Advancing HUD's Learning Agenda through Cooperative Agreements with Historically Black Colleges and Universities, Hispanic Serving Institutions, Tribal Colleges and Universities, and Alaska Native/ Native Hawaiian-Serving Institutions

Short White Paper on Homeownership, Asset Building, and Economic Opportunity

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Introduction

The Office of Policy Development & Research (PD&R) within the U.S. Department of Housing and Urban Development (HUD) recently published a Notice of Funding Opportunity (NOFO) titled *Advancing HUD's Learning Agenda through Cooperative Agreements with Historically Black Colleges and Universities, Hispanic Serving Institutions, Tribal Colleges and Universities, and Alaska Native/ Native Hawaiian-Serving Institutions.* Through this funding opportunity, PD&R seeks to fund quality research that contributes to knowledge on housing and community development and to support minority-serving institutions to conduct housing and community development research important to the communities and students the institutions serve. Applicants for funding must submit a research project proposal that addresses one of the specific research questions featured in the NOFO.[1] The research questions are broadly organized under seven topic areas: (1) Community Development and Place-Based Initiatives, (2) Disaster Recovery, (3) Fair Housing, (4) Homelessness, (5) Homeownership, Asset Building, and Economic Opportunity, (6) Housing and Health, and (7) American Indian, Alaska Native, and/or Native Hawaiian Housing Needs.

This short white paper is designed to provide a high-level overview of the current state of research within the topic area of Homeownership, Asset Building, and Economic Opportunity; references to foundational studies related to Homeownership, Asset Building, and Economic Opportunity; and the general context for the selected research questions that are included in this NOFO. This paper is designed to provide potential applicants with a common grounding in the topic as they consider this new funding opportunity.

Background

Researchers and policymakers have focused on homeownership, asset building, and employment as ways to increase economic opportunities and build wealth for individuals and families. Unfortunately, opportunities to build assets, own your own home, and obtain gainful employment are not equally distributed. Research has shown that socioeconomic status (SES) "is a strong predictor of school achievement, college graduation" and "child health, educational attainment, and family socioeconomic status are inextricably linked" (Williams Shanks and Robinson, 2013: pg. 154). While improving employment opportunities can increase income and earnings, especially through sector-based training programs (Hendra et al., 2023), increasing

[1] See a full list of the research questions in Section III.G under the subheading "Eligible Research Questions."

household assets seems to be the most important component of wealth creation, enhanced economic security, and improved child outcomes (Williams Shanks and Robinson, 2013). Understanding which policies and programs would help economically disadvantaged households increase their assets is an important step to help level an unequal playing field.

Selected Research Questions of Interest Related to Homeownership, Asset Building, and Economic Opportunity.

HUD is interested in research proposals that address one or more of the following policy-relevant research questions, which are adapted from HUD's Learning Agenda:

1. What are the most promising strategies at the local, state, and federal levels to support low-income homeowners in meeting their repair and maintenance needs and preserving homeownership (and associated wealth gains)?
2. How does student loan debt influence homeownership and mortgage default risk?
3. What asset building activities are effective in rural or tribal communities? How effective are Community Development Financial Institutions (CDFI) at facilitating asset building in such communities?
4. What effect does improved access to affordable quality childcare have on the employment outcomes of parents/guardians and on the developmental outcomes of children?

Context for the Selected Research Questions of Interest

Additional context for each of the four research questions of interest is provided below.

Question 1: What are the most promising strategies at the local, state, and federal levels to support low-income homeowners in meeting their repair and maintenance needs and preserving homeownership (and associated wealth gains)?

Homeownership has long been a critical component of the American dream because of the financial and social benefits it confers. However, a review of the literature indicates that homeowners benefit from wealth accumulation only if they can sustain their homeownership. Research has shown that low-income and minority homeowners are less likely to sustain homeownership for more than 5 years compared to high-income and White homeowners, significantly limiting low-income and minority homeowners from realizing the benefits of homeownership which accrue over time (Herbert and Belsky, 2008). An additional consideration for lower-income owners of any race is the purchase of older homes with higher maintenance needs, where increasing maintenance costs or major unexpected repairs can render a lower-priced home unaffordable over time, reduce equity accumulation significantly, or even lead to shorter homeownership tenure (Young et al, 2022).

As part of a *Cityscape* issue, Stephanie Moulton details the research gap highlighted in this question: "Lower-income homeowners are also more likely to purchase older homes with higher maintenance costs and have fewer financial resources to pay for unexpected repairs (Van Zandt and Rohe, 2011). Delayed maintenance can reduce the value of the home (Harding, Rosenthal, and Sirmans, 2007) and the level of wealth created through ownership. First-generation homeowners may lack the support systems that are in place for higher wealth and higher-income homeowners (Reid, 2013)" (Moulton, 2022: pg. 158).

In addition, a major new study by Carlos Martín and co-authors on home repair programs finds that "the presence and robustness of [local home repair] programs for low-income households and others with distinct housing performance needs are widely variable across the country, oftentimes confusing, but uniformly under-resourced" (Martín et al., 2024). Martín and co-authors argue that more research is needed to spur greater investment into programs and policies that address housing quality. They suggest that research into how home repair programs can coordinate with other interventions to stabilize property values would be especially valuable.

Question 2: How does student loan debt influence homeownership and mortgage default risk?

Researchers have studied the impact of student loan debt on marriage and household formation, the impact of delayed marriage (Park and Miller, 2023; Velez et al., 2018; Bozick and Estacion, 2014), the impact of student loan debt on homeownership (Mezza et al, 2013; Xu et al, 2015), and the impact of student loan debt on delinquency on those loans (Lee at al., 2019), but there is very little literature on the relationship between student loan debt and mortgage default risk. One of the reasons for a gap in the literature on the impact of student loan debt on mortgage default risk may be that student loan debt has only increased dramatically in the last two decades and not enough time may have elapsed to study the large-scale impact of student loan debt on homeownership and mortgage default risk. Individuals with student loan debt tend to delay home purchase and homeownership, and mortgage defaults and delinquencies are rare events that take time to show up. The only study that has examined the relationship between student loan debt and mortgage default risk found that "the presence of student debt is associated with a lower risk of mortgage default," (Park and Miller, 2023). This research question represents an important and understudied area.

Question 3: What asset building activities are effective in rural or tribal communities? How effective are Community Development Financial Institutions (CDFI) at facilitating asset building in such communities?

"Assets for the poor" (Sherraden, 1991) is an antipoverty approach intended to help poor households and communities build assets that can be used to reduce poverty and injustice and that can be shared or transferred across generations (Oliver, 2001). The approach was developed in part as a reaction against traditional antipoverty programs focused on ensuring that families can afford day-to-day needs rather than helping them to build wealth for the future. Asset building programs aimed at poor families usually include financial education and encourage families to get banked, repair credit, become credit scoreable, and pay down debt, as well as to accumulate savings and plan for postsecondary education. Savings incentives tend to include matching funds provided by federal, state, or local government programs that increase what the household is able to save on their own. Key policy tools in the asset-building space include Individual Development Accounts (IDAs), Child Savings Accounts (CSAs), credit-building, and, for HUD-assisted households, the Family Self-Sufficiency (FSS) program. There are few rigorous studies of asset building for very low-income families, not to mention very low-income families in rural or tribal areas.

IDAs are bank accounts in which the account holder's contributions are matched with money from the state's Temporary Assistance for Needy Families (TANF) program or other funds. The U.S. Department of Health and Human Services tested IDAs with "Assets for Independence" (1998-2017), a demonstration that encouraged savings that could be used only for homeownership, education, or starting a business. However, the demonstration did not achieve its goal to increase homeownership, business starts, or educational attainment, though it appeared to decrease material hardship (Mills et al., 2016). More recent analysis of one of the Demonstration sites (Tulsa, Oklahoma) found a significant impact on education enrollment (Grinstein-Weiss et al., 2013). A 2009 study of IDAs in rural communities concluded that IDAs can be effective in helping people in rural areas save and accumulate assets but that the people most able to save using IDAs were married and homeowners, suggesting a need for tailoring programs for people with fewer existing assets (Grinstein-Weiss et al., 2009).

CSAs dedicate funds to postsecondary education and several states now promote them by contributing seed money and matching contributions made by low-income families. CSAs are the most common asset building program for very low-income families today.[2] Oklahoma's demonstration, SEED OK, was studied rigorously using random assignment and documented that automatic enrollment greatly increased participation, providing seed funds increased savings, and that participating families were more likely to expect their children to go to college (Huang, et al., 2021).

Credit-building programs help lower income households address poor credit or a lack of credit. One approach that HUD has studied is reporting rental payments to credit bureau agencies so that regular payment of rent can be considered like payment of a monthly credit card bill or other more traditional ways to build credit. HUD conducted a simulation study of the likely impacts of including rent payments in credit scoring and found that doing so might increase the number of HUD-assisted individuals with credit scores and improve credit scores for many others (Turner and Walker, 2019).

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[2] In 2020, Prosperity Now estimates, there were 109 CDA programs in 36 states with nearly a million participating children. About half of the CDAs are in 529 accounts and half in savings accounts. See Markoff and Thiemann, 2021.

While HUD's Family Self-Sufficiency (FSS) is available to rural, but not tribal communities, it is worth noting because of its asset-building component for assisted households in rural communities. The FSS program creates an escrow account for participating families into which the public housing agency deposits increases in rent that a family is charged because its earned income rose. Families get the funds only after graduating (usually 5 to 7 years after starting FSS), but use of funds is not restricted. HUD's national evaluation of the FSS program found that HUD's FSS program did not increase work or earnings, but FSS families were less likely than non-FSS families to report hardship paying monthly bills and more likely to have a bank account. In addition, although graduation rates are low, FSS graduates achieved significant escrow disbursements, averaging more than $10,000 (Freedman et al., 2023).

Community development financial institutions (CDFIs) are mission-driven lenders that focus on serving communities that historically have been underserved by traditional financial institutions. CDFIs typically lend to individuals, organizations, and businesses in under-resourced communities. In addition to loans, they offer financial education, business coaching, and other services that contribute to asset building. A recent survey found that about one in four CDFIs operate in rural areas (Haltom and Norris, 2024). Since the 1980s, Native Community Development Financial Institutions (NCDFIs) have emerged to provide financial products and services tailored to households and small businesses in Native Communities (Dimitrova-Grajzl et al., 2024; Dimitrova-Grajzl et al., 2023).

None of the asset-building approaches described above have been sufficiently studied in the context of rural and tribal communities, which struggle to attract employers and capital investment because of lower population density and where a lack of education opportunities and spatial mismatch between available jobs and skills can make it hard for families to build wealth (Native Nations Institute, 2022; Banga et al., 2024; Pindus et al., 2017). Researchers and practitioners have documented examples of programs and initiatives operating in rural and tribal areas,[3] but there is a need to continue to build the evidence base on which types of interventions are most effective in these areas, which themselves are highly diverse, and how the most effective interventions might be brought to scale.

Question 4: What effect does improved access to affordable quality childcare have on the employment outcomes of parents/guardians and on the developmental outcomes of children?

Childcare is a significant expense for many families with children. The Bureau of Labor Statistics estimated that in 2018, between 8% and 19% of family income was spent on childcare costs, depending on state and age of the child (Landivar et al., 2023). Looking at extremely low-income households (earning less than 30% area median income), the percentage of income spent on childcare ranges from 32% (in South Dakota) to 86% (in Washington, D.C.), according to

[3] See https://www.sog.unc.edu/resources/microsites/building-assets-rural-future; Individual Asset Building Approaches - RHIhub SDOH Toolkit; Sec2-Ch15-Finsel-Edwards.pdf; and Sec2-Ch14-Quinonez-PRT.pdf.

2023 cost data (United Way NCA, 2023). A recent study found HUD-assisted voucher households pay more than 7% of their gross income towards childcare (Shaw et al., 2024).

Due to high costs and a shrinking number of childcare providers, families may struggle to find affordable, high-quality care. Yet, past research has shown the importance of such care for parental employment and child development outcomes.

In the area of parental employment, several studies have demonstrated that affordable, accessible childcare is critical to mothers' employment rates. Choi and Moon (2020) found low-income mothers with childcare subsidies were more likely to be employed and have higher incomes (which in turn was positively linked to children's cognitive development). A study of low-income families in Minnesota linked survey data with administrative data on subsidy receipt and found the subsidies significantly increased the probability of parents' employment, especially full-time employment. Furthermore, it demonstrated those parents with subsidies were less likely to be employed without the subsidy (Davis et al. 2018). More recently, Landivar and colleagues (2022), using data from the American Community Survey, found that greater access to Head Start, childcare subsidies, and state-funded pre-K programs was linked to higher rates of maternal employment, and Head Start accessibility reduced the negative effects of high childcare costs, especially for mothers having less than a high school education.

With regard to child outcomes, a few studies have found childcare to be linked to negative outcomes for children (e.g., Herbst and Tekin 2010), but often this appears attributable to a substitution of low-quality center-based childcare for higher-quality parental care. Other studies find significant benefits. For example, a review of the evidence indicates Head Start and Early Head Start have positive effects on test scores, long-term educational attainment, earnings, and health (Hotz and Wiswall 2019). In addition, a meta-analysis found participation in early childhood education led to significant reductions in special education placement and grade retention, and increases in high school graduation rates. Notably, the role of quality seems very important—children in high-quality childcare, like the Head Start programs, have better outcomes (Landivar et al. 2022).

Thus, existing research has mixed findings. In a context of shrinking childcare availability and increasing cost, coupled with HUD-assisted households repeatedly indicating childcare is a barrier to increasing their employment or earnings (though most households are already working), it is important to gain a greater understanding of how childcare affordability, access, and quality play a role for parental employment and for improving children's outcomes.

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