



**Rebuilding the American Dream: Homeownership after the Great Recession  
Ford Foundation Homeownership Symposium  
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Today I've been asked to share information on the Community Advantage Program (CAP) that Roberto Quercia [director, UNC Center for Community Capital] mentioned in his opening remarks.

Let me make clear about the CAP program, Self-Help did it, the Ford Foundation funded it, we simply study it.

"It" is nearly 50,000 loans made in the decade leading up to the crisis by more than 30 lenders under CRA (Community Reinvestment Act) and Affordable Housing programs, purchased by Fannie Mae, backed by Self-Help and the capital that the Ford Foundation provided.

We have a lot to share from the ongoing research we conduct on this program. Much of it is covered in a forthcoming book, *Regaining the Dream*, that Brookings will publish later this summer. Here is a quick snapshot of some of the conclusions we reach.

**Big Takeaway#1: Sustainable lending to low wealth, lower income and minority borrowers works.**

A quick look at the loans shows that borrower median income was around \$30,000; More than half had credit scores of 680 and less, and 69% *put down less than 5%* on their purchase.

Roughly 40% of the borrowers were minorities and roughly 40% were single female-headed households. On the surface of it, this is exactly the kind of thing that some people out there would have us believe caused the financial crisis.

But in fact, less than 5% of the loans have ended in foreclosure for Self-Help – extraordinary considering what this economy has been through. In fact, the median borrower has built up over \$20,000 in equity.

How is this possible? Nothing magic. These were overwhelmingly fixed rate, retail originated loans, and underwritten for ability to repay, used to achieve homeownership.

**Big Takeaway #2 – a good loan, in and of itself, can reduce risk and thereby makes it possible for more households to be able to enter and sustain homeownership. This speaks to the value of the broadly available safe product, namely, the affordable 30 year fixed rate mortgage.**

We found that in early years of the program, when "lack of capital" was the issue, most CAP loans were new loans, though about a quarter substituted for FHA loans.

In 2004-2006, however, most CAP loans substituted for high-cost loans, offering a better option. A much better option, in fact.

By matching CAP borrowers to their counterparts who got subprime loans instead, we found that the subprime loans made to similar borrowers were 3 to 5 times as likely to be in default as the CAP loans.

This shows that product, channel, and loan terms in and of themselves introduce substantial risk.

**Big Takeaway #3 -- Homeownership carries a host of benefits for low income, low wealth households, similar to the benefits it holds for others.**

We address the question of whether homeownership is really good for lower-income, low-wealth households, or is it more of a burden? In this vein are concerns that it concentrates their wealth in a single asset; that they will fail and return to renting; that they'll pull out any equity they accumulate; That renting is a safer asset building strategy.

Of course, not all such households are ready for homeownership; keep in mind that these are households who qualified based on flexible but appropriate guidelines.

Our evidence finds that comparable renters generally did not build up alternative investments over the period. Moreover, the homeowners in our sample did not take on offsetting debt as their equity rose. The lower income and minority households were no less likely than higher income and white counterparts to purchase another home (not return to renting), indicating that CAP-type lending is a rung on the housing ladder. The vast majority of those who refinanced took out fixed rate loans, and refinanced in order to get a better rate (not to extract equity).

And those are just financial measures. We also found that mid-crisis, the homeowners and renters both report experiencing a similar level of financial stressors – job loss, missed bill payments and so on – but that the homeowners reported a statistically significantly higher level of financial satisfaction and sense of control. We actually expected the opposite, that homeowners would be suffering more than renters. This finding gets to some of the intangible, psychological benefits of homeownership.

**Big Takeaway #4 – We must gather better evidence, build the practice into the infrastructure of the work.**

I doubt the results come as a surprise to most of you. But we need to inform a broader audience. Thank goodness Ford had the foresight and made the investment in research; thank goodness Self-Help understood the value of research and committed themselves to facilitating the sharing of high quality, loan-level data.

**Big Takeaway #5 is that CAP should not be thought of as a program to replicate. Instead, it was a way to test what would happen if low income and low wealth households were given a chance to get what everyone else had – not something separate and unequal like a risky mortgage nor a subsidy (which is**

**appropriate for certain segments certainly) but access to the mainstream conventional market and, prime priced, high quality, transparent mortgages.**

The CAP program came out of mechanisms and policies that encouraged safe, sustainable affordable mortgages for qualified low income and low wealth households. Certainly the roles of CRA and Affordable Housing goals were primary motivators for the lenders and investors. The perceived additional risk of making these loans had been well tested by Self-help before hand, and the Fannie Mae/Ford project took the test to a bigger scale – using adequate risk protection in the form of a credit enhancement.

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*The UNC Center for Community Capital is the leading center for research and policy analysis on the transformative power of capital on households and communities in the United States. The center is part of the College of Arts and Sciences at the University of North Carolina at Chapel Hill. Its in-depth analyses help policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively. For more information, visit [www.ccc.unc.edu](http://www.ccc.unc.edu) or call (919) 843-2140.*