

# **CENTER FOR AMERICAN PROGRESS**

## **HOMEOWNERSHIP DONE RIGHT: PROGRAMS THAT WORK FOR LOW-MOD BORROWERS**

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SARAH ROSEN WARTELL: Good morning, everyone. Welcome to the Center for American Progress. My name is Sarah Rosen Wartell and I'm executive vice president here, and it is my great pleasure to welcome you here this morning to discuss tried, true, tested homeownership programs that work for low and moderate-income families.

Some of you may have seen that this morning, the White House made an important announcement that Vice President Biden's March Madness picks had proved to be perfect in every single regard so far. There, 5 million-to-one is the odds that you would have gotten all of those right. If you had clicked on the link to see the actual grid, you would have gone to the Wikipedia page for the definition of April Fool's. (Laughter.) Unfortunately, today, what we're to talk about isn't a joke.

Affordable, accessible and appropriate programs for homeownership are important to the economic prosperity of our larger country and to the many of American communities, particularly those who have been so badly devastated by the foreclosure crisis. And it's really important that we set the record straight about what works and what doesn't as we go into this debate about what the future of the housing finance system needs to look like in this country going forward.

The narrative in Washington and beyond has unfortunately been that mortgage lending to low and moderate-income families and communities of color is actually one of the factors that led to the collapse of the housing finance market and its ultimate consequences for the larger economy. You can hear people assert with all seriousness, incredibly, that CRA in lending to poor people was actually the problem here.

In fact, it's clear that the problem was risky mortgages, not risky borrowers. We also benefit from a wealth of research and policy analysis that shows us tried, proven, tested programs actually work and can serve the same class of borrowers who are served by many of the subprime loans and yet, those programs are performing through the economic crisis far better than most of the subprime programs.

And the purpose of the issue brief that we released here today at CAP, "Homeownership Done Right," is to put in one place a selected few pieces of that research, quotes from prominent officials, so that it's easily accessible for those who want to pull up and access that kind of analysis and find it. You can dive deeper into any of the reports and studies that are cited in the CAP issue brief.

But the purpose of today's program and the brief that we released was to just make clear that there's an overwhelming expert analysis that suggests that it's possible to serve these communities and serve them well. And we need to keep that in mind as we go into this debate.

For putting together the information today, I am personally very grateful to CAP senior fellow David Abromowitz. David will moderate our panel afterwards. David has been an extraordinary asset to CAP. He is one of the country's leading affordable-housing lawyers at the law firm of Goulston & Storrs in Boston but you will find him more days than not on the shuttle to D.C. where he tells his partners, sorry, I've got something more important to do, and comes down to work with us. He was the first person to write and publish a paper describing what became the NSP program that's now brought billions of dollars into our communities to help them deal with the foreclosure crisis and he's been an important piece of our work on affordable housing.

I'm also very excited – the other author of this paper today is Janneke Ratcliffe. We have recently been so pleased to join into a partnership with the UNC Center for Community Capital and we're very pleased to have Roberto here today. And you'll hear from him and have a full introduction on the panel. That's a wonderful opportunity for CAP to be able to benefit from the really tremendous research capacity of the center. To inform and improve the quality of our analysis about the housing options going forward. And as part of that partnership, Janneke is joining us as a nonresident fellow as well.

I also finally wanted to just mention my own gratitude to CFED and their partners at – their research partners on the paper that they're also releasing today. I have the honor and privilege of being a board member at the Corporation for Enterprise Development, working together with Andrea and her really terrific team, Ida and others. And it's very fun for us to be able to have them here at CAP and bring this research together and show how these pieces all fit.

Perhaps my greatest pleasure amongst all of these is the opportunity to introduce Raphael, who has stormed into Washington and demonstrated that HUD can be a very important player at the grownups' table on the housing policy issues and economic policy issues in this country. And he's quickly become an important part of the policy discussion and also a good friend, and I'm really pleased to have him here today.

HUD's assistant secretary for policy developing and research, Dr. Raphael Bostic was sworn in last summer and he's really become the secretary's key policy advisor on a wide array of issues. He leads a multidisciplinary team of academics, Ph.D economists, researchers, architects, engineers, et cetera, all of whom help to provide research, and I think reviving the notion of evidence-based policymaking in Washington, a concept that seems to have been a little bit neglected of late.

He's also on issues of deep concern to us, one of the secretary's lead architects of the department's approach to the issues of reform in the housing finance markets and what comes next. Obviously, we're not going to continue to have 90 percent of the market federalized forever, and we and the government are working very closely on – are working on those issues and we're very pleased to have Raphael as a key player in that discussion.

Before he came to HUD, Raphael was a professor at UNC's School of Policy Planning and Development. He also was master of real estate development degree program and founding director of something called Casden Real Estate Economics Forecast. He previously worked at

the Federal Reserve Board of Governors and did a previous tour of duty at HUD working with a number of my former colleagues in the Clinton administration.

So if you would – oh, I’m sorry, I failed. I had one last thing I wanted to mention also in my acknowledgements. I finally wanted to thank Gene Ludwig, who as many of you know is the lead of Promontory Financial. I think you all found in your – as you came in at the door; if you didn’t, please get on your way out – an op-ed by him that he was kind enough to let CAP publish, which also speaks from his experience and as a current advisor to many of the country’s largest and small financial institutions. It’s a short piece about his own views on the question that we’re addressing today. So I just wanted to encourage everyone to take a look at that.

So with that, now please join me in welcoming Dr. Raphael Bostic. (Applause.)

RAPHAEL BOSTIC: Thank you, Sarah, for the warm introduction, very kind. And she said I stormed into Washington, I think I actually just came to Washington where there was a storm – (laughter) – and have been dealing with that ever since.

It’s a pleasure to see everyone and to see a room full of people for a topic that is particularly important and it has a special place in American society. And so as we think about homeownership, I think it is really important that we have forums like this where we start to highlight some best practices around how do you do this well and how do you do this in an appropriate way.

I wanted to start by saying that I was very flattered to be invited to talk at this forum. CAP does great stuff. It’s a real policy-leader in terms of putting out ideas that we have to take seriously. And for me to be able to come to this sort of forum and actually hear those ideas and thoughts is something that I don’t get a lot of opportunity to do in this job, but which is something that I’m really grateful for.

For my remarks today, what I want to do is take a step back and think about homeownership from a broader perspective. And just to start, I wanted to piggyback on some of the things that Sarah mentioned about the housing market and just to provide some context for the broader conversation.

Homeownership has long been a policy goal. It’s been promoted by administrations of all political and ideology shades, so this is not a liberal issue or a conservative issue. Everyone really pursues and has been pushing the homeownership policy. And there are a lot of benefits to homeownership, certainly to households, to families, around stability, wealth creation and personal efficacy, and also there is evidence to suggest that it benefits communities as well. And so it’s a very important thing and it is something that we need to continually be mindful of.

But it’s also in crisis, and this crisis – and the important point about the crisis is that it has shown up in disparate ways and in different places. So you can think about the crisis in one instance showing up in suburban Sun Belt communities where middle class families have been trying to step up a bit in their housing. It’s also shown up in other Sun Belt communities where we seen a high level of speculation; where there’s been a significant amount of risk-taking and

trying to make a quick buck. But it's also shown up in a number of urban Rust Belt communities where there have been serious economic woes and those woes have put struggles and made people much more vulnerable than one might have otherwise thought.

For me, the signal or the lesson to be learned from the point that we've seen homeownership break down in a disparate set of communities really suggests that the notion of homeownership in our model is no longer sustainable, and that there are some significant things that we've got to do to make changes. And so this is a really serious problem.

And I think – I was actually very glad that Sarah started the way she did because the effect of the housing market on broader economic performance is clear. We've been in a very deep recession; it's been quite disruptive. But it's had special impacts, as well.

And the impact that Sarah mentioned on minority communities is something that our deputy secretary, Ron Sims, reminds us of all the time. He yells – and it is a yell – that the minority middle class is being hollowed out by this foreclosure crisis. And if we don't take affirmative and strong steps to make a difference in this area, it could be decades and generations before we get back to where we have been. So this is particularly critical for that group.

Others have argued more generally that the concentrations of foreclosures that we've seen and the pain that's gone into particular communities has sort of undone a lot of the good that's come through community development efforts that many have done throughout the country. So this has real implications for people – with particular implications for those who are trying to really get that first or maybe the second step up to self-sufficiency and (importance ?). So this is a real problem.

I think this implies or suggests that we need to rethink what our homeownership model is and get to one that is more sustainable; one that's not really subject to wild market swings the way we've seen recently, and is somewhat insulated from the vagaries of speculation that can occur. And the question that we're facing today is really, well, what would that sustainable model look like? And there's going to be a lot of discussion about that and some of the practices.

I'm going to try to do the 10,000 or 30,000-foot perspective and really try to answer this from a philosophical perspective. And so I'm going to offer that there are four key pillars of a sustainable ownership model: adequate supply, products with minimal instrument risk, a knowledgeable consumer and a balanced approach to being housed. And let me talk a little bit about each of those in turn.

Starting with adequate supply, I'm trained as an economist and I think I would practically be shot if I didn't start by talking about the market and supply and demand. We kind of have to do that. And I think there's also a basic truth that when we see people taking extreme measures – everyone's heard people talk about driving to qualify. That really suggests that the market – the supply-and-demand dynamics have not been working.

And so the first thing I want to really emphasize is that one piece of the solution has got to be making sure that there's an adequate supply of affordable housing in the right places; in places where we want people to live, where people want to live. And so how is this going to be carried out?

And this next point I want to say is a particularly important part, which is that the answer to adequate supply is different in different places. So in some markets – particularly higher-cost markets – the answer is going to be production. We're going to have to produce some more units to make sure that we get to supply-demand balance. In other markets, however, there's already – really, there is already enough housing stock out there.

And so what we're thinking about here and what's necessary here is really preservation and rehabilitation of that stock to make sure that it exists and is of a particular quality that is acceptable from a standards perspective.

A word that we use in this context is “repositioning.” So you can think about repositioning vacant foreclosed properties into affordable rental housing, you can think about taking low-quality structures and repositioning them as mixed-use or affordable housing buildings. So that's sort of the philosophy that we're approaching.

Now, our current system has challenges in both of these areas – in both of these supply chains. On the production side, there's a lot that needs to be done. I think it's clear in the recent experience in the tax credit program that the tax credit program is broken and it needs significant reform if we're going to get to an acceptable long-term solution.

I also think that it's important that we work hard and think about the intersection and interaction between our tax policies – tax credit program, for example – and other housing finance policies, so doing a tax credit deal that includes home money and bond funding, it gets very complicated and it'd be good if we could produce affordable housing without requiring brain damage. (Laughter.) So thinking about how we do that effectively, I think, is an important factor.

In terms of preservation and rehabilitation, an important point to emphasize here is that when we think about preservation rehabilitation, it's not just of the subsidized housing stock. But rather, we need to think about privately-owned nonsubsidized housing because that's actually where most people live and most renters live. And so we want to make sure that as we think about what this next model is and making sure that this system is sustainable – ownership works – that we think about the private sector and the private stock as well. So I want to just make sure we emphasize that.

And I also wanted to point out that many of our programs don't really emphasize and lift up our rehabilitation and put it on an equal footing. And that has led to sort of a mismatch between what programs are trying to accomplish and what many communities actually would need. So getting to a solution there would be helpful.

A second important issue involves instruments – the actual products that are out there in the marketplace. And what is clear here is that there is the prevailing set of instruments and how they were rolled out results in large groups of people taking on risks that were not associated with the normal volatility of life. And that volatility involves health emergencies or losing a job or perhaps family dislocation or some other issue.

Rather, what we saw in this last episode is that the mortgage instruments themselves introduced stresses that many couldn't handle. Interest-only mortgages, negative amortization, many adjustable-rate mortgage projects have payment streams that change over time – that change over the life of the mortgage.

And what that means is that a person's exposure to risk can change even when nothing visibly in their life has changed. And that's really an important factor to recognize. I call that "instrument risk." I've been trying to get people to talk about it like that but with only marginal success there. (Laughter.)

Now, I did want to say that the products that I just mentioned – the interest-only, the adjustables – they've been around for a long time. This is not – these are not new products, per se, but what changed in the decade of the 2000s is that they become much more widely available and they were rolled out to people who hadn't actually seen these sorts of things before, and perhaps were not as sensitive to what the implications were from a risk perspective. And this reality, I think, really introduces a question for us as policymakers as to what products are made available and whether some products should be given priority in terms of that conversation.

Clearly, there's an appeal to a 30-year fixed-rate fully amortized mortgage product. It's simple, it's consistent and it affords borrowers with a maximum level of flexibility. There may be others that we want to think about as, quote, "ideal products," but I think it's important that consumers do get some notion of products and some risk-ordering in terms of how much risk they're bearing if they're going to take a particular type of mortgage.

Now, this begs the question of how to deal with subprime or Alt-A products. You know, some have called for banning certain products altogether, some have called for banning features, some have called for extra disclosures. I actually don't have a particular point of view on this but I do think that how we treat products in different risk classes is something that we explicitly need to have a conversation around and get to some clarity on.

Another key point to raise here— and I think that the panel following me is going to talk about this a bit more – is sort of how do we underwrite our loans and how do we underwrite our mortgages?

Through this recent past – the last couple of years – underwriting has weakened considerably, right. The standards were dropped to facilitate the rapid closing of these deals so we could get them secure ties to Wall Street. We need to reestablish higher standards. I think that's clear. I think you've seen that already in some of the steps that we've taken at HUD in the FHA, and you've seen it in the private market as well. So that's got to happen.

One thing that does concern me a bit about that is that we can't completely eliminate innovation experimentation, as well. I'm particularly thinking here about special lending programs – some done through the CRA – and other types of underwriting and affordable mortgage approaches and products that really serve particular niches in the marketplace that can work. And I think we're going to hear about some of those later on but there are a lot of them out there and I would worry that a blanket application would close off access to mortgage credit for families that actually could bear that product.

Closely related to this issue of instrument risk and mortgage products is the role of the consumer. And as I said, almost all of the products that got people in trouble had been around for a long time, and that the difference was not what the product was but who was getting the product. And so we need to think about making sure that the “who is getting the product” – that those people have enough information to actually understand what it is they're getting into and maybe run – if they really do understand it – away from those products.

And so there's an issue about the appreciation of risk. People need to understand risk. When I was an undergrad, I was a psychology major in addition to economics, and we ran a lot of experiments showing that untrained people and even some trained people have a hard time appreciating the nature of risk. And so it's dangerous, I think, to just assume that people can handle these things on their own.

And then the other point to be made is that in this more chaotic field, there are still predators in the marketplace. And so arming families and prospective homebuyers with enough information to at least know when they should be a little alarmed is particularly important. So a knowledgeable consumer is really important.

The fourth area that I wanted to just highlight – the fourth pillar of sustainable homeownership – is balanced housing markets. And I want to talk about balance in two ways. The first is really a geographic or spatial balance.

There's a lack of diversity in the availability of certain types of housing in certain places, right. So if you go up to suburban communities, you get lots of single-family, detached housing, yards and things. That doesn't serve a whole host of different types of people in different stations. And it means that if people want to live in those places, they have to make adjustments in terms of how they approach things.

And without having a diversity of options in these communities, we wind up seeing people take steps and actions that might not be in their best interest in terms of their income streams or the types of jobs they take or their lifestyles. And so, trying to increase that diversity across communities is an important thing.

A second type of balance is one that we actually have been spending a lot of time talking about, which is the balance on messaging around ownership. I'm going to go back to econ-speak for a second.

There are really two uses or functions for housing. One is a consumption function and one is an investment function. What we've seen in the last 20 years, I think, is a real shifting of focus from some degree of balance between those to a heavy emphasis on the investment opportunities.

And the example I like to use on this is 10 years ago, 15 years ago, property-flipping was considered to be a predatory lending practice. Now, we have show called "Flip this House," right? So we really have changed psychologically around what we're trying to do with housing and how it plays out. And I think that has also gotten people to make decisions in ways that we really hadn't seen 20 years ago, and it changed that dynamic.

So I think it's really important that we return to some semblance of balance around what it means to be housed – and for some people being housed doesn't necessarily have to equal being a homeowner – and making sure that message is clear.

So I wanted to close with just a laundry list of things that we're doing. I don't think any politicians ever get off without talking about that some. And we're taking steps on just about all of these – in all of these areas. On the affordable housing supply issue, we're having a lot of conversations around the tax credit program: How do you fix it? How do you make capital flows more stable, particularly in down markets? And also, we're thinking about ways to make it more flexible so that rehab becomes more possible or repositioning becomes an easier lift using that program.

On the instrument risk issue, we are working hard to support financial regulation. And in this regard, I think the most important thing is, you know, the Obama administration has a proposal out there for a consumer financial-protection agency. Whether it shows up exactly the way that initial proposal was rolled out or not was – I mean, we like it our way but it's not critical.

What is critical though is that it really – it's built – whatever a system, has a number of features. One is transparency, which allows consumers to be fully informed; one is fairness, making sure that everybody has a vested interest to minimize the likelihood of predation; accountability, so leveling the playing field so that all financial institutions and actors are playing on the same playing field – level playing field, same rules; and giving an independent voice to consumers that's sort of outside of the bank safety and soundness regulatory frame that doesn't really exist today. And I think that giving that independent voice raises the profile of these issues and actually makes us have a broader debate about these issues.

We are also – I think January 1<sup>st</sup>, we instituted a series of reforms to RESPA, the Real Estate Settlement and Procedures Act. We changed our forms, hopefully making disclosures much clearer. And also, we've really tried to encourage through our disclosures that borrowers or prospective borrowers go and shop around and try to compare products and prices to get to something that is more appealing and more satisfactory.

And then we're also thinking about broader reforms that cover secondary markets and other parts of the mortgage finance chain that provide incentives for certain types of behavior. And we need to make sure that we control those.

For sophisticated, knowledgeable homeowners or homebuyers, we have – the secretary has expanded our commitment and investment in homeownership counseling. And so we will continue that investment. But we're also exploring ways to broaden consumer financial literacy education writ large, as it were; really trying to get to a place where every American gets some degree of financial training so that even if they don't necessarily fully understand the products, they know enough to know to ask someone for help when they get into a particular condition.

And finally, on creating balance, we at HUD are really pushing to try to highlight rental issues. We formed a rental policy working group internally and we're really working hard to try to raise these issues and get them to some level of comparability with the ones associated with homeownership.

And I would also note that we have in our budget an affordable housing trust fund, really trying to shore up the needs of the rental market and leads of households that are going to engage in the rental market.

So by making the changes above, I think that these are just not some of the things that we're doing on rental are ownership, but I think we're trying to expand the set of housing choices that all Americans have. And with that greater degree of choice coupled with more information and disclosure, I think we can get to a better, a more sustainable homeownership model that will last for decades to come. So I look forward to the panel and thank you all for listening. (Applause.)

MS. WARTELL: So we're very lucky that Raphael is actually going to be able to stay with us through the discussion that follows and then come back up and join the full panel after we hear their presentations and be part of the discussion then.

But what I wanted to say is if anyone had a question particularly either about his remarks or about the activities that he described HUD undertaking and wanted to ask that before we move to the panel, there's a brief opportunity here. Anyone want to enter a question now? Yes, in the back? Hold on a moment; please wait for the mike and if you would identify yourself and your affiliation, we'd appreciate it,

Q: Hi, good morning. I'm Milt Sharp with NeighborWorks America. Sir, I had a question for you in regards to homeownership education and counseling. So as we begin to do things differently as we move forward, is there some thought about how we might look to engage the borrower for tomorrow – the future borrower – possibly a generation that's on the Net quite a bit, and how we might be able to engage them in ways that we're not currently touching them right now?

MR. BOSTIC: Yeah, I think that that's actually right on point. I think if we're going to get to sustainability, we've got to start with, right at the ground floor, people who aren't

necessarily in homes. So we are thinking about a number of different types of ways to reach out and engage them.

For me, personally, one of my soapbox issues is I think we need to get this into the public schools so that every person who gets our education gets some semblance of financial literacy. I think that's an important way to do it. But using the Web and the Net is really important.

I speak on a wide range of topics and in many places where I go, I get reminded that there is a new technology out there, that young people get information and process it in very different ways than I do. And so making sure that we continually reach out and try to engage in their space is something that we've really got to spend a lot of time working on. So I think that point is right on and hopefully we'll get that right.

Q: Eddie Eitches, and for these purposes – HUD. You talked about the need for – I mean, that homeownership is a bipartisan issue. And for sure, during the previous administration – that is, the Bush administration – Alphonso Jackson pushed homeownership and increasing minority homeownership rates as his prime housing interest.

I'm curious, with no bipartisanship taking place right now, where do you see the possibility of Democrats and Republicans working together in some fashion around this issue, and how?

MR. BOSTIC: I actually would dispute the claim that there is no bipartisanship. I mean, when we go to the Hill and we talk about these issues, everybody understands that there's a crisis, everybody understands that we have to do things, and I think we've seen a willingness by the Congress to engage and enact a whole host of policies and support a lot of what we're trying to do around stemming the foreclosure crisis, around trying to help rebuild our communities.

So I actually don't think that that is a – I mean, I'm not completely Pollyanna-ish about this and there are some philosophical differences, but I do think that everybody on this issue in the housing area is willing to engage and is looking for very substantive types of approaches that are going to get us to solutions.

And so when I talk to people about, say, affordable housing or a tax credit program, we get pretty serious consideration and it's taken seriously by people on both sides of the aisle. So I'm actually fairly optimistic that we can get to a solution on this because as I said at the outset, this is really too important to heavily politicize. This is something that has been a drag on our community and on our economy for – at a very high level. And I think that's been felt by people pretty much everywhere.

MS. WARTELL: Well, I certainly hope you're right. With that, why don't we say thank you to Raphael, and David, if you would bring your panel up – (inaudible, off mike).

DAVID ABROMOWITZ: Good morning, everyone. Thank you, Sarah, and thank you, Assistant Secretary Bostic. Your remarks set a really sturdy foundation on which we hope to build with our panel and conversation this morning.

And let me just say, as Sarah mentioned, my other day job as a practicing real estate and development attorney predominantly in affordable housing for the last 26 years – I was thrilled about the notion of addressing the complexity and the balance between rental and homeownership, having closed many of those deals with six, seven, eight and 10 sources of financing that don't work together. Get it down to three and we'll be happy. It'll be a major breakthrough.

What I want to do is first briefly introduce our panelists this morning and then take a moment to set the stage for the conversation we'll have. Everyone should have the hand-out of the "Homeownership Done Right" paper that was on the table, as well as be sure to get the "Weathering the Storm" paper as well that was out there, among other things.

We're really, really pleased with the range of panelists today and what they're able to share with us. Starting at the far end there is Dr. Roberto Quercia, who directs the Center for Community Capital at the University of North Carolina at Chapel Hill. He is also a professor of city and regional planning and a faculty fellow at the Center for Urban and Regional Studies.

Previously, he's held appointments at University of Texas, University of California at Berkeley, Wharton Real Estate Center and the Urban Institute in Washington. He's got to get actually to the middle of the country at some point. I know that he spent time also in Honolulu earlier. He conducts extensive research for government agencies and other nonprofits including the U.S Department of Housing and Urban Development, Congressional Budget Office and the GAO. And in his little spare time, he serves on the boards of the Housing Policy Debate and Housing Studies and the research advisory council at the Center for Responsible Lending.

At this end is Ida Rademacher. I'm going in the order you're speaking, in case you've forgotten. At this end is Ida Rademacher, who is the research director at the Corporation for Enterprise Development – CFED – where she provides research and evaluation and expertise towards effective strategies for building assets and expanding economic opportunity.

She's also responsible for development of key research publications, such as Assets and Opportunity Scorecard. And she brings over 10 years of applied research and evaluation experience in fields of asset-building, workforce development, rural and immigrant entrepreneurship and community economic development and others too numerous to list here.

Prior to joining CFED, she worked for the Academy for Educational Development and the Aspen Institute in the fields of workforce and economic development. So thank you for being here, Ida.

And next is Dr. Caroline Ratcliffe, who coincidentally is named Ratcliffe along with my coauthor, Janneke Ratcliffe. But I think we've established maybe there's a distant connection but they are not sisters or close relatives.

But Dr. Ratcliffe is an economist and senior research associate in the Urban Institute's Center on Labor, Human Services and Population. She's also been a visiting associate professor

at Georgetown University, teaching in their public policy program. She has published widely in the areas of income and work supports, asset-building, youth development and Social Security.

Dr. Ratcliffe received her Ph.D in economics from Cornell University, which I was going to be sure to mention had they done even better in the March Madness, but is certainly worth mentioning.

Just to take a second to pick up on what's already been said and kind of frame where we're going with this part of the discussion, if you're out here this morning or watching on the webinar, you certainly are someone who's realized that we're in the midst of an extraordinary, multi-year housing crisis.

Predictions are as many as maybe 12 million families will lose their homes by the time from the beginning of the peak until the time we're done. That's out of roughly 75 million homeowners in this country, roughly 55 million of whom had mortgages. It's an unbelievable loss of stability, loss of wealth, loss of opportunity for millions and millions of families.

The homeownership rate in this country could go from having peaked at a little bit over 69 percent in 2004 could well dip below 64 percent by the time we're done. That would take us back to the lowest homeownership rate since 1968. Homeownership rates are not a measure of national success, they're not a measure of stability, but they do indicate something about trends in this country and the type of issues that the assistant secretary pointed out.

Compounding this truly devastating loss of wealth and opportunity is the disparate impact on African-American, Hispanic and other minority families, as has also been mentioned. It's also the fact that many have sought to sort of point the blame, the responsibility back solely on the homeowners themselves, on the borrowers themselves, and shifted away from the policies and practices that got here.

Wherever you are on that issue – and a lot of our research that we'll cover today speaks to that – unfortunately, many are absorbing that notion as what's becoming almost a conventional wisdom. We hear all too often statements that come very close to declarations that it's time to give up on efforts to help working families become homeowners. What we can do here today is underscore that not only is that view a terrible misreading of what went wrong, it's also blind to so many things that have gone right.

The successes that we're highlighting here this morning at CAP occurred amidst the background of the worst housing backtrack and crisis since the Great Depression. In our short issue brief – and we tried to keep it to no more than 10 pages. We could have gone on and on and on because there's much more research out there and we hope that people in this room will add to it and contribute to it.

We tried to point out that evidence abounds that lower and moderate-income families, low-wealth families, who desire homeownership do in fact benefit from well-designed programs. To demonstrate this, we pulled together evidence-based evaluations of a variety of approaches that work.

And we contrasted what works with the salient features of subprime mortgages and other predatory lending approaches, which the assistant secretary pointed out have been around for a while but have never been flooded into so many communities so quickly as they were in a very large marketing effort and capital flow effort during the 2000s – things that were called marked innovations by ardent supporters of deregulation and lax regulation.

Research, however, confirms that affordable homeownership programs we cite are not isolated cases. To underscore that point, we have here today some people to speak to the hard research they've done and evidence on homeownership done right.

Our panelists will help us debunk some of the myths that seem to be very persistently put forward by those who want us to return to the Wild West mortgage financing markets of the early 2000s. And we hope that you and others can take this forward and help in the effort that the assistant secretary mentioned to devise things that do work well.

Now, of course, you have to say this is not to say that no borrowers consciously took out loans that were high risk for their personal income or assets. And no one here is arguing that there was no fraud or misrepresentation by some borrowers. But by the way, that happened at all income levels in all communities.

The economic maxim, however, that bad money drives out good was very much validated in recent history. Today, we hope to talk about how to return good money back into the system and why if we do so we can seriously advance programs designed to build homeownership, wealth and opportunity in wealth-limited and minority communities around the country.

So with that, what I want to do is turn first to you, Roberto. And your research compared programs that were really designed with the consumer in mind with ones that were meant to maximize high cost and profit. And please share with us what you found.

ROBERTO QUERCIA: Thank you, David. Good morning, everybody. Traditionally, insufficient funds to meet the required 20 percent down payment was the main obstacle to home purchase. Today, there are several options that address these obstacles responsibly, and I think some of the research I will talk about and some of my colleagues will talk about will show that there are IDAs, shared equity options.

The piece I want to talk about is the tried and true, low down payment, 30-year mortgage. These mortgages became more available in the 1990s and they unfortunately, due to the current crisis and the financial and economic meltdown that we have today, have some questioning the wisdom of extending homeownership opportunity using these low down payment mortgages.

Although it's understandable as a reaction to the crisis, I think this concern needs to be put in the context of the evidence. And if I can summarize the evidence in one sentence, it's that not all low down payment mortgages are created equal. And so that's the one sentence you need to remember after my presentation.

Why should we do this? Why should we promote low down payment lending for low-wealth families? The probably quickest answer is that home equity is for most families, and especially for low-wealth families, the biggest form of assets they will ever accumulate. We estimate that among low-income homeowners, home equity represents 70 percent of the net worth. That's a huge amount. Without homeownership, it's unclear how they can collect this much assets.

One of the reasons that they can do this is that home purchase allows low-wealth families one of the – really, the only opportunity for leveraging investment they will ever have. They gain appreciation in the home value of their house and not the size of the small down payment.

We have done some calculations and estimations of this. We have been following low-wealth borrowers for about 10 years. And the annual appreciation from origination to the fourth quarter of 2009 was 2.4 percent. And if you look at the actual return on the equity investment – the small down payment – it was actually a whopping 39 percent a year.

We looked at these before and after the crisis and the numbers still hold. Obviously, prior to the crisis, the return was higher. But even after the crisis, the return is still positive for most borrowers.

Most importantly, why I do think that concerns over low down payment mortgages is misplaced is that we believe and we have the evidence and have done research that low down payment lending is viable and sustainable when done right.

Lenders know how to do this kind of lending. They have originated 30 years, self-amortizing fixed-rate mortgages for decades under the auspices of the Community Reinvestment Act. These mortgages take into consideration that borrowers are ready to pay, they have low down payment but they require resource and escrow payment of property taxes and insurance. And they often require homeownership counseling, at least until 2005.

Critics are wrong to blame community reinvestment efforts that extended homeownership opportunities to low-wealth families for the excesses that led to the subprime boom and bust. They are wrong because the evidence shows that low down payment lending was not the cause of the crisis – again, when done right.

We have done research, David mentioned, that actually compared different types of low down payment mortgages and their performance. We separated the risk inherent in those mortgages with the risk inherent in the borrower.

We found that low down payment subprime mortgages were up to five times more likely to default than low down payment community reinvestment loans made to borrowers with similar risk profiles. So for similar borrowers, huge difference even with two low down payment products. Worst-performing were subprime mortgages originated by brokers with the prepayment penalties.

We agree with the critics that homeownership is not a panacea. It is not an antidote for all ailments, including financial insecurity. However, we encourage the critics not to throw the baby with the bathwater, if I may use the analogy. Our (work ?) I think has provided evidence that when done right, these low down payment mortgages – fixed-rate, 30-year, self-amortizing mortgages – actually work.

We (got done ?) our research based on the data that we have with 50,000 community reinvestment loans. We have been following these loans over 10 years. We have data of origination and performance data every month. In addition, we have up-to-date information on property values and credit scores of each borrower. We also collect annual information on wealth and assets and debt of each family. We also collect information about employment and crisis events. So we can actually put the life of a borrower in context with the life of a mortgage.

We conclude then that this is viable because we have actually been able to do that. We believe that these are kind of analyses and the data; it is ideal in understanding the fortunes of the low-wealth borrowers that to me are likely to characterize the credit market in a post-crisis future.

And the reason I say this is that I believe that the ongoing national transformation towards a service economy with these low wages and more unstable incomes will force the industries to rely on these instruments again – low down payment, appropriately underwritten fixed-rate mortgages – if they know how to do it effectively. And the evidence that we know of shows that when done properly, these things actually work great for families on the market. Thank you.

MR. ABROMOWITZ: That was a marvelous statement of one aspect of approaching low-wealth families and how to help them into home ownership. For the next segment on IDAs, Ida and – did you choose the area because of your name or – (laughter).

IDA RADEMACHER: I think I got the job – (inaudible, off mike).

MR. ABROMOWITZ: Okay, I just – I'm sorry, I meant to ask you that earlier. But in any event, Ida and Caroline are going to cover two parts of that, so I'm going to turn it to Ida to talk about their research about how IDAs have helped low-wealth families avoid foreclosure.

MS. RADEMACHER: You know, it was interesting, when I first took this job – thank you, David – everybody, I had thought, was shouting at me all the time because every single e-mail came with I-D-A in very big letters. And so anyways, a bit interesting.

But thank you very much. I think I want to also thank Secretary Bostic and Sarah and my colleagues here. This is a great opportunity to see the strong and engaged leadership of HUD in this area, and I think, today, to have this kind of discussion in a really timely way, so we're happy to be here. And I'm going to try to add a little value to what we know about what it takes to do homeownership right from the perspective of a bundle of services in an account that we call individual development accounts, or IDAs.

The segue way that I had was actually done really well by you, so I'm going to change my introduction a little bit and say that there's been some fascinating research recently from the San Francisco Federal Reserve on mortgage market channels. And the findings that Carolina Reid and her coauthors found was that there are very different mortgage market channels that lead to very different lending opportunities and instrument risk, right, among minority communities where they've done their research.

And so what I want to suggest that we – when I talk about the IDAs, that I'm going to put them in the context of, I think what we have here is a very effective mortgage market channel, perhaps, and the way that the bundle of services is both directed and also is working to help people make better-informed choices.

Today, I do want to just point out we're releasing our report today and you all have the only printed copies in existence in the room today. So there'll be more. It's called "Weathering the Storm: Have IDAs Helped Low-Income Homeowners Avoid Foreclosure?" And in addition to Caroline and myself, our colleagues are Kasey Wiedrich, who helped write it, from CFED; and Signe-Mary McKernan and Megan Gallagher from the Urban Institute.

So this was a really fun collaboration and one that was inspired both by CFED's longstanding interest and leadership with the individual development account and asset-building field, and also our founder, Bob Friedman, but the practitioner community themselves, who really needed to understand as they're doing this work if they're being successful and if they need to change the model a little bit on the ground.

So I think to that point, and thinking about this mortgage market channel idea, I'll just say a little bit about what individual development accounts are for people who aren't familiar with them. They're a multi-faceted program that's designed to help low-income families save and build assets.

There are really three primary features to an individual development account. The first is that there is a matched savings account, so there's a savings incentive in the form of matching funds that individual participants can use at the time of a down payment in the terms of homeownership. These can also be used – these accounts can be used for business start-up or for education.

For homeownership, the matches range from 2-to-1 up to 4-to-1 in most cases. And there's a limit to that match but it is a way to combine an incentive for savings for low-income people to think about savings in a way that actually could accumulate enough to help them with a down payment.

The savings account is always coupled with financial education – both general financial education around goal-setting, credit repair, and also asset-specific education around homebuyer education. So anybody who is participating is required to have financial education rolled up.

And over the savings period, there's a lot of interaction with the staff at individual development account programs – programs that are run by CDFIs, programs that are run by

community-based organizations, municipalities, lots of groups. So there's lots of oversight and guidance as a participant is saving to understand the good and bad products. And a lot of times, when they go to release the funds, the program has the last word on whether or not that loan was a good loan or not and whether they'll release the matching funds for the down payment.

So together, the bundle of services is really hypothesized to help channel that person, that individual saver, into a loan that's going to give them much higher chances of wealth-building and fewer delinquencies and foreclosure opportunity. So that was a hypothesis we had going into this work.

I would say that the research that's known about IDAs so far is that they do increase homeownership. But what we didn't know and what the research hasn't shown right now is if they increase the success of long-term homeownership. So we didn't know anything about the long-term asset retention of IDA-savers.

So with The Urban Institute and with support from NeighborWorks American and the Ford Foundation, we set out to answer three questions, basically, which were, what are the economic and demographic characteristics of IDA homebuyers and how are they the same or different than other homebuyers in the same communities over the same periods of time? What were the loan terms that those homebuyers received, and how did they compare to other low-income homebuyers in the same communities? And finally, what were the foreclosure rates among that community?

We ended up working with six IDA programs that really focus a lot on homeownership around the country. So we had programs in California, Indiana, North Carolina, New Hampshire, Ohio and Texas. We worked with them to construct a data set of administrative records. We ended up with a sample of 831 homebuyers who purchased homes with IDA funds between 1999 and 2007.

And then at CFED, we conducted property searches in early 2009 to verify the current homeownership status and foreclosure status of all of those homebuyers. We then worked with Urban to develop methodologies to compare the loan terms and foreclosure outcomes for the IDA homebuyer sample to comparison groups of other low-income homebuyers who purchased homes in the same counties during the same time period. And I'm going to turn it over to Caroline to explain what we found.

CAROLINE RATCLIFFE: Okay, thank you. I just want to start and say a few more words about the data and our strategy for constructing the low-income comparison group. We used two loan-level data sets: the Home Mortgage Disclosure Act, or HMDA, data and mortgage-performance data. And we used the strength of each of these data sets. So we used the HMDA data to look at demographic characteristics and loan type and term. And we used the mortgage-performance data to look at foreclosures.

So what I really want to do is focus my remarks on the findings from our three research questions. So one is what are the demographic characteristics of IDA homebuyers and how do they compare with other low-income homebuyers?

And what we find is that IDA participants are more likely to be female compared with other low-income homebuyers. So this slide shows that, for example, 39 percent of IDA homebuyers are African-American compared with 12 percent of our comparison group of low-income homebuyers. And 73 percent are female versus 45 percent in our comparison group.

So moving onto our second research question, what loan terms do IDA participants receive – or homebuyers receive – and how do they compare with other low-income homebuyers?

So IDA participants are more likely to receive government-ensured loans than other low-income homebuyers and less likely to receive conventional loans. So we find that 40 percent of IDA homebuyers received government-ensured loans compared with 15 percent of other low-income homebuyers.

And importantly, we find that IDA homebuyers are much less likely than other low-income homebuyers to receive high-interest-rate or subprime loans. So for example, 1.5 percent of the IDA homebuyers had a high-interest-rate loan, compared with 19.6 percent of the comparison sample. Now, there are some differences in reporting across the two samples, but we do see very large differences in the results, in that the IDA participants look much better, in terms of these loan terms.

So just quickly moving on to the third research question, and really our most important, is what are the foreclosure rates among IDA homebuyers and how do they compare with other low-income homebuyers? And for this part of our analysis, we used mortgage performance data because it has the foreclosure information, but it does not provide information on homebuyer income. So we used loan amount and credit score, or FICO score, as a proxy. And so we look at three groups here.

And we see significantly lower foreclosure rates for the IDA homebuyers sample, that the foreclosure rate for the IDA sample is about one-third to one-half the rate for other low-income homebuyers. So for our most conservative comparison, we see that 3.1 percent of IDA homebuyers had a foreclosure, compared with 6.5 percent in the comparison sample. And this 3.1 percent represents 25 out of our roughly 800 IDA homebuyers.

So one caveat, which we discuss in the paper, is that our IDA homebuyers sample is not a random sample of low-income homebuyers, but we find large, and in some cases, very stark, differences between the IDA homebuyers and the compared – I'm sorry, as compared with our comparison sample.

So we conclude three things from this paper: One, that IDA programs expand homeownership opportunities to minorities and women; two, that these IDA programs help participants obtain better loan terms; and three, that they help participants avoid foreclosure. Thank you.

MR. RADEMACHER: Thank you, Caroline. That really outlines a second pillar of access for low-wealth families. And I'm just going to talk a minute, quickly, about a third pillar that we discuss of access to homeownership for low-wealth families and lower-income families. Much more on this in another handout on show-and-tell.

So about six weeks ago here at CAP, we did a panel and released a paper called, "The Path to Homeownership," which I coauthored with Rick Jacobus. And that really focuses and expands a lot on the shared equity concepts. I'm just going to give a very brief reprise of that. And before I do, though, I'm going to put the audience a bit on the spot, because I always have to ask. How many people are homeowners in the room? Okay, thank you. That seems roughly proportionate to the population.

And how many of you had some help from family, friends, relatives, inheritance in your down payment for your first home purchase? Pretty significant sample. I think that helps us put in context what we've all been talking about – about the barriers, as, actually Gene Ludwig's piece really highlights very nicely – you know, sitting here today in 2010, we forget that homeownership was not the norm before World War II.

And in fact, it was a whole host of governmental policies born out of the Depression and the G.I. Bill and a lot of postwar efforts to expand the middle class that expanded homeownership rates from roughly 45 percent, pre-war, to about 65 percent by the time we got into the 1960s – in roughly one generation. These programs, such as FHA, VA, other things like that, were critical.

But you can't talk about this topic today without also talking about the fact that access to homeownership financing and homes in communities was not evenly shared, was not evenly accessible. Many of the same federal policies that promoted homeownership were racially discriminatory, and overtly so. Only after the passage of the civil Rights Act in the 1960s, when this was outlawed, and well past that time when even unlawful discrimination, whether redlining or just more subtle forms, were in fact – there's a large, large gap in access to ownership between white families and minority families.

The legacy of this today, as, again, folks – knowledgeable group in this room know, is that 72 percent of white families own their homes, at least at the point in time when I pulled these statistics – it may be less now – and only 47 percent of African-American and Hispanic families own their homes.

And that gap is larger than it was 40 years ago, between the two. So as other speakers have noted, this translates into an enormous generational wealth gap. The average white family has, as of these statistics, \$80,000 of net assets. The comparable average African-American family had less than \$10,000 in net assets. Most of that gap, as Roberto mentioned, is in home equity.

So when we talk about access to ownership, you can't get there, going forward, without doing something about that wealth and asset gap. In addition, research shows that one-third of first-time white homebuyers received some financial assistance from a family member, a

relative, friend, in terms of putting together the down payment. The comparable statistics for African-American families was only 6 percent. If you don't have wealth yourself, you can't lend it to your kid to buy a home.

So what can shared equity do about this, and why talk about shared equity? At bottom, at its most simplest form, shared equity is really a public investment that enables a family that lacks its own wealth to buy a house with a mortgage within the income means. It balances the two parts. It makes sure that the family does not overextend, in terms of the income spent on a mortgage. It means that the family doesn't have to take a mortgage that's higher risk because of an adjustable rate or other hidden features.

But it also then says, in many areas, especially where the income-to-house price balance is out of balance, you can access a house in your own market, where you want to be, as opposed to going far away, and that gap is filled by a public shared-equity investment. This takes the form, and is in practice for decades, through a couple of different mechanisms. There are hundreds of thousands of limited-equity cooperatives in the country that are functioning reasonably well.

There are a lot of need-restricted houses around the country. The federal HOME program has been one source of that for homebuying. Many areas, such as where I spend most of my time, up in Boston, San Francisco, and many smaller, mid-sized cities have inclusionary zoning, which require an affordable component where the affordability is perpetuated by a deed restriction. Finally, the third area that's usually involved in some form of shared equity is sometimes in putting it in the form of a soft second mortgage, which is called a mortgage for purposes of securing it, but really is a form of shared equity.

So the experience with shared equity, as we began to look at it, is that it has the same, sort of, stabilizing features – the foreclosure-prevention features that we've talked about in other aspects here. A couple of examples: The Champlain County Housing Trust in Vermont is an area where they've had several decades of experience with a community land trust – hundreds of homes for low and moderate-income homebuyers.

Their experience – they did a large study recently evaluating that – extremely low foreclosure rate – about half of that of prime borrowers in the same area, even though the income level of the folks in the land trust homes was closer to that of subprime borrowers in the market. A lot more details about that in the “Path to Homeownership” study.

A few things that were salient to me – one is, the average homebuyer in a land trust home, after five-and-a-half years, sold that house and moved to another one. Two-thirds of those homebuyers had accumulated enough wealth in that first access into homeownership through a shared-equity approach that they could opt into the general housing market, and bought a house outside of the land trust.

Similar to Roberto's report, they found that the average internal rate of return, if you viewed the portion of the down payment – the home-buying family themselves put down as an investment with a rate of return, even under a shared-equity formula, where most of the

appreciation stayed locked in the home for the next affordable homebuyer – but the homebuyer who left had a 25 percent internal rate of return on their invested funds. And again, as the assistant secretary mentioned, we've had a decade of perhaps viewing homes too much as investment and too little as shelter.

I often view that as, compared to what? The investment options for a low-wealth family are terrible. The renting options, in many areas, are not controllable, in terms of rental costs. So it's – no wonder people are investing in their homes, and over-investing in their homes. You know, we can't solve that issue just in housing policy. It has to be a comprehensive wealth and investment-building policy. But when you do it, even in a shared-equity model, where, again, the public investment stays in the home to create a new affordable unit, there's substantial return to the homeowner.

Similar results from the Dudley Street Neighborhood Initiative – this time, a 25-year-old, community-based organization in the Roxbury section of Boston – one of the lowest-income, one of the poorest communities in Massachusetts, certainly in the city of Boston – and predominantly African-American, Cape Verdean with a strong Latino population.

There, they've created about 400 homeownership units over time, have had one foreclosure during that time. The income levels and the asset levels of that population – completely identical to people who, across the street, bought a house with a subprime, risky loan, thought they had some wealth on paper for a while, lost it after a few years, compared to what's the experience in this shared-equity model.

Part of that is, most of the shared-equity programs have a feature, like the IDA at the outset, which – it limits refinance or equity take-outs to go through a process to make sure that the equity is not being unduly put at risk, because it's shared between the public investment and the individual.

So while in setting this up, many people said, well, that's very paternalistic; why should a minority homebuyer in Roxbury not have the same opportunity, David Abromowitz, as you do in Newton, Massachusetts, to go leverage your house up to the hilt and take cash out and take a risky loan, over time, the trade between unlimited freedom of choice to over-leverage your house and stability in your housing choices has proven to be a very good one.

And the homeowners, if you actually go talk to them, in Dudley or many of these shared-equity models – virtually none of them say, boy, I wish you'd let me take out that home equity loan or refinance with that risky loan, because they see what's happening to their neighbors. The last point I want to close on – well, actually, I just want to mention, we did a study – Lincoln Institute did a study nationally of foreclosure rates on community land trusts, and again, found that it was a less than 1 percent foreclosure rate, compared to the national rates, as you've seen.

Final point I want to make is, oftentimes, people say, well, shared equity is expensive. You know, you might need, on average, \$25,000, nationally – and again, markets change a lot – \$25,000, on average, to make a meaningful down payment investment up-front to create

homeownership in a lot of places. In a lot of places, it's lower. That's expensive; how are we ever going to get there?

In the course of 2009, the \$8,000 homebuyer credit expenditure will be about \$15 to \$20 billion. The statistics I've seen – and maybe there's a more recent one – are that somewhere between 200 (thousand) and 400,000 families using that credit, in fact, would not have been able to access ownership without the credit – they were wealth-constrained; they were renters with low wealth and that credit made the difference.

The vast majority of the roughly 2 million people taking the credit really did not need it. So the \$15 to \$20 billion, in that case, while it has a stimulative effect in terms of truly targeting folks who needed the help into homeownership, really was a relatively expensive approach. If you took \$5 billion at \$25,000 per family and targeted it, in a shared-equity approach – towards 200,000 new homebuyers in 2010 or '11, not only do you get those 200,000 new, first-time homebuyers who truly need the assistance, but the way shared equity works is, it's a long-term investment.

The public investment is locked in for the first buyer, the second buyer, the third buyer. So over a 30-year lifespan, you roll that over two, three or four times. You could be assisting 600,000 to perhaps as many as a million homebuyers for the same initial, up-front payment. The contrasting approaches are essentially a one-time windfall to families who happen to buy during this period of time, who then keep that and move on. So there's no long-term public investment. So the cost should not be the barrier. The question is the policy will and the political intention to invest the public dollars more wisely in an approach that works.

Let me stop there. And I think we're going to invite Assistant Secretary Bostic back up and turn this into a little bit of a conversation. People up here first, if you have questions for each other, or if you want to comment on any of the things we've said, that would be – or highlight.

MR. : (Inaudible) – get to it.

MR. RADEMACHER: Okay. So if any of you either have questions for each other, or we have – I know many people in the audience have been raising their hands. Are we ready for the audience? Okay, then if our microphone spreader will – that gentleman in the middle.

Q: My name is Steve Shaff. I'm founder of Community Vision. I'm an affordable housing developer and an activist. About two years ago, I had started researching the shared equity concept, which actually is not a new concept, and I found plenty of evidence that it was really something that could be an alternative to the way the market was clearly heading in 2008. Two years later, it seems that there's plenty of other information. Why is it that we do not hear shared equity in the public discourse to solve this massive housing issue?

MR. ABROMOWITZ: Well, we're talking about it here today. (Chuckles.) Your question is really, why aren't we hearing it more? Why isn't it at the forefront? Anyone care to offer some thoughts?

MR. BOSTIC: I guess I would start by saying that in our building, we have been pretty swamped just trying to deal with the immediate crisis, to calm things down, manage that. I think there's been a lot of conversations that have gone on, sort of, in the background that haven't gotten as much prominence in a whole host of areas, that I think we're going to start to see more engagement around, moving forward. Did everyone hear that last one?

(Off-side conversation.)

MR. BOSTIC: So I do think you're going to start to see more conversation around a whole host of different sort of approaches, as we move out of crisis-response mode to the broader recovery stage and we try to redesign these things. And I would say that forums like this, and this type of research is actually helpful. But I would then have to bring this back and make sure that this is part of the policy dialogue as we move forward.

MR. ABROMOWITZ: Great. The gentleman with, sort of, silvery hair with his hand up. Yes, that's him.

Q: Yeah, thanks. My name is Chester Hartman. I'm from the PRRAC – the Property and Rights Research Action Council here in Washington. Let me poke around with the notion of affordability. We throw around the term in a sort of generic way – “affordable housing” – you know, which is kind of a nice idea, that everyone should be able, no matter what their income is – they can afford to own or rent. And we operationalize it, usually, with that 30 percent figure – that the cost of owning or renting should be no more than 30 percent of one's income.

But there's a whole alternative concept to that, which the – (inaudible) – the Low-Income Housing Coalition and Michael Stone of UMass have put forward, called “shelter poverty,” which relates housing costs to non-housing basics – what a family needs for food, medical care, transportation, blah, blah, blah, and essentially saying that there is no fixed ration – that what is needed for non-shelter basics is a function of household size and income. You need more – the bigger your household, the more you need for food, et cetera. The lower your income, the less you're going to have for housing.

And Stone, in one of his earlier research projects, put forward a fabulous, mind-blowing statistic that there were 15 million U.S. households – 15 million – who couldn't afford one cent for housing if they were going to have enough left over, by the government's own standards, for non-shelter basics. And whereas this concept has been around for a while, I don't see it being absorbed into our policy work at all. And I'm wondering what people have to say about how that differing notion of affordability affects homeownership and housing policy more generally. Thank you.

MR. ABROMOWITZ: Anyone want to speak to it from their research, or –

MS. RATCLIFFE: I don't really think – I think maybe Rafael is the best person on that. (Laughter.)

MR. BOSTIC: I had a bad feeling – is this on? I had a bad feeling I was going to have to answer this question. I actually think that, that's a good question. I do believe that these notions have been embedded into policy already. If you look at how fair-market rents are calculated, there are adjustments for family size. It certainly is not perfect, but I think it's not completely accurate to say that Cushing's work has not been influential. It's been tremendously influential in shaping how we talk about need, how we think about need and the types of issues that we're starting to consider.

For example, right now, as we start to craft new policies, we're thinking a lot about, in that sustainability context, explicitly incorporating transportation costs into notions of affordability to try to get to the issue that it's not a generic experience, but that you have to really think about people in the context of, what they need to do to live and survive. So I think the places and the directions that we're going in are very much aligned with the things that you've been suggesting. And I think as we move forward, you'll see more of that.

MR. ABROMOWITZ: The gentleman in the tan jacket behind Chester, who's also sort of silvery-haired.

Q: My name is Alex Vacera (sp). I'm retired from HUD. And I think it's very important and critical that you continue to emphasize the importance of IDA programs and affordable down-payment-assistance programs.

In addition to these programs, for the past several decades, you had down-payment-assistance programs at the local, state and federal government, supported primarily by HUD, with HOME funds and CDBG funds. In addition to that, you had USDA with the 502 home ownership program, that has been in existence for about several – five decades – and highly successful.

I think that because the Affordable Housing Trust Fund, as currently structured, provides only 10 percent funding for homeownership, that it becomes very critical for HUD to assert itself and promote, actively, these other programs. IDA programs can be complemented with down-payment-assistance programs. You can complement the HUD-sponsored homeownership programs. And once you leverage these programs, it certainly makes it affordable for many low and moderate-income buyers to become homeowners. Will HUD do this?

MR. BOSTIC: I guess we'll think about it. (Laughter.) I did want to just push back a little bit on this to just say that we're not, as a department, in a mad dash to get everyone into ownership, all right. And you know, part of the point of the housing trust fund is that there are a number of extremely low-income people who are having difficulty finding housing at any cost, and that we've got to set aside some programs and some resources for that population.

So I think that the restriction is really oriented toward getting people housed, and getting them housed well. And I think the set-aside money – you know, maybe there will be a role for some of this stuff, but I think that's going to play out on its own. So in the broader context, I think that one of the things we're trying to do is make sure that there are resources and programs

available for all the different modes of housing that need to be in the marketplace. And I think we've seen recently that – where we've been out of balance on that in a pretty significant way.

MR. ABROMOWITZ: Thank you. We have time for a question, and the woman all the way in the back has had her hand up.

Q: Hi, Judy Kennedy, National Association of Affordable Housing Lenders. Hi, David. First, let me thank you all for reiterating the rebuttal of, you know, CRA caused this mess. We've actually issued a publication, "In Defense of CRA" at our Web site if you need more information. But there's an equally pathetic canard that I didn't hear – that I never hear progressives discuss, frankly.

And that is that Fannie and Freddie had these unreasonable affordable housing goals, and that contributed to the mess. So let me tell you one quick anecdote, because I think we talk about data too much in Washington, when it's the story that communicates. Let me tell you about my staffer, who spent eight years with us, and former Fed governor Ned Gramlich trying to stop predatory lending.

Let me tell you how she paid off her student loan, single mother, saved her 5 percent down, had no money from her family, saved her closing costs, and went out in 2006 to buy her first home. Market rates that day for a 30-year fixed-rate mortgage with 5 percent down were 6.25 (percent). She came back on Monday morning, having been proud of the fact that the broker told her, she didn't need to put her 5 percent down; she could get 100 percent financing.

And when I looked at the documents, it was a first-lien loan of 8.25, and of course, a soft second – not a soft second – a second for 10.75. And where did her 5 percent down payment go? It went to the 11 percent in closing costs that were clearly to be shared among the realtor, the broker, and I'm going to assume the builder. I picked up the phone; I called. What I heard was, Fannie and Freddie made us do it. They are the market-makers. They're not interested in low down payment, fixed-rate mortgages; they're interested in subprime firsts, and then they're interested in these seconds – piggyback seconds.

And so we called around to CRA lenders in Prince George's County and she got a rate of 6 percent, because she was a CRA-eligible loan – fixed-rate, 30-year. That subdivision in Prince George's County, where she paid \$240,000, got the fixed-rate loan, is now one-third empty. The house price, for short sales, is 140 (thousand dollars) – and there will be families losing their homes over the next two years, because not until the ultimate reset in 2011 will families continue to lose their homes.

So as we talk about what caused this crisis, talking about the role of the market-makers, the role of the government, the role of the HUD, in letting Fannie and Freddie do this is equally important if we're going to reform a system that caused all these families in Prince George's County to lose their homes.

MR. ABROMOWITZ: This is a critically important topic – one that presumably will have a full and lively discussion on another day. I'm not sure when, but – yeah?

MR. QUERCIA: I'm sorry, I can briefly – we actually did some research to answer those questions. One of our colleagues, Ed Pinto (sp) – many of you may know him – he feels very strongly that the affordable housing goals of Fannie and Freddie created the mess. And we did some research – actually, we've got to send it to you guys, and we can send it to you to be distributed.

The two short answers to those questions are, if it was the affordable housing goals that created the mess, why do we have the same prices in the commercial market, and why do we have the same inflated equities in other markets besides housing? There was something about capital markets, at the bottom of this, and not housing goals.

So just comparing the two different markets – housing versus commercial – can give you one part to the answer. The other part to the answer is that those – Fannie and Freddie were losing market share in both the insurance of mortgage-backed securities, and they were also holding some mortgage debt, from 2001 to 2006, relative to Wall Street.

So this is a period of recklessness in lending. So if you look at relative lending, they were losing market to Wall Street. So it cannot be, actually, blamed for anything. I mean, of course, they were not blameless, but blaming it on affordable housing goals is shortsighted, I think, and doesn't fit the evidence.

MR. BOSTIC: I would agree with a lot of that. The only thing I would disagree with is, I think there's blame to be placed everywhere. (Laughter.) And I think that's one of the reasons, as we think about reforming our housing finance system, we've got to do it more than just the Fannie and Freddie story. It's got to be more than just a broker story; it's got to be more than just a secondary-market story. It's got to be everybody, because everybody played a role in this.

The mix of incentives, the relationships that had been established – all of things contributed to the type of stories that were just described. So I think that – and the regulators have an important role to play in this. So as we move forward and think about tomorrow's housing finance models – model 2.0, if you will – it's got to incorporate – it's got to have answers for all those different players and establish the rules by which these transactions happen.

MS. WARTELL: Let me just take host's prerogative just to say that progressives are trying to address some of these questions, also, and I testified before the House Financial Services Committee last week in the hearing that Chairman Frank had. And in our testimony, we've written a little about this and we will be doing a lot more. We did try to parse through the role of different players.

We would argue that, much as Rafael just said, the GSEs did play a role, at different points, in buying some types of paper – not the same characteristics as all of the subprime market and the private-label securities market – but they did purchase a big piece of this – but that largely, it was very much, in part, driven by market-share demands, as Roberto was mentioning.

You can't fully parse out what the drivers were, but it seems to us that the economics and some of the evidence Roberto relied – that goals probably played a small role in being what the underlying drivers were in the markets, that market demand, market share, pricing – a lot of those other things- probably also had more to do with the role that the GSEs played. But a topic for another day, which we will have a significant conversation here about – so encourage you to come back.

MR. ABROMOWITZ: We have many more questions, but no more time, so thank you all for being out here today. Obviously, there's going to be a longer conversation about what went wrong, but we're happy you spent some time with us today talking about what didn't go wrong and actually went right in the midst of all this to hopefully shine a light and point a path towards what we need to expand more and do more of in the coming years. So thank you all for being here. Thank you to all our panelists and to the assistant secretary. (Applause.)

(END)