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Restoring confidence in homeownership

We need confidence building measures that
restore the American Dream of homeownership



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A ValueInsured
Whitepaper

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Executive Summary

Since our country's founding, owning a home has long been a cornerstone of the American Dream.

Few milestones are as meaningful. A home is a place of refuge, a canvas for self-expression, and a pathway to personal independence. It also has been the principal means by which Americans create personal economic security.

Yet homeownership and affordable home construction remain at historic lows. There is ample evidence that many Americans who could afford to buy a home, particularly younger potential buyers, are sitting on the sidelines.

... restoring confidence in homeownership is crucial to the vitality of the American Dream ...

Why? There are at least two reasons.

First, confidence in the economic benefits of homeownership has been shaken. Second, the home buying process today is ill-adapted to meet the demands of the next generation of homebuyers.

In the following white paper, we explain why restoring confidence in homeownership is crucial to the vitality of the American Dream. And we offer ways to modernize the home buying process so more can share in the Dream.

Central to this, is the concept of down payment protection. We believe an affordable, private sector option for current and prospective



homebuyers to insure their initial down payment can restore much needed confidence in the housing market. Moreover, down payment protection will give badly needed flexibility, confidence and control in the home buying process. Although down payment protection will not solve every challenge in the housing market, we see it as one small, but important, step down the path of policies and services that enable and empower the American homebuyer.

The importance of homeownership

Homebuilding, home buying and home selling are significant parts of the American economy. Building homes creates well-paying jobs and generates considerable tax revenues to support schools, roads, and public services. Buying and selling homes provides jobs for real estate and related industry professionals, and has long been Americans' top source of wealth accumulation.

But homeownership is much more than an economic driver. Homeownership is at the very heart of the American Dream.

The home fulfills our most crucial human needs, including shelter, safety, belonging, esteem and self-actualization. Many see the home they own as the pathway to independence, refuge and self-expression. Homeownership has long symbolized personal and financial freedom.

Owning a home also continues to be the primary means through which Americans create personal financial security. Home equity remains the single largest component of household wealth for most Americans. With the depletion of pensions, many Americans consider their home the number-one source of retirement funding.

Nevertheless, the homeownership rate remains at historic lows – lowest in three decades. And despite robust immigration and a population growth of over 50 percent in the past five decades, affordable home construction has stayed flat.

Key economic indicators such as interest rates and job creation have recently been in positive territory for a boost in the home sales market. However, many who could afford to buy a home, particularly younger Americans, are still sitting on the sidelines.

So why are they resisting the American Dream?



There are many reasons, but post-traumatic stress from the housing crisis of 2007-2008 is a big one. Home values plummeted, plunging millions of homeowners under water.

While the majority of the nation's housing markets have since rebounded, under the current system, homebuyers are still the least protected of all parties involved in the home buying process. Federally mandated measures protect big banks and institutional lenders. Private mortgage insurance, paid by homebuyers, protects mortgage lenders. But the individual homebuyers who fund the trillion-dollar American housing economy remain exposed and vulnerable to potentially volatile market fluctuations – fluctuations that can be completely unpredictable and beyond the homebuyers' control.

A home-buying process out of synch with the next generation of homebuyers

The good news is that the desire to own a home is still very much alive.

According to a Nielsen Harris Poll conducted on our behalf, over three quarters (78 percent) of American renters want to be homeowners. That number jumps to 90 percent among millennials, the largest age segment in America today.

Similarly, according to the latest National Association of Realtors (NAR) survey of American households, 83 percent of all surveyed renters want to own a home. That desire jumps to 94 percent for renters 34 years of age or younger. Overall, 77 percent of surveyed Americans believe homeownership is part of the American Dream.

So Americans still want to own a home. The problem is a home buying process that hasn't adapted to a new generation. Specifically, it hasn't adapted to the new millennial mindset.

Let's put ourselves in the shoes of an upwardly mobile millennial American.

Sure, paying rent might be expensive – and getting more so at a record-setting pace. And yes, renting means you do not accumulate home-equity wealth. And yes, you may feel that renting excludes you from the pride and satisfaction of owning a piece of the classic American Dream.

Renting, however, gives you the mobility and flexibility to relocate quickly should you want to pursue a career opportunity. Renting allows



you to have fewer long-term financial commitments, and hence better control of your life choices.

Renting has become integral to the new millennial mindset. You share cars, stream movies, and choose to remain flexible and nimble in the new "gig economy." Renting is a way to live a new, evolved version of the American Dream that places importance on access over ownership, experiences over things, and fluid possibilities over rigid responsibilities.

In a housing market beyond any homeowner's control, homeownership becomes a threat to the financial wellbeing of millennials who increasingly depend on mobility and flexibility to prosper.

To measure this potential anxiety of homeownership, we asked renters in our study how confident they would be in recovering a down payment if they were to buy a home today and had to sell that home within two to seven years.

Fewer than 1 in 4 millennial renters – 24 percent – said they would be very confident, and a full one-third (33 percent) said they were not at all or not very confident. That's a problem considering a typical millennial changes jobs every three years, according to the U.S. Census Bureau.

This lack of confidence and perceived financial vulnerability appear to be at least partially responsible for keeping renters who can afford homes on the sidelines of homeownership. When given the hypothetical option to insure their down payment, 63 percent of all renters surveyed – and 69 percent of millennial renters – said they would be more likely to buy a home sooner. That's 7 in 10 millennials sitting on the sidelines out of fear.

The American Dream of homeownership is still alive and well. But it has changed. Millennials want to own a home but without the risks and fear of rigid financial commitments that the last housing crisis dramatically introduced. They want a New American Dream of homeownership that complement the ideals and rules of a mobile and global economy in the 21st century.

Until home buying catches up with the times, many Americans – especially millennials whose lifestyle demands mobility and flexibility – are opting out of a housing system that wants their money but does not protect their wealth.



Confidence-building measures for the modern homebuyer

For 70 years, private mortgage insurance (PMI), which protects banks against the borrower's potential default, has placed millions of Americans into a home of their own. It has been a good thing. But we must do better. At the closing table today, every party is protected except the homebuyer, who funds all the transactions.

Therein lies the biggest problem.

Modern homebuyers want control and flexibility. But the current home buying environment is an anachronism. The system still lives in the 20th century and does not accommodate homebuyers' basic needs.

ValueInsured, born out of the desire to protect everyday American homeowners, is working to change that.

ValueInsured is introducing down payment protection. It is a simple and affordable way for potential homebuyers to be assured that if they need to move out or move up, they can, without losing their life savings in a down payment. We believe this simple tool could have significant economic benefits to individual Americans and the country as a whole.

Specifically, down payment protection can do three things urgently needed for the American economy and American consumers.

- First, it will give more first-time homebuyers – many of them millennials, the largest age segment in our history – the confidence they need to leave the sidelines and become homeowners.
- Second, it will give existing homeowners the confidence and the home equity they need to upgrade to another home. Moving up not only generates revenues for sellers, builders and banks, it also frees up affordable housing stock for first-time buyers.
- Finally, by restoring confidence and facilitating mobility, down payment protection will energize the real estate market by making loans safer, which in turn can attract a needed influx of capital to a sector that already represents \$1.2 trillion of our economy.

A public policy decision

Over the years, the GSEs and the FHFA have focused on affordability issues surrounding housing to promote a stable and fair market. They have implemented (to name a few):

- Aid for low-income and first-time buyers (lower fees, LTVs, etc.).
- Policies to encourage responsible homeownership.
- Rental policies to discourage unfair rate increases.

Down payment protection focuses on a key factor keeping potential buyers on the sidelines – risk. By shifting risk to the front-end of the mortgage process, empowering the homeowner to make the decisions that are best for them, we not only help meet the modern buyer's demands for greater flexibility but also help shift systematic risk to private capital, mitigating downstream risk to mortgage insurers, the GSE's and ultimately investors. The hope for a new, better American dream requires that something be done to eliminate the fear and risk of buying a home. Almost all want to be homeowners, but they require housing programs and policies that are primarily focused on them. Affordability is there. Now we need to eliminate some of the uncontrollable risk.

Down payment protection, regardless of the provider, is a very important program that deserves federal support (non-monetary) as a matter of public policy. When down payments are protected, everyone wins – homebuyers, sellers, banks, investors, insurers, governments and economies.

Although down payment protection will not solve every challenge we have in the housing market, we see it as one small, but important, step down the path of policies and services that enable and empower the American homebuyer. We believe confidence-building measures and homebuyer protection policies are not only vital to homeownership and our housing economy, they are essential to the evolution and longevity of the American Dream.

By giving greater flexibility, confidence and control to the homebuyer, and by once and for all relieving the latent anxiety in the marketplace, we believe every American will be better off.