This comprehensive mortgage industry study investigates multiple data sources to reveal important trends and statistics. The mortgage industry plays an integral role in the U.S. economy. In 2017, only 21% of people who bought a home paid all-cash for their purchase. Everyone else got a mortgage. Residential property not only provides housing and employment. It is also the greatest source of wealth and savings for many families.

Our study uncovers surprising facts about the growth of total mortgage debt and its relationship to home equity and rental property vacancies. We reveal the main factors that determine the cost of a mortgage and how these have changed over time. We also look into the new wave of technological innovation that is reshaping the mortgage landscape. But first, let's start with a brief look at the state of the mortgage industry and its history.

A brief history of mortgages

Home mortgages in the United States have a complicated and, at times, colorful history.

One way to understand how the mortgage market has evolved is to track the federal government's involvement in the mortgage sector.

Before the Great Depression in the 1930s, most mortgages were arranged privately rather than through banks. The federal government wasn't involved in mortgage lending, and fewer than half the households in the country owned a home. A 50% down payment was typically needed to buy. And most mortgages had to be paid back sooner than the 15 or 30 years that are usually allowed today. Some mortgages had a term of just five years. Not surprisingly, most people couldn't afford to buy a home with these difficult requirements.

Mortgages and the Great Depression

During the Great Depression, about half of U.S. mortgages were delinquent. That means half the people who'd managed to get a mortgage before the Great Depression weren't able to make the payments to keep their home. A lot of banks failed. The federal government set up new agencies to supervise banks and other mortgage lenders.

Greatest Generation to Baby Boomers

By the end of World War II in 1945, banks were the prime source for home mortgages. Most buyers obtained a long-term, fixed-rate mortgage. Two government agencies—the VA and Federal Housing Administration (FHA)—introduced loan guarantees that enabled more people to buy a home. By 1970, 64% of households owned a home.

In 1968, the federal government created a quasi-governmental mortgage finance agency, now known as Fannie Mae. A second agency, now known as Freddie Mac, was established in 1970.
Fannie and Freddie don't directly originate mortgages. Instead, they purchase mortgages from lenders and either keep them in their portfolio or resell them to investors in the form of mortgage-backed securities. By the year 2000, Fannie and Freddie were behind 50% of home mortgages, with the FHA and VA also still involved in the mortgage market (source).

### Xennials to Millenials

In the 2000s, lenders introduced new mortgage products to enable more people to buy a home. Many of these new homeowners had poor credit and made very small down payments. The new mortgages often allowed borrowers to pay only the interest on the loan. Some of the mortgages allowed a "minimum" payment, with the unpaid interest added to the loan balance.

These high-risk mortgages raised the homeownership rate. But they also caused severe disruptions in the mortgage and housing markets when buyers couldn't afford their mortgage payments and home prices dropped.

In 2008, the problems were so severe that the federal government had to step in and fully take over Fannie and Freddie, which had suffered huge financial losses (source).

In 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act, which included new federal laws that were intended to encourage lenders to make less risky mortgages. Since then, most home buyers (about 90%) have chosen a traditional 30-year, fixed-rate mortgage (source).

### The rise of Fintech in the mortgage market

Since the financial crisis of 2008, financial technology (FinTech) has become an important driving force for both startups and established financial and technology companies trying to replace or enhance the usage of financial services provided by existing financial companies.
What is a FinTech lender? It's a pretty vague term. We are defining it as any lender that has a mortgage application process that can be performed entirely online. According to a New York Federal Reserve report, the share of the mortgage market by FinTech mortgage lenders has increased from 2% ($34 billion) of the market in 2010 to 8% ($161 billion) in 2016 (source).

It's no surprise FinTech lenders are disrupting the mortgage industry. In 2017, the top lender in the United States was Quicken Loans with $25.1 billion. The second largest loan issuer was Wells Fargo. FinTech lenders process mortgage applications faster (10 days as opposed to 50 days). They also have lower default rates -- 25% lower (source). FinTech lenders also tend to be more agile and flexible when it comes to adapting to changing financial circumstances.

The size of America's housing and mortgage market

What is the average mortgage balance?

The national average mortgage in 2017 was $201,811. That is nearly 10% higher than the average in 2007, $183,469.

How much mortgage debt do Americans owe?

After a brief dip between 2008 and 2015, mortgage debt is again on the rise. As of January 2018, American households owed a total of $10.144 trillion in mortgage debt. If you include mortgage debt from all sources, including for-profit businesses and financial institutions the total mortgage debt is $15.121 trillion.

How much equity do American households have in real estate?

It's not all bad news. American household's equity in real estate is higher than ever. And that includes the peak of the real estate bubble of 2006. In the first quarter of 2018, U.S. households owned $14.950 trillion in equity.

What is the size of the U.S. Housing Market?

If you combine mortgage debt and housing equity you get a total value of $25.1 trillion, which is nearly $2.5 trillion more than its previous peak in 2006.
Mortgage industry delinquency rates

Mortgage delinquency drops but still high when compared to credit cards and personal loans

Historically, mortgage delinquency rates have been low when compared to credit cards and personal loans. That all changed during the recent financial crisis. Delinquency rates continue to drop and are set to hit their lowest since 2005. However, they are still well above previous rates.
Mortgage down payments are at historical lows

Most borrowers need a down payment. The only exception are members of the military, veterans, and borrowers who are eligible for a loan guaranteed by the U.S. Department of Veterans Affairs (VA). The VA still backs zero-down loans.

How much do you need as a down payment?

The minimum downpayment for most people is 3% or 3.5% of the home's purchase price. As of June 2018, the median price of a new home is $302,100. So the median downpayment is between $9,063 and $10,574.

How much should borrowers expect to pay in origination fees and mortgage points?

Origination fees and mortgage points vary by lender and mortgage type. They also depend on the creditworthiness of the borrower. As you can see in the graph below, origination fees and discount rates in the last 25 years have ranged between 2% and 0.2% of the mortgage amount.
Origination fees include a variety of costs, such as underwriting fees, commitment fees, and document preparation fees.

### Mortgage Origination Fees and Estimated Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originator fee</td>
<td>$500 to $1,000</td>
</tr>
<tr>
<td>Origination fee</td>
<td>0% to 1.5% of loan principal</td>
</tr>
<tr>
<td>Origination points</td>
<td>0% to 3% of loan principal</td>
</tr>
<tr>
<td>Commitment fee</td>
<td>$200 to $400</td>
</tr>
<tr>
<td>Doc prep (documentation preparation) fee</td>
<td>$50 to $250</td>
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<tr>
<td>Lender fee</td>
<td>$650 to $850</td>
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<tr>
<td>Processing fees</td>
<td>$500 to $1,200</td>
</tr>
<tr>
<td>Underwriting fee</td>
<td>$300 to $400</td>
</tr>
</tbody>
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Source: Survey of lenders and industry reports

There are two types of mortgage points: discount points and origination points. Discount points
are a form of prepaid interest. The more you pay in discount points the lower your interest rate will be. Typically, every discount point you pay on a mortgage will drop the rate by 1/8 to 1/4 of a percent. Origination points are just another type of origination fee designed to cover the costs of processing a mortgage.

You can also pay fewer fees upfront if you're willing to accept a higher rate on your loan.

**What credit score do you need to qualify for a mortgage?**

Minimum credit score requirements vary wildly by lender and mortgage type.

According to a report by the New York Fed and Equifax, the median credit score for a mortgage origination is 761. However, you can have a much lower score and still qualify.

For example, the average credit score for borrowers with an FHA mortgage in 2017 was 676. However, 7.3% had a score below 620 and the minimum credit score is 500 (source).

**Mortgage interest rates**

Interest rates are a key factor in the mortgage market. That's because they're one component of the homeowner's monthly mortgage payment. The other component is a portion of the principal balance of the loan.

In the early 1980s, mortgage rates were as high as 18%. From that shocking level, rates trended more or less steadily downward until they bottomed out at historic lows in the 3% range in 2012.
Rates began to rise again the next year as the U.S. economy recovered from the Great Recession.

In recent years, mortgage interest rates have fluctuated in the 3% and 4% range. (source)

Mortgage rates and affordability

A 1% increase in the interest rate of a 30-year mortgage can determine the affordability of a home purchase. The table below shows the effect on the monthly payments and total cost of a $300,000 mortgage.
The total cost difference of $192,183 may be what catches your eye when looking at a 3% and a 6% mortgage. However, it is the monthly payment difference of $534 that is more likely to determine whether a household can afford to buy a home.

The graph below shows the correlation between mortgage rates (i.e. monthly payments) and new home sales from 1971 to 2018.

Mortgage rate changes can price many households out of the mortgage market. This effect is particularly strong in regions where the home prices are high in comparison to median family incomes.

**Mortgage industry statistics: the Housing Affordability Index**

A useful index to determine housing affordability is the traditional housing affordability index. It shows what percentage of a population can afford to buy the median-priced home in a given region. As you can see from the map below, the majority of the United States counties provide reasonably affordable housing. It also shows hot spots where housing is less affordable in the United States. In some densely populated areas, residential properties are too expensive for the average household to purchase a home.
Large swaths of the West Coast are unaffordable. In this map, California is a predominantly red state. Employment hubs like San Francisco, San Diego, and Los Angeles have particularly prohibitive housing costs. Compare the average housing affordability of the United States, 53, to HAI of California, 26. This means that only 26% of Californians can afford a median-priced home in their state. On the national level, 53% of Americans have the necessary income to qualify for a median-priced home in their state.

The housing market and foreign investors

One of the reasons prices are so high in big cities is foreign investment. Since 2008, for instance, Chinese real estate investors have spent tens of billions of dollars on commercial properties in
the United States. Often, they've overpaid to acquire hotels, office buildings, and empty lots to build new residential spaces.

![Chinese investors real estate acquisitions and sales from 2014 to 2018](image)

But all of that came crashing down in the second quarter of 2018. For the first time in a decade, Chinese insurers and conglomerates sold more than they acquired. Between April and June, they purchased a little less than $130 million worth of real estate, while offloading $1.29 billion worth.

**Baby Boomers and generational housing bubbles**

Baby boomers, people who were born between 1946 and 1965, own 33.4 million homes: four out of every 10 in the nation.
High homeownership rates are usually considered a positive economic marker. However, in recent years economists are concerned about the increased prevalence of mortgage debt among older homeowners. In the past, paying off your mortgage before retiring was an honored and common rite of passage. In 2015, only 36.9% of Boomers owned their homes free and clear, according to a recent Fannie Mae study. The same study shows that the oldest Boomers (65-69), who have already retired, were 10% less likely to own their homes without a mortgage than pre-Boomers. Another study by FannieMae, values the total inventory of homes owned by Boomers and pre-Boomers at $13.5 trillion, or 75% of the U.S. annual economic output (source).

The concern is that Boomers will no longer be able to afford their homes and start unloading tens of millions of homes on a housing market that doesn't have the buyers to meet that supply. A glut of unsellable properties could trigger a dramatic drop in house prices and create the greatest real estate crash in American history.

Not all economists are worried. Lawrence Yun, the chief economist for the National Association of Realtors, claims these gloom and doom predictions are unwarranted. According to Yun, population growth, foreign-born investors, and the gradual speed at which the oversupply will occur will balance the housing market and there will be no measurable price declines (source).

**Adjustable Rate Mortgages**

Market rate fluctuations are also a factor for some buyers in their choice of a fixed-rate loan or adjustable-rate mortgage (ARM). When rates rise, buyers tend to shift from the safer fixed rate to the risker ARM. This decision is driven by the monthly payment, which can be more affordable with an ARM—if market rates don't increase sharply in the future.
The volume of mortgage refinancing is especially sensitive to market rate fluctuations. When rates for new 30-year mortgages drop, as they did in early 2015 and mid-2016, homeowners rush to refinance. When rates rise, homeowners lose interest in refinancing, unless they want to trade an ARM for a fixed-rate loan or remove a borrower, perhaps due to a divorce or other financial life changes.

**Is getting a mortgage and buying a house the only path to financial success?**

Homeowners can accumulate wealth by paying off an initial purchase-money mortgage over time until they own their home free and clear. Historically, this opportunity has turned out well for many homeowners over the long term. Still, some people argue that renting a home and investing in other assets is a better strategy to become wealthy.

A 2012 study published by the Journal of Housing Research found that "renting creates higher wealth than ownership in the majority of cases"—if individuals diligently reinvest the difference in their housing cost. For many, that's a tough "if" to ask (source).

**Mortgage demographics**

Federal law makes it illegal for lenders to discriminate in mortgage lending.

The borrower's race, color, religion, national origin, sex, marital or familial status, age, handicap, or receipt of income from a public assistance program cannot be used to approve or deny a mortgage application or influence the type of mortgage or rate that a borrower is offered. (source) States also have laws that protect certain groups of people from such discrimination.

Despite fair housing laws, research suggests that discrimination persists.

One study of 2015 data found mortgage application denial rates of 27.4% for black applicants, 19.2% for Hispanic applicants, and 11% for white and Asian applicants.

"Throughout the boom, bust and recovery phases of the housing cycle, blacks have been denied home loans at higher rates than most other racial groups, (the exception being Native Americans, and even then only in the last few years) and Hispanics have been denied at higher rates than non-Hispanics," the Pew Research Center concluded.

Hispanics and Asians were most often rejected for having too much debt relative to their income while blacks were turned down due to having a poor credit history.

The volume of applications from blacks declined from 1.1 million, or 5%, of applications, in 2005 – a peak year for applications overall – to just 132,000, or less than 4%, in 2015 (source).

**Mortgages for Millennials**
Millennials, born between 1981 and 1997, are an important demographic group for today's mortgage lenders and housing markets. These 70 million people are currently in their prime years to buy a first home or trade up to one with a bigger mortgage.

In 2017, the homeownership rate for Millennials was 36%. Millennial buyers are choosing townhomes (or even tiny homes) as an affordable alternative to detached houses. They also like homes with three bedrooms, two bathrooms, outdoor space, multipurpose rooms, and quartz countertops. (source)

As a group, Millennials say student debt has made it harder for them to purchase a home (source).

![Reasons Millennials delay buying a home](chart)

Still, Millennials are growing as a percentage of home buyers.

In February 2018, 45% of total closed mortgages to buy a home were made to Millennials, up from 43% in December 2017. Many Millennials are choosing a conventional 30-year mortgage (source).

**Renters rise while homeowners decline**

Homeownership has steadily declined since 2004, and so has the rental vacancy rate. What has caused this?
Two causes stand out. First, the recent financial crisis made it hard for many to qualify for mortgages. Even households who could afford and qualify for a mortgage may have been wary about investing in real estate. The second reason is that people are less interested in moving to suburbs. Many prefer to live closer to where they work and have a wider selection of entertainment and cultural opportunities. However, downtown properties are scarce and expensive. This trend has encouraged the conversion of commercial buildings and zones into apartments that can satisfy the demand for rental properties.

**Mortgage rate outlook**

The Federal Reserve is often credited for low rates and reviled for high ones.

The Fed has a committee that meets periodically to discuss the U.S. economic outlook and set what's known as the federal funds rate. This committee's formal name is the Federal Open Market Committee (FOMC). The federal funds rate is used by banks and credit unions when they make overnight loans among themselves.

The FOMC doesn't directly set the rates that consumers pay for mortgages. Instead, the federal funds rate factors into the rates lenders charge.

Mortgage rates tend to track the 10-year U.S. Treasury rate, delinquency patterns on existing mortgages, and the perceived risk of an economic downturn (source).

In March 2018, the FOMC increased its target range for the federal funds rate to 1.5% to 1.75%. While this range is a bit higher than in recent years, it is still low by historical standards. In its March statement, the FOMC indicated that it expects to make further gradual adjustments in the federal funds rate while keeping an eye on economic activity and the rate of inflation (source).
The Fed's hike of the federal funds rate in March triggered a bump up in the rates home buyers and homeowners pay when they get a mortgage.

A typical rate for a 30-year, fixed-rate mortgage dropped from 4.2% in the first quarter of 2017 to 3.9% in the fourth quarter. In the first quarter of 2018, however, that rate returned to its year-earlier level of 4.2% (source).

Housing experts at Fannie Mae expect mortgage rates to rise slowly and steadily in 2018 and 2019, reaching 4.6% in the 2019 second quarter (source).

**Shopping around for a mortgage**

Borrowers who shop around and compare offers from multiple lenders can save money when they get a mortgage.

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*The number of different lenders/brokers considered before choosing where to apply for a mortgage.*
A January 2015 government study found about half of the people who got a mortgage to buy a home seriously considered more than one lender or mortgage broker before they applied. But 77% stopped shopping after they applied with one lender.

However, as shown above, rates and fees vary significantly from one lender to another. Comparing rates and terms from several lenders could save you thousands of dollars over the life of a mortgage. SuperMoney's mortgage comparison tools make it easy to compare the rates and terms of leading mortgage lenders.