

Reconstructing the Ladder to Sustainable Homeownership

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Overview

1. Is homeownership still a worthwhile goal?
2. Balanced housing policy
3. Continuum of affordable homeownership strategies
4. Particular strategies:
 1. Shared equity homeownership
 2. Section 8 homeownership
 3. Lease-purchase
5. Putting the pieces together

Risks of Homeownership

- Home values may go down – either in the market as a whole, or in particular sub-markets.
- In recent years, much of the financing available for low-income families has carried high interest rates and fees
- Homeownership may turn out to be more costly than renting
- Low-income families are vulnerable to default / foreclosure due to inadequate savings / education deficit

Benefits of homeownership

- Opportunity to build wealth
- Enhanced satisfaction with one's housing and neighborhood
- Stronger neighborhood ties and civic participation
- Enhanced residential stability
- Positive outcomes for children, including higher educational attainment, reduction in deviant behavior, and increase in future homeownership rates
- Improvements in individual housing quality
- Stronger neighborhoods

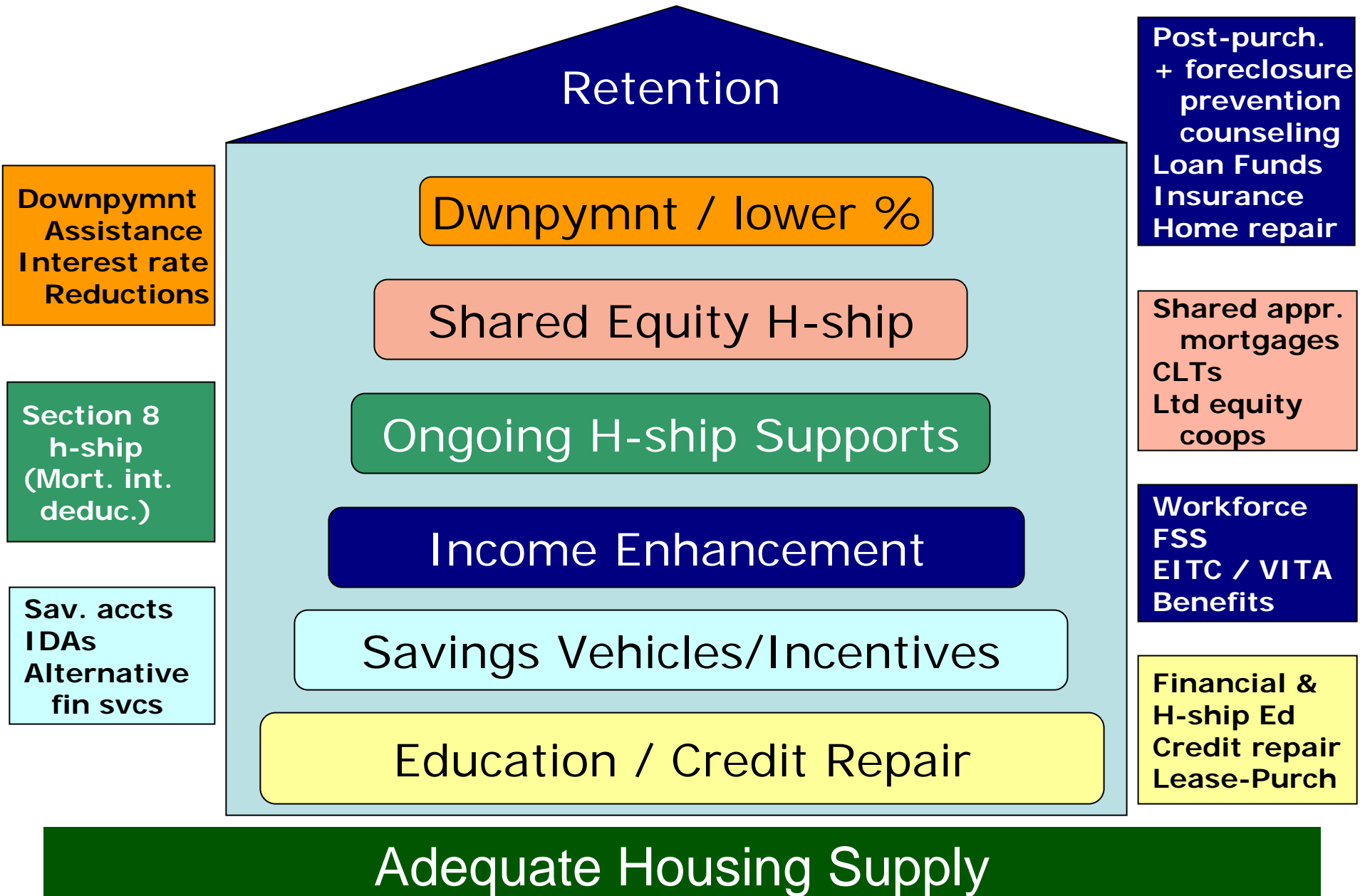
Key considerations

- Homeownership remains the “American Dream” for many families
 - If there is no clear and credible path to sustainable homeownership, families will pursue anyway; great potential for exploitation
- Decision is not binary on / off
 - We can and should promote policy innovations to make homeownership safer
- There are millions of potentially vulnerable low-income homeowners who need assistance

My conclusions

- We need a balanced housing policy
 - Rental
 - Homeownership
 - Intermediate options – shared equity homeownership
- Our focus needs to shift to “sustainable homeownership”
 - Homeownership education
 - Homeownership retention

Continuum of affordable h-ship strategies



Shared equity homeownership

- Strategy for bringing affordable homeownership within reach of moderate-income families
 - **Deep public subsidy** makes home affordable
 - **Resale price restrictions** (or recapture provisions) ensure ongoing affordability to future generations
 - **Monitoring and stewardship** required
- Applications
 - **Place-based**: community land trusts; deed restrictions; limited equity cooperatives
 - **People-based**: shared appreciation mortgages

Shared Equity Example

- Initial Purchase

- Market Value = \$150,000
- \$50,000 subsidy brings price down to \$100,000, affordable to family at target income range
- Family contributes \$7,500, with 30-year fixed mortgage for \$92,500 (\$554 / month @ 6%)

- Affordability at Resale

- Home prices have increased 25% over a five-year period, so market value = \$187,500
- Incomes have gone up 15%, so target family can afford \$115,000

- Asset Accumulation

- Family sells for \$115,000, with transaction costs of \$5,000
- At resale, family owes \$86,075 on 1st mortgage and walks away with \$23,925 – more than three times the initial investment of \$7,500.

Equity sharing models

- **Share of home price appreciation**
 - e.g., resident retains 25% of appreciation
- **Area Median Income**
 - Resale price rises at same rate as incomes
- **Affordable Housing Cost**
 - Home always sold for price affordable to target buyer

Shared equity homeownership

- **Key advantages:**
 - Preserves and recycles public subsidy to help future generations of homebuyers
 - Well-suited to a mixed-income strategy
 - Preserves opportunities in high-demand areas
 - Can reach any income range you want
 - Allows families to build substantial assets
- **Limitations**
 - Expensive: large amounts of public subsidy required
 - Need an entity to manage and monitor the inventory

Section 8 Homeownership

- Strategy for reaching households with incomes as low as \$12,000 to \$15,000
 - **Families use vouchers for mortgage**, rather than rent
 - **Families continue to pay 30% of adjusted income** for housing: principal, interest, taxes, insurance, utility allowance, and (optional) reserve for repairs
 - Depending on bedroom size and other factors, a voucher might support a mortgage of \$90,000 to \$110,000
- **Limitations**
 - **Voucher lasts** 30 years for elderly/disabled households; 15 years for non-elderly, non-disabled households
 - **Reduces supply of rental vouchers**
 - **Need robust homeownership education** – both pre- and post-purchase

Lease-Purchase

- Strategy for assisting families who need a few years to improve their credit or build a down payment
 - Nonprofit sponsor purchases or develops homes
 - Family pays rent until ready to assume mortgage
 - A portion of monthly rent payments goes toward down payment
 - If family does not qualify to assume mortgage within time period (generally w/in 3 or 5 years), sponsor may substitute another
 - Cleveland builds it into Low-Income Housing Tax Credit deals
- Limitations
 - **Hard to finance** (though Self-Help is developing a product)
 - **Nonprofit assumes risks**
 - Again, need robust homeownership and financial education component

Putting the pieces together

- **Set goals**
 - How many families do we want to assist?
 - At what income levels?
- **Inventory capacity**
 - What organizations are well positioned to expand their work?
- **Build partnerships**
 - Lenders, developers, PHA, etc.
- **Coordinate with broader community development strategies**
 - Need strong neighborhoods
 - Consider mixed-income strategy, as well as development of retail, parks, schools, amenities

Example: 100-unit subdivision

- 50 units targeted on market-rate
- 25 units targeted on moderate-income families: 80 to 120% of AMI
 - Shared equity homeownership, with retained subsidy averaging \$25,000 per unit, plus \$10,000 for down payment and closing costs
- 15 units targeted on low-income families: 60 to 80% of AMI
 - Shared equity homeownership, with retained subsidy averaging \$50,000 per unit, plus \$10,000 for down payment and closing costs
- 10 units targeted on very low-income families (<50% AMI) through Section 8 homeownership
 - Shared equity homeownership, with retained subsidy of \$50,000 per unit, plus \$10,000 for down payment and closing costs
- Mandatory homeownership education and counseling for everyone receiving subsidy
- 15 units (5 each for moderate, low and very-low income) implemented through lease-purchase to help families with poor credit

More Information

- **State and local housing policy toolkit**
www.housingpolicy.org
- **Shared equity homeownership:**
www.nhc.org/housing/sharedequity
- **Section 8 homeownership**
www.hud.gov/offices/pih/programs/hcv/homeownership/
- **Lease-purchase**
www.stablecommunities.org/node/450
- **Building a local housing strategy**
www.housingpolicy.org/building_a_strategy/index.html
- **Strengthening the ladder to sustainable homeownership for very low-income families**
www.nhc.org/pdf/pub_acf_slsh_02_05.pdf

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