



Fannie Mae™

Lack of Mortgage Focus Complicates Home Purchase

An Ethnographic Study Among Low- and Moderate-Income Households

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Research Background & Objectives

Buying a home and getting a mortgage for the first time is one of the largest financial decisions that a household will make during its lifetime. Prior research has shown that saving for a down payment and insufficient credit history are the biggest barriers to obtaining a mortgage for home purchase.¹ Other research has found that consumers do not do much comparative mortgage shopping by getting multiple quotes.²

Most of the research conducted thus far on this topic relies on survey methods, thereby providing a snapshot of consumer attitudes and outcomes at a certain point in time. By design, such studies are less helpful for understanding the nuances of the home purchase and mortgage shopping experience that for most consumers is a process that typically occurs over a period of time.

To gain richer insights and assist in the interpretation of the results of these past surveys, as well as to inform future research, in this study we employed an **ethnographic approach**. This allows us to follow a small group of **low- and moderate-income households over a period of months** during which they were actively engaged in activities that they hoped would result in a successful transition to homeownership.

Specific research questions include:

- What are the different paths low- and moderate-income households take as they seek to become homeowners? What barriers do they face and how do they overcome them?
- What is the role of the mortgage (home purchase financing) in the entire home-purchase journey?
- How do they shop for a mortgage? Who are the influencers?

1. [Fannie Mae National Housing Survey](http://www.fanniemae.com/resources/file/research/housingsurvey/xls/nhs-022018-datasummary.xlsx)[®], Data Summary, Table q23ba - What would be your biggest obstacle to getting a mortgage to purchase or refinance a home today?
<http://www.fanniemae.com/resources/file/research/housingsurvey/xls/nhs-022018-datasummary.xlsx>

2. "Consumers' Mortgage Shopping Experience," Consumer Finance Protection Bureau, Jan. 2015, https://files.consumerfinance.gov/f/201501_cfpb_consumers-mortgage-shopping-experience.pdf
"What is the Mortgage Shopping Experience of Today's Homebuyer?" Fannie Mae, April 2015, <http://www.fanniemae.com/resources/file/research/housingsurvey/pdf/apr2015-topicanalysis-presentation.pdf>



Executive Summary

Lack of Mortgage Focus Complicates Home Purchase Process.

- ❑ Research participants faced a number of barriers such as income instability and insufficient credit, resulting in a prolonged and complicated home purchase process.
 - About half of the research participants were able to buy a house at the completion of the research, while the other half had to go back to the preparation phase, such as building credit or income history and budgeting before they could start again, making the whole home purchase journey last for more than two years.
- ❑ Research participants considered the mortgage as a hurdle to overcome throughout the time-pressured home purchase process, not a focus. Emotions about the mortgage ranged from neutral to negative (e.g., frustrating, overwhelming, and intimidating).
- ❑ During the whole home-buying process, research participants focused overwhelmingly on the home search (e.g., location and home features) rather than the mortgage (e.g., how to get a mortgage, what lenders to work with, and when to get started).
 - In early stages (before getting pre-qualified or pre-approved), research participants had vague ideas about mortgages.
 - Some mortgage knowledge started to form once they began the pre-approval process. However, once prospective homebuyers selected a lender for a pre-approval, they rarely re-evaluated lenders or mortgage choices.
 - Research participants shopped around and negotiated many facets of the home purchase (e.g., closing time and repair costs), but not the mortgage terms. Their selection of lenders focused on who could get them a mortgage by the deadline, allowing no time for comparison shopping.



Research Methodology

Qualitative methodologies are used to develop deeper insights, rather than quantitatively projectable measures.

- Due to the sample size, the recruitment methods used, and the study's objectives, these findings are qualitative in nature and are not meant to statistically represent a larger population.
- The time demands of study participation limited sample to those with more time (e.g., no families with children).



Research Methodology

- ❑ A total of 14 low- and moderate-income prospective first-time home-buying households participated in this research, throughout a 4-9 month period, depending on their stage in home purchase, with 10 in greater Boston, MA, and 4 in greater Knoxville, TN.

Target	Boston	Knoxville	Total Respondents
Gender (F/M)	8/2	2/2	10/4
Income Range	\$24,000 - \$90,000	\$15,600 - \$58,000	N/A
Marital Status	3 single 7 married/partner	3 single 1 married/partner	6 single 8 married/partner
Ethnicity			
Caucasian	5	3	8
African American	3	1	4
Hispanic/Latino	0	0	0
Asian American	1	0	1
Other	1 (Haitian American)	0	1
Purchased home at the completion of this project	5/10	2/4	7/14

- ❑ All research participants were recruited before they got pre-qualified for mortgages (early in the home purchase journey).
- ❑ Ethnographic methods with multiple data-collection approaches were used, including three onsite (mostly in their own homes) in-depth one-on-one interviews (10+/- hours for each participant), video diaries (up to weekly), pulse surveys, and research participants' mortgage documents. Data were analyzed iteratively, so questions were tailored to get the most complete picture of a participant's experience.
- ❑ [Abt Associates](#) was commissioned by Fannie Mae to conduct this study.

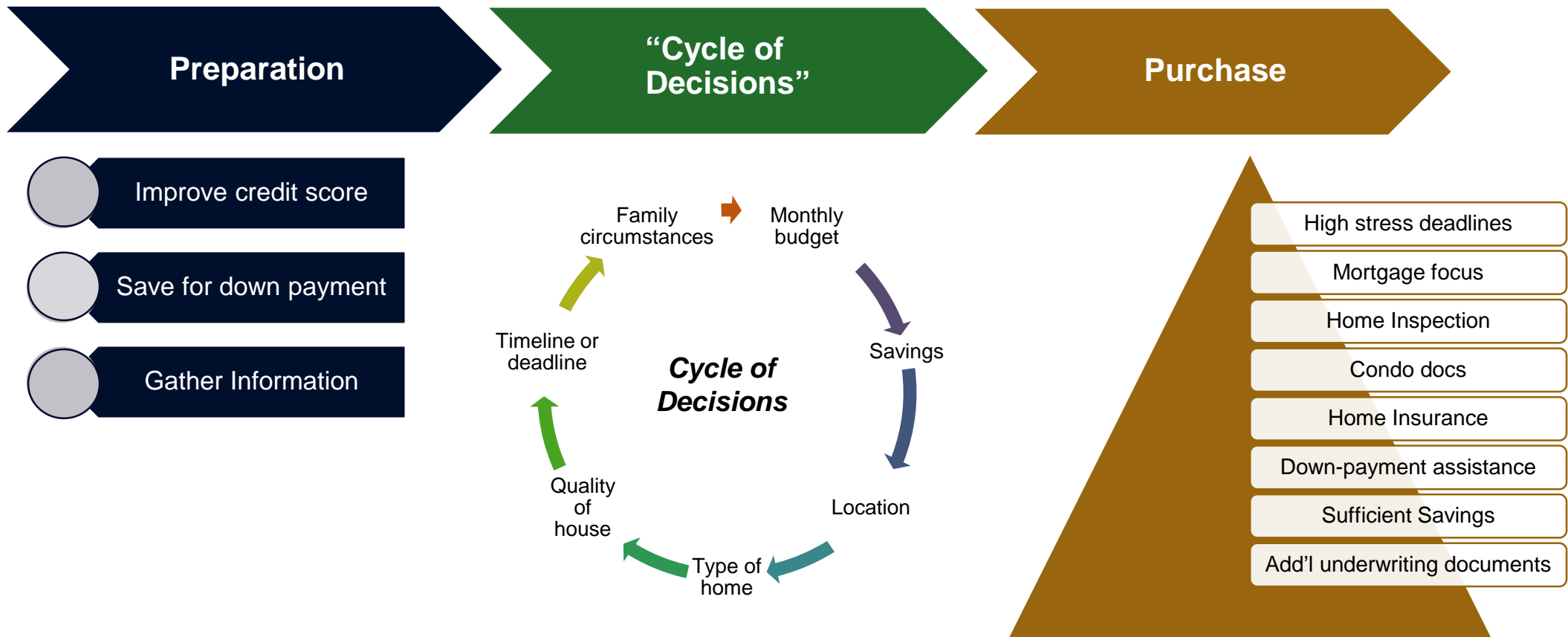


Findings



The home purchase process generally involves three phases, from preparation, to a cycle of decisions, to purchase.

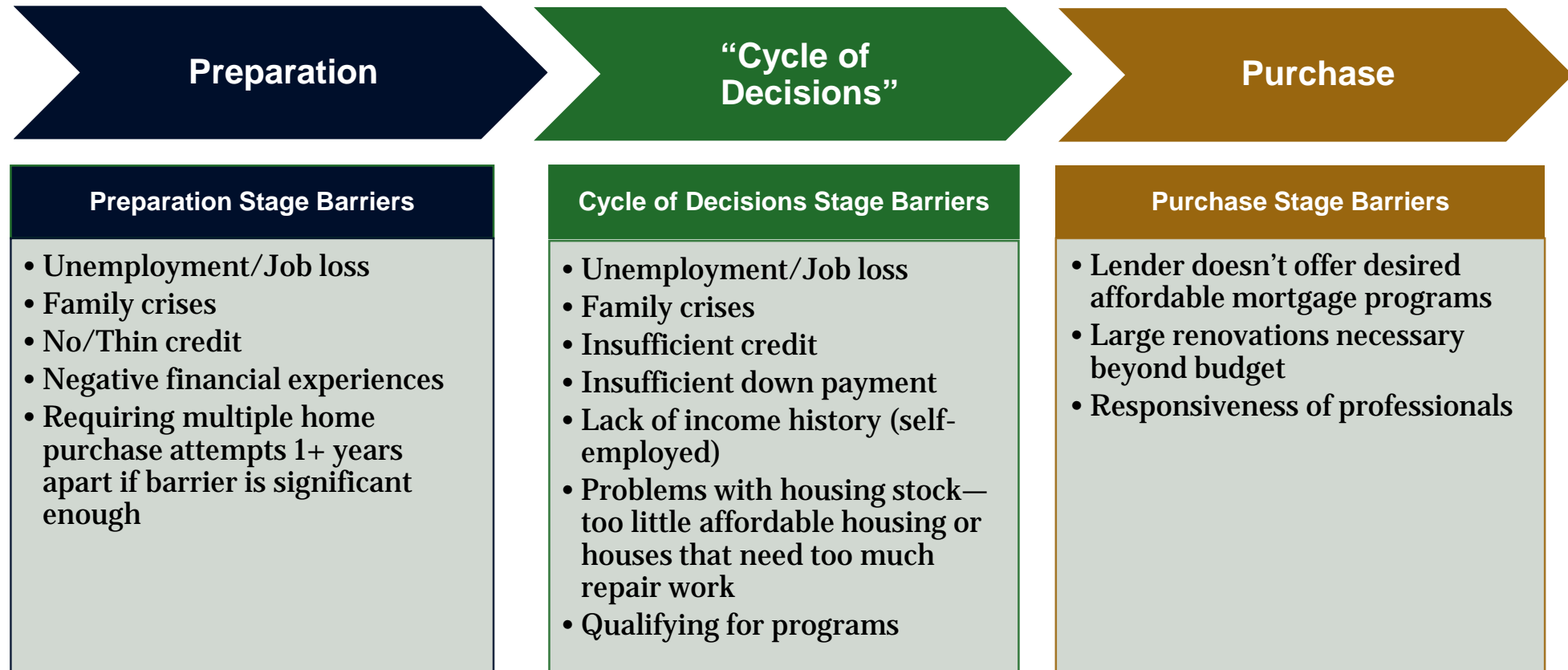
- Each homebuyer has to address each component of these phases in ways that are tailored to their personal circumstances. The ways that buyers think about the mortgage and the emphasis they place on it vary in each stage.





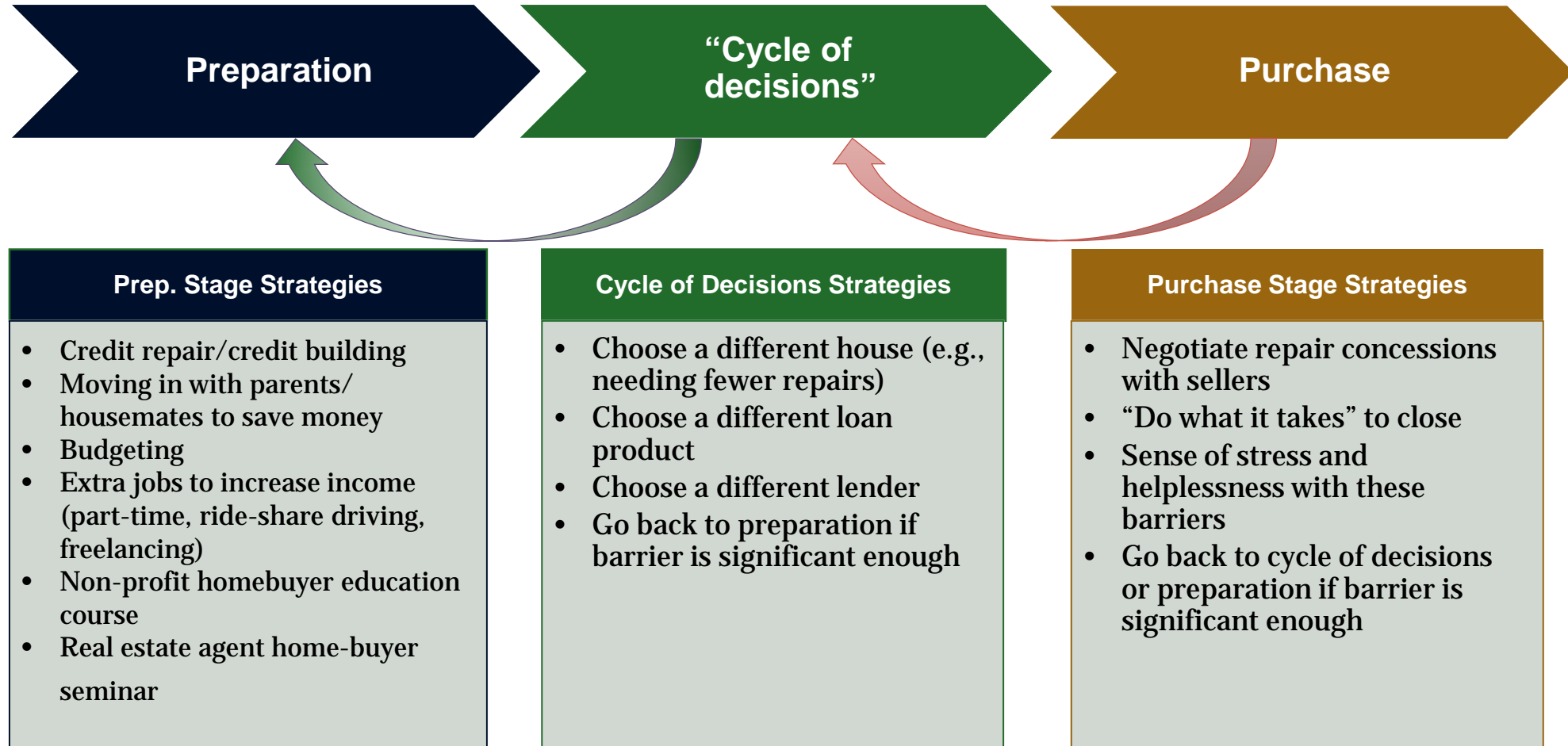
Most research participants faced a number of barriers, making the home purchase process prolonged.

- ❑ Research participants' purchase timelines ranged from less than six months to more than two years.





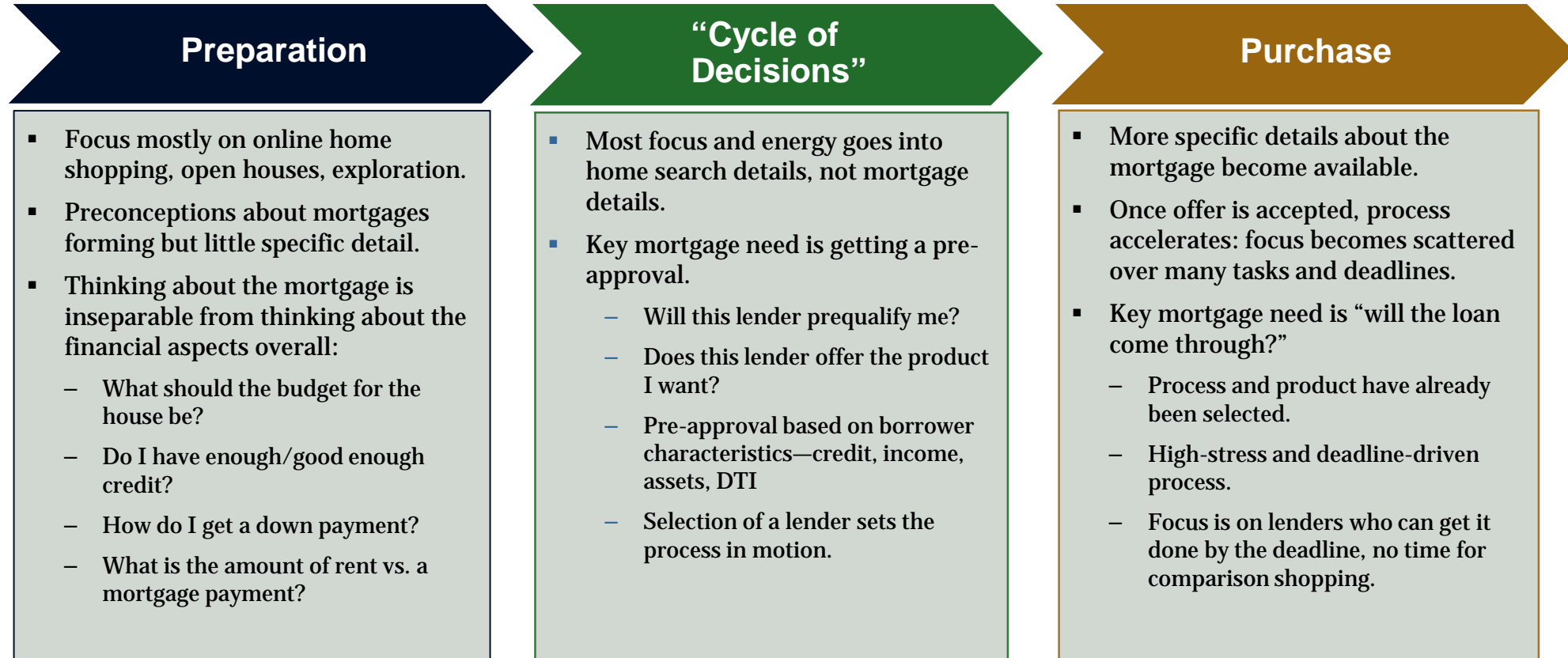
Different paths were taken, depending on participants' barriers and personal circumstances, making the home purchase process difficult and complicated.





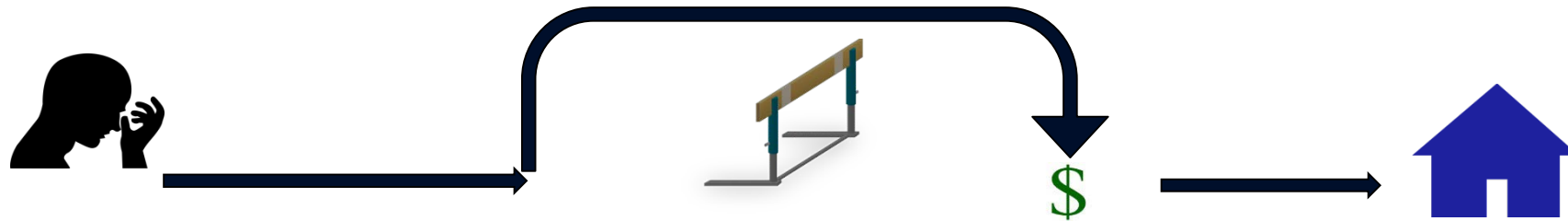
Research participants focused their energy on home search details rather than mortgage details.

- ❑ In the early stages (before getting pre-qualified or pre-approved), research participants had vague ideas about mortgages.
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Research participants consider the mortgage as a hurdle to overcome, not a focus. Emotions about the mortgage range from neutral to negative.



Home search experienced as:

- Exciting, motivating
- Stressful, frustrating
- Interesting (e.g., to look at houses online, drive neighborhoods, attend open houses)
- Attention to details pertaining to home selection and negotiation

Mortgage experienced as:

- Neutral
- Stressful
- Frustrating
- Overwhelming
- Intimidating
- Trying to understand the need for documentation
- Disliking the amount of required documentation



Research participants shopped around and negotiated many facets of the home purchase, but not the mortgage terms.

Shopping Layers	Research Participants' Shopping Actions
Home Contract Terms	Focused on home contract terms (e.g., condo agreements or repairs) with increasing time and emotional focus when closing approached, inhibiting further mortgage shopping.
Lender	Chose lenders based on <i>one or a combination of</i> 1) offering a product they desired, 2) referral from a realtor, 3) emotional reassurance/ guidance from lender. Lender selection is “sticky” by and large.
Mortgage Product	Learned about the general range of products available and chose products based on specific features that met their financial needs (e.g., low or no down payment). Some learned about interest rates generally. Focused on monthly mortgage payment and how it fit their budget.
Loan Terms	Lack of comparison shopping: research participants applied for only one mortgage. They had already selected a lender and felt under pressure to close by their desired date.



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