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This is the first in a series of occasional papers touching on topics of interest to the field of community development and in particular to the non-profit and governmental entities producing and preserving permanently affordable housing. This paper originated as a component of the CHT board's self-directed curriculum on race and equity, and CHT's goal to advance racial equity in all our programs and service. The question about shared equity homeownership's performance in this regard came up in community-wide discussions about the racial wealth gap and opportunities to increase BIPOC homeownership in our region. We'd like to thank our readers for their valuable input: Tony Pickett, Gretchen Bailey, David Weinstein and Martin Hahn.

CLTs and Shared Equity Homeownership Address the Racial Wealth Gap

Brenda Torpy

Recent discussions of structural racism have helped shine a light on the "racial wealth gap," the significant difference in wealth held by white households compared to other ethnic and racial groups.[1] Since owning a house has long been the primary way to build wealth, much of this discussion has appropriately focused on the policies and practices of housing and lending institutions that helped create, perpetuate, and increase the wealth gap, as well the failure of later efforts to remedy the situation.

During the New Deal era, the federal government began a concerted effort to preserve and expand affordable homeownership opportunities. This helped build the white middle class by enabling families to build intergenerational wealth for the first time. However, federal policy deliberately denied these opportunities to most African Americans, with significant and enduring economic effect. More recent strategies to increase Black homeownership only made modest gains — which were in turn completely wiped out in the real estate crash of 2007-08.

In fact, for reason that we will discuss below, the racial wealth gap is greater today than it was *before* the Fair Housing Act of 1968 which made it illegal to discriminate in housing-related activities. Today, 74 percent of white households own their own homes, while only 44 percent of African American households do. Those figures go a long way toward explaining why the average white household has a net worth of $141,900, while the average African American household has a net worth of just $11,000. This is both grossly unjust and economically unsustainable.

There appears to be a growing consensus that as a matter of public policy, we must commit significant resources and energy to increase African American homeownership to erase the racial

[1] Household wealth is defined as a household's total assets minus its total liabilities. The racial wealth gap differs from the racial income gap in that the latter refers to differences in median household *income* between ethnic and racial groups, rather than wealth. According to recent U.S. Census data, African American median household income is $35,398 compared to $60,256 for non-Hispanic white households.

wealth gap. However, this discussion has unexpectedly prompted a renewed debate about whether shared equity homeownership is counterproductive to this goal. Nothing could be further from the truth.

Community Land Trusts (CLTs) and Shared Equity Programs (SEPs) have a proven record of providing homeownership opportunities for low income and low wealth households. They do an excellent job of assuring that homebuyers succeed, and thus retain that wealth. And they target limited public subsidies directly to the beneficiaries – and lock in that subsidy in perpetuity – instead of subsidizing the lending and real estate industries.

In fact, we believe that CLTs and SEPs are uniquely situated to make measurable progress in addressing the racial wealth gap. Perhaps more than any other homeowner assistance program, they address all of the many and sometimes extraordinarily difficult barriers to homeownership.

But first, it bears briefly describing the history of housing policies that underpin the wealth gap.

A Shameful Legacy: Racist Housing Policies of the 20th Century

Of course, the racial wealth gap did not begin with the New Deal. It goes without saying that African Americans had been economically disadvantaged in a systematic manner by hundreds of years of chattel slavery, the successful efforts to undermine Reconstruction, and the deeply racist policies of the Jim Crow era. However, it is important to understand how the advent of the first comprehensive national housing policy in the 1930s contributed to the growing gap between white and Black household wealth.

To thwart an unprecedented economic contraction, FDR implemented a broad array of groundbreaking labor, public works, social insurance, and financial regulation policies. The New Deal also created a nation-wide system of housing finance, implemented by new federal agencies like the Home Ownership Loan Corporation, the Federal Housing Administration, and the Federal National Mortgage Association (which created a publicly backed secondary mortgage market for the first time, enabling the fully amortizing mortgage).

These initiatives enhanced both housing security and economy stability for millions of Americans by creating new rental housing, rescuing underwater homeowners, and increasing homeownership, all while creating millions of jobs in the process. Overall homeownership rates jumped from just over 40% at the height of the Depression to close to 62% in 1960.

However, those impressive gains hide an extremely uncomfortable truth. To secure these and other economic reforms, FDR made a deal with southern Democrats to largely leave intact the politics of Jim Crow segregation when plotting out a course for federal housing policies.

For example, when the Public Works Administration built the first social housing, southern Democrats insisted it be for whites only. When local Public Housing Authorities (PHAs) did build public housing open to Black families, they demanded it be rigidly segregated and sited exclusively in low-income minority neighborhoods.

And while the Home Ownership Loan Corporation curtailed a tsunami of foreclosures at a time when half of all mortgages in the U.S. were in some level of default, it also employed "redlining" – the practice of barring residents of mixed race and minority neighborhoods from qualifying for mortgages on the basis that these areas were inherently too risky. At the same time, perfectly legal restrictive covenants barred African Americans from buying homes in many white only neighborhoods.

After World War II, the Federal Housing Administration and the Veteran's Administration similarly adopted redlining, which FHA even codified in its mortgage underwriting manual. Astoundingly, more than 95% of all FHA insured loans between 1934 and 1962 went to white buyers, mostly in newly constructed suburbs made possible by massive federal road subsidies. All told, less than two percent of the $120 billion in new housing subsidized by the federal government went to non-white families over those same years.

The Housing Act of 1949 limited new public housing construction to low-income neighborhoods, further deepening the divide between middle class white suburbs where residents owned their homes and urban neighborhoods dominated by rental housing and few homeownership opportunities. Starting in 1954, in the name of removing slums and blight, Urban Renewal projects destroyed entire minority neighborhoods – especially those adjacent to city centers – to build highways and promote downtown investment.

The first turning point for housing equity came in 1968 with the passage of the Fair Housing Act that prohibited racial and other forms of discrimination in both public and private housing as well as lending, and conditioned all federal housing and community development funding on local jurisdictions developing plans to undo patterns of segregation. However, the Act had no real enforcement teeth until 1988, when Congress added penalties for violations and the right to relief for victims of discrimination.

By this time, however, generations of housing segregation and the lack of access to housing assistance not only further disadvantaged African American families, but it also locked them into a cycle of diminished opportunity. For most Black families, the prospect of homeownership was limited to neighborhoods that had suffered decades of disinvestment and where homes were less likely to appreciate than in the suburbs. Moreover, with less collateral and access to affordable credit, they were forced into higher interest mortgages – in effect, paying more for less.

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Beginning in the 1970s, the federal government turned to extending affordable credit as the policy of choice to promote homeownership, first through Tax Exempt Mortgage Revenue Bonds and later through other tax credit programs. The government also began a thirty-year trend of financial deregulation to 'liberate capital,' which was supposed to increase access to affordable credit and usher in a new 'ownership society' that promised a more level playing field and a record expansion of homeownership in minority communities.

What it delivered were predatory sub-prime loans, increasingly complex and opaque securitization instruments that flooded the market with cheap credit looking for short term profit opportunities. This fueled an enormous housing bubble and set the stage for the housing crash of 2008. Less often discussed is the fact that lenders disproportionately steered Black and Latino households into subprime mortgages for years leading up to the housing crash; studies have shown African Americans were three times more likely to receive a subprime loan than whites, and many of those loans were designed to fail.

While the world-wide financial collapse brought on by the housing crisis affected almost all Americans, it disproportionately hit minority households, both in terms of loss of employment and housing. Minority households were seventy percent more likely to lose their homes to foreclosure than white households. The total net worth of African American households fell by more than 50 percent and by more than 65 percent for Latino families.

Which brings us back to the statistic mentioned in the beginning: while the average white household has a net worth of $141,900, the average African American household has a net worth of just $11,000. The question for housing policy makers and local practitioners is, what are the best ways to narrow and eventually eliminate that racial wealth gap?

A New Way Forward: How Shared Equity Addresses the Wealth Gap

The last decades of the 20th century also saw the rise of alternative approaches to homeownership, alternatives like Community Land Trusts and other Shared Equity Homeownership programs that focused on providing access to disadvantaged communities through deep subsidies to bridge the wealth gap, providing access to the best mortgage instruments and supporting new homeowners to succeed. They also committed to creating permanently affordable homeownership at a time when the cheap credit flooding the market was actually fueling unprecedented home price inflation, leaving more and more Americans behind. These programs were still a very small share of the sector. In the go-go years of the boom, concern for long-term affordability and any notion of resale restriction went against the dominant narrative of wealth building even in the affordable housing sector. The federal government put all its faith in private market solutions and did not fund this approach. However, after the crash, policy makers began to take notice of these programs and their results.

CLTs provide grants to buyers to reduce the purchase cost and eliminate the need for down payments- In return for this, the buyers agree to a resale restriction if they sell. At CHT, the grant covers 20% of home purchase cost, providing access to best mortgages and eliminating the need for Private Mortgage Insurance. This enables CHT to serve low-income, low-wage households that would never otherwise access the wealth building of homeownership. The resale restriction keeps the home affordable sale after sale, which in a hot market addresses another issue of access by creating a stock of homes affordable to lower income people. Most CLTs offer credit counselling and homebuyer education, pre- and post- purchase to assure that buyers will succeed long-term. The universe of Shared Equity programs extends well beyond CLTs and includes a range of practices that use various methods to retain the affordability of homes-for-sale through such instruments as deed restrictions, covenants, and ground leases.

In 2009, CHT published a long-term analysis of its homeownership program by analyzing its 205 resales to see how buyers and sellers fared under the shared equity model. The study tested the program's performance by asking how participants fared in the following areas: Did the program expand access to those in need? What did people earn, and did this compare to other options? Were people trapped or did they have residential mobility? Did participants succeed– how many faced foreclosure? Did the homes remain affordable and continue to serve those in need?

They found that the average income of a CHT buyer was 74% of area median income. Homeowners sold after 5.4 years (very similar to market turnover rates) and earned an average of $7,889 in appreciation. Because their investment in the home was minimal due to the up- front CHT subsidy, the gain represents an annual average internal rate of return of over 25%. In addition to the market appreciation, the average seller also recouped their mortgage pay-down of (on average) $4,294 and $1,348 for capital improvements. They were also more successful, long-term, than market buyers were. Where some post-crash national studies found that about half of first-time buyers return to renting in 5 years, 90% of CHT buyers remained homeowners. Another measure of the wealth building and security of CHT's homeownership was that 73% of sellers had gone on to buy a home in the market.

The depth of subsidy required to overcome the wealth barrier and to access affordable mortgage financing is not insignificant. Twenty percent of a $250,000 home (about average for Vermont) is $50,000. It is much less than the public subsidies made to rental housing, but those units serve family after family whereas a homeownership subsidy can be lost after one sale. CLTs and SEPs solve that problem by locking in public investment sale after sale and serving many more households over time. Not only is this fiscally sound but the continued affordability assures continued access and inclusion at the local level. The public grants in CHT's portfolio at the time of its report had actually increased in value by 50% along the homes they were invested in. So in addition to providing homeownership that is sustainable for the participants, CLTs and SEPs offer the public a much more sustainable use of government funding for homeownership.

In 2010, the Urban Institute completed an analysis of Shared Equity programs across the US, (including CHT) that analyzed the performance of their portfolios in relation to the overall homeownership market. The study had access to seven programs, four of which were CLTs, two were deed-restricted homes and two were limited equity co-ops. The programs were selected for their diversity in terms of geography and type of market and encompassed over 2,000 transactions. The results included CHT's updated data, and they mirrored CHT's 2009 findings. By every measure, these programs delivered on their promises and exposed the government's failure, by contrast, to truly expand homeownership to lower income Americans overall.

In that same year, the Center for American Progress hosted a public release of the policy paper A Path to Homeownership (Rick Jacobus and David Abromowitz) that proposed a bold new approach to closing the racial wealth gap and addressing home price inflation through federal funding for Community Land Trust and Shared Equity Homeownership. They drew on the results of these studies to call for federal investments that would, as these programs do:

- Focus on the ownership gap instead of the ownership rate
- Target assistance to those for whom it will make a difference
- Address wealth barriers
- Focus on affordable prices rather than affordable payments
- Preserve affordability with shared equity measures
- Structure public funding for these programs as investments

In the intervening years, in spite of the challenges faced by the Obama administration to re-stabilize the FHA and the secondary market, and the current administration's outright hostility to minorities and to all public spending for low and moderate income Americans, CLTs and related programs continue to make inroads into public policy on a number of fronts. They are now included in the Duty to Serve provisions for Fannie Mae and Freddie Mac, opening up secondary mortgage market access enabling lenders across the country to provide good mortgages to CLT and SEP buyers. NeighborWorks, the federally funded network of nonprofits that led the public 'Campaign for Homeownership' through the 90s and up to the crash has launched a Shared Equity initiative with dedicated funding to bring these models to its 230 members- a complete reversal of its pre-crash position and understanding of wealth-building. Increasingly, local and state governments are requiring permanent affordability in their affordable housing programs overall.

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Grounded Solutions Network (GSN), the national policy and practice leader in permanent affordability, has rededicated itself to its roots in the civil rights movement by prioritizing its work and resources to communities of color and, especially for African Americans who have been marginalized by federal housing policy. While minority households made up 13% of SEP owners nationally at the turn of the century, they now make up 43%. CHT's progress tracks this with 20% of CHT buyers over the past five years being people of color.

Broadly, GSN supports member organizations like CHT, and assists local governments to create inclusive communities with tools like Inclusionary Zoning, Land Banking, CLTs, and SEP. They have 200 members across 40 of the 50 states and demand for their expertise is growing exponentially both among local government and grassroots leaders. Through their new partnership with the Center for Community Progress, more municipalities will transfer banked land to community-based organizations working to improve their neighborhoods, spurring gentrification that benefits, rather than displaces, the residents. Community Land Trusts are the vehicle of choice for this resident-based and resident-led urban renewal. GSN is also working with congressional leaders who are promoting CLTs and permanently affordable housing in their legislative proposals.

Shared Equity programs need to be at the heart of any new homeownership initiatives in order to have a solution for low-income and low-wealth households to make that first crucial step out of renting to start building assets. The affordability created by deep subsidies makes homeownership more accessible at the front end and more sustainable over the long haul. Recycling these subsidies to assure affordability and access to future generations justifies the deep public investment and helps communities to remain inclusive and accessible to all. This is a solution that balances community goals of affordability with individual economic opportunity. Critics of the model have not learned the lessons of the real estate crash and the sorry history of the shallow homeownership subsidy programs that failed to close the racial wealth gap before it. It is time to confront the real hurdles faced by those who have been excluded from the American Dream and respond with targeted public investments that will enable them to build wealth and their communities to thrive.

With 35 years of hands-on experience, **BRENDA TORPY** has advanced the community land trust model at the local, national and international levels. She established and has led CHT, the largest CLT in the nation which has originated many of the legal, financial and programmatic elements widely used by the sector today. She advanced the model nationally as an active founding member and board chair of the National CLT Network, board member of its successor, Grounded Solutions Network and since 2005, has helped to export the model to England, Canada, Belgium and France through direct TA and trainings.

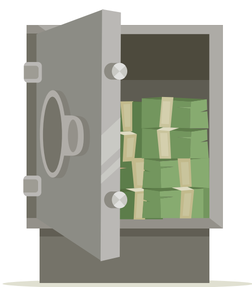
Shared Equity Housing

By the Numbers

1985-2018

Grounded Solutions Network, in partnership with the Lincoln Institute of Land Policy, has authored the most comprehensive study of shared equity housing programs conducted to date. ***Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations*** is based on data* collected from more than 4,000 housing units across 20 states over three decades, highlighting how shared equity homeownership promotes sustainable wealth building opportunities and lasting affordability for lower-income households.

*Source: *HomeKeeper National Data Hub*



The median shared equity household accumulates

$14,000

in earned equity. (compared to a median initial investment of $1,875)

6 out of 10

shared equity homeowners use their earned equity to eventually purchase a traditional market rate home.

7 out of 10

shared equity homeowners are first-time homebuyers

The share of minority households living in shared equity homes increased from

13% (1985-2000) **to** **43%** (2013-2018)

Over

99%

of shared equity homes avoid foreclosure proceedings

95%

of shared equity homes are priced affordably (under 30% of monthly income) for households earning 80 percent of AMI or below

GROUNDED SOLUTIONS NETWORK

LINCOLN INSTITUTE OF LAND POLICY