

Towards a Strategic Federal Policy Promoting Homeownership

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ABSTRACT

The U.S. lacks a coherent, well-reasoned set of federal policies supporting homeownership. Existing programs are poorly targeted, or are inadequately designed given policy objectives. Federal government intervention to promote homeownership is justified on three grounds: (1) ownership creates positive public externalities, (2) low-income and minority households have inequitable access to ownership, and (3) owner-occupied housing is associated with the stability of the broader economy. Federal policies promoting homeownership should be more carefully targeted to these rationales. A review of existing policies suggests programs could be refined to become more effective, and in some cases additional focus would reduce duplicative approaches. The largest federal incentive for first-time and ongoing homeownership, the mortgage interest deduction, should be better targeted and also capped to eliminate incentives for taxpayers taking on larger mortgages or second homes. FHA (Federal Housing Administration) mortgage insurance should take on more risk, expanding qualified first-time homebuyers, while reducing costs to borrowers. Mortgage revenue bonds should be designed to better complement FHA to provide more deeply subsidized mortgages underserved first-time homebuyers. Regulations, such as Community Reinvestment Act (CRA), support of GSEs (government sponsored agencies) and disclosure laws, need increased purview given the rapidly developing mortgage market. Other programs are need more attention and elevated standards. A serious approach to homeownership policy is merited, but policymakers need to undertake a careful analysis of which programs are most effective and strategic given limited federal resources.

1.0 INTRODUCTION

The Federal government has promoted homeownership in various forms for almost a century. Yet, the underlying principles of federal homeownership policy are often taken for granted, with scant critical analysis. This paper reviews ten major federal policies related to homeownership, analyzing the strategic intent of each, the rationale for government intervention, and how the program might be tailored to more purposefully impact first-time and ongoing homeownership.

In 2001, over 70 million households owned their own homes, over five million households purchase homes, over 40 percent of whom were previously renters (American Housing Survey 2001, table 3-10). Potential buyers typically rely on a real estate agent to help them search for a home, and on private appraisers, attorneys and inspectors to provide judgments at various stages of the home-purchase transaction. Mortgage brokers and financial institutions evaluate loan applicants and provide access to mortgage loans, often through secondary markets to investors on Wall Street. The public sector provides a regulatory framework, cash subsidies, tax advantages, and credit enhancements, implicit and explicit, all of which facilitate homeownership. The nonprofit sector also plays a role, serving as housing developer, homebuyer educator, and an administrator of financial assistance.

While this system of public-private relationships has evolved over the last century to support record levels of homeownership, it is difficult to point to a specific strategy the federal government has employed consistently contributing to this success. In fact, reviews of federal policies (Carliner 1998; Hayes, 1985; Mitchell, 1985) suggest the evolution of mechanisms supporting homeownership has been less than strategic. Carliner (1998) argues there have been very few explicit attempts to promote homeownership in the U.S., despite the fact that every administration from the 1920s to today has articulated great rhetorical support for homeowners. The promotion of homeownership, let alone

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affordable homeownership, has at best been a rationale of convenience for policymakers. In fact, very few federal programs specifically call out homeownership as a reason for passage (Appendix Table 1).

2.0 WHY SUPPORT HOMEOWNERSHIP THROUGH FEDERAL POLICIES?

A renewed focus on homeownership policy issues at the federal level in 2001 roiled advocates for rental housing, provoking a debate over the use of limited federal resources and oversight for owner-occupied versus rental-occupied housing (Pitcoff, 2003). In part, this debate highlights the confusion over the rationales of homeownership-related policies. The logic for providing any support for homeownership has three complementary components. First, homeownership produces positive externalities for communities, and too few renters would become homeowners than would be optimal for society without some incentives from the public sector. Second, there is stubborn discrepancy between the homeownership rates among households, due to historic inequities and discrimination, preventing targeted groups from participating in the private benefits of homeownership. Third, due to the magnitude of home equity in individual households' portfolios, and the commingled risks for those households and the broader financial markets, the federal government is justified in supporting homeowners and mitigating potential risks. Each of these rationales is rooted in very different policy goals. Frequently arguments over homeownership policies are based on a lack of clarity relevant to which policy rationale is at stake. Each of these three rationales is explained in detail in the following sections.

2.1: RATIONALE #1—EXPANDING HOMEOWNERSHIP PRODUCES POSITIVE EXTERNALITIES

By supporting homeownership, federal policies leverage positive spin offs for communities and residents. These positive impacts of home owning are valuable to society and part of the so-called American Dream of homeownership. For example, studies suggest homeowners are more likely to be engaged in civic organizations and to participate in elections than similar renters (Dietz, 2003). By taking part in improvement activities, owners contribute to the improvement of neighborhoods for all residents (DiPasquale, 1997). Neighborhoods with higher homeownership rates tend to have better physical conditions, and residents in these areas display superior property upkeep and maintenance behaviors (Haurin, Dietz and Weinberg, 2002). Increasing investment in a neighborhood by owner-occupants can be a signal of confidence to neighbors and the housing market. To the extent ownership also prevents vacant housing, owner-occupied homes preclude blighting negative externalities for nearby homes.

While all residents of a community may benefit from an improved quality of life due to increased homeownership, landowners in particular will financially benefit if real estate markets incorporate improvements in quality into property values. In effect, federal subsidies for ownership enhance the economic value of landowners, both owner-occupants and absentee real estate investors. Renters in areas with rising ownership are not excluded from the social and physical externalities of ownership, but because rents generally follow real estate values, and reflect demand for units in quality communities, they will face rising housing costs with no opportunity to economically benefit from escalating land values.

It should also be noted, despite a growing body of research, it remains unclear whether homeownership itself is the cause of positive externalities. Many of ownership's benefits are closely related to the social and economic attachment associated with longer periods of residence, rather than formal tenure choice. However, home owning is clearly associated with longer tenure periods, property upkeep behaviors and provides an accessible mechanism for households to invest in real property. Moreover, the desire or demand to own a home is strong across all socioeconomic groups (Fannie Mae National Housing Survey, 2002). Nevertheless, some households may never chose to own a home, because the relative costs of renting are lower, because of the desire to be able to move quickly, or even because the household cannot stomach the potential risks of owning a home—from foreclosure to home maintenance. While owning a home creates more value than is realized by

individual homeowners, households unprepared for homeownership should not be made worse off by being pushed into ownership for the marginal benefit created for the broader society. Only when ownership makes the household better off, is it justified on public policy grounds.

The rationale of homeownership's positive externalities suggests two directions for homeownership policy. First, federal policy should create incentives for households to buy a home who do not currently own one. This can be thought of as having producing a *first-time* effect – pushing renters on the margin to become homeowners. These incentives should be targeted to those households who otherwise would not buy a home – that is the renter who is on the threshold of buying a home and needs an incentive to do so. Some renters can become owners even in the absence of assistance, and therefore federal incentives will simply subsidize an existing activity. The second policy direction suggested by the positive externalities rationale is to create an incentive for households to remain homeowners, and not revert back to renting. This can be thought of as the *ongoing* effect. Most efficiently only households who would not continue to own anyway would be targeted by policies, although determining such an intent is obviously difficult. Importantly, the intent of policies with either first-time or ongoing homeownership goals is for households to simply own homes, not to buy larger homes, take on larger mortgages or purchase multiple homes. The objective suggested by this rationale is limited to encourage households to decide to purchase a home and remain homeowners over time.

2.2: RATIONALE #2—DISPARITIES IN HOMEOWNERSHIP RATES

In addition to the social or public externalities related to homeownership, there are significant private benefits to homeownership, the most notable being asset accumulation. The median wealth of homeowners is 36 times that of renters, and more than half of the net worth of households is stored as home equity (Survey of Consumer Finances, 2001). But homes are more than a financial investment. Children of homeowners tend to have better educational and life outcomes, including being more likely to graduate from college, more likely to become homeowners themselves, and less likely to engage in delinquent behaviors (Deitz, 2003).

But all households do not have an equal chance of realizing these benefits. In recent years, with homeownership rates at all-time highs, policy makers have highlighted the lagging ownership rates of particular demographic and economic sub-groups as a pressing issue. Only 49 percent of the lowest income households live in owner-occupied homes, as opposed to 68 percent of all households, and 91 percent of the highest income group (Appendix table 3). Likewise, minority homeownership rates are 20 percentage points below the national average. While these gaps in homeownership rates strike many observers as inequitable, it is reasonable to assume there may never be consistency in homeownership rates (Gabriel, 2001). Differences in household type and age, location, income, education, mobility and immigration status will likely always result in variations among homeownership rates. But, there are substantial gaps in homeownership attainment between races, even when controlling for marriage, central-city location age and education (Oliver and Shapiro, 1997).

Low-income and minority households may be hampered from buying a home by several factors. Frequently renters seeking to become homebuyers lack enough income to afford the monthly payments of principal, interest, taxes, insurance and maintenance for homes available for purchase in their community. Related to the income affordability barrier is the lack of savings for a downpayment and closing costs. Poor credit history, which may prevent approval for a mortgage loan, or results in a high interest rate if a loan is approved, also serve to limit ownership opportunities or affordability barriers. Finally, a lack of information on finding a home and a mortgage, as well as discrimination in the marketplace keeping certain homes and mortgages out of reach of some potential homebuyers, also prevent some families from becoming homeowners. The historic legacy excluding minority families

from owning homes and building wealth, along with employment and educational disparities, results in limited opportunities today, despite the repeal of discriminatory laws. To the extent the federal government seeks to remediate this legacy, and more equitably distribute the private benefits of homeownership, policies supporting homeownership targeted to underserved populations are necessary.

2.3: RATIONALE 3—HOMEOWNERSHIP’S LINKS TO MACROECONOMIC CONDITIONS

Several demographic factors contributed to the rise in homeownership rates in the 1990s, including an economic expansion, increasing levels of education, and the growth of family and elderly households, each of which tends to have higher rates of ownership (Masnick and Di, 2001). As more households own homes, and invest their personal assets in real estate, the size of the mortgage market grows. A collapse of homeownership markets would be difficult for the national economy to absorb. In addition, the construction industry also plays a crucial role in supporting jobs (Millennial Housing Commission, 2002). The performance of owner-occupied real estate and the mortgage market has significant impacts on the nation’s economy, and therefore is important to the federal government. Federal policies which reduce the volatility of owner-occupied housing also reduce the possibility of adverse impacts on the broader economy from a housing downturn. This rationale suggests federal policies which serve to strengthen the mortgage, construction and real estate industries are appropriate in order to stabilize the economy.

Economic stability is not an externality, but rather a public good, like national defense. The benefits of a stable economy are spread among all residents, regardless of tenure. However, there is disagreement on how government intervention on behalf of specific industries or firms can create or mitigate risks. Because policies can distort market behavior, it is possible federal policies serve to concentrate or even exacerbate risk, particularly if firms are severed from liability for losses incurred. Of the three rationales suggesting federal interventions to support homeownership, this is the least robust and most likely to be subject to disagreement.

4.0 POLICY MECHANISMS AVAILABLE TO SUPPORT HOMEOWNERSHIP

Policy options for promoting homeownership fall into four categories: subsidies, credit enhancements, regulations, and public awareness campaigns.

Subsidies. The intent of any subsidy provided by the federal government is to change behavior—to create an incentive for consumers or firms to act in a socially beneficial manner. In homeownership policy, subsidies are intended to spur renters to buy a home, or encourage existing owners to retain their tenure. Subsidies for homeownership can be divided into two subcategories, those directly appropriated and those provided through the tax code. Appropriated subsidies are direct grants and must go through the process of annual budget submissions by the White House, and then be approved in budget bills in the House and Senate. Of the roughly \$31 billion U.S. Housing and Urban Development (HUD) budget in 2002, approximately 20 percent was used to support homeownership programs through appropriated subsidies and grants. In contrast, of the \$84 billion in estimated tax expenditures for housing in 2001, approximately 92 percent was targeted to homeownership (Joint Committee on Taxation, 2001). Tax subsidies are classified as either tax deductions or tax credits. Tax deductions are claimed by taxpayers on their tax returns to reduce taxable income and therefore reduce total tax liabilities. A progressive tax rate structure means reducing a \$1 of taxable income in a 33 percent marginal tax bracket is worth \$0.33, but \$1 deduction of income in a 15 percent marginal bracket is worth only \$0.15. As a result, taxpayers with more income in the highest brackets benefit more from tax deductions relative to taxpayers in lower-income tax brackets. Tax credits actually offset the amount of total tax due, rather than just reduce the amount of income subject to tax. Since tax credits are of little value to taxpayers with low tax bills, credits are sometimes sold to corporations

or individuals with larger tax liabilities. Although tax credits can be made refundable, meaning taxpayers would receive a refund check in the amount of any unapplied credit, because of fraudulent tax credit activity in the past, policy makers rarely allow refundable credits (Collins, Belsky and Retsinas, 1999).

Credit enhancements. No investor has a cost of capital lower than the federal government, an entity with an almost unlimited ability to issue tax free bonds perceived as being virtually risk-free. Federal credit enhancements can help risk-adverse lenders and investors establish new markets, or create an incentive for lenders to enter into market segments which further social policy goals. In homeownership, Federal Housing Administration (FHA), mortgage insurance, serves as a credit enhancement providing the full faith and credit of the US government to mortgages targeted to modest-income borrowers. FHA actually collected \$2.9 billion in surplus premiums in 2002—funding used to support other parts of the federal budget. Other federal insurance programs require an annual direct appropriation to subsidize programs with premiums priced below the actual loan losses involved. Government sponsored enterprises (GSEs) benefit from a so called “implied” credit enhancement, which investors interpret as meaning the federal government will not let a GSE fail, and will step in to protect investors. The potential liability to the federal government in a worst case scenario can be massive. Credit enhancements are also difficult to target to specific populations. About a third of the credit enhancements provided to GSEs Fannie Mae and Freddie Mac, for example, flow to stockholders rather than homeowners (Congressional Budget Office, 2001). More than any other intervention, however, credit enhancements have the leverage to establish and stabilize capital markets, stimulating economic activity.

Regulation and Oversight. Purchasing a home is a complex transaction from the household perspective, involving carefully-defined properties and relatively large, long-term mortgage contracts. There are multiple parties involved in a home purchase, and numerous potential conflicts. By establishing a transparent marketplace, with standard processes and regulations designed to prevent discrimination or fraud, home buyers, home sellers, lenders, and other parties to the transaction benefit. Regulations administered by the Federal Reserve, HUD and other agencies, all serve this function to a degree. Regulatory changes are common, and often do not require legislation or a significant appropriation of federal resources. Regulatory bodies, however, are a disparate set of institutions with varying degrees of independence. Confusion over regulatory purview and precedence is not uncommon. And while regulations may not represent significant costs to the federal budget, they do entail time delays, as well as legal and compliance costs for consumers and industry. Regulations also must be sufficiently enforced to be effective. Nevertheless, regulations, oversight and standard setting are some of the more powerful homeownership policy functions available to the federal government.

Public Awareness. Nearly every president in the last 75 years has used the “bully pulpit” of the White House to express support for homeowners and the concept of homeownership. The rhetoric is typically backed by political calculus. Homeowners are likely voters, many non-owners aspire to own a home, and increasing homeownership is generally perceived as evidence of a prosperous society. Indeed, rarely does support for homeownership result in a negative reaction from the public. Moreover, public announcements do not entail any budget appropriations, yet still yield positive attention from the real estate, financial, and homebuilding industries, as well as the general public. There are remarkable similarities between the October 2002 Blueprint for the American Dream homeownership project of the George W. Bush administration and the Clinton administration’s 1994 National Homeownership Strategy. Both sought to rally existing private sector partners to collectively reach a numerical goal, essentially by tallying up the activities of a broad set of private institutions and existing federal programs. Ideally, awareness campaigns are adjunct to programmatic strategies, combining subsidies, regulations and credit enhancements in a comprehensive package. Frequently the bully pulpit does not extend to substantive new approaches, however.

5.0 REVIEW OF FEDERAL HOMEOWNERSHIP PROGRAMS

There are many state, federal and local programs which intend to promote homeownership. The following section reviews ten of the most significant policies. Each is considered in the context of its mechanism, potential rationale for intervention, targeting and effectiveness.

	Policy	Mechanism	Rationale	Target	Comment	Enhancement
1	Mortgage Interest Deduction	Tax Subsidy (reduces cost of borrowing)	#1: increase ownership	All mortgage debtors	Not well-targeted. Incentive to borrow or consumer larger/more expensive homes as opposed to convert renters to long-term owners.	Allow tax credit for low-income; phase out use up to maximum value
2	FHA	Credit Enhancement (expands qualified pool of borrowers)	#1: Increase ownership #2 Reduce disparities #3 Stabilize mortgage market	First time buyers Minority/Low-income Mortgage Lenders / Investors	Existing products not competitive with private / conventional loans Well-targeted, but losing market share Catastrophic risks are low	Fewer borrower requirements; take on greater credit and collateral risk; reduce pricing to break-even or subsidized levels
3	Mortgage Revenue Bonds	Tax Subsidy (reduces cost of borrowing)	#1: increase ownership #2 Reduce disparities	First time buyers Minority/Low-income	Well-targeted but shallow subsidy may not change behavior; relatively small scale	Fewer borrower requirements; take on greater credit and collateral risk; reduce pricing
4	Down payment Grants	Cash Subsidy (wealth transfer for purchase)	#2 Reduce disparities	Minority/Low-income buyers	Strong incentives to convert to ownership; one of only wealth/asset grants offered by government; zero downpayment mortgages common.	Grants are less efficient than expanded loans; replace with more aggressive FHA insurance and subsidized loans
5	Subsidized Loans	Cash Subsidy (reduces cost of borrowing)	#2 Reduce disparities	Minority/Low-income buyers	Incentive to convert to ownership; reduces ongoing cost of ownership.	Streamline delivery system from public sector to private sector
6	Community Reinvestment Act	Regulation	#2 Reduce disparities	Low-income and minority households and borrowers in low-'underserved' areas	Creates modest incentives for creating more aggressive loans products & special programs	Expand to broader set of mortgage lenders to cover more mortgages
7	Government Sponsored Enterprises & Affordable Housing Goals	Regulation	#1: Increase ownership #3 Stabilize mortgage market	Low-income and minority households and borrowers in low-'underserved' areas	May support innovation; Impacts stability of mortgage market, although direction of impact unclear.	Increase goals for first-time buyers and expand product line to larger share of mortgage market.
8	Disclosure	Regulation	#1: Increase ownership	All homebuyers or mortgage borrowers	Creates standardization in transactions; complex documents and procedures remain difficult to understand.	Simplify documents and procedures; increase transparency.
9	Housing Counseling	Cash Subsidy (reduce cost of information)	#1: Increase ownership #2 Reduce disparities	First-time and existing homebuyers	Can overcome information barriers, but quality uneven	Establish standards; expand availability, develop sustainable delivery system.
10	Development Subsidy	Cash Subsidy (reduces cost of homes)	#2 Reduce disparities	Low-income first-time homebuyers	Creates affordable homes not provided by private sector; need varies by region.	Streamline subsidy administration, link to regulatory relief.

5.1 Mortgage Interest Deduction

The mortgage interest deduction is a subsidy for homeownership delivered through the tax code. Mortgage borrowers may deduct mortgage interest, if a taxpayer's total deductions are greater than the standard deduction (\$9,700 for married persons filing jointly in 2004). This can help reduce tax liabilities for homebuyers, and thus increase income available for monthly housing payments. The mortgage interest deduction is the second largest tax expenditure for individuals in the federal budget, after the exemption of contributions to pension funds. Utilized by 31 million taxpayers and valued at \$61 billion in 2001, this deduction amounts to twice the amount allocated to all direct federal housing subsidy programs in the U.S. (Joint Committee on Taxation, 2001). The value of subsidy delivered through tax deductions is determined by the filing behavior of taxpayers, rather than by legislation. In addition to mortgage interest, homeowners can also deduct real estate taxes from their property and are exempt from capital gains taxes when they sell their home.

The mortgage interest deduction is not well designed to support homeownership. The deduction is primarily an incentive to borrow using mortgage debt, rather than to become a homeowner. It is less an incentive to convert from renter to homeowner, than a support for existing homeowners, encouraging households to take out larger mortgages to pay for non-housing consumption, or even second homes (Follain, 1998). The deduction also encourages households to prefer mortgage debt over other forms of debt, as well as to forestall paying off mortgages (Glaeser and Shapiro, 2002).

The mortgage interest deduction is also not well-targeted. In fact, most lower-income taxpayers take the standard deduction. The progressive nature of federal income tax rates results in lower-income owners receiving a smaller deduction as a percentage of income than more affluent buyers even if they do itemize their deductions.² Also, more expensive homes result in larger interest payments and, therefore, larger tax deductions. Fully 93 percent of the value of the mortgage interest deduction is claimed by homebuyers with incomes of \$50,000 or more (Joint Committee on Taxation, 2001). Almost 32 million tax filers claimed this deduction in 2000, averaging \$1,900 in tax savings per return. But only 6 percent of the 21.4 million owner households with incomes below \$30,000 claimed the deduction, on average each receiving \$413 (Appendix table 4).

Certainly, the mortgage interest deduction is an incentive for some renter households with higher incomes to consider homebuying, and perhaps encourages continuing to own a mortgaged home for some households. The deduction represents a reasonable approach to promoting the positive externalities of homeownership for the broader public. It could be better targeted however, to promote first time homebuying, and also eliminate the incentive for the purchase of second homes or mortgages over a maximum value. For example, mortgage interest might be ruled non-deductible for any amount on a mortgage over \$500,000, while first-time borrowers ineligible for itemized tax deductions might receive a tax credit for three years for the value of interest paid. Such changes, phased in over a number of years, would help focus the deduction on promoting conversion to homeownership, as well as provide incentives to remain a home owner.

5.2 Federal Mortgage Insurance

Mortgage insurance is one of the oldest and largest credit enhancements provided by the federal government for homeownership. There are several federal programs offering mortgage insurance for homebuyers. FHA is the largest program, supporting 800,000 mortgage loans in 2001. The Rural Housing Service (RHS) provided 38,000 loan guarantees in 1999 for borrowers in rural areas and the Department of Veterans Affairs (VA) insured 328,000 mortgages for veterans, service personnel, and spouses in 2002.

² Married households filing jointly with incomes above \$137,300 (in 2003) may be subject to the Alternative Minimum Tax (AMT). Also, deductibility is limited on mortgages over \$1 million, and home equity loans are also limited to \$100,000 in most cases. See also: <http://www.irs.gov/pub/irs-pdf/p936.pdf>

Mortgage insurance provided by the federal government supports loans with flexible underwriting, including low downpayments, high payment to income ratios and allowances for flawed credit histories. FHA and similar programs help first-time homebuyers convert from renting to homeownership. The rationale for these government interventions is expanding first-time ownership, and therefore the public externalities of ownership. Special credit enhancement programs for underserved groups are also justified based on the rationale that inequities in mortgage and real estate markets result in low-income and minority households being excluded from homeownership's benefits. Focus groups with minority borrowers indicate they select FHA loans because of the implied trust and confidence of the federal government, which is particularly valued by consumers who have had difficult histories with the financial sector.³ Studies suggest FHA supports increasing homeownership among minorities and young families (Monroe, 2002). FHA mortgage insurance also supports the rationale of federal involvement to stabilize the mortgage market and therefore broader economy. Private mortgage insurance, which operates without federal involvement, covers a smaller portion of the loan balance, typically 25 to 35 percent of a loan's original value, whereas FHA insurance allows lenders to claim a payment of up to 100 percent of the original loan balance in the case of a foreclosure. FHA's deep coverage in the case of catastrophic losses protects lenders and investors against the risk of losses in a deep recession, where housing prices decline significantly and many borrowers default. While the probability of such an event is low, the existence of a federal credit enhancement may make mortgage investors and lenders more confident to participate in the market.

Because mortgage insurance increases the effective interest rate of a loan, and lower-downpayments result in larger mortgage balances, these programs result in enlarges monthly payments for homebuyers, which may make home owning unaffordable for some families. Without downpayment subsidies or premiums priced below break-even, mortgage insurance will only create homeownership opportunities for households with sufficient income.

Determining the best role of federal mortgage insurance programs in a rapidly evolving mortgage market is a growing challenge. Instead of rationing credit, the mortgage market today will provide loans to most applicants, with additional fees and higher interest rates for higher-risk loans. FHA's growth rates lag the conventional market for every racial and income group from 1993 to 2002 (FFIEC, 2003). The desire to stabilize FHA's operations has led to several reform proposals (Millennial Housing Commission, 2002). Ideas range from more outsourcing, to partnering with private mortgage insurers, to chartering FHA as an independent, government-owned corporation. FHA has recently proposed to create new programs with no downpayment requirements, as well as mortgages for borrowers with subprime credit. Congress, which has to approve such programs, is reluctant to provide support due to the possibility of high default rates and a reduction in FHA's surplus. However, if a purpose of FHA is to support targeted populations to become first-time buyers, instead of generate revenue, pricing of premiums might be deliberately set to subsidize borrowers. That would require federally appropriated expenditures, or cross-subsidization of targeted households with surpluses from other programs, but could refocus FHA as a mechanism to truly promote first-time buyers from underserved populations. As it stands today, FHA is essentially a tax on homebuyers, because premiums are priced above borrower's actual risk. Excess premiums are transferred to the general revenue of the federal government.

5.3 Mortgage Revenue Bonds

One of the most well-know programs which helps reduce borrowing costs for first-time home buyers are single-family housing bonds, known as mortgage revenue bonds (MRBs). MRBs are sold to investors in order to finance below-market interest rate mortgages. Investors are willing to purchase

³ Interview with William Apgar, former FHA commissioner, 2003.

these bonds at below-market interest rates because the income from MRBs is tax-free. State housing finance agencies are allocated a per capita amount of tax-exempt housing bond authority each year. MRB-backed loans are limited to first-time homebuyers who earn no more than the median income in their area. If a borrower's income rises above eligible levels, up to half of any profit from the sale of the financed home may be recaptured for up to nine years. Approximately 87,000 homeowners were aided by single-family MRB-backed mortgages in 2001; estimates of the cost of taxes foregone are approximately \$1.1 billion (Joint Committee on Taxation, 2001).

There are two policy rationales for MRBs. First, by lowering the monthly carrying cost of mortgages with subsidized interest rates, MRBs help make owning a home affordable. This supports the threshold effect of converting renters to become first-time home buyers and thereby expanding positive externalities for society. Second, MRBs targeted to lower-income households, serve to overcome the inequitable distribution of homeownership and expand its private benefits for underserved households.

There are significant administrative costs to state agencies for underwriting and issuing bonds with Wall Street firms. As a result, MRBs offer a relatively shallow subsidy to borrowers, typically less than one percentage point below prevailing market rates. Because borrowers typically also lack a downpayment, approximately 70 percent of MRB-backed loans carry FHA mortgage insurance (NCSHA, 2002), which raises the costs of borrowing. MRBs could better achieve the policy objective of overcoming homeownership inequities if it provided deeper levels of subsidy to targeted populations. Combined with a subsidized FHA mortgage insurance product, first-time homeownership opportunities could be significantly expanded for renters unable to afford ownership under current MRB programs.

5.4 Downpayment Grants

Because of the risk of borrowers failing to make payments and thereby defaulting on a loan, mortgage lenders typically require borrowers to make a minimum cash investment, or downpayment. Lenders also set limits for the total amount of debt a borrower can carry in addition to the mortgage, including credit cards, auto, personal and student loans. Studies show renters are most often prevented from qualifying for a mortgage by a lack of income and lack of a downpayment or a high debt loads (Listokin et al 2002; Savage, 1998; Englehardt and Mayer, 1998).

The Community Development Block Grant (CDBG) can be used for a wide range of community needs, but approximately 30 percent is allocated to housing (HUD, 1998). HOME Investment Partnerships (HOME) provide grants to local governments specifically for housing. Both programs are often used to pay for downpayments or reduce the size of mortgages for low-income first-time buyers. HUD reports suggest about 20,000 first-time homebuyers are assisted by the HOME program annually; CDBG numbers are unavailable but are likely to be smaller.⁴ Another source of downpayment assistance is the Federal Home Loan Banks (FHLB) Affordable Housing Program (AHP). The AHP, funded by payments in lieu of certain taxes, has a set-aside for supporting first-time homebuyers, primarily through downpayment assistance grants. In 2002, over 17,500 homeowners were aided by AHP grants, averaging \$4,000 each (Federal Home Loan Banks, 2003).

In an effort to stretch subsidies, some localities provide downpayment funds in the form of a second lien loan. These revolving loan funds allow more households to receive assistance as downpayment loans are repaid. The scale of these locally-run programs is difficult to estimate and in fact in many cases HOME and CDBG funds are the loan capital, as well. Because of the hodgepodge of funding sources for downpayment assistance, nonprofits frequently provide programs to coordinate potential homebuyers to resources.

⁴ HUD IDIS database reports; <http://www.hud.gov/offices/cpd/systems/idis/index.cfm>. In 2002, the Bush administration proposed the American Dream Downpayment program, a \$200 million set-aside within the HOME program to provide downpayments to 40,000 first-time homebuyers.

In recent years, mortgage lenders have dramatically reduced the requirement for borrowers to make cash downpayments. In fact zero downpayment loans are common, even for borrowers with low-incomes and relatively high levels of debt. Yet, downpayment grants and loans remain widely supported mechanisms to promote homeownership among lower-income households. In part, grants and loans are effective because they are highly-targeted methods to help targeted populations become first-time homebuyers. This approach satisfies the policy rationale of overcoming the historic inequities preventing minority and low-income households from benefiting from ownership. But grants as large as \$20,000 are not uncommon or even loans of more than \$50,000 (Neighborhood Reinvestment, 2003). There are very few instances in which the federal government grants citizens assets in a lump sum. Many programs provide income subsidies, but outside of small-scale matched savings demonstration programs, there are few precedents of federal grants which directly increase household wealth.⁵ The size of grants and loans results in a relatively small number of household's served. Only 40,000 to 60,000 families receive a grant or loan. In effect, receiving a grant becomes like a lottery serving a small share of eligible borrowers. If FHA were to expand its underwriting criteria, combined with expanded subsidies through mortgage revenue bonds and below-market priced FHA premiums, the need for downpayment grants would be minimized. Assistance could shift to using HOME, CDBG and AHP funds for reducing home purchase prices, or subsidizing the production and renovation of affordable homes.

5.5 Subsidized Loans

A small volume of substantially below-market interest rate lending is available through special programs offered by financial institutions, community-based nonprofits, and local governments. The Rural Housing Service 502 direct loan program is probably the largest program providing loans with subsidized interest rates. The 502 direct program offers loans with interest rates as low as one percent and loan terms as long as 38 years, based on the household's income and financial assets. In 1999, approximately 16,000 loans were funded through the RHS 502 direct program (Shear, et al, 2003). Other subsidized loans are provided through the HOME program, Community Development Financial Institutions funds (CDFI), and Neighborhood Reinvestment Corporation. Approximately 30,000 households are assisted by subsidized loans each year.⁶ Another form of interest rate subsidy is delivered by an interest rate buy down—essentially a payment at the time a mortgage is closed in exchange for a lower interest rate. State housing finance agencies support approximately 500 interest rate buy downs annually, in addition to a small number of programs administered by local authorities (NCSHA, 2002). Either approach results in deeply subsidized interest rates, which reduce the monthly payment burden of a mortgage, and overcome affordability barriers to owning a home.

The rationale federal support of these programs is to overcome inequities in homeownership for underserved households. Because of the expense and limited scale of subsidized loans, this is not an appropriate strategy for expanding ownership generally in an attempt to increase the positive public externalities of homeownership.

Like downpayment assistance, subsidized loans are cash subsidies which are targeted to low-income and minority first-time home buyers. By lowering the ongoing costs of ownership, underserved households have access to benefits from which they were previously excluded. Loans can be targeted by locally-based administrative programs to those households with the greatest needs. But like the downpayment subsidies, loan subsidies are expensive. Even 502 direct loans have been reduced dramatically in recent years, in part to reallocate resources to credit enhancements combined with shallow subsidies. In the interest rate environment of the economy in 2003, with mortgage rates at historic low levels, the relative impact of lowered interest rates is minor. As rates rise, particularly if rates return to levels of the 1980s, the need for subsidized loans may resume (Painter and Redfearn,

⁵ Tax rebates and refunds are returns of earned income, not a direct wealth subsidy.

⁶ HOME data from www.hud.gov, CDFI data from www.cdfifund.gov; Neighborhood Reinvestment from www.nw.org.

2002). Ideally, however, these subsidized loans would be most efficient if designed to complement existing programs, such as FHA, providing special subsidies to existing loans.

5.6 Community Reinvestment Act

The Community Reinvestment Act explicitly examines the record of federally insured deposit-taking institutions in meeting the credit needs of communities in which they operate, as measured by data collected under the Home Mortgage Disclosure Act (HMDA). CRA gives regulators the power to deny mergers and acquisitions, based on lending patterns and public comments on the institution's lending record. Banks get credit for loans made in neighborhoods or to households with incomes of less than 80 percent of area median.

CRA and its related provisions are an example of a federal regulatory policy which helps underserved households obtain mortgages. This is justified under the rationale that federal interventions should overcome inequities in ownership opportunities. Although CRA is broadly concerned with lending and investment by financial institutions, mortgage lending is the most common and substantial relationship households have with banks. It is possible most of the mortgages lending institutions make under CRA would be made in the absence of the law, but a regulatory recognition of the inequities present in marketplace is warranted given stubborn historic gaps in access to homeownership. Community groups report that CRA has been useful to stimulate credit access in underserved areas. Recent studies find CRA has been uneven in its enforcement, but overall is an incentive for lenders to engage borrowers who otherwise might not be served (Apgar and Duda, 2002).

The effectiveness of CRA is limited, however, because of its original design to balance bank deposits with lending activity. The modern mortgage market is not based in loans made from deposits. Mortgages are frequently made by lenders with no bank branches, funded by Wall Street Investors. CRA should be extended to any mortgage lending entity, regardless of its funding structure.

5.7 Government Sponsored Enterprises

Federal support, implicit or explicit, for government sponsored enterprises (GSEs), such as Ginnie Mae, Freddie Mac, Fannie Mae and the Federal Home Loan Banks, help facilitate the efficient flow of mortgage credit to borrowers, reducing interest rates and increasing the affordability of homeownership. These secondary market entities supply capital for more than half of all mortgage debt issued nationally. They are exempt from most state and local taxes, excused from securities registration requirements and fees, and have conditional access to a line of credit from the U.S. Treasury. GSE's borrowing costs are lower than other financial institutions, primarily because investors perceive a federal guarantee of their operations.

About three-quarters of FHA-backed loans are sold in the secondary market through Ginnie Mae, a government owned and operated enterprise (Gabriel, 2001). Ginnie Mae guarantees payments on mortgage-backed securities issued by FHA lenders and sold to investors. By selling loans, lenders receive cash that allows them to issue more loans. Ginnie Mae charges a guarantee fee to lenders, which generates revenue for the federal budget.

The 12 regional Federal Home Loan Banks are privately-owned by their member financial institutions. The bank's Mortgage Partnership Finance (MPF) and Mortgage Partnership Program (MPP) programs allow member banks to pass loans to the secondary market. The cost of the Home Loan Banks special federally-guaranteed status is estimated to be approximately \$3 billion (Congressional Budget Office, 2001).

Fannie Mae and Freddie Mac are congressionally-chartered private companies owned by stockholders. These firms buy mortgages conforming to their standards from qualifying financial institutions. Fannie Mae and Freddie Mac guarantee \$4 trillion-worth of mortgages, making up a

majority of the mortgage market. Because they can borrow from investors at rates near government rates, and have reduced requirements for holding capital in reserve, and exemptions from certain taxes, these GSEs reduce mortgage interest rates by 10 to 40 basis points (Passmore, Sparks and Ingpen, 2002).⁷ As of 2000, 50 percent of loan purchases by Fannie Mae and Freddie Mac are required to be for borrowers with below-median incomes, 20 percent for low-income families in low-income areas, and 31 percent for properties located in central cities or rural areas. These goals have helped encourage Fannie Mae and Freddie Mac to expand into new mortgage products, with expanded ratios and lower credit scores (Ambrose, Thibdeau, and Temkin 2002). The cost of Fannie Mae and Freddie Mac's special status to the federal government is approximately \$11 billion, although Fannie Mae and Freddie Mac argue that figure is actually less than \$5 billion (Congressional Budget Office, 2001; Fannie Mae, 2001).

The role of the GSEs in federal policy is complicated. The GSEs do not directly cost taxpayers, but there is the potential for massive costs. Federal support for GSEs clearly benefits these agencies; the debate is if value of that benefit is justified given their impact on homeownership. GSE subsidy is unusual in that its size is determined by the market and the actions of the GSEs themselves, not by statute. It is not a targeted policy, but supports the entire mortgage market for first-time and existing homeowners. Federal support for GSEs is most justifiable by their efforts make ownership options possible across regions and business cycles. Thus, the positive externalities of first-time and ongoing ownership are supported. By lowering the cost of issuing mortgages, the GSEs reduce the cost of home owning, albeit only slightly. The rationale that GSEs stabilize mortgage markets, and therefore the economy, is another possible line of reasoning. However, that assumes federal support of GSEs in fact serves to stabilize the market. Implicit federal guarantees may distort GSE and investor behavior, causing risks to be underestimated. Support for GSEs is widely debated, with frequent calls for reforms (Greenspan, 2004). Any revisions in the GSEs status, however, should reflect the most important underlying policy rationale for federal support of homeownership—enhancing the first-time or ongoing homeownership opportunities. Policy makers should boost GSEs goals for first-time buyers and require expanded emerging mortgage product lines for a larger share of mortgage market. Using GSEs to further economic stabilization goals will remain a difficult strategy.

5.8 Consumer Disclosures

The Truth In Lending Act (TILA), Home Ownership and Equity Protection Act (HOEPA), and Real Estate Settlement Procedures Act (RESPA) are intended to ensure that consumers obtain standardized information and clear direction when buying a home. TILA is administered by the Federal Reserve and requires consumers to receive standard documents to make cost comparisons between loans, including the annual percentage rate (which includes the amortization of closing costs). TILA also provides consumers a three-day right of rescission for mortgage loans, and requires truthful advertising of loan terms, costs and fees. HOEPA requires a disclosure form to accompany high-cost loans informing borrowers about costs and terms, including that the home could be taken if they fail to comply.⁸ HOEPA also prohibits certain prepayment penalties, balloon payments in the first five years, and negative amortization. RESPA is administered by HUD and requires a pre-closing disclosure of costs related to a potential mortgage transaction. Using a "good faith estimate," as well as a settlement statement, all parties to the transaction receiving a fee are disclosed. RESPA also prohibits kickbacks, referrals and fees among brokers, lenders, appraisers, title companies, insurers and agents.

The rationale for federal regulation of the mortgage market is grounded in the need to make transactions fair for first-time and ongoing homeowners. Given the magnitude of home purchases in the average household's portfolio, and the opportunities for confusion and conflict, disclosure laws

⁷ Congress sets the limit for conforming loans ; \$325,000 was established in 2002.

⁸ HOEPA defines high-cost as loans with rates 8 percentage points greater than Treasury rates, or more than 8 percent of the loan balance in fees. The Federal Reserve recently reduced the threshold, and requires reporting of these loans.

help homebuyers navigate the home buying and mortgage borrowing process. In theory this reduces the risks of buying a home, and should encourage more renters to become homeowners.

Concerns have been mounting over the behavior of so-called “predatory lenders” offering mortgages with very high rates, unfavorable terms and unfair fees. Prohibiting predatory practices, while preserving innovations among legitimate lenders, is a proving to be a delicate balance. Although many practices used by predatory lenders are already regulated or illegal, some states and cities have passed their own limits on loan terms. A recent study suggests the tough laws passed in North Carolina have in fact reduced the most egregious practices, while allowing growth in subprime and low-income lending generally (Quercia, Stegman and Davis, 2003). However, having a patchwork of lending laws hampers the efficient operation of financial institutions. Because of stricter laws in some areas, mortgage markets are avoiding business in some states. Proposals have been drafted to clarify the hierarchy of federal and state regulations, creating a national playing field for mortgage markets. However, industry pressure for federal regulations to weaken successful local laws inflames consumer advocates. Meanwhile, there is evidence borrowers, especially minority and low-income borrowers, are struggling to navigate the current marketplace to receive the most efficient pricing (Woodward, 2003).

The documentation and regulations of RESPA, HOEPA and TILA are complex. These rules could be simplified to make the process faster, more efficient and more understandable to homeowners. But industry advocates have been unable to agree upon the terms of revised regulations. Policymakers need to establish one clear and coherent set of regulations which consumers can trust to protect their best interest. Fears of predatory lending only serve to discourage homeownership and limit the numbers of households becoming or remaining homeowners. If the regulatory framework does not instill confidence in consumers, the positive externalities of homeownership will not be maximized for society. Moreover, some borrowers may enter into agreements they do not understand, or were designed to defraud them. Failed homeowners also fail to create positive externalities, can ruin private household’s socially and financially, and do not serve to stabilize the economy.

5.9 Home Buyer Education and Counseling

The complement to disclosure regulations are subsidies for homebuyer education and counseling. First-time homebuyers often lack the skills and knowledge needed to purchase a home. Existing homebuyers sometimes need advice on how to finance or maintain their home. Federal intervention on behalf of these services is supported by the rationale that homeownership’s positive externalities for the public require incentives to achieve socially optimal levels. Counseling can also be targeted to underserved populations, providing information and advice to groups historically subject to discrimination. This supports the rationale of interventions aimed at overcoming inequities in homeownership.

Federal policies seek to overcome information barriers by providing direct financial support for agencies engaged in pre-purchase homebuyer education and counseling. Interest in homebuyer education as a method to prepare families to take on the responsibilities of a mortgage and a home has increased in the last decade (McCarthy and Quercia, 2000). Homebuyer education ranges from workbooks, to information given out on the telephone, to formalized group classes and clubs, to intensive one-on-one counseling. Services usually occur before the home is purchased, or ideally even before a family begins to search for a home. Counseling may also be provided post-purchase to help families maintain their home, refinance, or to manage a mortgage delinquency. Studies suggest counseling alters behavior. Pre-purchase homebuyer counseling and education reduces loan defaults by up to 34 percent, controlling for other factors (Hirad and Zorn, 2002). Another study concludes counseled borrowers have a default risk one-half the size of non-counseled borrowers (Hartarska, et al, 2002).

HUD support for housing counseling, provided under Section 106, a set-aside in the HOME program, increased to \$35 million in 2003. An estimated 125,000 individuals receive pre-purchase education through HUD-related programs. Since lenders and borrowers benefit most directly from counseling, it might seem subsidies from the federal government are unnecessary. However, unless subsidized, the costs of counseling can increase the cost of buying a home, and lenders would underprovide counseling relative to the external benefits of homeownership.

In 2001, VA proposed requiring counseling for all borrowers using VA mortgage insurance (38 CFR Part 36, 2001). That proposal was not well received by the real estate industry, however, because homebuyer counseling services are viewed as being uneven in quality and distribution nationally, without a standard curriculum or benchmarks for service. As homebuyer education becomes included in more home sales, policy makers will need to build the capacity of the homebuyer education delivery system. HUD's regulations prohibiting shared fees paid by borrowers, lenders and real estate agents are outdated and in need of revision. HUD should issue a regulatory change to make counseling an allowable closing cost payable by any party reported on HUD-1 settlement forms. This change would help promote transparency and institutionalize counseling into the homebuying process. The real estate industry, lenders and home sellers may all object to any provisions which slow down, or add to the costs of, home sales transactions, however, unless the benefits of informed consumers are widely accepted.

5.10 Development Subsidies

In some places, the cost of building a home suitable for homeownership entails significant costs. Acquiring land for development, or an existing unit for renovation, is often the most significant cost, but remediation of environmental problems, the fixed costs of permits and approvals, and code requirements can absorb much of a housing development's budget. The lower the cost of a home, the larger the share of the total development costs are taken up by fixed costs and overhead. As a result, in some soft markets, especially older urban or rural communities, the cost of building or renovating affordable homes exceeds prevailing market values. Without subsidy, homes in these areas could not be built or renovated. There are relatively few affordable single family owner-occupied units developed each year. In some markets, the severe shortage of units depresses homeownership rates (Collins, Crowe Carliner, 2001).

Both the HOME and CDBG programs are used to help fund the development of affordable homes units suitable for ownership. The HOME program, which tracks usage of funds, estimates an average of 6,000 new homeownership units are built annually using the subsidy, while around 2,500 are rehabilitated (HUD, 2003). Approximately 17,000 housing units are developed annually using CDBG, although what portion are intended for homeownership, versus rental is unknown.⁹ These grants are generally only for a portion of the costs of development, and in most cases various subsidy programs are layered. For example, a home might receive funding from HOME, as well as the AHP program, and then be purchased with an MRB-backed loan with FHA mortgage insurance. These programs offer local governments and nonprofits resources to create a small number of targeted housing units suitable for affordable homeownership.

The SHOP program began in 1996 to support nonprofit organizations to purchase home sites and develop infrastructure for use in sweat-equity homebuilding—homes built by the labor of their future owners and volunteers. The SHOP program has received an increasing level of support in recent years, and currently provides approximately \$25 million annually as a set-aside program through the CDBG program. Approximately 2,000 homes were developed in 2000 through SHOP grants to five nonprofit organizations.¹⁰ By supporting the costs of development infrastructure, SHOP grants

⁹ Catalog of Federal Domestic Assistance, <http://www.cfda.gov>

¹⁰ <http://www.hud.gov/offices/cpd/affordablehousing/programs/shop/02funding.cfm>

leverage local resources and labor to produce more affordable housing. A positive byproduct of self-help programs is first-time homeowners gain skills in building and maintaining a home.

The rationale for federal support of these programs is based on overcoming the inequities of homeownership for targeted populations. While small in scale, and expensive on a per homebuyer basis, it is important for policy makers to recognize both supply and demand side incentives for homeownership. Subsidies for development help create units available for purchase by low-income households that would otherwise not be created. Because housing markets vary significantly across markets, there is a strong argument for keeping subsidies for the development of homes administered at the local level through block grants. However, policy makers should analyze the efficiency of these programs, including features which create incentives for developing larger scale projects, as well as reducing regulatory costs and delays which make developing affordable subsidized housing difficult.

CONCLUSION

There are three primary reasons the federal government is justified in using public resources for supporting homeownership. First, homeownership creates positive externalities which benefit the general public. Second, although homeownership supports private benefits for households by providing shelter and an investment vehicle, access to ownership is inequitably available due to racial and economic disparities. Third, because residential owner-occupied housing represents a significant share of the nation's tangible assets, and strongly influences key industries and capital markets, attempts by government to support homeownership provide stability to the overall economy. Each rationale suggests different targets of policy interventions. To the extent ownership creates positive externalities for the general public, fewer households than would be otherwise socially optimal will convert tenure from renting to owning without incentives. Inequities in homeownership suggest strategies targeted to specific population groups underserved in the marketplace. Stabilizing the housing and mortgage finance industry suggests institutional level policies, as well as general support for ownership as it supports the underlying business model for firms.

The primary mechanisms for implementing federal homeownership policy include income and asset subsidies, credit enhancements, regulations and public awareness. Policymakers should carefully review the assumptions, mechanisms and targeting of existing programs. Major federal homeownership policies are much less robust, or focused, than may be assumed based on the rhetoric surrounding homeownership. Existing programs have the potential to become more effective with reforms aimed at refining the population targeted and intended impact.

Few federal policies support affordable homeownership. The largest existing federal policy supporting homeownership is the personal income tax deductibility of mortgage interest, but it is poorly targeted. Tax exempt financing of mortgage revenue bonds is a powerful tool but, many buyers still need deeper interest rate subsidies than typically can be offered by mortgage revenue bonds. FHA needs to embrace its shifting role in a marketplace dominated by risk-based pricing, and create new loan products which expand credit and collateral risks while keeping insurance premiums below market levels. The impact of federal policies supporting the expansion of access to credit, such as the Community Reinvestment Act should not be underestimated. Regulations regarding consumer protection and disclosure provide needed transparency and accountability to homeownership transactions, and should be enhanced as well.

Policy makers and practitioners should understand the risks and implications of expanding homeownership to lower-income families. Unlike in the rental housing market, individual families must be able to successfully maintain their homes and their mortgages. Individual households need to have the capacity to stay current on their loans and to undertake needed repairs and upkeep. When families fail at homeownership, entire neighborhoods can be affected in addition to the substantial losses individual households must endure. Financial literacy, home maintenance training, energy

efficiency and weatherization programs are likely to be in greater demand in coming years. Likewise, accessibility improvements and improved coordination between health care and housing will be required as more homeowners age. Attention on promoting first-time homeownership should be balanced with strategies designed to preserve homeownership.

Homeownership is politically popular and has long been part of the rhetoric, although rarely the substance, of housing policy. Beyond the bully pulpit, however, the policy makers need to review existing programs and new proposals with the goal of advancing federal programs and policies which help address barriers to affordable homeownership for underserved families.

Appendix

Table 1
Timeline of Major Homeownership Policies

Year	Policy	Original Basis of Legislation
1918	“Own Your Own Home Campaign”	Project of the Commerce Department to engage over 7,000 civic partnerships called “Better Homes Committees,” to promote homeownership.
1932	Federal Home Loan Bank System	To shore up failing savings and loans / mutual savings institutions in the Depression by providing liquidity across regions.
1934	Federal Housing Administration (FHA)	To stimulate the construction industry, by building homes and apartment buildings.
1938	Fannie Mae	To buy/hold loans from banks during credit shortages, selling loans back in gluts.
1938	FHA authorized to insure 25 year loans with 10 percent downpayments	To expand homeownership opportunities.
1944	GI Bill: VA mortgage insurance	To provide zero downpayment loans; perceived as low-cost benefit for veterans.
1949	Rural Housing Administration (RHS)	To support farmers and residents of agricultural areas with mortgage insurance and subsidized mortgage interest rates.
1951	Capital gains from sale of home allowed to be rolled-over to another home	To encourage home sales in reaction to tight housing markets after veterans returned from World War II.
1954	Fannie Mae re-chartered	To provide special assistance (subsidy) to construction and home purchase loans
1964	Capital gains in home sales allowed to be excluded (one-time) from taxation for seniors.	To prevent seniors from being trapped in higher-cost, larger size homes.
1966	FHA Section 221(h) subsidized loans	A pilot to experiment with directly subsidized home mortgages for minority families in the face of discriminatory “redlining” practices.
1968	FHA Section 235 subsidized loans	To directly subsidize home mortgages for lower-income families (terminated in 1987).
1968	Fannie Mae becomes private “sponsored enterprise” ; Ginnie Mae takes over Fannie Mae special-assistance function	To pump financing into mortgages and residential construction due to high interest rates in the mid-1960s and perceived demand from Baby Boomers seeking new homes.
1970	Freddie Mac created	To purchase single and multifamily mortgages from the Federal Home Loan Bank system in response to credit shortage in late 1960s.
1975	Home Mortgage Disclosure Act	To address “redlining” of low-income and minority areas by lenders.
1977	Community Reinvestment Act	To push lenders to balance deposits with lending in underserved communities.
1980	Limitations on Mortgage Revenue Bonds to low and moderate-income borrowers	To address perceived tax-free windfall as state and local governments issued growing numbers of tax-exempt bonds.
1984	Mortgage Credit Certificates	To address concerns over the fees collected by mortgage revenue bond underwriters.
1986	Tax Reform Act retained mortgage interest deduction but eliminated all other interest deductions	The mortgage industry reversed a Reagan administration proposal to eliminate all interest deductions; the mortgage interest was the only interest deduction retained.

1990	HOME Program	Specifically called out homeownership as a goal.
1996	SHOP (Self Help Ownership Program)	To purchase land and fund infrastructure for sweat equity homebuilding programs.
1997	Taxpayer Relief Act excludes all capital gains on home sales up to \$500,000.	To address perceived incentives for urban property owners to buy more expensive suburban homes.
Source: Carliner, 1998		

**Table 2
Federal Homeownership Programs, 2003**

Federal Policy Response	Estimated Annual Volume	Estimated Cost to Federal Government <i>*** = negligible</i>
Mortgage Revenue Bonds	87,000 households	\$1.1 billion
Mortgage Credit Certificates	2,600 households	\$1 million
Subsidized Loans	30,000 households	n/a
Government Sponsored Enterprises	3,000,000 purchase loans	up to \$14 billion
Deductibility of Mortgage Interest	31,000,000 households	\$61 billion
Section 8 Homeownership Vouchers	300 households	***
Mortgage Interest Buy-downs	1,000 households	***
Downpayment Assistance (HOME, CDBG, AHP, HFA, and CDFI)	30-40,000 households	n/a
Capital Gains exclusion for homes	n/a	\$13 billion
FHA/VA/RHS Mortgage Insurance *	1,200,000 households	generates revenue
GSE Affordable Housing Goals	600,000 purchase loans	***
Community Reinvestment Act (CRA)	\$1.2 billion in loans	***
Truth in Lending	All closed loans	***
Real Estate Settlement Procedures	6,000,000 homes sold	***
HUD Section 108 Counseling Funds	125,000 individuals	\$35 million
Fair Housing	10,000 cases	\$45 million
Manufactured Home Standard (HUD-code)	250,000 homes	***
HOME and CDBG	10,000 homes	n/a
SHOP	5,000 homes	\$25 million

Sources: author's estimates from published documents and websites.

**Table 3
Homeownership Rates by Income, Location and Race, 2001**

Percent of Households Owning a Home						
	Less than \$14,999	\$15,000 to \$29,999	\$30,000 to \$49,999	\$50,000 to \$99,999	\$100,000 or more	All Households
African American	32.0%	39.8%	49.3%	67.4%	87.1%	47.5%
Latino	31.1%	36.6%	46.8%	66.0%	79.6%	48.2%
Central City	32.6%	42.7%	50.5%	70.1%	82.6%	53.2%
Suburb	56.2%	60.9%	66.9%	82.0%	93.1%	73.6%
All	49.4%	57.1%	63.9%	80.1%	90.9%	68.0%
<i>Source: 2001 American Housing Survey, author's tabulations</i>						

Table 4
Estimates of Federal Tax Expenditures 2000

Income class	Returns	%	Amount	%	Mean Claim
Below \$10,000	12,000	0%	\$ 1,000,000	0%	\$ 83
\$10 to \$20,000	272,000	1%	\$ 105,000,000	0%	\$ 386
\$20 to \$30,000	906,000	3%	\$ 386,000,000	1%	\$ 426
\$30 to \$40,000	2,141,000	7%	\$ 1,194,000,000	2%	\$ 558
\$40 to \$50,000	3,016,000	9%	\$ 2,591,000,000	4%	\$ 859
\$50 to \$75,000	8,071,000	25%	\$ 8,165,000,000	13%	\$ 1,012
\$75 to \$100,000	7,130,000	22%	\$ 12,423,000,000	20%	\$ 1,742
\$100 to \$200,000	8,097,000	25%	\$ 22,131,000,000	37%	\$ 2,733
Over \$200,000	2,164,000	7%	\$ 13,619,000,000	22%	\$ 6,293
Total	31,809,000	100%	\$ 60,615,000,000	100%	\$ 1,906

Source: "Estimates of Federal Tax Expenditures for Fiscal Years 2001-2005,"
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