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Factors in Achieving and Retaining Homeownership

Downpayment assistance programs, such as the American Dream Downpayment Program, enable more Americans to become homeowners.

What is the influence of factors such as household formation, levels of wealth and income, and the availability of downpayment assistance on the likelihood of becoming a homeowner? Does owning a home make a significant difference to a household's bottom line, even if homeowners cash out some of the value through home equity loans? How secure are first-time homebuyers in their tenure? How do we account for the disparities in homeownership rates—69 percent overall in the fourth quarter of 2005, but just 50 percent for Hispanics and 48 percent for blacks? These are just a few of the questions addressed by five recently released HUD reports.

The Influence of Household Formation on Homeownership Rates Across Time and Race **(www.huduser.org/publications/pdf/TheInfluenceOfHouseholdFormationOnHomeownershipRatesAcrossTimeAndRace.pdf)**. Every adult (ages 21 to 64) has a recurring opportunity to decide whether to form and head a household (household formation behavior), and if they do so, to decide whether to rent or own. This project evaluates the degree to which age- or race-related variance in these decisions might account for changes in the overall homeownership rate over time. Findings suggest that changes in household formation and homeownership are not independent of one another. Household formation behavior, however, seemed to have only a modest effect on the aggregate homeownership rate. In contrast to the well-publicized rise in aggregate homeownership rate for the entire population, age-specific homeownership rates from 1970 to 2000 remained largely unchanged. Rather, the increase in the aggregate homeownership rate is largely attributable to the aging of the population. Minority

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PD&R U.S. Department of Housing and Urban Development Office of Policy Development and Research

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homeownership also increases with age, but more slowly than for white households, and never to the same degree.

The Importance of Wealth and Income in the Transition to Homeownership **(www.huduser.org/publications/pdf/TheImportanceOfWealthAndIncome.pdf)**. This study finds that both household income and wealth (savings, investments) influence the transition to homeownership. For minorities, wealth is a stronger predictor. All else being equal, minorities need significantly higher levels of wealth to achieve the same probability of becoming homeowners as white households. Some evidence suggests, however, that the importance of wealth in predicting homeownership has declined over time, perhaps reflecting the development of low-downpayment mortgage options in the 1990s.

The Potential of Downpayment Assistance for Increasing Homeownership Among Minority and Low-Income Households **(www.huduser.org/Publications/pdf/potentialdownpaymentassistance.pdf)**. This study tests the potential for downpayment assistance programs, such as those in the American Dream Downpayment Act of 2003, to increase homeownership, both overall *and* among low-income and minority households. Liquid financial assets (amounts held in savings or checking accounts, CDs, mutual funds) were significant predictors of homeownership, and surprisingly, this is especially true for households with the least amount of savings—from $0 to $1,000.

According to a recent HUD study, household income and wealth influence the transition to homeownership.

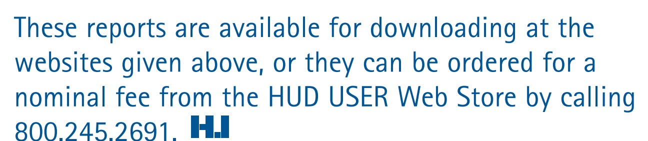
The study tests the effects of different levels of downpayment assistance in boosting homeownership and suggests that policies to support savings efforts by low-income households might be effective. "A little savings can go a long way toward enabling homeownership," the study concludes.

The Impact of House Price Appreciation on Portfolio Composition and Savings **(www.huduser.org/publications/pdf/housepriceimpact.pdf)**. This research explores the question of whether rising home values really help homeowners accumulate wealth, given the fact that many homeowners take out part of the value in the form of home equity loans to spend on goods and services. The study finds that homeowners take on up to 15 cents of additional debt per each dollar of house price appreciation. On the other hand, they typically save at least 80 percent of their home price appreciation. The study lends support to the idea that homeownership increases the wealth of households, at least to the extent that inflation-adjusted housing prices tend to rise over time.

The Growth of Earnings of Low-Income Households and the Sensitivity of Their Homeownership Choices to Economic and Socio-Demographic Shocks **(www.huduser.org/Publications/pdf/EarningsOfLow-IncomeHouseholds.pdf)**. This study looks at low-income, first-time home buyers to see how long they remain homeowners, and what factors are associated with reverting to being renters again. The study finds that household earnings among new homeowners tend to rise relatively rapidly, especially for low-income homeowners. Their earnings typically increased by up to 13 percent, tending to make homeownership sustainable.

Terminations of homeownership peak around the third year, when seven percent of those who made it that far lose their tenure. Falling earnings, declining house values, higher interest rates, and higher local unemployment rates all increase the likelihood of failure. Being (and remaining) married, greater education, smaller family size, and being older all increase the likelihood of remaining a homeowner. Black households had a much greater risk of losing homeownership status, even after controlling for a large number of economic and demographic variables.

These reports are available for downloading at the websites given above, or they can be ordered for a nominal fee from the HUD USER Web Store by calling 800.245.2691.



Performance Measurement Enhances Community Development

Five communities with emerging reputations for carrying out effective performance measurement in community development programs—Charlotte, North Carolina; Austin, Texas; King County, Washington; Minneapolis, Minnesota; and Burlington, Vermont—are featured in a recent HUD-sponsored study, *Promising Practices in Grantee Performance Measurement*. The study details how these localities evaluate their community development programs to ensure that they're following a 'best bang for the buck' approach to grants management.

In reviewing the performance measurement systems in these communities, the research team used a generic framework to examine each system in a standardized manner. The focus was on four elements: (1) goals, objectives, and the activities planned for achieving them; (2) performance measures; (3) assessment of outcomes; and (4) decisions made based on performance. For each element, the research team collected extensive background material and interviewed operating program managers, department heads, budget staff, city manager staff, and local elected officials. The result is a profile of performance measurement systems in each of five different communities, plus an analysis of findings and a step-by-step guide to developing a local performance measurement system.

These localities implemented performance measures for a variety of reasons, depending on local need and context. Certain personnel or conditions appeared to provide the momentum to adopt program evaluation processes. Key personnel, who demonstrated professionalism and an appreciation for strategic planning, policy-oriented action, efficiency, and accountability to the public, often led the way in establishing performance evaluation measures. Budget crises, support from community leaders, and pressure from dissatisfied constituencies also provided impetus.

The report sums up what works in these communities and what might be useful to other localities with an interest in implementing performance measurement systems. Lessons gleaned from the case studies relate to goal-setting, performance measurement and assessment, and to feedback. We will visit these lessons briefly below.

Lessons in Goal-Setting

- *Learn from the experience of others.* Setting goals for a performance measurement system does not require 'reinventing the wheel.' Numerous approaches and models are available to borrow from or adapt. For example, Charlotte adapted the "Balanced Scorecard" model, which was developed in the private sector. Austin's "Managing for Results" integrates program evaluation with widely recognized business planning and management principles. Minneapolis adapted Austin's approach, and King County uses a logic model for evaluation developed by the W. K. Kellogg Foundation (see www.wkkf.org). Burlington combines information on production levels, such as the number of new and rehabilitated housing units made available, with achievement of objectives from the community's thirty-year quality-of-life plan, such as revitalizing fragile neighborhoods.

A scorecard can reflect the status of a community's performance measurement goals.

- *Let the community's vision for itself shape performance goals.*
- *Involve community partners and the public from the input and design stage throughout the implementation of a performance measurement system.*

Lessons in Performance Measurement and Assessment

- *Strive for more than efficiency.* Performance measures need to focus on their relevance to the whole community. Besides knowing how many participants in a homebuyer program receive downpayment assistance, it's meaningful to have a measure of the program's community impact. Therefore, measures such as the percentage of families who move from temporary shelter to permanent housing or the change in local homeownership rates are valuable. As the report states, "It is important to be able to

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Mark-to-Market Preserves Affordable Rental Housing

In the 1980s, HUD faced a serious challenge in our efforts to preserve the supply of affordable rental housing. Policymakers were concerned that a growing disparity between HUD-approved rents and market-rate rents would lead property owners participating in HUD's Section 8 subsidy program for low-income renters to leave the program. Others were concerned that HUD's rent subsidy costs were rising at a rate that, if it continued, would become far too costly. This situation can be traced to initial rent levels for Section 8 properties established back in the 1970s and early 1980s. Back then, rents were often set above local market levels to compensate for administrative costs, higher construction costs, and special features for the elderly.

In 1997, Congress authorized the Mark-to-Market (M2M) program in response to these concerns. Its first objective was to reduce rents to market level rates in Section 8 properties with FHA-insured mortgages. In some instances, rents were reduced without further negotiation or long-term commitment from the owner. In many cases, this would have thrown a project into default, unable to meet expenses with reduced income. In response, M2M authorized partial or full payment of mortgages from the FHA Insurance Fund as a means of reducing the size of the first mortgage debt. This type of debt restructuring replaces the old with a new mortgage and smaller mortgage payments that reduced rents can cover (plus expenses). The Section 8 subsidy is then decreased and HUD saves money. The owner agrees to retain the property as affordable rental housing for 30 years, thus meeting the second objective of M2M: that of preserving affordable rental housing. Additional provisions allow: (1) repair and replacement to upgrade or sustain a property's condition, and (2) above-market rents where affordable housing is needed and a property cannot be made financially viable at the market rate.

HUD recently arranged for an independent evaluation of M2M performance over time that focused on administrative aspects of the program, statistical analyses, and in-depth case studies which demonstrated how the program was operating. By the end of July 2003, 2,416 properties had worked with the M2M program after their original Section 8 contracts expired. The properties represented 25 percent of the assisted housing stock. Owners of the remaining stock have the opportunity to go through the M2M process

Debt restructuring of Section 8 properties can help preserve affordable housing rental stock for decades to come.

as their contracts expire. Projected cost savings from completed M2M restructurings were calculated in three ways, based on differing financial performance scenarios. For the properties processed through M2M by the end of July 2003, these scenarios produced a range of anticipated net savings to HUD that ranged from $111 million to $883 million over the next 20 years.

Based on an exhaustive review of actual outcomes, researchers concluded that M2M's restructuring process appeared to be effective in preserving affordable housing. Few properties that entered the M2M process had left the Section 8 program. Initial owner resistance to negotiating the restructuring of their contracts with HUD had largely dissipated, and the financial arrangements negotiated appeared to be sound. Section 8 tenants were able to remain in their homes, while enjoying physical improvements to the property. Moreover, the government was saving money.

Lynn Acres, in Shelbyville, Kentucky, is considered one of the success stories that illustrate M2M's purpose —to improve the financial viability of the property while preserving affordable rental housing. Lynn Acres has 40 Section 8 subsidized units occupied by a mix of young families, single mothers, and elderly tenants. The current owners built the project 20 years ago under the HUD-financed 223(a)(7) program. At the point of entry into the M2M restructuring process, both assessors and tenants rated Lynn Acres' condition as good, although it was in need of some repair and rehabilitation. This was similar to what was found

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show not only the total number of 'widgets' produced but also the results of widget production."

- *Link performance outcomes to program goals as a means of monitoring progress.* Minneapolis, for example, builds a means of regularly reassessing progress into its annual budgeting process.
- *Keep the number of outcomes and measures to a manageable size.* Tracking too many outcomes is burdensome; it clogs the system and takes too much time. Ideally, measures add pertinent information to a program assessment without overburdening the system. That's why Austin cut its initial number of 4,400 indicators in half. A more manageable number of indicators allows city departments to work toward performance goals with a sense of owning, and being responsible for, these goals.
- *Build accountability into a performance measurement system.* Reporting and management meetings keep everyone apprised of progress, and in tune with the community's overarching vision. Charlotte, for example, posts an ongoing scorecard reflecting the status of departmental performance goals.

Lessons Related to Feedback

- *Incorporate program evaluation into the daily procedural life of the agency.* Austin and Charlotte demonstrate this by integrating performance measures into employee appraisals and customer service principles.
- *Use performance measurement information in funding decisions.* Subrecipients and Community Housing Development Organizations that are effective in achieving program goals have a better chance at future funding.
- *Be willing to adjust the performance measurement system to improve community programs and services.*

Finally, *Promising Practices in Grantee Performance Measurement* discusses tactics, tools, steps, and key decisions for communities to consider in developing a program-based performance measurement system. It's available as a free download at **http://www.huduser.org/publications/econdev/prompractices.html**. HUI

Steps in Implementing Program Performance Measurement

1. Identify Performance Goals
2. Conduct Outreach and Research
3. Design Local System
4. Develop Tools
5. Implement Measurement
6. Analyze Results
7. Conduct Improvements
8. Continue Measuring & Assessing

Credit: Adapted from *Promising Practices in Grantee Performance Measurement*, p. 68.

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in other rentals in the community. Yet the property was at a competitive disadvantage, because it lacked washer and dryer hookups. Lowering the rents without debt restructuring would have created too much of a financial burden for the owner. Therefore, HUD arranged for the mortgage to be restructured with lower payments.

Features of the renegotiated plan for Lynn Acres included reduced rents. The rent for a two-bedroom unit, for example, was reduced from 140 percent of fair market rate ($552) to 124 percent ($489). The reductions will save Section 8 over $40,000 annually. The new 30-year commitment from the owners of Lynn Acres retains the units as affordable housing. Agreed-upon renovations and repairs will maintain the good condition of the buildings and bring parking and common areas into compliance with the Americans with Disabilities Act of 1990.

Evaluation of the Mark-to-Market Program details the evaluation conducted, reviews outcomes, and further describes the circumstances of the restructuring of fifteen properties located throughout the United States. The study is available as a free download at **www.huduser.org/publications/PUBASST/evalm2m.html** or in print for a nominal fee by calling 800.245.2691. HUI

Optimized Tax Credit Allocation Can Serve Those in Need

Recently released by HUD, *Making the Best Use of Your LIHTC Dollars: a Planning Paper for State Policy Makers* examines the Low-Income Housing Tax Credit (LIHTC) program and makes recommendations to state housing policymakers on optimizing the use of tax credits to develop or rehabilitate affordable rental housing.

Congress created the LIHTC program in 1986 to provide an incentive to the private market to invest in affordable rental housing. In the past two decades, developers have used LIHTCs to raise capital for the construction and rehabilitation of affordable rental housing nationwide. Investors who purchase these tax credits receive dollar-for-dollar federal tax credits annually for a period of 10 years. The amount of the annual tax credit is based on the amount invested in affordable housing (some projects may have a mix of affordable and market-rate units). The tax credits help reduce the amount of money a developer must borrow to finance the construction/rehabilitation project and can result in lower, more affordable rents.

Eligible projects under the LIHTC program include residential rental properties that: restrict rents, including utilities, for low-income units; agree to operate under rent and income restrictions for a minimum of 30 years; recertify tenant incomes annually to ensure eligibility; and commit to one of two low-income occupancy threshold requirements. The low-income threshold requirements include:

- *The 20-50 Rule*—At least 20 percent of the units must be rent-restricted and occupied by households with income at or below 50 percent of area median income; or
- *The 40-60 Rule*—At least 40 percent of the units must be rent-restricted and occupied by households with incomes at or below 60 percent of area median income.

Tax Credit Allocations

Each year, the Internal Revenue Service allocates housing tax credits to state agencies (usually state housing finance agencies) that award the credits to affordable housing developers. State tax credit allocations are based on population. State agencies allocate tax credits through a Qualified Allocation Plan (QAP) that can include:

- Competitions for metropolitan and nonmetropolitan areas;

Low-Income Housing Tax Credits fund the construction and rehabilitation of affordable rental housing.

- Preferences for specific geographic areas;
- Allocations to areas with worst-case housing needs; and
- Allocations to areas with increasing populations.

Federal regulations require the states to give priority to projects that serve the lowest income families and to those projects which will remain affordable for the longest periods of time. Also, 10 percent of each state's allocation is set aside for projects developed by nonprofit groups.

Produced by Abt Associates for HUD, *Making the Best Use of Your LIHTC Dollars* is divided into three sections. The first section examines LIHTC allocations in metropolitan areas based on the need for rental housing assistance and project-based rental subsidies. The second section looks at tax credits used to develop housing for people who face difficulties in finding affordable housing, including extremely low-income families, large families who need units with three or more bedrooms, the frail elderly, and people with disabilities. The third section examines tax credits as part of an overall strategy for economic development in metropolitan areas.

Identifying Housing Shortages

The paper makes several recommendations to state policymakers on how to make the most of their tax credits. For example, the authors believe that tax credit development should be concentrated in areas with needy households and a shortage of affordable rental housing. At the same time, they urge

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policymakers to use severe rent burden or worst-case housing needs (paying a very high percentage of income for rent/utilities), rather than poverty, when determining allocations.

The authors point out that it's difficult to identify areas with housing shortages and suggest looking at areas with low vacancy rates, high rent-to-income ratios, or areas where rents are rising without comparable increases in new construction.

State policymakers can also use voucher success rates to determine rental housing shortages in their state. The success rate is viewed as the percentage of all households with vouchers who found qualified rental housing and began to receive a housing choice voucher subsidy. Approximately 70 percent of households with vouchers successfully find rental housing, so a much lower voucher success rate could indicate a lack of affordable rental housing.

Develop an Allocation Strategy

The authors recommend making LIHTC allocations part of an overall strategy for affordable housing development that reduces regulatory barriers to

Low-Income Housing Tax Credits can be an integral part of an overall economic development strategy in metropolitan areas.

affordable housing. The authors note that if housing subsidies are the only tool being used, policymakers should consider using them in neighborhoods in the early stages of decline or those beginning to improve, rather than in severely distressed neighborhoods.

They also encourage state agencies and policymakers to consider a mixed-income strategy in tax credit developments—with a mix of tax-credit and market-rate units—to avoid concentrations of subsidized housing. Tax credits can also be used to preserve existing affordable housing in gentrifying neighborhoods, which tend to be near transportation lines and active business districts.

Conclusion

The authors conclude that careful planning and targeting of annual tax credit allocations can optimize a state's resources and ensure that affordable rental housing is developed in the appropriate geographical areas to serve specific households in need, such as large families, the frail elderly, extremely low-income families, and people with disabilities.

Making the Best Use of Your LIHTC Dollars: A Planning Paper for State Policy Makers can be downloaded at no charge from the HUD USER website **(http://www.huduser.org/publications/polleg/lihtcDollars.html)** or may be ordered from HUD USER for a nominal fee by calling 800.245.2691.

HUD Updates Low-Income Housing Tax Credit Database

The Low-Income Housing Tax Credit (LIHTC) database, created by HUD and available to the public since 1994, has been updated and now contains information on more than 24,500 projects and nearly 1,257,000 housing units placed in service between 1987 and 2003. Data are available through the LIHTC Database Access website at **http://lihtc.huduser.org/**. In addition to downloading the entire database, users may extract more limited sets of data by selecting only the variables of interest to them, and by filtering for variable values or restricting the geographic parameters of their query. A companion report analyzing the latest data is available at **http://www.huduser.org/Datasets/lihtc/report9503.pdf**.

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In the Next Issue of... research works

- Baseline information about the public's knowledge, attitudes, and behavior relating to housing discrimination first came from a national survey conducted in late 2000 and early 2001. We'll examine the outcomes of a 2005 sequel to that benchmark survey to see what changes, if any, have since occurred in what the public knows and thinks about fair housing law.
- One aspect of HUD's initiative to eliminate chronic homelessness is to offer the homeless with disabilities an assurance of permanent housing and adequate supportive services. This article explores the staying and leaving activities of a group of formerly homeless individuals with serious mental illness who resided in permanent supportive housing in Philadelphia.
- The last two decades have been marked by significant changes in consumer financial services. HUD has published a new analysis of the prevalence of subprime lending and alternative financial service providers operating in low-income and minority communities. We'll review the findings.
- *Is Manufactured Housing a Good Alternative for Low-Income Families?* This question prompted an objective comparison of benefits among three different types of housing arrangements: owning a manufactured home, renting, or owning a stick-built home. These scenarios were compared on dimensions that included the quality and cost of the housing, the neighborhood context, and appreciation of the property's value in the two ownership scenarios. We'll discuss these comparisons.

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