





CHAPTER 6

Housing

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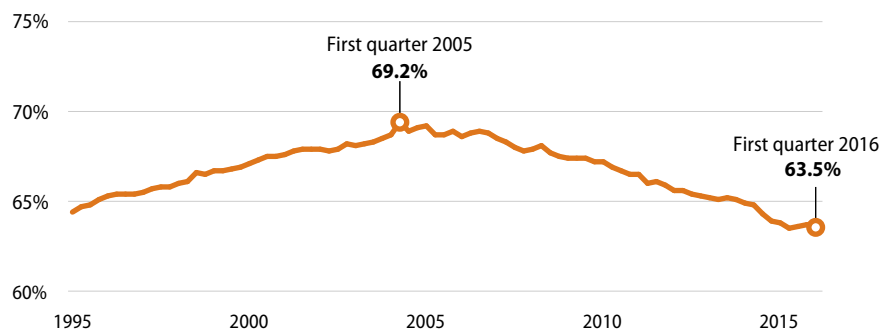
Housing

Owning a home is a key means of building wealth in the United States,¹ and stable housing can help middle-class families access important opportunities, such as good health and education, that contribute to economic stability.² Across the country, however, both middle-class and aspiring middle-class families are unable to find stable, affordable housing. Homeownership—a staple of middle-class economic security—remains out of reach for many households, and the broader housing recovery since the subprime housing meltdown in 2006 and subsequent collapse of U.S. home prices has left behind many communities that remain mired in negative equity. At the same time, renters across the income spectrum face increasing costs.

The homeownership rate for the United States has fallen over the past decade, and almost every age group shows lower rates of homeownership in 2015 compared to 1994.³ While Baby Boomers—those born between 1946 and 1964—have now entered age groups with relatively higher homeownership rates, those under age 45 have homeownership rates much lower than the national rate of 63.5 percent.⁴ These low rates are not due to families forgoing homeownership in favor of more affordable options: Owning a home is cheaper than renting in almost 60 percent of housing markets across the country.⁵

Rather, stagnant incomes, rising home prices in some markets, and an extremely tight credit market are restricting families' access to homeownership. Saving for a down payment remains an obstacle for families seeking to own a home. In July 2016, the average down payment made on a home purchase was 14 percent.⁶ A Center for American Progress analysis estimates that it takes a typical household about 15 years to save for a 14 percent down payment.⁷

FIGURE 6.1
Homeownership rate

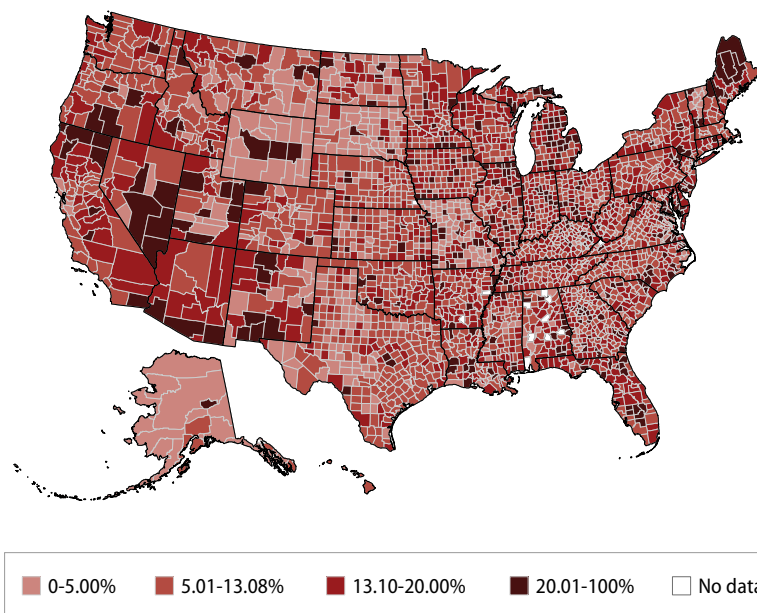


Source: Bureau of the Census, "Current Population Survey/Housing Vacancy Survey, Series H-111," Quarterly Seasonally Adjusted Homeownership, available at <http://www.census.gov/housing/hvs/data/histtabs.html> (last accessed June 2016).

Alongside the challenge of saving for a down payment, many creditworthy people face excessively high standards for obtaining a mortgage. The Urban Institute found that tight credit standards led to 5.2 million “missing mortgages” between 2009 and 2014. Not only were credit standards stricter in 2014 than they were in 2005—when the housing bubble was at its peak—they were also stricter than in 2001, well before the housing crisis. Had standards been at the reasonable 2001 level, millions of creditworthy people would have been able to obtain a mortgage.⁸ An excessively tight credit market has dampened the housing recovery and prevented creditworthy borrowers from being able to purchase a home—an important means for building wealth.⁹

While some parts of the country are experiencing a strong housing recovery, many neighborhoods have yet to fully recover from the housing crisis, which drained the wealth of middle-class and lower-income households.¹⁰ The instability of these neighborhoods leaves households struggling and inhibits the size and strength of today’s middle class. In the fourth quarter of 2015, more than 6 million homeowners were still underwater, mired in negative equity—meaning that they owed more on their mortgage than the market value of their home.¹¹ Moreover, negative equity rates either did not improve or got worse in about 1,000 counties across the country between 2011 and 2015.¹² (see Figure 6.2)

FIGURE 6.2
Negative equity by county
 Fourth quarter, 2015



Note: The national average is 13.09 percent.

Source: CAP analysis of Zillow's negative equity data, available at <http://www.zillow.com/research/data/> (last accessed May 2016).

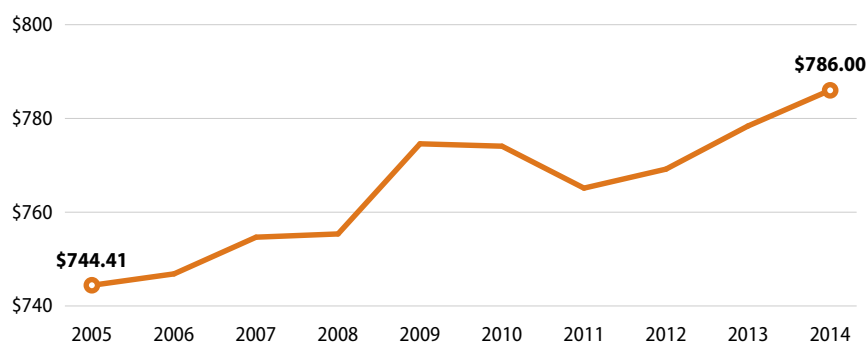
Counties struggling with worsening negative equity rates tend to be located in nonmetropolitan and rural parts of the country, where certain measures of economic recovery, such as job growth, may remain depressed.¹³ Negative equity in metropolitan areas tends to concentrate most sharply in communities of color and low-income neighborhoods, creating obstacles for aspiring middle-class families.¹⁴ Access to housing options in strong neighborhoods that can help families enter and stay in the middle class varies sharply by race and ethnicity.¹⁵ Moreover, neighborhoods with concentrated poverty lack the investment they need to build strong, middle-class communities.¹⁶

Finally, across the income spectrum, families who do not own a home face a growing rental affordability crisis. In 2014, nearly half of all U.S. renters paid more than 30 percent of their income for housing—a commonly used metric to judge housing affordability¹⁷—and more than one-fourth of renters had to pay more than 50 percent of their income for housing in the same year.¹⁸ The trend of increasing cost burdens cuts across most socioeconomic levels and significantly affects

middle-class households: The share of renters making at least \$45,000 and less than \$75,000 per year who pay more than 30 percent of their income for housing increased by 9.4 percent between 2001 and 2014.¹⁹ Between those same years, the share of renters making at least \$30,000 and less than \$45,000 per year who pay more than 30 percent of their income for housing increased by 11.5 percent.²⁰ (See Figure 6.3) These cost burdens force families to sacrifice other pillars of economic security, such as retirement savings.²¹ For those struggling to reach the middle class, they can compromise basic needs, including food and health care.²²

FIGURE 6.3

Median contract rent adjusted for 2014 dollars



Bureau of the Census, "2005–2014 American Community Survey 1-Year Estimates" (U.S. Department of Commerce, 2014), available at https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_14_1YR_B25058&prodType=table.

Part of the challenge is that the supply of affordable housing and rental assistance is not keeping pace with the needs of middle-class and aspiring middle-class families. According to analysis by the National Low Income Housing Coalition, households that made at or less than 30 percent of area median income faced a shortage of 7.2 million affordable and available rental units in 2014.²³ More than 1 million of these households live in housing units that charge rents unaffordable to them but that would be affordable for moderate- or higher-income families. Creating a greater supply of affordable housing for lower-income households would therefore not only relieve their cost burdens—it could also free up units for families a bit higher up on the income scale.²⁴

In today's housing market, the units that get built tend to be priced for higher-income renters. The Harvard Joint Center for Housing Studies found that the median asking rent for multifamily rental units was \$1,381 in 2015—close to half of the monthly household income for the median renter.²⁵ Given these costs, 21.3 million renting households paid more than 30 percent of their income for housing in 2014.²⁶

Why we are here

The housing market has not fully healed from the foreclosure crisis triggered by predatory lending, which left millions of foreclosures and millions of underwater homeowners in its wake.²⁷ After the financial crisis, the federal government took steps to stabilize the economy and the housing market. Congress passed the Housing and Economic Recovery Act, or HERA, in 2008,²⁸ allowing the government to help restore the financial soundness of Fannie Mae and Freddie Mac, the two large financial institutions that provide liquidity to the housing market by purchasing mortgages and packaging them into securities.²⁹ HERA also required Fannie and Freddie to facilitate affordable housing in certain underserved housing markets.³⁰

In 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, establishing critical protections for American consumers, including a requirement that mortgage lenders consider a borrower's ability to repay before awarding the mortgage.³¹ The legislation established the Consumer Financial Protection Bureau—a critical federal agency that protects consumers—including those in the mortgage market.³² These policies put guardrails in place that protect consumers and that remain critical today in order to prevent another housing crisis.

Policies such as HERA and the Dodd-Frank Act were critical steps to addressing the housing and financial crises. Today, the evolving housing market demands further policymaking to expand affordable homeownership, combat high levels of negative equity, and increase rental affordability. The housing market is changing rapidly, and policies need to keep abreast of the changing demographics of renters and homebuyers in order to set the future housing market on a firm foundation.

Homebuyers in the coming decade may face more challenges saving for a down payment than in recent decades. Millennials, a primary engine of the future housing market, face certain burdens—such as growing student loan debt³³ and increasing rent³⁴—that make it difficult to save for a down payment on a home. Moreover, research projects that racial minorities, who tend to have less family wealth, will account for 75 percent of household growth over the next decade.³⁵

The nation has gained 9 million renters since 2005 and is projected to gain another 4.4 million by 2025.³⁶ The supply of affordable rental housing has not kept pace with rising demand in recent years, as current low vacancy rates indicate,³⁷ pushing up rent prices. Furthermore, projections from Enterprise Community Partners and Harvard Joint Center for Housing Studies indicate that, in a baseline scenario where both rents and incomes grow in line with inflation, the number of severely burdened renting households—those paying more than 50 percent of their income for housing costs—is likely to increase by 11 percent, from an estimated 11.8 million in 2015 to 13.1 million in 2025.³⁸ The nation's affordable rental housing supply is not prepared to keep pace with the projected increase in renting households.³⁹

People cycle in and out of poverty, and between the ages of 25 and 60, almost 40 percent of Americans will spend a year or more below the poverty line.⁴⁰ Ensuring a robust middle class means helping people who fall out of the middle class to re-enter it. Many affordable housing programs, however, fail to reach enough low-income people due to their scale or cuts in funding from Congress.

Federal resources have not kept pace with the increased need for housing assistance since the housing crisis. During the crisis, instead of expanding vouchers to meet the needs of lower-income households, sequestration reduced the Section 8 Housing Choice Voucher Program, which served 85,000 fewer households in December 2014 than in December 2012.⁴¹ Today, 3 out of 4 households who need and qualify for rental assistance do not receive it.⁴²

Policy recommendations

Strategic, targeted investments can address the affordability crisis facing prospective homebuyers and renters, as well as promote a fairer, more inclusive mortgage market. Policymakers should focus their efforts in three key areas: increasing access to mortgage credit; stabilizing neighborhoods struggling to recover; and addressing the rental affordability squeeze facing families across the income spectrum.

Mortgage credit

Policymakers should take steps to increase access to mortgage credit for credit-worthy borrowers, and there are several ways to do so.

Modify fees that FHFA-regulated entities charge for borrowers with good credit

Policies at Fannie Mae and Freddie Mac are critical because the two entities provide liquidity to the U.S. mortgage finance system and have a huge effect on the products and policies that are available to homeowners. Because Fannie and Freddie are currently under conservatorship—which in part means that the U.S. Department of the Treasury accepts the risks and rewards of the two entities’ operations—taxpayers are also affected by the choices that Fannie and Freddie make.⁴³ Currently, Fannie and Freddie charge higher fees to middle-class borrowers unless they have extraordinarily high credit scores.⁴⁴ These fees make mortgages more expensive for middle-class borrowers who have suitable credit but do not fall in the highest credit classifications. The Federal Housing Finance Agency, or FHFA, has the power to adjust fees to ensure that Fannie Mae and Freddie Mac are protected from the risks they are taking while also supporting additional opportunities for homeownership.⁴⁵ The FHFA should carefully reduce Fannie’s and Freddie’s fees in a way that appropriately and not excessively covers risk at Fannie and Freddie.

Support and expand low down payment lending

Both Fannie Mae and Freddie Mac have developed products with low down payments and strong underwriting for moderate- and low-income borrowers.⁴⁶ Policymakers should support programs such as these by facilitating outreach so that borrowers and lenders actually participate in them.

Additionally, mortgages insured by the Federal Housing Administration, or FHA, remain a major source of low down payment lending for lower-wealth borrowers.⁴⁷ The FHA should engage with lenders to build on recent progress the agency has made in clarifying its certification processes⁴⁸ and should consider decreasing its insurance premiums as the health of its insurance fund improves.

Help prospective borrowers save for a down payment

Policymakers should ease the process of saving for a down payment toward a mortgage. Federal and state lawmakers can establish matched savings programs, which match potential homeowners' savings with either private funds, public funds, or tax incentives in order to help them save for a down payment.⁴⁹ Many housing finance agencies at the state level coordinate programs that help borrowers with their down payment and the closing costs of a mortgage. These programs provide either grants or loans to help bring down the homebuyer's down payment and closing costs.⁵⁰ Ensuring that these programs have robust standards for consumers and then leveraging federal and private sector support for them can be a powerful way to support affordable down payment options for families.

Finalize a strong Duty to Serve rule

The Duty to Serve rule, once finalized by the FHFA, will govern how Fannie Mae and Freddie Mac meet their statutory duty to promote mortgage liquidity for moderate-, low-, and very low-income families in affordable housing preservation, manufactured housing, and rural housing markets.⁵¹

CAP recently submitted official comments to the FHFA on how the proposed rule can be most effectively modified in order to facilitate a fair, inclusive, and affordable housing market, especially in underserved areas.⁵² CAP's proposals included provisions that would encourage Fannie Mae and Freddie Mac to invest in ways

that increase access to neighborhoods that promote economic mobility, protect manufactured housing community residents—who often face predatory or harmful practices—and create a market for certain shared equity homeownership programs, which ensure the affordability of a home for successive homebuyers.

Support shared equity programs run by local governments or nonprofits

Shared equity homeownership programs create a portfolio of homes that are affordable for low- and moderate-income buyers and are kept affordable for subsequent qualifying purchasers through resale restrictions.⁵³ One longitudinal study found that more than 93 percent of households under shared equity programs sustained homeownership for five years or more.⁵⁴ With the proper incentives—for example, through the Duty to Serve rule—Fannie Mae and Freddie Mac can help boost the market for shared equity homeownership. By purchasing mortgages for homes in shared equity programs, Fannie Mae and Freddie Mac can help this promising alternative between renting and traditional homeownership gain more ground.⁵⁵ This could become a powerful tool for making affordable housing accessible to more prospective homebuyers.

Neighborhood stabilization

Policymakers can also strengthen the housing market by promoting neighborhood stabilization efforts in communities still suffering from the widespread foreclosures during the Great Recession.

Prioritize home retention and tighten reporting standards for purchasers of nonperforming loans

Many homeowners in middle-class communities remain underwater on their mortgages, and many live in or near distressed neighborhoods.⁵⁶ When the FHA, Fannie Mae, or Freddie Mac sell distressed mortgages, ensuring that buyers prioritize home retention and manage unavoidable foreclosures responsibly is critical to minimize negative effects on the neighborhood. The FHA and the FHFA, which regulates Fannie and Freddie, announced policy changes this year that help ensure that investors who purchase nonperforming loans from Fannie, Freddie, or the FHA consider borrowers for principal reduction; take responsibility for vacant properties; and refrain from offering certain predatory loan modifications.⁵⁷

Changes such as these have faced pushback from some lawmakers,⁵⁸ but these changes are vital to ensuring that nonperforming loan sales by Fannie, Freddie, and the FHA do not destabilize neighborhoods still in the process of recovering from the economic crisis. Policymakers should not obstruct these changes; they should allow Fannie, Freddie, and the FHA to implement the policy improvements to their sales efficiently and effectively. The FHA and the enterprises should have strong reporting standards in place so that they can closely monitor program performance.

Support rural communities through a progressive agenda for rural housing finance

In addition, progressive housing policies for rural communities can help address the trends of negative equity, depopulation, and maturing affordability that those communities face today. Policymakers should support key loan programs from the U.S. Department of Agriculture, or USDA, such as the Section 515 program, which helps build affordable multifamily housing,⁵⁹ and the Section 521 Rural Rental Assistance program, which provides an additional subsidy on behalf of low-income tenants for properties financed by certain USDA programs.⁶⁰

Policymakers should also ensure that tenant protections are in place for residents of manufactured housing communities. Manufactured homes, which are built in factories and transported to their sites, are a major source of housing in rural areas and are sometimes arranged into communities.⁶¹ Residents of manufactured housing communities, however, often face certain problems, including rent hikes, park closures, and poor management.⁶² By promoting resident ownership of manufactured housing communities and supporting tenant protections for community residents, policymakers can make an important source of affordable housing safer for rural residents.

Finally, the FHFA should ensure that Fannie Mae and Freddie Mac support the hardest-hit populations and regions in rural America, such as Native American communities, through properly structuring the Duty to Serve rule. The FHFA can encourage Fannie and Freddie to purchase loan programs that service Native American communities and conduct outreach and technical assistance to help Native American nations build the internal capacity for community development. Steps such as these would support existing middle-class renters and homeowners in rural communities while easing the path of lower-income people striving to enter the middle class.

Rental housing affordability

Policymakers also should preserve and expand the supply of affordable rental housing, particularly in areas with good jobs, schools, health services, grocery stores, and other indicators of economic opportunity.⁶³

Expand the Low Income Housing Tax Credit program

Congress should expand the Low-Income Housing Tax Credit, or LIHTC, which allows for the private market to support the creation and preservation of affordable housing for the aspiring middle class. State and local agencies allocate LIHTC funds provided by the federal government to investors who seek to acquire, rehabilitate, or construct housing for low-income households. Investors must maintain the affordability of the housing for at least 15 years.⁶⁴ The Bipartisan Policy Center estimates that expanding the LIHTC program by 50 percent would preserve or generate 350,000 to 400,000 affordable units over the course of a decade.⁶⁵

Ensure funding for HOME and the National Housing Trust Fund

The HOME Investment Partnerships Program, or HOME, and the National Housing Trust Fund are two critical programs to help create and preserve affordable housing. HOME is a federal grant program that helps state and local governments buy, build, or rehabilitate affordable housing.⁶⁶ The National Housing Trust Fund is capitalized from a sliver of Fannie Mae's and Freddie Mac's earnings and provides money to help states create and preserve affordable housing for some of the most vulnerable families.⁶⁷ The U.S. Department of Housing and Urban Development, or HUD, allocated trust fund money to each state for the first time this year.⁶⁸ However, Congress has often threatened to imperil the funding streams for both HOME and the National Housing Trust Fund.⁶⁹ Congress should allow Fannie and Freddie to continue capitalizing the trust fund, and it should stop attacking the HOME program as well.

Confront restrictive zoning policies

The Brookings Institution has shown that about 38 percent of the country's 50 largest metropolitan areas include zoning policies that restrict density to less than 8 dwellings an acre.⁷⁰ Other restrictive zoning policies include minimum sizes

for lots and rules against constructing multifamily housing in certain areas.⁷¹ As Chairman of the Council of Economic Advisers Jason Furman noted in remarks at the Urban Institute in November 2015, such restrictions can constrain supply, drive up home prices, and reduce affordability.⁷² They can also exacerbate racial segregation and income inequality.⁷³

By changing such codes, policymakers could decrease the cost of housing, which would result in greater rental affordability across the income spectrum. Eliminating restrictive codes would also remove a significant barrier facing families who try to move to low-poverty neighborhoods that can help them enter and stay in the middle class.

Strengthen and expand the Section 8 housing choice voucher program

HUD administers the housing choice voucher program, which helps very low-income, elderly, and disabled people afford housing. Local public housing agencies administer vouchers and pay a subsidy to a landlord that leases to a voucher recipient. The participating family then pays the difference between the actual rent and the subsidy paid to the landlord.⁷⁴ Budget cuts due to sequestration led to 85,000 fewer households receiving vouchers as of December 2014 compared to 2012 levels, leaving affected families to use more of their income for housing instead of other basic needs or investments that could help them join the middle class.⁷⁵ Congress lifted the sequestration caps for the federal budget of 2016 and 2017 in a bipartisan budget agreement passed in November 2015.⁷⁶ It is now time to increase funding for the voucher program.

In addition to increasing its funds, policymakers can take steps to help the voucher program expand opportunity for renting households. For example, policymakers should fund mobility counseling for voucher holders wanting to move to more diversified middle-class neighborhoods and prevent landlords from discriminating against voucher holders because of the source of their income.⁷⁷ Increasing voucher holders' ability to move to low-poverty neighborhoods can help their families climb the economic ladder into the middle class.⁷⁸

Access to affordable housing—whether through owning or renting—is critical for families to enter or stay in the middle class. Policymakers should address the fault lines in the nation's housing in order to create the fair, inclusive, and affordable housing market families across America need today.

Endnotes

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