

# A Path to Homeownership: Building a More Sustainable Strategy for Expanding Homeownership

*Rick Jacobus and David M. Abromowitz*

## Introduction and Summary

For more than sixty years, federal government efforts to expand homeownership were the centerpiece of U.S. housing policy. These policies made homeownership possible for the majority of American families. But the housing bust of 2007–2008 followed by the still-rolling foreclosure crisis in many parts of the country has sparked calls to reevaluate the importance of homeownership as a central policy goal of the federal government. Clearly, homeownership was oversold amid the recent housing bubble, and owning a home is not appropriate for every family. Yet homeownership continues to provide real social and economic benefits and remains a high priority for most American families.

What's needed then is a reevaluation of the ways in which the federal government encourages homeownership. Past racial discrimination in housing programs and access to credit results today in very uneven rates of homeownership among racial groups, which contributes even today to a wide and still-growing wealth gap in our country. Minority families and low-income families often find it difficult to come up with a sizable down payment for their first home precisely because they and their extended families lack the sufficient wealth. Expanding access to homeownership remains one crucial part of overcoming wealth inequality in our

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*Rick Jacobus (rick@rjacobus.com), who is one of seven partners in Burlington Associates in Community Development, manages the Cornerstone Partnership for NCB Capital Impact. Cornerstone Partnership (www.affordableownership.org) is a national peer network for homeownership programs that seek to preserve long term affordability and community stability.*

*David M. Abromowitz (dabromowitz@goulstonstorrs.com) is a senior fellow at the Center for American Progress, focusing on housing policy and related federal and state programs and issues. His January 2008 proposal, "A Great American Dream Neighborhood Stabilization Fund," served as the basis for the Neighborhood Stabilization Program enacted by Congress in July 2008, which has funded nearly \$6 billion for communities hit hard by foreclosures. He is a partner in the Boston office of Goulston & Storrs.*

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country. After all, even after the current deflation in home prices from inflated highs, the most valuable asset most Americans will ever own is their home.

We have learned some important lessons from the foreclosure crisis. Most renters, of course, face multiple barriers to homeownership. Inadequate credit, lack of sufficient income, and other challenges may exist in addition to the lack of wealth or savings for a standard down payment. This is even more so the case with minority family renters, who lack parents and grandparents who own homes of their own and boast the financial capability to help their children and grandchildren with the down payments. Recent research consistently shows that wealth barriers pose the most significant obstacle to ownership for most of these low-income and minority families. As this paper will highlight, the lack of savings and family wealth can be addressed with carefully crafted programs.

Federal homeownership programs, however, have long focused primarily on credit and income barriers and far too little on overcoming wealth barriers to homeownership. Depression-era federal programs such as mortgage guarantees from the Federal Housing Administration and federal support for the mortgage securitization giants Fannie Mae and Freddie Mac focused on overcoming credit barriers. In the postwar era, these efforts succeeded in making homeownership possible for the great majority of American families. Between 1940 and 1965, the national ownership rate rose from 45 percent to more than 65 percent, but almost exclusively among white families due to widespread (and often legal) racial discrimination during this period.

But from 1965 to 1995 the homeownership rate remained virtually unchanged despite significant continued federal, state, and local investment in homeownership programs. Beginning in the late 1960s, a new set of programs focused on bringing down the cost of homeownership through mortgage interest rate subsidies. Federal mortgage revenue bonds, for example, allow states to fund mortgage loans at below-market interest rates because interest earned by investors who buy the bonds is exempt from federal income tax. But such programs have not had major impact on the homeownership rate because they do not overcome wealth barriers that prevent many renters from being able to afford a home.

Starting in the late 1990s, private mortgage market “innovations” led to further increases in the homeownership rate by lowering the amount of money required for a deposit on a home. Most of these loans artificially inflated the amounts borrowed through low “teaser” rates and other variations that masked the true borrowing burden. Although some government-sponsored low down payment programs were combined with safer fixed-rate loans and prepurchase counseling, many of these mortgage products lacked basic consumer protections. We are now seeing that much of that growth was unsustainable because of unsound mortgage underwriting standards.

Today, the United States is experiencing significant declines in the ownership rate for the first time in decades as first-time homeowners, who were peddled subprime mortgages often with little or no down payment required but with hefty interest payments kicking in later, struggle to make their mortgage payments. But the choice today is not between unsafe loans or low ownership rates for a large segment of the population. Instead, there are safer, proven strategies for making ownership possible for lower-income and minority buyers.

What we need is greater availability of targeted purchase assistance programs that address wealth barriers to homeownership. One-time purchase assistance—in the form of down payment assistance or neighborhood development subsidies that create below market-rate homes—expands the number of lower-income renters that can afford ownership dramatically. These kinds of purchase subsidies work because they both overcome the buyer's lack of down payment savings and lower their monthly costs by reducing the size of the family's mortgage. Especially promising are so-called shared equity homeownership programs.

### **Shared Equity Homeownership Programs Make Purchase Subsidies Cost-Effective**

A growing number of state and local housing agencies are pioneering the most dependable kind of home purchase assistance, shared equity homeownership programs. These programs invest significant upfront assistance to create homeownership units that remain affordable over the very long term and offer ownership to one generation of buyers after another. These programs structure public funding as investments rather than a grant to first-time homebuyers, making it possible for many more families to benefit from the same level of public investment. Frequently, these first-time buyers save enough equity in their new homes to make subsequent home purchases, selling their first homes to new buyers through shared equity programs.

How does this work? State and local taxpayers who provide this funding make a fair deal with buyers who would otherwise be locked into renting as their only option. When investing in significant upfront purchase assistance, taxpayers expect these programs in return to pass the benefits of the investment along to another family. The terms of the deal require reselling the home at a similarly affordable price or in some cases repaying a share of any price appreciation back to the taxpayers through the agency that provided the subsidy.

As with any capital investment, investors expect a fair return on their investments. It should be no different for taxpayers as investors. In the private market, these returns on investment come in the form of cash profits. In the public realm, the deal between homeowners and taxpayers gives the homeowner the benefits of ownership and a reasonable amount of price appreciation. The public investor forgoes a cash return in exchange for keeping the home affordable for another homeowner when the first

family leaves its starter home, in effect recycling a single investment multiple times.

Shared equity homeownership is not a new idea. Hundreds of local communities and several states have developed shared equity homeownership programs that have already created hundreds of thousands of permanently affordable homeownership units. There are currently 425,000 families living in limited equity housing cooperatives, many built with financing from now-defunct federal programs. There are more than 200 community land trusts in forty-two states that have built or acquired more than 5,000 shared equity homes. And more recently, hundreds of inclusionary zoning and similar programs have created tens of thousands of price-restricted homes for low- or moderate-income households.<sup>1</sup>

This is why a significant federal investment in a targeted purchase assistance program with an equity-sharing requirement would build a portfolio of affordable homeownership units. Over time, the portfolio would grow and help our nation overcome the persistent homeownership gap between low-income and minority families and other American homeowners.

### **Create a "Promote Affordability To Homeownership" Fund**

Current purchase subsidy programs are typically structured with only minimal ongoing affordability requirements. This means each new investment in affordable homeownership tends to serve only one family. By contrast, public investment in subsidized rental housing generally remains affordable over the long-term and serves one family after another.

Consequently, an expanded home purchase subsidy approach, which requires a substantial initial investment, may appear relatively expensive.

Understood in context, however, purchase subsidies that lock in long-term affordable homeownership are relatively efficient. As a nation we already spend enormous sums of federal tax dollars annually to encourage ownership while making little headway in expanding broadly affordable ownership. As noted in more detail below, the recently renewed homebuyer tax credit, for example, is expected to cost \$15 billion in 2009 alone, while most of the nearly 2 million taxpayers expected to claim the credit would have purchased a home without it. Some studies show only 200,000 of these buyers were truly new homebuyers for whom the credit made the difference; the cost per such buyer could be as high as \$75,000.<sup>2</sup>

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1. JOHN E. DAVIS, SHARED EQUITY HOMEOWNERSHIP: THE CHANGING LANDSCAPE OF RESALE-RESTRICTED, OWNER-OCCUPIED HOUSING (Washington, D.C.: Nat'l Housing Inst. 2006), available at [www.nhi.org/pdf/SharedEquityHome.pdf](http://www.nhi.org/pdf/SharedEquityHome.pdf).

2. Robert Pozen, *Homebuyer Tax Credits Threaten the FHA*, WALL ST. J., Nov. 24, 2009, available at <http://online.wsj.com/article/SB20001424052748704335904574497692260915588.html>; A recent report by analysts at Goldman Sachs Group Inc. says the homebuyer tax credit cost nearly \$15 billion yet only brought roughly 200,000

Even without this special credit, the subsidy (in terms of lost tax revenues) to one higher-income family of the tax savings resulting from the mortgage interest deduction on a \$500,000 loan exceeds \$200,000 over the life of a thirty-year mortgage.<sup>3</sup> The barrier then is not a lack of budget resources currently available for subsidizing homeownership. But current subsidies are neither targeted to make the greatest difference in aiding families who could be owners but need some help, nor crafted to steward public investment for the longest possible public benefit.

The answer: Allocating even a small portion of current ownership subsidies to a Promote Affordability To Homeownership (PATH) trust fund could easily finance a national shared equity homeownership program at a meaningful scale within a reasonable time frame.

Moreover, a PATH fund would provide both the short-term stimulus effects that come from increased home buying, and the long-term stabilization of neighborhoods and families that shared equity has already demonstrated. PATH assistance for working families who are otherwise qualified owners could stimulate the economy as effectively as a broad tax credit, but at a much lower cost. At an average public investment of \$25,000 per home, bringing roughly 200,000 new homebuyers into the market would cost \$5 billion.

A PATH fund of this magnitude structured as a shared equity investment rather than as a grant (like the home buying tax credit) could be expected to benefit families beyond the initial buyers. Experience shows that many of the lower-income and minority families who initially purchase a shared equity home later move up the housing ladder into the general market, making way for the next family in need. Consequently, a one-time investment of \$5 billion could make homeownership possible for between 600,000 and 1.5 million families over a thirty-year period, based on typical rates of turnover, and depending upon size of initial subsidy.

Moreover, all (or nearly all) of these families would likely be families that would otherwise not have been able to purchase a home. The PATH program would target this assistance to buyers who are otherwise priced out of homeownership. Working with state housing agencies, the PATH

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truly new buyers to market. GOLDMAN SACHS GLOBAL ECS U.S. RESEARCH, HOUSING POLICIES AND HOME PRICES (2009). An even more optimistic study by the National Association of Realtors projected only 350,000 buyers who would not otherwise have purchased a home were brought to market—a subsidy cost of roughly \$40,000 for each truly new buyer. DOUGLAS RICE & ROBERT GREENSTEIN, PROPOSED EXPANSIONS OF HOMEBUYER TAX CREDIT WOULD BE HIGHLY INEFFICIENT AND SQUANDER FEDERAL RESOURCES (Washington, D.C. Center on Budget and Policy Priorities 2009), available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=2965>.

3. Assuming a 6 percent, fixed rate loan, a total of \$579,192 of interest will be paid, which generates a reduction of \$202,000 of taxes for someone paying at the 35 percent marginal rate.

fund would allow price and income limits that were responsive to regional markets rather than setting a single national limit. And importantly, because the shared equity feature requires the homeowner to give up a potential portion of future home appreciation, buyers who do not need help would have an economic incentive not to participate in such a program. This self-selecting feature would tend to tailor the program to those working families who see the best fit for their own circumstances. For buyers who lacked the assets to afford ownership otherwise, this public investment would make ownership attainable for the first time.

In short, shared equity purchase assistance is more carefully directed to where it is needed initially and creates a long-term housing opportunity for multiple families. Overall, this is a far more efficient approach than what we do today. The pages that follow go into further detail on why the wealth side of the homeownership hurdle is the critical one to overcome and how our shared equity proposal would work in practice. Examples from around the country will illustrate where programs such as these are working today—and working well. Policy makers therefore will find a path to continue to offer the opportunity of homeownership to all Americans who can afford to take that first step into their first home, while creating opportunities for the next generation of homeowners to follow in their footsteps.

### **Targeted Purchase Assistance as a Federal Strategy**

In late 2004, a first-time homebuyer—let's call her Donna, a teacher with two young sons—decided to look into buying a house. Donna had a stable income but not a lot of savings. She could safely afford a mortgage payment of roughly \$825 a month. With a thirty-year amortizing loan, an \$825 per month budget would allow Donna to borrow \$140,000. But in Donna's community in 2004, the average home was selling for more than \$225,000, and very few were selling for less than \$170,000. If she had somehow managed to save \$30,000, she would have been able to afford the mortgage on one of these \$170,000 homes, but with her limited savings, the most she could afford to pay would be \$145,000.

The market offered some options at that price. Donna looked at a few run-down houses that she might have been able to afford, but she knew that she wouldn't have any way to pay for the repairs that they needed. Another option was moving a one-hour drive away to a semirural town where new homes were selling for much lower prices, but then she would spend time driving rather than being with her boys. In 2004, the underregulated mortgage market offered families like Donna's another option—borrow more than they could safely afford. Of course, Donna could also have remained a renter, with little control over rising rents and continuing strains on her ability to build up savings.

Millions of American families faced this same choice over the past decade. Among the many lessons of the foreclosure crisis is that the absence of a safe and sustainable way to buy a home can have negative consequences for everyone.

Federal policy continues to play a central role in influencing the housing choices available to families. But there are a limited number of ways in which federal policy aids savings-limited families. Federal tax-exempt mortgage revenue bond programs subsidize mortgage interest rates, letting state housing agencies stretch the buying power of first-time homebuyers. Federal mortgage guarantees through the Federal Housing Administration and purchase of so-called conforming home mortgages by government-sponsored enterprises Fannie Mae and Freddie Mac make it possible for families to buy a house even with very limited savings for a down payment. A number of smaller and less well-funded federal programs offer one-time purchase subsidies to bring down the price of a home to a level that first-time homebuyers can afford.

Perhaps surprisingly, the findings of several recent studies show that the least prevalent of these strategies—providing purchase subsidies to help first-time homebuyers come up with a mortgage down payment—is the one most likely to make the crucial difference. A 2009 study by the U.S. Census Bureau, for example, modeled the likely impact of several alternative policy approaches on the ability of renter families to afford homeownership. It found that reducing mortgage interest rates by as much as 3 percentage points would have virtually no impact on the number of renter families that could afford ownership. Removing all down payment requirements would increase the number of renters who could qualify for ownership by only 2 percentage points.

Making purchase subsidies widely available, by contrast, would have a dramatic impact. A one-time subsidy of \$10,000 would increase the number of renters who could qualify for ownership by 12 percentage points—making ownership possible for roughly five million lower-income families and minority families and cutting the gap in white-black homeownership rates by one-third.<sup>4</sup>

Purchase subsidies have this impact because they directly address both wealth and income barriers. Because purchase subsidies reduce the amount that a family must borrow, the monthly cost of mortgage payments is also reduced. By contrast, mortgage interest subsidies lower a family's monthly costs but increase debt burden. And because most families priced out of homeownership lack both income and savings, lowering interest rates alone only marginally boosts the number of families that can afford to buy.

Unfortunately, current federal purchase subsidy programs are a minor portion of homeownership policy solutions. They serve only a tiny fraction of the families that benefit from federal mortgage interest subsidies and federal mortgage guarantees. This may be because—as currently structured—purchase subsidy programs cost significantly more per beneficiary than

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4. U.S. CENSUS BUREAU, WHO COULD AFFORD TO BUY A HOME IN 2004 (U.S. Dep't of Commerce 2009).

other approaches, at least when measured solely by the up-front amount spent on purchase subsidies.

Policy makers sometimes simplistically conclude that purchase subsidies are too expensive to offer a realistic alternative to mortgage market supports or mortgage interest subsidies. This is true even though comparable direct subsidies are increasingly popular mechanisms for supporting affordable rental housing.<sup>5</sup> Indeed, experience in the rental housing market suggests a better framework for homeownership policy.

At first glance, the up-front cost per unit of creating new affordable rental units seems relatively high, at least when compared with annual rental subsidies. The MacArthur Foundation estimates that we spend \$33 billion annually creating affordable rental housing units, but the resulting housing stock provides assistance to fully one-quarter of all eligible households.<sup>6</sup> What's more, those rental housing units are available for new and future renters to make their home, which extends that initial \$33 billion outlay significantly into the future.

Indeed, one key difference between the federal approach to rental housing and homeownership policies is that rental housing generally remains affordable for one household after another for decades while affordable homeownership policies—as currently structured—generally help the first owner only. Clear long-term federal rental preservation policies allow for modest annual investments in the stock of affordable rental housing that nonetheless “move the needle” of national housing need. Each investment of federal funding for rental housing helps not only the initial resident but future generations of low-income tenants. The local communities—and the nation as a whole—inherit a stock of rental housing with lasting affordability controls. That's simply not the case with the vast majority of current homeownership subsidy programs.

Continued progress in expanding access to homeownership for lower-income and minority families will require much greater use of targeted purchase assistance programs to overcome significant housing cost

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5. *Hearing on Fiscal 2004 Appropriations: VA, HUD, Independent Agencies Before the U.S. House Committee Appropriations, Subcommittee on Veterans Affairs, Housing and Urban Development, and Independent Agencies*, 108th Cong. (Mar. 19, 2003) (statement of Mel Martinez, Secretary of HUD), available at <http://www.hud.gov/offices/cir/test31903.cfm>. Although annual operating subsidies still receive the largest share of the federal affordable housing budget, HUD has phased out funding for several of the largest programs that relied on annual operating or mortgage subsidies and has been reducing funding for tenant-based voucher programs. Federal investment in the HOME program and the Low Income Housing Tax Credit Program, both of which are generally used to provide development subsidies, has remained steady or grown.

6. JOHN D. & CATHERINE T. MACARTHUR FOUND., *WINDOW OF OPPORTUNITY: PRESERVING AFFORDABLE RENTAL HOUSING* (2007), available at [www.macfound.org/atf/cf/%7BB0386CE3-8B29-4162-8098E466FB856794%7D/MAC\\_1107\\_SINGLES.PDF](http://www.macfound.org/atf/cf/%7BB0386CE3-8B29-4162-8098E466FB856794%7D/MAC_1107_SINGLES.PDF).

barriers—barriers that “once overcome” will help waves of first-time homebuyers achieve the American Dream of owning their own home and saving for the future. One key to making this strategy viable will be to bring the cost per beneficiary in line with other homeownership strategies. Structuring housing assistance as an investment rather than a one-time grant with no long-term obligations on the part of the new homeowner in return will address this.

Fortunately, local and state governments across the country have successfully piloted hundreds of local purchase subsidy programs that demonstrate ways to preserve the long-term affordability of “starter” homes. These programs use various equity-sharing mechanisms to ensure that government invests to make affordable ownership possible for one generation of homeowners after another—just as investment in affordable rental housing helps one family after another. These shared equity homeownership programs embody a fundamentally new way forward for federal homeownership policy, one that can provide meaningful access to homeownership without requiring undue risk.

### **Sharing Equity to Preserve Affordability**

In Montgomery County, Maryland, for example, lower or moderate-income first-time homebuyers can access homeownership through the county’s Moderately Priced Dwelling Units (MPDU) program. Through the MPDU program, a moderate-income family in January 2010 could have purchased a three-bedroom, one-and-a-half bath townhouse built in 2004 for \$115,000 in a subdivision where other three-bedroom townhouses were selling for more than \$350,000. Buyers, in exchange for the opportunity to buy one of these homes at a below-market price, must agree to resell the home according to an affordability preservation formula established by the county.

Montgomery County’s formula allows sellers to recapture their initial below-market purchase price plus an annual inflation factor. In addition, MPDU sellers can recapture any investment that they have made in capital improvements to their homes. Montgomery County has produced more than 12,000 such moderately priced homes since 1974. Early MPDU homes were price-restricted for as little as five years, but county leaders recognized that replacing these affordable housing opportunities would be prohibitively expensive. They now restrict prices for a thirty-year period and record new restrictions with a new thirty-year period every time an MPDU home resells. In this way, they can expect to preserve the affordability of new units indefinitely.<sup>7</sup>

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7. DEP’T OF HOUS. & COMMUNITY AFFAIRS, MONTGOMERY COUNTY, MARYLAND, MPDU PURCHASE PROGRAM, *available at* [http://www.montgomerycountymd.gov/dhctmpl.asp?url=/content/dhca/housing/housing\\_p/mpdu/mpdu\\_purchase\\_program.asp](http://www.montgomerycountymd.gov/dhctmpl.asp?url=/content/dhca/housing/housing_p/mpdu/mpdu_purchase_program.asp).

Salinas, California, operates a similar program in a rural farming community. Salinas's program allows families earning up to 120 percent of the county median income to buy homes at greatly reduced prices. Salinas allows homeowners to resell these homes for their market prices but requires sellers to pay the city a share of the price appreciation, which enables the city to assist another income-qualified family to buy the same or a similar home. Salinas wants to encourage long-term residency so the share of appreciation that they receive declines over time, which penalizes short-term flipping of their homes and rewards those who stay put.

And in Vermont in January 2010, the nonprofit Champlain Housing Trust was selling a newly renovated single-family home with an appraised value of \$155,000 for only \$85,000—a price that made the home affordable to families earning between 50 and 60 percent of the area median income. Champlain Housing Trust's shared equity formula preserves affordability by limiting resale price increases to 25 percent of the increase in the market value of a house. This allows home prices to rise but only at one-quarter of the rate of market-price increases. But buyers of these homes, like buyers in Montgomery County and Salinas and hundreds of similar shared equity homeownership programs across the country, can still expect to earn significant equity through this form of ownership. (See Appendix A.)

Programs like these are available to first-time homebuyers in most communities in New Jersey; in many towns and cities throughout Massachusetts; in hundreds of California cities, counties, and towns; and in many other communities across the country.<sup>8</sup>

These programs are therefore referred to as shared equity homeownership programs. The original buyer does get a return on any price appreciation, but not necessarily a windfall if the house appreciates rapidly. The public agency or nonprofit group that invests in the home shares in the equity appreciation but keeps the equity locked in the home in order to assure affordability for future buyers. In times when prices may run up quickly, this is not a small concession to ask new homebuyers to make.

In fact, sharing the equity appreciation in homes helped many families who participated in these programs stay in their homes when the housing bubble burst several years ago. But even when the market was rising rapidly, thousands of families chose this alternative approach to homeownership. For some, shared equity ownership was the only alternative to remaining at the mercy of rising rents. For many, shared equity was attractive because it offered a path to ownership with stable payments and

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8. RYAN SHERRIFF, *SHARED EQUITY HOMEOWNERSHIP STATE POLICY REVIEW* (Washington, D.C. Center for Housing Policy 2010), available at [http://www.nhc.org/pdf/State\\_Policy\\_Inventory\\_Report.pdf](http://www.nhc.org/pdf/State_Policy_Inventory_Report.pdf).

predictable (if modest) wealth building.<sup>9</sup> And as it turned out, most shared equity buyers fared much better than their neighbors when the housing bubble burst.

A recent study of one group of shared equity ownership programs, so-called community land trusts, found that the active intervention on the part of program sponsors allowed homeowners in these communities to avoid foreclosure in almost all cases. The foreclosure rate among community land trust homeowners was less than 0.2 percent—one-sixth of the national average—and an even smaller fraction of the average among the lower-income homeowners that these trusts serve. These homeowners were mostly spared from the foreclosures that plagued their neighbors, and, in many communities, shared equity homeowners have seen their restricted home prices steadily rise even as market prices have fallen.<sup>10</sup>

Shared equity homeownership brings together a range of different publicly supported housing models, including limited equity housing cooperatives, community land trusts, deed-restricted homeownership, and publicly financed shared-appreciation loan programs. Each of these types of purchase assistance options can be briefly defined as follows:

- **Deed restrictions or covenants** are legal documents through which many local government programs impose lasting affordable housing price restrictions. This approach is used by many inclusionary housing programs to restrict the price of affordable homes in mixed-income developments and also by statewide housing programs that require local communities to preserve a mix of affordable housing options.<sup>11</sup>
- **Community land trusts** are generally community-based nonprofit organizations that hold title to land on which affordable homes are built. CLTs sell the homes and enter into ninety-nine-year ground leases

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9. A recent study from the Urban Institute evaluated the extent of homeowner wealth building in seven shared equity homeownership programs. It documented that the median annual return on homeowner's investment ranged from seven percent to sixty percent. Among the three programs for which the report was able to track owners after they sold their shared equity homes, two-thirds of sellers were able to purchase unrestricted homes. See Ken Temkin, Brett Theodos and David Price, *Balancing Affordability and Opportunity: An Evaluation Of Affordable Homeownership Programs with Long-Term Affordability Controls*, Urban Inst., Oct. 2010, available at [www.urban.org/sharedequity](http://www.urban.org/sharedequity).

10. Press Release, Nat'l Community Land Trust Network & Lincoln Inst. of Land Policy, Community land trusts lower risk of losing homes to foreclosure (Mar. 17, 2009), available at [http://www.cltnetwork.org/doc\\_library/National%20CLT%20Survey%20News%20Release%20FINAL%20V2.pdf](http://www.cltnetwork.org/doc_library/National%20CLT%20Survey%20News%20Release%20FINAL%20V2.pdf).

11. David M. Abromowitz & Kirby White, *Deed Restrictions and Community Land Trust Ground Leases: Protecting Long Term Affordable Homeownership*, HOUSING NEWS NETWORK, J. FLA. HOUS. COALITION, May 2006.

that offer the homeowners most of the rights of traditional ownership but require them to resell at affordable prices.<sup>12</sup>

- **Limited equity housing cooperatives** give lower-income households a way to share ownership in multifamily buildings or manufactured housing communities such as mobile home parks. The co-op, a resident-controlled nonprofit organization, takes out a blanket mortgage for the whole property, and residents buy “shares” in the co-op, which appreciate over time. Limited equity co-ops limit the rate at which those shares rise to keep the housing affordable.
- **Public shared appreciation loans** are frequently used by local governments to provide relatively high levels of purchase assistance to targeted homebuyers. Rather than requiring monthly interest payments, these loans are structured so that when homeowners sell, they must repay a predefined percentage of any increase in the home price to the program. The program will then lend this larger amount to a future income-qualified buyer of the same or a similar home.<sup>13</sup>

What all of these housing models have in common is a commitment to balancing the twin goals of preserving housing affordability for future generations and offering today’s generation of first-time homeowners a dependable opportunity to build significant wealth.

Income-qualified homebuyers are able to purchase these homes with traditional thirty-year fixed-rate mortgages. Buyers agree to live in the homes as their primary residence. When they later decide to move, the homeowner’s share of any price appreciation is determined based on a formula designed to preserve affordability.

In most cases, the assisted homes can be resold to another low-income family without the need to invest any additional public subsidy. A one-time investment of public resources serves one family after another. Annual shared equity investment builds a growing portfolio of shared equity homes, which provide ownership opportunities to more and more families over time.

Although shared equity is not appropriate for everyone, many lower-income and minority families across the United States have decided this kind of shared equity arrangement makes sense for them. For households in higher-cost housing markets, it offers the only realistic avenue to homeownership. For others, even in slower growth markets, shared equity homeownership offers a safe way to build equity and save for traditional

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12. David M. Abromowitz, *An Essay on Community Land Trusts: Toward Permanently Affordable Housing*, in *PROPERTY AND VALUES* (Gail Danker & Charles Geisler eds. 2000).

13. These public subsidy preservation mechanisms can sometimes be confused with privately financed shared-appreciation mortgages, or SAMs, which use a similar mechanism in service of a very different set of goals.

ownership. Indeed, many shared equity programs share in market losses as well as gains, giving homeowners real protection against price declines.

Shared equity homeownership programs also generally provide post-purchase support to lower-income owners in order to promote ongoing home maintenance and help owners avoid foreclosures. This “backstopping” support helps to stabilize both the homeowners and the neighborhoods that they live in. Shared equity homeownership limits the negative consequences that substantial swings in home values often have on lower-income communities—gentrification during substantial “up” periods and increased vacancies and dilapidation during “down” periods.

One example is the Dudley Street Neighborhood Initiative (DSNI), which has operated a community land trust for more than twenty years in one of the poorest neighborhoods of Boston. DSNI is a mixed-race community—roughly 70 percent African American and Cape Verdean, 24 percent Latino, and 5 percent white—and has a per capita income of under \$13,000, with 27 percent of residents falling below the poverty line. When this community land trust was started, “the DSNI neighborhood had a staggering amount of vacant land (21 percent or 1,300 parcels) in the 1980s—vestiges of fires, discrimination, and neglect of the ‘60s and ‘70s.”<sup>14</sup>

At the time, gentrification and runaway home prices were hardly an issue when the broad-based coalition of community-based organizations and resident leaders chose a shared equity approach and put future affordable housing development into a community land trust. Today, with more than half of the abandoned parcels transformed into more than 400 new affordable houses, homeowners have been virtually foreclosure-free. This ownership stability persists even though the population served consists largely of minority first-time buyers whose incomes are comparable to unaided populations facing 10 percent and higher foreclosure rates.<sup>15</sup> These types of community land trusts could be equally stabilizing in suburban neighborhoods too. (See Appendix B.)

Shared equity homeownership is not a new idea. Hundreds of local communities and several states have developed shared equity homeownership programs that have already created hundreds of thousands of permanently affordable homeownership units. There are currently 425,000 families living in limited equity housing cooperatives, many built with financing from now-defunct federal programs. There are more than 200 community land trusts in forty-two states that have built or acquired more than 5,000 shared equity homes. And more recently hundreds of inclusionary zoning and similar programs have created tens of thousands of price-restricted homes

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14. DUDLEY STREET NEIGHBORHOOD INITIATIVE HISTORY, available at <http://www.dsni.org/history.shtml> (last accessed Feb. 2010).

15. David Abromowitz & Roz Greenstein, *A Foreclosure-Free Option*, BOSTON GLOBE, Jan. 23, 2008, available at [http://www.boston.com/bostonglobe/editorial\\_opinion/oped/articles/2008/01/23/a\\_foreclosure\\_free\\_option/?page=full](http://www.boston.com/bostonglobe/editorial_opinion/oped/articles/2008/01/23/a_foreclosure_free_option/?page=full).

for low- or moderate-income households.<sup>16</sup> But so far, this approach has not played a central role in federal policy.

But we are now at a unique turning point in housing policy. The foreclosure crisis requires a reevaluation of the goal of expanding access to homeownership. Clearly, universal ownership is neither possible nor desirable. But it also seems clear that there are still real benefits to be had through expanded homeownership, especially among segments of the population historically left out of past homeownership programs. Homeownership remains a key goal for millions of low- and moderate-income working American families, many of whom are unlikely to achieve that goal without some assistance. So it makes sense to more closely consider alternative strategies for achieving this still-relevant goal. A greatly expanded program offering significant purchase assistance to carefully targeted buyers that preserves lasting affordability through shared equity mechanisms would offer a far more cost-effective and sustainable strategy for closing the homeownership gap.

### **Expanded Access to Homeownership as a Goal of Federal Housing Policy**

The virtues of homeownership are often thought to be largely unexamined, but a series of relatively recent studies support the widely held belief that homeownership confers meaningful social, personal, and economic benefits. Homeowners vote more and participate in greater numbers in civic organizations, they report higher self-esteem, and a number of studies document improved educational outcomes for children of homeowners relative to renters with comparable incomes.<sup>17</sup>

There also is a growing appreciation for the economic benefits that homeownership can confer, especially in the form of wealth creation. In 2007, homeowners had a median net worth of \$234,200 while renters had a median net worth of only \$5,100.<sup>18</sup> Home equity made up nearly all of this difference.<sup>19</sup> Although recent reversals in home prices have undoubtedly eroded this difference, over the long term it has held up.

Not surprisingly, lower-income households are far less likely to own their homes. Among households earning more than the median income,

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16. DAVIS, *supra* note 1.

17. These and similar studies are summarized in Christopher E. Herbert & Eric S. Belsky, *The Homeownership Experience of Low-income and Minority Households: A Review and Synthesis of the Literature*, 10:2 CITYSCAPE (2008).

18. Brian K. Bucks, Arthur B. Kennickell, Traci L. Mach & Kevin B. Moore, *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances*, FED. RESERVE BULL., Feb. 2009, at A1-A56; see also Ellen Seidman, *Breaking Asset Poverty*, SHELTERFORCE MAG., Sept. 16, 2008.

19. J. Michael Collins, Eric S. Belsky & Nicolas P. Retsinas, *Toward a Targeted Homeownership Tax Credit* (Harvard Joint Ctr. for Housing Studies 1998), available at [www.jchs.harvard.edu/publications/homeownership/belsky\\_collins\\_retsinas\\_W98-5.pdf](http://www.jchs.harvard.edu/publications/homeownership/belsky_collins_retsinas_W98-5.pdf).

82 percent own their own homes. The rate for households earning less than the median income is only 51 percent—a gap of 31 percentage points.<sup>20</sup> And it is almost a truism that homeownership is not feasible for everyone. The lowest-income households may lack the necessary income to successfully deal with the risks and maintenance demands of homeownership. Lower-income households often face instability in their income, which may make homeownership an unwise choice.

Nevertheless, a 1997 study by Fannie Mae found that 77 percent of Americans prefer to own their home rather than rent and that owning a home in the future is a top priority for 38 percent of low- and moderate-income renters.<sup>21</sup> This data suggests that something on the order of thirteen million renter households strongly desire homeownership. Homeownership programs remain an appropriate policy priority for the federal government, especially for minority families. (See Appendix C.)

The great expansion in homeownership that occurred in the post-WWII era disproportionately benefited white families at the expense of minority homeownership. The very federal programs that offered ownership to white working-class families for the first time—FHA loans and GI bill Veterans Administration loans in particular—promoted racially discriminatory underwriting practices that greatly limited access to homeownership for people of color and even for white families living in lower-income neighborhoods.

Between the late 1950s and mid-1970s, African American families from the rural south moved in large numbers into racially segregated central cities while white families continued to move to the suburbs. During this period, minority homeownership rates grew, but much more slowly than white rates. By 1960, the white-black homeownership gap was 6 percentage points higher than it had been in 1910.<sup>22</sup>

Starting in 1968, federal homeownership programs began to incorporate increased minority homeownership as a proactive goal. By the 1980s, progress was evident in the national homeownership rate when for the first time. Minority ownership was growing faster than white ownership. Since the 1980s, however, progress in closing this gap has been inconsistent and less than dramatic. Today, 68 percent of American households own their own homes. But among African Americans, the ownership rate is only 47 percent, while the white rate is 72 percent—a difference of 25 percentage points. Among Hispanic households, the rate is 48 percent, or 24 percentage points below the white rate.

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20. Press Release, U.S. Census Bureau, Census Bureau Reports on Residential Vacancies and Homeownership, Apr. 27, 2009, available at <http://www.census.gov/hhes/www/housing/hvs/qtr109/files/q109press.pdf>.

21. FANNIE MAE, NATIONAL HOUSING SURVEY 1995 (1995); FANNIE MAE, NATIONAL HOUSING SURVEY 1996 (1996); FANNIE MAE, NATIONAL HOUSING SURVEY 1997 (1997).

22. William J. Collins & Robert A. Margo, *Race and Home Ownership 1900 to 1990*, WORKING PAPER 7277 (Nat'l Bur. Econ. Research 1999).

This racial ownership gap persists even when differences in income, age, and household composition are taken into account. The gap is greater among lower-income minorities—who are far less likely to own than lower-income whites—but a large gap remains even between high-income minorities and high-income whites.<sup>23</sup> Among white married couples with children, for example, those between the ages of 35 and 44 earning between \$40,000 and \$59,999 have an ownership rate of 88 percent, but for minority families in the same group the rate is only 72 percent. A mid-1990s estimate by the Department of Housing and Urban Development suggested that if minority ownership rates at every income level were identical to white rates, the overall homeownership rate would be 3.5 percentage points higher.<sup>24</sup> Achieving this goal would require an additional 3.7 million minority homeowners.

This racial homeownership gap has very important societal consequences. Differences in white and minority homeownership rates account for the bulk of the enormous and still-growing racial wealth gap. Overcoming the legacy of housing policies that deprived so many minority families of the opportunity to build up equity in their homes to pass onto their children and grandchildren is an important reason to support expanded access to homeownership. (See Appendix D.)

Homeownership, of course, can be oversold for those who simply cannot afford to service even a modest, first-time mortgage. As a result, there may be a natural limit to the overall ownership rate. Yet a 25 percentage point difference in the ownership rate by race cannot be viewed as “natural.” Any retreat from a policy goal of expanding responsible ownership opportunities for lower-income and minority households would suggest accepting this gap as a permanent condition. And yet, for the most part, federal homeownership programs look the same today as they did forty years ago. Federal programs no longer actively promote racial discrimination, but a more fundamental redesign is necessary if we are to overcome that legacy and truly make ownership available to everyone who desires and can afford it.

### **Overcoming Barriers to Homeownership**

For renters who desire homeownership, there are several different independent—but interrelated—barriers that prevent them from becoming homeowners. Three major categories of barriers are commonly described as<sup>25</sup>:

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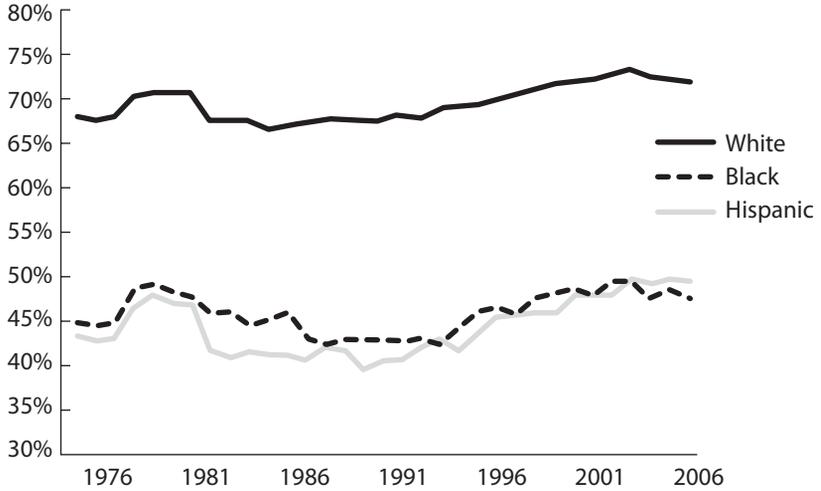
23. U.S. Dep’t of Housing & Urb. Dev., *What’s Happened to Homeownership?*, U.S. HOUSING MARKET CONDITIONS, Winter 1999.

24. Frederick J. Eggers & Paul E. Burke, *Can the National Homeownership Rate Be Significantly Improved by Reaching Underserved Markets*, 7:1 HOUSING POL’Y DEBATE 83 (1996).

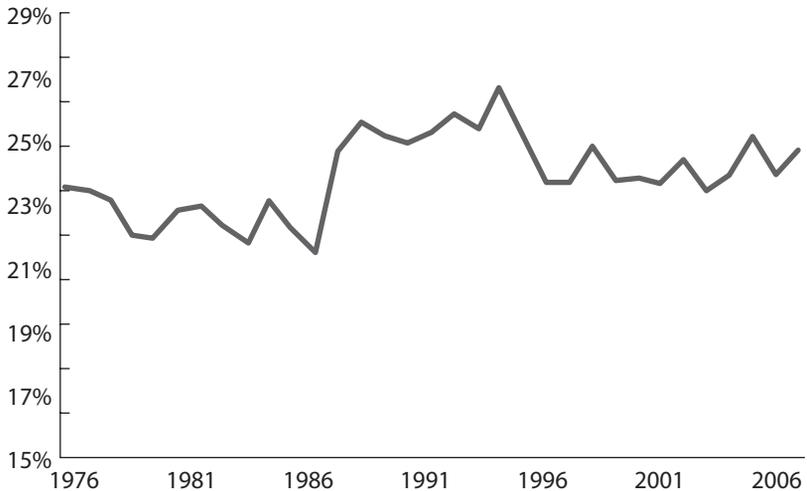
25. Kerwin Kofi Charles & Erik Hurst, *The Transition to Home Ownership and the Black-White Wealth Gap*, 84:2 REV. ECON. & STAT. 281–97 (2002).

### Examining the Racial Homeownership Gap in the United States

Ownership rate by race, 1976–2008



Percentage point gap between white and black ownership rates, 1976–2008



Source: U.S. CENSUS BUREAU, CURRENT POPULATION SURVEY, 1976–2008.

- **Credit barriers:** Many buyers with the economic means to own lack access to credit on terms that would allow them to buy. These barriers may arise either because of inefficiencies in the banking system or due to racial or other forms of discrimination.
- **Income barriers:** Many families simply earn too little to afford even starter homes in their area. In most markets, there are more low-end rental options than low-end homeownership options.
- **Wealth barriers:** Homebuyers who lack savings for a standard down payment will either not be able to borrow because of the additional risk that they pose or will face higher monthly payments for the same house—both because they will pay a higher interest rate and because they will need to borrow more than a buyer with a standard down payment.

There is an enormous interrelation among these barriers—renters who face one constraint are likely to also face one or both of the others. It is extremely difficult to quantify the relative impact of each type of barrier, but a series of academic researchers have attempted to do just that. And using a variety of different data sources and statistical techniques, they have reached remarkably similar conclusions.

One perhaps surprising finding is that income is not the primary barrier to homeownership. A 2009 report by the U.S. Census Bureau found that although 26 percent of renters are constrained only by lack of down payment, only about 2 percent have sufficient wealth but lack the necessary income. This study found that 72 percent of current renters, however, faced both income and wealth constraints.<sup>26</sup>

Similarly, a detailed analysis of the extent to which credit quality prevented renters from accessing homeownership concluded that credit quality was a bigger barrier than income, but not nearly as important as wealth. The study found that although 90 percent of all credit-constrained renters also lacked sufficient savings for a down payment, only 50 percent of wealth-constrained renters suffered from poor credit. For this reason, they found that removing wealth barriers alone increased the number of renters who could attain homeownership by 19 percentage points, while removing all credit barriers increased the rate by only 3 percentage points.<sup>27</sup>

This research demonstrates that programs targeting only one barrier are unlikely to be sufficient. Families with low incomes find it harder to save

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26. Howard A. Savage, *Who Could Afford to Buy a Home in 2004*, CURRENT HOUSING REPORTS (U.S. Census May 2009), available at [www.census.gov/prod/2009pubs/h121-09-01.pdf](http://www.census.gov/prod/2009pubs/h121-09-01.pdf). Barbara & David Listokin, *Barriers of Rehabilitation of Affordable Housing* (Rutgers Ctr. for Urb. Pol'y Research 2001), found nearly identical results.

27. Irini Barakova, Raphael Bostic, Paul Caem & Susan Wachter, *Does Credit Quality Matter for Homeownership?*, 12:4 J. HOUSING ECON. 318–46 (2003).

for ownership. Families with low incomes and low wealth are far more likely to also have poor credit, both because they are more likely to incur excess consumer debt and because their lack of assets may at times force them to miss payments or rely on predatory financial services.

But another possibly surprising finding in this research is that the relative importance of these barriers changes over time in response to changes in housing policy and mortgage market conditions. This research on barriers to homeownership shows that the relative importance of each barrier has changed over time.<sup>28</sup>

Researchers suggest, for example, that following the introduction of adjustable rate mortgages in the early 1980s, income barriers became significantly less important. Instead, wealth barriers became the dominant factor preventing renters from accessing homeownership. But then, between 1989 and 1998, the researchers found that the wealth barrier declined in significance because of the introduction of low or no down payment loans. Credit barriers became increasingly important.

Since then, however, the expansion of subprime lending decreased the importance of credit barriers and increased the relative influence of income barriers.<sup>29</sup> The upshot: These trends have reversed dramatically over the past two years as credit has once again tightened. Either way, though, only a very small minority of federal investment is targeted at overcoming that critical wealth barrier.

### **Current Federal Homeownership Programs Addressing Purchase Barriers**

Current federal programs designed to expand access to homeownership tend to fall into categories that in general address the three barriers to ownership described above: market supports, mortgage interest subsidies, and purchase subsidies.

Mortgage market supports expand homeownership by changing the terms through which credit is made available to borrowers. Federal leadership encourages this innovation either through explicit loan guarantees—for FHA and VA loans for example—or once implicit and now explicit guarantees for secondary mortgage market institutions such as Fannie Mae and Freddie Mac.

Mortgage interest subsidies expand buying power by reducing the mortgage interest rate. The largest interest rate subsidy is the tax code provision that allows homeowners to deduct mortgage interest from their

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28. *Id.*

29. *Id.* See also NATIONAL ASSOCIATION OF CONSUMER CREDIT ATTORNEYS, HOMEOWNERSHIP: OVERCOMING BARRIERS TO THE NEW WEALTH OF NATIONS, available at [www.nocca.us/homeownershipbarriers.html](http://www.nocca.us/homeownershipbarriers.html) (explaining that while subprime loans may make a poor credit history less important in accessing credit initially, they are generally high-cost loans that require greater lifetime payments to service the loans).

income taxes, which reduces by as much as 35 percent the effective after-tax interest cost to the borrower. It is fairly clear, however, that the vast majority of the subsidy benefit goes to upper-income families, and many low-income homeowners receive no benefit at all as they do not itemize deductions.<sup>30</sup> Tax-exempt mortgage revenue bonds (MRBs) allow state housing finance agencies to finance mortgages at below-market interest rates and are more explicitly focused on the goal of expanding moderate-income homeownership.

Purchase subsidies help overcome wealth barriers and lower the amount of debt a household must hold. Several federal programs, including HOME and Community Development Block Grants, are regularly used to provide either down payment assistance to targeted lower-income homebuyers or development subsidies, which support building or renovation of homeownership units that are sold at affordable prices. In addition, the recent, time-limited \$8,000 tax credit for first-time homebuyers offers a purchase subsidy through the tax code.

A 2009 study by the Census Bureau modeled the likely impact of several alternative policy approaches on the ability of renter families to afford homeownership. It found that reducing mortgage rates by as much as 3 percentage points had virtually no impact on the number of renter families that could afford ownership, while removing all down payment requirements would increase the number of renters who could qualify for ownership by only 2 percentage points.

In contrast, providing purchase subsidies had a more dramatic impact. A subsidy of \$10,000 would increase the number of renters who could qualify for ownership by 12 percentage points—roughly 5 million families. This study found that purchase subsidies of \$10,000 would make homeownership attainable for 768,000 additional African American families and 587,000 Hispanic families, which would cut the racial homeownership gap by about one-third.<sup>31</sup>

Purchase subsidies directly address wealth barriers. But unlike low down payment loans, they do so in a way that also helps reduce both credit and income barriers. When low-wealth buyers use low or no down payment loans, they increase the level of risk that they are asking lenders to take at the same time that they also increase their own monthly payments because they must borrow more to make up for their lack of down payment. This approach addresses the wealth constraint by simply shifting the problem. Purchase subsidies, in contrast, reduce the lender's risk at the same time that they reduce the borrowers' monthly costs by reducing the size of their first mortgage.

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30. REPORT OF THE PRESIDENT'S ADVISORY PANEL ON FEDERAL TAX REFORM, *SIMPLE, FAIR, AND PRO-GROWTH: PROPOSALS TO FIX AMERICA'S TAX SYSTEM* (2005), available at [http://govinfo.library.unt.edu/taxreformpanel/?nal-report/TaxPanel\\_5-7.pdf](http://govinfo.library.unt.edu/taxreformpanel/?nal-report/TaxPanel_5-7.pdf).

31. U.S. CENSUS BUREAU, *supra* note 4.

Purchase subsidies tend to cost more at initial outlay than the other current programs. It is certainly possible to offer very small down payment grants, but such assistance is likely to help only those who would have purchased without help. Local administrators of down payment assistance programs address this problem by adjusting the maximum income for eligible buyers and the level of assistance so that the program will serve households who are less likely to be able to buy without assistance. Providing higher levels of assistance allows the program to target lower-income buyers who are more likely to truly need the assistance. Programs that provide assistance worth 20 percent or more of the house price have the added impact of eliminating the need for costly mortgage insurance. As a result, these programs may be far more targeted and may have a greater impact on the ownership gap per household that receives assistance.

But as a strategy for overcoming the homeownership gap, federal purchase subsidy programs to date have had very limited impact. Such programs have been implemented on a very limited basis. The majority of local HOME and CDBG program recipients get some type of down payment assistance or development subsidy program, but virtually all of these programs are funded at a level far below the need. They either provide too little subsidy to make a difference for wealth-constrained buyers, or they provide enough subsidy to matter but must limit the number of beneficiaries to a fraction of the eligible population.

In part because we spend so much money on other homeownership programs, it has been difficult to fund these programs at more than minimal levels. Housing advocates also are understandably reluctant to redirect funding from rental housing programs to invest in homeownership for lower-income families—even though they may recognize that existing homeownership programs are not effectively serving those families. The result is only token funding for this strategy. Although FHA assisted nearly 2 million buyers in 2009 and roughly 90,000 buyers are likely to take advantage of mortgage revenue bond programs, the HOME program assists only about 35,000 homebuyers annually.

### **Designing a Sustainable Federal Strategy**

As we develop a new strategy for achieving the still-relevant goal of expanding access to homeownership for working families, a clearer relationship between public investment and our policy goals is needed. A more focused approach would do six things:

- Focus on the ownership gap rather than the ownership rate
- Target assistance to those for whom it will make a real difference
- Address wealth barriers
- Focus on affordable prices rather than affordable payments
- Preserve affordability with shared equity mechanisms
- Structure public support for shared equity programs as an investment

Let's consider each of these factors in turn.

*Focus on the Ownership Gap Rather Than the Ownership Rate*

The United States currently has one of the highest homeownership rates in the world. There is no reason to believe that increasing the ownership rate among upper-income families, for example, generates significant public benefits. Yet overcoming racial and economic disparities in access to homeownership would have very real social and economic benefits. To overcome the disparity, public investment in homeownership must be *targeted* so that it benefits those who have previously been underserved.

*Target Assistance to Those for Whom It Will Make a Real Difference*

Whether the goal is to increase the overall rate or to close the homeownership gap, programs that offer widespread incentives for ownership may simply increase the price that all buyers are able to pay. When this happens, the benefits flow to home sellers rather than homebuyers. Not only does this approach not necessarily create greater ownership, it may put ownership further out of reach for successive generations. Instead, a strategy for increasing the ownership rate must focus on the specific barriers that prevent current renters—especially lower-income renters—from accessing ownership and target assistance to help those households overcome those barriers.

*Address Wealth Barriers*

Average working renters who desire homeownership face multiple barriers, including access to credit, insufficient income, and lack of wealth. But as noted above, differences in household assets represent the key difference between renters who are likely to become owners and those who are not. Only programs that address asset inequality and overcome wealth differences are likely to result in significant expansion of homeownership. Given historical links between race and asset building, this focus is especially important in addressing the racial ownership gap that persists.

*Focus on Affordable Prices Rather Than Affordable Payments*

Mortgage revenue bonds and other interest rate subsidy programs can bring a household's monthly costs down to an affordable level. But these programs by themselves do not overcome the more significant wealth barriers. For instance, a 0.5 percent reduction in the rate on a \$100,000 mortgage saves the borrower \$35 a month—or alternatively allows a borrower who could afford the higher rate to increase the loan by only roughly \$6,000. For this reason, these programs are increasingly paired with down payment assistance programs. But the same public investment could be offered entirely in the form of increased purchase subsidy. This lowers the buyer's payments by reducing the *amount* of the mortgage instead of the interest rate, while addressing wealth barriers at the same time if some of the public equity is shared with the buyer.

*Preserve Affordability with Shared Equity Mechanisms*

Shared equity homeownership programs make it practical for public investment to facilitate homeownership for targeted households today.

Over time, these families also build very meaningful wealth while simultaneously preserving that same ownership opportunity for future lower-income buyers. Without preserving affordability, homeownership assistance at any reasonable level is unlikely to ever have a measurable impact on the homeownership rate. But when public investment is preserved, even modest annual investments will gradually amount to significant gains in homeownership among targeted households.

#### *Structure Public Support as an Investment*

When a public agency provides financial assistance to enable a lower-income family to buy a house, we should stop viewing this support as a grant of public funds. It is fiscally more responsible to see homeownership support as an investment. Like other investments, this assistance should offer meaningful long-term public benefits. And like other investments, investments in homeownership will require consistent ongoing management. Just as public investments in affordable rental housing require ongoing property and asset management, public investments in affordable homeownership must be more actively managed on an ongoing basis if we are to achieve lasting progress in meeting our housing goals.

Among the state and local governments noted above that embarked on shared equity ownership, many have built successful programs to monitor compliance and manage resales. Often they work in close partnership with community land trusts and other nonprofit housing organizations. These programs have shown that active stewardship can ensure continued affordability and help owners avoid predatory lending and foreclosures. They can be designed to generate internal fees to support the cost of monitoring and supporting homeowners over the long term without harming the affordability of the homes.

#### **Create a “Promote Affordability To Homeownership” Fund**

Public spending to subsidize homeownership clearly remains popular. In November 2009, for example, Congress not only voted nearly unanimously to renew temporarily the \$8,000 first-time homebuyer tax credit through April 2010 but also raised the income eligibility from couples making \$150,000 and more to those making as much as \$225,000. And a new \$6,500 credit was added for current homeowners moving to a new house.<sup>32</sup> While this program was put forth primarily as offering an immediate economic stimulus to help prevent further decline in the U.S. housing market, it was also promoted as offering the added benefit of expanding access to homeownership.

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32. Perry Bacon & Dina El Boghdady, *Congress Passes Bill Extending Unemployment Insurance, Home Buyer Tax Credit*, WASH. POST, Nov. 5, 2009, available at [http://voices.washingtonpost.com/capitol-briefing/2009/11/congress\\_passes\\_bill\\_extending.html](http://voices.washingtonpost.com/capitol-briefing/2009/11/congress_passes_bill_extending.html).

This one homeownership program, however, may have already cost more than \$15 billion in 2009 alone.<sup>33</sup> The National Association of Realtors estimates suggest that 85 percent of the 1.9 million homebuyers likely to claim the credit in 2009 would have purchased a new home in any event. By the association's estimates, the \$15 billion in federal investment will likely bring only 350,000 new buyers to the market—an implied cost of \$43,000 per new buyer. Analysts at Goldman Sachs Group Inc. estimated that only 200,000 of the families that claim the credit would have been unlikely to purchase without the credit—implying a cost closer to \$75,000 per new buyer.<sup>34</sup>

Over time, such a pace of federal spending on homeownership in addition to existing ownership subsidies may be unsustainable. But if even a much smaller amount of funding is invested in a far more targeted way, then we can generate comparable short-term economic stimulus while producing more lasting long-term impact on housing affordability. Going forward, it is time for Congress to better steward public funds by creating a lasting benefit. This increased conservation of housing spending should take the form of a national shared equity homeownership program.

We propose creation of a Promote Affordability To Homeownership fund. PATH investments would further both the short-term stimulus effects that come from increased home buying and the long-term stabilization of neighborhoods and families that shared equity homeownership has already demonstrated. Even at an average public investment of as much as \$25,000 per home, bringing roughly 200,000 new homebuyers into the market would cost \$5 billion. Moreover, structured as a shared equity investment rather than a grant (like the homebuying tax credit), a PATH investment of this magnitude would benefit families beyond the initial buyers. Experience shows that many of the lower-income and minority families who initially purchase a shared equity home later move up the housing ladder into the general market. This makes way for the next family in need. Consequently, a one-time investment of \$5 billion could make homeownership possible for between 600,000 and 1.2 million families over a thirty-year period, based on typical rates of turnover and depending on the size of initial subsidy.<sup>35</sup>

All (or nearly all) of these families would likely be families that would otherwise not have been able to purchase a home of their own. The program would target this assistance to buyers who were otherwise priced out of homeownership. Working with state housing agencies would allow price and income limits that were responsive to regional markets rather than setting a single national limit. Perhaps as importantly, buyers who

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33. Pozen, *supra* note 2.

34. RICE & GREENSTEIN, *supra* note 2.

35. U.S. CENSUS, *HISTORICAL CENSUS OF HOUSING TABLES: RECENT MOVERS*, available at [www.census.gov/hhes/www/housing/census/historic/movers.html](http://www.census.gov/hhes/www/housing/census/historic/movers.html).

didn't need help would have an economic incentive not to participate in such a program because of the program's equity-sharing requirements. But for buyers who lacked the assets to afford ownership otherwise, this public investment would make ownership attainable for the first time.

In a budget climate in which funding considered discretionary may have a harder time taking root, a PATH program will seem ambitious. The easiest approaches, of course, will raise opposition if funding for a PATH approach results in a reduction of some other spending category, such as mortgage interest deductions, or even an alternative to a further extension of the temporary home buying tax credit.

Nevertheless, as noted above, a shared equity approach to public investment in workforce homeownership is a more efficient, longer-term approach to housing spending than we currently employ. This should appeal to those fiscal conservatives who recognize the need for some public involvement in enabling a large segment of hardworking Americans access to homeownership, but even those who balk at its cost. It should also appeal to constituencies stunned by the sharp and sudden loss of wealth by many hardworking families due to economic forces well beyond their own making. And those who see the lack of assets as contributing greatly to the persistent racial divide in economic opportunity will understand the shared equity approach to be a fair deal that is long overdue.

We believe then that if fully understood, shared equity will be given the opportunity to become a widely used sustainable strategy for expanding homeownership and wealth creation.

## Appendix A

# Measuring the Impact of One Shared Equity Program

The Champlain Housing Trust (CHT) is a nonprofit community land trust that operates a shared equity homeownership program in Burlington, Vermont, and surrounding communities. Since 1984, CHT gradually built a portfolio of 410 shared equity homes. Many of these homes are still occupied by their initial purchasers, but 205 of the homes have resold to a second, or in some cases a third, lower-income buyer.

In 2009, CHT undertook an analysis of the long-term impact of its program, looking particularly at the outcomes of these resales for both the owners and the community. They found that the average homeowner sold after 5.4 years and received \$7,899 in home price appreciation.<sup>36</sup> Because owners made only very small initial investments, this gain represents an average annual internal rate of return of over 25 percent.

In addition, at the time of the sale, average owners received \$4,294 in equity due to the paydown on their mortgage over time and \$1,348 in credit for capital improvements that they made to their homes—in addition to the \$7,899 in price appreciation.

Although CHT homeowners generally accumulated less home equity than buyers of unrestricted homes, they faced significantly reduced risk. CHT homeowners were far less likely to experience foreclosure than the average lower-income buyer. And they managed to sustain homeownership at a far higher rate. Where some studies have found half of low-income, first-time homebuyers reverting to rental housing within five years, fully 90 percent of CHT homeowners remained owners—of CHT homes or new homes purchased in the broader housing market—five years later. Seventy-three percent of CHT sellers were able to purchase another home when they moved—5 percent purchased another CHT home while the rest purchased market-rate homes with no public support.

While there are a number of factors that help account for this high success rate, the limited price appreciation and steady wealth building from debt retirement was enough to make the difference for most sellers. While all of CHT's buyers were priced out of the private housing market initially, half of all CHT sellers left with large enough down payments to afford

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36. JOHN EMMAUS DAVIS & ALICE STOKES, *LANDS IN TRUST, HOMES THAT LAST: A PERFORMANCE EVALUATION OF THE CHAMPLAIN HOUSING TRUST* (Burlington, VT: Champlain Housing Trust 2009), available at [http://www.champlainhousingtrust.org/assets/files/Lands-In-Trust\\_Homes-That-Last.pdf](http://www.champlainhousingtrust.org/assets/files/Lands-In-Trust_Homes-That-Last.pdf).

comparable homes in the broader housing market even if they experienced no relative increase in their household income.<sup>37</sup> This occurred despite CHT's strict resale-price restrictions, which allowed these homes to resell at affordable prices to families with slightly lower incomes than the initial buyers. The homes not only remained affordable but became more affordable over time without any additional public investment.

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37. RICK JACOBUS & JOHN E. DAVIS, *THE ASSET BUILDING POTENTIAL OF SHARED EQUITY HOME OWNERSHIP* (Washington, D.C.: New America Foundation 2010).

## Appendix B

# Shared Equity Programs Have Their Place in the Suburbs

In recent years, most job creation has occurred in suburban locations where rental housing in general and subsidized rental housing in particular is in very short supply. Working families often face a choice between renting in central city locations far from jobs or seeking lower-cost ownership options at the suburban fringe. In either case, this choice results in long commutes and high transportation costs for these families and environmental consequences for everyone else.

In a growing number of communities, employers and elected officials are increasingly alarmed by the instability this lack of affordable housing for their local workforce creates. One response is to create more affordable ownership options in high-growth communities and in locations close to public transit infrastructure. But if these units are not preserved as affordable housing, they will have very little net impact. By preserving accessible ownership options in higher-cost areas near jobs, services, and transit, shared equity homeownership can reduce the pressure for sprawling development and contribute to healthy and sustainable urban communities.

In Washington State, fifteen cities in eastern King County joined together with the county government to form A Regional Coalition for Housing (ARCH) in order to administer a regional housing trust fund that has funded over 2,000 affordable housing units. ARCH allows the participating jurisdictions to pool their resources to take advantage of economies of scale and have a greater impact on the housing market. Affluent suburban communities, such as Bellview, Mercer Island, and Redmond, are working to create and preserve affordable housing opportunities in an area that has become the epicenter of regional job growth. Lower-income families who purchase shared equity homes through ARCH not only have convenient access to jobs but can also access the area's high-quality schools, parks, and other amenities that areas with more affordable housing stock traditionally lack.

## Appendix C

# The Legacy of Racial Discrimination

A major portion of the homeownership gap is the result of racial discrimination and institutional bias against lower-income and minority communities. Racial profiling and redlining still exist, and the federal government has an essential ongoing role in prosecuting housing and mortgage industry players who continue to engage in these practices.<sup>38</sup> But the evidence suggests that we have made very significant progress in reducing the extent to which race alone poses a barrier to home mortgage credit.

A series of studies spread over the past four decades has attempted to account for the homeownership gap between white and African American households. Consistently these studies find some portion of the difference that is easily attributable to demographic factors, such as the difference in marriage rates or economic factors—principally income and wealth differences. Each study generally also finds some unexplained residual gap that is often thought to be the result of housing or credit market discrimination.

Since the first of these studies in the 1970s, the size of this residual gap has fallen very significantly. One study in 1976, for example, found that race alone explained 26 percentage points of the white-black ownership gap. More recent studies have found demographic and economic factors explaining all but 5 percentage points of the gap. Although this is far from conclusive, this trend in the research is consistent with the conclusion that fair housing and fair lending laws, the Home Mortgage Disclosure Act, the Community Reinvestment Act, and other similar civil rights enforcement efforts have had their intended effect and collectively reduced the importance of race in credit decisions.<sup>39</sup>

But in spite of this progress, the racial homeownership gap has hardly moved. As racial discrimination has declined, economic factors have become ever more significant barriers to homeownership for minority families. Low-income and low-wealth families of all races now face very significant economic barriers that make homeownership seem all but

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38. JEFFREY CHAPMAN & ANDREW JAKABAVICS, *UNEQUAL OPPORTUNITY LENDERS? ANALYZING RACIAL DISPARITIES IN BIG BANKS' HIGHER-PRICED LENDING* (Washington, D.C.: Center for American Progress 2009).

39. Donald R. Haurin, Christopher E. Herbert & Stuart S. Rosenthal, *Homeownership gaps among low income and minority households*, *CITYSCAPE* 9 (2) (2007) provides a comprehensive review of these studies. See also Raphael W. Bostic & Brian J. Surette, *Have the Doors Opened Wider? Trends in Homeownership Rates by Race and Income*, *J. REAL EST. FIN. & ECON.* 23:3 (2001).

impossible. The final elimination of remaining discrimination in lending, which is a goal that we must nonetheless pursue, would not solve this problem. Overcoming the legacy of generations of active racial discrimination in housing and home lending will require more active intervention—simply eliminating discrimination will not be enough. Shared equity homeownership programs are one clear solution.

## Appendix D

# Asset Poverty as a Barrier to Homeownership

Most academic and policy studies on barriers to homeownership define wealth barriers in terms of whether a household has enough savings for a minimum down payment. But asset poverty can be understood as a barrier to homeownership in a much broader sense as well. Lack of savings, high household debt, and lack of access to financial assistance from family members not only prevent many renters from qualifying for a mortgage but also raise the cost of homeownership for those who somehow manage to qualify. Lack of household savings leads very directly to poor credit scores as well.

Case in point: One team of researchers followed a group of black and white families who were renters in 1991 to see how many had transitioned to homeownership by 1996. They found that the African American families were far less likely to become owners—even when accounting for both income differences and savings levels. The researchers noted that

despite the fact that black mortgage applications were 85 percent more likely than whites to be rejected, negative treatment by financial institutions was not the main source of the difference in transitions. Instead, blacks became homeowners at a much lower rate than whites because they were so much less likely to apply for mortgages in the first place.<sup>40</sup>

The study indicates that one of the key factors in this difference is the different likelihood of receiving family financial assistance. Among white families, 27 percent received some family assistance with their down payment and 15 percent received their entire down payment as a gift from a family member, while only 6 percent of African American buyers received *any* family assistance. They suggest that this crucial difference may, in part, account for both the lower rate at which blacks applied for loans and the higher rate at which their applications were rejected.

This wealth barrier can be seen as a legacy of previously racially discriminatory federal housing policy. During the time when federal housing programs were most effective in bringing homeownership within reach of working families, they were least accessible to minorities. Only at almost exactly the period of time when these programs stopped having a large

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40. Kerwin Kofi Charles & Erik Hurst, *The Transition to Home Ownership and the Black-White Wealth Gap*, 84 REV. ECON. & STAT. 281–97 (2002).

influence on the overall ownership rate, were they finally open to everyone. Consequently, families that did not benefit from asset appreciation through homeownership by prior generations find it much harder to access homeownership today. Today, high housing costs and the concomitant greater need for substantial savings now serve as the legacy of past barriers to ownership for minorities.