

## Policy Brief

# Regaining the Dream: How to Renew the Promise of Homeownership for America's Working Families

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*“Our study of 46,000 low-income families who received home loans and managed to repay them during the worst housing crisis in our nation’s history proves that we know how to make sound loans to creditworthy working families.” — Roberto G. Quercia*

As the nation works to restore a vibrant housing market, a new book by researchers at the University of North Carolina at Chapel Hill tells what really caused the foreclosure crisis and how to rebuild a sustainable U.S. housing finance system.

*Regaining the Dream: How to Renew the Promise of Homeownership for America's Working Families* (Brookings Institution Press) documents the experience of thousands of low-income families who obtained traditional 30-year, fixed-rate home loans in the decade leading up to the foreclosure crisis through a demonstration program, the Community Advantage Program (CAP).

Ninety-five percent of those homeowners made their payments successfully, despite the Great Recession, and experienced median home equity growth of \$23,000.

## The Borrowers: Low-income, Non-traditional

CAP borrowers were unable to obtain home loans from traditional lenders because of their low incomes and assets:

- CAP borrowers had median annual household incomes of \$30,792.
- 70 percent had down payments of less than 5 percent.
- 90 percent did not meet at least one of three traditional criteria (loan-to-value ratio of 90 percent or less, debt-to-income ratio of 38 percent or less, credit score of 640 or above).

## Elements of Successful Affordable Mortgage Lending

The successful repayment experience of these borrowers can be attributed to several key elements, researchers said:

- **Sound mortgage products** – CAP borrowers obtained fixed-rate mortgages with fair terms.
- **Sensible underwriting and servicing** – Lenders carefully underwrote the loans to ensure borrowers could repay them and proactively worked with distressed borrowers to keep them in their homes when possible.
- **Access to credit** – A N.C.-based nonprofit community development lender, Self-Help Ventures Fund, teamed with Fannie Mae and banks across the country to provide a secondary market for the CAP loans. Selling those loans to the secondary market replenished the supply of capital, allowing banks to make even more traditional, fixed-rate loans to low-wealth families.

## Implications for Policy

Restoring a sound housing market and economy will require rebuilding a U.S. housing finance system that extends mortgage credit as broadly as possible while minimizing risk.

It is important to understand the true causes of the foreclosure crisis – poor mortgage products and weak regulation, not poor homeowners – to devise a sustainable path forward. Otherwise, misguided strategies, such as requiring a 20 down payment, threaten to undermine recovery by shutting out huge segments of potential homeowners unnecessarily.

Research and evidence gleaned from the experience of 46,000 low-wealth CAP borrowers provide a model on which to build sound, sustainable home lending policy.