HEALTHY AND AFFORDABLE HOUSING

Fact Sheet

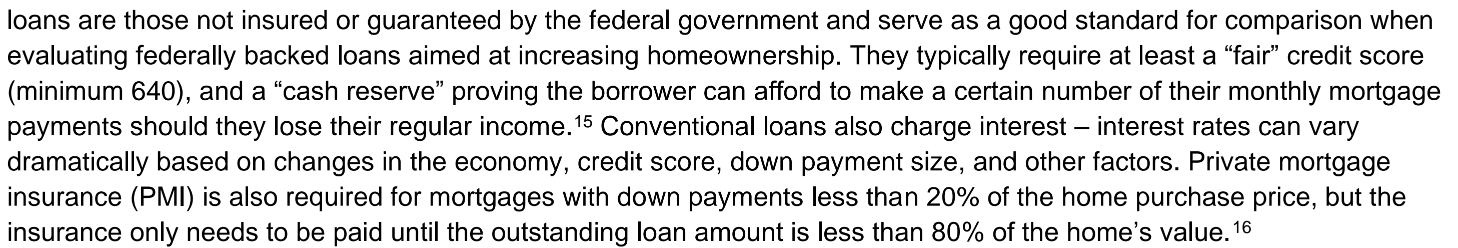
Mortgage and Homeowner Assistance

Overview

Much of the literature on housing as a social determinant of health focuses on the overall affordability and quality of housing but highlighting the benefits of owning versus renting a home is equally important. Research indicates that policies designed to facilitate homeownership may do more to improve health and wellbeing than renter protections. Homeowners report higher self-esteem and happiness and higher perceived control over their lives than renters.[1] They view their communities as safer, stronger, and more stable, and tend to be more informed and civically engaged than renters.[2] Children who grow up in homes their families own have better grades, higher graduation rates, and better employment and earning opportunities than children who grow up in rental properties.[3] Families who own their homes relocate five times less often than renters, and stay in their homes 6.5 times longer.[4] Although health benefits are difficult to measure and are not guaranteed, homeowners also tend to have improved physical and psychological health.[5] They are more likely to have "good health" than renters, controlling for demographic, socioeconomic, and housing-related characteristics.[6] These benefits also present themselves when a family remains in their home but transitions from renting to owning: renters with low incomes who become owners of the same properties they were renting report the same increased life satisfaction as renters who move into different homes as owners.[7]
Homeownership is also an effective way for many families to build wealth, protect themselves from rising housing costs, and increase savings and purchasing power.[8]

Despite the potential economic and health benefits, home ownership rates in the U.S. remain low, especially among Black and Hispanic residents. In 2022, 65.8% of occupied households were occupied by owners.[9] Although homeownership has become more diverse since 2012, there is still a significant racial disparity.[10] In 2022, ownership rates for White families were higher than the national rate at 74.4%, while only 48.6% of Hispanic households were homeowners and only 45% of Black households were homeowners.[11] Black prospective homebuyers have more difficulty than their White counterparts securing a mortgage with favorable terms because the average credit score for Black U.S. residents is about 57 points lower than the average credit score for White residents and is the lowest average score among all racial groups.[12] As of 2021, the gap between White and Black ownership had reached a 50-year high, surpassing the gap that existed when racial discrimination in the housing market was legal.[13] These disparities are attributable to historical racist practices such as redlining, structural racism, and income inequality and are exacerbated by generational wealth or lack thereof.[14]

The primary way individuals become homeowners is by securing a mortgage, which is a loan from a bank or other financial entity that covers the cost of purchasing a home with the home serving as collateral on the loan. Mortgages often require a down payment, an upfront payment of part of the price of the home, of anywhere from 3% to 20%. Conventional



loans are those not insured or guaranteed by the federal government and serve as a good standard for comparison when evaluating federally backed loans aimed at increasing homeownership. They typically require at least a “fair” credit score (minimum 640), and a “cash reserve” proving the borrower can afford to make a certain number of their monthly mortgage payments should they lose their regular income.[15] Conventional loans also charge interest – interest rates can vary dramatically based on changes in the economy, credit score, down payment size, and other factors. Private mortgage insurance (PMI) is also required for mortgages with down payments less than 20% of the home purchase price, but the insurance only needs to be paid until the outstanding loan amount is less than 80% of the home’s value.[16]

Many families with low-to-moderate incomes may have low credit scores and small cash reserves that could disqualify them from conventional mortgage eligibility and keep them living in rentals. In response, numerous federal programs have been put in place to ease the cost burden of buying and owning a home, with varying levels of efficacy. Several such programs are discussed below, but do not represent an exhaustive list of the homeownership assistance available to individuals and families looking to purchase a home.

Mortgage Interest Deduction

The mortgage interest deduction (MID) is a federal tax policy that allows homeowners to deduct the interest they pay on their mortgage to reduce their taxable income.[17] In theory the MID should incentivize homeownership by saving people money via a reduction in federal income tax while they are paying off their mortgages. However, experts criticize the MID as a costly policy that only benefits the wealthy, fails to increase homeownership, and raises housing prices.[18] The MID’s biggest drawback is that it requires homeowners to itemize their deductions, which most individuals with moderate incomes, minorities, and young adults are less likely to do, in part because of a 2017 change to the tax code that nearly doubled the standardized deduction.[19] This change makes it difficult for homeowners with low or moderate incomes to reach the threshold to itemize deductions on their tax returns, effectively eliminating their access to the limited benefits of the MID.[20] Also, the MID can only be used by individuals who have already managed to produce a down payment and secure a mortgage, a feat that can be difficult if not impossible for under-resourced families.
Other high-resource countries around the world that do not offer tax incentives for homeowners have higher homeownership rates than the U.S., suggesting that tax incentives such as the MID do not meaningfully impact homeownership rates.[21] While some studies suggest that eliminating the MID could lead to a slightly lower homeownership rate, individual welfare will remain unchanged, and housing prices could decrease.[22]

Mortgage Tax Credit Certificates

Federal law allows states to elect to offer the Mortgage Tax Credit Certificate (MCC) program.[23] State housing finance agencies (HFAs, discussed in more detail below) may issue a certificate to first-time homebuyers with low to moderate incomes to provide for a non-refundable tax credit for a certain percentage of the buyer’s total mortgage interest for each tax year that they own the home as their principal residence.[24] The percentage of the mortgage interest and the income requirements vary by state and neighborhood *(i.e.,* requirements may be less stringent, and percentages may be higher in targeted areas as determined by the U.S. Dept. of Housing and Urban Development).[25]

Individuals can wait to claim their credit when they file their annual tax return, or they can change their W-4 withholding forms from their employer to reduce their withholding and receive the benefit of the credit monthly.[26]

MCCs differ from the MID in that MCCs offer a tax credit of up to $2,000 *and* allow individuals to deduct their remaining mortgage interest (if they file an itemized deduction), while the MID only allows the deduction. Few researchers have set out to analyze the impacts of the MCC program, but a 2009 analysis of the MCC program in California found that it “provide[s] highly targeted benefits to households,” “beneficiaries of the program have household incomes which are, on average, 21% lower than those of the population at large,” and that beneficiaries are “more likely to be members of

minority groups."[27] MCCs offer "considerable advantages in terms of efficiency, flexibility, responsiveness to local needs...and can be highly targeted."[28]

Federal Housing Administration Loans

Federal Housing Administration (FHA) loans are mortgage loans from private lenders that are regulated and insured by the FHA.[29] The FHA's involvement in the loan process reduces risk for lenders and makes it possible for borrowers who could not normally qualify for a mortgage in the private market to get one. While conventional loans could require a credit score of at least 620, FHA loans are available for individuals with credit scores as low as 500, and individuals with scores below 500 could be eligible if they can show creditworthiness in other ways (such as larger cash reserves).[30]

Unlike conventional loans, FHA loans do not typically require borrowers to have cash reserves, making them more accessible to people who have difficulty building up savings.[31] There is no income requirement for FHA loans, but the FHA does set upper limits on the purchase price of the home subject to the mortgage and has restrictions on property types.[32]

Although FHA loans make mortgages available to people who could otherwise not access them, they do tend to be more expensive than conventional loans, so higher-income families are disincentivized from seeking them. FHA loans require a minimum down payment of 3.5% to 10% of the purchase price, which can be higher than for conventional loans.[33] The interest rates on FHA loans also tend to be higher.[34] FHA loans require the borrower to pay insurance, similar to conventional loans, but the insurance for FHA loans tends to be higher and/or last longer – up to the whole life of the loan.[35] Overall, FHA loans are a great tool for families with low-to-moderate incomes to become homeowners, but are often more expensive than conventional loans in the long run.

Housing Choice Voucher Homeownership Program

The Housing Choice Voucher (HCV) program assists families with low incomes (income 50% or less of the median income in the area), the elderly, and people with disabilities by subsidizing the cost of rent.[36] Under the HCV homeownership program, families and individuals assisted under the traditional HCV program for rentals can use their vouchers to purchase homes by receiving monthly assistance for expenses.[37] To be eligible, families and individuals must be first-time homebuyers, attend and complete a pre-assistance counseling program administered by their local public housing authority (PHA), and meet any other requirements their local PHA may have.[38] Families who qualify for HCVs based on income must also meet income and employment requirements.[39]

HCV homeownership program participants must make a down payment of 3% of the purchase price of the home and must be able to secure a mortgage, whether conventional or federally backed.[40] So although the HCV homeownership program provides assistance above and beyond what federally backed mortgages such as FHA loans can offer families with low incomes, the mortgage qualification and down payment requirements can still serve as a substantial barrier to homeownership.

Housing Finance Agencies

Housing finance agencies (HFAs) are state entities that use both federal and state funds as well as tax-exempt mortgage revenue bonds to finance mortgages for families with low or moderate incomes.[41] Because every state has its own HFA, the agencies are uniquely situated to adapt their programming and priorities to the changing needs of the people in their states.[42] HFAs have also been able to address the racial gap in homeownership, with about 20-30% of their mortgage loans going to people of color, as opposed to 15% to just over 25% of conventional mortgage loans going to

people of color.[43]

HFA borrowers are about 30% less likely to default on their mortgages or experience foreclosure than otherwise similarly situated non-HFA borrowers.[44] This result is consistent over time, remaining unchanged during economic recessions and housing booms alike. Not only does avoiding default and foreclosure provide significant health, social, and financial benefits to the individual families, but the reduction in negative outcomes could also translate to around $232 million in saved local costs and can reduce negative externalities such as decreased property values and increased crime.[45] Although many HFAs offer small subsidies to cover interest or assist with down payments, the personal attention and assistance they provide to their borrowers is what makes them so effective at increasing homeownership.[46] A 2010 survey found that one-third of HFAs require all their borrowers to participate in homeownership counseling, and more than 80% require the counseling for at least a portion of their borrowers.[47]

Offering and requiring this kind of counseling can offset the risk of lending to populations with low or moderate incomes by addressing the barriers to homeownership that are not purely financial, such as lack of financial literacy and inexperience.

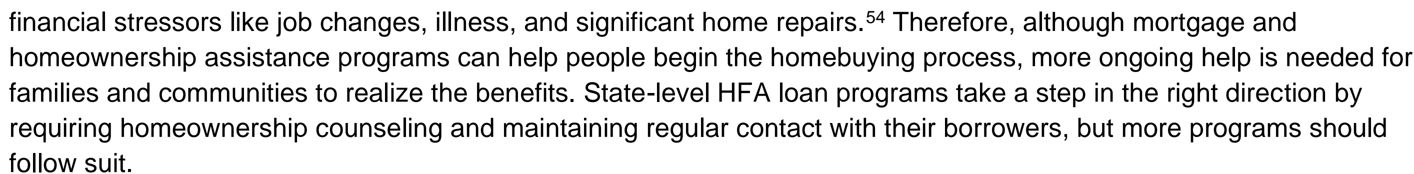
Down Payment Assistance

Lack of a down payment is the most consistent and significant barrier for low- and moderate-income renters to transition to homeownership, even when they could otherwise afford the monthly mortgage payments.[48] Every U.S. state administers at least one down payment assistance program, with more than 2,000 in existence nationwide.[49] Though each program operates differently, many of them have similar guidelines: participants typically must be first-time homebuyers with decent credit scores, low to moderate income, purchasing a home in a "targeted" census tract, and already approved for a mortgage.[50] The programs give out grants to put toward down payments or may offer low- or no-interest loans to cover down payments. In addition to removing one of the most significant barriers to homeownership, down payment assistance can help buyers make more competitive offers and reduce their monthly payments.[51] However, because down payment assistance still requires the prospective homebuyer to qualify for a mortgage and the assistance stops after the down payment is made, down payment assistance is most beneficial for individuals and families who are low on savings but have steady incomes, decent credit scores, and some level of financial literacy.

Conclusion

Eighty percent of renters report that they want to own a home in the future, but a 2021 study estimates that it would take the average renter 14 years to save $15,000 for a down payment.[52] Most first-time homebuyers must also rely on mortgages to fund their purchases, but need decent credit scores, steady incomes, and cash reserves to qualify for a mortgage. Federal and state mortgage lenders and/or assistance programs can remove some of these barriers to homeownership. Low- and moderate-income friendly mortgage loans backed by the government (*i.e.*, FHA loans, HFA loans) offer mortgages to those who would otherwise not qualify for a conventional loan, and down payment assistance programs in states and the HCV homeownership program can directly fund a portion of down payments, helping buyers move out of costly rentals and into homes they can invest in.

Despite the numerous mortgage and homeownership assistance programs at both the state and federal level and the significant health and financial benefits homeownership offers individuals and the community, homeownership is not for everyone. A family's ability to benefit from homeownership depends on multiple factors that cannot be controlled for by mortgage and homeownership assistance programs, including household income; duration of ownership; time of home purchase in relation to market conditions; and characteristics of the home such as age, condition, and location that affect upkeep costs and appreciation rate.[53] New homeowners, especially people of color and those with lower incomes, return to renting their homes more often than White and higher income homeowners, often due to inability to recover from



financial stressors like job changes, illness, and significant home repairs.[54] Therefore, although mortgage and homeownership assistance programs can help people begin the homebuying process, more ongoing help is needed for families and communities to realize the benefits. State-level HFA loan programs take a step in the right direction by requiring homeownership counseling and maintaining regular contact with their borrowers, but more programs should follow suit.

The ability to purchase a home is also affected by external factors such as regulatory environments, zoning codes, and population density. Although changing the regulatory environment of a community can be a slower and more expensive process than implementing the assistance programs discussed above, the potential increase in homeownership and associated public health and economic improvements can be significant. But until these larger scale changes can be made, making mortgages more accessible to families with lower or more moderate income levels and providing them with homeownership counseling are effective ways to increase rates of homeownership and reap the population health benefits.

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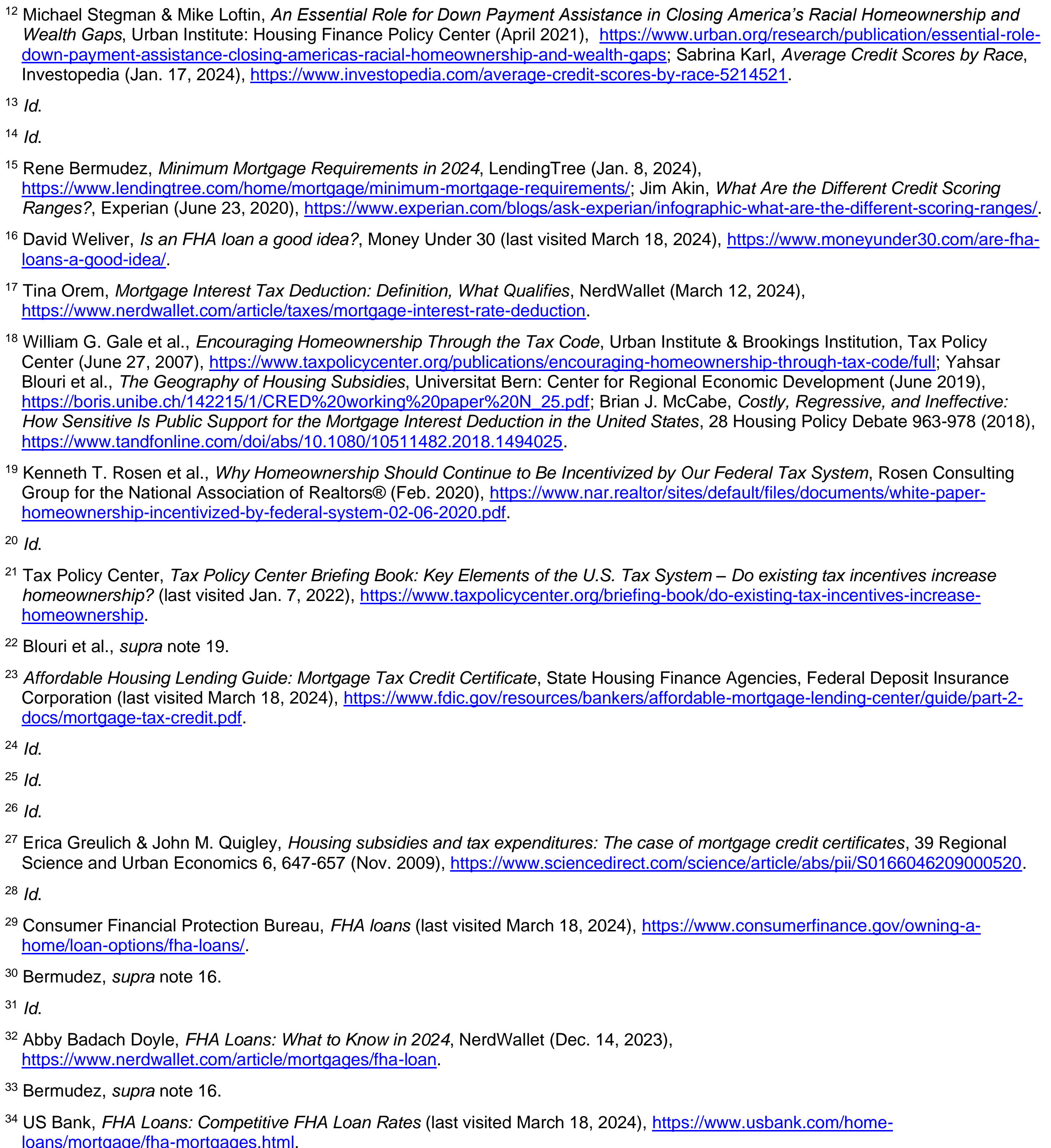

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