



Homeownership is in the nation's interest when it brings stability to families, vitality to distressed communities, and overall economic growth.

*Sage Computing*

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## Paths to Homeownership for Low-Income and Minority Households

The current economic environment, characterized by slow growth, eroded household net worth, strict lending standards, and tight credit, presents sobering challenges to would-be homeowners, particularly if they earn low incomes or belong to a racial or ethnic minority. Renter households have seen their incomes fall and rents increase since the economic downturn, and the number of renters among the severely housing

cost-burdened has risen.<sup>1</sup> Although house prices and interest rates have declined, purchasing a home is out of reach for many of these families because they have insufficient cash for down payment and closing costs, cannot pay down debts, have low credit scores, and are subject to higher borrowing costs.<sup>2</sup> For American families, who typically borrow to purchase homes, access to credit represents opportunity and financial security. In the wake of

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## Message from the Acting Assistant Secretary

Helping low- and moderate-income and minority families achieve successful homeownership has always been a core goal of the U.S. Department of Housing and Urban Development. As the lead article in this issue of *Evidence Matters* attests, many HUD programs support homeownership for low-income and low-wealth families and individuals through down payment assistance, counseling, and other activities. But no part of our agency has been more central to this goal — and to the broader goal of stabilizing the housing market — than the Federal Housing Administration (FHA).

FHA was established in 1934 to help stabilize a housing market disrupted by the Great Depression and make home financing attainable for a much larger share of American families. FHA helped end the Depression by providing market liquidity and stimulating housing construction. A hallmark of FHA's early years was demonstrating the market viability of the long-term, fixed-rate mortgage, which soon became the market standard. It continues to be an important source of capital that increases lending to low-wealth but creditworthy borrowers, including those with higher risk characteristics who are priced out of the conventional market. By the 1950s, FHA demonstrated the feasibility of providing high loan-to-value and low down payment loans by maintaining sound underwriting and appraisal standards. FHA loans have been especially helpful in supporting homeownership for low-wealth, first-time, and minority buyers.

When FHA has faced serious challenges — such as a 1989 actuarial audit that found the administration to be solvent but not actuarially sound — HUD and Congress have acted to ensure its future sustainability. Because the audit found that FHA had long underpriced its mortgage insurance and had gradually undertaken various policies that had raised its risk profile, a series of statutory changes modified minimum equity requirements, changed the price of insurance premiums, and revised policies regarding distributive share. In another case, FHA recently closed a loophole regarding loans with seller-funded down payment gift mortgages, as these products had proven particularly risky.

Never has the FHA's countercyclical role been more evident than during the housing boom and bust of the 2000s. In the late 1990s, FHA held 10 to 15 percent of the home purchase market. But as the housing bubble grew, that share dropped below 5 percent; while other lenders took on ever-riskier buyers with subprime, alt-A, and other new loan products with low teaser rates, FHA did not participate in exotic mortgages or loosen its underwriting standards to permit anything less than full-documentation loans. When the bubble burst, FHA again stepped in to stabilize the market, and its share of the loan market grew to 30 percent by mid-2008. Some housing experts have argued that, without FHA providing liquidity to the mortgage market, the United States would have faced a double-dip recession and possibly the collapse of the housing market.

FHA's actions during the crisis took multiple forms. By continuing to lend as the market contracted, the FHA sharply increased its loan originations, mitigating the market's downward spiral. But FHA also stepped in to enable existing homeowners to refinance their mortgages, refinancing nearly 458,644 conventional mortgages and 367,802 FHA mortgages in 2009 alone. FHA also worked to keep existing homeowners in their homes through loss mitigation activity that served more than 1.4 million homeowners from April 2009 through July 2012.

As officials and policy experts debate the future of the role of government in the mortgage market, the FHA's traditional role in facilitating homeownership opportunities for low-wealth and minority homeowners will continue to be important in the evolving housing finance system. Recently, HUD's Office of Policy Development and Research completed a working paper on the history of FHA's role in the housing market that provides useful information for this debate. This issue of *Evidence Matters* provides further evidence of successful methods and approaches that have enabled low- and moderate-income families as well as families with limited wealth to build equity and sustain homeownership that provides gains to society.

— Erika C. Poethig, *Acting Assistant Secretary for Policy Development and Research*

# Editor's Note

Although HUD's focus on urban and community development has expanded substantially in recent years — through initiatives such as the Neighborhood Stabilization Program, Choice Neighborhoods, Sustainable Communities, and our disaster recovery efforts — supporting housing opportunities for low-income and minority Americans remains central to our mission. As the housing market recovers, debates about the advantages and drawbacks of homeownership for these populations, and the role that government can play, are evolving.

This issue of *Evidence Matters* examines various approaches to promoting successful homeownership opportunities for low-income individuals as well as the concerns these efforts raise. The lead article, "Paths to Homeownership for Low-Income and Minority Households," discusses the benefits and risks of low-income homeownership, economic and racial differences in homeownership rates, and HUD programs that make homeownership affordable, expand access to safe financing, and prepare buyers to be successful owners. Our Research Spotlight article, "Individual Development Accounts: a Vehicle for Low-Income Asset Building and Homeownership," examines how IDAs have become an important asset-building tool for low-income populations and a potential path to more successful low-income homeownership. Finally, the In Practice article, "Shared Equity Models Offer Sustainable Homeownership," looks at two shared equity homeownership models — a land trust in Minnesota and a below-market-rate ownership program in San Francisco — to understand how these options can help communities make homeownership more accessible.

I hope you find this issue of *Evidence Matters* valuable and enlightening, particularly given today's housing market. Our next issue will focus on mixed-income communities. As always, we welcome your feedback at [www.huduser.org/forums](http://www.huduser.org/forums).

— Rachele Levitt, *Director of Research Utilization Division*

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the housing crisis and the resulting spike in foreclosures, however, credit is extremely difficult to obtain and is likely to remain so for some time.<sup>3</sup>

Because low-income and minority families are especially vulnerable financially in a post-recession, post-housing crisis era, stakeholders have questioned whether homeownership remains a reliable wealth-building vehicle for these households. The answer to this question depends on a number of factors that influence wealth accumulation, including household income, duration of ownership, time of purchase in relation to market performance, home characteristics (such as condition, age, location, and type of structure) that affect upkeep costs and rate of appreciation, and the terms of the mortgage.<sup>4</sup>

Households with few resources have limited avenues for developing a sound economic base on which to build their future. Therefore, policymakers working to prevent another housing crisis

## Highlights

- Creditworthy low-income and minority families face significant barriers to sustainable homeownership, a major vehicle for building wealth and economic opportunity.
- Access to sustainable homeownership is expanded with fiscal assistance, housing counseling, sound lending, flexible underwriting that ensures the ability to pay, and backing by FHA's mortgage insurance.
- Efforts to make homeownership accessible to low-income and minority households ultimately depend on economic recovery, a healthy housing market, and increased protections for consumers, investors, and taxpayers.

must take care to not unduly burden families who are able to realize the benefits of homeownership, the largest source of household wealth in the United States.<sup>5</sup> Housing policy analysts are reexamining assumptions about the best way to make homeownership feasible and sustainable to low-income and minority families. As Alan Mallach of the Brookings Institution stresses, growing the number of low-income homeowners is not enough; policymakers must adopt measures that will "foster a sustainable model of homeownership for

lower-income households."<sup>6</sup> With the aftermath of the recession and housing crisis still very much present, this article examines the importance — and challenges — of low-income and minority homeownership.

### Effects of Homeownership

Recent homeownership rates show that 73.5 percent of owners are white, while African-American and Hispanic homeownership rates remain below 50 percent. Similarly, the homeownership rate for households with very low incomes was

43.8 percentage points below the rate for high-income households (figure 1). These are long-standing differences. Since the 1980s, federal policies have eased the path to homeownership for low-income and minority families, which potentially benefits both individual households and society at large by countering poverty.<sup>7</sup> Homeownership contributes to financial security and stability by offering homeowners protection from rising housing costs, increased savings and purchasing power, the ability to borrow against the equity of the home, and the opportunity to refinance at lower interest rates. Such benefits are not guaranteed, however, and as Christopher Herbert and Eric Belsky's review and synthesis of the research notes, homeownership should be viewed as "an investment that carries with it significant risks and uncertainties. For any number of reasons, homeowners can end up losing money on their homes or earn less of a return than if they had rented over some period."<sup>8</sup> The recent recession and burst of the housing bubble provide a clear example of this risk; real net household wealth fell by 57 percent from 2006 to 2011. This decline hit low-income and minority households especially hard because home equity accounts for a larger share of their wealth.<sup>9</sup> This impact is poignantly illustrated in the Chicago metropolitan area, where six counties are suffering from particularly high foreclosure rates and declines in home values in the aftermath of the housing crisis. In these counties, negative home equity was disproportionately concentrated in low-wealth, minority neighborhoods, where nearly half of the properties were either underwater or nearly so. Compared with white neighborhoods, these borrowers were twice as likely to have little or no equity in their homes at the end of 2011.<sup>10</sup>

However, 46,000 low-income owners had a very different experience with affordable, sustainable mortgages underwritten by the Community Advantage Program (CAP). CAP, a joint community reinvestment program

initiative by the Center for Community Self-Help, the Ford Foundation, and Fannie Mae, makes secondary market capital accessible to low-income and minority borrowers. With carefully underwritten loans, these borrowers were able to build wealth even during tough economic times. CAP loans are always 30-year, fixed-rate mortgages underwritten with a household's income and ability to sustain homeownership in mind and serviced proactively to help troubled borrowers.<sup>11</sup> Only 9 percent of these loans were seriously delinquent in the latter part of 2011 compared with 15 percent of prime adjustable-rate mortgages, 20 percent of subprime fixed-rate mortgages, and 36 percent of subprime adjustable-rate mortgages.<sup>12</sup> From the origination date of their loans through mid-2011, CAP owners "realized a median annualized return on their equity of 27 percent."

Financial gain is not the only reason a majority of American households aspire to own a home; social benefits are also associated with homeownership. In a recently released National Housing Survey sponsored by Fannie Mae, the most cited reasons for wanting to own a home were to have a good place to raise children, a safe place to live, more space for family, and control over one's living space.<sup>13</sup> Herbert and Belsky found that the nonfinancial benefits associated with homeownership, which have been linked to better physical and psychological health, are evident but not assured.<sup>14</sup> Some of these benefits pertain to greater satisfaction — with life, one's home, and one's neighborhood. In a comparison of attitudes about homeownership held by renters and owners, Harris Interactive (for the National Association of Realtors) found owners more satisfied with most aspects of their community, including access to the outdoors and natural resources, healthcare, shopping, educational opportunity, entertainment, arts and culture, transportation, and a family-oriented environment. Homeowners viewed their communities as stronger, safer, and more stable than did renters and

were more likely to report that they felt connected to others, knew their neighbors, and were civically engaged.<sup>15</sup> In a different study, CAP owners, when compared with a group of matched renters, likewise were found to have more social ties leading to increased social interaction and involvement, a greater sense of being able to control important aspects of their lives and resolve problems, and less overall stress following the financial crisis despite having experienced similar levels of financial stress and hardship.<sup>16</sup>

Although William Rohe and Roberto Quercia also found that owners were more satisfied with life and had larger social networks than the renters with whom they were compared, they did not find that "participation in voluntary associations, neighborhood satisfaction, self-esteem, or perceptions of opportunity" were significantly related to homeownership. They hypothesized that low-income and higher-income buyers may experience the impact of homebuying differently, that the impacts of ownership are realized over time, and that methods used for measuring those impacts may be inadequate.<sup>17</sup>

Other positive effects identified with homeownership include improved outcomes for children. Researchers have not yet determined whether such outcomes can be attributed directly to homeownership, the stability it invokes, unidentified or uncontrolled variables, particular research methods, or selection bias (in which the children would have realized similar benefits regardless of whether their parents achieved homeownership).<sup>18</sup> Nevertheless, homeownership has been associated with outcomes such as educational attainment (longer stays in school, higher graduation rates, greater likelihood of achieving postsecondary education, improved math and reading scores), better employment and earnings opportunities, and fewer behavioral problems.<sup>19</sup> Recent studies indicate that if homeownership has positive effects on the health and well-being of parents,

their children are more likely to benefit from having healthier, engaged parents as well as from fiscal training.<sup>20</sup> One investigation found that homeownership was strongly associated with the incidence of very good or excellent child health, but the relationship also depended on the household's resources.<sup>21</sup> A new study revisiting the question of homeownership's impact on children concludes that the dropout rate for children in owner-occupied homes was 2.6 percent lower — and the teen birth rate 5 percent lower — than for children in rental households. Findings also indicate that when borrowers make some investment in the down payment, no matter how small, the result is better outcomes for their children than when they put none of their own money down.<sup>22</sup>

Despite its potential benefits, however, homeownership is a risk, and its outcomes may be neither anticipated nor

desired. If a homeowner has too much house to pay for, does not refinance to take advantage of interest rate declines, experiences unanticipated repairs or trigger events (such as a divorce or medical emergency), has a home that declines in value or appreciates very slowly, or has a mortgage with predatory terms, then ownership is difficult to sustain.<sup>23</sup> In 2004 and 2006, HUD studies found a high probability that half of lower-income and minority families return to renting within five years of a home purchase, due to unemployment or a decline in earnings, mortgage rate changes, housing cost burdens, or other trigger events.<sup>24</sup> More recently, Van Zandt and Rohe found that the housing market crisis left a sizable number of low-income homeowners at risk of being unable to sustain ownership after just two years due to unexpected costs and needed home repairs.<sup>25</sup>

## Homeownership Rate Trends and Differences

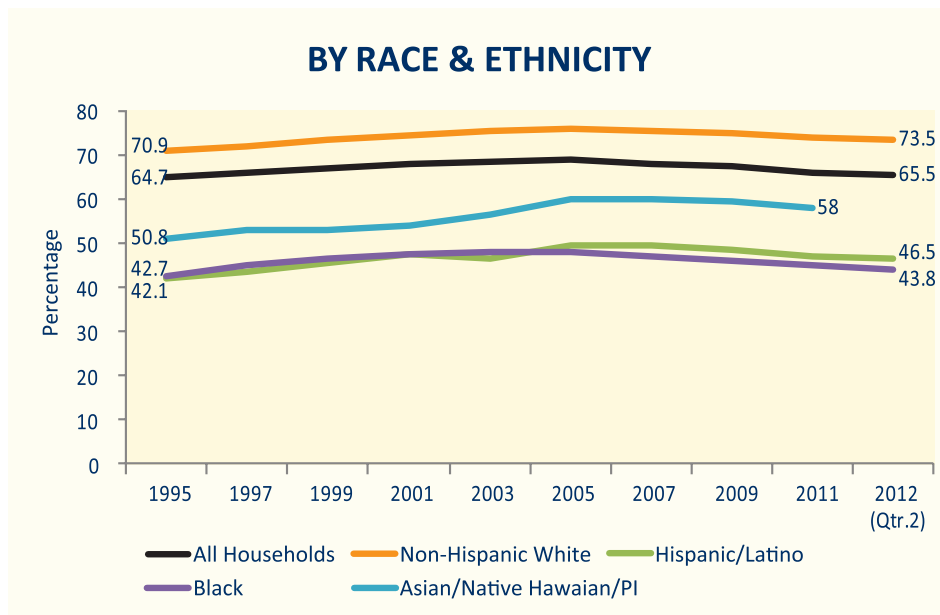
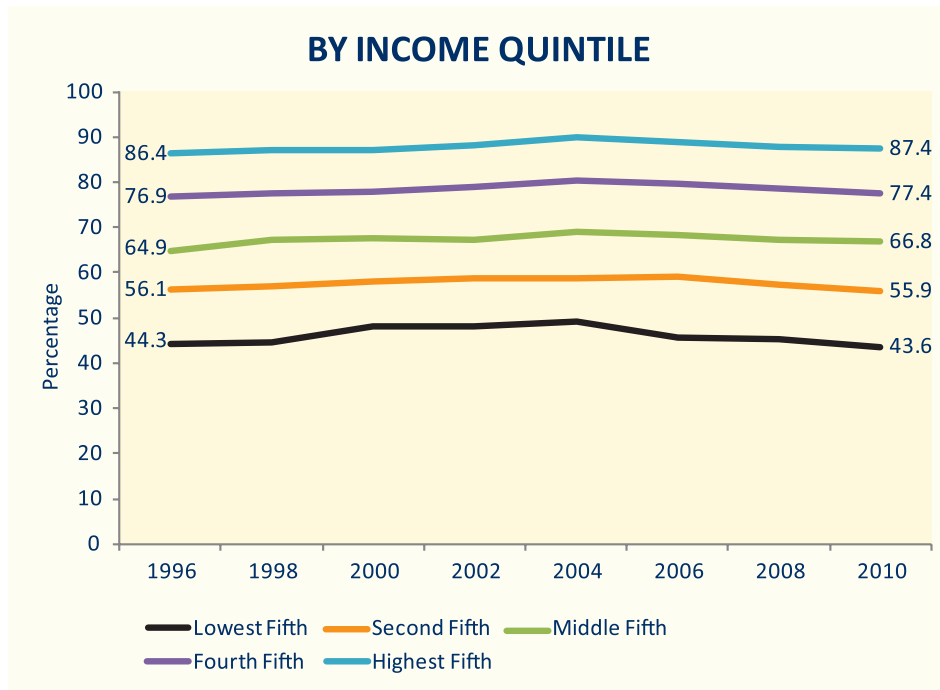
Historically, disparities have existed in access to homeownership by low-income and minority households. The factors that shape, impede, or facilitate homeownership opportunities for these households have been the subject of substantial research, including studies commissioned by HUD's Office of Policy Development and Research in the early to mid-2000s. One focus of these inquiries, arising from concerns about fairness and discrimination, has been differences in homeownership rates across income and racial or ethnic groups (figure 1). The persistence of these disparities, according to a body of related research, suggests that demographic and economic factors play a significant role in shaping homeownership trends. Analyses of the composition of the homeownership gap have concluded that socioeconomic variables explain a large percentage



NeighborWorks America

Homeowners such as Aishon Jones, standing in front of her new home in Syracuse, New York, seek the economic and social benefits associated with successful homeownership.

**Figure 1. Homeownership Rates by Income and Race and Ethnicity**



Source: U.S. Census Bureau, *Housing Vacancy Surveys and Current Population Survey, Annual Social and Economic Supplements*.

of the difference, leaving a smaller portion attributable to discrimination and unidentified influences.<sup>26</sup>

Homeownership rates are highest for older households, married couples, and those with more education. These characteristics are related to income and influence homeownership decisions differently across income levels.<sup>27</sup> Homeownership decisions are also

shaped by patterns of household formation that differ by economic, demographic, and social circumstances. Typical factors that affect household formation include racial and ethnic differences, age structure of the population, marriage and divorce patterns, typical leaving-home ages, the cost of living, housing costs, and living in group quarters for military or educational purposes.<sup>28</sup>

Along with income, household wealth determines whether families can afford down payment and closing costs and can sustain homeownership after purchase. In a 2004 study commissioned by HUD, minorities and whites at similar income levels were equally likely to become homeowners, but wealth was a better predictor of minority transition to homeownership. Minority households required higher levels of wealth to achieve the same probability of homeownership as white households had, all other things being equal. Wealth gaps were evident across ethnic and racial groups. In one example, found by examining measures of wealth among renters, a large share of black and Hispanic renters had so little wealth that zero-down payment loans were the only mortgage option available to them. The net worth of white households at the 50th percentile level of wealth was roughly equivalent to the net worth of black and Hispanic households at the 75th percentile. In other words, at the 50th percentile level of wealth, white renters had a net worth of \$10,000 (in 1998 dollars), but not until the 75th percentile did black renters have a net worth of slightly more than \$10,000 and Hispanics have about \$8,500.<sup>29</sup>

The differential in household wealth continues, according to the Pew Research Center. One-fifth of U.S. households had zero or negative net worth in 2009. Of this group, 35 percent were black households, 31 percent were Hispanic, 19 percent were Asian, and 15 percent were white. Excluding home equity, median household wealth in 2009 was \$29,169 for whites, \$20,300 for Asians, \$2,806 for Hispanics, and \$1,050 for blacks.<sup>30</sup> Therefore, as noted above, the decline in net worth of U.S. households during the recession hit minorities the hardest because they depended more on home equity as a source of wealth.

Location and geography also influence homeownership disparities across groups through their effect on housing supply and demand. Factors such as



Victor Antunez

Homebuyers and volunteers provide sweat equity and labor to build Habitat for Humanity homes in Miami, Florida.

land prices, regulatory environments, zoning and building codes, population density, and demographic characteristics all affect potential buyers' ability to purchase a home. Central cities, for example, historically have had lower homeownership rates than suburban areas, partly because homeownership has been associated largely with single-family homes that are less prevalent in cities. As a result, minorities and low-income families concentrated in inner cities have had access to fewer homeownership opportunities.<sup>31</sup>

### Intervention on Behalf of First-Time, Low-Income, and Minority Homeowners

Homeownership is in the nation's interest when it can bring stability to families, new vitality to distressed communities, and overall economic growth, say experts in the field.<sup>32</sup> These hoped-for outcomes are why a balanced housing policy that safeguards choice is preferable to promoting homeownership at any cost. Eric Belsky, director of the Joint Center for Housing Studies of Harvard University, puts it succinctly: "It's

important for society, regulators, and the government to ensure that people have the opportunity to buy a home — and then leave [the choice] up to them."<sup>33</sup> Yet the barriers to sustainable homeownership for low-income and minority families are powerful: insufficient income and household wealth to afford down payment and closing costs, inaccessible or poor credit, lack of knowledge about buying a home and sustaining homeownership, regulatory burdens, an insufficient supply of affordable housing, and discrimination.<sup>34</sup>

Governments, foundations, lending institutions, and community-based organizations have made efforts to address these barriers and to facilitate successful homeownership. Such entities work, often jointly, to create homeownership opportunities, innovative financing tools, and retention strategies. Janneke Ratcliffe, executive director of University of North Carolina's Center for Community Capital, explains that these activities tend to fall into one of three categories: making homeownership

affordable, expanding access to safe and sound financing, and preparing potential buyers to be successful homeowners.<sup>35</sup> HUD initiatives are a significant part of this landscape, in which the department concentrates energy and resources on removing barriers and expanding opportunity for low-income and minority homeownership.

### Making It Affordable

Affordability assistance helps low-income families overcome wealth barriers and achieve favorable debt-to-income ratios that keep monthly payments low. Examples of this type of backing include down payment assistance, grants, subsidies, homeownership vouchers, forgivable loans, and soft second mortgages.

Even small amounts of down payment assistance increase the probability of moving first-time buyers into homeownership.<sup>36</sup> Although about one out of five first-time homebuyers receives such help from their families, low-income households are less likely to have this option available.<sup>37</sup> One source of help for these households is the Federal

Housing Administration (FHA), which facilitates first-time homeownership for low-wealth buyers. FHA's minimum down payment requirement is set at 3.5 percent of the contract sales price. Edward Szymanoski, HUD's associate deputy assistant secretary for economic affairs, notes that FHA's traditional role — serving creditworthy first-time homebuyers — is particularly important to families with young children, who may benefit most from early access to homeownership. "First-time buyers often lack cash to pay the down payment and closing costs charged by conventional lenders and would otherwise have to defer homeownership for many years," Szymanoski says.<sup>38</sup>

Eligible homebuyers can also obtain assistance with down payment and closing costs through the HOME Investment Partnerships (HOME) and Community

\$10,000 or 6 percent of the purchase price, the average amount was \$5,000 per household.<sup>40</sup> A 2005 HUD study concluded that small amounts of down payment assistance like this can be very effective in helping renters become homeowners and that as little as \$1,000 can lead to a 19-percent increase in the number of low-income households buying a home. While the size of the increase declines as the level of assistance rises, assistance of up to \$10,000 can lead to a 34-percent increase in overall homeownership, although the effect on underserved groups is greater — a 41-percent increase in low-income homeownership.<sup>41</sup>

Some buyers are able to lower their overall investment with sweat equity through HUD's Self-Help Homeownership Opportunity Program (SHOP). National and regional nonprofits

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## Small amounts of down payment assistance of as little as \$1,000 are effective in helping renters to become homeowners.

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Development Block Grant (CDBG) programs. Through these programs, HUD awards block grants to cities and states, who then decide how to use the funds. HOME monies are dedicated to enhancing local affordable housing strategies that increase homeownership opportunities for low-income people. One study found that nearly all HOME programs offer assistance with down payment and closing costs in addition to other types of support such as loan guarantees, write-downs of the sales price, and interest rate buy-downs.<sup>39</sup>

Between 2004 and 2008, the American Dream Downpayment Initiative (now part of HOME) helped more than 26,000 low-income, first-time homebuyers with the biggest hurdle to homeownership: down payment and closing costs, plus rehabilitation expenses. Although the program capped assistance at the larger of

and consortia receiving SHOP grantees developed 16,957 homeownership housing units for low-income families between 1996 and 2008. The grants are used to buy land and make infrastructure improvements that cannot exceed an average cost of \$15,000 per unit; additional funds for construction or rehabilitation must be leveraged. Grantees may carry out SHOP activities themselves or contract with nonprofit affiliates to develop SHOP units, select homebuyers, coordinate sweat equity and volunteer efforts, and help arrange for interim and permanent financing for homebuyers. To significantly reduce purchase prices, homebuyers are required to put in a minimum number of hours of sweat equity, including painting, carpentry, trim work, and drywall, roofing, and siding installation. Without this sweat equity contribution, total development costs would range from 0.2 to 14.7 percent higher for each housing unit,

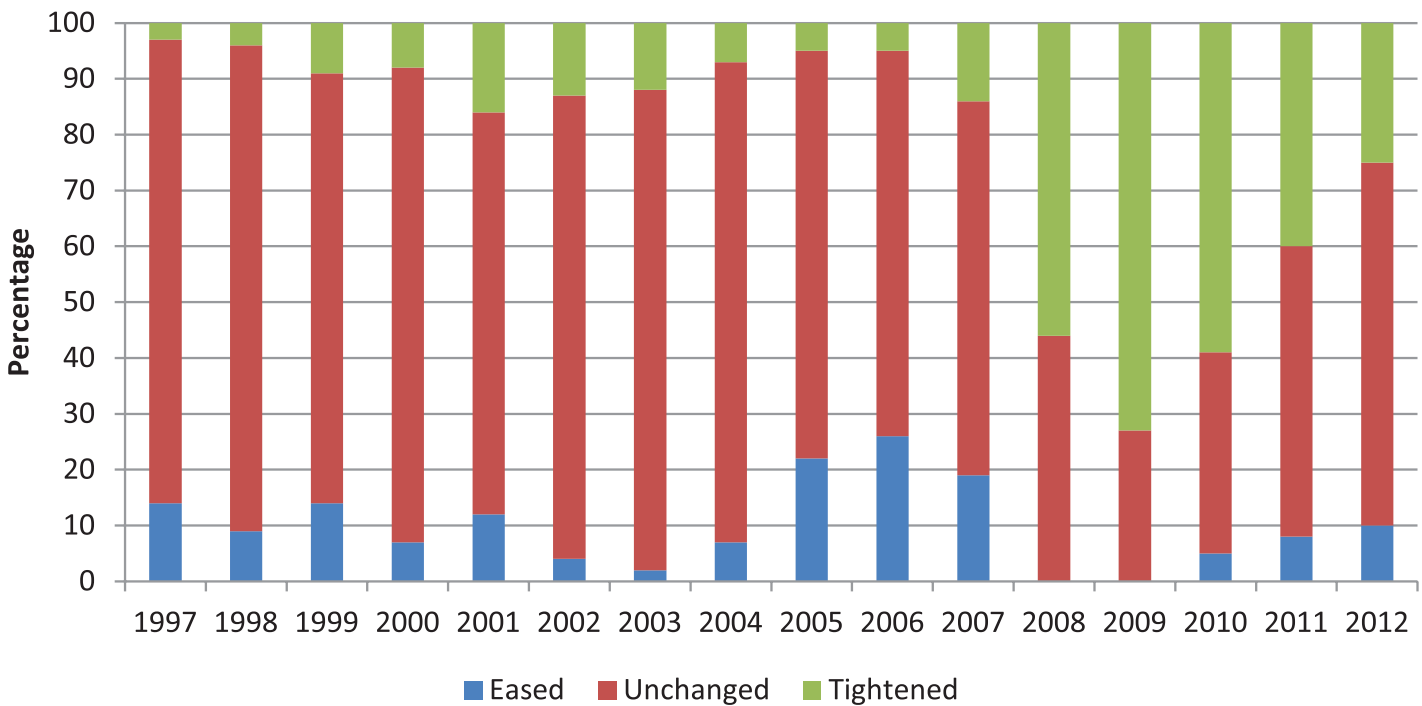
according to an unpublished study by HUD's Office of Policy Development and Research.<sup>42</sup>

Renters of HUD-assisted units may become homeowners via the Housing Choice Voucher Homeownership program, which has been responsible for nearly 15,000 homeownership closings in the past decade. This program allows participating public housing agencies to offer residents the option to apply their rental voucher subsidy toward monthly ownership expenses. After satisfactorily completing a preassistance counseling program that covers home maintenance, budgeting and money management, credit counseling and credit repair, and mortgage financing, the purchaser finds an eligible home. In its analysis, Abt Associates found that the number of public housing agencies choosing to implement this program grew from 12 pilot sites in 1999 to more than 450 in 2006. Foreclosure, delinquency, and default rates were quite low for these buyers, who were mostly single mothers with children, minorities, and people with disabilities moving into neighborhoods with higher homeownership rates and slightly lower poverty rates than the neighborhoods where they had rented.<sup>43</sup>

An alternative form of assistance to low-income homebuyers, lease-purchase, is available through HOME, CDBG, and Housing Choice Voucher Homeownership funds. An evaluation of a low-income homeownership program that preceded HOME found that 10 percent of participating families became owners by leasing to buy. This option allowed homebuyers who needed a little more time to accrue the savings needed for a down payment or to clear up credit problems while living in the home they would eventually purchase. One locality used lease-purchase in a transitional housing program as the final step to help formerly homeless families become homeowners.<sup>44</sup>



**Figure 2. Changes in Underwriting Standards in Real Estate Loan Portfolios**



Source: Office of the Comptroller of the Currency Survey of Credit Underwriting Practices.  
 N = 84 lenders in 2012.

### Safe and Sound Financing

Expanding access to homeownership involves making sound mortgages available to more households through such tools as flexible and alternative underwriting guidelines that reduce the risk of homeownership. Examples include CAP’s secondary mortgage market program, which has enabled banks around the country to help more than 50,000 lower-income families purchase homes. Other examples include vehicles such as tax-exempt bonds that state and local governments issue through housing finance agencies to help fund affordable mortgages for qualifying first-time homebuyers.<sup>45</sup>

HUD’s largest role in supporting safe and sound lending is through FHA, as mentioned above, which was created in 1934 as a home mortgage insurance program. This insurance supports credit-worthy loans with flexible underwriting, accommodating lower down payments, and higher payment-to-income ratios

while making allowances for weaker credit histories. FHA was the first organization to establish national underwriting standards and has been the only broadly accessible government guaranty linking mortgage borrowers with the lower-cost credit of mortgage lenders. During the recent precrisis housing boom, FHA remained true to its underwriting standards, which led to a significant decline in market share as borrowers sought nontraditional loans elsewhere. Private market products such as teaser rates, hybrid adjustable rate mortgages, and negative amortization were often used to qualify borrowers who would be ineligible under traditional underwriting practices. These nontraditional mortgages, with their higher costs and higher-risk qualifying advantages, disproportionately went to minorities and low-income borrowers and clearly were not designed for sustainable homeownership.<sup>46</sup>

In 2008 and 2009, as access to credit and housing finance became more difficult

and the housing crisis worsened, mainstream financial lenders failed to serve low-income borrowers; families with weaker credit histories were increasingly rejected for mortgage credit or approved for loans with high interest rates. When private capital fled the market and credit tightened (figure 2), HUD Housing Finance Analysis Division economist John Comeau explains, “FHA filled the void to allow homeowners to access capital and keep housing markets in highly stressed areas from completely shutting down.” FHA’s market share, which represented only 4.5 percent of all home purchase loans in 2005 and 2006, rose to 32.6 percent by 2009.<sup>47</sup>

FHA makes a critical difference by insuring mortgages for homebuyers, thereby protecting lenders and investors from loss. Because of these safeguards, first-time homebuyers and underserved groups have better access to sustainable loans.

## Preparation for Homeownership

Housing counseling is another approach to affordable, sustainable homeownership. By providing good information and guidance, housing counseling combats the unfamiliarity with homebuying and homeowning processes that make many low-income and minority borrowers vulnerable to predatory lending practices and unprepared for homeownership. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires lenders to distribute a list of HUD-approved counseling providers to consumers, specifies the scope of homeownership counseling as “the entire process of homeownership, including the decision to purchase a home, the selection and purchase of a home, issues arising during or affect-

consumers find, finance, maintain, rent, or own a home. HUD-approved counseling agencies also help families manage money and evaluate their readiness for a home purchase. Moulton et al. recently investigated the perceptions that first-time, low-income homebuyers have about their ability to assume mortgage debt. Nearly one-fourth of the study participants underestimated their own debt-to-income constraints, a perception associated with taking on more mortgage debt than they might if their estimates were accurate. This finding suggests that borrowers could benefit from a better understanding of their personal financial situation.<sup>49</sup> These researchers also found that perceptions drive participation in counseling; borrowers who overestimate their debt are more likely to get

Counseling for homeowners on home maintenance or financial management also grew by 22 percent in 2007, reflecting the economic downturn and housing crisis. The total number receiving housing counseling in 2007 reached 1.7 million.<sup>50</sup> HUD’s and Treasury’s latest *Housing Scorecard* report indicates that 8.5 million borrowers have met with HUD-approved housing counselors since April 2009.<sup>51</sup>

Two studies commissioned by HUD were released in early 2012 on the outcomes of counseling — on prepurchase counseling and on foreclosure counseling. One important role of prepurchase counseling is to identify potential buyers who are not yet ready for homeownership and advise them on how to lower their risk of default before they apply for a mortgage. The results of the first research study found that within 18 months of seeking homebuyer assistance, help with down payment or closing costs, or eligibility for a specific loan program, 35 percent of study participants had become homeowners. The second investigation reviewed the experiences of a group of homeowners who received foreclosure mitigation services in 2009. These homeowners were more likely than U.S. homeowners in general to be members of a racial or ethnic minority, have below-average annual incomes, and have fallen behind on their mortgages because of a loss of income; few had savings to cover missed payments. Most had contacted their lender when they first fell behind on mortgage payments but were unsuccessful in negotiating remedies. With counseling, 69 percent obtained a mortgage remedy and 56 percent were able to become current on their mortgages. Clients who sought help before becoming delinquent fared better than those who got help after falling six months or more behind on payments.<sup>52</sup> “These studies,” explains Marina L. Myhre, social science analyst in HUD’s Office of Policy Development and Research, “don’t represent all prepurchase or foreclosure counseling clients, of course, but the alignment of

## Housing counseling plays an important role in helping families achieve and sustain homeownership.

ing the period of ownership of a home (including refinancing, default and foreclosure, and other financial decisions), and the sale or other disposition of a home.”<sup>48</sup>

Since 1968, HUD has provided grants to nearly 500 local, regional, and national organizations for housing counseling programs that help

financial counseling than those who are overconfident about their ability to repay debt (and most in need of counseling).

When clients decide to purchase a home, counselors assist borrowers in navigating the homebuying process, reviewing the loan documentation to avoid mortgage fraud, high interest rates, inflated appraisals, unaffordable repayment terms, and other conditions that lead to loss of equity, increased debt, default, and foreclosure. Foreclosure prevention counseling helps homeowners facing delinquency or default with expense reduction, negotiations with lenders and loan servicers, and loss mitigation. After 2005, the demand for counseling to help with mortgage delinquencies, refinancing, and reverse mortgages began to climb. Between fiscal years 2006 and 2007, the number of clients receiving foreclosure mitigation counseling increased by 55 percent.



Local nonprofits enroll homebuyers in required prepurchase education at an event held by Wells Fargo and NeighborWorks America in Twin Cities, Minnesota.



Housing Assistance Council

A volunteer contributes labor on a Southern Maryland Tri-county Community Action Committee Self-Help work day.

these findings with other housing counseling studies underscores the effectiveness of housing counseling and the important role it plays in helping families achieve and sustain homeownership.”<sup>53</sup>

## Safeguards for Borrowers and Lenders

These efforts to facilitate entry, affordability, and success for first time, low-income, and minority homeowners are presently being weighed in light of protecting the recovery and future health of the housing market and the economy.

Ordinarily, the secondary mortgage market has routed funds to borrowers by facilitating the resale of mortgages and mortgage-backed securities to purchasers such as Fannie Mae, Freddie Mac, and other financial institutions and investor conduits, creating market liquidity.<sup>54</sup> In the aftermath of the housing crisis, investors have remained cautious and private capital has been slow to return to the mortgage market. Although FHA, Fannie Mae, Freddie Mac, and Ginnie Mae currently back more than 90 percent of new mortgages

and therefore have mitigated some of the stress in the mortgage market, HUD Secretary Shaun Donovan explained that this rate is “far higher than we would like in normal times.”<sup>55</sup>

In deciding how to reform and regulate the housing finance system, policymakers seek a balanced approach that makes homeownership possible without putting either borrowers or lenders at undue risk of failure. Ongoing discussions seek the appropriate form of government involvement in providing federal mortgage insurance, regulatory oversight, and protection from discrimination that is essential to maintain confidence in the market, as well as to safeguard lending to low-income and minority borrowers.<sup>56</sup> Many stakeholders in these reforms have voiced opinions about how the new housing finance system should work and what it should accomplish. The Center for American Progress has collected, analyzed, and posted 21 recommended reform plans from different interested parties on its website for reference and comparison. The Center’s analysis suggests that most plans have at least three objectives: a government guarantee

that is clear and limited in its scope, a larger role for private capital, and good government oversight.<sup>57</sup>

## What Lies Ahead?

Although early signs of a housing recovery are present, that recovery is significantly constrained by a backlog of foreclosures and vacant units held off the market, an overall loss of housing wealth, unemployment, restricted lending to those without high credit scores, minimal capital for a secondary mortgage market, and precarious family finances. The return of private capital and liquidity to the secondary mortgage market is a high priority. “A key lesson from this crisis,” states Secretary Donovan, “is that decisions made in the secondary market very clearly drive lending practices in the primary market — and the potential for disparate impact in the availability and quality of mortgages in underserved communities is very real.”<sup>58</sup> Because the housing market remains fragile, it will take time and thought to develop reforms that provide access to mortgages for creditworthy low-income and minority families while also reducing risk and increasing protection for consumers, investors, and taxpayers. These outcomes are vital to sustainable homeownership for millions of Americans and are central to the overall health of the economy. **EM**

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# Individual Development Accounts: a Vehicle for Low-Income Asset Building and Homeownership

Individual Development Accounts (IDAs) emerged in the United States in the 1990s as an asset-building strategy. Although IDA programs vary in design, they all provide matching funds to low-income recipients to promote savings that can be spent later on eligible uses such as higher education, microenterprise, and homeownership. The goal of these programs is to help low-income families save money that they can invest in high-return, long-term assets.

Recent research provides important insight into the success of IDAs as a vehicle for promoting both asset-building and low-income homeownership. As noted in the previous article, homeownership has been a primary means for low-income Americans to build wealth and has been shown to yield positive social outcomes. Evidence suggests that IDAs, when paired with counseling, may promote more sustainable low-income homeownership. This article explores the history of and research underpinning IDAs, both in general and in the homeownership context.

## IDAs: History and Implementation

IDAs were first proposed by sociologist Michael Sherraden in his 1991 book *Assets and the Poor: A New American Welfare Policy*. In his book, Sherraden states, “Unlike traditional welfare programs, IDA accounts would introduce real assets into the lives of many poor people who would otherwise be without them. IDAs would be a different

- Asset-building strategies, such as Individual Development Accounts, enable low-income persons to save and invest in long-term assets with return potential.
- Studies show that participants in Individual Development Accounts experience positive outcomes, such as accelerating the move to homeownership, obtaining safe mortgages, succeeding as homeowners, and avoiding foreclosure.

approach to welfare policy, an approach that emphasizes individual development and combines social provision with individual responsibility and individual control. IDAs would enable the poor to bring their own cards to the table and make their own deal.”<sup>1</sup> They would also promote longer planning horizons and other positive behaviors.<sup>2</sup>

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which significantly reformed welfare, included IDAs as an eligible use

of federal funds. Later, the 1998 Assets for Independence Act authorized the U.S. Department of Health and Human Services (HHS) to provide nonprofit organizations with grants to implement IDA programs in partnership with community development financial institutions, eligible credit unions, and local, state, or tribal governments.<sup>3</sup> These projects have yielded critical research about IDA program design, user demographics, and results. HHS funding also spurred a significant expansion in U.S. IDA programs; more than 200 organizations run Assets for Independence



Research suggests that IDA participants are more likely to become homebuyers and tend to be more successful homeowners.

projects, with the greatest number in California (22), Pennsylvania (11), Texas (10), Ohio (9), and Florida (9).<sup>4</sup> In all, more than 600 IDA programs are active nationally, according to the Corporation for Enterprise Development.<sup>5</sup> In addition to Assets for Independence, other major IDA funders include HHS's Temporary Assistance for Needy Families program and the agency's Office of Refugee Resettlement, Federal Home Loan Banks, philanthropies, and local corporations and financial institutions.<sup>6</sup>

Because so many entities sponsor them, IDA programs show significant variation in design characteristics and eligibility requirements. However, most programs share certain key characteristics. Eligibility is typically limited to those whose annual household incomes fall below a certain threshold (often 200 percent of the federal poverty level), and may also require limited net worth and a good credit history.<sup>7</sup> Participants are usually enrolled in a program for a period of one to five years, and saved earnings, when withdrawn for eligible uses, are matched at rates that can range from 1:1 (the most common) to as high as 6 matched dollars for every dollar saved. Some programs cap annual and lifetime matches. Matched savings can typically be used to pay for higher education, start a small business, or buy a home, and some programs also allow participants to use matched savings for retirement, home repairs, or work-related car or computer purchases.<sup>8</sup> In addition to matching savings, programs also provide general financial counseling, and many offer additional training tailored to the participants' planned use.

## Key Findings on IDAs

Important findings on IDAs have emerged from evaluations of the Assets for Independence Act and the projects it has funded. The formal impact study of the act examined a 3-year longitudinal sample of 485 participants from IDA programs around the country, compared using propensity score matching with a nonparticipant sample constructed from the U.S. Census

Bureau's Survey of Income and Program Participation.<sup>9</sup> The average IDA participant in the study saved \$935 after 3 years in the program, a net savings rate of 1.2 percent of their earnings. Although participants made more unmatched withdrawals (withdrawals for ineligible uses) than matched ones in the first two years, by the end of the third year, the total average of matched withdrawals exceeded unmatched withdrawals and 31 percent of participants had made at least one matched withdrawal.<sup>10</sup> The study revealed several statistically significant effects on the three major forms of asset ownership: IDA participants were 35 percent more likely to be homeowners, 84 percent more likely to own businesses, and 95 percent more likely to pursue postsecondary education than nonparticipants. However, the program did not have a statistically significant effect on monthly earnings, overall financial assets, home equity, or

person.<sup>13</sup> The outcomes of this group of 2,378 participants have been studied extensively and continue to inform the evolution of IDA program design.

Research into IDA savings patterns among the ADD participants revealed an important link between income level and savings rates; although average monthly net deposits into IDAs increased with growth in household income, the rate of saving declined substantially, especially for those at higher income levels.<sup>14</sup> To gain further insight into this inverse relationship between income and IDA savings rate, Sherraden et al. examined program characteristics that might affect savings. Higher monthly match caps — which can be viewed as savings targets — yielded greater savings and fewer unmatched withdrawals.<sup>15</sup> Financial education was also associated with increased IDA contributions, but only for the first 12

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## Asset ownership increases opportunities to buy a home, own a business, and pursue further education.

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consumer debt — partly because of the short duration of the study.<sup>11</sup>

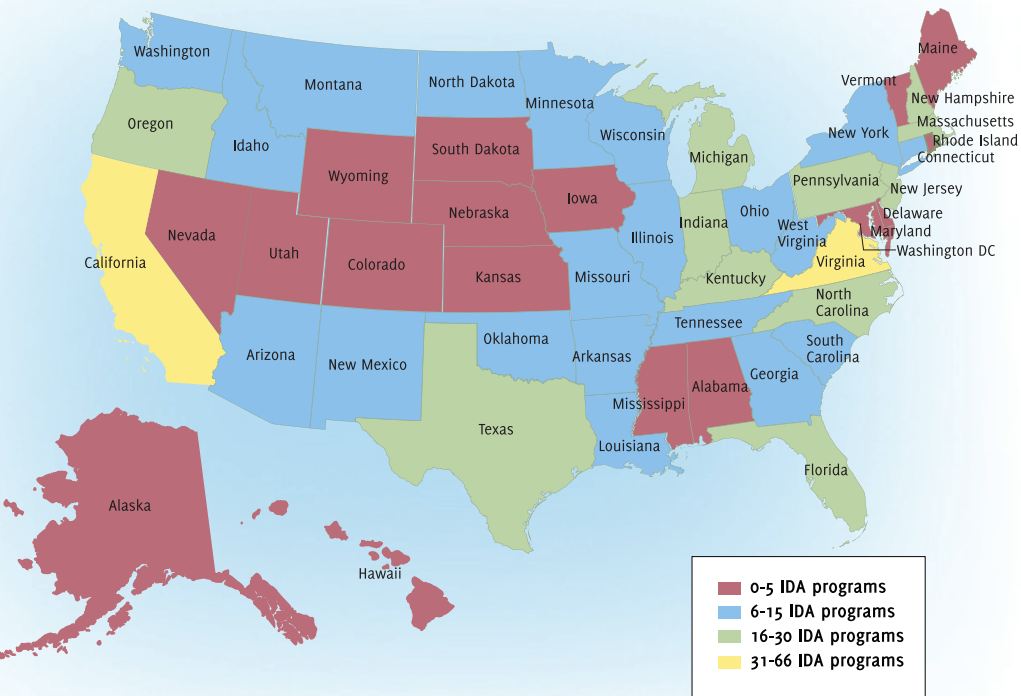
Another critical source of evidence on the effects of IDAs has been the American Dream Demonstration (ADD). Coordinated and funded by the Corporation for Enterprise Development and its philanthropic partners, ADD was composed of 14 program sites nationwide that offered IDAs, each of which was managed by different entities and employed varying program designs and guidelines.<sup>12</sup> ADD targeted the working poor, and as with the programs funded by Assets for Independence, its participants were more likely to be female, African American, and single and never married than the low-income population overall. ADD participants were also significantly more educated and more likely to be employed full- or part-time than the average low-income

hours of education.<sup>16</sup> In contrast, savings match rates were not associated with increased savings; though this seems surprising, it is consistent with evidence from 401(k) plans, another form of matched savings.<sup>17</sup> The authors also note that the data suggest that IDA program design may affect comparatively poorer participants more strongly.<sup>18</sup>

Researchers have also analyzed data from ADD to better understand other IDA outcomes. Key findings include the following:

- Prior banking experience is correlated with various positive IDA results; ADD participants who previously used banks made greater average monthly deposits, deposited more frequently, and had much lower odds of dropping out than participants without banking experience.<sup>19</sup>

## Number of IDA Programs by State



Source: "Find an IDA Program Near You," The Corporation for Enterprise Development website ([cfed.org/programs/idas/directory\\_search/](http://cfed.org/programs/idas/directory_search/)). Accessed 19 November 2012.

- ADD participants who had higher education levels, existing assets, and no debt were less likely to drop out of the program. Program design also mattered; programs with higher match rates and longer programs had lower drop-out rates, and participants who took advantage of direct deposit were also less likely to drop out.<sup>20</sup>
- Preliminary research into the long-term effects of IDA participation at the Community Action Project of Tulsa County ADD site suggests that, 10 years after the program began, IDA participation had significant positive impacts on education and home maintenance but not on homeownership, microenterprise, or retirement savings.<sup>21</sup>

But with research on the ADD and other IDA programs, methodology challenges must be considered. Researchers consistently caution that program participants are often recruited by sponsoring organizations and affirmatively choose to participate in an IDA program, which increase the likelihood of consistent

differences between program participants and the low-income population as a whole. Although some of this variation in personal characteristics is observable and can be accounted for in statistical analysis, differences in motivation or other unobservable factors may skew results, even in experimental evaluations that randomly assign applicants to either an IDA treatment group or a control group. In addition, many IDA evaluations rely on comparison groups built using data rather than through random sampling; this quasi-experimental design also increases the likelihood of systematic differences between program participants and the low-income population overall.

### IDs and Homeownership

While many articles examining IDs focus on overall asset-building results, another vein of IDA research has delved into the effects of these programs on specific savings goals, including homeownership. The challenges confronting low-income Americans seeking homeownership opportunities are described throughout this issue of *Evidence Matters*.

Homeownership is associated with a variety of improved outcomes, but it also carries substantial risks, especially for low-income households. As University of Southern California economists Raphael Bostic and Kwan Ok Lee explain, "The current housing environment... is one in which lower-income households can find themselves quite vulnerable to homeownership failure. Our finding that foreclosure rates are elevated in lower-income communities, holding other factors equal, supports the notion that these elevated risks have come to fruition."<sup>22</sup> In their research, Bostic and Lee discover that low-income households who were able to make higher down payments and build equity early derived greater financial benefits from homeownership. They conclude that "[a] clear dimension to be explored is increasing lower-income households' savings rates. Higher savings would permit these households to make larger down payments, and we have shown that the risks of homeownership difficulties and foreclosure are significantly reduced if homeowners can acquire equity early in their ownership tenure."<sup>23</sup> Research into the outcomes of IDs used to purchase homes supports the argument that increased savings can yield more sustainable low-income homeownership.

Homeownership is a key driver of IDA participation and the most popular savings goal in programs where matching funds can be used to buy a home.<sup>24</sup> This finding may be related in part to IDA program design, because matching rates are often higher for homeownership or microenterprise goals than for higher education or other uses.<sup>25</sup> In addition to the matched savings, IDA programs typically offer prepurchase homeownership counseling and guidance in (and sometimes direct oversight of) mortgage product selection.<sup>26</sup> Although buying a home is the most common use of IDs, Schreiner and Sherraden's review of ADD finds that this goal is also associated with failure to complete IDA programs: "About one-half of IDA participants in ADD planned to save



Buying a home is the most popular eligible use for IDA matching funds.

for home purchase, and they are much more likely to drop out than those planning for other matched uses.”<sup>27</sup> The authors attribute this difference to two factors: that among program participants, renters are likely worse savers than those who are homeowners, and that the process for purchasing a home is more difficult and expensive than that for other potential uses making participants more likely to become discouraged and drop out.<sup>28</sup>

Although purchasing a home remains challenging for low-income households even when they are enrolled in IDAs, studies show that renters participating in IDA programs were likely to become homeowners more quickly than nonparticipants were. The Tulsa ADD program site structured its IDA program as a randomized experiment, and the outcomes at this site have been heavily analyzed. Grinstein-Weiss et al. examined Tulsa renters belonging to the IDA participant group and control group at four periods: at the start of the program; 18 months into the program; at 4 years, when the program concluded; and 10 years after the start of the program. The treatment group received financial education and case management services in addition to

matched savings, whereas the control group did not have access to matched savings but could seek out homeownership counseling from other providers in the area.<sup>29</sup> The researchers found that, at 4 years, the “odds of being a homeowner were 75 percent higher for the treatment group than for the control group,” controlling for demographic and financial variation.<sup>30</sup> In addition, clearing old debts appeared to be a critical step on the road to homeownership; 32 percent of IDA participants who had reported clearing old debts at 18 months were homeowners after 4 years compared with 15 percent of IDA participants who did not clear debts and 9.6 percent of non-IDA participants who did not report clearing their debts.<sup>31</sup>

However, recent preliminary research by Grinstein-Weiss and others into long-term followup results has revealed considerably weaker effects of IDA participation on homeownership. Ten years after the program began, both treatment and control groups had experienced large growth in homeownership, and among the full group no statistically significant effect of IDA participation was evident. Thus, IDA participation may only have accelerated

rather than increased homeownership among program participants. However, “for the subgroup of people with above-sample median annual incomes at baseline (about \$15,500 per year), assignment to the treatment group significantly increased the homeownership rate and duration of homeownership.”<sup>32</sup> The authors suggest that this finding could support targeting IDA programs with a homeownership component to those on the higher end of income eligibility. The authors also acknowledge that the relative ease of low-income home purchase between 1998 and 2007, the comparatively low housing costs in Tulsa during this time, and the availability of alternative homeownership assistance for the control group may have dulled the long-term effects of IDA participation on homeownership in the experiment.<sup>33</sup>

Research suggests that IDA participants not only are likely to become homebuyers earlier than other low-income persons but also tend to be more successful homeowners. Rademacher et al.’s 2010 article “Weathering the Storm: Have IDAs Helped Low-Income Homebuyers Avoid Foreclosure?” examines the outcomes of 831 homebuyers from 6 IDA programs between 1999 and 2007,



testing various homeownership measures against a comparison group constructed with Home Mortgage Disclosure Act (HMDA) and other mortgage performance data sources.<sup>34</sup> The researchers found that minorities and women composed a much higher proportion of homebuyers in the IDA sample than in their comparison sample of low-income homebuyers: “The proportion of African American homebuyers in the IDA sample is more than three times higher than in the HMDA sample, and for Hispanic homebuyers, the proportion is 1.5 times higher. Similarly, 73.5 percent of the IDA homebuyers are female compared with 44.6 percent of the HMDA sample.”<sup>35</sup> Women and minorities were much more likely to receive subprime mortgages during the period of this study. IDA homebuyers in the treatment group, however, received government-insured loans and avoided subprime and high-interest loans in much higher proportions than did their non-IDA counterparts, likely because of their access to counseling and ongoing mortgage product monitoring as well as their ability to make higher down payments than most low-income homebuyers could.<sup>36</sup>

Perhaps Rademacher et al.’s most important finding was that IDA program participants experienced foreclosure in much smaller numbers: “Among our sample of IDA homebuyers...3.1 percent (or 25 out of 803 homes) entered foreclosure by April 2009. This foreclosure rate is less than one-half to one-third of the foreclosure rates for the comparison samples.”<sup>37</sup> As of 2009, 93 percent of program participants had successfully retained their homes without demonstrating any difficulty in making their mortgage payments.<sup>38</sup> Despite its quasi-experimental design, IDA participants in Rademacher et al.’s report do not represent a random sample of the national low-income population because both the treatment and control groups took the initiative to apply to the program, creating self-selection bias. Further, the study

cannot determine precisely which aspects of IDA program design — the increased savings, the counseling, or the help with selecting an appropriate loan product — contributed most to these positive outcomes. Nevertheless, the authors conclude that “[s]tudy findings are consistent with the hypothesis that the services and features of IDA programs...help low-income populations obtain affordable mortgages and experience successful and sustainable homeownership outcomes.”<sup>39</sup>

### HUD’s Family Self-Sufficiency Demonstration

As research continues to inform IDA policy, successes learned from IDA evaluations are being applied to other initiatives targeting low-income individuals when possible. HUD’s Family Self-Sufficiency (FSS) program is just one example of a program that draws from IDA asset-building strategies. The FSS program helps low-income families

may use their savings however they wish; however, they are encouraged to put their money toward asset-building activities. Researchers in HUD’s Office of Policy Development and Research recently assessed outcomes for a group of FSS participants from 2005 to 2009 and found that after 4 years, 24 percent had graduated from the program and received their escrow funds, with which 4 families had purchased a home. Participants achieved meaningful savings in a relatively short period, with graduates averaging \$5,300 in escrow by the time they completed the program. Graduates also made significant strides in annual household income, increasing from an average of \$19,902 during their first year to \$33,390 in the year they completed the FSS program.<sup>42</sup>

More research on the efficacy of the FSS program is in development. HUD has funded two studies of the program to date, but neither one shows how well

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## IDA programs help low-income buyers obtain affordable mortgages and experience successful homeownership.

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who receive housing vouchers build the assets needed to achieve economic self-sufficiency.<sup>40,41</sup> FSS participants meet with case managers who provide training in financial literacy and referrals to supportive services such as child-care and education programs. Each participant receives an escrow account managed by the public housing agency. Rent normally increases as the family’s income rises, but in the FSS program, credits based on increased income are deposited into the family’s escrow account; this savings incentive serves as the equivalent of the matched savings in IDA programs. Graduates from the program receive the total amount banked plus interest.

Unlike participants in traditional IDA programs, graduates of the FSS program

families would have done in the absence of the program. The third study, the Family Self-Sufficiency Program Demonstration, will evaluate whether the benefits that FSS participants enjoy (such as increased income and savings, educational attainment, and economic improvement) can be attributed with certainty to the program’s design or to inherent characteristics of the participating families.

### Next Steps

IDAs remain a comparatively new policy innovation, and research will continue to shape the development of program guidelines and targeting of services. And this research is by no means limited to the United States; case studies on national IDA programs in both developing and developed countries are

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## Further research will help to shape and refine IDA initiatives, which are a relatively new policy innovation.

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yielding important findings. One key dimension of this ongoing research is the need to clearly determine which components of IDA interventions most drive improved outcomes for participants. For example, as mentioned previously, research from the ADD shows that financial education correlates with greater savings for the first 12 hours, but because IDA programs consistently require financial education, little evidence exists as to whether IDA programs without a financial education component would succeed at all.<sup>43</sup> Such research can help future IDA initiatives create more efficient program designs that tailor to the needs of specific populations.

Even as evidence refines future IDA efforts, certain challenges are likely to persist. The Assets for Independence Act process study notes a number of ongoing issues, and while several are related to program participants — such as attracting sufficient participants and helping participants set reasonable goals — many are tied to funding. These financial challenges include “navigating the regulations of diverse funding sources and requirements; raising non-federal funds; [and] coping with limited funds for administrative costs.”<sup>44</sup>

IDAs remain expensive, and not just because of the need to match participant savings. In 2005, IDAs cost about \$64 per participant each month to administer, including “recruitment, financial education, monitoring deposits and withdrawals, and providing other high-tech services.”<sup>45</sup> And because IDA programs remain relatively small, they often do not achieve economies of scale.<sup>46</sup> Ongoing expansions of IDA programs, technical advances, and the efforts of organizations such as the Corporation for Enterprise Development to share best practices have likely helped

to lower administrative costs, but obtaining sustainable funding streams that do not rely overly on a single source, such as a federal grant, will remain a critical challenge.

With demonstrated success at bolstering rates of higher education, microenterprise, and successful homeownership, IDAs are poised to become an increasingly important approach to supporting wealth-building among low-income Americans. **EM**

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<sup>1</sup> Michael Sherraden. 1991. *Assets and the Poor: A New American Welfare Policy*. Armonk, NY: M.E. Sharpe, 231.

<sup>2</sup> Donna DeMarco, Gregory Mills, and Michelle Ciurea. 2008. “Assets for Independence Act Evaluation, Process Study: Final Report,” U.S. Department of Health and Human Services, 2–3.

<sup>3</sup> “Assets for Independence Program Summary,” U.S. Department of Health and Human Services website ([www.acf.hhs.gov/programs/ocs/resource/assets-for-independence-program-summary](http://www.acf.hhs.gov/programs/ocs/resource/assets-for-independence-program-summary)). Accessed 5 November 2012.

<sup>4</sup> “AFI Grantees,” Assets for Independence Resource Center website ([idaresources.org/afigrantees](http://idaresources.org/afigrantees)). Accessed 5 November 2012.

<sup>5</sup> “IDA Directory,” Corporation for Enterprise Development website ([cfed.org/programs/idas/directory\\_search/](http://cfed.org/programs/idas/directory_search/)). Accessed 5 November 2012.

<sup>6</sup> DeMarco, Mills, and Ciurea, 3.

<sup>7</sup> Corporation for Enterprise Development. 2009. “Individual Development Accounts (IDAs).”

<sup>8</sup> Ibid.

<sup>9</sup> Gregory Mills, Ken Lam, Donna DeMarco, Christopher Rodger, and Bulbul Kaul. 2008. “Assets for Independence Act Evaluation, Impact Study: Final Report,” U.S. Department of Health and Human Services, iv.

<sup>10</sup> Ibid., v.

<sup>11</sup> Ibid., vi–vii.

<sup>12</sup> Michal Grinstein-Weiss, Michael Sherraden, William M. Rohe, William Gale, Mark Schreiner, and Clinton Key. 2012. “Long-Term Follow-up of Individual Development Accounts: Evidence From the ADD Experiment,” v.

<sup>13</sup> Michael Sherraden, Mark Schreiner, and Sondra Beverly. 2003. “Income, Institutions, and Saving Performance in Individual Development Accounts,” *Economic Development Quarterly* 17:95, 99–100.

<sup>14</sup> Ibid., 104.

<sup>15</sup> Ibid., 106.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid., 104, 107.

<sup>18</sup> Ibid., 108.

<sup>19</sup> Michal Grinstein-Weiss, Yeong H. Yeo, Mathieu R. Despard, Adriance M. Casalotti, and Min Zhan. 2010.

“Does Prior Banking Experience Matter? Difference of the Banked and Unbanked in Individual Development Accounts,” *Journal of Family and Economic Issues* 31:2, 220.

<sup>20</sup> Mark Schreiner and Michal Sherraden. 2005. “Drop-Out From Individual Development Accounts: Prediction and Prevention,” *Financial Services Review* 14:4, 48.

<sup>21</sup> Grinstein-Weiss, Sherraden et al., vi.

<sup>22</sup> Raphael Bostic and Kwan Ok Lee. 2009. “Homeownership: America’s Dream?” In Rebecca Blank and Michael Barr, eds., 2009. *Insufficient Funds: Savings, Assets, Credit, and Banking Among Low-Income Households*, New York: Russell Sage Foundation, 244.

<sup>23</sup> Ibid., 246.

<sup>24</sup> Ray Boshara. 2005. “Individual Development Accounts: Policies To Build Savings and Assets for the Poor.” *Brookings Institution Policy Brief: Welfare Reform and Beyond* 32, 6.

<sup>25</sup> Roslyn Russell. 2008. “Saver Plus: More Than Saving — A Brief Comparison With International Programs,” Melbourne, Australia: RMIT University, 3.

<sup>26</sup> Ida Rademacher, Kasey Wiedrich, Signe-Mary McKernan, Caroline Ratcliffe, and Megan Gallagher. 2010. “Weathering the Storm: Have IDAs Helped Low-Income Homebuyers Avoid Foreclosure?” Washington, DC: Urban Institute, 1.

<sup>27</sup> Shreiner and Sherraden, 43.

<sup>28</sup> Ibid.

<sup>29</sup> Michal Grinstein-Weiss, Jung-Sook Lee, Johanna K. P. Greeson, Chang-Keun Han, Yeong H. Yeo, and Kate Irish. 2008. “Fostering Low-Income Homeownership Through Individual Development Accounts: A Longitudinal, Randomized Experiment,” *Housing Policy Debate* 19:4, 720–21.

<sup>30</sup> Ibid., 726.

<sup>31</sup> Ibid., 729.

<sup>32</sup> Grinstein-Weiss, Sherraden et al., 46.

<sup>33</sup> Ibid., 22–3.

<sup>34</sup> Rademacher et al., 2.

<sup>35</sup> Ibid., 10.

<sup>36</sup> Ibid., 11–2.

<sup>37</sup> Ibid., 12.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid., 14.

<sup>40</sup> Christopher E. Herbert and Winnie Tsen. 2005. “The Potential of Downpayment Assistance for Increasing Homeownership Among Minority and Low-Income Households,” U.S. Department of Housing and Urban Development, Office of Policy Development and Research.

<sup>41</sup> U.S. Department of Housing and Urban Development, Community Planning and Development. 2008. “Use of Community Development Block Grant (CDBG) Program Funds in Support of Housing,” Notice CPD-07-08.

<sup>42</sup> Lalith de Silva and Imesh Wijewardena. 2011. “Evaluation of the Family Self-Sufficiency Program,” U.S. Department of Housing and Urban Development, Office of Policy Development and Research. Also see *Evaluation of the Family Self-Sufficiency Program: Retrospective Analysis, 1996 to 2000*.

<sup>43</sup> Margaret Clancy, Michal Grinstein-Weiss, and Mark Schreiner. 2001. “Financial Education and Savings Outcomes in Individual Development Accounts,” Working Paper HEW 0108001, EconWPA, 1, 7.

<sup>44</sup> DeMarco, Mills, and Ciurea, iv.

<sup>45</sup> Boshara, 4.

<sup>46</sup> Ibid.

# Shared Equity Models Offer Sustainable Homeownership

The social and economic benefits of stable homeownership, particularly the potential for wealth-building among low- and moderate-income families, are well documented.<sup>1</sup> Homeownership continues to be out of reach for many of these households, however, particularly in the wake of the economic crisis. (See “Paths to Homeownership for Low-Income and Minority Households,” p. 1.) Although home prices have fallen in many localities and interest rates are at record-low levels, stringent lending standards and significant drops in household incomes have prevented many interested low-income buyers from becoming homeowners. The Center for Housing Policy reports that from 2008 to 2010, renters earning no more than 120 percent of the area median income saw their household incomes decrease by 4 percent even as housing costs went up 4 percent. As a result, the number of severely cost-burdened renter households — those paying more than half of their income towards housing costs — rose by 2.8 percent during this period.<sup>2</sup> Meanwhile, the foreclosure crisis has heightened awareness of the risks of homeownership for low-income and minority families and the need for solutions that help attain as well as sustain homeownership. Faced with these challenges, a growing number of communities are turning to shared equity homeownership.

## An Alternative Homeownership Option

Shared equity homeownership offers an alternative option to renting and traditional homeownership. The term refers to an array of programs that create long-term, affordable homeownership opportunities by imposing restrictions

## Highlights

- Shared equity homeownership programs facilitate broader access to affordable, low-risk homeownership opportunities for low-income families.
- One Roof Community Land Trust fills the need for quality, affordable housing and provides pre- and postpurchase support for homebuyers in Duluth, Minnesota and surrounding areas.
- San Francisco’s Below Market Rate Ownership Program balances wealth creation for existing owners of deed-restricted housing units with preservation of affordability for future buyers.

on the resale of subsidized housing units. Typically, a nonprofit or government entity provides a subsidy to lower the purchase price of a housing unit, making it affordable to a low-income buyer. This subsidy can be explicit, in the form of direct financial assistance, or implicit, in the form of developer incentives for inclusionary housing. In return for the subsidy, the buyer agrees

most widely implemented subsidy retention programs include community land trusts (CLTs), deed-restricted housing programs, and limited equity housing cooperatives.

- CLTs increase affordability by removing the cost of the land from the sale price of a home — homebuyers purchase the structure but lease the land from

## Shared equity programs help to preserve the long-term affordability of a home for future owners.

to share any home price appreciation at the time of resale with the entity providing the subsidy, which helps preserve affordability for subsequent homebuyers. Although several types of shared equity homeownership programs exist, Rick Jacobus, director of Cornerstone Partnership Initiative at NCB Capital Impact, and Jeffrey Lubell, executive director of the Center for Housing Policy, describe two basic approaches: shared appreciation loans and subsidy retention programs.<sup>3</sup> Shared appreciation loans are second mortgages provided by a public or nonprofit agency that buyers repay in full at the time of resale along with a percentage of home value appreciation. These funds are then reinvested to make homeownership affordable to another low-income buyer.<sup>4</sup> With the more common shared retention approach, resale price restrictions ensure that the subsidy remains with the home.<sup>5</sup> The

the CLT, which retains ownership. Resale price restrictions are built into the ground lease to maintain affordability for future income-eligible buyers. Currently, more than 250 CLTs are operating in 46 states and the District of Columbia.<sup>6</sup>

- In a deed-restricted housing program, resale restrictions are recorded with the property’s deed and generally remain valid for more than 30 years. Estimates place the number of deed-restricted housing units at between 100,000 and 300,000 nationwide.<sup>7</sup>
- Residents of limited equity housing cooperatives are shareholders; instead of a housing unit, buyers purchase a share of stock in the cooperative, which entitles them to occupy one housing unit, at a much lower price. Limits on the resale price of the

cooperative shares ensure affordability. The National Association of Housing Cooperatives estimates the number of limited- or zero-equity cooperative units at 425,000.<sup>8</sup>

The maximum resale prices for shared equity homes in these models are established using formulas based on the appraised value of a home at the time of resale, changes to the consumer price index, or increases in the area median income.



One Roof Community Housing was established by grassroots activists to provide affordable homeownership opportunities for residents of Duluth, Minnesota.

## Benefits of Shared Equity Housing

Although the different types of shared equity programs vary in structure, they are all distinguished by a common emphasis on owner occupancy, long-term or perpetual affordability, and equity sharing.<sup>9</sup> These defining features enable shared equity models to facilitate broader access to affordable homeownership for low-income families. “Equally important,” notes John Emmeus Davis, one of the nation’s leading authorities on shared equity housing, these alternative models preserve “this opportunity for the same class of people over a very long period of time, while preventing the loss of the public (and private) subsidies that made this housing

affordable in the first place.”<sup>10</sup> In markets where home prices are rising faster than household incomes and in gentrifying neighborhoods, shared equity mechanisms generate workforce housing that remains affordable over the long term, giving workers more local housing options while allowing communities to retain essential employees. For local governments dealing with large volumes of vacant and abandoned housing as a result of the foreclosure crisis, shared equity homeownership offers an avenue to transform vacant properties into permanently affordable housing and retain any public subsidies invested in them.

Shared equity programs also help reduce some of the risks associated with homeownership for low-income and minority households. As Jeffrey Lubell observes, “There are two main ways in which shared equity homeownership reduces risks. First, by buying homes at below-market prices, shared equity homebuyers are insulated to a significant extent from falling home values. It’s still possible to lose money on a shared equity home purchase, but it’s much more difficult since prices need to fall considerably before shared equity owners are forced to sell at a loss. Second, the purchase of a less expensive shared equity home may free up funds in some buyers’ budgets to invest in other asset classes, such as retirement savings, education savings, etc., improving the diversification of assets.”<sup>11</sup> At the same time, homeowners have the opportunity to build equity. An evaluation of seven shared equity homeownership programs conducted by the Urban Institute shows that, despite being subject to resale price restrictions, households in these programs earned significant returns on selling their homes. The study, which also analyzed outcomes related to affordability, security of tenure, and mobility for the programs, reveals lower delinquency and foreclosure rates among shared equity homeowners compared with owners of market-rate housing.<sup>12</sup> A separate study commissioned by the National Community Land Trust Network (CLT Network)

found that at the end of 2010, only 1.3 percent of CLT home loans were seriously delinquent compared with 8.6 percent of conventional market-rate home loans.<sup>13</sup>

Many of these benefits are illustrated in the following examples of two types of shared equity programs operating in localities with vastly different housing market conditions: a CLT serving northern Minnesota and a deed-restricted housing program that promotes affordable homeownership in San Francisco, California. The programs, both of which are included in the Urban Institute study, show that shared equity models can effectively promote long-term affordable homeownership opportunities in strong and weak housing markets.

## One Roof Community Housing

One of 10 CLTs in the state of Minnesota, the Northern Communities Land Trust (NCLT) was established in 1990 by grassroots activists to provide affordable homeownership opportunities for low- and moderate-income families in the city of Duluth and surrounding areas. In January 2012, NCLT merged with Neighborhood Housing Services of Duluth, an organization with a similar mission, to form One Roof Community Housing. As with most of the community land trusts in the nation, One Roof Community Housing is structured as a tax-exempt nonprofit, governed by a board of directors that is elected annually by its more than 500 members.<sup>14</sup> One of the distinguishing features of the CLT model is its tripartite governance structure, which balances the interests of multiple stakeholder groups. A typical CLT board includes equal representation from land trust leaseholders; community residents; and public officials, local leaders, or advocates who oversee the community’s interests.<sup>15</sup> One Roof’s 16-member board follows this classic structure; one-third of the organization’s board is composed of representatives from low-income neighborhoods, including four CLT homeowners.



The Olson family owns a One Roof Community Land Trust home and leases the ground beneath for a small monthly fee.

## A Path to Affordable Homeownership

One Roof Community Housing's operations are designed to meet the unique housing needs of the community it serves. At \$41,092, Duluth's median household income is nearly 30 percent lower than the state median. Over one-third of the residents pay more than 30 percent of their income towards mortgage expenses in the city, where the median home value of owner-occupied units is \$151,300.<sup>16</sup> "Duluth has really old housing stock and very low incomes, and while some would say there is plenty of affordable housing in town, it's challenging for low-income families when they have to spend a lot of their time and income updating the homes," notes Jeff Corey, One Roof's executive director.<sup>17</sup> To fill this need for quality affordable housing, the land trust builds and rehabilitates houses that it sells to families earning less than 80 percent of area median income (AMI) — the actual median household income of

the land trust's current homeowners is closer to 60 percent of AMI.

The land trust currently rehabilitates vacant, blighted properties that it acquires from county foreclosure sales, the National First Look Program, and other bank programs.<sup>18</sup> The rehabilitation work is done by One Roof's own construction company, Common Ground. "We had to do things differently, compared to places with high property values like Boston or Austin," says Corey. "We don't have much housing being built to scale like in some communities — there are few developers of owner-occupied housing and no general contractors that specialize in building affordable housing. We weren't able to get contractors to bid on our work, so we started building ourselves."

The renovated homes, all of which incorporate green building features, are sold to income-eligible buyers at prices 20 to 25 percent lower than appraised

value.<sup>19</sup> As with most CLTs, One Roof creates this subsidy by retaining ownership of land beneath the homes. Buyers enter into a 99-year ground lease and pay a small lease fee to the land trust every month. To keep the homes, which must be owner-occupied at all times, affordable to subsequent low-income buyers, One Roof employs a resale formula that is appraisal-based; homeowners receive 25 percent of any appreciation in appraised value of the property and 100 percent of investment in eligible capital improvements made to the home.

Except for the resale and occupancy restrictions, One Roof's homeowners enjoy many of the same rights and rewards as owners of market-rate homes, such as predictable mortgage payments, privacy, and an opportunity to accumulate wealth. Owners pay property taxes and are free to remodel or improve their CLT homes, which can eventually be passed on to heirs.<sup>20</sup> When the homeowner wants to sell the land trust home, they

have the option to choose One Roof as their real estate agent. The organization has its own realty company, a full brokerage through which it lists and sells land trust homes. Once again, a lower-priced housing market meant that One Roof needed to participate fully in the real estate industry. “Our price points aren’t so dramatically different from market rate that if we had sort of thumbed our nose at the realtor community, we could have put ads in the newspaper and had people come running. They are our colleagues and business partners, and working with them helps us meet our mission in the community,” notes Corey.

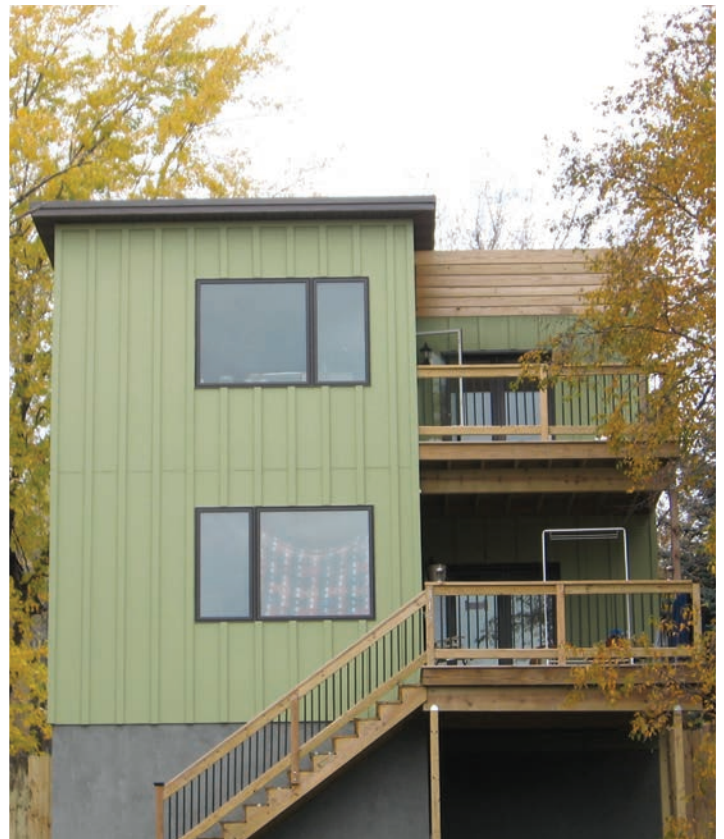
### Pre- and Postpurchase Support

Homebuyer education is essential to helping buyers become informed, successful homeowners. One Roof offers free one-on-one homebuyer counseling sessions and requires buyers applying for land trust homes to complete an eight-hour, HUD-certified homebuyer education class and attend

an orientation session about the community land trust program. Although it does not require applicants to get fixed-rate mortgages, the land trust does require mortgage preapproval from one of the four participating One Roof lenders and has the right to review and approve mortgages before purchase. Strict lending standards following the foreclosure crisis have left many land trust homebuyers unable to obtain a mortgage. A quarter of the CLTs that participated in a 2011 survey conducted in partnership with the CLT Network reported that buyers who qualified for their programs often were not able to purchase homes because they could not qualify for a mortgage. Nearly half of the respondents cited higher credit score and down payment requirements as the primary barriers to securing financing.<sup>21</sup> Building and maintaining partnerships with lending institutions is one way to ensure that CLT homebuyers are able to overcome this hurdle to achieving homeownership.

One Roof homebuyers are offered no-interest second mortgages to cover down payment and closing costs ranging from \$2,000 to \$6,000. An additional \$2,000 in employer-assisted funding is also available to buyers who work for two of the area’s medical centers as long as they purchase homes close to their place of employment.<sup>22</sup>

To help owners keep their homes in good condition, One Roof disseminates newsletters, offers free home maintenance classes, and operates a tool lending library. Community residents can borrow tools free of charge from the library to complete necessary repairs and other home improvement projects. In addition, the organization assists CLT homeowners unable to make their mortgage payments due to temporary setbacks, such as a medical emergency, by providing small, no-interest loans paid directly to the lender. Homeowners in default due to long-term financial hardships are referred to Lutheran Social Services



One Roof Community Land Trust acquires and rehabilitates vacant, blighted properties and sells the renovated houses to Duluth area families earning no more than 80 percent of the area median income.



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Common Ground, an award-winning, sustainable net zero energy project, is one of the five limited equity housing cooperatives developed by the Lopez Community Land Trust.

## A Hybrid Model

The Lopez Community Land Trust is one of few CLTs in the nation that combines a ground lease mechanism with the limited equity cooperative model of housing. Established in 1989, the land trust serves Lopez Island, Washington, a rural island community of about 2,200 year-round residents. The organization, structured as a tax-exempt nonprofit, acquires land and develops housing for island residents earning no more than 120 percent of the area median income. As with a typical CLT, the trust retains ownership of land to create and preserve affordability. The completed homes, however, are not sold to individual buyers but are instead conveyed to a limited equity housing cooperative. The cooperative owns the homes and leases

the underlying land from the trust for a period of 99 years. Income-qualified buyers sign a 99-year occupancy agreement with the cooperative that gives them the right to occupy the homes and become voting members of the cooperative.

According to Sandy Bishop, executive director of the land trust, this hybrid model allows the nonprofit to serve households who may not have the credit history needed to secure a mortgage. “We discovered that many of the people that we serve are very creditworthy, but they may have never used credit cards, so even if they paid all their bills and were hard workers, they would not meet banks’ lending requirements,” she explains. In limited equity cooperative housing, the cooperative holds both the title to the property and the mortgage; residents make monthly payments to the cooperative that equal their share of the mortgage, property taxes, and other maintenance fees. Tying the cooperative housing model to the CLT ground lease also protects the long-term affordability of the homes. Because residents control the cooperatives, there is an inherent risk that residents will choose to opt out of the affordability restrictions, but the land trust mitigates this risk by building the restrictions into both the ground lease and the occupancy agreement, ensuring lasting affordability. Members also benefit from the supportive services and stewardship provided by the trust, including first-time homebuyer classes, homeownership counseling, and training in cooperative governance. In addition, the land trust ensures that potential buyers meet income requirements and steps in when needed to mediate disputes for the cooperative. To date, the trust has developed 37 affordable housing units in 5 limited equity cooperatives.<sup>1</sup>

<sup>1</sup> Interview with Sandy Bishop, August 2012.

for foreclosure prevention counseling. This type of prepurchase support and ongoing stewardship “helps explain why owners of CLT homes rarely become delinquent,” says Emily Thaden, research and policy development manager for the CLT Network and author of the CLT foreclosure study. “Legal contracts for shared equity homeownership are not self-enforcing, and the challenges faced by lower income

households do not entirely disappear just because their home is affordable. CLTs know this, which is why they steward both their homes and homeowners on an ongoing basis.”<sup>23</sup>

Such long-term guardianship is expensive, however, and CLTs require large amounts of capital investment to build a housing portfolio. Most of One Roof’s capital funding comes

from HOME and Community Development Block Grant (CDBG) program funds awarded by local municipalities; other sources include the Minnesota State Housing Finance Agency and the Greater Minnesota Housing Fund. In addition, the organization generates substantial fee income, including lease fees, developer fees, and realty commissions, to finance its operations.

## A Viable Model

The Urban Institute's evaluation of One Roof (before the merger) found that the land trust has been successful at maintaining affordability and building wealth for its homeowners. Although the minimum income required to purchase a land trust home slightly increased, the homes remain affordable to most low-income households. One Roof's homeowners, on average, realized a 38.7 percent annualized rate of return on resale, and 95 percent of homeowners who purchased 5 years prior to the study period had retained their homeownership status. Furthermore, only 1.1 percent of CLT homes — nearly all of which were financed

have their own construction company, but I don't know any land trust that does all three," observes Corey. He stresses that CLTs operating in low-priced housing markets have to have a viable business plan and differentiate their product from what's on the market: "We have to be stronger than a typical nonprofit housing developer because we don't go away after the homes are built. We have a responsibility to maintain strong organizational capacity to carry out the stewardship role for our homes and homeowners going forward." With 228 units under its stewardship, the organization is presently working on expanding its geographic service area.<sup>26</sup>

set-aside requirement increases to 20 percent if the units are provided offsite or if developers elect to pay fees in lieu of providing affordable units. Through the Below Market program, the city makes the inclusionary units in for-sale developments available at below-market, affordable rates to first-time homebuyers earning no more than 100 percent of AMI.

More than 850 Below Market program units — most of them condominiums — are in the city's portfolio. These units are overseen by the Housing Office, which also administers the Residential Inclusionary Affordable Housing Program. The department posts information on below-market units available for purchase on its website and requires developers to advertise the units in at least five local newspapers that reach low- and moderate-income and minority households in the city.<sup>30</sup> As with One Roof Community Housing, income-eligible buyers are required to participate in a first-time homebuyer workshop conducted by designated housing counseling agencies. These agencies receive CDBG funds from the city to promote homeownership counseling and build capacity in minority communities. Buyers must finance their purchase through 15- to 40-year fixed-rate mortgages from approved lenders. Housing Office staff members review the mortgages to make sure that buyers are not subjected to predatory lending practices. For both new and resale units, buyers are chosen by public lottery from a pool of qualified applicants. The Housing Office offers prospective homeowners assistance with down payment and closing costs ranging from \$10,000 to \$36,000.<sup>31</sup> The funds are structured as shared appreciation loans to be repaid by the homeowner at the time of resale along with a certain percentage of the property's price appreciation; the amount of home value appreciation to be shared with the city depends on the portion of the original purchase price covered by the loan.

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## Low-income families realize stability, affordability, and less risky homeownership opportunities through shared equity models.

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with a 30-year, fixed-rate mortgage — were in the foreclosure process as of December 2009, compared with 4.4 percent of Duluth area homes.<sup>24</sup> A separate study prepared for the Lincoln Institute of Land Policy, in which authors compared the One Roof land trust program with another low-income housing program in Duluth, found that the trust employed a more efficient use of subsidies and preserved affordability for multiple generations of low-income buyers.<sup>25</sup> To date, One Roof has recycled more than \$3.25 million in subsidies, overseen 67 resales, and helped 295 low-income families attain homeownership; one-third to half of these families are comprised of single mothers with dependent children.

One Roof Community Housing is unique in the scope of its services, which are structured to reflect market conditions and the community's needs. "I think we are different in that very few land trusts do all of the things that we do. There are a couple of CLTs that have realtors on staff, quite a few act as developers, and there may be some that

### San Francisco Below Market Rate Ownership Program

In sharp contrast to One Roof Community Housing, San Francisco's Below Market Rate Ownership Program (Below Market program) assists households in one of the nation's most expensive housing markets with a median home value of \$785,191, more than four times the national median.<sup>27</sup> According to a study prepared for the San Francisco Mayor's Office of Housing (Housing Office), in 2011, only 7 percent of market-rate homes for sale in the city were affordable to households earning 80 percent of AMI.<sup>28</sup> Not surprisingly, San Francisco's homeownership rate of 37.5 percent is almost half the national homeownership rate.<sup>29</sup> Since 1992, the city has been adding affordable units to its housing stock through the Residential Inclusionary Affordable Housing Program. The program, which has been amended multiple times over the years, currently requires 15 percent of housing units in all developments of 5 or more units to be set aside for low- and median-income families. The





Steph Dewey with Reflex Imaging

Sale prices for the two- to three-bedroom, below-market units in the Millwheel South development in San Francisco's Dogpatch neighborhood range from about \$280,000 to \$350,000.

## Long-Term Affordability

To protect the long-term affordability of below-market units, resale restrictions are recorded with the property deed; purchasers sign a secondary deed of trust and related documents acknowledging the restrictions. Such restrictions or covenants are a widely used mechanism to preserve affordability. Hundreds of jurisdictions across the country employ deed restrictions to impose controls on affordable housing units produced through inclusionary zoning, and many CLTs use them in lieu of long-term ground leases, particularly

for condominium developments. Unlike a CLT ground lease, however, the length of the affordability period in deed-restricted housing programs can vary depending on state statutes. Some states specify a limit to the affordability period, while very few explicitly define or authorize perpetual affordability restrictions.<sup>32</sup> The restrictions placed on San Francisco's below-market units are applicable for the life of the project and survive foreclosure; for units that were created before June 2007, the restrictions apply for 50 years but restart every time a unit is sold.<sup>33</sup> The units, which must

be owner-occupied at all times, can be passed to heirs only if the heirs meet all of the program qualifications (income-eligible, first-time homebuyer). The Housing Office monitors compliance by requiring below-market owners to submit an annual occupancy certification and report any changes in ownership status. The office also reserves the right of first refusal to purchase below-market units listed for resale.

## A Balancing Act

In 2007, the city revised its homeownership program in response to changing market conditions. Previously, the resale price for below-market units was based on one of two formulas: changes to the consumer price index or a mortgage-based formula. The latter formula calculates the resale price by arriving at a mortgage payment that is affordable (defined as no more than 33 percent of gross income) to a household earning 100 percent of AMI. Along with a 10-percent down payment, the formula takes into account interest rates, taxes, homeowners association fees, and insurance costs at the time of resale. This formula "yielded perfect affordability," notes Myrna Melgar, who oversaw the changes to the Below Market program as the Housing Office's homeownership director during this time.<sup>34</sup> As interest rates began to rise in 2006, however, homeowners who had purchased their deed-restricted units when the rates were low found themselves having to sell at a loss. The city responded by changing the resale formula. "We made the decision to sacrifice perfect affordability to ensure more predictability for individual homeowners," explains Melgar. With the new formula, the resale price is calculated based on the changes to AMI, providing a more stable equity building opportunity for owners. Sellers receive the resale price excluding loans, closing costs, and any shared appreciation related to the city's down payment assistance. Sellers also get reimbursed for capital improvements made to homes 10 years or older, although this amount is capped at 7 percent of home's resale price.<sup>35</sup>

Melgar observes that the AMI formula may make below-market units more expensive over time, especially when interest rates are high. But given the city's strong housing market, the program still meets a need for affordable housing for moderate-income families. "A number of homeowners were able to build a nest egg and move on to market-rate homeownership, which is the program's goal," Melgar notes. The Urban Institute's evaluation of the Below Market program substantiates this conclusion based on an analysis of 771 sales and resales between 1999 and 2009. Study findings show that during this 10-year period, below-market units were purchased by first-time buyers with a median household income of about \$60,000 at a median price of nearly half the units' appraised value. Moreover, homeowners in the program were able to realize an annual rate of return of 11.3 percent on resale.<sup>36</sup>

San Francisco's ownership program is not without challenges, however, and chief among them is limited access to credit for many income-qualified households. Few lenders are willing to provide first mortgages for the below-market units. Buyers at the lower end of the income scale who do manage to secure a mortgage often face high homeowners association fees in some neighborhoods, which significantly decrease affordability. Another challenge involves the substantial amount of resources needed to reach out to and serve the city's high percentage of minority households. The Housing Office overcomes some of these problems by supporting a network of outside organizations. "The key is having good partners," notes Melgar. "The city does a good job of training lenders and title companies, funding counseling agencies, and including stakeholders in any policy decisions. All of that is important to keep the program healthy and productive."<sup>37</sup>

## A Way Forward

Shared equity homeownership continues to gain popularity as a viable alternative to traditional homeownership. Shared equity programs have proven successful at providing stable, affordable homeownership opportunities to low-income families who would otherwise be priced out of the housing market. At the same time, these programs ensure that public resources invested in affordable housing are maximized. Homeowners realize many of the same benefits offered by traditional homeownership, only with much lower risk. Inherent safeguards — such as mandatory homebuyer education and fixed-rate mortgage requirements — continuous monitoring, and other stewardship activities that are a part of shared equity models support a sustainable homeownership experience. Just as important, the One Roof CLT in Duluth and the Below Market program in San Francisco show that, regardless of market conditions, shared equity models that balance preservation of affordability with wealth creation have the potential to help lower-income households build equity and move up the housing ladder. **EM**

<sup>1</sup> Christopher E. Herbert and Eric S. Belsky. 2008. "The Homeownership Experience of Low-Income and Minority Households: A Review and Synthesis of the Literature," *Cityscape* 10:2, 7–10.

<sup>2</sup> Laura Williams. 2012. "An Annual Look at the Housing Affordability Challenges of America's Working Households," *Housing Landscape 2012*, Center for Housing Policy.

<sup>3</sup> Rick Jacobus and Jeffrey Lubell. 2007. "Preservation of Affordable Homeownership: A Continuum of Strategies," Center for Housing Policy, 6.

<sup>4</sup> Privately funded shared appreciation mortgages in which the shared equity is not reinvested to preserve long-term affordability of the housing are not categorized as shared equity homeownership. Jacobus and Lubell, 6; John Emmeus Davis. 2006. *Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing*, National Housing Institute, 5–6.

<sup>5</sup> Ryan Sherriff and Jeffrey Lubell. 2009. "What's in a Name? Clarifying the Different Forms and Policy Objectives of "Shared Equity" and "Shared Appreciation" Homeownership Program," Center for Housing Policy.

<sup>6</sup> "U.S. Directory of CLTs," National Community Land Trust Network website ([www.cltnetwork.org/About-CLTs/US-Directory-of-CLTs](http://www.cltnetwork.org/About-CLTs/US-Directory-of-CLTs)). Accessed 4 November 2012.

<sup>7</sup> Davis, 18.

<sup>8</sup> National Association of Housing Co-operatives. 2012. "Housing Co-operatives in USA," 86.

<sup>9</sup> Davis, 3.

<sup>10</sup> John Emmeus Davis. 2007. "Toward a Common Agenda: Growing Shared-Equity Housing," *Shelterforce* 29:1, 26–7.

<sup>11</sup> Interview with Jeffery Lubell, July 2012.

<sup>12</sup> Kenneth Temkin, Brett Theodos, and David Price. 2010. "Balancing Affordability and Opportunity: An Evaluation of Affordable Homeownership Programs With Long-term Affordability Controls," Washington, DC: Urban Institute.

<sup>13</sup> Emily Thaden. 2012. "Stable Homeownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts," 9–10.

<sup>14</sup> Emily Thaden. 2012. "Results of The 2011 Comprehensive CLT Survey," 9.

<sup>15</sup> Davis 2006, 19.

<sup>16</sup> U.S. Census Bureau. American Community Survey, 2006–2011.

<sup>17</sup> Interview with Jeff Corey, July 2012.

<sup>18</sup> Through the National First Look Program, a public-private partnership between HUD and the National Community Stabilization Trust, HUD's National Stabilization Program grantees, including local governments and nonprofit organizations, are offered the right of first refusal to purchase foreclosed homes. The acquired homes can be rehabilitated, rented, resold, or demolished. U.S. Department of Housing and Urban Development. "HUD Secretary Announces National First Look Program To Help Communities Stabilize Neighborhoods Hard-Hit by Foreclosure," press release, 1 September 2010.

<sup>19</sup> Interview with Jeff Corey.

<sup>20</sup> "Land Trust Home vs. Conventional," One Roof Community Housing website ([www.Irooffhousing.org/buy-a-home/what-is-a-clt/lt-home-vs-conventional/](http://www.Irooffhousing.org/buy-a-home/what-is-a-clt/lt-home-vs-conventional/)). Accessed 10 July 2012.

<sup>21</sup> Emily Thaden. 2012. "Results of The 2011 Comprehensive CLT Survey," 35–46.

<sup>22</sup> One Roof Community Housing website ([www.Irooffhousing.org](http://www.Irooffhousing.org)). Accessed 10 July 2012.

<sup>23</sup> Interview with Emily Thaden, June 2012.

<sup>24</sup> Kenneth Temkin, Brett Theodos, and David Price. 2010. "Shared Equity Homeownership Evaluation: Case Study of Northern Communities Land Trust," Washington, DC: Urban Institute, 11, 20.

<sup>25</sup> Mickey Lauria and Erin Comstock. 2007. "The Effectiveness of Community Land Trusts: An Affordable Homeownership Comparison," Cambridge, MA: Lincoln Institute of Land Policy, 22.

<sup>26</sup> Interview with Jeff Corey.

<sup>27</sup> U.S. Census Bureau. American Community Survey, 2006–2010.

<sup>28</sup> San Francisco Mayor's Office of Housing. 2012. "Briefing Book: State of the Housing Market Study," 35.

<sup>29</sup> U.S. Census Bureau. State and County Quickfacts, ([quickfacts.census.gov/qfd/index.html](http://quickfacts.census.gov/qfd/index.html)). Accessed 4 November 2012.

<sup>30</sup> City and County of San Francisco. 2007. "Residential Inclusionary Affordable Housing Program: Monitoring and Procedures Manual," 55–9.

<sup>31</sup> "BMR Ownership Program Overview," San Francisco Mayor's Office of Housing website ([www.sf-moh.org/index.aspx?page=291](http://www.sf-moh.org/index.aspx?page=291)). Accessed 22 June 2012.

<sup>32</sup> National Community Land Trust Network. 2011. "Implementing Restrictions on Ownership," in Kirby White, ed., *The CLT Technical Manual*, 6.

<sup>33</sup> City and County of San Francisco, 20–5.

<sup>34</sup> Interview with Myrna Melgar, August 2012.

<sup>35</sup> San Francisco Mayor's Office of Housing website.

<sup>36</sup> Kenneth Temkin, Brett Theodos, and David Price. 2010. "Shared Equity Homeownership Evaluation: Case Study of the San Francisco Citywide Inclusionary Affordable Housing Program," Washington, DC: Urban Institute, 5–6, 11.

<sup>37</sup> Interview with Myrna Melgar.

## Additional Resources

- “Expanding Asset-Building opportunities through Shared Ownership” (2008), by Heather McCulloch and Beadsie Woo, looks at a variety of shared homeownership opportunities for low-income families to build their assets. [www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid={E3F76001-377E-43AA-9F9F-BDD3BA79388E}](http://www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid={E3F76001-377E-43AA-9F9F-BDD3BA79388E}).
- “History Lessons for Today’s Housing Policy: The Political Processes of Making Low-Income Housing Policy” (2012), by Alexander von Hoffman, discusses historical events that led the government to institute large-scale affordable housing policies in the United States. [www.jchs.harvard.edu/political-process-making-low-income-housing-policy](http://www.jchs.harvard.edu/political-process-making-low-income-housing-policy).
- “The Shrinking Supply of Affordable Housing” (2012), prepared by the National Low Income Housing Coalition, discusses the inadequate supply of affordable housing using state- and national-level data from the American Community Survey. [nlihc.org/library/housing-spotlight/2-1](http://nlihc.org/library/housing-spotlight/2-1).
- “Pursuing the American Dream: Economic Mobility Across Generations” (2012), by The Pew Charitable Trusts, investigates how the past generation of Americans has fared on the economic ladder and examines changes in distribution of income and wealth across generations. [www.pewstates.org/research/reports/pursuing-the-american-dream-85899403228](http://www.pewstates.org/research/reports/pursuing-the-american-dream-85899403228).
- “Exits From Homeownership: The Effects of Race, Ethnicity, and Income” (2009), by Tracy M. Turner and Marc T. Smith, studies the extent to which groups with low homeownership rates also experience high homeownership exit rates. [onlinelibrary.wiley.com/doi/10.1111/j.1467-9787.2008.00589.x/pdf](http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9787.2008.00589.x/pdf).
- “Low-income homeowners and the challenges of home maintenance” (2011), by Lucy Acquaye, assesses the home maintenance needs and challenges of low-income homeowners and how training helps to address those needs. [www.tandfonline.com/doi/abs/10.1080/15575330.2010.491154](http://www.tandfonline.com/doi/abs/10.1080/15575330.2010.491154).
- *The Community Land Trust Reader* (2010), edited by John Emmeus Davis, contains 46 essays and excerpts that examine the role of community land trusts in promoting homeownership and community development. [www.lincolnst.edu/pubs/1766\\_The-Community-Land-Trust-Reader](http://www.lincolnst.edu/pubs/1766_The-Community-Land-Trust-Reader).
- *Lands in Trust, Homes That Last* (2009), by John Emmeus Davis and Alice Stokes, evaluates the effectiveness of the Champlain Housing trust in balancing the goals of wealth creation and affordability for low-income families. [www.champlainhousingtrust.org/publications/](http://www.champlainhousingtrust.org/publications/).
- “Limited Equity Housing Cooperatives Developed by Community Land Trusts” (forthcoming), by Meagan Ehlenz in partnership with the National Community Land Trust Network, will include detailed case studies of limited equity housing cooperatives developed by community land trusts. The report will be available on the Network’s website along with legal documents related to the creation and operation of limited equity cooperatives. [www.clnetwork.org](http://www.clnetwork.org).
- “Weathering the Recession: The Financial Crisis and Family Wealth Changes in Low-Income Neighborhoods” (2012), by Leah Hendey et al., investigates what has happened to the assets and debts of families in low-income neighborhoods since the financial crisis began, using longitudinal and cross-site survey data on assets and debts of 2,500 families living in low-income neighborhoods in 7 cities. [www.urban.org/publications/412626.html](http://www.urban.org/publications/412626.html).
- “More Than a Roof: Case Studies of Public Housing Agency Initiatives to Increase Residents’ Economic Security” (2012), by Maya Brennan and Jeffrey Lubell, discusses four initiatives: the Family Self-Sufficiency program; the Housing Choice Voucher Homeownership program; Earned Income Tax Credit Outreach; and Individual Development Accounts. [www.aarp.org/livable-communities/learn/housing/more-than-a-roof-case-studies-2012.html](http://www.aarp.org/livable-communities/learn/housing/more-than-a-roof-case-studies-2012.html).
- “Community Land Trusts in Atlanta, Georgia: a Central-Server Model” (2012) discusses the Atlanta Land Trust Collaborative, a hybrid CLT that functions not only as an independent, citywide land trust but also as a “central server” to neighborhood organizations. [www.huduser.org/portal/pdredge/pdr\\_edge\\_inpractice\\_112312.html](http://www.huduser.org/portal/pdredge/pdr_edge_inpractice_112312.html).
- “Low-Income Homeownership as an Asset-Building Tool: What Can We Tell Policymakers?” (2008), by George C. Galster and Anna M. Santiago, analyzes existing literature on the benefits of homeownership for low-income households as an asset-building strategy and reports new evidence based on very low-income homebuyers who purchased their homes through a program operated by the Housing Authority of the City and County of Denver. [www.brookings.edu/research/books/2008/urbanandregionalpolicyanditseffects](http://www.brookings.edu/research/books/2008/urbanandregionalpolicyanditseffects).
- “The Homeownership Experience of Low-Income and Minority Households: A Review and Synthesis of the Literature” (2008), by Christopher E. Herbert and Eric S. Belsky, focuses on existing literature about the homeownership experience of low-income and minority households. [www.huduser.org/periodicals/cityscpe/vol10num2/ch1.html](http://www.huduser.org/periodicals/cityscpe/vol10num2/ch1.html).
- “The FHA Single-Family Insurance Program: Performing a Needed Role in the Housing Finance Market” (2012), prepared by HUD’s Office of Policy Development and Research, discusses the historical and ongoing role of FHA insurance in sustaining access to mortgage credit, stabilizing markets, and expanding sustainable homeownership opportunities in the single-family residential market. [www.huduser.org/portal/publications/hs-gfin/fha\\_singlefamily2012.html](http://www.huduser.org/portal/publications/hs-gfin/fha_singlefamily2012.html).

For additional resources archive, go to [www.huduser.org/portal/periodicals/em/additional\\_resources\\_2012.html](http://www.huduser.org/portal/periodicals/em/additional_resources_2012.html).

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