Rethinking Home Ownership Policy for Low-Income Families
Informing Tenure Choices and Improving Financing Choices and Outcomes

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A Home For Everyone 2013: Creating Housing That Works
July 25, 2013 Eau Claire, Wisconsin
1. Why Ownership?

2. Why Low-Income Ownership?

3. Policies to Subsidize Low Income Ownership

4. What’s Next?
Long History of Support for Owned Property

- Settlement—160 acres
- 1920s campaigns for ownership
- Depression era recovery
- GI Bill and VA loans
- 1990s-2000s ‘campaigns’ promoting homebuying
Economic Rationale

- Home as basis of household consumption
- Home equity as financial asset
- Community investment
Strong Constituencies Supporting Home Sales

- Development, sales transactions, re-sales
- Mortgage finance
- Real estate sales
- Home builders
- Home maintenance & services
- 17-18% of GDP
Historic Growth in Homeownership Last Decade

Source: Census Bureau
Wisconsin Ownership Higher than US Average

Home Ownership Rate for Wisconsin (WIHOWN)
Home Ownership Rate for the United States (USHOWN)

Shaded areas indicate US recessions.
2013 research.stlouisfed.org
But Recession Has Been Hard
Rethinking Policy Supports for Ownership

- 2008 Housing Bust
- Credit market pullback
- Collapse of Fannie Mae and Freddie Mac
- 4.4 million foreclosures so far, another 1 million possible
- Range of policy options to respond to foreclosures
- ...Now questions about future...
  - Ex. Changes in mortgage deduction
  - Time to re-think?
Ownership by Income

Homeownership by Family Income

- Higher Than Median Income
- Lower Than Median Income

Year:
- 1994
- 2000
- 2005
- 2010
Low-Income Home Ownership Really is Not Policy Discussion

- Much debate who can ‘handle’ their own home
  - Subprime borrowers were not low income
- What even is low income?
  - Generally define at less than 80% area median income
- Handful of policies even target low income

Lots of mis-information: low-income borrower, lower-credit quality borrower, owner of lower-priced home all related to defaults in different ways.
Default by Income

CTS Default Rates by Income Categories

Default %

$<$40k $40k-$60k $60k-$80k $80k-$100k $100k-$150k $>150k

Income

Default %

$<$40k $40k-$60k $60k-$80k $80k-$100k $100k-$150k $>150k

Income
Historic Volatility

All-Transactions House Price Index for the United States (USSTHPI)
Source: Federal Housing Finance Agency

Shaded areas indicate US recessions.
2013 research.stlouisfed.org
Also Variation by Price Tier
Why Low-Income Ownership?

Why Focus on ‘Low-Income’ Homeownership?

- **Rationale:** Low-income households need extra boost to gain private benefits of ownership
- **Benefits include:**
  - Leveraged investment (loans) and force paydown of principal
  - Stability relative to rental contracts: imputed rent
  - Inflation protection: 75% of the wealth of lowest quartile of household wealth is stored as home equity
- **Also potential public benefits of ownership**
  - Improved child outcomes (maybe) and civic engagement (likely)
  - Community impacts
Patterns Also by Race

Figure 8.

*Includes Asian, Native Hawaiian or Other Pacific Islander, or American Indian or Alaska Native, and two or more races.

Why Low-Income Ownership?

Few Policy Options

Barrier to homeownership? Income.

- Consumption Subsidies
  - Lower Monthly Payments
  - Lower Purchase Price (which lowers payments)

- Credit Standards / underwriting (still might be called subsidy)
  - Dodd-Frank qualified mortgage (QM) standards proposed
  - Forthcoming QRM risk retention standards
  - Downpayment ‘barrier’ can be thought of as credit issue

- Informational Supports
  - Education and counseling; campaigns

Subsidies central to promoting ownership
Why Low-Income Ownership?

Limited Options

- Renters age 25-34 average $2100 in net wealth
- 33% of applicants with incomes under 50% of AMI are denied
- Debt to income ratios (DTI) pushed by other debt, especially student loan debt for younger households
- Lack of affordable inventory in some areas
Subsidies

1. Lowering monthly payments
   - Mortgage Interest, Mortgage Rate Subsidy

2. Lowering the initial purchase price
   - Shared equity models, Development subsidies

3. Providing down payment assistance
   - Grants, Loans, Savings Programs
Monthly Payment Savings from Reducing Interest Rates

Imagine: $160,000 house; 45,000 Income; 11,500 in consumer debt

- Downpayment and Closing Costs: $19,200
  - Saving 5% of income and 5% return: 7.5 years to save up

- Monthly Payment: $730 (at 4.5 mortgage rate)
- Debt-to-Income: 0.44

- Monthly Payment: $647 (3.5 subsidized rate)
- Debt-to-Income: 0.42
Subsidy Impact: Monthly Payment Savings

Savings on 10% Downpayment, 160k home, 4% market 30 FRM

- Market
- 1% Rate Subsidy
- 10% more down
- ...both

$180
$160
$140
$120
$100
$80
$60
$40
$20
$-

Market 1% Rate Subsidy 10% more down ...both
Savings on 10% Downpayment, 160k home, 4% market 30 FRM
## Scale of Targeted Policies is Small

<table>
<thead>
<tr>
<th>Federal Policy</th>
<th>Homeowners Supported FY2010</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Revenue Bonds</td>
<td>59,127</td>
<td>2.4 billion in issues</td>
</tr>
<tr>
<td>Mortgage Credit Certificates</td>
<td>4,844</td>
<td>$44.2 million</td>
</tr>
<tr>
<td>Downpayment Assistance</td>
<td>9,000</td>
<td>n/a</td>
</tr>
<tr>
<td>(HOME, CDBG, AHP, HFA, and CDFI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USDA</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Section 8</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>HOME</td>
<td>4,200</td>
<td></td>
</tr>
<tr>
<td>CDBG</td>
<td>4,500</td>
<td></td>
</tr>
<tr>
<td>Deductibility of Mortgage Interest</td>
<td>37 million tax filers</td>
<td>$76.6 billion</td>
</tr>
</tbody>
</table>
‘MID’: Largest policy today
- Through tax filings; Need income to maximize value
- Most of value (90%) goes to one-third of taxpayers with highest incomes

Not low-income focused

Subsidy for borrowing, not buying

Value highest at highest income brackets

Only 10% of people with income under median itemize
Mortgage Revenue Bonds

- **MRB**: Offered by WHEDA or MHFA
  - Key feature is tax subsidy for bond income (although narrow spreads right now)
  - But also exemptions from proposed QM regulations
  - Loans originated and serviced by private firms

- Often paired with FHA insured loans
- Lower interest rate plus other flexibility features
- Also often paired with downpayment assistance
Loan to value ratios to matter.

- DPA: Downpayment Assistance
- Help with savings shortfall, but...
- Savings subsidies: example IDAs
  - Make savings habit observable for underwriting
- But small in scale; often too shallow to have effects
- Lottery?
Price Subsidies

Produce (or renovate) affordable homes.
- HOME, CDBG, FHLB, etc
- Supply side matters!
- Location impacts
- But, starfish in the ocean issue....typically a handful of units

Oversight is critical. (Headline risk.)

Also don’t want financially vulnerable families in structurally vulnerable units.
Equity Models

- Land Trusts & variations–place based
- Shared ownership and/or equity
- Cooperatives, Limited Equity Cooperatives

**Exciting but still quite rare, but used internationally.**

Need to think through life cycle and oversight/administration.
Low-income Ownership Policies Force Tradeoffs:

- Scale vs. targeting
- Wealth creation vs. recycling/recapture
- Help buyer vs. help neighborhood
- Immediate costs vs. ongoing costs of subsidy
- Screening buyers vs. oversight of prior years’ buyers
Federal Policy Landscape Unpredictable

- Housing crisis is passing
- Mortgage Interest and MRB might be swept up in ‘tax reform’
- Dedicated revenue models for housing trust have potential but maybe too tempting for other uses
- Subsidy programs can be costly to administer and politically risky
- Tax code is “where the action is”? 
- QM and QRM debates (hopefully) settled this fall
State and Local Policies

- At mercy of federal tax and other policies
- How subsidies are designed locally is important
- Targeted savings incentives could be developed
- Supply side—strategic development/re-development
- Shared equity, Cooperative and Land Trust experiments are worth watching

Other Common Questions

- Structure type preferences?
- Location impact?
- Disadvantage renters or owners (tenure neutrality)?
Proposed Framework for Evaluating Options

1. Scalable—lottery or really impacting behavior...
2. Marginal Effect—but for...
3. Targeted—getting to buyer in most need
4. Admin. Costs—over the whole ownership period
5. Recapture—prevent abuse
6. Recycle—return subsidy for next generation
7. Neigh. Revital.—distressed areas + low-income=too much?
8. Default Risk —tradeoffs on terms
9. Mobility Limits—limits to asset building/job changes
Local Programs Have No Magic Bullets

- Be careful of loan pools, seconds and special products
- Don’t neglect power of downpayments
- Quality of unit purchased really matters
- Preservation and post-purchase support must be a major focus of all programs

Homeownership programs that extend beyond the first day across the threshold
Homeownership and Feeling of Well-being
Additional Resources

- Joint Center for Housing Studies
  http://www.jchs.harvard.edu/

- National Community Land Trust Network
  http://www.cltnetwork.org/

- NeighborWorks http://nw.org

- National Housing Conference http://www.nhc.org/

- NYU Furman Center http://furmancenter.org/
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