Setting the Record Straight on Affordable Homeownership

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Center *for* Community Capital
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Introduction

In his 1991 groundbreaking work *Assets and the Poor: A New American Welfare Policy,* Michael Sherraden permanently shifted the discussion about welfare policy in the United States. Sherraden argued for a focus on the promotion of savings and wealth-generation rather than the then current emphasis on income and consumption. He advanced the use of individual development accounts (IDAs) in order to push welfare policy beyond addressing immediate needs, and instead to the support of long-term economic mobility for lower-income households. Sherraden's groundbreaking work argued that low-resource households can build financial security if given access to the proper tools and systems.

This paper takes as its central focus one of the constituent elements of economic mobility that Sherraden proposed IDAs should enable: homeownership. Our position is that affordable, sustainable homeownership is one of the surest ways to help lower-income households build long-term wealth. The home can be used for all of the same purposes Sherraden designated for IDAs, i.e. to finance post-secondary education, to provide capital for self-employment, and to provide security during one's retirement years. However, a home has the added benefit of being a consumption good: essentially a home provides its owner with a place to live while simultaneously forcing the owner to save, and hopefully build wealth, through principal reduction and equity accumulation.

In the wake of the foreclosure crisis, some are arguing that homeownership was pushed too far.[1] The implication is that this well-travelled route to economic security should be closed off to certain families. While homeownership is not appropriate for everyone (e.g. it will not work well for the income-poor), it is extremely well suited for working families who are asset-poor. How do we know this? For ten years we at UNC's Center for Community Capital have tracked borrowers in the Community Advantage Program (CAP), a portfolio of over 46,000 home-purchase mortgages made to lower-income households. We speak annually with more than 2,000 of these CAP homeowners as well as with a comparison group of renters. The data from these annual in-depth interviews has informed a series of empirical papers, which provide the content for this current paper.

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[1] Kiviat, Barbara. The Dark Side of Homeownership. *Time Magazine*. September 11, 2010. Available at http://www.time.com/time/magazine/article/0,9171,2013850,00.html.

There is ample debate over the merits of homeownership for low- and moderate-income people, much of it centered on financial matters, i.e. whether homeownership is a reliable wealth-building mechanism and whether it is less costly, all things considered, than renting. While some see homeownership as an important contributor to household wealth in the United States (Hollaway, 1991; Turner and Luea, 2009), others believe that renting is less risky and less costly than owning (Smith and Smith, 2007).

In a detailed review of the literature concerning lower-income homeownership, Herbert and Belsky (2008) point out that one's likelihood of realizing any of the benefits associated with homeownership will depend upon a number of factors, including: timing of purchase, location of purchase, age and condition of the home, maintenance costs, if/when the owner taps into equity, ability to enjoy the tax benefits associated with housing, the return to alternative investments, the cost of renting, and the household's frequency of moving. Belsky and Duda (2001) note that timing and location (i.e. neighborhood-based price movement) are not the only thing that affect the returns to housing for lower-income owners; the willingness and ability of these owners to hold onto their homes during market fluctuations also affect overall wealth gains.

This current paper, relying on extensive analysis of the rich, unique, real-time CAP data, challenges five theories about homeownership that have risen to prominence since the mortgage lending crisis began. These are: homeownership is not a reliable wealth building strategy for lower-income families; homeownership crowds out other investments for lower-income borrowers; lower-income borrowers erode their equity through excessive borrowing; renting is a more affordable option for lower-income individuals; and homeownership should be restricted to those who can afford a 20 percent down payment.

Our analysis of the CAP panel data compels us to refute each of these claims, and we conclude that while *no one*, low- or high-income, should receive an unsound loan for a home they cannot afford, qualified lower-income households, when provided with the right tools and structures, can be successful homeowners and can realize the lasting benefits of homeownership.

The Evidence

All of the evidence presented in this paper comes from analysis of the Community Advantage Program (CAP) data. Self-Help Ventures Fund (Self-Help) launched CAP in 1998 with a $50 million grant from the Ford Foundation and institutional capacity provided by Fannie Mae. CAP is essentially a risk-sharing mechanism: under the program, Self-Help purchased community reinvestment loans from lenders around the country and sold them to Fannie Mae, while retaining the associated risk. The goal of CAP was twofold: to increase the flow of efficient, secondary-market capital to low-income and minority borrowers; and to demonstrate that making mortgages to these borrowers could be profitable for the lenders. In the early 2000s, the Ford Foundation engaged UNC's Center for Community Capital (CCC) to conduct a long-term study of the program's impacts on both the institutions and the households.[2]

Who are CAP's borrowers? At the time they bought their homes, borrower households had a median annual income of just $30,792.[3] The median borrower age at origination was 32 years old. Some 41 percent of CAP borrower households are headed by a woman, and approximately 40 percent of CAP's borrowers are minorities. The median loan balance at origination for CAP's borrowers was $79,000, issued at a median interest rate of 7 percent, which was consistent with prevailing prime, conforming mortgage rates at the time of origination. Fifty-three percent of CAP's borrowers had credit scores less than or equal to 680 when their mortgages were originated, and 72 percent of borrowers made a down payment of less than 5 percent on their homes.

Despite the ostensibly risky profile of the CAP borrowers and the turmoil faced by housing markets since 2008, the CAP portfolio has performed well. Through the third quarter of 2011, the portfolio of currently active CAP loans had a serious delinquency rate of 9 percent. This is lower than the rate of serious delinquency for prime adjustable rate mortgages (15 percent), subprime fixed rate mortgages (20 percent), and subprime adjustable rate mortgages (36 percent) through the same quarter.[4] CAP has enabled a group of creditworthy, though nontraditional, borrowers to obtain homes with thirty-year, fixed-rate, self-amortizing mortgages, underwritten for the ability to repay. The lenders involved in CAP took these creditworthy borrowers and helped get them into homes they could afford with mortgages they could manage.

Our evidence shows that lower-income families can succeed as homeowners and can receive the benefits traditionally associated with this form of tenure. Yet, households matching the profile of those served by CAP lenders are precisely those that some want to shut out of the

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[2] Between 1998 and 2009, CAP purchased more than 46,000 loans made to lower-income households, funding an estimated $4.06 billion in purchase money mortgages. CCC has tracked these home loans since origination. In 2003 we began our series of annual interviews with a sample of over 2,000 of these homeowners. In 2004 we began annual interviews with a panel of renters matched to the homeowners by income and geography.

[3] All statistics in this section of the paper come from the CAP generalizability sample.

[4] Rates of serious delinquency come from Mortgage Bankers Association, *National Delinquency Survey* (2011) (Moody's Analytics' Databuffet.com). Figures are from the third quarter of 2011.

mainstream homeownership finance market. Here we offer evidence to contradict five of their justifications for doing so.

Theory #1: Homeownership is not a reliable wealth building strategy for lower-income families.

While there is understandable and valuable debate about the wealth-building effects of homeownership for lower-income people, the CAP data show that when low- and moderate-income (LMI) families purchase homes they can afford with mortgages that are sustainable, wealth happens. A look at how CAP's rates of equity appreciation[5] have fared relative to other investments into which these LMI owners could have put their down payments illustrates the point. From loan origination through the second quarter of 2011, CAP's homeowners saw a median annualized return on their equity of 27 percent. In comparison, during that same period, the Dow Jones Industrial Average increased by a median of 2.4 percent on an annualized basis, and the median annualized return on the 10-year Treasury bill was 5.4 percent. The gains experienced by CAP's owners led to a median increase in equity of close to $18,000, so that by the end of the third quarter of 2011, CAP's owners held $21,000 in home equity (at the median).[6]

When comparing the balance sheets of owners to comparable renters, home equity gains appear to have been a primary factor leading to wealth building from 2005 to 2008. Over that period, as the crisis was just beginning to unfold, Grinstein-Weiss et al. (2011) find that homeowners saw an average gain in net worth of more than $11,000, while the matched sample of renters only gained $742 on average.[7] Interestingly, they found that non-housing wealth grew faster for owners than for renters over this period, and they also found no significant increase in liabilities for the owners relative to the renters.[8]

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[5] CAP home values are calculated using a ZIP Code-level house price index that is proprietary to Fannie Mae. The Fannie Mae index provides a more accurate estimate of home value than do publicly available house price indices (such as the FHFA index, formerly OFHEO) because it relies on information at the zip code, rather than MSA or state, level.

[6] This figure is the latest Fannie Mae value minus the last unpaid principal balance. It is biased downward (i.e. it is conservative) because some loans are inactive and therefore "stopped in time" at a lower level of equity.

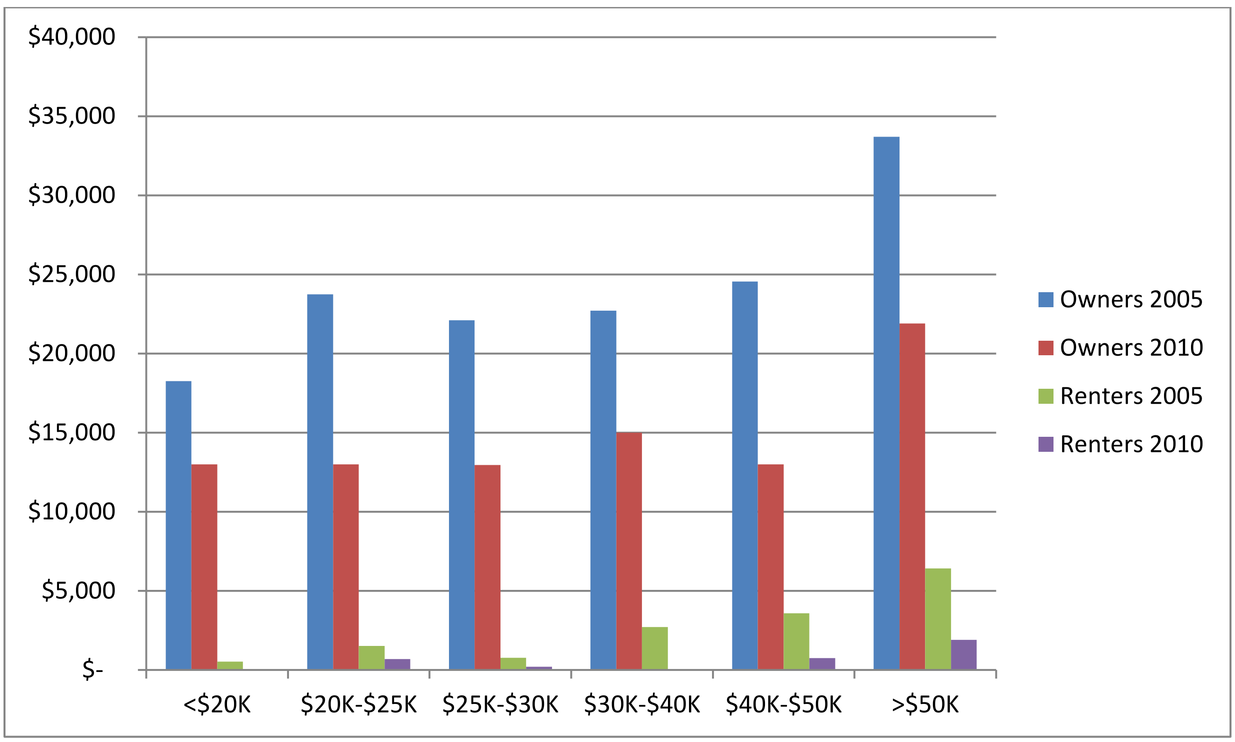
[7] For full details, see Grinstein-Weiss, M., C. Key, S. Guo, Y. H. Yeo, and K. Holub. 2011. *Homeownership and Wealth Among Low- and Moderate- Income Households.* Available as a working paper at: http://ccc.unc.edu/documents/HO.WealthL-MIHH.3.2011.pdf.

[8] All of the papers relying on the CAP data confront a similar problem, namely bias in sample selection. Because random assignment into homeownership is unrealistic, there is inevitable bias in the studies comparing CAP's owners and renters. As we focus on wealth in particular, it is difficult to say when comparing owners and renters whether the changes in wealth we observe result from homeownership or from particular social, economic, and demographic factors that likely increase both homeownership and wealth. Therefore, each of the papers

Looking a little further out, through 2010, we find that homeownership doesn't just generate wealth for lower-income owners during good economic times, but that it can also act as a buffer against losing wealth in difficult economic times. We consider this here by comparing how owners and renters who were financially similar to one another before the crisis have fared since the crisis hit.

First, we look at the fate of owners and renters who were in the same income categories at baseline; this shows us how households with equal earnings levels, but different types of tenure, fared from 2005 through 2010 – essentially from near the peak of the housing market to deep into the recession. As expected, both owners and renters in all income categories lost wealth at the median over that five year period (Figure 1). Yet, within each income group,

Figure 1: Owners' (N=998) and Renters' (N=849) Median Net Worth in 2005 and 2010 by Income Group at Baseline (2010 dollars)[9]



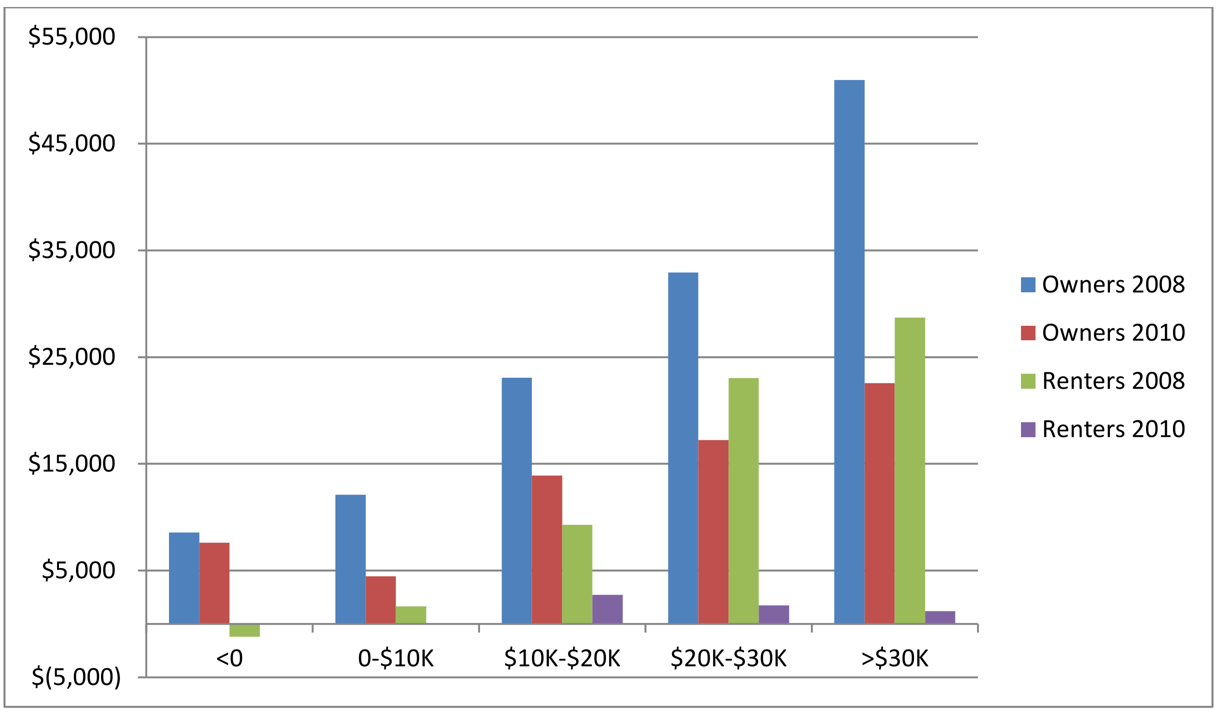
underlying the current paper employs advanced statistical techniques to address selection bias. Interested parties should refer to these papers for extensive detail on the various analyses used.

[9] Our samples include all original owners and renters, regardless of subsequent tenure changes, who provided all three years of wealth information.

owners ended the period with significantly higher net worth than their renter counterparts. In only one instance did any group of renters' median net worth exceed $1,000 in 2010; in contrast, most groups of owners ended the period with a median net worth of around $13,000. What is clear from this comparison is that before the crisis, in 2005, owners held far more wealth than renters with similar incomes. Though the owners lost more than the renters through 2010, they had much more to lose, and they were therefore able to retain greater net worth through the crisis.

A more appropriate comparison of changes to owners' and renters' wealth over time is derived by matching owners' and renters' by net worth in 2005 and seeing how they fared through 2008 and 2010 (Figure 2). The data reveal that, despite their having started with comparable net worth in 2005, owners' and renters' net worth diverged greatly by 2010. By that year, all

Figure 2: Owners' (N=998) and Renters' (N=849) Median Net Worth in 2008 and 2010 by Net Worth in 2005 (2010 dollars)



groups of renters who had positive net worth at the beginning of the period saw their net worth fall precipitately. For example, the renters who had net worth in excess of $30,000 in 2005 had a median net worth of only $1,200 by 2010, and only one group of renters had median net worth in excess of $2,000 by 2010. While all groups of owners also lost wealth at the median, each group of owners ended with median net worth between $4,456 and $22,559. These shifts suggest that homeownership and the housing investment helped buffer CAP's owners from financial devastation during the crisis, whereas the wealth of comparably-situated renters was more vulnerable to the financial turmoil inherent in the crisis.

Related to the argument that homeownership is not a reliable wealth building mechanism for LMI families is the assertion that homeownership is too stressful for lower-income families to bear. Manturuk, Riley and Ratcliffe (2011) consider this line of thinking as they analyze the financial and psychological stress associated with homeownership during the housing bust.[10] The financial crisis that started in 2008 reminded all of us that the value of housing, like that of any investment, is subject to market fluctuations. Given this, and given the extent to which lower-income homeowners are potentially under-diversified in their portfolios (examined later in this paper), it is reasonable to suspect that homeownership might increase the financial and psychological stress that LMI homeowners experience when housing values are falling.

Manturuk, Riley, and Ratcliffe's analysis looks at the impact of homeownership on three dependent variables: financial stress (a measure of the extent to which actual financial difficulties in paying for housing, managing money, carrying debt loads, and saving for retirement are causing people stress), satisfaction with one's financial situation, and overall stress (based on a 4-item measure of how much people felt in control of their lives). After adjusting for observable differences between the owners and renters,[11] the authors measure the impact of tenure on the three outcomes of interest (i.e. financial stress, financial satisfaction and general stress); they control for age, relative income, net worth, geographic region, and two measures of financial hardship. Every model includes the 2008 measure of general stress to control for respondents' baseline stress levels.

The analyses uncover no significant difference between renters' and owners' actual reported financial stressors, yet, they showed homeownership to have a persistent significant beneficial effect on financial satisfaction and overall stress. Specifically, homeownership is associated with an increase of between 27 and 37 percent in the odds of a higher financial satisfaction

[10] For full details, see Manturuk, K., S. Riley, and J. Ratcliffe. 2011. Perception vs. Reality: The Relationship between Low-Income Homeownership, Perceived Financial Stress, and Financial Hardship. *Social Science Research*, 41(2): 276-286.

[11] Tenure status (owner/renter), which is the main independent variable, is potentially endogenous, because individuals choose whether to own or rent. Therefore, the authors use four different methods, namely propensity score matching, propensity score weighting, coarsened exact matching, and instrumental variable regression, to make sure that the measured effect of homeownership cannot simply be attributed to the fact that homeowners are systematically different from renters. The predictors of homeownership that the authors consider are: age, gender, marital status, race/ethnicity, relative income, the presence of children in the home, and dwelling type.

score.[12] In other words, the owners reported lower psychological stress than comparable renters, despite facing a similar level of financial pressure. The fact that, despite comparable economic experiences, CAP's homeowners reported significantly lower levels of financial stress and significantly greater levels of financial satisfaction indicates that the benefits of homeownership go beyond those that can be measured in financial terms.

In conclusion, whether it is considered against alternative investments or against the financial stress experienced by comparable renters, homeownership appears to be working well for CAP study participants. Of course, not all households fared equally well: some of the owners who bought late in the cycle in more volatile markets have lost wealth. However the evidence shows that on the whole, renters who missed out on the opportunity to build home equity-related wealth before the onset of the financial crisis were badly buffeted by the recent economic imbroglio.

We cannot emphasize strongly enough that the main reason that CAP's owners have fared well, both financially and psychologically, is that they bought their homes with affordable, sustainable mortgages. All of the owners in the CAP portfolio received fixed-rate, fixed-payment, standardized, competitively priced, long-term mortgages. This instrument, when carefully underwritten and well serviced, has stable and predictable payments, and it can enable homeownership for the long-term. It is largely due to the durability of their affordable mortgages that CAP's owners have enjoyed the benefits traditionally associated with homeownership and that they have found it to be an effective means of long-term wealth building, even against a backdrop of economic upheaval.

Theory #2: Homeownership crowds out other investments, while renting allows households to diversify their investments.

One criticism of the home as an investment is that it crowds out other investments, leaving households with under-diversified and, therefore, riskier portfolios. This is a potentially serious concern for lower-income individuals, who invest a greater share of their net worth in housing than higher income individuals do. However, is this concern warranted? Put another way, absent housing, would lower-income households have well-diversified, low-risk portfolios?

[12] For a description of how this score was calculated, see Manturuk, K., S. Riley, and J. Ratcliffe. 2011. Perception vs. Reality: The Relationship between Low-Income Homeownership, Perceived Financial Stress, and Financial Hardship. *Social Science Research*, 41(2): 276-286.

To assess whether or not the accrual of home equity leads to the crowding out of other investments for lower-income individuals, Freeman and Desmarais (2011)[13] examined whether or not CAP's homeowners restrict their investments in other financial instruments as a result of having concentrated their investing activities in the home. The goal of Freeman and Desmarais' analysis[14] was to identify any possible effect of equity accumulation on the rest of the respondents' financial portfolios.

The authors analyzed respondents' adjustments in asset distribution in response to changes in home equity.[15] Asset-based outcome variables included: transaction account balances and CDs, investments (stocks, bonds, retirement), and equity in non-primary residences and major durables. Control variables included: age, income, education, number of children, race, and home equity level. The model simulated how the portfolios of LMI renters would respond to the equity levels held by their matched owners. The model was run for cross-sectional amounts in 2008 and for the change between 2005 and 2008.

What did Freeman and Desmarais find concerning the relationship between home equity and other assets? In the cross-sectional analysis, the effect is significant but miniscule: when renters were given the equity amounts of their matched owners in 2008, the simulated effect on their investment portfolios was a shift of less than one cent. In the analysis measuring change over time, there does seem to be a negative relationship between change in home equity and change in investments, but again the effect is significant but very small, with a $120,000 increase in home equity corresponding to a $100 reduction in investments (stocks, bonds, retirement). Equity in property other than a primary residence does seem to exhibit a relationship with home equity: the change-over-time analysis indicates that the accumulation of home equity is associated with a decline of approximately $5,000 to $15,000 in non-primary residence equity. This might imply that there is a trade-off between homeownership and

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[13] For full details, see Freeman, A. and B. Desmarais. 2011. Portfolio Adjustment to Home Equity Accumulation among CRA Borrowers. *Journal of Housing Research* 20(2): 141-160.

[14] This analysis draws on the two years of CAP data, 2005 and 2008, in which the panel survey included an extensive module related to participants wealth. Sample sizes are 982 owners and 595 renters matched to owners.

[15] In fact, the authors used the joint distribution generated from the copula function to derive the adjustment of each element of the financial portfolio in response to a shift in home equity. They tested all portfolio variables (both asset and debt) at the same time. These variables included: transaction account balances and CDs, investments (stocks, bonds, retirement), equity in non-primary residences and major durables, credit/charge card debt, student loan debt, and borrowing against the home (i.e. the combined value of home equity lines of credit, second mortgages, and cash-out refinance amounts). Asset and debt variables are discussed separately here for ease of discussion. Interested parties should see, for full details, Freeman, A. and B. Desmarais. 2011. Portfolio Adjustment to Home Equity Accumulation among CRA Borrowers. *Journal of Housing Research* 20(2): 141-160.

investment in other real estate, i.e. that once LMI households purchase their own home, they no longer invest in land, timeshares, etc., but concentrate their resources in their housing.

In conclusion, Freeman and Desmarais do not find evidence of significant asset-related opportunity costs to home equity accumulation for the CAP borrowers. They find little evidence that investments or savings suffer from the resources tied up in the generation of equity. They conclude that affordable lending for homeownership "serves as an effective means for promoting stable wealth-building for LMI households through the forced-savings mechanism of equity accumulation" (p. 155).

Theory #3: Lower-income homeowners erode their equity gains through excessive borrowing.

Another criticism of the home as an investment vehicle is that homeowners, particularly those who are income-constrained, might be tempted to diminish their wealth gains through excessive borrowing. While the accrual of equity can be beneficial for low- and moderate-income households, in order for owners to realize this benefit, they must resist the temptation to borrow that money back for other uses. In response to these concerns, Freeman and Desmarais's (2011) analysis (detailed in the preceding section) also considered the important question of whether or not CAP's low- and moderate-income homeowners increase their levels of borrowing in response to the accumulation of home equity.

The authors look specifically at the relationship between the accumulation of equity and three types of debt: credit and charge card debt, student loan debt, and borrowing against the home in the form of home equity lines of credit, cash-out refinances, and second mortgages.[16] Again, the fixed variables included: age, income, education, number of children, race, and home equity level.

Freeman and Desmarais' findings are as follows. When renters are given the level of equity held by matched owners in 2008, there is a moderate positive relationship between home equity and credit card debt, particularly for those with higher levels of home equity. Specifically, home equity of more than $150,000 corresponds to an *average* predicted increase of $1,000 or more in credit card debt. However, the accumulation of equity over time shows a smaller relationship to the accumulation of credit card debt, with the analysis revealing a *maximum* upper-bound in the confidence interval of approximately $700 increase in credit card

[16] See preceding footnote for a description of the complete model.

debt as a result of home equity accumulation.[17] The relationship between student loan debt and home equity is small, with extremely high or low values of equity in 2008 corresponding to an increase of approximately $600 in student loan debt; the change-in-time effect of home equity on student loan debt is negligible. As for the amount of equity and borrowing against the home, notable borrowing against home equity only occurs where equity levels are $100,000 or more, and such borrowing never reaches a scale that would decimate equity-based wealth.

Freeman and Desmarais conclude that while there appears to be some association between the accumulation of large amounts of equity ($150,000 or greater) and increased indebtedness, there is no evidence that debt accumulation by CAP homeowners offsets the wealth-building effect of home equity.

Theory #4: It's cheaper to rent than to own, so renting is a better option for low- and moderate-income people.

The long-standing debate over whether it makes more sense for lower-income people to rent rather than own a home has been especially heated since the mortgage finance crisis began in 2007. Renting is said to be better for lower-income households because, all things considered, it is thought to be less expensive than owning. The user costs of owning vs. renting have been analyzed extensively, but seldom for lower-income households. Riley and Ru (2011) use the CAP data to fill this gap in the literature.[18]

Riley and Ru assess whether CAP's owners would have been better off renting over the period 2003-2010. The authors calculate owners' ex-post user costs and equivalent rents from the CAP survey data based on property attributes. The construction of owners' user costs components include: mortgage payments (including property taxes and insurance); the opportunity cost of holding equity in the house;[19] mortgage closing costs and origination fees; homeowners association fees; maintenance expenditures; annual depreciation; the observed

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[17] In the interest of conservative inference, Freeman and Desmarais place 99 percent confidence intervals from the simulation around the estimates.

[18] For full details, see Riley, S. and H. Ru. 2011. *The User Cost of Low-Income Homeownership: 2003-2010*. Presented at the Southern Economic Association 81st Annual Meeting, November 2011. Available as a working paper at: http://www.ccc.unc.edu/documents/UserCost.WP.Sept.2011.pdg.pdf.

[19] The authors set this equal to the return on a 6-month Treasury bill, reduced by the taxes that the household would have paid on such interest.

net property appreciation as of the third quarter of each year; and the tax benefit received in each year from claiming the mortgage interest tax deduction.[20]

The authors calculate that the median owners' user cost was $36,000 for the period 2003-2010, less than the estimated median cumulative equivalent rent of $41,000. As they decompose their results by year, they discover that median annual user costs were generally lower than median equivalent rents before 2007 and were higher thereafter. However, Riley and Ru determine that the initial period of house price appreciation was sufficient to offset the subsequent higher owners' user costs as a whole. The authors estimate that annual house price appreciation of about 2 percent at the median was necessary to ensure that owning was no more costly for CAP's owners than renting would have been between 2003 and 2010.

In the analysis described above, house price appreciation rates drive the comparison, but there are two key variables not tested in the CAP experience that also affect the overall costs of owning versus renting. The first of these is the type and cost of financing used. CAP borrowers all received similar mortgages: fixed-rate, fixed-payment, and competitively priced. Changes in interest rates and different fee structures would yield different results. The second critical factor is the cost of renting, which has recently been on the rise,[21] meaning that, provided home prices stabilize, homeownership may actually be gaining relative financial advantage over renting.

Theory #5: Homeownership should be restricted to those who can put 20 percent down.

Finally, we turn from the effects of homeownership to the topic of how access to homeownership should be enabled or restricted. As Sherraden (1991) notes, one of the constraints on homeownership as a wealth building vehicle for LMI households, "…is institutional barriers to credit. Studies have shown that owning a home is, on the average, less expensive than renting, but many of the working poor are not able to accumulate a down payment to make home ownership possible…. [L]iquidity constraints, stemming from the uncertainty of lenders, prevent the extension of credit even when the working poor might be a good risk." (p. 128)

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[20] Some argue that LMI households do not benefit from the mortgage interest tax deduction. However, of the 2,701 CAP owners who completed the 2005 phone interview, 60 percent filed for the mortgage interest tax deduction.

[21] Lazo, Alejandro. 2012. Rising Rents May Signal a Housing Market Recovery. *Los Angeles Times*, March 13. http://articles.latimes.com/2012/mar/13/business/la-fi-rents-20120313

Since the mortgage lending crisis began in 2007, down payment requirements have loomed large as part of the discussion over what led to the crisis and how to prevent another one. In May of 2011, in an effort to develop underwriting guidelines for qualified residential mortgages (QRM)—which are exempt from risk retention requirements for privately securitized mortgages under the Dodd-Frank Wall Street Reform and Consumer Protection Act—the FDIC and Federal Reserve proposed the institution of a 20 percent down payment requirement. While the uproar that followed has kept regulators from actually settling on this amount, down payment requirements continue to loom in the ongoing debate over mortgage finance in the US.

The loans in the CAP portfolio run contrary to this "new normal." CAP's loans are notable for their high loan-to-value ratios: among the programs from which CAP loans have been purchased, 97 percent is the typical maximum loan-to-value ratio, though some programs issue loans all the way up to 103 percent of house value. A down payment of 1 to 3 percent of the home price is not uncommon, nor is a minimum borrower contribution of $500.

Cloaked within the debates over down payment requirements is the belief that all down payment money must come from the borrower him/herself, i.e. that homeowners must have a significant financial stake in their homes in order not to be tempted to default. It might surprise some readers, therefore, to learn that a substantial portion of CAP's borrowers had help meeting their modest down payment requirements and closing costs. Analysis of 3,684 CAP owners responding to the baseline survey yielded some interesting results concerning sources of down payment and closing costs: some 38 percent of CAP owners relied on some form of assistance beyond their own savings and assets to get into their homes. From what sources did borrowers obtain this help? Sellers and real estate agents were the source of assistance most frequently cited by CAP's owners: 20 percent of all owners received a contribution from these sources. Thirteen percent of owners received help from family and friends, while 8 percent relied on a grant from a community group, government agency, or other organization. Two percent of owners used a second mortgage to help meet their down payment and closing costs, while 2 percent used help from another source altogether. Eighty-four percent of those using external assistance relied on only one source of help, 15 percent combined two types of help, and the final 1 percent used three types of help.

Analysis of which factors affect the use of different types of non-bank assistance toward one's down payment and closing costs reveals the following.[22] Among CAP borrowers, blacks are

[22] Freeman, A. and J. Harden, 2012: analysis in progress; contact allison_freeman@unc.edu for details. This research employs multilevel logistic regression analysis with random state intercepts to account for unobserved heterogeneity at the state level. The dependent variables, which were measured in 2003, include whether a respondent (1) received assistance in any form, (2) received parental assistance, (3) took out a second mortgage,

significantly less likely than whites to receive down payment assistance from their parents (by 14 percentage points), and are significantly more likely than whites to use a community grant toward their home purchase (by 10 percentage points). Older respondents, not surprisingly, are less likely overall to receive assistance, as are those who learned financial skills from their parents. Women are more likely than men to use non-bank assistance toward down payment and closing costs (by 8 percentage points), and the analysis reveals that the predominant source of assistance for women is help from parents.

Analyses of the CAP data reveal which categories of borrowers were more likely to get help with their down payment and closing costs, but an important question remains: are homeowners who used help toward their down payment and closing costs more likely to become delinquent or even default? To answer this question, we used data from 2003 through 2011 to estimate a multilevel multinomial logistic regression model with random state intercepts (to account for geographic variation). Controlling for a rich array of variables,[23] we modeled the likelihood of delinquency and default. Our finding: having received assistance toward one's down payment and closing costs has no significant effect whatsoever on CAP homeowners' mortgage performance.

Conclusion and Implications

The collective evidence presented here refutes a number of commonly held but poorly substantiated claims about the pitfalls of homeownership for lower-income, lower-wealth families. By examining the real life experiences of LMI homeowners, we find that homeownership has been a beneficial proposition on the whole for the households in the CAP

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(4) received assistance from a community grant, and (5) received assistance from a real estate agent. Separate logistic regression models are used (instead of a multinomial model) because the outcomes are not mutually exclusive (i.e. some people received more than one kind of help). Independent variables, also measured in 2003, include: respondent race, gender, age, education, marital status, number of minors living in the home, employment status, and income (scaled by MSA-level median income). Several financial literacy variables are also included: whether respondents' parents had a checking account, whether respondents' parents taught financial skills, and whether respondents prefer to save or spend. Finally, the analysis controls for loan-to-value ratio at origination, respondents' credit scores at origination, and debt-to-income ratio at origination.

[23] Freeman, A. and J. Harden, 2012: analysis in progress; contact allison_freeman@unc.edu for details. Control variables include age, race/ethnicity, sex, marital status at baseline, education at baseline, relative income at baseline, number of minors in the home at baseline, respondent's employment status at baseline, being a two-income household at baseline, origination loan-to-value ratio, credit score at origination, debt-to-income ratio, whether or not one received assistance toward one's down payment and closing costs, whether or not the respondent's parents held bank accounts when the respondent was young, respondent's assessment of how much his/her parents imparted about managing money, respondents attitudes toward spending vs. saving money

program. These findings are particularly noteworthy because they persist through recent market turmoil which has negatively affected comparable renter households.

There are important caveats to these findings. First, not all the CAP borrowers and renters had identical experiences; in particular, homeowners who bought at the wrong time and in volatile markets fared worse. Second, the experience of the CAP homeowners cannot be generalized to all lower-income borrowers over this same period, because the type of financing used is a key determinant of the financial trajectory of investing in a home. Borrowers who used more costly, riskier products were not as fortunate. Many have lost their homes as a result. We are not proposing that owning a home is a fail-safe solution to economic turmoil. Owning a home is no substitute for good jobs, affordable health care, a strong economy, and a comprehensive social safety net. Many households are better off renting, some households prefer to rent, and renting offers advantages that homeownership does not, chief among them ease of mobility.

Sherraden challenged all of us to shift our focus from short-term, consumption-based welfare for lower-income people to the promotion of long-term, asset-supported economic mobility. Homeownership is an important component of a long-term asset building strategy: the accumulation of small amounts of savings in an IDA can be put toward a home, which in turn can allow owners to send children to college, start small businesses, or pass along wealth to the next generation. In the meantime, the home also provides shelter and a sense of security during one's productive and retirement years.

Yet trends in mortgage lending rules and regulations threaten to close off access to homeownership from the very types of households whose successes we document in this paper. Deciding that such families shouldn't have access to homeownership has major implications. For the housing market, it means stripping off a growing demographic that could be key to the recovery and long term vitality of the US housing market. For lower-income households, it means denying them the wealth-building opportunities that the CAP owners have experienced and that Americans have relied upon for decades for their economic betterment.

Curtailing access to homeownership would be particularly detrimental to the long-term economic prospects of minority households in this country. The racial wealth gap (blacks are estimated to hold $5 for every $100 of net worth held by whites[24]) is due in large part to racial gaps in homeownership rates: currently 74 percent of non-Hispanic whites own their homes, while only 45 percent of blacks enjoy this same privilege.[25] The ongoing mortgage finance crisis

[24] This figure is calculated from 2009 data. See for details Taylor, et al. 2011.
[25] U.S. Census Bureau, 2011.

will only exacerbate wealth inequality in America, owing to the high incidence of subprime lending in predominately black neighborhoods.[26] Between 2004 and 2008, blacks were close to three times as likely as whites to receive higher rate loans[27] (Bocian et al., 2011). The result is that approximately 25 percent of black borrowers are now seriously delinquent or in foreclosure, compared with 12 percent of white borrowers (ibid.). The unequal impact of the housing finance crisis will have ramifications for generations to come as blacks lose the opportunity to build wealth through their homes.

Without access to homeownership – the classic pathway to the American middle class – how else will low-resource households begin to build an economic base? The IDA is an excellent place for such households to start to build assets and savings, but how far will they be able to get without homeownership? The real life experiences of the CAP participants demonstrates that homeownership is still a viable and unparalleled route to economic security for working LMI families who are ready to take on the responsibility of owning a home. The lessons learned from the practices of the lenders who participated in the CAP program – who issued carefully underwritten, fixed-rate loans that are well-serviced – can show us how to help households and the housing market begin to recover from the crisis.

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[26] See for details Immergluck, D. 2009. *Foreclosed: High-Risk Lending, Deregulation, and the Undermining of America's Mortgage Market*. Ithaca, NY: Cornell University Press. See also Rugh, J. S. and D. S. Massey. 2010. Racial Segregation and the American Foreclosure Crisis. *American Sociological Review,* 75(5): 629-651.
[27] "Higher-rate" is defined as first-lien loans for which the APR spread was 300 basis points or more above Treasuries of comparable maturity.

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