Recovery Tips

Let's Keep Perspective

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By George Yacik

The Federal Reserve released the most recent version of its great quarterly data report, Financial Accounts of the United States, formerly (and better known) as the Flow of Funds report. News articles about the release led with the good news that U.S. household net worth rose to a record $70.3 trillion at the end of the first quarter, above the previous peak of $68.1 trillion in the third quarter of 2007.

On the surface, which is what the media reported, the report implies that Americans have now recovered every dollar that they lost during the Great Recession.

Of course, what many news stories left out is that most of that recovery is due to the increase in the value of financial assets, mainly stocks, which we know have made a full recovery since cratering in 2009. Certainly nothing wrong with that.

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Left unsaid in many of the reports I read was that homeowner equity – the value of homes minus residential mortgage debt – while on the rise, is still more than $4 trillion below the pre-bubble peak of more than $13 trillion in 2005.

The amount of home equity owned by U.S. homeowners totaled $9.1 trillion at the end of the first quarter. While that's up sharply from the recent low of $6.3 trillion in the first quarter of 2009, it's still more than 30% below the 2005 peak, when a lot of today's homeowners bought their homes.

We also need to keep in mind that more than a third of homeowner equity, or $3.3 trillion, is owned by people 62 years and older, according to the National Reverse Mortgage Lenders Association. Those people are not known for going out and getting mortgages, except for the tiny fraction that are interested in getting a reverse mortgage.

If we subtract that $3.3 trillion out of the $9.1 trillion total, that leaves less than $6 trillion owned by everyone else.

Further, according to the Fed, homeowner equity as percentage of household real estate – the amount of the house the homeowner owns compared to what the lender owns – was less than 50% in the first quarter. While that figure is up nearly ten percentage points since 2009, it's well below the nearly 60% figure as recently as 2005.

What these still-depressing figures all mean is that, despite all the positive housing statistics we've seen over the past few months, many homeowners are still deeply underwater and still have a long wait ahead of them before they can hope to sell their homes and at least break-even or refinance if they can't qualify for a HARP loan. This will keep the nascent housing recovery operating at just slightly above stall speed, especially now that interest rates are starting to rise, making it even more difficult for people to qualify for mortgages.

"More than 10 million owners owe more on their mortgages than their homes are worth," notes the recently released Harvard Research Center report, The State of the Nation's Housing 2013, subtitled "A Housing Recovery, But Not for All Americans."

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million low-equity and underwater borrowers with Fannie Mae- and Freddie Mac-backed mortgages take advantage of today's low interest rates, but millions more borrowers with non-government backed loans have had no such opportunity," the report says. "More generally, both market and regulatory uncertainties surrounding the mortgage lending business have kept credit standards tight and prevented a more robust housing market recovery."

In an otherwise positive report on rising homeowner equity, CoreLogic recently said that more than 21% of residential properties with a mortgage were still in a negative equity position at the end of the fourth quarter of 2012. Moreover, of the 38.1 million residential properties that actually have positive equity, 11.3 million, or nearly 30% of them, have less than 20% equity. Those people "may have a more difficult time obtaining new financing for their homes due to underwriting constraints," CoreLogic notes with some understatement.

I don't bring this stuff up because I'm one of those people who always view the glass as less than half full. But we need to keep in mind that we – lenders and borrowers alike, with lots of help from the government – dug ourselves a gigantic hole during the bubble years, and we still have a long way to go before we can say we're finally out of it. ❖

George Yacik has been a financial writer for more than 30 years. After working 12 years at The Bond Buyer and American Banker as a reporter and editor, he joined SMR Research Corp. as a vice president, where he was the lead research analyst and project leader for SMR's studies on residential mortgages and home equity lending. Since 2008 he has been writing for a variety of mortgage-related and financial publications.