part of this, we launched our American Dream Commitment in 2000 to provide affordable housing finance to 18 million underserved families by the end of the decade. After four of the strongest years in housing and mortgage finance industry history, we’ve already surpassed the top-line goals of that commitment. But we know

that our work is far from complete, which is why we announced our expanded American Dream Commitment in January 2004.

Our progress in meeting the goals of the expanded American Dream Commitment depends on our in-depth understanding of minority consumers, which is why objective research that helps us bring the housing market into sharper focus is so important. Fannie Mae is already putting our experience and expertise to work with targeted initiatives aimed at addressing some of the gaps identified in this year’s survey, including:

- Providing free technology such as Home Counselor Online™, enabling counseling agencies and lenders to serve more first-time home buyers, including those in minority communities;
- Creating flexible new underwriting pilots to reach consumers who are not otherwise well served by the mortgage finance system;
- Expanding efforts to fight predatory lending to protect borrowers and combat fraud that preys on the lack of accurate consumer information in minority communities;
- Initiating joint partnerships to make homeownership more accessible to immigrant and minority communities in places such as Atlanta, Baltimore, Houston, Dallas-Fort Worth, Los Angeles, Philadelphia and Washington, DC; and,
- Focusing on housing needs in rural areas and Native-American tribal lands where there are gaps in the availability and affordability of housing and mortgage credit.

Last year was the greatest year in housing and housing finance history. Of even greater significance, however, is the chance we have every day at Fannie Mae and throughout our industry to write the next chapter in America’s housing success story. Solid research, like that found in the 2003 National Housing Survey, gives us an important foundation for further progress. I want to thank our research firm of Penn, Schoen & Berland Associates and Chuck Greener and his Fannie Mae Communications staff for shepherding this important project through to completion.



FRANKLIN D. RAINES
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
FANNIE MAE

The Strong State of Housing and the Lure of Homeownership

Following the strongest year in the history of the United States housing market, the American people are unsurprisingly bullish on housing and homeownership. Two-thirds of Americans believe now is a good time to buy a home compared with only 47 percent of Americans who are optimistic about the economy as a whole.

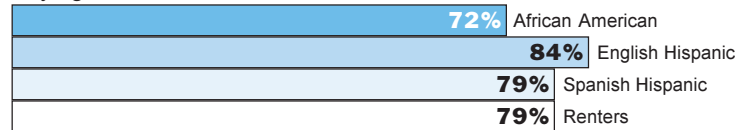
Upbeat feelings about the housing market are widely shared by Americans of all races and circumstances. Fifty-seven percent of African-American families; 57 percent of those earning less than \$35,000 annually; 69 percent of English-Hispanic households and 53 percent of Spanish-Hispanic households believe that now is a good time to enter the housing market.

Overall, 57 percent of all Americans in rental housing today say that they are “very” or “somewhat likely” to buy a home in the next three years. Minority groups scored even higher, with 63 percent of African Americans, 64 percent of English Hispanics, and 59 percent of Spanish Hispanics stating this intention.

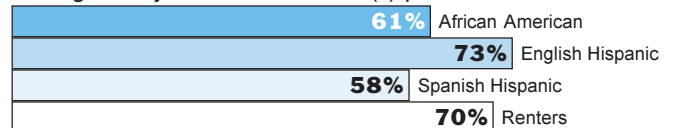
Hispanic households were asked what language they most frequently speak at home and what language they read most frequently at home. Spanish Hispanics are defined as those Hispanics who both speak and read Spanish most frequently at home. English Hispanics are defined as those Hispanics who either speak or read English over Spanish most frequently at home.

People see buying a home as a safe investment...

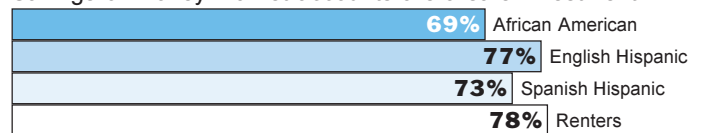
Buying a home is a safe investment



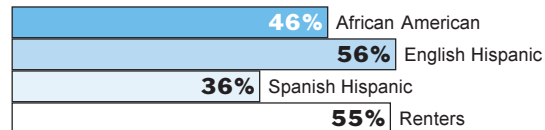
Putting money into an IRA or 401(k) plan is a safe investment



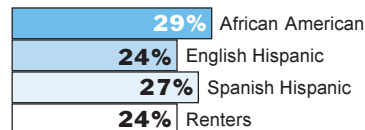
Savings or money market accounts are a safe investment



Mutual funds are a safe investment



Stocks are a safe investment



Fueling this optimism is the belief that homeownership is one of the best investments a family or an individual can make. Survey respondents were asked to rate whether owning a home was a safe or risky investment, and further, whether it was an investment with a lot potential or very little potential. Majorities of the general public and all demographic subgroups view buying a home as the best of both worlds – a safe investment with a lot of potential. However, there are significant variations among the subgroups. Sixty-one percent of all Americans and 60 percent of Spanish Hispanics believe that homeownership is a safe investment with a lot of potential, compared to 54 percent of African Americans. At 67 percent, English-Hispanic households are even more likely than the overall population to believe in the safe potential of homeownership.



...With a lot of potential

Percentage who see the following as a “safe investment with a lot of potential”

Buying a home



Putting money into an IRA or 401(k) plan



Savings or money market account



Mutual funds



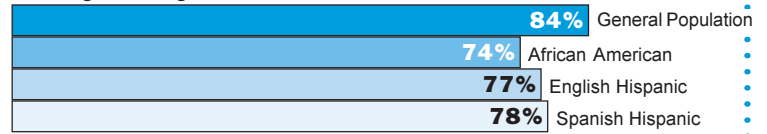
Stocks



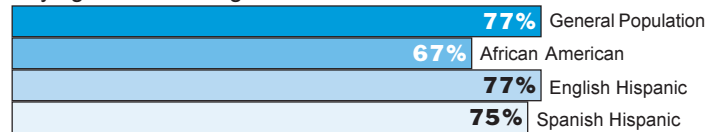
Confidence in housing is extremely strong relative to other investments. Sixty-one percent of Americans believe that owning a home is a safe investment with a lot of potential, compared with an IRA or a 401(k) at 39 percent, and a mutual fund at 20 percent. This high regard for homeownership compared with other investments has been consistent over the years.

Major reasons to buy a home

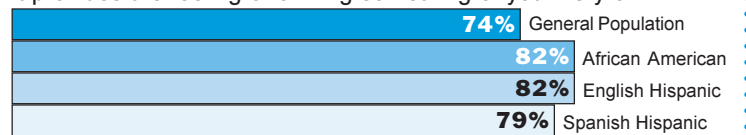
It is a good long-term investment



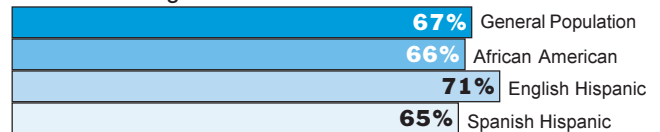
Paying rent is not a good investment



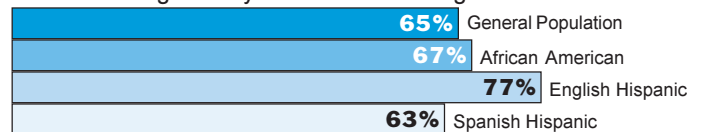
It provides the feeling of owning something of your very own



To live in a neighborhood that I like



It is something I always dreamed of doing



Eighty-four percent of homeowners say a major reason to own a home is that it is a good long-term investment. Similarly, 77 percent of homeowners cite the fact that paying rent is not a good investment as a major reason to own a home. Changes in family structure – such as marriage – register much lower, with only 33 percent of respondents saying that getting married is a major reason they own a home, and 52 percent citing having children as a major reason. Forty-six percent of those surveyed cite the tax benefits of homeownership.

Confidence in homeownership as an investment has been borne out by individual experience. Eighty-seven percent of homeowners say their homes increased in value since they first bought them, and 76 percent report that their housing investment has increased in value even more than they anticipated.

In addition to being an excellent financial investment, Americans believe owning a home provides social benefits as well. In particular, they say owning a home provides them with a strong sense of personal satisfaction and accomplishment. In fact, for minority households, the intangible satisfaction of homeownership is even more important than the monetary investment benefits. African-American and Hispanic homeowners most frequently cite “having the feeling it is something of your very own” as a major reason they own a home.

How people view homeownership versus renting

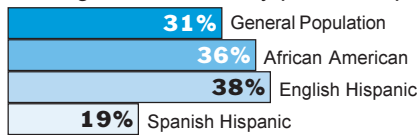
Current Homeowners

Homeownership has been a very positive experience



Current Renters

Renting has been a very positive experience



Overall, Americans have had a profoundly positive experience with homeownership: 96 percent of all homeowners say owning a home has been a positive experience, a view shared by 93 percent of African-American and English-Hispanic households. Eighty-one percent of all homeowners characterize homeownership as a very positive experience. By contrast, only 31 percent of renters say they have had a very positive experience in rental housing. Spanish Hispanics show the largest differential in this area, with positive feelings about homeownership ahead of positive feelings about renting by a margin of 62 percentage points (81 percent to 19 percent).

Understanding the Gaps

While our survey finds attitudes toward homeownership and satisfaction remaining at extraordinarily high levels, we also learned that not all groups share the same level of understanding about the home-buying process or belief that they will be able to complete this process. In particular, this year’s survey identifies significant gaps that are potential barriers to raising minority homeownership rates: an information gap, an affordability gap, a credit gap, and an overall confidence gap.

As part of our effort to better understand the obstacles to homeownership, the survey asked respondents to rate their confidence in their ability to complete the various steps of the home-buying process, using a 1-to-5 scale with 1 meaning they had little or no confidence and 5 meaning they had complete or total confidence in their ability to successfully complete a step. Average scores of respondents’ performance on this scale are discussed in this section of the report as well as other types of data. Gaps refer to areas where the confidence level or beliefs about the homeownership process of one or more groups differs sizably from those of the general public.

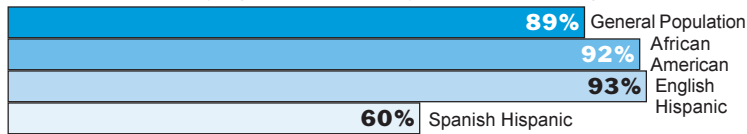
Information Gap

Both the general public and minorities have varying levels of accurate information on key issues of the home-buying process. However, on nearly all issues, minority communities, particularly Spanish Hispanics, continue to trail the general public in having accurate information about homeownership and the home-buying process.

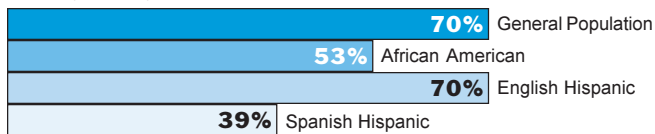
Information about the home-buying process varies among groups

Percentage who know that the following statements are false

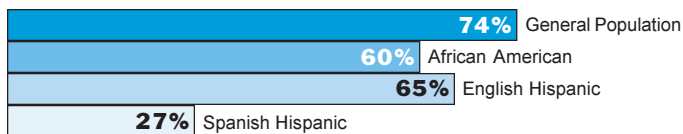
“Information on buying a home is only available in English”



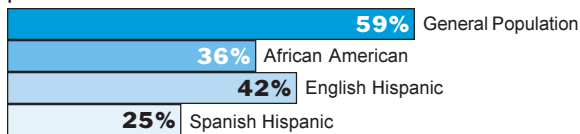
“You need to hire an attorney to fill out your paperwork when you buy a house”



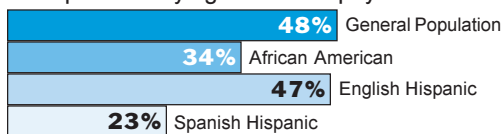
“If you want a mortgage, you have to accept a 30-year commitment”



“Housing lenders are required by law to give you the best possible rates on loans”



“The person buying the home pays the real estate professional”

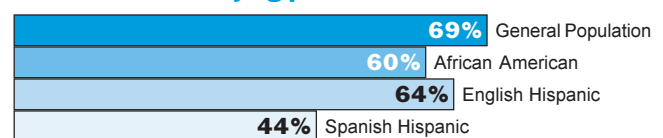


Correct scores for the general public on a series of true/false questions about the home-buying process range between 48 and 92 percent. Importantly, about seven in ten members of the general public, African Americans and English Hispanics (69 to 71 percent) know that the statement “unless you are middle class or above, you really cannot afford to buy a home” is false, suggesting that these groups believe all Americans have the opportunity to purchase a home, in spite of the current homeownership gap. A majority of Spanish Hispanics (61 percent) also know that this statement is false.



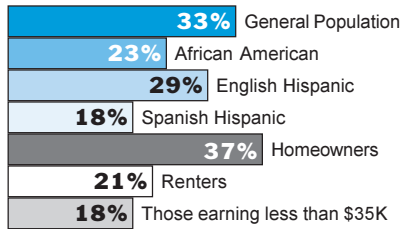
The most common correctly-identified statement is that it is illegal to discriminate against someone buying a home. The two most misidentified statements are “You can use gifts or grants as part of your down payment” (only 50 percent realize this is true) and real estate professionals “are paid by the person buying the home” (only 48 percent realize this is false).

Average percentage of those having accurate information about the home-buying process



Spanish Hispanics are particularly less likely to have accurate information about the home-buying process, while African Americans and English Hispanics tend to have somewhat less information than the overall public, displaying similar levels of understanding as renters. Only 60 percent of Spanish Hispanics, for example, know information on buying a home is available in languages other than English, while nine in ten English Hispanics (93 percent) have that knowledge. While a majority of Spanish Hispanics understand they have the opportunity to buy a home and that homeownership provides tax benefits, a majority of Spanish Hispanics do not currently have the information they need to form accurate views of the home-buying process.

Percent who identify themselves as having above average understanding of the home-buying process



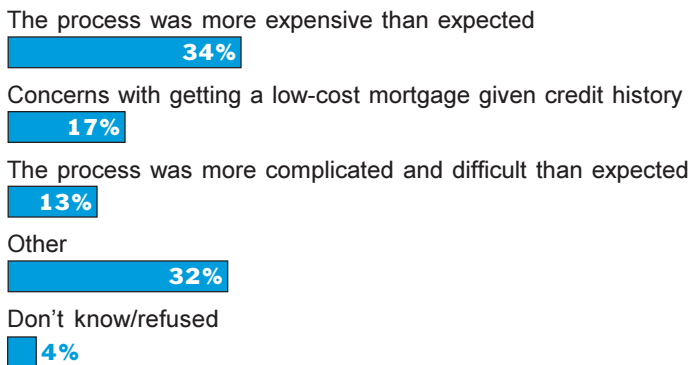
The information gap is further reflected in various demographic groups' self-understanding about their knowledge of the home-buying process. While about a third of Americans think they have an above-average understanding of this process, only 23 percent of African Americans, 29 percent of English Hispanics, and 18 percent of Spanish Hispanics rate their own understanding of the home-buying process as "above average." Not surprisingly, homeowners are more likely to think they have an above-average amount of knowledge about the home-buying process (37 percent) than renters (21 percent).

Affordability Gap

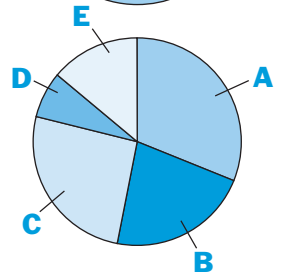
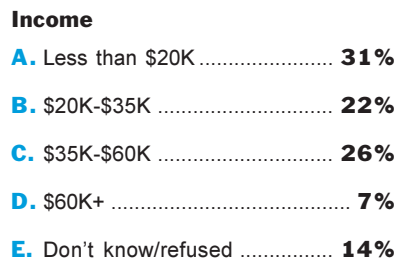
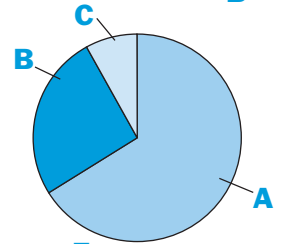
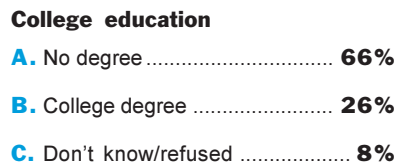
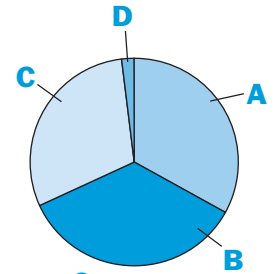
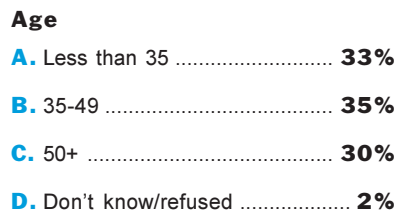
While a lack of accurate information about the home-buying process divides minority groups from the general public, an affordability gap divides renters, lower-income Americans, and "seekers" (those who began the home-buying process, but did not take it to completion) from homeowners and the general public.

Thirty-five percent of all renters have tried to become homeowners but have not succeeded, and affordability is the most common reason cited. By contrast less than 10 percent of the general public have started the homeownership process and did not complete it successfully.

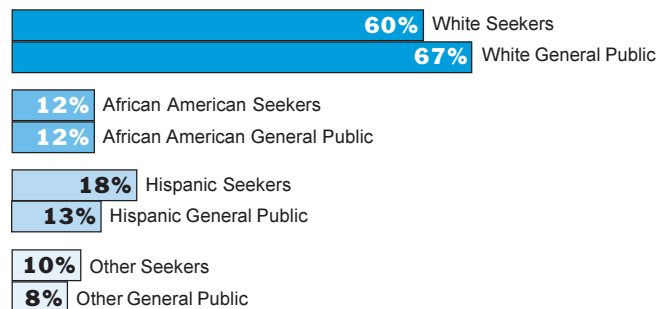
Why seekers did not complete the home-buying process



Who are seekers?



Race compared to general public



Seekers are younger, less educated, have lower incomes and are more likely to be unemployed than the general public. In addition, seekers' savings rate is only about half that of the general public (7.6 percent of monthly income vs. 13.7 percent). Over half (51 percent) of all seekers say the reason they did not to complete the process was that it was more expensive than they initially thought, or they had concerns about getting a low-cost mortgage given their credit history. Only 13 percent of this group say they stopped the process because it was more difficult than they thought.

Renters, seekers, and those making less than \$35,000 a year are significantly less confident than the general public that they can afford a home, registering scores of 3.4, 3.3, and 3.4 respectively compared to 3.8 for the general public. The most significant affordability concerns for the general public are the ability to make a down payment (3.6) and closing costs (3.7). These two items are particular problems for seekers, who register a mean score of only 3.0 on their confidence in being able to make a down payment and 3.2 on paying closing costs.

Having a comfortable monthly house payment is a lesser concern for the general public (3.8) and meeting their property tax obligation is seen as the least burdensome (4.1). Again, renters, seekers and lower-income respondents trail the general public on these items, as shown in the table below.

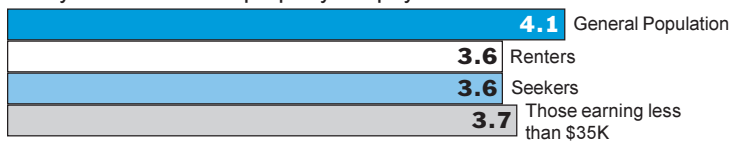
Confidence in home-buying affordability

Scale of 1-5; higher scores show higher confidence

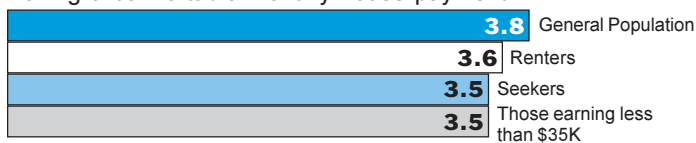
Average Affordability Confidence Score



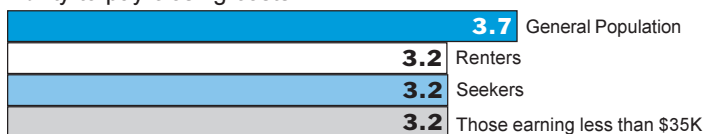
Ability to meet annual property tax payment



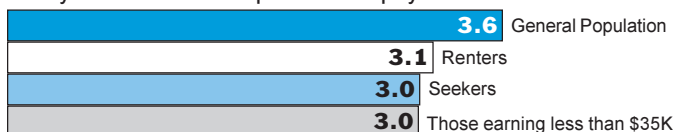
Having a comfortable monthly house payment



Ability to pay closing costs



Ability to make an adequate down payment

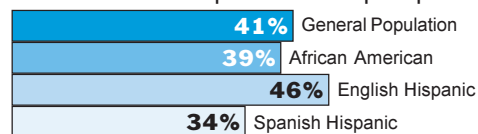


Credit Gap

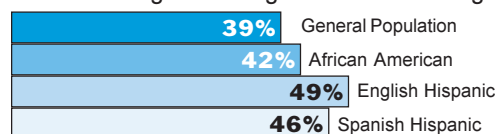
Many Americans continue to be concerned that their credit histories will make it difficult for them to secure a mortgage for the purchase of a home. Nearly four in ten (39 percent) of renters consider credit to be a major reason they have not yet purchased a home. Credit is the number two reason renters offer for having not bought a home yet, ranking just behind the purchase price and upkeep expenses of owning a home.

Major reasons why renters have not bought a home

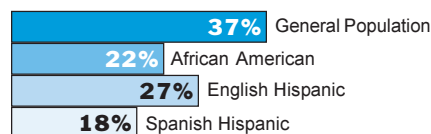
Can not afford the purchase or upkeep of a home



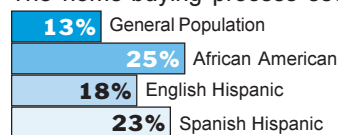
Do not have good enough credit for a mortgage



Will not be in a certain area for an extended period of time



The home-buying process seems too complicated

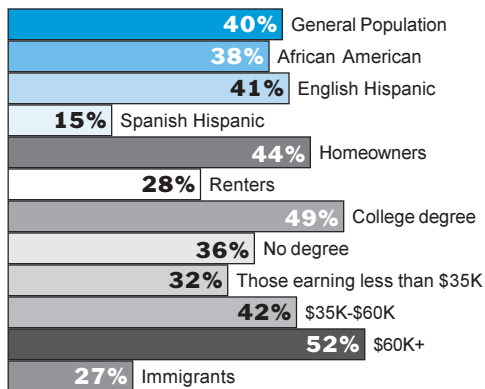


Credit is an even bigger concern for the minority households. Members of these groups most frequently cite credit concerns as the major reason they have not yet bought a home, rating it an even bigger obstacle than affordability. Credit is also a major concern of renters under the age of 35 (46 percent) and Americans living in the Midwest and South (45 percent each).

Different parts of the American population also have significantly different levels of experience with credit and debt. Among the general public, 40 percent say they have a great deal of experience, 38 percent report some experience and 21 percent have not very much or no experience at all with credit and debt. As shown in the table below, experience with credit and debt is greatest among more affluent groups and lower among renters and groups likely to rent. Renters and groups more likely to rent, including those making under \$35,000 per year, those under the age of 35, and immigrants are less likely to have experience with credit and debt.

Varying levels of experience with credit and debt

Percent saying they have a great deal of experience with credit and debt

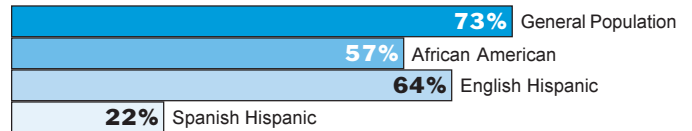


While African Americans and English Hispanics report about the same level of experience with credit and debt as the general public, Spanish Hispanics have strikingly low credit experience (15 percent), reinforcing why they are more likely to cite credit as a major reason for not having yet bought a home.

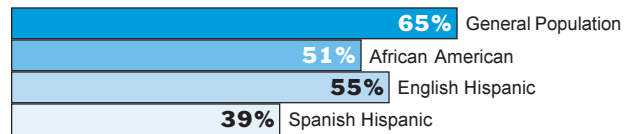
Similarly, different demographic subgroups have significantly different levels of information about the nature of mortgage credit and how to obtain it. Renters, African Americans, English Hispanics, and Spanish Hispanics all overestimate what it takes to qualify for a mortgage in greater numbers than the general public.

Information about mortgage credit decisions varies among groups

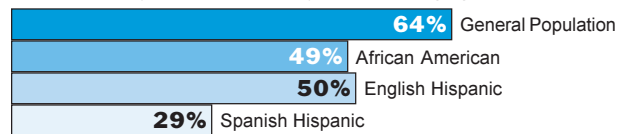
Percentage who know that the following statements are false
 “You need to have a perfect credit rating to qualify for a mortgage”



“You need to have stayed in the same job for at least five years to qualify for a mortgage”



“If you haven’t always paid your bills on time or have carried some debt, you won’t qualify for a mortgage”



For example, 73 percent of the general public know that you do not need to have a perfect credit rating to qualify for a mortgage, compared to 60 percent of renters, 57 percent of African Americans, 64 percent of English Hispanics, and only 22 percent of Spanish Hispanics. Similarly, only 29 percent of Spanish Hispanics know that the statement: “If you haven’t always paid your bills on time or have carried some debt, you won’t qualify for a mortgage” is false, compared to 64 percent of the general public.

Overall, two-thirds of the general public answered all three true/false questions about mortgage credit decisions correctly, compared to between 52 and 56 percent of renters, African Americans and English Hispanics, and 30 percent of Spanish Hispanics.

Confidence Gap

The three gaps discussed above – information, affordability, and credit – all feed into an overall gap in confidence between minorities and the general population over whether or not they can successfully complete the home-buying process. This overall gap in confidence is reinforced by concerns over factors such as discrimination and future home price increases.

On the whole, Americans feel reasonably confident in their ability to complete key elements of the home-buying process. When asked about the specific steps to become homeowners, Americans average an overall confidence score of 3.9 on the 5 point scale.

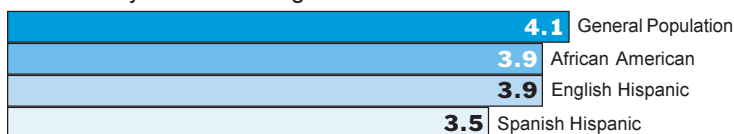
Confidence in home-buying process

Scale of 1-5; higher scores show higher confidence

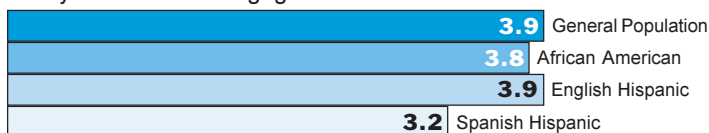
Average Home-buying Process Confidence Score



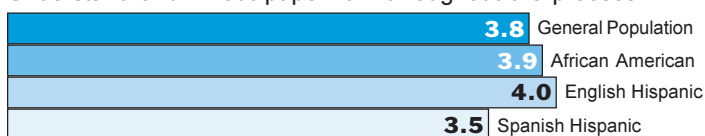
Successfully make it through a loan interview



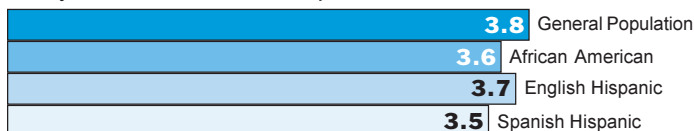
Ability to obtain a mortgage



Understand and fill out paperwork throughout the process



Ability to make a successful purchase offer



Finding a real estate professional you trust

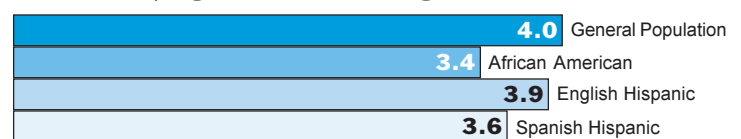


The general public demonstrates the greatest confidence levels in these areas: 1) successfully making it through a loan interview; 2) not facing discrimination; 3) obtaining a mortgage; 4) understanding the paperwork; and 5) making a successful purchase offer. Scores in these categories range from 3.8 to 4.1. Americans are less confident in their ability to find a real estate professional they trust (3.5).

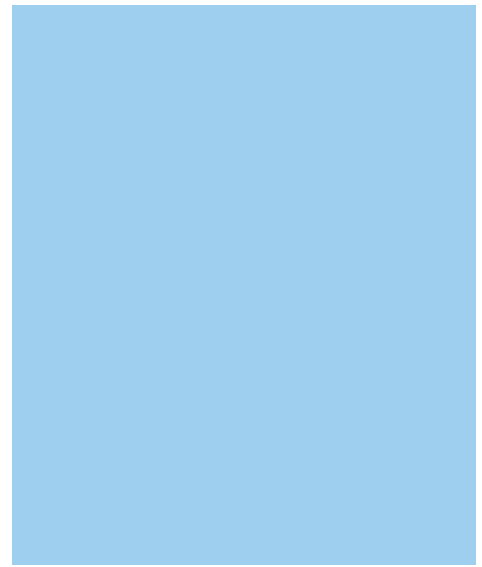
While the three minority groups interviewed are confident they can successfully complete the home-buying steps, all three groups are less confident than Americans overall. English Hispanics are nearly as confident as the general public (3.8 compared to 3.9), while Spanish Hispanics (3.4) and African Americans (3.6) are less confident. Spanish Hispanics are particularly less confident about obtaining a mortgage (3.2 compared to 3.9) and finding a real estate professional they trust (3.1 compared to 3.5).

Confidence in avoiding discrimination varies among groups

Scale of 1-5; higher scores show higher confidence



African Americans are less confident than other groups in their ability to go through the home-buying process without facing discrimination (3.4 compared to 4.0) – indicating that perceptions about discrimination still present a significant barrier to homeownership, notwithstanding progress made in eliminating it. African-American men and African Americans under the age of 35 are the most concerned about discrimination, with both groups rating their level of confidence on this issue at only 3.2. African-American women and African Americans between the ages of 35 to 50 are more confident that the process will be fair, rating their levels of confidence at 3.5 and 3.6 respectively.



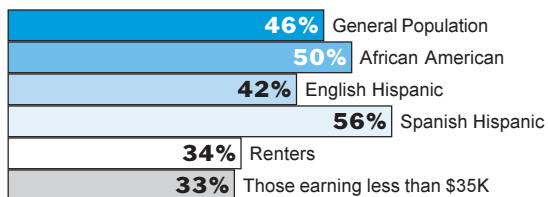
Hispanics' perceptions about discrimination appear to be affected significantly by fluency in English. Those who are fluent in English are more confident they can go through the process without facing any discrimination. English Hispanics rate their confidence at 3.9, close to the general public's 4.0. However, Spanish Hispanics rate their confidence lower at 3.6.

Spanish Hispanics making less than \$20,000 per year rate their confidence in a fair home-buying process at 3.4, which is close to the confidence level of African Americans. Those who make between \$20,000 and \$35,000 annually rate their confidence level significantly higher at 3.8, which is relatively equal to that of English Hispanics (3.9).

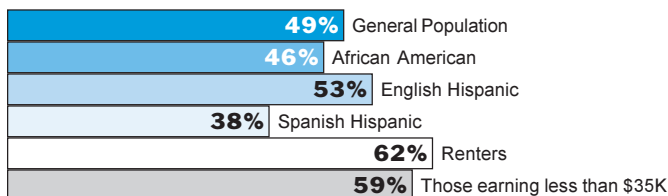
While nearly nine in ten English Hispanics (89 percent) prefer bilingual documents to Spanish documents, 44 percent of Spanish Hispanics prefer Spanish documents. In addition, a quarter of Spanish Hispanics falsely think home purchase documentation is only available in English.

Perceived ease of buying a home now versus their parents' generation

Easier now



Harder now



Americans are split on whether it is easier or harder to buy a home today than in their parents' generation. Forty-six percent say it is easier today, while 49 percent say today's home buyers face a harder task.

Renters, Americans with lower incomes, and younger Americans are most likely to think it has gotten harder to buy a home. Sixty-two percent of current renters, 59 percent of those earning less than \$35,000 a year, and 55 percent of those under the age of 35 say it is harder today. Similarly, 53 percent of English Hispanics think it is harder buy a house today than it was for their parents' generation. By contrast, 56 percent of Spanish Hispanics think buying a home is easier today. African Americans are largely split, with 50 percent saying it is easier today, and 46 percent saying it is harder.

The perception that it is more difficult to purchase a home today than in the past may be affected by rising home prices. Sixty-four percent of all Americans believe home prices will go up over the next year, a 13 percentage point increase from the 2002 Survey (51 percent). English Hispanics are particularly concerned over rising home prices with 70 percent of those households saying prices will go up over the next year.

The Spanish-Hispanic community also has specific affordability concerns. More than half of this group (57 percent) say they send a significant sum of money to relatives in their country of origin. This average figure totals \$223 per month, a particular hardship as 70 percent of these Spanish Hispanics say they make less than \$35,000 per year. Only 13 percent of English Hispanics send money to relatives back home.

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