



Building Family Economic Success

HOMEOWNERSHIP AND PREDATORY LENDING

Owning a home and accumulating home equity provide the single greatest opportunity for low-income families to acquire wealth and enter the middle class. It also gives them an asset that can be leveraged to survive crises, or to help themselves or their children get ahead. The Annie E. Casey Foundation is supporting a variety of efforts to make homeownership accessible, affordable and sustainable for low-income families and to protect them from costly and exploitive predatory mortgage lending schemes.

The Importance of Affordable and Sustainable Homeownership

Homeownership is the linchpin of the American Dream, the primary route through which most American families build wealth. For low-income families, especially, homeownership represents the only real opportunity to save a significant amount of money. Studies have shown that homeownership also leads to increased family stability, higher educational attainment for children, an opportunity to freeze housing costs for a long period of time, and stronger neighborhood and civic participation.

Over the past two decades, new credit scoring techniques, financial market deregulation, the Community Reinvestment Act and reduced lending discrimination have made mortgage loans more available to low-income applicants, particularly African-American and Latino families. But owning a home still remains out of reach for many families due to the wide-spread problems of high and still-rising home costs, a low supply of affordable housing, and negative credit histories.

In addition, many families who have attained homeownership struggle to retain their homes in the face of daunting circumstances, such as high-interest mortgages. Many of the newly available mortgages have been in the “subprime market” where interest rates can be two to three times higher than prime loans – costing thousands of dollars in additional interest each year. Predatory lending, a subset of subprime lending, has become widespread: these loans often utilize hidden costs and disadvantageous terms such as prepayment penalties, excessive fees and unneeded add-ons. Many predatory lenders target older homeowners with substantial equity in their homes, frequently making loans without considering the borrowers’ ability to repay. Some unscrupulous lenders seek to “flip” these loans by encouraging borrowers to refinance repeatedly, stripping thousands of dollars from the homeowners’ equity in each transaction.

Some important facts about homeownership and low-income families:

- Whereas 68 percent of all American families own their own homes, just 48 percent of African-American and 46 percent of Latino families are homeowners.
- The median net wealth of homeowners in the lowest income quintile is \$68,000; for renters in this quintile the median household net worth is just \$500.
- The subprime mortgage lending market has grown nine-fold since 1994 and has become a \$385 billion market.
- African-Americans and Hispanics are disproportionately represented in the subprime market: Lower income African-American mortgage borrowers are 2.4 times as likely to receive subprime mortgages as lower income white borrowers, and Hispanic families are 1.4 times as likely as white families to receive subprime mortgages.
- Subprime loans are 10 times as likely as conventional loans to go into foreclosure.

Strategies for Family Economic Success

The Annie E. Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services or social support systems required to consistently meet their families’ needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, accumulate savings and live in stable, economically viable neighborhoods through a combination of workforce development, family economic supports and community investment strategies—an approach known as building *family economic success*, or FES. This fact sheet is one in a series outlining the key strategies of the Foundation’s FES grantmaking agenda.

Centers for Working Families

The Earned Income Tax Credit (EITC)

Financial Planning and Education

Financial Services

The High Cost of Being Poor

Homeownership and Predatory Lending

Individual Development Accounts (IDAs) and Other Savings Tools

Workforce Development

Work Supports

Building Family Economic Success

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Resources

ACORN Housing
(www.acornhousing.org)

Center for
Responsible Lending
(www.responsiblelending.org)

Consumer Federation
of America
(www.consumerfed.org)

The Enterprise Foundation
(www.enterprisefoundation.org)

Fannie Mae Foundation
(www.fanniemae.com)

Local Initiative
Support Corporation
(www.lisc.org)

National Housing
Conference
(www.nhc.org)

National Low Income
Housing Coalition
(www.nlihc.org)

NeighborWorks America
(www.nw.org)

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FES, Homeownership and Predatory Lending

A number of FES strategies focus on expanding homeownership opportunities for low-income families. One key goal is to combat the epidemic of predatory lending and lower the cost of borrowing for low-income homeowners. The Foundation is supporting policy research and advocacy efforts aimed at strengthening regulations against predatory lending, as well as financial and homeownership counseling efforts to help low-income families.

The Casey Foundation also is working to help low-income families accumulate the savings needed for down payments and closing costs in purchasing a home. Strategies include matched savings programs like individual development accounts (IDAs) and the Family Self-Sufficiency Program (which helps public housing residents and housing voucher recipients to build assets and become homeowners), the extension of publicly and privately funded down payment assistance programs and intensive housing counseling.

Families must be ready to become homeowners and capable of sustaining their commitment. This may require assistance in addressing credit barriers, inadequate incomes and a lack of financial understanding. If families are not financially stable, with the basic financial knowledge to help in making wise decisions, they may be vulnerable to predatory practices and the long-term consequences of poor choices. They may slide quickly into default, foreclosure and bankruptcy. As a result, many sites in the Casey Foundation's *Making Connections* project are working on comprehensive homeownership preparation, credit repair, financial education and affordable housing construction programs to help families surmount these challenges.

In the coming years, the Foundation will help families access and sustain homeownership, as well as prevent wealth stripping and high-cost lending, through the following strategies:

- Working with the *Making Connections* sites to develop homeownership strategies that build on federal programs such as Section 8 homeownership and HUD's Family Self-Sufficiency program.
- Promoting policies to prevent predatory lending and provide early warning systems that trigger counseling before loans go into default.
- Placing a portion of the Foundation's assets into program-related investments (PRIs) designed to spur the creation of affordable housing and homeownership opportunities.
- Encouraging innovative models such as mutual self-help housing.

Challenges and Opportunities

- Rising real estate costs in many parts of the country make homeownership very hard to attain for many low- to moderate-income families.
- Manufactured housing can provide decent, affordable homes but must be financed as personal property instead of as real estate. There also is a risk of the underlying land being sold.
- Alternative strategies such as limited equity mortgages, community land trusts, cooperatives, self-help housing and manufactured housing might allow families to access homes at lower prices.
- Credit repair, homeownership counseling and financial education programs need to be strengthened and coordinated so more families can progress towards, access and sustain homeownership.