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**Strengthening the  
Ladder for Sustainable  
Homeownership**

### **The Annie E. Casey Foundation**

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# Strengthening the Ladder for Sustainable Homeownership

Policy Paper Prepared  
by the National Housing Conference  
for the Annie E. Casey Foundation

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The National Housing Conference (NHC) is the nation's oldest affordable housing advocacy organization. Founded in 1931, NHC, a 501(c)(3) nonprofit, works to raise the visibility of affordable housing issues in this country and to build support for policies and programs that address the need. NHC's members consist of nationally known experts in affordable housing, finance and community development. For more information, visit NHC's website at [www.nhc.org](http://www.nhc.org) or call (202) 466-2121.



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## ROAD MAP TO THE REPORT

This report is divided into three sections:

- Following a brief preface, the report begins by providing a broad overview of the recommended “role” this paper suggests for foundations and other funders interested in strengthening families’ homeownership opportunities.
- The report continues with the principal analysis that explains the basis for the report’s focus on strengthening homeownership opportunities for very low-income families, outlines strategies for addressing the principal barriers to homeownership for these families, and provides an overview of the grant-making recommendations related to each of these barriers.
- The report concludes with a comprehensive, ranked list of all grant-making recommendations, organized under discrete subject headings.

## PREFACE<sup>1</sup>

While affordable rental housing continues to be the cornerstone of housing policy for very low-income families, there is growing interest in helping to expand the homeownership opportunities of very low-income renters.<sup>2</sup> Given the significant wealth-building potential of homeownership, this is a worthy objective. At the same time, however, homeownership carries significant risks for very low-income families that need to be addressed.

Balancing the benefits and risks of homeownership for very low-income families, this paper outlines a comprehensive set of grant-making recommendations for foundations and other funders aimed at strengthening both (a) the ladder to homeownership for very low-income renters and (b) homeownership retention among very low-income homeowners. This agenda was prepared originally for consideration by the Annie E. Casey Foundation. Upon completion, however, both the Casey Foundation and the National Housing Conference felt the paper would be of interest to the broader community of foundations focused on strengthening families and communities. Accordingly, we have prepared a new version of this paper designed for the broader audience of foundations and other funders that may be interested in strengthening the homeownership opportunities of very low-income families.

This paper is not a research paper, but rather a “strategic” analysis designed to zero in on key issues and move the dialogue forward. The paper covers a very wide subject area and relies, necessarily, on the opinions of experts and practitioners, as well as quick assessments of complex topics. It should thus be considered a work in progress—a first take on comprehensively addressing an important subject—that will be refined as further input is received. In order to stimulate the vigorous exchange of views, this paper is at times intentionally provocative.

We wish to recognize the important work done by the principal author, Jeffrey M. Lubell. His comprehensive knowledge and understanding of the issues, and his skills in presenting complex ideas in a clear manner, contributed significantly to the quality of this product.

We hope this paper is of assistance as funders consider their grant making in this area.

## OVERVIEW:

### **A GRANT-MAKING AGENDA TO STRENGTHEN HOMEOWNERSHIP OPPORTUNITIES FOR VERY LOW-INCOME FAMILIES**

In lieu of an Executive Summary, this section provides a broad overview of the recommended “role” this paper suggests for foundations and other funders interested in strengthening families’ homeownership opportunities.

Low-income homeownership is a fairly crowded field. One key question is what role funders wish to play in this field relative to the other actors. Among other players are:

- The two large Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, as well as the Federal Home Loan Banks. These are very large corporations with a strong financial interest in promoting homeownership, as well as a government-supervised mission to promote the public good.
- Three large national intermediaries focused on building capacity of nonprofit organizations to promote community development—The Enterprise Foundation, Local Initiatives Support Corporation (LISC), and the Neighborhood Reinvestment Corporation—as well as a number of smaller national, state, and local intermediaries, such as the Housing Partnership Network and others. Through its affiliate, Neighborhood Housing Services, Neighborhood Reinvestment in particular has developed significant expertise in promoting homeownership. A number of intermediaries also have particular expertise in housing counseling, including the Urban League, ACORN, the National Council of La Raza, and the National Consumer Law Center.
- Foundations—including national foundations such as the Annie E. Casey Foundation, the Fannie Mae Foundation, and the Ford Foundation—as well as a number of local foundations, such as the Greater Minnesota Housing Fund and many community foundations. The MacArthur Foundation also is heavily invested in housing issues, though they appear to focus more on affordable rental housing. Other foundations work on pieces of this large subject area, such as the Heron Foundation on asset building and the Rockefeller Foundation on community development.
- A number of highly specialized academic centers with expertise in homeownership policy, including the Harvard University Joint Center for Housing Studies, the Center for Urban and Regional Studies—the University of North Carolina-Chapel Hill, Abt Associates, the Urban Institute, and the Brookings Institution, as well as many others.

- Numerous industry trade groups and advocacy organizations.
- The private sector, including banks, mortgage companies, real estate companies, and investors.

A number of potential roles for foundations to play in this area are implicit in the recommendations advanced in this analysis. The highest priority recommendations suggest the following potential “roles” for foundations interested in strengthening families’ homeownership opportunities:

1. As an overall guiding principle, to focus on strengthening homeownership opportunities and retention among *families with incomes just below those often targeted by current homeownership programs*. Depending on the community, this may be families with incomes between 30 and 60 percent of the area median income (AMI) (between \$17,500 and \$35,000 per year on a national basis in 2004), or families with somewhat higher or somewhat lower incomes. The rationale for focusing on this particular income group—which we have labeled “very low-income”—is explained in the following two paragraphs taken from the early pages of the main analysis. (We apologize for the repetition of material, but feel it is necessary in this one instance.)

There are many products and programs designed to bring homeownership within reach of families with incomes between 60 and 80 percent of AMI (on a national basis, about \$35,000 to \$45,000 in 2004), including (especially) low-downpayment mortgage products and downpayment assistance programs. Many of these programs are worthy of continued and expanded support, and there is certainly always room for further strengthening of the policies that underlie them. With a few notable exceptions,<sup>3</sup> however, we proceed from the assumption that the basic policies needed to make homeownership affordable to families in this income range are already reasonably well-developed and functioning.

Stated another way, we believe that, in light of existing efforts in the crowded homeownership field, a funder seeking to make a unique contribution could add the most value by focusing particularly on *very low-income families* and the communities in which they live. This conclusion applies with particular force to funders already involved in other efforts to strengthen families and communities. Indeed, in our view, the further down on the income spectrum one goes, the more the issues involved in promoting homeownership merge with those of strengthening families,

helping low-income families build skills and assets, and helping to strengthen low-income communities.

It is this focus that elevates the importance of initiatives that help meet the needs of very low-income families—such as Section 8 homeownership, the Family Self-Sufficiency program, Community Land Trusts, and other alternative forms of tenure—but that are fairly time-intensive and thus rarely the principal focus of most other organizations involved in this field. (Another reason to focus on such programs is that, while they are unlikely to generate large volume at the national level, they can have a significant impact on a particular neighborhood in which a foundation or other funder is working.)

2. A principal focus on *homeownership education and counseling* (and the related topic of financial literacy education), as well as *homeownership retention* strategies. Given the fundamental importance of these strategies both in helping to make homeownership possible for very low-income families and in helping to minimize potential dangers involved in homeownership for such families, these topics deserve to be singled out for special mention.
3. A “convening” role bringing together advocates and practitioners working in different fields that all impact on the ability of very low-income families to access and retain homeownership. As noted above, the further down on the income spectrum one goes in promoting homeownership, the more this work merges with other work related to strengthening low-income families and communities. It would be helpful to convene representatives of these fields to discuss strategies for partnering with one another to more efficiently and effectively advance shared objectives.

This convening role has application both at the national level, in terms of bringing together national-level advocates and thinkers, and at the local level, within particular communities that are the focus of a foundation’s activity. One particular convening role emphasized in this analysis is to sponsor the development of an overall strategic plan for making homeownership education and counseling broadly available to all families who may need it. Given the highly fragmented homeownership education industry, there is a great need for the development and implementation of such a plan. In light of the institutional limitations of many of the alternative players that might sponsor such a plan, foundations may be uniquely positioned to advance such a project.

4. A role funding *independent analysis and related public policy advocacy work* on homeownership issues from the *perspective of very low-income families*. As noted above, the homeownership field has a number of well-established players that make substantial contributions to the field, including some with deep pockets, but these players have institutional limitations that may make it difficult or impossible for them to execute all of the steps necessary to fully realize the objectives discussed in this report. For example, whatever they may think of the Administration's proposal to block grant the Section 8 voucher program, which would likely kill the Section 8 homeownership program (as we know it) and largely decimate the Family Self-Sufficiency Program, which primes the pump for Section 8 homeownership, it is unlikely that Fannie Mae or Freddie Mac will place this issue at the top of their public policy agenda. Nor is a government-funded entity like the Neighborhood Reinvestment Corporation well positioned to take this on.

There is similarly a need for more independent analysis and public policy advocacy directed at determining whether the private sector should be doing more to support homeownership education and counseling (and if so, what specifically) and whether HUD's affordable housing goals for the GSEs are sufficiently ambitious in encouraging the GSEs to promote homeownership among very low-income families (and well structured to achieve this goal). This need rises from practical, institutional constraints on the ability of most organizations presently working in this field to carry out this work vigorously and effectively—either because the work has the potential to conflict with their own business interests or because they rely on the funding of organizations that may be affected.

This recognition of practical institutional constraints should in no way be understood as criticism of the GSEs or other players in the financial services business. They make a very significant contribution to homeownership for low-income families that deserves to be (and is) widely recognized. They cannot be all things to all people, however. Someone needs to approach these issues from the particular perspective of very low-income families, including both very low-income renters who may want to become homeowners and very low-income owners whose homeownership status may be quite tenuous.<sup>4</sup>

5. A focus on providing local governments with information to help them be more effective in using HOME and CDBG funds (two large HUD grant programs) to strengthen

homeownership opportunities and retention among very low-income families. There is a paucity of solidly researched and persuasively argued best practices materials to help local governments develop more effective low-income homeownership programs. Foundations could make a real contribution to the industry by developing such materials (with a particular focus on strategies to help very low-income families) and then working with national intermediaries and industry associations and local community groups to encourage these materials to be used at the local level. Foundations could also contribute to the standardization of second mortgages funded with HOME or CDBG funds, which could allow these loans to be sold on the secondary market, returning money to the locality for use in helping other families.

6. A focus on educating community-based organizations in cities in which foundations are involved on strategies for strengthening homeownership opportunities and retention among very low-income families and helping to support the implementation of such strategies in those communities. Such work would not only deepen foundations' contributions to these communities but also enable these communities to be testing grounds for strategies that could then be used more broadly throughout the country.
7. Finally, foundations can help advance long-range, forward-looking thinking in this area that other organizations may not have the time or funding to do in light of the exigencies of their daily operations. Examples of such work include strategic thinking on how to set up a national fund to make low-interest loans to low-income borrowers in danger of foreclosure, how to design and set up better insurance products to help minimize defaults and foreclosures, how to promote greater acceptance of alternative housing types that cost less to construct, and a strategic vision and plan for how to make homeownership education and counseling widely available to all who need it. Such work could also involve long-term support for innovative or complicated projects that would make a significant contribution to the field but may take years to implement, such as a campaign to improve the image of affordable housing (and thus reduce development costs associated with "Not In My Backyard" sentiment) and automated tools for helping communities analyze local housing conditions and identify promising strategies for addressing those conditions.

We hope the recommendations listed in this paper are helpful as foundations and other funders consider their future work in this area.

## INTRODUCTION

The objective of this paper is to provide foundations and other funders with information, analysis, and recommendations to inform grant making in the area of low-income homeownership. For reasons explained below, the paper focuses on projects that help strengthen homeownership opportunities and retention among very low-income families.

Rather than focusing solely on helping more very low-income renters become homeowners, this paper interprets its mission holistically to cover:

- Helping more very low-income renters make informed decisions about whether to become homeowners and if so, under what circumstances (i.e., with what loan terms, in what neighborhoods, at what time, etc.);
- Helping more very low-income renters understand the steps they need to take to become homeowners, whether at present or in the near future;
- Helping more very low- and low-income families afford the costs of homeownership; and
- Helping more very low- and low-income families who purchase homes retain them.

The recommendations included in this paper assume the readers have an interest in working at both the neighborhood and national levels. By “neighborhood level,” we mean that a funder has identified a specific neighborhood on which it wishes to concentrate assistance. National-level recommendations, by contrast, seek to identify research, policy, and programmatic gaps that could be addressed through grant making or other funder action.

The recommendations have been prioritized based on subjective assessments of the (a) need for the project, (b) its cost-effectiveness, (c) the likelihood of success, and (d) the extent to which a funder’s involvement would add substantial and potentially unique value in light of existing efforts in the area. It is important to note that these criteria may mean that projects that are sorely needed are nevertheless ranked fairly low; for example, because they are expensive relative to what they might deliver or appear already well covered by the many other actors in the field. Readers are of course free to re-rank the recommendations as they see fit.

The views expressed in this report represent those of the principal author, Jeffrey M. Lubell, as well as his synthesis of input provided by an advisory group assembled by the National Housing Conference for purposes of reviewing early drafts of this paper.<sup>5</sup> They do not necessarily reflect the position of the National Housing Conference, the Annie E. Casey Foundation, or any member of the advisory group. The advisory group offered many useful suggestions and comments. Any errors, however, are those of the principal author alone.

**WHY FOCUS ON HOMEOWNERSHIP  
FOR VERY LOW-INCOME FAMILIES?**

The focus of this report may be challenged on (at least) two separate fronts. First, why focus particularly on *homeownership*?

Do the benefits of homeownership for very low-income families really outweigh the risks? Second, why focus on *very-low income* families (see definition in note 2), rather than *low-income* families (i.e., families with incomes up to 80 percent of AMI) who have a much better chance of actually becoming homeowners?

Focusing on the second question first highlights an important assumption underlying this paper regarding the general state of homeownership programs for families with incomes between 60 and 80 percent of AMI (on a national basis, about \$35,000 to \$45,000 in 2004). There are many products and programs designed to bring homeownership within reach of such families, including (especially) low-downpayment mortgage products and downpayment assistance programs. Many of these programs are worthy of continued and expanded support, and there is certainly always room for further strengthening of the policies that underlie them. With a few notable exceptions,<sup>6</sup> however, we proceed from the assumption that the basic policies needed to make homeownership affordable to families in this income range are already reasonably well-developed and functioning.

Stated another way, we believe that, in light of existing efforts in the crowded homeownership field, a funder seeking to make a unique contribution could add the most value by focusing particularly on *very low-income families* and the communities in which they live. This conclusion applies with particular force to funders already involved in other efforts to strengthen families and communities. Indeed, in our view, the further down on the income spectrum one goes, the more the issues involved in promoting homeownership merge with those of strengthening families, helping low-income families build skills and assets, and helping to strengthen low-income communities.

With respect to the other challenge to this report's focus, it is important to acknowledge that there are many arguments *against* focusing on homeownership for this population:

- Many (if not most) very low-income families are not ready to assume the burdens of homeownership, and would be at significant risk of default/foreclosure/bankruptcy if helped to do so prematurely. The risk arises from (a) the lack of an adequate cushion

in savings or equity to deal with major repairs, loss of job, sharp rise in property taxes or utilities, or other emergency; and (b) insufficient understanding of the homebuying and homeownership processes. Consistent with this concern, research suggests that a very large number of low-income homebuyers are no longer homeowners just five years later.<sup>7</sup>

- There is a significant risk that very low-income families will purchase homes in neighborhoods with home values that are not appreciating or are even depreciating.
- Because most of the families in this income group do not qualify for conventional mortgage products, they are at significant risk of being taken advantage of by predatory lenders or developers.
- The heavy focus on homeownership may lead to neglect of other important aspects of sound housing policy, notably **affordable rental housing, which will always remain a cornerstone of housing policy for very low-income families.**

Yet, it is hard to deny the many benefits of homeownership (at least for homebuyers generally; comparatively little is known of the extent to which low-income homebuyers experience the same benefits). (See generally, Katz et al. 2003; and the collection of papers in Retsinas and Belsky 2002.) Benefits include: individual asset accumulation—primarily through home price appreciation and the forced savings of monthly payments, which leads to the paydown of the principal balance on a mortgage, which in turn leads to other opportunities for building wealth for current and future generations (e.g., education, small businesses, etc.); enhanced satisfaction with one's housing and neighborhood; stronger neighborhood ties and civic participation; positive outcomes for children, including higher educational attainment, reduction in deviant behavior, and increase in future homeownership rates; improvements in individual housing quality; and stronger neighborhoods.

Even these benefits are not clear-cut, however, with a number of researchers questioning whether homeownership is really such a good financial investment (see, e.g., Goetzmann and Spiegel 2002) and whether the assumed social benefits of homeownership are really *caused* by homeownership or rather are so strongly associated with the types of families who become homeowners that one cannot truly tease them apart (see, e.g., Rohe et al. 2002). And this is for *all* homeowners; arguably, many of the potential benefits of homeownership ought to be lower for very low-income families than for higher-income families. As Shlay (2004) argues, we know very little about the extent to which low-income

families specifically (as opposed to homeowners generally) experience the theoretical benefits of homeownership. Clearly, this is a subject in need of greater study, hence our inclusion of additional research on the experiences of low-income homeowners as a principal recommendation of this report.<sup>8</sup>

Notwithstanding these concerns, we believe it is both necessary and appropriate for funders to work to strengthen homeownership opportunities and retention among very low-income families. In addition to the individual and community benefits of homeownership, summarized above, this conclusion rests on the following four points:

- The policy decision regarding the relative importance of efforts to promote homeownership among very low-income families does not take place in a vacuum, but rather in an environment in which most very low-income families share the “American Dream” of owning a home. If public policy efforts do not articulate and market a clear, credible, and responsible “ladder to homeownership” for these families, many such families will pursue their dream of homeownership anyway, greatly enhancing the risks of exploitation by predatory lenders and developers. (See, e.g., the *New York Times* articles of April 11–12, 2004, on the families lured from New York City to purchase homes in the Poconos.)
- Many of the arguments against homeownership fail to recognize the unique nature of homeownership as an asset-building tool for low-income families. While the fact that alternative investments may generate a higher rate of return than homeownership (Goetzmann and Spiegel 2002) is important to know in general, most very low-income families are unlikely to have the opportunity to make these alternative investments. For such families, homeownership may be the *only* real opportunity to build wealth. In addition, very low-income families benefit from the forced savings of homeownership, the opportunity to freeze their housing costs over long periods of time (and eventually become free of mortgage payments, enhancing retirement security), and the opportunity to leverage a minimal (and potentially even no) investment with large amounts of private capital. Even though the wealth gains for low-income homeowners appear to be much less than for higher-income homeowners, homeownership still represents a positive (and in many cases the only realistic) asset-building opportunity for low-income families (Reid 2004).
- The decision to support policies that promote homeownership among very low-income families is not a binary “on-off” decision. One can and should tailor homeownership

policies to maximize the likely benefits of homeownership and minimize the potential disadvantages. Thus, for example, sensible homeownership policy should include a heavy focus on homeownership education to help families recognize when homeownership is right for them, how to avoid falling victim to predatory lending, and how to maximize the locational and other benefits of homeownership. Similarly, homeownership policy should include stronger measures to help low-income homeowners avoid foreclosure and loss of equity.

- There are nearly as many very low-income homeowners as there are very low-income renters. In 1999, there were 14.8 million renter households with incomes below 50 percent of AMI and 14.0 million owner households with such incomes. Approximately 31 percent of these very low-income owner households pay more than half their income for housing and another 22 percent spend 31 to 50 percent of their income on housing (Nelson et al. 2003). Given these housing cost burdens and other vulnerabilities (e.g., predatory lending, loss of job, unanticipated major repairs, etc.), as well as the evidence showing families cycling in and out of homeownership, it seems critical to focus more attention on helping very low-income homeowners stay homeowners.

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In considering which homeownership strategies to prioritize, it may be useful to unbundle the concept of “homeownership” into the individual positive outcomes the term invokes. Three of the most important such outcomes are (a) the accumulation of savings (generally, through the pay-down of principal balance or home price appreciation, but also, in some cases, through sweat equity); (b) family stability (both financial, for example, by fixing housing costs over time, and psychological); and (c) community stability (i.e., through families being more invested in their neighborhoods). Other potentially relevant outcomes are (d) individual empowerment (greater control over one’s environment) and (e) the opportunity to move to a better neighborhood.<sup>9</sup> Again, more research would be desirable on the extent to which homeownership for very low-income families advances these particular objectives.

Some of the strategies discussed in this report (such as alternative tenure arrangements) may provide only some of these benefits, while other strategies (such as housing counseling) have the potential to help families maximize the benefits of homeownership along certain of these dimensions. It is worth bearing in mind these different dimensions to homeownership as one considers the relative merits of the different approaches discussed below.

## **BARRIERS TO HOMEOWNERSHIP FOR VERY LOW-INCOME FAMILIES**

In order to develop strategies for strengthening homeownership opportunities for very low-income families, it is helpful to consider the nature of the principal obstacles to homeownership for these families.

These include:

**Wealth Constraint**—a family has inadequate savings to provide a downpayment and cover closing costs. This is a serious obstacle for many (if not most) very low-income families (excluding students and young professionals earning their credentials, such as medical interns). However, the increasing availability of low- and no-downpayment mortgages, government downpayment assistance programs, and downpayment “gifting” programs (e.g., AmeriDream and the Nehemiah program) make this a less significant initial hurdle to homeownership than it once was. Nevertheless, given the limited availability of government funds for downpayment assistance and the limitations of market-based solutions to this obstacle,<sup>10</sup> there is merit in pursuing asset-building strategies, such as Individual Development Accounts and HUD’s Family Self-Sufficiency program, that help low-income families accumulate funds for a downpayment.

**Income Constraint**—a family’s income does not support a mortgage of adequate size to purchase a home. This is also a serious obstacle for many (if not most) families in this population. However, many of the most important remedies for this problem fall outside the domain of housing policy. For example, increased funding for child care, employment training, and post-secondary education; increases in the minimum wage; living wage ordinances; and stronger labor laws. The amount of income a family has available to meet its housing expenses can also be increased by decreasing other out-of-pocket expenses through government benefit programs (e.g., subsidized child care, subsidized health insurance) or other means (e.g., public transportation investments). (This intersection with other policy domains related to strengthening families is a recurring theme of this analysis.) Other remedies are constrained by shortages of government funding (e.g., for ongoing mortgage subsidies that bring monthly mortgage payments within reach of low-income families).

One promising approach to significantly lowering monthly homeownership costs is the use of alternative tenure options that fall between rental housing and homeownership

(e.g., community land trusts, limited equity cooperatives, equity finance mortgages). Another approach is to promote the greater use of existing Section 8 rental vouchers for homeownership. Other approaches include mortgage innovations, such as more attractively priced subprime mortgages, that lead to increases in families' purchasing power; and employer-assisted housing, which can help reduce housing costs for employers' employees.

**Information Deficit**—a family lacks a clear understanding of the homebuying process and of the financial system generally that makes it difficult for the family to know what it needs to do to become a homeowner and leaves the family vulnerable to predatory lending. Policy responses to this very serious problem include financial literacy education and homebuyer education. The solutions to this problem are particularly important because they have the potential to minimize risks associated with lower-income homeownership, such as higher rates of foreclosure, predatory lending, and declines in homeownership values due to poor locational choices.

**Credit Problems**—a family lacks a credit history or has a poor credit history. Generally, credit problems are a consequence of low incomes (and thus an inability to meet basic needs) and a lack of understanding of the importance of credit. Strategies for addressing this problem include financial literacy education; credit counseling; approaches that help lower-income families establish credit, including “banking the unbanked” programs and policies that seek to count rent history as credit history (e.g., Pay Rent, Build Credit, flexible underwriting); and programs that give renters time to improve their credit, such as lease-purchase.

**Supply Constraints.** Even when very low-income families can overcome the other constraints and qualify for a mortgage, there often are no houses in a price range they can afford. Among other strategies for boosting the available supply of affordable homes are public subsidies for development (to lower the costs of construction that must be passed on to the homebuyer); reductions in regulatory and other barriers to development; and expanded use of low-cost construction techniques, cost-efficient design, and manufactured housing.

**Housing Discrimination** is another factor that tends to reduce homeownership opportunities and benefits for minorities. Discrimination limits certain families' opportunities to purchase homes of their choice in neighborhoods more likely to experience home price appreciation

and with other locational benefits. It also makes it harder than necessary or appropriate for certain families to obtain a mortgage on favorable terms.

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While all of the classic demand-side constraints on homeownership (wealth, income, credit, and information) are important for the target population, the information deficit deserves the greatest attention, as the solutions to this problem have the potential to help very low-income families access nearly unlimited amounts of private capital, while at the same time significantly reducing the risks of homeownership. Accordingly, in considering policy options, we address these solutions first, followed by those that address the related issue of credit problems.

In light of recent innovations designed to help low-income families purchase homes with little or no downpayment, income constraints are somewhat more significant today than wealth constraints, especially for this population. (The problems are related, of course.) We thus address solutions related to income constraints before those related to wealth constraints. We conclude by addressing issues related to supply constraints and discrimination, followed by a number of cross-cutting issues, including homeownership retention, steps to boost the capacity of nonprofits to work on these issues, and federal housing policy.

**ADDRESSING INFORMATION  
DEFICITS**

**Homeownership and Financial  
Literacy Education**

In our view, the single most important step that could be taken to strengthen homeownership opportunities and retention among very low-income families is to expand and improve the delivery of financial literacy education and homeownership education and counseling. This conclusion rests on the following assumptions:

- Although there is no single yardstick that can be used to measure the country's overall state of financial literacy, there appears to be widespread agreement among experts that millions of Americans lack basic essential information on the steps needed to build and maintain good credit, how to budget, the process of buying a home, and the full costs and responsibilities of homeownership. Among other signs that low levels of financial literacy present a problem are the rise in personal bankruptcies (69 percent between 1990 and 2000 and 19.2 percent between 2000 and 2001), a general failing and declining grade of high school students participating in the Jump\$tart Coalition for Personal Finance studies of financial literacy, the low rate of savings in the United States, and a general lack of retirement security among many older Americans (NEFE 2002). Comparable evidence on the housing side includes the 2003 Fannie Mae National Housing Survey, which found that 40 percent of African Americans, 36 percent of English-speaking Hispanic Americans, and 56 percent of Spanish-speaking Hispanic Americans lacked accurate information about the homebuying process. The same study found that only 18 percent of renters with incomes below \$35,000 identified themselves as having above-average understanding of the home-buying process. Additional cause for concern is the increase in mortgage delinquencies and foreclosures in recent years (though the economy has also played a large role).
- Innovations in mortgage lending—including low- and no-downpayment loans and substantially relaxed credit requirements—have enabled millions of additional families to qualify to become homeowners. From a big-picture perspective, scarcity of capital is *not* the problem. The problem is that many low-income families are not well positioned to access this capital, often because they have poor credit or no credit or because they are not connected with the mainstream financial system and thus lack knowledge about mainstream financial products.<sup>11</sup> Financial literacy education can help families get off on

the right foot by building and maintaining good credit and connecting families with mainstream financial institutions. Homeownership education and counseling takes over where financial literacy education leaves off, helping individuals determine if they are ready for homeownership and connecting these individuals to suitable mortgage products (McCarthy and Quercia 2000).<sup>12</sup>

- At the same time, homeownership education and counseling can help prepare families for (and thus minimize problems related to) predatory lending, unanticipated repairs leading to default and foreclosure, and home value declines due to poor locational decisions. Although more research is needed, an analysis of Freddie Mac data indicates that certain types of pre-purchase homeownership education and counseling—specifically, classroom education and individual counseling, but not telephone education—can significantly reduce default rates (Hirad and Zorn 2002). There is also some initial evidence for the cost-effectiveness of foreclosure prevention counseling (see, e.g., Quercia, Cowan, and Moreno 2004; and Moreno 1998).
- The sharp growth of subprime lending in recent years appears to have increased the need for homeownership education while simultaneously making it more difficult for homeownership education groups to reach clients. (If a subprime lender down the street is willing to give me a loan today at a monthly cost I think I can afford, why should I go through eight hours of counseling?) The problem is further exacerbated by the fragmentation of the home purchase process and industry. Many of the individuals who make initial contact with borrowers, such as mortgage brokers, real estate agents, etc., have no financial interest in the ultimate outcome of the borrower’s home purchase experience; they don’t realize any benefit by helping the borrower avoid foreclosure.
- Homeownership education and counseling and financial literacy education are likely to be much less expensive on a per-household basis than other potential approaches to strengthening homeownership opportunities for very low-income families.

Efforts are needed both to expand the availability of homeownership education and counseling and to improve its effectiveness. Efforts are also needed to expand the availability of financial literacy education, whose lessons appear to be most effective when delivered repeatedly in multiple reinforcing contexts.

***Expanding the availability of homeownership education and counseling.*** While there is no solid estimate of how much additional funding is needed, practitioners agree that current

funding levels for homeownership education and counseling are woefully inadequate. The principal government funders are HUD and the Neighborhood Reinvestment Corporation. Together, these agencies fund pre-purchase counseling for approximately 400,000 individuals per year,<sup>13</sup> as well as a smaller amount of post-purchase counseling. An unknown amount of homeownership counseling is funded through industry and other efforts, much of which is motivated by the Community Reinvestment Act (CRA).

As of 1999, there were approximately 17.5 million renter households in the United States with incomes below 60 percent of AMI. Although the exact proportion is unknown, it is likely that a substantial share of these households would benefit from financial literacy education and/or pre-purchase homeownership education and counseling. There are another 17.2 million homeowners with incomes below 60 percent of AMI. Many of these homeowners are at risk of default and/or of being victimized by predatory lending. Again, therefore, some unknown but presumably substantial share of these households would likely benefit from financial literacy education and/or post-purchase homeownership counseling.

**Recommendations:** Given the fundamental importance of expanding the availability of homeownership education and counseling, there is an urgent need for (a) a strategic plan designed to ensure that everyone in the country who needs it has access to homeownership education and counseling at all phases of the process (pre-purchase education, pre-purchase counseling, post-purchase counseling, and foreclosure prevention), and (b) public policy advocacy and other activities designed to promote achievement of this vision. Funding an organization to develop and execute such a strategic plan, in collaboration with other industry players, is our highest priority recommendation in this area (and indeed, in this whole field).

Many of the other principal recommendations of this report are essentially components of this strategic plan, including analysis and public policy research directed at increasing government and private sector funding for housing education and counseling, the further development and demonstration of the validity of viable business models that incorporate all phases of homeownership education and counseling as integral components of mortgage lending, and legislative and regulatory advocacy to remove impediments in HUD's Real Estate Settlement Procedures Act (RESPA) that prevent joint funding of housing counseling by banks

and consumers. Other important elements of this strategic plan include additional research to demonstrate the cost-effectiveness and other social and economic benefits of homeownership education and counseling, and the development of a reliable estimate of how much homeownership education and counseling is really needed and how much it would cost.

Another high priority recommendation (and a principal recommendation of this report) is to prepare a guide for local decision-makers to help them make sound decisions regarding the relative importance of homeownership education versus other uses of HOME and CDBG funds. An analysis that compared homeownership education, downpayment assistance, various kinds of soft/silent second mortgages, etc., according to different metrics of need/effectiveness could be useful in helping to persuade local governments to invest more in housing counseling. To be effective, of course, the results of this analysis would need to be marketed to city/state governments and nonprofits.

At the neighborhood level, to the extent that additional homeownership counseling capacity is needed in neighborhoods in which a foundation is involved, the foundation may wish to consider funding training for existing staff of neighborhood groups so they can provide effective homeownership education and qualify for existing funding streams.

***Improving the quality and efficiency of homeownership education and counseling.***

The current delivery mechanism for homeownership education and counseling is highly fragmented. Education and counseling are provided by multiple organizations, using many different curricula—for example, community-based organizations (some but not all of whom are funded by HUD housing counseling grants), banks seeking CRA credit, government agencies, for-profit organizations, realtors, mortgage insurance companies, and others. Some believe the mortgage industry (and possibly consumers as well) would be more willing to fund homeownership counseling if there were clear standards for the provision of this education so it could be relied upon as a predictor of reduced defaults.

In addition, some practitioners believe that the homeownership counseling industry is not as efficient as it could be. These practitioners argue that homeownership counseling agencies need to do a better job of sorting individuals coming in for homeownership education so that the individuals with the greatest education and counseling needs can

get the most attention (for example, an eight-week course) while individuals that already have a significant amount of knowledge can receive less-intensive services (for example, a one-day overview course). (Note the tension with the goal of developing standards.) Others argue that homeownership counselors need to be better educated on recent innovations in mortgage lending—particularly automated underwriting, risk-based pricing, and the rise in subprime lending generally—so that they can help their clients take advantage of the opportunities these innovations have created.

Among other strategies in need of research are new technology-based approaches, such as phone and Internet counseling. The Freddie Mac study found that in-person counseling was effective in preventing defaults, but that telephone counseling was not. But it's not clear that there are no *conceivable* approaches to phone and Internet counseling that would work. Such approaches may work better at certain stages of the process (such as foreclosure prevention) than others (such as pre-purchase). Or they may work better for some clients (those with a stronger financial education base) than others. Getting to the bottom of this is important because such counseling strategies are much less expensive. Yet, if they don't work, they don't work.

In May 2004, HUD issued a \$7.7 million Notice of Funding Availability (NOFA) to provide training on homeownership counseling. While such training should help to raise the general quality of homeownership education, it does not necessarily address the key issues of developing better, more efficient models for homeownership education, or of developing clear standards and certifications that would be recognized by lenders as justifying the expenditure of more funds on homeownership counseling.

Another problem is that, in most communities, there does not appear to be a single point of entry into the system; nor is there a concerted and coordinated effort to reach out to families who might benefit from homeownership education but do not realize its value, or if they do, do not know where to go to obtain it. Accordingly, it is likely that many families who might benefit from such education do not receive it.

**Recommendations:** A broad-based campaign to set standards for and increase the efficiency of homeownership counseling is plainly the most important task needed in this area. There is also a related need for evaluations of existing and prospective homeownership education approaches (including new technology-based approaches) to determine which are the most effective. While there are

natural partners in this area, such as the Neighborhood Reinvestment Corporation, the GSEs, major banks, and the group that is awarded HUD's \$7.7 million NOFA on homeownership counseling training, these projects need a champion to move them forward and are thus principal recommendations of this report.

Other high priority recommendations in this area focus on community-level innovations that could be modeled in communities in which foundations are active and then replicated elsewhere. One such recommendation is to develop a system for rationalizing (and thus taking better advantage) of existing homeownership education resources in a community, such as a single point of entry into the counseling system. A second recommendation is to develop and test alternative strategies, as an adjunct to conventional homeownership counseling, to reach individuals who are distrustful of the mortgage system; an example would be increased reliance on trusted advisors, including local clergy and churches and unions (as, for example, the AFL-CIO is doing through HIT HOME). In addition, as the larger project of developing standards and more effective counseling strategies moves forward, foundations can participate by funding pilots in cities in which they already work to test promising strategies for providing homeownership education and counseling identified through that project.

Other priority recommendations include (a) the development of a guide for communities on how to effectively recruit and utilize volunteers to provide homeownership counseling and financial literacy education; (b) consumer research directed at helping to better tailor affordable lending products and outreach for homeownership education to what different segments of the low- and moderate-income community want from a mortgage product, which could help counter predatory lending; and (c) the convening of a conference to discuss how the housing counseling industry and community development corporations generally should adjust to meet the reality of risk-based pricing, automated underwriting, and subprime lending. (The last item is a principal recommendation of this report.)

Finally, it seems important to more effectively "market" homeownership education and financial literacy education to families who may benefit from it, but do not know they need it (or if they do, are not aware of the availability of such education). While a wide variety of outreach and marketing materials are available, there

appears to be a need to sort through these materials and evaluate them to determine which are the most effective. Preparing a guide for local communities on how to more effectively market financial literacy and homeownership education, based on a rigorous assessment of what is effective, would be a useful contribution.

***Expanding availability of financial literacy education.*** Homeownership education and counseling is itself a subcategory of the larger category of financial literacy education, which includes basic education on the importance of savings, credit history, retirement planning, etc. Key forums for general financial literacy education are schools and the workplace. The further down on the income spectrum one focuses—and correspondingly, the further away individuals are from being ready to be homebuyers—the more homeownership counseling blends into general financial literacy education. Organizations concerned with strengthening homeownership opportunities and retention among very low-income families thus have a strong identity of interest with those working on financial literacy education.

***Recommendations:*** Given the significant work being conducted by a number of funders in this area, we have not sought to develop new recommendations focused specifically on financial literacy education, but rather urge continuation of the existing efforts, such as efforts to require the public education system to provide effective financial literacy education.<sup>14</sup> We do think there would be added value, however, in one or more funders playing a convening role to bring together (a) practitioners involved in both financial literacy education and homeownership education to discuss whether there are ways to strengthen coordination of these related fields, and (b) practitioners involved in both financial literacy education and employer-assisted housing to discuss ways to partner regarding outreach to employers. If such an analysis does not already exist, it would also be useful to fund an analysis of how best to take advantage of Earned Income Tax Credit (EITC) outreach and free tax preparation to promote financial and homeownership education. At present, there is much talk about the need to do this, and experimentation is going on in many communities, but it's not clear that the most effective models have been documented and promoted.

Finally, there may well be some benefits in encouraging local convenings in neighborhoods in which funders are active, of the different groups working on related issues at the neighborhood level (including free tax preparation coalitions, homeownership education providers, affordable lenders, and asset-building programs) to discuss how better to coordinate their efforts.

## OVERCOMING CREDIT OBSTACLES

### Credit Counseling and Repair Services

In theory, the substantial expansion of effective financial literacy education should ultimately reduce the need for credit counseling. In the meantime, however, the need is great. Large numbers of very

low-income families must address credit problems before they can qualify to become homeowners. With the recent increase in subprime financing (including mortgage lending, credit cards, etc.), the number of individuals in need of credit counseling has increased.<sup>15</sup>

Banks with large credit card operations fund credit counseling agencies by providing them with a percent of recovered debt; they also offer their clients reduced interest rates while they're working on repayments. Banks are reducing their payments to credit counseling agencies, however, as well as reducing their willingness to lower rates to assist with downpayment.

Another problem in this field is the rise of a new generation of credit counseling organizations that engage in deceptive and misleading practices, charge consumers excessive costs, abuse their nonprofit status, and fail to provide lower-cost education options that may be advantageous for families (e.g., forcing clients to go through debt consolidation). Legitimate consumer credit counseling agencies often fight to "be heard" among the din of these new debt consolidators. The industry is trying to address this problem by encouraging the development of standards for the provision of credit counseling services (see generally, NCLC and CFA 2003).

**Recommendations:** Of the recommendations we've identified in this area, the most important are to support efforts (a) to increase funding for credit counseling agencies by creditors (who profit from the forceful extension of credit to low- and moderate-income families); and (b) to develop standards for credit counseling. Such standards could help reduce the risk that families will be victimized by unsavory agencies and also help to convince creditors that the services are worth reimbursing.

Other recommendations in this area include (a) the preparation of a guide to marketing efforts and sample marketing materials to help legitimate nonprofit credit counselors compete with their unsavory competitors; and (b) an analysis

of the relationship of homeownership education/counseling agencies and credit counseling agencies on the ground. For example, could homeownership education efforts be referring more people to credit counseling agencies for intensive work on their credit, freeing up staff at the homeownership education/counseling agency for more group sessions on homeownership education?

Finally, to the extent that additional credit counseling capacity is needed in communities in which funders are working, they may wish to consider providing seed money to help credit counseling organizations get started and accredited by NFCC or others in communities where they are needed, or alternatively, to provide training funds to existing housing counseling agencies without credit counseling capacity to help them expand into more intensive credit counseling, opening up creditor reimbursements as a possible funding strategy.

### **Banking the Unbanked**

According to a recent Fannie Mae Foundation (2003) report, “Millions of American households . . . rarely if ever, use mainstream financial services. . . . Estimates of the ‘unbanked,’ people without any banking relationship, range from 10 million to 22.2 million households, comprising 25 million to 56 million adults.” One consequence is that the unbanked spend more on financial services, such as check cashing, loans and wire-transfers, than they would otherwise, reducing opportunities to build wealth. They also don’t have the opportunity to accumulate savings through savings accounts, CDs, and other interest-bearing accounts.

Many in the cash economy are unfamiliar with or afraid of mainstream financial institutions, making it more difficult for them to access mainstream credit products. Still another problem is that many of their current financial transactions—such as paying back a payday loan—are not captured by the credit reporting system and thus do not help them build credit. So even if they become aware of mainstream lending products and try to obtain them, they may not qualify.

There are a number of creative approaches for trying to bank the unbanked, some of which were profiled in the Fannie Mae Foundation’s *Innovations in Personal Finance for the Unbanked* (2003). These include alliances between mainstream financial institutions and check-cashing outlets, new products offered by credit unions and others specifically

to meet the needs of the unbanked, microlending to attract people to conventional savings products, etc. Among other things, these activities help families establish conventional credit and provide important reinforcement for financial literacy education efforts.

Another approach to identifying promising models for banking the unbanked is to design new products based on consumer research regarding the needs of different segments of the unbanked population. Through its research and consulting arm, MetroEdge, Shorebank Advisory Services has conducted a series of in-depth analyses of the financial preferences of low-income families in Chicago, Los Angeles, and Washington, DC. It is hoped this will lead to a manual documenting financial services that could be profitably marketed to this sector.

**Recommendations:** It is worth considering to what extent additional work is needed to identify best practices in need of replication (like the Fannie Mae Foundation study) or to conduct research on consumer preferences to encourage the development and marketing of new financial products (like the MetroEdge study). In any event, it would seem to make sense to identify promising lessons from either or both approaches and promote their replication in selected cities in which foundations are active.

### **Capturing Rent and Other Nontraditional Payment History as Credit History**

The idea that renters' regular payments of rent should count toward their credit history has been around a long time and in general makes eminent sense. Many renters pay their rent before trying to meet other obligations, so the exclusion of rent payments from their credit history means that their credit scores do not give a complete picture of their creditworthiness for homeownership expenses. The biggest obstacle is that landlords don't generally report rent payments to credit bureaus.

Some underwriting guidelines (for example, Federal Housing Administration) indicate that rent history should be considered in assessing borrowers' creditworthiness. However, at present, this requires a manual (i.e., expensive) underwriting process. In addition, many families may be unaware that their rent history can be counted, and other families may be unable to produce documentation of their solid rent history, especially if they have moved frequently.

“Pay Rent, Build Credit” ([www.payrentbuildcredit.com](http://www.payrentbuildcredit.com)) provides one model for automating the process. It requires the cooperation of a number of players to make it work, including the renter, verifiers (could be Community Development Corporations), banks, and in some cases landlords. CDCs or housing counselors who wish to help a client qualify for a mortgage can become “verifiers” who verify that a client has documented consistent rent payment over a 36-month period. Alternatively, the cooperation of a landlord could be secured on a prospective basis so that ongoing rent payments are captured and reported.

Some argue that we should also try to capture utility payments in the standard credit reporting mechanisms. However, others argue that this may work to the disadvantage of low-income families who may be more likely to pay their rent than their utility bills when squeezed for cash. More research may be needed to determine if this is a net positive or not.

**Recommendations:** Funders should consider ways to build on the “Pay Rent, Build Credit” model to help more renter households get credit for timely rent payments. For example, funders may wish to encourage nonprofits in communities in which they are working to use “Pay Rent, Build Credit” as a tool for enhancing the ability of local residents to become homeowners. One approach would be for these groups to encourage public housing authorities (PHAs) and other large landlords in their neighborhoods to enroll in “Pay Rent, Build Credit” so that renters in those developments could begin building credit through their rent payments. In some cities, apartment associations or other organizations collect rent data; in these cases, it would make sense to link these databases to “Pay Rent, Build Credit” or another institution that can use the data to help families build credit. Another approach—though perhaps of lower priority given the amount of individualized attention from housing counselors needed to make it work—would be to work directly with neighborhood groups and with national intermediaries like Enterprise, LISC, and Neighborhood Reinvestment to educate CDCs and housing counselors on how to become verifiers for “Pay Rent, Build Credit” so they could help clients with a strong rent history take advantage of this approach to improving their credit rating.

## **Lease-Purchase**

Lease-purchase is a strategy for accelerating the process toward homeownership for individuals who are not quite ready to become homeowners. The individual begins by renting, with the expectation that, after a certain period of time (the Freddie Mac product is 38 months; others vary), the individual will qualify for a mortgage and the unit will convert from rental to homeownership. There is no downpayment; rather, the family's rent payment is increased to cover a gradual downpayment. Fannie Mae and Freddie Mac both support lease-purchase and there are many examples of successful applications of this approach. Arigoni (1997) provides a good general introduction.

Lease-purchase works best when it is bundled with intensive homeownership counseling to ensure that the families who initially lease the housing will be able to qualify within the allotted timeframe. In addition, the organizations that sponsor lease-purchase arrangements need to know how to act as landlords. It thus makes the most sense as the extension of work by a CDC or other nonprofit with existing expertise in rental housing.

Lease-purchase may be particularly useful for a group working in a neighborhood that is just beginning to undergo revitalization and gentrification. For example, a group would like to help some of the existing residents who are very low-income families benefit from the expected rise in home price appreciation. However, few if any of the residents can qualify for a mortgage due to low credit scores and lack of savings. The group knows the residents need financial literacy education and counseling, but is worried that if it works with the residents for three years to improve their credit, etc., it may already be too late to buy homes at an affordable cost. So the group decides to pursue lease-purchase. This allows the group to help families buy homes in the target neighborhood while property values are still low and then work with them to improve their credit so that they can qualify to assume the mortgage at the end of 38 months. (If the residents don't qualify, the group has the right to bring in another family who would.)

There are mixed opinions about the value of lease-purchase in conjunction with the Low Income Housing Tax Credit (LIHTC). Some argue that the requirement that LIHTC housing remain rental housing for 15 years is too long a gestational period to make any sense for lease-purchase. Others (such as Steven Dow of the Community Action Project of Tulsa County, OK) argue that the transaction can be structured so that it has little real impact on families' rent, and has the advantage of starting the homeowners out with significant

equity (as a result of the LIHTC equity). While many of the original renters may not stick around long enough to take advantage of the homeownership component, as the end of the 15-year compliance period approaches (say in years 9 to 15), it can be a valuable homeownership strategy. Plus, it facilitates the property's transition to homeownership at the end of the 15-year cycle. Lease-purchase may also have application for existing LIHTC developments, many of which are approaching the end of their compliance period. Can these expiring-use properties be converted to homeownership through lease-purchase?

Outside of the LIHTC context, some observers argue that lease-purchase is an anachronism that made sense when credit constraints were really high, but may no longer be sensible now that the GSEs and lenders have significantly relaxed them. Given the more relaxed credit requirements, why not simply put people directly into homeownership?

Even if lease-purchase is not an anachronism, it may not always be a good option. If the family can get to the point where they are able to purchase a home on their own within a brief period of time, why go through the trouble of lease-purchase? In addition, organizations that are not prepared to be landlords can run into trouble. Lease-purchase requires a several-year commitment by the sponsor (though the minimum length of commitment is not nearly as long as is required for a community land trust.) Finally, some owners exploit lease-purchase as a strategy for charging more in rent than they could otherwise get and then do very little to help the families become homeowners. (Some deliberately select individuals they believe have little chance of becoming homeowners.) This can give lease-purchase a bad name.

**Recommendations:** Our main recommendation in this area is to fund an analysis of the concept of "lease-purchase," possibly including an evaluation of alternative models, to determine (a) if the approach still holds merit in this age of loosened credit restrictions; and (b) if so, what strategies make the most sense for executing it? We also recommend that lease-purchase be included as one of several options in a new toolkit of strategies for helping nonprofits strengthen homeownership opportunities and retention among very low-income families in their community. (More on the toolkit under "Cross-Cutting Issues" section on page 62.) Finally, lease-purchase should be included in an analysis of options for dealing with Low Income Housing Tax Credit properties with expiring use restrictions.

### **Step-Down Products**

One recent development in the mortgage market is the emergence of “step-down” products where borrowers with sub-par credit start out at one interest rate and then, after they demonstrate an ability to meet their payment for a certain period of time, their rate goes down. It may make sense to analyze these products to determine whether the potential inherent in this attractive concept is fully being realized. Are these products fair? Could they be improved?

## **INCOME**

## **CONSTRAINTS**

As noted in the initial analysis of obstacles to homeownership among very low-income families, many of the solutions to the income constraint are either very expensive on a per-household basis—such as monthly mortgage subsidies or large capital subsidies to reduce monthly costs—or largely the domain of other areas of social policy, such as increased job training or child care subsidies to help families increase their earnings.

One approach to addressing income constraints considered below is to promote alternative forms of tenure, such as community land trusts, limited equity cooperatives, and equity finance mortgages. While community land trusts and limited equity cooperatives can be expensive to set up, they have the virtue of providing ongoing affordability over time. Equity finance mortgages, by contrast, generally focus principally on bringing homeownership within reach of the initial purchaser. All three approaches, however, achieve their affordability goal at the partial expense of individual asset accumulation. (These strategies are all flexible enough to accommodate different approaches to balancing these competing objectives.)

A second approach to addressing income constraints is to work to preserve and expand the number of families benefiting from HUD’s Section 8 homeownership program—one of the only government subsidy streams that provides very low-income families with deep, ongoing support to help them afford their monthly homeownership costs. While this program also is expensive on a per-household basis, an opportunity presently exists to use more of the existing Section 8 rental vouchers for homeownership—in essence, promoting homeownership for very low-income families without increasing the federal government’s annual costs (and in fact, probably reducing them in light of the fixing of housing costs over time).

Other approaches include mortgage innovations (such as more attractively priced subprime mortgages) that lead to increases in families’ purchasing power and employer-assisted housing, which can provide an alternative source of housing subsidies.

### **Alternative Forms of Tenure: Community Land Trusts**

A community land trust (CLT) is an alternative approach to tenure in which a nonprofit organization purchases land and then sells housing built on the land (but not the land

itself) to low- or moderate-income households. Because the purchaser is only buying the dwelling unit, the unit is much more affordable than it would have been had the purchaser bought the unit and the land. When the purchaser is ready to sell, he or she is obligated to sell the unit back to the CLT or to another low- or moderate-income borrower, preserving ongoing affordability.

CLTs can be a valuable approach for helping (a) very low-income families attain many of the benefits of homeownership at a reduced cost; and (b) preserving long-term affordability over time, particularly in high-cost markets and markets on the verge of gentrifying. CLTs appear to be successful in serving very low-income families. According to *Sharing the Wealth*, “as of mid-1999 there were 90 operating CLTs in the United States that included a total of 4,778 housing units” and “half of all CLT residents earn less than 50 percent of area median income, [while] 40 percent are at 51–80 percent of the median.” Because the CLT retains ownership of the land, it has the ability to ensure long-term affordability for subsequent purchasers.

The principal drawback of CLTs from the purchaser’s perspective is that it limits the purchaser’s ability to generate wealth. (The purchaser builds wealth by paying down principal and through home improvements; the purchaser also generally gets a portion of home price appreciation. However, the purchaser does not fully realize the benefits of any increase in home value that occurred during the purchaser’s tenure.) CLTs also require an incredibly long-term commitment on the part of the sponsoring organizations, as well as large amounts of start-up costs for land acquisition.

**Recommendations:** Include community land trusts as one of several options in a new toolkit of strategies focused on helping nonprofits strengthen homeownership opportunities and retention among very low-income families in their community. (More on the toolkit under the “Cross-Cutting Issues” of strengthening nonprofit capacity toward the end of this analysis.) In addition, funders may wish to consider investing in the Revolving Loan Fund of the Institute for Community Economics, which provides funds for organizations interested in setting up CLTs.

#### **Alternative Forms of Tenure: Cooperatives and Condominiums**

A cooperative is a form of tenure where the purchaser buys a share in a corporation that owns the entire development and then participates in the ownership of the development

under a cooperative structure. A condominium is a form of ownership in which the purchaser buys the individual unit, but not the land; as with a coop, there is usually a form of collective involvement in the property. Both coops and condos are often developed as multifamily housing, which can lead to economies of scale, and thus lower costs relative to single family housing.

In a limited equity cooperative, the price of shares is regulated so that they remain affordable over time. About 1/3 of the 1.2 million cooperative units in the country are limited equity coops. Proponents of cooperatives argue that they help to promote affordable housing even if they are not limited equity cooperatives because (a) the corporation is collectively responsible for repairs, reducing the likelihood that an individual will be hit with budget-busting home repairs; (b) there are lower closing costs for the individual because the transfer of coop shares is not a real estate transaction in most states and thus there are no costs for title insurance, abstract, survey, recording, and related local taxes; and (c) cooperative boards have greater freedom to sell to borrowers that the market might consider risky as it is the corporation and not the individual that takes out the mortgage. (In light of the ever-relaxing standards for mainstream and affordable mortgage products, it's not at all clear that the latter proposition remains true, if it ever was.)

Proponents of cooperatives further argue that communities are more likely to accept the construction of a cooperative development than a rental property, even if they are limited equity cooperatives with 0% appreciation (which are highly similar in other respects to rental properties), and that such cooperative developments help to create stronger communities because purchasers feel more invested in their development due to the cooperative ownership.

In terms of drawbacks, some argue that coops and condos are not efficient to operate on a small scale. In addition, purchasers appear to be much more interested in multifamily coops and condos in some markets than others, so this approach may not be universally applicable. Finally, limited equity coops (like CLTs) achieve ongoing affordability by limiting individual asset-building potential.

**Recommendations:** Information about the benefits and drawbacks of cooperatives and condominiums (particularly limited equity cooperatives) should be included in a toolkit of materials provided to neighborhood partners that wish to become

involved in housing. (Coops should be compared to both conventional multifamily rental housing and homeownership.)

Some communities (such as New York City) have formed support organizations for cooperative housing development that have led to improved efficiencies—for example, through volume purchases for maintenance supplies and rehabilitation work and pooling of insurance, as well as serving other functions such as providing training to new coop boards. Funders may wish to consider helping to establish or support such a city-wide (or regional) cooperative support organization in the cities in which they are working and in which there are already cooperatives established that could benefit from this assistance.

### **Alternative Forms of Tenure: Equity Finance Mortgages**

The purchase of a home with an equity finance mortgage (also known as a housing equity partnership, shared appreciation mortgage, and by other terms) is another form of tenure that falls between rental housing and homeownership. The defining characteristic is that the home purchaser receives some benefit in exchange for giving up a significant portion of the house price appreciation.

Early shared appreciation mortgages in the 1970s gave the homebuyer a break on interest rates in exchange for a significant portion of the house price appreciation. They were seen as a way to deal with high interest rates and were withdrawn once interest rates declined. Second-generation shared appreciation mortgages are more flexible. For example, a second-generation shared appreciation mortgage offered by the Bank of Scotland in the 1990s was a second mortgage that required no interest payments and had no fixed term. The only payment due was when the house was sold. The borrower paid the Bank three percentage points of appreciation for each percent of the initial house value that had been borrowed. The borrower could borrow a maximum of 25% of the initial house value, which would require the borrower to pay the Bank 75% of appreciation. The buyer received credit for improvements (Caplin et al. 2004).

There is nothing magical about this 3:1 ratio. The product can be designed in an infinite number of different ways. The HOME program of Santa Cruz, CA, for example, provides a second mortgage that requires no payments of principal or interest until the house is sold,

at which point the loan is due in full. The interest is contingent interest of one percentage point of home price appreciation for every one percentage of the initial home value borrowed.<sup>16</sup>

There is substantial room in the field for additional innovation. For example, Andrew Caplin and a number of co-authors have proposed a particularly innovative product that would not only provide the equity investor with a share of the appreciation, but also expose the equity investor to risk in the event of home price depreciation—i.e., the investor shares in both the upside and downside potential—thus helping to mitigate the impact on homebuyers of home price depreciation (Caplin et al. 2004).

As with many other homeownership tools, equity finance mortgages are both promising and potentially dangerous. They are promising as a vehicle for significantly reducing the costs of purchasing a home, while retaining a portion of home price appreciation. However, there is a great potential for abuse by unscrupulous financiers who attract borrowers with low monthly payments, but exact a disproportionate heavy price when the family sells the house.

**Recommendations:** There are a number of existing equity finance mortgage products operating around the country (e.g., Howard County, MD; Santa Cruz, CA; San Diego, CA; Stanford University; University of Colorado at Boulder; Northbay Homes). An analysis/evaluation of these products could help shed light on the benefits and drawbacks of this approach. The analysis should look at some of the tough questions raised by these products, including what is a reasonable amount of appreciation to give up? How can we protect borrowers once the private market becomes involved and these are offered in every shape and size? Best practices should be disseminated to HOME jurisdictions and sophisticated nonprofits to encourage replication.

## **Section 8 Homeownership**

Section 8 homeownership is a program option in the Section 8 housing voucher program that allows existing housing vouchers to be used toward homeownership expenses, rather than rents. It is the only national product available that brings homeownership within reach of *extremely* low-income families (i.e., families with incomes below 30 percent of the area median income, roughly the poverty line on a national basis) using existing resources and thus deserves to be a *principal focus of funders' efforts* to strengthen

homeownership opportunities and retention among very low-income families. Because it can make homeownership affordable for extremely low-income families, it is a particularly promising tool for helping low-income residents in communities threatened with gentrification to purchase homes before the neighborhoods experience rapid home price appreciation, allowing the residents to benefit from rising home values. Because the Section 8 subsidy rises when the family's income drops, and because homeownership expenses generally remain around 30 percent of adjusted income, Section 8 homeownership should also help promote homeownership retention.

Although the Section 8 homeownership program has gotten off to a very slow start, activity is steadily increasing. Preliminary data analyses suggest the program has significant potential to allow extremely low-income families to become homeowners in many different markets, even to access realtor-assisted sales without significant additional subsidy. Even in markets where the program by itself cannot enable a family to purchase a home, it can be married with other programs (such as HOME downpayment programs, CDC rehab programs, etc.) to enable extremely low- and very low-income families to become homeowners. Although the program will likely never generate the kind of volume needed to get banks to trip over each other trying to fund such mortgages, it is not inconceivable that we may get to the point where there are tens of thousands if not 100,000 or even 200,000 families that have purchased homes with Section 8 vouchers. Even the latter highly ambitious target would represent only 10% of the roughly two million outstanding Section 8 vouchers.<sup>17</sup> In addition, whether or not the program reaches large national volume, it could well have a transformative impact in particular neighborhoods or communities in which funders are working.

One of the chief obstacles to expanded use of Section 8 homeownership is the relative lack of experience by PHAs with homeownership. The Neighborhood Reinvestment Corporation has received funding from Congress to work with PHAs to increase their capacity to execute Section 8 homeownership. LISC and Enterprise also hold trainings on this subject. While these efforts have helped dozens (and perhaps a few hundred) PHAs to start Section 8 homeownership programs, there is much work that remains to be done to take full advantage of this tool. (On a national basis, there are approximately 2,000 PHAs with Section 8 voucher programs. Assuming half are very small agencies, that still leaves 1,000 agencies of appreciable size. And even those PHAs that have started programs may need help getting them to scale.)

One promising strategy for addressing the capacity problem is to create partnerships between PHAs and CDCs. The PHAs bring the vouchers and the CDCs bring expertise with homeownership. In addition to expanding the volume of Section 8 homeownership closings, these partnerships can help families with vouchers identify promising homebuying opportunities in neighborhoods experiencing other forms of community development investment, thus reducing the likelihood that they will buy in declining neighborhoods. Partnerships are also needed between PHAs and city departments that administer HOME funds, state agencies that have reduced-rate mortgage programs, and other potential partners.

Another obstacle to increased use of Section 8 homeownership is that many families in the housing voucher program need assistance repairing credit, building assets for a down-payment, and increasing their earnings before they can take advantage of Section 8 homeownership. HUD's Family Self-Sufficiency (FSS) program provides an excellent opportunity to address these obstacles and help prime the pump for Section 8 homeownership. Through FSS, families in the housing voucher program and public housing receive case management services to help them access services that they may need to increase their earnings, clean up their credit, and achieve other individual goals. They also have the opportunity to build savings as their earnings increase. As their earnings go up, their rent goes up (because families in public and assisted housing generally pay 30 percent of their adjusted income for rent and utilities). The increased rent due to increased earnings goes into an escrow account that the families receive once they successfully graduate from the program. Some families can save \$10,000 or more. Graduates also experience significant increases in earnings.

In its FY 2005 budget, the Administration proposed block-granting the Section 8 program and significantly reducing its funding. These proposals would have dealt a death-knell to Section 8 homeownership because they would have robbed the program of the two elements needed to encourage banks to lend against the value of the housing voucher on favorable terms: predictable funding and standardization (so the products can be sold on the secondary market). If the block grant passed, it would have been much harder to get financing for mortgages based on Section 8 vouchers. The budget proposals would also have seriously undermined the portion of the FSS program serving Section 8 voucher holders by eliminating dedicated funding for Section 8 FSS coordinators, eliminating the current mandates for certain PHAs to participate in FSS, eliminating reimbursements by HUD for Section 8 FSS escrow deposits, and substantially reducing overall Section 8

voucher funding. While the FY 2005 proposals did not pass, the Administration has signaled that it will try again in the next budget cycle.

**Recommendations:** The highest priority recommendation in this area (and a principal recommendation of this report) is for funders to fund analysis and public policy advocacy directed at supporting adequate and reliable funding for Section 8 vouchers and FSS in the face of the Administration's proposals to block grant the Section 8 voucher program and substantially cut its funding. Another high priority recommendation is for funders to play a convening role at the neighborhood level in selected communities in which they are working to strengthen Section 8 homeownership programs by fostering partnerships between PHAs that administer the program and CDCs that can supply low-cost homes in revitalizing neighborhoods, as well as housing counseling and assistance in increasing program volume. Promising models of collaboration should be profiled as best practices for distribution elsewhere in the country.

#### **Mortgage Innovations (*Particularly Risk-Based Pricing and the Subprime Market*)**

The mortgage market is continually developing and implementing new products to reduce the ongoing costs of homeownership. Among the better known of such products are adjustable-rate mortgages (ARMs), hybrid ARMs (that fix costs for a number of years and then allow costs to float), and interest-only mortgages. While new mortgage products are continually being rolled out, the pace of new product offerings appears to have accelerated in recent years. Moreover, the market has changed in a number of fundamental ways that are unlikely to be transparent to the consumer.

While a full review of the potential of mortgage innovation to reduce the costs of homeownership is beyond the scope of this analysis, we consider here the potential of one recent change that has had a profound impact on the nature of mortgage lending: risk-based pricing. Risk-based pricing refers to the practice of charging different borrowers different rates based on the lender's assessment of the extent to which the borrower represents a risk for the lender.

Some observers argue that the potential of this innovation to make mortgages more affordable is not being fully realized. In particular, these observers argue that conventional lenders should extend their risk-based pricing approaches beyond the prime market

(where they are currently using risk-based pricing to segment borrowers into three or four price categories) into the subprime market (where risk-based pricing is already being employed, but where the conventional lenders are not generally active). This would help the market for subprime loans become more transparent and competitive, reducing the costs of subprime loans and making it less likely that borrowers are victimized by predatory lending (because they will now have more, lower-priced choices).

If this were to occur, presumably it would require the introduction of new products by the GSEs or by a large lender keeping loans in portfolio. With subprime lenders demonstrating the substantial amount of money that can be made through subprime lending to the B and C credit markets, however, one would imagine that the secondary market and conventional lenders already have a financial incentive to get more involved with these borrowers. This raises the question of whether there is any role for a foundation or the nonprofit world in this process.

In addition, critics (including housing economists at HUD) argue that risk-based pricing (whether in the prime or subprime market) is just as likely to lead to higher costs for lower-income and minority families than it is to expand homeownership opportunities. They argue that moderate-income borrowers who just barely qualify for the “A” pool, and thus get the same good rate as other borrowers with better credit, will now end up paying more than these other borrowers. In this scenario, the only families to really benefit are those with the best credit and highest incomes who need the least help.<sup>18</sup> Others raise concerns that risk-based pricing can disadvantage minority borrowers by incorporating into the borrower’s rate various biases associated with the selective coaching of different types of applicants (Carr 1999). With risk-based pricing already a reality in the private market, however, one could argue that the horse has already left the barn and we might as well take full advantage of this innovation to counter predatory lending and bring competitively priced capital in reach of more families.

HUD could stimulate the GSEs to become more involved in the subprime market by raising or otherwise modifying the affordable housing goals that HUD sets for Fannie Mae and Freddie Mac. (Congress could likewise stimulate the Federal Home Loan Banks to move in this direction.) On November 2, 2004, HUD issued a revised set of GSE affordable housing goals. While the new goals could lead to increased GSE involvement in the subprime market, careful analysis is needed to determine the precise impact of the new goals and the potential for a stronger (or a different) goals structure to encourage GSEs to

become more active in crowding out higher-priced subprime lending. At present, there are few organizations with the analytical capacity to produce such analyses that do not receive significant funding from HUD, the GSEs, or the Private Mortgage Insurance industry (which views Fannie Mae and Freddie Mac as competitors). One way to address this problem is to identify and cultivate an independent organization to analyze these complicated questions and engage in general advocacy efforts from the perspective of very low-income families.

GSE involvement is not the only potential approach to increasing competition and transparency in this market (and thus lowering costs). In addition to the potential for large lenders to become involved on their own, one strategy would be to simply make more data available on pricing so that borrowers have an easier time comparing existing loan products.

**Recommendations:** To get to the bottom of this important issue and generally represent the interests of very low-income families in the policy debate surrounding HUD's affordable housing goals for the GSEs, a principal recommendation of this report is that funders commission objective, independent policy analyses on the question of whether HUD's affordable housing goals for the GSEs should be modified, and if so, how. The question of whether to stimulate greater involvement by GSEs in the subprime market, thereby creating more standardization and competition in that market, and making it harder for predatory lenders to take advantage of families' limited choices, should be one of the topics addressed in these analyses.

We also believe there is a need to educate homeownership counselors about the realities of risk-based pricing and automated underwriting so that they can provide more effective advice to clients about their qualifications for a mortgage (and at what price). Similarly, there is a need for the nonprofit world to take another look at the potential benefits of subprime lending now that some subprime borrowers can obtain reasonably priced capital through risk-based pricing. Funders may wish to consider convening a conference to discuss these issues in the nonprofit world and to commission a curriculum add-on on these subjects for homeownership counselors.

Finally, research aimed at illuminating the practices of the subprime market (i.e., vetting pricing and spreads) would help the housing world better understand the

potential and risks of this lending and could encourage more mainstream lenders to become involved at a more attractive price. In theory, one could also imagine an ongoing central data source on subprime lending that enhances consumers' ability to comparison shop.

### **Employer-Assisted Housing**

Employers represent a potential source of additional capital to subsidize or otherwise facilitate homeownership. Homeownership support by employers can range from disseminating information about the homebuying process to intensive credit counseling, downpayment assistance, second mortgages, and other options. Employer-assisted housing can also include assistance meeting rental housing costs.

The argument to employers is that an employer-assisted housing benefit will help them attract and retain quality employees. Fannie Mae's brochure on this topic focuses on the "Rs."

- recruitment—sets the company apart
- retention—motivates employees to stay
- revitalization—can encourage employees to purchase homes in specific neighborhoods
- reduced commuting—can encourage employees to live closer to work
- role model—helps employees achieve the American dream of homeownership
- relationships—stronger customer relationships with highly motivated employees
- return—can strengthen the company's financial statements
- recognition—enhances the company's reputation

Fannie Mae and Freddie Mac both have employer-assisted housing efforts. There are numerous examples of successful employer-assisted housing programs around the country. There are also a number of useful analyses of employer-assisted housing, many of which focus on Minnesota where the practice appears particularly well-developed.<sup>19</sup> Most recently, a series of case studies on the subject was included in the June 2004 issue of the *National Housing Conference Affordable Housing Policy Review*.

**Recommendations:** Our chief recommendation in this area (and a principal recommendation of this report) is that, within selected cities in which they are active, funders help establish local coalitions of community-based organizations and

others (ideally, including chambers of commerce, regional planning departments, city governments, etc.) to persuade multiple employers in the city to support employer-assisted housing. It is likely that success with one employer may breed success with others once word gets around (particularly in fields in which there is significant competition for qualified employees). The Regional Employer-Assisted Housing Collaborative in Chicago appears to be a good model.<sup>20</sup> Community-specific marketing materials may be useful for such efforts.<sup>21</sup>

Funders also may wish to consider (a) helping to coordinate national efforts to market employer-assisted housing to chambers of commerce, unions, and other organizations with potential to reach large numbers of employers to sell this approach and (b) funding the preparation of training materials for local neighborhood groups on how to sell employer-assisted housing to local employers.

Although not the traditional approach to employer-assisted housing (i.e., where employers directly fund affordable housing for their employees), HIT HOME may be worth studying as an alternative approach to helping meet the homeownership needs of members of different professional associations. HIT HOME is a partnership between the AFL-CIO Housing Investment Trust (which invests Taft-Hartley and public pension funds in housing products, including affordable housing), Countrywide Home Loans, and Fannie Mae. It offers union members a closing cost credit, free homeownership education, and other benefits, including a more flexible payment schedule. As noted above, these types of arrangements hold particular promise as an alternative vehicle for disseminating homeownership education through associations trusted by their members.

#### **Alternative Sources of Funding for Low-Cost Mortgages**

Some practitioners believe that there is significant potential to tap additional sources of funding for low-cost mortgages, including and especially public pension funds. The California Public Employees' Retirement System has a home loan program for its members,<sup>22</sup> as does the California State Teachers' Retirement System (through Countrywide).<sup>23</sup> Private pension plans could also be used to fund mortgages for low-paid workers in the companies holding the pensions.

## **WEALTH CONSTRAINTS**

### **Principal Existing Solutions (Downpayment Assistance Grants, Second Mortgages, “Gift” Programs)**

As noted in the initial analysis of obstacles to homeownership, the recent introduction of low- and no-downpayment mortgages has reduced the extent to which wealth constraints act as an absolute barrier to homeownership. While many of these

products charge higher interest rates, or are limited to families with relatively good credit, they do have the general effect of shifting the nature of homeownership obstacles (for example, to focus more heavily on income and credit constraints). For this reason, and because such solutions are generally very expensive on a per-household basis, we touch only briefly on the principal strategies presently used to address wealth constraints on homeownership: downpayment assistance and second-mortgage programs. (Second mortgages supplement primary mortgages obtained generally through private financing; second mortgage programs focused on low-income borrowers are often offered at reduced interest rates and/or require no payments until the house is sold.)

Downpayment and second mortgage products vary widely from one jurisdiction to another, raising questions about which models are the most effective for responding to particular housing environments. For example, it seems logical that a sliding scale approach in which relatively lower-income households get larger grants/loans and relatively higher-income households get smaller grants/loans would allow one to provide effective downpayment/second mortgage assistance to households across a wider income spectrum than a simple flat grant/loan. However, flat downpayment grants appear much more common than sliding scales. In addition, one reviewer of an early draft of this report observed that it would be easier to get banks to participate in second mortgage programs if the criteria were more standardized. Another observed that standardization of these programs could facilitate the securitization and sale of such mortgages on the secondary market, allowing the funds to be recycled and offered to additional families.

On a similar note, some individuals believe there is potential to recycle millions of dollars in existing subsidized loans that have a proven history of performance by packaging these loans and selling them on the secondary market. There are, of course, significant obstacles to this sale—notably, the lack of standardization across the products offered by a diverse range of public, private, and nonprofit agencies.

Gifting programs (such as AmeriDream and Nehemiah) have also emerged as a strategy for helping families that lack funds for a downpayment. In these programs, the seller contributes a portion of the home sale to the gifting program, and the gifting program gives a gift to the borrower that can be used to cover most of the downpayment. (A HUD Inspector General report found alarmingly high default rates for these programs. However, the programs believe they have more recent evidence that refutes the IG's conclusions.)

As one reviewer has persuasively argued, substantial per-household subsidies are likely to be needed (particularly in high-cost markets) to substantially expand homeownership opportunities for very low-income families. Given the high per-unit costs involved, however, we assume that (except perhaps for some special projects) foundations are not interested in paying directly for these subsidies. By contrast, it may be sensible to fund public policy analysis/advocacy directed at expanding federal resources available for this purpose and to emphasize in materials oriented at local decision-makers of HOME and CDBG funds the value of spending more on a per-household basis to assist lower-income households who are unable to purchase a home without the subsidy. (In contrast, many such programs currently focus in part or in the main on providing somewhat higher-income families who could already afford to buy a home with funds to allow them to purchase a bigger home than they could otherwise afford.) Both of these projects are included as recommendations.

**Recommendations:** Our main recommendation in this area is to conduct an analysis of downpayment assistance and second mortgage programs (and convene a meeting of experts to discuss the analysis) for the purposes of developing a consensus on the most sensible policies for responding to different housing environments. (These results should then be disseminated broadly to local governments and nonprofits.) Among other issues, this analysis should consider whether to promote increased use of a sliding scale for downpayment assistance and second mortgages to allow a fixed amount of homeownership resources to assist lower-income homeowners than many of these programs currently reach. The analysis should also emphasize the value in spending more per household to help someone who could not otherwise afford to purchase a home, rather than spending less on households that could already qualify for a home, but are interested in assistance purchasing a somewhat larger home. Another useful topic to consider is the potential of standardization to create a secondary market for such products to return money to the community for use in helping other families.

Finally, it may be worth reviewing current standards on how much housing price appreciation these products allow families to gain. Some subsidy products do not allow much appreciation at all, hampering wealth creation among low-income families.

A second recommendation is that a strategic discussion of these options (down-payment assistance, second mortgages, gifting programs) should be included in a toolkit of strategies that nonprofit groups could use to strengthen homeownership opportunities and retention among very low-income families. Finally, funders may wish to consider analysis and public policy advocacy directed at supporting federal policy innovations, such as FHA's proposed no-downpayment mortgage (and other potential federal subsidy programs, such as a flexible National Housing Trust Fund) that can help address the wealth constraint on homeownership.

#### **Asset-Building Strategies: IDAs and FSS**

Individual Development Accounts (IDAs) have (deservedly) received significant attention as a strategy for helping very low-income families build wealth. One major benefit of IDAs, in addition to asset building, is the emphasis on financial literacy education. As a number of foundations already have substantial programs supporting IDAs and other innovative asset-building vehicles, we have not devoted significant attention to this particular topic. In general, we recommend continuation of this support.

In comparison with IDAs, HUD's FSS program has gotten much less attention, despite its great promise as a vehicle for helping low-income families build assets and increase their incomes. As noted in the discussion on Section 8 homeownership, FSS provides families in the voucher program and public housing with case management services to help them access services to increase their incomes, clean up their credit, etc. They also have the opportunity to build savings as their earnings increase. As their earnings go up, their rent goes up. The increased rent due to increased earnings goes into an escrow account that the families receive once they successfully graduate from the program. Currently, there are more than 75,000 families in the FSS program nationwide (roughly 67,500 are Section 8 voucher holders, while roughly 7,500 are public housing residents).

Outcome data are not yet available on the program nationally (some data are expected sometime in 2005), but a study of 19 local programs indicated an average asset

accumulation by FSS graduates in excess of \$6,000, with about one-third going on to become homeowners (even before Section 8 homeownership). (For the latest data on program results, see [www.fsspartnerships.org](http://www.fsspartnerships.org).) Because FSS has the potential to help families with incomes well below the poverty line to increase their earnings, build savings, and ultimately become homeowners, it deserves to be a principal focus of foundations' efforts to strengthen homeownership opportunities for very low-income families.

At present, HUD rules permit PHAs to expand their FSS programs, with full funding by HUD for the escrow accounts. So, under current law, FSS is a potential growth vehicle for expanding asset building. However, this potential is substantially jeopardized by the Administration's proposals to block grant the Section 8 voucher program. If passed, these proposals would greatly undermine the portion of FSS serving voucher holders by eliminating dedicated funding for Section 8 FSS coordinators, eliminating the current reimbursement to PHAs of deposits in the FSS escrow account for voucher holders participating in the program, eliminating the mandate that many PHAs have to run FSS programs, and substantially reducing funding for the Section 8 program as a whole (which would make it less likely that PHAs would choose to continue FSS in a block grant world). If such a block grant passes, not only would there not be a significant opportunity for expansion, but many existing FSS programs would likely shut down.

For 2004, the Annie E. Casey Foundation has undertaken a small pilot project with LISC to help develop the potential of FSS as an asset-building vehicle. (Full disclosure: the principal author of this report is being funded through this project.) To our knowledge, this is the only national-level support for this asset-building program.

**Recommendations:** Given the importance of the FSS program to the overall goal of helping very low-income families build assets and become homeowners, and the absence of any other national-level support for this program, we assign a high level of priority to efforts to strengthen the FSS program. Accordingly, three of the principal recommendations of this report relate to FSS:

- Fund analysis and public policy advocacy directed at supporting adequate and reliable funding for Section 8 vouchers generally and FSS specifically in the face of the Administration's proposals to block grant the Section 8 program and substantially cut its funding.

- Broaden national-level support for the FSS program to (a) promote partnerships that help expand participation (see the next bullet); (b) share best practices on how to run a quality program and address common challenges; and (c) support the local communities of practice that enable FSS practitioners to learn from one another.
- Play a convening role at the local level in selected communities to help expand the number of families building assets through FSS. Expansion of FSS programs will require local partnerships between housing agencies and organizations or agencies that can provide work-promoting case management for additional FSS participants. (Under current law, HUD funds the housing assistance and the escrow accounts, but provides only limited funding for case management.) Write up and distribute successful partnerships as best practices.

As noted above, we also recommend continued support for the IDA field and other innovative asset-building approaches. Finally, funders may wish to consider steps to expand the involvement of CDCs in EITC outreach and free tax preparation as asset-building vehicles to help renters in their communities become homeowners.

**SUPPLY  
CONSTRAINTS**

The strategies discussed above all focus on helping individuals overcome obstacles to the purchase of existing homes. In contrast to these demand-side solutions, the supply-side solutions discussed below all focus on ways to expand the supply of affordable homeownership units—generally, by reducing the costs of development. Supply-side solutions are particularly important in high-cost areas, such as California and many parts of the Northeast.

**Land Availability**

The price of land is a huge barrier to homeownership in many urban areas. One strategy for addressing this problem is for localities to make tax-delinquent properties available to nonprofits for the development of affordable housing. A number of cities have such programs. Another approach is “land banking,” in which a local organization or government opportunistically purchases land for later development for affordable housing.

**Recommendation:** It would be useful to do a thorough analysis and identification of the most promising approaches to land assemblage programs (including both reallocation of tax-delinquent properties and other land banking strategies) for replication elsewhere. Such an analysis can build on a number of case studies that have already been undertaken. See, e.g., Keating and Sjoquist 2001 and LISC’s 2000 and 2002 case studies of tax-delinquent property programs.

**Reducing Regulatory and Other Barriers to Affordable Housing**

There are a great number of regulatory and other barriers that raise the cost of new housing development generally and/or unduly burden affordable housing development. Regulatory barriers include large-lot zoning, excessive impact fees, lengthy permitting and approval processes, gold-plated subdivision rules, prohibition of manufactured housing, prohibition of multifamily housing, excessive parking or other standards that render multifamily housing impractical, outdated rehabilitation codes that unduly raise rehab costs, and many others. Some estimates of the impact of regulatory barriers suggest they may raise housing costs as much as 15 or 20 percent (Advisory Commission on Regulatory Barriers to Affordable Housing 1991).

Other obstacles to affordable development include the high costs of liability for product defects in certain states. For example, some builders in California, Arizona, and Texas argue that such costs make it virtually impossible to build affordable condominiums or planned unit developments. While protecting the public from product defects is obviously an important issue (as is environmental protection, which is at the root of some other regulatory processes that raise housing costs), it is important to balance these values appropriately with the need for affordable housing. Research and analysis that documents the extent of the affordability impact of different regulations, compares these to the benefits of the regulations giving rise to those impacts, and identifies alternative approaches that serve the same policy goal with less of an adverse impact on affordability would be helpful here.

NIMBY (Not in My Back Yard) sentiment also impedes the development of affordable housing. Neighborhood opposition, especially in the context of open-ended approval processes, can torpedo an affordable housing development or make it unduly expensive. NIMBY sentiment can also lead to excessive regulation that has the same effect.

Under the current Administration, HUD has begun to place greater emphasis on reducing barriers to the development of affordable housing by, for example, giving jurisdictions that have taken steps to reduce regulatory barriers bonus points in the SuperNOFA funding competition for HUD funding and requesting funding for research on how to reduce regulatory barriers. The Administration's efforts to call attention to this issue present an opportunity for other organizations to become involved and build on this framework.

Because regulatory and other barriers to affordable housing affect both single family and multifamily housing, efforts in this area should not be limited to homeownership but should focus on barriers to multifamily housing as well.

**Recommendations:** There is a major need to change public perception of affordable housing so as to reduce NIMBY sentiment. Many people do not realize that affordable housing today often looks exactly like other types of housing, and indeed, can be an asset in many communities. A national campaign to change public perception is underway (see <http://www.tcah.org>) and a number of other groups, including the National Housing Conference, are working on their own initiatives. A principal recommendation of this report is that such efforts should be supported and expanded.

Another principal recommendation of this report is that foundations fund studies of regulatory barriers to the development of affordable housing in cities in which they are working by local academic institutions working in partnership with nonprofits and the business community. These studies would be used by local coalitions to convince local governments to change policies. A similar study conducted in New York City appears to have been effective in convincing the city to take concrete steps to reduce some of their regulatory barriers to development, including replacing their outdated building code and rezoning major swaths of unused manufacturing land for housing. Attention should focus not only on the content of the studies but also on the coalitions organized to take advantage of the findings. The studies are valuable only if they lead to change.

Other priority recommendations in this area include (a) funding additional research and analysis at the national level to document the nature of regulatory barriers and develop or propose alternatives that address cities' legitimate needs with less of a negative effect on affordable housing—for example, alternative strategies for funding new school construction; and (b) funding pilot tests in selected cities of national-level marketing materials aimed at changing the public perception of affordable housing.

### **Manufactured Housing**

A sizable share of the units added to the nation's inventory of affordable housing each year is manufactured in factories, rather than built on site. Nationally, 23 percent of growth of homeownership among very-low-income families ( $\leq 50$  percent AMI) between 1993 and 1999 was due to manufactured housing. Percentages were higher for families in the south (30 percent) and rural areas (35 percent) (Apgar et al. 2003). Despite this fact, manufactured housing has long been neglected by housing advocates and policy analysts who lack a specific rural focus and only rarely incorporated into urban CDC practice. (The one exception has been the consumer protection industry, which has long looked at manufactured housing as a consumer issue. See, e.g., Consumers Union 2003.)

In recent years, however, manufactured housing has begun to attract increased attention from the housing community. In 2003, the Neighborhood Reinvestment Corporation and

the Harvard University Joint Center for Housing Studies published a major report on the subject (Apgar et al. 2003). Neighborhood Reinvestment has also developed a curriculum on manufactured housing for housing counselors (see, <http://www.nw.org/network/comstrat/manufHsg/mhtraining.asp>).

The primary benefit of manufactured housing is affordability. Manufactured housing is generally (though not always) less expensive than stick-built housing. In recent years, manufactured housing has become more attractive from a design standpoint. High-end manufactured housing is difficult to distinguish from stick-built housing.

However, there are many concerns with manufactured housing. These include:

- While construction quality is generally good, poor installation can increase risks of weather-related damage.
- High-pressure sales strategies and unfavorable financing terms (often using personal loans, rather than mortgages) can lead to high rates of default.
- While manufactured homes on owner-owned land tend to appreciate, those on leased land tend to depreciate, reducing opportunities to build wealth.
- Manufactured housing is governed by national building codes that preempt local building codes. Recent legislation gives industry greater power to shape building codes. Consumers need informed advocates at the national level to keep an eye on manufacturers.
- Many communities have regulations that prohibit manufactured housing or make it difficult or expensive to utilize it. Such regulations are based on outdated stereotypes of manufactured housing.

In sum, manufactured housing holds significant promise as an approach for increasing the affordability of homeownership for very low-income families. However, a number of obstacles need to be overcome.

At the neighborhood level:

- Nonprofit groups may need training designed to open their eyes to the potential to use high-quality manufactured housing as a vehicle for promoting affordability, as well as strategies for reducing the likelihood of problems.

- Local city officials may need to be educated about the value and potential of attractive manufactured housing to convince them to modify regulations that impede its use.
- Education is needed for consumers who are potential purchasers of private-market manufactured housing on how to avoid problems associated with poor installation, unfavorable financing, etc.
- Where manufactured housing is prevalent, consider programs to help families purchase the land on which the housing will be placed (either individually or cooperatively) to maximize its value as an appreciating asset.

At the state and national level:

- Consumers need advocates to ensure that manufactured housing standards remain adequate, address predatory lending practices, work on enhanced standards for installation, etc.
- Efforts are needed to change public perception of manufactured housing to reduce barriers to its use. Consider conducting as part of broader efforts to change public perception of affordable housing, generally. (See above.)

**Recommendations:** Materials on the pros and cons of manufactured housing should be included in a toolkit for local nonprofits on strategies for strengthening homeownership opportunities and retention among very low-income families. (More on the toolkit under “Cross-Cutting Issues” section on page 62.) In addition, foundations should consider working with other organizations—such as the Manufactured Housing Institute and the Ford Foundation’s Task Force on Manufactured Housing—to prepare materials about the benefits of manufactured housing that local groups could use to persuade local officials to reduce barriers to its use. This could be conducted separately, or as part of a larger marketing campaign to change public opinion about the attractiveness of affordable housing, generally. Finally, particularly in states where manufactured housing is widely used, it would be sensible to consider state-level advocacy directed at making manufactured housing a more valuable asset, including changes to ensure it is treated as real property rather than personal property and support for cooperative ownership of land on which manufactured housing is placed that is currently leased.

### **Use of Lower-Cost Construction Techniques and Attractive, Yet Efficient Design**

At present, there do not appear to be effective channels for distributing information to nonprofits working on housing issues about (a) basic low-cost building strategies or (b) new technologies that can help reduce long-term ownership costs (including utility costs). HUD has established the Partnership for Advancing Technology in Housing (PATH) program to promote the development of technologies that improve durability, affordability, and energy efficiency. However, the reports generated by PATH are for the most part highly technical and not suitable for easy access by nonprofits. HUD's Office of Policy Development and Research has prepared some publications on these subjects geared to nonprofits (e.g., Crosbie et al. 2004 and Garner et al. 1999), but these do not appear to have been widely disseminated.

A related important issue is to promote attractive, yet efficient design, which can likewise save costs. One channel for distributing such information is the Design Advisor, funded by HUD: <http://www.designadvisor.org>. It would be helpful to get feedback from local groups on whether this tool is as useful as it could be and whether this approach is worth modeling for distributing information on low-cost building techniques and new technologies.

In some cities, well-meaning but antiquated local building codes get in the way of newer construction techniques that reduce costs without compromising quality. Building consultants can help local communities identify excessive building requirements that are impairing effective low-cost construction, but this can be expensive. A better strategy may be to encourage local communities to adopt the latest national building codes without amendments.

Finally, the field would benefit from some forward-looking creative thinking and policy development on new housing types that would be attractive to the public, but would cost less to build. Is it really inevitably the case that all Americans dream of owning a single family detached Cape Cod style home? Or are there significant portions of the public who either already desire an alternative (and less expensive) form of housing or who could be convinced to desire such housing, if exposed to it in the right circumstances and if the price were right? This is closely related to regulatory barriers issues because a close examination of local regulations would be needed to determine if such alternative housing types would be permissible and affordable. Determining how the current regulatory environment shapes existing housing types, which in turn shapes the public's image of the American Dream, could be helpful in charting a course for regulatory reform that

leads to lower-cost housing options. There may also be a need to produce demonstration housing and other evidence (i.e., consumer studies) of the desirability of such housing options.

**Recommendations:** We recommend that foundations work with Enterprise, LISC, the Neighborhood Reinvestment Corporation, and PATH to strengthen dissemination of information to CDCs and other organizations working on housing issues about lower-cost construction techniques and efficient design—both stick-built, as well as panelized construction and manufactured housing. This could include a Web site, easy-to-follow books, a new distribution network, etc. It could also include a convening of the different players to discuss how to better coordinate their respective activities in this area. Finally, there appears to be a need for creative forward-looking thinking about alternative housing designs to which the public would be receptive but that cost significantly less to build, along with an analysis of any regulatory changes that would be needed to accommodate those housing types.

### **Self-Help Housing**

A number of programs help to reduce the costs of construction for low-income families by encouraging the contribution of sweat equity by the owners and their friends and relatives. This approach is particularly popular in rural areas, where land costs are relatively low (and thus, reductions in construction costs lead to the greatest percentage reductions in overall homeownership costs), but it is also being utilized in urban areas. Key funding sources include the U.S. Department of Agriculture's (USDA) Rural Development self-help housing program and HUD's Self-Help Opportunity Program (SHOP). Self-help is the principal model of housing development utilized by Habitat for Humanity International, a nonprofit, ecumenical Christian housing ministry that has built more than 175,000 houses around the world.

The Administration has proposed a significant increase in funding for SHOP, but this increase has not been adopted by Congress.

**Recommendation:** In addition to advocating for additional funding for self-help housing programs, it would be useful to convene a panel of practitioners and

technical assistance providers from across the different self-help programs to discuss what steps (beyond additional government funding) would be useful for helping to expand the number of families benefiting from this approach.

### **Increased Government Support for Housing Affordable to Low- and Moderate-Income Families**

Even if all the above strategies were executed perfectly, there would still be an inadequate supply of housing in some areas that is priced low enough for very low- and low-income families to purchase. This is particularly a problem in high-cost areas, such as California and much of the Northeast. While it would be a mistake in this era of budget deficits to focus only on increased government support for affordable housing as the answer to this dilemma, it would equally be a mistake to ignore it altogether. Plainly, there is a need to continue to educate officials at all levels of government and the public at large about the importance of affordable housing.

Such advocacy takes many forms and this report does not take a stand on which is the “right” approach. In all likelihood, we need a multipronged approach. For example, the campaign for a National Housing Trust Fund has met with significant success promoting a flexible funding stream that would be focused primarily but not exclusively on the lowest-income families with the greatest affordability needs. Another promising approach focuses on housing that is priced at a level affordable to the essential workforce necessary to keep America’s cities humming, such as firefighters, police officers, teachers and nurses. It is widely believed that a strong constituency could be built for housing affordable to such workers. While such housing may still be out of the reach of very low-income families, it can be made accessible by layering downpayment assistance, second mortgages, or other existing tools. Among other examples of advocacy focused on the housing needs of working families is the National Association of Home Builders’ Partnership for Workforce Housing. The National Housing Conference and its research affiliate, the Center for Housing Policy, have similarly been focusing on the affordable housing challenges facing working families for the past five years. Their work includes publication of studies that document working families’ affordability problems and illustrate the issues in a manner that promotes a clearer understanding among the media, government officials, and the general public (see <http://www.nhc.org>).

In addition to advocacy efforts intended to expand the availability of direct government funding for affordable housing, it is important for advocates and practitioners to consider how best to encourage other forms of government action that can help increase the supply of affordable housing. For example, a small but growing number of local jurisdictions have adopted ‘inclusionary zoning’ policies that require new housing developments to include a minimum proportion of affordable units. Such policies, which typically include financial incentives designed to offset the loss of revenue to property owners and developers, can be particularly useful in high-demand high-cost areas such as California and many parts of the Northeast. A significant number of jurisdictions also provide abatements of property taxes as a subsidy to newly constructed or rehabilitated housing that meets affordability standards. In areas where the land would not otherwise have been put to productive use, tax abatements of future increases in value due to redevelopment can sometimes be justified by a rationale similar to that of tax increment financing (another strategy that can generate funds for affordable housing).

Property tax relief for low-income families living in existing housing in revitalizing areas may also be necessary to ensure that rising property taxes in such neighborhoods do not render their housing unaffordable. While low-income families can realize a gain in such sales, they may sell early in the cycle, missing out on much of the home price appreciation. Property tax relief (which can take the form of capped appraisals, a deferral of taxes until sale, or other forms) gives existing residents of revitalizing neighborhoods greater control over whether they wish to move, and if so, when they wish to do so.

**Recommendations:** Foundations should continue to support advocacy efforts directed at increasing public support and funding for affordable housing at all levels of government. Advocacy strategies directed at encouraging local and state governments to adopt inclusionary zoning and tax abatement and other tax policies favorable to affordable housing should be included in the toolkit developed for use by local groups described elsewhere in this paper. A number of additional specific policy proposals meriting support are included in the section “Federal Policy Issues” beginning on page 69.

**HOUSING  
DISCRIMINATION**

The landmark Housing Discrimination Study 2000 by the Urban Institute found that, while housing discrimination against African American and Hispanic homebuyers decreased significantly between 1989 and 2000, it remains at unacceptable levels. According to the report:

“The greatest share of discrimination for Hispanic and African American home seekers can still be attributed to being told units are unavailable when they are available to non-Hispanic whites and being shown and told about less units than a comparable non-minority. Although discrimination is down on most measures for African American and Hispanic homebuyers, there are worrisome upward trends of discrimination in the areas of geographic steering for African Americans and, relative to non-Hispanic whites, the amount of help agents provide to Hispanics with obtaining financing” (Turner et al. 2002). The study also tested (for the first time) the level of discrimination against Asian Americans and Native Americans and found significant discrimination in both areas.

Housing discrimination is one of several factors that may influence the location of homes that families purchase. The location, in turn, may affect a host of different attributes affecting the desirability of the housing, including housing price appreciation, proximity to jobs and public transportation, availability of formal and informal support networks, etc. It is worth giving significant thought to the location issue, both as an outcome of discrimination and as an independent issue that substantially affects the benefits families may secure from homeownership.

**Recommendations:** HUD provides funding to both nonprofits and state housing agencies for fair housing education and enforcement. As in many other areas, however, HUD does not do a good job identifying and disseminating information on promising and effective practices. Nor has there been much research directed at demonstrating the effectiveness of different marketing and educational strategies for increasing the awareness of and compliance with fair housing laws. Both provide natural areas for foundation involvement to identify and disseminate information on best practices.

Additional research on the locational outcomes of low-income homeownership purchasers is needed to determine what steps, if any, could be taken to maximize the benefits of homeownership for low-income families. The research should look both at the consequences of locational decisions (i.e., in terms of job access,

home price appreciation, etc.) as well as the motivating factors for those decisions (individual choice, discrimination, etc.) and evaluate what steps would be most effective for encouraging positive locational outcomes.

Finally, foundations should consider funding additional analysis and advocacy directed at strengthening fair housing enforcement by the appropriate authorities.

## **OVERCOMING BARRIERS FOR PERSONS WITH DISABILITIES**

According to the 2000 Census, nearly one in five households in the United States contains a person with a physical or mental disability. In addition to serious affordability barriers, very low-income

persons with disabilities face significant barriers related to their disabilities, especially the need for physical and design accommodations that raise the price of accessible housing.

There are a number of special mortgage products designed to allow persons with disabilities to finance home improvements that make their homes more accessible. Awareness of these products is limited, however. HOME funds can also be used for this purpose, though again there is limited awareness of this option and insufficient comprehension of the need for this intervention.

**Recommendations:** Toolkits for local community groups interested in strengthening homeownership for very low-income families should include a section addressing options for helping very low-income persons with disabilities overcome barriers to homeownership. Analyses of city options for using HOME funds should also address this issue.

## **CROSS-CUTTING ISSUES**

### **Homeownership Retention**

One of the principal concerns with homeownership for very low- and low-income families is that such families will default and be forced into foreclosure or bankruptcy as a result of loss of a job, an inability to afford the ongoing costs of homeownership, or as the result of unanticipated repair costs, such as a leaky roof or a blown furnace. Given the potentially devastating effects of such foreclosures and bankruptcies on individual families, as well as the communities in which they live (for example, if they occur with great frequency in a particular neighborhood), we believe this subject deserves to be a principal focus of funders' homeownership efforts. (To highlight the importance of homeownership retention, we changed the title of this report from the working title of "Strengthening the Ladder to Homeownership for Very Low-Income Families" to "Strengthening the Ladder for *Sustainable* Homeownership," which we interpret as encompassing both homeownership attainment and retention.)

The principal strategies currently in place to promote homeownership retention are:

- pre-purchase counseling, which helps to educate families on whether they can afford the real costs of homeownership, how to budget for the full costs of homeownership (including repairs), how to avoid high-risk financing that will increase the chances they end up in default, and the risks involved in default, foreclosure, and bankruptcy;
- post-purchase counseling, which reinforces the importance of budgeting for repairs and helps educate families about the risks of predatory refinancing; and
- foreclosure prevention, which targets families at risk of default for special follow up, to educate them about options to avoid foreclosure and bankruptcy, and help connect them with programs that can assist them (where available). A recent study by Freddie Mac offers evidence that early intervention to help delinquent borrowers develop a workout plan leads to significantly fewer foreclosures.<sup>24</sup> An interesting example of such an early intervention strategy is being implemented in Chicago. In response to concerns that large numbers of defaults were occurring in particular communities, the Neighborhood Housing Services of Chicago Home Ownership Preservation Initiative, in partnership with the City of Chicago and a number of major loan servicing companies, implemented a promising system in which lenders in the city provide early referrals to

nonprofit agencies of families in danger of default. Nonprofits then intervene to minimize defaults. The system seems to be working well, but lenders really want a single system that provides national coverage, a daunting challenge.

Each of these strategies holds potential and deserves continued and expanded support.

It is also important to consider additional approaches, such as the extent to which insurance products (such as insurance against unanticipated home repairs and loss of a job) can be better used to help prevent foreclosures and bankruptcies. Home warranties and job loss insurance already exist; however, they are generally provided by businesses whose primary operating principle is to reduce the number of claims against the fund, rather than to help families avoid foreclosure. Is there a way to make a kinder, gentler (but actuarially sound) type of insurance more widely available to low-income homeowners and home purchasers? Another type of insurance worthy of additional analysis and possibly support is insurance against home price declines, such as that being implemented on a pilot basis by the Neighborhood Reinvestment Corporation in Syracuse, NY. While this insurance is not motivated primarily by a goal of helping low-income families avoid foreclosure, it could help guard against one of the other risks of homeownership—loss of equity. It also may be helpful in increasing the confidence of middle-income families to purchase homes in neighborhoods that one is seeking to revitalize.

Other potential approaches include (a) the targeting of asset-building programs, such as Individual Development Accounts, on low-income *homeowners* to help them build savings to weather unanticipated problems that imperil their continued ownership; and (b) the creation of a national fund to provide low-interest loans to help low-income homeowners who confront problems that imperil their continued ownership. Such loan programs already exist in certain locations—for example, Pennsylvania has had such a fund for 20 years and it is presently self-supporting. (If a national fund proves impractical, it would be sensible to work to expand the number of state-sponsored loan products of this nature.)

Finally, in some communities, vacancy, deterioration, and demolition of existing housing is a major obstacle to homeownership (as well as a threat to neighborhood stability). Many governments have home repair programs to help prevent deterioration, though these are often underfunded. In some communities, community-based groups have organized around preventing the demolition of existing affordable housing stock (which is often replaced by new construction that is affordable only to higher-income families). More

thinking is needed around creative solutions to gentrification, including better timing of affordable housing development to expand the supply of affordable housing in neighborhoods that are about to, but have not yet, gone through rapid home price appreciation.

**Recommendations:** In addition to strongly promoting the expanded availability of pre-purchase and post-purchase counseling—covered earlier under homeownership education and counseling and financial literacy education—a principal recommendation of this report is that a foundation should fund an analysis of the potential of different insurance products—both actual products and products that could conceivably be developed—to strengthen homeownership retention among very low-income families. Of particular interest is insurance to help homeowners deal with unanticipated major repairs. Other insurance issues worth looking at are (a) insurance against loss of employment income and (b) the Syracuse pilot of insurance against home price declines.

Another high-priority recommendation is to fund an examination of existing loan funds (such as that in Pennsylvania) that provide low-interest loans to low-income homeowners who experience problems paying their mortgage that could lead to foreclosure and/or bankruptcy with an eye to determining whether it makes sense to create a national loan fund of this nature, and if so, what would be involved in executing this strategy.

In addition, we recommend that foundations consider funding some forward-thinking on what a national system of early intervention in delinquent mortgages would look like. While the challenges of implementing such a system on a national scale are daunting, the payoff would be so large that it is well worth a preliminary forward-looking analysis. We also recommend that foundations involved in IDAs rely on their asset-building expertise to consider ways—including but not limited to modification of the IDA model—to promote savings and other wealth-building opportunities for low-income homeowners who might need these savings to avoid foreclosures in the event of an unanticipated problem. Additional thinking is also needed on how to encourage low-income owners to refinance when advantageous to do so, as the evidence shows they are less likely to refinance than higher-income families, thereby needlessly expending more for homeownership than they have to.

Additional thinking is also needed on creative solutions to gentrification, particularly those that improve the timing of affordable housing development to expand the supply of affordable housing in neighborhoods that are about to, but have not yet, gone through rapid home price appreciation and seek to prevent the demolition of sound low-cost housing that could (perhaps with some rehabilitation) ensure the continued availability of affordable housing in gentrifying neighborhoods.

Finally, foundations may wish to work with selected neighborhoods concerned with foreclosures in their communities to implement an early warning intervention similar to that in place in Chicago where nonprofits receive a list of at-risk borrowers from banks and then follow-up to prevent defaults.

### **Support for Local Nonprofits**

While much of the nation's affordable lending is conducted by for-profit businesses, most of the strategies addressed in this outline are likely to be too time-consuming and expensive on a per-household basis to interest for-profits. Accordingly, to strengthen homeownership opportunities and retention among very low-income families, it is essential to have experienced nonprofits with a strong capacity in homeownership.

The Enterprise Foundation, LISC, and the Neighborhood Reinvestment Corporation are the largest of a number of important intermediaries that work to build the capacity of nonprofit organizations to engage in homeownership and other housing activities. While each of these intermediaries works throughout the country, they obviously do not have the staff to provide universal coverage to every neighborhood in the country. Other factors—including the presence or absence of a local or state intermediary, the presence or absence (and the funding patterns) of local foundations, the history of local HOME and CDBG funding decisions, as well as the general commitment of local residents to affordable housing—also affect the likelihood that a particular neighborhood or city will have strong nonprofit capacity in this area. Invariably, then, some neighborhoods and cities will have greater nonprofit capacity than others to carry out the types of strategies discussed in this report.

Even where a neighborhood or city has nonprofits with strong capacity for developing affordable housing, these organizations may not have the time or expertise to develop a strategic approach to their housing work. The same point applies to cities administering

HOME and CDBG funding. Depending on the needs of particular communities, some of the strategies for promoting homeownership make more sense than others. Similarly, different communities may wish to devote different percentages of their effort to rental housing or homeownership. One of the challenges for local communities is to determine which strategies to pursue and how to structure them.

Developing the strategic capacities of nonprofits and city housing departments is particularly important in light of the substantial risks associated with homeownership for very low-income families discussed at the outset of this report. For example, in a neighborhood with declining housing prices, homeownership may simply not be the best strategy unless one is prepared to intervene (through both homeownership and related community and economic development work) on a scale sufficient to change the market dynamic. Identification of neighborhoods that have a potential to gentrify (but where land prices are still low) may also be important for the execution of certain strategies discussed in this report, such as community land trusts, limited equity coops, and Section 8 homeownership. On the rental housing side, a different mix of tenant-based (i.e., Section 8 vouchers or tenant-based assistance under HOME) or project-based resources may be called for, depending on the condition of the existing housing stock and other factors.

**Recommendations:** If a foundation is working in a neighborhood that does not already have a strong nonprofit working on housing issues, the foundation may wish to consider taking steps to help build this capacity. This can be done either by augmenting the skills of an existing organization working in the community, starting a new organization, or persuading an existing CDC working in the broader community to add a focus on the target neighborhood. The community development intermediaries listed above, as well as any state or local intermediaries working in the area, are well positioned to help in building this capacity. (Of course, additional funding may be needed.)

In addition, new tools are needed to help local communities assess which strategies make the most sense in their communities. There are a number of good manuals that already exist to help community groups tap into local data sources and assess the needs of their communities. However, the usefulness of these tools is constricted by limitations in local analytic capacity. It would be worthwhile to seriously consider the extent to which *automated tools* could be developed—perhaps layered onto DataPlace (a central clearinghouse of housing-related data

being funded by the Fannie Mae Foundation)—that could help communities more easily analyze the strategies that are likely to be most important in particular neighborhoods. The first step would be to develop a consensus among experts on the policy implications of different data elements and trends. For example, what strategies should you consider if your neighborhood is experiencing declines in housing values? Rapid appreciation of housing values? Or, if you have large or small shares of substandard housing? Once a consensus on the policy implications of different data conditions has been established, templates could be developed that would enable users to see the directions of these data trends in their area and then direct them to information about how to interpret these trends and the policy options that the data analysis suggests considering. By layering such templates onto DataPlace they could be made fairly easy to use, and also integrated with programmatic materials made available through KnowledgePlex.

Alternatively, or perhaps in addition, it may make sense for foundations to consider developing or acquiring housing data analysis capacity to serve as a resource for the different neighborhood groups being funded by them to work on housing issues. This person(s) could help each community analyze their local data to determine which strategies to consider pursuing. These data may also be helpful to persuade the city or housing authority to pursue a particular strategy with their HOME or CDBG funds.

Finally, we recommend the development of a toolkit and related training materials for nonprofit organizations working at the neighborhood level on creative ways to strengthen homeownership opportunities and retention among very low-income families. The toolkit should cover most of the strategies discussed in this report, including community land trusts; coops and condos, especially limited equity coops; equity finance mortgages; employer-assisted housing; manufactured housing; lease-purchase; Section 8 homeownership and the Family Self-Sufficiency program; public-private partnerships; and the use of “Pay Rent, Build Credit” as a vehicle for helping neighborhood residents build credit to qualify for a mortgage. The toolkit should also cover some of the more conventional homeownership strategies, including downpayment assistance and second mortgage programs, and affordable lending programs offered by Fannie Mae, Freddie Mac,

and the Federal Home Loan Banks. (Note: Homeownership counseling probably needs its own toolkit and separate training.)

The purpose of such a toolkit and training is to provide sufficient information to neighborhood groups so that they can develop an educated opinion on which of these strategies to pursue, if any, in their neighborhoods. While training materials on most of these subjects already exist, we are unaware of any uniform set of training materials that focuses in particular on strategies for strengthening homeownership opportunities and retention among very low-income families. Ideally, the toolkit would be created by identifying the best existing training materials on different topics rather than completely reinventing the wheel.

### **Public-Private Partnerships**

It is common in developing affordable rental housing to layer multiple sources of financing together in a single property. It may make sense to consider a similar strategy for promoting homeownership for very low-income families. For example, HOME funds for downpayment assistance, combined with a below-market second mortgage funded by an employer, combined with manufactured housing built by a CDC. To a great extent, such layering is already taking place, but it's not clear that the optimal combinations and strategies for facilitating such partnerships have yet been identified. Efforts to promote homeownership among very low-income families will require the collaborative efforts of a great number of players (cities, states, PHAs, CDCs, mortgage lenders, housing counselors, etc.) that, at present, do not always work closely together. So best practices in this area will be both substantive—particularly effective ways to combine public and private funds to support homeownership—and also procedural—particularly effective ways of building a strong working relationship.

**Recommendations:** At the national level, it would be helpful to fund an analysis of, and identification of, best practices regarding public-private partnerships directed at strengthening homeownership opportunities that could be used to encourage other cities to replicate the more successful strategies. Conceptualizing different combinations of strategies may be useful for helping local communities determine how best to use these tools in combination with one another. In addition, an analysis that compares the likely outcomes of different homeownership

strategies across specific metrics would be useful to help cities, CDCs, and others determine which strategies are the most efficient and effective, and under what circumstances. For example, if you're a HOME jurisdiction, should you fund a second mortgage or more housing counseling? If you fund a second mortgage, how should it be structured? There are many possibilities.

At the community level, funders may wish to consider sponsoring local meetings in selected neighborhoods between public agencies working on housing issues and nonprofits to discuss how best to collaborate through public-private partnerships to strengthen low-income homeownership. Ideally, this would include discussion of successful models of public-private partnerships in other communities.

### **Federal Policy Issues**

Foundations should consider supporting policy analysis directed at educating the public and Congress about the need for federal policy changes to promote homeownership. A number of relevant federal policy issues in need of analysis and support have been identified earlier in this report. Other federal policy issues to consider supporting include:

- The Single Family Housing Tax Credit, which would provide a federal tax credit to cover the appraisal gap between the costs involved in producing or rehabilitating housing in low-income neighborhoods and the amount the house could realistically sell for. This proposal has already been introduced in Congress, and a version is supported by President Bush.
- FHA's current proposal to provide zero downpayment mortgages.
- The Millennial Housing Commission's proposal to restructure the Federal Housing Administration (FHA) as a wholly owned government corporation within HUD that has substantial discretion to adjust its policies to respond to market trends and continually complement and add value to private sector housing investments. This would free FHA from the shackles of needing to seek legislative authorization to undertake new initiatives, allowing it to once again lead the industry in adopting new and more progressive policies that substantially expand the availability of homeownership, promote homeownership retention, and make rental housing more affordable.

- Reforms to the Real Estate Settlement Procedures Act that would increase transparency and reduce closing costs, as well as make it easier for lenders and consumers to share funding for homeownership education.
- The proposed National Housing Trust Fund (see <http://www.nhtf.org>) that would be used to help meet the homeownership and rental needs of very low-income families.

It is important to note the fact that most very low-income families do not benefit from the federal deduction for home mortgage interest because, in light of their low incomes and comparatively low homeownership expenses, they are often better off taking the standard deduction. Noting the apparent unfairness of this—higher-income families benefit from the deduction, but lower-income families do not—some observers have recommended advocacy directed at changing the home mortgage interest deduction to a credit that would apply irrespective of one’s deduction status. We do not include such a recommendation for several reasons. First, in light of the current budget deficit, this option is not realistic for the near future. Second, the issue needs much more discussion and debate as it would obviously have major revenue implications and is complicated by all the other tax issues affecting low-income families, including the EITC and the standard deduction itself (which arguably helps the lowest-income families the most). With a tax issue of this magnitude, the question really is what is the best tax policy for low-income families, rather than one simply of fairness or expediency. It may well be easier to convert the home mortgage interest deduction into a credit than to pass certain other tax relief for low-income families, but is it really the best option for helping low-income families? That question needs further debate. (The Center for Housing Policy is developing a research agenda around these issues.)

Finally, in light of evidence showing that many low-income families cycle in and out of homeownership, it would be sensible to review all the first-time homebuyer qualifications in federal, state, and local loan products to make sure they are as flexible as they should be to help low-income families purchase their second or third home (not at the same time, obviously). Perhaps in recognition of this need, FHA defines a first-time homebuyer as someone who has not purchased a home within the last three years. Many other programs follow this guideline, but some may be more restrictive.

## **RANKED LIST OF RECOMMENDED PROJECTS**

This section describes, categorizes, and ranks all of the projects proposed for consideration in the analysis of strategies for Strengthening the Ladder for Sustainable Homeownership.

Each project has been assigned one of three priority levels, with highest priority projects receiving two stars (\*\*), priority projects receiving one star (\*), and other proposals worth considering marked with a dash (–). The most important among the highest priority projects are highlighted in ***bold italic***. Projects whose priority is unclear are marked with a question mark (?).

The recommendations have been prioritized based on subjective assessments of the (a) need for the project; (b) its cost-effectiveness; (c) the likelihood of success; and (d) the extent to which a foundation’s involvement would add substantial and potentially unique value in light of existing efforts in the area. It is important to note that these criteria may mean that some projects that are sorely needed by the field are nevertheless ranked fairly low—for example, because they are expensive relative to what they might deliver or appear already well covered by the many other actors in the field. Readers are of course free to re-rank the recommendations as they see fit.

Another consequence of this approach is that there are few recommendations for direct funding of homeownership activity—e.g., capital subsidies to help pay for construction of a particular limited equity cooperative—and those that are included fare poorly in the ranking. This is not to say that foundations should not make such direct investments. To the contrary, we would encourage foundations to make direct housing investments in communities in which they are involved. However, because we have no knowledge of the amount of funding foundations wish to make available for housing purposes, our analysis assumes that such direct funding is off the table, and instead focuses on strategic investments that help take better advantage of existing funding streams or to leverage additional funding from other sources.

The recommendations assume that foundations have an interest in working at both the neighborhood and national levels. By neighborhood level, we mean that a foundation has identified a specific city or neighborhood in which it wishes to concentrate assistance. National-level recommendations, by contrast, seek to identify research, policy, and programmatic gaps that could be addressed through foundation action.

## A. THRESHOLD ISSUES

### Research on Benefits and Limitations of Homeownership for Very Low-Income Families

- \*\* A.1. Fund research examining the extent to which low-income families are fully experiencing the theoretical benefits of homeownership. Should look at housing price appreciation, housing-jobs mismatch, effects on family stability, children, etc.**

## B. HOMEOWNERSHIP AND FINANCIAL LITERACY EDUCATION

### Development of a Strategic Plan

- \*\* B.1. Sponsor the development of a strategic plan designed to ensure that everyone in the country who needs it has access to homeownership education and counseling at all phases of the process (pre-purchase education, pre-purchase counseling, post-purchase counseling, and foreclosure prevention) and undertake public policy advocacy and other activities designed to promote achievement of this vision.**

**Note: Many of the other recommendations under this heading are essentially components of this strategic plan.**

### Analysis and Public Policy Advocacy

- \*\* B.2. Fund analysis and public policy advocacy directed at increasing government funding for homeownership education and counseling. Analysis could include estimate of benefits to the U.S. economy, as well as alternative approaches to such funding, such as a one-time tax credit of \$500 for individuals who complete an approved homeownership education/financial literacy course. Increased government involvement is supported by “market failure” in which many players in a position to provide homeownership education (e.g., mortgage brokers, real estate agents) don’t have a financial incentive to do so.**
- \*\* B.3. Fund analysis and public policy advocacy directed at encouraging/requiring the mortgage lending industry to step up to the plate and provide additional funding for homeownership education and counseling. This likely would involve legislative advocacy, media/outreach, and negotiations with industry.**

**\*\* B.4. Prepare guide for local decision-makers to help them make sound decisions regarding the relative importance of homeownership education versus other uses of HOME/CDBG funds. An analysis that compared homeownership education, down-payment assistance, various kinds of soft/silent seconds, etc., according to different metrics of need/effectiveness would be a good start. Results would then need to be marketed to city/state governments and nonprofits. Could also be useful for national decision-making.**

\*\* B.5. Continue to support efforts to require the public education system to provide effective financial literacy education.

### **Research**

\*\* B.6. Fund evaluations of existing and prospective homeownership counseling programs and curricula to help determine which strategies are most effective. Among other strategies in need of evaluation are new lower-cost technology-based approaches, such as phone and Internet counseling.

\*\* B.7. Fund additional research to demonstrate the cost-effectiveness and other economic and social value of different types of homeownership education and counseling to encourage the mortgage lending community to provide effective housing counseling voluntarily.

\* B.8. Fund the development of an estimate of how much homeownership counseling is really needed nationwide and how much it would cost. Should include an estimate of how much demand would be generated through a well-designed marketing program designed to encourage people to come in for financial literacy/homeownership education. (This would be ranked higher if not for the difficulties involved in preparing such an estimate.)

\* B.9. Fund consumer research directed at what different segments of the low- and moderate-income community want from a mortgage product. This will help better tailor homeownership education and affordable lending programs so they are better received and more effective in preventing predatory lending.

## Development of New, Creative Approaches to Providing Homeownership Education

- \*\* B.10. Facilitate the development of clear yet flexible standards for the different forms of homeownership counseling to (a) increase the confidence of lenders in the value of counseling while (b) improving the efficiency of counseling dollars by providing different levels of education/counseling depending on individuals' needs.** (This work should be conducted in partnership with whomever wins the pending \$7.7 million HUD NOFA for homeownership counseling training.)
- \*\* B.11. Fund the further development and demonstration of business models that incorporate effective homeownership counseling at all phases as integral components of mortgage lending—includes development of business models, modeling and evaluation of models, and legislative/regulatory advocacy to remove impediments in RESPA that prevent joint funding of housing counseling by banks and consumers.**
- \*\* B.12. Fund the development and modeling of a system that helps to rationalize (and thus take better advantage of) existing homeownership education resources in a community, such as a single point of entry into the system. (In Houston, bank reps seem to always be looking for opportunities to provide homeownership education; at the same, time, the unmet need is huge. Can we do a better job matching available resources with families in need?)**
- \*\* B.13. Help develop and test alternative strategies, as an adjunct to standard homeownership counseling, to reach individuals who are distrustful of the conventional mortgage system. For example, enlist trusted advisors (e.g., clergy, churches, unions), develop an ad campaign, etc.**
- \*\* B.14. Fund a guide for communities on how to effectively recruit and utilize volunteers to provide homeownership counseling and financial literacy education.
- \*\* B.15. Fund research aimed at illuminating the practices of the subprime market (i.e., vetting pricing and spreads) to help the housing world better understand the potential and risks of subprime lending, increase transparency (hopefully to reduce costs for borrowers), and encourage more mainstream funders to enter the market. In theory, one could also imagine an ongoing central data source on subprime lending that enhances consumers' ability to comparison shop.

- \* B.16. Fund an analysis of the relationship of local homeownership education agencies and credit counseling agencies. Could homeownership education efforts be referring more people to credit counseling agencies for intensive work on their credit, freeing up staff at the homeownership education agency for more group sessions on homeownership?

#### **Improve Outreach/Marketing of Homeownership Education/Financial Literacy**

- \*\* B.17. Fund an analysis of how best to take advantage of EITC outreach and free tax preparation to promote financial and homeownership education. At present, there is much talk about the need to do this, and some experimentation is going on in many communities, but it's not clear that the most effective models have been documented and promoted.
- \* B.18. Evaluate the many existing marketing and outreach materials to determine which are the most effective. Based on this evaluation, fund the creation of a guide for local community groups on how to effectively market financial literacy/homeownership education programs to renters (to encourage them to come in for education), including sample marketing materials, so that every community does not need to reinvent the wheel.
- ? B.19. Fund national-level marketing campaign designed to (a) encourage individuals to seek out homebuyer education; and (b) teach basic elements of homeownership education. Should include focus on reducing predatory lending. (Key questions include whether national-level marketing could really be effective at reasonable costs and to what extent a foundation's efforts are needed in light of the many players already involved.)

#### **Convenings/Conferences**

- \*\* ***B.20. Convene a conference to discuss how the housing counseling industry and CDCs should adjust to meet the reality of risk-based pricing, automated underwriting, and subprime lending. Consider developing a curriculum add-on for housing counselors on these subjects.***
- \* B.21. Convene advocates of financial literacy education with those working on homeownership education to discuss (a) whether basic financial literacy education curriculum

adequately addresses homeownership issues and vice versa; (b) coordination of advocacy efforts regarding greater funding from banks and government; and (c) whether the “teachable moment” of desire to own a home is being fully exploited.

- \* B.22. Convene the housing community and advocates of financial literacy education to discuss opportunities to partner regarding outreach to employers. The housing community looks to employers to invest dollars in housing for employees; proponents of financial literacy education look to the workplace as an effective venue for financial literacy education. There may be ways to coordinate these two agendas.

#### **Neighborhood-Level Support in Selected Communities**

- \* B.23. To the extent that additional homeownership counseling capacity is needed in a particular neighborhood, fund training of existing staff in neighborhood groups so they can provide effective homeownership education and qualify for existing funding streams.
- \* B.24. Consider identifying selected communities as pilots for the larger, national effort to develop more efficient and effective ways to provide homeownership counseling. For example, more efficient sorting of individuals into different groups needing different levels of attention and education. Could also incorporate other innovations, such as the Neighborhood Reinvestment Corporation curriculum on manufactured housing.
- \* B.25. Encourage local convenings of the different communities of practice working on similar issues at the neighborhood level. For example, Free Tax Preparation/EITC outreach coalitions are interested in becoming involved in financial literacy education. Are they adequately connected with (a) homeownership education and financial literacy resources; (b) affordable lending programs; and (c) asset-building programs, such as IDA programs (sometimes) and Family Self-Sufficiency programs (probably not)?
- B.26. Fund additional housing counseling staff for neighborhood organizations. (The chief concern with this recommendation is cost.)

## **C. OVERCOMING CREDIT OBSTACLES**

### **Support Effective Credit Counseling**

- \*\* C.1. Support public policy efforts to increase funding for credit counseling agencies by creditors. The credit industry profits mightily off the forceful extension of credit to low- and moderate-income families.
- \*\* C.2. Support efforts to develop standards for credit counseling. Such standards could help reduce the risk that families will be victimized by unsavory agencies and also help to convince creditors that the services are worth reimbursing.
- \* C.3. Fund the preparation of a guide to marketing efforts and sample marketing materials to help legitimate nonprofit credit counselors compete with unsavory competitors.

### **Banking the Unbanked/Alternative Financial Products**

- \* C.4. Work with groups in selected cities to educate them about the more successful models for banking the unbanked (i.e., from the Fannie Mae Foundation's *Innovations in Personal Finance for the Unbanked* study) and the potential profitability of new financial products geared to low-income families (based on the MetroEdge research) to encourage them to partner with banks, credit unions, and others to replicate/adapt those models in their community.
- ? C.5. The Shorebank Advisory Services affiliate MetroEdge conducted in-depth analyses of financial preferences of low-income families in Chicago, Los Angeles, and Washington, D.C. Such a study can provide a road map to encourage private sector investment in alternative financial products tailored to low-income families. Consider replicating the study in other types of communities (i.e., smaller cities or rural areas). It may make sense to try applying the results of the first study before undertaking a new one.
- ? C.6. Fund a project to identify and/or develop successful models to bank the unbanked. Disseminate results to encourage replication. The Fannie Mae Foundation recently completed such a project (*Innovations in Personal Finance for the Unbanked*).

(The key question is to what extent additional best practices identification is necessary.)

### **Research/Analysis**

- \* C.7. Fund an analysis of the concept of lease-purchase, possibly including an evaluation of alternative models, to determine (a) if this approach still holds merit in this age of loosened credit restrictions; and (b) if so, what strategies make the most sense for executing it?
- C.8. Fund an analysis of step-down products, where borrowers with sub-par credit start out at one interest rate and then, after demonstrating an ability to meet their payments, transition to a lower rate.

### **Neighborhood-Level Support in Selected Communities**

- \* C.9. Educate neighborhood-level institutions about the potential to use “Pay Rent, Build Credit” to expand opportunities for neighborhood residents to become homeowners. For example, groups could approach PHAs and other large landlords in their neighborhoods to get them on board so that renters in those developments can begin building credit through their rent history. In some cities, apartment associations or other organizations collect rent data; in these cases, it would make sense to link these databases to “Pay Rent, Build Credit” or another institution that can use the data to help families build credit.
- \* C.10. Provide seed money to help credit counseling organizations get started and accredited by NFCC or others in communities where they are needed. Alternatively, provide training funds to existing housing counseling agencies without credit counseling capacity to help them expand into more intensive credit counseling, opening up creditor reimbursements as a possible funding strategy.
- C.11. Work directly with neighborhood groups (in selected neighborhoods) and with LISC, Enterprise, and NRC in other communities to educate housing counselors and CDCs on how to become verifiers for “Pay Rent, Build Credit.” As verifiers, they’ll be able to help their clients build credit through a demonstration of rent history. Consider developing a training module for incorporation into national trainings. (Would be

ranked higher if it did not require such a large expenditure of time by individual housing counselors.)

- C.12. Fund additional staff at the local level to provide credit counseling. (The chief concern with this recommendation is cost.)

(See also recommendations under “Banking the Unbanked” on page 77.)

## **D. ALTERNATIVE FORMS OF TENURE**

### **Community Land Trusts**

- \* D.1. Invest in the Revolving Loan Fund of the Institute for Community Economics, which provides loans to help community land trusts get started.

### **Cooperatives**

- \* D.2. Encourage the formation of cooperatives (especially limited equity coops) by helping to fund local support organizations in cities where there are already lots of coops. Such support organizations have led to improved efficiencies, for example, through volume purchases for maintenance supplies, rehabilitation work, and pooling of insurance, as well as serving other functions, such as providing training to new coop boards.

### **Equity Finance Mortgages**

- \* D.3. Fund an analysis/evaluation of existing equity finance mortgage products (e.g., in Howard County, MD; Santa Cruz, CA; San Diego, CA; Stanford University; University of Colorado at Boulder; and Northbay Homes). Distill best practices and disseminate to HOME jurisdictions and sophisticated nonprofits to encourage replication.
- D.4. Examine the threshold legal issues that need to be addressed before equity finance mortgages can be offered widely by industry. Issues include: Is the contingent interest paid on an equity finance mortgage deductible like mortgage interest? How should the contingent interest be treated under the usury laws? Standards may be

needed to cap the amount of contingent interest that investors can make, but they need not be the same standards as those set in the usury laws.

### **Neighborhood-Level Support in Selected Communities**

- \*\* D.5. Include all three alternative forms of tenure (community land trusts, coops/condos, and equity finance mortgages) in a toolkit and related training for nonprofits on creative strategies for strengthening homeownership opportunities and retention among very low-income families. (See the extended description under “Expand Capacity of Local Nonprofits” on page 89.)
- ? D.6. Provide seed funds (as grant or low-interest loans) to support implementation of different homeownership models by neighborhood affiliates of a foundation, such as (a) funds to help set up a community land trust, for example, for organizational development, training, and/or land purchase; (b) funds for conversions of rental housing to limited equity coops; and (c) loss reserve to support lease-purchase, etc. (Such funding would have a huge impact in making these innovations a reality. The key issue is cost. Since we do not know how much funding foundations have available to assist such communities, we have identified the priority level as unknown.)

## **E. GOVERNMENT HOUSING POLICY AND PUBLIC-PRIVATE PARTNERSHIPS**

### **National-Level Analysis and Policy Advocacy**

- \*\* *E.1. Fund analysis and public policy advocacy directed at supporting adequate and reliable funding for Section 8 vouchers and FSS in the face of Administration proposals to block grant the Section 8 voucher program and substantially cut its funding. If the Administration proposals are enacted, they will jeopardize continued viability of both Section 8 homeownership and FSS. This work also would have important benefits for preserving opportunities for rental housing subsidies for households with the greatest needs.*
- \*\* *E.2. Commission objective, independent policy analyses on the question of whether HUD’s affordable housing goals for the GSEs should be modified, and if so, how.*

***The question of whether to stimulate greater involvement by GSEs in the subprime market, thereby crowding out predatory lending, should be one of the topics addressed in these analyses. (Such analyses may also have application for convincing other mainstream lenders to become more involved in the subprime market, leading to increased competition and thus lower interest rates for borrowers.)***

- \*\* E.3. Fund analysis and advocacy work directed at identifying and promoting federal policy changes that would help to strengthen homeownership opportunities and retention, such as (a) enactment of a single family housing tax credit; (b) FHA's proposal for a zero percent downpayment mortgage; (c) the Millennial Housing Commission's proposal to restructure FHA as a wholly owned government corporation; (d) reforms to the RESPA settlement process that would increase transparency and reduce closing costs; and (e) enactment of a flexible housing trust fund that could be used for (among other things) large capital advances to help very low-income families purchase homes.
- \*\* E.4. Continue to support advocacy efforts to increase government and public support for affordable housing. The field is broad enough to accommodate multiple approaches, including advocacy directed at increasing funding for housing to be occupied by families with the lowest incomes and thus the greatest affordability needs (such as the proposed National Housing Trust Fund) and workforce housing to be occupied by fire fighters, police officers, nurses, teachers and other workers necessary to keep the economy going. The latter group is a popular one that may attract officials who would not respond well to appeals for the lowest-income families. Workforce housing can be made affordable to very low-income families through existing subsidies, such as downpayment assistance and second mortgages.
- \* E.5. Review all the first-time homebuyer qualifications in federal, state, and local loan products to make sure they are as flexible as they should be to help low-income families purchase their second or third home. This is important because many low-income families cycle in and out of homeownership. Perhaps in recognition of this need, FHA defines a first-time homebuyer as someone who has not purchased a home within the last three years. Many other programs follow this guideline, but some may be more restrictive.
- \* E.6. Analyze the potential to package aged subsidized loans with a demonstrated history of performance and sell the loans on the secondary market, thus recycling funds to help other borrowers.

### **State-Level Analysis and Policy Advocacy**

- \*\* E.7. Fund state-level analysis and advocacy directed at increasing the number of state housing finance agencies that provide loans to low-income homeowners in jeopardy of foreclosure. A successful and self-sufficient loan program of this nature exists in Pennsylvania. North Carolina advocates are working on a similar program. (This recommendation is related to others in “Homeownership Retention” section on page 87.)
- \* E.7B. Support advocacy efforts directed at encouraging state and local governments to adopt inclusionary zoning and tax abatement and other tax policies favorable to affordable housing.
- E.8. Consider state-level analysis and advocacy directed at making manufactured housing a more valuable asset, including changes to ensure it is treated as real property rather than personal property and support for cooperative ownership of land on which manufactured housing is placed that is currently leased.

### **Help Local Communities Make Better Use of Existing Funding Streams**

- \*\* E.9. Fund an analysis of downpayment assistance and second mortgage programs (and convene a meeting of experts to discuss the analysis) for the purposes of developing a consensus on the most sensible policies for responding to different housing environments. These results should then be disseminated broadly to local governments and nonprofits. Among other issues, this analysis should consider whether to promote increased use of a sliding scale for downpayment assistance and second mortgages to allow a fixed amount of homeownership resources to assist lower-income homeowners than many of these programs currently reach. The analysis should also emphasize the value in spending more per household to help someone who could not otherwise afford to purchase a home, rather than spending less on households that could already qualify for a home, but are interested in assistance purchasing a somewhat larger home. Another useful topic to consider is the potential of standardization to create a secondary market for second mortgage products to return money to the community for use in helping other families. Finally, it may be worth reviewing current standards on how much housing price appreciation these mortgages allow families to gain. Some subsidy products do not allow much appreciation at all, hampering wealth creation among low-income families.

- \*\* E.10. Analyze opportunities for ensuring continued affordability of LIHTC properties upon expiration of the 15-year commitment. In particular, what are the opportunities for lease-purchase? Limited equity coops? An important related question is to what extent owners will be willing to cooperate and what kind of funding would be needed to encourage them to do so.
- \* E.11. Fund an analysis of local programs to make tax-delinquent properties available to nonprofits for development of affordable housing, as well as other land assemblage strategies, such as land banking. It would be useful to determine which programs appear to work best and then disseminate this information. These programs help overcome supply constraint of high land costs.

(See also the analysis of the relative cost-effectiveness of housing counseling versus other homeownership expenditures under HOME and CDBG under “Homeownership and Financial Literacy Education” on page 18 and the analysis of equity finance mortgage programs under “Alternative Forms of Tenure” on page 36.)

#### **Public-Private Partnerships**

- \*\* ***E.12. Play a convening role at the local level to strengthen Section 8 homeownership programs by fostering partnerships between PHAs that administer the program and CDCs that can supply low-cost homes in revitalizing neighborhoods, as well as housing counseling and assistance in increasing program volume. Write-up and distribute successful partnerships as best practices.***
- \* E.13. Fund analysis of, and identification of, best practices regarding public-private partnerships directed at strengthening homeownership opportunities to encourage other cities to replicate them. Note that best practices in this area may be both substantive—particularly effective ways to combine public and private funds to support homeownership—and also procedural—particularly effective ways of building a strong working relationship. This analysis should include a section focusing on public-private partnerships that help persons with disabilities overcome barriers to homeownership.
- \* E.14. Sponsor local meetings in selected neighborhoods between public agencies working on housing issues and nonprofits to discuss how best to collaborate through public-private partnerships to strengthen low-income homeownership. Ideally, this

would include discussion of successful models of public-private partnerships in other communities.

## **F. EMPLOYER-ASSISTED HOUSING**

**\*\* F.1. *Within selected cities, help establish local coalitions of community-based organizations and others (ideally, including chambers of commerce, regional planning departments, city governments, etc.) to persuade multiple employers in the city to support employer-assisted housing. It is likely that success with one employer may breed success with others, once word gets around (and potentially, given competition for qualified employees).***

\* F.2. Help coordinate national efforts to market employer-assisted housing to chambers of commerce, unions, and other organizations with the potential to reach large numbers of employers to sell this approach.

– F.3. Although not the traditional approach to employer-assisted housing (i.e., where employers directly fund affordable housing for their employees), HIT HOME may be worth studying as an alternative approach to helping meet the homeownership needs of members of different associations. HIT HOME is a partnership between the AFL-CIO Investment Trust (which invests Taft-Hartley and public pension funds in housing products, including affordable housing), Countrywide Home Loans, and Fannie Mae. It offers union members a closing cost credit, free homeownership education, and other benefits, including a more flexible payment schedule.

? F.4. Prepare training materials for local neighborhood groups on how to sell employer-assisted housing to local employers. (The key question is to what extent these materials already exist.)

## **G. ASSET-BUILDING**

### **Individual Development Accounts**

\*\* G.1. Continue to support IDA field.

#### Family Self-Sufficiency Program

**\*\* G.2. Broaden national level support for the FSS program to (a) promote partnerships that help expand participation; (b) share best practices on how to run a quality program and address common challenges; (c) ensure national-level representation and advocacy; and (d) support the local communities of practice that enable practitioners to learn from one another.**

**\*\* G.3. Play a convening role at the local level to help expand the number of families building assets through FSS. Expansion of FSS programs will require local partnerships between housing agencies and organizations or agencies that can provide case management support. (Under current law, HUD funds the housing assistance and the escrow accounts, but provides only limited funding for case management.) Write-up and distribute successful partnerships as best practices.**

#### Earned Income Tax Credit Outreach

\* G.4. Work to expand involvement of CDCs in EITC outreach and free tax preparation activities by encouraging national CDC intermediaries to give this greater prominence and encouraging Free Tax Preparation coalitions to reach out to CDCs.

### H. REDUCING DEVELOPMENT COSTS

Note: As each of these strategies is relevant to both single family and multifamily housing, it would be sensible for such projects to cover both housing types.

#### Reduce Barriers to Development of Affordable Housing

**\*\* H.1. Support a national marketing campaign to change the public perception of affordable housing to reduce local opposition to its development. A number of such campaigns are already underway. For example, see [www.tcah.org](http://www.tcah.org).**

\* H.2. Fund additional research and analysis at the national level to document the nature of regulatory barriers and develop or propose alternatives that address cities' legitimate needs with less of a negative effect on affordable housing—for example, alternative strategies for funding new school construction.

- \* H.3. Work with other organizations, such as the Manufactured Housing Institute and the Ford Foundation’s Task Force on Manufactured Housing, to prepare materials about the benefits of manufactured housing that local groups could use to persuade local officials to reduce barriers to its use. This could be part of a larger marketing campaign to change public opinion about affordable housing.

#### **Alternative Construction Techniques/Designs**

- \* H.4. Work with Enterprise, LISC, the Neighborhood Reinvestment Corporation, and PATH to strengthen dissemination of information to CDCs about lower-cost construction techniques—both stick-built, as well as panelized construction and manufactured housing. This could include a Web site, easy-to-follow books, distribution network, etc.
- \* H.5. Fund creative forward-looking thinking and policy development on new housing types that would be attractive to the public, but would cost less to build. Is it really the case that all Americans dream of owning a single family detached Cape Cod style home? Or are there significant portions of the public who either already desire an alternative (and less-expensive) form of housing or who could be convinced to desire such housing, if exposed to it in the right circumstances and if the price were right? Determining how the current regulatory environment shapes existing housing types, which in turn shapes the public’s image of the American Dream, could be helpful in charting a course for regulatory reform that leads to lower-cost housing options. There may also be a need to produce demonstration housing and other evidence of the desirability of such housing options.
- \* H.6. In addition to advocating for additional funding for self-help housing programs, it would be useful to convene a panel of practitioners and technical assistance providers from across the different self-help programs to discuss what steps (beyond additional government funding) would be useful for helping to expand the number of families benefiting from this approach.

#### **Reducing Barriers to Affordable Housing Development in Selected Communities**

- \*\* *H.7. Fund studies of regulatory barriers to affordable housing in cities in which a foundation is active by local academic institutions working in partnership with nonprofits and the business community. The studies would be used by local*

***coalitions to convince local governments to change their policies. New York City has had success with this approach.***

- \* H.8. Fund pilot tests in selected cities of national-level marketing materials aimed at changing public perception of affordable housing.

## **I. FAIR HOUSING**

- \*\* I.1. Analyze the effectiveness of different marketing and educational strategies for increasing the awareness of, and compliance with, fair housing laws; identify best practices; and disseminate information to groups funded through HUD's Fair Housing Initiatives Program.
- \*\* I.2. Fund analysis and advocacy directed at strengthening enforcement of the fair housing laws by the appropriate authorities.
- \* I.3. Fund additional research on the locational outcomes of low-income homeownership purchasers to determine what steps, if any, could be taken to maximize the benefits of homeownership for low-income families. The research should look both at the consequences of locational decisions (i.e., in terms of job access and house price appreciation) as well as the motivating factors for those decisions (individual choice, discrimination, etc.) and evaluate what steps would be most effective for encouraging positive locational outcomes.

## **J. HOMEOWNERSHIP RETENTION**

### **Development of Creative New Approaches**

- \*\* ***J.1. Support efforts to promote savings and other wealth-building opportunities for low-income homeowners for whom such savings could help avoid foreclosures in the event of an unanticipated problem, including but not limited to modification of the IDA model.***
- J.2. Fund additional thinking on how to encourage low-income owners to refinance when advantageous to do so, as the evidence shows they are less likely to refinance than higher-income families.

## Analysis/Research

- \*\* J.3. Fund an analysis of the potential of different insurance products, both actual products and products that could conceivably be developed, to strengthen homeownership retention among very low-income families. Of particular interest is insurance to help homeowners deal with unanticipated major repairs. While home warranties already exist, the policies presumably have the goal of avoiding payment of claims, as opposed to helping low-income families avoid default. Another key insurance issue is insurance against loss of job; again, such policies already exist, but are they priced reasonably? Finally, it is worth examining the broader potential of the Syracuse pilot of insurance against home price declines.**
- \*\* J.4. Fund an examination of existing loan funds (such as that in Pennsylvania) that provide low-interest loans to low-income homeowners who experience problems paying their mortgage that could lead to foreclosure and/or bankruptcy with an eye to determining whether it makes sense to create a national loan fund of this nature, and if so, what would be involved in executing this strategy.** (See also State-Level Analysis and Policy Advocacy recommendations under “Government Housing Policy and Public-Private Partnerships” on page 82.)
- \* J.5. Fund some forward-thinking on what a national system of early intervention in delinquent mortgages would look like. Apparently, the lack of a national scope is a barrier to participation in a Chicago-type model by some banks. In this model, non-profits are provided with data on at-risk borrowers and then follow-up to help prevent defaults.
- \* J.6. Fund additional thinking on creative solutions to gentrification, particularly those that (a) improve the timing of affordable housing development to expand the supply of affordable housing in neighborhoods that are about to, but have not yet, gone through rapid home price appreciation and (b) seek to prevent the demolition of sound low-cost housing that could (perhaps with some rehabilitation) ensure the continued availability of affordable housing in gentrifying neighborhoods.

## Neighborhood-Level Support in Selected Cities

- \* J.7. Work with selected neighborhoods concerned with defaults to implement an early warning intervention similar to that in place in Chicago where nonprofits receive a list of at-risk borrowers from banks and then follow-up to help prevent defaults.

## K. EXPAND CAPACITY OF LOCAL NONPROFITS

### Create a Toolkit and Related Training on Creative Homeownership Approaches

- \*\* ***K.1. Fund the development of a toolkit and related training materials for nonprofit organizations working in selected neighborhoods on creative ways to strengthen homeownership opportunities and retention among very low-income families. The toolkit should cover most of the strategies discussed in this report, including: community land trusts; coops and condos, especially limited equity coops; equity finance mortgages; employer-assisted housing; manufactured housing; lease-purchase; Section 8 homeownership and the Family Self-Sufficiency program; public-private partnerships; and the use of “Pay Rent, Build Credit” as a vehicle for helping neighborhood residents build credit to qualify for a mortgage. The toolkit should also cover some of the more conventional homeownership strategies, including downpayment assistance and second mortgage programs, and affordable lending programs offered by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, as well as homeownership programs and options designed specifically for persons with disabilities. Finally, the kit should cover advocacy strategies directed at encouraging state and local governments to adopt inclusionary zoning and tax abatement and other tax policies favorable to affordable housing.*** (Note: Homeownership counseling probably needs its own toolkit and separate training.)

The purpose of such a toolkit and training is to provide sufficient information to neighborhood groups so that they can develop an educated opinion on which of these strategies to pursue, if any, in their neighborhoods. While training materials on most of these subjects already exist, we are unaware of any uniform set of training materials that focuses in particular on strategies designed to strengthen homeownership opportunities and retention among very low-income families. Ideally, the toolkit would be created by identifying the best existing training materials on different topics rather than completely reinventing the wheel.

## Use Information Technology to Enhance Local Housing Data Analysis Capacity

**\*\* K.2. *Work with the Fannie Mae Foundation and others to develop an automated tool—perhaps layered onto DataPlace, a central clearinghouse of housing-related data being funded by the Fannie Mae Foundation—to help CDCs, local government officials, and others analyze neighborhood conditions and determine which housing strategies may be best suited to which housing conditions. The first step would be to develop a consensus among housing experts on how best to respond to different conditions. Once a consensus on the policy implications of different data conditions has been established, templates could be developed that would enable users to see the directions of these data trends in their area and then access information about how to interpret these trends and the policy options that the data analysis suggests considering. By layering such templates onto DataPlace, they could be made fairly easy to use, and also integrated with programmatic materials made available through KnowledgePlex.***

## Neighborhood-Level Support in Selected Communities

**\*\* K.3. *As an alternative (or in addition) to developing an automated system for helping local communities analyze housing-related data and create a housing strategy, a foundation could develop or acquire housing data analysis and strategizing capacity (i.e., one or two people) to serve as a resource for the different neighborhood groups funded by a foundation to work on housing issues. This person could help each community analyze their local data and develop a strategy for what housing interventions to pursue.***

\* K.4. Assess capacity of nonprofits working in selected neighborhoods to handle housing issues. To the extent greater capacity is needed, fund training of existing organizations working or interested in working on housing issues, consider partnering with CDCs working in other neighborhoods in the city to convince them to work in target neighborhoods, or consider funding new organizations.

(Note: Additional recommendations for strengthening the capacity of nonprofits in selected communities are included under “Homeownership and Financial Literacy Education” on page 72 and “Overcoming Credit Obstacles” on page 77.)

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## ENDNOTES

- <sup>1</sup> This research was funded by the Annie E. Casey Foundation. We thank the Foundation for its support but acknowledge that the findings and conclusions presented in this report are those of the author alone, and do not necessarily reflect the opinions of the Foundation.
- <sup>2</sup> This paper focuses on the population of households/families (we use the two terms interchangeably) with incomes just below the levels generally served by current homeownership subsidies and other programs. Depending on the community, this may be families with incomes between 30 and 60 percent of the area median income (AMI) (between \$17,500 and \$35,000 per year on a national basis in 2004), or families with somewhat higher or somewhat lower incomes. We will call such families “very low-income” families because that is the closest applicable term. In using this term, we do not mean to confine ourselves rigidly to households with incomes below 50 percent of the area median income, which is the literal definition of “very low-income” used by HUD.
- <sup>3</sup> In particular, notwithstanding the current array of policies, households in the 60 to 80 percent of area median income range may have trouble affording the costs of homeownership in exceptionally high-cost cities (e.g., New York City, Los Angeles) and in close-in neighborhoods in many large cities. The latter issue raises important questions of transportation, commute time, and job access that go beyond the specific issue of housing affordability. In addition, there continues to be a need to attract families in this income range to distressed communities for the purpose of facilitating community revitalization.
- <sup>4</sup> Some organizations that are focused on the Community Reinvestment Act are already involved in some of this work. Without in any way criticizing or diminishing the contribution of such organizations, we note that we have in mind more of an analytical, coalition-building approach, like the Center on Budget and Policy Priorities.
- <sup>5</sup> The National Housing Conference acknowledges the valuable assistance provided by members of the advisory group for this project: Orlando Artze, Program Vice President, Local Initiatives Support Corporation; Darrell Beavers, Housing Development Team Manager, Oklahoma Housing Finance Agency; Michael Collins, PolicyLab Consulting Group and former Analyst, Neighborhood Reinvestment Corporation; Christina Diaz-Malone, Director, National Initiatives, Freddie Mac; Bruce A. Gottschall, Executive Director, Neighborhood Housing Services of Chicago; Steve Hornburg, Principal, Emerging Community Markets; Ann Schnare, Chairman, Center for Housing Policy; Anne B. Shlay, Department of Sociology, Temple University; Paul Weech, Director of Market Research and Policy Development, Fannie Mae; and Peter Werwath, Vice President, Program Services, The Enterprise Foundation. In addition, Jennifer Lavorel provided research assistance and other input into this report.
- <sup>6</sup> In particular, notwithstanding the current array of policies, households in the 60 to 80 percent of area median income range may have trouble affording the costs of homeownership in exceptionally high-cost cities (e.g., New York City, Los Angeles) and in close-in neighborhoods in many large cities. The latter issue raises important questions of transportation, commute time, and job access that go beyond the specific issue of housing affordability. In addition, there continues to be a need to attract families in this income range to distressed communities for the purpose of facilitating community revitalization.
- <sup>7</sup> Of particular note, based on an analysis of Panel Study of Income Dynamics (PSID) data, Reid (2004) determined that only 47 percent of first-time low-income homebuyers were still homeowners five years later, as compared with 77 percent of high-income homeowners.

<sup>8</sup>In determining what additional research is needed in this area, it is important to consider the research that is already underway, including a major study of affordable housing loans directed by Michael Stegman of the University of North Carolina-Chapel Hill and a recent HUD-funded project on the experiences of low-income homeowners.

<sup>9</sup>This may be further disaggregated into (a) better access to employment centers or transportation to employment centers, (b) better access to low-poverty neighborhoods, and (c) access to neighborhoods providing better public education. Homeownership presumably advances (b) and (c), but may actually impede (a).

<sup>10</sup>The solutions to the downpayment obstacle have different impacts on families' financial well-being. Downpayment assistance generally leaves families in the best position by ensuring they have some equity in the house to fall back on if they experience problems. By contrast, families with no-downpayment mortgages may actually begin their homeownership tenure with negative equity; they also have higher monthly payments. Gifting programs can also lead to higher monthly payments due to increased purchase prices.

<sup>11</sup>Low incomes are obviously another obstacle. These are addressed separately.

<sup>12</sup>McCarthy and Quercia identify four main categories of homeownership education and counseling: *Pre-purchase Homeownership Education*—instruction on the process of buying and financing a home; *Pre-purchase Homeownership Counseling*—individual or small group counseling that addresses individual obstacles to homeownership, such as credit problems; *Post-purchase Counseling*—ongoing instruction to help individuals sustain homeownership; and *Foreclosure Prevention*—crisis intervention to reduce chances of foreclosure for delinquent borrowers. All four appear to be needed.

<sup>13</sup>HUD has recently doubled annual housing counseling funds (from \$20 million to \$40 million) and requested an increase in the FY 2005 budget to \$45 million, which HUD estimates will provide 341,870 individuals with pre-purchase counseling, 210,000 individuals with post-purchase counseling, and about another 400,000 individuals with other forms of housing counseling, mostly rental. (The final appropriation for housing counseling for FY 2005 was \$42 million.) Neighborhood Reinvestment funds annually provide approximately 67,000 individuals with pre-purchase housing counseling and 18,000 individuals with post-purchase counseling.

<sup>14</sup>Are efforts underway to extend JumpStart-type programs to two-year colleges and other educational venues?

<sup>15</sup>Consumer credit counseling is a service directed at helping individuals improve their credit. It is offered both independently (e.g., for those who are on the verge of bankruptcy or having difficulty obtaining a credit card) and as part of homeownership counseling efforts. One large network of credit counseling agencies is the National Foundation for Consumer Credit (NFCC), "a network of 1,450 non-profit agencies that provide money management education, confidential budget, credit, debt counseling, and debt repayment plans for free or very low cost for both individuals and families" (Jacob, Hudson, and Bush 2000). Despite rather limited marketing, the scope of these organizations is significant. "In 1998 over 1.4 million people sought help from credit counseling agencies that are members of the [NFCC]. Some 504,000 of these people entered debt management programs in 1998 for a total of 900,000 in such programs at any one time" (Ibid).

<sup>16</sup> <http://www.ci.santa-cruz.ca.us/pl/hcd/manual2.pdf>.

<sup>17</sup> Critics may question whether it is a good idea to deplete the nation's stock of affordable rental housing by using up 200,000 of the existing two million Section 8 vouchers on homeownership. This is a good question worthy of debate. One answer is that once the nation gets its budget deficit under control, there will again be a possibility of obtaining funding for additional Section 8 vouchers, and it will likely be easier to sell Section 8 vouchers targeted to homeownership than ordinary Section 8 vouchers. If the newly allocated vouchers remain ordinary Section 8 vouchers (i.e., available for either homeownership or rental) but are distributed to places that have used the most existing Section 8 vouchers for homeownership (and have a demonstrated need for more affordable housing resources), we will not only incentivize the use of Section 8 vouchers for homeownership but also replenish the stock of Section 8 vouchers available in those communities for rental or homeownership.

<sup>18</sup> In some respects, this is similar to the health care insurance debate. Should the mortgage system be more like a health care insurance pool or more closely tailored to families' actual risk?

<sup>19</sup> See, e.g., the Center for Urban Initiatives and Research at the University of Wisconsin-Milwaukee 2003; the Neighborhood Reinvestment Corporation and the Harvard University Joint Center for Housing Studies 2000; and Rieke 1999.

<sup>20</sup> For information, see <http://www.metroplanning.org/resource.asp?objectID=152> and <http://www.metroplanning.org/ourwork/articleDetail.asp?pageID=3&objectID=1041&categoryID=2>.

<sup>21</sup> See, e.g., Greater Minnesota Housing Fund 2002.

<sup>22</sup> <http://www.calpers.ca.gov/index.jsp?bc=/about/benefits-overview/mhl-program.xml>.

<sup>23</sup> <http://www.chl-mrb.com/CALSTRS/>.

<sup>24</sup> Amy Crews Cutts and Richard K. Green. July 2004. Freddie Mac Working Paper Series #04-03. Available at [http://www.freddiemac.com/news/pdf/fmwp\\_0403\\_servicing.pdf](http://www.freddiemac.com/news/pdf/fmwp_0403_servicing.pdf).





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