HOMEOWNERSHIP IS AFFORDABLE HOUSING

* The title of this White Paper is taken from a 2021 Urban Institute report of the same name, referenced in the first paragraph. Sources relied upon are listed at the end of the paper.

In May, 2021, the Urban Institute published a report titled “Homeownership Is Affordable Housing.” Author Mike Loftin, whose mother raised him and his two siblings alone after her divorce in 1955, uses his own story as an example of why homeownership is often the best choice for lower income families. Because she and her husband were able to buy a home shortly before they divorced, she could afford to live on her small salary from an auto body shop and the hosiery department at Sears. As her housing payment declined as a share of her income and her equity grew, she was able to begin saving. When her mortgage was paid off, she was financially secure in retirement and she still lives, at the age of 91, in the home she bought as a young woman. Thanks to her savings, the author attended college at Northwestern University and has spent his life working to share the advantages he had with others who also need the benefits of homeownership. He is now CEO of Homewise, Inc., in Santa Fe, which integrates all aspects of the home purchase process under one roof.

PART ONE – WHY HOMEOWNERSHIP?

A. <u>Homeownership is More Affordable than Renting</u>

“Contrary to popular belief, owning one’s own home is frequently more affordable than renting.”

Homeownership supports the housing needs of lower income people and the communities in which they live in a way that renting cannot. This affordability holds true not just for the homeowners themselves—even into the next generation—but for government at all levels.

Cost Burden

Reducing the cost burden of lower income people is the very essence of affordable housing—the thing, in fact, that defines it. Homeownership does this better than rental housing. In Orleans Parish, 61% of renters pay more than 30% of their income for housing. Only 31% of homeowners do. This reality is mirrored on a national scale, and census data demonstrates that it holds true across income levels. [NOTE?] According to the Urban Institute study referenced above, 75% of low-income renters spend more than 30% of their income on housing, compared to 49% of low-income homeowners. Even among those with incomes less than 30% of Area Median Income, 88% of renters spend more than 33% [OR 30%?] of their income on housing—compared to 68% of very low-income homeowners. [CONFIRM.]

Homeowners pay a smaller share of their income for housing than renters with the same level of income because of the way housing payments are structured. When a homeowner takes out a mortgage with a fixed interest rate, the biggest part of their housing expense—the principal and interest payment—is capped for the next thirty years. When inflation is factored in, the housing payment actually declines. The only elements that can grow are insurance, real property taxes, and maintenance and repairs. For renters, as Loftin said, "there is no such thing as a 30-year residential lease that locks in a monthly payment."

Long-term Affordability and Stability

This long-term affordability is the second key feature of successful affordable. The reduction in cost burden that comes with homeownership lasts for thirty years and gets larger with time. When thirty years is reached, the homeowner experiences what Mike Loftin calls "the Big Bang." From one month to the next, the payment of principal and interest that has been made every month for the past thirty years disappears. As retirement approaches and income goes down, housing for homeowners becomes much more affordable—and stable—than renting.

In neighborhoods that are gentrifrying, homeowners often contend with rising real property taxes, but their principle and interest payment are set. Renters, on the other hand, see their total housing expense escalate rapidly. At that point, naturally occurring—unsubsidized—affordable rental housing is lost from the neighborhood at exactly the moment when it becomes prohibitively expensive to build new affordable housing.

More Effective Use of Public Money

In the past three years, the City of Atlanta created or preserved 4948 units of affordable rental housing. The average subsidy per unit was $94,361. At the same time, Atlanta helped 828 residents become homeowners through its down payment assistance program. The average subsidy per unit was $25,241. Looking forward, the rental units will require ongoing subsidies, year after year. No further subsidies will be required for the homeowners.

The experience of our neighbor to the east underscores that not only is homeownership a valuable goal for lower income residents, it is also extremely cost-effective to create and maintain. The mortgages the new homeowners obtain are a major source of leverage, which utilizes the private banking industry to finance affordable housing. These mortgages do not require new allocations of federal, state, or local funds and don't eat up existing entitlement funds. In addition, depending on the structure of the program, development costs can be significantly lower.

Similarly, preserving naturally occurring affordable homes is much less expensive than building a new unit of housing. Yet these smaller expenditures, for creation or preservation, still result in one affordable home—and its value is multiplied by a lifetime of benefits. In addition to a place to live, many studies have shown that housing stability results in better health outcomes, more economic mobility, higher levels of educational attainment, and lower rates of incarceration, not just for the homeowners but for their children. All of these benefits also result in reduced government expenditures. [SOURCE]

Wealth-Building

A part of every housing payment—a part that grows with every passing month—is an investment. Even if the value of the home never increases, equity in the home does. Not only that, because of its long-term affordability and the reservoir of resources homeownership creates, non-equity wealth is also much greater for homeowners. For renters, on the other hand, each payment of scarce and precious resources builds wealth for their landlord.

This steady increase in wealth has long-term generational impacts. Homeowners are more likely to be able to help their children pay for college and provide a down payment for their home. Even after children are grown, as Mike Loftin's discovered, they are less likely to be called on to spend their resources on elderly parents. When a parent dies, the home, or the wealth it produced, is usually transferred to their children—often without the payment of any income or estate taxes. This then builds wealth for the following generation, and the cycle continues.

Emergencies

Homeownership creates a reservoir of resources that can be used in an emergency, from job loss or divorce to an economic collapse, a pandemic, or a climate-fueled disaster. Lower income people need these benefits even more than those with higher incomes, who have been building assets for generations.

At the most basic level, an eviction action takes a few weeks, with little notice and very few protections, and can be filed without any fault on the tenant's part. To terminate a mortgage, a lender has to take the property through foreclosure, which is a longer process, with some protections, that can only be filed if the homeowner defaults and allows time to resolve the situation, including the possibility of a forbearance or other agreement with the lender. In addition, a homeowner has the option of filing a Chapter 11 bankruptcy to resolve their debts without losing their home or of selling their home and possibly retaining some of the accrued assets. These options won't always work for the homeowner, but even then they at least have some time to try to arrange another place to live for themselves and their children.

COVID-19 provides a perfect example. According to the National Low Income Housing Clinic, rents are climbing during the pandemic. Mortgages, of course, are capped. The Aspen Institute has found that 56% of Louisiana renters are now at risk of eviction, while *The Advocate* has reported that 11% of homeowners are past due on their mortgages. When the federal eviction moratorium is lifted, there will be droves of children, the elderly, and the unemployed placed on the streets all at once, with nowhere to go. If they squeeze in with relatives—probably homeowners who haven't been put on the street—the crowded conditions will make all of them more likely to become infected, a problem that is also being seen in Black communities where large numbers of people are clustered in rental developments.

B. <u>Homeownership is A Powerful Tool for Reducing the Racial Wealth Gap</u>

"The continually depressed black homeownership rate and overall wealth gap have reached alarming levels."

Due to recent essential scholarship by Richard Rothstein and many others, it is now well-known that decades of government-backed systemic racism are largely responsible for the low rates of black homeownership—and that this deficit is, to a large degree, responsible for the overall wealth gap. According to the Urban Institute report *Closing the Gaps: Building Black Wealth through Homeownership,* between 1934, when the newly-created Federal Housing Administration began drawing red lines around Black neighborhoods, and 1962 "98 percent of FHA-insured loans went to white families, providing them a critical wealth-building foundation for future generations." Likewise, few African Americans received GI Bill loans because they were excluded from White neighborhoods and banks refused to lend in Black neighborhoods. Even after the Fair Housing Act was passed in 1968, continuing racist policies prevented the gap from decreasing and the 2008 housing market crisis further deepened the chasm.

As a result, the homeownership rate for White families is 30% higher than for Black families. Not coincidentally, the average net worth of a typical White family is now almost ten times larger than a typical Black family's. And the problem is snowballing. Whites are now five times more likely than Blacks to receive a large gift or inheritance, which allows the wealth to continue to build, generation after generation. In New Orleans, the aftermath of the levee failures only further exacerbated the gap, again due to the legacy of racism, as well as new policies that perpetuated this discrimination.

The good news is that, for all the reasons outlined above, addressing the Black homeownership rate can begin to reduce the overall wealth gap between Blacks and Whites. But it will take conscious, concerted, persistent effort. As *Closing the Gaps* concludes "Race-conscious policymaking designed to bring equity and parity to Black households is required to change the trajectory of Black homeownership because policies designed over many decades to advance prosperity for white households caused the current state of inequality."

PART TWO – HOW TO PRESERVE AND EXPAND AFFORDABLE HOMEOWNERSHIP

"It may seem counterintuitive, but in order to close the wealth gap,
we must shift our focus from the gap itself to the policies, conditions, and systems that spawned it."

A. Dramatically Expand Down Payment Programs

Given how effective and inexpensive down payment assistance programs are, as demonstrated by the experience of Atlanta, they should be a primary tool for creating affordable housing in New Orleans. Michigan—primarily Detroit, a city with much in common with New Orleans—had a similar experience to Atlanta's, spending $29 million to create 1948 new homeowners at an average cost of $14,870. Similarly, Santa Fe's new housing plan emphasizes increasing funding for mortgage principal buy-downs as a way to make housing affordable.

The primary barriers Black homebuyers confront are home prices, availability of a down payment, and access to credit. Down payment assistance, when properly designed, addresses all three of these in a single program. The direct subsidy brings down the price to the homeowner and provides the down payment. It also raises the value of a bank's collateral relative to the loan amount while reducing the risk of nonpayment. In return, banks should be expected to responsibly provide more equitable access to credit, using carrot and stick incentives when necessary.

At the same time, devoting affordable housing subsidies to creating homeownership will only be effective if programs are designed properly. In particular, it is essential to recognize and plan for the risks and limitations that arise from involvement with the banking industry and to address them directly and upfront.

Now is the time to do it. In the midst of the largest racial reckoning since the 1960s, public institutions like banks and philanthropies are beginning to grapple with their role in creating the gap in wealth—and in lives—between Blacks and Whites and looking for ways to support initiatives that will reduce it. New Orleans can provide an opportunity for them to directly redress these wrongs.

Recommendations

- <u>Expand Sources of Funding for Assistance</u>

Because the primary source of funding for affordable housing is the Low-Income Housing Tax Credit (LIHTC), housing programs have long been skewed toward rental developments. This disconnect almost makes it seem like rental programs are less expensive to build, when in fact just the opposite is true. This reality calls public agencies to seek out and develop new sources of funding in order to balance out their programs and provide an opportunity for homeownership to residents, especially African Americans, who have long been excluded from its benefits.

* Issue bonds to fund expanded down payment assistance. Program can be modeled on Atlanta's Housing Opportunity Bond Fund.
* Dedicate non-LIHTC federal funding to homeownership.
* Structure programs to maximize funding from banking system and develop partnerships with banks that place a priority on serving low-income members of their own communities
* Especially in low-income neighborhoods, use publicly owned land as an additional subsidy rather than a source of income.

- <u>Take On Biases of Credit System</u>

A common understanding of "mortgage ready" is a credit score of 620, debt to income ratio below 25, seven years without a bankruptcy or foreclosure, and one year without a severe delinquency. Only 19% of African Americans meet this metric. In New Orleans, 41.2% of residents in communities of color have credit scores that only qualify them for subprime loans, compared to 17.4% in majority-white communities. As a result, Black homebuyers have consistently been saddled with subprime loans and, not surprisingly, have then had higher rates of foreclosure and bankruptcy.

It should be obvious that continuing to apply these standards continues the bias that has systematically excluded African Americans from homeownership. It punishes them, as though their financial struggles were the result of their personal failings, when in fact Blacks in this country—and this city—have for centuries been denied the ability to control or benefit from the wealth they create for others.

* Require banks that participate in the down payment assistance program to look beyond credit scores and use other metrics, such as payment of utilities, rent, and other regular bills, as proof of creditworthiness
* Use market power by refusing to do business or place accounts with institutions that don't meet these standards with a meaningful portion of their residential loans, recognizing that these institutions have placed such a major role in creating the problem.
* Provide meaningful resources to support programs that assist with credit repair and reducing consumer debt and that prepare prospective buyers to obtain a mortgage

- <u>Set Up New Homeowners to Succeed and to Reap Benefits from Their Efforts</u>

* Don't set cap too low, especially in neighborhoods where the cost to build is higher than the market value and no new building will occur without significant subsidies.
* Give priority to current and former neighborhood residents and allow their incomes to be up to 120% of AMI.
* If soft second mortgages are used, limit resale restrictions in neighborhoods that new homeowners may need an incentive to move into, and where they are unlikely to receive a windfall if they sell.
* Pair down payment assistance with Individual Development Account account to create reservoir for repairs, maintenance, and insurance and seed it with $1000.

* Provide an initial termite inspection that provides an annual contract that can be renewed by the homeowner.

- Adopt Small Scale, Scattered Site Approach

As it drew to an end, Road Home created the Loan Principal Repayment Grant Program. While there were some problems with access to the program, the model it adopted of small-scale, scattered-site home-building (SSSS) was very cost-effective, had strong controls in place, had low development costs, and resulted in hundreds of affordable homes. These elements of the program could be replicated to create a …
* Rather than doing an RFP for a discrete, short-term project, create a list of approved contractors, focusing on small, neighborhood-based builders. Establish simple process for contractors to be added to the list.
* Work with homebuyers to select an available lot and an approved contractor, and handle homeowner eligibility determinations in-house.
* Create a list of participating lenders and provide a provide a reservation of funds when a contract is signed, whether for new construction or an existing home, allowing loan to be approved and project to move forward.
* Have inspector on staff to monitor construction, in partnership with lender's inspector.

B. Preserve Existing Naturally Occurring Affordable Housing

The least expensive home is the one that already exists. All over New Orleans there are low-income residents, many of them elderly, often raising their grandchildren, who are living in homes they own due to a lifetime of ceaseless work. Because many of them were poorly paid throughout their lives, their Social Security benefits are low, and they have no pension or retirement account. But they have a home. Keeping them there is the most effective and least expensive way to preserve affordable housing in our city. Unlike low-income rental developments with expiring LIHTC agreements, preserving an unsubsidized, owner-occupied home will often cost as little as $2,000—rather than $200,000 to build a new home to replace it.

It's not just good for them. Especially in the Lower 9th Ward, every property that is occupied is precious. The biggest problem the neighborhood faces is its low population, which discourages new residents from moving in and deflates property values—and tax collections. Keeping current homeowners there also preserves family wealth rather than adding to the massive decline in Black wealth the neighborhood has suffered. Finally, their continuing presence strengthens the fabric of the community. Sixteen years after Katrina, it continues to heal the scars it left.

Recommendations

- Reform Tax Collection Process

*   Conduct comprehensive review of policies and processes of the Orleans Parish Bureau of Treasury.
*   Eliminate practices that are illegal or that unfairly imperil Black homeowners such as: failure to promptly implement orders from the Louisiana Tax Commission to lower taxes, while interest accrues and homeowners are at risk of tax sale; glacial pace of processing refunds; requirement that taxpayer present proof of payment to receive refund, raising question of adequacy of the department's own record-keeping; collection of fees that have been found to be unconstitutional; conducting Sales of

Adjudicated Properties based on insufficient, years-old notices; requiring payment of more than three years' taxes at tax sale, in apparent violation of state law.

- Work with Individual Homeowners to Resolve Outstanding Taxes

Many long-time residents have fallen behind on their taxes. They may face back taxes that have been accruing since they were living in exile after the levees failed, with interest accruing at 12% per year and fees from tax sales they never even knew about. Rather than taking their properties, the city should enter into agreements with them, based on their ability to pay. If a homeowner is put out for a few thousand dollars in back taxes, the city's choices are either to leave the property vacant and overgrown, to spend money that should be going to affordable housing on maintaining it, or to begin the laborious and expensive process of trying to turn it back into affordable housing. There is already more than enough land in this limbo.

And what happens to the homeowner and her grandchildren? They are cast out into the rental market, competing with everyone else looking for an apartment. They're in a homeless shelter or under a bridge, another family out in the cold during the annual count. And one more permanently affordable home has been lost.

* Rather than taking properties at tax sale, enter into agreements with low-income homeowners based on their ability to pay.
* To the extent that Louisiana law needs to be changed to make agreements possible and to reform the tax collection process in general, work with state legislators to make necessary amendments.

- Reform Assessment Process – *reread*

Recent studies have documented that African Americans pay a higher share of real property taxes than Whites, both because their homes are over-valued in the assessment process and because the appeals process does not treat them equally. Two recent, egregious examples in New Orleans are the Assessor's failure to reassess a large swath of wealthy white neighborhoods for 2020 taxes and the massive breaks he provided to multinational hotel corporations in 2021. Beyond this, every single day low-income homeowners are paying more than their fair share of taxes because of numerous policies and processes that harm them. At the same time, these residents are frequently receiving less than their fair share of city services, leaving them subsidizing their wealthier neighbors, as African Americans have done since 1619.

* Conduct comprehensive review of policies and processes of the Orleans Parish Assessor's Office
* Eliminate practices that are illegal or that unfairly imperil Black homeowners, such as: wildly varying assessments from block to block and neighborhood to neighborhood, in violation of the principles of uniformity and equity; the refusal to decrease the assessment of an elderly or disabled homeowner with a Special Assessment Level when the value of the property decreases; the failure to implement decisions when the Assessor loses on appeal; after losing an appeal, returning the property value to the prior level the following year; increasing assessments due to a change in office policy, without adequate notice to taxpayers or an opportunity to contest—and making them retroactive for three years.

Expand Owner-Occupied Rehab Program

In addition to paying more than their fair share of taxes, the other grave threat for low-income homeowners, especially the elderly, is the inability to afford repairs and maintenance. In addition to normal wear and tear, since Hurricane Katrina many of them are living in shoddily built houses, whether by unscrupulous contractors or well-meaning but unskilled volunteers. At the same time, many of the rebuilding programs that arose after Katrina are gone and there is a severe lack of other resources to meet this pressing need. Significantly expanding the existing owner-occupied rehab program and streamlining the application process will address this need.

CONCLUSION

In the face of so many years of systemic racial injustice, a full-throttle commitment to increasing Black wealth through homeownership is not charity. It is, instead, the least that is owed. And the solutions are clear, straightforward, and doable.

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