What role should homeownership play in an asset-building strategy?

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Summary

1. Homeownership is a double-edged sword
   -- One of the most important asset-building opportunities
   -- Can be risky, especially for low/mod households

2. Policy innovations can help make homeownership a safer, more reliable asset-building vehicle
   -- Prohibit abusive terms; encourage use of safer mortgage products
   -- Homeownership education, counseling & retention strategies

3. Need to focus on strengthening the ladder for sustainable homeownership for VLI households
Sources of Wealth

Figure 20: Differences in Household Wealth, Renters versus Owners, 1994
Source: Carolina Katz Reid, Achieving the American Dream? A Longitudinal Analysis of Homeownership Experiences of Low-Income Households
Benefits of sustainable homeownership

- Opportunity to build wealth through forced savings and leverage
- Security of tenure (cannot be evicted if pay housing costs on time)
- Freedom to shape immediate physical environment

- Housing costs often become more affordable over time due to fixed-rate mortgage.
- May be only way to access neighborhoods with certain desirable features (e.g., good schools)
Risks for low/mod households

- Risk of default and foreclosure, particularly when purchasing homes through unsustainable products
- Purchases may take place in areas with stagnant or declining home values,
  ... or in distressed neighborhoods w/o supports
- Homeownership may turn out to be more costly than renting
- May impede mobility
New Challenges

• Foreclosures
• Increases in required down payments
• Increases in required credit scores
• Problems of damaged credit
• Appraisals

CAN / SHOULD WE HELP FAMILIES OVERCOME CHALLENGES AND ATTAIN SUSTAINABLE HOMEOWNERSHIP?
Key considerations

• Despite increased interest in rental housing, about 70% of non-owners aspire to own a home someday (MacArthur 2014 survey)
  – Concerns about pursuing homeownership in short-term may be affected by belief that U.S. is still in midst of housing crisis.

• Decision is not binary on / off
  – We can and should promote policy innovations to make homeownership safer

• Equity concerns weigh in favor of expanding asset-building opportunities through sustainable homeownership.
My conclusions

• From an asset-building perspective, the goal must be “sustainable homeownership” rather than just homeownership

• Major policy implications

1. Need strong protections from abusive lending practices.

2. Homeownership education needs to be stronger and much more widely available. Help families:
   • Determine if homeownership is a good idea, and if so, when and under what terms
   • Prepare to assume responsibilities of homeownership

3. Need to pay as much attention to homeownership retention as we do to homeownership attainment

4. Variability by market / neighborhood
Ladder for sustainable h-ship

• Approach to integrating homeownership into asset-building continuum

• Focus on helping very low-income households who may be several years away from being ready for homeownership

• The point is NOT that everyone should become a homeowner, but rather that we should provide a safe path for those who wish to.
Sustainable Homeownership Continuum

Retention

Downpayment / IRRs

Shared Equity H-ship

Ongoing H-ship Supports

Income Enhancement

Savings Vehicles/Incentives

Education / Credit Repair

Downpymnt Assistance Interest rate Reductions

Section 8 h-ship

Sav. accts IDAs Alternative fin svcs

Post-purch. + foreclosure prevention counseling Loan Funds Insurance Home repair

Shared appr. mortgages CLTs Ltd equity coops

Workforce FSS EITC / VITA Benefits

Financial ed H-shp Ed Credit repair
Family Self-Sufficiency (FSS)

- HUD program, run by Public Housing Authorities
  - economic security
  - asset-building
- Open to families with S. 8 Housing Vouchers or in Public Housing
- 69,000+ FSS participants nationally
FSS – HUD Prospective Eval.

Tracked 170 Households for 4 Years (2006 to 2009)

• 41 graduated successfully
  • Avg. escrow for 35 with positive balances: $5,294
  • Avg. annual income increased from $19,902 to $33,390
  • Avg. hourly wage increased from $11.73 to $14.41
  • Avg. weekly hours increased from 37 to 39

• 66 were still enrolled in FSS
  • Avg. escrow for 56 with positive balances: $3,516
  • 43 were still enrolled in FSS and mostly employed
    • Hourly wage increased from $11.84 to $13.61
    • Weekly hours increased from 29.4 to 34.9
  • 23 were still enrolled in FSS and mostly unemployed

• 63 had exited FSS without graduating

Source: HUD Evaluation of FSS (2011)

Note: All $$s in 2009$.
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