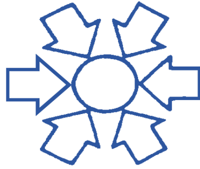

GSE Activity Report

Friday, September 10, 2021

Safe as Houses?

Summary

Soaring house prices have of course aroused lofty housing-bubble worries. Two new analyses from the Federal Reserve Bank of New York aim at reassurance but nonetheless offer some new, cautionary comparisons to the last time a housing bubble burst.

Analysis

The New York Fed's researchers look at house-price growth rates and at home prices in the context of current home-equity and credit-score levels. Markets are found to have experienced higher house-price increases during the pandemic than in the 2003-05 price run-up with significant variation by market. Still, most metro areas saw faster price growth, with the bulk of this concentrated in suburban -- not urban -- areas. The boom towns are different now than they were in the early part of the century, but boom they are. The post includes only by saying that HPI growth like this can't go on forever without positing what might happen when it doesn't.

Does this mean a bubble do-over? The HPI spikes are troubling, but the second post concludes that credit scores will save us. The New York Fed research shows very little negative equity up to the 2020 data analyzed, which might afford further comfort by the fact that 85% of homeowners have 20%+ equity cushions. However, as the paper notes, this is a good deal more worrisome if one notes that aggregate equity levels looked about the same in 2005.

The difference that gives the researchers reassurance is the fact that borrower credit scores now (two-thirds have scores over 740) are considerably higher than in 2005, with this just over 50% before the 2007 bust. Further the number of borrowers with sub-660 scores has halved. The researchers also run scenarios showing overall market resilience even if prices go down to their 2018 or 2016 levels. However, poking these data detracts from equanimity -- going below nationwide levels shows several markets where negative-equity rates would rise as high as 30%.

Outlook

All this leads to what the researchers conclude would be a "reasonably benign" forecast were it not also for the acute unknown resulting from all the recent forbearance. The researchers

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do not go on to say that the credit scores that give them comfort are unaffected by forbearance and even by many recent delinquencies. It may well also be that the urban and rural markets with the least equity cushion are those with the highest concentration of forborne mortgages, making them particularly vulnerable not just to slowing or even falling house prices, but also market disruptions due to concentrated pockets of macroeconomic damage. As is increasingly the case, heterogeneous data may prove more germane to mortgage-market prognostication than the methodology deployed in these two blog posts. As we learned the very hard way in 2008, trouble in one housing market often doesn't stay in one housing market.

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