



**Shelter Report 2010:**  
The Case for Low-Income Homeowners



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Habitat for Humanity International is a nonprofit, ecumenical Christian housing ministry. HFHI seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action.

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*“Habitat for Humanity believes homeownership for low-income families is worth defending.”*

# Foreword: Meet Andrea LaGrone, homeowner

By Jonathan Reckford, CEO, Habitat for Humanity International

All her life, Andrea LaGrone of Grand Rapids, Michigan, thought about home as a place that belonged to somebody else. Having lived in a number of neighborhoods as a child, she changed schools several times and often dreamed of having a home of her own.

Despite desires that life as an adult would be different, it appeared that Andrea was poised to replicate the circumstances in which she grew up. As a single mother of four children, she moved a number of times, and some of the places where the family lived were overcrowded and were not safe for the children.

During a period when Andrea and the family lived in transitional housing, however, she made some important changes and took on some challenges. She worked hard to pay her bills, save money and improve her credit score. All that diligence paid off when she received a telephone call informing her that she had been selected to be a Habitat for Humanity homeowner. She was going to have a place where she could watch dreams come true.

Andrea LaGrone's story is not atypical. The world has witnessed what has happened when greed and irresponsible decisions govern the housing market. But that dismal picture has not been the case for Habitat for Humanity. Because we set out to help families succeed, the majority of Habitat families are thriving and foreclosure rates remain low. In fact, because we have been partnering with families for more than 30 years, we are seeing more and more families pay off the mortgages on their homes and celebrate becoming debt-free homeowners.

Habitat for Humanity believes that homeownership for low-income families is worth defending. Habitat

homeowners like Andrea make financial investments in their homes, which they also help build. This pride in homeownership makes people walk a little taller, as some have said, and provides a sense of personal empowerment. Often improvements in one or two homes lead to positive changes for an entire area.

Over the years, countless homeowners have returned to school or begun new training to improve their earning capacity, and statistics show that children of homeowners do better in school. We also find that children who live in a stable home are healthier, and that homeowners are more likely to volunteer in civic and political activities. Through paying taxes and making purchases, homeowners also contribute financially to their communities.

Habitat for Humanity's "hand up" model of investing in homeowners has proved successful all over the world as we approach two million people who have a new or improved home through working with Habitat. That success is dependent upon supporting homeowners with education and requiring accountability. It is also dependent upon obtaining additional resources to be able to partner with more families.

The purpose of this report is to make the case for how a decent place to live is a foundation for a better life — to help readers come to know the importance of supporting the thousands of families like Andrea's. Discussions can be extremely complex, or they can be as simple as imagining Andrea and her children continuing to live in a cycle of poverty or having the opportunity to break free, make changes and discover a world of hope and promise.



Andrea LaGrone stands in front of the home she built for her family with Habitat for Humanity Kent County in Grand Rapids, Mich.

Habitat for Humanity  
Kent County



**Larry Vaughn, 53, is a retired machinist who makes his living as a landscaper and handyman. Since losing his house and all his possessions in Hurricane Katrina in 2005, he spent time living in his truck, then a FEMA trailer and then a Mississippi Emergency Management Agency cottage before qualifying for a home built in partnership with Habitat for Humanity of the Mississippi Gulf Coast, which will be completed in 2009.**



# Executive Summary: The facts of success

“Discussions about low-income homeownership can be extremely complex, or they can be as simple as imagining a family either continuing to live in a cycle of poverty or having the opportunity to break free, make changes and discover a world of hope and promise.”

–Jonathan Reckford, CEO,  
Habitat for Humanity International

The success of low-income homeowners is certainly inspiring, but it is more than feel-good news. It is key evidence that should unlock smart government policy.

Owning a house is a “power move” for low-income families, an Asheville, N.C. homeowner likes to say. It powered the creation of his own small business and helped him afford to send his children to college.

A 28-year-old college graduate was only 10 when his family built a house with a low-income housing

nonprofit. Now as a Sonoma County supervisor, he sees the big picture. Investing in a home for a low-income family doesn’t just help the family but the whole community, he says. And the investment comes back.

Another child of low-income homeowners in Oregon says empowerment is a cliché, but “it’s the spirit of the experience my family went through,” the spirit that got him to Harvard Medical School committed to a life of service.

A single mom says at first owning her own house was a dream come true, now it’s “a push to do something more.”

High-cost loans, poor underwriting standards and fraud in the subprime mortgage market spurred the worst economic slide in decades, heightening the anxiety of many Americans. Too many consumers of subprime, and even prime, mortgages are in default or foreclosure. Recent studies debunk the myth that subprime loan default was highest among low-income



STEFFAN HACKER

Homeowner O'Linda Pritchard has lived in her Habitat house for a little less than one year. She and her family were among the first to move into a new Habitat neighborhood in St. Louis, Mo.

homeowners; delinquency for subprime loans was high in neighborhoods of all income levels.

Through this economic crisis, Habitat and other low-income homeowners continue to thrive.

The case for homeownership for low-income people remains as compelling as the lives of Habitat families.

Homeownership has unique potential to break the cycle of poverty for low-income families, especially for the next generation. Low-income families that become homeowners often accumulate wealth and become more self-sufficient, depending less on state and federally supported assistance programs. They have improved mental and physical health and become more active in their communities. These families are also able to offer their children a greater sense of

stability, meaning children often make better grades and stay in school longer.

Before, during and after this economic crisis, financially informed, low-income families with mortgages of appropriate size and with reasonable terms prove to be successful homeowners, benefiting themselves, their children, their neighborhoods and larger communities in which they live.

Every child may not go to Harvard or Berkeley, but children of homeowners look to a better future because so much of a good life starts at home.

Homeownership at any income level ought to require:

- A mortgage with fair and reasonable terms, fully understood by the borrower,
- Sufficient family income to cover monthly

mortgage payments and other associated costs (utilities, maintenance, taxes, etc.) as well as other living expenses.

In addition, success for low-income homeowners improves with:

- Pre- and post-purchase financial and homeowner education and counseling after careful screening of homeowner families.
- Low building and borrowing costs through:
  - Down payment assistance.
  - No- or low-interest mortgages.
  - Donated or discounted land, building materials and labor.
- Loan servicing that emphasizes person-to-person relationships between borrower and lender.



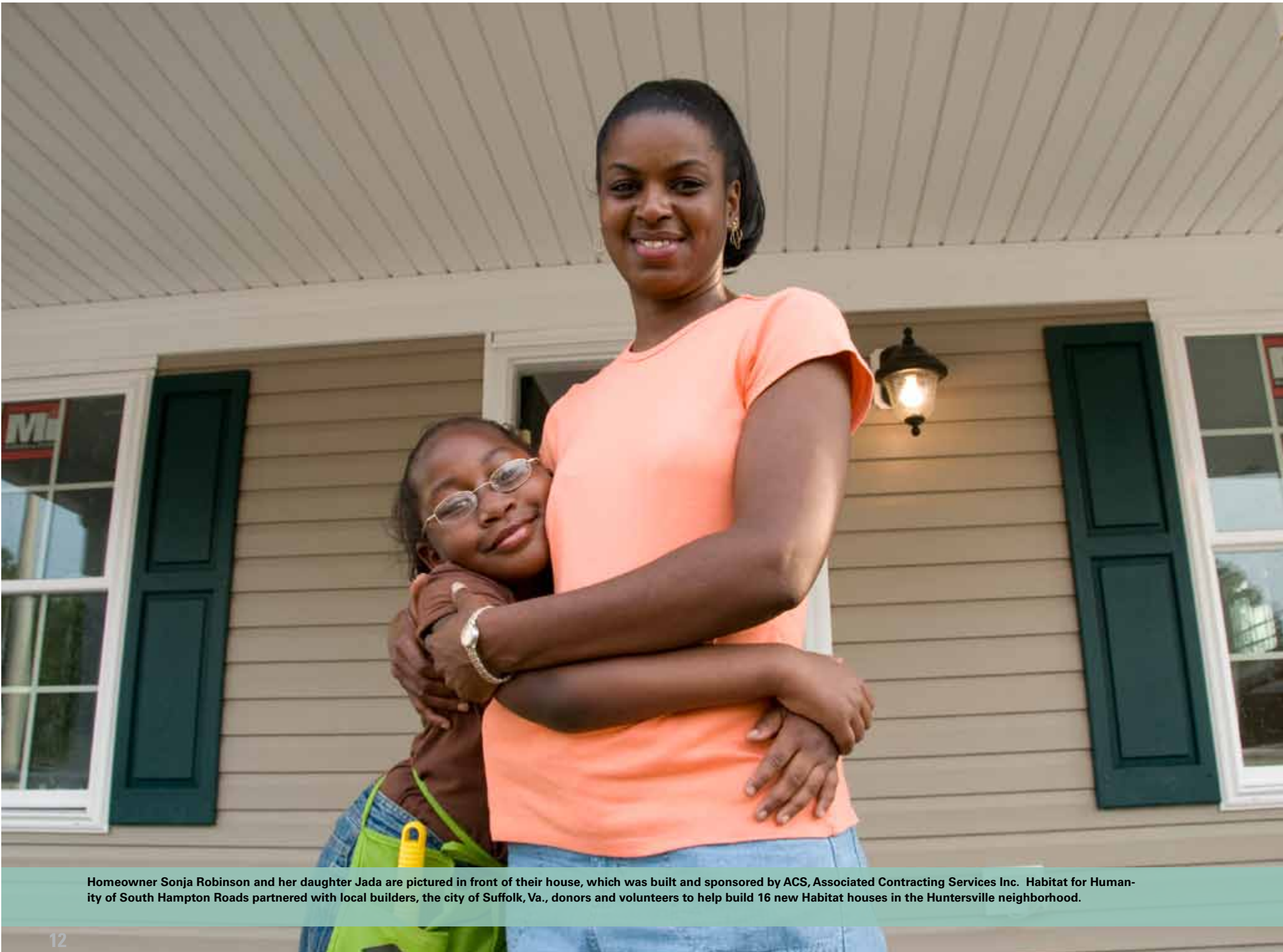
Habitat house of Lora Romero in the Santa Fe, N.M., Habitat development Casas del Corazon II.

- Sweat equity and self-help.
- Socialization with volunteers, many of whom are successful in their work and family life.

### Policy recommendations

Habitat for Humanity International encourages the U.S. Congress to highlight and support low-income homeownership by:

- Holding hearings to highlight best practices for low-income homeownership, including pre-purchase financial education programs and requirements, underwriting standards and applicant screening, mortgage-servicing strategies and the use of volunteers or sweat equity. Testimony should include successful low-income homeowners.
- Creating federal incentives for renters benefiting from government housing subsidies to achieve self-sufficiency through savings programs, financial literacy training and opportunities for future homeownership.
- Commissioning a congressionally sponsored study on the costs and benefits of federal rental and homeownership programs including the costs and benefits to the federal, state, and local governments and taxpayers, and the costs and benefits to individual and family recipients of the federal programs.
- Increasing federal resources for already effective homeownership programs such as the Self-Help Homeownership Opportunity Program (SHOP), the HOME program, and programs that build the capacity of organizations providing low-income homeownership, including a national housing trust fund that can be used for low-income homeownership.
- Passing a resolution affirming the benefits of homeownership for low-income persons.
- Ensuring that government-sponsored enterprises (Fannie Mae, Freddie Mac, and the Federal Home Loan Banks) fulfill their low-income housing mission.



Homeowner Sonja Robinson and her daughter Jada are pictured in front of their house, which was built and sponsored by ACS, Associated Contracting Services Inc. Habitat for Humanity of South Hampton Roads partnered with local builders, the city of Suffolk, Va., donors and volunteers to help build 16 new Habitat houses in the Huntersville neighborhood.

# Chapter 1: Introduction



A portrait of homeowners-to-be Gudy and Maribel Palacios with son, Sebastian, and daughter, Daniela, was taken just before work started on their own home in Las Vegas Nev., in August 2009.

“ As early as the 1970s, nonprofit groups like Habitat for Humanity began helping low-income families move into homeownership. In the following years, low-income and minority families made tremendous gains in homeownership. ”

For most of the 20th century, homeownership in the United States was available only to those with moderate to high incomes. Few low-income families were able to afford the rigid financing requirements necessary for homeownership, such as down payments upward of 50 percent or mortgage terms of five years or less in the 1920s. Even those families that could meet these requirements sometimes faced additional challenges including discriminatory practices like redlining.

As early as the 1970s, nonprofit groups like Habitat for Humanity began helping low-income families move into homeownership. In the following years, low-income and minority families made tremendous gains in homeownership. A strong economy, low interest rates, and easier access to home loans all contributed to this trend. Low-income families that became homeowners experienced wealth accumulation and became more self-sufficient, depending less on state and federally supported



EZRA MILLSTEIN

Ramon and Edu Carreon in front of their three-bedroom Habitat house in Soldotna, Alaska, in the summer of 2008.

assistance programs. They had improved mental and physical health and became more engaged in their communities. These families were also able to offer their children a greater sense of stability, meaning children often made better grades, stayed in school longer and experienced other positive effects. As more low-income families moved into homeownership, low-income neighborhoods progressed. Safety increased,

criminal activity declined and neighborhood appearance improved.

Faced with current conditions, including a weaker economy, loss in home values and an increase in foreclosures, understanding what factors ensure successful homeownership for low-income families and why low-income homeownership remains an important policy goal becomes more important than ever.

While homeownership may have been implemented poorly for some low-income families in the past several years, one might also say that about some homeowners of other income levels. Homeownership for low-income families as a goal is well worth defending, as it benefits homeowners and families, helps break the cycle of poverty, especially for the next generation, and positively affects neighborhoods,

communities and society. Policy and private nonprofit intervention for homeownership is necessary; without it, the housing marketplace does not adequately deliver homeownership to all households that could benefit from it. Housing markets, which affect many aspects of a community including race, income levels, access to public services and jobs, have a powerful effect on shaping neighborhood characteristics and the opportunities available to families.<sup>1</sup>

As Habitat for Humanity partner families and many other low-income homeowners continue to demonstrate, homeownership for low-income families is valuable and successful when properly implemented. Several key factors in determining success include: low supply and labor costs, down payment assistance, no- or low-percent mortgage interest, and donations or reduced prices on land. In addition, pre- and post-purchase education and counseling services are crucial as well as loan-servicing practices that emphasize person-to-person relationships between borrower and lender.

The Habitat model also requires self-help for homeowners by requiring sweat equity, socialization with volunteers — many of whom are successful in their work and family life — and an essential commitment to acknowledge and honor the dignity of human beings no matter their income. Habitat homeowners-to-be also have strong role models in successful Habitat homeowners in their own community.

With tools like these in place, low-income homeownership benefits families, neighborhoods, local economies and the nation as a whole.

## A house leads to business, college for children



Alvin Pearson's life story includes quite a few firsts: He is the first in his family to own a business and the first to send his children to college. Pearson attributes those accomplishments to another first: No one in his family had been a homeowner before the Pearsons built a house with Habitat for Humanity in Asheville, North Carolina.

"Thanks to Habitat, I had affordable housing. That gave me a chance to save money," Pearson said. "From that I was able to open my own business and get my kids through college." Applying for a Habitat house was a "power move," Pearson said.

“ I thank God for Habitat. I was able to help my family live better. That’s all I want out of life, anyway. ”

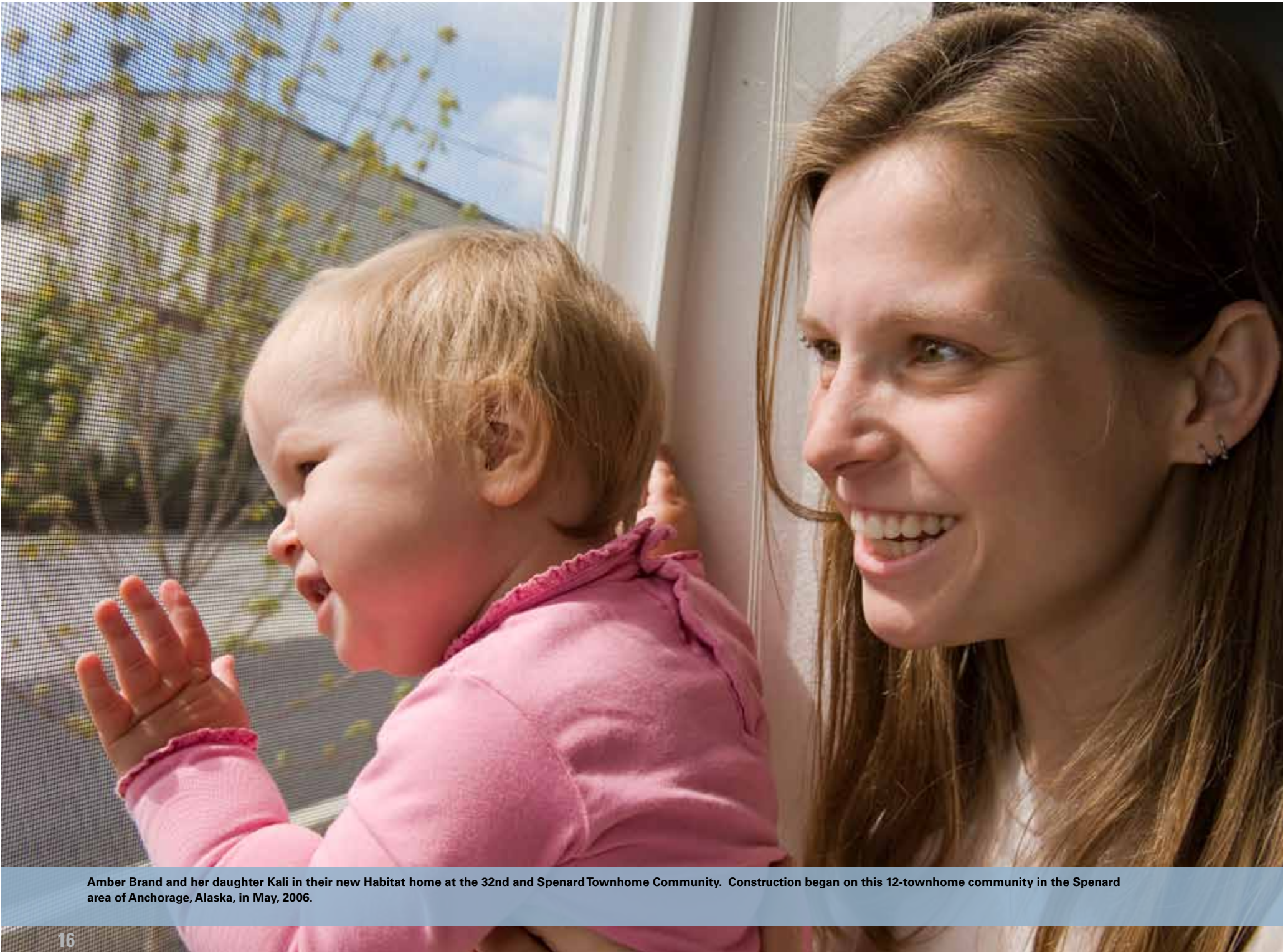
Pearson, his wife, Cynthia, and their four children lived in an apartment complex in Asheville before building their house with Habitat in 1994. "When it rained, water backed up in the building," Pearson recalled.

Back then, Pearson worked in the maintenance department of a local bank. Not long after moving into his house, he felt confident enough to start up his own cleaning and maintenance service. Pearson now employs eight people, and among his clients are the bank where he used to be employed and the offices of the Habitat affiliate that he built his home with.

Pearson, who likes to call himself a "Habitat poster child" because he speaks up often and gladly for the organization, is quick to point out to anyone who asks that his family did not qualify for a Habitat house the first time they applied. "We had to work on our credit, but the second time, we were approved."

Fortunately, Pearson can't lay claim to being the last in his family to own a home and run a business. His daughter and three sons, now grown, are all homeowners, and his daughter owns a beauty shop in Charlotte.

"I thank God for Habitat," Pearson said. Because of affordable housing, "I was able to help my family live better. That's all I want out of life, anyway."



**Amber Brand and her daughter Kali in their new Habitat home at the 32nd and Spenard Townhome Community. Construction began on this 12-townhome community in the Spenard area of Anchorage, Alaska, in May, 2006.**



## Chapter 2: Making homeownership possible: then and now



Homeowners Hector and Viridiana Solis and daughter Evelyn in front of their house in Casas del Corazon in Santa Fe, N.M.

EZRA MILSTEIN

“ *In the 1920s, banks offered mortgages with a maximum five-year term and required a minimum down payment of 50 percent.* ”

Given that homeownership in the United States has often been out of reach to low-income and minority households, policy interventions are necessary to correct market failures. Despite important gains in the 1990s and early years of the new millennium, homeownership remains much more accessible to those with higher incomes. This is true because of several factors, including an inadequate supply of affordable housing in many areas of the United States, restricted access to credit and a variety of social and discriminatory factors. A brief look at American history offers some context for current housing issues.

Between World War I and the mid-1970s, restricted access to financing and social factors such as racism prohibited most low-income (and many middle-income) households from owning their homes. In the 1920s, banks offered mortgages with a maximum five-year term and required a minimum down payment of 50 percent. While some middle-income households with high savings levels could afford mortgages on these terms, most low-income households could not.

Homeownership jumped dramatically in the 1940s largely due to changes in housing finance systems and the creation of entities such as the Federal Home Loan

Banks, the Home Owners Loan Corporation and the Federal Housing Administration in the previous decade. After World War II, the Veterans Administration's mortgage insurance program helped millions of families into homeownership. Due to federal subsidies lowering risks to banks during the New Deal, a typical mortgage by the 1950s required only a 20 percent down payment and offered a fixed-rate 20-year term. While these terms allowed more middle-income households to purchase their own homes, the 20 percent down payment requirement, as well as discriminatory practices and policies, effectively excluded most low-income households.

Homeownership rates in the US: 1920-2000 <sup>2</sup>	
Year	Percentage homeownership
1920	46
1930	48
1940	44
1950	55
1960	62
1970	63
1980	64
1990	64
2000	66

In the 1970s though, the federal government intervened to encourage mortgage lending to low-income households. Following the adoption of the Home Mortgage Disclosure Act (HMDA) in 1975 and the Community Reinvestment Act (CRA) in 1977, banks and thrifts began to expand their reach to low-income borrowers and to households in low-income communities. In some cases they relaxed underwriting standards in order to do so.

Still, in the early 1990s low-income households still encountered steep barriers to home purchase including lenders that rejected low-income applicants with a marred or poorly documented credit history and lenders that required loan payments equal no more than 28 percent of a borrower's income.<sup>3</sup>

Beginning in the 1990s, homeownership increased markedly among low-income households and minorities. Increased household income, decreased barriers to financing, and supportive federal policies and institutions including the CRA, Department of Housing and Urban Development (HUD) programs, and government-sponsored enterprises such as Fannie Mae and Freddie Mac, helped push the trend in homeownership up. As a result, homeownership rates increased to a record high of 69 percent in 2004.<sup>4</sup>

### Increase in homeownership among minorities and women

Between 1994 and 2000, mortgages to African-American households rose by 89 percent and mortgages to Hispanic households rose by 138 percent, while loans to white households increased 25 percent.<sup>5</sup> Although a homeownership gap for minorities persisted, the gap was significantly reduced. Homeownership rates for female-headed households also improved during this time period, approaching 50 percent in 2001.<sup>6</sup>

### Debunking the myth: Are low-income borrowers at the heart of the mortgage crisis?

Recent studies show that the common perception that subprime loans went primarily to low-income households may not be true. A 2008 report by the Federal Reserve found 60 percent of higher-priced loan originations went to middle-or higher-income borrowers or neighborhoods.<sup>7</sup>

Other reports have shown that sub-prime loans went mainly to middle- and upper-income borrowers, and that the vast majority were for home refinancing, not the purchase of a new home.<sup>8</sup> Delinquency rates on subprime loans are high in all neighborhoods, regardless of income level.

Foreclosure rates for CRA-related loans, which targeted low-income homebuyers, have been relatively low. When offered with help from NeighborWorks America, a national nonprofit organization created by Congress to provide financial support, technical assistance and training for community-based revitalization efforts, these loans had a foreclosure rate of 0.21 percent in the second quarter of 2008, compared to a 4.26 percent rate for subprime loans and a 0.61 percent rate for conventional conforming mortgages.<sup>9</sup> The high success rate of CRA loans made to low-income households is often attributed in part to high quality screening of loan applicants, face-to-face loan servicing relationships and homebuyer education and counseling services.

### What is the real risk posed by low-income borrowers?

While some argue that low-income borrowers, on average, carry a greater risk of defaulting on their loans than other borrowers,<sup>10</sup> due to lower income and wealth levels, a greater chance of losing employment, and the necessity of multiple incomes to make mortgage payments,<sup>11</sup> sound applicant screening coupled with financial counseling and education, and responsible loan servicing strategies, significantly decrease risk to lenders. In fact, because low-income borrowers are less likely to prepay their loan than higher income borrowers, lending to low-income borrowers may result in cost savings to lenders, who profit when borrowers make payments over the entire



Sam and Esther Ansah are raising quadruplets (baby Nora is not pictured) in a three-bedroom home in the Bronx, N.Y.

length of their loan term.<sup>12</sup> In addition, as technology improves, loan origination costs are reduced, increasing the profitability of low-income mortgages and potentially making low-income mortgages as profitable as or more profitable than other loans.<sup>13</sup>

### **Housing supply and affordability**

Access to affordable credit is not the only factor determining the rate of homeownership for low-income households; access to affordable housing is also critical.<sup>14</sup> While expanded access to affordable credit helped many low-income households before the economic crisis, it also fueled housing price inflation, which limited the supply

of affordable housing.<sup>15</sup> In the late 1990s, housing prices increased at double the rate of general inflation.<sup>16</sup>

The likelihood of living in unaffordable housing increased for homeowners of all income levels between 2001 and 2005. This was true despite the strong economy during these years, moderate rent growth and low interest rates.

Inflation in housing prices hurts low-income renters as well as potential homeowners, who face rising rates and a shortage of affordable rental options. Rising home prices often trap renter households in a negative spiral: as rents rise, so does the price of purchasing a home, creating entry barriers to the housing market that prove difficult to

overcome for many low-income households.

Housing values in many parts of the country began to fall in 2006, dropping more than 25 percent between July 2006 and December 2008.<sup>17</sup> This decline has affected different groups of low-income households in different ways. Falling housing prices mean house prices are lower for potential homebuyers, but they also mean the current homeowners experience a loss in equity. Falling house prices also have a ripple effect. They increase demand for rental housing as current homeowners are forced to foreclose; meanwhile the homebuilding industry reels from economic and job loss.<sup>18</sup>



Tracey Davison, 41, has the distinction of living in a Habitat house built by a crew that included President and Mrs. Jimmy Carter, and country music superstars Garth Brooks and Trisha Yearwood. Davison, an assistant schoolteacher, and her four daughters (from left), Ashunti, Karly, Majsa and Nylah are among 20 families in Pascagoula, Miss., who got houses during the 2008 Jimmy & Rosalynn Carter Work Project. Davison was so moved by the experience that she intends to volunteer at a future project.

### Housing cost burden at a glance:

- 12 percent of all homeowners in the United States in 2004 were financially overextended due to homeownership costs, meaning more than 40 percent of household income went to mortgage payments.<sup>19</sup>
- Cost burdens were highest and most rapidly growing for low-income households. In 2005, 60 percent of all extremely low-income homeowners paid more than half of their income for housing costs.<sup>20</sup>
- The percentage of very low-income households with a severe housing cost burden rose by 6 percent between 2004 and 2005.<sup>21</sup>

In recent years, more and more low-income homeowners are forced out of the ownership market and return to rentals due to falling housing values, decreasing income and mortgage packages that require a jump in payment after a preliminary period of time.<sup>22</sup> Faced with difficult circumstances, many low-income households have sold or rented out their houses and returned to renting themselves in order to avoid delinquency and foreclosure. Others have lost their home through foreclosure and have little other option than a return to renting.

Between 2005 and 2007, mortgage defaults in the United States rose by 29 percent, affecting one out of every 100 mortgages.<sup>23</sup> The rate of foreclosure also increased by 55 percent, reaching a 28-year high.<sup>24</sup> Subprime loans have accounted for two-thirds of the mortgages in default

and foreclosure, and adjustable-rate mortgages have experienced higher default and foreclosure rates than have fixed-rate mortgages.<sup>25</sup>

As the housing finance industry has responded to the mortgage crisis, it has raised fees and tightened requirements for borrowers, excluding many low-income borrowers from the market.<sup>26</sup> Few low-income and low-wealth households have been able to take advantage of recent reductions in mortgage interest rates. Potential new homeowners have been less able to obtain financing, and current homeowners have been less able to obtain re-financing, either to transfer out of adjustable-rate mortgages or to withdraw equity in their house to use during economically difficult times.<sup>27</sup>

The rising incidence of default and foreclosure makes even more important measures aimed at supporting current low-income homeowners, such as post-purchase counseling.<sup>28</sup> These trends mean that fewer low-income households will be able to realize the financial benefits from homeownership. While rising delinquency and foreclosure rates have fueled public skepticism about low-income homeownership, homeownership among households earning 30 percent to 60 percent of area median income can still be highly successful. (See further explanation in Chapter 4 of this report.)

Homeownership by Income Level <i>(Pew Research Poll, April 9, 2008)</i>	
Household income level	Percent of homeowners
Less than \$10,000	28
\$10,000 - \$19,999	40
\$20,000 - \$29,999	57
\$30,000 - \$39,999	54
\$40,000 - \$49,999	70
\$50,000 - \$74,999	79
\$75,000 - \$99,999	86
\$100,000 - \$149,999	83
\$150,000 and above	90

## Habitat house to Harvard: Empowered to help others



“Habitat for Humanity is equipping people who have a very grounded sense of poverty and injustice with the ability to do something about it.”

That stability freed and enabled him and his sisters to get a better education, Slavkovsky said. Mary is a Seattle University graduate. Rose, now an intern with UNICEF in Geneva, Switzerland, is also working on a university degree.

A few of the words Harvard Medical School student Judah Slavkovsky chooses to explain what decent, affordable housing has meant to him are “enabling,” “transformative,” “empowering.”

Slavkovsky’s parents were full-time volunteers for a mission in New Mexico that grew and provided food for people in need in Mexico. He was 7 when his family, which included two younger sisters, moved to Oregon. There they had a basic human need of their own: decent shelter.

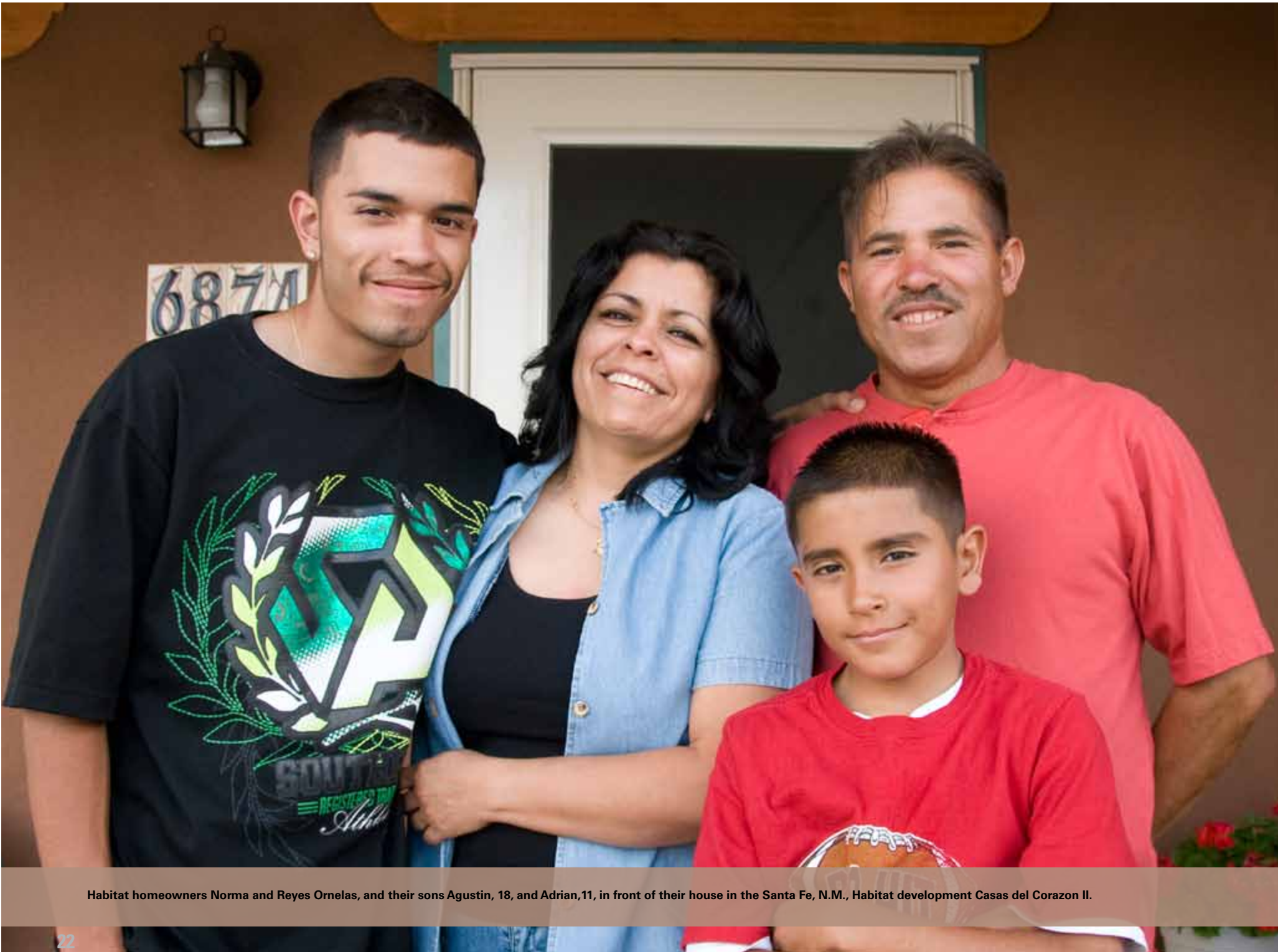
The two-bedroom house the family rented was sometimes moldy and often cold, with only one heater, Slavkovsky recalled. “I remember when it was really cold, we all moved into that room.”

The Slavkovskys were the first to build a home, in 1991, with Habitat for Humanity in Sisters, Oregon. The house has been an anchor for the family as the Slavkovskys continue to help less-fortunate people, and a stable base for Judah and his sisters, Mary and Rose.

Education has been “a gateway not only to success in the standard way of defining it, but in the sense of being more aware of the world around you, to engage in international issues, often in issues of justice,” Slavkovsky said.

From a volunteer stint at a tuberculosis clinic in Ethiopia to a hospital rotation in an obstetrics clinic in South Africa, where doctors focus on preventing the transmission of HIV from mother to child, Slavkovsky has acted on that awareness. Now he is leaning toward a residency that will enable him to improve medical care to underserved, rural areas of the United States.

“Habitat for Humanity is equipping people who have a very grounded sense of poverty and injustice with the ability to do something about it,” Slavkovsky said. “Empowerment seems such a cliché. But it’s the spirit of the experience my family went through.”



Habitat homeowners Norma and Reyes Ornelas, and their sons Agustin, 18, and Adrian, 11, in front of their house in the Santa Fe, N.M., Habitat development Casas del Corazon II.

# Chapter 3: Benefits of homeownership for low-income families



Mike and Gladys Murphy have made a home for their daughters — Mikayla, Analiese and Kristiana — in the borough of Queens, N.Y.

HABITAT FOR HUMANITY NEW YORK CITY

“ *The stability of homeowners can also stabilize the surrounding neighborhood, providing positive benefits to more than just one homeowner.* ”

Research studies show that homeowner benefits include wealth accumulation, improved safety and security for homeowner families and their neighborhoods, improved health for homeowners and their children, improved performance in education among homeowners' children, better behavior and increased work productivity, as well as enhanced civic and political participation among homeowners. In addition, these research findings have been reinforced by the success of organizations like Habitat for Humanity. Homeownership success for low-income

families depends on targeting families that have a level of household income, wealth and job stability that makes a family able to meet mortgage payments and pay for repairs and maintenance to their homes over the medium and long term.

Habitat for Humanity's homeownership model targets households that make 30 percent to 60 percent of area median income (AMI) for its subsidized homeownership programs. While families with incomes below 30 percent of AMI may not be suited for homeownership, most experts believe that households making above this



**Multi-family complexes are often built in cities and suburbs; this project will be home to 41 families in Brooklyn, N.Y.'s Ocean Hill-Brownsville neighborhood. It's one of the largest, and greenest, complexes ever built by a U.S. Habitat affiliate.**

level can succeed, given well-designed support like pre- and post-purchase financial counseling. For households in these income groups, the benefits of homeownership are likely to include, at a minimum, greater levels of residential satisfaction, higher levels of civic and political participation, and increased stability.<sup>29</sup>

### **A. Financial stability/wealth accumulation**

The question of whether and to what extent homeownership generates wealth for low-income households is critical given the central role that investment in homeownership plays in the financial portfolio of many low-income households. Several existing studies suggest that homeownership can be an important means of wealth accumulation for low-income households. A study by the Department of Housing and Urban Development (HUD) based on data from 1990 and 2000 found *non-housing* wealth accumulation for lower-income families is at best minor and, for minority families, is often negative. In fact, housing wealth may be the only way some low-income households are accumulating wealth.<sup>30</sup>

Although homeownership does not guarantee wealth accumulation, household wealth appears to be positively affected by homeownership. According to a HUD study, low-income and minority households experience significant increases in wealth through homeownership.<sup>31</sup> Most low-income homeowners do build wealth through homeownership;<sup>32</sup> low-income homeowners actually fared better than higher income groups from house price appreciation in the late 1990s and the first few years of the new millennium.<sup>33</sup> Whether these gains have held true in recent years, as more borrowers have shifted to higher-cost, variable mortgages and as housing and labor markets fell, is not yet clear.

Equity provides homeowners with financial stability in the event of a family emergency, with leverage for other financial goals and protects a family from economic hardship.<sup>34</sup> Households that do not have reserve assets, like home equity, are more vulnerable to high-cost debt and more likely to need to rely on public support.<sup>35</sup> Over the long term, the lack of financial assets, like equity, can undermine a family's opportunities for economic and social mobility, education and retirement.<sup>36</sup>



While homeownership is not for every family at every stage in life, homeownership can offer substantial financial benefits over renting. Homeownership insulates a household's risk against inflation in the rental market. This advantage was very relevant during the housing market boom of the last two decades, when renters in most parts of the country faced a tight supply of rental properties and increasing rent. Housing costs for low-income renters, as a percentage of household income, are often equal to, or higher than, those paid by homeowners, and do not have the financial benefit of creating home equity.<sup>37</sup> While alternative investments could potentially offer low-income households a better return on investment than homeownership,<sup>38</sup> many, if not most, low-income renter households lack the income — after paying housing costs — to make any investments.<sup>39</sup>

Wealth accumulation through homeownership may occur through several ways,<sup>40</sup> including saving for the initial down payment, the appreciation of home value and the repayment of the mortgage, which allows the homeowner to accumulate equity in the house over time and establish a strong credit history.

However, the most important financial impact of homeownership may be the accumulation of wealth across generations.<sup>41</sup> Research shows that children of homeowners are more likely to become homeowners themselves, and at a younger age, than are children of parents who did not own homes.<sup>42</sup> Buying a home at a younger age increases the probability that an investment will result in wealth accumulation over time.<sup>43</sup>

## A dream come true, a push to be something more



“I came to the United States in the summer of 1983 from a very small town in Mexico. I was unable at the time to read, speak or understand English, yet I longed to come to a country like the United States, where everyone has an equal chance to make a good life for themselves and their families. I moved to Rockford, Illinois, with my mother and two young sons. I found a small, one-bedroom apartment. While I worked two jobs, my mother kept an eye on the boys, and I kept an eye on the future of my family. We went from one apartment to another, always making some improvement with each move.

“I met a very nice lady who told me about Rockford Area Habitat for Humanity. I was skeptical, but I submitted the application anyway. In November

of that year (1989), I received word that my application was accepted, and I would be the proud new owner of a Rockford Habitat home. I cannot even now, after all these years, put into words or describe the feelings I experienced with that news. The generosity of Rockford Habitat allowed me the freedom to expand my life in directions that would probably never have been presented to me any other way.

*“I received word that my application was accepted, and I would be the proud new owner of a Rockford Habitat home. I cannot even now, after all these years, put into words or describe the feelings I experienced with that news.”*

“With a house that had plenty of space, a yard for my boys to play in and a safe neighborhood, I was able to work during the day and go to school at night. I have since graduated college as a paralegal. My oldest son, Jose, works two jobs and has taken some college courses. Francisco, my younger son, is in the U.S. Navy and hopes to enter the Naval Academy and become an officer.

“I believe because of Rockford Habitat for Humanity, my total outlook, everything changed. It had always been my dream to someday be a homeowner, but I knew I couldn't afford it. It was always my dream to send my sons to a Catholic school. Because of Habitat, I was able to do it. I work hard, but Habitat gave me more push to become something more.”



Jeremie Whiting, 14, relaxes in the living room of his family's new Habitat house in Las Vegas, Nev. His mother, Jennifer, is a case worker at Shade Tree, a shelter for homeless and abused women and children.

### Forced savings

Forced savings are a significant potential benefit of homeownership and help to offset other financial losses and risks associated with homeownership. Unlike renters, homeowners may accumulate “forced savings” through mortgage payments and incremental investments in their house.<sup>44</sup> Instead of making rental payments to a landlord, most homeowners make monthly payments on their mortgage over a course of 15 to 30 years. Over time, some percentage of this monthly payment goes to principal on the loan resulting in a gradual accumulation of wealth that is not accessible to renters. For low-income homeowners working with programs like Habitat for Humanity that charge no or very low interest, the entire payment or nearly the entire monthly payment, after taxes and

house insurance, is put toward the principal. A 2008 study by the University of Southern Indiana reported that Habitat partner families felt increased confidence in their own financial security after owning a Habitat home. Overall, families in the study reported that after owning a Habitat house they could now cover a large, unexpected bill or assist a relative who was having financial problems. These homeowners also recognized the importance of saving for the future.<sup>45</sup>

By taking equity out of their houses to fund consumer and other expenses, e.g. through home equity loans and refinancing, many households in recent years may have undermined the wealth accumulation benefit of homeownership.<sup>46</sup> While the option of easy and inexpensive refinancing over the past decade may have benefited some households, by

allowing them to withdraw equity from their home to pay for emergency health costs, children's education costs or similar expenses, it also meant less “forced savings” through homeownership. Post-purchase homeownership counseling can be an important component of low-income homeownership. This counseling allows families that have access to new financial assets through homeownership to manage those assets in a beneficial way.

### Leveraging equity through homeownership

One of the primary attractions of homeownership as an investment is the possibility of leveraging equity.<sup>47</sup> When a family buys a house using traditional mortgage financing, it contributes a relatively small amount of the total sale price of the house into an actual equity

investment, the down payment. Over time, equity accrues in small increments through whatever portion of the mortgage payment is attributed to principal. The attraction of leveraging is, assuming that the value of the house continues to rise, the homeowner will realize exponential gains in wealth relative to the small amount of equity invested in the house.

The corresponding risk of the leveraging effect is that even a very small loss in housing values can damage a family's equity investment. If the family considers the house its homestead and plans to hold on to it for 10, 20 or 30 years, this short-term loss may not be of great consequence. However, if the family needs to sell its house in order to move, withdraw some of the equity in its house for an emergency, or if a homeowner becomes unable to make monthly mortgage payments because of a drop in household income or wealth levels, the family may not be able to leverage the equity investment. Understanding the equity investment and how equity can change over time is an important part of pre- and post-purchase financial counseling for any income.

### Increased wealth through repairs and maintenance

Higher levels of maintenance and repair among homeowners bring several benefits, including financial gain through increased equity and psychological gain through a sense of accomplishment and control over a family's living space. In addition, this higher level of home maintenance can enhance living environments<sup>48</sup> and have a positive impact on the neighborhood and community through higher home values, aesthetic appearances, and even reduced crime.<sup>49</sup>

## Helping others, helping her family, helping herself



A homeless person probably couldn't wish for a better housing counselor than Antoinette Brown.

"When people come in the door, I know just how they feel," Brown said. She also knows exactly how to help them get help.

That's because just a few years ago, Brown was unemployed and homeless herself. "I was in trouble," she said, living "with friends, different places, going back and forth." Her son, then 8, lived with his grandmother.

With steely determination, Brown pulled her life together. She went to a local nonprofit community

agency, Total Action Against Poverty (TAP) for job training. She worked for two years on repairing her credit status in order to qualify for a house with Habitat for Humanity of Roanoke, Va.

Today Brown is a certified housing counselor at TAP. She owns a four-bedroom house she built with Habitat, and is on her way to getting a degree in social

*"I'm trying to set the standard for them," she said. "I want them to see that if you work hard, you can have anything you want."*

work. She provides a stable home not only for her son, but also for three nieces who had been in foster care.

Brown is proud to be the first in her family to own a home. "It's still a big thing for me," she said. It's given her stability, she said, and "helps me to be more responsible."

And it's made a world of difference for her nieces, who had lived apart in different foster homes and were "so troubled" when they first went to live with Brown.

"I'm trying to set the standard for them," she said. "I want them to see that if you work hard, you can have anything you want."



**New homeowner Luis Saenz in his family's nearly-completed Habitat home in Don Pedro Padillo in New Mexico.**

Homeowners have a financial incentive to improve the equity value of their home over time. As a result, homeowners tend to invest more in maintenance and repairs on their homes than do renters. Because of the leveraging effect discussed above, even a small increase in the house value can result in a large return on investment for the homeowner at the time of sale, while a small decrease in house value can result in a negative return

on investment at sale. Furthermore, homeowners can bequeath their ownership rights to heirs, which may prove an incentive to maintain and improve the physical status of the house over time. Homeowners also benefit directly from repairs and improvements made to their homes.

Homeownership counseling can make the responsibility of maintaining and repairing their homes less onerous to low-income families. First-time home buyers do not

always know the wisdom of investing in an adequate level of repairs and maintenance. This can cause expenses to snowball in the future and detract from the homeowner's ability to benefit from appreciation in house value over the medium to long term.<sup>50</sup> Pre- and post-purchase counseling and information can help prepare first-time homeowners for the responsibility of homeownership.

## B. Safety and neighborhood stability

Homeownership can have a positive effect on personal and neighborhood stability, safety and security. Homeowners are much more stable geographically than renters,<sup>51</sup> in part because of the higher level of transaction costs required for homeowners to move. These costs include realtor fees, financing fees and potential losses in equity. Homeowner stability can have positive social effects, including greater civic participation, increased social networks and gains in education and child welfare. The stability of homeowners can also stabilize the surrounding neighborhood, providing positive benefits to more than just one homeowner. Neighborhoods where homeowners have a shared interest in improving their environment show reduced levels of crime over time.<sup>52</sup>

### Neighborhood home values

Several studies have documented that well-implemented affordable housing developments tend to improve the value of nearby homes.<sup>53</sup> While homeownership alone may not reverse a neighborhood's decline, it can be an important component, even a cornerstone of revitalization.<sup>54</sup> A positive link between homeownership and neighborhood property values exists.<sup>55</sup> This increase in home value is related in part to the greater care that homeowners generally take of their houses and property. Owners take better care of their properties. As a result, communities with high homeownership rates are often more attractive than neighborhoods with few homeowners. In addition, the value of nearby properties often increases as homes in a neighborhood switch from rental units to owner-occupied housing.<sup>56</sup> When investments in infrastructure and services accompany low-income homeownership programs, the benefits for the neighborhood are even more likely to accrue.<sup>57</sup>

## Revitalizing Lynmore Estates takes homeowners, partnerships



The Macon Area Habitat for Humanity knew building a reborn Lynmore Estates wouldn't be easy. Nearly a third of the 435 houses in the South Macon neighborhood were abandoned and almost half of the rest rentals in deplorable shape. But after more than four years with 14 new Habitat Houses built and two under construction, Habitat executive director Harold Tessororf said he feels they're making progress. "They" would be a host of partners and volunteers joining the work in the neighborhood, including the city of Macon, the local police, federal government funds and a long list of other Macon institutions, nonprofits and local builders. Such a coalition, said Tessororf, a South African immigrant with a community development background, is needed for the hard, long, practical work of turning a neighborhood around.

Rev. William Rand, a dynamic African American who was called to pastor a small, mostly white church, explains: "It's just like the hand of God is on this neighborhood. We need something and God brings the right person, the partner." In the July heat, he hopes an air-conditioner might be next to arrive.

Rand and his congregation, the Southside Community Church, are really the vital neighborhood anchor for the revitalization. "The church will stay in the neighborhood. They're here everyday. They'll be here long after we're building someplace else," Tessororf said.

The church opens its family life center to offer GED classes, computer training and a place for Habitat volunteers, such as college students, to stay during

construction as well as space for other community meetings.

Macon Area Habitat hopes to build 20 houses in Lynmore Estates by the end of 2010, and then 26 more, through acquiring abandoned or condemned lots, demolishing the structures on those lots, and raising new ones in their place.

*It's just like the hand of God is on this neighborhood. We need something and God brings the right person, the partner.*

Encouraged by work to improve the neighborhood, several homeowners are fixing up or rebuilding themselves and deciding to stay. A better relationship between the community and police has decreased crime.

Georgia Ann Sanders moved into her new Habitat house on Valentine's Day 2009. She looks forward to spending more time in her kitchen, her favorite room. Since their move to their own home, Sanders' daughter Misty, 24, has started school to become a medical associate, building a better future for her daughter Tristan, 2.





Volunteers Alex Zimmerman (left) and Hal Arner from Albuquerque, N.M., install a door in a new Habitat home.

### Broader economic benefit

Fostering access to homeownership among low-income households may provide broader economic benefits as well. Increased home building and homeownership can result in more spending on home-related products. Homeowners also have the opportunity to leverage their housing assets for credit. Increased homebuilding and homeownership can also expand the base for local property tax revenues, which can then be invested in improvements to local infrastructure and services.

As the authors of a 2006 report by the Joint Center for Housing Studies (Harvard University) noted, “owner-occupied housing also has a beneficial effect on the local economy by increasing consumer spending, providing tax revenues and fees, and growing businesses and jobs. Building and rehabilitating homes requires additional employees, goods, and services from the general economy.”<sup>58</sup>

### C. Health

An additional benefit of homeownership is improved physical and mental health. When a family’s housing is improved through homeownership, improved physical health often follows.<sup>59</sup> Well-constructed and well-maintained affordable housing can reduce health problems by reducing exposure to lead paint, asbestos and allergens which can lead to asthma and other respiratory illnesses.<sup>60</sup>

In addition, the psychological benefits of homeownership, such as improved self-esteem, may lead to physiological benefits as well. Many researchers have pointed to a correlation between homeownership and increased psychological health, improved self-esteem and general sense of well-being.<sup>61</sup> Improvements in parents’ self-esteem, fostered by homeownership, may provide important benefits to children as well.<sup>62</sup> While the scientific research is still

in early stages, homeownership is associated with lower levels of problem behavior among children, which could indicate a greater level of mental and emotional stability among both parents and children and in improved health outcomes.

Home equity can also provide emergency funds in the event of a health crisis. While money paid into a house is often difficult to withdraw without considerable time and expense, by paying down principal over time, homeowners have an asset upon which to draw in hard times. A family may be able to afford to pay emergency or ongoing medical bills by taking out a loan using home equity as collateral.

There is also a relationship between homeownership and increased levels of life satisfaction and being happy with where one lives.<sup>63</sup> For example, a 2005 study in eight European countries tested the housing satisfaction levels of renters versus homeowners and found that, independent of other variables, satisfaction levels were higher for homeowners.<sup>64</sup> Homeowners may realize higher satisfaction levels for at least four reasons.<sup>65</sup>

- First, buying a home may be an important life goal, or even a rite of passage, for many people in the United States.
- Second, homeowners may feel personal empowerment in maintaining and/or improving their homes.
- Third, homeowners are better able to customize their housing environment to their own needs, resulting in greater satisfaction with their homes.
- Fourth, homeowners may feel satisfaction from their homes as investments because of equity cumulation and home value appreciation.

#### D. Improved education outcomes, behavioral changes and increased work productivity

Homeownership can lead to improvements in children's education, behavior and future work productivity. One reason that homeownership is good for children is because it often leads to a better physical home environment, which in turn leads to improvement in physical and mental health as well as safety and stability. Homeowners invest more in improvements, maintenance and repairs than renters and may create a better psychological home environment for children because homeowners gain esteem and satisfaction in their homes.<sup>66</sup> Better physical and mental health means children are able to attend school more regularly and have more energy for school work. A safer and more stable living environment means that children have more favorable conditions for school and work achievement.

Increased residential stability that comes with homeownership means that families that stay in one place for longer are able to develop important social capital that benefits their children. For example, increased stability means less frequent school changes for children, possibly more investment in local schools by homeowner families and longer-term relationships with neighbors and others who may be able to help support and watch out for children.<sup>67</sup>

Another reason is that children of homeowner families gain skills from observing, and sometimes helping, their parents take care of the physical and financial responsibilities associated with homeownership, such as repairs, maintenance and financing transactions.

While some researchers note that factors like neighborhood social conditions and family asset levels or security, mobility or neighborhood choice, have not been adequately distinguished from homeownership itself

## Berkeley grad, county supervisor got his start in Habitat house



“When you invest in a family, you're not helping just that family, but the whole community, and that investment comes back.” That's Efren Carrillo Jr.'s summary of the Habitat for Humanity message.

In the case of the Carrillo family, the investment payoff is clearly even more far-reaching. The eloquent 28-year-old University of California, Berkeley graduate grew up a house built with Habitat for Humanity of Sonoma County, California. Today he is a Sonoma County supervisor, a board member of the local Habitat for Humanity affiliate and an active member of a handful of other nonprofit organizations. “I like to think I'm still putting in my sweat equity,” he joked. Carrillo was 10 when his family built its three-bedroom house in Roseland. Buying a house under normal market conditions was beyond the means of the family of five, which had shared a one-bedroom apartment.

“I and my sister slept in the living room. I remember vividly the living conditions, and how excited I was to be able to be in a new home,” Carrillo said. “I was able to do my schoolwork. I had a home to go to. I had never really had that before.”

In 2001, Carrillo Sr. lost his manufacturing job while his oldest son was at UC Berkeley. “If my family hadn't been in a Habitat house, I don't know if I could have stayed in college,” Carrillo said. But because the house payments were low enough for the family to manage, he went on to get his degree in Environmental Economics and Policy. Carrillo Jr. was the first in his family to graduate from high school and to get a university degree. “I think it was a gift from Habitat,” he said of his education.

“I and my sister slept in the living room. I remember vividly the living conditions, and how excited I was to be able to be in a new home... I was able to do my schoolwork. I had a home to go to. I had never really had that before.”

Carrillo's parents also make sure the investment in the community is paying back. Emigrants from Mexico, Efren Carrillo Sr., a high school janitor, and his wife, Margarita, are well-known in the neighborhood for their civic-mindedness and their volunteer work.

“Owning your own home, it's truly the American dream,” said Carrillo Jr., who now owns his own house. “I can feel their pride,” he said of his parents. “They are great citizens, not just of the community, but of this country.”

# How one Habitat for Humanity affiliate partners with families

*From "The Journey Home," a publication of the Greater Greensboro (N.C.) Habitat for Humanity, Summer 2009.*



## Homeowner recruitment and training

The journey begins for a potential homeowner with the recruitment, application and qualification process. Out of every 10 applications received, Greater Greensboro Habitat ultimately qualifies just one homeowner. The number one reason homeowners fail to qualify is overwhelming debt and credit issues. Once qualified, a family works with the Family Services training and education team for six to 18 months. Habitat spends \$20,000 a year alone in specialized training courses for homeowners including classes in financial management and budgeting,

home and yard maintenance, legal issues around home ownership, community building and conflict resolution.

Additionally, Habitat's certified housing counselor, program staff and volunteers walk alongside the homeowners every step of the way ensuring that on that great day when the walls go up on their own house, the homeowners are ready for those exciting steps in their journey.

## Construction

While the homeowner in process is logging sweat-equity hours in training and building other people's homes, the Construction and Land Development department is working to prepare a lot for their home.

Purchasing, clearing, grading and preparing a single lot for building can take three months. Developing a subdivision can take up to two years.

Once construction on the house begins, the family and volunteers together will log 2,000 more hours working alongside the construction staff in the intensive hands-on construction phase. It typically takes 15 to 20 weeks to go from foundation to dedication — including raising walls, trusses, laying shingles, siding, putting in drywall, painting, trim work, cabinetry and all the details — until at last it's time to hand over the keys. Habitat dedication days are jubilant events — family, friends, volunteers, clergy, staff — all who have had a hand in the journey come out to give thanks for the blessing of the journey together and to bless

the house and the family's life there. For many, this seems like the journey's end, but, like vows at the altar, this is just the beginning of the transformation. In Greensboro, it costs \$112,500 to build the house and travel with the family to this milestone.

## Life of the loan

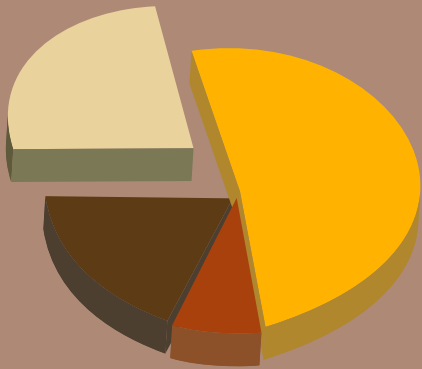
Once the house is completed, the longest leg of the journey begins — a 20-30 year marathon with Greater Greensboro Habitat's 0 percent financing program.





## SOURCES OF FUNDING

- SPONSOR CONTRIBUTION: \$60,000
- UNRESTRICTED DONATIONS: \$25,000
- CITY & FEDERAL FUNDING: \$18,000
- IN-KIND MATERIAL DONATIONS: \$9,500



Habitat is a bank like no other. Our interest-free mortgage program includes Life of the Loan services for a family. We take that responsibility and all it entails seriously. Habitat processes and tracks monthly payments, manages tax and insurance escrows, as well as maintenance escrow accounts, to help homeowners save and prepare for major home maintenance. We provide additional budget counseling and financial training, and intensive case management with negotiated payment plans and loan modifications when job loss, illness or other crises threaten to steer a family off track. Habitat provides Life of the Loan services to almost 300 current homeowners at a total cost of over \$150,000 per year.

### Neighborhood outreach and advocacy

Working in neighborhoods has always been a by-product of our ministry. We work in neighborhoods before we buy land, while we're building and after homeowners move in. Greater Greensboro Habitat has helped build a community center in Eastside Park, a playground in Stonegate Crossing and helped nurture neighborhood associations in other communities. With nearly 350 homes under Greater Greensboro's belt in more than a dozen neighborhoods, we're bringing more intention to this work.

We're actively working across the ministry and with partners and homeowners to explore ways we can continue to strengthen neighborhoods so that families living in Habitat homes can build the economic and social framework that can better their own lives and help their children break through the barriers and constraints of cyclical poverty.

### PRICES FROM THE GREATER GREENSBORO HABITAT

Box of nails	\$5
Hotdogs for neighborhood cook-out	\$75
Training classes for a homeowner	\$350
Annual servicing for one 0% loan	\$650
Land, labor & materials for a house	\$112,500
The journey home	priceless

### HOUSE COST

Land acquisition and development	\$18,000
Construction materials and subcontracted professional labor (electricians, plumbers, etc.)	\$54,400
Permits, fees, insurance	\$2,400
Warehouse, tools, equipment	\$7,500
Construction supervision, family selection and training, volunteer coordination	\$20,000
Construction, general administration and management	\$10,200
<b>Total House Cost</b>	<b>\$112,500</b>



An adobe house in Taos, N.M., built with Habitat for Humanity in 2006.



Jozette Boyd moved into a three-bedroom house in 2007, with her sons Gavin 5, above, and Kaleb, 7. She built the home with Greater Fairbanks Area Habitat for Humanity in Alaska.

as causing positive impacts on children,<sup>68</sup> the majority of research shows the link between homeownership and improvements in education and children's behavior.

According to a study tracking the effects of homeownership on children's educational achievements over time, parental homeownership caused children's math scores and reading scores to rise and behavioral problems to decrease.<sup>69</sup> These improvements helped to predict future school achievement and future earnings. This study also found that gains in educational achievement accumulated over time; the longer a child's parents owned their home, the more likely the child's educational and behavioral performances improved.<sup>70</sup>

Another study found a significant correlation between parental homeownership and the probability that their children will graduate from college.<sup>71</sup> Yet another study found that children of homeowners were more likely to remain in school until the age of 17 and were less likely to become teenage mothers,<sup>72</sup> with both of these effects more pronounced for children of low-income households.<sup>73</sup>

Together this research builds a strong case for the positive and valuable impact low-income homeownership has on children.

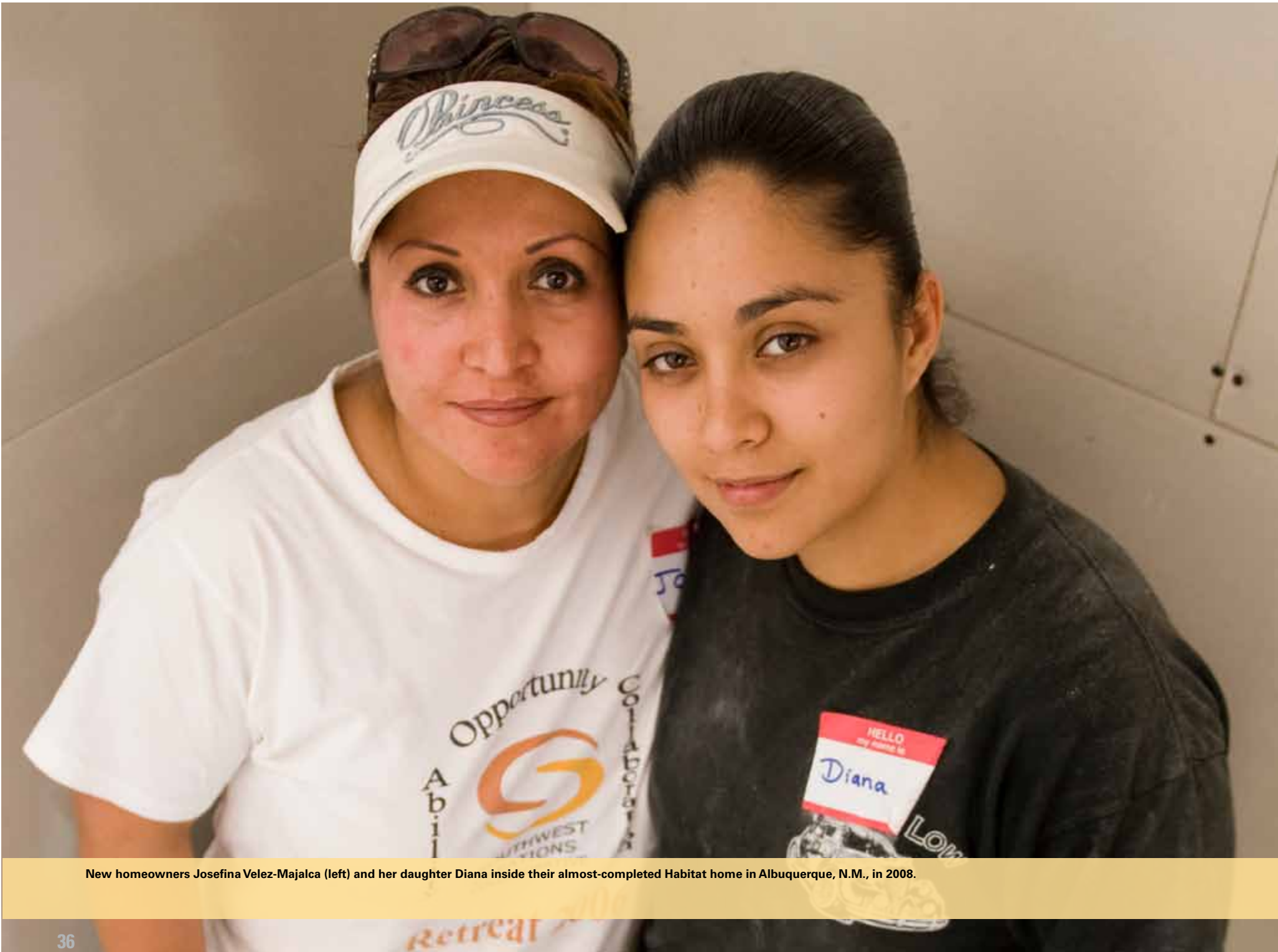
## E. Civic and political participation

Research also consistently supports a causal link between homeownership and increased participation in voluntary organizations and local political activity.<sup>74</sup> Indeed, a 2008 study by the University of Southern Indiana on Habitat for Humanity Evansville noted that families were more involved with neighborhood activities, attended church more regularly, and took pride in their neighborhood now that they own a Habitat home.<sup>75</sup>

The results of a seminal study in 1999 suggested that homeownership causes increased investment in social capital.<sup>76</sup> The authors found that much of this increase derived from higher levels of residential stability,<sup>77</sup> which in turn allowed homeowners to reap long-term benefits from investments in social capital.<sup>78</sup> Specifically, homeowners were 10 percent more likely to know the name of their U.S. congressional representative than were renters and 15 percent more likely to vote in local elections.<sup>79</sup>

Research indicates that homeownership provides social benefits in the form of greater property maintenance and neighborhood conditions, more successful children, and better civic behavior.<sup>80</sup> Many of these positives probably derive from increased residential stability; the longer a family stays in a neighborhood the more likely it is to participate in civic activities.<sup>81</sup>

EZRA MILLSTEIN



New homeowners Josefina Velez-Majalca (left) and her daughter Diana inside their almost-completed Habitat home in Albuquerque, N.M., in 2008.

# Chapter 4: Tools for success for low-income families



Nancy Hermanson and Raylene play in their new Habitat home in Las Vegas, Nev.

ESRA MILLSTEIN

“ Given the proper tools and support, families making 30 percent of the area median income or more can not only succeed as homeowners, but can enjoy the financial and social benefits of homeownership. ”

Homeownership is a realistic choice for many low-income families. While homeownership may not be the best choice for those in the very lowest income brackets or those without a stable source of income, it can be a very good choice for many families. Given the proper tools and support, families making 30 percent of the area median income or more can not only succeed as homeowners, but can enjoy the financial and social benefits of homeownership.

Through experience, Habitat for Humanity has learned that careful screening of loan applicants is essential to success. By targeting households making 30 to 60 percent of area median income, Habitat has been

able to reach a group of households that, while low-income, have enough resources to support the costs of homeownership when partnered with adequate program support. In this way, Habitat helps to ensure the economic viability of its continued work as well as the economic viability and success of the families it serves. In addition, Habitat has seen the benefits of providing pre- and post-purchase financial counseling and of putting a family support network in place to help homeowners stay in their homes. Habitat also works hard to ensure affordable land prices and uses sweat equity from homeowners-to-be and volunteer labor to lower housing costs.



Shing Hiu Cheng puts in some sweat-equity hours on the home in Brooklyn, N.Y., he will share with his mother and sister.

### 1. Lowering land and building costs

The cost of land, especially in urban areas, is one of the most expensive components of affordable housing development. Reducing or eliminating the cost of land makes homeownership more accessible to low-income families. Many affordable homebuilders take advantage of programs like inclusionary zoning or land donation programs to make homeownership more affordable. In addition, a reduction in regulatory barriers to home building can have a significant positive impact on the cost of building homes.

#### Reducing regulatory barriers to the development of low-income homeownership

A supportive regulatory environment at federal, state and local levels decreases the costs of homeownership to low-income households. Important areas of regulation include

zoning, land use and construction. Especially at the local level, eliminating unnecessary bureaucratic hurdles to construction and land use is essential to the development of affordable housing. Some local regulations that appear desirable on the surface, such as those limiting growth in suburbs, must be carefully construed to avoid reductions in affordable housing in these areas.<sup>82</sup> Experience has shown that in areas where land-use and construction barriers are reduced, nonprofit homeowners are able to build homes less expensively and faster, passing the benefits directly on to homeowners.

#### Donations of land or subsidized land costs

Donated or subsidized land is often crucial in making affordable housing development possible. Private land donations to nonprofits are common and can be made for a variety of reasons — to reduce liability or a desire to help

others — and often make financial sense for the donor. Between maintenance costs, and income and property taxes, land can be expensive to own. Selling the land often leads to legal and brokerage fees or possibly estate or inheritance taxes. If the land is donated however, a tax deduction can be made based on the current market value of the property which can benefit the donor, the nonprofit and the community in which the property lies.

Cities, municipalities and counties may also donate or sell properties for affordable housing development. Cities often obtain land that is vacant or abandoned or acquire houses for health or tax reasons; it is in the community's interest to ensure that this land is developed and functioning. These properties are often sold to nonprofits for one dollar to develop in order to stabilize neighborhoods, bolster communities and avoid loss of taxes. The City of Milwaukee, for example, sells Milwaukee Habitat for Humanity about 25 properties a year for one dollar each and subsequently almost all of Milwaukee HFH's development is built on land that has been donated or subsidized in some way.

#### Inclusionary zoning

Inclusionary zoning ordinances, which exist in many cities and counties throughout the country, encourage or require the development of affordable housing as any new development takes place in a community. Inclusionary zoning can be either voluntary or mandatory. Mandatory inclusionary zoning requires that a certain proportion of affordable housing units be set aside in any housing development.<sup>83</sup> Voluntary inclusionary zoning means that developers are offered incentives to include affordable homes in new developments. Inclusionary zoning can help ensure a more diverse community and can help spread affordable

# Habitat for Humanity's model: Partnering with low-income homebuyers



NEZRA MILLSTEIN

Victor Valdera, 39, and his mother, Hema, 66, lived in a small two-bedroom apartment before their Habitat home was completed in 2009. It was specially designed to meet Victor's needs, with ramps, extra large rooms and other features. He lost both arms in an electrical accident.

Habitat for Humanity in the United States is made up of more than 1,500 affiliates located around the country. Each affiliate has its own approach to the homeownership process from selection of homeowners to pre- and post-purchase financial counseling. However, there are several key factors that Habitat affiliates share to help families help themselves become successful low-income homeowners. While every affiliate does not employ every tool listed below, this list is representative of the tools Habitat for Humanity uses.

- **Outreach to the community:** Habitat affiliates engage in community outreach to let potential homeowners know about homeownership opportunities and the potential benefits of becoming a homeowner. Many Habitat homeowners acknowledge that before they learned about Habitat's programs they never thought they would own their own home.

- **Screening applicants:** Habitat affiliates screen applicants in order to determine who is a good fit for the program. As families in need of decent shelter apply to local Habitat affiliates, the affiliate's family selection committee chooses homeowners based on their level of need, their willingness to become partners in the program and their ability to repay the loan. Every affiliate follows a nondiscriminatory policy of family selection.
- **Pre-purchase financial counseling:** A critical part of many Habitat affiliate programs is pre-purchase homeownership counseling. Offering financial counseling to potential homeowners can help prepare homeowners to be successful and to prevent homeowners from defaulting on their mortgages. Some families also may work to improve their finances for a year or two to become able to partner with Habitat for a house.
- **Sweat equity:** Each Habitat affiliate creates its own sweat-equity requirements for homeowners, but typically requires a homeowner to put in several hundred sweat-equity hours before moving into their home. Homeowners work on their own house and other Habitat houses being built at the same time. Homeowners who are unable to do physical labor on the work site might contribute sweat-equity hours by volunteering in other ways with the Habitat affiliate. Some affiliates allow family members or friends to contribute sweat-equity hours on behalf of homeowners. All sweat-equity programs are designed to emphasize self-help, mutual help and the importance of community.
- **Volunteer labor:** Many Habitat affiliates use volunteer labor to help reduce home building costs by decreasing the amount of money that must be paid to home-building professionals. Both unskilled and skilled volunteers and skilled professionals are used.
- **Family support and foreclosure prevention:** Most Habitat affiliates incorporate a family support program into their homeownership model. Generally, the family support program provides personal support to first-time homeowners to help the families deal with challenges as they arise and answer ongoing questions about homeownership. Often homeowners are assigned one family support volunteer or staff member they can go to with questions or concerns. By providing personal support for homeowners from the beginning of their homeownership experience, the family support model can help prevent foreclosures.
- **Recycling mortgage payments to fund more homes:** Habitat for Humanity's model was created with a Fund for Humanity in mind. The concept is that houses are built at no profit and homeowners receive no-profit loans. As homeowners make house payments, that money is put back into the Fund for Humanity and new houses can be built with that money. Today, Habitat affiliates use a similar concept to ensure that they are able to provide affordable homeownership opportunities on an ongoing basis. Many Habitat affiliates also contribute to the construction of decent, affordable housing for families in a developing country by helping support a Habitat affiliate in another of the more than 90 countries where Habitat is at work.

housing throughout a community. Inclusionary zoning can result in costs savings that are passed on to homeowners. Because obtaining affordable land is one of the biggest financial challenges to low-income homeownership, especially in desirable areas near jobs and transportation, inclusionary zoning helps to ensure access to affordable land, reducing some costs to the developer.

## 2. Screening the pool of potential homeowners

Through experience, Habitat for Humanity has learned that careful screening of loan applicants is essential to success, both to ensure efficient use of Habitat's resources as a mortgage lender and to help ensure the success of the homeowners. Thorough screening of loan applicants reduces the risk of households that are unable to meet their loan requirements. For lenders, even low-income homebuilders like Habitat for Humanity, using solid criteria to select borrowers is critical to long-term financial sustainability.

Traditional underwriting standards can provide critical information about the probability that a family will be able to meet loan requirements. For many extremely low-income households and some very low-income households, homeownership may not be the best choice if they do not have sufficient income or a steady stream of income. For this reason, low-income homeownership programs typically focus resources on those households earning at least 30 percent of the area median income.

For example, Habitat for Humanity has typically targeted homeowners who do not qualify for traditional mortgage products, either because their income is too low, they lack the ability to make a substantial down payment or because something in their credit history has made them ineligible for a market-rate loan. However,

EZRA MILLSTEIN



AmeriCorps member Jason Skipworth of Virginia was one of 500 people who worked on 20 Habitat houses in Cedar Rapids, Iowa, during the 2009 AmeriCorps Build-a-Thon. The new houses were built in an area devastated by floods in 2008.

Habitat does select families who will be able to make their monthly payments. Habitat is interested in setting the homeowner families up for success by making sure the families will be able to stay in their homes.

## 3. Reducing costs to homeowners

In order to reduce the cost of building homes and pass those savings along to homeowners, low-income homebuilding groups will often seek to reduce land, regulatory and building costs in many ways. These savings are passed directly to homeowners through the reduced purchase price of the home. In high-cost areas, reducing the costs associated with building a home is essential to be able to offer homeownership opportunities to low-income

families. Many of these plans are complex but innovative ways nonprofits use to continue to partner with low-income families.

Common ways of reducing costs and increasing support for homeowners include down payment assistance or waiver, shared-equity models, and the use of sweat equity and volunteers. In addition, low-income house builders will often offer no- or low-interest mortgages, giving low-income homeowners additional financial benefits.

### Down payment assistance programs

For many low-income homeowners, their greatest obstacle to buying a house is paying a down payment.





AmeriCorps members and volunteers in Cedar Rapids, Iowa.

To qualify for a mortgage, homebuyers must demonstrate they are able to make a down payment, which comes out of their own pockets. Down payment assistance programs allow for qualified individuals and families to purchase homes by providing them with the funding to pay for a down payment.<sup>84</sup> Nonprofit organizations take part in these programs by covering the costs of the down payment to help low-income individuals and families. Funds can also come from the federal, state, county or city governments as well as individual banks and employers.<sup>85</sup> Many borrowers whose mortgages are insured by the Federal Housing Administration participate in down payment assistance programs. Often homebuyers receiving down payment assistance are not required to pay back the money provided by the

organization for the down payment.<sup>86</sup> Some low-income homeownership programs also waive down payment requirements or require substantially smaller down payments than traditional lending programs, allowing potential homeowners who can afford to make monthly payments but do not have much money saved to become homeowners.

### Shared equity

Shared equity gives a homeowner a subsidy, typically from a nonprofit organization. The subsidy reduces the cost of the home to the homeowner. However, the homeowner essentially shares their home equity with the organization providing the subsidy.<sup>87</sup> Also called permanently affordable homeownership, homeowners

can also receive subsidies from government agencies.<sup>88</sup> A study for the National Housing Institute (NHI) in 2006 found about 500,000 to 800,000 shared-equity units around the country.

The shared-equity model provides funding to reduce initial costs. In return, any rise in the house value is shared by the homeowner and the nonprofit. Typically, over time if a home's value increases, homeowners receive all of the value of that appreciation. The nonprofit organization, by retaining some portion of the equity value in the homes, can then use that money to continue to offer homes at affordable prices.<sup>89</sup>

Shared-equity homeownership programs generally follow one of three models: deed-restricted homes, community land trusts and limited-equity cooperatives.<sup>90</sup>

Deed-restricted homes ensure the house will always be sold to buyers meeting certain qualifications in a deed restriction or covenant. For affordable housing organizations those restrictions target the sale of someone with a target income level.

A community land trust is a type of shared-equity homeownership which separates the cost of housing from the cost of the land built on in order to make homes affordable. The land cost is covered by nonprofit organizations. The homeowner purchases the house and usually is given a long-term lease on the land.

In limited-equity cooperatives, nonprofit corporations are the owners of multi-family buildings while the residents of the building purchase shares in the corporation, which are sold back when they move out of the building.

The advantage of shared equities is that they ensure houses remain affordable for low-income individuals and families, especially when rising prices in an area force lower income households out of the market.<sup>91</sup>

## Seattle Habitat partners with land trust, city on project

Local Habitat for Humanity affiliates have partnered with community land trusts to build affordable homes in various communities nationwide, but particularly in areas with high or rising land costs.

For example, in response to a 400 percent increase in the price of land in the past decade in the Seattle area, Habitat for Humanity of Seattle/King County collaborated with the Homestead Community Land Trust and the City of Seattle's Office of Housing to add seven homes to the trust's portfolio.<sup>92</sup> The city provided the vacant lots; Habitat coordinated the construction, selected the homeowner families, and provided them with mortgages; and the Homestead Community Land Trust owns and leases the land.

Habitat of Seattle/South King also provides classes to educate homeowners on the differences between traditional homeownership and those in partnerships with community land trusts.

In the 1960s, advocates for affordable homeownership developed community land trusts as tools for transferring land rights to low-income homeowners at below-market rates. Community land trusts are typically private, nonprofit corporations which buy land and then transfer long-term, often 99-year, leases to the community. The buyer can typically renew these leases or transfer them to their children after the term expires.<sup>93</sup> Additionally, many community land trusts also offer counseling and education on homeownership to ensure families can stay in their homes.



All-American smiles and muscles of AmeriCorps members Janet Brown (above) and Nyoka Pierce (right) build good will and Habitat houses during the 2009 AmeriCorps Build-a-Thon.

### Volunteer labor

Some low-income homeownership providers lower costs by using skilled and unskilled volunteer labor. Volunteer labor can help reduce home-building costs by reducing the amount of money that must be paid to home-building professionals. Unskilled laborers, including homeowners, can be trained and supervised by experienced construction supervisors. In addition, skilled laborers, such as electricians or plumbers, will sometimes donate their time to the development of a low-income homeownership project. The savings gained by using volunteer labor is passed on to the homeowners. Using volunteers throughout

the building process can also help homeowners and community members become invested in the success of the low-income homeownership project.

### No interest, below-market interest rates and decreased loan costs

Lower-cost loans can help low-income homeowners meet their payment obligations over time. Mortgage terms have a direct impact on repayment performance. Low-income and minority homeowners who get mortgages at higher prices have a harder time dealing with challenges resulting from crises such as job loss, health problems and divorce.<sup>94</sup>



ESRA MILLSTEIN

## Working with zoning, private developers

Briarwood Trace is a 16-acre, high-end residential project located in Fairfax County, Virginia. Like many areas in suburban Washington, D.C., Fairfax County has an inclusionary zoning ordinance which requires residential developers to incorporate low-income housing units into all new subdivisions. Implementation of this requirement can be challenging, especially for high-end developers with no experience in the affordable housing arena.

The developer of Briarwood Trace, The Christopher Companies, turned to Habitat for Humanity of Northern Virginia for help with this challenge. In exchange for donated lots, the affiliate agreed to screen and qualify applicants from the county's first-time homebuyer list, and to build and finance houses with the standard Habitat model. Owners in Briarwood Trace overwhelmingly supported the idea and were active participants on the Habitat build sites.

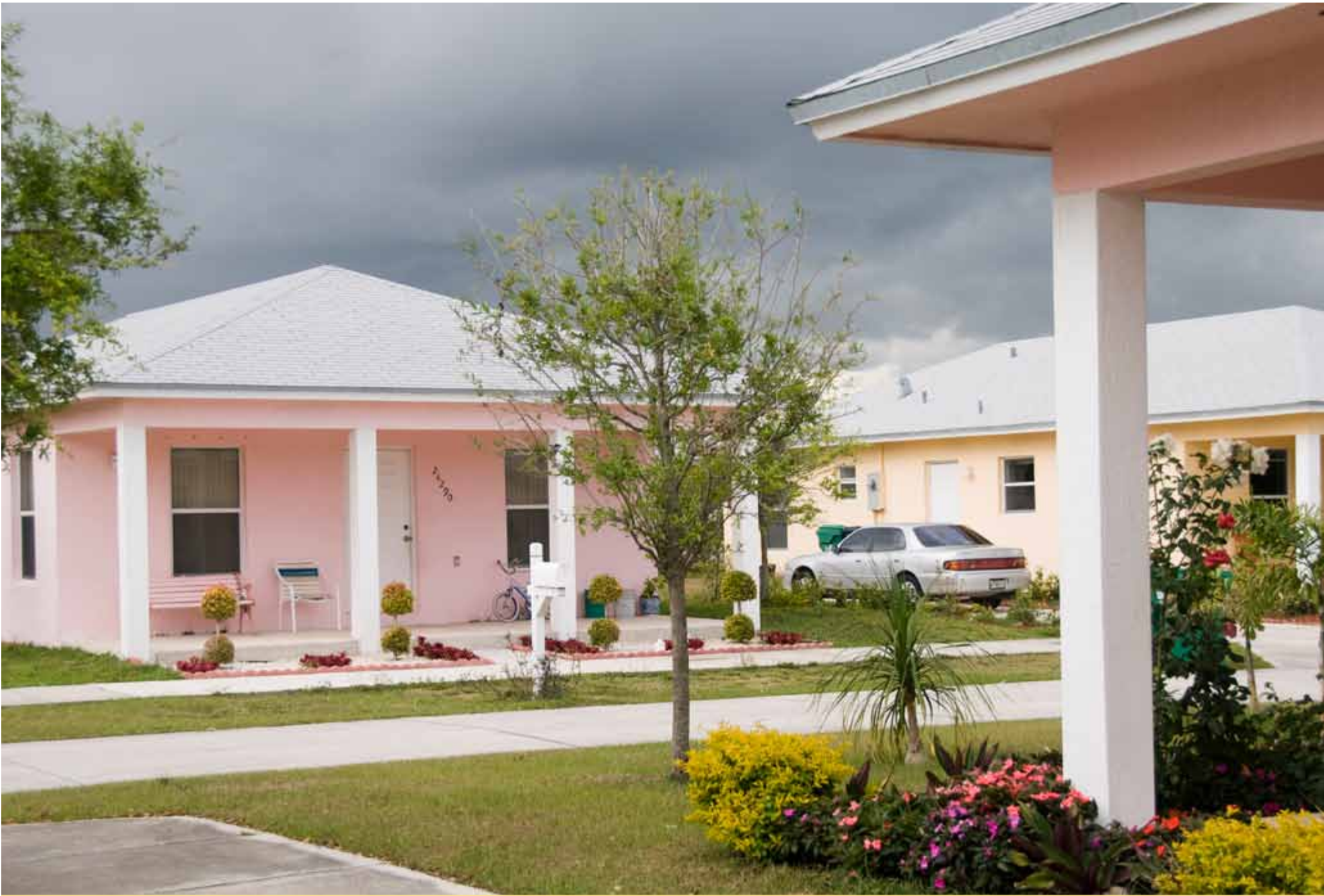
The developer felt the Habitat partner families were a great addition to the development and that families' involvement created "a real sense of community" from the inception of the project.

Briarwood Trace contains a total of 85 units, four of which are Habitat homes. The average initial sales price of the market units was \$580,000, and the average Habitat home price was \$160,000.

Interest rates are a critical component in the financial success rates of low-income homeowners. When data on low-income homeownership in four major metropolitan areas over five to seven years was analyzed in 2005, researchers found that low-income homeowners usually succeeded when they had mortgages with prime, rather than sub-prime, loans and were able to refinance when it was financially beneficial for them to do so.<sup>95</sup> Each interest rate point carries a significant financial burden for borrowers, and undermines the medium- and long-term wealth accumulation of homeownership. Given this finding, helping low-income homeowners avoid sub-prime loans and refinance when beneficial is critical.

No- or low-interest rate loans can be even more beneficial than prime loans since these loans lower monthly mortgage payments. An additional benefit of no- or low-interest rates is that homeowners pay exclusively, or almost exclusively, on the principal of the loan, increasing the rate at which they grow their equity in their homes.

Lenders do not need to increase loan rates to cover for the higher risk of default associated with low-income borrowers if careful underwriting and support mechanisms for low-income borrowers are in place. The recent history of lending to low-income homeowners to satisfy the Community Reinvestment Act (CRA), which required all U.S. banks to increase mortgage lending in



The Jordon Commons neighborhood, a project of HFH of Greater Miami, Fla., was host to the Collegiate Challenge 20th anniversary celebration. College students volunteer to help build houses during spring break through the Collegiate Challenge.



Homeowner Adolfo Colon in front of his new Habitat house in North Carolina. HFH Orange County partnered with local builders to build three houses as part of the national "Home Builders Blitz."

STEFFAN HACKER

low-income communities, confirms this. CRA-related banks were 66 percent less likely to originate high-cost loans in recent years than other banks, but only 16 percent less likely to deny an application from a low-income applicant. Clearly CRA banks were able to reach a large number of low-income borrowers without charging steep rate increases.<sup>96</sup>

CRA banks also were twice as likely as others to retain originated loans.<sup>97</sup> The higher the percentage of loans that a lender retains, the greater its incentive to screen applicants carefully. The success of CRA-related loans to low-income borrowers is related to high levels of loan retention by originating banks, which in turn encourage careful underwriting. Most Habitat affiliates retain loan-servicing rights which allow Habitat for Humanity to work directly with families to prevent foreclosure and default. Individual relationships with the homeowners are crucial as homeowners know who to turn to if they are having trouble paying their mortgage.

#### 4. Financial counseling for homeowners

Both pre- and post-purchase counseling significantly increase anyone's ability to succeed as a homeowner. Strong educational programs for potential homeowners can help protect against predatory lending<sup>98</sup> and are pivotal to helping new low-income homeowners succeed.<sup>99</sup> Without this support, new low-income homeowners are likely to return to the rental market, either through selling their home or foreclosure.<sup>100</sup>

Pre-purchase counseling can help potential homeowners make more informed decisions about whether or not they are ready to own a home. Such counseling often involves guidance on budgeting and planning for unexpected maintenance costs as well as advice on navigating the increasingly complex mortgage market. Additionally, a 2007 report by the National Housing Conference's Center for Housing Policy found that pre-purchase homeownership counseling led to significant increases in credit scores which, in turn, increases a family's purchasing power.

Post-purchase counseling can take several different forms and is most effective when it is tailored to fit a homeowner's specific situation. It may be as simple as providing the homeowners with foreclosure information

and helping them find additional resources or it may be a more involved process of working with the homeowner to identify the problem that is causing a delinquency, conducting a budget analysis and finding expenses to cut. It can be done by phone using hotline services or through more intensive face-to-face meetings with community-based groups. According to a NeighborWorks America analysis of data from the Neighborhood Housing Services of Chicago, counseling services average about two hours and any additional time "increases the borrower's perception of the value of counseling, reduces the odds that they will complete a foreclosure if they were already in the process and significantly increases their cooperation level with the counselor and lender."<sup>101</sup>

Credit counseling is another effective way to reduce delinquency rates among low-income borrowers. Research has shown that classroom counseling reduces 50-day delinquency rates by 23 percent, and one-on-one counseling reduces them by 41 percent.<sup>102</sup>

#### 5. Family support prevents foreclosure

Foreclosure occurs when the homeowner does not make payments due on his mortgage during the allotted time, usually within three to four months, although it can be longer. After foreclosure, the right of the homeowner to the property is terminated and the house becomes the property of the lending institution. Foreclosure happens for many reasons including death, divorce, prolonged illness, the need to immediately relocate, loss of a job and income or a change in the terms of the mortgage.<sup>103</sup> According to the Homeownership Preservation Foundation, millions of people around the country deal with not being able to pay their mortgage on time, including some low-income homeowners.<sup>104</sup>

Foreclosure prevention programs, implemented by nonprofit organizations and government agencies, provide resources to ensure homeowners do not lose



## Sweat equity and Habitat for Humanity

“Sweat equity” is what Habitat calls the labor of Habitat homeowners as well as, for some affiliates, the time spent investing in self-improvement classes. Homeowners do sweat equity after they are selected to be Habitat partners, but before they complete and move into their new houses. For years sweat equity has been a keystone of the Habitat program. Sweat equity takes from months to more than a year usually. Because homeowners continue to work fulltime while completing sweat equity, weekends, vacations and after-work hours are devoted to completing sweat-equity requirements.

Each Habitat affiliate creates its own requirements for homeowners, but typically a homeowner puts in several hundred hours before moving into their home. Homeowners work on their own house and other Habitat houses. If unable to do the physical labor on the work site, a homeowner might contribute sweat-equity hours by working in the affiliate office, passing out water on a build site or helping in a ReStore, Habitat’s building materials recycling store. Some affiliates allow family members or friends to contribute sweat-equity hours on behalf of homeowners. Sometimes a homeowner’s co-workers build together

for the homeowner family. All sweat-equity programs emphasize self-help, mutual help and the importance of community.

The accomplishments of sweat equity are vital for Habitat affiliates. Sweat equity reduces the amount of paid labor needed for a house and reduces cost. Sweat-equity hours also give homeowners a sense of pride and ownership as well as teaching basic building and house-maintenance skills that are necessary for homeownership.

Sweat equity fosters a spirit of partnership as people from across the community — of all ages, genders, beliefs, occupations and status groups — come together to work on a house. A Habitat homeowner, working on site with a diversity of new friends and neighbors, has the chance to connect with the community in powerful ways. The connection is often just as strong for friends and neighbors.

*From “Sweat Equity: Labor of Hope, Investment for Tomorrow,” an article by Mark Lassman-Eul in Habitat World, the quarterly magazine of Habitat for Humanity International.*



GREG PACHKOWSKI

In Mississippi, a group of volunteers led by crew leader David Hesaltine of Henrico, N.C., waits to get back to work while a thunderstorm stops building for a while.

their home. Services provided by these organizations include a hotline that directly connects people with counselors, online counseling sessions and websites with resources to avoid foreclosure. Some nonprofit organizations also assist with establishing payment agreements and restructuring loans with servicers, to whom the homeowner pays a mortgage payment every month.<sup>105</sup> In addition, some programs emphasize personal contacts between the borrower and the lender to ensure on-time mortgage payments. Research and experience have also shown that households are also more likely to make mortgage payments on time if they meet in person with local loan officers. As a

result, many low-income homeownership programs emphasize personal relationships between the lending organization and the borrowers.

For example, most Habitat for Humanity affiliates throughout the United States incorporate a family support program into their homeownership model. Generally, the family support program provides personal support to first-time homeowner families to help the families deal with challenges as they arise and answer any ongoing questions they might have about homeownership. Often homeowners are assigned one family support volunteer or staff member they can go to with questions or concerns. By providing personal

support for homeowners from the beginning of their homeownership experience, the family support model can help prevent foreclosures.

The incorporation of foreclosure prevention methods into a low-income homeownership program, as a complement to pre- and post-purchase financial counseling, can help ensure homeowners stay in their homes.



Angelina Lopez tends her garden in the front yard of her Habitat home in Anchorage, Alaska. She and her daughter Janai moved into the house in 2005.



# Chapter 5: Conclusions and policy recommendations



Alfredo and Petra Cruz with their two children in front of their Habitat home in Queens, N.Y.

“Today’s crisis gives the government the opportunity to put forward a balanced housing policy that stresses the need for a decent, affordable place to live.”

*Nic Retsinas, director of Harvard University’s Joint Center for Housing Studies in an op-ed in the Boston Globe, August 2009.*

Important gains have been made in technology, federal policy and housing finance in the past two decades that have lowered the barriers to homeownership for low-income people. Lessons from research and community development demonstrate a wide range of public policy options that can improve the viability and benefits of low-income homeownership. Unfortunately, aggressive and predatory lending practices, coinciding with a national recession, undermined these gains. This does not mean, however, that all of the practices and policy shifts that led to improved

homeownership rates for low-income households were flawed, or that most low-income households lack the financial capacity to own their homes, given support.

Families making 30 percent to 60 percent of the average median income level in their area can and do become successful homeowners when provided with a threshold level of support. The benefits of expanding homeownership among this income group merit sustained and renewed policy attention.

Public support for low-income homeownership is at a crossroads: The current crisis in the real estate and



This Habitat house was built by local builders who volunteered for the Orange County, N.C., Habitat affiliate during a national "Home Builders Blitz."

finance markets call for renewed policy attention on a broad scale. At the same time, falling housing prices may offer new opportunity to expand the affordable housing supply by a combination of public, private and non-governmental action.

While providing broader support for low-income homeownership does require funding, the greater benefits to the homeowner, neighborhood, local economy and country as a whole make it a solid investment. Homeownership is a noteworthy policy goal that should be defended.

#### Policy recommendations

Habitat for Humanity International encourages the U.S. Congress to highlight and support low-income homeownership by:

- Holding hearings to highlight best practices for low-income homeownership including pre-purchase financial education programs and requirements, underwriting standards and applicant screening, mortgage servicing strategies and the use of volunteers or sweat equity. Testimony should include successful low-income homeowners.
- Creating federal incentives for renters benefiting from government housing subsidies to achieve self-sufficiency through savings programs, financial literacy training and opportunities for future homeownership.
- Commissioning a congressionally sponsored study on the costs and benefits of federal rental and homeownership programs including the costs and benefits to the federal, state and local

## After Katrina and tragedy, Gigi Brown has a home



At 78, Gisele Brown has outlived her husband and all three children. Well-versed in the tragedies and triumphs of a long life, she knows firsthand the importance of a safe, secure place to call home.

Brown – Gigi to her friends – had lived in New Orleans’ St. Bernard Parish for 20 years before Hurricane Katrina struck in 2005. She lost her mobile home and everything in it, and spent the next two years in emergency shelters and makeshift refuges, ultimately ending up in Hattiesburg, Mississippi – 90 miles from New Orleans.

In 2007, she partnered with Hattiesburg Area Habitat for Humanity, cheerfully putting in her sweat-equity hours alongside people who were 40 or 50 years her junior. She scraped together FEMA assistance,

“I hate to pay rent because I know [the property] is never going to be mine. I’m just enriching somebody else. That’s what I like about owning. I know this one is mine.”

Social Security and Veteran’s Affairs benefits, and worked occasional part-time jobs – including one at Domino’s Pizza – to make the down payment on a tidy, little beige house on Annie Christie Lane.

“I did this all on my own,” she said. “It’s something I went for and did on my own. It’s a big difference.

“I hate to pay rent,” she added, “because I know [the property] is never going to be mine. I’m just enriching somebody else. That’s what I like about owning. I know this one is mine.”

Habitat houses line the lane, and many of the families have bonded as the neighborhood has taken shape.

“Now I’ve always got a lot of kids coming around,” she said, laughing. “It’s because I give them candy.”

governments and taxpayers, and the costs and benefits to individual and family recipients of the federal programs.

- Increasing federal resources for already effective homeownership programs like the Self-Help Homeownership Opportunity Program (SHOP), the HOME program, and programs that build the capacity of organizations providing low-income homeownership, including a national housing trust fund that can be used for low-income homeownership.
- Passing a resolution affirming the benefits of homeownership for low-income persons.
- Ensuring that the government-sponsored enterprises (Fannie Mae, Freddie Mac, and the Federal Home Loan Banks) fulfill their low-income housing mission.

## Working with families at Twin Cities Habitat for Humanity

The goal of the family services staff at the Twin Cities Habitat for Humanity in Minnesota is to launch low-income families into successful Habitat homeownership through family selection and preparation and to sustain existing homeowners in maintaining stable housing. Family services conducts outreach, orientation and selection to offer Habitat homeownership to families. Families are screened for their ability to pay a Habitat mortgage, willingness to partner with Habitat and their need for a decent, affordable home.

Once selected, family services staff matches families to homes that range from multi-unit structures in common-interest communities to single family dwellings. All families receive homeownership training such as financial fitness classes, home maintenance instruction, information on how to get involved in the community and post-purchase clinics. After closing families are matched with volunteers to ease the transition toward successful homeownership and to encourage Habitat homeowners to:

- Develop a sense of place in their local community and with each other.
- Achieve financial and social well-being.
- Connect with Twin Cities Habitat to advance affordable housing.

An increasing number of Habitat homes are part of associations where homeowners reside in common-interest communities and share governance duties and maintenance expenses. Approximately 900 families are touched by the Twin Cities family services department through orientations and screening. Each year roughly 50 families are selected to obtain mortgages on a Habitat home through Twin Cities Habitat for Humanity, and those who do not match the program are referred to other resources.

The family services department also operates a mortgage foreclosure prevention program (MFPP), which offers homeowners financial and foreclosure-related counseling. The program is open to any resident of Minneapolis throughout the Twin Cities metro area. Twin Cities HFH has been assisting homeowners with financial and foreclosure prevention counseling services for more than 16 years and provided in-depth counseling to more than 400 families in 2008.



A power wash for the house and driveway helps get this Habitat house in Durham, N.C., ready for its owner.



Ike Thomas's house in Gulfport, Miss., was rehabilitated as part of the 2008 Jimmy & Rosalynn Carter Project.

# Acronyms and Glossary

**Adjustable-rate mortgage (ARM):** Mortgage bearing an interest rate that changes periodically based on change in a specified index.

## **Community Reinvestment Act**

The CRA is often considered a very successful community revitalization program.<sup>106</sup> Since the CRA's enactment in 1977, lenders have invested more than \$4.5 trillion in low-income and minority areas.<sup>107</sup> However, the CRA has also been faced with some controversy in the recent rise of foreclosures. Critics of the program note that in light of these incentives and mounting community and media pressure, lenders began to reach out to low-income borrowers, often relaxing underwriting standards in order to do so.

Congress passed the Community Reinvestment Act (CRA) to combat discriminatory practices by lenders, such as the red-lining of low-income and minority communities.<sup>108</sup> The CRA was created to encourage banks and mortgage companies to meet the credit needs of the local communities where they are chartered, including in low-income, moderate-income and minority communities.

Efforts by these institutions to meet the credit needs of the community are periodically monitored by federal regulatory agencies, including when an institution makes an application to open a new branch or for mergers or acquisitions.

## **Federal Housing Administration (FHA)**

The purpose of the FHA is to provide mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. The FHA was established in 1934 and operates under the U.S. Department of Housing and Urban Development (HUD). It has insured over 34 million properties and is the largest mortgage insurer in the world. Alex Schwartz, in his book *Housing Policy in the United States*, notes that the FHA affected housing in four ways<sup>109</sup> :

- The mortgages it insured were 25 to 30 years, thereby reducing monthly payments.
- It increased the loan-to-value ratio, thus lowering the down payment to less than 10 percent of the purchase price.

- It instituted universal building standards which assured lenders that the properties they were financing were structurally sound.
- It provided lenders with protection against losses as the result of homeowners defaulting on their mortgage loans.

Lenders relaxed underwriting standards, offered 30-year mortgage terms, and lowered down payment requirements. Alternative underwriting methods included verifying a borrower's history of regular monthly bill payment and employment history, as well as efforts to reduce risk through education and counseling on homeownership and credit.<sup>110</sup> Households with imperfect credit histories were often able to secure mortgages, as long as they were willing to pay an above-prime interest rate to cover their additional risk to lenders.<sup>111</sup>

These changes in housing finance practices greatly increased access to homeownership among low-income households during the 1990s. Between 1993 and 1999, mortgages to high-income households increased by 52 percent, while mortgages to low-income households increased by at least 79 percent.<sup>112</sup>

**Fixed-rate mortgage:** Mortgage bearing an interest rate that does not change over the lifetime of the loan.

**Foreclosure:** A legal process where the mortgage holder's ownership rights are terminated. Foreclosure can result in several possible outcomes, including that the borrower sells the property or the lender repossesses the home.

### **Government-sponsored enterprises (GSEs)**

The United States Congress has created a number of agencies over the years to respond to critical public needs in a variety of sectors. Known as Government Sponsored Enterprises, or GSEs, they were established to serve a public purpose, but their ownership was transitioned over time to being privately held. In the housing sector, the most noteworthy GSEs are Fannie Mae and Freddie Mac, as well as the Federal Home Loan Banks. While GSEs are not direct obligations of the U.S. Treasury, they carry an implicit backing from the federal government. Fannie Mae and Freddie Mac are federally chartered, privately owned companies with a public mission to "provide stability and to increase the liquidity of the residential mortgage market and to help increase the availability of mortgage credit to low- and moderate-income families and in underserved areas."<sup>113</sup>

The Federal National Mortgage Association (Fannie Mae) was established in the 1930s during the depression to provide liquidity, stability and affordability to the U. S. low-income mortgage market, and became a fully private shareholder-owned company in 1968. The Federal Home Loan Mortgage Corp. (Freddie Mac) was established in the 1970's, focusing on providing a viable market for the savings and loan industry. The GSEs operate primarily by either purchasing

mortgages directly from financial institutions and holding them in portfolio or purchasing mortgages from lenders, re-packaging them into securities, and selling them in the secondary mortgage market to financial institutions around the world.

Due to financial crisis in the housing sector, on Sept. 6, 2008, the Federal Housing Finance Agency (FHFA) was appointed conservator of Fannie Mae and Freddie Mac. The U.S. Department of the Treasury has agreed to provide up to \$200 billion in capital as needed to ensure the company continues to provide liquidity to the housing and mortgage markets.

**Home equity:** The difference between how much a home is worth and how much one owes on the mortgage for the home.

**Home-equity loan:** A home-equity loan or line of credit allows someone to borrow money by using their home's equity as collateral.

**Housing affordability:** An evaluation of a household's housing costs in comparison to household income and household expenses.

**Low income:** This term is based on median household income: The median household income is commonly used to provide data about wealth by state or metro area. It divides households into two equal segments with one half earning less than the median household income and the other half earning more. The median income is considered to be a better indicator than the average household income as it is not dramatically affected by unusually high or low values. Median family income is often used interchangeably with

household income, although technically family income requires blood relationships.

Household income category definitions break down the lower half of incomes into three groups:

- Extremely low-income: 0 to 30 percent of median family income.
- Very low-income: 31 to 50 percent of median family income.
- Low-income: 51 to 80 percent of median family income.

**Mortgage default:** This generally occurs when a borrower is 90 or more days delinquent with mortgage payments. Foreclosure proceedings against the borrower become a strong possibility once a mortgage holder defaults.

**Mortgage delinquency:** The failure of a borrower to meet one or more scheduled monthly payments.

**New Deal:** The New Deal was the name that President Franklin D. Roosevelt gave to a package of economic programs between 1933 and 1935 during the Great Depression. The goals of the New Deal are often called the 3 Rs: giving relief to the unemployed and badly hurt farmers, reforming business and financial practices, and promoting recovery of the economy.

**Predatory lending:** A variety of fraudulent, deceptive, discriminatory or unfavorable lending practices. Some of these practices may be legal, but are not in the best interest of the borrower. Legal or not, the result can be the same: homeowners may lose their home and the predatory lenders, who seek their prey from the elderly, the sick and the poor, end up profiting.



Predatory lending practices can leave victims homeless and defeated, stripped of self-respect and hope, their credit ruined.

**Prime mortgage market:** This market “serves borrowers with strong credit histories and provides the most competitive interest rates and mortgage terms.”<sup>114</sup>

**Redlining:** The practice of discriminating against potential customers when providing loans or insurance coverage based on the geographic location of the customer, often a low-income or minority neighborhood.

**Refinancing:** Using the proceeds of a new loan to pay off an existing loan and using the same property as collateral for the new loan.

**Secondary mortgage market:** Allows for the buying, selling and trading of existing mortgage loans and mortgage-backed securities so that original lenders are able to sell loans in their portfolios and generate liquidity to support additional lending.

**Shared-equity mortgage:** A home loan in which the lender gets a share of the equity of the home in exchange for providing a portion of the down payment or a subsidy on the home price. When the home is eventually sold, the lender also is entitled to a portion of the proceeds.

### **Subprime lending**

A defining aspect of mortgage lending in recent years has been the growth of subprime lending

practices. These practices arose as technological and regulatory changes made low-income loans more profitable, motivating an increasing number of players to get involved in selling and marketing loans.<sup>115</sup> Subprime loans were intended to extend credit to those borrowers who could not qualify for a prime mortgage using standard underwriting procedures or to borrowers who had marred credit histories.

Within the subprime market, loan terms vary greatly. In 2001, for example, the average annual percentage rate on subprime mortgage interest ranged from 7.2 percent (only slightly above prime) to 12.75 percent.<sup>116</sup> Although some lenders specialized in subprime loans and did not participate in the prime credit market at all, over time many prime lenders also began to invest in the subprime market.

Subprime lenders often roll fees and points into the amount of the principal loan, a practice that pushes interest rates higher. Rolling fees into mortgage principal reduces the up-front costs of homeownership, but results in the significant long-term cost of reduced equity accumulation.<sup>117</sup>

Additionally, subprime loans allowed many low-income households to own a home by compensating for increased risk with higher mortgage costs.

Not all subprime loans are so-called “predatory loans.” However, in some cases lenders took advantage of legitimate practices in the subprime market to cheat and defraud borrowers. These predatory lenders pressured, misled or defrauded borrowers in an attempt to charge excess fees and to take homeowners’ home equity.<sup>118</sup> In many cases, predatory lenders specifically targeted minorities and low-income households, pressuring them into taking on higher-cost mortgages and exotic mortgage products even

when they could have qualified for better quality fixed-rate mortgages.<sup>119</sup>

**Subprime mortgage market:** This market generally features higher interest rates and fees than the prime market and often serves borrowers with a poor credit history.

**Thrift:** A savings and loan association, savings bank or credit union.

**Unaffordable housing cost burden:** A household spending 30 percent to 50 percent of its income on housing is considered to have a “moderate” housing cost burden; a household spending more than 50 percent of its income on housing is considered to have a “severe” burden.



Butch Mangrobang lives with his wife Gretchen and their sons Angelo, Oscar (pictured), Ian and Emilio, in a new Habitat home in the 32nd and Spenard Townhome Community in Anchorage, Alaska.

# Endnotes

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<sup>115</sup> Retsinas, Nicolas P. and Eric S. Belsky, “Examining the Underlying Goal,” in *Low-Income Homeownership*, Nicolas P. Retsinas and Eric S. Belsky, eds. (The Brookings Institution, 2002),: 4

<sup>116</sup> Belsky, Eric S., Nicolas P. Retsinas and Mark Duda, “The Financial Returns to Homeownership” (paper prepared for Affordable Homeownership: Critical Perspectives, a symposium held at the University of North Carolina, Chapel Hill on March 6-8, 2003) 2005, 10

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<sup>119</sup> NeighborWorks America, *Foreclosure Resources* (<http://www.nw.org/network/foreclosure/default.asp>), 2







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