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Asset Building Program

The Asset Building Potential of Shared Equity Home Ownership

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Executive Summary

Shared equity homeownership is a promising approach to securing and supporting homeownership for lower income households. Under shared equity homeownership, a governmental or nonprofit agency invests substantial public funds to reduce the price of purchasing a home for prospective homebuyers of modest means. In return, homebuyers accept a durable, contractual limit on their equity appreciation in order to preserve affordability for future lower income buyers. Less frequently acknowledged has been the contribution these programs can make to asset building for lower income families, wealth creation that occurs despite the limitation that is placed on the equity a homeowner may remove from her home on resale.

In this paper, we review the literature on homeownership as an asset building strategy for lower income households. We then present a real world case study, examining wealth building and household mobility among buyers of 424 resale-restricted, owner-occupied houses and condominiums developed by the Champlain Housing Trust (CHT) in Burlington, Vermont between 1988 and 2008. We conclude by comparing the asset building potential of shared equity homeownership to the rewards and risks associated with other strategies for helping lower income families to accumulate assets and build wealth.

Social policy in the United States has long focused on income-based measures of poverty and inequality. Since the late 1980s, however, there has been a growing attention to asset poverty and asset inequality. Wealth is distributed more unevenly than income, and wealth disparities have grown wider over the past few decades. Homeownership has long been the primary means through which middle-income families have built personal wealth and research supports the widely held belief that homeownership can be a superior investment for many families. And while there is clear evidence that lower-income and minority homebuyers face greater risks and generally earn lower returns than middle income white buyers, homeownership remains virtually the only consistent source of wealth building among lower-income households.

But homeownership has not been available to everyone. Low-income and low-wealth families face several independent (but interrelated) economic barriers that impede the path to homeownership. **Credit barriers** including, but not limited to, discriminatory practices in home mortgage lending make it difficult for some potential buyers with sufficient income to purchase homes because they cannot obtain an appropriate mortgage product. Other potential buyers, including many with adequate credit scores are unable to purchase because of **income barriers—** the entry level housing prices are simply beyond what many families incomes can support—whatever mortgage product is used. Lastly, buyers face **wealth barriers** if they lack savings for a minimum downpayment. Renters who face one constraint are likely to face one or both of the others as well, with a lack of wealth looming as the single greatest barrier to homeownership.

And yet, the clear majority of federal spending on homeownership is targeted at overcoming credit and income constraints. Only a small minority of federal investment is targeted at overcoming wealth barriers. Homeownership assistance programs generally fall into three categories:

- **Financing Product Innovations**, including mortgage insurance programs like FHA and mortgage market supports like Fannie Mae and Freddie Mac, seek to overcome credit barriers by encouraging private lending to targeted homebuyers.
- **Mortgage/ Interest Rate Subsidies** address income constraints by offering below market mortgage interest rates to lower-income buyers.
- **Purchase Subsidies** address both wealth and incoem barriers by either providing significant capital subsidies to either developers or qualified homebuyers at the time of purchase.

While there are would be buyers who benefits from each of these strategies, several studies have found that purchase subsidies make the greatest difference for families priced out of homeownership. In spite of this research, purchase subsidy programs have never received the level of support enjoyed by other homeownership support strategies. One concern is that purchase subsidies can be more expensive. Shared Equity Homeownership programs address this concern by preserving affordability so that a one time public investment can make homeownership possible for one lower-income family after another. In this way, shared equity programs can dramatically reduce the cost per beneficiary of homeownership subsidy programs. But these programs achieve this result by limiting the rate at which the prices of assisted homes appreciate. In exchange for significant public support at the time of purchase, these programs require owners to pass that benefit along to future lower income buyers by reselling at an affordable price. Shared Equity homeowners build wealth both by paying down their mortgage and through their (limited) home price appreciation but in an expanding market, they earn less than unrestricted market rate homeowners.

But even with lasting affordability controls, shared equity homeownership programs can offer buyers a very significant asset building opportunity, one that, in many cases may outperform other investment opportunities available to low and moderate income families. The extent of homeowner asset building that occurs in shared equity homeownership programs has not previously been studied. This paper evaluates the asset building potential of this general approach to affordable homeownership through an in depth analysis of the outcomes from one such program. We draw on a recent performance evaluation conducted by the Champlain Housing Trust in Burlington, VT, including data on 205 resales of price restricted homes between 1988 and 2008.

The average CHT homeowner, reselling after 5.4 years, received $7,889 in equity, as her share of the home's price appreciation. Because CHT's homeowners make only a small initial investment, this gain represented an average annualized Internal Rate of Return of over 25 percent. In addition to their share of appreciation, the average CHT homeowner also earned $4,294 at resale because of the pay-down on her mortgage, plus $1,348 as a credit for capital improvements made to the home after purchase. While the resale restrictions on CHT's houses and condominiums succeeded in maintaining the affordability of these shared equity homes, as they were transferred from one income-eligible homebuyer to another, the average homeowner who left CHT still walked away nearly $14,000 richer than she had been when first entering CHT's homeownership program.

Compared to other asset building strategies realistically available to lower income households, CHT's homeowners accumulated family wealth much faster and with less risk. The average buyer invested savings equivalent to 58 percent of the asset poverty level and received equity at resale equivalent to 284 percent of the then-current asset poverty level. She was able to accumulate wealth far beyond what Individual Development Account (IDA) participants typically save and to move on to unassisted homeownership at a higher rate than is typical among IDA programs.

Although CHT's homeowners generally accumulated less home equity than buyers of unrestricted, market-rate homes, they had significantly less risk. They were far less likely to experience foreclosure than the average lower income buyer. And they managed to sustain homeownership at a far higher rate. Several studies have found that roughly half of all low-income, first-time homeowners revert to rental housing within five years of buying a home. By contrast, fully 90 percent of CHT homeowners remained owners five years later, either continuing to occupy a CHT home or having acquired a market-rate after leaving CHT. Seventy-three percent of CHT's sellers purchased another home when they moved out of the shared equity home they had purchased from CHT, including 5.7 percent who bought another CHT home and 67.4 percent who moved into market-rate homes.

There are a number of factors that help to account for this high rate of success, both in keeping first-time homeowners in their homes and in moving lower income households into market-rate homeownership. Security is enhanced by CHT's continuing oversight of the affordable homes that public monies and public powers helped to create, a commitment to post-purchase stewardship that is a defining feature of most forms shared equity homeownership. Mobility is enhanced by the amount of money that CHT's homeowners were able to pocket when reselling their homes. The equity they realized from sharing in their home's price appreciation and from the steady wealth building from debt retirement—and, in some cases, by receiving a credit for post-purchase capital improvements—were enough to make the difference for most sellers. While all of CHT's homebuyers had been priced out of the market initially, half of them left CHT with a nest egg that was large enough that if they used it as a downpayment on a comparable home on the open market they would have been able to afford the resulting mortgage payments, even if they had experienced no relative increase in their household income. This occurred in spite of CHT's strict resale controls that enabled CHT's homes to resell at affordable prices to families with slightly lower incomes than the initial buyers. These homes not only remained affordable across one, two, or three resales; they became more affordable over time, without any additional public investment.

Introduction

Shared equity homeownership is a promising approach to rearranging property rights and re-structuring public investment for the purpose of making homeownership affordable for low and moderate income households. Among the many models of housing tenure that come under the rubric of "shared equity homeownership" are community land trusts, limited equity cooperatives, and owner-occupied houses and condominiums with affordability covenants lasting many years. These models have gained considerable attention in recent years, due primarily to their ability to preserve the affordability of publicly assisted homes, ensuring that more than one family is able to benefit from the homeownership opportunity that government investment helped to create. Shared equity homeownership programs preserve the value of public investment by limiting the rate at which the prices of assisted homes appreciate. In exchange for significant public support at the time of purchase, these programs require owners to pass that benefit along to future lower income buyers by reselling at an affordable price.

Critics of these programs often concede that preserving affordability is a desirable goal of public policy, but they argue that limiting a homeowner's returns undermines another important objective—promoting homeownership as a vehicle for building wealth and reducing asset inequality among lower income families. Supporters of these programs have been quick to answer that shared equity homeownership does offer wealth building opportunities, but they have been slow to document the magnitude of this wealth building and the degree to which these programs contribute to overcoming asset inequality. In this paper, we review the literature on homeownership as an asset building strategy for lower income households. We then present a real world case study, examining wealth building and household mobility for 205 homeowners who bought and later resold shared equity homes in Burlington, Vermont between 1988 and 2008. We conclude by comparing the asset building potential of shared equity homeownership to the rewards and risks associated with other strategies for helping lower income families to accumulate assets and build wealth.

Homeownership and Wealth Building for Lower Income Families

Social policy in the United States has long focused on income-based measures of poverty and inequality. Since the late 1980s, however, there has been a growing attention to asset poverty and asset inequality. Families with similar income levels but different levels of assets have been shown to experience very different outcomes. Lack of wealth creates problems that are different than—and somewhat independent of—problems engendered by low incomes. Wealth is distributed more unevenly than income, and wealth disparities have grown wider over the past few decades (Scholz and Levine 2002). The lowest income quintile has a household net worth of only $7,396, while the highest income quintile has a household net worth of $185,500. Fully 42percent of all U.S. households lack sufficient liquid assets to maintain consumption at the poverty level for a period of three months, were their income to be interrupted, a condition that is known as "asset poverty." When illiquid assets are added to the calculation of, asset poverty is still found to afflict 26percent of all U.S. households (Caner and Wolff 2004).

Differential access to homeownership has played a unique role in asset inequality in America, placing anyone who does not own a home at a real economic disadvantage. Homeownership has long been the primary means through which middle income families have built personal wealth. Herbert and Belsky (2008) reviewed a number of studies assessing the relative investment performance of homeownership. They found widespread support for the conclusion that home prices have generally appreciated somewhat more slowly than stocks. However, because most homeowners buy homes in a highly leveraged manner (they put down 5 percent or 10 percent of the cost and borrow the remainder, but receive 100 percent of any price appreciation) and because home equity appreciation receives favored tax treatment, the actual returns earned by homeowners can be as much as two to four times greater than returns from unleveraged investments in the stock market. There is solid evidence, therefore, supporting the popular belief that homeownership can be a superior investment.

But homeownership has not been equally available to all. Discrimination in selling and financing homes in the private market and discriminatory rules in most federal homeownership programs kept many low-income and minority families from buying homes. Unequal access to homeownership contributed to growing asset inequality over the course of the 20th century, especially with regard to the wealth gap between white families and African-American families. African American households have a median net worth of $9,750, compared with the white median of $79,400 (Orzechowski and Sepielli 2003). Of the $70,000 difference in average net worth between these racial groups, 70 percent is attributable to differences in home equity alone (Orzechowski and Sepielli 2003).

Herbert and Belsky also reviewed studies that attempted to evaluate whether lower income and minority homeowners receive returns that are similar to those received by white, middle-income, or upper-income families when they buy homes. They found limited data suggesting that, while low-income owners tend to realize slower wealth building through ownership than higher income owners, even homeowners who are poor tend to build wealth much faster than low-income renters. Citing Reid's (2005) finding that low-income minority families that remained renters between 1976 and 1994 built essentially no wealth, while those who became homeowners built $25,000 to $30,000 in wealth, Herbert and Belsky concluded that homeownership has been practically the *only* source of significant asset building for lower income households over the past few decades. They cautioned, however, that the housing bubble and high-risk/high-cost mortgage products that have brought about the current foreclosure crisis could reverse this trend. Future studies might discover a negative correlation between homeownership and net assets among lower income families.

The wealth-generating benefit of homeownership appears to span generations. Boehm and Schlottman (1999) found that the adult children of homeowners had a homeownership rate that was 25 percent higher than the rate for the children of renters, even after controlling for a number of demographic and household factors. Among the children who purchase homes, moreover, the children of owners tend to buy their homes at a younger age and to accumulate more wealth than the children of renters.

But for all of its potential as an asset building strategy, homeownership has often not available to the very families who need asset building the most. African-American families, in particular, have been disproportionately shut out of homeownership.

At the beginning of the 20th Century less than half of all American households owned their homes, a homeownership rate that remained virtually unchanged for the first forty years of the 20th Century. Following the collapse of the housing market and a wave of foreclosures during the Great Depression, President Roosevelt and New Deal housing planners redefined the goals of housing policy. They saw that homeownership could be a key tool in overcoming economic inequality and that government leadership could restructure housing markets to offer ownership to a much greater share of society.

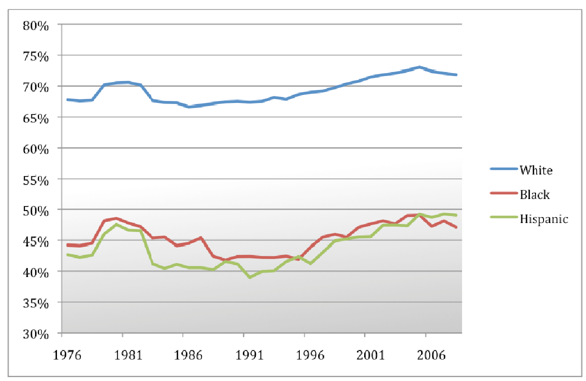
Prior to the New Deal housing reforms, most homebuyers needed a 50 percent downpayment and took out interest-only mortgage loans that had to be re-financed every five years. Federal housing finance innovations, including FHA and VA, guaranteed mortgages. Later, the secondary market created through Fannie Mae made 20-year (and eventually 30-year) fixed-rate, self-amortizing mortgages the norm, with 20 percent (and later 10 percent) downpayment requirements. This Federal intervention made homeownership—and the wealth building caused by homeownership—a realistic option for a majority of middle class families and helped to boost the homeownership rate from 45 percent in the 1940s to nearly 65 percent by the mid-1960s.

But this great expansion in homeownership disproportionately benefited white families, leaving minorities behind. The same federal programs that offered ownership to white working class families for the first time (FHA loans and GI bill VA loans, in particular), promoted racially discriminatory underwriting practices that limited access to homeownership for people of color.[1] Between the late 1950s and mid 1970s, African American families from the rural south moved in large numbers into racially segregated central cities, while white families continued to move to the suburbs. During this period, minority homeownership rates grew, but much more slowly than white rates. By 1960, the white-black homeownership gap was six percentage points higher than it had been in 1910 (W. J Collins and Margo 1999).

[1] Even white families living in neighborhoods with significant minority populations had a harder time accessing these federal homeownership programs, contributing to lower homeownership rates in these neighborhoods.

Racially discriminatory policies were removed from the guidelines of federal homeownership programs in the 1960s, but suburbanization continued, as did housing market segregation. Starting in 1968, federal homeownership programs began to incorporate increased minority homeownership as a proactive goal. By the 1980s, progress was evident when, for the first time, homeownership among minorities was growing at a faster rate than homeownership among whites. Since the 1980s, however, progress in closing this racial gap has been inconsistent and less than dramatic. Today, 68 percent of all households in the United States own their homes. Among African Americans, however, the homeownership rate is only 47 percent, while the white rate is 72 percent—a difference of 25 percentage points. Among Hispanic households, the rate is 48 percent, 24 percentage points below the white rate.

Figure 1: Ownership Rate by Race, 1976 – 2008



Source: US Census Bureau, Current Population Survey.

This racial ownership gap persists even when differences in income, age, and household composition are taken into account. The gap is greater among lower-income minorities (who are far less likely to own than lower-income whites), but a large gap remains even between high-income minorities and high-income whites.[2] For example, among

[2] U.S. Department of Housing and Urban Development. 1999. What's Happened to Homeownership? U.S. Housing Market Conditions, Winter 1999.

white married couples with children, those between the age of 35 and 44 earning between $40,000 and $59,999 have a homeownership rate of 88 percent; for minority families in the same group, the rate is only 72 percent. A mid-1990s estimate by HUD suggested that if minority ownership rates at every income level were identical to white rates, the national homeownership rate would be 3.5 percentage points higher (Eggers and Burke 1996).

Barriers to Homeownership

A series of studies spread over the past four decades have attempted to account for the homeownership gap between white and African American households. Some portion of the homeownership gap has been and continues to be the result of racial discrimination and institutional bias against lower income and minority communities. The evidence suggests that we have made very significant progress in reducing the extent to which race alone poses a barrier to home mortgage credit. But, in spite of this progress, the racial homeownership gap has hardly closed.

Haurin, Herbert, and Rosenthal (2007) reviewed several decades of studies that have attempted to account for the racial homeownership gap. Consistently, these studies have attributed some portion of the difference in homeownership rates to demographic factors, such as the difference in marriage rates, or to economic factors like the difference in income and wealth. Each study has found some unexplained residual gap, however, often thought to result from racial discrimination in the marketing or financing of homes. Since the first of these studies in the 1970s, the size of this residual has fallen significantly. One study in 1976, for example, found that race alone explained 26 percentage points of the white/black ownership gap. More recent studies have found demographic and economic factors explaining all but 5 percentage points of the gap. This trend in the research would seem to suggest that fair housing and fair lending laws, the Home Mortgage Disclosure Act, the Community Reinvestment Act, and similar civil rights enforcement efforts have had their intended effect, collectively reducing the influence of race in determining the tenure of housing, the location of housing, and the amount of credit a family can secure (Bostic and Surette 2001). The wider use of computerized underwriting by private lenders, which reduces personal discretion in credit decisions, seems also to have led to more "color blind" lending.

As racial discrimination has declined, economic factors have become more significant. Low-income and low-wealth families of all races face several independent (but interrelated) economic barriers that impede the path to homeownership. **Credit barriers** including, but not limited to, discriminatory practices in home mortgage lending make it difficult for some potential buyers with sufficient income to purchase homes because they cannot obtain an appropriate mortgage product. Other potential buyers, including many with adequate credit scores are unable to purchase because of **income barriers**—the entry level housing prices are simply beyond what many families incomes can support—whatever mortgage product is used. Lastly, buyers face **wealth barriers** if they lack savings for a minimum downpayment.

Renters who face one constraint are likely to face one or both of the others as well, with a lack of wealth looming as the single greatest barrier to homeownership. Savage (2009) found that 72 percent of current renters face both income and wealth constraints; 26 percent of renters are constrained only by a lack of wealth (i.e., a downpayment); and, only about 2 percent have sufficient wealth, but lack the necessary income. The same pattern had been seen in earlier studies by Savage and Fronczek (1993), by Savage (1999), and by Listokin et al (2001). The last of these studies had expanded on the methodology used by Savage in 1999, incorporating data on credit scores and closing costs and then adding the potential impact of "innovative" mortgage products. Even with access to very low downpayment loans, Listokin *et al* found that 68.6 percent of renters faced both income and wealth constraints in striving to purchase a home; 19.6 percent faced only wealth constraints; and only 5.4 percent had sufficient savings for a downpayment, but lacked the necessary income.

Barakova, et al. (2003) focused their study on credit barriers to homeownership. They concluded that credit quality was a bigger barrier than household income, but neither were as important as the lack of wealth. Among the credit-constrained renters they studied, 90 percent lacked sufficient savings for a downpayment; conversely, among the renters whose lack of wealth prevented them from buying a home, only 50 percent of them suffered from poor credit. For this reason, Barakova *et al* concluded that removing wealth barriers alone would increase the number of renters who could attain homeownership by 19 percentage points. Removing all credit barriers, by contrast, would increase renter access to homeownership by only 3 percentage points.

Charles and Hurst (2002) followed a group of black and white families who were renters in 1991 to see how many had transitioned to homeownership by 1996. They found that the African American families were far less likely to become owners, even when controlling for differences in both household income and level of savings. Even though black applicants were far more likely to be rejected than white applicants, they found that most of the difference in homeownership attainment rates was due to the fact that black households were far less likely to apply for mortgages at all.

Charles and Hurst suggested that differences in the likelihood of receiving family assistance in buying a house could account for part of this difference. Twenty-seven percent of white homebuyers receive some family assistance with their downpayment and 15 percent receive their entire downpayment as a gift from a family member. Among African American homebuyers, by contrast, only 6percent receive any family assistance. This difference in the inter-generational wealth that blacks can bring to purchasing a home, Charles and Hurst suggested, may account, in some measure, for both the lower rate at which blacks applied for loans and for the higher rate at which their applications were rejected.

Overcoming the Wealth Barrier to Homeownership

In light of this body of research, it is ironic that the clear majority of federal spending on homeownership is targeted at overcoming credit and income constraints. Only a small minority of federal investment is targeted at overcoming wealth barriers.[3] This is true for state and municipal assistance as well, where most governmental subsidies are directed at making the financing of homes more available and more affordable—i.e., they are aimed at removing credit and income barriers to homeownership. Relatively little of this governmental investment is directed at overcoming the wealth barrier, either by ***lowering the price*** of the home which a lower-income family is attempting to buy or by ***reducing the downpayment*** which a lower-income family must bring to the deal. Equally significant, in light of the mortgage meltdown of recent years, none of these governmental programs—federal, state, and local—has paid much attention to ***managing the risks*** of homeownership, after a lower income family has been helped to buy a home.

[3] A forthcoming report from the Center for American Progress provides a more complete discussion of the range of federal programs designed to expand access to homeownership and the potential of shared equity homeownership to more efficiently achieve federal homeownership goals (Rick Jacobus and Abromowitz 2010).

Financing Product Innovation

Federal insurance and mortgage guarantees offered through the Federal Housing Administration (FHA) and through the Government Sponsored Entities (GSE's) of Fannie Mae and Freddie Mac have had considerable success at removing credit barriers and lowering mortgage payments for lower income homebuyers. Between the 1940s and 1960s, this approach facilitated an enormous expansion in homeownership in the United States. But in recent years it is less clear that federal guarantees are resulting in expanded access to homeownership. Beginning in the late 1990s, FHA and the GSEs recognized that mortgage guarantees were no longer sufficient if homeownership was to be expanded among lower income and minority households. The wealth barrier had to be addressed as well. These federally backed agencies began following the trend led by private mortgage lenders, allowing very low (2 percent-3 percent) downpayments. Lower downpayments were designed to make homeownership more accessible for families who lacked significant assets but, since most lower income families faced both income and wealth constraints, this strategy simply shifted the burden from wealth to income. Lower downpayments meant that these families could borrow more of the cost of buying a home, but they then faced higher monthly costs for their mortgage. The growing use of ARMs and interest-only loans temporarily eased this monthly burden, but these products increased the risk of future failure. As interest rates rose in later years, the hold that lower-income households had on their homes became more precarious. These "innovative" mortgage products also allowed—even encouraged—wealth-constrained and income-constrained households to enter the homeownership market by simply borrowing more than they could afford. When the housing bubble burst, many of these households found themselves owing more on their mortgages than their homes were worth.[4]

Mortgage/Interest Rate Subsidies

The federal government allows State Housing Finance Agencies to issue tax-exempt mortgage revenue bonds (MRBs) to finance mortgage loans to income-qualified homebuyers. This program costs the federal government roughly $1.1 billion annually in foregone tax revenue and makes mortgages available to buyers at interest rates roughly one percentage point below market rate. These MRBs, together with several smaller scale federal and state subsidy programs, attempt to overcome income barriers by reducing the monthly costs of homeownership. But, on their own, these programs do nothing to overcome wealth barriers. Homebuyers must have another source for downpayment and closing costs to take advantage of MRB programs. And, of course, these programs do nothing about the price of housing and may, in fact, nudge housing prices upward by expanding demand without expanding the supply of housing that lower-income households can afford.[5] MRB programs are more likely, in the end, to boost the buying power of families who would buy anyway than they are to help families with lower incomes and little savings into homeownership (J. M Collins 2007).

[4] Low-income households were not the only ones who took on more debt than they could afford and ended up owing more than their homes were worth, although their vulnerability was the greatest. Such behavior was rampant across all income groups, especially in states like California and Florida where housing prices and "creative financing" were most extreme. Indeed, such heedless regard for the risks of homeownership became, for a time, something of a cultural norm. As one of the characters in Richard Russo's recent novel argued, in urging his daughter and son-in-law to buy their first home in a Los Angeles suburb, "you aren't a real adult until you have a mortgage you can't afford" (*That Old Cape Magic*, 2009: 75).

[5] These programs have probably also contributed to the increasing size of newly-built homes, since they allow middle-class households with modest savings to buy bigger and more expensive homes than their income would otherwise allow.

Purchase Subsidies

Another approach to expanding homeownership is less commonly used. It targets both income and credit barriers by providing direct capital subsidies to either homebuyers or housing developers at the time of purchase. The federal CDBG and HOME programs, along with many housing trust funds operated by cities or states, have been common sources of funding for such purchase subsidies. Purchase subsidy programs can be structured in two very different ways. *Buyer subsidies* are offered as grants or deferred payment loans to income-eligible homebuyers at the time of purchase. While these buyer subsidies are often referred to as "downpayment assistance," the amount of assistance often greatly exceeds what would normally be required for a downpayment. *Price subsidies* (sometimes called development subsidies) are generally grants to developers who produce homeownership units and sell them at below-market prices to eligible buyers. Public donations of lands (and buildings) achieve the same effect, allowing the developer to offer a home to a lower income family at a lower cost. Public powers have also been used to reduce the purchase price of new homes, where a developer is either required by a municipality to offer a specified percentage of the homes in a larger project for sale at a below-market price (inclusionary zoning) or the developer is rewarded for selling homes at a below-market price by a municipal grant or by a density bonus, impact fee reduction, or other regulatory concessions (incentive zoning).

Purchase subsidies (whether directed to buyers or developers) impact both wealth and income barriers simultaneously. They reduce the amount that a buyer must borrow from the bank which helps overcome a household's lack of savings, while reducing the household's monthly mortgage payment. Purchase subsidy programs (of either type) command far fewer public resources than other forms of homebuyer assistance. The HOME program, to cite one example, provides purchase subsidies for roughly 35,000 homeowners nationwide each year—a fraction of the number of low-income and moderate-income homeowners who are annually assisted through low-interest loans that are backed by FHA, GSEs, and state housing finance agencies.

Which of these strategies is likely to be the most effective in boosting lower-income families into homeownership? Savage (2009) addressed precisely this question in evaluating several alternative policy approaches to expanding homeownership for renter families. He found that reducing mortgage rates by as much as 3 percentage points would have virtually no impact on the number of renter families that could afford homeownership. Removing all downpayment requirements, thereby allowing a homebuyer to finance 100 percent of the purchase price, would increase the number of renters who could qualify for homeownership by only 2 percentage points. Providing significant purchase subsidies, on the other hand, would have a dramatic impact. A subsidy of $10,000 would increase the number of renters who could qualify for ownership by 12 percentage points. Applied on a national scale, this would bring homeownership within the reach of roughly 5 million families, including 768,000 additional African American families and 587,000 Hispanic families. This would cut the racial homeownership gap in the United States by about a third. Savage did not gauge the impact of purchase subsidies of greater than $10,000, but it seems safe to assume that larger per-unit subsidy levels would have an even greater impact on closing this racial gap—for homeownership and wealth.

Shared Equity Homeownership: A New Way Forward

Savage's study, and others like it, suggests that the best way of helping lower income families to move beyond the inter-generational legacy of asset poverty and to overcome the barrier that a lack of savings has presented for gaining access to the most dependable source of wealth creation—homeownership—is to reduce the upfront cost of buying a home. Whether structured as a homeowner subsidy or as a price subsidy, however, this strategy has never been popular in the United States. It has never enjoyed the sort of financial support that has long been lavished by private lenders and public funders on programs that use creative financing or mortgage subsidies to help persons of modest means to purchase market-priced homes.

When it comes to subsidizing rental housing, on the other hand, federal, state, and local housing programs increasingly use precisely this strategy for the investment of public funds, supplying lower-income tenants with housing they can afford. The federal HOME Program and the Low Income Housing Tax Credit Program, for example, provide upfront capital subsidies to build rental housing and to bring down the monthly cost of operating this housing after it is built. The per unit cost of these upfront subsidies is quite high, as it is in purchase subsidy programs. But there are two significant differences between these heavily capitalized rental programs and programs that use purchase subsidies to make homeownership available for lower income families.

First, in the rental programs, affordability of the assisted units is maintained for a very long time. When a unit is vacated, it is leased again at an affordable rent to the next income-eligible tenant. In most homeownership assistance programs, by contrast, affordability is immediately lost on resale. When the home is vacated, it is sold to whoever pays the highest price, with the homeowner pocketing all or most of the subsidy that has gone into making the home affordable in the first place.

Second, in most publicly subsidized rental programs, there is a closely regulated landlord that has long-term responsibility for seeing that the units are continuously rented at an affordable price to income-eligible tenants. That same landlord has responsibility for maintaining the units in good repair and, at least in the case of nonprofit landlords, for helping low-income tenants to succeed in holding onto their apartments, meeting their obligations, and avoiding eviction. In most homeownership assistance programs, by contrast, the work of the private lender or public funder is done as soon as a lower-income renter is boosted into homeownership. No one is there for the long haul to help the newly minted homeowner to shoulder the responsibilities or to manage the risks of homeownership.

Shared equity homeownership blurs the boundaries between these two approaches to affordable housing. As in most privately owned, publicly subsidized rentals, the privately owned homes of shared equity housing often benefit from a significant public investment that provides the initial downpayment or reduces the initial price that a lower-income family must pay to acquire a home, exactly the sort of initial purchase assistance that a large body of research has indicated is necessary to overcome both wealth and income barriers. Unlike most other tenures and programs for promoting homeownership among lower-income families, however, the affordability of shared equity homes is preserved over many resales and over many years. The same public investment is retained in the homes themselves, making homeownership possible for one generation after another. By doing this, shared equity housing can bring the cost per beneficiary more in line with other publicly assisted housing and potentially overcome the problem of deeper subsidies assisting too few people to make a lasting difference. Each annual investment of public funds, rather than serving a small number of buyers, adds to a growing portfolio of shared equity homes. And, as the portfolio grows, the number of lower income buyers entering homeownership each year increases, without any (inflation adjusted) increase in the subsidy funds.

What are the models and mechanisms that make up this new approach to helping lower income families to gain access to the wealth-building opportunity that comes from owning a home? Shared equity homeownership is a generic term for various forms of resale-restricted, owner-occupied housing where the rights, responsibilities, risks, and rewards of owning a private home are shared between an income-eligible household who buys the home and an organizational steward who protects the affordability, quality, and security of that home long after it is purchased. This is a relatively new term for an unconventional approach to homeownership that has actually been around for some time.[6] Community land trusts, limited equity cooperatives, and owner-occupied houses, townhouses, and condominiums encumbered with durable affordability covenants are the best-known examples, but the sector is still evolving. New models of shared equity homeownership—and new hybrids and permutations of older models—appear nearly every year. Almost all of these models are organizational variations on a single theme, however, where four characteristics are widely repeated. The occupants are owners. The equity is shared. Affordability is preserved. And an organizational steward remains in the picture for many years, standing behind the affordably priced housing that (in most cases) a public subsidy helped to create.

[6] The term "shared equity homeownership," as used here, was coined in 2006 as part of a research project sponsored by the National Housing Institute to describe a family of private, nonmarket tenures in which long-lasting contractual controls regulate the use and resale of owner-occupied housing. See: John Emmeus Davis (2006). The term is sometimes confused with shared appreciation mortgages and other financing schemes offered by private lenders and investors, which "share" the equity in privately owned housing, but which do nothing to preserve affordability. Sherriff and Lubell (2009) describe various programs with similar names but very different goals.

Occupants Are Owners

The people who occupy shared equity housing are homeowners, not tenants. They make an investment in their housing that is returned to them when they leave, sometimes with a significant increase. They hold an ownership stake that can be transferred from one owner-occupant to another or bequeathed from one generation to another. Their homes are regulated, financed, and taxed in ways that clearly differentiate them from housing that is renter-occupied. Equally important, the occupants of shared equity homes are placed beyond the pale of tenancy by the security they enjoy, the control they exercise, the responsibilities they assume, and the risks they bear in occupying and operating the housing that is theirs.

Equity Is Shared

There are two different meanings that "equity" has been given in the world of real estate. In one meaning of the term, equity is the economic value that remains in residential property after any debt has been paid off and after any liens have been removed. Part of this property-based wealth is a product of a homeowner's personal investment in buying and improving the property over time, an investment that is recouped by owners when they resell. Another part of the wealth embedded in residential property, however, is a product of the community's investment: equity contributed at the time of initial purchase if a public grant, charitable donation, or mandated concession from a private developer was used to subsidize the home's purchase price; and equity created during the course of the homeowner's occupancy if public investments in infrastructure, private improvements in surrounding properties, or changes in the regional economy have caused appreciation in the home's market value.

In market-rate housing, all of this wealth is claimed by the homeowner at resale. The owners of shared equity homes, by contrast, claim only the wealth they created, along with a modest return on their investment. They usually walk away with considerably more wealth than they had when they initially bought their homes, but they do not walk away with all of the equity contributed or created by the larger community. Most of it remains in the property, reducing the home's purchase price for the next income-eligible household; producing, in effect, an inter-generational sharing of property-based wealth across multiple resales.

But equity is more than investment and appreciation. It is more than money. The more expansive meaning of "equity" is the "owner's interest"—the total package of rights, responsibilities, risks, and rewards that accompany the ownership of residential property. In market-rate housing, this package belongs to the homeowner alone. In shared equity housing, it does not. Someone other than the individual homeowner exercises significant control over how the property may be used, improved, financed, and conveyed. This is most obvious perhaps in cooperative housing, where all of the real estate assets are held in common and a board of directors collectively determines the cooperative's management, but every model of shared equity housing reshuffles the deck of ownership and control. The homeowner retains many of the rights, responsibilities, risks, and rewards that have traditionally come with owning a home, but some are shared. Someone other than the homeowner retains an interest in the property, helping the occupants to carry out the responsibilities and to manage the risks of homeownership.

Affordability Is Preserved

This reconfiguration of the "owner's interest" is accomplished through a contractual mechanism that specifies what homeowners can and cannot do with the property that is theirs. These contracts vary from one model of shared equity homeownership to another in both form and content. What they have in common, however, whether an affordability covenant attached to the deed of a house or condominium, a ground lease underlying a single-family home or multi-unit building, or some other contract for using or financing a home, is that they all persist for a very long time. They maintain affordability for many years, one resale after another.

Stewardship Is Active

These contractual controls are not self-enforcing. If the shared rights, responsibilities, risks, and rewards of these unconventional forms of tenure are to remain in place over a long duration, the contracts that modify the "owner's interest" must be watchfully monitored and actively enforced. Someone must stand behind these homes after they are purchased, ensuring at a minimum that the housing's affordability will be preserved, the housing's quality and durability will be maintained, and the homeowner's security will be protected, making foreclosure a rare event.

That "someone" is sometimes a governmental agency that may have provided funding for the home's initial development or required inclusion of affordably priced homes as a condition of a municipality's permission to build. The agency serves, in effect, as the long-term steward for the shared equity housing it helped to create. Long-term responsibility for stewardship, however, is increasingly being delegated to nonprofit organizations like a community development corporation or a community land trust that agrees to perform these duties on the public's behalf. Either way, it has been demonstrated again and again that shared equity arrangements are sustainable and successful only if there is an active organizational entity that remains in the picture for many years, performing the essential duties of stewardship.

Evaluating The Asset Building Potential of Shared Equity Homeownership

Does shared equity homeownership do what it promises to do? More specifically, given our focus on asset building, do the models that make up this sector enable wealth-constrained and income-constrained families to become homeowners and to climb out of asset poverty?

To date, there has been very little research on the asset building potential of shared equity homeownership. Davis and Demetrowitz (2003), in a study of the resale-restricted, owner-occupied housing managed by a community land trust in Burlington, Vermont, found that the owners of these shared equity homes did realize modest gains in wealth when reselling, through a combination of debt retirement and limited appreciation in their initial investment. The average homeowner walked away with a net gain of $6,000 in equity after living in a shared equity home for five years. The authors of this study concluded that this represented a "fair return" on an initial investment of $2,300, although they acknowledged this to be a much lower return than the owners of unrestricted, market-rate homes were earning in the same area over the same period of time.

Jacobus (2007) compared potential homeowner equity gains for several different equity sharing formulas under a set of hypothetical market trends. While some equity sharing formulas were found to generate higher gains for homeowners under rising markets and others were found to do a better job of protecting homeowners against the impact of falling markets, the most common formulas used by shared equity homeownership programs tended to offer homeowners financial returns far in excess of what they would likely earn through other investment strategies realistically available to low- and moderate-income families. Under most scenarios, these hypothetical returns were well below the financial gain available to owners of unrestricted (and unsubsidized) market-rate homes, but Jacobus found that the financial return to the owners of shared equity homes was more predictable and less dependant on the specific timing of sale relative to housing market cycles. He concluded, therefore, that shared equity homeownership seemed to be a promising strategy for overcoming asset inequality in its own right.

Case Study: Champlain Housing Trust, Burlington, Vermont[7]

Between 1984 and 2008, the Champlain Housing Trust (formerly the Burlington Community Land Trust) developed and marketed 424 modestly priced single-family houses and condominiums. All of these homes were sold to lower-income homebuyers subject to durable contractual controls over their occupancy, use, and resale, controls designed to maintain the homes' availability and affordability for lower income households for many years. The first resale of a CHT home occurred in 1988. By the end of June 2008, CHT had overseen the resale of 205 houses and condominiums.

This sizable portfolio of shared equity housing and this substantial pool of resales provided a rare opportunity to evaluate the performance of an unconventional model of tenure that promises to secure the benefits of

[7] The case study presented here makes use of performance data collected and compiled by the Champlain Housing Trust. Our analysis builds upon and expands the analysis of that data previously described in a 2009 report published by the Champlain Housing Trust (Davis and Stokes 2009). Our thanks to CHT for sharing their raw data and allowing us to take a second look at how this data might be reconfigured and reinterpreted in light of the asset building arguments of the present paper.

homeownership for persons of modest means, while also achieving larger social goals like the preservation of affordability, the stewardship of public resources, and the stabilization of residential neighborhoods. While such claims are common to all shared equity homeownership, most programs are too new and too small to have had many resales. There has been little way to gauge how effective they have been, therefore, in doing what they promise to do. The Champlain Housing Trust, by contrast, has been around since 1984. It has built a large enough portfolio of resale-restricted, owner-occupied housing and has overseen a large enough number of resales to provide some insight into shared equity homeownership's potential for lifting lower income households out of asset poverty.

Staff of the Champlain Housing Trust reviewed the organizational files for every sale and resale and compiled a dataset which tracked prices, affordability, and equity growth for each homeowner. The data collected by combing through these records provided nearly all of the information needed to evaluate CHT's performance. However, the early case files contained very little information about the mobility of CHT's homeowners. Documentation was scarce regarding why they decided to sell their CHT homes, where they moved, and what housing they obtained after leaving CHT. Only after 2002 did CHT begin doing exit interviews, collecting information about the motivations and destinations of homeowners reselling their homes and leaving CHT. A methodology other than reviewing case files was required, therefore, to evaluate the mobility of those homeowners who resold prior to 2002. Although consideration was given to surveying all of these sellers, current addresses for many of them were unknown, especially for those who had moved out of state. This led to an alternative strategy of surveying those CHT employees who had directly supervised the resale of CHT's houses and condominiums between 1988 and 2002. They were asked to recall the why and where behind these resales. They were also asked to share any knowledge they might have had about the housing secured by these homeowners after they left CHT. When they had little knowledge of people who had moved away from CHT many years before, a research assistant was assigned the task of tracking down these missing homeowners, using local and out-of-state telephone directories. A number of former CHT homeowners were eventually located and interviewed by phone, supplementing the information provided by present and former staff of CHT.

Expanding Access And Preserving Affordability

The Champlain Housing Trust, for most of its existence, has operated in a housing market with rising prices, a growing demand for modestly priced housing, and a chronic shortage of houses and condominiums within the financial reach of persons earning less than 80 percent of AMI. Only recently has the local homeownership market experienced a decline in prices, but with little effect on the "affordability gap" that has long existed between the average cost of housing and the average income of the households hoping to buy that housing. CHT, on the other hand, has had considerable success in closing that gap, not only on the initial sale of a house or condominium but also on its eventual resale.

Over its first 25 years, CHT helped 629 families to gain access to homeownership, none of whom had sufficient wealth and/or sufficient income to acquire a home on the open market without CHT's assistance. All of the households served by CHT earned less than 100 percent of Area Median Income (AMI); 82 percent of them earned under 80percent.

More detailed data was collected on those homes that were resold one or more times between 1988 and 2008, allowing a closer look at the income distribution of the households served by CHT (see Table 1). The average household served by CHT on the initial sale of a house or condominium that was later resold earned 69.4 percent of AMI. The average household served by CHT on the resale of these same homes earned 68.6 percent of AMI.

Table 1: CHT Homebuyer Income at Time of Purchase and Time of Resale

HUD INCOME CATEGORY	AREA MEDIAN INCOME (BURLINGTON MSA)	INITIAL SALE OF CHT HOMES NUMBER OF HOMEBUYERS IN EACH INCOME CATEGORY	RESALE OF SAME CHT HOMES NUMBER OF HOMEBUYERS IN EACH INCOME CATEGORY
Very Low Income	50% AMI or Below	26	34
Low Income	51% - 60% AMI	32	36
Low Income	61% - 70% AMI	48	46
Low Income	71% - 80% AMI	61	52
Moderate Income	81% - 90% AMI	28	25
Moderate Income	91% - 100% AMI	10	12
	TOTAL HOUSEHOLDS:	205	205
AVERAGE HOUSEHOLD INCOME (Houses and Condominiums Combined)		68.6% AMI	67.1% AMI
AVERAGE HOUSEHOLD INCOME (Condominiums Only)		70.3% AMI	69.3% AMI
AVERAGE HOUSEHOLD INCOME (Houses Only)		68.5% AMI	65.8% AMI

Affordability not only continued between successive generations of low-income homebuyers, but improved—even when the favorable effect of falling mortgage interest rates was removed. The average CHT home was affordable to a household earning 56.6 percent of AMI on initial sale. On resale, it was affordable to a household earning 53.4 percent of AMI – a 5.65 percent gain in affordability.

Public subsidies invested in CHT's houses and condominiums remained in the homes at resale, underwriting their affordability for subsequent generations of lower-income homebuyers. An initial public investment of $2,172,207 in homes that resold one or more times allowed CHT to bring homeownership within the reach of 357 lower-income households. Had these subsidies not been retained in the homes, allowing their owners to pocket both the public's investment and all capital gains when reselling, the size of the public's investment needed to serve the same number of households at the same level of income as CHT had served would have had to be five times greater.

Occupancy, use, and resale controls remained in place for 96.7 percent of the 424 units of owner-occupied housing developed by CHT between 1984 and 2008. Only 14 homes were released to the market. Foreclosures remained a rare event, even as the mortgage meltdown in the rest of the United States approached the point of crisis. Over its first twenty five years, CHT had only nine foreclosures. No lands or homes were lost from CHT's portfolio because of foreclosure.

Creating Individual Wealth

Every shared equity homeownership program, including CHT's, limits the equity that homeowners may claim as their own when reselling their homes. In the case of CHT, homeowners are allowed to pocket on resale whatever equity they brought as a downpayment, as well as any equity earned in paying off their mortgages and a portion of any investment they have made in post-purchase capital improvements. They may also claim a portion of their homes' appreciated value, if appreciation has occurred. They do not get all of it, however, not even most of it.

The resale formula used by CHT allows homeowners to retain 25 percent of any appreciation in the market value of their homes.[8] The bulk of a property's appreciation remains with the property, along with any public or private subsidies invested in bringing the home within the financial reach of a low-income homebuyer. This enables CHT to re-acquire the home from the first homeowner and to re-sell it to another homeowner at an "affordable" price that is often significantly below the property's market value.

Our investigation of wealth creation began by calculating the total proceeds, over and above a homeowner's initial investment, that each CHT homeowner realized when reselling a house or condominium. Two types of proceeds were included in these calculations: the amount of principal that each CHT homeowner paid on her mortgage; and the share of appreciation that each CHT homeowner earned, if her home increased in value between the time of purchase and the time of resale.

In 197 out of 205 resales, CHT homeowners gained equity through amortization of their mortgages. The only cases in which no equity was earned through principal reduction were those homes that changed hands because of a foreclosure or a deed-in-lieu of foreclosure. In 169 out of 205 resales, CHT homeowners also gained equity by sharing in their home's appreciation.

The size of these equity gains varied from homeowner to homeowner, depending on length of residence, type of housing, price paid for the home, interest paid on the mortgage, and growth in the home's appraised value (if any). There were familiar patterns here. Generally, the longer a home was owned, the greater were the homeowner's proceeds. Homeowners who paid a higher price for their homes and a lower rate for their mortgages had higher gains than homeowners who bought lower-priced homes and obtained higher-rate mortgages. And, of course, homeowners whose homes appreciated greatly in value gained more equity than homeowners whose homes appreciated minimally—or not at all. There were, in fact, 36 CHT homeowners who realized no gain from appreciation, either because there was no increase in the appraised value of their homes or because, in five cases, appreciation occurred but foreclosure prevented the homeowner from receiving a share.[9] The owners of CHT homes, in this situation, were no different than the owners of market-rate homes. They only *benefited* from appreciation if there *was* appreciation.

[8] All CLTs do not use the sort of appraisal-based formula used by CHT, where rising real estate values result in an increase in the equity earned by a departing CLT homeowner. For CLTs that use what are known as "indexed formulas or "itemized formulas," therefore, it is somewhat misleading to describe the equity gains made by a homeowner who is reselling her home as a "share" of the home's "appreciation." Indexed formulas adjust the original purchase price by applying a single factor – the change in a particular index (e.g., the CPI) between the date the homeowner purchased his/her home and the date s/he resells that home. Itemized formulas adjust the original purchase price by adding or subtracting multiple factors that affect either the value of the owner's investment or the value of the home itself.

[9] There was no discernible pattern among the 36 houses and condominiums with no increase in value, except for the ***timing*** of a home's purchase and resale. Homes with no increase in their appraised market value tended to be those that were purchased when Burlington's housing market was hot and resold when the housing market was cold. Timing mattered more than the age of the home, the size of the home, or even the location of the home in distinguishing between those houses and condominiums that appreciated and those that did not.

CHT allows homeowners to recoup the full market value of any capital improvements made by the homeowner during his/her tenure.

Figure 1: CHT Homeowner Equity Gains 1988 - 2008

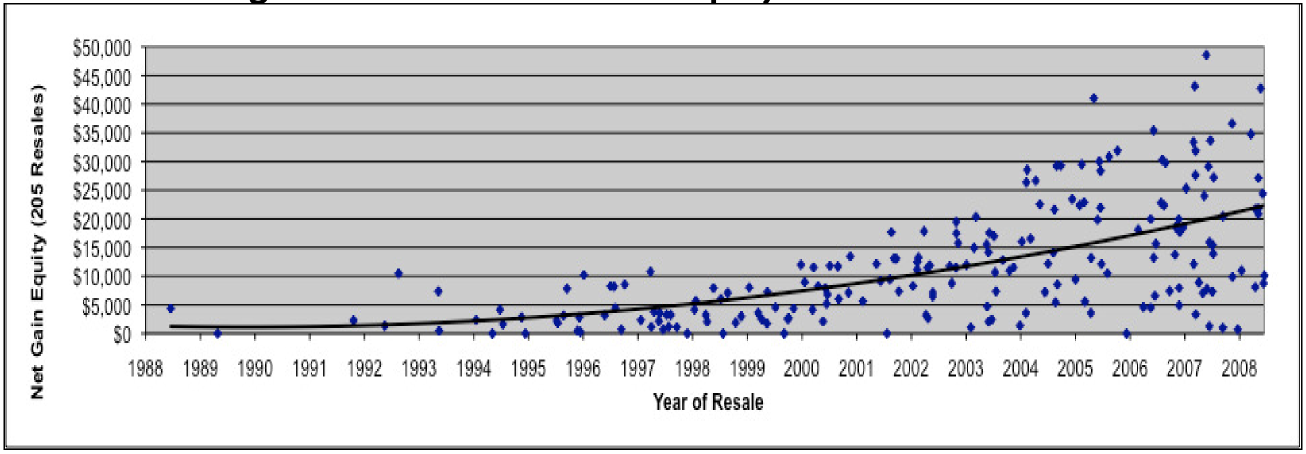


Table 2: CHT Homeowner Equity Gains

	All Years	Most recent 10 years (1999—2008)	Most recent 5 years (2004—2008)
Number of years owned	5.44	5.71	5.80
Seller's share of appreciation	$7,889	$9,953	$13,515
Seller's Debt Retirement	$4,294	$4,749	$5,188
Seller's Capital Improvements Credit	$1,348	$1,760	$2,490
Owner's gross proceeds	$13,530	$16,462	$21,192

On average, these credits increased outgoing owners equity by $1,348, but these "capital improvement credits" were claimed by only 42 of the 108 homeowners who resold a CHT home during the five-year period between 2003 and 2008[10]. The lowest credit was $500. The highest credit was $28,500. The average credit, among the 42 owners who claimed a credit, was $5,842. The "capital improvement credit" collected by these 42 homeowners, in other words, was over and above the equity they realized from recouping their original downpayment, paying off a portion of their original mortgage, and claiming a share of their property's appreciation.

When the 205 resales were considered as a whole, the average CHT homeowner who resold a shared equity home had lived there for nearly five and a half years. After paying off the outstanding balance on her mortgage, she pocketed a net increase of $13,530 in personal wealth. Table 2 shows that this total home equity was composed of appreciation, debt retirement, and capital improvements credits. These

[10] CHT's data on homeowner improvements credits was inconsistent prior to 2003. We don't know for sure how many sellers claimed these credits prior to that point. The average here ($1,348) conservatively divides the total value of known credits across all 205 sellers. Among the 108 owners who sold during the period during which the data is consistent the average credit was $2,558.

averages include sales over a twenty-year period.[11] Recent sellers have tended to receive much greater absolute dollar gains than earlier owners. Homeowners who sold between 1999 and 2008 received an average of $16,462 in gross equity while those who sold between 2004 and 2008 received an average of $21,192.

CHT's resale restrictions limited the rate at which the prices of its homes could rise. On average the restricted price rose at an annual rate of only 2.6 percent. This was much slower than the market average growth rate of 5.58 percent over the same period. However because CHT homeowners (like all homeowners) were highly leveraged, their equity tended to grow much faster than housing prices. The average CHT homeowner's total investment for both downpayment and all closing costs was $2,300. In all cases, this initial investment amounted to less than 3 percent of the below-market price of their shared equity home.[12]

The average CHT homeowner's $2,300 initial investment grew to $7,889 over a period of 5.44 years. In general these owners paid only nominal closing costs at the time of resale. They avoided the significant cost of broker commissions because CHT managed their resales and identified subsequent buyers at no cost to the sellers. This growth represents an average annualized Internal Rate of Return (IRR) of 25.4 percent. This calculation includes only the appreciation and downpayment and excludes equity accumulated through retirement of debt and capital improvements (which might better be considered additional forced savings by the homeowner, rather than a return on their initial investment).

Enabling Residential Mobility

Far from being "trapped" in their price-restricted homes, CLT homeowners moved with similar frequency and for similar reasons as homeowners who buy and sell homes on the open market. When they decided to relocate, moreover, CLT homeowners resold their homes with relative ease (with the CLT's assistance) and obtained housing that was comparable to the housing they had left behind.

Compared to national averages, the owners of homes resold through CHT moved less frequently than renters, whose median length of tenure is 2.1 years; they moved more frequently than the owners of market-rate homes, whose median length of tenure is 8.2 years.[13] Examining the 152 houses and condominiums in CHT's portfolio that had been resold one or more times, we found an owner's average length of tenure to be 5.44 years, while somewhat shorter for the owners of condominiums (4.96 years) and somewhat longer for the owners of single-family houses (6.32 years). Not surprisingly, all of these averages were higher for that portion of CHT's portfolio with no resales; that is, those 258 houses and condominiums still occupied by their original owners. The average length of tenure among the owners of homes that have never resold was 6.73 years, again somewhat shorter for condominiums (5.47 years) and substantially longer for houses (8.7 years).

CHT's homeowners changed residence for the same reasons we would find among any other group of homeowners. They bought another home. They got married or got divorced. They decided, out of preference or necessity, to live somewhere else. Some moved because the

[11] Although the first home was added to CHT's portfolio in 1984, the first resale did not occur until 1988.

[12] CHT did not track the actual closing costs for sales earlier it its history. For these transactions we have assumed a total initial investment of 3 percent of the affordable price which, in most cases, overstates the actual investment because nearly all buyers over this period used a Vermont Housing Finance Agency loan product which allowed 100 percent financing and paid only closing costs.

[13] These national averages are taken from Rohe, Van Zandt, and McCarthy (2002).

financial burden of owning a home was too great. Their financial circumstances had changed since buying a CHT home and they either defaulted on their mortgage or simply decided that homeownership was no longer within their means.

Most CHT homeowners, having made the decision to move, had their homes repurchased by the Champlain Housing Trust within a relatively short time. They notified CHT of their intent to sell and, in consultation with CHT, arranged for an appraisal to be done. Upon completion of the appraisal, CHT was then granted by the ground lease (or covenant) a period of 120 days to repurchase the property if a house, or 180 days if a condominium. Although CHT never exercised its option until another low-income household was lined up to buy the home, CHT assumed responsibility for marketing it and for coordinating the sale and closing (sellers do not pay CHT a commission for these services out of their proceeds).[14] For most of its 205 resales, CHT found a buyer within the four-to-six month option period, allowing sellers to recoup their downpayments (if any), pay off their mortgages, realize whatever equity they had earned, and relocate to other homes. Some transfers took longer, however. Similar to the sale of market-rate homes, the sale of shared equity homes through CHT slowed whenever the housing market cooled or mortgage rates spiked. During the slump in the condo market in the mid-1990s, in particular, the resale of condominiums frequently took longer than six months. When Burlington's housing market heated up again after 1998, the resale of CHT's condominiums became easier—and faster.

[14] CHT does not normally repurchase until another income-eligible buyer is lined up. On a handful of occasions, however, when a home has needed major rehab, CHT has exercised its option, repurchased the home, and rehabilitated it before looking for another low-income homebuyer.

We were especially interested in knowing what kind of housing these homeowners secured after they resold their CHT homes. This proved to be the most difficult data of the entire study to collect. After surveying current and former employees of CHT who had supervised these resales and after tracking down a number of former CHT homeowners to verify their subsequent housing situations, there were still 30 missing cases. Most of these people had moved out of state and could not be located. What was learned about the rest—that is, the 175 former CHT homeowners for whom we did have information—was that 118 of them (67.4 percent) had purchased a market-rate home within six months of reselling their CHT home. Ten (10) others exchanged one CHT home for another (5.6 percent). Five (5) homeowners died (2.9 percent).[15] Forty-two (42) others reverted to renting after selling their CHT homes (24.0 percent)—some of them renting from CHT.

Shared Equity Homeownership As An Asset Building Strategy

Clearly CHT's homesellers tended to leave with greater assets than they possessed when first buying a shared equity home. They also earned a relatively high rate of return on a very modest initial investment. But to evaluate the asset building potential of this particular program—and the potential of shared equity homeownership in general, as a strategy for low-income/low-wealth households—we need to put the Burlington results in context. It is easy to say that degree of wealth building that occurred at CHT is better than nothing—and much better than renting.[16] But given

[15] At the death of a CHT homeowner, the home may be bequeathed to and occupied by one of the homeowner's heirs. If an heir does not wish to occupy the home it is re-acquired by CHT and resold to another low-income household. Equity due to the deceased homeowner from the sale of her CHT home is conveyed to the owner's estate and split among the homeowner's heirs.

[16] It goes (almost) without saying that rental housing does not offer meaningful wealth building opportunities. Over a six-

the significant public investment required for this program, we must compare the wealth-building performance of CHTs portfolio of resale-restricted homes to the wealth-building opportunities realistically available to lower income families through other asset building strategies. We shall focus on two of these strategies, in particular: helping lower income households to accumulate equity through the acquisition, ownership, and resale of market-rate homes; and helping lower income households to accumulate savings through Individual Development Accounts.[17]

Market Rate Homeownership

The most widely used and richly funded strategy for helping lower income families in the United States to build assets has been to subsidize their ascent into market-rate homeownership. Policymakers who are asked to consider shared equity homeownership instead usually (and reasonably) want to know how the limited returns that are realized by the owners of resale-restricted homes might compare to the higher returns that are often earned by the owners of unrestricted market-rate homes.

We calculated the increase in appraised value of each CHT home over the period of occupancy for each homeowner. On average, these homes increased in value by $35,176. Had these homes not been in CHT's portfolio, a buyer would have invested 5 percent of the home's initial market value as a downpayment and, when reselling, would have earned an average annual return on her investment of 53 percent. CHT's resale restrictions, by contrast, meant that the lower-income households who actually bought these homes (with a much lower initial investment) earned $7,889 in appreciation—a 25 percent return on their initial investment. CHT's homeowners, in short, did not fare as well in an appreciating market, as their neighbors who had bought unrestricted, market-rate homes.

This is comparing the real against the ideal, however. If CHT buyers had been able to purchase unrestricted market rate homes, it seems safe to assume that they would have done so, rather than purchasing a price-restricted home. For most CHT buyers, however, market-rate homeownership was far out of reach.

It is far from certain, moreover, that these lower income households would have actually realized all the gains promised by market-rate homeownership, had they somehow found a way to purchase a home without resale

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year period, comparable to the average time that a CHT homeowner occupied her home before reselling, the average tenant in Burlington would have had little to show for her monthly "investment" in rent. Even when a tenant's security deposit was not only returned when leaving the rental, but returned with interest (as required by a Burlington ordinance), the net proceeds earned by the renter ($650) would have been a fraction of those earned by the average CHT homeowner.

[17] Although relatively few lower income households take advantage of the stock market as a strategy for asset building, we also compared the returns realized by the average CHT homeowner and the returns the same person might have realized had she invested in stocks. What if a renter, instead of investing $2300 of her own savings in buying a CHT home in 1996, had placed that money in the stock market? We calculated the change in the S&P 500 index over the period of ownership for each CHT homeowner. Some owned during periods of rapid growth in the stock market and owners during periods of decline, but the average CHT homeowner would have received a 9 percent annual return on their investment if she had invested in the S&P 500 index rather than buying a shared equity home. Investing in the stock market, the average owner would have received gross proceeds of $3,978. While this was a relatively healthy period for the stock market, and most owners would have nearly doubled their money (only 16 percent would have lost money on the stock market during this period), these returns would not have lifted most of these households out of asset poverty. The average owner would have grown her savings to only 88 percent of the then-current asset poverty level. Only 53 families (25 percent) would have earned enough on the stock market to move out of asset poverty. While 47 CHT homeowners would have earned more in the stock market than they received from the sale of their CHT homes, on average CHT sellers earned appreciation on their CHT homes that was *double* what they would have earned from the S&P 500. And when the forced savings from debt retirement is added, the average CHT seller received $8,205 more from the resale of her house or condominium than she would have received had she invested in stocks. Even the families who received no appreciation on the resale of their CHT homes left with more equity than if they had invested, instead, in the stock market.

controls. A growing body of research has begun to suggest the possibility that homeownership may be a less lucrative and more risky investment for lower income families than has usually been acknowledged. Regular cycles of boom and bust in housing markets mean that some homeowners earn little appreciation or face losses when they sell. The high transaction costs of market-rate homeownership may cause owners who sell within a relatively short period of time to realize a net loss, even when home prices appreciate. In higher cost markets, in particular, it is not uncommon for homeowners to accept housing costs that are greater than what they would have paid to rent a comparable dwelling. Presumably these buyers expect to make up for this difference through later price appreciation, but depending on the timing of their sale they may not earn enough to justify the higher monthly expense of homeownership.[18]

Not surprisingly, many of these factors tend to result in a lower economic benefit for low-income homebuyers than for higher income buyers. Lower income households are dramatically less likely to receive tax benefits from ownership (Herbert and Belsky 2008). These same buyers often face higher monthly costs for the same homes because they are significantly more likely to utilize high-cost mortgage products and more likely to pay for mortgage insurance. Together these factors change the overall financial balance, so that a much smaller percentage of low-income households end up realizing significant financial benefits from ownership.[19]

Market-rate homeownership can also add to the economic precariousness of a low-income household. Carolina Katz Reid (2005), for example, used data from the Panel Study of Income Dynamics to analyze the homeownership experiences of a nationally representative sample of lower income households. She found that homeownership performed quite well as a financial investment for households at all income levels, but lower income homebuyers were likely to realize significantly less appreciation, face higher monthly costs relative to income, and were more likely to lose their investment through foreclosure, among other factors. Because of the general lack of ownership options at the lower end of the price spectrum, working families tend to stretch more financially in order to attain ownership. Reid found that half of lower income homebuyers committed more than 50 percent of their household income to mortgage payments alone—imposing a severe cost burden on households ill-equipped to bear such a financial burden.

Despite spending a higher share of their income for housing, moreover, lower income buyers are generally forced to buy older, less well-maintained properties, and to buy in the least desirable neighborhoods. As a direct result, their homes tend to appreciate in value at a lesser rate than those of middle-income homebuyers.[20] Over the 10-year period, ending in 1993, Reid found that the average household in her survey saw a 50 percent increase in home value, while lower income homeowners saw an average increase of only 30 percent. The homes of lower income

[18] Differences in the tax consequences of homeownership between different households can also have a significant impact on whether ownership is financially advantageous vis-à-vis renting.

[19] Belsky, Retsinas and Duda, for example, found that with a three-year holding period roughly half of all low-income homeowners would be better off renting. This figure drops to 37 percent with ownership periods of 7 years or longer. Anticipating the current foreclosure crisis, they concluded that, among low-income buyers utilizing high-cost mortgage products, somewhere between 78 percent and 85 percent of them would be better off renting than owning (Belsky, Retsinas, and Duda 2005).

[20] There have been at least a dozen studies that attempt to determine whether lower cost homes appreciate at a different rate than higher cost homes. Herbert and Belsky (2008) reviewed these studies and concluded that in some markets, over some periods of time, lower cost homes appreciate more slowly, while at other times they appreciate more rapidly. On average, however, they seem to appreciate at the same rate as higher cost homes.

minority owners actually *declined* in value relative to inflation. High loan-to-value ratios, high debt–to-income ratios, and slower price appreciation combined to make lower income homeowners much more likely to lose their homes. The relative lack of equity in their homes also made banks less likely to restructure debt when lower income owners faced periods of unemployment and made it harder for lower income owners to refinance in order to take advantage of falling interest rates.

In light of the real risks and returns of market-rate homeownership that are actually experienced by lower income households, CHT's results look even more impressive. All of CHT's beneficiaries—a total of 629 households between 1984 and 2008—were able to move into homeownership with fixed-rate mortgages and housing costs totaling no more than 35 percent of their income. Nearly all of these owners were able to accumulate equity through debt retirement. The vast majority, when reselling their homes, earned a share of their property's appreciation as well. The performance of CHT's portfolio—and the success of CHT's homeowners—also suggest that shared equity homeownership may provide greater security for lower-income families, compared to the riskiness of market-rate homeownership, and that shared equity homeownership may allow greater mobility, serving as a stepping stone to more wealth building in the future.

Security: Reducing the Risk of Foreclosure

Foreclosures are generally measured in two different ways. Annual foreclosure rates measure the percentage of all outstanding loans in a given portfolio that enter foreclosure in a given year. In the first quarter of 2008, for example, 0.54 percent of all outstanding conventional conforming loans entered foreclosure. Another measure takes the longer view, looking at the cumulative percentage of all loans originated in a given year that have been foreclosed upon by some future date. By 2008, according to this standard, 7 percent of all FHA loans originated in 2000 had been foreclosed upon (Carr et al. 2008).

Overall, CHT had 9 foreclosures among the 629 households who purchased a resale-restricted home between 1984 and 2008[21]—a cumulative, 25-year foreclosure rate of 1.43 percent.[22] This foreclosure rate was comparable to what had once been the average cumulative foreclosure rate for the nation as a whole, under Freddie Mac's conventional conforming mortgages, prior to the current foreclosure crisis. CHT's foreclosure rate was well below the historical rate for FHA borrowers, however, as well as below the historical rate for highly leveraged borrowers with conventional loans. Deng, Quigley and Van Order (2000) studied Freddie Mac loans between 1976 and 1983, reporting an average 10-year cumulative foreclosure rate of 1.4 percent. For borrowers with loan-to-value ratios greater than 90percent, they reported a 10-year rate of 5.1 percent. Table 3 compares CHT's 5-year and 10-year cumulative rates with the data reported by Deng, Quigley and Van Order for mortgages held by Freddie Mac.

[21] It is noteworthy that in none of these cases was the land or home lost from CHT's portfolio because of foreclosure. CHT was able to retain or recover ownership of these assets and to make them available to other lower income homebuyers.
[22] A 2008 survey of community land trusts, conducted by the National CLT Network, suggests that a low foreclosure rate among CLTs may be the norm: "Of the 1930 CLT mortgages on which foreclosure status was known, on December 31, 2008, 10 of those mortgages (0.52percent) were somewhere in the foreclosure process – meaning foreclosure proceedings had started but were not complete. This compares with 3.3 percent of mortgages in foreclosure on December 31, 2008, in the Mortgage Bankers delinquency survey. Community Land Trust mortgages were six times less likely to be in foreclosure than all mortgages nationally" (National CLT Network, 2009: 5).

Table 3: Comparison of 5- and 10-Year Cumulative Foreclosure Rates

	CHT	Freddie Mac	Freddie Mac >90 percent LTV
5 Year Cumulative	0.49 percent	0.7 percent	1.8 percent
10 Year Cumulative	3.4 percent	1.4 percent	5.1 percent

A GAO study of FHA foreclosure rates (GAO 2002) for loans originated between 1984 and 1998 found that after 4 years an average of 3.46 percent of loans had entered foreclosure. There was significant variation in the foreclosure rates for different years of origination. There was no year in this study for which the 4-year cumulative foreclosure rate was less than 1.6 percent.

CHT's foreclosure rate might also be favorably compared to the rate of foreclosure in the federally funded American Dream Downpayment Initiative (ADDI). The ADDI was authorized by Congress in 2003 as part of the HOME program. ADDI provides downpayment assistance of $10,000 or 6 percent of a home's purchase price to buyers earning less than 80 percent of Area Median Income. In 2008, HUD issued a Congressionally mandated report that documented rates of foreclosure among the 30,000 homebuyers who received ADDI assistance between 2003 and 2008 (Carr et al. 2008). This report revealed that 2.47 percent of the homebuyers receiving HOME/ADDI assistance in the Northeast Region between 2001 and 2005 had entered foreclosure by 2008. By contrast, during the same period, CHT sold 216 resale-restricted houses and condominiums, serving households at the same level of income as those served by ADDI. Only one of these CHT homes had entered foreclosure by 2008, a cumulative foreclosure rate for that period of only 0.46percent.

While there is no way to pin-point the exact reason for CHT's low foreclosure rate, there are several elements of the CHT's program design that undoubtedly contributed to enhancing the security of CHT's homeowners, keeping foreclosures to a minimum. They included: education and counseling for prospective homebuyers; careful selection and close matching of homes and homebuyers; substantial front-end subsidies to lower the purchase price and the loan-to-value ratio; screening and approval of all lenders and mortgages; limitations on post-purchase liens, improvements, and re-financing; lender notification of CHT of any mortgage defaults among its homeowners; and a durable right on the part of CHT to intervene in curing defaults and preventing foreclosures.[23]

In addition to the loss of homeownership resulting from foreclosure, many lower income owners of market-rate homes are forced to sell (often at a loss) and to revert to renting after a brief period of homeownership. Boehm and Schlottman (2004, 33), in a national study of "wealth accumulation and homeownership" conducted for HUD, reported a "high likelihood that lower income families will slip back into renting after attaining homeownership. For minority households, this probability is quite high." Similarly, Reid (2004), in her own study of first-time

[23] The report by Carr et al (2008) tends to confirm the value and effectiveness of protections like these. Foreclosure rates among homebuyers in the ADDI program were an average of 1.2 percentage points below the corresponding rate for FHA borrowers, suggesting that purchase subsidies do lower the risks of homeownership. Carr and his colleagues also found that buyers who received purchase assistance totaling 10 percent or more of the sale price had significantly lower rates of foreclosure. The cumulative foreclosure rate was 8 percent for buyers with the lowest levels of purchase assistance and only 2.8 percent for buyers receiving assistance of 10 percent to 20 percent of price. Pre-purchase counseling, on the other hand, was not found to be clearly associated with lower foreclosure rates, but programs that imposed limits on buyer credit scores and those that prohibited buyers from using high-cost loan products had significantly lower foreclosure rates—findings that reinforce the importance of on-going involvement on the part of a program's sponsor, similar to what happens in CHT's homeownership program.

homeowners, found that only 47 percent of homebuyers earning less than 80 percent of Median Income remained homeowners five years later. Several other studies have discovered the same pattern, finding that only about half of lower income first-time homebuyers are able to sustain homeownership beyond five years (Herbert and Belsky 2008). By contrast, a much higher rate of success was found among the lower income households buying CHT's shared equity homes. Five years after purchasing a resale-restricted home from CHT, at least 90 percent of these households remained homeowners.[24] They either continued to own and occupy their original CHT home, they had purchased another CHT home; or had moved away from CHT and purchased a market-rate home.

Mobility: Moving Out and Moving Up

A concern sometimes voiced by policymakers who are asked to support a shared equity housing program is that homeowners will forever be "trapped" in their subsidized homes. Because the prices of their shared equity homes will rise more slowly than prices in the general housing market, it is feared that these homeowners will be unable to find comparable housing, should they need to move out of the area, and unable to afford a market-rate home, should they want to improve their housing situation. Both lateral and vertical mobility may be beyond their reach, in other words, because of the contractual controls on the resale of their shared equity homes.

Given this concern, the discovery in Burlington that the ownership of a resale-restricted home had served as a springboard to the ownership of a full-equity, market-rate home for so many participants in CHT's program came as something of a surprise. CHT has always been careful not to oversell the claim that its homeowners would earn enough equity on resale to enter market-rate ownership without assistance. And yet that is exactly what happened for fully 67 percent of CHT's owners who resold their homes between 1988 and 2008. They moved away from CHT and purchased an unrestricted home on the open market.

Boehm and Schlottman (2004) studied wealth accumulation and housing choice and concluded that while homeownership was generally an effective wealth building strategy for low-income households, families that were able to trade up beyond their first home experienced considerably greater wealth accumulation. They also found, that lower income homeowners reverted to renting at a much higher rate than other homeowners and moved on to second ownership units less frequently. They pointed out that "progression beyond first-time homeownership is quite limited for lower-income households. Indeed, for minority households, first-time homeownership is effectively the only step observed in the housing hierarchy (that is, they don't trade up as much as non-minorities)." Over the nine-year period that they studied, only 23 percent of low-income, white first-time homeowners were able to transition to a second home; furthermore, only 15 percent of low-income minorities made that transition.

CHT's homeowners had much greater success in taking the next step on the tenure ladder, "progressing" into market-rate homeownership. There are several possible explanations. Homeownership may have enhanced the households' credit rating, making it more likely that a lender would offer them a mortgage for their next real estate purchase. Homeownership may have given some people the confidence, steadiness, and motivation to earn an academic degree or to acquire training for a better-

[24] Among the owners of CHT homes who sold within five years of purchase, there were 18 who could not be located. While it is likely that these families moved into market-rate ownership at roughly the same rate as the sellers who were located, we have conservatively assumed in this calculation that they all reverted to renting.

paying job. (Even without significant career changes, most younger households will increase their incomes over time, which will improve their ability to attain homeownership.) There may also be a link between homeownership and household formation, given the large number of homeowners (40) who left CHT because they got married.[25] Stable housing costs may also have allowed CHT homeowners to undertake savings and investment beyond their investment in housing.

Unfortunately, CHT did not collect data that would help us to evaluate the extent to which any of these factors contributed to the outcome. The one factor for which we do have clear data, however, is the extent to which the equity accumulated in these shared equity homes augmented each household's buying power, enabling the leap of so many of CHT's sellers into market-rate ownership. Clearly the asset building that CHT's homeowners experienced through shared equity homeownership significantly improved their buying power, but did it make enough of a difference to explain (at least in part) why so many sellers were able to buy market-rate homes after leaving CHT?

The lower-income households who initially bought CHT's homes generally made a personal investment of no more than 3 percent of the below-market price of their homes. Because these homes sold at less than their appraised value, the average buyer's initial investment represented only 2.3 percent of the appraised value at the time of sale. CHT's resale formula allowed prices at resale to rise at an average of only 2.6 percent annually, while the appraised value of these units were rising more than twice as fast (5.6 percent). However, because the homeowners were so highly leveraged, they were able to build equity at a rate much faster than the market home price appreciation. At the time of resale, the average homeowner's outgoing home equity was equal to 9 percent of the (appreciated) appraised value of their home. In other words, homebuyers who started with only 2 percent of the market value of their house or condominium ended up less than six years later with cash equal to 9 percent of its value.

The average CHT seller, over the entire period of 1988 to 2008, left with $13,503 in equity. Homeowners selling in 2004 to 2008 received an average of $21,192. Given Savage's (2009) finding that $10,000 in purchase subsidy has the effect of dramatically increasing the number of current renters who can afford homeownership, it is not surprising that CHT's shared equity owners, who eventually entered the housing market with more than double that level of home equity, were successful in buying a market-rate home. It is likely that other factors such as marriage and increased earnings contributed to this outcome, but our analysis suggests that wealth building through CHT's shared equity program would have been enough to make the difference for the majority of households.[26]

While the wealth accumulated through shared equity homeownership was not sufficient, by itself, to make market-rate ownership affordable to all of CHTs homeowners, it kept nearly all of them from falling further behind during a period of time when housing prices rose significantly faster than incomes. Because the modest initial investments of CHT's homeowners were leveraged by debt and a large public subsidy, their ability to

[25] Approximately 37 percent of the original owners and subsequent buyers of the 205 homes resold through CHT between 1988 and 2008 were female-headed households. This characteristic of CHT's clientele may have contributed to the high number of homeowners who left CHT because of marriage and may have contributed, as well, to the high number of homeowners who purchased market-rate homes after leaving CHT.

[26] More of the methodology and reasoning behind this analysis can be found in Appendix A.

accumulate equity rapidly put them ahead of the housing price curve. When home prices were rising at moderate rates, moreover, the buyers of CHT's homes, who were initially priced out of the private market, could accumulate enough wealth on the resale of their shared equity homes to make market-rate ownership attainable some years later. In this environment, shared equity homeownership clearly served as an economic steppingstone, giving families a powerful savings mechanism and keeping them from falling further and further behind rising housing prices.

Individual Development Accounts

One of the most widely practiced policy interventions specifically designed to build assets for low-income households are Individual Development Accounts (IDAs). These are matched savings accounts in which a public or nonprofit agency provides financial literacy education and matches the savings of individual participants, typically at a 1:1 or 1:2 ratio. There are currently over 1000 IDA programs in the United States, with participation by close to 50,000 savers (Grinstein-Weiss et al. 2008). The most frequent use of IDAs is to help renters become homeowners. Boshara (2005) found that the average IDA participant accumulated only $1,543, when combining both their savings and the public match funds.[27] While IDAs clearly have other public benefits, this level of savings leaves families well below the asset poverty level and is not sufficient, by itself, to cover the minimal downpayment and closing costs that most would be homebuyers of market-rate housing would need to pay.

IDA programs have been shown, however, to help very low-income buyers attain homeownership. Mills (2006) summarized the results from a randomized longitudinal study of the Tulsa, Oklahoma IDA program between 1998 and 2003. Matching funds were offered to participants earning less than 150 percent of the poverty level who saved up to $750 per year for each of three years. Nearly half of all participants received no match, either because they never opened their accounts (11 percent) or because they withdrew their savings for ineligible purposes (37 percent). Twenty-four percent ultimately used their matched savings for a downpayment on a home, withdrawing an average of $884 of their own savings, matched 1:2 for a total average withdrawal of $2,532. The Tulsa program included a control group of applicants who were interested in the IDA program, but were not offered enrollment. Overall the program's participants attained homeownership at a slightly higher rate than the control group, but not by a statistically significant amount. Only among African American renters was there a significantly higher rate of attainment of homeownership among IDA participants than among the control group.

Although IDAs appear to have only a modest impact on the rate at which participants attain homeownership, they tend to target very low-income households—a group that is served by few other homeownership programs. The average CHT homeowner, for example, had an income that was above the cutoff for most IDA programs. On the other hand, among CHT's households who resold a home between 1988 and 2008, 13 percent earned less than 50 percent of AMI at the time they initially bought their shared equity home. These very low-income households received an average of $12,707 in equity when they resold after an average of only 4.5 years. Even for families earning less than 50 percent of AMI, in other words, shared equity homeownership offered wealth building that was far beyond the gains that are typical in most IDA programs. The gains that were realized by CHT's homeowners also

[27] In some IDA programs, participants who save the maximum that is eligible for matching funds can accumulate as much as $10,000. Boshara's findings suggest, however, that wealth-building at this level is not common.

offered very low-income households a more predictable path to market-rate ownership.

Of course, CHT achieved greater wealth building and higher mobility at a much higher cost per beneficiary. For the homes resold between 1988 and 2002, CHT invested an average of $22,000 per home in public subsidy to lower the price at initial sale. Because these homes resell again and again without further public investment, the cost per family becomes significantly less than $22,000 over the long haul. Even so, it would take many resales over the course of very many years for the cost of aiding each CHT family to ever approach the modest level of $1,768 in public funds that were invested per IDA homebuyer in the Tulsa study.

While IDA's may not generate enough savings for most participants to buy market-rate homes, they may be an ideal mechanism for helping low-income families to save the more modest amount necessary to buy a shared equity home. Most of the households served by CHT needed only $2,300 to gain access to homeownership, an amount predictably within reach of the average participant in an IDA program like the one in Tulsa, Oklahoma. One of the most effective ways of using and leveraging the savings generated by such a program, therefore, may be to pair it with the opportunity for asset ownership and wealth creation offered through shared equity housing.

Conclusion: A New Way to Build Wealth

Caner and Wolff (2004) define asset poverty as having insufficient assets to support a family living at the poverty level for a period of three months. By this measure, a family with a net worth of less than $5,365 in 2009 would be considered asset poor. Their analysis indicates that roughly 26 percent of all households in the United States have a net worth below this level. Forty-two percent of all US households have liquid assets below this level.

Caner and Wolff found that asset poverty is more persistent and much harder for families to move out of than is income poverty. Using Panel Study of Income Dynamics data, they compared the income and assets of individual households over time. Among families who were classified as poor because of a lack of income, 41.6 percent remained in poverty five years later. Among families in asset poverty, however, 70 percent remained asset poor five years later. Among asset poor households headed by women with children, 85 percent remained in asset poverty five years later.

CHT did not collect data on the net worth or liquid assets of homebuyers, but it is likely that many CHT buyers were close to or below the asset poverty line at the time of purchasing a CHT home. On average, the initial investment of CHT's homebuyers represented savings equivalent to 58 percent of the asset poverty level at the time of purchase.[28] At resale, however, the average CHT seller's gross home equity was equivalent to 284 percent of the asset poverty level in the year the home was resold. Sixty-four percent of CHT's homeowners received equity from the resale of their home that amounted to more than 100 percent of the then-current asset poverty level. While some of CHT's buyers might have had additional assets at the time of purchase, it is still clear that CHT offered a reliable way for families to move out of asset poverty—and to do so in a relatively short time. This is a truly impressive accomplishment in light of Caner and Wolff's conclusions about the incidence and persistence of asset poverty among households at the lower end of the income ladder.

[28] Caner and Wolff calculated the limit based on the federal poverty level in 1997 and projected it backwards and forwards based on the Consumer Price Index. We compared the downpayment initial investment that each CHT buyer made with the Asset Poverty Level for the year of their purchase.

Wealth is not just about money, of course. It is a means to freedom, status, security, opportunity, a wider range of life choices and, perhaps most importantly, the ability to take risks without worrying that your whole life will fall apart if you go without pay for a few months. Shared equity homeownership programs, despite their limitation on the amount of equity that homeowners may remove from their homes on resale, can dependably generate significant wealth for lower income households—much more wealth, in fact, than what is typically available through IDAs and many other asset building programs. Shared equity homeownership provides that opportunity for wealth creation, moreover, not only to the first buyer but also to subsequent generations of wealth-constrained and income-constrained households who are striving to escape from asset poverty. Instead of a publicly subsidized homeownership lottery in which a small number of lucky families are able to buy homes and cash in on windfall appreciation, a well-designed shared equity homeownership program offers a stable, sustainable, low-risk mechanism for providing limited, but life-altering, wealth creation to unlimited numbers of families over the long term.

Just as it took public action to create the institutions that support widespread homeownership, it will take public action to extend homeownership in a sustainable fashion to those who are increasingly priced out of its benefits. Public subsidy is necessary to bridge the growing gap between renting and ownership. But it does not seem realistic to imagine that the public sector can afford to grant the necessary funds to every family in need no matter how great the public benefits.

Permanently affordable, shared equity homeownership offers a practical tool for extending the reach of sustainable homeownership as a wealth creation vehicle for generations of working families who would otherwise be left behind. By offering real equity to families who would otherwise remain renters, and providing a safer vehicle for attaining—and retaining—homeownership, these programs provide a predictable and reliable avenue for asset building and economic advancement. By ensuring that the units remain affordable over the long term, the programs preserve a stock of modestly priced, owner-occupied housing so that can improve the lives of one low-income family after another.

Appendix A: Mobility Analysis of CHT Sellers Stepping Into Market-rate Homes

Over the past two decades, there have been a number of studies which have attempted to evaluate the relative importance of various barriers to homeownership through "synthetic loan underwriting simulations." These studies use consumer financial data to estimate the number of current renters who would be able to purchase a home under different mortgage underwriting criteria and taking advantage of different mortgage products (Listokin et al. 2001; Savage and Fronczek 1993; Savage 2009). One of the key challenges of this approach lies in determining the appropriate price for a starter house for first-time homebuyers. Savage estimates the percentage of renters who could afford a "modest priced house," defined as a house priced at the 25th percentile of homes by price in the local market. Others follow a more complex route, using the value of homes purchased by similarly situated first-time buyers as the reference price.[29]

In the case of CHT, we have a ready-made proxy for this reference house. We know the appraised market value of the homes that CHT's owners were selling. While some sellers moved because their household composition changed, we do not know what those changes were. However, we can simplify our analysis by assuming that these households changed neither their incomes nor their housing needs and then evaluate whether the equity they received at the resale of a CHT home would have enabled them to buy the same home without assistance. For each CHT sale, in other words, could the seller buy a home with a market value equal to the appraised value of their CHT home, if they reinvested their CHT-generated home equity (appreciation, plus debt reduction, plus any credit for improvements) as downpayment on the new house, borrowing the remainder with a 30-year fixed rate mortgage at the then-current interest rate?[30]

We calculated the monthly housing costs that would result and the annual income necessary to afford these costs with a 35 percent housing cost ratio and then determined the percentage of the then-current, Area Median Income that this income represented. By this measure, half of CHT's sellers would have been able to afford the market price for their own home at the time of resale, even if they had continued to earn the same percentage of AMI at the time of resale as they had earned when first buying their CHT home (i.e. a buyer earning 60 percent of AMI when they bought their CHT house could afford to move into market-rate homeownership even if they still earned only 60 percent of AMI when reselling that home). On average, CHT's homeowners would need to increase their income by only 4.3 percentage points relative to the AMI in order for their CHT equity to be sufficient for them to afford to buy a comparable market-rate house without assistance.[31]

For comparison, we constructed a counterfactual scenario. What if each of CHT's homeowners, at the time of their initial home purchase, had invested their downpayment and closing costs into a stock portfolio tracking the S&P 500. In spite of strong growth in the stock market over this period, the wealth accumulation available through this strategy would not have made market-rate ownership

[29] (Several alternatives are described by Listokin et al. 2001).

[30] A household is considered to be able to afford the house if the principal, interest, taxes and insurance costs total no more than 35 percent of household monthly income. We have assumed that interest and taxes cost 1.7 percent of the home's price annually and have used the Average Contract Rate on Commitments for Fixed-Rate First Mortgages (Federal Reserve release H.15) for the month of each sale. For condominiums this calculation overlooks the impact of homeowner association fees that would typically be included in determination of affordability.

[31] For example, a family that had earned 60 percent of AMI would now need to earn 63.5 percent of AMI.

attainable for most families. In order to catch up with the housing market, families that bought stock would have needed to increase their income at nearly twice the rate that would have been necessary if they had purchased a shared equity home.[32] It is clear from this analysis that shared equity homeownership conferred a significant advantage on most of the CHT homeowners. The wealth building they realized, despite the limitation on the resale price of their homes, was sufficient to account for much of the program's success in moving families into market-rate homeownership.

[32] The average household would have needed to improve their income by 7.3 percentage points relative to the AMI. Once again this calculation ignores the impact of capital gains that would reduce the household's gain from stocks but not homeownership.

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