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## **Risk, Access and the Future of Homeownership**

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Remarks by

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All of you are familiar with the tragic stories of families across this country who have suffered the devastation of foreclosure because of the boom and bust of toxic subprime lending and its impacts.

The story you have not heard is of the tens of thousands of working families who have been quietly and successfully repaying their mortgages over the same period of time.

That is the story we at the UNC Center for Community Capital are working to tell.

Our center has been following the experience of 46,000 working families in markets across the country – families with average incomes of \$30,000 a year – who received home loans in the decade leading up to the foreclosure crisis.

You may be surprised with what we found. Ninety-five percent of these borrowers continued paying their mortgages successfully during that time – 95 percent – during the worst foreclosure crisis since the Great Depression.

How is that possible when, all around them, families with greater means were being foreclosed upon? It is possible because they were given the same types of mortgages that have worked for generations of American families over the past 70-plus years – that is, fixed-rate loans with predictable terms, with sound underwriting and servicing to ensure they could be repaid, and access to mortgage credit enabled by a secondary mortgage market.

Our findings clearly show that low-moderate income families can become successful homeowners when they are given quality mortgage products. And they are not alone. We are now conducting research that documents other examples of affordable home ownership that have yielded the same remarkable results.

You'll hear about another of those programs in a few minutes from my colleague Judy Jacobson from Massachusetts Housing Partnership.

These examples and others not only show how to extend the benefits of home ownership to families with low and moderate incomes and limited assets – they hold clear implications for how we should rebuild our housing finance system overall.

During the past year, we have followed the experience of 46,000 low-and-moderate income borrowers who received mortgages through the Community Advantage Program, a demonstrated project conceived by a North Carolina-based community development financial institution, Self-Help. The CAP demonstration was made possible through a \$50 million grant from the Ford Foundation, which provided risk capital for the program. The program to date has made about \$4.6 billion in affordable home loans.

The CAP program enabled a group of creditworthy, though non-traditional borrowers to obtain homes with low down payment, 30-year fixed-rate mortgages. Roughly 90 percent of these borrowers did not meet at least one of the three traditional lending criteria: a loan-to-value ratio of less than 90 percent; a debt-to-income ratio less than 38 percent; and credit score not more than 640. A high proportion of these borrowers were women and minorities, who are not typically served by the traditional mortgage market.

Homeowners in our evaluation fared well despite tumultuous shifts in the housing market. From origination through last year, these borrowers saw their home values increase by a median annualized rate of 2.5 percent. Because of the small down payment, annualized return on equity is about 29 percent, which translates into median wealth gains of \$21,000, or about 73 percent of a borrower's annual income at the median.

The performance of these loans has also been remarkable. Despite one of the worst crises in our history, Community Advantage Program loans performed very well – significantly better than all types of subprime loans – no surprises there – but also better than the performance of adjustable rate mortgages originated to prime borrowers.

The results show that that specifics of the mortgage product matters – even more than the credit profile of the borrowers.

If I have to summarize in one sentence the main lesson from our work it is that sustainable low-to-moderate-income lending works when it is done right.

Our economy will not recover until the housing market recovers. For that reason, it is critical that we rebuild a housing finance system that promotes quality mortgage lending in the broadest possible way. We believe that our work can inform that process.

I want to conclude by recognizing Frank DiGiovani and George McCarthy from the Ford Foundation, who provided the \$50 million fund that made the mortgage demonstration possible and for funding for the 10 years of research that we have summarized in our book, *Regaining the Dream: How to Renew the Promise of Homeownership for America's Working Families*.

I also want to recognize Dr. Michael Stegman, founding director of the UNC Center for Community Capital. It was Dr. Stegman who designed and led the research for many years before leaving UNC to join the MacArthur Foundation as director of policy and research.

Finally, I want to recognize someone who is not here today. Martin Eakes at Self-Help in Durham, who envisioned and conceived the demonstration and provided loan level data for our evaluation.

*For more information, visit [www.ccc.unc.edu/regainthedream](http://www.ccc.unc.edu/regainthedream)*

### **About the UNC Center for Community Capital**

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.