“Mortgage costs as a share of housing costs – placing the cost of credit in broader context” by Begley and Palim (2022/2023)

Discussion by
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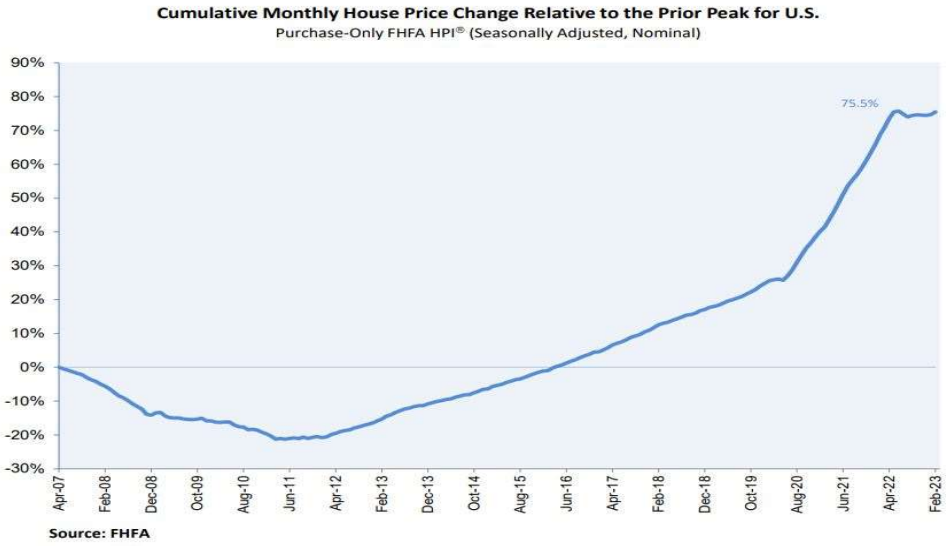
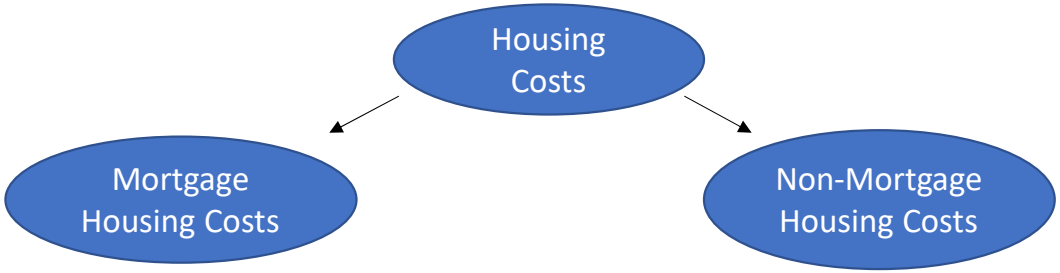
- Affordability is a concern
- House prices are high:



- Interest rates are high:

Source: FHFA HPI (Feb 2023 Data) and Optimal Blue (5/22/2023 data pull)

- Takes a deep dive into housing costs to understand affordability
  - Many more components than price and interest rate
  - Ex: taxes, home improvements, utility expenses, etc.
- Q: What are the main determinants of the costs of housing?
- Previous papers take different approaches to study (differential) costs of housing
  1. Use self-reported and/or aggregated data to form indexes of affordability (Bourassa Haurin 2017)
     - Ex: NAR Housing Affordability Index, HUD Location Affordability Index, NAHB Housing Opportunity Index
  2. User-cost approach (Hill Syed 2016, Haffner Heylen 2011)
  3. Differences in interest rates and mortgage originations (Bartlett et al 2022, Bhutta Hizmo 2021)
- This type of exercise is challenging due to data constraints
  - Paper uses rich loan-level data on Fannie Mae loans combined with closing cost data
  - This paper generates more direct estimates of housing costs
  - Uses results to discuss equity/wealth building



- Down Payment + Closing Costs
- Interest
- Guarantee fee (both up front and ongoing)
- Servicing Fee
- Lender (& Other) Spreads
- Mortgage Insurance

- Repair/Maintenance
- Utilities
- Property Insurance
- Property Taxes
- Capital Exp./Improvements

Calculates estimates of costs for 3 "average" types of homeowners in 2020:

1. Avg Homebuyer: 753 FICO, 83% LTV
2. Avg FTHB: 745 FICO, 88% LTV
3. Avg Low-Income FTHB: 750 FICO, 95% LTV

**Lots of approximations and averages, which authors caveat carefully

Generally similar patterns across 3 borrower types, though Low-Income FTHB spend more on utilities and capital expenditures

Average homebuyer borrower profile in 2020: 753 FICO, 83% LTV

Ownership Costs DCF		Total Costs & % of Costs
Upfront		$175,541
Purchase Price	$318,281	
Down Payment	$36,600	
Closing Costs	$6,693	3.8%
Total Upfront Costs	$43,293	
Ongoing Costs Yrs 1-10		
Total Annual Utility Costs	$23,222	13.2%
Total Annual Property Taxes	$29,007	16.5%
Total Annual Insurance	$9,279	5.3%
Total Annual R&M	$6,864	3.9%
Total Annual Capex	$17,544	10.0%
Total Annual FRM interest	$28,150	16.0%
Annual interest cost due to LGOS	$12,109	6.9%
Total Annual g-fee	$6,920	3.9%
Total Annual servicing	$3,932	2.2%
LLPA	$786	0.4%
Total MI payments	$996	0.6%
Principal Repayment	$36,967	
Sale Costs		
Estimated Sales Price	$411,839	
Remaining Mortgage Balance	$ 214,606	
Broker fees	$ 27,214	15.5%
Other closing costs (est)	$ 2,826	1.6%
Net Proceeds	$ 178,895	

Closing costs are 15% of total upfront costs

Utilities, taxes, capex, and interest charges net of fees and GOS are the largest ongoing charges

Ongoing non-mortgage housing costs are ~50% of overall costs

Brokers fees are a significant component of sales and overall costs

Homeownership Equity Accumulation, by Borrower Profile

Questions for Author:

1. Have you considered updating data? (2020 unusual year)
2. How do housing costs (and their composition) change:
   - over time? over space?
   - where are mortgage costs becoming more/less important?
3. What part of mortgage supply chain is driving costs, i.e. which spreads matter most? How does this change over time, say after shocks like COVID?
   - What part of non-mortgage costs are most volatile?
4. Account for different home size, i.e. purchase price?
5. More details on data used and availability would be useful for other researchers (Ex: how relate to HMDA?)

6. **Policy Implications?**
7. Could you do this same exercise at different points in time?
   - Interested in fixing type of borrower, or allowing that to change over time? (DFL decomposition?)
8. Breaking down into more borrower types might discover more interesting heterogeneity
9. Harder: how do different costs induce different home-buying decisions? (rent vs. own, size/location of home)