Expanding Access to Homeownership as a Means of Fostering Residential Integration and Inclusion

CHRISTOPHER HERBERT, SHANNON RIEGER, AND JONATHAN SPADER
Joint Center for Housing Studies of Harvard University

Efforts to enable greater integration of communities by socioeconomic status and race/ethnicity have to confront the issue of housing affordability. Cities, towns and neighborhoods that offer access to better public services, transportation networks, shopping, recreational opportunities, parks and other natural amenities have higher housing costs. Expanding access to these communities for those with lower incomes and wealth necessarily entails some means of bringing housing in these areas within their financial reach. While households' financial means are central to this issue, affordability intersects with race/ethnicity in part because minorities are more likely to be financially constrained. But to the extent that these areas are also disproportionately home to majority-white populations, discrimination and other barriers to racial/ethnic integration must also be confronted along with affordability barriers.

Enabling greater integration also entails some means of fostering residential stability by maintaining affordability in the face of changing neighborhood conditions. This issue is perhaps most salient in the context of neighborhoods that are experiencing gentrification, where historically low-income communities are experiencing rising rents and house values, increasing the risk of displacement of existing residents and blocking access to newcomers with less means. More generally, increases in housing costs in middle- and upper-income communities may also contribute to increasing segregation by putting these areas further out of reach of households with more modest means.[1]

It is common to think of subsidized rental housing as the principal means of using public resources to expand access to higher-cost neighborhoods and to maintain affordability in areas of increasing demand. But for a host of reasons, policies that help to make homeownership more affordable and accessible should be included as part of a portfolio of approaches designed to achieve these goals.

For example, survey research consistently finds that homeownership remains an important aspiration of most renters, including large majorities of low- and moderate-income households and racial/ethnic minorities.[2] Moreover, because owner-occupied homes account for substantial majorities of the existing housing stock in low-poverty and majority-white neighborhoods, expanding access to homeownership offers the potential to foster integration and to increase access to opportunity for low-income households and households of color. There is also solid evidence that homeownership remains an important means of accruing wealth, which in turn can help expand access to higher-cost communities.[3] Owning a home is associated with greater residential stability, in part because it provides protection from rent inflation, which can help maintain integration in the face of rising housing costs. Finally, in communities where owner-occupied housing predominates, there may be less opposition to expanding affordable housing options for homeowners.

The goal of this paper is to identify means of structuring subsidies and other public interventions intended to expand access to homeownership with an eye towards fostering greater socioeconomic and racial/ethnic integration. While the policies presented here are largely designed to address financial and informational barriers to homeownership associated with lower incomes and wealth, given the disproportionate share of minorities among these households, efforts to make homeownership more attainable has the potential to foster greater racial/ethnic integration as well. Of course, efforts to eradicate discriminatory treatment, both explicit and implicit, in housing and mortgage markets are also of great importance. However, these efforts are not the main focus of this paper, but are covered extensively in other papers prepared for this symposium.

The first section of this paper describes the principal barriers to homeownership and key existing policies aimed at them and discusses what is known about the potential for these approaches to foster integrative moves. The next section presents a set of policy options to support homeownership that could be enacted over the next five to ten years with the effect of fostering greater racial/ethnic and economic integration on a meaningful scale. The paper concludes with some final thoughts on the rationale for the recommended policy approaches and the importance of simultaneous efforts to combat discrimination and expand the supply of affordable housing as complementary activities.

BARRIERS TO HOMEOWNERSHIP, THE PRINCIPAL EXISTING POLICIES TO ADDRESS THEM, AND THEIR SPATIAL IMPACTS

A review of the principal barriers to homeownership and existing policies designed to address them is a helpful starting point for the recommendations to follow. A key goal of this review is to evaluate existing policies' potential for fostering or discouraging greater economic and racial integration so as to envision changes to them that would enhance their integrative potential. This section is structured around three broad categories of barriers: the affordability of homeownership, access to credit, and informational deficits. In general, policies will be more likely to foster integration to the extent that they increase the relative purchasing power of low- and moderate-income households, expand knowledge of housing options to enable integrative moves, and alleviate displacement pressures from rising house prices.

Affordability

The most fundamental barrier to homeownership for low- and moderate-income households is not having sufficient income or wealth to qualify for a home mortgage. Herbert et al. (2005) conduct a comprehensive review of the literature assessing barriers to homeownership and come to the conclusion that a lack of savings to meet downpayment requirements and pay closing costs is by far the most significant financial barrier to buying a home. For this reason, policies providing downpayment assistance are consistently found to have the greatest potential for increasing homeownership rates among low-income and minority households.[4] In addition, subsidies in the form of downpayment assistance have the potential not only to make it feasible for such households to buy a home, but also to increase purchasing power to bring lower-poverty neighborhoods more within their reach.

In practice, downpayment assistance is available through a variety of federal, state and local programs, although the overall scale of these efforts is relatively small.[5] There has been very little formal evaluation of downpayment assistance programs and so not much is known about the location choices of those assisted through these programs. One study of buyers assisted through the HOME program found that the pre- and post-purchase neighborhoods of participants were quite similar on most dimensions, including incomes, house prices, poverty rates, and racial composition, suggesting that the program had little effect — for better or worse — on the choice of neighborhood.[6] However, this result likely stems in part from the fact that the program targets fairly low-income households and generally provides relatively modest amounts of assistance.

In order to facilitate moves to higher-cost areas, downpayment assistance levels may need to be higher per household than is common in most existing programs, a policy consideration that points to several important tradeoffs. First, fewer households could be assisted for a given amount of funding. Second, to the extent that the assistance is in the form of a grant, the households assisted would be receiving a much larger windfall in being selected for the grant. Shared equity homeownership models, where the assistance is in one way or another recaptured upon sale of the home along with a share of the home's appreciation, can address these concerns.[7] Many shared equity models are also structured so that the subsidy is tied to a specific housing unit (often in support of new construction) and so have the potential for expanding the supply of affordable homeowner units in neighborhoods that might otherwise be out of reach of low- and moderate-income buyers.

The principal means of funding either shared equity purchases of existing homes or subsidizing the development of affordable homeownership units generally are the federal HOME Partnerships program, the Federal Home Loan Banks Affordable Housing Program (AHP), and locally-mandated inclusionary zoning (IZ) programs. However, each of these efforts is fairly small-scale.[8] In addition, relatively little is known about the neighborhood location of units supported by shared equity programs or development subsidies. One ongoing study of shared equity programs has preliminary findings that in some cases buyers do appear to gain access to higher-income neighborhoods, while in others there is little change in neighborhood conditions upon purchase.[9] With regard to IZ programs specifically, Schwartz et al. (2012) examined the location of IZ units in 11 programs and found that overall these homes were located in a broad range of neighborhoods, but were generally areas with low poverty.

While financial supports for downpayments or to lower purchase prices have the most potential for increasing homeownership attainment, by far the most widespread financial subsidy for homeownership is the mortgage interest deduction (MID), which effectively subsidizes mortgage payments through the federal tax code. However, as documented by analysis from the Joint Committee on Taxation (2017), low- and moderate-income households are both much less likely to claim the deduction and are likely to realize smaller tax savings if they do since the value of the credit increases with the amount of interest paid, the taxpayer's marginal tax rate, and the degree to which the total deductions exceed the standard deduction.

Given the low incidence and modest financial benefit accruing to households most likely to be on the cusp of being able to afford to buy a home, it is not surprising that the MID is consistently found to have little effect on overall homeownership rates.[10] This conclusion is also consistent with the results of studies that have simulated the impact of lower interest rates on the ability to qualify for a mortgage and found that even reductions of interest rates on the order of several percentage points have little impact on the likelihood of qualifying for a mortgage.[11]

But while the MID's net impact on the homeownership rate is small, several studies have found that the neutral impact at the national level reflects an average of increases in homeownership rates in some markets and decreases in others, with the variations reflecting differential impacts on local house prices. Hilber and Turner provide the most in-depth assessment of these inter-metropolitan impacts, finding that in markets where the housing supply is more restricted the MID inflates house prices and reduces overall homeownership rates for higher-income households (earning more than 120 percent of the area median income), while in less restricted markets there is little effect on home prices and so the tax subsidy does help to increase homeownership rates among higher-income households.

Importantly, this same study also finds no effect in any markets on homeownership among lower-income households (earning less than 80 percent of area median income). Regarding this finding the authors conclude: "We speculate that this is because the housing market within a city tends to be segmented by income and the MID provides a tax subsidy only to the relatively higher income households that itemize. Consequently, we expect that lower income housing will generally not experience house price changes due to changes in the subsidy." While not a focus of their study, one implication of the MID's effect of inflating house prices only at the upper end of the price distribution would be to contribute to income segregation by pushing higher-cost communities farther out of reach for lower- and moderate-income households.

Access to Credit

In addition to income and wealth constraints that make it harder to qualify for a mortgage, access to credit for low-income and minority renters can also be constrained by weaker credit histories, less stable employment histories, and higher debt levels that make it difficult to meet typical underwriting standards.[12] Based on several comprehensive reviews of the literature, discrimination in mortgage markets, while difficult to assess, also likely remains an important obstacle to purchasing a home for minorities by deterring applications and making it more difficult to be approved for a loan and more difficult to obtain favorable terms if approved.[13] Indeed, there is substantial evidence that in the years leading up to the housing bust, minorities were more likely to obtain high-priced subprime loans with risky and arguably predatory features even after controlling for the credit risk of applications.[14]

In general, greater difficulty in qualifying for mortgage credit would be expected to reduce homeownership rates for lower-income and minority households. To the extent that moves to homeownership may support greater integration, particularly for Hispanics and Asians, this barrier to homeownership would potentially contribute to higher levels of segregation.[15] In addition, to the extent that borrowers are steered to subprime or otherwise higher-priced credit and away from conventional conforming loans, these credit barriers may reduce the size of mortgages that could be obtained, limiting the location choice of borrowers to areas with lower housing costs.

The principal policy levers for expanding access to mortgage financing are various forms of duty-to-serve provisions aimed at low-income and minority consumers who apply to financial institutions, with the most important being the requirements for depository institutions under the Community Reinvestment Act (CRA) and for the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, as part of their regulatory oversight. While these duty-to-serve provisions have the potential to reach a broad swath of the market, there is only limited evidence of their efficacy in increasing access to credit among target populations and even less that they actually increase homeownership rates. In their review of existing evidence, Levitin and Ratcliffe (2014) conclude that the GSE and CRA rules have had modest but positive effects on overall credit flows to low- and moderate-income individuals and areas, with CRA tending to have somewhat larger impacts on lending volumes. In a review of the literature related to the GSE housing goals, Jaffee and Quigley (2012) conclude that to the extent the GSEs did expand credit flows to target groups, this expansion was achieved largely by replacing lending available through the Federal Housing Administration (FHA). However, as Levitin and Ratcliffe argue, the replacement of FHA lending with GSE-backed loans may provide benefits through lower borrowing costs.

In a review of fair housing concerns arising from regulation of the GSEs, Korman (2013) points out the tension inherent in the housing goals that on the one hand establish metrics aimed at expanding lending to low-income borrowers regardless of where they live and at the same time also set metrics aimed at expanding lending in low-income communities and in particular in areas with substantial minority populations. The locational aspects of these latter goals could have the effect of reinforcing the concentration of low-income households — and particularly minority households — in these areas. Of course, these spatial goals were included to remedy historical patterns of redlining which cut minority communities off from access to mainstream credit, and so are not without merit.

There has been very little empirical analysis of the extent to which duty-to-serve provisions increase lending to lower-income borrowers in higher-income neighborhoods or support access by minorities to predominantly white neighborhoods. Friedman and Squires (2005) is one of the few studies that examine whether CRA has been associated with expanded lending to minorities in predominantly white neighborhoods. These authors do find evidence of an increase in this lending in metropolitan areas where CRA lenders have higher market shares. In a comprehensive analysis of CRA's role in expanding access to credit, the Joint Center for Housing Studies (2002) also examined whether CRA lenders have higher volumes of lending to low-income borrowers in higher-income neighborhoods and found that there is a statistically significant effect, although the increase in lending is smaller than in neighborhoods targeted by the duty-to-serve provisions.

Information Deficits and Limitations on Housing Search

The process of becoming a homeowner is also impeded among low-income and minority households by a lack of information and knowledge about the homebuying process, including searching for a home, negotiating the purchase, and qualifying for a mortgage. In a 2003 national consumer survey, Fannie Mae found that blacks, Hispanics, and low-income households were more likely than all households to rate themselves as having below-average understanding of, and less confidence in their ability to complete key stages in, the homebuying process.[16] More recently, a similar Fannie Mae survey found that blacks, Hispanics, and low-income households had less understanding of the qualifications needed to obtain mortgage financing, which would potentially limit their attempts to pursue homeownership.[17] Ethnographic research on minorities and immigrants further supports these findings.[18]

Housing searches aiming to purchase homes in whiter or higher-cost neighborhoods may face greater constraints due both to discrimination and to differences in knowledge by race and socioeconomic status about housing options and the level of effort required for search. Specifically, integration may be affected by the degree to which there are racial or socioeconomic differences in how individuals search for homes to purchase, and in particular whether there are differences in the neighborhoods selected for home search. Importantly, Krysan (2008) finds that while a majority of blacks search for homes (including both for purchase and for rent) in neighborhoods where whites are in the majority, whites are very unlikely to search in areas where they account for less than 70 percent of the population. Thus, white search behavior may be more important for reinforcing patterns of racial segregation than search by African Americans. Meanwhile, Krysan and Bader (2009) examine how knowledge of different communities in the Chicago metropolitan area differs among whites, African Americans and Hispanics and by socioeconomic status, and how these differences influence where members of these groups search for housing. Overall, the findings of these studies point to the importance of affirmative efforts to promote integration by addressing shortfalls in the knowledge of different communities in a region both among racial and ethnic minorities and those of lower socioeconomic status.

Efforts to address the information gaps among potential homebuyers are among the broadest-reaching kinds of public supports for homeownership, with HUD-supported efforts serving several hundred thousand people a year. These services aim to improve homebuying choices by educating and counseling people about the homebuying and mortgage finance process, including whether to buy a home or not. Despite its widespread availability, homeownership education and counseling (HEC) has not been subject to much rigorous evaluation. Collins and O'Rourke (2011) review the available evidence on the efficacy of counseling, which finds some limited support counseling contributes to lower default rates. However, there is no available evidence about whether HEC has any effect on the attainment of homeownership.

In terms of the spatial implications of HEC, while standard curricula provide information about the housing search process, there does not appear to be any emphasis on how prospective buyers ought to select where to search for a home. Many of the organizations offering HEC are community-based organizations in lower-income communities and so may have a tendency to support home purchases in their service areas. Thus, while HEC may present an opportunity to help inform homebuyers about a broader range of communities in which to search, HEC efforts to date have not focused on this goal and so have probably had more limited integrative effects than they could.

OBSERVATIONS ON EXISTING EFFORTS TO SUPPORT HOMEOWNERSHIP AND THEIR CONTRIBUTION TO INTEGRATION

In considering the range of existing policies that provide support for homeownership, a few broad conclusions can be drawn. First, the principal barrier to homeownership for low- and moderate-income households is a lack of savings to meet downpayment and closing cost requirements. For that reason, policies that promote savings or provide upfront subsidies will have the greatest impact in bringing homeownership within reach. Expanding access to conventional mortgage financing also has an important role to play by directly addressing affordability concerns and also because of the association of subprime lending with higher degrees of segregation, particularly among African-Americans.

But in order for an expansion of homeownership to contribute to socioeconomic and racial/ethnic integration, prospective homebuyers have to be able to afford homes in higher-cost neighborhoods. To expand residential opportunities, the degree of financial support provided has to both be significant enough to open up the doors to these communities and well-targeted to lower-income households so as to increase the relative purchasing power of this group. A second broad conclusion is that beyond financial subsidies, there is also a need to better inform minority and low-income households about the homebuying process and specifically to expand the range of communities included in the housing search process by whites and minorities alike to create the possibility of more integrative moves.

A third broad conclusion is that while for the most part homeownership policies have not been constructed with an explicit focus on their impact on residential integration, there is no doubt that various homeownership supports have made a significant contribution to segregation over time, and so whether intended or not these policies often have a spatial dimension.[19] Certainly, further research is needed to better understand the effects of homeownership supports on socioeconomic and racial/ethnic integration. But this history points to the importance of understanding the spatial implications of homeownership supports and tailoring them to encourage integration and not reinforce existing patterns of segregation.

Indeed, given what is known, there are clear opportunities to tailor housing policies to be more likely to foster integration by increasing the relative purchasing power of lower-income households, by addressing information deficits that may constrain the search process of low-income and minority homebuyers, and by assuring access to safe and fairly priced mortgage products. The next section presents our recommendations in each of these areas.

WHAT WILL IT TAKE FOR HOMEOWNERSHIP POLICY TO MOVE THE NEEDLE ON INTEGRATION?

There are two critical considerations in framing homeownership policy options that could move the needle on residential integration: first, whether the policy would affect a large enough number of households to make a difference in residential patterns across the country; and second, whether the policy is fiscally feasible given the current political environment (meaning, the policy cannot require a large increase in public spending). Of course, there is also the question of whether, fiscal questions aside, the policy is otherwise likely to gain enough political support to be enacted. While difficult to handicap, the ideas presented below have been developed with an eye toward having at least the potential for bipartisan support.

The policy options outlined below are not new ideas, though in this paper they are newly filtered through the lens of how they would be expected to contribute to racial and economic integration. While not all of the policies have an explicit spatial dimension, to the extent that they increase the purchasing power of low- and moderate-income households relative to higher-income households, they arguably have the potential to foster integration by opening up a broader range of communities to lower-income buyers.

There are four categories of policies proposed below: changes in federal income tax policy related to the mortgage interest deduction and savings; increased support for housing counseling; broad policy considerations in maintaining or modifying duty-to-serve obligations affecting mortgage lending; and recommendations for better targeting and potentially expanding funding for downpayment assistance.

Potential Reforms to Federal Tax Policy

With the passage of the Tax Cuts and Jobs Act of 2017 (TCJA), the near-term opportunity for reform of tax policy may have passed, but to the extent that the opportunity for changes to the tax code may arise again, there are a number of changes that should be considered that would better support homeownership among low- and moderate-income households. Given its high cost and lack of impact on homeownership rates, particularly among low- and moderate-income households, the MID has been the subject of numerous proposals for reform from both the political right and left.[20] While the TCJA did not eliminate the MID, it did limit its value by reducing the limit on the size of mortgages eligible for the deduction from $1 million to $750,000, by doubling the size of the standard deduction (thus reducing the incentive to itemize), and by capping the deductibility of state and local taxes (again, reducing the likelihood that taxpayers will claim the MID).

Past proposed reforms of the MID fall into two broad categories: those that would modify the way in which mortgage interest payments are treated and those that would, to avoid encouraging the use of debt, replace the MID with a one-time tax credit tied to home purchase and not to mortgage interest payments.[21] Most reforms to the treatment of interest payments would convert the deduction into a credit so that the value to the homeowner is not a function of marginal tax rate. In fact, adopting a credit for mortgage interest payments would mitigate the effect of the TCJA since the ability to claim the credit would not depend on whether taxpayers itemize their deductions. These credits could be made refundable in order to reach households with limited federal tax obligations or, to limit the fiscal impact, could be used only to offset actual taxes owed. These various proposals establish a share of interest payments that would be eligible for the credit (typically around 15 percent) up to a specified cap (either a fixed national limit or a limit linked to area house prices). The tax credit could also be subject to a phase-out at higher income levels to reduce the cost to the federal government and to target the benefits at those most likely to have their decision to own hinge on this benefit, although these goals may also be achieved by simply capping the amount of tax credit.

The use of a tax credit (rather than a deduction) subject to a cap and limited to primary residences results in much greater targeting of these tax benefits to low- and moderate-income households and thus has much greater potential to actually increase homeownership rates. Green and Vandell (1999) simulate this type of change and estimate that the impact on homeownership rates among low-income and minority households would be substantial, on the order of 6–10 percentage points.

Other proposals call for creating a tax credit that would be claimed upon purchase of a home rather than an annual credit linked to mortgage interest payments in order to avoid encouraging the use of debt. These relatively large, one-time credits are typically targeted at first-time homebuyers, although some proposals include all home purchasers. Limiting the credit to first-time buyers and to just the year of purchase would greatly reduce the foregone tax revenues and would focus the credit on addressing the downpayment constraint that is the principal financial obstacle to homeownership. Gale, Gruber, and Stephens-Davidowitz (2007) propose these types of credits, with estimates that refundable credits of $3,000 for single filers and $6,000 for married filers could be offered at a cost to the federal government of about $16 billion. Harris, Steuerle, and Eng (2013) propose much larger credits of $12,000 for single filers and $18,000 for married filers. They do not provide explicit costs of such credits, but they would obviously cost on the order of 3–4 times the smaller proposal, or perhaps more if more households are able to attain homeownership as a result. Credits of this magnitude would obviously have a much greater impact on the price of homes that would be within reach of homebuyers and so have a potentially larger integrative effect.[22]

If the goal of changing the tax code is to better target tax expenditures to increase homeownership for low- and moderate-income households, a large, upfront credit for first-time buyers would arguably be most effective as this would directly address the principal barrier to owning and bring a broader range of communities within financial reach. This type of credit would have the additional benefit of not being tied to the amount of debt taken on and so would not encourage borrowing. But if other fiscal or political considerations make such a switch unlikely, a refundable credit for interest payments that is capped and phased out at higher income levels would allow for larger benefits directed to households who are on the cusp of being able to afford a home.

Of course, any reform of the MID would have to be thoughtfully phased in over time to avoid disruptions to the housing markets in places where it has inflated home prices. Rappaport (2016) estimates that removing the MID would lower prices by an average of 5 percent across 269 metropolitan areas, ranging from a low of 1 percent to a high of 9 percent. This range is not dissimilar from earlier estimates by Capozza, Green, and Hendershott (1996) that gave a range of declines from 2 to 13 percent across 63 market areas. However, with the recent changes introduced by the TCJA, the share of tax filers itemizing their deductions will decline sharply, in effect eliminating the MID in most areas of the country. As a result, any impact on house prices of changing the MID will already have taken effect and so the potential for further impacts on housing prices from changes in the tax code will be limited.

One concern with offering substantial tax credits to enable home purchase is that households' inability to save for a downpayment and closing costs may be a sign of lack of financial readiness for the demands of homeownership. For these reasons, another avenue to support homeownership which should be adopted are subsidies to encourage savings to buy a home. Saving incentives would achieve multiple goals, including encouraging thrift, fostering improved budgeting skills, and drawing on more of the homebuyer's own savings to build up a downpayment.[23] Enhancing personal savings would also expand the purchasing power of low- and moderate-income households and so further integrative goals.

Modifications to existing tax incentives for retirement savings could better encourage savings and provide a simple and efficient means for delivering subsidies to homebuyers, potentially without any increase in federal tax expenditures. The Joint Committee on Taxation estimates that in 2016 the value of expenditures for defined contribution plans and individual retirement accounts (IRAs) amounted to $113 billion. As with the MID, these benefits currently largely accrue to higher-income households in part because they are based on the marginal tax rate of the filer since the benefit accrues from shielding the income saved from taxation.[24] Restructuring the availability and distribution of tax benefits for qualified savings would have the potential to reach millions of households and potentially have a significant impact on homeownership opportunities.

One model for reforming savings incentives is the Universal Savers Credit (USC) proposed by the Center for American Progress.[25] The USC would provide for a refundable tax credit for contributions to qualified savings plans. The credit could be subject to a cap and also scaled by income to reduce the level of expenditure and make the benefit more progressive. CAP estimates that a 30-percent credit for qualified savings with annual caps similar to current limits on retirement savings could be revenue-neutral relative to current expenditures but would be much better targeted to low- and moderate-income filers. Under this approach, savers would essentially be given a 30-cent match for each dollar saved up to the cap. As with current tax benefits, the credit would apply to savings in 401k and 403b accounts as well as IRAs but would also apply to new accounts that can be expressly used for purposes other than retirement savings, including buying a home, educational expenses, or health care costs. The new accounts could also be rolled over into qualified retirement accounts if the saver decides to not pursue these other goals.[26] Such a credit would also have the virtue of promoting savings among lower-income households for purposes other than homeownership.

A package of changes that create a modest-sized first-time buyer credit coupled with an incentive for household savings might offer the most effective means of enabling homeownership and greatly expanding the purchasing power of low- and moderate-income households. Limiting the size of the first-time buyer credit would result in less revenue spent on those who would buy a home in the absence of a credit, while those who need additional cash to afford a home would be induced to acquire it over time through savings, helping to ensure that buyers are better prepared for homeownership.

Expand Support for Housing Education and Counseling

A substantial expansion of the availability of homeownership education and counseling (HEC) also has the potential to reach a significant number of households at a reasonable cost. While there is not yet convincing evidence that pre-purchase HEC increases homeownership rates, given survey findings that lower-income and minority households in particular lack accurate information about mortgage products and mortgage qualifications, there is also a compelling case that HEC could address a potentially important barrier to homeownership for these groups. In recognition of this value, the Bipartisan Policy Center (BPC) Housing Commission included an expansion of federal support for HEC among its recommendations to support homeownership.[27]

More broadly available HEC would potentially contribute to greater integration by increasing homeownership opportunities among racial and ethnic minorities and low- and moderate-income households more generally. However, as discussed above, to date HEC programs have not been designed with the explicit goal of supporting pro-integrative moves. Thus, in addition to expanding HEC availability, there is also a need to develop and test approaches to enhance HEC's ability to overcome geographical blind spots that may impede moves that would foster integration.[28] These pilots could explore the development of HEC curriculum and tools to help broaden homebuyers' knowledge of metropolitan regions where they are seeking to buy and help identify communities that would provide appealing opportunities to live but might not otherwise be on a homeseeker's search list.

As noted by the BPC, in order to expand access to high-quality counseling there is a need for investment in the infrastructure of the HEC industry. This infrastructure would include the technology and networks needed to enable clients to receive assistance that is more convenient, tailored to their needs, and at lower cost. This infrastructure would also include public campaigns to raise awareness of the value and availability of HEC. An expansion of counseling would also need to come with safeguards to ensure the consistency and quality of the services delivered.

In order to achieve these goals, a steady and reliable source of funding is needed to support investments in technology, delivery systems, outreach, and service provision. HUD has long been the principal source of funding for housing counseling, providing $42 million in funding in the most recent fiscal year.[29] While one option would be to expand the amount of funding raised though Congressional appropriations, in the current environment an increase in direct appropriations may be difficult. Another funding source that has been proposed is to require that a small portion of the mortgage servicing fee (perhaps 1–3 basis points) collected by loan servicers be directed to a government-controlled fund to support housing counseling.[30] Since the value of housing counseling is realized by both borrowers and the mortgage industry, there is a clear logic for tying the funding to mortgage payments. The revenue raised by such a fee could be distributed via a competitive grant process, much as current HUD funding is distributed to support direct service provision, but would also include allocations for investment in technology and systems, the development of curriculum and other instructional tools, and organizational operating costs.

Maintain an Emphasis on Access to Credit

Regulatory mandates for the mortgage market to take proactive steps to reach lower-income and minority homebuyers are another critically important means of supporting sustainable homeownership at a significant scale. While there is a lack of evidence that mandates under CRA and the GSE housing goals have increased homeownership, there is a body of research indicating that these rules do improve access to safe and fairly priced mortgage products. Specifically, a number of studies have concluded that CRA is associated with expanded access to credit for lower-income households and neighborhoods and may also increase lending to lower-income and minority borrowers in higher- income neighborhoods. There is less evidence that the GSE housing goals have expanded access to credit, but a more convincing case that the goals have increased the GSEs' market share at the expense of FHA lending. Still, such a substitution of credit source would yield benefits for borrowers in the form of lower costs. Perhaps more importantly, expanding access to lending from conventional sources would also act as a bulwark against the expansion of the high-cost and risky subprime lending that came to dominate many low-income, minority communities during the early 2000s.

Given the role these regulations have played in expanding access to credit, it is important that such duty-to-serve mandates be preserved as part of the regulatory oversight of financial entities engaged in mortgage lending — a particularly salient point with regard to the ongoing debate about GSE reform. Levitin and Ratcliffe (2014) present a compelling case that such duty-to-serve requirements are justified by the public sector's role in backstopping these institutions and are warranted given the existing evidence that these rules have not unduly increased financial risk and have had a positive impact on lending to targeted populations.

But even taking the mandate for duty-to-serve provisions as given leaves open the question of how they can be structured to incentivize lending that supports integrative home purchases and does not unduly concentrate lending to low-income and minority homebuyer in communities where these households are already concentrated. One way to mediate against this unintended consequence would be to avoid goals that include both borrower and neighborhood incomes in a single measure, such as the low-income area goal for the GSEs, which is currently defined (at least in part) based on both the income of the borrower and the income and racial composition of the neighborhood. Such goals can have the unintended consequence of encouraging lending to low-income borrowers in low-income and high-minority neighborhoods. Certainly, goals that encourage lending to low-income and minority communities are important to support demand and investment in these communities. But establishing goals that encourage lending to low-income borrowers throughout market areas would better support integrative areas.

A full assessment of reforms of CRA and GSE lending mandates that would better serve the goals of integration is beyond the scope of the present paper. But as opportunities arise for reform, more thought should be given to how the mandates can be used to support lending to lower-income and minority households that expands their range of neighborhood choice. Given the complexity of balancing the goals of expanding lending to specific populations and to neighborhoods traditionally underserved by the finance system, qualitative assessments of efforts by financial institutions to ensure that their loan products and services serve low-income and minority borrowers throughout metropolitan areas may well be more appropriate than quantitative measures of lending activity. CRA has long included such a qualitative review, while recent enacted duties to serve for the GSEs have also adopted this approach.

Expand the Stock of Shared Equity Housing

The most direct way to assure access to homeownership opportunities for lower-income households in neighborhoods they could not otherwise afford is to provide upfront subsidies to reduce the cost of the housing. However, depending upon the income level targeted and the cost of housing in the area, the subsidy amount required can be large, easily in the tens of thousands of dollars or more in the highest-cost markets. To ensure that public funds used for this purpose work to create a permanent stock of affordable housing in these areas, there should be a strong emphasis on some form of shared equity homeownership rather than on grants or low-cost loans.

The HOME program is one of the most significant sources of downpayment assistance for homebuyers, but given program rules most of this funding does not require affordability periods beyond the 5 to 15 years required by statute. As Lubell (2014) notes, HUD could steer participating jurisdictions to adopt shared equity approaches either by mandating much longer affordability periods for high levels of subsidies, or it could simply encourage greater adoption of this practice by disseminating model shared equity program guidelines.

However, an expansion of shared equity homeownership programs would require a substantial increase in funding for subsidies. Given the current budgetary climate, a significant expansion of HOME funding is unlikely — in fact, further cuts to this program are much more likely. For this reason, shared equity models are unlikely to be an approach that will move the needle on integration in the foreseeable future. Nonetheless, there is still good reason to seek opportunities to expand the existing stock of these units through whatever federal funding is available and through inclusionary zoning programs that are becoming increasingly common. While these efforts may add units at the rate of only thousands a year and not hundreds of thousands, over an extended period of time they may still accumulate a meaningful number of homes.

However, in addition to a source of funding for subsidies, increasing the scale of shared equity programs will require additional sources of operating funding for stewards of these programs and, given the reluctance of lenders to accept resale provisions in shared equity arrangements, a source of financing for homebuyers. Thus, there are additional roles for policy in helping to create models for sustainable funding of these efforts and a source of mortgage financing.

CONCLUDING THOUGHTS

Any meaningful effort to foster greater socioeconomic and racial/ethnic integration has to consider means of creating entry paths into higher-opportunity communities through homeownership — not only because a significant portion of homes in these areas are owner-occupied but also because homeownership remains an important aspiration of the vast majority of Americans. Expanding opportunities to buy a home would also benefit low- and moderate-income neighborhoods by providing residents with greater protection against rising housing costs, enhancing residential stability for their benefit and the benefit of the community. Homeownership may also promote greater inclusiveness of low-income and minority residents in these communities by putting them on more equal footing with other homeowners in these areas.

Ultimately, the goal of the recommendations presented above is to expand the range of housing choices available to lower-income and minority families and individuals by expanding the financial resources and information at their disposal. The principal avenues recommended for achieving these goals is for changes to federal policies that have broad market implications through the tax code, the provision of widely accessible housing education and counseling, and regulation of mortgage lending. Just as these policies in the past have been instrumental in creating the conditions that produced segregation and urban decline, they are also potentially powerful tools to promote integration and neighborhood stabilization. In today's fiscal climate, reform of these policies is also likely the only way to direct meaningful amounts of financial resources to this issue given the magnitude of existing tax expenditures for homeowners and retirement savers.

Bibliography

Bipartisan Policy Center. 2013. *Housing America's Future: New Directions for National Policy.* Report of the Bipartisan Policy Center Housing Commission.

Bischoff, K., and S.F. Reardon. 2014. "Residential Segregation by Income, 1970–2009." *Diversity and Disparities: America Enters a New Century*, edited by John Logan, 208–33. New York: Russell Sage Foundation.

Bostic, R.W., P.S. Calem, and S.M. Wachter. 2005. "Hitting the Wall: Credit as an Impediment to Homeownership." In *Building Assets, Building Credit: Creating Wealth in Low-income Communities*, edited by Nicolas Retsinas and Eric Belsky, 155–172. Washington, D.C.: Brookings Institution Press; Cambridge, MA: Joint Center for Housing Studies of Harvard University.

Bourassa, S.C., and M. Yin. 2008. "Tax Deductions, Tax Credits and the Homeownership Rate of Young Urban Adults in the United States." *Urban Studies* 45, no. 5–6: 1141–61.

Breymaier, R., forthcoming. "The Social and Economic Value of Intentional Integration Programs in Oak Park, IL" Cambridge, MA: Joint Center for Housing Studies, Harvard University.

Calavita, N., and A. Mallach, eds. 2010. *Inclusionary Housing in International Perspective: Affordable Housing, Social Inclusion, and Land Value Recapture.* Cambridge, MA: Lincoln Institute of Land Policy.

Capozza, D.R., R.K. Green, and P.H. Hendershott. 1996. "Taxes, Mortgage Borrowing, and Residential Land Prices." In *Economic Effects of Fundamental Tax Reform,* edited by Henry Aaron and William Gale, 171–210. Washington, D.C.: Brookings Institution Press.

Collins, J.M., and C. O'Rourke. 2011. "Homeownership Education and Counseling: Do We Know What Works?" Washington, D.C.: Mortgage Bankers Association, Research Institute for Housing America.

Congressional Budget Office. 2016. "The Distribution of Household Income and Federal Taxes 2013." Washington, D.C. June.

Drew, R.B. and C. E. Herbert, 2011. "Postrecession drivers of preferences for homeownership." *Housing Policy Debate* 23, no. 4, 666–687.

Fannie Mae. 2003. "Fannie Mae National Housing Survey." Washington, D.C.: Fannie Mae.

———. 2015. *What Do Consumers Know About the Mortgage Qualification Criteria?* Washington, D.C.: Economic & Strategic Research Group, Fannie Mae. December.

Fischer, M.J. 2013. "Black and White Homebuyer, Homeowner, and Household Segregation in the United States, 1990–2010." *Social Science Research* 42, no. 6: 1726–36.

Friedman, S., and G.D. Squires. 2005. "Does the Community Reinvestment Act Help Minorities Access Traditionally Inaccessible Neighborhoods?" *Social Problems* 52, no. 2: 209–31.

Friedman, S., H.S. Tsao, and C. Chen. 2013. "Housing Tenure and Residential Segregation in Metropolitan America." *Demography* 50, no. 4: 1477–98.

Gale, W.G., J. Gruber, and S.I. Stephens-Davidowitz. 2007. "Encouraging Homeownership through the Tax Code." *Tax Notes*, June 18: 1171–89.

Glaeser, E.L., and J.M. Shapiro. 2003. "The Benefits of the Home Mortgage Interest Deduction." *Tax Policy and the Economy* 17: 37–82.

Green, R.K., and K.D. Vandell. 1999. "Giving Households Credit: How Changes in the US Tax Code Could Promote Homeownership." *Regional Science and Urban Economics* 29, no. 4: 419–44.

Grinstein-Weiss, M., G.A.N. Chowa, and A.M. Casalotti. 2010. "Individual Development Accounts for Housing Policy: Analysis of Individual and Program Characteristics." *Housing Studies* 25, no. 1: 63–82.

Grinstein-Weiss, M., M.W. Sherraden, W. Rohe, W.G. Gale, M. Schreiner, and C. Key. 2013. "Long-Term Follow-up of Individual Development Accounts: Evidence from the ADD Experiment." *American Economic Journal: Economic Policy* 5, no. 1: 122–45.

Harris, B.H., C.E. Steuerle, and A. Eng. 2013. "New Perspectives on Homeownership Tax Incentives." *Tax Notes* 141, no. 12: 1315–32.

Herbert, C.E., D.R. Haurin, S.S. Rosenthal, and M. Duda. 2005. "Homeownership Gaps among Low-income and Minority Borrowers and Neighborhoods." Washington, D.C.: U.S. Department of Housing and Urban Development. http://www. huduser. org/publications/HOMEOWN/HGapsAmongLInMBnN. html.

Herbert, C.E., D.T. McCue, and R. Sanchez-Moyano. 2014. "Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households." In *Homeownership Built to Last: Balancing Access, Affordability, and Risk after the Housing Crisis*, edited by Eric Belsky, Christopher Herbert, and Jennifer Molinsky, 50–98. Washington, D.C.: Brookings Institution Press.

Hilber, C.A., and T.M. Turner. 2014. The Mortgage Interest Deduction and Its Impact on Homeownership Decisions." *Review of Economics and Statistics* 96, no. 4: 618–37.

Immergluck, D. 2011. *Foreclosed: High-risk Lending, Deregulation, and the Undermining of America's Mortgage Market.* Ithaca, NY: Cornell University Press.

Jackson, K.T. 1985. *Crabgrass Frontier: The Suburbanization of the United States.* New York: Oxford University Press.

Jaffee, D., and J.M. Quigley. 2012. "The Future of the Government-Sponsored Enterprises: The Role for Government in the US Mortgage Market. In *Housing* *and the Financial Crisis,* edited by Edward Glaeser and Todd Sinai, 361–417. Chicago: University of Chicago Press.

Joint Center for Housing Studies of Harvard University. 2002. *The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System.* Cambridge, MA: Joint Center for Housing Studies of Harvard University.

Joint Committee on Taxation. 2017. "Estimates of Federal Tax Expenditures for the Fiscal Years 2016–2020." Joint Committee on Taxation, the Congress of the United States. January 30.

Korman, H. 2013. "Furthering Fair Housing, the Housing Finance System, and the Government Sponsored Enterprises." In *Where Credit is Due: Bringing Equity to Credit and Housing After the Market Meltdown*, edited by Christy Rogers and john a. powell, 267–98. Lanham, MD: University Press of America.

Krysan, M. 2008. "Does Race Matter in the Search for Housing? An Exploratory Study of Search Strategies, Experiences, and Locations." *Social Science Research* 37, no. 2: 581–603.

Krysan, M., and M.D. Bader. 2009. "Racial Blind Spots: Black-White-Latino Differences in Community Knowledge." *Social Problems* 56, no. 4: 677–701.

Levin, Ezra. 2014. Upside Down: Homeownership Tax Programs. Center for Enterprise Development.

Levitin, A.J., and J. Ratcliffe. 2014. "Rethinking Duties to Serve in Housing Finance." In *Homeownership Built to Last: Balancing Access, Affordability, and Risk after the Housing Crisis*, edited by Eric Belsky, Christopher Herbert, and Jennifer Molinsky, 317–50. Washington, D.C.: Brookings Institution Press.

Listokin, D., E.K. Wyly, B. Schmitt, and I. Voicu. 2001. "The Potential and Limitations of Mortgage Innovation in Fostering Homeownership in the United States." *Housing Policy Debate* 12, no. 3: 465–513.

Logan, J.R., and B.J. Stults. 2011. "The Persistence of Segregation in the Metropolis: New Findings from the 2010 Census." Census brief prepared for Project US2010.

Lubell, J. 2014. "Filling the Void Between Homeownership and Rental Housing: A Case for Expanding the Use of Shared Equity Homeownership." In *Homeowners hip Built to Last: Balancing Access, Affordability, and Risk after the Housing Crisis*, edited by Eric Belsky, Christopher Herbert, and Jennifer Molinsky, 203–30. Washington, D.C.: Brookings Institution Press.

Massey, D.S., and N.A. Denton. 1993. *American Apartheid: Segregation and the Making of the Underclass.* Cambridge, MA: Harvard University Press.

Mills, G., W.G. Gale, R. Patterson, G.V. Engelhardt, M.D. Eriksen, and E. Apostolov. 2008. "Effects of Individual Development Accounts on Asset Purchases and Saving Behavior: Evidence from a Controlled Experiment." *Journal of Public Economics* 92, no. 5: 1509–30.

Rappaport, David. 2016. "Do Mortgage Subsidies Help or Hurt Borrowers?" Finance and Economics Discussion Series 2016–081. Washington, D.C.: Board of Governors of the Federal Reserve System.

Ratner, M.S. 1996. "Many Routes to Homeownership: A Four-Site Ethnographic Study of Minority and Immigrant Experiences." *Housing Policy Debate* 7, no. 1: 103–45.

Reid, C.K. 2014. "To Buy or Not to Buy? Understanding Tenure Preferences and the Decisionmaking Processes of Lower-Income Households." In *Homeownership Built to Last: Balancing Access, Affordability, and Risk after the Housing Crisis,* edited by Eric Belsky, Christopher Herbert, and Jennifer Molinsky, 143–71. Washington, D.C.: Brookings Institution Press.

Ross, S.L., and J. Yinger. 2002. *The Color of Credit: Mortgage Discrimination, Research Methodology, and Fair-Lending Enforcement.* Cambridge, MA: The MIT Press.

Schwartz, H.L., L. Ecola, K.J. Leuschner, and A. Kofner. 2012. "Is Inclusionary Zoning Inclusionary? A Guide for Practitioners." Technical Report. RAND Corporation.

Spencer, G. 2013. "Integrating Housing Counseling into the Residential Marketplace: A Strategic Framework for Bolstering Homeownership, Lowering the Risk to the Housing Finance System, and Creating Sustainable Funding." Working Paper. Washington, D.C.: Homeownership Preservation Foundation.

Theodos, B., K. Temkin, R. Pitingolo, and D. Emam. 2015. "Homeownership for a New Era: Baseline Report on the Cornerstone Homeownership Innovation Program." Washington, D.C.: The Urban Institute.

Turnham, J., C. Herbert, S. Nolden, J. Feins, and J. Bonjorni. 2004. "Study of Homebuyer Activity through the HOME Investment Partnerships Program." Washington, D.C.: Department of Housing and Urban Development.

Turner et al 1999

Turner, M.A., F. Freiberg, E. Godfrey, C. Herbig, D.K. Levy, and R.R. Smith. 2002. *All Other Things Being Equal: A Paired Testing Study of Mortgage Lending Institutions.* Washington, D.C.: The Urban Institute.

Weller, C.E., and S. Ungar. 2013. "The Universal Savings Credit." Washington, D.C.: Center for American Progress. July 19.

Wilson, E., and R.R. Callis. 2013. "Who Could Afford to Buy a Home in 2009? Affordability of Buying a Home in the United States." Current Housing Reports. Washington, DC: US Census Bureau. May.

Endnotes

1 Bischoff and Reardon (2014); Logan and Stults (2011).

2 Drew and Herbert (2011).

3 Herbert, McCue, and Sanchez-Moyano (2014).

4 Wilson and Callis (2013); Listokin et al. (2001).

5 Herbert et al. (2005).

6 Turnham et al. (2004).

7 Lubell (2014).

8 Herbert et al. (2005); Calavita and Mallach (2010).

9 Theodos et al. (2015).

10 Capozza, Green, and Hendershott (1996); Green and Vandell (1999); Glaeser and Shapiro (2003); Bourassa and Yin (2008); Hilber and Turner (2014).

11 Wilson and Callis (2013); Listokin et al. (2001).

12 Bostic, Calem, and Wachter (2005).

13 Ross and Yinger (2002); Turner et al. (1999).

14 Immergluck (2011).

15 Based on data from the 2000 Decennial Census, Friedman, Tsao, and Chen (2013) find that Hispanic and Asian homeowners are less segregated than Hispanic and Asian renters from white households, even taking into account differences in incomes and other household and market measures. Among blacks, homeownership is not as strongly associated with declines in segregation. However, Fischer (2013) finds that black recent homebuyers were less segregated from whites than all black homeowners over much of the period 1992–2010, suggesting that transitions into homeownership were somewhat supportive of integration. However, the differences were not significant by the end of the period.

16 Fannie Mae (2003).

17 Fannie Mae (2015).

18 Ratner (1996); Reid (2014).

19 Jackson (1985); Massey and Denton (1993).

20 See Levin (2014) for a summary of proposals since 2005.

21 Levin (2014).

22 However, an important question is what effect the credit would have on home prices since increases in home prices due to the credit would offset any increase in affordability it provides. Gale, Gruber, and Stephens-Davidowitz (2007) state that if the credit is limited to first-time buyers the price effects would be small, but they do not attempt to empirically assess this claim. Based on the findings of other studies, the degree of price impacts would depend not only on the number of homebuyers claiming the credit but on the degree of housing supply elasticity across markets.

23 Individual Development Accounts (IDAs) offer one proven model for subsidizing savings and supporting transitions to homeownership, but the cost of bringing these efforts to a much larger scale would be significant. For assessments of the efficacy of IDA programs in helping participants to achieve and sustain homeownership, see Grinstein-Weiss, Chowa, and Casalotti (2010), Grinstein-Weiss et al. (2013), and Mills et al. (2008).

24 Congressional Budget Office (2016).

25 Weller and Unger (2013).

26 Current tax rules already allow the penalty-free withdrawals from individual retirement accounts for first-time home purchase up to $10,000 for individuals and $20,000 for married couples. The new account would relax these caps and expand the use of funds.

27 Bipartisan Policy Center (2013).

28 Breymaier (2017).

29 See https://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2016/HUDNo_16-094.

30 Spencer (2013).