

BACKGROUND

“[H]omeownership lies at the heart of the American Dream. It is a key to upward mobility for low- and middle-income Americans. It is an anchor for families and a source of stability for communities. It serves as the foundation of many people's financial security. And it is a source of pride for people who have worked hard to provide for their families.”

President George Bush
June 2001

From our Nation's earliest days, homeownership has embodied core American values of individual freedom and self-reliance. Expanding homeownership has been longstanding national policy, dating to the time President Abraham Lincoln signed the Homestead Act. The reasons for this are clear: homeownership benefits individual families by helping them build economic security, and it fosters healthy, vibrant communities.

- **Good for Families:** Owning a home provides a sense of security and allows families to build wealth. A home is the largest financial investment most American families will ever make, and it allows families to build financial security as the equity in its home increases. Moreover, a home is a tangible asset that provides a family with borrowing power to finance important needs, such as the education of children.
- **Good for Communities:** Homeowners work to maintain the value of their investment, which translates into a greater concern for neighborhoods and surrounding communities. A family that owns its home is more likely to upgrade the property, to take pride in its neighborhood, and to feel invested in the community. When citizens become homeowners, they become stakeholders as well. By increasing the ranks of stakeholders, communities not only enjoy increased stability but also benefit from a new spirit of revitalization.

The United States is fortunate to have become a nation composed primarily of homeowners. The overall homeownership rate has reached an all time high of nearly 68 percent, thanks to a variety of factors. Strong economic growth, fueled by low interest rates, encouraged millions of Americans to purchase homes for the first time. The mortgage-finance system of the United States, characterized by the benchmark 30-year mortgage, remains the envy of the world. The Federal Housing Administration provides millions of American families with a pathway to homeownership that might not otherwise be available, and lenders are developing creative mortgage products to increase homeownership opportunities.

Yet this overall homeownership rate does not mean that expanding homeownership opportunities should no longer be a national priority. Despite this success, the reality is that homeownership opportunities are not available to everyone. For example, while minority homeownership rates have in fact increased, Hispanics and African-Americans still lag behind the homeownership rate

of non-Hispanic whites by more than 25 percentage points, and Asian-Americans by more than 20 percentage points:

Homeownership Rates¹:

Non-Hispanic whites	74.3%
African-Americans	48.0%
Hispanic-Americans	47.6%
Asian-Americans	53.7%
(and other races)	

The Department of Housing and Urban Development (HUD) has identified a number of barriers to homeownership. One important factor is a lack of inventory of affordable single-family housing available for sale in many areas where a majority of residents are minority families. This is particularly true in many of America's central cities – urban centers where the housing stock, which is primarily rental property, has deteriorated. According to HUD, the overall homeownership rate for central cities is only 51.5 percent.

A need for downpayment assistance is another very significant barrier. When compared to non-Hispanic white families, many minority families simply lack the accumulated wealth that can provide for downpayment and closing costs. Oftentimes, intergenerational wealth transfers from parents to children serve to boost homeownership.² For most Americans, the most significant component of personal wealth (and consequently a determinant of subsequent ability to help children become homeowners) is the value of their own home. Homeownership is a vehicle to building wealth and assets, which in turn become instruments for homeownership among future generations.

Other barriers include (1) a lack of understanding of the homebuying process; (2) a lack of access to affordable mortgage credit; (3) weak credit histories, often arising from a poor understanding of financial matters and where financial counseling is required; and (4) a lack of information about available homeownership programs in the community. Because of this general lack of financial education, many of these families are subject to predatory practices by some unscrupulous lenders who charge exorbitant fees and make loans with a high likelihood of foreclosure. Language and cultural differences can present significant obstacles, particularly among recent immigrants. Finally, the homebuying process itself is confusing, cumbersome, and unnecessarily costly.

¹ Homeownership rates are as of first quarter, 2002, as reported by the U.S. Census Bureau. The homeownership rate cited for Asian-Americans is the U.S. Census bureau number for "Other Race, total."

² Harvard's Joint Center for Housing Studies noted in their 2001 report, for example, that "[b]ecause white households have more accumulated wealth than minority households, they can make substantial financial gifts to their children. Nearly 17 percent of white households have received assets from their parents, compared with only 5 percent of minority households."

The Administration is committed to ensuring that homeownership opportunities are available to all Americans and to policies that would help more families open the doors of homeownership. This is central to the Administration's efforts to help families advance economically by rewarding work through lower taxes, helping families accumulate assets they can leave to their children, and allowing families to build long-term wealth. Vigorous enforcement of existing fair housing laws and all anti-discrimination statutes is a fundamental part of increasing minority homeownership. The Administration is committed to and will be active in pursuing such efforts to fight discrimination in housing.

Yet the Federal government and the American taxpayer should not undertake this effort alone. The real estate and mortgage finance industries have benefited greatly from government policies that supported greater homeownership. They share an interest in ensuring that all families have access to the American Dream. The government-sponsored corporations created to increase the liquidity of mortgage markets, so more capital would be available for mortgage loans, are supposed to lead the market in reaching underserved populations. While these corporations have increased their commitments to these efforts, they lag behind private lenders in this regard, according to government studies. The Administration will revisit the regulatory goals for these corporations' purchases of affordable housing loans, which are set to expire in 2003. The federal government should demand more and should hold such publicly-chartered corporations accountable for better performance. Similarly, many realtors and homebuilders have undertaken outreach efforts geared to increasing access to minority families. We applaud these efforts, but more needs to be done.

In order to expand homeownership opportunities to all Americans, the Administration's agenda includes the following key elements:

- Innovative financing measures designed to expand opportunity, including (1) a single-family affordable tax credit to encourage the production of affordable homes for sale to low- and moderate-income families; (2) a program to assist families with downpayment needs; and (3) increased support for self-help homeownership programs such as Habitat for Humanity;
- Mobilizing the private real estate and mortgage-finance sector, along with the non-profit sector involved in community development and low-income homeownership, to undertake a concerted, collaborative effort -- "America's Homeownership Challenge" -- to eliminate barriers to homeownership and increase minority homeownership by at least 5.5 million families by the end of the decade, through increased financial and organizational commitments; and
- Modernizing, clarifying, and streamlining the homebuying process, so consumers benefit from cost savings and receive timely, accurate information that is reflected at closing, and expanding financial education efforts that can help put families on the pathway to homeownership.