URBAN INSTITUTE

An Essential Role for Down Payment Assistance in Closing America's Racial Homeownership and Wealth Gaps

Michael Stegman and Mike Loftin

April 2021

For more than a generation, America has experimented with ways of providing down payment assistance (DPA) to cash-constrained first-time homebuyers. A growing recognition that closing the homeownership gap is essential to closing the racial wealth gap has brought DPA back to the fore as part of broader strategies to increase homeownership for communities of color and other underserved groups. This brief draws upon lessons learned from previous experiences with DPA programs to inform the discussion going forward. We believe there is a need to create a national DPA program that is more robust and intentional at reaching low-income households and households of color. At minimum, such a program should include the following components:

- While it should have income limits, these caps should be higher than in past DPA programs if the recipient is a first-generation homebuyer (meaning neither they nor their parents currently own a home).[1]
- There should be multiple pathways to delivering DPA. We would like to see a portion of federal funds directed to state housing finance agencies (HFAs) by formula and a portion deployed to eligible organizations by the US Treasury's Community Development Financial Institutions (CDFI) Fund through a competitive process.
- Funding must be at a level that can advance racial equity and should include a combination of appropriated funds and, ideally, a dedicated, continuing off-budget revenue source. A portion of the more than $200 billion of dedicated housing resources included in President Biden's $2 trillion proposed American Jobs Plan would meet the first requirement. Extending and repurposing the expiring 10-year, 10 basis-point fee on Fannie Mae and Freddie Mac mortgages imposed by Congress in 2011 to help pay for an extension of the payroll tax cut would meet our second objective.[2]

The Price of the Homeownership Gap

America's racial wealth gap is as tenacious as it is unacceptable; the wealth of the median white family is eight times that of Black and Hispanic families. Lagging homeownership rates among people of color is a major contributor here. Since the Great Recession, the 30 percentage-point gap between Black and white homeownership rates has reached a 50-year high, which is larger than when race-based discrimination in the housing market was legal.[3] Because the wealth of the median Black household is one-eighth that of the median white household, and because housing equity makes up nearly 60 percent of total net worth for Black homeowners (compared with 43 percent of total net worth for white homeowners), many believe that by addressing the homeownership gap, America can make progress in closing the racial wealth gap as well (McCargo and Choi 2020).[4]

Disproportionate infection rates and impacts of COVID-19 on people of color and the police killing of George Floyd have led to renewed calls for racial justice, compensatory policies, and greater public and private investments to improve racial equity in the public sphere and private markets, including housing. A recent hearing before the Senate Committee on Banking, Housing, and Urban Affairs highlighted factors that perpetuate yawning gaps in race-related outcomes, including "evolving forms of redlining," lending discrimination, residential steering, and appraisal bias, which continue to lock people of color out of fair and affordable homeownership and wealth-building opportunities.[5]

Given a through line from generations of racialized housing and mortgage finance policies, acting on these twin deficits not only is a moral imperative but is in our national economic interest (Kahlenberg and Quick 2019). The investment bank Morgan Stanley estimates that equalizing Black-white homeownership rates over the next 10 years would create more than 5 million more homeowners of color, generate nearly 800,000 new long-term jobs, and raise up to $400 million in additional tax revenue relative to current trends.[6] Along similar lines, Citigroup analysts estimate that "if four key racial gaps for Blacks—wages, education, housing, and investment—were closed 20 years ago, $16 trillion could have been added to the U.S. economy. And if the gaps are closed today, $5 trillion can be added to U.S. GDP over the next five years" (Peterson and Mann 2020, 3).

A consumer's credit record is the gateway to credit markets, and stark race-related differences in credit scores—the median FICO score for Black consumers (626) is 125 points lower than the median score for white consumers—prevent many Black people from accessing affordable mortgage credit, if they can get a loan at all (McCargo and Choi 2020). Choi and coauthors (2019, vi) estimate that the "share of Black households with a mortgage would increase [about 11] percentage points if their credit score distribution was the same as the distribution for white households."

But an effective response to the homeownership and wealth gaps goes beyond mortgage finance. Materially improving racial equity requires that more people of color have sufficient liquid resources to compete for a home. Minority households generally have lower incomes than white households, have fewer savings, and are less likely to benefit from inherited wealth or to get financial help from family and friends for buying a home (Choi et al. 2019).

Similarly, recent data from the Federal Reserve find that nearly 30 percent of white families received an inheritance or gift,[7] compared with about 10 percent of Black families, 7 percent of Hispanic families, and 18 percent of families of other races or ethnicities: "Conditional upon receiving an inheritance or gift, White families also tend to receive larger inheritances."[8] This makes bequests and transfers, according to Hamilton and Darity (2010), more important in explaining the racial wealth gap than "any other demographic or socioeconomic indicator." And without such inheritance, saving for a down payment is difficult; Moody's Analytics estimates that it would take the typical renter about 14 years to save $15,000 for a down payment at prevailing renter household savings rates.[9]

Urban Institute researchers put a finer point on how the racial wealth deficit constrains minority homebuying. Using Freddie Mac data, they estimate that more than 1.7 million mortgage-ready young Black renters could afford a median-price home in the 31 most-populous metropolitan statistical areas if they could come up with a 10 percent down payment (McCargo, Choi, and Golding 2019). Therefore, the Biden administration, lawmakers from both parties, and other influential stakeholders are placing a high priority on creating policies that would help Black and Hispanic families fill the gap between available savings and the up-front cash needed for a down payment and closing costs on a first home. This assistance is the focus of this policy brief.

Conditional on addressing historical racial inequities, the effectiveness of DPA policies on narrowing the homeownership gap will depend upon such factors as program design, funding levels, permitted uses, how funds are allocated, and the maximum amount of support available for individual recipients. The historical record of dedicated federal DPA policies leading up to the 2008–09 financial crisis is spotty, but more recent promising efforts give the Biden administration and the new Congress ideas to build upon.

The Long Arc of Down Payment Assistance Policies

From the 1990s to the Great Recession

Through a succession of programs, none of which reached appreciable scale, policymakers have recognized that many low- and moderate-income (LMI) homebuyers had too little cash for a down payment and closing costs. One of the first federal programs aimed at overcoming this hurdle was the Nehemiah Housing Opportunity Program created by Congress as part of the Housing and Community Development Act of 1987.[10] Modeled on a successful church-based affordable homeownership program in East Brooklyn neighborhoods that featured $10,000 deferred-payment loans funded by the City of New York, the national program provided federal funding of up to $15,000 per unit for interest-free second mortgage loans to first-time LMI homebuyers (Phipps, Heintz, and Franke 1994).

The US Department of Housing and Urban Development (HUD) conducted three competitive Nehemiah funding rounds that resulted in grants to 54 nonprofit housing developers across the country who collectively produced fewer than 1,200 homes before the program was shut down in 1991. Nehemiah was terminated in part because Congress created the Home Investment Partnerships

Program (HOME) in 1990, an affordable housing block grant that made DPA an eligible use (Thompson 2006).

Both the Clinton and Bush administrations mounted ambitious homeownership campaigns: the former aimed at boosting the national homeownership rate to an all-time high by the year 2000, and the latter aimed at closing the Black-white homeownership gap by creating more than 5.5 million new minority homeowners by 2010.[11] These multifaceted initiatives favored moves to expand access to mortgage credit, including by reducing down payment requirements and expanding homebuyer education.

While rejecting President Bush's proposed Federal Housing Administration (FHA) zero-down-payment mortgage as being far too risky, Congress did approve his request for a dedicated down payment grant program in 2003. Appropriating $162 million over two years through a set-aside of funds within the HOME program (OAHP, n.d.), the American Dream Downpayment Initiative (ADDI) supported an estimated 22,000 low-income homebuyers with an average of $7,500 in up-front cash assistance. Significantly, for the first time, policymakers required ADDI families to complete at least eight hours of homebuyer counseling as a condition of receiving assistance (OAHP, n.d.).

Ironically, even though no combination of federal programs to overcome the down payment barrier could achieve scale, a small California-based nonprofit affordable housing organization, the Nehemiah Corporation of America, founded in 1994,[12] found a loophole in FHA regulations that enabled the expansion of seller-funded DPA without any direct government funding. The results were disastrous. Congress shut down the seller-funded DPA industry in 2008 but not before more than 300,000 homebuyers had obtained FHA loans without contributing any personal funds for a down payment.[13] This caused a projected claims rate on the taxpayer-backed FHA insurance fund that was 76 percent higher than that on comparable FHA loans without seller-funded DPA.[14] Future policymakers need to understand the loophole the Nehemiah Corporation exploited, both to prevent it from happening again and to ensure that HUD does not overreact and close off responsible DPA programs going forward.

To summarize, a fair reading of the DPA literature up to the Great Recession is that policies to address the down payment hurdle were scattershot and were inadequately funded to have any sustained impact. The one program to achieve any kind of scale required no direct federal funding but failed many of the families it purported to help while costing taxpayers a bundle in insured FHA losses.

We turn now to post–Great Recession efforts to attack the down payment problem, which tell a more positive story, perhaps encouraging the proposals during and following the 2020 presidential election.

Beyond the Great Recession

Despite the seller-financed DPA setback, the decade between the Great Recession and the onset of the COVID-19 pandemic witnessed the mainstreaming of DPA, largely funded without direct public subsidies, albeit through premium pricing of mortgage loans, an issue we elaborate upon later. More than 2,500 DPA programs nationwide are offered by more than 1,300 state and local public agencies. Terms, conditions, sponsors, and eligibility requirements vary by place and program. Down Payment Resource aggregates information on homebuyer assistance programs and helps homeseekers, real estate agents, and lenders navigate the myriad programs.[15]

Here, we discuss some of the developments and institutional actors shaping the recent DPA landscape.

STATE HOUSING FINANCE AGENCIES ADOPT DPA AS A COMPETITIVE ADVANTAGE

Throughout their history, dating back more than 50 years, state (and a few local) housing finance agencies have cumulatively financed more than 3 million single-family mortgages for low-income first-time homebuyers, primarily through the issuance of tax-exempt mortgage revenue bonds. The financial crisis upended the tax-exempt market, requiring HFAs to diversify their funding models, which most did by becoming Fannie Mae and Freddie Mac seller-servicers and Ginnie Mae issuers, thus becoming important players in the taxable capital markets and securitization arenas.

Between the end of the Great Recession and the onset of the COVID-19 pandemic, most HFAs added DPA to replace their lost mortgage revenue bond–based interest rate advantage, targeting borrowers who were being underserved by other lenders. HFAs use various sources to fund their DPA programs (e.g., bond premiums, internal resources, state sources, and recycled bond proceeds), but proceeds from secondary market sales are among the most important. By selling pooled premium-priced loans into lower-coupon mortgage-backed securities, HFAs can generate a profit on sale that can help pay for the DPA.

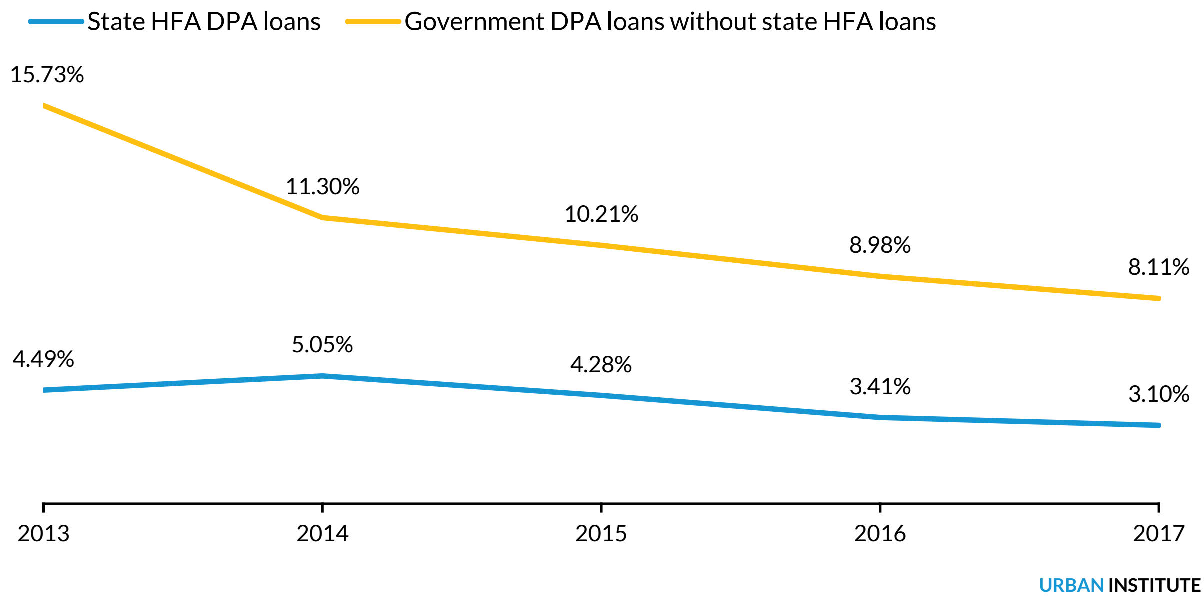
Down payment assistance has become such an integral part of the post–Great Recession HFA business model that in 2019, nearly three-quarters of the single-family mortgages HFAs funded carried DPA, with the typical agency financing nearly 3,000 loans each carrying about $7,200 in DPA, amounting to about 4.5 percent of the average home price (NCSHA 2020).

Unlike nonprofit-linked seller-financed DPA, HFA-funded DPA for FHA-insured loans have outperformed comparable DPA for loans originated by other lenders (figure 1).

FIGURE 1

Federal Housing Administration Government Down Payment Assistance Loans

Rates of serious delinquency



Source: National Council of State Housing Agencies.
Note: DPA = down payment assistance; HFA = housing finance agency.

CONVENTIONAL LOANS (FANNIE MAE AND FREDDIE MAC) WITH DPA

Another indication of the post–Great Recession mainstreaming of DPA is the conventional secondary market's growing comfort with DPA, as reflected in Freddie Mac's dedicated landing page containing materials to keep originators up to date on available down payment and closing cost assistance programs for possible use in conjunction with its affordable housing lending products.[16] Freddie Mac is taking a proactive approach to reducing the administrative burdens and buyback risks associated with submitting DPA loans that might violate its seller-servicer guide. Among other things, Freddie Mac's proprietary DPA information system, now being field tested, will "give lenders a single, standardized, insights-rich place to manage all DPA program information."[17] As importantly, Freddie Mac will standardize subordinate-lien documents for lenders to use regardless of which DPA programs or funding sources they may use in conjunction with the delivery of DPA-linked HFA affordable loans. Standardizing the underlying documents without imposing a one-size-fits-all requirement on other dimensions of DPA offerings should streamline the delivery process without stifling individual program innovations.

FEDERAL HOME LOAN BANK PROGRAMS

Created by Congress in 1932, the Federal Home Loan Banks (FHLBs) are regional cooperative banks that provide reliable liquidity to their member institutions to finance housing and economic development activities. By law, each of the nation's 11 regional FHLBs must establish an affordable housing program (AHP) to which it must contribute 10 percent of its earnings each year. Authorized uses of AHP funds include the financing, purchase, construction, or rehabilitation of owner-occupied and renter-occupied housing for LMI households.

As part of their AHPs, at least 9 of the 11 regional FHLBs administer homeownership set-aside programs to make grants to their respective financial institution members who provide the funds for down payment, closing cost, or counseling assistance to LMI first-time homebuyers (FDIC 2017). For example, FHLB Des Moines' Home$tart program provides up to $7,500 for a down payment, closing costs, counseling, or rehabilitation assistance to eligible homebuyers, while its Home$tart Plus program boosts support to $15,000 to eligible homebuyers on public assistance. FHLB Boston's Equity Builder Program provides up to $15,000 for similar purposes, while FHLB Chicago provides up to $5,000 in matching funds to help cover down payment and closing costs for first-time homebuyers and increases the grant to $7,500 for qualified current or retired law enforcement officers, educators, health care workers, firefighters, and other first responders. While most other FHLBs provide DPA in the range of $6,000 to $8,000, FHLB San Francisco's Individual Development and Empowerment Account (IDEA) Program provides up to $15,000 in matching funds for down payment and closing costs of eligible first-time homebuyers who have saved under an individual development account or are participating in a family self-sufficiency or lease-to-own program leading to homeownership.

Following the 2020 Elections

Here, we discuss recent proposed measures to expand DPA to improve racial equity without raising mortgage payments on the recipients they are designed to help.

A BIDEN CAMPAIGN PROMISE OF A DOWN PAYMENT TAX CREDIT

As a presidential candidate, Joe Biden campaigned on investing in America's housing to the tune of $640 billion over 10 years.[18] His sprawling agenda would devote $300 billion to expand the supply of new affordable housing and make rental assistance available over time to all who qualify. To help families buy their first home and begin to build wealth, Biden proposed creating a new refundable, advanceable tax credit of up to $15,000 to help offset down payment and closing costs, "helping millions of families lay down roots for the first time."[19] Although the proposal lacked details, Zillow estimated that such a tax credit could cover the entire down payment for homes in 40 of the 50 most-populous metropolitan statistical areas and, at prevailing savings rates, would "push some renters 14 years ahead toward homeownership."[20] A version of the Biden tax credit proposal has been estimated by the Urban-Brookings Tax Policy Center to cost roughly $25 billion annually.[21] One challenge of this approach to DPA is how to operationalize the tax credit's advanceable feature such that it is delivered to each recipient at the closing table, a challenge given the Internal Revenue Service's technology and resource constraints.

529-TYPE DOWN PAYMENT SAVINGS ACCOUNTS

In February 2021, Representatives Gregory W. Meeks (D-NY), Al Green (D-TX), and Joyce Beatty (D-OH), reintroduced the American Dream Down Payment Act to allow potential homeowners to create tax-exempt savings accounts to go toward a down payment and closing costs on a principal residence.[22]

This measure includes no federal matches of individual contributions. In the current low-interest-rate environment (which minimizes the impact of compounding savings) and lacking a federal match, this proposal is unlikely to gain much legislative traction or to be effective if enacted.

DOWNPAYMENT TOWARD EQUITY ACT OF 2021 DISCUSSION DRAFT

A potentially more significant legislative proposal was circulated at a recent hearing by Representative Maxine Waters (D-CA), chair of the House Committee on Financial Services. The Downpayment Toward Equity Act of 2021 would provide more targeted down payment grants of up to $25,000 to first-generation homebuyers with incomes up to 120 percent of the area median income (or up to 180 percent of the area median income in high-cost markets).[23] The program would be administered by the US Treasury and be delivered by formula to states, primarily through HFAs. HFAs would be encouraged, but not required, to "contract with local nonprofits, CDFIs, minority depository institutions, housing counseling agencies or community development credit unions" to administer grants to eligible households to help cover down payment costs, closing costs, and costs to reduce the interest rates on eligible mortgages.

Unlike many federal programs that prohibit "double dipping," the Waters proposal would allow these grants to be used in conjunction with other types of public or private down payment and other homebuyer assistance. Grants to eligible families would take the form of a five-year forgivable loan to enable the federal government to recapture some of the DPA if the recipient fails to occupy the home as a primary residence for at least that long.

Finally, because Waters's goal is to help close the racial homeownership gap, the legislation would require any agency administering the program to have an approved plan to affirmatively further fair housing, and with some exceptions, consumers receiving aid would be required to complete a homebuyer education program.

THE CENTER FOR RESPONSIBLE LENDING DPA PROPOSAL

The Center for Responsible Lending (CRL) proposal bears significant similarities to Waters's discussion draft with respect to eligibility and targeting down payment support to first-time, first-generation homebuyers with incomes up to 120 percent of the area median income (Bailey 2021). But CRL offers a variation on Waters's approach to the role of CDFIs and other types of lenders in a national DPA program, calling for a bifurcated delivery system.

Specifically, CRL recommends Congress direct half the available resources to state HFAs, by formula via HUD, and the other half to the CDFI Fund, which would use a competitive process to direct resources to local organizations "with the capabilities and commitments to administer [the] funds to achieve the Program's overall objectives" (Bailey 2021, 41). CRL makes clear that notwithstanding the CDFI Fund's role in administering this part of the program, local CDFIs would have to compete for funding along with other qualified local organizations who can reach targeted mortgage applicants through retail and wholesale channels.

In addition to CDFIs, other organizations that CRL identifies as qualified "targeted DPA administrators" are Federal Home Loan Banks, community development credit unions, nonprofit community lenders, minority depository institutions, and for-profit banks and nonbank mortgage lenders who create special-purpose credit programs.[24]

To ensure a focus on serving people of color and other underserved populations, CRL would require the appointment of a broadly diverse and expert consumer advisory board to advise and consult with the CDFI Fund on critical program functions, policies, and processes. It also calls for strong reporting and a federal study to assess whether the program, "in conjunction with any other extant efforts," is remedying discrimination and narrowing the racial homeownership gap or whether race-conscious measures are required to do so (Bailey 2021, 36).

THE BLACK HOMEOWNERSHIP COLLABORATIVE PROPOSAL

As one point of its seven-point plan to increase Black homeownership over the next decade, the Black Homeownership Collaborative's DPA proposal largely mirrors the Waters and CRL proposals in key aspects. It would be limited to first-generation homebuyers, half the assistance would be distributed to HFAs, and half would be distributed through a CDFI Fund–managed competitive process. This proposal recommends funding the program through an amendment to the Temporary Payroll Tax Cut Continuation Act of 2011 (TCCA),[25] described in the Funding discussion below.

THE LIFT ACT OF 2021 DISCUSSION DRAFT

Although his proposal is not aimed directly at reducing the down payment burden, Senator Mark Warner (D-VA) also recently circulated a legislative proposal to accelerate the wealth-building feature of homeownership for first-generation families of modest means. The Low-Income First-Time Home Buyer Act, or LIFT Act, mortgage would subsidize the interest rate and shorten the mortgage term such that the monthly payments on a 20-year loan would approximate those on a traditional 30-year FHA-insured mortgage. Shortening the loan term would result in the homebuyer paying down the principal and building up equity twice as fast as on a comparable market-rate 30-year loan.

Because LIFT loans would have below-market interest rates, the US Treasury would provide incentives to lenders to originate these discounted mortgages and to investors to buy them in the secondary market. Mechanically, the US Treasury would buy Ginnie Mae mortgage-backed securities backed by LIFT mortgages, paying a premium to their face value, and then sell the LIFT mortgage-backed securities into the fixed-income market at a discount. The cost to the US Treasury would vary based on prevailing interest rates and spreads but in March 2021 was estimated at about $11,000 per loan.

BANK-FUNDED DPA

Broad public calls for racial justice are being heard in the C-suites of the nation's financial institutions, resulting in expansions of their financial support of Black homebuyers and communities of color, going well beyond their traditional Community Reinvestment Act commitments. In announcing a recent pledge of $30 billion to help narrow the racial wealth gap, JPMorgan Chase CEO Jamie Dimon acknowledged the need for his institution "to do more and do better to break down systems that have propagated racism and widespread economic inequality, especially for Black and Latinx people."[26] As part of this commitment,[27] some $8 billion will help fund 40,000 mortgages to Black and Hispanic homebuyers, by doubling down payment grants to $5,000; $4 billion will help another 20,000 people of color refinance into lower-cost loans, including help toward closing costs to the tune of $2,500, with an additional $500 if borrowers complete a financial counseling course. Wells Fargo,[28] Bank of America,[29] U.S. Bank,[30] Fifth Third Bank,[31] and others, are also enacting similar initiatives.

Perhaps the furthest along is Wells Fargo's NeighborhoodLIFT program, a $60 billion lending commitment the bank initiated in 2017 in partnership with the nonprofit NeighborWorks America to increase the number of Black homeowners by at least 250,000 by 2027.[32] Since its inception, NeighborhoodLIFT has helped more than 60,000 Black families buy homes, in part by reducing their out-of-pocket costs through forgivable, interest-free down payment loans, with no required payments if the homeowner lives in the house for at least five years.[33]

Bank of America offers two programs to help eligible consumers over the up-front cash hurdle.[34] A lender credit of up to $7,500 can be used for closing costs or to permanently buy down the mortgage interest rate. A recoverable down payment grant of up to 3 percent of the home price, up to $10,000, is available for use with two Bank of America mortgage products. The DPA may be due upon sale, refinance, transfer, or loan repayment or if the senior mortgage is assumed during the loan term.

Funding

It will not be easy to find sufficient revenues to expand DPA at a level that would meaningfully reduce the racial homeownership gap. A portion of the more than $200 billion of dedicated housing resources included in President Biden's $2 trillion proposed American Jobs Plan could do the job, but while this ambitious measure winds its way through Congress, the administration should take advantage of a time-sensitive additional funding source.[35] Set to expire on October 1, 2021, the TCCA , which was enacted to pay for a two-month extension of the 2010 temporary payroll tax cut, imposed an annual 10 basis-point fee on new single-family mortgages purchased or guaranteed by Fannie Mae and Freddie Mac.[36]

The TCCA prohibited the government-sponsored enterprises from passing this fee on to lenders, borrowers, or investors, instead requiring them to absorb the cost as a reduction to their bottom lines. Instead of letting the fee expire on October 1, Congress could generate an estimated $5 billion a year to support down payment and related homebuyer assistance by repurposing the fee for these purposes, at little cost to the federal government and without increasing mortgage rates. Excluding overhead, at an average cost of $20,000 per homebuyer helped, this nontax funding source could help 250,000 families a year.

Going Forward

What lessons for future policymaking can we take from this historical sweep? For one thing, we know that for more than a generation—in periods when wages and home prices moved in tandem and when wages significantly lagged home price appreciation—wealth and savings constraints delayed or prevented households of modest means from buying their first home. Then as now, this was especially true for communities of color. We also have learned that the political rhetoric of DPA has always exceeded the funding that successive congresses have been willing to support.

We have learned that HFAs have expanded DPA without federal subsidies and done well reaching communities of color. In 2019, 29 percent of all HFA single-family purchase loans went to people of color, which far exceeds the performance of the government-sponsored enterprises (NCSHA 2020, tables 10 and 13). Including loans delivered into Ginnie Mae securities by state HFAs, more than 40 percent of all FHA purchase loans in the past fiscal year carried some form of DPA.

Confusion has arisen once again, however, as to whether government sources of DPA such as HFAs are permitted by law to "premium price" an FHA loan by bumping up the note rate to replenish the pool of up-front borrower support through secondary market sales. This is a legitimate concern, because such programs increase the buyer's mortgage payments and borrowers may not always realize they are the ones financing their own DPA through marginally higher monthly loan payments, which is why clearer guardrails and loan-level disclosures of lender performance and DPA are also needed.

If there is full transparency and disclosure, we do not object to the use of secondary market sales proceeds as a DPA funding source for some families because there are tens of thousands of mortgage-ready borrowers who could afford a mortgage carrying a modest interest add-on but lack the needed cash to pay the down payment and closing costs. At the same time, however, we think this would be a terrible way to help close the racial homeownership and wealth gaps. We should not raise interest rates and slow principal paydown for the most underserved borrowers and communities of color.

There is much to like about the breadth of the Waters proposal. In addition to DPA, it incorporates interest rate buydowns (featured in Senator Warner's proposal) as an eligible use, incorporates the basics of CRL's targeting criteria, allows piggybacking of DPA funding sources, and requires program administrators to take seriously their commitments to affirmatively further fair housing. The Waters proposal also recognizes the effectiveness of state HFAs—which have a strong record of serving racial and ethnic minorities—as a delivery system while encouraging them to partner with local partners like CDFIs that are deeply rooted in underserved communities and communities of color.

That said, there are benefits to creating more than a single pathway for distributing federal DPA resources. We support proposals by CRL and the Black Homeownership Collaborative that 50 percent of assistance be distributed by formula to state HFAs and that the remainder be administered by the CDFI Fund through a competitive process. Delivering a defined DPA product through HFAs would create more standardization in the DPA space and drive down borrower costs and lender overhead, while improving the ability for expansion. And a funding competition open to qualified targeted local entities would help not only because they are more fully embedded in the most underserved communities but because they are positioned to provide more high-touch, customizable help to reduce financial barriers to achieving homeownership that may necessarily go beyond narrowly prescribed DPA. These initiatives can include more robust homebuyer preparation and programs that enable assistance to be used to, for example, make essential repairs after closing—something low-income families often cannot do, especially after their savings have been depleted in the purchase transaction.

These broader uses of homebuyer assistance require a more complex program structure, far more engagement with the homebuyer, and greater oversight to ensure the assistance is used for approved purposes. These are requirements that experienced, high-quality nonprofit lenders with deep roots and relationships in undercapitalized communities are well suited to address.

Conclusion

Making progress in closing the racial wealth and homeownership gaps is not only about helping more people of color overcome the down payment hurdle. It requires overcoming other race-related market barriers, such as expanding financing options to different types of creditworthy borrowers and undoing regressive local property tax assessment and downwardly biased appraisal processes, which reduce the wealth-building capacity of homeownership in communities of color. We have learned that HFAs have expanded DPA without federal subsidies and have done well reaching communities of color. In 2019, 29 percent of all HFA single-family purchase loans went to people of color, which far exceeds the performance of the government-sponsored enterprises (NCSHA 2020, tables 10 and 13). Including loans delivered into Ginnie Mae securities by state HFAs, more than 40 percent of all FHA purchase loans in the past fiscal year carried some form of DPA.

It also requires improved access to financing options. The country needs to invest in a more robust homebuyer service delivery system that better reaches buyers underserved by the current system. In addition to DPA, many buyers need help establishing or improving their credit rating, saving for their portion of the down payment, or reducing consumer debt that gets in their way of qualifying for a mortgage. In some markets, the delivery system needs to better accommodate small-dollar mortgages to take advantage of low home prices, and in other communities, the system needs to provide ways for homebuyers to make essential improvements to older housing stock. Other local players, such as CDFIs, are needed to provide these kinds of services.

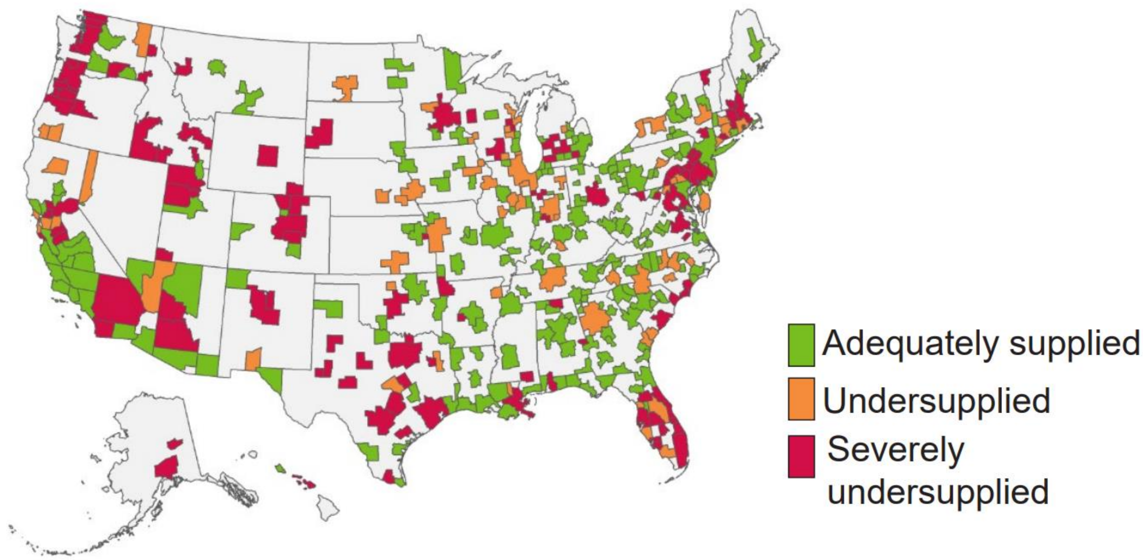
And we cannot ignore that the debate around the most appropriate form and funding of DPA is occurring at a time of nearly unprecedented home price escalation brought about by extreme supply constraints that have been exacerbated by the pandemic's economic effects.[37] This creates a risk that DPA could be capitalized into house prices, mitigating its effectiveness. With approaching herd immunity, COVID-19-related impacts of home price inflation and overly restricted market supplies should begin to subside. But with the shortfall of new home completions still running about 100,000 units a year below new housing demand, it will take much longer for home price trends to normalize (Parrott and Zandi 2021).

Nevertheless, three factors should encourage us to pursue ambitious DPA policies. First, if the United States is ever going to make progress in closing the racial homeownership gap, we need to help those who have been left behind. Second, the country is big and diverse, and while there are lots of red-hot local housing markets, many places have adequate supplies of affordable homes where DPA is not likely to be capitalized into higher housing prices (figure 2). Finally, the proposed programs discussed here are highly targeted to first-time, first-generation homebuyers, which limits eligibility in any given market. This, too, should minimize any inflationary effects of the program.

FIGURE 2

Affordable Housing Supply in Various Metropolitan Statistical Areas

Not all housing markets suffer from severe supply shortages



Source: Jim Parrott and Mark Zandi, "Overcoming the Nation's Daunting Housing Supply Shortage" (Washington, DC: Urban Institute, 2021), used with permission.

Notes

[1] Jung Hyun Choi and Janneke Ratcliffe, "Down Payment Assistance Focused on First-Generation Buyers Could Help Millions Access the Benefits of Homeownership," *Urban Wire* (blog), Urban Institute, April 7, 2021, https://www.urban.org/urban-wire/down-payment-assistance-focused-first-generation-buyers-could-help-millions-access-benefits-homeownership.

[2] The White House, "FACT SHEET: The American Jobs Plan," press release, March 31, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/.

[3] Jung Hyun Choi, "Breaking Down the Black-White Homeownership Gap," *Urban Wire* (blog), Urban Institute, February 21, 2020, https://www.urban.org/urban-wire/breaking-down-black-white-homeownership-gap.

[4] See also Emily Moss, Kriston McIntosh, Wendy Edelberg, and Kristen Broady, "The Black-White Wealth Gap Left Black Households More Vulnerable," *Up Front* (blog), Brookings Institution, December 8, 2020,

https://www.brookings.edu/blog/up-front/2020/12/08/the-black-white-wealth-gap-left-black-households-more-vulnerable/.

5 House Financial Services Committee majority staff, "March 10, 2021, Full Committee Hearing Entitled, 'Justice for All: Achieving Racial Equity through Fair Access to Housing and Financial Services,'" memorandum to the members of the House Financial Services Committee, March 5, 2021, https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-20210310-sd002.pdf.

6 Jeff Cox, "Morgan Stanley Says Housing Discrimination Has Taken a Huge Toll on the Economy," CNBC, November 13, 2020, https://www.cnbc.com/2020/11/13/morgan-stanley-says-housing-discrimination-has-taken-a-huge-toll-on-the-economy.html.

7 Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson, "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," Board of Governors of the Federal Reserve System, September 27, 2017, https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm.

8 Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," Board of Governors of the Federal Reserve System, September 28, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm.

9 Bethany Erickson, "Could a $15,000 Tax Credit Cover a Down Payment in Dallas?" *People Newspapers*, March 18, 2021, https://peoplenewspapers.com/2021/03/18/could-a-15000-tax-credit-cover-a-down-payment-in-dallas/.

10 Housing and Community Development Act of 1987, Pub. L. No. 100-426 (1988).

11 "Homeownership and Its Benefits," US Department of Housing and Urban Development, August 1995, https://www.huduser.gov/publications/txt/hdbrf2.txt, and The White House, "President Bush Signs American Dream Downpayment Act of 2003," press release, December 16, 2003, https://georgewbush-whitehouse.archives.gov/news/releases/2003/12/20031216-9.html.

12 This Nehemiah Corporation is unrelated to the previously referenced Nehemiah Housing Opportunity Grants or other federal programs.

13 "Nehemiah Corporation of America Launches Web Community to Amass Surge in Support for Seller-Funded Downpayment Assistance," National Mortgage Professional, March 24, 2014, https://nationalmortgageprofessional.com/news/40485/nehemiah-corporation-america-launches-web-community-amass-surge-support-seller-funded.

14 Long-standing HUD and FHA laws and regulations permit a nonprofit organization to provide a gift toward a borrower's minimum down payment requirement, while prohibiting seller-financed down payments. Nehemiah worked around the FHA's ban on seller-financed down payment by providing the borrower a gift of down payment funds. After closing, the home seller would make a like donation to Nehemiah, plus an additional processing fee. To recoup its costs, the seller would typically raise their home prices above their appraised value relative to comparable homes, thus making the effective loan a zero-down-payment mortgage. See Donohue (2007).

15 See the website for Down Payment Resource at https://downpaymentresource.com/.

16 "Explore Down Payment Assistance Options," Freddie Mac, accessed April 14, 2021, http://www.freddiemac.com/purchasemarket/downpayment.html.

17 From the slide deck presentation "Leading the Future of Home: NCHSA Finance Institute, Feb. 2, 2021." Shared with the author.

18 "The Biden Plan for Investing in Our Communities through Housing," JoeBiden.com, accessed April 14, 2021, https://joebiden.com/housing/.

[19] Kathleen Howley, "Biden's $15,000 First-Time Homebuyer Tax Credit Explained," *HousingWire*, August 26, 2020, https://www.housingwire.com/articles/bidens-15000-first-time-homebuyer-tax-credit-explained/.

[20] Alexandra Lee, "How $15K in Down Payment Assistance Could Help Millions Achieve Homeownership," Zillow, March 16, 2021, https://www.zillow.com/research/15k-down-payment-assistance-2021-29134/.

[21] C. Eugene Steuerle, "Biden's First-Time Homebuyer Tax Credit Is a Big Improvement over the Mortgage Interest Deduction," *TaxVox* (blog), Urban-Brookings Tax Policy Center, October 22, 2020, https://www.taxpolicycenter.org/taxvox/bidens-first-time-homebuyer-tax-credit-big-improvement-over-mortgage-interest-deduction.

[22] Office of US Representative Gregory W. Meeks, "Meeks, Green and Beatty Reintroduce the American Dream Down Payment Act," press release, February 25, 2021, https://meeks.house.gov/media/press-releases/meeks-green-and-beatty-reintroduce-american-dream-down-payment-act.

[23] See the discussion draft of the Dowmpayment Toward Equity Act of 2021, https://financialservices.house.gov/uploadedfiles/3.10_downpayment.pdf.

[24] Equal Credit Opportunity Act (Regulation B), 12 C.F.R. 1002.8 (2018).

[25] Temporary Payroll Tax Cut Continuation Act of 2011, Pub. L. No. 112-78, 125 Stat. 1280 (2011).

[26] Troy McMullen, "Bank Programs Seek to Widen the Path to Black Homeownership," *Washington Post*, October 29, 2020, https://www.washingtonpost.com/realestate/bank-programs-aim-to-widen-the-path-to-minority-homeownership/2020/10/28/ff5edcfa-12f7-11eb-ad6f-36c93e6e94fb_story.html?outputType=amp.

[27] JPMorgan Chase, "JPMorgan Chase Commits $600M to Increase Homeownership among Black and Latinx Families in Chicago," news release, November 20, 2020, https://www.jpmorganchase.com/news-stories/jp-morgan-chase-commits-600m-dollars-to-increase-homeownership-among-black-and-latinx-families-in-chicago.

[28] McMullen, "Bank Programs."

[29] "Bank of America's Community Homeownership Commitment," Bank of America, accessed April 14, 2021, https://www.bankofamerica.com/mortgage/affordable-housing-programs/.

[30] Business Wire, "U.S. Bank Launches New Approach to Build Wealth and Create Access for Diverse Communities," news release, February 17, 2021, https://www.businesswire.com/news/home/20210217005617/en/U.S.-Bank-Launches-New-Approach-to-Build-Wealth-and-Create-Access-for-Diverse-Communities.

[31] Jeffrey McKinney, "Fifth Third Bank's Major Racial Equity Commitment Includes over $2 Billion to Help Black Homeownership and Businesses," *Black Enterprise*, December 15, 2020, https://www.blackenterprise.com/fifth-third-banks-major-racial-equity-commitment-includes-over-2-billion-to-help-black-homeownership-and-businesses/.

[32] "The NeighborhoodLIFT Program," Wells Fargo, accessed April 14, 2021, https://www.wellsfargo.com/mortgage/lift/.

[33] Business Wire, "Wells Fargo Invests $442 Million in LIFT Programs, Creating Nearly 20,000 Homeowners across the U.S.," news release, February 4, 2019, https://newsroom.wf.com/English/news-releases/news-release-details/2019/Wells-Fargo-Invests-442-Million-in-LIFT-Programs-Creating-Nearly-20000-Homeowners-Across-the-U.S/default.aspx.

[34] Bank of America's Community Homeownership Commitment," Bank of America.

[35] Ella Nilsen, "Joe Biden's $2 Trillion Infrastructure and Jobs Plan, Explained," *Vox*, March 31, 2021, https://www.vox.com/2021/3/31/22357179/biden-two-trillion-infrastructure-jobs-plan-explained; and "American Jobs Plan," The White House, accessed April 14, 2021, https://www.whitehouse.gov/american-jobs-plan/.

[36] Temporary Payroll Tax Cut Continuation Act of 2011, Pub. L. No. 112-78, 125 Stat. 1280 (2011).

[37] Diana Olick, "Thinking of a New Wooden Deck for Spring? It May Bust Your Budget," CNBC, February 10, 2021, https://www.cnbc.com/2021/02/10/lumber-prices-skyrocket-pushing-up-housing-costs.html; and Charles S.

Gascon and Jacob Haas, "The Impact of COVID-19 on the Residential Real Estate Market," Federal Reserve Bank of St. Louis, October 6, 2020, https://www.stlouisfed.org/publications/regional-economist/fourth-quarter-2020/impact-covid-residential-real-estate-market.

References

Bailey, Nikitra. 2021. Testimony before the Senate Committee on Banking, Housing, and Urban Affairs, Washington, DC, March 16.

Choi, Jung Hyun, Alanna McCargo, Michael Neal, Laurie Goodman, and Caitlin Young. 2019. *Explaining the Black-White Homeownership Gap: A Closer Look at Disparities across Local Markets*. Washington, DC: Urban Institute.

Donohue, Kenneth M. 2007. Statement before the Senate Committee on Banking, Housing, and Urban Affairs, Washington, DC, July 18.

FDIC (Federal Deposit Insurance Corporation). 2017. *Affordable Mortgage Lending Guide, Part III: Federal Home Loan Banks*. Washington, DC: FDIC.

Hamilton, Darrick, and William Darity Jr. 2010. "Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America?" *Review of Black Political Economy* 37:207–16. https://doi.org/10.1007/s12114-010-9063-1.

Kahlenberg, Richard D., and Kimberly Quick. 2019. "Attacking the Black-White Opportunity Gap That Comes from Residential Segregation." New York: The Century Foundation.

McCargo, Alanna, and Jung Hyun Choi. 2020. *Closing the Gaps: Building Black Wealth through Homeownership*. Washington, DC: Urban Institute.

McCargo, Alanna, Jung Hyun Choi, and Edward Golding. 2019. "Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap." Washington, DC: Urban Institute.

NCSHA (National Council of State Housing Agencies). 2020. *Factbook: State HFA Factbook, 2019 NCSHA Annual Survey Results*. Washington, DC: NCSHA.

OAHP (Office of Affordable Housing Programs). n.d. "American Dream Downpayment Initiative: Jumping the Hurdle to Homeownership." Washington, DC: US Department of Housing and Urban Development, OAHP.

Parrott, Jim, and Mark Zandi. 2021. "Overcoming the Nation's Daunting Housing Supply Shortage." Washington, DC: Urban Institute.

Peterson, Dana M., and Catherine L. Mann. 2020. *Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.* New York: Citigroup.

Phipps, Antony A., Kathleen Heintz, and Monte Franke. 1994. *Evaluation of the Nehemiah Housing Opportunity Program: Final Report*. Washington, DC: US Department of Housing and Urban Development, Office of Policy Development and Research.

Thompson, Lawrence L. 2006. *A History of HUD*. Elizabeth, NJ: Monarch Housing Associates.

About the Authors

Michael Stegman is a nonresident fellow at the Urban Institute, a visiting professor at Duke University's Sanford School of Public Policy, and distinguished professor emeritus and founding chair of the department of public policy at the University of North Carolina (UNC) at Chapel Hill. Previously, he was senior policy adviser for housing in the Obama White House at the National Economic Council, following three years as counselor to the secretary of the US Treasury for housing finance policy. Stegman was assistant secretary for policy development and research at the US Department of Housing and Urban Development (HUD) in the Clinton administration and was deputy assistant secretary for research at HUD during the Carter administration. Stegman serves on the advisory board of Home Partners of America and has previously held nonresident fellow positions at the Milken Institute, the Joint Center for Housing Studies at Harvard University, the Center for Household Financial Stability at the St. Louis Federal Reserve Bank, the Center for Community Capital at UNC Chapel Hill, and the Bipartisan Policy Center. Stegman has a BA in political science from Brooklyn College and an MCP and PhD in city planning from the University of Pennsylvania.

Mike Loftin is CEO of Homewise Inc., an effective nonprofit social enterprise, promoting sustainable homeownership in a way that improves the long-term financial well-being of modest-income families. Loftin led the creation and implementation of Homewise's comprehensive business model that seamlessly integrates all the steps of the home purchase process. Before his work at Homewise, Loftin was a community organizer in Chicago, where he founded the Resurrection Project, a preeminent Chicago community-development organization serving Mexican-American neighborhoods; organized an antidisplacement campaign in Chicago's Uptown neighborhood during his tenure with the affordable housing organization Voice of the People; and led the Metropolitan Tenants Organization in the passage of Chicago's Tenant Bill of Rights. Loftin serves on the board of Excellent Schools New Mexico, served on the board of the University of New Mexico Anderson School of Management Foundation, and was a governor-appointed board member of the New Mexico Mortgage Finance Authority. Loftin holds a bachelor's degree in history from Northwestern University.

Acknowledgments

The Housing Finance Policy Center (HFPC) was launched with generous support at the leadership level from the Citi Foundation and John D. and Catherine T. MacArthur Foundation. Additional support was provided by The Ford Foundation and The Open Society Foundations.

Ongoing support for HFPC is also provided by the Housing Finance Innovation Forum, a group of organizations and individuals that support high-quality independent research that informs evidence-based policy development. Funds raised through the Forum provide flexible resources, allowing HFPC to anticipate and respond to emerging policy issues with timely analysis. This funding supports HFPC's research, outreach and engagement, and general operating activities.

This brief was funded by these combined sources. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

URBAN INSTITUTE

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.