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A bridge linking housing research and practice

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At HUD, Homeownership Is On the Front Burner



"If you don't already own a home, I'd like to suggest that becoming a homeowner in 2005 be among your New Year's resolutions!"

This suggestion, part of an "innovative New Year's message" issued by HUD Secretary Alphonso Jackson last December, is evidence of HUD's continuing emphasis on homeownership as a primary means of building wealth within families and strength within communities.

While acknowledging HUD's continuing support of affordable rental housing, Secretary Jackson often draws attention to HUD's commitment to homeownership. In a January 19, 2005 speech before the U.S. Conference of Mayors, he called the purchase of a home "the quickest path to self sufficiency." And in his introduction to a guide to HUD programs, the Secretary wrote:

"For many families, the American dream means owning their own home. One of HUD's highest priorities is to help more families, especially minorities, realize the dream for themselves."

The commitment to expanding homeownership runs Administration-wide. In 2002, President Bush hosted a White House Conference on Minority Homeownership and announced "America's Homeownership Challenge"—setting a national goal of increasing the number of minority homeowners by at least 5.5 million by the end of the decade. Secretary Jackson recently reported that, in the first two years of the program, 2 million minority families have purchased homes.

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Owning Your Future: HUD Promotes Homeownership... On the Web and at the Fair

*"You can own your future —
and we're here to help."*

On the Internet and face-to-face at homeownership fairs held in five cities this June, HUD has been reaching out with the tools and information that people need to buy and keep a home.

On the **HUD.gov** website, the Owning Your Future web page offers encouraging, down-to-earth advice for first-time homebuyers:

"The road to homeownership involves more than just finding a realtor and getting a mortgage. There are financing options to consider and tax credits may be available. You'll want to know what's on your credit report, and how to fix any problem areas. And you should take the time to look into the many other resources that can be found right in your community that will help make homeownership more affordable and accessible, such as educational programs, job training programs, transportation assistance, childcare, and healthcare services."

The Owning Your Future web page is a portal to many federal and private-sector programs that promote homeownership across the country. It provides links to 11 federal agencies that partner with HUD in support-



Brenda Bailey is a new homeowner in Cincinnati, Ohio.

ing homeownership. It also provides links to 19 private partners, including Fannie Mae and Freddie Mac; mortgage banks; organizations of real estate professionals; non-profit community groups such as the Enterprise Foundation, Neighborhood Housing Services of America, Neighborhood

Reinvestment Corporation, and Habitat for Humanity; and others.

In links leading from this webpage and in the Homes & Communities section of our public website, HUD orients first-time buyers to the homebuying process as a whole, explains FHA mortgages, and identifies HUD's special mortgage programs (such as Teacher Next Door, Officer Next Door, and programs for public housing residents). It suggests how to find a real estate broker, and explains fair housing legal protections. It also provides links to housing counseling resources around the country and suggests how to avoid predatory lending and deceptive home improvement contractors. The site also lists contact information for local HUD offices.

HUD makes information available to consumers on home energy efficiency, paying your mortgage, refinancing, reverse mortgages, manufactured homes, and disaster relief. The **HUD.gov** website describes programs targeted to elderly people, veterans, and rural residents. It discusses home-based hazards, such as radon and lead poisoning, and links to how-to advice on home maintenance—from making homemade cleaners to fixing a leaky faucet. It even advises homeowners on how to sell a home.

Homeownership Fairs. Traditionally a time of year that many people make a change of residence, June has become recognized by the housing community as homeownership month. To celebrate, HUD is conducting, in collaboration with local partners, "Owning Your Future" homeownership fairs in five cities this June. These include Baltimore, Maryland; Cincinnati, Ohio;



Sarah Cadel is a new homeowner in Cincinnati, Ohio.

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Recent Studies Analyze Factors in the Sustainability of Homeownership and the Impact of House Price Increases on Owners' Assets and Debts

Two reports that elucidate important aspects of homeownership have recently been published by PD&R. One of the reports, *The Sustainability of Homeownership: Factors Affecting the Duration of Homeownership and Rental Spells*, analyzes how the nation's homeownership rate is affected by patterns of homebuying, as well as the length of time that households spend as owners or renters. The other, *The Impact of House Price Appreciation on Portfolio Composition and Savings*, finds that a household tends to save most of the increasing market value of its house, but also tends to take on more debt by buying consumer goods.



Duration Affects Rates

The nation's homeownership rate is affected, not just by patterns of homebuying, but also by the length of time that households own and the rate at which households exit homeownership to rent or live with parents. *The Sustainability of Homeownership* analyzes these factors, casting new light on differences in ownership rates among African Americans, whites, and Hispanics.

The study finds that the duration of homeownership differs by race and ethnicity. For white households, the average period of homeownership for first-time buyers is 16.1 years, compared with 9.5 years for African Americans and 12.5 years for Hispanics. The termination rate of homeownership periods by African Americans is 240 percent of that for whites, while the rate for Hispanics is 168 percent of that for whites.

"These differences," the study notes, "combined with longer stays in rental units or living with parents by minorities, result in substantially less time spent as a homeowner. Several recent studies have noted the benefits of homeownership for children, and these benefits are permanently lost if young minority adults rent for a substantial part of the time when they are raising their child." Thus, one of the study's implications is that policymakers need to pay attention

to "the gap in the duration of stay in owned homes between whites and minorities. This concern justifies consideration of new policies, specifically ones that address the racial differences in the duration of homeownership. What general policies are called for? Among the most important factors are education and knowledge. A simple policy is to target those households at risk of quick termination and provide education that raises their level of knowledge about the risks that lead to cessation of homeownership. Obviously, counseling programs fit this description."

The study concludes that, "As a result of the national concern about a decreasing homeownership rate throughout the 1980s and into the 1990s and concern about substantial differences in ownership rates between whites and minorities, substantial effort has been devoted to increasing ownership rates. Many of these policies...have focused on increasing the accessibility of first-time homeowning. The analysis conducted in this study supports continuing these policies. There are still substantial gaps between whites and minorities in the rate that first-time homeownership is achieved. However, policies that promote only temporary spells of homeownership will have little impact on the national homeownership rate. To have a lasting impact on overall homeownership rates, policies must promote new ownership spells that are sustainable. Furthermore, policies that lengthen existing ownership spells also will raise the national ownership rate, even if the rate of attaining a first-time or subsequent spell of ownership is not affected."

The study bases its findings and conclusions on detailed descriptions of homeownership and rental spells, focusing on differences in race, ethnicity, and income. It also includes an econometric analysis of homeownership spell length that explores the role of factors such as education, changes in a household's weeks worked, unemployment rates, and mortgage interest rates. This analysis utilizes a nationally representative data set, the National Longitudinal Survey of Youth, which follows a cohort of individuals for 21 years. The full text of *The Sustainability of Homeownership* is available as a free download at www.huduser.org/publications/affhsg/homeownsustainability.html or in printed form for a nominal charge by calling 1.800.245.2691.

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Doorknocker Award—Winning Tacoma and Spokane Programs Maximize HOME Funding to Build Innovatively Designed and Financed Affordable Housing

Twenty innovative local homeownership programs were recently awarded HUD's first national HOME Doorknocker Award for their outstanding work in providing affordable housing to low-income and underserved people. "Whether it's providing homeownership opportunities to lower-income families looking to share in the American Dream or designing cutting edge affordable housing, these communities are proof that, working together, we can make a real difference," HUD Secretary Alphonso Jackson noted when announcing the award winners. "These communities are leading the way toward building better communities and opening more doors to people who are most in need."

The 2005 Doorknocker Awards have been given to fifteen local communities and five state governments for their remarkable work under HUD's HOME Investment Partnerships Program, the largest federal block grant effort dedicated to producing affordable housing. The awards mark the program's fifteenth anniversary. Each year, HUD allocates about \$2 billion through HOME to more than 600 state and local participating jurisdictions to increase the stock of affordable housing. Since its inception, HOME has enabled more than 550,000 affordable units to be completed and nearly 114,000 tenants to receive rental assistance. These projects can serve as models for other jurisdictions throughout the country.

This article looks at the two award winners in Washington State: Spokane County's Riverwalk Point I project, a collaborative effort to develop affordable housing incorporating sustainable design and building practices; and the Homeownership Center of Tacoma's first-time-homebuyer program, which uses structured financing for affordable housing to achieve sustainable homeownership.

Spokane County's Riverwalk Point I Project

Riverwalk Point I in Spokane demonstrates how a collaborative effort can develop affordable housing incorporating sustainable design and building practices. As the first phase of a larger affordable housing project, Riverwalk Point I's 52 units of newly built housing target very low and extremely low-income families, particularly larger families and persons with special needs. Fifty of the units are HOME-assisted, and ten provide housing for the homeless. Of the 50 units, 10 provide shelter for families in transition, and 3 are reserved for families with members who need

housing meeting the standards of the Americans with Disabilities Act. Both Washington State and Spokane County have provided HOME funds to the project.

The Spokane Neighborhood Action Programs (SNAP), a community housing development organization, has acted as Riverwalk Point I's owner and developer. The Sustainable Housing Innovation Partnership, a collaborative effort of more than 70 local, state, and national partners, worked for more than four years to bring the project to fruition. Riverwalk Point incorporates sustainable design and building techniques, including environmentally friendly and recycled building materials, energy-efficient appliances, fixtures that use water efficiently, and drought-resistant vegetation. By incorporating such amenities as functional community artwork, the project has not only provided affordable housing for low-income families, it has also changed perceptions of what affordable housing looks like.

According to SNAP, "The five buildings that make up [the project] do not look or perform like your conventional affordable housing project. The varying perspectives, experiences, and knowledge bases that came together through the collaborative process produced a more rounded, thoughtful, and 'solid' project. Residents who live there love it. The community art sprinkled around the site...bring[s] a sense of uniqueness."

Along with SNAP, Riverwalk Point I's many development partners include the Sustainable Housing Innovation Partnership, Washington State's Department of Ecology and its Community Trade and Economic Development Office, Washington Housing Finance Commission, National Equity Fund, Paul Allen Foundation, Washington Mutual Foundation, Foundation Northwest, Avista, Impact Capital, Common Ground, U.S. Bank Foundation, Spokane Regional Solid Waste System, Pomegranate Center, KOP Construction, and BWA Architects.

Tacoma's Homeownership Center

The first-time homebuyer program sponsored by the Homeownership Center of Tacoma (HCT) in the city's Hilltop neighborhood demonstrates how thoughtfully structured financing for affordable housing can achieve sustainable homeownership. The program originated with community meetings in 1991–92, when residents of Tacoma's Hilltop neighborhood, city officials, lenders, business representatives, and representatives

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Homeownership Is On the Front Burner *cont. from page 1*

Barriers to Homeownership

The Secretary has declared that "Through its programs and initiatives, HUD is breaking down the barriers that lock too many families out of homeownership." But what are these barriers? And how is HUD working to overcome them?

While homeownership is at an all-time high, with nearly 70 percent of all American households owning their own homes, only about half of African-American and Hispanic families are homeowners. Although the minority rate has risen in recent years, it still lags behind that of whites. HUD is particularly determined to address the factors that create this homeownership gap. Barriers high on HUD's action list include:

- Households lacking a downpayment;
- Households needing help in understanding the home buying process;
- Households with credit records that preclude qualifying for conventional (prime) loans and which are vulnerable to "predatory lending" within the nonprime (subprime) mortgage market;
- Neighborhoods, cities, and towns with affordable housing shortages; and
- Government-sponsored financing agencies that could do a better job of serving middle- and low-income housing markets.

HUD is working hard to overcome these barriers. Our goals include expanding zero-downpayment mortgages, reforming the subprime lending market, encouraging greater use of housing counseling, increasing the supply of affordable housing, and instituting reforms at the government-sponsored housing finance agencies.

Expanding Zero-Downpayment Mortgages

HUD has backed a variety of measures to supply more downpayment assistance for households that could afford mortgage payments, if only a downpayment was not required up front.

This year, President Bush's FY 2006 budget request proposed the development of a zero-downpayment loan product under the Federal Housing Administration (FHA) single-family mortgage insurance program (FHA currently requires at least a 3 percent downpayment). This measure follows the Zero Downpayment Act of 2004 (H.R.3755), which the Administration supported but which did not reach a floor vote in the House. In 2002, however, Congress passed and President Bush signed the \$200 million-per-year American Dream

Downpayment Act, expanding the supply of no-downpayment mortgages for first-time homebuyers.

Reforming the Subprime Lending Market

HUD has long been concerned that households with less-than-ideal credit ratings may be limited to unfavorable or even "predatory" loan products in the nonprime mortgage market. As part of an ongoing effort, HUD maintains a web page of information to arm consumers against becoming victims of loan fraud or predatory lenders (www.hud.gov/offices/hsg/sfh/pred/predlend.cfm). The site explains the tactics of predatory lenders, suggests ways to recognize them, and provides links to sources of homeownership education.

Earlier this year, Representatives Robert Ney (R-Ohio) and Paul Kanjorski (D-PA) introduced the Responsible Lending Act (H.R. 1295), a comprehensive bill on subprime lending. Reflecting HUD's and the housing community's long-standing concerns with predatory lending, the Ney-Kanjorski bill would protect consumers against unfair and deceptive practices in connection with higher cost mortgage transactions, strengthen consumer remedies, establish uniform lending standards, strengthen housing counseling, improve appraisal standards and oversight, and establish licensing and minimum standards for mortgage brokers. As of May, this bill was still under consideration.

Another bill, H.R. 1182, sponsored by Brad Miller (D-NC) and Mel Watt (D-NC), focuses on predatory lending. There is some debate in the housing advocacy community as to which set of provisions would do a better job of protecting consumers without inadvertently increasing foreclosures and mortgage delinquencies.

Making Housing Counseling Available

As Secretary Jackson remarked to the National Press Club in February 2004, first-time homebuyers "sometimes think there's nobody out there to help them navigate the process. They often don't know their rights as homebuyers. They don't fully understand their responsibilities either."

HUD has long considered housing counseling to be a key means of closing the homeownership gap. HUD certifies housing counseling agencies throughout the country for renters, homebuyers, and homeowners. The Department also maintains a Housing Counseling Clearinghouse with a toll-free telephone number (800.569.4287) and a website (www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm). HUD-approved agencies offer advice on preparing to buy a home, home

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Owning Your Future cont. from page 2

Albuquerque, New Mexico; New Orleans, Louisiana; and Orlando, Florida.

The fairs feature informational booths and educational programs on subjects such as job training, educational resources, health and nutrition assistance, transportation vouchers, tax credit and preparation services, as well as housing counseling programs, credit information, and a description of how reverse mortgages work.

For more information, see www.owningyourfuture.gov/ or www.hud.gov/owning/index.cfm. **H.I.**



Morningstar Armstrong — a new homeowner in Cincinnati, Ohio.

Doorknocker Award cont. from page 4

of local non-profit organizations planned how to meet the neighborhood's housing needs. Having identified the community's greatest need as increasing homeownership opportunities for low- and moderate-income first-time buyers, they created the HCT program to provide assistance, with a clear mission: "A home of your own... at a price you can live with."

HCT sold its first home in 1994, and has subsequently rehabilitated or built and sold 128 homes to low-income families. The average HCT homebuyer is a single parent with two children and a low or moderate income. The average construction cost of these homes is just under \$90,000. HCT acquires infill properties to rehabilitate or construct new houses, which are well designed and compliment the existing housing in the neighborhood. These properties are made available to low-income first-time homebuyers for purchase, along with homeowner education, money management, and credit counseling.

HCT offers a unique financing package tailored to the household's income. Homebuyers pay only 30 percent of their household income toward the monthly payment through a mortgage loan, and HCT holds a second mortgage financed by Washington State trust funds. The second mortgage covers the difference between the first mortgage and the home's sales price. HCT receives HOME funds to provide a developer subsidy to offset acquisition and construction costs, as well as a buyer subsidy for closing costs, ensuring long-term affordability for families and minimizing the potential for default. HCT has leveraged more than \$10 million in first mortgages and \$1.9 million in second mortgages. The average developer subsidy for its homes is \$19,672, with an additional \$2,742 in buyer subsidy; the total average HOME cost per unit is \$22,414.

Tacoma's Hilltop neighborhood, where HCT originated, is one of the city's poorest neighborhoods and once was plagued by gangs and crime. HCT took on some of its meanest streets and constructed new housing while rehabilitating existing homes. The resulting private and public investment in Hilltop has spurred a dramatic turnaround. Today, Hilltop has some of Tacoma's most sought-after older housing stock; its property values have increased more than 30 percent over other neighborhoods, and it has the city's lowest crime rate. In 2000, HCT expanded its efforts to many of Tacoma's Eastside neighborhoods, and it now commits all its HOME funds to housing currently being built. The demand for these houses is so strong that they are sold as soon as construction is completed.

HCT's financing methods are a very efficient way to remove neighborhood blight while adding to the housing stock, because most of the costs of blight removal and construction are covered by the first and second mortgages. The only cost to the public is the relatively small subsidy required to bridge the gap between construction costs and appraised sale values. With its successful track record of using this approach, HCT is poised to continue its mission of improving Tacoma's neighborhoods.

For more information on Spokane's Riverwalk Point I, please contact Timothy E. Crowley, Spokane County Housing and Community Development, at 509.477.4488. For more information on the Homeownership Center of Tacoma, please contact Ryan Petty, Tacoma Director of Economic Development, at 253.591.5139. The full list of Doorknocker Award winners and is available at www.hud.gov/news/release.cfm?content=pr05-004.cfm. **H.I.**

Recent Studies Analyze Factors cont. from page 3

Debt Increases, But Value is Retained

For more than a decade, the government has been encouraging homeownership at all income levels through special lending, assistance, and tax measures. Recent initiatives include the 2004 American Dream Act and federal regulations aimed at boosting the percentages of Fannie Mae and Freddie Mac lending directed to underserved borrowers and communities. But how do rising housing markets affect the household economy? Do households actually accumulate wealth when their homes go up in value, or do they tend to spend the increased value by taking on additional debt? *The Impact of House Price Appreciation* seeks to answer these questions.

The study finds that rising home values do encourage homeowners to spend more, and confirms earlier research findings that homeowners are more likely to take money out of their housing assets to spend on

consumer goods than from their stock market holdings. The study shows, however, that homeowners typically retain most of their home's appreciation. This pattern of spending and investment is similar for households with high, moderate, and low incomes. Because housing market values can fall, this pattern does not ensure that homeownership will enable every family to accumulate assets. "Nevertheless," the study notes, "to the extent that real house prices tend to rise over time, the tendency of homeowners to save most of their housing capital gains is consistent with the view that homeownership helps families to accumulate wealth, and as such, lends support to recent policy initiatives designed to expand access to homeownership."

The Impact of House Price Appreciation on Portfolio Composition and Savings is available as a free download at www.huduser.org/publications/affhsg/housepriceimpact.html or in printed form for a nominal charge by calling 1.800.245.2691. 

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purchasing, renting, defaults, foreclosures, money management, credit issues, and reverse mortgages.

Increasing the Supply of Affordable Homes

"There's no question that some communities face an acute shortage of affordable housing," HUD Secretary Jackson told the Washington Press Club in June 2004. Efforts to improve supply range from federal tax legislation to state and local regulatory reform (supported in large measure by HUD's Regulatory Barriers Clearinghouse, on the Web at www.regbarriers.org).

HUD also supports a single-family affordable housing tax credit that would provide a tax credit for developers of up to 50 percent of the cost of new construction or rehabilitation in low-income areas (where households average less than 80 percent of an area's median income). In 2005, this proposal was introduced in the House as the Renewing the Dream Tax Credit Act (H.R. 1549) and in the Senate as the Community Development Homeownership Tax Credit Act (S 859).

The Department is also concerned that state and local regulations often pose daunting barriers to the creation and redevelopment of affordable housing. These state and local regulations may take the form of out-of-date building codes, approval processes that are duplicative and time-consuming, restrictive zoning ordinances, and unnecessary or excessive fees and taxes. HUD Secretary Jackson has commented that

"experts estimate [that] if the barriers were dismantled, development costs on average could drop as much as 35 percent," allowing "millions of Americans to buy or rent housing they can't afford today." In addition to the Regulatory Barriers Clearinghouse, HUD has also launched the America's Affordable Communities Initiative, which is addressing this challenge by working with elected officials and local organizations to identify and resolve regulatory problems.

HUD has also increased its long-term support for sweat equity housing — self-help programs that enable families to perform part of the work of building their own homes. In February, HUD announced almost \$27 million in grants to help lower-income Americans become first-time homeowners through sweat equity.

Reforming Fannie Mae, Freddie Mac, and the Housing Finance Agencies

HUD also supports measures to ensure the solvency of the government sponsored enterprises (GSEs) — including Fannie Mae, Freddie Mac, and the Federal Home Loan Banks — as well as to enable them to better serve the needs of the low- and moderate-income home purchase and rental markets. Recently proposed legislation calls for the GSEs to focus on affordable housing, with the GSEs contributing five percent of their after-tax earnings to an affordable housing fund.

For more information, visit www.hud.gov. 

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In the Next Issue of... ^{research} **works**

- HUD has developed a new FHA-insured mortgage program to enable homebuyers to quickly and easily tap into cash to pay for property repairs or improvements before they move in. By using the Streamline 203(k) Limited Repair Program, homebuyers now can finance an additional \$15,000 into their mortgage to make needed improvements or upgrades, like those identified by a home inspector or FHA appraiser. We'll look at how the program works and how prospective homebuyers can apply.
- A host of practical and research publications on fair housing and housing finance are available from HUD USER. We'll briefly review several of the most notable recent reports, such as *An Analysis of Mortgage Refinancing, 2001-2003*, *Multifamily Building Conformance with the Fair Housing Accessibility Guidelines*, and *New Evidence on the Relationship Between Race and Mortgage Default: The Importance of Credit History Data*.
- Disadvantaged and underserved residents of Austin, Texas are finding new hope at Garden Terrace, the city's first housing designed exclusively for single working adults, retirees, homeless people, and people with disabilities. Until Garden Terrace opened, these Austinites had virtually no housing options. To begin remedying this situation, in cooperation with a local non-profit organization, the City of Austin used HOME and other federal funding to purchase and convert a former nursing home into an 85-unit complex of efficiency apartments with supportive services. We'll tell the Garden Terrace story and hear from some of its appreciative and enthusiastic residents.
- Last December, the City of Camden, New Jersey held an important ribbon-cutting ceremony for 49 new units of affordable housing at Baldwin's Run, the site of the former Westfield Acres development. With a \$35 million HUD HOPE VI Grant, the Camden Housing Authority was able to demolish Westfield Acres and create 528 units of public and affordable housing, as well as a community center and a Boys & Girls Club. This story will examine how Camden formed innovative public and private partnerships to build the latest in a series of successful public housing rehabilitations.

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