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Addressing the Racial Wealth Gap with Shared Equity Homeownership: A Latino Perspective

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Abstract

While American homeownership rates stand at an all-time low since the 1960s, U.S. policymakers continue to grapple with ways to expand homeownership. Offering a non-traditional method of homeownership, Shared Equity Housing (SEH) is a risk-sharing homeownership strategy between local governments or nonprofit organizations and low-income families that has existed largely at the local level. SEH models provide greater community control in tight housing markets that threaten to displace vulnerable families and preserves housing affordability for generations. Historically, Latinos and other racial and ethnic minorities have been barred from the American Dream of homeownership, and today the fastest growing population in the nation is in desperate need of a new and innovative approach to sustainable and affordable homeownership. Given systemic barriers to homeownership and the shift in U.S. demographics, federal legislators must look to the future and consider SEH as a viable solution to the affordable housing conundrum and a racial equity strategy. While SEH models have demonstrated their effectiveness at the local level, constrained nonprofit organizations continue to shrink and merge—highlighting the need for increased support at the federal level through strengthened funding streams and comprehensive, inclusionary housing policies that consider U.S. demographic shifts, while prioritizing the diverse needs of the Latino community.

Introduction

Homebuilding and home buying are major contributors to the U.S. economy, and are assets that traditionally account for the vast majority of wealth held by minority and lower income families. The 2007 housing bust and economic crisis in the United States affected millions of families, however, the impact of the crisis was not felt evenly across racial lines (Mellinik et al. 2016). Households of color lost half of their wealth in the aftermath of the housing crisis as a result of predatory practices, subprime lending, and subsequent foreclosures. While U.S. policymakers continue to grapple with ways to increase homeownership opportunities for creditworthy borrowers, minority households experience disproportionately low rates that substantially contribute to the growth of the racial wealth gap.[1]

White homeownership rates currently stand at over 70 percent, meanwhile, Blacks and Latinos own homes at significantly lower rates (43 and 45 percent respectively) (Chopra et al. 2017). These rates do not exactly match the reality of the potential of minority populations. Today, the Latino population represents nearly 18 percent of the total U.S. population and remains the fastest growing demographic group in the country. Projected to account for one in four people in the U.S. by 2045, Latino purchasing power has reached $1.4 trillion, businesses are growing at double the rate of the national average, and—making up nearly 75 percent of the overall net growth in homeownership nationwide—are the only subgroup to experience gains in homeownership in 2016. Despite these impressive gains amongst the Latino population, national homeownership rates have bottomed out to levels not seen since the 1960s. This is causing concern about how minority families will continue to build wealth and what impact these barriers might have on the greater economy. Shared Equity Homeownership (SEH) models (SEH), specifically the community land trust model, can serve as an innovative tool that can be mobilized by federal policymakers to help low-income first-time homebuyers build the wealth and equity that is needed to enter the private housing market.

Under conventional homeownership models, minority households throughout the U.S. face barriers when trying to access financially sustainable homeownership and capital (Burr et al. 2011;

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Dickerson 2016). Shared Equity models offer an innovative tool to encourage homeownership while prudently utilizing public funds and providing households a foot in the door to traditional homeownership. SEH is a risk-sharing homeownership strategy between nonprofits or local government and low-income families that has existed largely at the local level. These models provide greater community control in tight housing markets that threaten to displace vulnerable families and preserve housing affordability for generations. Research supports that Shared Equity homeowners build wealth and have very low rates of delinquencies or foreclosure when compared to traditional homeowners (Thaden and Rosenberg 2010). While SEH models have demonstrated their effectiveness, their potential cannot be maximized without increased support at the federal level.

Changes and Challenges in the 21st Century City

Political, social, and economic shifts in the fabric of the 21st century city present challenges that have proven particularly difficult to address from a policy standpoint. From the stagnation of incomes, increases in the cost of living, and higher housing costs, to stagnant homeownership rates, an increase in the amount of renter households, and growing student debt, the 21st century American city is experiencing particularly difficult times. The lack of housing supply paired with high demand for affordable housing, especially at the lower end of the market, has driven up the price of homes (Sisson 2016). This has had a disproportionate impact and strain on the access to stable, affordable housing for low-income communities and communities of color.

Traditionally, the private market response to the housing shortage and affordability issues has been to produce more market-rate housing with the assumption that it will cause individuals at the higher end of the market to move into newly produced market-rate housing, therefore freeing up older homes that will depreciate for the lower end of the market. This is a process that is referred to as "filtering" (Fisher and Winnjck 1951). However, it has been clear in recent years that filtering, as a traditional and widely accepted approach to housing provision, fails to address the needs of the families that need it the most (Harris 2013; Zuk and Chapple 2016). In summary, the current market structures are failing to adequately serve those who need it most.

The 2007 U.S. housing bust and economic crisis, experienced in the form of job loss, subprime lending and subsequent foreclosures, dispossessed Latino borrowers of over $98 billion in wealth (Calderon 2016). The recovery of home values since the housing bubble has not been experienced evenly across racial lines. It has been found that many White communities have since surpassed pre-housing bust values, while Latinos and Blacks struggle to recover at all--effectively pushing families into homelessness and perpetual states of rentership (Mellinik et. al 2016). Today, while national homeownership rates struggle to improve, Latino homeownership has grown and is expected to increase by 52 percent between 2010 and 2050 (Becerra and Calderon 2015). In a country where cities struggle to meet the demand of housing, homelessness has become a chronic issue, and renter-occupied homes have surpassed the nation's highest rates since the 1960s, it is pertinent that change agents, such as politicians and policymakers begin looking ahead to the future.

Why Homeownership Matters

Millennials[2] are the largest generation since the Baby Boomers, born after World War II, and also the most racially diverse in U.S. history. Millennials are coming into adulthood during a time when a slowly recovering economy, distressed housing markets, mounting student debt, and a growing racial wealth gap threaten to hold back wealth creation for generations (Pew Research Center 2014). Recent studies have found that "rates of absolute mobility have fallen from approximately 90% for children born in 1940 to 50% for children born in the 1980s," eliciting the drastic downward trend of wealth for Millennials and their younger counterparts (Chetty et al. 2016). Today, six in every ten Latinos are part of the Millennial generation or younger (Patten 2016). Pervasive disparities between White and minority households and the hindrance of millennial wealth creation, especially as it relates to systematic exclusion from homeownership, are cause for concern when it comes to the future of the Latino community in the U.S. and their access to the American Dream of homeownership (Chopra et al. 2017; Kotkin 2017).

The years following World War II arguably came to redefine the American Dream (Crawford 1995; American RadioWorks 2009). During a time of great economic hardship, veterans returned from war seeking jobs and homes where they could begin setting down familial roots. The housing market provided both critical job creation as well as homes for veteran families, and has been seen as an engine of growth since then. Yet, nearly seventy years later, homeownership remains further and further out of reach for many. Today, over 60 percent of households are renters with nearly 40 percent of those households spending 30 percent or

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more of their monthly income on housing costs (rent, plus utilities) (Federal Reserve Board 2013). Some attribute this trend to simple consumer preference (DiPasquale and Murray 2016). However, according to the 2013 Federal Reserve Survey, 81 percent of renters in the U.S. would prefer to own their homes—eliciting how important homeownership remains for most American households. Over 50 percent of renters, most of whom are considered low- to moderate-income Americans, attribute their inability to own their home to a lack of capital to afford a down payment or to qualify for a mortgage (Federal Reserve Board 2013).

Owning a home is one of the greatest sources for household wealth accumulation. As of 2013, "a typical homeowner's net worth was $195,400, while that of renters' was $5,400" (Yun 2015). During the housing boom, many Latino households gained newfound access to homeownership as a result of banks loosening their credit terms (Al Jazeera English 2012). In 2005, home equity accounted for two-thirds of Latinos' net worth. However, between 2005 and 2009, families experienced a 66 percent drop in net worth from $18,359 in 2005 to $6,325 in 2009 (Kochhar et al. 2011). As it stands, White households hold 10 times more wealth than Hispanic households and own homes at significantly higher rates (Calderon 2016).

While Hispanics are expected to account for 52 percent of new homeowners between 2010 and 2030, many obstacles continue to obstruct the Latino climb up the economic ladder of prosperity in the U.S. It is clear that homeownership is out of reach for the households who arguably need it the most, but it remains uncertain as to how or when they will attain homeowner status. SEH models have proven to offer a foot-in-the-door to homeownership for low- and moderate-income buyers on-the-ground and can facilitate entry into private market homeownership (Jacobus and Abromowitz 2010). Centered on a community development platform, the flexibility of SEH programs allow organizations and community stakeholders that run the have been effective in meeting the needs of diverse populations, whether through language services or financial literacy and education. This offers a unique opportunity for the Latino population, which is largely bilingual and lacks adequate access to financial services, literacy, and education (Becerra and Calderon 2016).

Community Land Trusts: A Shared Equity Approach

Community Land Trusts (CLTs) are a Shared Equity Homeownership model born out of the U.S. civil rights movement. While there are a variety of SEH models[3], CLTs are one of the most widely used around the world and are seen as a "strategy to pursue racial equity" (Savitch-Lew 2017). Usually administered by the public sector or nonprofit organizations, CLTs provide perpetually affordable homeownership opportunities for low- and moderate-income families (Thaden et al. 2013). Implemented at the local level, CLTs exist as a major component of housing affordability programs in cities across the U.S. like Burlington, Vermont, Albuquerque, New Mexico, and Boston, Massachusetts. Originally created to protect the land rights of Black Americans in the rural South, CLTs have become increasingly popular in urban areas where high rents in squeezing housing markets threaten to displace low-income families and families of color, making it harder to build wealth. The flexibility of Community land Trusts can meet the needs of both rural and urban housing insecurity and community development goals.

How CLT Homeownership Works

There are two major components that make CLT housing affordable: 1) leasing of land that allows a home to be sold below market price and 2) resale restrictions that maintain perpetual affordability for future buyers. CLTs allow low- and moderate-income families to buy housing below the market rate. Under a CLT, a nonprofit or government entity buys tracts of land that have existing housing infrastructure, or upon which affordable housing is built. The homes are sold to low- and moderate-income families at below-market rates. This is made possible because households lease the land upon which their home sits from the CLT. By leasing the land, typically through a 99-year renewable lease, high land costs are diminished from the purchasing price of a home.

Resale restrictions maintain perpetual housing affordability for future generations for first-time homebuyers as well as low- and moderate-income households. When a family makes the decision to sell their home, they do so with the understanding that they will earn back a portion of the appreciation value, or the amount that their home has increased since they purchased it, of their home. CLTs use a formula to calculate the amount a family will receive when they sell their home. Resale restrictions allow for CLTs and their communities to mitigate for speculation and over-inflation in the price of a home, making it affordable for future families who wish to buy. The amount that a family gains from the resale of their home can be used as downpayment to enter the traditional private

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market. Through this equity sharing structure, CLTs ensure that a home remains affordable by preserving the value of public subsidy (Jacobus and Abromowitz 2010).

How successful are CLTs?

Not only does a CLT homeownership structure maximize public subsidies, but it also makes homeownership financially sustainable for low- and moderate-income families. A report released in 2011 showed the results of a survey that compared delinquencies and foreclosures among 62 CLTs across the country, accounting for 3,143 homeowners with outstanding mortgages, to owners of conventional market-rate housing reported by the Mortgage Bankers Association's National Delinquency Survey (MBA). The findings showed that while serious delinquencies and foreclosures have fluctuated greatly among conventional market-rate homeowners, they have steadily decreased among CLT homeowners between 2008 and 2010 (Thaden 2011). This is to say that CLT homeowners were ten times less likely to enter foreclosure than homeowners in the conventional market.

Who currently benefits from CLTs?: A missed opportunity for the Latino community

Another key question in the case of CLT homeownership as it relates to addressing the racial wealth gap is whether or not this model is currently serving low- and moderate-income communities of color—the households that need it most. A study conducted at the end of 2010 looked at the demographic composition of families and households being served by CLTs. This study showed that while the majority of homeowners were white, CLTs were serving Black homebuyers, single mothers, and families with one or more children significantly higher than the conventional private market. However, the study also found that Latinos were being underserved by CLTs. This presents a unique opportunity for CLTs, especially in the current moment of our nation's history as it pertains to demographic shifts. Another key component of the CLT model is that nonprofits are able to offer rental units that are below market rate to low- and moderate-income families. This not only provides housing for those who are not quite ready to own a home, but it also promotes thriving mixed income communities. According to housing advocate and director of the National Community Land Trust Network, Catherine Harrington, the CLT movement is "about changing the narrative of housing: building homes rather than investment units; having security and stability in a particular place, rather than being forced to move every six months; and mobilizing popular support for development" (Wainwright 2017).

It is central to remember that current policies designed to facilitate homeownership for Latino communities—especially those at the low-income tier—have proven to be more beneficial for real estate companies and high-income homeowners, rather than Latinos. Steven Bender demonstrates how policies like the Low-Income Tax Credit have been used by higher income homeowners to a point where marginal gains from the usufruct transcend the money invested in low income housing: "Some tax incentives, such as the low-income housing tax credit, favor developers but inure to the benefit of lower-income residents. But most existing tax incentives favor higher-income taxpayers, such as mortgage interest and real property tax deductions for those homeowners who itemize their deductions. Combined, these two deductions alone deliver more than $80 billion annually in tax benefits to middle-and-upper-income homeowners in higher tax brackets, amounting to almost three times the money spent on all housing programs for low-and moderate-income residents" (160).

Federal Policy Recommendations: Incorporating Non-Conventional Models

In light of shifting U.S. demographics—mainly a surge in the Latino and minority populations overall—it is incredibly important that the ever-changing U.S. economy and all homeownership opportunities are inclusive and extended to a newly-rising majority of minorities. Latino purchasing power is expected to reach more than $1.7 trillion by 2020, eliciting the potential they have to contribute to progress and growth in the U.S. economy. However, this potential is stifled when access to quality, affordable housing and sustainable homeownership is limited by traditional housing market practices. SEH models offer a proven, innovative tool that policymakers should seriously consider leveraging to extend homeownership options to low- and moderate-income communities and communities of color that are in most need of long-term, affordable housing options. However, there is no doubt that SEH models are not a mainstream topic. In a country founded on the cultural principles of private homeownership, there is much education and awareness to be done around SEH. For this reason, this paper proposes the launch of a federal pilot program at that can make federally collected data more accessible to policymakers and to also strengthen existing funding streams and regulations that help make homeownership more affordable and allow for local initiatives to flourish.

Launch a Pilot Program

While there is some sample data that exists for Shared Equity Homeownership programs, it is not easy accessible or widely advertised to the general public. By launching an extensive pilot demonstration at the federal level, there will be more comprehensive data that shows the effectiveness of SEH lending models to open the door to sustainable homeownership for low-income Americans. Pilot programs can also allow for greater political buy-in by allowing Members of Congress to support SEH models without making a full commitment prior to adequate data collection that shows that these models viably maximize public monies. This pilot program would be subject to an appropriations process to request funding in a budget bill, allowing for funds to be used to conduct the pilot program within an agency like the Department of Housing and Urban Development (HUD). In its 2015 Research Roadmap, HUD proposed conducting further research on the Community Land Trust SEH models, which shows that there is already an existing interest to collect more comprehensive national-level data on Shared Equity Homeownership, especially Community Land Trusts.

Strengthen Existing Tools

On his first day in office, President Donald J. Trump issued an administrative order to suspend a quarter-point decrease in insurance mortgage premiums, which would have saved households $500 per year on housing costs. This decision was not only detrimental to potential homebuyers, especially those that would have benefited from lower insurance premiums as interest rates continue to rise, but it was also a symbolic move for many in the housing field. It was a clear message that the new administration is not concerned with the current state of housing affordability and access to homeownership.

A preliminary budget released months later by the Trump administration echoed this symbolic sentiment. The fiscal year 2018 "skinny" budget outlines many cuts in funding for housing and urban development initiatives. Most significant to many local initiatives and programs are the Community Development Block Grants (CDBG) and the HOME Program funds.

HOME funding assists first-time homebuyers while CDBGs are an essential funding tool that allows local governments and nonprofit organizations to leverage public private partnerships.

The current administration has made affordable homeownership less accessible and has proposed budget cuts that would make local developments and public-private partnerships near impossible. Carving into the economic foundations of a program (SEH) that projects an alternative model of home ownership is the most clear route back towards a housing model where banks regulate access to property, with the impending barriers for people of color that have been described throughout this report. The hopes of millions of non-white Americans who dream about owning a house will once again be pushed aside while banks enjoy greater profits of high-interest mortgages and increased renter households. It is of utmost importance and extremely timely that policymakers begin to strengthen and innovate the tools needed to continue providing opportunities for economic justice and access to sustainably affordable homeownership.

Footnotes

[1]The racial wealth gap can be defined as the asymmetrical allocation of capitals (economic, cultural, political) when comparing white communities and People of Color. These asymmetries include—but are not limited to—access to education, access to lines of credit, and homeownership. In this essay I follow Hamilton and Darity (2017), where they claim that "the racial wealth gap is rooted in socioeconomic and political structure barriers rather than a disdain for or underachievement in education or financial literacy on the part of Black Americans, as might be suggested by conventional wisdom" (59).

[2]Americans born between 1980 and 2000.

[3]Further reading on SEH models: Sherriff, R. (2010). Shared Equity Housing state policy review. *Journal of Affordable Housing & Community Development Law*, 279-311.

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