Low-Income Homeownership as an Asset-Building Tool: What Can We Tell Policymakers?

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Federal housing policy has for many generations encouraged owner occupancy over rental tenure. Since the 1980s, however, federal policies have explicitly extended this encouragement to households of ever-lower incomes. During the Reagan administration, the U.S. Department of Housing and Urban Development (HUD) piloted a program for selling public housing units to their occupants. In 1991 Congress established goals for Fannie Mae and Freddie Mac for the purchasing of mortgages originated for low-income borrowers and for homes located in traditionally underserved (that is, low-income and minority-occupied) urban neighborhoods, in an attempt to ease potential liquidity constraints in these market segments. Substantial results have followed, often spawned by innovations in low down payment mortgage instruments. The Clinton administration set a national homeownership goal, and the Bush administration has placed the expansion of low-income and minority homeownership at the core of HUD’s mission. In the last decade, Congress has enacted pilot programs.

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1. Stegman and others (1991); Galster and Danielle (1996); Shlay (2006); Rohe (2007).
4. Retsinas and Belsky (2002); HUD (2002).
for homeownership education and counseling and housing choice vouchers for the purchase of homes. 5 HUD's 602 Nonprofit Property Disposition program sells HUD-held single family homes at deep discounts to local governments and nonprofits, which rehabilitate and resell the homes to low-income buyers.

It is clear that this consistent political and institutional emphasis, coupled with policy innovations and a generally favorable macroeconomic climate, produced remarkable increases in homeownership rates among low-income households beginning in the mid-1990s. About 800,000 low-income households bought their first home in the 1990s, raising the homeownership rates of nonelderly households in the lowest income quintile from 22 percent in 1989 to 28 percent in 2001. 6 Mortgage loans to low-income borrowers almost doubled between 1993 and 1999, raising their share of all home purchase loans from 14 to 19 percent during this period. 7 Average real value of home equity, held by households with incomes below 80 percent of their metropolitan area's median, rose rapidly: from $67,683 in 1985 to $76,505 in 1995 and $96,011 by 2001. 8 In the last few years, the heralded explosion of home foreclosures has signaled retrenchment on many of these indicators, though its full magnitude has yet to become clear. 9 Nevertheless, attaining and sustaining homeownership has remained an issue of high salience for the public and policymakers alike. 10

Why Should Policymakers Care About Expanding Low-Income Homeownership?

There are two basic, not mutually exclusive, categories of potential rationales for public polices aimed at expanding homeownership opportunities for low-income households. The first is that homeownership conveys external benefits, "positive externalities," upon the greater society that are over and above the benefits accrued by the homeowners themselves. The externalities typically cited include enhanced home maintenance, social and political participation, and attachment to community. 11 These will not be considered in this chapter, although they may provide strong justification for public sector intervention.

5. Locke and others (2006); Rohe and Quercia (2003).
7. See Pitcoff (2003) for the number of mortgage loans and Wiranowski (2003) for percent share of all home purchase loans.
The second category is that homeownership is essentially a merit good, one that has certain intrinsic, private benefits that all members of society deserve a chance to consume on the grounds of distributive justice. This rationale for expanding homeownership has been multifaceted. Some studies have described the benefits accruing to low-income homeowners as increased wealth, social status, security of tenure, control over dwelling, pride, and life satisfaction. Others have described benefits accruing to children who are able to live in homes owned by their parents.

A variant of the merit good rationale for homeownership focuses on its potential antipoverty effects. This will be the focus of this chapter. Beginning in the early 1990s, some advocates and analysts began reframing the antipoverty strategic debate as one of asset acquisition instead of merely income support. They argue that building up assets offers two advantages over building income flows. First, assets provide a financial cushion when income flows are interrupted, such as during a layoff, injury, or illness. Second, assets may be drawn upon to enhance the earning power of the household, such as purchasing an automobile to aid access to employment or obtaining more training and education (for the adults and the children in the household).

In this vein, homeownership may provide a superior method for accumulating assets compared with alternative ones available to low-income households. Given that a down payment is typically highly leveraged by mortgage money, even a modest appreciation of the home can produce startling rates of return on the initial investment by the buyer. Add to this the favorable federal tax treatment of housing capital gains, potential deductibility of mortgage interest and local property taxes, and payments of principal within the amortized mortgage and the superior wealth-building potential of homeownership compared with that of other assets appears even more attractive. Finally, since low-income households typically have little discretionary income that they can use to invest in other forms of savings, homeownership may be seen as "the only game in town." Alternative investment vehicles, such as stocks and bonds, simply are moot as a basis for comparison of relative financial performance.

13. Rohe and Stegman (1994); Rohe and Basolo (1997); Rohe, Van Zandt, and McCarthy (2000); McCarthy, Van Zandt, and Rohe (2001); Rohe and Quercia (2003).
17. Orzechowski and Šepieli (2003); Collins (2004b); Boehm and Schlottmann (2004c); Belsky and Retsinas (2005); Herbert and Belsky (2006).
Statistics leave no doubt that home equity is indeed the most important (and often only) component of wealth for most low-income households. The 2001 Survey of Consumer Finances shows, for example, that the median net worth of homeowners earning less than $20,000 was $72,750, whereas that of renters in the same income range was only $900.\textsuperscript{18} During the 1990s low-income, minority homeowners saw their average home equity rise by $1,712 annually, but nonhousing wealth of low-income, minority owners and renters alike did not change on average.\textsuperscript{19}

Owning a home is not necessarily an unmitigated financial benefit for low-income households, however. Five major caveats may be identified. First, low-income home buyers may invest more in housing than is optimal compared with their investing in other assets, given the risk and return characteristics of various assets and the fact that the household's effective marginal federal tax rate is likely zero.\textsuperscript{20} Second, low-income (especially minority) homeowners are much less likely to prepay their mortgages (typically with refinancing) when interest rate declines make such options profitable, thereby foregoing potential gains in wealth.\textsuperscript{21} Third, unexpected major home repairs or loss of income through illness, injury, or layoff raise the specter of unsustainable financial stress that potentially could culminate in mortgage delinquency and default, with concomitant psychological damages, loss of home equity, and destruction of consumer credit ratings. Fourth, the homes purchased by low-income buyers may not appreciate and may even decline in value over some period (especially if they are located in distressed neighborhoods), and low-income homeowners may have less flexibility in choosing when to sell. This risk is magnified because home equity represents a less-diversified portfolio than many alternative bundles of financial instruments. Fifth, low-income (especially minority) homeowners may be more susceptible to victimization by predatory lenders, leading to erosion of equity through excessive refinancing fees or, in the worst case, induced default and foreclosure.\textsuperscript{22}

The latter three issues have been of preeminent concern, because they challenge the premise that homeownership for low-income households typically \textit{does} lead to increased stability of tenure and the potential wealth acquisition associated with it.\textsuperscript{23} Thus the policy discussion has increasingly evolved from only con-

\textsuperscript{18} Belsky, Retinas, and Duda (2007).
\textsuperscript{19} Boehm and Schlottmann (2004c).
\textsuperscript{20} Ambrose and Goetzmann (1998); Goetzmann and Spiegel (2002).
\textsuperscript{21} Van Order and Zorn (2002); Nothaft and Chang (2005).
\textsuperscript{22} Reuwart (2004); Willis (2006); Goldstein (2006); Zimmerman (2006).
\textsuperscript{23} These concerns are expressed in Meyer, Yeager, and Burayidi (1994); Pitcoff (2003); Immergluck (2008).
Considering how more low-income households can attain homeownership to also considering how more low-income households can sustain homeownership.\textsuperscript{24}

These issues related to low-income homeownership as an asset-building strategy contribute vitally to broader discussions of urban and regional economic development policy. Should expanding the pool of lower-income homeowners be seen as a key component of local economic development strategy if, by doing so, it would help “grow the middle class?” If so, what particular strategies should be pursued and what pitfalls should be avoided? The chapter aims to respond to such concerns related to the desirability and sustainability of low-income homeownership in urban areas. In particular, we address six questions, each in a separate section of the chapter:

—Does homeownership typically enable low-income households to build wealth?
—Does homeownership typically provide low-income households with a financial buffer to weather financial setbacks?
—Does homeownership for low-income households typically involve terms and conditions that, when coupled with their other instabilities, render a high probability of financial distress?
—Does homeownership provide benefits to children in low-income households that might lead to superior economic outcomes in the next generation?
—What are the primary barriers to attaining and sustaining homeownership for low-income households?
—What mechanisms have we tried to expand and sustain homeownership among low-income households, and what has worked?

To answer these questions, we review primarily extant literature, noting several important reviews of literature related to many of the aforementioned questions.\textsuperscript{25} The substance of our chapter differs from these works by our focus on the policy-relevant aspects of the literature and gaps therein and our use of previously unreported evidence from very-low-income households who recently purchased their homes after an extensive program that focused on asset building and homeownership education and counseling offered by the Housing Authority of the City and County of Denver. The following section provides a brief summary of this program.

Before proceeding, however, we think it appropriate to address explicitly three overarching issues related to low-income homeownership policy that will be interwoven throughout the rest of the chapter: appropriate outcome mea-

\textsuperscript{24} For examples of attainability, see Galster, Aron, and Reeder (1999); Listokin and others (2002); for sustainability, see Wiranowski (2003); Shlay (2006).

\textsuperscript{25} Examples include Rohe, Van Zandt, and McCarthy (2000); McCarthy, Van Zandt, and Rohe (2001); Dietz and Haurin (2003); Herbert and others (2005); Herbert and Belsky (2006); Cortes and others (2006).
ures, cross-group differences in outcomes, and geographic differences in outcomes. In most of the public discourse on low-income homeownership the desired outcomes have not been explicitly stated, although helping more households to buy a home seems to be an implicit one. We have suggested above that the ability to sustain homeownership over several years at minimum is a superior indicator of success. However, for the particular focus of this chapter—low-income homeownership as an asset-building strategy related to urban and regional development—sustaining homeownership is only an intermediate outcome. It is of interest here only insofar as typically it is a necessary, but not sufficient, condition for housing equity growth. In this chapter, the primary outcome of interest will be the net wealth position of the low-income household. A secondary outcome of interest will be the human capital acquired by children of low-income parents. A focus on both outcomes is consistent with the view that fighting poverty and expanding the middle class can be accomplished by encouraging the creation of financial and human capital.

The second overarching issue is the extent to which conclusions about the desirability, ability, and sustainability of low-income homeownership apply across the board to all racial and ethnic groups. Our analysis of the literature is that, in general, they do not. We therefore will take care in noting the extent to which our answers to the six research questions of this chapter require nuances to make them applicable to minority households.

The third is the extent to which the desirability and sustainability of homeownership varies geographically. It is obvious that long-term intermetropolitan variations in home appreciation rates can make substantial differences in the growth of home equity. Some evidence of differential appreciation rates within metropolitan areas exists as well. These geographic considerations interact with the aforementioned racial and ethnic ones because persistent discrimination in housing and mortgage markets serves to limit the feasible residential choices (and, thereby, prospective home appreciation rates) of minorities.

The Denver Housing Authority's Foundations for Home Ownership Program

The Housing Authority of the City and County of Denver (DHA) has operated its voluntary Foundations for Home Ownership (FFHO) program since 1995, as a component of its Family Self-Sufficiency (FSS) and, subsequently, Resident Opportunities for Self-Sufficiency (ROSS) programs. The goal of FFHO is to assist DHA tenants to enhance their human, financial, and social capital assets, with the ultimate target of buying their own homes. Program participants are eligible for homeownership assessments, free credit reports, credit repair and
money management counseling, classes on a wide variety of topics (for example, housing finance, home repairs, and shopping for real estate and mortgages), individual development accounts with dollar-for-dollar matches up to $1,000, and (for FSS graduates) rent escrow accounts (where increments in DHA rents associated with increasing tenant income are placed into escrow for use as a down payment or other asset-building activities). Participants, working with program case management staff, develop individual training and services plans outlining their goals. During the final stage of the FFHO program, eligible participants (that is, those who are within a year of being able to purchase a home, have at least $500 in savings, and have stable employment) are invited to join the Home Buyer's Club. The Home Buyer's Club provides intensive real estate and finance training; presentations by housing industry representatives; peer support; and special benefits such as low interest rates, discount fees, and assistance with down payments and closing costs and second mortgages.

Since the implementation of the FFHO program in 1995, 135 participants have purchased homes. According to DHA administrative records, most were single parents, with Latinos being the largest ethnic group represented. Their median housing price at the time of purchase was $136,523, and average monthly mortgage payments were $851. The vast majority of the participants obtained mortgages through public or nonprofit agencies and received supplemental mortgage assistance from DHA or other nonprofit housing or neighborhood development organizations. Slightly less than two-thirds of all FFHO homebuyers purchased homes in the city and county of Denver; the remainder bought homes in the greater Denver metropolitan area. Since 2001 the authors have been engaged in a panel study of a sample of these homeowners, the results from which we will report in this chapter.

**Does Homeownership Typically Enable Low-Income Households to Build Wealth?**

For more than a century, homeownership has been the primary vehicle for building wealth among low- and moderate-income families in the United States. Indeed, accruing housing wealth has been or is the only wealth-building strategy employed by many low-income households.\(^{26}\) For households with wealth constraints, homeownership is one of the few leveraged investments available that enables owners with little or no equity to reap financial benefits primarily through appreciation in overall home value and through the forced savings associated with paying down the outstanding mortgage principal.\(^{27}\)

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benefits of homeownership may be enhanced further by provisions in the tax law that allow for deductions of mortgage interest payments, property taxes, and housing capital gains. Christopher Herbert and Eric Belsky proposed that homeownership also contributes to the financial well-being of households by insulating them from rapidly escalating housing costs, especially when households can avail themselves of fixed-rate mortgage financing. All of these benefits, in turn, facilitate a greater potential for increased savings or other wealth-generating activities by “owner households” rather than by “renter households.” Nonetheless, the advent of mortgage products that target ever-lower-income households has triggered growing skepticism among scholars and policymakers about the wealth-generating potential of homeownership. As William Apgar so clearly articulated:

Many low-wealth and low-income families are being pushed into homeownership, not necessarily because they fully appreciate the implications of their choices, but because they perceive (or rather hope) that homeownership in and of itself will help them achieve a better life.

Apgar draws attention to the deleterious consequences associated with low-income homeownership when families assume mortgage debts that they are unable to repay. Under such circumstances, homeownership does not build wealth; rather, it diverts scarce financial resources away from meeting other pressing household needs. In this section, we summarize the literature assessing the extent to which homeownership serves to generate wealth among low-income households.

As of 2000, housing equity accounted for nearly one-fifth of total aggregate wealth in the United States, a proportion similar to the aggregate wealth held in stocks, bonds, and mutual funds combined. Nevertheless, housing equity was the primary form of aggregate wealth held by low-income and minority households. According to Shawna Orzechowski and Peter Sepielli, housing equity accounted for 56.2 percent of aggregate wealth in 2000 held by households in the lowest income quintile; in contrast, stocks and mutual funds accounted only for 7.7 percent of aggregate wealth of these households. Moreover, Orzechowski and Sepielli underscore the importance of homeownership as a source of wealth within minority households, which accounted for 61.8 percent of aggregate Black wealth and 50.8 percent of aggregate Latino wealth in 2000.

Despite widespread support for homeownership initiatives, the existing literature is sketchy and findings are mixed regarding the financial returns to homeownership for low-income homeowners. Moreover, given the lack of detailed longitudinal data about the short- and long-term rewards of homeownership, few studies have been conducted to date that examine housing wealth accumulation over time. Nor is much known about the relationship between the timing of a purchase of a house and wealth accumulation.\textsuperscript{32} Previous studies generally have employed simulations in an attempt to estimate these returns relative to housing tenure, race, income, structure, location and condition of units, and, more recently, duration of homeownership.

In light of growing concerns about the financial returns of homeownership among ever-lower-income households, a number of recent studies have attempted to measure these returns.\textsuperscript{33} Although the findings are not consensual, these studies suggest that homeownership pays off for most families. The financial benefits attributed to homeownership are particularly striking when low-income owner households are compared with similar renter households. Michael Collins estimated that the median wealth of a low-income homeowner under the age of 65 was twelve times that of a similar renter.\textsuperscript{34} Zhu Di, Yi Lang, and Xiadong Liu reported that the average net wealth of owners was 2.2 times that of renters.\textsuperscript{35} They also found that low-income households owning a home for eighteen years increased their average wealth by $49,700 compared with $5,700 for those who rented during the entire period. Using data from the Panel Study of Income Dynamics (PSID), Carolina Reid found that during the period between 1983 and 1994, low-income homeowners had accumulated roughly $25,000 to $30,000 in wealth compared with $0 for renters.\textsuperscript{36}

Although recent studies suggest that the financial rewards to homeownership are generally positive across all homeowners, the literature also reports marked differences in these rewards between low-income and high-income market segments as well as by race.\textsuperscript{37} Using PSID data for period (1984–1993), Thomas Boehm and Alan Schlottmann estimated housing values, savings through amortization, rates of housing appreciation, nonhousing wealth, and savings for four racial and income groups. They reported that the average home values were $97,030 for high-income Whites, $70,094 for high-income minorities, $64,291

\textsuperscript{32} Boehm and Schlottmann (2004c).
\textsuperscript{33} For examples, see Boehm (2004); Boehm and Schlottmann (2002, 2004a, 2004c); Collins (2004b); Belsky, Retinas, and Duda (2007); Herbert and Belsky (2006); Reid (2004, 2007); Stegman, Quercia, and Davis (2007).
\textsuperscript{34} Collins (2002).
\textsuperscript{35} Di, Yang, and Liu (2003).
\textsuperscript{36} Reid (2004).
\textsuperscript{37} See Boehm and Schlottmann (2004a, 2004c).
for low-income Whites, and $42,454 for low-income minorities. Median savings realized through amortization (forced savings) were estimated to be $5,704 for high-income Whites, $4,120 for high-income minorities, $3,989 for low-income Whites, and $2,634 for low-income minorities.  

Further, Boehm and Schlottmann found that median annual rates of appreciation ranged from 4.2 percent for low-income Whites and 4.3 percent for low-income minorities to 4.6 percent for high-income Whites and 4.8 percent for high-income minorities. These rates translated to median annual housing wealth appreciation of $4,460 for high-income Whites, $3,359 for high-income minorities, $2,729 for low-income Whites, and $1,712 for low-income minorities. Nonetheless, their findings underscore the difficulties faced by low-income and minority households in building nonhousing wealth over time. They reported that in 1984 median net nonhousing wealth was $20,700 for high-income Whites; for high-income minorities this net nonhousing wealth was $6,650. Low-income Whites had $5,000 in median net wealth; low-income minorities, $150. Median savings accrued between 1984 and 1993 was $2,650 for high-income Whites; $300 for high-income minorities, $300 for low-income Whites, and $0 for low-income minorities. The bottom quartile of low-income households experienced an average annual change in nonhousing wealth that was negative, leading Boehm and Schlottmann to conclude that housing wealth and total wealth were synonymous for low-income households.

Chenoa Flippen observed dramatic geographic differences in home appreciation rates across neighborhoods delineated by racial and ethnic composition. From 1970 to 1990, homes in neighborhoods with less than a 2 percent population of Black residents appreciated more than 23 percent, whereas those in neighborhoods with 2 to 30 percent Black residents appreciated 10 percent, and those in neighborhoods with a Black population of more than 30 percent appreciated less than 8 percent. Over the same period, the patterns were less clear for Latino composition. Homes in neighborhoods with less than a 2 percent Latino population appreciated more than 14 percent, those in neighborhoods with 2 to 5 percent appreciated 27 percent, with 5 to 10 percent appreciated 23 percent; appreciation was 15 percent in neighborhoods composed of more than 10 percent Latinos.

In a recent evaluation of 21,497 Community Advantage Secondary Market Demonstration Program (CAP) loans originating between 1998 and 2002, Michael Stegman, Roberto Quercia, and Walter Davis reported that the median

net wealth of owners in the lowest income quintile was $68,000 in 2001, with home equity accounting for nearly 80 percent of the net wealth of low-income owners. They also found that CAP families enjoyed an annual average appreciation in home values of 5.4 percent and a median gain in housing value of $16,433. However, racial differences in equity appreciation were noted: Blacks experienced lower annual equity appreciation—approximately 10 per cent less per year—than did Whites.42

Data from our assessment of 135 loans made to participants in the Denver FFHO program between 1995 and 2006 reveal that the median net wealth of all owners was $36,100, with home equity accounting for 55.5 percent of the net wealth accrued to date by these owners. This varied from 71.3 percent of net White wealth, 51.6 percent of net Black wealth, to 55.5 percent of net Latino wealth in 2006. FFHO home buyers realized an annual average home value appreciation of 6.3 percent and a median gain in housing value of $37,188. Annual average appreciation rates again varied by ethnicity: homes owned by Blacks and Latinos appreciated at annual rates of 5.8 and 5.4 percent, respectively, less than half the rate for Whites (12.3 percent).

Previous studies also noted important differences in appreciation by structure type, age, location, and physical condition of unit.43 Compared with moderate- and high-income buyers, low-income households are less likely to purchase single family detached homes and more likely to purchase manufactured homes. Indeed, nearly one-quarter of first-time, low-income households purchased manufactured homes. Since large numbers of these homes are sited on leased land, appreciation of such units is limited.44 Nearly half of low-income buyers purchased homes that were built prior to 1970—units that often require significant updating and repair.45 Low-income homeowners also were more likely to purchase housing in low-income communities with lower housing values.46 One in twelve low-income home buyers lived in moderately or severely inadequate housing.47 All of these circumstances place constraints on current and future housing wealth accumulation for low-income homeowners.

As a result of the high transaction costs associated with buying and maintaining a home, many of the financial benefits of homeownership accumulate only over a long period of time. Edwin Mills estimated that households need to own a home for five to seven years for homeownership to be a better financial choice

42. Stegman, Quercia, and Davis (2007).
43. Tong and Glascock (2000).
47. Herbert and Belsky (2006).
than renting.\textsuperscript{48} In their analysis of changes in household wealth between 1984 and 1999 Di, Yang, and Liu found that owning a home for one to five years was associated with an increase in wealth of more than $50,000. Moreover, each additional year of homeownership up to seventeen years added about $6,700 a year to wealth, on average.\textsuperscript{49}

Various studies by the authors Eric Belsky, Nicolas Retsinas, and Mark Duda stress the importance of timing of housing purchases and sales in estimating gains or losses experienced by low-income and other homeowners.\textsuperscript{50} Belsky, Retsinas, and Duda emphasize that returns to homeownership are heavily dependent upon the direction of home prices and rents after purchase.\textsuperscript{51} In housing markets experiencing significant upswings in home values, homeowners who purchased early in the boom period are likely to reap significant financial returns to their investments; those purchasing at the peak of a housing boom may be vulnerable to significant losses when the market cools. Conversely, homeowners who purchased in declining or slumping housing markets may experience significant losses to their investments, particularly if they are unable to ride out financial downturns. Duda and Belsky underscore the significant risk of negative returns associated with the purchase of low-cost homes. They reported nominal losses of 7 to 20 percent among low-income homeowners who may be unable to sustain homeownership in times of economic distress.\textsuperscript{52}

Finally, investments in homeownership generate additional financial returns to owners when tax considerations, imputed rent, and financial leverage are included in estimates of housing wealth.\textsuperscript{53} Yet, as Christopher Herbert and Eric Belsky and others have emphasized, low-income home buyers are less likely to benefit from these additional financial returns because many pay little income tax or do not itemize deductions.

**Does Homeownership Typically Provide Low-Income Households With a Financial Buffer to Weather Financial Setbacks?**

Not coincidentally, the tremendous growth in the number of low-income homeowners during the 1990s has been associated with the introduction of an array of flexible and riskier mortgage products that have made it possible to buy a home with higher levels of debt, lower levels of savings, and worse credit histo-

\textsuperscript{48} Mills (1990).
\textsuperscript{49} Di, Yang, and Liu (2003).
\textsuperscript{50} See Duda and Belsky (2000); Belsky and Duda (2002); Belsky, Retsinas, and Duda (2007).
\textsuperscript{51} Belsky, Retsinas, and Duda (2007).
\textsuperscript{52} Duda and Belsky (2000).
\textsuperscript{53} Herbert and Belsky (2006).
ries than was possible in the past. Further exacerbating these risks among low-income homeowners are the increased likelihood of involuntary employment and the use of multiple incomes to service a loan. As a result, the boom in low-income homeownership during the past decade may have brought many households into homeownership that already have lower average income and wealth, carry high debt burdens, are less capable of meeting their mortgage obligations under the best of circumstances, and, therefore, are more susceptible to losing their homes during times of financial crisis.

Recent studies have stressed the tenuous nature of homeownership for low-income owners. Contributing to this heightened vulnerability are several demographic characteristics that distinguish low-income from high-income owner households. Low-income owner households are more likely to have elderly and disabled members or be headed by sole wage earners. Josephine Louie, Eric Belsky, and Nancy McArdle reported that about half of lower-income owner households had elderly members and 17 percent had at least one disabled member. They also found that nearly one in ten low-income owner households was headed by a single parent with children. In their recent analysis of American Housing Survey data for the period from 1989 to 2003, Herbert and Belsky determined that nearly half of low-income home buyers were in single-earner households; in contrast, only 10 percent of moderate- to high-income buyers had only one wage earner in the household. Among FFHO program participants, six out of ten home buyers were in single-earner households. With each of these different household configurations, serious concerns are raised about the ability of these owners to respond to financial crises, such as job loss or illness in the absence or loss of multiple wage earners, and support the financial costs of homeownership.

Given these concerns about the short- and long-term financial viability of homeownership for low-income households, do these households accrue sufficient income and wealth postpurchase to sustain homeownership? Although prior research is limited to examining the postpurchase earnings of low-income households, recent work by Donald Haurin and Stuart Rosenthal has provided some estimates of income growth among new homeowners. They reported that real postpurchase income of low-income homeowners grew at an annual rate of 12.9 percent—a rate about three times higher than the rate for moderate-to

56. Recent studies include Louie, Belsky, and McArdle (1998); Orr and Peach (1999); Ford and Quiglars (2001); Boehm and Schlottmann (2004a, 2004c); Herbert and Belsky (2006).
high-income homeowners (3.6 percent). In addition, they found that the share of the household budget devoted to mortgage payments declined rapidly in the early years of homeownership for the typical low-income homeowner. With increasing postpurchase real income and concomitant declining housing cost burdens, Haurin and Rosenthal speculated that low-income households would be able to sustain their homeownership even when faced with unexpected maintenance costs or other expenses.\(^{59}\)

In their study of 239 home buyers from the Neighborhood Reinvestment Homeownership Pilot program, William Rohe and Roberto Quercia found that buyers experienced a 4 percent loss in assets between the baseline and second interviews (generally eighteen months) but a 27 percent increase in average income (from $30,300 to $38,586).\(^{60}\) FFHO homeowners in Denver experienced a $1,612 increase in household income for each year of homeownership.\(^{61}\) Less optimistically, Stegman and others reported that families with very low and low expected incomes were more likely to remain persistently poor.\(^{62}\) As a result, housing assistance programs targeted to persistently poor families are more likely to require deeper and longer-term homeownership subsidies than are those that target low-income families who are only temporarily poor.

Several additional factors also contribute to the fragility of homeownership for low-income owners: higher monthly housing cost burdens associated with mortgage payments, taxes, insurance, and utilities; the costs of regular home maintenance; and the costs for unanticipated maintenance and repairs. For many low-income homeowners, the housing cost burden associated with homeownership may be as high as 40 to 60 percent of total monthly household income.\(^{63}\) During the past decade, increases in low-income homeownership have been linked to increases in severe housing cost burdens, defined as payments in excess of 50 percent or more of monthly household income for housing costs. Analyzing American Housing Survey data, Herbert and Belsky reported that one in five low-income, first-time home buyers was paying more than 50 percent of his or her income for housing in the period since 1997—an increase of 5 percentage points from the period between 1989 and 1995. Herbert and Belsky also reported that another third of all first-time home buyers experienced moderate housing cost burdens from 1989 to 2003. They found that nearly one in ten first-time home buyers had a severe payment burden at time of purchase.\(^{64}\) In their recent study, Rohe and Quercia found that 60 percent of these

60. Rohe and Quercia (2003).
64. Herbert and Belsky (2006, p. 55).
low-income home buyers experienced increases in housing costs within the first few years of homeownership.\(^6\) FFHO home buyers also experienced significant housing cost burdens at the time of purchase: the typical household was spending approximately 52 percent of monthly household income for housing costs. While these housing costs have increased over time, the housing cost burden among FFHO participants has actually declined: by 2006 the typical FFHO household was spending 34 percent of its monthly earnings on housing costs.

As Stegman and others underscored, unanticipated housing cost increases play havoc with low-income homeowners' budgets.\(^6\) Nonetheless, these types of costs were very common. Nearly half of the participants in the Neighborhood Reinvestment Homeownership Pilot program experienced unexpected costs, with the most common problem being a repair to one of the home's major systems. These participants also reported major unexpected increases in utility payments (36 percent), property taxes (27 percent), and homeowners insurance (16 percent).\(^6\) In addition, previous studies suggest that many low-income homeowners cannot afford the upkeep on their homes, let alone invest in home improvements.\(^8\) From 1984 to 1993, nearly 1 million low-income homeowners spent less than $100 per year on maintenance.\(^6\)

Given the heightened inability of many low-income homeowners to weather any one of these aforementioned economic shocks, it is not surprising that previous studies have reported high attrition rates among low-income homeowners, further reducing the likelihood that low-income households can attain the financial rewards associated with long-term homeownership.\(^7\) In their analysis of first-time home buyers using National Longitudinal Survey of Youth (NLSY) data, Haurin and Rosenthal found that the likelihood of attrition from homeownership status varies over the duration of homeownership, with terminations of homeownership peaking in the third year at 7 percent, decreasing to 5 percent in year 5, and leveling off at 2 percent by year 10. They concluded that the risk of ending homeownership remains significant through the seventh year. Attrition among FFHO home buyers was low, however: only 6 percent had sold their homes within the first five years of homeownership.\(^7\)

Previous studies underscore that the low-income and minority home buyers face a higher risk of being unable to sustain homeownership over time.\(^7\) Estimat-

68. Herbert and Belsky (2006).
70. Examples of these studies include Boehm and Schlottmann (2004a); Reid (2004); Haurin and Rosenthal (2005a).
72. See Reid (2004); Haurin and Rosenthal (2005a).
ing from NLSY data, Haurin and Rosenthal reported that 43 percent of low-income homeowners do not sustain homeownership for more than five years. Reid found that 53 percent of low-income PSID homebuyers left homeownership within five years of buying their first home compared with 23 percent of high-income buyers. Haurin and Rosenthal estimated that minority households have a 40 percent greater hazard rate of terminating a period of homeownership compared with the rate for Whites. Similarly, Boehm and Schlottmann reported that low-income households were more likely to slip back to renting after attaining homeownership: nearly one in eight White families and nearly one in four minority families became renters again. Further, Boehm and Schlottmann observed that minority households were less likely to return to homeownership if they became renters again. As Herbert and Belsky noted, the "high rates of exit for low-income and minority first-time buyers are a cause for concern as the benefits of homeownership will generally be much greater for those who continue as owners for longer periods." 

It is interesting that the extant literature emphasizes that attrition among low-income homeowners generally is not linked to their higher propensity to default on their mortgages. Rather, trigger events, which are unanticipated changes in a household's circumstances, are prominent reasons for ending periods of homeownership. Major trigger events associated with reducing the ability to maintain homeownership include a reduction in earnings as a result of job loss, the breakup of a household due to divorce or separation, or an increase in expenses or a reduction in earnings owing to a health crisis.

Reid observed that job loss was more common among low-income households, with nearly one in ten low-income households experiencing a period of unemployment between 1984 and 1993. Boehm and Schlottmann reported that the loss of income and assets was the major determinant of low-income households slipping from homeownership to renting. Haurin and Rosenthal also found that a significant decline in earnings was associated with termination of homeownership: the average decrease in earnings in the year of a termination was $13,629, or about 37 percent of the average low-income earnings. Reasons cited for the

77. Herbert and Belsky (2006, p. 51).
78. Herbert and Belsky (2006).
79. See Vandell (1995); Cutts and Green (2004); Herbert and Belsky (2006).
reduction in earnings included decreased hours worked, decreased wages, change in the number of earners in the household, and termination of a marriage.

Indeed, the termination of a marriage has been identified as the single trigger event most strongly associated with termination of ownership. According to Reid, divorces raised the probability of leaving homeownership by a factor of 10. Haurin and Rosenthal reported that divorce increased the probability of an exit from homeownership by 40 percent.

Other characteristics associated with the risk of leaving homeownership are age and education: younger households and those with lower levels of education are found to be at greater risk. Haurin and Rosenthal also observed that the likelihood of terminating a period of homeownership was associated with high state unemployment rates at the beginning of the period under study, increasing state unemployment rates during the period, and low household earnings at the time of home purchase.

There is one further dimension of this topic that should be briefly mentioned: homeownership's potential impact on labor market mobility. Some have argued that homeownership renders workers more vulnerable to severe downturns in the regional economy because it reduces the likelihood that they will move out of the area to one where job prospects are better. However, empirical evidence from Edward Coulson and Lynn Fisher, which is based on individuals in the United States, clearly showed that this hypothesis is rejected.

Does Homeownership for Low-Income Households Typically Involve Terms and Conditions that, when Coupled with Their Other Instabilities, Render a High Probability of Financial Distress?

The duration of homeownership as well as the financial returns to homeownership are sensitive to mortgage terms, mortgage interest rates and fees, the size of the mortgage relative to house value, and changes in the local macroeconomic climate. From 1993 to 1999, mortgage loans to low-income home buyers increased by 94 percent. While innovative mortgage products have enabled traditionally underserved populations to enter the housing market in unprecedented numbers, there are reasons for concern about the financial terms associ-

87. Oswald (1999); Green and Hendershott (1999).
89. See Belsky, Retsinas, and Duda (2007); Haurin and Rosenthal (2005a, 2005b).
ated with this upsurge in low-income homeownership; some frequently cited ones include limited or negative equity at the time of home purchase, higher interest rates, and the rapid expansion of subprime lending in low-income neighborhoods.

The first concern is limited initial equity in the home. In the past ten to fifteen years, greater shares of all first-time home buyers have secured loans with higher loan-to-value (LTV) ratios, making them more susceptible to fluctuations in house prices. Four out of ten first-time borrowers made down payments of 10 percent or less; nearly one in five put down 5 percent or less. Among first-time, low-income home buyers, 24 percent had LTV ratios exceeding 0.95. In a recent study of low-income homeowners who purchased homes through the Philadelphia 500 program, Harriet Newberger reported that 88 percent of the loans had an LTV value above 0.95, 50 percent were above 0.97, and 21 percent were above 1.00. Among buyers in the Section 8 Homeownership program, the average LTV was 0.997. Nearly one out of every four FFHO homebuyers had an LTV ratio of 1.00 or higher. Thus a growing number of low-income homeowners have little, no, or negative equity—a situation that can yield financial benefits in a booming housing market but is more likely to yield substantial losses and higher chances of default in declining housing markets.

The second concern is that low-income borrowers are more vulnerable to short-term changes in interest rates. During the 1990s, fewer low-income home buyers held thirty-year, fixed interest rate mortgages in comparison with their higher-income counterparts. While six out of ten low-income buyers held such mortgages, approximately eight out of ten moderate- and high-income buyers did so. For those without a fixed rate, interest rate increases will have profound impacts on the costs of homeownership.

The third concern is that even if the interest rate is fixed, it may be higher for lower-income households. Before 1995, there was a clear tendency for low-income buyers rather than higher-income buyers to face higher interest rates. The average mortgage interest rate paid by low-income buyers was 8.81 percent; in contrast, moderate-income buyers paid, on average, 8.48 percent, and high-income buyers paid 8.46 percent. Between 1995 and 2003, the average interest rate for low-income buyers had declined to 7.24 percent. The average interest rate for FFHO homebuyers was 6.12 percent, although it varied from 5.23 per-

95. Herbert and Belsky (2006).
cent for White owners, 5.94 percent for Black owners, to 6.23 percent for Latino owners.\textsuperscript{98}

Moreover, these differential interest rates significantly increase the housing cost burden for low-income households. James Carr and Jenny Schuett estimated that every additional percentage point added to a thirty-year mortgage increases the total interest paid over the life of the mortgage by at least $20,000.\textsuperscript{99} As Belsky, Retinas, and Duda demonstrated, the interest paid on a fifteen-year, $90,000 mortgage for a house purchased with a 5 percent down payment would be $135,646 at a 7 percent rate.\textsuperscript{100} However, at a 9 percent rate, the interest would be $179,629, and at 12 percent, the interest would be $249,709. For that same house, the authors estimated a $70,000 reduction in wealth over the course of fifteen years that was associated with the higher rates.\textsuperscript{101}

The literature also suggests some racial differences in mortgage interest rates, although Raphael Bostic, Paul Calem, and Susan Wachter found that the quality of credit for homeowners improved for virtually all race and income groups.\textsuperscript{102} Indeed, Herbert and Belsky argue that no longer is there a significant tendency for low-income or minority home buyers to face higher interest rates.\textsuperscript{103} Using data from the Annual Housing Survey, however, Scott Susin and Thomas Boehm, Paul Thistle, and Alan Schlottmann separately found that Blacks pay higher interest rates than do Whites, which the two studies attributed to differences in rates obtained through refinancing as well as the greater likelihood of Black homeowners to use subprime lenders.\textsuperscript{104} Boehm, Thistle, and Schlottmann noted that about 87 percent of the difference between Black and White refinance interest rates is associated with differential treatment in the lending market, not differences in individual characteristics.\textsuperscript{105}

Higher costs associated with higher mortgage interest rates also have been linked to the greater likelihood of slipping out of homeownership. Haurin and Rosenthal found that a 1 percentage point increase in the initial mortgage interest rate raises the hazard rate for termination of homeownership by 16 percent annually. They reported that the impact of increasing interest rates is even more striking after home purchase: a 1 percentage point increase in the postpurchase mortgage interest rate increased the rate of homeownership termination by 30 percent. Conversely, Haurin and Rosenthal noted that a 1 percentage point

\textsuperscript{98} Administrative data from the DHA FFHO program.
\textsuperscript{99} Carr and Schuett (2001).
\textsuperscript{100} Belsky, Retinas, and Duda (2005, pp. 10–11).
\textsuperscript{101} Belsky, Retinas, and Duda (2005, p. 11).
\textsuperscript{102} Bostic, Calem, and Wachter (2004).
\textsuperscript{103} Herbert and Belsky (2006).
\textsuperscript{104} Susin (2003); Boehm, Thistle, and Schlottmann (2006).
\textsuperscript{105} Boehm, Thistle, and Schlottmann (2006).
decline in postpurchase interest rates reduced the risk of ending homeownership by 15 percent.\textsuperscript{106}

A fourth concern is that, despite the fact that they are likely to pay more for their mortgage, low-income and minority households are less likely than are higher-income households to capitalize on declining interest rates to refinance their primary mortgage.\textsuperscript{107} In their study of more than 2,000 homeowners, Glenn Canner, Karen Dynan, and Wayne Passmore reported that borrowers with incomes under $40,000 were 1.4 percent less likely to refinance.\textsuperscript{108} Herbert and Belsky found that only 12 percent of low-income homeowners had refinanced their primary mortgage by 2003—about a third of the share of high-income homeowners who refinanced.\textsuperscript{109} Of interest, more than one-quarter of the FHA homeowners had refinanced their homes by 2006. Nonetheless, Frank Nothaft and Yan Chang estimated that 6.9 percent of low-income homeowners nationally miss out on favorable refinance opportunities, with an estimated total lost benefit of $21.9 billion.\textsuperscript{110}

A fifth concern is the extent to which higher interest rates and increased likelihood of dropping out of homeownership can be traced to the proliferation of subprime mortgage products in the past decade.\textsuperscript{111} During the 1990s, the number of subprime home purchase and refinance loans made to all borrowers increased dramatically.\textsuperscript{112} However, subprime lending continued to be disproportionately concentrated among low-income and minority borrowers and neighborhoods.\textsuperscript{113} Belsky, Retsinas, and Duda estimated that subprime loans accounted for 10 percent of the home purchase loans and 21 percent of the refinance loans originated in low-income neighborhoods by 2001—shares that are approximately two to three times higher than the share of subprime loans originating in high-income areas.\textsuperscript{114} Subprime loans also are more common within low-income minority communities, accounting for approximately 13 percent of all purchase mortgages in 1993 and 28 percent of refinance loans in 2001.\textsuperscript{115} A recent study by the Neighborhood Housing Services of Chicago underscores that borrowers within these communities are increasingly obtaining high-risk

\textsuperscript{106} Haurin and Rosenthal (2005a).
\textsuperscript{107} See Canner, Dynan, and Passmore (2002); Van Order and Zorn (2002); Nothaft and Chang (2004).
\textsuperscript{108} Canner, Dynan, and Passmore (2002).
\textsuperscript{109} Herbert and Belsky (2006).
\textsuperscript{110} Nothaft and Chang (2004).
\textsuperscript{111} Willis (2006); Immergluck (2008).
\textsuperscript{112} Belsky, Retsinas, and Duda (2007).
\textsuperscript{113} Appar and Herbert (2005); Fishbein and Woodall (2005); Immergluck (2008).
\textsuperscript{114} Belsky, Retsinas, and Duda (2007).
\textsuperscript{115} Belsky and Retsinas (2005).
loans without consideration or understanding of how to manage that debt or when to ask for help.\textsuperscript{116}

Moreover, subprime loans are costly and riskier.\textsuperscript{117} Amy Cutts and Robert Van Order estimated that the average rate of subprime loans was 2.5 to 3 percentage points higher than a prime loan rate.\textsuperscript{118} For low-income homeowners holding subprime loans, the burden of even higher interest rates and fees further exacerbates their financial difficulties and accentuates their vulnerability.\textsuperscript{119} Therefore, it is not surprising that delinquency and foreclosure rates for subprime loans are significantly higher than those for conventional prime mortgages. Apgar noted that the serious delinquency rate for subprime mortgages was 10.44 percent in 2002—nearly twenty times higher than that for conventional prime mortgages and twice as high as the serious delinquency rate for Federal Housing Administration (FHA) loans.\textsuperscript{120} Subprime foreclosure rates are approximately eight times as high as the rates for prime conventional loans.\textsuperscript{121}

Of course, the ultimate indicators of financial distress are mortgage delinquency and default. Previous studies consistently have found that households with lower incomes are more likely to miss payments and default on their mortgages.\textsuperscript{122} Quercia and others found that 5 percent of very-low-income borrowers experienced ninety-day delinquencies; however, less than one-third of these loans eventually ended in foreclosure.\textsuperscript{123} In their analysis of nearly 40,000 loans originated under Freddie Mac’s Affordable Gold program, Abdighani Hirad and Peter Zorn found that the rate of seriously delinquent loans was 6.9 percent, relative to a portfolio average of 1.8 percent for all other Freddie Mac loans.\textsuperscript{124} Gretchen Locke and others reported that 86 percent of the 206 public housing authorities participating in the Section 8 Homeownership program had no delinquencies or loans in default.\textsuperscript{125} None of the FFHO program home buyers had experienced any serious delinquencies during the twelve months before their interview; however, nearly one in five had made a late mortgage payment at some point during the last twelve months.

Delinquency rates vary by ethnicity, size of loan, and type of structure. Black borrowers were more likely to experience repayment difficulties than were

\begin{footnotesize}
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\item NHS (2004).
\item Immergluck (2008).
\item Cutts and Van Order (2005).
\item Wiranowski (2003); Willis (2006).
\item Apgar (2004, p. 31).
\item Danis and Pennington-Cross (2005).
\item See Quercia and Stegman (1992); Deng, Quigley, and Van Order (1996); Hirad and Zorn (2001, 2002); Quercia and others (2002); Van Order and Zorn (2002).
\item Quercia and others (2002).
\item Hirad and Zorn (2001).
\item Locke and others (2006).
\end{enumerate}
\end{footnotesize}
White borrowers. In contrast, delinquency rates are lower for borrowers with larger loan origination amounts and for those who took out mortgages on condominiums.\textsuperscript{126} As was the case for homeownership terminations, the most frequently cited triggers for Freddie Mac delinquencies included unemployment or curtailment of income (40 percent), illness or death of the borrower or other family member (24 percent), marital difficulties (10 percent), and excessive financial obligations (10 percent). However, Mark Wiranowski underscored another source of mortgage delinquencies, namely, the borrower’s financial choices and spending patterns that may lead to insolvency.\textsuperscript{127}

Foreclosure among low-income homeowners remains a rare event, though it is more likely with loan products that offer lower down payments and higher debt ratios. Van Order and Zorn estimated foreclosure rates varying from less than 1 percent for prime Freddie Mac loans to 6 or 7 percent of FHA or Affordable Gold loans.\textsuperscript{128} Defaults on FHA loans have more than tripled from 1986 to 2004.\textsuperscript{129} The experience with government-supported low-income homeownership programs also shows a mixed record of defaults. A recent evaluation of purchases through the Section 8 Homeownership program revealed only ten foreclosures out of more than 3,400 purchases.\textsuperscript{130} Our evaluation of FFHO program purchases found three foreclosures out of the 131 homes purchased before 2006, reflecting a 2.3 percent foreclosure rate. Newburger reported, however, that nearly one out of five low-income households purchasing homes through the Philadelphia 500 program experienced at least one foreclosure with half of the these filings occurring within the three-year period after purchase.\textsuperscript{131}

The likelihood of experiencing a foreclosure varies by race as well as by initial down payment levels and local macroeconomic conditions.\textsuperscript{132} In addition, minority homeowners experience greater likelihoods of losing their homes to foreclosure.\textsuperscript{133} Further, foreclosure rates have been increasing in specific markets and neighborhoods since the mid-1990s and have been linked to increases in subprime lending.\textsuperscript{134} Among our FFHO program participants, all of the foreclosures to date occurred with Latino homebuyers; further, they all have occurred since 2005.

\textsuperscript{126} Hirad and Zorn (2001, p. 14).
\textsuperscript{127} Wiranowski (2003).
\textsuperscript{128} Van Order and Zorn (2002); Hirad and Zorn (2001); Mortgage Bankers Association (2005).
\textsuperscript{129} Herbert and Belsky (2006).
\textsuperscript{130} Locke and others (2006).
\textsuperscript{131} Newburger (2006).
\textsuperscript{132} Quercia and Wachter (1996); Herbert and Belsky (2006).
\textsuperscript{133} Herbert and Belsky (2006).
\textsuperscript{134} Immergluck and Smith (2004).
Instead of using their home equity as a “reserve” to buffer future unexpected claims, low-income homeowners appear to be drawing down on it to finance current consumption, thereby losing a potential buffering opportunity. Previous studies, such as those by Winton Pitcoff and by Rohe and Quercia, have underscored this use of refinancing as a means to reduce burgeoning consumer debt, thus shifting increasing amounts of consumer debt to mortgage debt as well as increasing the risk of mortgage default.\textsuperscript{135} Pitcoff estimated that one out of every five homeowners refinances each year. Among those who refinance, slightly less than one-third do so to pay down other—mostly credit card—debt. Rohe and Quercia found that while 15 percent of Neighborhood Reinvestment program participants refinanced their mortgage primarily to obtain a better interest rate, about the same percentage—14 percent—took out home equity loans, with nearly a third of these homeowners using the loans to obtain cash. Approximately 16 percent of FFHO home buyers took out home equity loans within the first few years of buying their homes, primarily for the purpose of debt consolidation, home repairs, or other types of consumption.

The increased “cashing out” of home equity by homeowners corresponds with the rapid growth of both housing debt and consumer debt during the 1990s. George Masnick, Zhu Di, and Eric Belsky observed that the median debt per owner household grew by 140 percent in the 1990s, from $13,700 to $33,100.\textsuperscript{136} Rohe and Quercia reported that the outstanding debt of homeowners in the Neighborhood Reinvestment program increased by 12 percent within the first few years of homeownership. Concomitantly, the monthly debt payments for these low-income homeowners increased from $397 at the time of home purchase to $589 by the end of their first eighteen months of homeownership.\textsuperscript{137} Outstanding debt increased among FFHO participants as well. By 2006 FFHO homeowners carried on average $10,007 in debts. Not surprisingly, monthly debt payments rose on average from $346 at the time of home purchase to $455.

Does Homeownership Provide Benefits to Children in Low-Income Households that Might Lead to Superior Economic Outcomes in the Next Generation?

Conventional wisdom would probably lead one to answer “of course!” Indeed, the scholarly literature has generally supported the conventional wisdom here. However, one must be careful in leaping to this conclusion. The statistical study of homeownership must confront three serious challenges that relate essentially

135. Pitcoff (2003); Rohe and Quercia (2003).
137. Rohe and Quercia (2003).
to omitted control variables. First, parents who select homeownership may do so because they seek a home-centered, supportive environment as one component of a multifaceted effort to raise children in the best way possible. These parents are more prone to be future oriented and more willing to invest time and resources in their children. Unfortunately, these parental attributes are poorly measured in surveys available to researchers, and thus they remain as uncontrolled variables in a multivariate model testing the relationship between homeownership status and child outcomes. This raises the problem of selection bias: Are observed positive correlations between child outcomes and homeownership truly caused by owning a home, or is the correlation merely spurious because of omitted parental characteristics affecting both tenure and outcomes? Second, because of their preferences for stability and their substantial investment in transactions costs, homeowners typically move less frequently than renters. If residential mobility is not controlled, is the positive association between homeownership and child outcomes due to the fact of owning a home, or is it due to residential stability? Finally, the parents’ choice of whether to rent or own is made simultaneously with the choice of neighborhood and expectations of residential mobility. Those who can only find feasible options of purchasing a home in neighborhoods unlikely to appreciate in the future and those who expect to move soon are unlikely to choose homeownership. But neighborhood environment is also likely to exert some independent effect on child outcomes. So, once again, models must control for neighborhood environment if they hope to gain an unbiased estimate of the true causal impact of homeownership on children. Unfortunately, few extant studies meet all these challenges, and hence the literature in this area must be treated with caution.

Several causal mechanisms have been advanced through which parental homeownership status may produce felicitous outcomes for children living in the home —directly and indirectly (via mobility). The direct effects that have been posited include the following:

—Homeowners maintain their dwellings to higher standards than do otherwise identical households who are renting, which may affect differentially the health and cognitive and social development of resident children.138

—Homeowners may acquire a distinctive set of skills, such as those related to do-it-yourself home repairs; negotiating with contractors, plumbers, and so on; or seeking refinancing. Insofar as these may be transferable to children, the latter will benefit.139

138. For home maintenance standards kept by homeowners compared with those by renters, see Galster (1983, 1987); Mayer (1981); regarding the effects of standards on resident children, see Parcel and Menaghan (1994a, 1994b).

139. Green and White (1997); Boehm and Schlottmann (1999).
—Homeowners may have more financial stake in the occupied residence and thus more motivation to monitor and control activities of children (both their own as well as neighbors') that might threaten the neighborhood's property value.140

—Homeowners may invest more in developing social capital and participating actively in the neighborhood, from which their children may benefit in a variety of ways.141

—Buying a home may yield gains in parental satisfaction and self-esteem, which in turn translate into a more supportive, positive sociopsychological environment for children.142

—Homeowners may gain a superior equity position than renters to the extent that home appreciation outperforms other financial instruments (as discussed above in the section on homeownership and building wealth), and thus they would be able to invest more in the educational and nurturing aspects of the children's environment.

—Homeowners may experience lower levels of stress because of greater security of tenure, which produces more positive behavioral and cognitive outcomes for children in the household.143

The indirect consequences putatively transpire through the effect of homeownership status on residential stability. The argument proceeds as follows. Given the high transaction costs of home sale and purchase, owners typically reside in any given unit longer than do renters.144 In turn, this enhanced residential stability can have numerous positive impacts on children in the areas of educational achievement and credential attainment, substance use, social functioning, mental health, and sexual and deviant behaviors.145 At least one potential reason for this relationship is that as children remain longer in a neighborhood they are likely to become better known to adult neighbors, thus rendering them more subject to behavioral modifications through the exercise of neighbors' "collective efficacy."146

Unfortunately, from extant empirical work it is not possible to distinguish definitively among the above causal hypotheses. As we shall see below, there is a

141. Hunter (1975); Cox (1982); Jeffers and Dobos (1984); Coleman (1988, 1990); Austin and Baba (1990); Rohe and Stegman (1994); Verba, Schlozman, and Brody (1995); Rossi and Weber (1996); DiPasquale and Glaeser (1999).
143. Cairney and Boyle (2004).
145. Buerkle (1997); DeWitt (1998); Huffines (2003); Potter and others (2001); Rumberger (2003); Rumberger and Larson (1998); Stack (1994); Temple and Reynolds (1999).
146. Sampson, Morenoff, and Earls (1999).
substantial body of credible empirical work to suggest that homeownership probably does something positive for children. Unfortunately, it must be left to future studies to ascertain precisely what this something is.

The earliest statistical research in this area, by Richard Green and Michelle White, found that current parental homeownership was associated with a reduced probability of a resident seventeen-year-old dropping out of high school or giving birth.\(^{147}\) Past residential mobility and homeownership status were not controlled, however, and subsequent analyses by Daniel Aaronson and by Joseph Harkness and Sandra Newman showed that most of the relationships were explained by the greater residential stability associated with homeownership.\(^{148}\) Michael Boyle’s study of longitudinal samples of children in Ontario, Canada, revealed significantly lower rates of emotional-behavioral problems among children of homeowners, controlling for a variety of family and neighborhood characteristics.\(^{149}\) However, he did not attempt to deal with selection bias. Indeed, a good deal of skepticism remains about the true independent causal impact of homeownership. Most notably, David Barker and Eric Miller found that many of the reported effects of homeownership disappear when more controls and alternative estimation techniques for selection effects are introduced.\(^{150}\)

However, a core of studies is available that employ sufficiently robust methodologies such that their findings can be interpreted as credible support for direct causal effects of homeownership on children. Most of these works use the Panel Study of Income Dynamics, whereas Donald Haurin, Toby Parcel, and Jean Haurin use the National Longitudinal Survey of Youth. These works employ a variety of techniques to deal with the aforementioned selection problem, including a mobility-tenure model by Green and White, sibling comparisons by Aaronson, fixed effects by Haurin, Parcel, and Haurin, and various instrumentation strategies by Boehm and Schlottmann, Aaronson, Harkness and Newman, and George Galster and others.\(^{151}\) Although all employ a variety of controls that differ in their comprehensiveness, they consistently provide support for a direct, independent, nontrivial relationship between homeownership and several outcomes for children and young adults, controlling for residential stability and wealth. Specifically, this set of methodologically robust studies consistently finds a positive impact of homeownership status on:

—Early childhood cognitive and social development\textsuperscript{152}
—Educational attainment\textsuperscript{153}
—Teen childbearing\textsuperscript{154}
—Earnings and welfare usage, both directly and indirectly, through the effects of homeownership on education\textsuperscript{155}
—Buying a home as a young adult\textsuperscript{156}

Moreover, Green and White and Harkness and Newman found stronger effects for children from lower-income households; Harkness and Newman also found that this is true even in unstable neighborhood contexts.\textsuperscript{157} All this bodes well for the conventional wisdom for expanding homeownership to lower-income households.

What Are the Primary Barriers to Attaining and Sustaining Homeownership for Low-Income Households?

As a foundation for analyzing programmatic initiatives to enhance and support the homeownership opportunities for low-income households, it is important to establish what research has identified as the major impediments to such opportunities. Michael Collins and Jeffrey Lubell separately provided comprehensive descriptions of the barriers to attaining homeownership:\textsuperscript{158}

—Low and unstable incomes relative to the costs of periodic mortgage payments, insurance, and property taxes\textsuperscript{159}
—Savings and wealth that are inadequate to meet minimum down payment requirements and to stay under the ceiling of total debt-to-income ratios\textsuperscript{160}
—Weak credit ratings that lead to higher-priced mortgages or outright denial of mortgage credit\textsuperscript{161}
—Inadequate information on the part of prospective home buyers concerning how to buy a home, repair their credit, obtain the least-expensive mortgage, and so on\textsuperscript{162}

\textsuperscript{152} Haurin, Parcel, and Haurin (2002a, 2002b).
\textsuperscript{153} Green and White (1997); Boehm and Schlottmann (1999); Aaronson (2000); Harkness and Newman (2002, 2003); Galster and others (forthcoming).
\textsuperscript{155} See Harkness and Newman (2002, 2003) for direct effects; see Boehm and Schlottmann (1999); Galster and others (forthcoming) for indirect ones.
\textsuperscript{156} Boehm and Schlottmann (1999); Galster and others (forthcoming).
\textsuperscript{157} Green and White (1997); Harkness and Newman (2003).
\textsuperscript{158} Collins (2004b); Lubell (2005).
\textsuperscript{159} Haurin, Hendershott, and Wachter (1997).
\textsuperscript{160} Listokin and others (2002).
\textsuperscript{161} Rosenthal (2002).
\textsuperscript{162} Collins and Dylla (2001).
—Discrimination in the for-sale housing and mortgage markets directed against low-income minority borrowers.163

—High costs of entry-level homes due to a variety of restrictive building codes, environmental regulations, and land use policies164

There have been numerous opinion polls and descriptive studies of the characteristics of low-income and minority households related to financial and home buying literacy, wealth, income, and credit histories, for example.165 Unfortunately, one must make a leap of faith from these studies regarding how these characteristics translate into differentials in homeownership rates. Only a few rigorous empirical studies have attempted to quantify which of the above constraints constitute the largest impediments.166 The work of Quercia and others and David Listokin and others concluded that the savings and wealth constraint is most important, although they differed in their estimates of how much low-income homeownership rates might increase were this constraint to be relaxed. Quercia and others concluded that the income constraint (mortgage payment-to-income ratio) is next-most critical (and roughly half the size of the savings and wealth effect), though Listokin and others found that relaxing mortgage underwriting will have virtually no impact on the chances of lower-income households to buy a home.167 Neither of the prior works viewed interest rates as a serious constraint, which is supported by the statistical study of Gary Painter and Christian Redfearn.168 Rosenthal’s analysis does not disentangle the contributions made by the first three constraints above but concludes that they represent a substantial barrier in combination.169 George Galster, Laudan Aron, and William Reeder examined the combined effect of inadequate information, discrimination, and inadequate housing supply and concluded that, collectively for lower-income households, they represent roughly as important a barrier as do savings and wealth.170 Unfortunately, each component in the bundle of constraints analyzed by Rosenthal and by Galster, Aron, and Reeder is appropriately

164. Advisory Commission on Regulatory Barriers to Affordable Housing (1991); Collins, Crowe, and Carliner (2002).
165. For reviews, see Cortes and others (2006); Herbert and others (2005); Herbert and Belsky (2006).
166. For a review, see Herbert and others (2005). They make an important methodological distinction within this literature between studies employing “synthetic underwriting,” such as Listokin and others (2002), and those using “constrained tenure choice models,” such as Galster, Aron, and Reeder (1999); Rosenthal (2002); Quercia and others (2002). The former tend to produce biased estimates of the severity of constraints but nevertheless can produce unbiased relative rankings of constraints.
167. Quercia and others (2002); Listokin and others (2002).
confronted by a distinctive set of programmatic approaches, so it is difficult to draw pointed policy implications from both works.

It seems clearer, however, that low-income minority home seekers face additional, illegal barriers associated with discrimination because of their racial and ethnic status. Thorough reviews and analyses of the evidence indicate that discrimination against minorities in the home mortgage lending process occurs in many forms and at nontrivial incidences.\textsuperscript{171} Before loan applications are filed, minorities often receive less assistance and information from loan officers and are quoted higher interest rates.\textsuperscript{172} After applications are submitted, minorities are more likely to be denied than are equally qualified Whites.\textsuperscript{173} This discrimination in mortgage markets may be abetted by discrimination in the home sales market, as real estate agents also give less information about housing finance to both Black and Latino home seekers. Moreover, they often steer them through their actions and commentary to neighborhoods that have higher proportions of minority and lower-income residents, characteristics that have been associated with lower home appreciation rates.\textsuperscript{174}

As for barriers to the continuation of homeownership, the sobering fact underpinning the discussion is that these barriers may be substantial inasmuch as roughly half of low-income homeowners return to renter status within five years of buying, as compared with at most a third of high-income buyers.\textsuperscript{175} Haurin and Rosenthal have been the only ones to econometrically model the transitions of low-income owners out of homeownership. They found that this is more likely to occur when the owner is not married; is younger, poorly educated, and Black; and has a larger family and falling income. It is also more likely in contexts in which home values are falling and mortgage interest rates and unemployment rates are high.\textsuperscript{176} Unfortunately, these correlations mask considerable detail about the particular stressors faced by these homeowners and thus provide only the broadest policy guidance.

A few surveys of recent, low-income home buyers have looked at what these stressors might be.\textsuperscript{177} Generally, the most frequently cited concern of the low-income homeowner is home maintenance and repairs, particularly in terms of the ability to address any unexpected, emergency home repairs. Concerns about

\textsuperscript{171} Turner and Skidmore (1999); Ross and Yinger (2002).
\textsuperscript{172} Turner and others (2002).
\textsuperscript{173} Ross and Yinger (2002).
\textsuperscript{174} See Galster and Godfrey (2005) with respect to targeting minority and low-income residents and Flippen (2004) for the association between neighborhoods with high rates of minority and lower-income residents and lower home appreciation rates.
\textsuperscript{175} Reid (2004); Haurin and Rosenthal (2005a, 2005b).
\textsuperscript{176} Haurin and Rosenthal (2005a, 2005b).
\textsuperscript{177} Mitchell and Warren (1998); Rohe and Quercia (2003); Santiago and Galster (2006).
high or rising utility costs and about their ability to keep up with mortgage payments are the next-most frequently cited. Moreover, we have found that FFHO home buyers during the first few years after home purchase often acquire a significant level of consumer debt not connected with home repairs or improvements. Thus the same features of income and savings that serve as barriers to attaining homeownership persist as barriers to sustaining ownership.

In addition, a rising concern in recent years has been that predatory lenders may exploit low-income homeowners and, in the worst scenarios, induce them to undertake such onerous financing schemes that their home equity is stripped and they are forced to default.\textsuperscript{178} Several studies have employed various methods for estimating how much wealth is siphoned off (presumably from lower-income homeowners in the main) by predatory lenders. Elizabeth Renhart estimated, for example, that the actions of predatory lenders annually cost consumers $2.1 billion in equity stripping, $1.8 billion in exorbitant up-front fees, $2.3 billion in prepayment penalties, and $2.9 billion in rate-risk disparities.\textsuperscript{179} Christopher Richardson estimated that households refinancing through the subprime market would retain from $7.6 billion to $9.5 billion more equity were it not for predatory lenders.\textsuperscript{180} There have been no multivariate statistical studies that have estimated increases in the probability of foreclosure relative to the receipt of a predatory (as opposed to subprime) loan, though descriptive statistics suggest that a high proportion of subprime loans that foreclose have predatory-like characteristics.\textsuperscript{181}

Certainly, defaults can ensue when unexpected major repairs, utility bills, income losses, or predatory refinance lending occurs. However, the observed rates of default (as discussed above) are insufficient to explain the exceptional attrition of half of low-income homeowners over five years. This suggests that the financial strains associated with homeownership may often create such tenuous family budgets or psychological stresses or both that many opt out of this tenure, sell their home, and do not buy again immediately. By implication, sustaining low-income homeownership will require more than a myopic focus on default prevention. It will require a more comprehensive view of the financial position of the homeowner and the ambient levels of stress associated with this form of tenure.

\textsuperscript{178} Willis (2006); Goldstein (2006). For a review, see Zimmerman (2006).
\textsuperscript{179} Renhart (2004, p. 487).
\textsuperscript{180} Richardson (2002).
\textsuperscript{181} Stock (2001); Quercia, Stegman, and Davis (2005).
What Have We Tried to Expand and Sustain Homeownership among Low-Income Households, and What Has Worked?

Federal, state, and local governments, as well as nonprofit and philanthropic organizations, have been engaged for many years in a dizzying array of initiatives designed to lower the aforementioned barriers to attaining and sustaining low-income homeownership. Primary examples (either tried or proposed) related to each constraint include

—Low and unstable incomes: HUD housing vouchers applied to home purchase; subsidized home construction and rehabilitation through Community Development Block Grants, the HOME Investment Partnerships program, or local sources of financing; requirements for Fannie Mae and Freddie Mac to purchase loans originated to low-income borrowers; employer-assisted housing subsidies; lease-purchase programs; state and local housing trust funds, mortgage revenue bonds, and other subsidy-financing devices; self-help housing

—Inadequate savings and wealth: no or low down payment mortgages, risk-based mortgage pricing, down payment assistance grants and loans, asset-building tools such as Individual Development Accounts, public housing authority–run programs for income enhancement and wealth accumulation (such as the Family Self-Sufficiency program), foreclosure prevention services, major home repair insurance

—Weak credit ratings: credit counseling and repair services, schemes whereby rent and other payment histories bolster credit ratings

—Inadequate information: financial literacy education, homeownership pre- and postpurchase counseling, programs to expand participation in the banking sector

—Discrimination: federal resources for fair housing and lending education and complaint investigation, paired testing used as enforcement tool, lender regulatory oversight under auspices of Community Reinvestment Act and Equal Credit Opportunity Act, state and local antipredatory lending legislation, Home Mortgage Disclosure Act (HMDA) reporting

—Restrictions in housing supply: community land trusts, grant allocation incentives for localities to reduce regulatory barriers, inclusionary zoning, manufactured housing and other reduced-cost construction techniques

Despite this wealth of policies, there are very few evaluation studies that employ appropriate methodologies for plausibly assessing their degree of independent, causal impact. Virtually all assessments of programs designed to promote low-income homeownership have merely described programmatic opera-

182. For overviews, see Collins (2004b); Lubell (2005); Herbert and Belsky (2006); Cortes and others (2006).
tions and reported outcomes for participants. They have not tried to compare these outcomes against some carefully specified counterfactual ones. As a result, skepticism about observed outcomes being tainted by nonprogrammatic selection effects (that is, unobserved characteristics of participants) or other uncontrolled forces is well founded. Sadly, this means that for the vast majority of policies listed above we cannot answer the question “What works?” with any assurance. The only partial exceptions to this generalization come in two areas: liberalization of mortgage terms and homeownership education and counseling.

Studies Related to Liberalization of Mortgage Terms

Three studies that differ in approach and conclusions look at mortgage terms and focus on Federal Housing Administration lending to low-income borrowers. FHA loans offer low down payment requirements and offer more flexible underwriting terms regarding required debt and income ratios. Thus their greater availability should, in principle, allow more low-income buyers into the market by relaxing both down payment and income constraints. John Goodman and Joseph Nichols, however, concluded that FHA loans may at best accelerate the transition from renting into homeownership and do not significantly increase the aggregate homeownership rates beyond that. Zeynep Onder’s study produced a somewhat more sanguine conclusion that greater FHA activity in a metropolitan area is positively related to homeownership rates, but the size of the implied effect is small: a 1 percent higher share in the FHA market is associated with a 0.02 percent higher homeownership rate. A considerably stronger relationship is uncovered in the study by Albert Monroe, however, who used an approach that avoids the potential selection biases of the prior works. Monroe found that a 1 percent higher share of homes rendered affordable because of FHA mortgage availability is associated with a 0.2 percent increase in homeownership rates, and this relationship is seven times greater for Blacks and those with a high school diploma or less. To the extent that FHA loans in the periods under study above required substantially lower down payments than those required by conventional mortgages, Monroe’s findings are consistent with the aforementioned evidence on the importance of the down payment constraint for lower-income home seekers.

Another small set of studies has examined whether intensified efforts by the government-sponsored enterprises (GSEs, that is, Fannie Mae and Freddie Mac)

183. Turnham and others (2004); Locke and others (2006); Quercia, Gorham, and Rohe (2006), for example.
to purchase mortgages originated to lower-income individuals and neighborhoods (in response to HUD regulatory requirements) affect their homeownership chances. In two studies, Brent Ambrose and Thomas Thibodeau found that the gap in homeownership rates between low- and high-income households dropped in Metropolitan Statistical Areas (MSAs) where GSEs expanded their purchases more strongly, though in the national sample they appeared to have no impact on the growth of low-income homeownership rates from 1991 to 1997. This combination of results seems implausible; perhaps the best conclusion is that results for low-income groups are inconclusive. Xudong An, Raphael Bostic, and Yongheng Deng and Bostic and Stuart Gabriel reached even less sanguine conclusions. The An, Bostic, and Deng study of California found only limited evidence of any impact of the GSEs’ affordable housing purchasing regulations on homeownership rates. The Bostic and Gabriel nationwide companion study found no relationship between the intensity of GSE purchasing rates in a census tract in 1995 and changes in the homeownership rate there from 1990 to 2000, controlling for changes in metropolitan economic conditions and a variety of tract conditions in 1990. These studies yielded similar implications as the aforementioned studies, showing relatively little importance of interest rates as a barrier to homeownership.

Ironically, the combined policies of offering FHA loans and expanded GSE mortgage purchasing requirements may actually work at cross-purposes. An, Bostic, and Deng argued that more aggressive purchasing activity by the GSEs in response to the HUD purchasing goals has merely substituted for some FHA lending that would have occurred in these areas previously. They demonstrated that conventional and FHA home purchase loan products compete for many borrowers (especially those with less-than-perfect credit histories), and that GSEs generally do not purchase FHA loans. Thus, they argued, if GSEs pursue more aggressive purchasing of conventional loans, some former FHA borrowers with the best credit may be induced by increasingly liquid primary lenders to obtain conventional products instead. In response, FHA will need to apply stricter underwriting standards to keep the overall risk profile of its portfolio acceptable, whereupon they will lower their loan origination volume. This induced FHA response blunts the impact of the increased liquidity provided by the GSEs and creates a zero sum scenario, they hypothesized.

There have been two rigorous studies that offer estimates of the impact from programs that provide down payment assistance. Gary Engelhardt econometri-

188. Ambrose and Thibodeau (2004); Thibodeau and Ambrose (2002).
cally estimated a tenure choice model for Canadian households to see how the probability of choosing homeownership changed after the Registered Home Ownership Savings Plan was eliminated in 1985.\(^{192}\) This plan offered an annual tax reduction of up to $1,000 per individual (with a $10,000 cumulative limit) on savings committed to the purchase of a first home. He found that the elimination of this savings plan significantly reduced the transition into homeownership, though it is unclear whether the effect would be as strong for those with lower marginal tax rates and whether the subsidy only affected the timing, not the overall chances, of moving into homeownership.

Christopher Herbert and Winnie Tsen provided a powerful empirical estimate of the potential of down payment assistance to spur low-income homeownership.\(^{193}\) Although it is not an impact evaluation of an extant program, it can be interpreted as an evaluation of one that simply provides a direct down payment grant, analogous to, for example, the recently enacted American Dream Downpayment Initiative of 2003. Using the 1996 Survey of Income and Program Participation, they estimated a statistical model that relates individual renters' income, wealth, and other characteristics over time to the probability of the renter's transitioning into homeownership. Remarkably, they found that liquid wealth has a decreasing positive impact on the probability of this transition. Using the estimated model parameters, they then simulated how many more low-income renters could have made the leap into homeownership during the 1996–2000 period with different hypothetical levels of down payment subsidies. The alternative subsidy amounts and simulated increases over the baseline (no subsidy) transition rates are $1,000, 19 percent; $5,000, 34 percent; and $10,000, 41 percent.

**Studies Related to Homeownership Education and Counseling**

There are two broad categories of education and counseling programs: prepurchase and postpurchase.\(^{194}\) Prepurchase counseling is designed to remove barriers to obtaining information related to basic financial literacy, homeownership, and the home buying process, all of which may be hindering low-income households. There have been numerous studies that have described the wide variety of homeownership education and counseling programs and provided descriptive statistics of outcomes of participants.\(^{195}\) However, there are remarkably few evaluation stud-

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194. For histories of these programs, see McCarthy and Quercia (2000); Quercia and Wachter (1996).
195. Examples include McCarthy and Quercia (2000); Wiranowski (2003); Collins (2004b); Turnham and others (2004); Quercia, Cowan, and Moreno (2005); Lubell (2005); Quercia, Gorham, and Rohe (2006).
ies that have tried to assess the degree to which such counseling actually enhances the willingness and ability of such households to buy a home compared with an otherwise comparable group of low-income households who do not receive counseling. Two unpublished studies from the 1970s summarized by Leslie Strauss and Sue Phillips claimed that counseling improved home purchase rates, but in one case the counseling was offered in conjunction with substantial financial incentives to buy a home, and in the other there was significant prescreening of participants in counseling.\textsuperscript{196} The strongest methodological effort here was provided by Judith Feins, Dixon Bain, and John Kirlin, who investigated counseling in conjunction with the HUD Section 235 homeownership program.\textsuperscript{197} They divided participants into three groups: those who received written information about the home buying process only—the putative control group; those who received written information plus group counseling; and those who received written information, one-on-one counseling, and advocacy activities like home inspections and attendance at closing. The only statistically significant difference among the three groups was that those receiving written information and the group counseling were somewhat less likely to purchase within nine months of counseling than the other two groups, perhaps because the group process proved intimidating to participants. That the group getting the most intensive, individualized counseling performed no better than those perfunctorily given literature suggests either that the counseling provides little value added or that its effects only become manifested after the first nine months of the homeownering experience.

The only other aspect of prepurchasing counseling effectiveness that has been systematically probed is the degree to which it reduces the risk of mortgage delinquency and default. Valentina Hatarska, Claudio Gonzalez-Vega, and David Dobos and Hartarska and Gonzalez-Vega found that those counseled under a Midwest-based program evinced lower defaults, controlling for a wide variety of personal, life event, and mortgage characteristics.\textsuperscript{198} However, the results may have been produced by the rigorous screening into the program of only those most likely to be successful homeowners, not the counseling per se. Hirad and Zorn provided a comprehensive and more methodologically sophisticated study of the effectiveness of prepurchase counseling in reducing delinquency rates in Freddie Mac's affordable loan portfolio. They found that, all else being equal, several types of counseling decrease the ninety-day delinquency rate: provision of individual counseling lowers it by 34 percent, classroom counseling by 26 percent, and home study by 21 percent.\textsuperscript{199} The type of organization

\textsuperscript{196} Strauss and Phillips (1997).
\textsuperscript{197} Feins, Bain, and Kirlin (1980).
\textsuperscript{198} Hatarska, Gonzalez-Vega, and Dobos (2002); Hartarska and Gonzalez-Vega (2005).
\textsuperscript{199} Hirad and Zorn (2002, p. 164).
delivering the counseling had no independent effect. These basic results appear robust to methodological adjustments for participant selection effects. Thus both of the studies providing the most convincing controls for selection (Feins, Bain, and Kirlin and Hirad and Zorn) come to a similar conclusion about the relative superiority of one-on-one counseling to group prepurchase counseling in raising the likelihood of purchase and lowering the likelihood of delinquency, respectively.

In the realm of postpurchase programs, there are two further categories: those that try to prevent new owners from falling into arrears on their mortgage payments and those that try to help those that have.\textsuperscript{200} Programs in the former category typically try to provide additional instruction in budgeting, home maintenance and repair techniques, energy conservation, and avoidance of predatory lenders, but they may in some cases provide emergency financing in the face of unexpected major home repair needs. Programs in the latter category help clients develop mortgage workout or refinancing plans, often with close collaboration with major lenders.

Early evaluation work in this field has been uniformly characterized as “inconclusive” because of severe methodological shortcomings and variance in findings.\textsuperscript{201} There seems, however, to be a current consensus that programs designed to prevent foreclosure are at least somewhat efficacious, given that many major mortgage lenders partner with and financially support community-based organizations providing such assistance. This impression is bolstered by the favorable outcomes cited by program directors and expert evaluators.\textsuperscript{202} Similarly, Roberto Quercia, Spencer Cowan, and Ana Moreno’s cost-effectiveness analysis of the participants in the Mortgage Foreclosure Prevention Program in Minnesota found that time to resolution and rate of recidivism both compared favorably with national norms.\textsuperscript{203} Unfortunately, no studies related to postpurchase counseling have attempted to quantify the independent impacts of extant programs convincingly because of data limitations and methods that do not control for selection effects.\textsuperscript{204} Conclusions about impacts from postpurchase counseling studies cited above and the programmatic recommendations and best practices that have been advanced from them should thus be viewed with caution.\textsuperscript{205}

\textsuperscript{200} Rohe and Quercia (2003); Wiranowski (2003); Lubell (2005); Quercia, Gorham, and Rohe (2006).
\textsuperscript{201} Wiranowski (2003); Quercia, Gorham, and Rohe (2006).
\textsuperscript{202} Rohe and Quercia (2003); Quercia, Gorham, and Rohe (2006).
\textsuperscript{203} Quercia, Cowan, and Moreno (2005).
\textsuperscript{204} Turnham and others (2004).
\textsuperscript{205} Wiranowski (2003); Quercia, Gorham, and Rohe (2006).
Conclusion and Policy Implications

We have addressed six questions in this chapter and provide our answers in summary form.

—Does Homeownership Typically Enable Low-Income Households to Build Wealth? It can enable them to do so, although this is less likely for households who have lower incomes, hold minority status, stay in their home for only short periods, or buy at an inappropriate point in the housing price cycle.

—Does Homeownership Typically Provide Low-Income Households with a Financial Buffer to Weather Financial Setbacks? No. Even those who manage to gain a financial buffer of home equity often spend down that equity by incurring more consumer debt, thereby rendering themselves continuously vulnerable to many housing, mortgage, and labor market shocks and family disruptions and producing a high attrition rate among low-income homeowners.

—Does Homeownership for Low-Income Households Typically Involve Terms and Conditions That, When Coupled with Their Other Instabilities, Render a High Probability of Financial Distress? Yes. The terms of the mortgage (especially when predatory lending is involved) often place purchasers in a tenuous financial situation that, coupled with the above challenges, leads to a high rate of default and exit from homeownership even when no defaults occur.

—Does Homeownership Provide Benefits to Children in Low-Income Households That Might Lead to Superior Economic Outcomes in the Next Generation? Yes. Studies show economically significant gains in certain behaviors, cognitive skills, and educational attainments of children.

—What Are the Primary Barriers to Attaining and Sustaining Homeownership for Low-Income Households? Down payment constraints are typically the overwhelming obstacle to attaining homeownership, but combinations of other constraints are also important. Limited financial reserves, less favorable mortgage terms and reluctance to refinance, and increasing consumer debt render recent low-income homeowners especially vulnerable to interruptions of income or unexpected expenses associated with illness or home repair that make homeownership unsustainable. Discrimination in mortgage and home sales markets impose added constraints on Black and Latino home seekers.

—What Mechanisms Have We Tried to Expand and Sustain Homeownership among Low-Income Households, and What Has Worked? There have been numerous initiatives from all levels of government aimed at making more homes more affordable, making mortgage financing available to more customers at more favorable terms regardless of race or ethnicity, and better informing consumers about the processes of home buying and sustaining a home once purchased. Attempts have been made to attack discrimination. Unfortunately, few rigorous program
impact studies have been conducted on this panoply of efforts; they reveal that down payment assistance subsidies have substantial impacts on helping low-income households attain homeownership and prepurchase counseling reduces their probability of default, especially if delivered in a one-on-one situation.

All of this leads us to the following recommendations for policymakers. We initially recommend that the public sector should be interested in enhancing the opportunities of homeownership for low-income households, given its sizable potential for building wealth under the right circumstances and its demonstrated benefits for children. However, it is also clear from our analysis that the desirability of low-income homeownership as a strategy for growing the middle class is highly contingent. That is, increasing homeownership among low-income households has to be part of a more comprehensive asset building program; if not, desirable results will not be achieved. In particular, policymakers must recognize two overarching findings:

—Building and sustaining a modicum of liquid wealth before and after home purchase (instead of using home equity to finance consumer spending, for example) is the key to attaining and sustaining the pattern of homeownership that ultimately proves financially beneficial for the low-income buyer in the long run.

—Low-income minority households face special challenges in attaining and sustaining homeownership that are not associated with their household or financial characteristics.

This suggests a strategy that embeds enhancing opportunities for low-income homeownership within a more comprehensive suite of synergistic initiatives designed to build income and assets for low-income households, without regard for race and ethnicity. More specifically, we would recommend that homeownership policy be nested within programs that help low-income households simultaneously to raise earnings, reduce consumer indebtedness while increasing savings, budget more effectively, and raise skills to do their own home repairs. In addition, the programmatic suite should include efforts to reduce discrimination against minorities.

We think several proposals offer promise here.\(^{206}\) Raising earnings could effectively and swiftly be accomplished by an expansion and deepening of the well-tested Earned Income Tax Credit, so that it provided higher benefits to more working households. Encouraging wealth building could be accomplished by expanding Individual Development Accounts (or an equivalent program targeted to matched savings for use as down payments) and retargeting various forms of federal assistance to better focus on assisting potential first-time home

\(^{206}\) See Dreier and Atlas (1996); Lubell (2005); Collins (2004a, 2004b, 2007); Rohe (2007).
buyers. This should include replacement of the current IRS mortgage interest and property tax deductibility rules with a refundable, progressive federal tax credit for homeowners and an expansion of Family Self-Sufficiency and Rent Voucher Homeownership program opportunities for recipients of federal housing assistance. For enhancing consumer education concerning buying and owning a home, we should expand the availability of free pre- and postpurchasing counseling programs and publicize their benefits. The former would aim to improve the chances that low-income households would buy homes under the most favorable, feasible circumstances regarding timing, terms, and locations. The latter would aim to help new owners avoid equity erosion through excessive spending and assuming consumer debt or predatory lending, take advantage of favorable refinancing options, build their home repair and improvement skills, and work out situations of mortgage delinquency before they escalate to default. Finally, we must expand the use of paired testing investigations and stiffen penalties for those found to violate the fair housing and fair lending laws, as there is evidence that such action would strengthen their deterrent effect.207

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