



**SPECIAL PRESENTATION**

**“A NEW WAY FORWARD”**

**OPENING REMARKS:  
SENATOR PATRICK LEAHY (D-VT)**

**INTRODUCTION BY:  
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INITIATIVE**

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**9:00 AM – 10:30 AM  
WEDNESDAY, FEBRUARY 24, 2010**

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MS. SARAH ROSEN WARTELL: Good morning everyone. I'm Sarah Rosen Wartell. I'm the executive vice president here at the Center for American Progress and I'm very pleased to have you all today to talk about the future of federal housing policy and new ideas that in some ways are really old ideas about providing a path to sustainable homeownership for a broader group of working families.

For more than 60 years, federal efforts to expand homeownership have been in the center of the U.S. housing policy. As the people in this room know, perhaps we got a little bit too excited about homeownership at all costs and didn't have enough focus on making sure first of all that it was the right homeownership for the right folks and that it offered a sustainable path for people to help improve their family's lives and build wealth.

The housing crisis has shown us that the goal is not homeownership per se but sustainable homeownership that provides access to a path forward to economic opportunity for people's families. There's a danger here that we learn the wrong lessons from the housing crisis. Too many in the news media, in public pronouncements seem to be asserting that the problem was lending to low and moderate-income people, to people of color, to working families and not that we were lending to them with the wrong products.

Bad money chased out good. There were good, affordable products, sustainable products that were available that would give people access to the first step of the homeownership ladder and research shows that those entry-level products like shared equity had low default rates, helped people to sustain homeownership and generated a great return for their communities for the investment in affordable housing that the public helped to support.

So what we're looking for today is how do we do homeownership right as we rebuild the housing finance system of the future? And so it's time, in our view, to look again at the track record, the history, the features that are attractive to things like shared equity.

We are releasing a report this morning thanks to the generous support of the Ford Foundation called "A Path to Homeownership: Building a More Sustainable Strategy for Expanding Homeownership" that recommends a national shared equity homeownership program modeled after ones that are currently successful at the state and local level. We have today one of those national models from Vermont to talk about. The folks at the Ford Foundation know well this issue and have been leaders in helping to take, I think, Mac called it the "demon seed" and spread it around the country as a successful model and I hope to the national level. I'm not sure if that's the right analogy.

And Vermont is a pioneer of this concept. And so for us, it's a perfect opportunity for us to welcome Senator Patrick Leahy to CAP to kick off this discussion.

Senator Leahy has more impressive credentials than I can mention in a long time. Here at the Center for American Progress, one of the most important is that he had the good fortune, some of us might say, to have hired a young lawyer in one of his very first jobs in Capitol Hill from whence he went on to other things including leading this institution, John Podesta. So we're grateful to the senator for having started that career off so well.

Senator Leahy has been in the Senate for 36 years and has the distinction – I'm still surprised this is true – of being the only Democrat that Vermont has ever sent to the United States Senate.

He's probably best known for his work as chairman of the Senate Judiciary Committee where he's a passionate defender of the constitution and of civil liberties, privacy. We've worked with him on many issues, judicial nominations and reform.

Others know him best for his love of pop culture and he, in the green room, was regaling us with stories of getting phone calls from presidents of the United States while he was sitting on stage with Sting and the Grateful Dead. So we all know where his priorities lie. He's also a terrific Batman aficionado and as a result was giving the honor of appearing in all three of the "Batman" films. So he also knows how not to take things too seriously.

What's important to us here today however is that during his long and impressive career in the Senate he's been a champion of programs that battle homelessness, provide transitional housing to victims of domestic abuse and enable working families to find and afford decent homes.

As a senior member of the Senate Appropriations Committee, especially its Subcommittee on Transportation and Housing and Urban Development, he knows it isn't simply enough to endorse a program and its goals. You have to be there and fight for it and give it the resources that it needs to serve people.

His leadership has made a real difference in communities in Vermont and in every state in the nation. He's the recipient of an award in his name, the Committee on Temporary Shelter, established to give to someone who has done an outstanding job of advocating for those in poverty and working towards long-term solutions to end homelessness.

He's worked hard to provide private investment and affordable housing through the Low-Income Housing Tax Credit program that we hear have worked very hard on. He's opposed drastic cuts to the Section Eight voucher program; worked to provide funds for that program in the Recovery Act and has spearheaded efforts to increase funding for CDBG and the home programs. So we have today a champion of housing policy and

homeownership policy done right. Please join me in welcoming Senator Patrick Leahy. (Applause.)

SEN. PATRICK LEAHY (D-VT): Thank so much for that introduction. And you mentioned John Podesta being in my office. You have to understand I worked for John. All of you who are here could understand what that's like. There is no question I was merely the constitutional requirement for the office but he ran it.

It is hard to think of it because Vermont has changed a lot to still be the only Democrat elected to the Senate in Vermont's history. I was introduced that way once in Vermont and said, Patrick Leahy is the only Democrat we've ever elected in our history. And a voice in the backroom says, yes, we ain't going to make that mistake twice. (Laughter.)

And the Batman movies, it was fun being in them. The most fun about it though, they gave – I obviously didn't accept any money for that but all the money went to a children's library in Mont Pierre, Vermont, where I had my first library card when I was four-years-old.

And the thing I liked the most about it, not only did it get them a lot of money but it was so much fun that I'll go by there and now I go by with my grandchildren and they have these reading programs for young children and they've learned to read a lot and they have a thing for remedial reading for early teens and they decided this past year, because I talked about reading comic books when I was four-years-old and they decided to do a superhero thing and instead of giving them regular books to read, comic books, get them to read them. And somebody said, is that a good idea? He said, it worked for Leahy. Look where he is. (Laughter.)

Anything to get children to read and that's a little play. I – (inaudible) – everywhere, anything you can do to encourage children to read because if they learn to read and enjoy reading for the sake of reading, they're going to do well. It's – I get so frustrated when I see that children have to read only because they're required to read and not because it's fun to. But that's not why I'm here.

You know, I come to a think tank like this and we have a lot of think tanks in Washington but the only ones that are really worthwhile are those that have a higher value added (proportion ?) and none do that better than this one. And so I'm glad to be here.

You talk about the real world. You talk about what works in the real world and you talk about how we can make it work in the real world. And today it is good to come from the abstract to the concrete. You can take the current housing crisis and you can use fancy charts and you give numbers but I think that there's a moral component in it, how unchecked greed helped fuel the crisis and the unit of currency that best describes it's the disaster it causes the family unit.

The need for financial reform to prevent excesses like these in the future is one obvious lesson but we also have to find some practical steps to restore homeownership to its rightful place in the American dream.

When I grew up, my parents and my immigrant grandparents talked about homeownership as really being the American dream. Yes, but we're trying to bounce back from a huge recession, the worst since the Great Depression. And if anything in that, in the efforts to come back, is reaffirmed belief that we need a strong housing market.

We have to have a clear path to homeownership, what it does not only for your sense of worth but what it does for a community, and you have to have I think the – (inaudible) – extension of programs like the first-time homebuyer's tax credit. And we backed homeownership counseling efforts and programs to educate families before they purchase a home. Brenda Torpy is here. She knows first hand it goes way beyond the statistics. It goes to real human beings who can be helped.

But I think it's where – because we're forced to look at all the different things that might work or might not work in economic recovery, I think we have to revisit how we direct federal support to homeowners.

The model known as shared equity offers the opportunity to leverage a relatively small investment of capital to greatly expand access to ownership to both low and moderate income families. The down payment assistance to potential homeowners helps them buy homes that they could not otherwise afford but then the program's rules will help keep them perpetually affordable. Think what that does from a societal point of view, people in their homes, having a stake in the community. They have a stake in the schools in the community. They have a stake in the police in the community. They have a stake in education and in healthcare and everything else in the community.

I think a significant infusion of federal funds to the shared equity model could match the current investments to spur homeownership and it's going to preserve affordability for future homebuyers. It's going to do more than create affordable housing opportunities. I think what it does in these communities that are being rocked by foreclosures and rocked by homes being abandoned, bring about stability.

Now, when the Champlain Housing Trust was formed in the mid-1980s to provide housing opportunities for low and moderate-income households, the shared equity model was emerging as an – was then an innovative way to foster homeowners. And the Champlain Housing Trust, CHT, was an early adopter of this approach.

Over the last 25 years, a few organizations around the country have been as successful in implementing this program as the Champlain Housing Trust has been in Vermont. As David noted in his paper, it's about 5,000 of these shared equity program around the country. More than 400 of those homes are through Brenda's program at CHT.

But they also have a track record of how it works. We're seeing more than 200 resells of housing and condos. And you have to understand – Vermont is a very small state. We're talking about very small communities but if it works there, it can work just as well in larger communities. And I think you're going to find out in your discussions, I think you're going to tell them what you found out about the resell of that.

I brag on CHT as much as I can but others have found out about it. In the summer of 2008, the U.N. Habitat presented Champlain Housing Trust with a World Habitat Award in recognition of the efforts to identify and recognize and study and share practical model of providing shelter. That's pretty significant because, again, you talk about a basic human need – I would say a basic human right as the ability to have a place to live, a place to be your home.

Last summer, two Vermonters, John Davis and Alicia Stokes produced an independent analysis quantifying this work. They had a report called Lands and Trust and Homes at Last. That's the one I sent to every single senator. I wanted them to see it because if we could do it in Vermont, it could be replicated anywhere in the country. So I believe the time is right to make a federal investment in this.

The Department of Housing and Urban Development has recognized the potential of a new model. They suggested a pilot program in shared equity would be a good use of federal funds. I agree. The Obama administration has offered its opinion that shared equity offers a promising approach for providing lower-income families with sustainable homeownership opportunities.

But they also pointed out that most of the current programs are relatively small and I agree with this. I think during the upcoming congressional budget process I'm going to work with others to fund such a pilot research demonstration project. If we can make sure it works – that's all right. (Applause.) I think if we can show it works, if we can show the local level, the grassroots support, this can be done nationally. We're all going to benefit from it.

But you have one thing you have to understand. This is not just a program to spend money. The taxpayers get a lot of out of this. You get the stability. You get the people in their homes. You get the tax revenues from this.

So I want to thank all of you who are here in this room for what you've done. You made it possible. Brenda, I want to thank you for what you and those working with you have done in Vermont. But I'd encourage everybody, replicate this in as many places around the country as you can. Just think about it. Everybody in this room, staff and everybody else – we go home to our homes tonight. Think what it would be like if you didn't have that home to return to. Thank you very much. (Applause.)

MS. WARTELL: As the people in this room certainly know, debate in Washington about housing and homeownership has become very ideological and in many

cases very partisan and I think you've just given us a good way to think about how to transcend some of that partisanship by helping people see the examples of programs like these working in a local level. The senator has a hearing to go to but before he leaves, he has time for one question. Is there anyone who wants to venture?

SEN. LEAHY: On any subject.

MS. WARTELL: On any subject? (Laughter.) All right. We have healthcare. We have regulatory reform. Okay. In the back. If you'll give us one moment, we'll get a mike to you and ask you to identify yourself please.

Q: Good morning, Senator Leahy. My name is Doug Lionette (ph). I work with HUD, FHA single family. My question is in regard to your comments about additional federal resources to support the shared equity programs. Would that include an increase in the allocation for the home program?

SEN. LEAHY: I'm not sure how it will be. I mean, we're going to be working on it in the Appropriations Committee. It's going to be very difficult this year. We need so much money for the ridiculous war in Iraq – I'm sorry. That was a political side. I'm hoping that the arguments will be able to be made that we ought to start thinking about some things here in the United States that need to be done. And whether it's in that program or elsewhere, I'm not sure but I've been talking with others in the Appropriations Committee and my staff have too, and we're going to try to get it through there. I just want it to get done and this is the area, then that would be an important one.

I think the housing crisis, to go more on a macro-level, if we don't find ways to stem the housing crisis in this country, the ever escalating nature of it will undermine or derail any kind of economic recovery we might make. So that is the argument I think we have to make.

And frankly, that's something both Democrats and Republicans better join together on because homelessness, the inability to own homes is not a Democrat or Republican issue and it doesn't make any difference whether you're in New England or the southwest or anywhere else. It is a major, major problem. Thank you.

MS. WARTELL: Please join me in thanking the senator. (Applause.) And we'll ask the panel to come up and take their seats up at the table.

MR. DAVID ABROMOWITZ: Brenda, we need you too. Well, that was a terrific way to frame and open the discussion about the topic of the paper that was – a series that released today.

Good morning everyone. I'm David Abromowitz. I'm a senior fellow here at the Center for American Progress. And in my other day job I'm a – for 25 years – an affordable housing finance and development attorney at Goulston & Storrs doing those in

parallel. And I had the wonderful good fortune to be able to team up with one of the people I'll introduce, Rick Jacobus, to work on and author the paper that's released today.

I can't pick up from where the senator left off, and I'll introduce our panelists and speakers in a second, without quoting from somebody who some people in this room may recall, a fellow named Chuck Matthei who was a pioneer in the community land trust and shared equity movement as well as many other places. And he used to say that it's not that working families can't afford to pay for housing. The problem is that they pay and pay and pay and never stop paying if they don't get access to ownership, if they continue as renters. And that theme and background I think informs a little bit of the thinking that we have here about a fair and sustainable approach.

Before I introduce folks, I just also want to say a word about words. Today what we are commonly calling in the paper calls shared equity ownership has gone by a lot of different names over the years. At one point, people used the term "limited equity ownership" and they were more worried that limited sounded like it was taking something away rather than giving an opportunity.

Different states have had policies. Connecticut at one point had a "forever housing" policy to emphasize the long-term affordability aspects of it.

In every case, however, the goal has been the same. It's to balance the expectation of individual families of getting an opportunity of ownership and a reasonable return on their investment of their own capital and work and ownership on the housing but also with the public's expectation of getting a long-term return on its investment on any public funds made available to help that family into ownership.

But unlike some purely investment-based approaches, for example, sometimes (pure ?) shared appreciation mortgages that are investment driven – what we are proposing and have proposed doesn't depend on runaway appreciation on wild inflation and all. It's really a stable and sustainable approach that is based around really what working families can afford on there.

So we are hoping that those of you who read the paper and go out of here and talk to colleagues back in your home areas and others in policy circles will see that shared equity authors a fair deal for a huge swath of the workforce in America, the tens of millions of people who are capable of ownership, who desire ownership but in our current economic situation can't attain it.

It's really aimed at very much the squeezed middle in America, the folks who are at an income level where they're beyond the targeted programs like tax credits and others for the very lowest income folks but for whom the market, the ratio of income to housing price just doesn't work. And so it's against that background that we offered these thoughts.

So let me first turn to our panel. I'll introduce folks and then we'll come back and have a sort of an interactive discussion as much as possible.

Going across here. First person is Rick Jacobus who, as noted, is the co-author on this paper. A really terrific person to work with. If you ever want to write something complicated, work with Rick. Rick is nationally known as an expert in this field. He's working as a consultant specializing in neighborhood revitalization. He manages the Shared Equity Homeownership Initiative for NCB Capital Impact, another support of our effort today. And he's currently also a lecturer in the Department of City and Regional Planning at UC Berkley.

Next to Rick is Mac McCarthy. I guess he was christened George but everyone calls him Mac so don't be confused by that in our listing. He's really best captured as – Mac is an opinion leader nationally in the foundation community and beyond on issues of community development and housing. He serves as the director of urban opportunity at the Ford Foundation. That is the division within Ford that promotes access to jobs and opportunities through regional planning, transportation investments, housing development policies and other policies that alleviate poverty in the metropolitan areas. He has a wildly diverse background that includes such things as being a senior research associate at the Center for Urban and Regional Studies at UNC Chapel Hill and assistant professor at Bard College and I believe he even did a stint as a scholar in Saint Petersburg, Russia, a long time so he can maybe do comparative analysis of housing opportunities.

Next to Mac is someone I've known for a long, long time, John Barros, who is with us down from Boston. John is a lifelong resident of the Roxbury neighborhood of Boston where he first came to prominence as a teenager when he had the audacity of youth at age 17 to run for the board of the then formed Dudley Street Neighborhood Initiative which is one of the well-known community groups that really was a cross-section of various organizations. He ran at 17 and won. After graduating high school, he went on to Dartmouth College, graduating in 1996 but returning back to the Dudley area to bring his prodigious talents there and help out. He became a board member again of Dudley Street Neighborhood Initiative and ultimately was asked to and became the executive director of the Dudley Street Neighborhood Initiative in 2000. Meanwhile, John's engagement in both his community and larger efforts have led him to receive an award for community service from Action for Boston Community Development, one of the leading CAP agencies in – CAP as in the other CAP, not this CAP – in the area. John has been named a Barr Foundation fellow and he's on the Aspen Institute's Roundtable on Community Initiative.

And the last person I'll introduce but as the senator noted, hardly the least, Brenda Torpy is really a pioneer in this field. I won't tell you how long she's been working in housing community development. She can make references to when she started herself. But she served as the Community and Economic Development Office's first housing director for the city of Burlington under now Senator Sanders. Brenda worked on the development of the Burlington Community Land Trust and in 1991 she joined its staff as

executive director. Burlington Community Land Trust then she led it through the merger with the Champlain Housing Trust which she'll describe in a little more detail which happened, I believe, in 2006. And as the senator noted, the Champlain Housing Trust has over 4,000 members, 70 employees, 2,000 affordable homes, both rental and ownership in its area which is a sizeable portion of the housing stock in the Champlain County. As the senator mentioned, under her leadership, the Champlain Housing Trust was awarded a U.N. World Habitat Award for its development of the CLT model, a permanently affordable and community controlled housing.

So with that, I'm going to turn it over to Rick to give us an introduction to the content of the paper.

MR. RICK JACOBUS: Thank you, David. I want to start by – okay. I want to start by asking how many of you here in the audience today own the house that you live in? Yes. It's very easy to forget that as recently as the end of the Second World War most Americans were renters.

Widespread homeownership is something that was essentially created by a series of federal programs that had the goal of making homeownership more broadly available. And in the 20 years after the end of the Second World War the homeownership rate went from 45 percent to 65 percent. Those programs worked. They did exactly what they were intended to do.

But in the 45 years since the mid-60s, the homeownership rate had remained virtually unchanged. We just went through a little period where the homeownership rate started to tick up and people got excited, hey, we're making progress again.

Now in hindsight, it seems fairly obvious that what was happening was we had some unsustainable growth. We're now losing homeowners at a very rapid rate. Odds are we'll end up back where we were in the '70s.

So we've had this long period of time where we've been spending billions of dollars a year to promote homeownership and we've seen very little net progress for that.

So naturally, people have started to ask, maybe we should abandon this goal. Maybe we shouldn't be promoting homeownership and I think it's a very reasonable question to ask given the circumstances.

But what we're going to say today is that instead of abandoning the goal, let's abandon the strategy and let's pursue a more targeted and effective and efficient strategy for homeownership.

So one of the reasons – and I think there are a number of different reasons people have alluded to – but one of the reasons that I want to highlight for continuing to care about homeownership is that homeownership hasn't been equally available to everyone in our society.

The very federal programs that I just mentioned really promoted racial discrimination in the housing market in the '40s and '50s. And by the time they sort of switched gears and tried to overcome racial discrimination in the late '60s, we had sort of passed the point where we were increasing the rate of homeownership.

And so we have now 72 percent of white families own their own homes and 47 percent of African-American and Hispanic families own their own homes. And that 25-percentage point difference is wider – it's greater than it was in the late '60s.

So it's not just about where people live. It's a housing policy that really – this is a core economic justice issue for our country. The average white family has \$80,000 of net assets. An average African-American family has less than \$10,000 in net assets. And almost all of that difference is home equity. The housing policy has driven a cycle of economic inequality and sort of increasing from one generation to the next.

So the wealth difference that I just alluded to is an outcome of homeownership but it's also increasingly the cause of differences in homeownership. It's sort of a vicious cycle.

So when you look at renters who want to buy a house, people face a range of different challenges. Most people – more than one – but you could not have enough income to buy even a very modest house in your community. You might have enough income but not be able to get credit or not be able to get it on fair terms. And you might have the income and the credit but not have the savings necessary for a down payment. Any one of those things or all three of them and several others could keep you from buying a house.

What we've seen is that the wealth constraint, the lack of savings has become the dominant problem for most homebuyers and it wasn't in the '40s. But Americans are not good savers, as we all know.

But what's important to notice is that one third of first-time homebuyers who are white receive some form of financial assistance from a family member when they buy their house. And the comparable number for African-Americans is 6 percent and that number greatly understates the problem because it doesn't count the millions of families that don't even try to buy a house because they know they're not going to get that help.

So the children of the beneficiaries of those federal programs, people who bought homes in the '50s and '60s, their kids tap into that family wealth to buy homes now and they – it's not just that they buy homes more frequently; they buy earlier in life, they buy more expensive homes, both of which mean they build up equity faster over their lifetime.

But I think, just as importantly, they buy in better school districts. So the grandchildren of those homebuyers end up starting out life with an economic advantage of a different kind. It's not just about homeownership.

It's not just about housing. It's about economic equality. And over the last 50 years, we've made real progress in narrowing the difference in earning power between different racial groups but the wealth differences have increased and that's a function of our housing policy. It's really this homeownership question that has driven that change overtime.

So what can we do about it, right? This is obviously a major problem. It's not something that's going to solve itself. We're not just going to have some melting pot where the problem goes away overtime. We have to take some action to change that outcome.

And I don't know if it's an irony or a tragedy but the challenge is that almost all of our billions of dollars of annual spending and promoting homeownership is focused on overcoming credit and income barriers and almost none of it focused on overcoming these wealth barriers. Most of our homeownership programs don't address the wealth barriers.

And they're not working, as I said. So we have a series of studies that we cite in the paper, which I hope you'll all read, that sort of document – I mean, the good news is we know a lot about what the problems are and how to overcome them but we're not acting on that at the federal level.

And so there's one study that I want to mention in particular. It's a Census Bureau report – came out last year that – the Census Bureau has really good information about the economic landscape and what the conditions for each family are. And they looked at who, among the renters who's able to buy a house, who has the income and the credit score and everything. And they found that 8 percent of current renters could qualify to buy a modest house in their area under traditional mortgage underwriting standards.

And then they looked at, well, what kind of programs could we do to intervene, to increase that number? One of the most common approaches is to subsidize the interest rate that homeowners pay. And they found that if you decrease the interest rate by 3 percentage points, so instead of paying 6 percent interest people paid 3 percent, that has no effect whatsoever on who can afford to buy a house. The same 8 percent can buy a house under that condition. That's because everyone else doesn't have the down payment necessary.

So then they said, well, what if we imagine a mortgage product where you don't need a down payment, right? We'll solve the wealth barrier by just saying, you don't need a down payment. Nine percent of renters can qualify for homeownership under that condition. And the reason for that is that most people have both, an income barrier and a

wealth barrier, and so when we eliminate the down payment, we increase the amount of mortgage someone has to borrow, their monthly payment goes up and we just move the problem from income to wealth.

Lastly they looked at what if people had access to \$10,000 of assistance one time when they purchase their home? Under that – that could come from a family member, it could come from a government program, could come from one of the community programs we're going to talk about today. Under that condition, 20 percent of current renters are able to access homeownership, make their payments on their own, have 30-year fixed rate mortgages.

Why don't we do this? One obvious reason is that it's very expensive. And so the program that's sort of the exception that proves the rule is the \$8,000 first-time homebuyer tax credit which is coming up for renewal. The estimates for the cost of that program over the last year, in 2009, \$15 to \$25 billion. This program has made a huge difference.

It's targeted – you know, it really is for people who have these wealth problems, that kind of assistance really makes a difference, makes it possible for people to buy a house, but it's hugely expensive and you can imagine members of Congress as this comes up saying, well, you know what, that was a one-time economic stimulus. We were trying to restart the housing market. We can justify that. But as an annual program, that's maybe too much.

Maybe it's not but – the good news is we don't need nearly that much money to solve this problem because almost – most of the people who will claim that credit on their 2009 tax return would have bought a house anyway. It's a small segment of the population that needed \$8,000, where \$8,000 made the difference.

So what we're going to talk about today, what we're calling shared equity homeownership is just a different way of structuring federal support for first-time homebuyers or for homebuyers in general.

It's a different way that's more targeted, where we provide a significant amount of money upfront to make homeownership possible, to overcome both the wealth barriers and the income barriers and where we then ask something in return from those homeowners in order to be more effective and more efficient with our public money.

And really it's a difference between structuring the public money as a gift and structuring the public money as an investment. That's what shared equity homeownership is about, investing the public money so that it builds overtime, so that we build a stock of homes to make this kind of entry-level homeownership possible for one family after another year after year. So I'll let them explain how it works. Thanks.

MR. ABROMOWITZ: Thanks, Rick. That's a terrific way to lead us into the discussion. As Rick said, we'll have John and Brenda talk about Dudley Street and

Champlain Housing Trust. They'll get a little bit more concretely into the details of how it works for a particular family on a shared equity arrangement.

I do want to turn now first to Mac because, as we mentioned earlier, Mac personally and Ford Foundation as an organization have really gotten behind the shared equity approach on homeownership and community stability. And so I want to ask you to sort of start out why that investment in shared equity, of all the things you could have chosen, and why now?

MR. GEORGE MCCARTHY: Thanks and thanks for having me here today. It's a pleasure to be with you all. So at the Ford Foundation about – oh, 12 years ago now we embarked on an effort in our anti-poverty war to really find a set of interventions that impacted people by helping them to build assets as a root out of poverty. And that's really based on the assumption that if you can really help people to build assets, you have the opportunity to give them a root out of poverty that will be more durable and more significant than if you just enhance their income for one period to the next.

So initially we focused our housing work on simple homeownership, just helping low-income and minority buyers to buy homes that they otherwise wouldn't be able to do. And we were fairly successful at showing that homeownership done right can actually help a lot of people build wealth.

Unfortunately, what we've seen in the recent years is that – and I think because mostly of a regulatory failure – a lot of the people that we helped to become homeowners during the – from the mid-'90s on, were put into very precarious positions and exposed to really undue risk in the housing markets because of really bad behavior by lenders that wasn't corralled by regulators.

And so, we looked at that and said, well, maybe we have to think a little bit differently about helping people to build wealth that's a little bit less precarious. On top of that, during the time in which from – let's say from about 1995 to 2004 we saw a massive increase in housing prices across the country which meant that any attempt to help low-income people to become homeowners was going to require an increasing amount of subsidy and other kinds of interventions to make it possible.

And in some ways, part of our attempt to promote homeownership for low-income people was actually helping to escalate the house price increases because we were actually adding effective demand to the housing markets and helping to drive prices up so we were actually contributing to a process that we're now really tasked to deal with.

And so we started to look and said, well, what are the options? What could we do to give people a less risky way to build assets, to put them into decent affordable housing and also to actually promote more community stability and to kind of contain the crazy kind of speculative nature of housing markets?

And so starting in about 2003, we started to look at the shared equity housing space and think about whether that was a way that we could really promote both modest asset building, safe asset building, opportunities for low-income, minority families but also to really stabilize communities in the long run.

Of course, from 2003 to 2008, things went a little bit array in the housing market and so we weren't able to really take that to scale as we initially had hoped and we're still now planning to do it, although in a slightly different way. Oh, my God. It's one minute left.

So I might as well talk a little bit now just about – so that's the Ford Foundation's view and I want to talk just – I want four main points about why now is a really good time to really be thinking about taking shared equity to scale.

And the first place to look at is the actual, absolute dysfunction both in rental and in owner occupied markets. We know what's going on in the rental market – I mean, the owner occupied markets because we'll see five million or more foreclosures and we'll see the absolutely destruction of housing wealth across the country. But we're also seeing really massive problems in the rental space as well. We have lots of rental housing underwater and we have lots of vacancies that are really kind of hurting the cash flows in the rental space.

So there's the problem of both those markets while at the same time we still have an intractable affordable housing crisis. We don't have places to live for low-income people, moderate-income people, and most people who are still the stalwart members of our community can't live in the communities that they serve: teachers, firemen, policemen.

So we need a solution that's going to make it possible to get these communities to be more sustainable and we need some other way to kind of – well, we need a new way to house people, I think.

We also have an unprecedented opportunity with five million foreclosures there's five million vacant properties out there that might be acquired and used in a different way and that opportunity has been fueled by a significant infusion of public subsidy that could be used well – NSP-One, NSP-Two, ARRA, and there's likely to be more stimulus money coming out.

If we think a little bit differently about how we could use that money to both cure the housing market failure and also to stabilize communities, we could think a lot differently about that.

And I think the third point there is that if we're thinking about using public subsidy, maybe it's high time we think about using public subsidy responsibly. And we think the most responsible use of public subsidy in the housing space is to create permanently affordable housing stock that stabilizes the community and I think what

stabilizes a community is extracting a significant portion of the housing in that community from the speculative market. So if you can control house prices, you control re-sales, you control the community and we have several ways of doing that.

We're doing it in the land trust that you'll hear about. We're also doing it with cooperative ownership models and particularly in the manufacture housing space formerly known as mobile homes, we're doing it by converting investor-owned mobile home parks to cooperatively-owned, resident-owned manufacture housing communities.

And then the last point is that I think that one of the real failures that we really haven't looked at as well as we should have in the U.S. housing market is our failure to be good stewards of our long-term assets, particularly in the housing market. And one of the beauties of the shared equity approach is that it brings with it a built-in mechanism to provide long-term stewardship for the housing and also stewardship for the families to make sure that they succeed in their housing arrangements.

And I think that with better stewardship we're not going to see things like decay and decline in communities because of these investments. We're not going to see widespread foreclosures. And as you'll hear, foreclosures in the shared equity space were a fraction of foreclosures in the rest of the housing market. So I'll end there.

Well, I'll end with one other point that as the senator said, that public subsidy should be used to purchase public goods and I think that a permanently affordable housing stock in every community in our country is a public good that stabilizes that community and will be a benefit for long term down the line.

MR. ABROMOWITZ: Thank you, Mac. (Applause.) That's also – John, let me turn to you. And you've been living and working for the 25 years that Dudley Street Neighborhood Initiative has been around. It was founded in one of the lowest-income sections of Boston. It was a time when there was enormous disinvestment in your neighborhood. Looked very much then like many post-foreclosure communities now on a good day and all. And I worked there with you guys. How has shared equity made a difference in Dudley Street? What's the difference 25 years later and maybe explain a little bit about how it works.

MR. JOHN BARRSO: Yes. Twenty-five years later we've been able to realize what we think was a key goal in our comprehensive plan 25 years ago which is to increase, substantially increase homeownership in the Dudley Street neighborhood through sustainable, affordable home products.

And so, what we did was after realizing that increased homeownership was a key lever for improving our neighborhood for many reasons that you've heard but for two that I think was really important for us back then was for development without displacement and for building family and community wealth we chose to start a community land trust.

And we started a community land trust by incorporating a 501(c)3 and beginning to acquire land in common.

We identified an area, David, at that time that was devastated by many failed policies. And in that area there was a 60-acre site, part of the neighborhood, 30-plus acres vacant, right? And that's not even to talk about the unused or unutilized buildings, vacant.

And so we actually partnered with our friends at Ford and got a PRI to begin to acquire the land and put it in a land trust. And to build on the land affordable home opportunities that would be planned by the community. And so as the community started planning for these homes and got really excited, we started to line up and train potential homebuyers. And we have today built 210 units of homes in the Dudley neighborhood. We have seen zero foreclosures due to any kind of subprime lending or predatory products. We have seen families transition from homelessness into homes. We've seen families transition or be able to buy homes on SSI in the early days, all types of creative ways to get people in home, very stable group of homeowners now are doing really important things with the ability to stabilize home costs, minimize home costs, and make choices like a young couple did about six years ago to spend it on a Master's degree.

A poor family decided to go and get his Master's degree, and now he's doubled his income. There's a couple of other families, a handful of families, two handful of families actually who have actually decided to invest in the open market. And they have bought property in the open market and have decided to not risk their family's shelter in that kind of investment, but stay on the land trust and then invest their money in real estate and other ways, right?

And so what we now have in Dudley are really smart investors, not people who are hedging on their child's bedroom, right, but creating an opportunity by realizing that the investment portfolio is diverse but could be hedged by what I think and Senator Leahy said it is really a human right of shelter, right? And it stabilized families in many different ways. We've stabilized that neighborhood in terms of crime rate. We've stabilized that neighborhood in terms of building a place where people are more civically active. And we've stabilized that neighborhood in terms of having folks who are growing assets in very creative ways and growing – and making different choices about their income, which I think is really critical.

In the mid '90s, when we did a study to look at what families, what low income families were spending their money on, most of the families in our neighborhood over – were spending over 73 percent at that point – 73 percent of their budget, their income on housing.

There's no way they would be able to in a community where the median income was below \$20,000 be able to spend the rest of their income on anything that could substantially improve the quality of their life. The rest of it was survival, right? But what we see on the land trust is that families are making key decisions, strategic decisions

because they can because we've reduced that below to 30 percent budget, where it should be. And so families are able to spend it on things that prepare them to improve their lives in many different ways. You've heard me talk about education, health care, and a lot of other things. We have families now that credit the land trust for being a retirement strategy. And we just have one retire and she is – many people in our neighborhoods don't think about retirement, planning for retirement. But she's now thanking the land trust – and we've never thought about it this way – for helping her plan her retirement because she's got a stable home and she can actually retire with a low income.

MR. ABROMOWITZ: John, let me give you another minute to speak to that a little bit because it is a community – largely a community of color, mixed language, mixed race, and all. And one of the concerns people sometimes express about shared equity is, well can anybody build any equity or is it a take it away? Do you have any examples of what concretely happens in a homebuyer?

MR. BARROS: Well, I think concretely a couple of different things, David. One is the example that I used. A family is buying a real estate outside of the home they live in. And the families that have done it in really smart ways and all of them are doing really well. The other is that on our land trust, we reward families for improvements. So if you improve your home, we will give you, not a depreciated value for that improvement, but we will give it to you at cost. So for every penny you put into your house, you'll be able to capture that at resale. That is an incentive to continue to improve this asset on the land trust. And so that's better than the market.

And then I think the third way would be that we have really spent some energy and time in doing financial training and particularly looking at the option of going into the stock market, mutual funds, right? Mutual funds, stable mutual funds have done better than the real estate market over the last 30 years, right? So we've been there for 25 years and we thought back then and we still think that if families were using some of their money into mutual funds, investment – stable investment vehicles – that they would do better. And we've proven ourselves right. Then the real estate market, right, particularly today, right, because unfortunately in most of the urban markets, housing markets, the people who are losing their homes are the black and brown families, low income black and brown families. So when I look at the picture of Boston, our neighborhood got killed. And my only regret is that more families did not enter the land trust opportunity because now we're fighting the foreclosure crisis in a very nasty way, sir.

MR. ABROMOWITZ: We will come back to that more, but I think emphasizing the point that your families, no matter how much equity appreciates in the home they buy in the land trust, they can now diversify their savings in different ways, is one of the keys that we're trying to get at.

Brenda, let's turn to you. Burlington and Champlain Housing Trust are real pioneers. You've recently done a study on the outcomes for your homeowners. And I think that might be particularly worthwhile sharing with folks. So.

MS. TORPY: Okay. Thanks, David. I've got to tell you. It's really exciting to hear, not just that folks here are moving this to policy level and building on it, but to hear Rick also make the wealth building and the economic justice argument to help poor people get into homeownership because I've got to say. I've spent lot more years in rooms telling people that we weren't taking wealth from people. And to be in panels like this, where people say, sure, equity is the way we can help people get a leg up into wealth building, and that is actually what motivated us to do the study.

When we did the first one, in 2005, we waited until we had 100 home sales from the first owner to the second homeowner to test what happen to them and to test some of these assumptions – you used to be called limited equity. That wasn't good. But when we had 200 resales, we felt that the data would be fairly significant. And we, of course, knew anecdotally, as some of the stories that John's told you, how well people were doing with this and how much it helped them to move forward in their lives and how much security we saw built with their families.

So I want to give you just a thumbnail of what we – what we studied, what Champlain Housing Trust is and then go to those results and remember that these bigger results mean people with stories like the ones you just told.

We had three counties in Northwestern Vermont. We started in Burlington and did a lot of work with neighborhoods, protecting residents from gentrification. And so we have a lot of rental property as well. We have 1,500 rentals. Some of them are co-ops and some are special needs. And then we have 570 in our homeownership portfolio. Our region of Vermont is about a third of the population and includes Vermont's most – only really metro area, around Burlington, Vermont, and then two very rural counties to the North. And we have our portfolio spread throughout.

We have a huge housing wage gap in Vermont. Always we're one in the top two or three, year on year on year. So housing costs in relation to wages is a huge barrier for people. And of course the barrier then continues on the wealth side for folks.

In addition we do have 100,000 square feet of commercial space. So we've done that community development in other kinds of buildings. In the '90s, we created two homeownership centers to do the homebuyer education, the financial education that's been so important. We did that through NeighborWorks and it became a real resource because also by the '90s, we had enough homes in the portfolio that now like every month two people call up that they're selling and moving on. And it's very important that we have a pipeline of buyers who've been really prepared for homeownership, are credit worthy and credit ready and they can go and look at these homes. And they're the only ones that most of the time are affordable.

We also do rehab programs, not just for homes in our portfolio, but just regular home rehab program.

So we have 470 homes and it's a very diverse portfolio. You hear a lot today about the new normal and I'm going to tell you what the old normal is like. This portfolio is very much like any other CDC portfolio of the market and it works across these areas. About 40 percent of our portfolio is single family homes. And we've had a program that's allowed people to go buy homes and put them in trust, put them in permanent affordability. And the rest are condominium. So as you can see really, the most of our portfolio, 61 percent is urban. And that's where we started and that's where people got used to the idea.

In Burlington property actually our home ownership portfolio is 3 percent of the homes for sale in the city. So we've started to have some share of – some little share of the market – (inaudible) – but they will always be there and always be affordable. And we are growing that portfolio now with NSP, like many other community groups.

So the way we've always done this is we give people the big grant to get in and then the way we preserve the affordability is when they leave, they get 25 percent of the market appreciation in addition to their equity they've built up, and capital improvements, we also give them 100 percent.

So let's look at what happened when they resold and what this says to the claims we're making today. We looked at three areas. One is are we in fact using these grants to expand homeownership to people who wouldn't otherwise get in? And then how are we doing preserving the affordability on the other end? And then how are we doing with creating the personal wealth? And then how are we retaining that community wealth, because as Rick pointed out, if you invest in homeownership over time and you don't preserve it, it would be very costly. And then, are we enabling household mobility? Are people getting trapped in this program because it's so affordable and somewhat different or are they moving on? And how we – more importantly in recent couple of years is how are we enhancing residential stability? And we have the same kind of history as you described with our folks.

So in the 25 years we studied, these homes had served 629 households, and 100 percent of these homes, even in this extremely hot market, were affordable to people at incomes below 100 percent median incomes, and most of them, 82 percent, to people below 80 percent median income. In our market, that is a huge achievement because it's so hard to afford to make the jump into the market.

During the 1999 to 2006 boom, even the properties were appreciating very fast through the '90s, it went to an 85 percent increase in that timeframe in the cost of homeownership.

Champlain Housing Trust resales went up by 35 percent. And you'll see that that still kept way well in the region of affordability. At the initial sale, our homes were affordable to families 68.6 percent median income. But at resale, they're slightly more affordable to a family at 67 percent income. So even in this hot market, we're able to keep homes affordable, slightly more affordable over that time.

Eighty one of the homes in that portfolio did become less affordable, but all but one, still affordable to families below 80 percent median and only one was slightly above.

So what about creating personal wealth with this kind of restriction? After five and a half years, which is the average tenure, homeowners got back their initial investment and \$12,000 on average of equity. And that computes to a 25 percent in total rate of return for people. There's no investment that a low income person can make that would give them this kind of return. There was no other leg up.

And as John described, people may use it then to go on in the market. I have data on that. But sometimes it's so that they can go back to college so that they can raise money so that – one family member can be home with the kids and the other – they can use the affordability and at the same time they're building some nest, again having housing security throughout.

How did we do at retaining the community wealth? Well, we were able – we put about \$2 million in all of this, which is not a huge amount of money when you consider. And we helped two and a half more households this way than had we given the same grants to people and let them go each sale. So the retention helps you to help more people. Or another way to look at it is it would cost five times as much. It would cost us \$10 million to help as many households. So for the national picture to be able to talk about investment and return and good public investment, I think that's an important case.

And then we did look at mobility and folks seem to move for the same reasons as in the market and slightly more often. And that may be because they see that opportunity to move up. But 64 percent of the people we could trace – the ones who went out of the state, we couldn't – did buy a house in the market. Another 5 percent, a small percentage bought another house in the trust. They had to move up to a larger sized home for their family or move for a job. But in either case, you could see that people stay in homeownership and people have the opportunity to move in homeownership, in spite of our hot market.

So how do we do on stability enough to come to an end? We've only had nine foreclosures in 25 years. No homes, even with that, or land was lost. So we recoup. We maintained that community asset, even in those cases where we help people out.

The national foreclosure rate is about 2.97 and amongst CLTs is 0.5. At our CLT it was 1 percent foreclosure rate. It's very important that people not just get into homeownership, but that you help them succeed. The Community Land Trust model, in particular, does support people as – it's like a mutual self help – to be successful in many ways.

MR. ABROMOWITZ ? : Actually, Brenda, that's 0.1 percent.

MS. TORPY: Thank you. What did I say? Oh, it's 0.1 percent. Thank you very much, very helpful. And also our success rate, in terms of the people – were people still homeowners five years after we helped them in – in our case, it is a 90 percent rate who're still being homeowners, either with us, or in the market. And I think the average rate measure is about 50 percent.

So I think these are – this is very good data that's a part of a bigger study that's going to put together what Community Land Trust is doing around the country. And with this kind of measures – and I think you'll see the numbers will hold up and it's great promise for future policy. Thank you.

MR. ABROMOWITZ: Thank you, Brenda. That really helps to make it tangible. And for those who are taking notes super fast, in the report – and there are copies out on the table and if there's more demand, we'll print substantially more and get them around – there's citations to Brenda's study. She's got copies here.

MS. TORPY: So you want to take the whole study.

MR. ABROMOWITZ: There's links to all the data online. And just listening to you, it occurs to me that in effect you and DSNI and other land trust and shared equity, you're essentially the mom or dad or aunt and uncle who – the family member who would have provided the equity to get in the market that lets people become first time homebuyers when they don't have it often and then they can go on. As you say, a large number of your people just go into the general regular market because they've gotten that leg in.

I want to open it up to the panel, anybody's observations, to pick up on the point you were making, though. We've said in the report and the studies show an enormously lower foreclosure rate among shared equity homeownership. What are people – why is that happening? What's the benefit? Is it just simply the debt burden is in its high, or what else is going? And anybody can jump in.

MR. BARROS: I'll take a crack at that. The debt burden is not as high, but I think the fact that there's an organization helping to steward –

MS. TORPY: That's right.

MR. BARROS: – with the homeowner is key. So in a land trust situation, the land trust owns the land and the homeowner owns the improvement or the structure, the home. And that makes us part of any kind of refinancing opportunity or any kind of financing opportunity in general. So from beginning of the purchase of the home to when they're refinancing or restructuring the mortgage. And so we have our eyes – we had our eyes open the whole time for any kind of really risky loans, right? And so no one on our land trust made any kind of risky loan. And even the folks who came to some of our land trust owners and started to talk about reverse mortgages or some other products, we

would counsel the homeowner by giving them someone else to talk to. And 10 times out of 10, they wouldn't go with those risky products.

The other thing, David –

MR. ABROMOWITZ: So it wasn't just that people didn't seek out or weren't being offered predatory loans –

MR. BARROS: They were targeted –

MR. ABROMOWITZ: – you were there to sort of steer people away. Is that –

MR. BARROS: – that's correct. We were there to steer people away. And then the other thing is the land trust has the right of first refusal, right? So if anyone was in trouble, right – and because people have been in trouble on our land trusts, right, we would have the opportunity to come in and help and maybe restructure the loan, and – or – in our case only twice – to come in and re-buy the home, right?

We have helped one homeowner who got into tax problems with the IRS get out of those tax problems through the equity in the home, coming in and us being in the conversation, IRS actually discounted the outstanding arrears. But there've been many situations where we've helped the homeowner figure out other issues that would have probably brought them to foreclosures besides a subprime issue.

MR. MCCARTHY: There's a couple of other issues. One is technical, which is that it's very hard to extract equity in a shared equity arrangement, so you can't get into the really dangerous products like the HELOCs or the second mortgages that also became – are still such a problem it's going to resolve the foreclosures.

The other thing is the preparation of a homeowner is absolutely important in terms of being able to kind of get them into the right course of habits to be able to sustain homeownership in the long run. And we've seen this in the homeownership education and counseling programs as well that people who are adequately train and maintain a relationship with the people who helped them to get the homes are much less likely to enter foreclosure. And in the case of the land trust, they just have a much closer relationship with the land trust than they even do with their homeownership counselors. But I think that the likelihood that they're going to reach out for assistance is high and one of the things we've seeing in foreclosures is that the likelihood that anyone's even going to reach their servicer when they're in foreclosure is less than 50 percent, so.

MS. TORPY: I'd just like to add to that. In the Community Land Trust model, in addition to homebuyer education, I think that what you mentioned that community support is very important. And homeowners pay a small administrative lease fee. And that's them supporting their own organization. They own it. We have residents on our boards by our bylaws and they're part of something. And the folks know to come to us where they're in trouble and when they need something. And we of course have

prevented from subprime, but that's not the only economic issue working people face. We have a lot of job insecurity and when folks are getting into trouble, they have a mutual self help organization that they are in part funding and it's now become a bit of sustainability for us. So it's a very – that model works very well. And even as we've grown into larger area, we've been able to maintain that sense of community by changing how we do it. And I think there's a great value to that, sustaining it.

MR. JACOBUS: Yes, I just want to sort of broaden the question, not to take away from that. We've been focused a lot on foreclosure and everyone's thinking about foreclosure this year, but when we look back more broadly across a longer period of time, foreclosure's just one of dozens of ways that low income families end up behind instead of ahead when they get into homeownership. And there's been this research into how effective is homeownership, not in general, but specifically for low income families. And we cite some of that research in the paper.

And one of the striking things to me was that – and Brenda alluded to this – that many of the homeowners – in one study 50 percent of the low income first time homebuyers were renters again five years later. And a very small fraction of those were people who went through foreclosure, but many people sold their home short. They sold because they lost the job. They left homeownership because they couldn't sustain it, because the lower your income is, the less stable it is. And what's to me one of the most striking things about Brenda's study is that 90 percent of their homeowners were still homeowners five years later, some of them still in their land trust home. Some of them sold and moved into another land trust home. But of the people who sold, 64 – 68 percent moved into another market rate home.

And so from the wealth creation point of view, that's a huge achievement relative to those same homeowners could potentially have purchased a home out in the open market with some innovative mortgage product. And if they had, half of them, or who knows what the numbers are now, maybe much more than half would now be in a worse place instead of a better place.

MR. ABROMOWITZ: I'm going to give one more question to the panel and then we'll open it up to you, so be thinking about your questions. Somebody listening to this might say, "well, okay, if it's about upfront access to capital to get into homeownership, why not just give a bigger, one time home buying tax credit to lower income people, give them \$15,000 or \$20,000. Let the buy homes. Who needs the rest of all this? What's – how would you compare those options?"

MR. MCCARTHY: Given the scarcity of public subsidy, I think that what we'll see is there'll be a gigantic inequity there. This is – about six or seven years ago, I went and I visited with different housing authorities across the country and state housing finance agencies or city housing agencies to ask them how they were supporting first time homeownership. And I was astounded when I got to California and I was talking to people in San Francisco, they said the average subsidy they need to make a first time homebuyer was \$230,000 a unit. I said, "Well, how much money do you have a year to

spend – a home – CDBG. Oh, maybe two and a half million.” I go, “So what, you help 10 families become homeowners?” And I said, “And then what happens?” Homeownership then becomes a lottery. And then is that a good public policy to make a lottery for – how many thousands of people would like to become homeowners and then you’re going to help 10?

So in that regard, it’s just not enough public subsidy to actually make it possible. And then the downside of it is you’ve then injected more effective demand into the market, so you’re going to actually push up housing prices yourself, making it harder and harder. And you’re going to be running to catch up to yourself all the time because of the house price appreciation and particularly in the markets you’re trying to work in.

MR. BARROS: Well, I think we talked a lot about individual wealth creation, but this is about community wealth creation, right? This is about giving a municipality, a city, a neighborhood the opportunity to continue to subsidize homes, right? We – I think we took a look a couple of years ago and we think that we have about \$15 million worth of subsidy on our land trust. That’s revolving subsidy, right? So every time someone is selling a home, that subsidy is following for that next homebuyer and giving them the same opportunity to have the same security and the same wealth building mechanisms and tools that the first homebuyer had. And so as in our case – (inaudible) – continues to try to chase the tail of the affordable housing needs in Boston, we’ve provided a stable place in the city that continues to create affordable homeownership opportunities.

The other thing is that I think we don’t talk about is that the land trust extra becomes a monitoring – I think you said this – that the land trust becomes the monitoring vehicle for the covenants, right? In many cases, cities end up losing affordable housing because they just can’t pay attention to all the affordable resales, right? And so we lose subsidies all the time that weren’t planned to be lost because the covenants are supposed to be a little longer, but it happens all the time. And so with the land trust there, managing a specific set of homeownership opportunities and owning the land, you’re definitely in the resale conversation and you’re not losing these covenants.

MR. ABROMOWITZ: I think you’ve done some looking at – a lot more communities in the past decade have adopted inclusionary zoning and have a set aside of affordability and compare those that do and don’t have monitoring. Do you have a comment on?

MR. JACOBUS: Well, I’m based in California and this type of homeownership is not nearly as unusual in California. And in the context of affordable housing there, most of the shared equity homeownership units are not community land trusts. There’re local government programs that are inclusionary zoning or tax increment financing programs, where the local government plays the role that Brenda and John play of monitoring and supporting those homeowners. And there’s an enormous variation. And we did a survey of all of the inclusionary zoning programs in California and found just a huge variation in how much those programs invest in what we call stewardship, sort of the monitoring functions.

And some programs do nothing. They record these legal restrictions and expect the title company to manage them. And other programs have a staff – and San Francisco is a good example of a program where they put a lot of energy into building a system to manage and monitor the units, both to protect the public subsidy and to support the homeowners. And their foreclosure rates are low. And their long term outcomes are good. But what we're trying to do and this is – part of this shared equity homeownership initiative with NCB Capital Impact is to sort of raise the bar across the whole industry. And it's – when you think about this aspect of it, it's an asset management function.

We have billions of dollars of public assets invested in affordable homeownership. For a very small fraction of that billions of dollars, we have to manage that asset. And it's the same kind of cost that you see when you invest in a pension fund or any other kind of asset that someone has to manage the asset and monitor it and protect it over time. And it's really cheap compared to the cost of losing the asset. So what we're trying to do is change the culture in the local government space so that more of these programs invest that small cost to protect the large public subsidy. And that's working. And we're – we've been thanks largely to the Ford Foundation, we've been able to bring those jurisdictions that do a good job together. And we're drafting a set of standards so we can say this is sort of at a minimum what every program should do and there's a set of practices. And they're not obvious, but they're also not rocket science. And so we're able to spread the knowledge that way.

MR. ABROMOWITZ: You remind me that – and people should be aware – the fastest growing sector of entities adopting a shared equity approach really have been municipalities in the last half of dozen years as they've seen their workers priced out of their own communities. They've seen the subsidies they've put in 20 years. You've got the example of Irvine, California, adopting a 10 percent goal over time – 10 percent of the housing units in Irvine, which is a not insubstantial place, be coming under some sort of long term affordability shared equity model. That's a model that you guys are doing a lot to help foster.

I think we're at the point where we should open it up to questions from the wise community of people we have here today. So I'll just start here in the front. And yes, wait for the microphone or we will have no idea of what you're saying.

Q: I was really curious when you said that cost for monitoring is a small fraction compared to the value of the asset that you're protecting, but what about just cost compared to running the program itself? So for example, I know a home does, what, a cap on 10 percent on admin. Is that nearly enough? Is that – are these costs in those ball parks or are we talking we need – we need when we're appropriating funds to think about appropriating more funds?

MR. JACOBUS: That's a great question. I think the answer for the home program is yes, it's nearly enough. There's a structural problem in the home program, which is that you get a block grant every year, you take your 10 percent admin. You're

required under home to only monitor your units for 15 years at the most. If you decide to be a wise steward and commit to long term affordability, you've created an additional administrative burden. And so one of the things that HUD could do to help grow this field would be to allow jurisdictions to take a larger share of the block grant money to pay for administration over time if they take a longer term perspective in preserving affordability. But still, we're talking about a small increment.

So it's – but the other kind of really point is most of these programs can pay for themselves at some scale. We don't know exactly what the scale is, but I'll let Brenda tell how they pay for it.

MS. TORPY: (Inaudible) – organizations would need start up to fund the stewardship in the early years obviously. And then you may need some other kinds of support, depending on what you do in your community. But in our case now, our shared appreciation program in our homeownership center is subsidizing our homebuyer counseling and other functions of the department. And also in terms of growing community wealth, I just want to make the point because we – this has been one of the great things to see. Because we have some homes from the '80s that we bought for \$80,000 and now they're worth \$225,000, I have a lot of community wealth in that property and we – now if we can take – we're passing on a very large subsidy like that to the next buyer, we take a small percentage and we put it in the pool. And it's the stewardship pool for the whole portfolio. So that should one – in one case a house has dropped in value, people weren't in it long or there're some other costs, we can sort of self ensure that kind of thing.

So there is – we always over promise to the nonprofit world that things will get self sustaining. So I'm trying to cautions myself. But still, I think that it's a small cost. What Rick said is the important thing, I think. It's a small ongoing cost and investment to create great community wealth. It's going to serve greater and greater numbers of people, much smaller level of asset management say than we do on our rental housing, which is also an important asset.

MR. ABROMOWITZ: Great. Let's go on to another question in the back. You had your hand up.

Q: Jennifer Pryce with the Calvert Foundation. Just interested in learning more about what the great challenges are for this whole idea to go to scale. You've hinted on a few of them, maybe changes in local municipalities or different allocations in HUD. But is there one overriding or a few overriding factors that are really hindering the growth of this industry or initiative?

MR. MCCARTHY: Well, I'll take a first step. One of it is, of course, that we need a redirection of the public subsidy that we put into housing. We just need to really think differently about it and we need to kind of honor in the way that we allocate that subsidy the option of shared equity as a way to use the money. And we've seen that already.

Shared equity was written right into NSP as a possible use or end use for the properties that are acquired with NSP1– probably NSP2 as well. So the federal government’s starting to see it. And then we actually – we need to build capacity at the local level to actually really create the right kind of stewards, so that we have to really have people who are going to be trained and thinking about the long term stewardship of affordable housing, affordable in perpetuity. So we need to create stewards that are themselves going to exist in perpetuity. So that’s a big challenge. And then there’s a third one that I forgot, so Brenda, can you jump in.

MS. TORPY: I think this might be in – as John pointed out, we do our homeownership differently and then we separate the land from the improvement. And then, when we do condos, we use covenants. And these – the part I was going to add is you have to educate the industry. And there’s two levels to that. One is at the national level – the mortgage industry and FHA and Fannie Mae. But then, in each local market – we’ve had to educate the predators and lenders. We have loans to everybody, but it takes a lot of time. And then when there’s – the winds blow in those markets, as they have really badly done lately, then we have to shift and change. So there’s a lot of that kind of building, not just the capacity of the organization, but a capacity in the industry and then acceptance.

MR. BARROS ?: A cultural change.

MR. ABROMOWITZ: And I’ll probably ask Rick to add to this, but over time, the GSC, Fannie Mae, Freddie Mac – Fannie Mae in particular and FHA have been real partners in trying to expand this and have worked a lot on trying to get acceptable standardized in the community land trust world modern ground leases with riders that are acceptable because they have to watch out for the interests of foreclosing lenders because foreclosures do happen and also in deed riders. And I think we’re in an ongoing effort to upgrade and standardize those products. If you want to add anything.

MR. JACOBUS: I would say I don’t think that that’s actually a barrier. It’s a – there’s a cultural shift. We’re talking about doing business in a different way. There’s a lot of reasons to do it differently. And the reason not to do it differently is just because we’ve always done it the other way before. So there’s an inertia. And I think right now we have a really positive push in our direction, but we still are at the beginning of a big hill. So institutions in each local community have to change their practice. Fannie Mae has been fantastic in terms of helping to pave the way and make it clear to jurisdictions how to do this and clear to lenders how to do this. The current administration has been really welcoming to this idea. But it’s not something that we want to force every community to do. It wouldn’t work if HUD were to say by Fiat everyone should now do shared equity homeownership exclusively. People have to make that choice and they have to do it in an informed way over time, or else we could have terrible programs that were actually worse for homeowners. And we do have some examples of that. So we need to do it the right way.

MR. ABROMOWITZ: I will exercise moderator's prerogative. Just working with a lot of on the ground community development organizations, both nonprofit and for profit, there's also often a perception that it's hard enough to develop affordable ownership, housing, anything that adds an element of challenge to it, of complexity either and explaining the product or penetrating the market and selling it, or anything else is – you can't afford to because if you're a thinly capitalized organization and all – so there does need to be, if not mandate, there certainly needs to be some perception about what's an incentive or reward to the community development organization for taking the same subsidy dollars and doubling or tripling their life.

In the rental housing world, virtually everybody's accepted that we have an expiring use in preservation crisis and we shouldn't let that happen again. It's – there's sort of a mental barrier that that was rental, but when we put public dollars on homeownership side, we haven't yet learned that lesson. And I think the current situation we're in has emphasized that.

There's a question in the back, left. I saw. Well, maybe just a hand there.

Q: Thank you. Jeff Lubell with the Center for Housing Policy. Thank you for your presentation. I think it's been really useful to think about this in the framework of equity and social equity and failed policy around housing. And I'm just wondering whether there's a connection between this policy also and another of the major frames that we're confronting as a society right now around climate change and around the energy crisis. One of the – there's a whole set of issues around creating more sustainable communities, near public transit that enable people to drive less often. And I guess I'm wondering whether or not there might be some use that shared equity homeownership could play, particularly in helping low and moderate income families afford to live in those communities because I'm very worried that as demands for transit are into development another form of close in urban living increase that supply will not keep pace with demand. That will drive prices up. And therefore working families are going to be excluded from these neighborhoods. Can shared equity homeownership work? Can it be part of the solution to ensuring that these communities are inclusive?

MR. BARROS: Jeff, that's great question. (Laughter.)

MR. MCCARTHY: Well, one of the things that we're working on at Ford is actually figuring out a way to kind of marry transit oriented development with shared equity because – for the precise reasons that you just mentioned. One of the big challenges with things like climate change – with intervention to do to prevent climate change – is that you look at the end goal and you forget about how you get there. And if the end goal is to reduce carbon in the atmosphere to 350 parts per million, there's about 17 ways you can do it, but not all of them are beneficial to low income minority communities. And people have generally been isolated from most everything else that's beneficial to the body politics.

So we think that it's going to be actually essential to be able to really ramp up inclusionary zoning kinds of requirements that are linked to transit oriented development and then to maintain those inclusionary units in perpetuity as affordable, we need to get a steward in place that's going to be kind of the – whatever the share equity steward that's going to maintain that affordability long term. The only people in the room actually doing that right here in D.C., City First Enterprises is developing shared equity housing that's transit accessible. And they've been doing – they're doing it now and trying to get a model that will go to scale right here in the heart of D.C.

MR. ABROMOWITZ: I'm going to try and squeeze in one last question. I think the gentleman here had his hand up previously.

MR. MCCARTHY: There he is. City First Enterprises.

Q: John Hamilton with City First Enterprises and City First Homes, which we're very proud in D.C. that the city council has said they want to do 1,000 units of permanently affordable housing. All of you up there have helped make this happen. We really appreciate it.

Jeff took my question, which I think it's a really important connection, particularly for urban places that are going to see, hopefully, successful cities over the next 50 years. It's a huge challenge on how you sustain housing. I will ask you – I'll ask you to highlight one point, which I think is in the report. From the public investment perspective, having shared equity helps make sure you don't over subsidize like tax credit does because many families, if they can't buy a house without support, great, let's do it and let's make those houses affordable. This product protects the public investment from over subsidizing people who otherwise could buy a house. And I think from – a place to focus is on what works, it'd be to point out this investment kind of self regulates overinvesting.

MR. ABROMOWITZ: Do you want to elaborate?

MR. JACOBUS: One of the big challenges in any kind of public subsidy program is means testing, how do you devise a formula for determining who should get this subsidy and who shouldn't. And one of the really elegant features of these shared equity programs is that buyers who don't need the subsidy, people who have family members that are going to give them money to buy a house or savings don't want it because it comes with the requirement that you repay a share of the equity or pass on your home at a below market price. That's a disincentive. And I don't know that it's a perfect filter, but it's a very efficient way of sorting out people who need help and people who don't. People who need help can get it.

MR. BARROS: Yes, I want to highlight too that our last 50 units of rental was in three buildings that are LEED Silver. And it's a TOD project, right, transit oriented development, next to rail. And that was the last development, but the last sort of behavioral change campaign was our youth in a program that we call the Community

(Scapes ?), going around to each of the land trust homes, changing light bulbs and having a conversation. Now, these are youths that live on the land trust, right, visiting their neighbors, right, getting a little job, some money to do this, and having a conversation with their neighbors about changing their light bulbs and energy efficiency.

The next thing we want to do is we want to sort of get some of the utility readings on our land trust and begin to do this at some kind of land trust scale and talk about the money saved, the carbon saved, and doing our part as a community. So it allows you to have a community conversation around this in ways that you can't before.

MR. MCCARTHY: One of the things that I've presented as a proposition is that a scaled shared equity sector in the housing market actually helps to correct the failures in both the rental market and the owner occupied market. And if you get a robust share equity permanently affordable stock that you've got in any community, the community is going to be much better in terms of housing in the long run.

The only thing – I'm sorry for running late – it's not just residential that shared equity kind of works in. And one of the things we've seen and we've been experimenting with around the country is mixed use share equity arrangements, where you can do commercial development. And in the commercial development that's done within the shared equity communities is commercial development that actually serves the community and they have control over whether or not it's a strip club or a grocery store that they end up with in their community, right?

MR. ABROMOWITZ: Well, on that tantalizing that Mac left us with, which is maybe for a future panel, I want to thank all our speakers today for their remarks. So thank you very much.

MS. TORPY: Thank you. (Applause.)

MR. ABROMOWITZ: And as you can tell, we are all very enthusiastic about this topic. The allotted formal time for the discussion has ended, but you're welcome to hang around and chat with any of us. And we look forward to working on this expansion with you in the future.

Thank you. (Applause.)

(END)