

NLWJC - Kagan

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Housing - Homeownership

Housing - homeownership



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE OFFICE OF THE SECRETARY
WASHINGTON, DC 20410-0001

January 21, 1999

MEMORANDUM

TO: Thurgood Marshall, Jr., Assistant to the President and Cabinet Secretary

FR: Jacquie Lawing, Deputy Chief of Staff, HUD *JML*

RE: Homeownership Rate Announcement by the President

On behalf of Secretary Cuomo, I would like to propose a Homeownership event at the White House on January 27th at which the President could announce what we expect will be the highest homeownership rate in American history. Over 69.1 million American families now own their homes – more than at any time in American history, and 7.4 million more than when President Clinton took office in 1993. **It is also expected that the urban homeownership rate will top 50% for the first time. This is highly significant, as it is the first time in history that a majority of people who live in America's cities own their own homes.**

The President's announcement with Secretary Cuomo would consist of two parts:

1) **Announcement of The Highest Homeownership Rate in American History**

It is our expectation that the new homeownership rate will top the 1998 third-quarter rate of 66.8 percent and the 1997 annual rate of 66.7 percent, the previous highest annual rate in American history. This announcement is further validation of President Clinton's economic leadership and the efforts of the National Partners in Homeownership, an unprecedented public-private partnership formed in 1995 in response to a challenge from President Clinton. The Partnership's goal is to achieve an all-time high homeownership rate of 67.5 percent of all American households by the end of the year 2000, creating eight million additional homeowners. HUD has focused much of its efforts to increase homeownership by focusing on under-represented populations, such as women, minorities, and urban residents. **The urban homeownership rate topping 50% is yet another validation that the Administration's strategy is working.**

2) **A Preview of FY2000 Budget Initiatives to Increase Homeownership**

An event announcing the record high homeownership rate would be a great opportunity to preview any number of initiatives from HUD's FY2000 budget that will further boost homeownership in the United States. We can work with OMB to identify an initiative to preview, including \$25 million for Homeownership Zones, a \$7 million increase in fair housing enforcement, and a \$10 million increase in the HOME Investment Partnership Program (raising it to \$1.61 billion, the highest ever funding level for the program).

Thank you for your time and attention. Please contact Jacquie Lawing at 202/708-0270 to discuss this request.



● Paul J. Weinstein Jr.

12/12/97 01:41:12 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Jose Cerda III/OPD/EOP
Subject: DRAFT of "Play-by-the-Rules" Homeownership Proposal

Do you want your name on this?

----- Forwarded by Paul J. Weinstein Jr./OPD/EOP on 12/12/97 01:40 PM -----



Jonathan Orszag
12/12/97 09:05:00 AM

Record Type: Record

To: Paul J. Weinstein Jr.
cc:
Subject: DRAFT of "Play-by-the-Rules" Homeownership Proposal

Message Creation Date was at 12-DEC-1997 09:05:00

Please find attached a DRAFT of our memo to the President on our "Play-by-the-Rules" Homeownership proposal. I know that we had originally discussed a proposal of between \$10-\$20 million, but NRC came back with a proposal to help 10,000 families costing \$25 million. We can scale this down, but I believe that this is the right size. Since it looks as though we will have \$30 million in the budget for this, the extra \$5 million would go to expand existing NRC efforts.

I need to get comments back by the COB today. I am sorry for the short turn around, but we want to try to get it to the President as soon as possible. I can be reached at 6-5367 or by fax at 6-2223.

DRAFT***DRAFT*****DRAFT*****DRAFT*****
DRAFT

December 11, 1997

MEMORANDUM FOR

FROM:

SUBJECT: "Play-by-the-Rules" Homeownership Proposal

The purpose of this memo is to lay out a proposal we developed -- working with DPC, OMB, HUD, Treasury, and the Neighborhood Reinvestment Corporation -- that would help families who pay their rent on time, but have been stymied in buying their own home. This proposal fits into your overall message of responsibility and opportunity: if a family is responsible and pays their rent on time, we will help provide them the opportunity of homeownership. This new initiative would be run by the Neighborhood Reinvestment Corporation -- a quasi-governmental agency -- and would be funded by a \$30-million increase in their budget (included in the recommended Presidential initiative list).

Background:

The Neighborhood Reinvestment Corporation (NRC) is a Federally funded, non-profit corporation which provides technical and financial assistance to community-based affiliates which use homeownership creation as a neighborhood renewal strategy. These 177 community organizations -- NeighborWorks Organizations (NWOs) -- serve inner-city communities, mid-sized cities, and rural communities with programs tailored to serving the revitalization needs of each individual low-income neighborhood. The NWOs extend credit and counseling to lower-income and minority individuals if they buy or rehabilitate a home in the network's designated area.

In FY96, NRC's budget was \$38.7 million. This was increased to \$50 million in FY97 and \$60 million in FY98. We would request \$90 million in FY99. NRC's track record suggests that a \$90 million appropriation would yield over \$1 billion in collective lending and other direct investments by NeighborWorks organizations and financial institutions. Importantly, the NRC is able to help a high-risk group of new homeowners, but still post a low default rate. For example, the NRC has a riskier portfolio and its average borrower has a lower income than those receiving mortgages through FHA. But, the NRC posts default rates that are

about one-half those of the FHA (3-4 percent vs. 6-8 percent).

Moreover, this initiative could be part of your Initiative on Race. A majority of NRC's new homeowners are minorities: over 60 percent in the last four years. These numbers are particularly impressive when compared to the overall home mortgage market: only about 5 percent of all mortgages and about 15 percent of government-backed loans are given to African Americans, yet 38 percent of NRC's go to African Americans. The numbers are similar for Hispanics: 6 percent of all mortgages and 12 percent of government-backed loans go to Hispanics, but 20 percent of NRC's new homeowners are Hispanic.

"Play-By-The-Rules" Homeownership Proposal:

- Families that desire homeownership are often trapped in situations where they pay so much for rental housing that little is left to save for downpayments. Therefore, this proposal would be targeted at the 15 million families that pay more than 30 percent of their monthly income on rent. In particular, this proposal would help the 7 million families that pay more than half of their income on rent. These families often pay their rent, utilities, car payments, and other bills on time, but are not able to save enough to make a downpayment or closing costs.
- The essential part of this initiative is that, in order to qualify, the family must have a perfect track record of paying their rent on time over the past 1-3 years. To ensure that we keep the default rate down, there will be other secondary screening mechanisms.
- If a family has done their part and "played-by-the-rules," we will help them meet the costs of becoming a homeowner. This initiative would cost \$25 million and would help 10,000 responsible families become homeowners.
- In its first year, we would provide grants to 20 to 30 NeighborWorks organizations. While we have not determined how we would choose the organizations, we would target the program to areas where we could have the biggest impact (e.g., those with low homeownership rates).
- The method of helping each family would differ, allowing the local NeighborWorks organizations to determine which method would work best. The following are five examples of how we would provide assistance to these eligible families. You should know that, in some cases, families would receive a combination of these services. In other cases, families would receive just one of them:
 - **Downpayment Assistance.** For many families that pay rent, the downpayment is the only obstacle to becoming a homeowner. This

initiative would provide an average of \$2,000 in downpayment assistance to eligible families. If necessary, the amount of downpayment assistance could be even higher, if the family meets certain requirements.

- **Closing Cost Assistance.** As with a downpayment, closing costs are often a hurdle that families can not jump over. We could pay the closing costs on the family's new home -- averaging \$2,000. This amount could be higher or lower, depending upon the circumstances. Some families are able to pay the downpayment and the closing costs, but because there is a lack of affordable housing in their area we are unable to pay the full monthly cost of a mortgage. For these families, the NRC would buy down their mortgage rate -- for example, their mortgage rate would be 6.25 percent, instead of 7.25 percent. This example would save a family about \$500 per year.
- **Debt Reduction/Second Mortgage.** As with an interest rate buydown, some families can make the downpayment and the closing costs, but can not meet the monthly mortgage costs. In these cases, the NRC could also pay part of the principal, structured as second mortgage. For example, if a family needed a \$60,000 mortgage, they would get a \$40,000 conventional mortgage and a \$20,000 mortgage from the NRC. This NRC mortgage could have special terms; for example, it could be a deferred loan paid back when the house is sold or it could have no payments for five years. The terms of this second mortgage would be determined on a case-by-case basis.
- **Rehabilitation Loan.** In many cases, families can make the downpayment, closing costs, and monthly payments on a mortgage, but can not also pay for the necessary renovation to a new home. These families decide, therefore, not to buy a home. Using flexible funds from locally controlled revolving loan funds, the NRC can provide low-interest loans to families to redo a kitchen, rebuild a deck, or any other renovation that increases the value of the home. Each NeighborWorks organization would have the flexibility to tailor the loans to fit the needs of the eligible family. This will ensure that the family can afford the costs of the loan, while making their monthly mortgage payments. In some cases, the NRC will provide families grants to renovate their homes, instead of loans. It is important to note that this form of assistance is critical for inner-city revitalization.
- **Outreach and Marketing.** To many low-income Americans who are ready to buy their own home, conventional information and institutions to obtain a mortgage are not readily available. Thousands of families

that pay their rent on time have been stymied in their pursuit of a homeownership opportunity by a lack of confidence or optimism, a lack of historic relationships or comfort with lending institutions, a lack of credit history or minor blemishes on their credit report, or other similar impediments. In each community selected for participation in this initiative, there will be a concerted outreach and marketing effort to address these problems.

- All families in this program will be required to participate in counseling before they buy their home and in post-purchase counseling afterwards.
 - **Pre-Purchase Counseling.** Since few American families understand the full implications of budget and credit problems in purchasing a home, the NRC runs pre-purchase counseling programs for potential new homeowners. Prospective homebuyers will not simply be handed a manual to read. Rather, they will be required to engage in a process to strengthen their budgeting practices, helping families master the skill of paying a mortgage. For many, this will entail a simple one-day course.
 - **Post-Purchase Counseling.** Post-purchase counseling can often have a significant impact for a new homeowner and their community. The shift from renting to owning has many rewards and many surprises. Basic home maintenance training, tool rental libraries, post-purchase reminders about credit pitfalls, and maintaining contact with new owners during the critical first year of ownership can pay large returns. Proactive outreach helps prevent delinquency in mortgage payments and is far more effective than intervention once a problem has occurred.
- In many communities, smaller multi-family structures have become entirely investor-owned. A first step to homeownership for many families can be achieved through the purchase of two- or three-family homes. In these cases, the family can use rent from the tenants in the basement or upstairs apartment to help make mortgage payments. This strategy has been particularly effective for new immigrants who often have limited credit history and limited income, but have a passion for owning a piece of the American Dream. Moreover, since homeowners are more likely to take better care of their own property, this approach helps to clean up a community (while providing families homeownership opportunities). This initiative will help families buy, rehabilitate, and operate these homes through training (e.g., landlord-tenant relations, maintenance, repair reserves) and the services mentioned above.

- Since this is a new program, it is important that we collect data to demonstrate progress, experience, and results. Progress will be documented and assessed twice yearly. In addition, through a competitive process, NRC will seek an independent evaluation to examine the efficacy of this initiative.

Recommendations:

December 11, 1997

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Neighborhood Reinvestment Corporation

Background:

Neighborhood Reinvestment Corporation (NRC) is a Federally funded, non-profit corporation which provides technical and financial assistance to community-based affiliates which use homeownership creation as a neighborhood renewal and stabilization strategy. These 177 community organizations -- NeighborWorks Organizations (NWOs) -- serve large, inner-city communities, mid-sized cities, and rural communities with programs tailored to serving the revitalization needs of each individual low-income neighborhood. The NWOs extend credit and counseling to lower-income and often minority individuals if they buy or rehabilitate a home in the network's designated area.

In FY96, NRC's budget was \$38.7 million. This was increased to \$50 million in FY97 and \$60 million in FY98. *OMB has recommended a \$30 million increase in NRC's FY99 budget.*

Support for Increase:

- Additional funds in NRC allow us to put in a place a "Play-By-The-Rules" proposal. (We are still developing it, but see next bullet for some background.) DPC, OMB, HUD, and the NRC are all very supportive of this proposal.
- While we are still working on the proposal, here are some basic guidelines. Currently, there are about 7 million households that pay more than 50 percent of their monthly income on rent. Families that desire homeownership are often trapped in situations where they pay so much for rental housing that little is left to save for downpayments. These families often pay their rent, utilities, car payments, and other bills on time, but do not have the savings necessary to become a homeowner. The goal of this program will be simple. If you "play-by-the-rules," we are going to help them with their downpayment (up to about \$2,000), closing costs (also up to about \$2,000), with an interest-rate buydown, or a rehabilitation loan.

- An increase in NRC's budget can be seen as a part of the Race Initiative. As you can see from the numbers, this program -- while not race-based -- disproportionately helps minorities. Over 60% of NRC's new homeowners are minorities (38% are African Americans, 20% are Hispanics, and 3% are others). These numbers are particularly impressive. For example, only about 5 percent of all mortgages and about 15 percent of government-backed loans are given to African Americans, yet 38 percent of NRC's go to African Americans. This could also be part of the Hispanic Initiative: 6 percent of all mortgages and 12 percent of government-backed loans go to Hispanics, but 20 percent of NRC's new homeowners are Hispanics.
- NRC's total 1996 investment in distressed neighborhoods was \$419 million, leveraging 10.8 times the \$38.7 million in Federal appropriations for NRC in that year. A \$90 million appropriation would enable 24,000 families to secure or retain homeownership and would yield over \$1 billion in collective lending and other direct investments by NeighborWorks organizations and financial institutions.
- NRC has an excellent track record. NRC has a higher risk portfolio than FHA: (1) loan-to-volume ratios range all the way up to 120 percent, while they are up to 102 percent under FHA; and (2) average borrower incomes are lower than FHA. But, NRC posts lower default rates -- 3-4 percent compared to 6-8 percent for FHA.
- *Mortgage Banking* reported on the NeighborWorks program in their September 1997 edition. They titled their story: "NeighborWorks is Working." They wrote that: "NeighborWorks organizations and their lender-partners are producing success rates that have lenders grinning broadly with enthusiasm."



● Paul J. Weinstein Jr.

12/11/97 11:28:56 AM

Record Type: Record

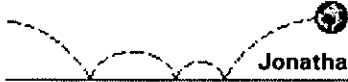
To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Jose Cerda III/OPD/EOP

cc:

Subject: For Bruce

I think we should endorse this proposal. It doesn't cost much, it would meet the President's objective of supporting homeownership for low-income families, and it is not run through HUD (the initiative is funded through the Neighborhood Reinvestment Corporation and some direct sums to Habitat).

----- Forwarded by Paul J. Weinstein Jr./OPD/EOP on 12/11/97 11:27 AM -----



Jonathan Orszag

12/11/97 11:15:05 AM

Record Type: Record

To: Paul J. Weinstein Jr./OPD/EOP

cc:

Subject: For Bruce

Paul:

As we discussed, we would like to get Bruce to support a "Play-By-The-Rules" Homeownership Proposal. Our message would be simple with this proposal: if you play by the rules and pay your rent on time, we will provide you the opportunity to buy your own home (through downpayment assistance, closing costs, interest rate buydowns, or low-interest rehabilitation loans. The specifics are obviously more difficult and we are still working them out, but we need an increase in the NRC's budget to have a chance to create this program.



nrc.d11



Jose Cerda III

12/11/97 11:42:58 AM

Record Type: Record

To: Paul J. Weinstein Jr./OPD/EOP

cc: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

Subject: Re: For Bruce

Paul:

How does this play into the overall HOME budget? I still think it's a little risky to have big cuts to HOME and launch a smaller home ownership initiative. Also, I'm glad to see the uses have expanded. Down payment assistance alone is no way to fund a home ownership initiative.

Jose'




● Paul J. Weinstein Jr.

12/11/97 11:44:33 AM

Record Type: Record

To: Jose Cerda III/OPD/EOP

cc: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

Subject: Re: For Bruce 

You are right. That is we have asked OMB to restore HOME to this year's levels. NRC would be on top of this.

Always looking out for the mayors.

housing- homeownership



● Paul J. Weinstein Jr.

01/07/98 12:04:00 PM

Record Type: Record

To: Christa Robinson @ EOP @ LNGTWY
cc: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
Subject: January 21st and Homeownership

----- Forwarded by Paul J. Weinstein Jr./OPD/EOP on 01/07/98 12:03 PM -----



Jonathan Orszag

01/07/98 11:56:43 AM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: January 21st and Homeownership

On January 21, the Census will release the homeownership rate for the fourth quarter of 1997 and the annual average for 1997. Expectations are that the homeownership rate for 1997 will be the highest on record. (In October, we announced that homeownership in the third quarter was the highest ever.)

This may be a good message event or be a hook to announce the part of the budget related to homeownership.

Message Sent To:

Jonathan A. Kaplan/OPD/EOP
Paul J. Weinstein Jr./OPD/EOP
Jake Siewert/OPD/EOP
Emil E. Parker/OPD/EOP
Russell W. Horwitz/OPD/EOP
Jose Cerda III/OPD/EOP
Eli G. Attie/OVP @ OVP

HOME OWNERSHIP: BRINGING THE AMERICAN DREAM TO WORKING FAMILIES

January 21, 1998

"We've had 14.3 million new jobs and the lowest unemployment rate in 24 years, the lowest crime rate in 24 years, the biggest drop in welfare rolls in history and the highest rate of home ownership in history, including the highest rate of home ownership by African Americans and Hispanic Americans."

President Bill Clinton
January 9, 1998

Today, newly announced year-end home ownership numbers show that the Clinton Administration has helped increase the home ownership rate to an historic high of nearly 66 percent. As a result, 67 million Americans own their homes -- 5.6 million more than when Clinton came to office.

MAKING HOME OWNERSHIP A REALITY FOR ALL WORKING AMERICANS. Since coming to office, President Clinton has worked tirelessly to make the American Dream of home ownership a reality for all working families. Together, the National Home Ownership Strategy and the President's three-part economic strategy have helped lower the deficit, lower mortgage rates, create more jobs, increase family incomes, and make more affordable homes. In 1997, these factors led to the highest home ownership rate in American history.

- **More Affordable Housing.** According to the National Association of Realtors, homes have been more affordable under President Clinton than under any other president in two decades.
- **Lowest Mortgage Rates in 30 Years.** Experts agree that the deficit reduction from the President's 1993 Economic Plan led to a drop in long-term interest rates. As a result, these lower interest rates have saved the 10 million families who refinanced their home mortgages \$1,000 to \$2,000 per year, on average.
- **14.3 Million New Jobs.** The home-building community looks to the job-formation rate in planning housing production levels. Under President Clinton and Vice-President Gore, the economy has added 14.3 million new jobs, producing the lowest unemployment level in a quarter century.

A STRATEGY FOR SUCCESS. The President will continue to make housing more affordable and accessible by building on his previous policies, including:

- **Lowered Closing Costs By \$1,200 for Qualified First-Time Home Buyers.** The Clinton Administration has cut FHA home mortgage insurance premiums four times.
- **Making It Easier to Qualify for Mortgage Loans.** The FHA has eliminated unnecessary and overly strict requirements under its loan program that made it difficult for many families to qualify for mortgage loans. It has also given lenders greater flexibility to make home ownership possible for more nontraditional borrowers, and has clarified certain underwriting requirements so they are not applied in a discriminatory manner.
- **Penalty-Free IRA Withdrawals for the Purchase of a First Home.** The Balanced Budget Act signed into law by President Clinton in August 1997 expands Individual Retirement Accounts (IRAs) to allow penalty-free withdrawals for first-time home purchases.
- **Capital Gains Exclusion for Homeowners.** The tax cut President Clinton signed into law allows couples to exclude from tax up to \$500,000 in capital gains from the sale of a home. (Single taxpayers could exclude up to \$250,000.)