Federal Reserve Community Development Research Seminar Series

Keys to Opportunity in the Housing Market

Renting, Owning, and Implications for the Racial Wealth Gap

Keys to Opportunity in the **Housing Market**

Renting, Owning, and Implications for the Racial Wealth Gap

The views expressed during this event are those of the speaker and are intended for informational purposes. They do not necessarily represent the views of the Board of Governors or the Federal Reserve System.

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Strategies to Address the Affordability Gap for Renters

Ingrid Gould Ellen

11/13/2023

Housing Choice Voucher Program Delivers Clear Benefits

- Research shows that vouchers
  - Reduce rent burdens
  - Decrease crowding
  - Lower the risk of homelessness
  - Improve children's performance in school
  - Improve adult outcomes, relative to public housing

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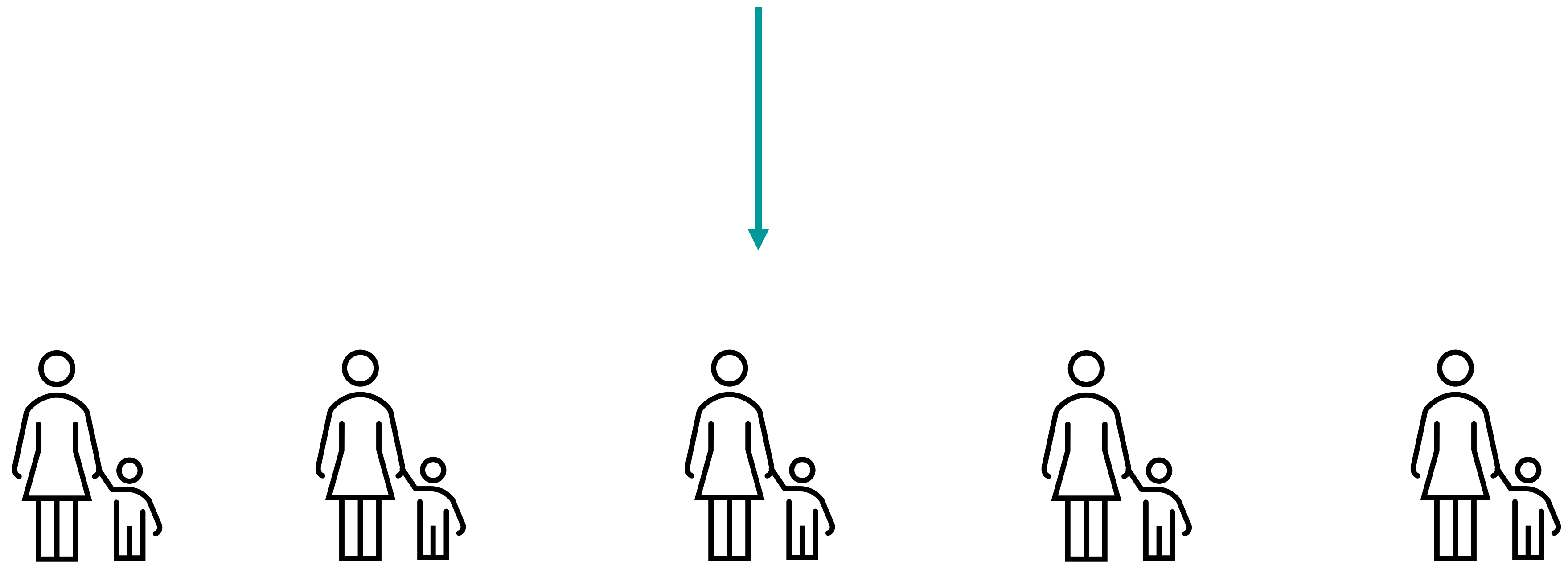
But the Voucher Program has Limitations

- Minimal checks on rent setting
- Failure to open up broad diversity of neighborhoods
- High administrative burden
- Low take-up/Lease-up

Voucher Lease-Up Rates, 2019

Two and a half years on waitlist



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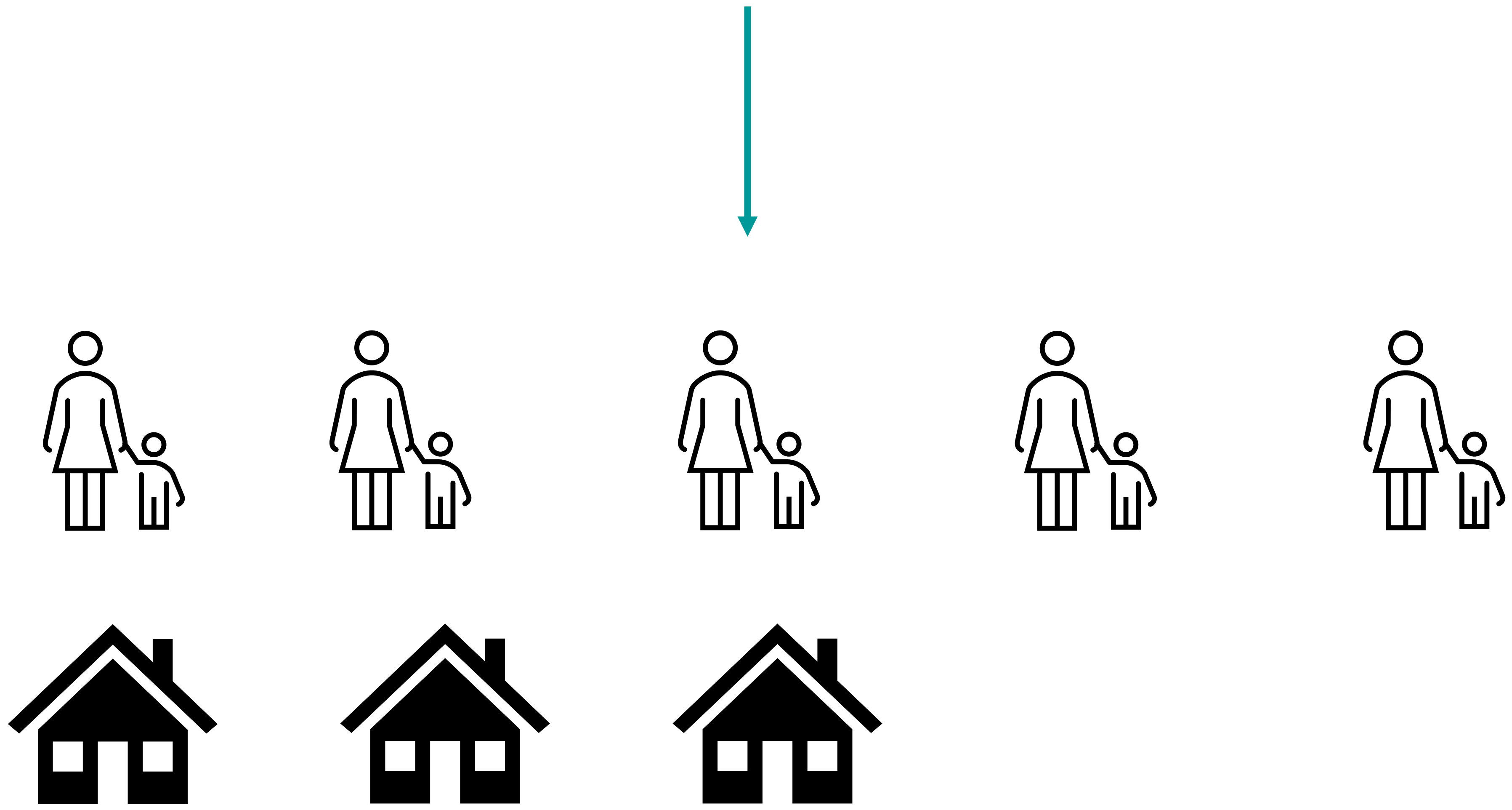

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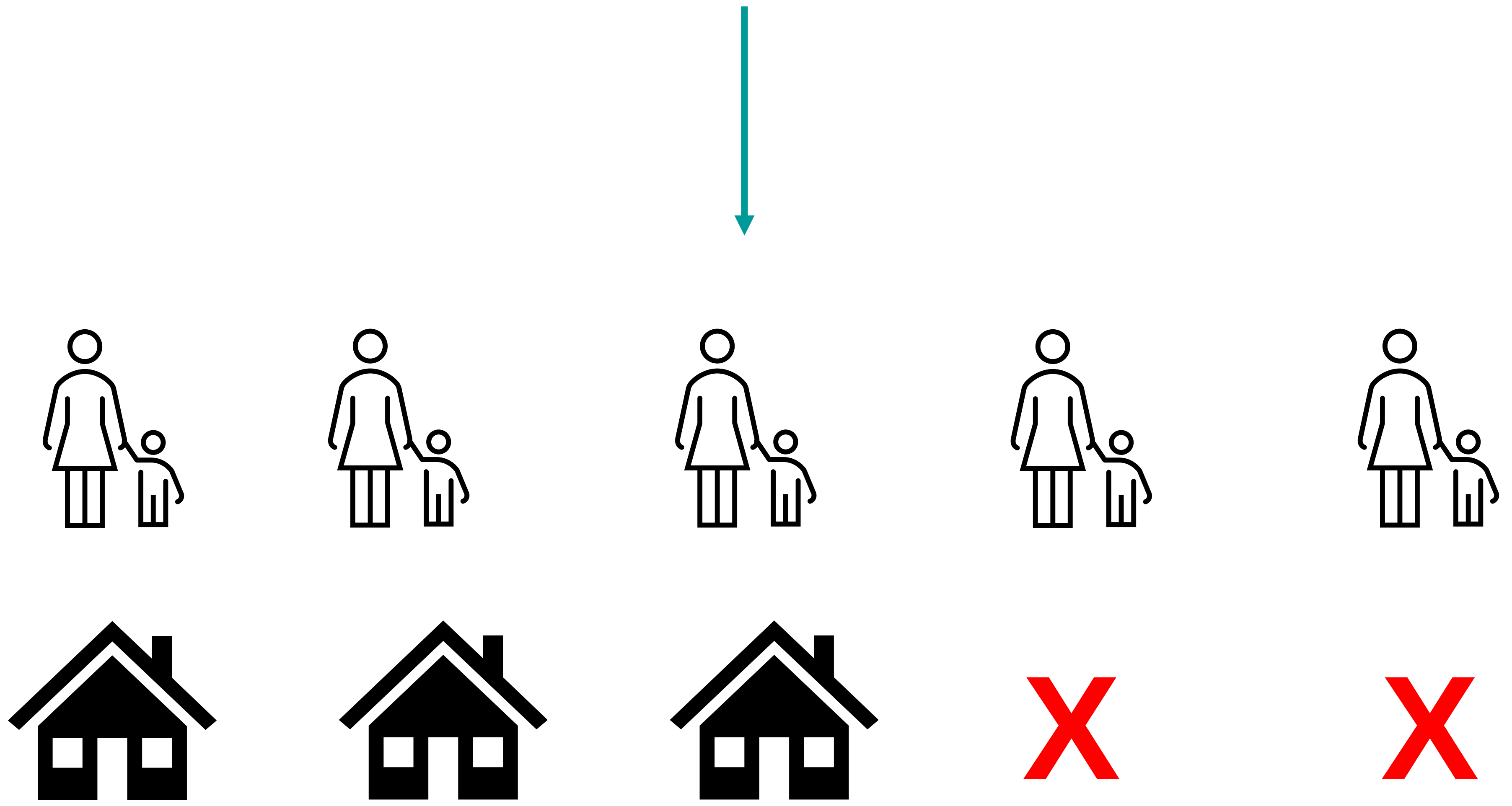

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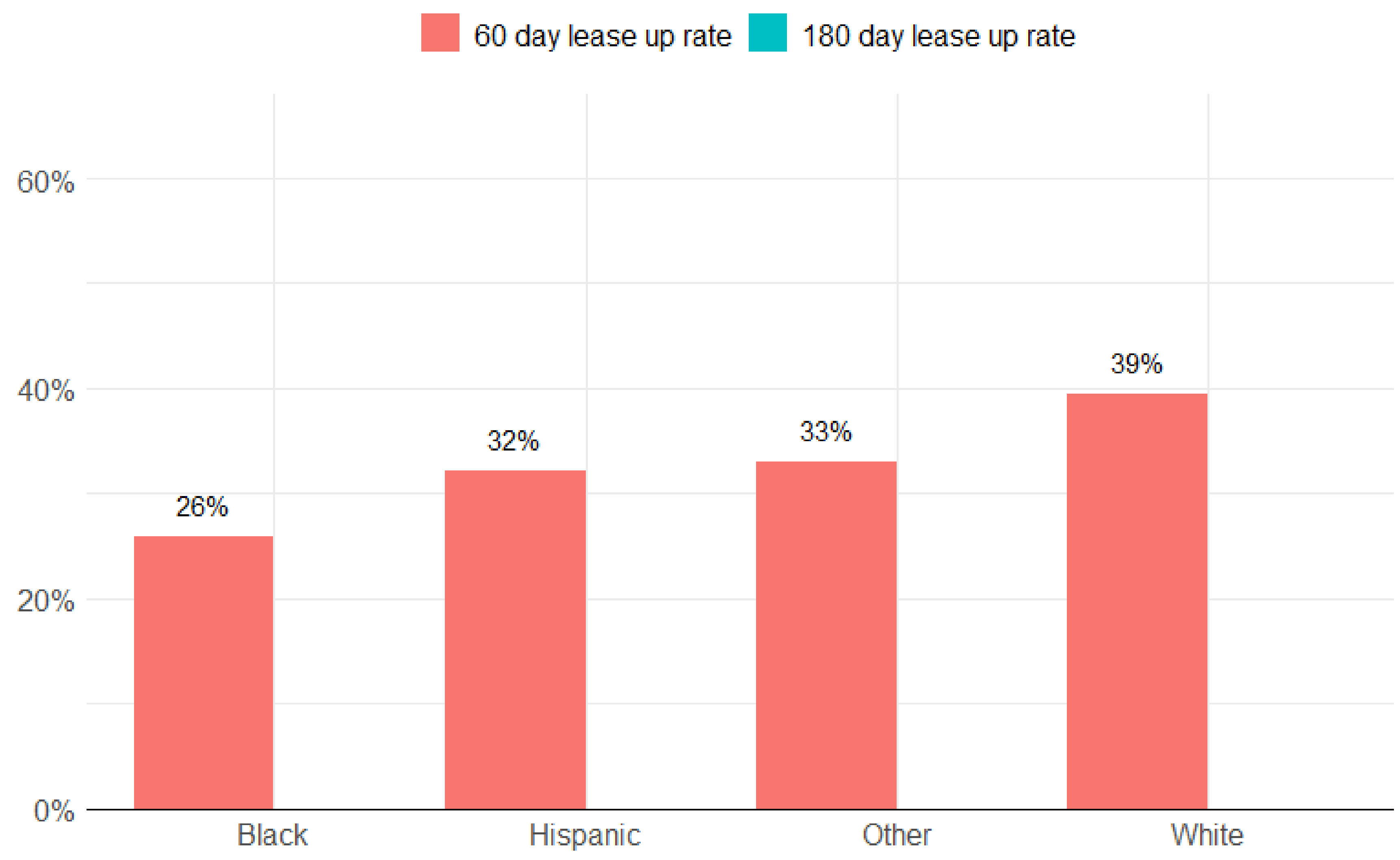
Difficult to Find Voucher-Suitable Homes

- Rent below voucher rent ceiling
- Pass required housing quality inspections
- Owned by landlord willing to rent to voucher holders

Black and Hispanic Voucher Recipients Even Less Likely to Lease Homes with their Vouchers



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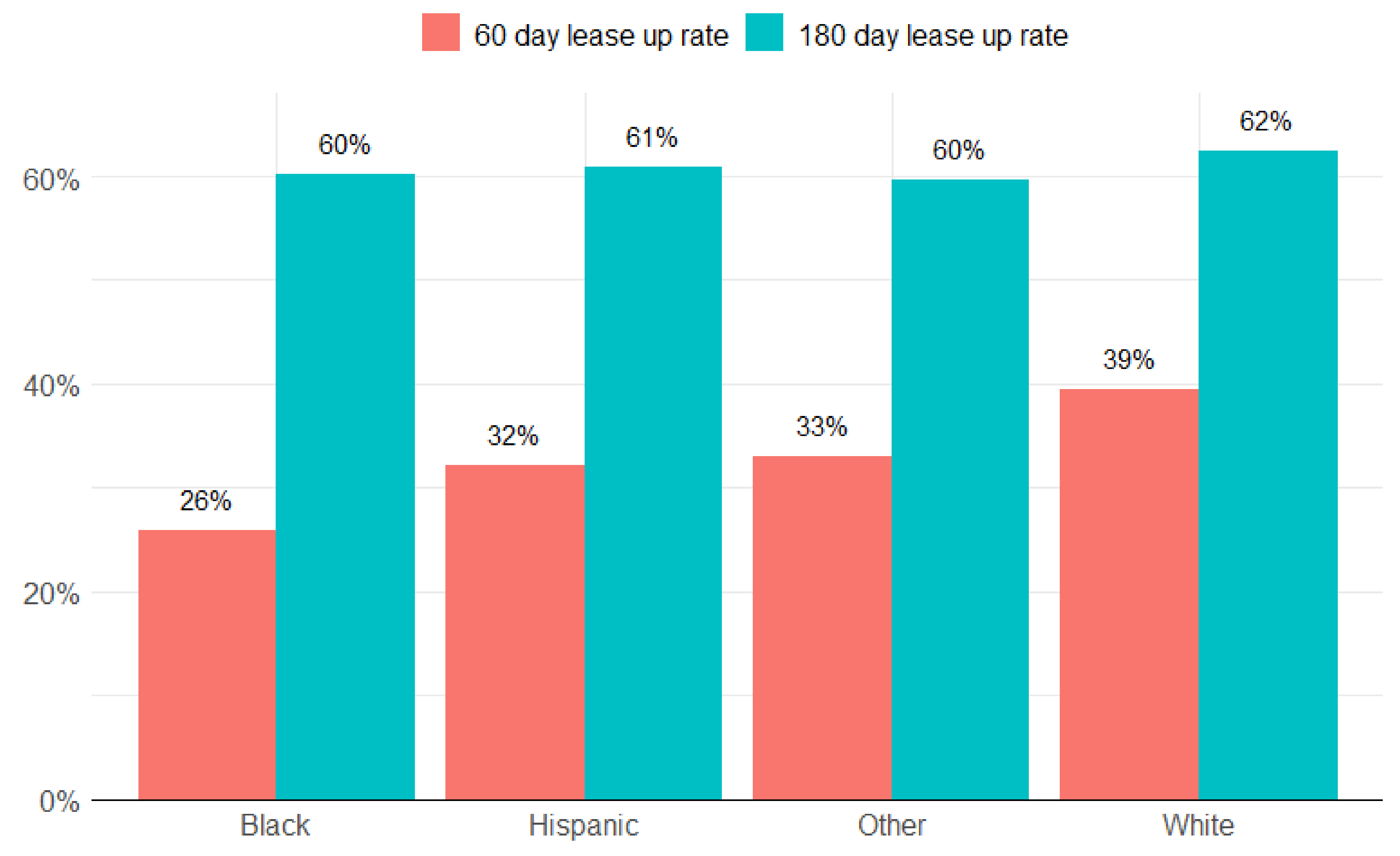
Black and Hispanic Voucher Recipients Even Less Likely to Lease Homes with their Vouchers



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Potential Policy Responses

- Extend search times
- Expand use of Small Area FMRs
- Enact and enforce source of income discrimination laws
- Streamline inspections

More Radical Alternatives?

- Provide direct rental assistance to tenants
  - Reduce administrative burdens on tenants/PHAs?
  - Reduce burden on landlords and boost participation?
  - Keep rents more aligned with the market?

- Provide unrestricted cash transfers

Bay Area Thriving Families

- Provides unconditional cash assistance to randomly selected families exiting rapid rehousing in the Bay Area
  - 225 receive $1000/month for one year
  - 225 receive $50/month for one year
- Partners: Compass Family Services, Hamilton Families, and NYU Housing Solutions Lab
- Measure impact on housing stability and homelessness, as well as other outcomes

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This research has been prepared by a Center affiliated with New York University School of Law and Wagner Graduate School of Public Service and uses HUD data, but does not purport to present their institutional views, if any.

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Renter's Tax Credits: Addressing Housing Affordability Through the Tax System

Sara Kimberlin
Center on Poverty & Inequality
Stanford University

Federal Reserve Community Development Seminar
November 13, 2023

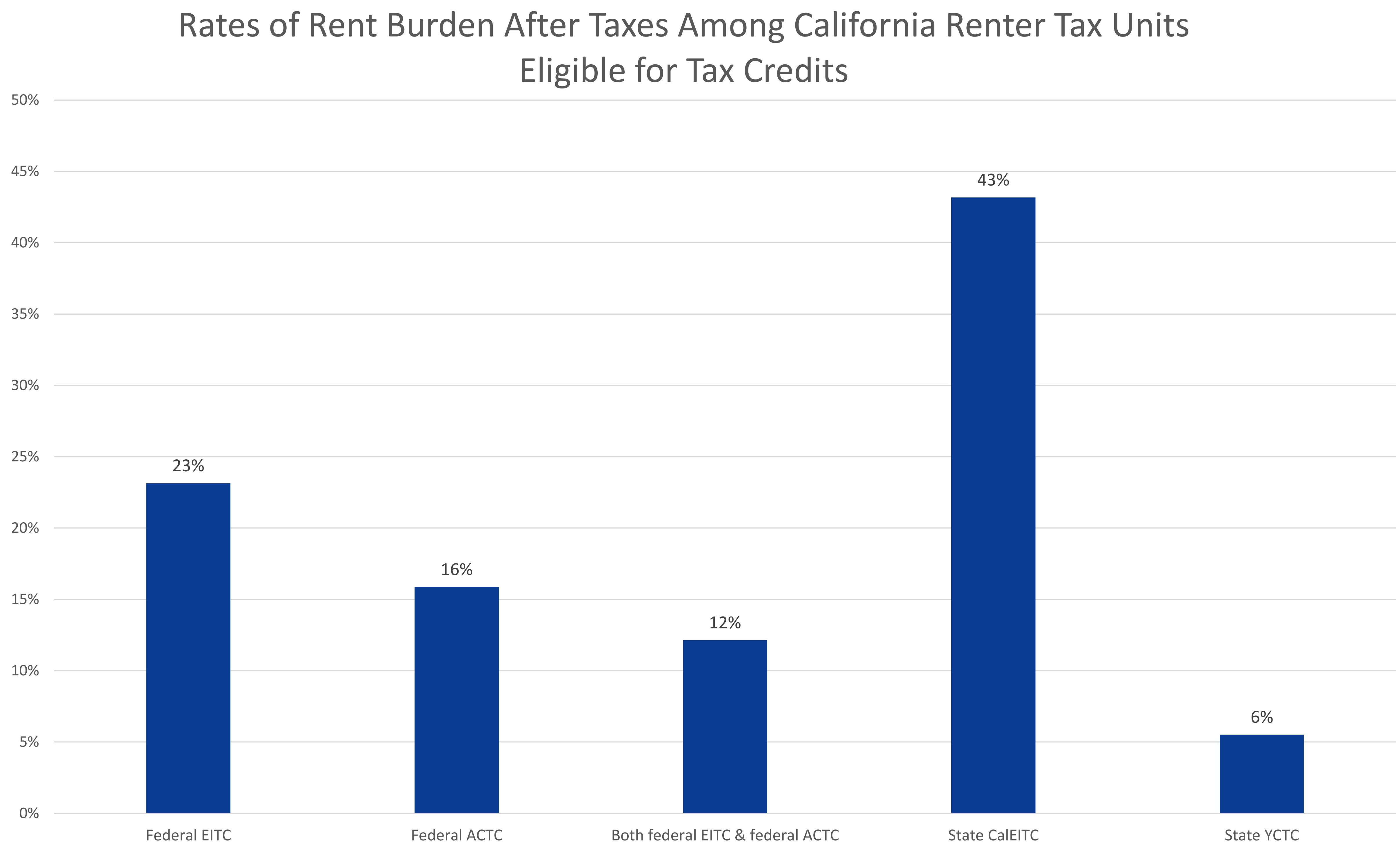
Stanford Center on Poverty & Inequality

What Is a Renter’s Tax Credit?

- Tax credit provided when filing personal income taxes
- Available to renters who meet certain eligibility criteria, e.g. high rent paid compared to income
- Can be refundable so that low-income families and individuals owing little or no income taxes receive the credit as a payment (like EITC or Child Tax Credit)

Why Tax Credits for Renters?

- Existing housing subsidies – while meeting vital needs – do not reach many struggling renters
- Substantial tax benefits are available for homeowners, but little to nothing specifically for renters
- Tax credits offer a viable vehicle for delivering direct cash support at scale – e.g., pandemic-era stimulus payments and expanded Child Tax Credit, building on prior track record



Source: Analysis of Census ACS public-use microdata for California for 2018-2019 downloaded from IPUMS-USA, with tax units constructed and refundable tax credits calculated using methods developed for the California Poverty Measure, reflecting tax credit policies in place as of 2019.
Note: Tax units are identified as rent-burdened when tax unit rent paid, capped at tax unit FMR, exceeds 30 percent of tax unit gross income net of taxes, with taxes including federal and state income taxes (accounting for liabilities and credits, including refundable tax credits) and payroll taxes.

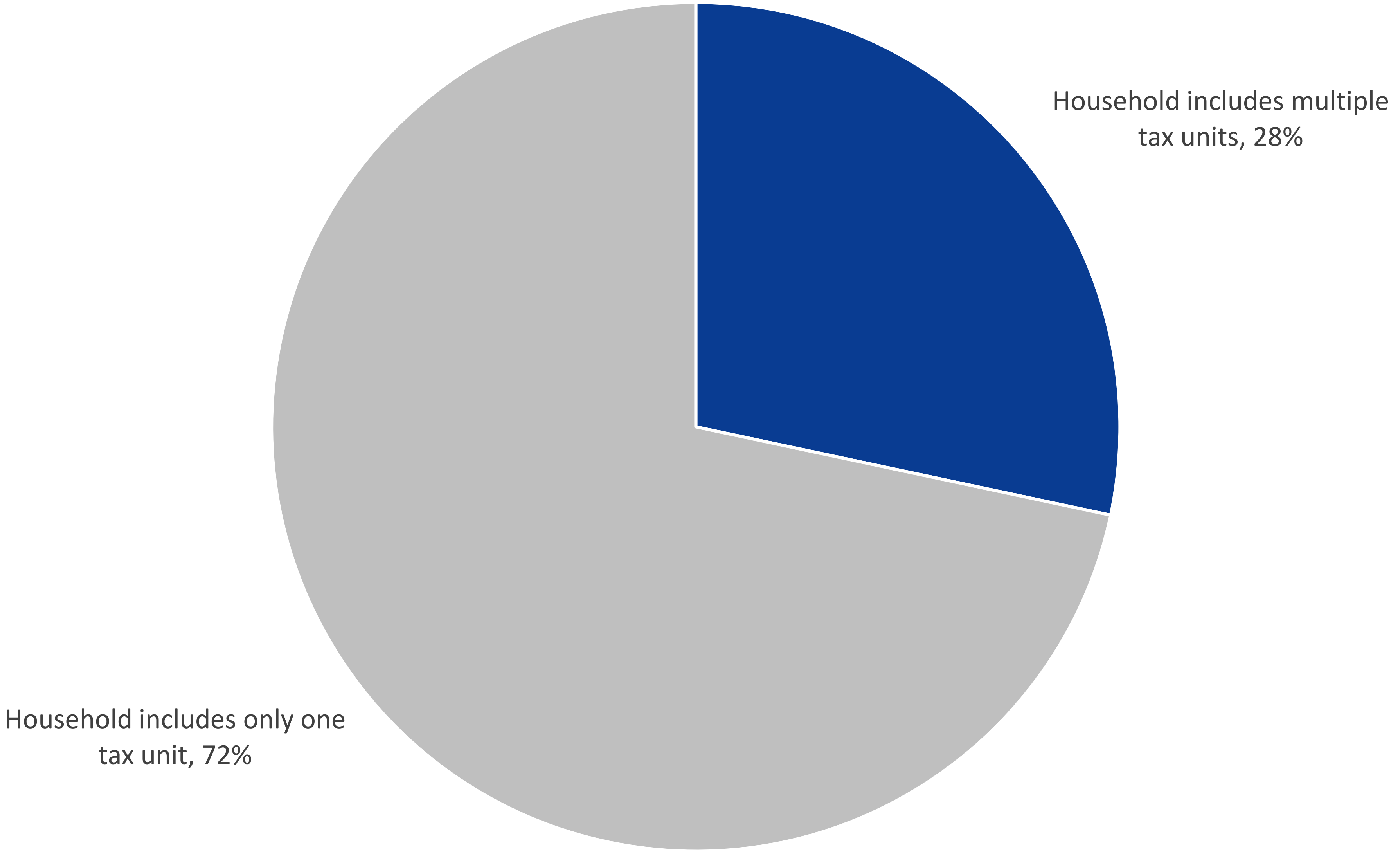
Some Potential Advantages of Renter’s Tax Credits

- Leverages existing infrastructure for tax filing and administration
- Flexibility to tailor credit parameters – including target populations, depth of subsidy, and total costs
- Does not have to require active/voluntary landlord participation – and landlords can be blind to who receives
- Credit is available to all eligible renters without waitlists or geographic constraints

Key Questions for Credit Design

- Who is eligible for the credit?
    - Is the credit provided per household or per tax unit?
    - Is eligibility linked to rent paid or to a standard rent, like Fair Market Rent?
    - Is the credit available to all renters or a targeted subset?

Share of California Renter Households that Include Multiple Tax Units

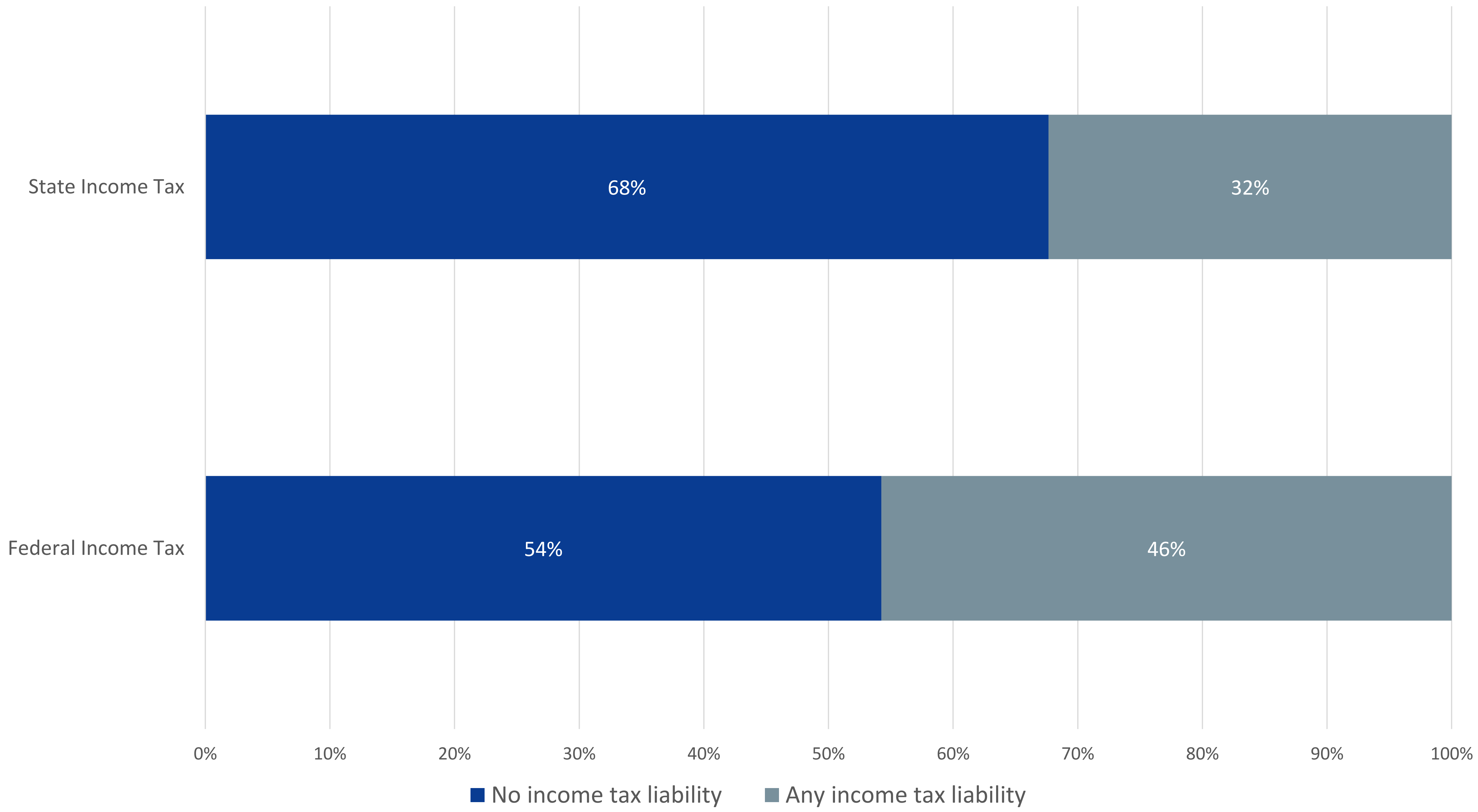


Source: Analysis of Census ACS public-use microdata downloaded from IPUMS-USA for California for 2018-2019, with tax units constructed using methods developed for the California Poverty Measure.

Key Questions for Credit Design

- How much do recipients receive from the credit?
  - Is the credit refundable?
  - Is the credit amount flat or variable?
  - How large is the credit? Does it close all or only part of a recipient's rent gap?

Share of Rent-Burdened California Tax Units with Any Tax Liability



Source: Analysis of Census ACS public-use microdata for California for 2018-2019 downloaded from IPUMS-USA , with tax units constructed and refundable tax credits calculated using methods developed for the California Poverty Measure, reflecting tax credit policies in place as of 2019.
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Implementation Considerations

- Federal vs state credit objectives and constraints
- Level of complexity, and agency capacity to administer
- Disbursement timing – lump sum vs periodic
- Potential impact on landlord behavior and rental markets
- Who risks being missed?

Sara Kimberlin

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November 2023

Racial Homeownership: Recent Trends

Jung Hyun Choi (jchoi@urban.org)
Housing Finance Policy Center

URBAN INSTITUTE · ELEVATE · THE · DEBATE

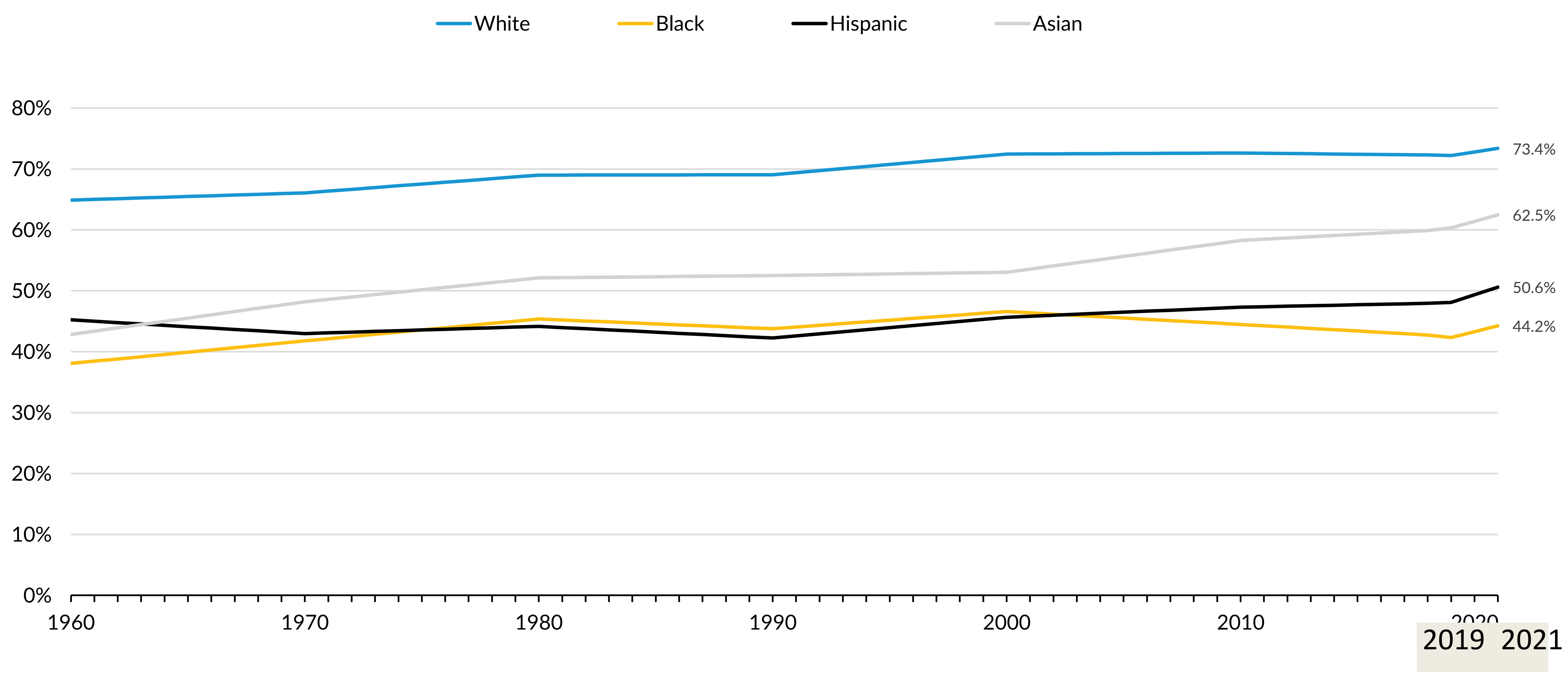
What are some recent racial homeownership trends?

Between 2019 and 2021, a slight reduction is observed in the racial homeownership gap

Between 2019 and 2021:

- Black-white homeownership rate gap declined from 29.9 percentage points to 29.1 percentages points
- Latino-white homeownership rate gap declined from 24.1 percentage points to 22.8 percentages points
- 40 states experienced a decline in the Black-white homeownership gap
- 41 states experienced a decline in the Latino-white homeownership gap

Homeownership Rate by Race and Ethnicity : 1960 -2021



Source: Decennial Census & American Community Survey

How Many Black and Latino Homeowners Have We Added Since 2019?

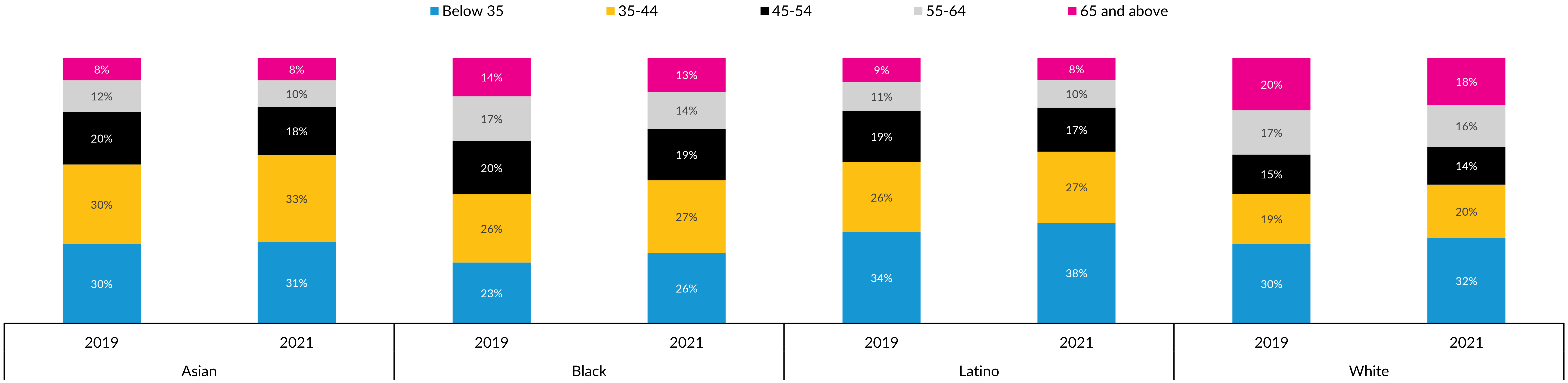
- Between 2019 and 2022:
  - 466,000 Black homeowners were added to the market, and their homeownership rate increased by 2 percentage points
  - 1,590,000 Latino homeowners were added to the market, and the homeownership rate increased by 3 percentage points.
  - White homeownership rate increased slightly from 72.1% to 72.9% (+1,530,000 homeowners) and Asian homeownership rate increased from 60.5% to 63.2% (+631,000 homeowners)

	2019	2021	2022
Black Alone (Including Hispanic) Households			
Households	15,382,489	15,274,070	15,698,613
ΔHouseholds		-108,419	424,543
Owners	6,456,629	6,718,484	6,922,814
ΔOwners		**261,855**	**204,330**
HO Rate	42.0%	**44.0%**	**44.1%**
Latino Households			
Households	16,681,970	18,293,521	18,824,389
ΔHouseholds		1,611,551	530,868
Owners	8019,989	9,259,470	9,609,931
ΔOwners		**1,239,481**	**350,461**
HO Rate	48.1%	**50.6%**	**51.1%**

Source: American Community Survey.
Note: 2020 data was excluded because the lack of data accuracy during the height of the COVID-19 pandemic

Share of younger homebuyers increased between 2019 and 2021, especially among Black

Share of Homebuyers with Age Below 45 Increased Between 2019 and 2021



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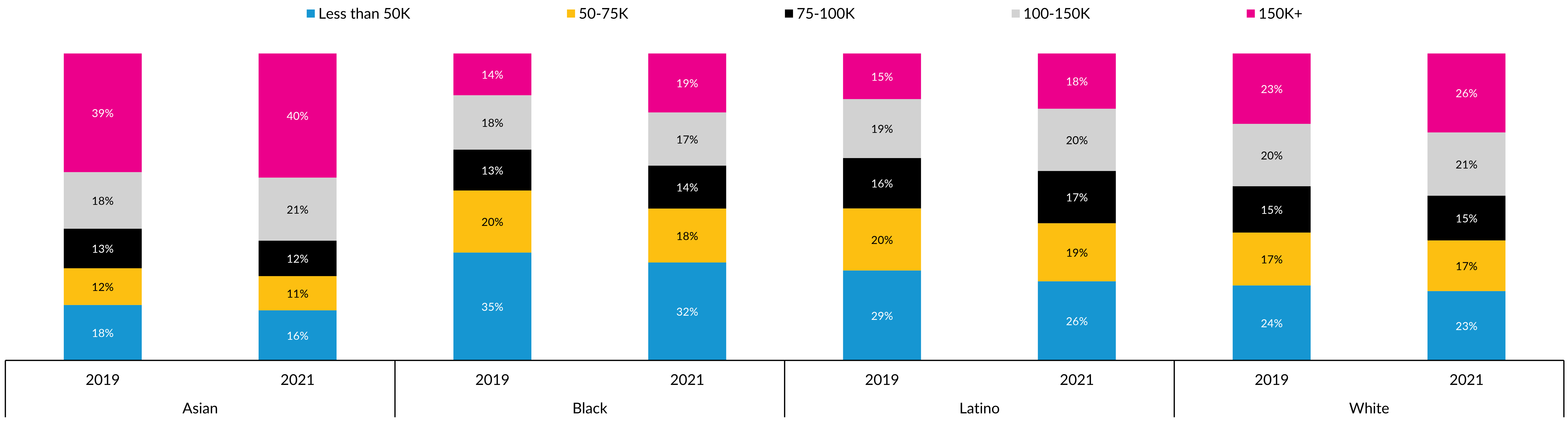
Source: 2019 & 2021 American Community Survey

Share of lower income homebuyers decreased between 2019 and 2021,

Share of Homebuyers with Households Incomes Below $75,000 Declined Between 2019 and 2021



Source: 2019 & 2021 American Community Survey

Are these trends likely to continue with the interest rate hike?

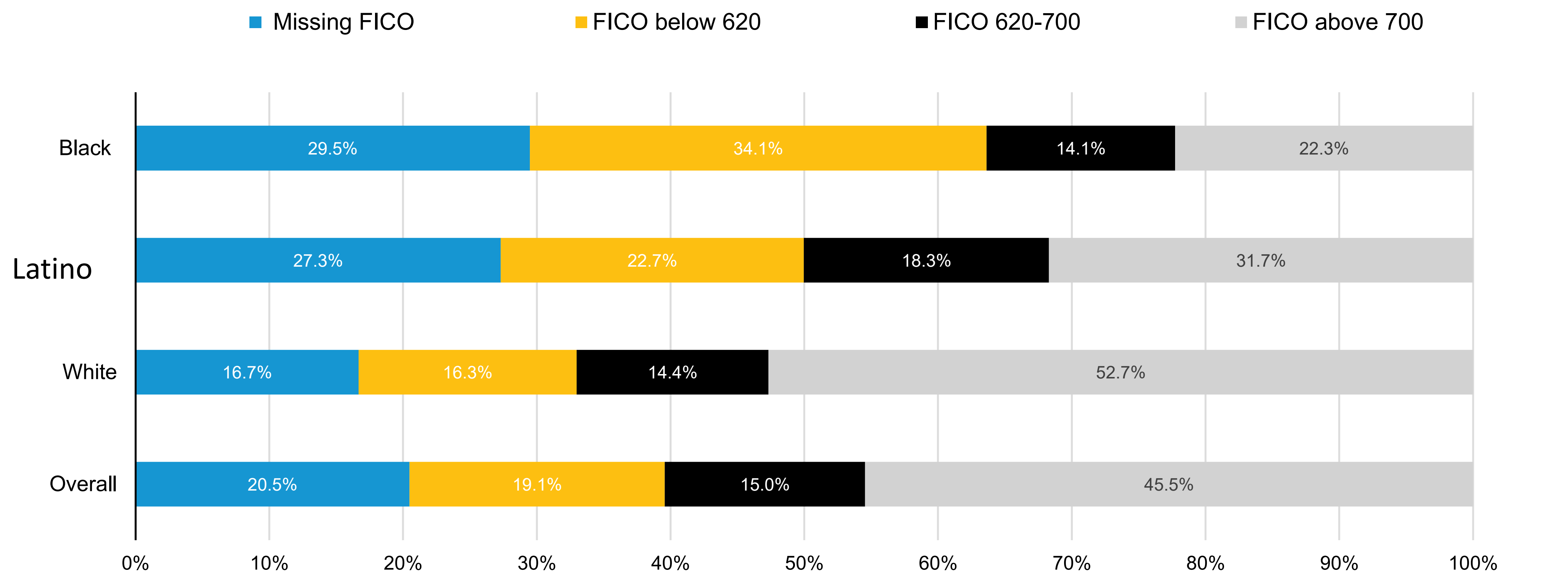
- With the substantial rise in interest rates – *for all race/ethnic groups* – compared to HMDA 2021, HMDA 2022 shows:
  - A significant drop in home purchase mortgage origination (overall: down 18.8%)
  - An increase in mortgage denial rate (overall: 12.0% -> 14.0%)
  - An increase in borrowers declined because of the debt-to-income ratio (overall: 31.0% -> 33.8%)
  - An ongoing decline in lower-income borrowers (<$50,000) share (18.9% -> 15.4%)
    - In 2019, the lower-income borrowers' share was 21.5%
  - An increase in borrowers (except Asians) putting more than 20% down payment (overall: 45.3% -> 47.9%)
    - In 2020, the share of borrowers putting more than 20% down was 41.4%
  - An ongoing decline in FHA borrowers' share (15.0% -> 14.3%)
    - In 2019, the FHA borrowers' share was 17.8%

Innovative Solutions to Reduce Racial Homeownership Gap: Rent Reporting & First Generation DPA Program

Who are left out from current mortgage underwriting?

- There are currently about **53** million adults without a traditional FICO score, which is currently used in mortgage underwriting

FICO Score Distribution by Race and Ethnicity



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Source: 2018 Credit Bureau data obtained from Freddie Mac

Credit Invisible Population	Population with Credit Score using Traditional Scoring Methods
• Obtain Credit Score to Access Mortgage Financing	• Improve measurement of evaluating the capability of repayment • Lower cost of financing

How does including rental history data affect credit scores?

- Higher increases in credit scores are observed at the lower end of the credit score distribution

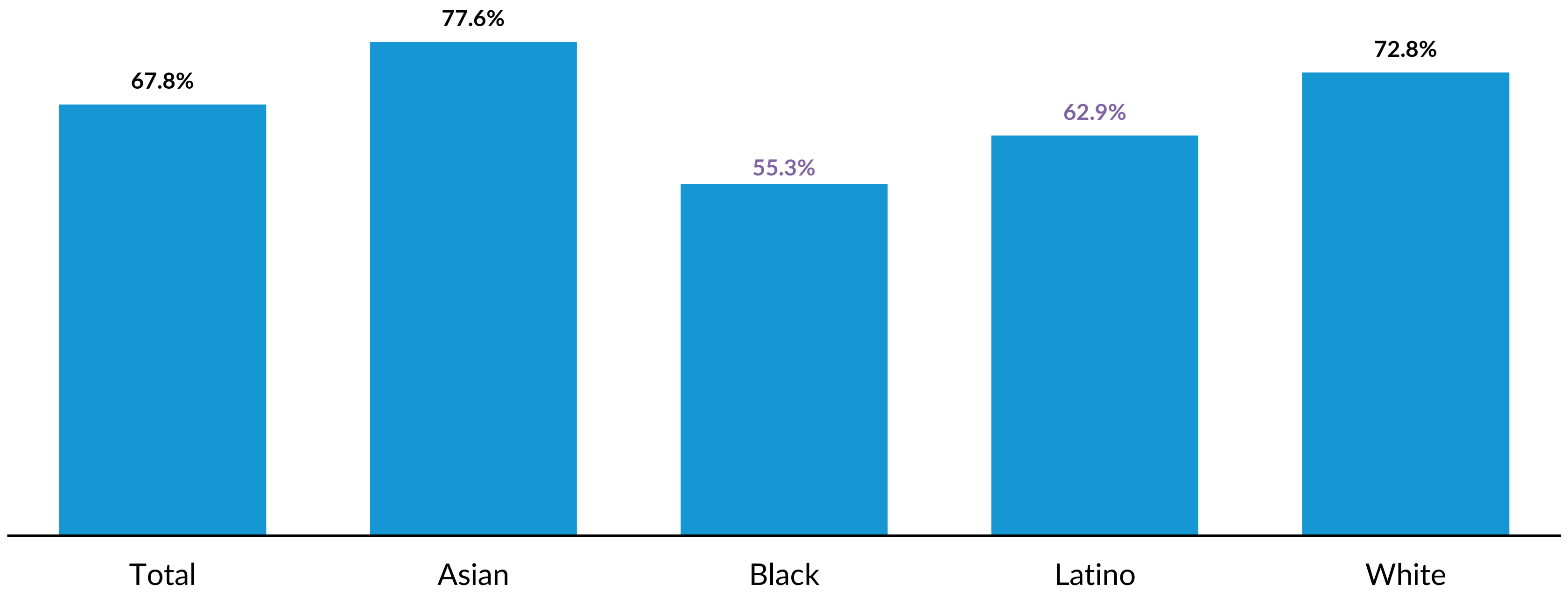
Including 12 Months of Positive Rental Payment					
	No/Thin File	<600	600-660	661-780	>780
Avg. Change	676	42	41	27	7
Avg. % Change		8.9%	7.6%	4.4%	1.0%
Including 24 Months of Positive Rental Payment					
	No/Thin File	<600	600-660	661-780	>780
Avg. Change	686	45	40	27	7
Avg. % Change		9.4%	7.4%	4.4%	1.1%

Source: Data Analysis Provided by Esusu.

Note: Years include 2021 for renters who made 12 months of positive payment, and 2020 and 2021 for renters who made 24 months of positive rent payment

Can incorporating rent payment data reduce the racial homeownership gap?

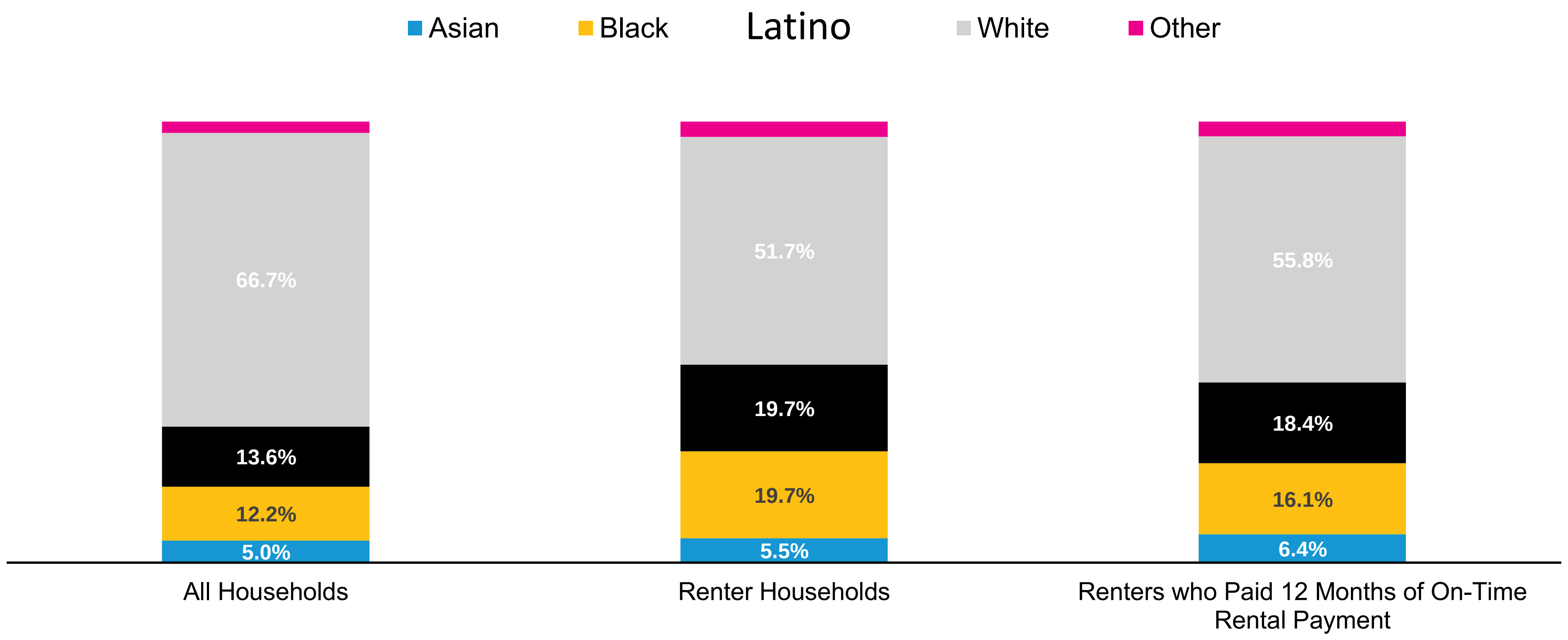
Share of renters who made 12 month on-time rent payment



Source: Understanding America Study: July 2020-July 2021

Race/Ethnic Composition

All Households vs. Renters vs. Renters who made 12 months of on-time rent payments

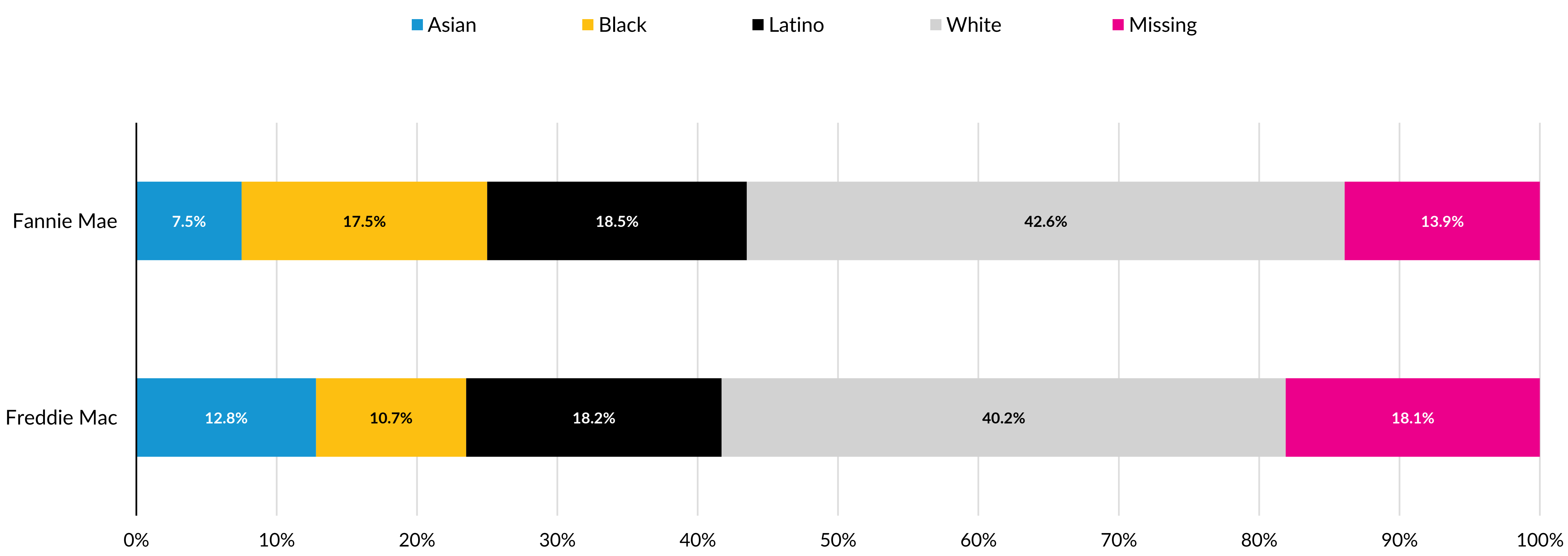


Source: 2019 American Community Survey & Understanding American Study July 2020-July 2021

Among previously denied, who are approved when the positive rental payment data is incorporated?

- According to the GSEs Equitable Housing Finance Plan: 2022 Performance Report, Fannie Mae accepted **2,917** and Freddie Mac approved **234** (program started later) borrowers who were previously denied, once positive rental history data was provided through bank accounts.

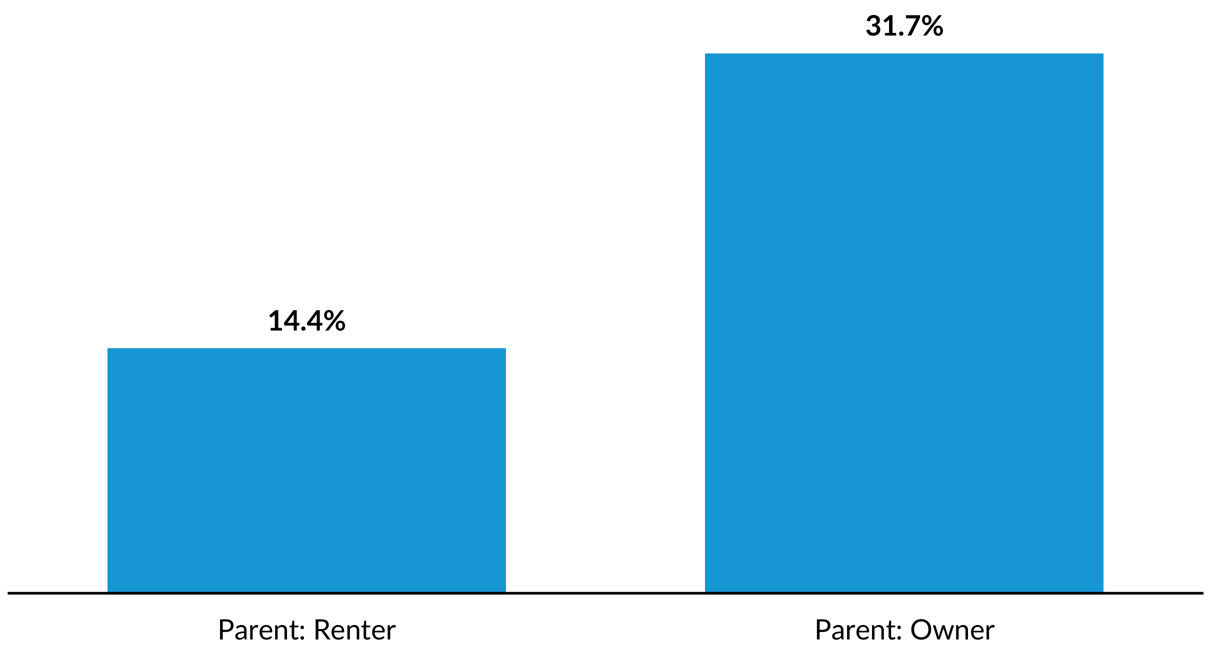
Racial Composition of Previously Denied Borrowers Approved From Evaluating Bank Account



Source: Fannie Mae & Freddie Mac, Equitable Housing Finance Plan: 2022 Performance Report

Homeownership affects intergenerational wealth transfers

Children of homeowner parents are **4-5** percentage points more likely to be homeowners, all else equal. A 10 percent increase in parental wealth increases a child's likelihood of owning by **0.15-0.20** percentage points.



Source: Panel Study of Income Dynamics

Who Are First-Gen Homebuyers?

	Borrower	Borrower's Parents
Def 1.	FTHB: Have not owned in the past 3 years	Current Renter
Def 2.	FTHB: Have not owned in the past 3 years	Have not owned in the past 3 years
Def 3.	FTHB: Have not owned in the past 3 years	Never owned OR lost home during foreclosure crisis

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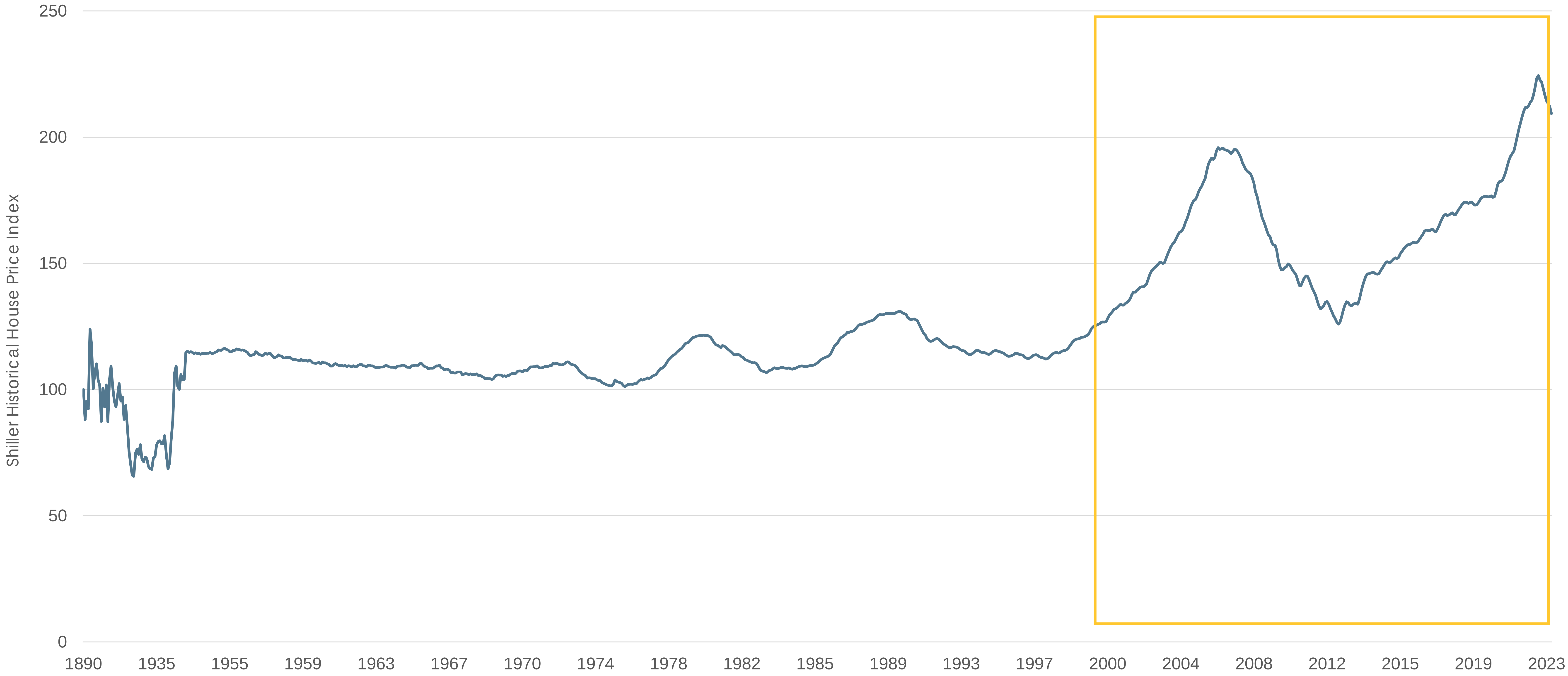
Federal Reserve Keys to Opportunity in the Housing Market Series

Carolina Reid, Faculty Research Advisor

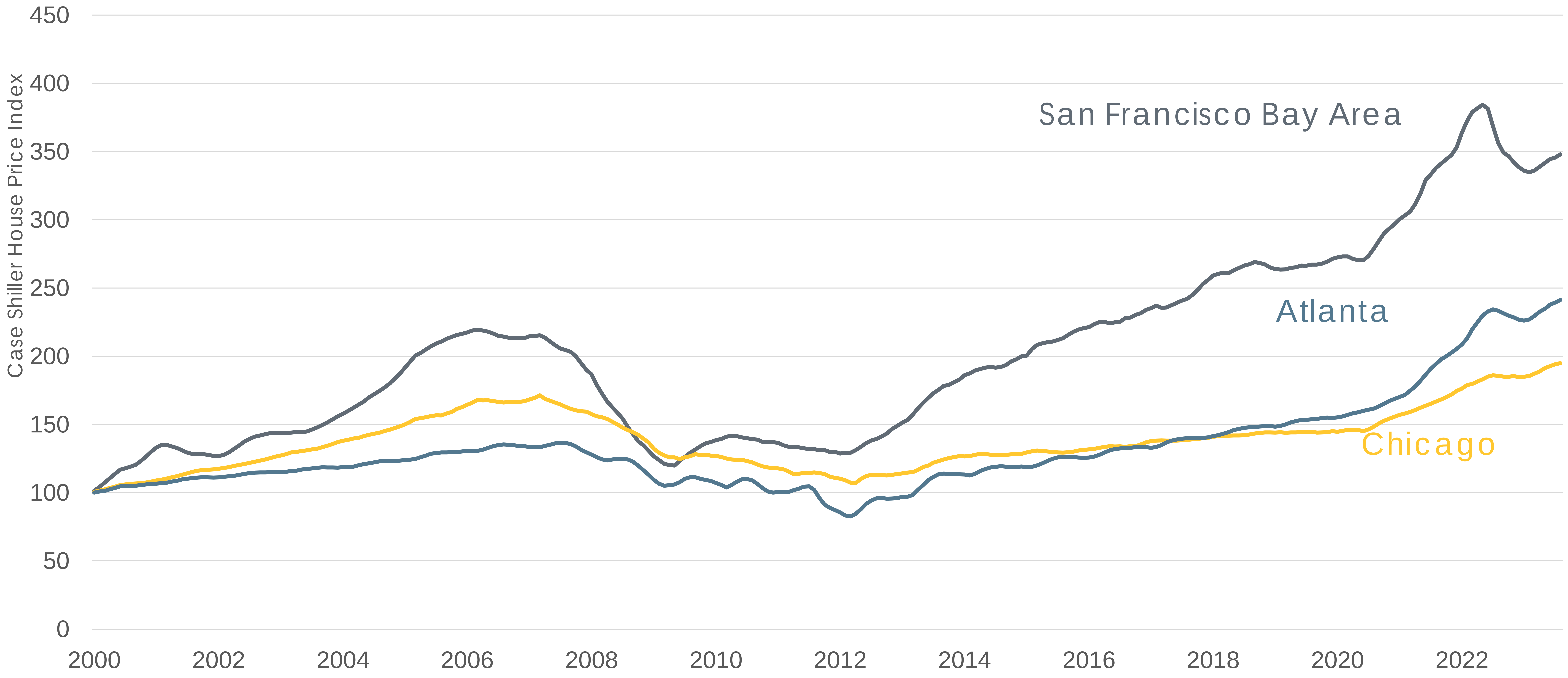
TERNER CENTER FOR HOUSING INNOVATION
UC BERKELEY

The last two decades have been characterized by unprecedented house price volatility and growth



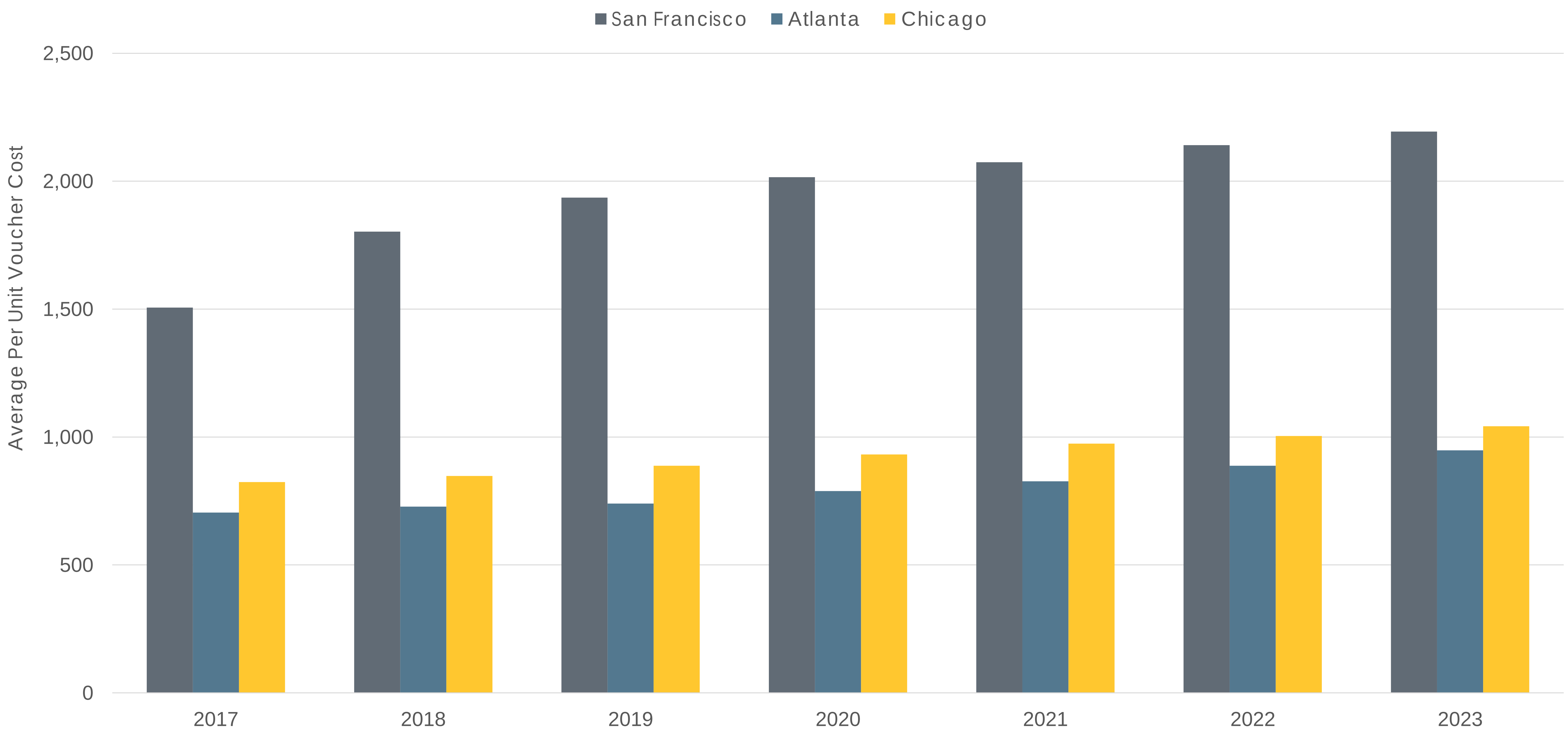
Source: Robert Shiller, *Irrational Exuberance*, data available online at: http://www.econ.yale.edu/~shiller/data.htm

These dynamics have been most pronounced in supply constrained markets



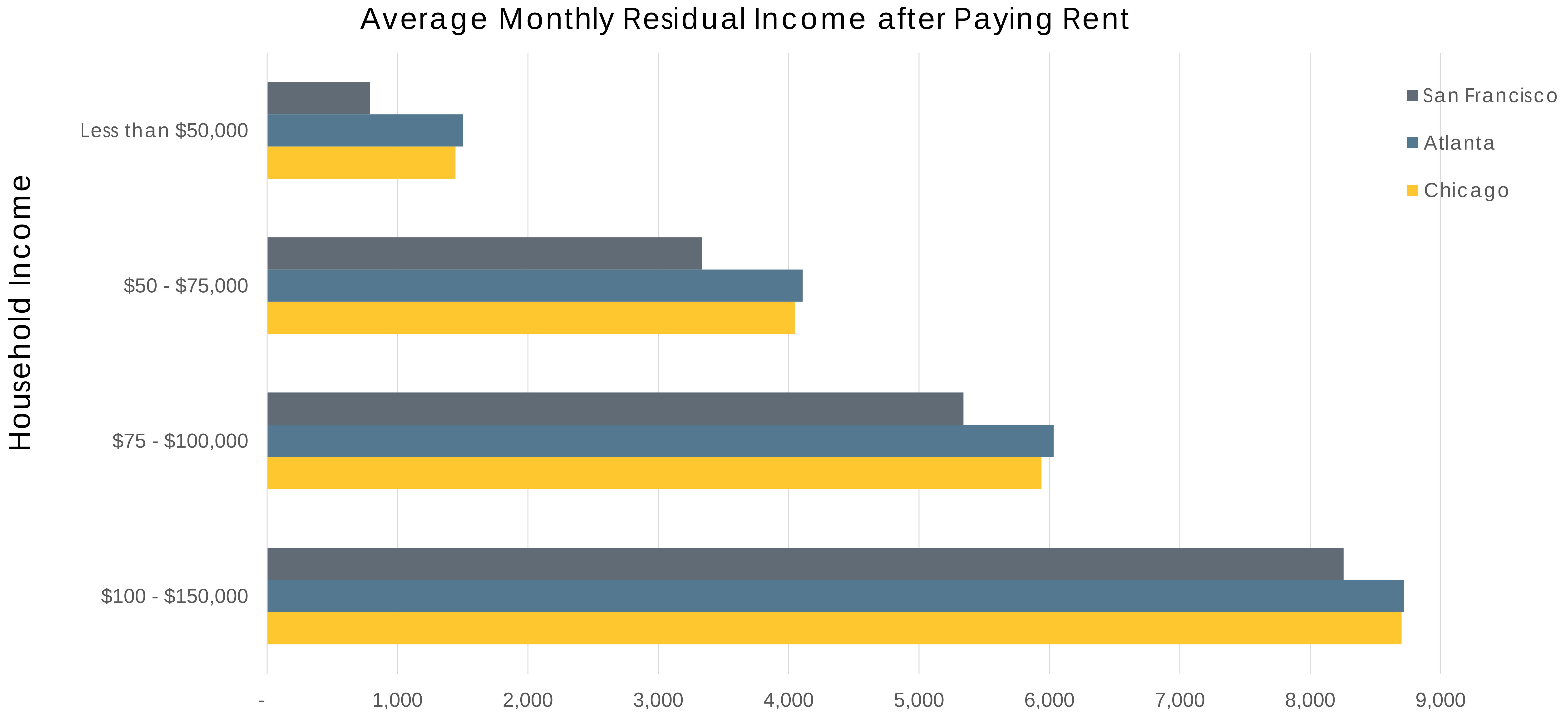
Source: Case-Shiller House Price Index, Data accessed through Federal Reserve Bank of St. Louis, FRED

Lack of supply creates a headwind for rental assistance policies, limiting their potential reach



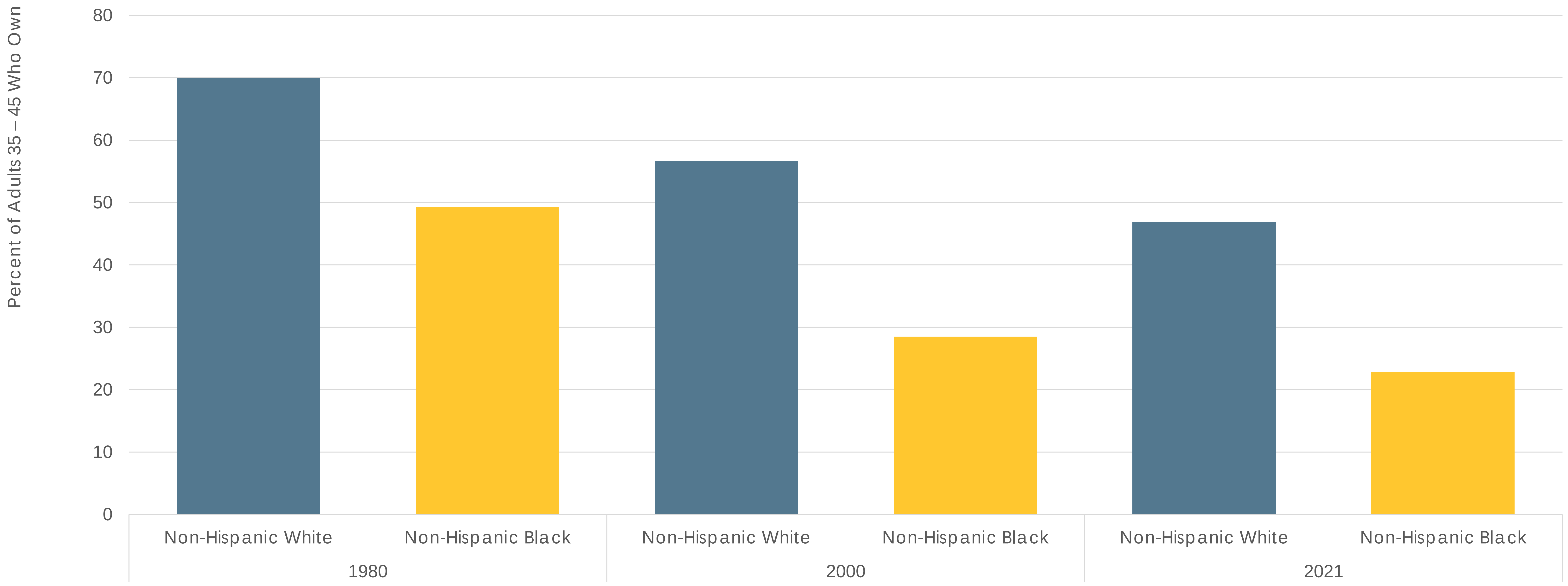
Source: HUD Housing Voucher Dashboard, accessed at https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/dashboard.

It also can undermine renters' ability to save, especially among those that have historically transitioned into homeownership



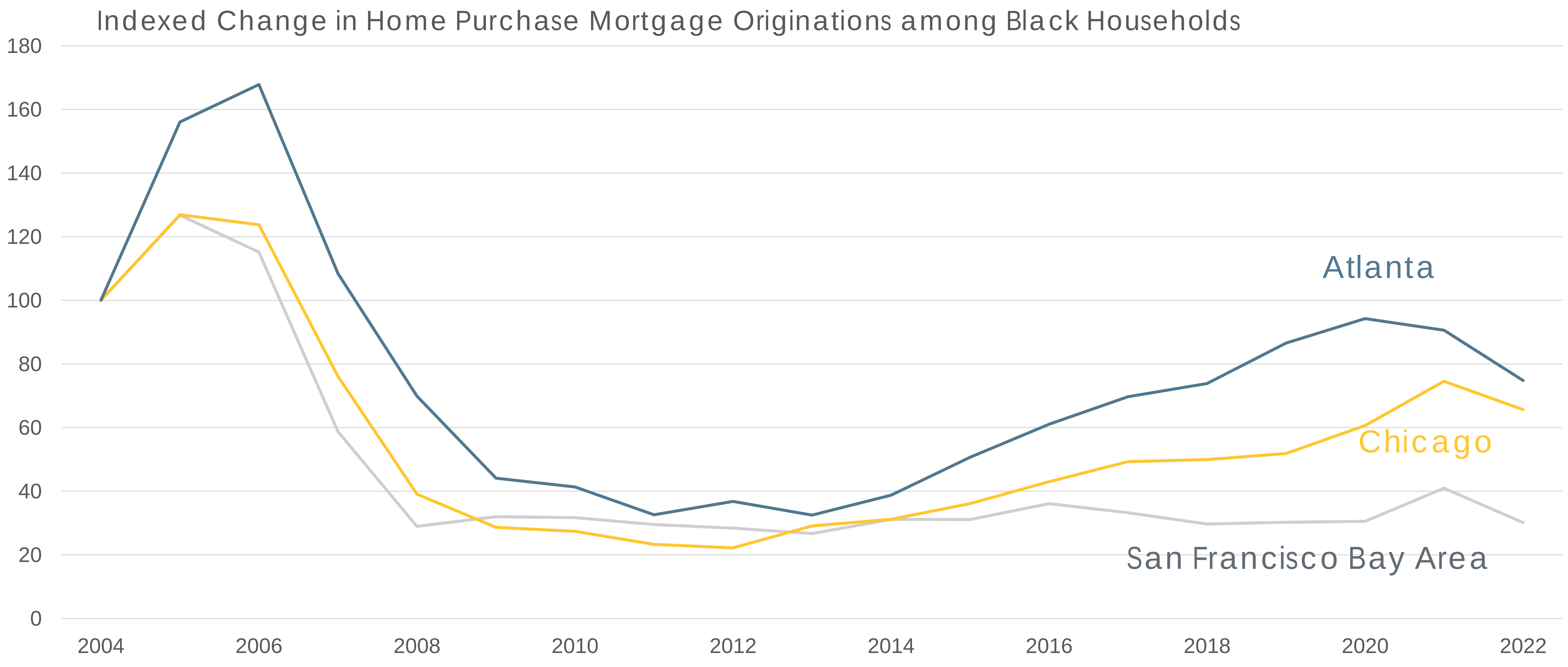
Source: Author's calculations of 2019 American Community Survey, Public Use Microdata. 1-year sample, Renters, 25 – 35 years of age

These factors combine to erode pathways to homeownership in supply constrained markets such as California



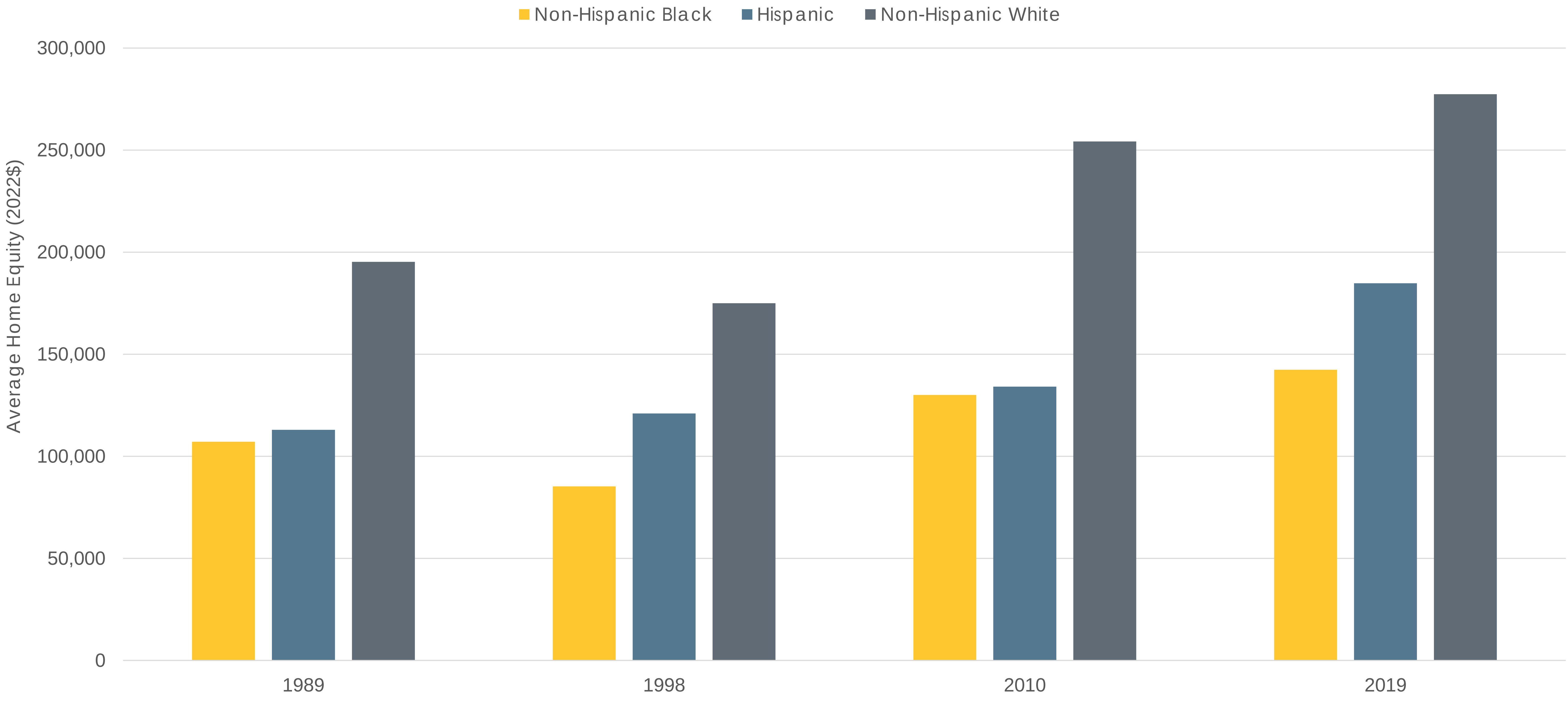
Source: Daniel Shoag, Issi Romem, David Garcia (2023). *The First Step Is The Hardest: California's Sliding Homeownership Ladder*, Terner Center, https://ternercenter.berkeley.edu/wp-content/uploads/2023/05/Homeownership-Ladder-May-2023-Final.pdf

Supply, demand, and access to credit converge with market volatility to shape who builds wealth through ownership



Source: Author's Calculations of HMDA Data. See also Carolina Reid (2021). Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership Gap, Terner Center, https://ternercenter.berkeley.edu/wp-content/uploads/2021/03/Crisis-Response-Recovery-March-2021-Final.pdf.

While owners do build more wealth than renters, differing returns to homeownership can contribute to rather than mediate the racial wealth gap



Source: Author's Calculations of Survey of Consumer Finances data. Only includes primary residence and households that own their home. Households with negative home equity or homes worth over $25 million were dropped.

Policy implications

- Homeownership is a pathway for building wealth, but insufficient for closing the racial wealth gap
- Supply and credit access remain critical sites for policy intervention
  - Encourage the market to produce more lower cost supply
  - Alternative credit scoring, downpayment assistance
  - Address disparities in appraisals, tax benefits
- Connect the dots between the rental and homeownership market
  - Renters tax credit + matched savings account
  - LIHTC -> low-income homeownership pilot
- How do we return to—or move towards—a "savings" not "speculation" model of homeownership?

Keys to Opportunity in the Housing Market

Thank you for joining us!

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