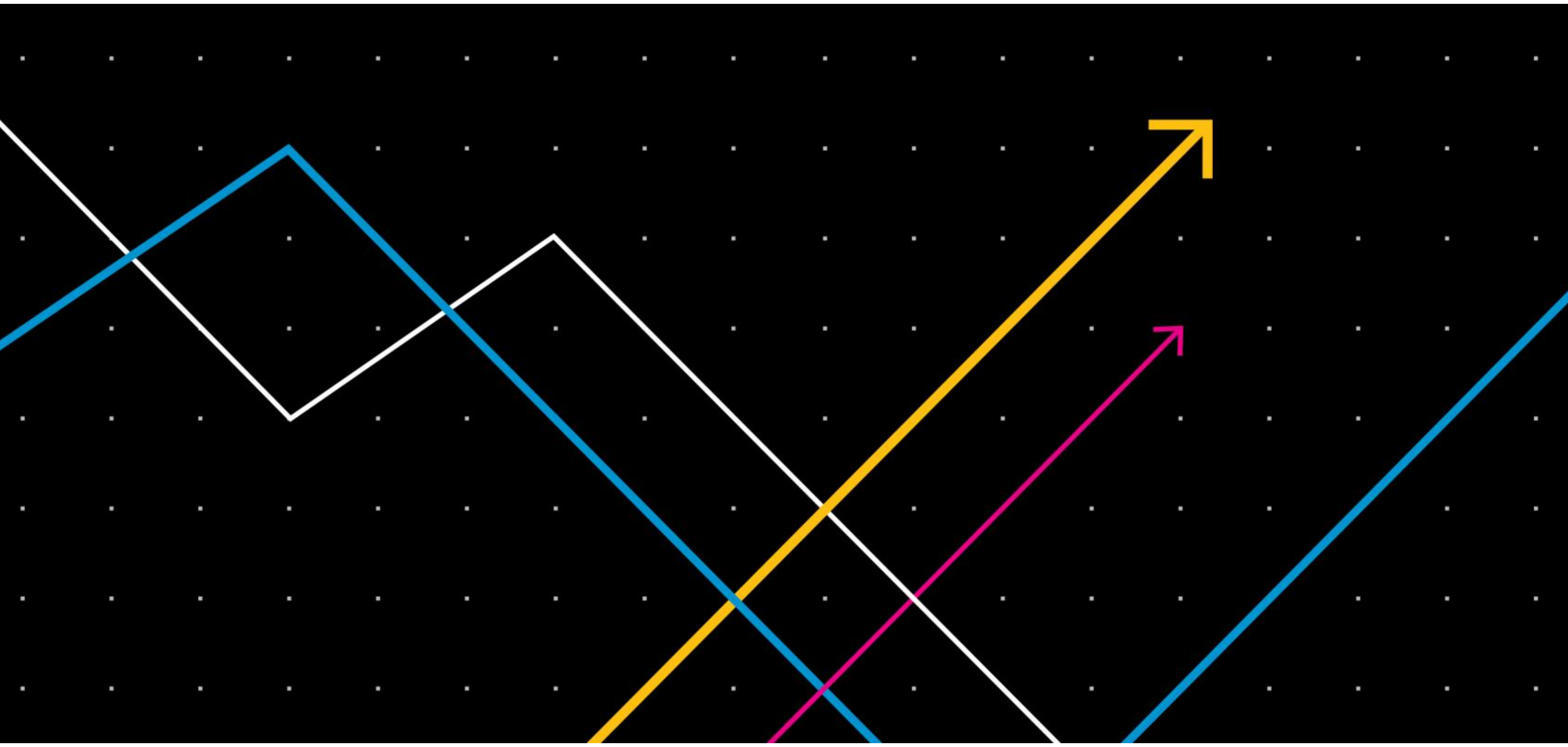

RESEARCH REPORT

San Diego's First-Time Homebuyer Program

Exploring the Feasibility of Increasing Opportunities for Middle-Income and Black Homebuyers

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Executive Summary

High home prices and limited housing supply make achieving homeownership in the city of San Diego a significant challenge for individuals and families across all income groups. In addition, among all racial and ethnic groups, Black households are the least likely to be homeowners.

The San Diego Housing Commission (SDHC) engaged the Urban Institute's Housing Finance Policy Center (HFPC) to analyze the San Diego homebuying market and explore ways to support homebuying among middle-income households and Black households through more targeted down payment assistance (DPA) via SDHC's First-Time Homebuyer (FTHB) Program.

To help address these issues, HFPC researchers explored two possible strategies. The first is to create a program for middle-income households with incomes between 80 and 150 percent of the area median income (AMI). Because the federal and state funding SDHC leverages for its existing FTHB Program limits eligibility to low-income households with incomes below 80 percent of the AMI, SDHC would need to secure additional funding to serve middle-income households. The second strategy is to explore how the current FTHB Program, which currently serves a high percentage of Latino households, could attract and serve more Black homebuyers.

This report analyzes the San Diego housing market and borrowers' financial characteristics and estimates the number of potential middle-income and Black households SDHC could serve. Informed by interviews with seven comparable organizations that provide DPA in other cities, the report also provides four recommendations to SDHC to increase homeownership among these two groups.

Homeownership Has Become Less Affordable in San Diego

A recent study shows that the San Diego metropolitan statistical area (MSA) is the most unaffordable MSA in the nation.[1] According to Zillow, home values in the city of San Diego rose 27.9 percent between March 2021 and March 2022, and the number of active listings per sale fell 61 percent. In April and May 2022, the median number of days that a home was on the market was less than 20 days, reflecting high competition between homebuyers for a low inventory of available homes.

High home prices have translated to a low homeownership rate in San Diego. In 2019, the city's homeownership rate was 46.5 percent, 18 percentage points below the nationwide rate and 6

percentage points below California's homeownership rate. A shortage of existing housing supply and delays in new construction during the COVID-19 pandemic prevented many San Diegans from accessing homeownership and benefiting from 2021's record-low interest rates; interest rates quickly rose during early 2022, exceeding prepandemic levels.

Despite averaging higher credit scores and incomes, the share of mortgage applicants relative to renter households was lower in San Diego than in both California and the nation. This pattern was consistent across all income groups, suggesting that even households with high incomes are facing greater challenges finding homes they can afford with their current financial resources.

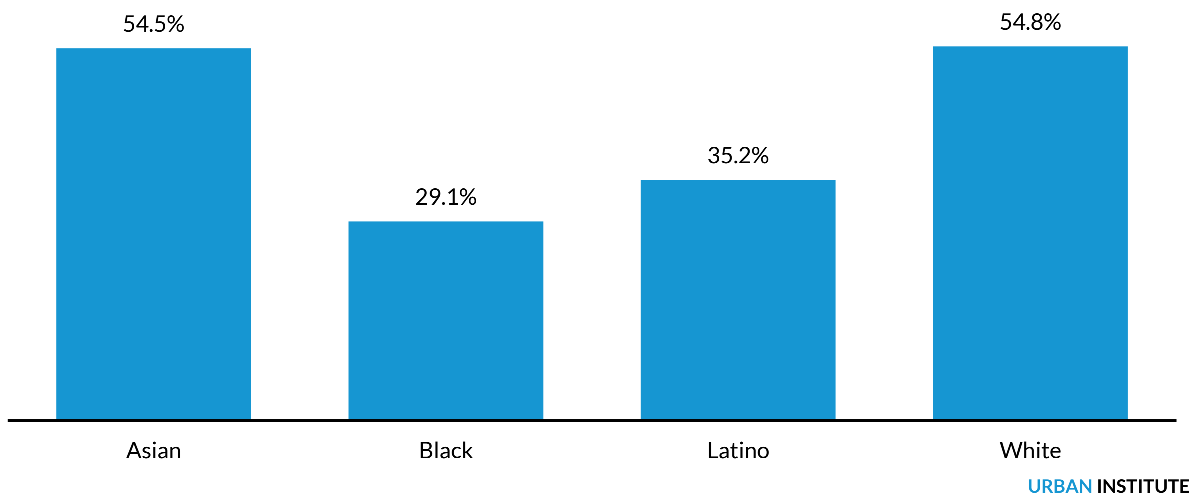
The extraordinarily high home prices have also affected SDHC's FTHB Program. Fewer households are applying for the program, resulting in underused program funds. SDHC started the FTHB Program in 1988 and has served more than 5,900 households. The program offers deferred loans and closing cost grants to households earning up to 80 percent of the AMI. But the program has assisted fewer households in the past two years, as eligible households are struggling to find affordable homes and to compete against buyers with greater resources.

Less Than 30 Percent of Black Households in San Diego Are Homeowners

Black households have the lowest homeownership rate of all racial and ethnic groups in San Diego (figure ES.1). According to 2015–19 American Community Survey data, Black households had a 29.1 percent homeownership rate, and Latino households had a 35.2 percent homeownership rate. For Asian and white households, these rates were 54.5 percent and 54.8 percent, respectively. Although Black households have lower incomes, on average, the Black homeownership rate is still low even after controlling for income, suggesting that Black households face additional challenges.

FIGURE ES.1

Homeownership Rates, by Race or Ethnicity, in San Diego

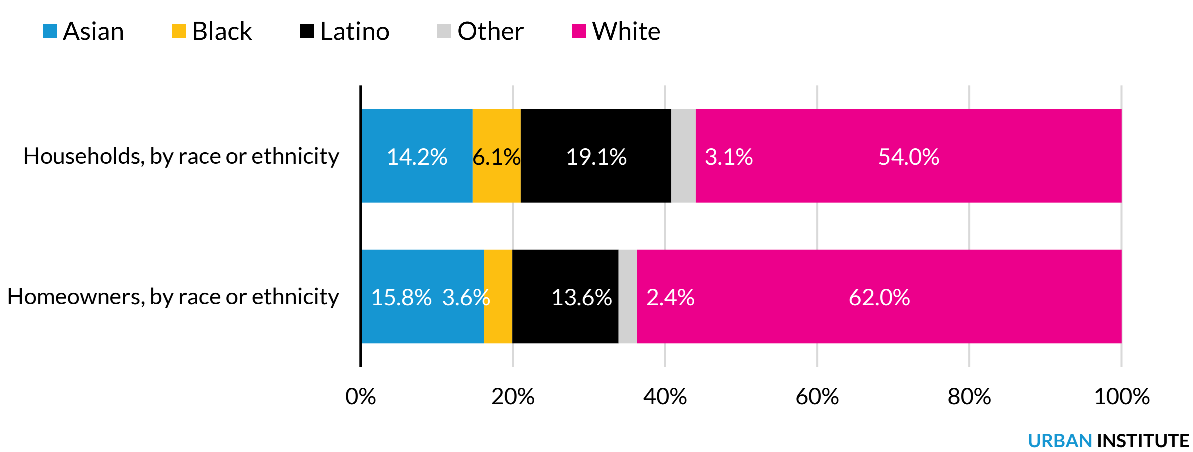


Source: 2015–19 American Community Survey data.

Because of the difference in the racial homeownership rate, Black and Latino households are underrepresented in their share of homeownership while white and Asian households are overrepresented (figure ES.2). White households make up 62.0 percent of homeowners, which is almost 15 percent greater than their share of total households. Asian households are overrepresented among homeowners by 11.3 percent. Conversely, Black and Latino households are underrepresented by 69 percent and 40 percent, respectively.

FIGURE ES.2

Households and Homeowners, by Race or Ethnicity, in San Diego



Source: 2015–19 American Community Survey data.

Because of the city's military presence, there is a high share of veterans and active-duty servicemembers, especially among Black households. About 30 percent of Black heads of household are either veterans or active-duty servicemembers. This affects the types of mortgages Black households use to purchase homes. Between 2018 and 2020, more than 51 percent of Black homebuyers in San Diego purchased homes using a US Department of Veterans Affairs (VA) loan, which is a zero down payment program, compared with 14.8 percent of all homebuyers. The disproportionately high share of Black households who used VA loans to purchase homes indicates that Black households who do not have access to VA loans find it more difficult to buy homes.

In San Diego, the most common reason for mortgage denial was exceeding debt-to-income (DTI) ratio limits, reflecting high mortgage costs. About 35.3 percent of home purchase loans were denied because of DTI ratios, and this share was the highest among Black applicants (38.6 percent). Although credit history was the most common reason for mortgage denial in the nation (31.3 percent), only 11.9 percent of denied loans in the city were denied because of credit history, showing that even with decent credit, it is challenging to purchase a home in San Diego.

A Small Number of Black Households Potentially Would Qualify and Benefit from SDHC's FTHB Program

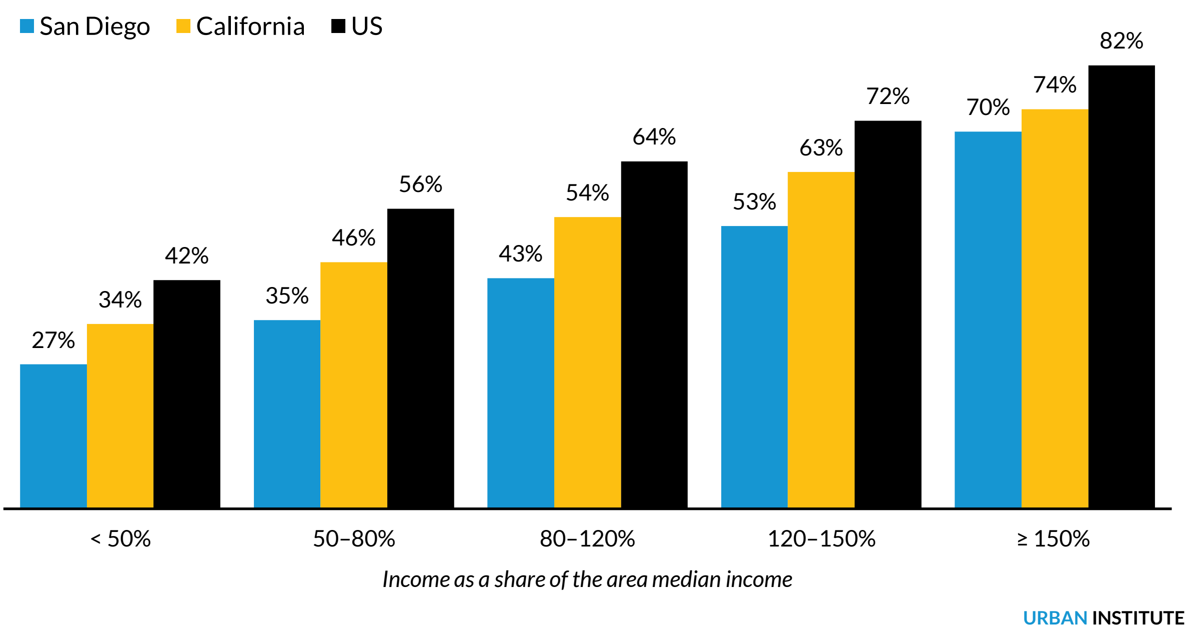
HFPC researchers estimated the number of Black potential first-time homebuyer households that SDHC's current FTHB Program could serve. Because households earning less than 50 percent of the AMI likely cannot afford a house and make mortgage payments, the analysis focuses on those who earn 50 to 80 percent of the AMI. It also excludes veterans and those who currently serve in the military, as they can use VA loans, which do not require down payments. The analysis determined that 3,800 Black households citywide could qualify and benefit from SDHC's FTHB Program. Additionally, if an age cap of 45 is imposed, to better capture first-time homebuyers, the number of households decreases to about 2,000. Although the number of Black potential first-time households with incomes from 50 to 80 percent of the AMI is not large, many households in this group are rent burdened—paying more than 30 percent of their gross income for housing costs—making it even more important to find solutions to increase their homeownership opportunities.

Middle-Income Households Also Struggle to Become Homeowners in San Diego

Middle-income households in San Diego (earning between 80 and 150 percent of the AMI) have a substantially lower homeownership rate compared with middle-income households statewide and nationwide (figure ES.3). For households earning between 80 and 120 percent of the AMI in San Diego, the homeownership rate is 42.8 percent (versus 54.1 percent for California and 64.5 percent for the US). Households earning between 120 and 150 percent of the AMI have a homeownership rate of 52.5 percent (versus 62.5 percent for California and 72.0 percent for the US). For these middle-income households, the share of applications and originations relative to renter households was substantially lower than in the US, indicating that high prices and competition are discouraging many middle-income San Diegans from applying for a mortgage.

FIGURE ES.3

Homeownership Rates, by Income



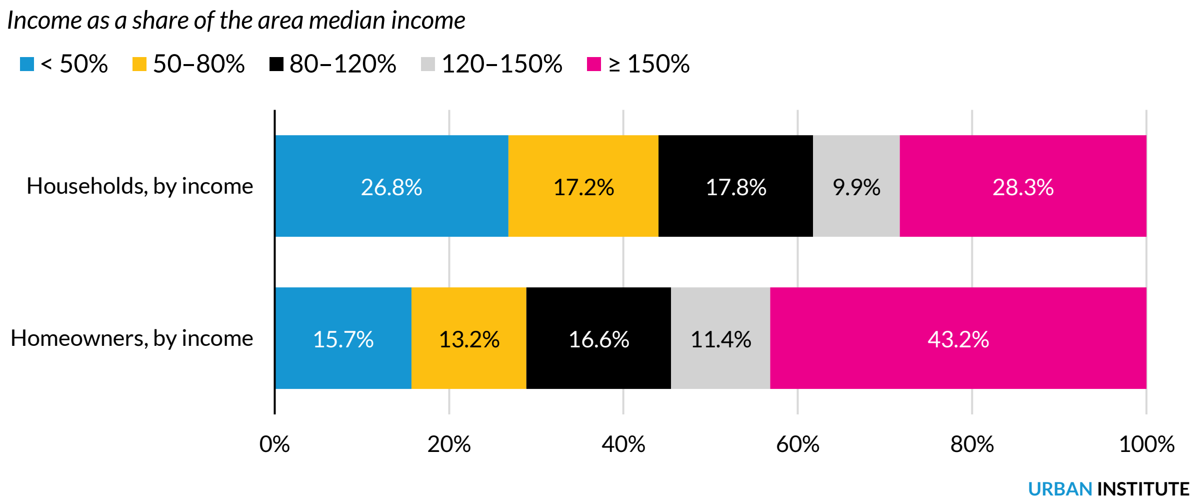
Source: 2015–19 American Community Survey data.

The disparities in homeownership rates by income make high-income households significantly overrepresented in the share of total homeowners (figure ES.4). Compared with their share of total households, the highest-income homeowners are overrepresented by 52.6 percent, and homeowners making between 120 and 150 percent of the AMI are overrepresented by 15.2 percent. In contrast, the

lowest-income households are underrepresented as a share of total homeowners by 41.5 percent. The two middle groups, making between 50 and 80 percent and 80 and 120 percent of the AMI, are underrepresented by 23.3 and 6.7 percent, respectively.

FIGURE ES.4

Households and Homeowners, by Income, in San Diego



Source: 2015–19 American Community Survey data.

More than a quarter of households earning 80 to 120 percent of the AMI and more than 20 percent of those earning 120 to 150 percent of the AMI used VA loans to purchase a home. These two income groups had the highest share of homebuyers using VA loans and the lowest median down payment percentage.

For middle-income households earning 80 to 150 percent of the AMI, the DTI ratio was the most frequently listed reason for mortgage denial. More than one-third of the applicants were denied because of the DTI ratio, roughly 10 percentage points higher than the national number. New funding to serve middle-income households could greatly benefit this group.

Approximately 65,000 Middle-Income Households Potentially Would Qualify and Benefit from SDHC's FTHB Program

HFPC researchers find that about 65,000 middle-income households in San Diego could benefit from DPA. Excluding veterans and active-duty military members, 43,792 renter households earn between 80 and 120 percent of the AMI, and 30,762 of them are headed by someone younger than 45. For households with incomes between 120 and 150 percent of the AMI, these numbers were 21,142 in total and 14,909 for households headed by someone younger than 45.

Recommendations for SDHC

HFPC researchers developed four recommendations for SDHC based on an analysis of the San Diego housing market and interviews with seven organizations that provide DPA to households with incomes above 80 percent of the AMI or focus on Black households:

- HomeSight (Seattle, Washington)
- DC Department of Housing and Community Development
- San Francisco Mayor's Office of Housing and Community Development
- HomesFund (Durango, Colorado)
- City of Austin, Texas
- Solita's House (Tampa, Florida)
- Los Angeles County Development Authority

The recommendations are as follows:

Diversify Funding Sources

SDHC will need to diversify its funding sources to help households earning above 80 percent of the AMI, as its current funding does not allow the commission to serve these households. The interviews revealed that organizations that help middle-income households receive state or local funding, private funding, or issued bonds. State or local funding was often initiated by strong local leaders who saw the

need to provide additional assistance for households with incomes above 80 percent of the AMI in highly unaffordable competitive markets.

For example, realizing that rising home prices and heated competition are creating challenges for high-income households in San Francisco, the Mayor's Office of Housing and Community Development (MOHCD) increased its program's income limit to 200 percent of the AMI. Because MOHCD's housing trust fund imposed a limit at 120 percent of the AMI, it issued general obligation bonds and allocated discretionary general funds to provide additional funding to serve high-income households.

Similarly, the Department of Housing and Community Development (DHCD) DPA program in Washington, DC, serves residents making up to 110 percent of the AMI, above the federal funding income limits. For homebuyers earning 80 to 110 percent of the AMI, the assistance comes in the form of a zero-interest loan, which is deferred for 5 years and has a 40-year repayment period. DC's DPA funding doubled five years ago when the city's mayor increased the program's maximum assistance and injected nonfederal funds. These local funds come from the city general fund, repayment by prior borrowers, and the Unified Fund, which is funded by fees collected for various real estate transactions such as condominium conversions and applications for registration. City general funds have accounted for at least 67 percent of local funding since 2015. Local funding has accounted for between 27 and 47 percent of total DPA funds in DC, with total local funding levels between \$3.8 and \$7.8 million. DHCD uses federal funds first to serve borrowers earning below 80 percent of the AMI because their eligibility requirements are the strictest and incorporate additional funding sources if necessary.

Even in more affordable housing markets such as Durango, Colorado, income limits have increased. In 2019, the Colorado state legislature passed two affordable housing bills that enabled the program to increase its eligibility to 100 percent of the AMI. More recently, the HomesFund in Durango received funding from the state via the Affordable Housing Investment Fund. Homebuyers earning up to 120 percent of the AMI are eligible for these funds.

To combat rising home prices, there have been recent efforts in California and San Diego to obtain additional funding for FTHB DPA programs. California state senate president pro tempore Toni Atkins (D-San Diego) has proposed a 2022–23 budget allocation of \$500 million for the California Dream for All program and an additional \$500 million each year for nine years. This program would help low- and middle-income first-time homebuyers achieve homeownership by providing significant DPA to qualifying households. The program could also reduce some of the barriers to homeownership that have disproportionately prevented families of color from owning homes.

In San Diego, SDHC led a collaborative that obtained a $7.5 million Wells Fargo grant to support the Wealth Opportunities Restored through Homeownership program. This initiative aims to increase homeownership for Black people, Indigenous people, and other people of color in the region. Some of this grant could become a flexible funding source for the SDHC FTHB Program.

Reexamine Eligibility Criteria and Program Design

Several organizations have altered their eligibility criteria (e.g., maximum DTI ratio and maximum home value) or increased the amount of assistance to reach more homebuyers. For example, to keep pace with rising housing costs, the mayor of Washington, DC, Muriel Bowser, has proposed increasing the maximum assistance level to $202,000, and the DC Council is considering raising the minimum to $70,000. A larger down payment means a smaller loan amount and a lower DTI ratio. Many Black households and middle-income households lack sufficient funds to make a large enough down payment to make a big difference in the DTI ratio, which is the most cited reason for mortgage denial in San Diego. San Francisco's MOHCD has also reduced the minimum borrower contribution from 5 percent to 1 percent and provides an additional grant of up to $30,000 that can be used toward a down payment, closing costs, or prepaid items. The program provides up to $500,000 in DPA.

For programs to increase Black homeownership, SDHC could consider directly reaching Black borrowers through special purpose credit programs—which offer credit on favorable terms to borrowers of a protected class who have experienced economic disadvantages—and providing additional funding for down payments or renovations. For example, Local Initiatives Support Corporation and Urban League San Diego have announced the San Diego Black Homebuyers Program, which provides $40,000 grants to Black borrowers earning less than 120 percent of the AMI to be used toward a down payment and closing costs. The grant is funded by the San Diego Foundation and has no repayment requirement. HomeSight in Seattle has partnered with Windermere, US Bank, and the National Association of Real Estate Brokers to create a "Hi Neighbor" Homeownership Fund that focuses on Black borrowers with incomes between 80 and 120 percent of the AMI. It designed the program realizing that many Black renter households earn just above 80 percent of the AMI but do not have enough wealth for a down payment. Fannie Mae and Freddie Mac have also announced their plan to launch special purpose credit programs in their 2022 Equitable Housing Finance Plans.[2]

Facilitate the Lending Process

In many markets, a lack of housing supply and an increasing presence of cash buyers has made it difficult for low- and middle-income households to buy homes, partially because cash buyers can close on properties rapidly. Offering borrowers in the FTHB Program assistance during the purchase process can help them compete with other offers. For example, HomeSight said it was considering providing sellers credit to help their clients be more competitive. San Francisco MOHCD is working with lenders to reduce processing time, but it is still challenging, as it depends on lenders' capacity. SDHC could also provide incentives to sellers and real estate agents to encourage them to sell homes to low-income buyers. This is especially critical when homes for sale receive offers from multiple potential buyers.

Implement Outreach and Marketing Efforts

Our analysis found that no more than 5,000 potential Black homebuyers with incomes below 80 percent of the AMI in San Diego could benefit from SDHC FTHB programs, but SDHC can still make additional efforts to reach out to potential Black homebuyers. Many organizations said they are using their websites, owned and earned media, and social networking services to get information to their clients. Because lenders have played a key role in outreach, SDHC could work with them to develop a strategy to reach out to Black households. Because these programs are also spread through word of mouth, SDHC could partner with reliable local organizations, including faith-based and community-based organizations, to increase awareness of the program for potential customers. SDHC can also work with organizations such as Local Initiatives Support Corporation that have started special purpose credit programs that allow for race-based outreach. If the program is used in conjunction with lender programs emphasizing Black borrowers, it can lead to greater focus and impact on homebuyer assistance.

Errata

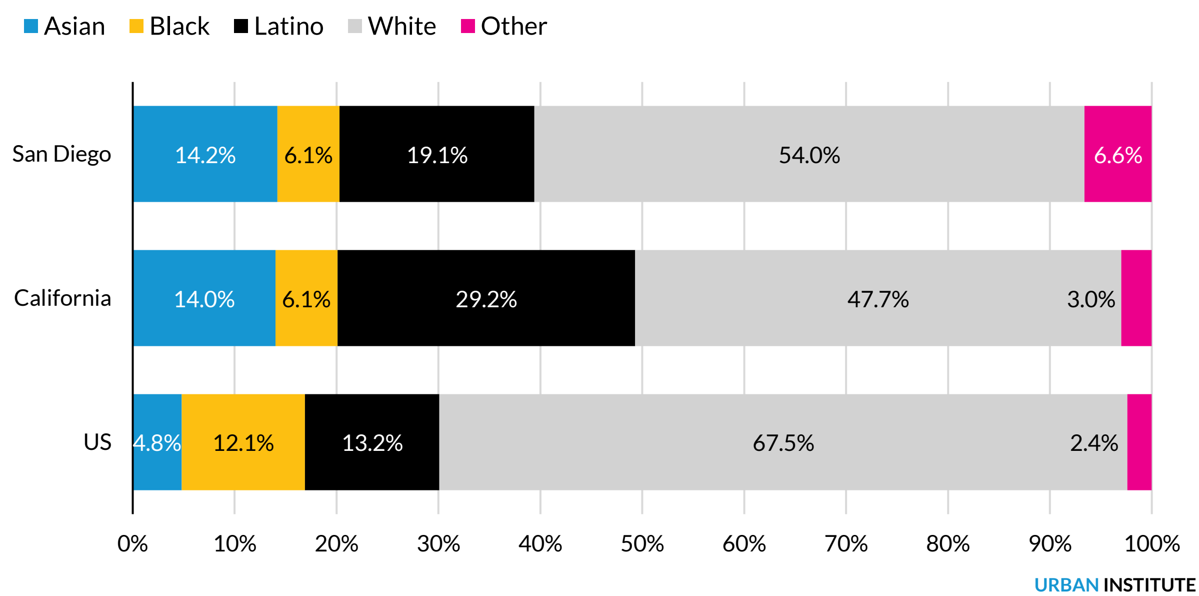
This report was corrected July 14, 2022. In two sections of a previous version of the executive summary (on pages viii and xi), we produced numbers of households using calculations that excluded households with active-duty military servicemembers from total households. We have corrected some of those numbers to reflect updated calculations that exclude households with active-duty military servicemembers as well as households with veterans.

San Diego's First-Time Homebuyer Program

With close to 1.4 million people and more than half a million households in a coastal area with a thriving international border community, San Diego is the eighth-most-populous city in the United States and the second-most-populous city in California, following Los Angeles.[3] According to 2015–19 American Community Survey data, the city has a relatively high share of Latino and Asian households and a lower share of white households compared with the nation (figure 1). Compared with California, San Diego has a lower share of Latino households, while the Asian and Black share of households is similar between the two regions.

FIGURE 1

Household Racial and Ethnic Composition



Source: 2015–19 American Community Survey data.

The city has the second-largest surface ship base of the US Navy, which is a large employer in the area. About 10.4 percent of heads of household in the city are veterans, and 5.2 percent are active-duty military members. The shares of active-duty members and veterans are especially high for Black heads of household, 19.5 percent and 10.5 percent of whom are veterans and active-duty members, respectively.

Mild weather and beautiful beaches make San Diego one of the most desirable places to live in the US, but high housing costs have impeded its residents' ability to become homeowners. According to OJO Labs, San Diego became the most unaffordable city in the US, as home price growth substantially outpaced household income growth.[4] Zillow data show that between March 2021 and March 2022, home prices in San Diego increased by 27.9 percent.[5]

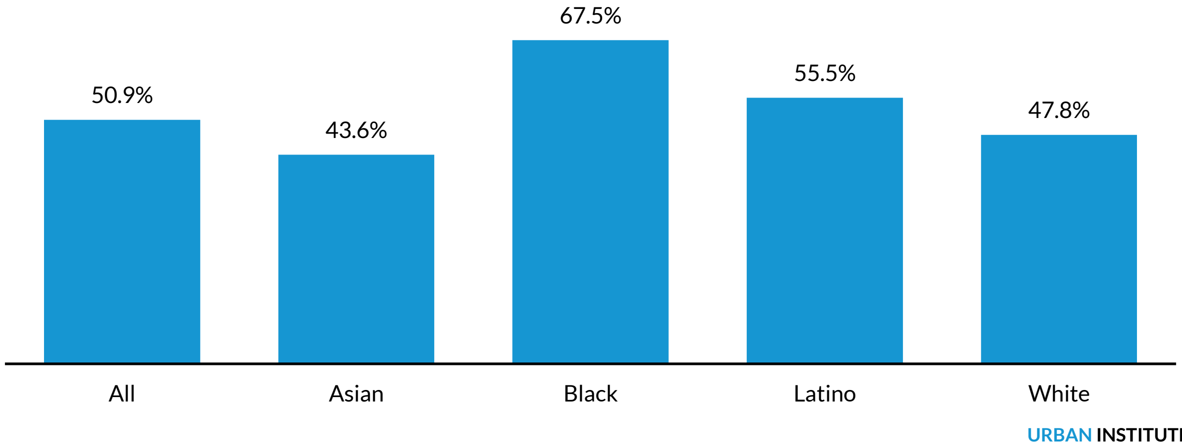
The Homeownership Rate in San Diego Is Low, Especially for Black Households

High home prices have translated to a lower homeownership rate. The 2019 homeownership rate in San Diego was 46.5 percent, 18 percentage points below the nation.[6] Additionally, the city has stark racial homeownership disparities. According to 2015–19 American Community Survey data, 54.5 percent of Asian households and 54.8 percent of white households owned their homes, compared with 29.1 percent of Black households and 35.2 percent of Latino households. Homeownership is critical to building wealth, but many Black and Latino households in San Diego have had fewer resources and opportunities to access and sustain homeownership.

For households who remain renters, a significantly higher share of Black and Latino renters are cost burdened—67.5 and 55.5 percent, respectively—when compared with white and Asian renters (figure 2). Overall, 51 percent of rental households in San Diego are cost burdened (spend more than 30 percent of their annual income on housing). High rental costs add to the challenge for first-time buyers, detracting from savings that could have been put toward an eventual down payment.

FIGURE 2

Rent-Burdened Share of Households, by Race or Ethnicity, in the City of San Diego



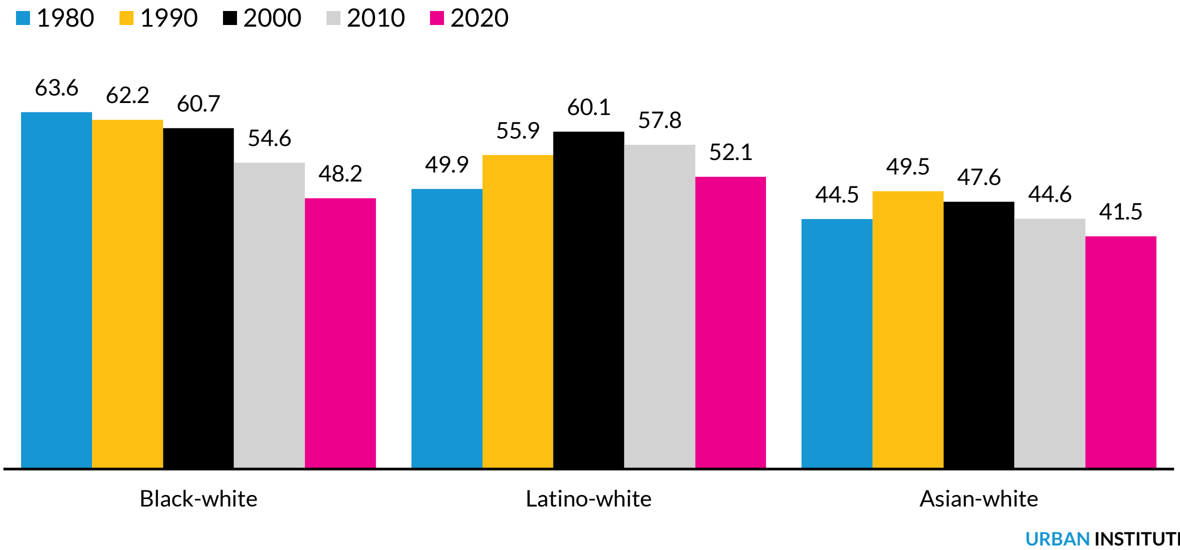
Source: 2015–19 American Community Survey data.

The lack of homeownership opportunities for Black homeowners is also related to the history of systemic discrimination, including the former practice known as redlining. San Diego was one of approximately 150 cities to have the Home Owners' Loan Corporation (HOLC) "Residential Security" rankings, which discouraged capital flows into neighborhoods of color and effectively barred people of color from homeownership.[7] This segregation continues today, though there have been improvements. The dissimilarity index calculates the degree of symmetry between two groups by measuring whether one group is located across census tracts within the city in the same way as a comparison group. The value ranges from 0 to 100, with a high value indicating that the two groups tend to live in different census tracts.

For example, in 1980, 63.6 percent of Black San Diegans would have needed to move to a different neighborhood for each neighborhood to have an equal share of Black population and white population in San Diego (figure 3). This share decreased continuously to 48.2 percent by 2020. Currently, the dissimilarity index is highest between Latino and white populations. Though this number has declined since 2000, it is still higher than it was in 1980.

FIGURE 3

Dissimilarity Index in San Diego



Source: Brown University Diversity and Disparities Project calculation using decennial census data.

Middle-Income Households Also Struggle to Become Homeowners

The homeownership rate in San Diego is also lower than the national rate, even after controlling for income. For example, the homeownership rate of households with incomes below 80 percent of the AMI was 30 percent, 13.5 percentage points lower than for the nation. For households with incomes between 80 and 120 percent of the AMI, the homeownership rate was 42.8 percent in San Diego compared with 66.8 percent in the nation. For households with incomes between 120 and 150 percent of the AMI, San Diego's 52.5 percent homeownership rate is far below the national rate of 77.0 percent.[8] This suggests that even for households who earn middle incomes and above, it is more challenging to become a homeowner in San Diego because of high housing prices. Even households earning at least 150 percent of the AMI in San Diego had a lower homeownership rate than the nation (70.0 percent versus 82.3 percent).

Down Payment Assistance Can Help Many Households Become First-Time Homeowners

In a 2018 study of barriers to homeownership (Goodman et al. 2018), the most cited barrier to accessing homeownership was insufficient funds for a down payment. About 68 percent of the survey participants said a down payment was the major barrier to owning a home, and 66 percent said they face difficulty saving for a down payment. Additionally, research shows that individuals whose parents are homeowners are more likely to receive financial resources that help them become homeowners (Choi, Zhu, and Goodman 2018). Black and Latino young adults who are less likely to have parents who own a home struggle more to save for a down payment.

In places where the housing supply is restricted, as in San Diego, designing a well-targeted DPA program is especially critical. SDHC's FTHB Program has served many households earning less than 80 percent of the AMI over the past three decades. But middle-income families (earning 80 to 150 percent of the AMI) are also struggling to become homeowners because of high home prices. Additionally, the current program that serves households with incomes below 80 percent of the AMI has mostly served Latino households, and the assistance has not reached many Black households, who have the lowest homeownership rate in the area.

This research explores the potential market size of middle-income first-time homeowners and investigates funding sources for a new DPA program that could serve these homebuyers. The study also examines whether and how the current program could better reach Black households. By examining existing data and best practices, this research will not only inform San Diego's future program but be useful to other local, state, and national efforts to advance DPA programs and close homeownership gaps.

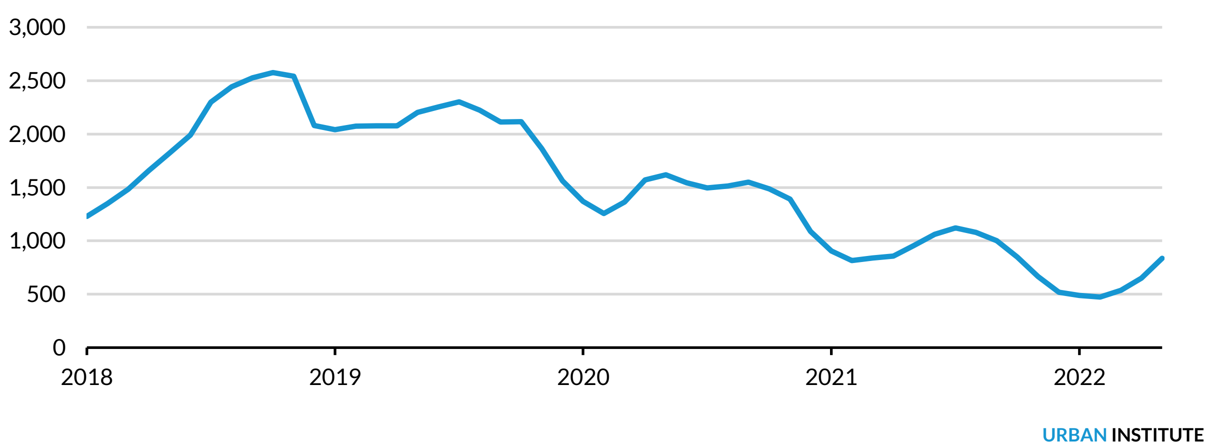
Obtaining Homeownership Has Become More Challenging in San Diego

California is facing a severe housing supply crisis, with the currently available housing stock falling far short of growing demand (Reid et al. 2017). One of the results of this crisis is intense competition between homebuyers, putting upward pressure on home prices and reducing homeownership opportunities for average first-time homebuyers. These market conditions have increased the importance of subsidies and assistance in giving prospective new homeowners a path to ownership.

San Diego Is Facing an Acute Lack of Housing Supply and Increased Competition

San Diego has experienced the impact of California's housing crisis most acutely. Although there are seasonal fluctuations, the stock of for-sale homes in San Diego has continuously declined since 2018, dropping to below 500 in February 2022 (figure 4).

FIGURE 4
For-Sale Inventory in San Diego

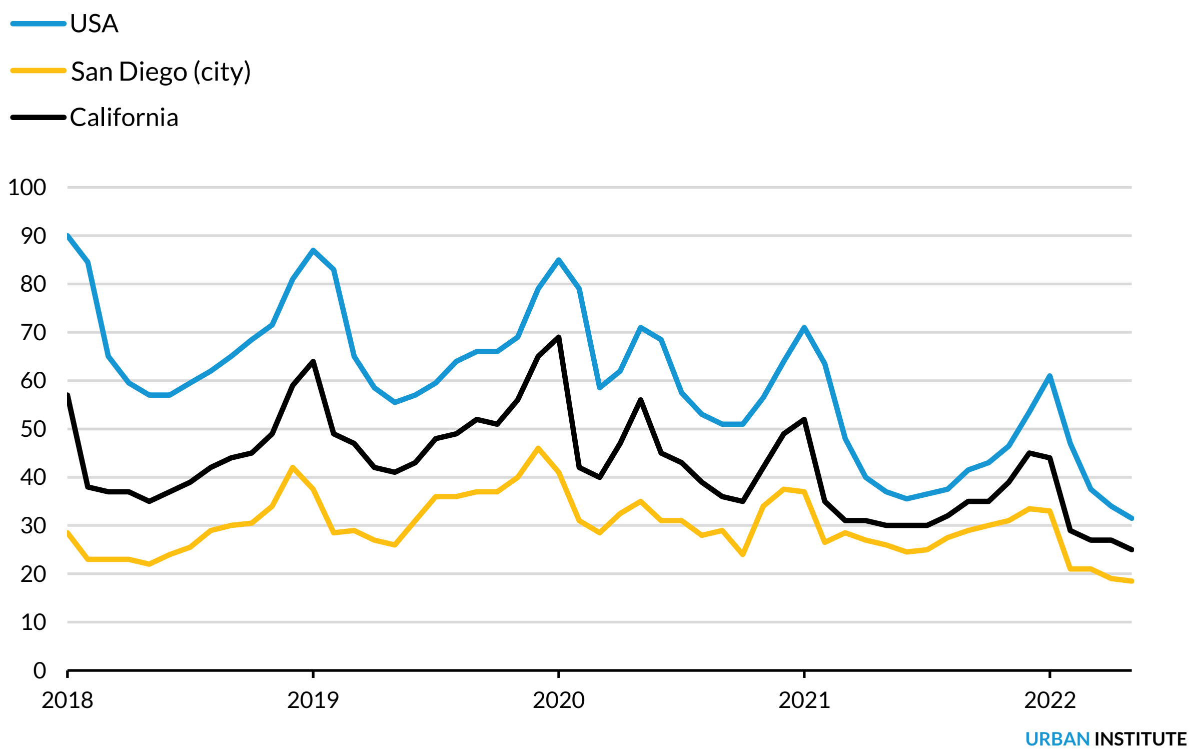


Source: Realtor.com.
Note: Data as of May 1, 2022.

In 2022, the median days a property is on the market, the time between when the property is listed on the market and when the sale is closed, fell below 20 days. San Diego properties were sold much faster than they were nationwide and were sold slightly faster than they were statewide, highlighting market competitiveness (figure 5).

FIGURE 5

Median Days Pending (Historical Time Series)

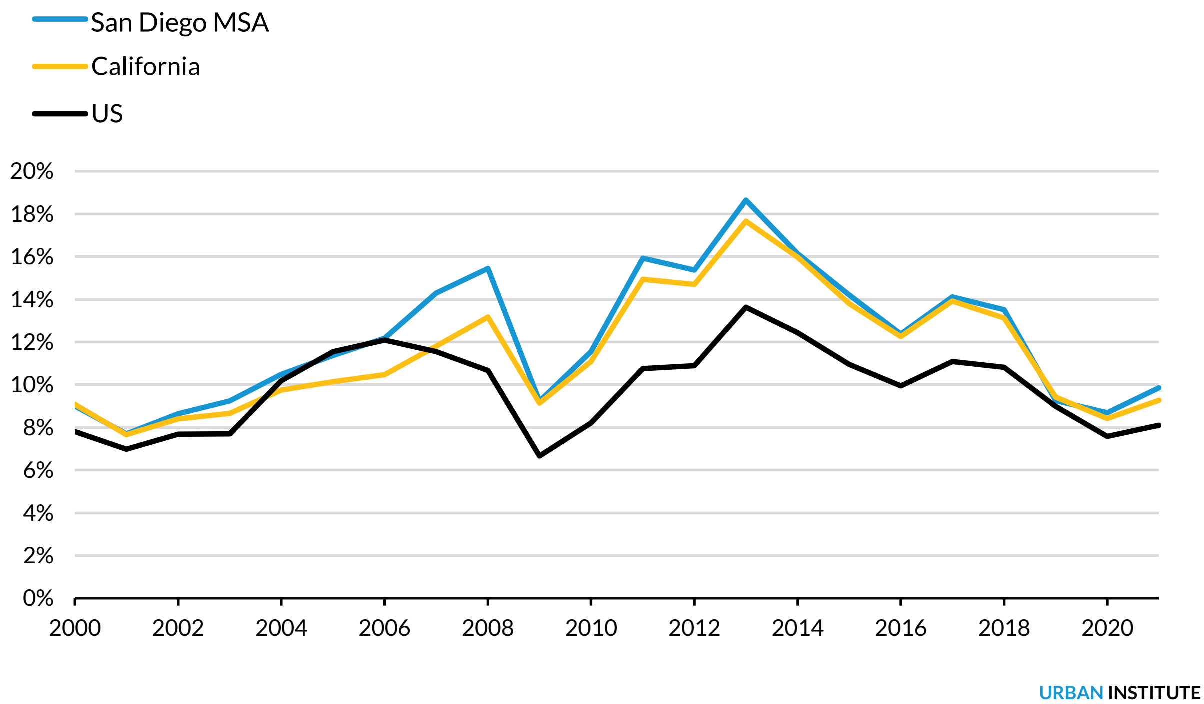


Source: Realtor.com.

Figure 6 shows the investor share of home purchases. Those data are not available for the city of San Diego. Adding to the competition among homebuyers, the share of homes being purchased by investors has trended up over the past two years in the San Diego MSA, increasing from 8.7 percent in 2020 to 9.9 percent in 2021. Investors make up a greater share of buyers in the San Diego MSA and in California than in the rest of the nation. Though the investor share of purchases remains far below where it was in the immediate aftermath of the 2008 recession, this recent uptick creates additional competition for the average prospective homebuyer.

FIGURE 6

Investor Share of Home Purchases (Historical Time Series)

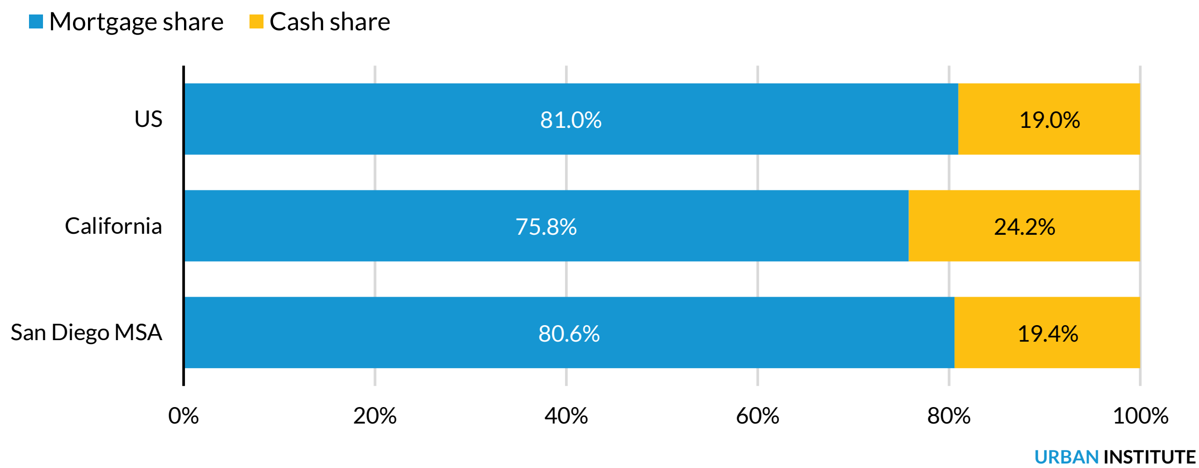


Source: CoreLogic.
Note: MSA = metropolitan statistical area.

Cash offers, for which the data are also available only for the San Diego MSA, can edge out the average buyer in a hot market, as they are more attractive than debt-financed offers, giving institutional investors an advantage over households.[9] In 2020, an estimated 19 percent of home sales in the San Diego MSA were done in cash, lower than in the rest of California and in line with the total US market (figure 7). Higher home prices in the San Diego MSA compared with California explain the lower cash buyer share. But in the San Diego MSA, the cash buyer share has increased during the pandemic from 12 percent in April 2020 to 18 percent in April 2021 and 19 percent in April 2022, according to Realtor.com.

FIGURE 7

Cash and Mortgage Shares of Home Sales, 2020



Sources: CoreLogic, National Association of Realtors, and 2020 Home Mortgage Disclosure Act data.
Note: MSA = metropolitan statistical area.

Condominiums Are Substantially More Affordable in San Diego

Although property prices have increased significantly during the pandemic, condominiums in San Diego are relatively more affordable than single-family homes (table 1). In 2020, 60 percent of single-family homes sold for $1 million or more while more than 80 percent of condominiums were sold for less than $1 million. In 2020, almost all properties sold in San Diego were either single-family homes or condominiums. Single-family homes accounted for 53 percent of all transactions, and condominiums accounted for 46 percent.

TABLE 1

Price Distribution of Single-Family Homes and Condominiums Sold in 2020

	Single-Family Homes		Condominiums	
Price	Number	Share of total	Number	Share of total
< $500,000	158	2.1%	1,365	20.8%
$500,000–600,000	224	3.0%	1,109	16.9%
$600,000–700,000	412	5.5%	986	15.0%
$700,000–800,000	723	9.6%	827	12.6%
$800,000–900,000	695	9.2%	575	8.8%
$900,000–1 million	800	10.6%	479	7.3%
$1.0 million–1.2 million	1,478	19.6%	616	9.4%
$1.2 million–1.5 million	1,154	15.3%	344	5.2%
$1.5 million–2.0 million	1,024	13.6%	152	2.3%
≥ $2.0 million	862	11.5%	120	1.8%

Source: 2020 property records data.

SDHC started its FTHB Program in 1988 and has helped many low-income households obtain homeownership. The program provides a silent, deferred-payment, second trust-deed loan to help households purchase homes. The loan initially had a shared equity provision, but the program was subsequently changed to a 3 percent simple-interest, deferred-payment loan in 2011 when home values had steeply declined. A simple 3 percent loan was also easier for buyers to comprehend.

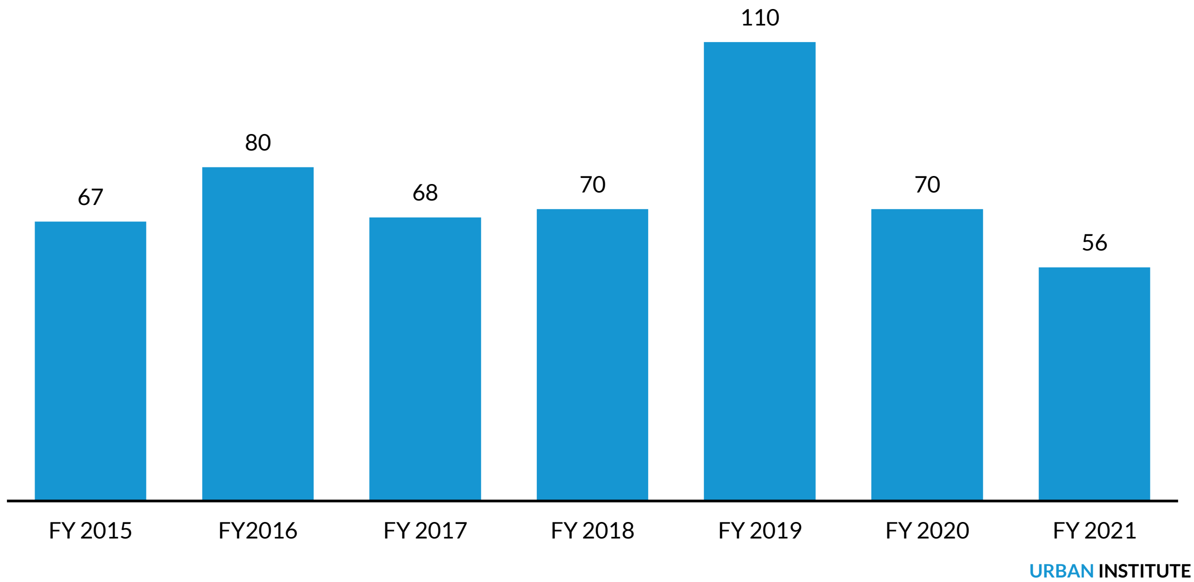
In January 2022, reflecting significant home price increases and to help low-income homebuyers, the maximum down payment loan amount was increased from 17 percent of the purchase price to 22 percent. SDHC also offers a closing cost assistant grant, where low-income households can receive grants up to 4 percent of the purchase price or appraised value, whichever is less. The minimum grant amount is $1,000, and the maximum is $10,000. Borrowers must have an acceptable credit history with a minimum middle credit score of 640 or above. Borrowers with no or thin credit must provide at least a 12-month history of three alternative tradelines, one of which must be rental payment history. DTI ratio must be below 45 percent. The housing DTI ratio cannot be less than 30 percent. The maximum liquid asset reserve is $10,000 for the first household member and $500 for each additional member. The homebuyer must complete prepurchase counseling and homebuyer education. The eligible properties are single-family detached homes, condominiums, and townhouses.

Since the program's inception, SDHC has assisted more than 5,900 families, providing more than $190 million in assistance. About 75 percent of the households served have been Latino buyers. The current portfolio has a 0.01 percent default rate. Until recently, the program had high demand. But because of extraordinarily high home prices driven by limited supply and low interest rates, low-income households have faced greater challenges to find an affordable home and to compete with buyers who

have greater financial resources (figure 8). Therefore, demand for DPA has dropped substantially in the past two years, leaving SDHC with funding that remains underused.

FIGURE 8

Number of First-Time Homebuyers SDHC Has Assisted, by Year



Source: San Diego Housing Commission.
Note: FY = fiscal year.

The current funding of the SDHC FTHB programs comes from federal sources (e.g., HOME Investment Partnerships Program; the Community Development Block Grant, or CDBG, Program; and the Moving to Work Demonstration Program), state sources (CalHOME), and local sources (inclusionary housing). These sources are all restricted to serving households with incomes up to 80 percent of the AMI. Because of this restriction, SDHC cannot assist middle-income households, many of whom are also struggling to come up with resources for a down payment.

Market Analysis I: Exploring the Number of Potential Black Homebuyers

This section examines homeownership and mortgage application status by race and ethnicity. The section provides an overview of homeownership rates and lending in San Diego, focusing on differences across racial and ethnic groups, and estimates the number of potential Black households to which the SDHC FTHB Program could reach out. To provide context, the report compares San Diego with the US and with Austin, DC, San Francisco, and Seattle, all of which are high-cost cities with DPA programs.

Because San Diego and Austin are not identifiable in the micro-level US Census Bureau data, HFPC researchers created a crosswalk that identified the share of households in each Public Use Microdata Area (PUMA) that are within the city limits. For example, households in a PUMA with all its households located within the city would be assigned 100 percent, and households in a PUMA with half its households inside the city limits would be assigned 50 percent. Each household's observations are weighted by its assigned percentage. The accuracy of the numbers is validated by comparing some city-level values (e.g., San Diego's homeownership rate) that the US Census Bureau provides with the numbers the researchers generated from the weighted PUMA city boundary.

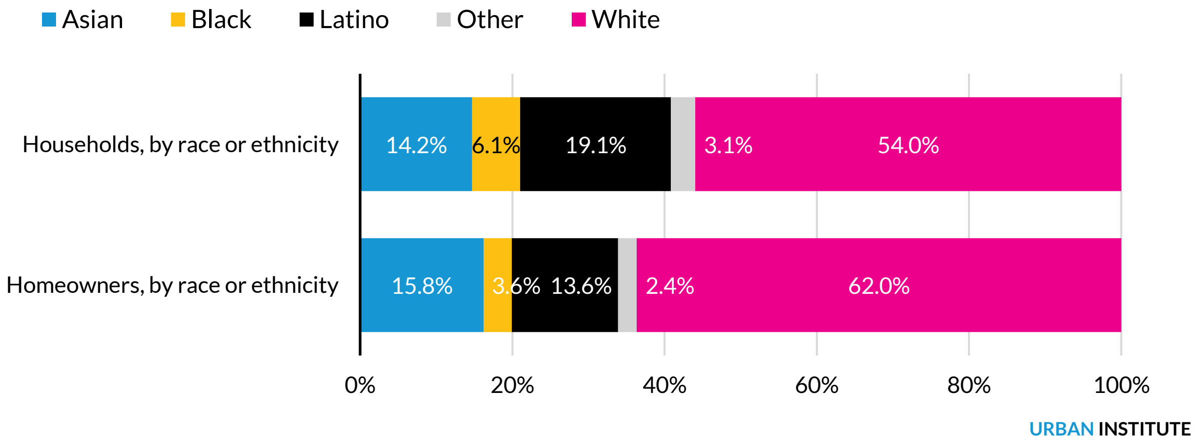
Homeownership, by Race and Ethnicity

In San Diego, there are noticeable disparities in homeownership across race and ethnicity. From 2015 to 2019, Black households had the lowest homeownership rate (29.1 percent), followed by Latino households (35.2 percent). The homeownership rates of Asian and white households were 54.5 percent and 54.8 percent, respectively.

Figure 9 shows that white and Asian households are overrepresented in their share of homeowners, while Black and Latino households are underrepresented. White households make up 62.0 percent of homeowners, which is almost 15 percent greater than their share of total households. Asian households are overrepresented among homeowners by 11.3 percent. Conversely, Black and Latino households are underrepresented by 69 percent and 40 percent, respectively.

FIGURE 9

Households and Homeowners, by Race or Ethnicity, in San Diego

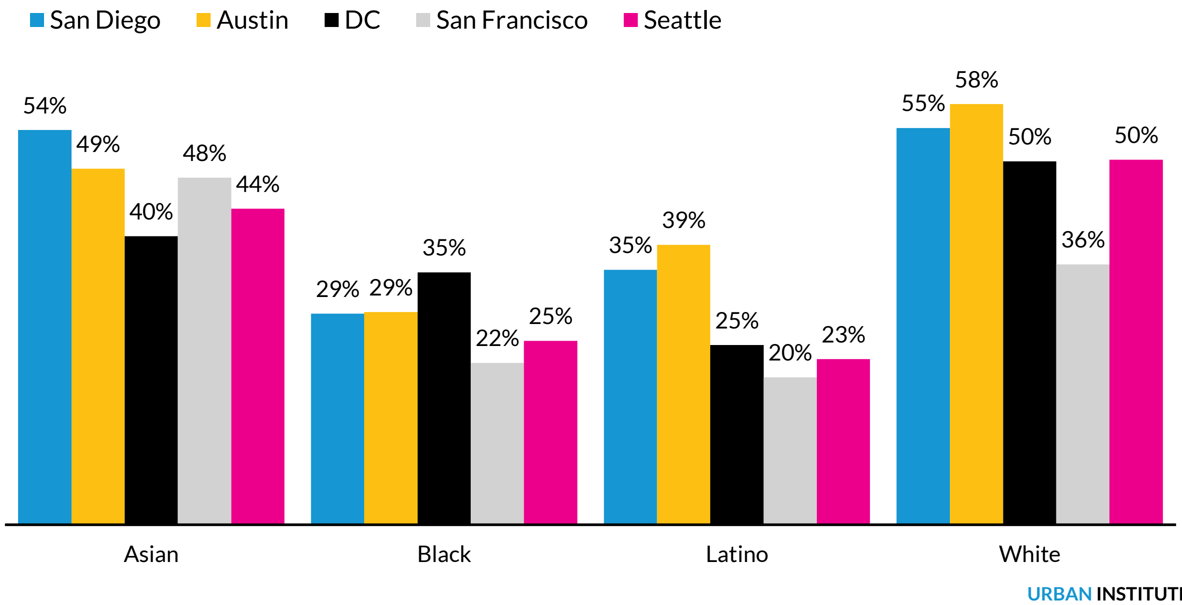


Source: 2015–19 American Community Survey data.

Other large, expensive cities have racial homeownership profiles similar to San Diego's. Black households have the lowest or second-lowest homeownership rate of any racial or ethnic group in all five cities the researchers compared, and their homeownership rate does not exceed 35 percent in any city. In DC, Black households have a 35 percent homeownership rate, higher than Latino households but lower than Asian and white households. Black and Latino households have substantially lower homeownership rates than Asian and white households in those four cities and San Diego, though the gaps are smaller in DC.

FIGURE 10

Homeownership Rates, by Race or Ethnicity, in Several Cities



Source: 2015–19 American Community Survey data.

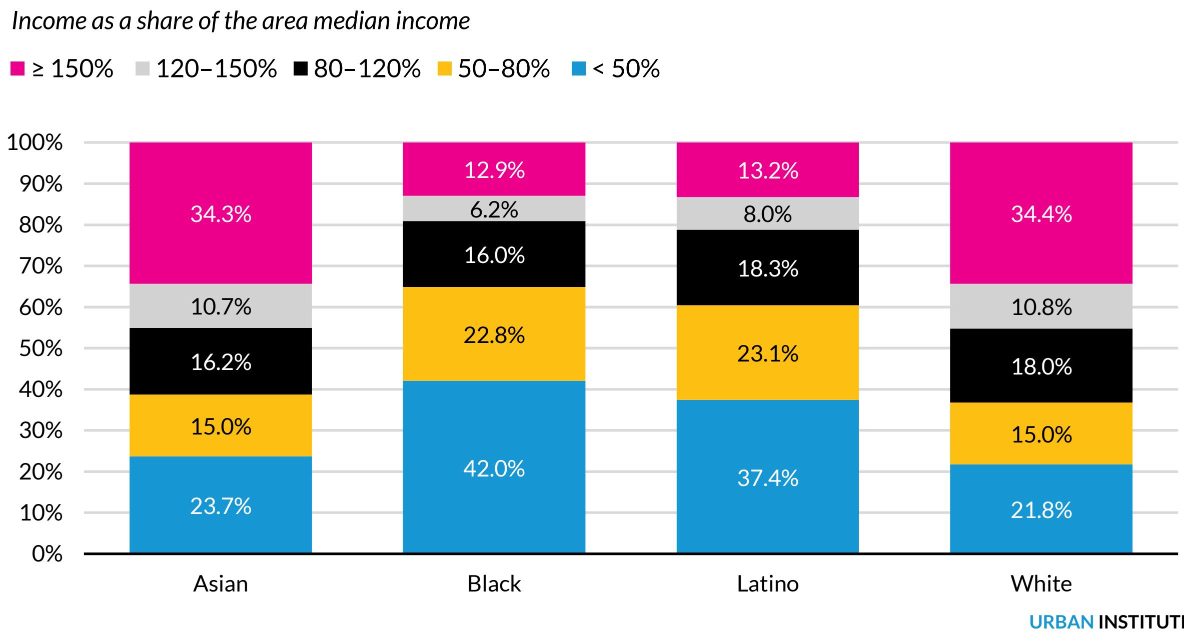
Income

The AMI in San Diego in 2022 is $106,900, higher than both the US AMI ($90,000) and California's AMI ($101,600). Despite higher income than the nation, home prices in San Diego are unaffordable to many households, resulting in a lower homeownership rate. The lower homeownership rate for households of color within San Diego can be partially explained by income disparities.

According to 2015–19 American Community Survey data, the most recent five-year period for which reliable data are available, white and Asian households have the highest median incomes, earning $90,735 and $89,026, respectively. The Latino and Black median incomes are nearly 50 percent lower ($54,233 and $49,786, respectively). Figure 11 shows 64.8 percent of Black households earn below 80 percent of the AMI, compared with 38.7 percent of Asian households, 60.5 percent of Latino households, and 36.8 percent of white households.

FIGURE 11

Income Composition, by Race or Ethnicity

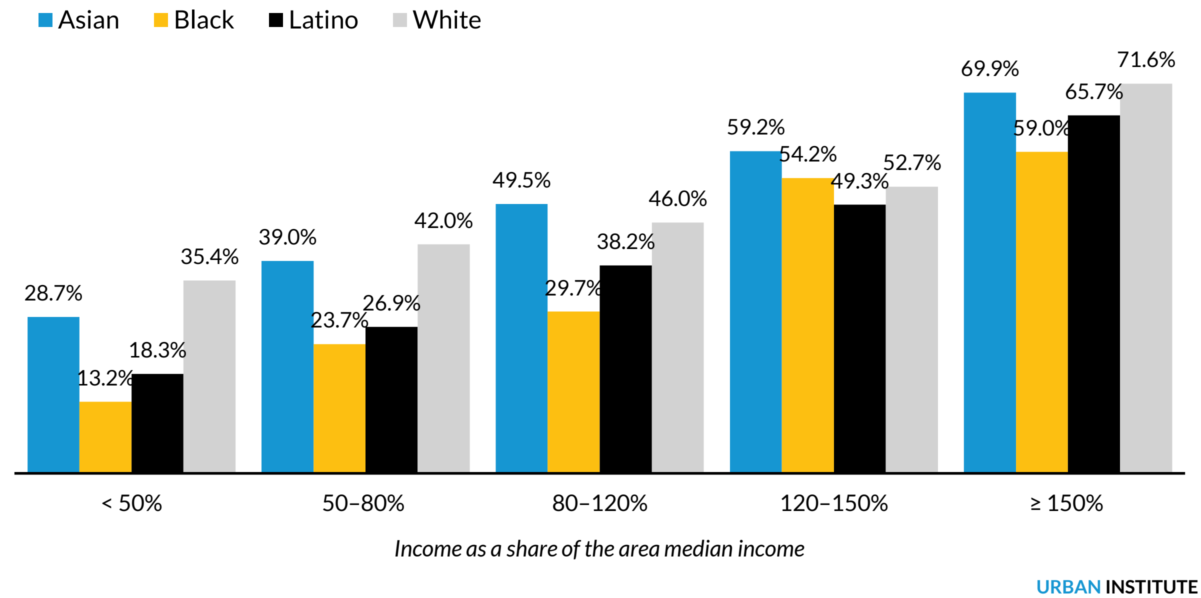


Source: 2015–19 American Community Survey data.

But even after controlling for income, Black households are significantly less likely to be homeowners than white households. Figure 12 shows homeownership rates by race, ethnicity, and income level. Notably, the Black homeownership rate is lower than the white homeownership rate by at least 13 percentage points at every income level except for households earning 120 to 150 percent of the AMI. Black households in this income group have a homeownership rate of 54 percent, roughly equal to the white homeownership rate of 53 percent. Importantly, the 1,909 Black households at this income level account for only 3.9 percent of total households earning 120 to 150 percent of the AMI. For context, Black households account for 10.0 percent of households making below 50 percent of the AMI and 8.5 percent of households making between 50 and 80 percent of the AMI.

FIGURE 12

Homeownership Rates, by Race, Ethnicity, and Income



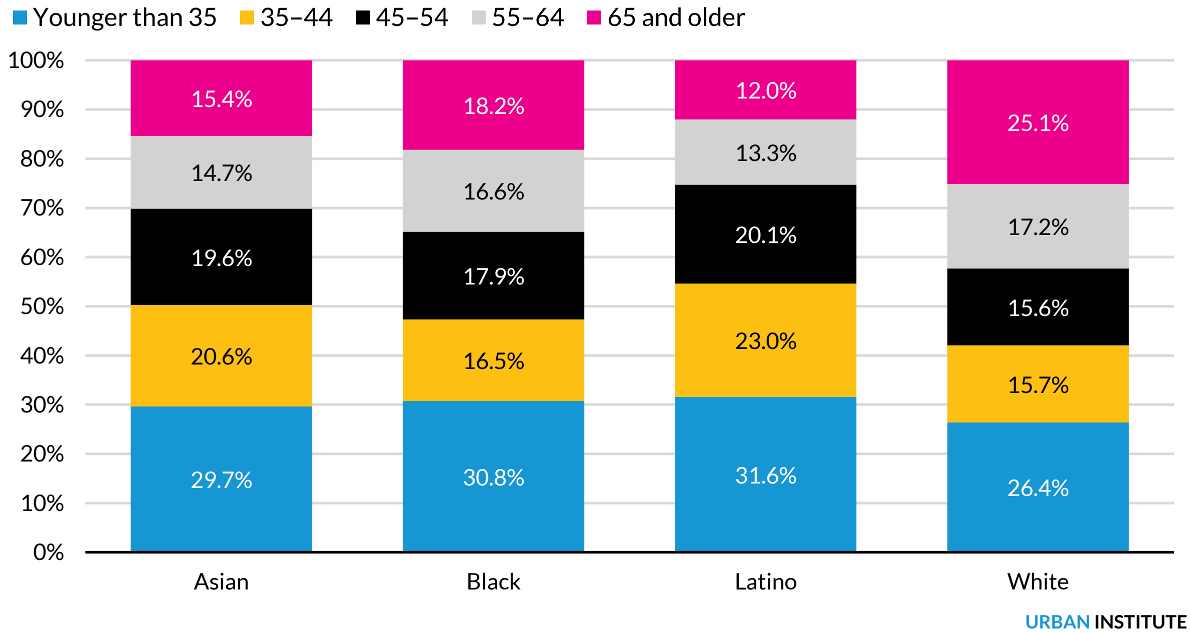
Source: 2015–19 American Community Survey data.

Age

Increased age is also correlated with homeownership. There is a greater share of the younger population among people of color, which is another factor contributing to their lower homeownership rate. Like other large cities, San Diego is younger than both California and the US as a whole. The share of household heads younger than 35 is 29.1 percent, about 9 percentage points below the share in California and 10 percentage points below the share in the nation. Within San Diego, heads of households of color are younger than heads of white households. About a quarter of white households are headed by someone 65 or older (figure 13).

FIGURE 13

Age Composition of Household Heads, by Race or Ethnicity

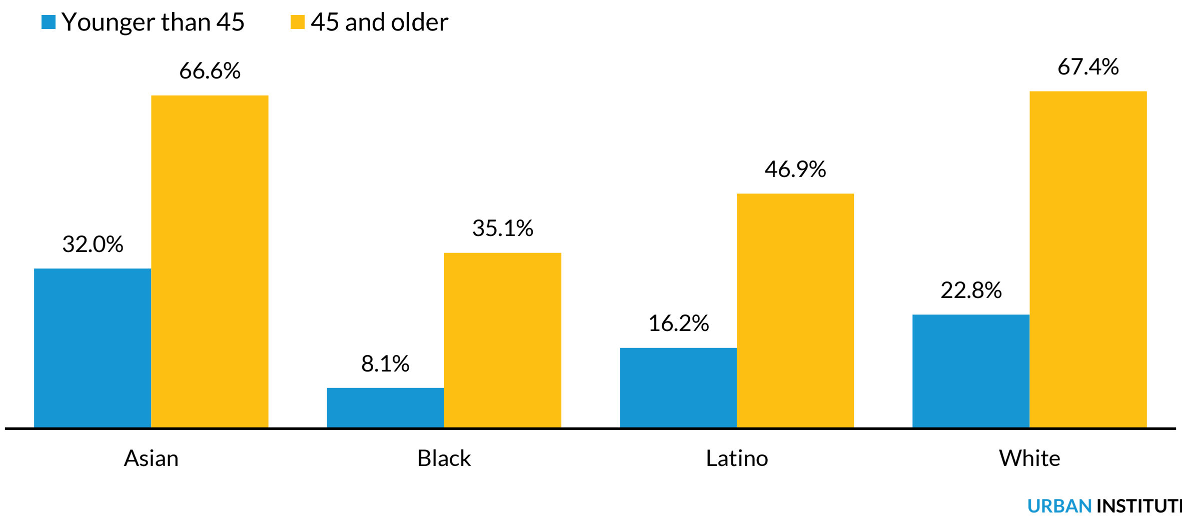


Source: 2015–19 American Community Survey data.

Figure 14 shows homeownership rates by race and ethnicity for households with heads younger than 45 and for households with heads ages 45 and older. Households with younger heads are unlikely to be homeowners. Even young Asian householders, who have the highest rate of any racial or ethnic group, have a 32.0 percent homeownership rate. But the homeownership rate for Black households with younger heads is 8.1 percent, half that of young Latino households, who have the second-lowest rate. Older Black household heads also have a substantially lower homeownership rate that is more than 30 percentage points below that of Asian and white households.

FIGURE 14

Homeownership Rates, by Race, Ethnicity, and Age



Source: 2015–19 American Community Survey data.

Military

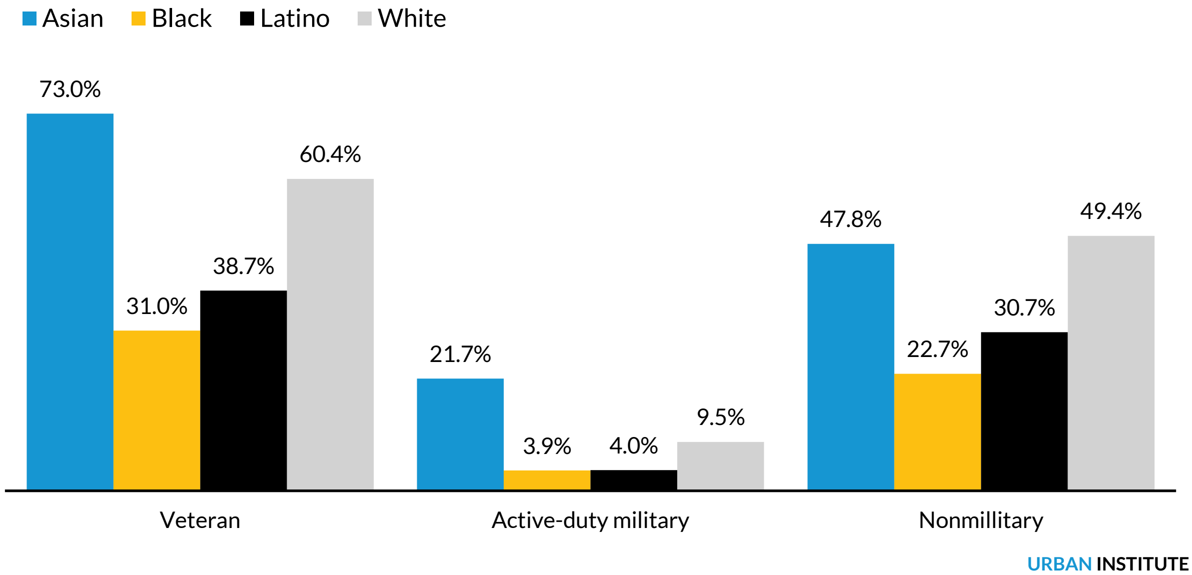
San Diego has a significantly large military population, especially active-duty members. About 10.4 percent of household heads in the city are veterans compared with 9.4 percent in the nation. Nearly 55 percent of San Diego's veteran households own their homes, higher than the citywide homeownership rate. Part of this high homeownership rate is because veterans have access to zero-down-payment VA loans, making homeownership in expensive cities more accessible. Even though homeownership rates are higher among veterans than among nonmilitary households for each race and ethnicity, the racial homeownership gap persists among veterans. Asian and white veterans have homeownership rates of 73.0 and 60.4 percent, respectively, while Latino and Black veterans have respective rates of 38.7 and 31.0 percent (figure 15).

Active-duty military members account for 5.2 percent of San Diego household heads, significantly higher than the national share of 0.7 percent. The overall homeownership rate for active-duty households is low because they are younger and, on average, have a higher geographic mobility rate. In San Diego, 8.1 percent of households headed by active-duty members were homeowners. The Black active-duty members' homeownership rate is 3.9 percent, nearly equal to the 4.0 percent Latino active-duty members' homeownership rate, and less than half the rate of white active-duty members (9.5 percent). The Asian active-duty members' 21.7 percent homeownership rate is by far the highest of any

racial or ethnic group. Figure 15 shows the homeownership rates by race and ethnicity for veteran, active-duty, and nonmilitary households.

FIGURE 15

Homeownership Rates, by Race, Ethnicity, and Military Status



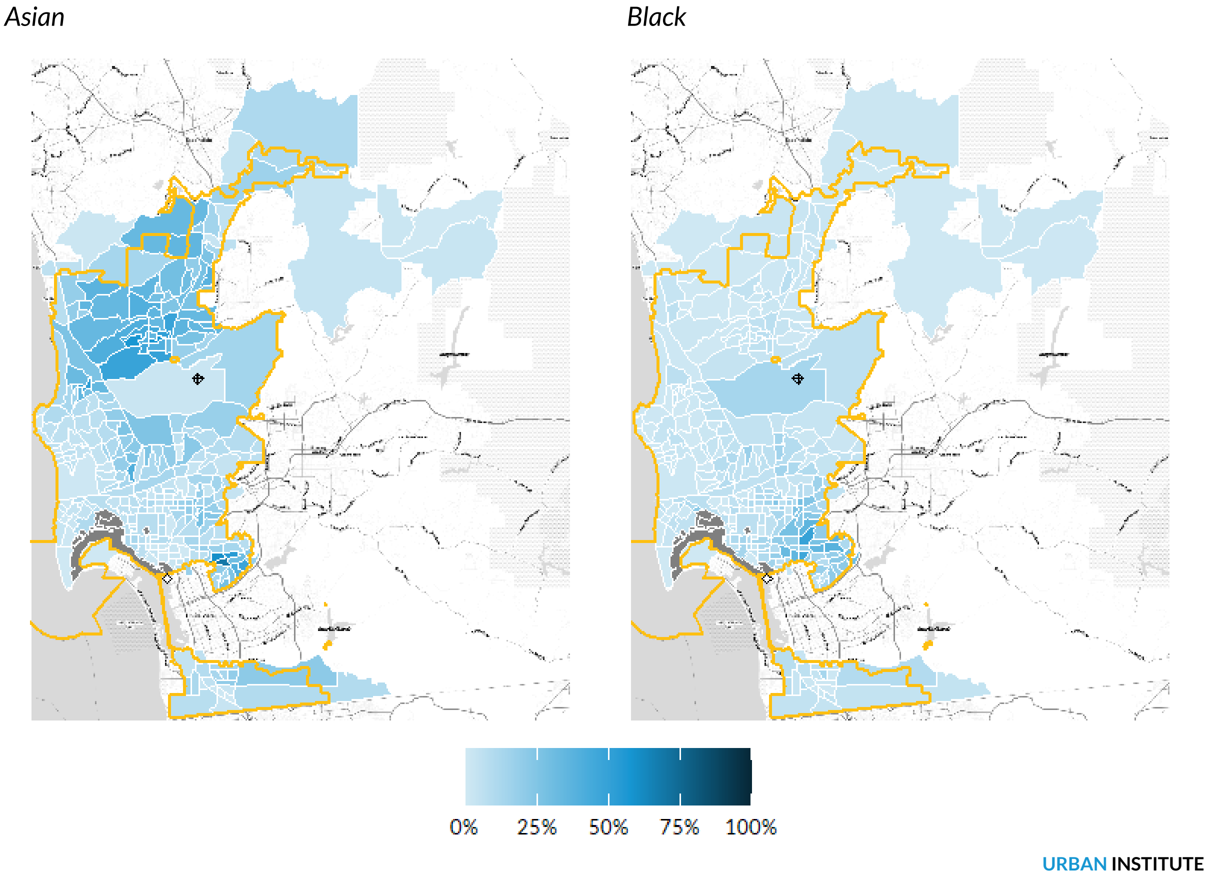
Source: 2015–19 American Community Survey data.

Location

Figure 16 shows the racial and ethnic concentrations of Asian, Black, Latino, and white households by census tract. White households are most concentrated in the city's coastal and coastal-adjacent census tracts, and they are spread relatively evenly across the central and northern census tracts. The concentration of white households is lower in the Mira Mesa neighborhood, the area with the greatest concentration of Asian households. Similarly, tracts in the Skyline-Paradise Hills, Encanto, City Heights, Southeastern, and Otay Mesa neighborhoods compose a large area in the city's southeast that has a substantially less concentrated white population and substantially more concentrated Black and Latino population than the rest of the city. No census tract is majority Black. Black households make up 37 percent of the total in the census tract where they are most concentrated. This suggests that targeting Black homebuyers through a place-based approach may not be effective in San Diego.

FIGURE 16A

Neighborhood Racial and Ethnic Composition

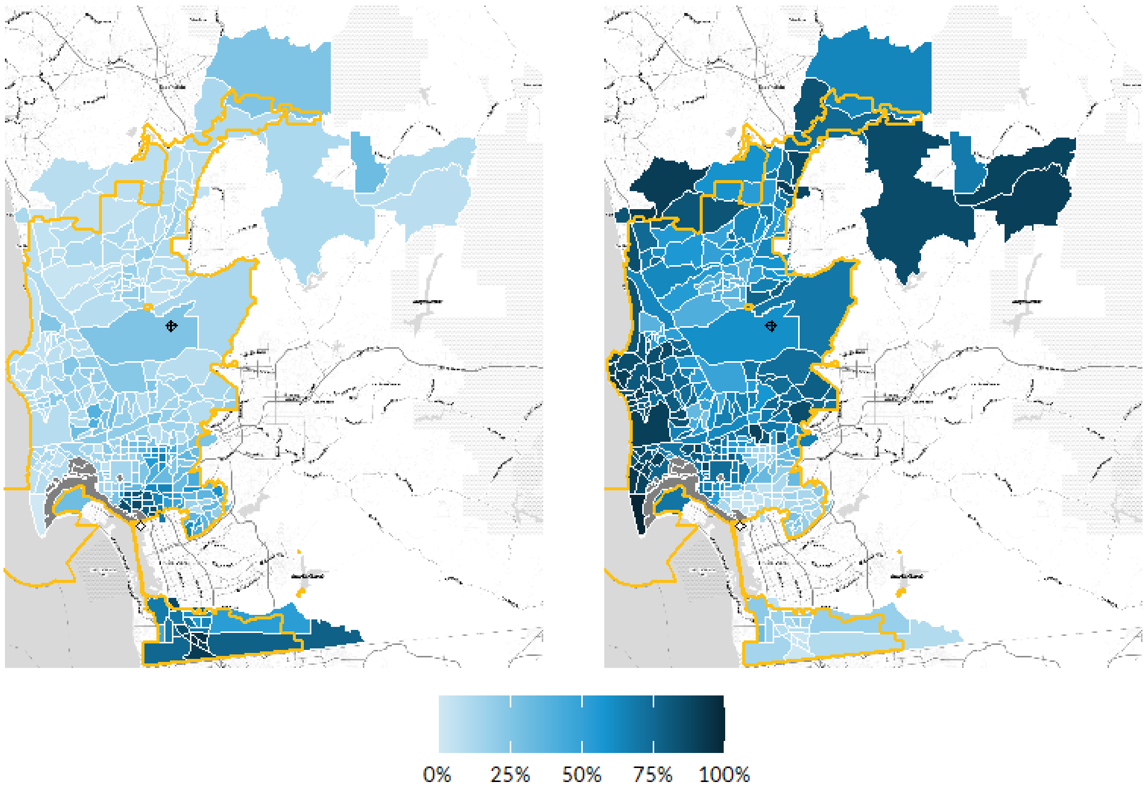


Source: 2015–19 American Community Survey data.

FIGURE 16B

Neighborhood Racial and Ethnic Composition

Latino *White*



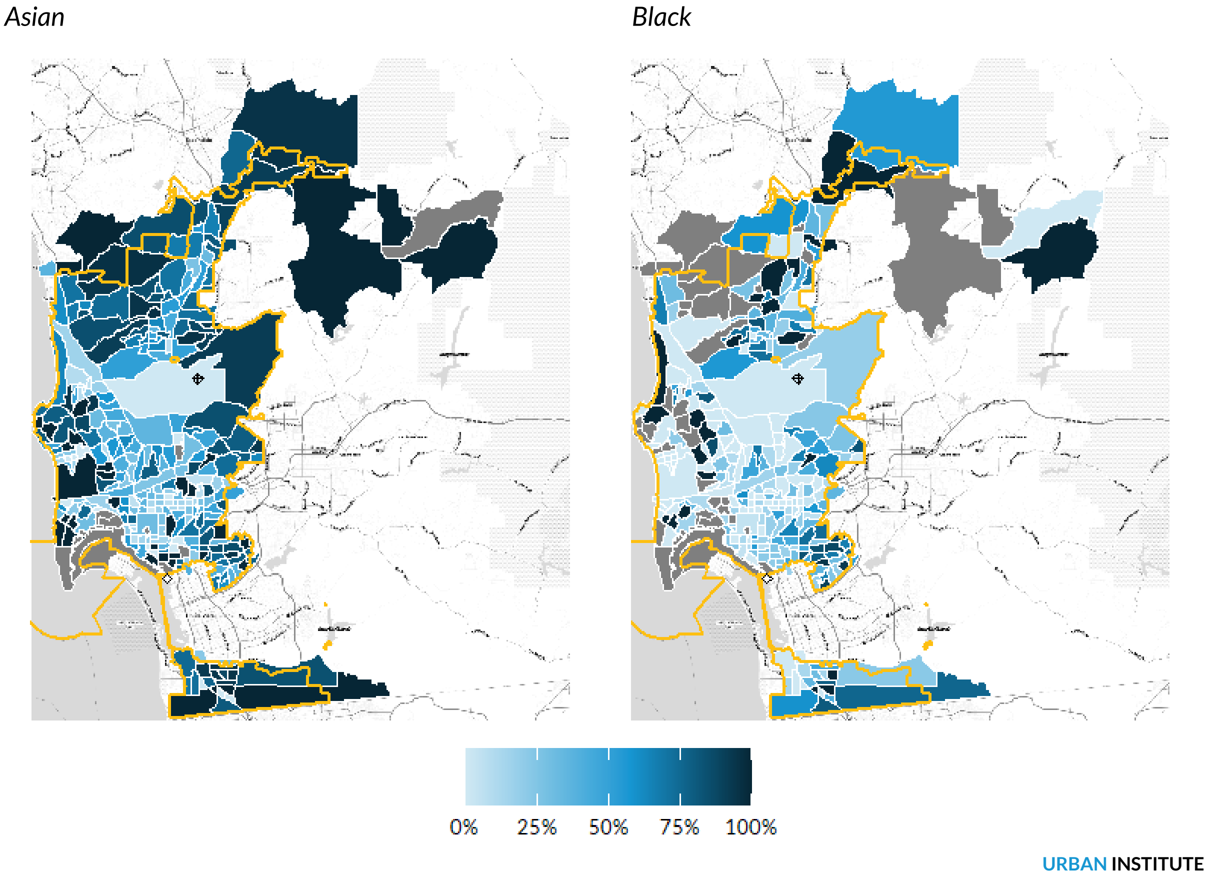
URBAN INSTITUTE

Source: 2015–19 American Community Survey data.

Figure 17 shows each census tract's homeownership rate overall and by race and ethnicity. Black households have the lowest homeownership rate of all racial groups in almost all neighborhoods. Except for the census tracts in the southeast, where the Black homeownership rate is relatively high and Black households are relatively concentrated, most of the tracts with a high Black homeownership rate have few total Black households. Excluding all census tracts with less than 300 households for each racial and ethnic group, the Black homeownership rate by census tract ranges from 0 to 88.5 percent. This range is nearly identical to that of Latino households (0 to 87.5 percent). There are only two census tracts where the white homeownership rate is 0 percent, but white households have a homeownership rate of 97.2 percent in the census tract with the highest white homeownership rate, roughly 10 percentage points greater than the share for Black and Latino households. Asian households are the only group that does not have a 0 percent homeownership rate in any census tract in which they account for more than 300 households, and their maximum homeownership rate in a tract is 98.0 percent.

FIGURE 17A

Neighborhood Homeownership Rates, by Race or Ethnicity

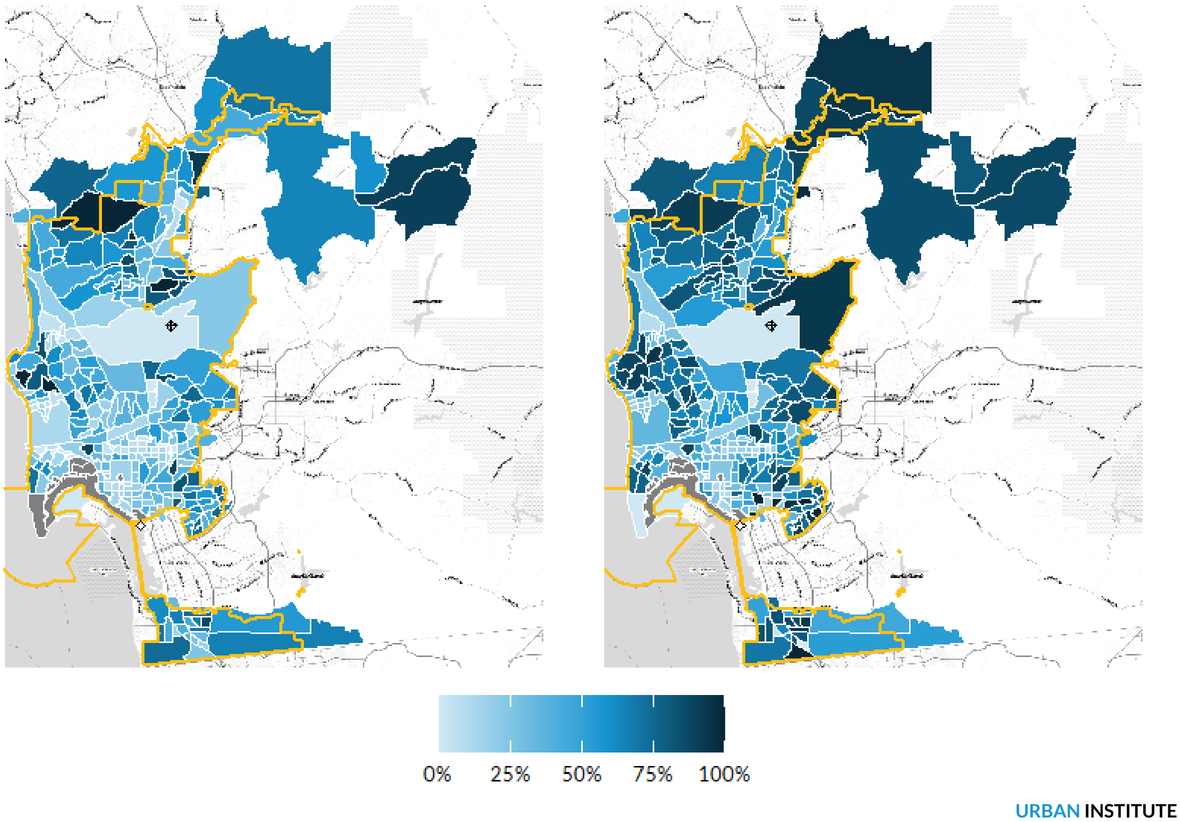


Source: 2015–19 American Community Survey data.

FIGURE 17B

Neighborhood Homeownership Rates, by Race or Ethnicity

Latino *White*



Source: 2015–19 American Community Survey data.

Mortgage Applications and Originations, by Race and Ethnicity

Applications and Originations

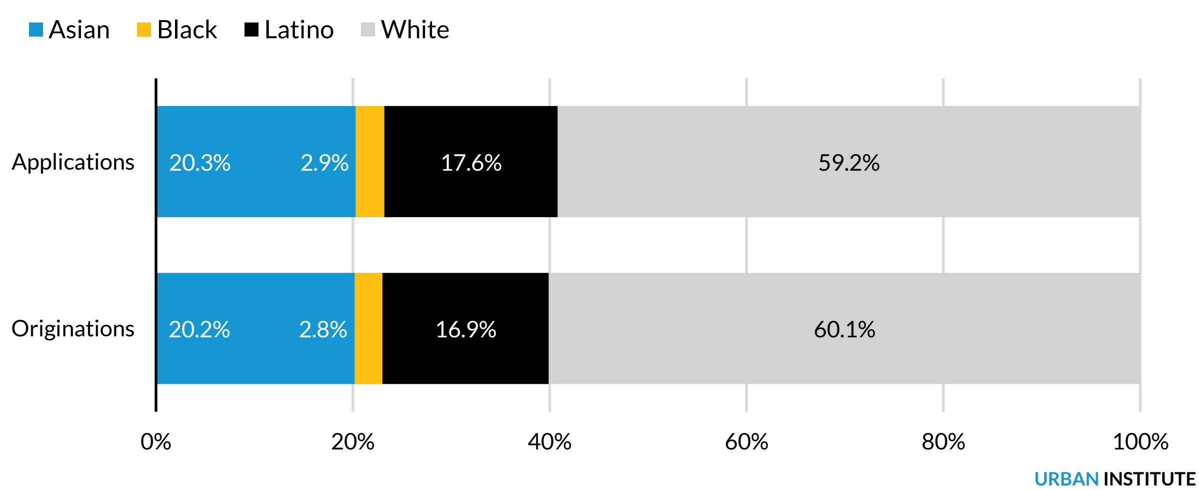
Information from 2018–20 Home Mortgage Disclosure Act (HMDA) data shows a racial disparity in mortgage applications and originations in San Diego. Despite Black households accounting for 6.1 percent of households in San Diego, banks originated only 2.8 percent of purchase mortgages to Black borrowers. Lower application volume and a higher denial rate contribute to Black households' disproportionately low share of mortgage originations. Only 2.9 percent of applicants were Black, and their 11.7 percent denial rate is 2.8 percentage points higher than the city's 8.9 percent denial rate. San

Diego's denial rates are low compared with US rates, where 13.3 percent of all mortgage applications and 24.8 percent of Black applications were denied. These low denial rates, combined with San Diego's low homeownership rate, suggest that high home prices deter households that may be able to own homes elsewhere from applying for mortgages in San Diego.

Similarly, Latino householders remain underrepresented in new mortgage originations, accounting for only 16.9 percent of them between 2018 and 2020 despite making up 23.3 percent of households. Like Black households, Latino households' 17.6 percent share of applications is disproportionately small, and their 11.9 percent denial rate is the highest of all groups. Conversely, Asian and white households are overrepresented in mortgage originations, accounting for 20.2 and 60.1 percent, respectively. Both groups also composed a disproportionately high share of applications: 20.3 percent for Asian households and 59.2 percent for white households. White households had the lowest denial rate (7.7 percent), while 9.3 percent of Asian households' applications were denied, 0.4 percentage points above the city's overall denial rate (figure 18; table 2). That these two groups already had higher homeownership rates and continue to be overrepresented in their share of mortgage originations means that the racial homeownership gap between Asian and white households and Black and Latino households is widening.

FIGURE 18

Application and Origination Shares for Home Purchase Loans, by Race or Ethnicity



Source: 2018–20 Home Mortgage Disclosure Act data.

TABLE 2

Denial Rates on Purchase Loans, by Race or Ethnicity

	San Diego	California	US
Asian	9.3%	9.4%	10.5%
Black	11.7%	14.3%	24.8%
Latino	11.9%	12.3%	18.5%
White	7.7%	8.2%	10.9%
All	8.9%	9.8%	13.3%

Source: 2018–20 Home Mortgage Disclosure Act data.

In total, 807 purchase loans originated to Black borrowers between 2018 and 2020, compared with the 4,838 loans originated to Latino borrowers and the 5,772 loans originated to Asian borrowers. White borrowers had 17,180 loans originated. The median property value on mortgage originations for Black and Latino households is $485,000, which is $200,000 lower than the median value for Asian and white properties.

Lenders cited high DTI ratios as the leading reason for denial among all racial and ethnic groups in San Diego during the application period. Black and Latino applicants were more likely to be denied because of high DTI ratios or insufficient collateral (meaning the home is not worth the value of the loan) in San Diego than nationally. Credit history was mentioned less frequently. This suggests that the main reason for mortgage denials in San Diego is related to high home prices, which leads to greater mortgage debt. Even among households who have sufficient credit, it is difficult to qualify for mortgages because of the high housing debt payments they would have to make.

TABLE 3

Reasons for Purchase Loan Denials, by Race or Ethnicity

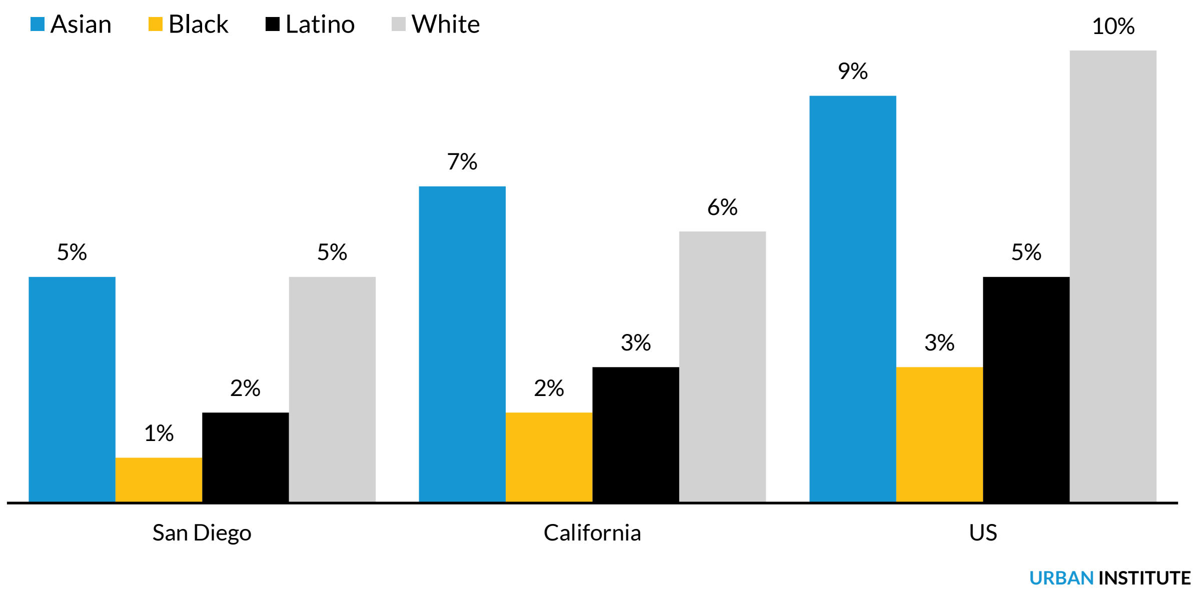
	Asian	Black	Latino	White	All
San Diego					
Debt-to-income ratio	34.9%	38.6%	35.4%	35.2%	35.3%
Credit history	8.4%	14.0%	18.9%	10.0%	11.9%
Insufficient collateral	10.7%	15.8%	12.6%	13.3%	12.7%
Credit application incomplete	14.6%	5.3%	9.2%	13.9%	12.6%
Other	12.9%	10.5%	10.0%	12.1%	11.7%
US					
Debt-to-income ratio	37.8%	31.1%	33.3%	28.7%	30.5%
Credit history	11.6%	38.7%	30.1%	31.2%	31.3%
Insufficient collateral	10.1%	6.4%	8.6%	11.0%	9.7%
Credit application incomplete	11.8%	5.6%	6.6%	8.3%	7.7%
Other	9.7%	7.0%	7.4%	7.5%	7.5%

Source: 2018–20 Home Mortgage Disclosure Act data.

San Diego's low denial rates fail to tell the complete story for homebuyers in the city. Data show that compared with California and the US, aggregate applications and originations of purchase loans in San Diego are low relative to the potential homebuyer population (i.e., renter households). The implication is that San Diegan renters are less likely to apply for a mortgage and more likely to withdraw an application after applying (table 4). Figure 19 shows that purchase mortgage originations during the application period account for a smaller share of potential homebuyers in San Diego than in California and the US.

FIGURE 19

Purchase Mortgage Originations as a Share of Total Renter Households, by Race or Ethnicity



Sources: 2018–20 Home Mortgage Disclosure Act data and 2015–19 American Community Survey data.

The ratio for originations to Black and Latino renter households in San Diego was particularly low, composing between 1 and 2 percent of potential homebuyers among those respective demographic groups. This suggests that although households who submit mortgage applications have lower denial rates, many households in San Diego are discouraged from applying for mortgages because of unaffordable home prices. Households who apply for mortgages are more likely to withdraw their applications in San Diego compared with the state and the nation, and this share was higher among Black and Asian applicants (table 4).

TABLE 4

Withdrawn and Incomplete Purchase Loan Applications, by Race or Ethnicity

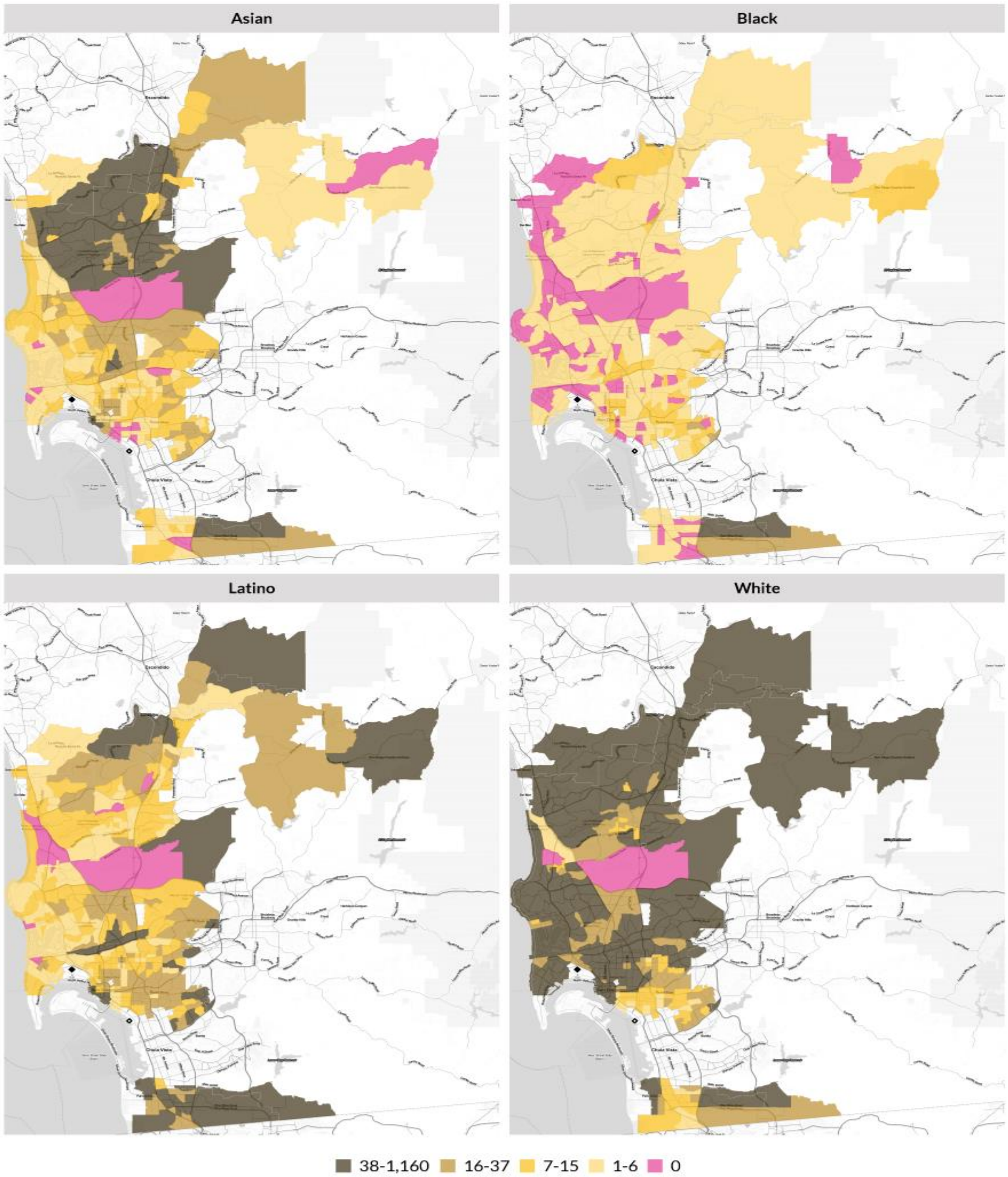
	San Diego	California	US
Withdrawn applications			
Asian	19.5%	15.5%	15.6%
Black	18.3%	16.4%	14.5%
Latino	15.0%	13.4%	13.6%
White	16.4%	13.9%	12.7%
All	17.3%	14.7%	13.6%
Incomplete applications			
Asian	2.7%	2.7%	3.1%
Black	2.6%	3.5%	3.9%
Latino	4.3%	4.2%	3.9%
White	2.4%	2.6%	2.6%
All	2.9%	3.2%	3.2%

Source: 2018–20 Home Mortgage Disclosure Act data.

The geographic distribution of recent purchase mortgage originations largely resembles existing racial residential patterns. Lending to Asian borrowers was concentrated in the city's north, while Black and Latino borrowers purchased mainly in the southeast. White borrowers purchased all over the city, but they were much less likely to purchase in the predominantly Latino and Black neighborhoods in the southeast than anywhere else.

FIGURE 20

Loans Originated across Neighborhoods, by Race or Ethnicity



Source: 2018–20 Home Mortgage Disclosure Act data.

Loan Characteristics

Homeowners of color who did apply during the application period had more debt relative to their income. The average Black and Latino applicant had overall debt-to-income ratios of 44 and 43 percent, respectively, compared with 39 percent for white and Asian applicants (table 5). The median down payment in San Diego is 20 percent, which is substantially higher than in the nation (6 percent), showing that many households are putting a lot of money down to purchase a home in San Diego. This difference is driven by high home values. In 2020, a conventional loan limit in San Diego for a single unit was $701,500. To qualify for government-backed financing for high-cost homes, San Diegans would need to provide higher down payments.

Still, Black and Latino households' median down payments are 3.5 percent and 5 percent, respectively, of their home values, reflecting their lower wealth. In the current competitive market, those who put less money down are less likely to be successful in homebuying.

TABLE 5

Median DTI Ratios and Down Payments for Purchase Loans, by Race or Ethnicity

	DTI ratio	Down payment
Asian	39%	20.0%
Black	44%	3.5%
Latino	43%	5.0%
White	39%	20.0%
All	40%	20.0%

Source: 2018–20 Home Mortgage Disclosure Act data.
Note: DTI = debt-to-income.

Driving the significant difference in average down payment between racial and ethnic groups is the mortgage origination channel. Because many Black households have veterans or active-duty military members, VA loans that allow zero down payments make up significant shares of originations. More than 51 percent of Black homebuyers bought their homes through the VA channel. This is substantially higher than the share of veterans and active-duty members in the city (30 percent), suggesting that the remaining Black borrowers who cannot access the zero–down payment loan face greater challenges becoming homeowners. Note that Latino San Diegans were more likely to use FHA loans, another low–down payment program.

TABLE 6

Purchase Loan Origination Channels, by Race or Ethnicity

	Conventional	FHA	VA or other channel
Asian	88.5%	2.9%	8.6%
Black	40.2%	8.7%	51.1%
Latino	62.7%	19.0%	18.2%
White	82.1%	3.5%	1.4%

Source: 2018–20 Home Mortgage Disclosure Act data.
Note: FHA = Federal Housing Administration; VA = US Department of Veterans Affairs.

Potential Black Low-Income Homebuyers

To estimate the number of potential first-time homebuyers who would benefit from DPA, the researchers calculated the number of renter households for each race and ethnicity by income level. Each group was divided into two: households with heads younger than 45, who are more likely to be first-time homebuyers, and households with heads ages 45 and older. Further, active-duty military members and veterans were excluded because they are more likely to move to another location, which reduces their likelihood of obtaining homeownership. In addition, if they want to buy a home, they can use VA loans with no down payment and not require additional assistance.

Table 7 presents the number of renter households who earn below 80 percent of the AMI by race and ethnicity. Researchers also separated households with incomes below 50 percent of the AMI from households with incomes of at least 50 percent of the AMI because the lower-income group is not likely to have enough income or wealth to access and sustain homeownership. The homeownership rate for Black households with incomes below 50 percent of the AMI was 13 percent in 2019. Fifty-four percent of homeowners at this income level were older than 65 and were likely to be retired (appendix table A.1). According to SDHC, the average income of borrowers for the loans closed between 2019 and 2021 was 65 to 67 percent of the AMI. Thus, it is likely that borrowers who would qualify for DPA would have incomes of at least 50 percent of the AMI.

In 2019, only 5,387 Black renter households earned 50 to 80 percent of the AMI, and among them, 3,128 had heads of household younger than 45. This number decreases further when active-duty military members, veterans, and those who left the military before turning 45 are excluded, leaving only 1,983 Black renter households whose heads are not active-duty members or veterans and are younger than 45. For those who are 45 or older, there were 1,810 households. This suggests that the potential market size for Black households in San Diego is small.

This small market means the program would have to precisely reach out to serve the relatively small number of Black households. Because Black households are spread out across neighborhoods (figure 16), it would be difficult to reach out to these households using a place-based approach. Instead, lenders may play a key role in outreach or partner with reliable local organizations, including faith-based and community-based organizations, to increase awareness of the program.

TABLE 7

Number of Low-Income Potential Homebuyers, by Age, Race, Ethnicity, and Military Status

	Black Households		Asian Households		Latino Households		White Households	
	Earning < 50% AMI	Earning 50–80% AMI	Earning < 50% AMI	Earning 50–80% AMI	Earning < 50% AMI	Earning 50–80% AMI	Earning < 50% AMI	Earning 50–80% AMI
All renters								
Younger than 45	5,037	3,128	7,003	4,258	16,999	10,157	17,772	14,963
Ages 45 and older	6,250	2,259	5,151	2,321	12,604	6,171	20,664	8,716
Total	11,288	5,387	12,154	6,580	29,603	16,329	38,437	23,678
All renters, excluding veterans and active-duty military members								
Younger than 45	4,081	1,983	6,775	3,786	16,369	9,426	15,917	12,750
Ages 45 and older	5,076	1,810	4,886	2,185	12,225	5,840	17,588	7,320
Total	9,158	3,793	11,661	5,971	3,143	15,265	33,504	20,070

Source: 2019 American Community Survey data.

Note: AMI = area median income.

Market Analysis II: Exploring the Number of Potential Middle-Income Homebuyers

This section examines homeownership and mortgage application status by income. It provides an overview of homeownership rates and lending in San Diego by income groups and estimates the number of potential middle-income households to which the SHDC FTHB Program could reach out.

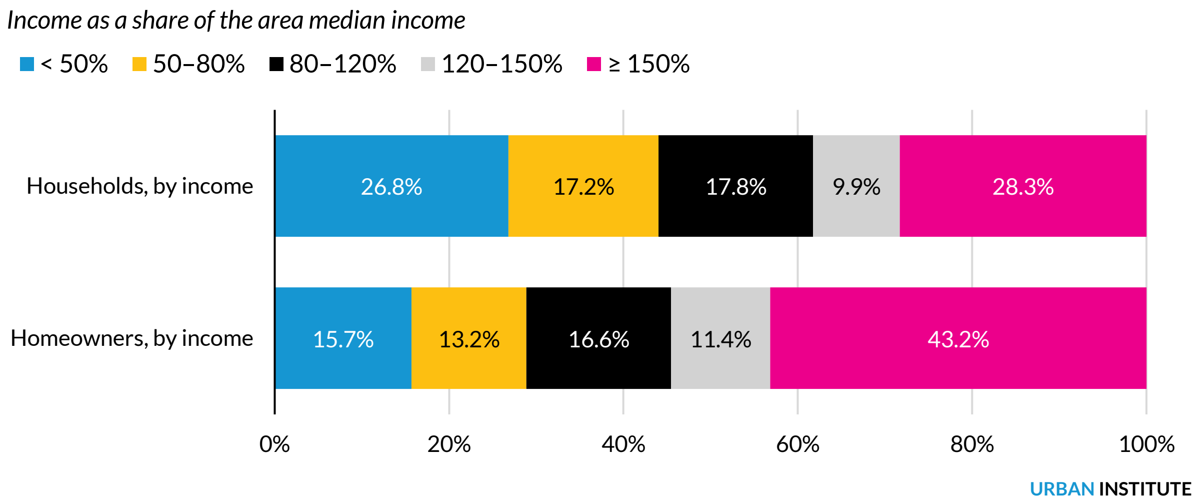
Homeownership, by Income

In San Diego, households with the highest incomes—above 150 percent of the AMI—have a 70.0 percent homeownership rate. Below that income level, the homeownership rate drops substantially. For households making between 120 and 150 percent of the AMI, the homeownership rate is 52.5 percent, lower than the overall national homeownership rate. Households earning 80 to 120 percent of the AMI have a 42.8 percent homeownership rate, and households making 50 to 80 percent of the AMI and 0 to 50 percent of the AMI have homeownership rates of 35.1 and 26.8 percent, respectively.

High-income households are significantly overrepresented as a share of total homeowners (figure 21). Compared with their share of total households, the highest-income homeowners are overrepresented by 52.6 percent, and homeowners making between 120 and 150 percent of the AMI are overrepresented by 15.2 percent. In contrast, the lowest-income households are underrepresented as a share of total homeowners by 41.5 percent. The two middle groups, making between 50 and 80 percent of the AMI and 80 and 120 percent of the AMI, are underrepresented by 23.3 and 6.7 percent, respectively.

FIGURE 21

Households and Homeowners, by Income, in San Diego

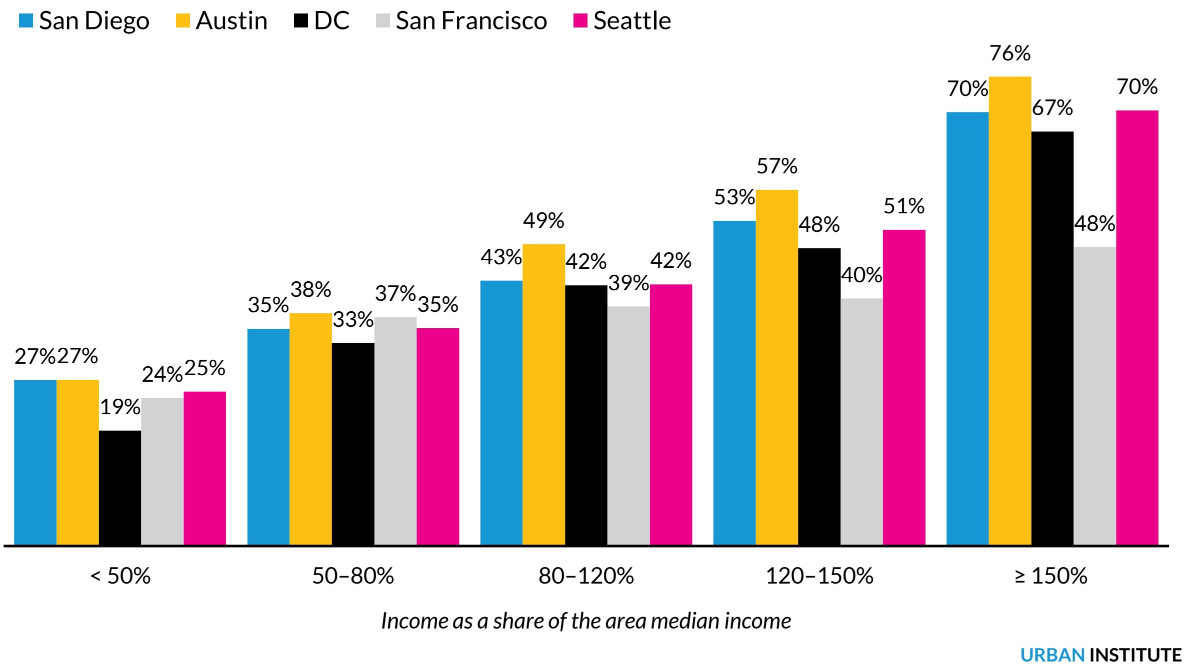


Source: 2015–19 American Community Survey data.

Like with race and ethnicity, other cities have differences in homeownership rates by income similar to those in San Diego. Austin, DC, and Seattle have homeownership rate differences of more than 40 percentage points between households in the highest and the lowest income groups. In San Francisco, the gap is 24 percentage points, largely a reflection of its homes being unaffordable to even the highest earners (figure 22).

FIGURE 22

Homeownership Rates, by Income, in Several Cities



Source: 2015–19 American Community Survey data.

Location

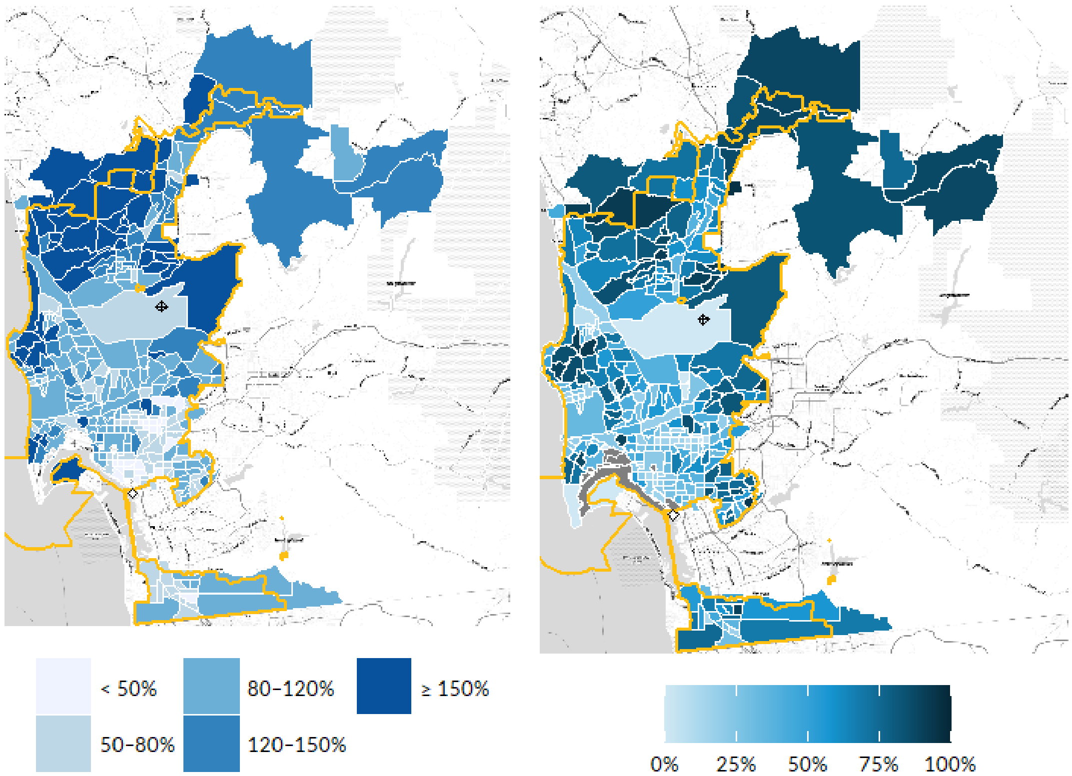
High-income neighborhoods in San Diego (where the average household earns more than 150 percent of the AMI) are concentrated along the city's coast and in its northwestern census tracts. There is also a cluster of high-income tracts in the Scripps Ranch and Miramar Ranch North neighborhoods in the east. Middle-income neighborhoods (where the average household earns between 80 and 150 percent of the AMI) are concentrated in the center of the city, extending to the central coast and northeast of the city. The lowest-income neighborhoods (where the average household earns below 80 percent of the AMI) are in the southwest, overlapping with the greatest concentrations of Black and Latino residents (figure 23).

As expected, the homeownership rate is lower in low-income neighborhoods and higher in high-income neighborhoods. The homeownership rate in the highest-income tracts is 81 percent, and the rate is 70 percent in the tracts in the next-highest-income group. The homeownership rate drops significantly to 48 percent in tracts in the middle-income group. Tracts in the two lowest-income groups have homeownership rates of 20 percent and 32 percent, respectively.

FIGURE 23

Neighborhood Income Distribution and Total Homeownership Rates

Tract income group | *Tract homeownership rate*



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Source: 2015–19 American Community Survey data.

Mortgage Applications and Originations, by Income

Applications and Originations

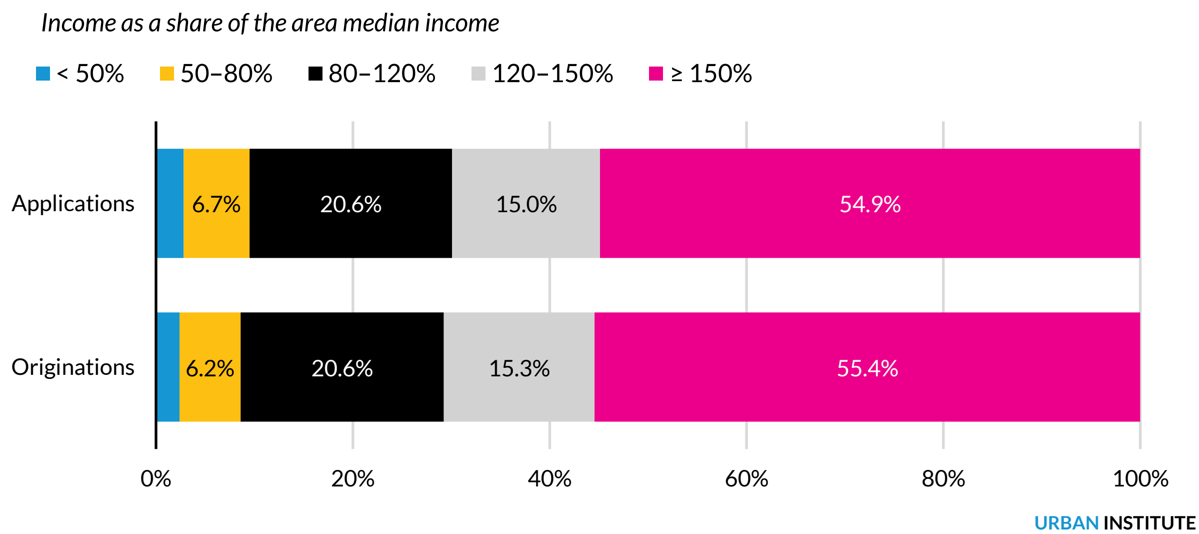
There are large disparities in mortgage applications and originations across income groups in San Diego. In 2020, the lowest-income group accounted for just over 2 percent of mortgage originations, despite composing 26.8 percent of households (figure 24). Similarly, the second-lowest-income group accounted for 6 percent of originations but 17.2 percent of households. Middle-income households were roughly proportionally represented in their share of originations. Households making between 80 and 120 percent of the AMI received 20.6 percent of mortgage originations, 3 percentage points higher than their share of households, and households earning between 120 and 150 percent of the AMI

received 15 percent of originations, 2 percentage points above their household share. Meanwhile, the highest-earning households accounted for 55.4 percent of originations, despite accounting for 28.3 percent of households.

Originations to households in the lowest-income group had the second-highest median property value ($585,000), likely because the households buying homes at this income level are retirees or other low-income, high-wealth households. Originations to households in the middle three income groups had median property values of $355,000, $455,000, and $555,000, respectively. The median property value for originations to the highest-income group was $805,000.

FIGURE 24

Origination and Application Rates, by Income



Source: 2018–20 Home Mortgage Disclosure Act data.

There are 48,683 renter households earning between 80 and 120 percent of the AMI and almost 23,000 households earning between 120 and 150 percent of the AMI. Though households at these income levels are approximately proportionately represented as a share of homeowners, their overall homeownership rates are 43 and 53 percent, respectively, close to the citywide figure but well below the national rate. And young households (heads younger than 45) in these income groups have homeownership rates of only 25.2 and 36.9 percent, suggesting homebuying is becoming difficult for households at these income levels.

Households in the two lowest-income groups in San Diego had substantially higher denial rates than households in the other three groups (table 8). Those in the lowest group had a 25.3 percent denial rate,

and households earning 50 to 80 percent of the AMI had a 15.3 percent denial rate. Households earning 80 to 120 percent of the AMI, 120 to 150 percent of the AMI, and at least 150 percent of the AMI had respective denial rates of 8.8 percent, 7.1 percent, and 7.8 percent.

TABLE 8

Denial Rates on Purchase Loans, by Income

	San Diego	California	US
< 50% of the AMI	25.3%	24.8%	37.2%
50–80% of the AMI	15.3%	15.8%	18.7%
80–120% of the AMI	8.8%	10.2%	12.4%
120–150% of the AMI	7.1%	8.5%	9.7%
≥ 150 % of the AMI	7.8%	7.7%	7.4%

Source: 2018–20 Home Mortgage Disclosure Act data.
Note: AMI = area median income.

As the prior section showed, originators cited high DTI ratio as the most common reason for denial across all income groups (table 9). But high DTI ratio was cited more frequently for denial for lower-income borrowers than for middle- and high-income borrowers. Compared with national denial rates, credit history was much less likely to be the reason for denial in San Diego, likely because households on the low end of the credit spectrum either did not apply or withdrew applications.

TABLE 9

Reasons for Purchase Loan Denials, by Income

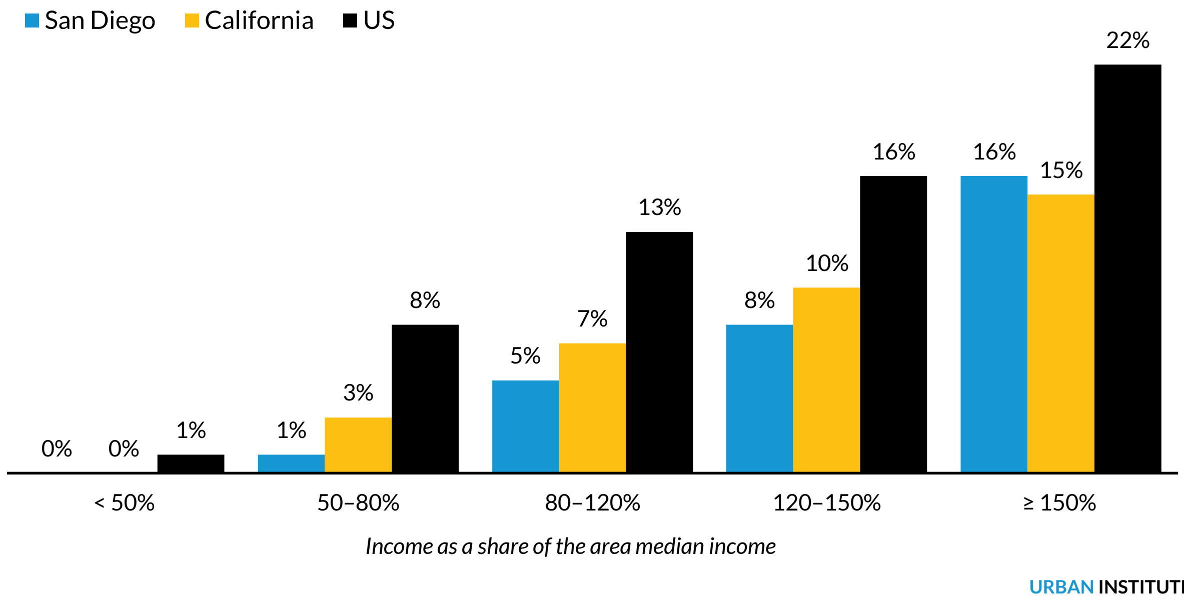
	< 50% of the AMI	50–80% of the AMI	80–120% of the AMI	120–150% of the AMI	≥ 150% of the AMI
San Diego					
Debt-to-income ratio	59.0%	48.7%	36.8%	33.4%	28.2%
Credit history	9.7%	18.9%	13.1%	10.4%	10.4%
Insufficient collateral	4.6%	9.3%	14.8%	16.9%	12.8%
Credit application incomplete	4.6%	4.8%	12.6%	16.0%	15.0%
Other	8.8%	8.2%	11.1%	9.6%	13.8%
US					
Debt-to-income ratio	44.3%	33.7%	26.5%	22.9%	20.3%
Credit history	31.2%	34.1%	33.7%	31.7%	24.7%
Insufficient collateral	4.6%	8.3%	10.5%	12.1%	14.5%
Credit application incomplete	4.5%	5.2%	7.4%	9.5%	13.7%
Other	4.5%	6.1%	8.0%	9.5%	11.0%

Source: 2018–20 Home Mortgage Disclosure Act data.
Note: AMI = area median income.

Broken out by income, mortgage originations as a share of potential buyers in San Diego were lower than in the rest of the country across income groups, particularly among middle-income households (figure 25). Prospective buyers earning 80 to 150 percent of the AMI in San Diego had origination shares 2 to 3 percentage points less than in California and were significantly lower than in the US. But households in the highest-income group in San Diego outperformed California. The lowest-income groups were very unlikely to purchase a home in San Diego, with originations covering less than 1 percent of households earning less than 80 percent of the AMI.

FIGURE 25

Purchase Mortgage Originations as a Share of Total Renter Households, by Income



Sources: 2018–20 Home Mortgage Disclosure Act data and 2015–19 American Community Survey data.

San Diego applicants in the highest-income group were more likely to withdraw an application than middle-income earners, with withdrawals making up 19 percent of total applications (table 10). The lowest-income households in San Diego had the highest share of withdrawals, but this group accounts for only 3 percent of total applications between 2018 and 2020, and the small sample likely skews the results.

TABLE 10

Withdrawn and Incomplete Purchase Loan Applications, by Income

	San Diego	California	US
Withdrawn applications			
< 50% of the AMI	21.4%	15.3%	11.6%
50–80% of the AMI	14.1%	13.0%	12.2%
80–120% of the AMI	14.1%	13.1%	13.0%
120–150% of the AMI	15.4%	13.9%	13.7%
≥ 150 % of the AMI	19.0%	15.8%	15.2%
Incomplete applications			
< 50% of the AMI	4.0%	5.2%	5.6%
50–80% of the AMI	5.3%	5.1%	4.2%
80–120% of the AMI	3.4%	3.8%	3.2%
120–150% of the AMI	2.5%	3.0%	2.7%
≥ 150 % of the AMI	2.5%	2.4%	2.4%

Source: 2018–20 Home Mortgage Disclosure Act data.

Note: AMI = area median income.

Loan Characteristics

Among mortgage applications between 2018 and 2020, mortgage debt relative to income was lower for high earners, with applicants earning more than 150 percent of the AMI having DTI ratios 10 percentage points lower than applicants earning 50 to 80 percent of the AMI (table 11). San Diego's middle-income borrowers put less down, on average, than both very low– and high-income borrowers. This difference is explained by middle-income earners' high use of the FHA and VA low–down payment programs.

TABLE 11

Median DTI Ratios and Down Payments for Purchase Loans, by Income

	DTI ratio	Down payment
< 50% of the AMI	41%	20%
50–80% of the AMI	46%	20%
80–120% of the AMI	44%	8%
120–150% of the AMI	42%	10%
≥ 150 % of the AMI	36%	20%

Source: 2018–20 Home Mortgage Disclosure Act data.
Note: AMI = area median income.

Households earning 80 to 120 percent of the AMI were the least likely to use conventional financing, as they hold a high share of loans originated through both the VA and FHA programs (table 12). Note that the high conventional loan rate for the lowest-income borrowers is the result of a very small sample of originations. For households earning 120 to 150 percent of the AMI, the VA and FHA also play a crucial role; these channels are much less used by the highest-income households (at least 150 percent of the AMI).

TABLE 12

Purchase Loan Origination Channels, by Income

	Conventional	FHA	VA or other channel
< 50% of the AMI	85.4%	5.6%	8.9%
50–80% of the AMI	79.2%	4.0%	16.9%
80–120% of the AMI	63.8%	10.9%	25.3%
120–150% of the AMI	69.5%	9.9%	20.6%
≥ 150 % of the AMI	87.0%	3.6%	9.4%

Source: 2018–20 Home Mortgage Disclosure Act data.
Note: AMI = area median income; FHA = Federal Housing Administration; VA = US Department of Veterans Affairs.

Potential Middle-Income Homebuyers

Because homeownership is so far out of reach for San Diego's low-income households and because even middle-income residents struggle to attain homeownership, the city is considering expanding its FTHB Program to serve middle-income homebuyers. This expansion would require new funding sources but could have greater potential because there are many renter households in this income group. The finding showing that many middle-income homebuyers use VA loans suggests those who do not have access to these loans could benefit from a new DPA program. As these households typically put 8 to 10 percent down, if they plan to purchase a median-price home ($969,595), they would need between $96,650 and $116,350 in assistance to reach 20 percent down, which is lower than what San Diego currently provides.

Table 13 shows the number of middle-income renter households. In 2019, there were 51,371 renters with incomes between 80 and 120 percent of the AMI, and among them, 36,187 had household heads younger than 45. For renters with household incomes between 120 and 150 percent of the AMI, there were 23,856 in total, with 16,863 whose head was younger than 45. These numbers decrease slightly when households where the heads are veterans or active-duty military members are excluded. As expected, the decline is larger for the younger age group. After excluding active-duty members and veterans, there were 64,934 middle-income renter households, of which 49,631 had heads younger than 45. A program targeted toward households earning between 80 and 120 percent of the AMI has a potential market size of 43,792 renter households and 30,762 households with heads younger than 45.

TABLE 13

Number of Potential Homebuyers, by Income, Age, and Military Status

	< 50% of the AMI	50–80% of the AMI	80–120% of the AMI	120–150% of the AMI	≥ 150% of the AMI
All renters					
Younger than 45	51,519	36,010	36,187	16,863	29,824
Ages 45 and older	47,804	20,545	15,184	6,992	13,143
Total	99,322	56,556	51,371	23,856	42,967
All renters, excluding veterans and active-duty military members					
Younger than 45	47,253	30,701	30,762	14,909	26,586
Ages 45 and older	42,529	18,020	13,029	6,232	11,028
Total	89,783	48,720	43,792	21,142	37,614

Source: 2019 American Community Survey data.

Note: AMI = area median income.

DPA Programs in Other Cities and Localities

HFPC has partnered with Down Payment Resource to identify DPA programs that either target Black homebuyers or serve middle-income homebuyers. HFPC researchers also interviewed employees at the Los Angeles County Development Authority, which serves the same income group as SDHC (households earning below 80 percent of the AMI) to explore whether they are facing similar challenges and how they have responded. The organizations the researchers interviewed had a consensus that the current housing market has added new challenges in serving their clients and have been seeking to find what they can do to meet potential homebuyers' needs. Below is the summary of information researchers gathered from each interview.

HomeSight

HomeSight, which serves Black homebuyers and is based in Seattle, provides multiple DPA programs through its private and public partnerships. Realizing the importance of reducing racial homeownership disparities and the decline in Black borrowers, HomeSight recently launched two new programs to target Black homebuyers, Indigenous homebuyers, and other homebuyers of color. Although the amount of assistance is not large, the loans can be combined with other DPA programs that HomeSight provides. Most of HomeSight's other DPA programs are funded by the State Housing Finance Commission and have income limits of 80 percent of the AMI. HomeSight offers an additional $25,000 on top of the DPA offered by the city or the state for households with incomes below 60 percent of the AMI.

The Social Justice Down Payment Assistance Program (BIPOC[10] DPA) has been allocated $3 million to support BIPOC households through a $10,000, 0 percent interest, deferred 30-year loan for households with incomes below 80 percent of the AMI. The program works with the Washington State Housing Finance Commission.

Sam Smith's "Hi Neighbor" Homeownership Fund focuses on Black borrowers. This program started when a real estate agent at Windermere reached out after the murder of George Floyd and said she wanted to donate a part of her commission to help Black families buy homes. This conversation led to a program in which Windermere has partnered with US Bank and the National Association of Real Estate

Brokers. The program provides DPA to Black households with incomes above 80 percent of the AMI, who, unlike many households with incomes below 80 percent of the AMI, can afford to become homeowners if they have with a little extra support. The program intends to help Black borrowers who earn just above 80 percent of the AMI but do not have enough wealth for a down payment. An eligible borrower can receive up to $12,000 toward their home purchase costs.

Because HomeSight is a nongovernmental organization and a community development financial institution, it also uses some of its own funding. By using private funding and its own money, HomeSight can be more flexible with program design. The Hi Neighbor program has funded three loans so far, with many more preapproved in the pipeline. Still, employees said that because of high home prices, buyers are struggling to find affordable homes.

Despite rising home prices, the organization was able to close about 70 loans in the past two years and aims to close 80 loans in 2022. It uses social media for promotion and participates in external events to present about the program. To have better access to affordable properties, employees are working with several community land trusts that have been successful. Appraising these properties is different from regular properties and is often one of the biggest causes of delays in the process. So, in some cases, the program has provided appraisers fees to facilitate the process. Additionally, realizing the need to be proactive to compete with cash buyers, the program is considering providing sellers some credit.

The DC Department of Housing and Community Development

DC's Department of Housing and Community Development, which serves middle-income and Black homebuyers, has three DPA programs: the Home Purchase Assistance Program (HPAP), the Employer Assisted Housing Program (EAHP), and the Negotiated Employee Assistance Housing Program (NEAHP). HPAP, the main program, assists residents making up to 110 percent of the AMI and is funded by CDBG, HOME, and local funds. The maximum assistance level is $84,000, and the minimum is $16,000. Administrators use federal funds first because the federal eligibility requirements are the strictest—most notably because they impose an income limit of 80 percent of the AMI—and incorporate additional funding sources if necessary. If a borrower earns below 80 percent of the AMI, the administrators would provide assistance with federal money until the money runs out and then use other funding sources.

Around 60 percent of borrowers use HPAP alone, and around 40 percent receive both HPAP and EAHP funding. EAHP funding is available to full-time DC government employees in good standing with at least one year of service and has no income limits. NEAHP has not been funded in a few years and is available only to government employees whose positions are covered by a collective bargaining agreement.

For borrowers earning below 50 percent of the AMI, the loan carries 0 percent interest and is forgivable unless the home is sold. For borrowers earning above 50 percent of the AMI, 0 percent interest payments start after five years. Eligibility is restricted to single-unit homes, including condominiums, for an owner-occupied primary residence, and borrowers must be first-time homebuyers.

Borrowers must attend a pre-HPAP orientation. Then, they work with a housing counselor to receive a notice of eligibility and must take an in-depth homebuyer education course. Every year, 2,000 to 3,000 people attend these trainings, 1,000 receive a notice of eligibility, and an average of 372 households close on HPAP loans. The homebuying process for borrowers using HPAP is lengthy, and the program consistently uses all its funding, reducing the imperative to streamline the process.

In 2021, 80 percent of borrowers in these programs identified as Black and lived in the city's two lowest-income wards. DC is intentional about helping legacy and Black residents stay in DC amid gentrification, but it has no dedicated funds or marketing strategy for Black homebuyers. The city's population is 41 percent Black.[11]

The funding doubled five years ago as the mayor increased the benefit of the program and nonfederal funds were injected into the program. To keep pace with rising housing costs, the mayor has proposed increasing the maximum assistance level to $202,000, and the DC Council is considering raising the minimum funding level to $70,000. The mayor's office is developing a strategy to increase Black homeownership, and the mayor plans to allocate $10 million toward that effort.

The San Francisco Mayor's Office of Housing and Community Development

The Mayor's Office of Housing and Community Development in San Francisco went through multiple versions of its DPA program as limited housing supply, rising home prices, and heated competition made it increasingly difficult to help low-income borrowers. Interviewees at MOHCD pointed out that in the

current San Francisco housing market, even households earning 150 percent of the AMI cannot afford to buy a home.

Realizing this challenge, MOHCD, which serves middle-income homebuyers, has increased the income limit to 200 percent of the AMI. The Dream Keeper Downpayment Assistance Loan Program (DK-DALP) came as a part of Mayor London Breed's Dream Keeper Initiative to reduce racial disparities in San Francisco. DK-DALP is a no-interest, no–monthly payment deferred loan and contains a shared equity appreciation component. Because MOHCD's housing trust funds allowed it to fund only borrowers earning up to 120 percent of the AMI, it issued general obligation bonds to provide additional funding to serve high-income households. The mayor also provided discretionary general funds to go up to a higher AMI. MOHCD also reduces the minimum borrower's contribution from 5 percent to 1 percent and provides an additional grant of up to $30,000 that can be used toward a down payment, closing costs, or prepaid items. The program provides up to $500,000 in DPA.

Even with these changes, first-time buyers still face difficulties competing with cash buyers. Going through the DK-DALP program adds 30 to 45 days to the process; MOHCD is working with lenders to reduce that time. In many cases, however, this reduction depends on the lenders' capacity.

MOHCD also manages below-market-rate ownership programs, the main one being the inclusionary housing program. This program serves households earning between 80 and 150 percent of the AMI. When a housing developer proposes a residential project with 10 or more units, it needs to reserve a share of its units to be rented or sold at a below-market rate. Below-market-rate homes are always condominium units, mostly in mixed-income buildings, and buyers are selected through a lottery. The property is resold at below-market-rate prices to future eligible buyers. Because of this program, MOHCD employees said they were more comfortable raising the income limit on the DPA program because the city offers homeownership opportunities for a wide range of income levels.

HomesFund

The HomesFund DPA program, which serves middle-income homebuyers, started in 2008. It offers a shared appreciation soft-second loan with no monthly payments or interest. Upon sale or cash-out refinance, the homebuyer must repay the principal in addition to a proportional share of the home's appreciated value. The shared equity model has enabled the funds to approximately keep pace with increasing housing costs.

HomesFund offers multiple DPA programs. Borrowers can get as many forms of DPA as they are eligible for, and around half of homebuyers get two or more DPA loans. Borrowers with household incomes below 80 percent of the AMI are eligible for the most assistance. The combined value of HomesFund DPA cannot exceed $70,000.

In 2016, HomesFund expanded beyond La Plata County to several counties in southwest Colorado with additional state funding. The funding initially came from the CDBG, and CDBG funding is limited to serving households with incomes of no more than 80 percent of the AMI. In 2019, the state legislature passed two affordable housing bills that provided funds that enabled the program to increase its eligibility to 100 percent of the AMI. More recently, the program received state funding via the Affordable Housing Investment Fund. Homebuyers earning up to 120 percent of the AMI are eligible for these funds, but HomesFund still prioritizes buyers making below 100 percent of the AMI, as the area still has enough homes affordable to homebuyers earning below 120 percent of the AMI.

HomesFund has reacted quickly to market changes by constantly updating its policies and procedures. Rising home prices have prompted an increase in the loan amount to up to 25 percent of the purchase price for households earning below 80 percent of the AMI and up to 17 percent of the purchase price for households earning 80 to 100 percent of the AMI. In the past three years, HomesFund has served 63, 56, and 43 households. Part of its ability to maintain a relatively steady number of loans stems from having a state legislature that understands the breadth of the housing crisis and is willing to fund DPA programs. This state funding also affords it more flexibility in terms of being able to fund households making above 80 percent of the AMI.

In recent years, HomesFund has redefined affordable homeownership by expanding its assistance to mobile and manufactured homes. Buying a mobile or manufactured home has become a growing option for starter homes in Colorado, though these homeowners typically do not own the land along with the home. While not being able to own land is a downside, manufactured homes have become more desirable for residents who want to stay in the area and cannot afford site-built homes.

City of Austin

The City of Austin's DPA program, which serves low-income homebuyers with a link to affordable supply, is funded by the Home Investment Partnership Fund and targeted at first-time homebuyers earning below 80 percent of Austin's median family income. The program offers two lending options: a standard DPA loan and a shared equity loan. Both programs are structured as a second lien and are

deferred-payment, zero-interest forgivable loans. The standard loan provides between $1,000 and $14,999, where the principal is forgiven after 10 years. For assistance between $15,000 and $40,000, borrowers can use the shared equity DPA loan, where the loan is forgiven after 10 years but the shared equity requirement remains until year 30. Under the shared equity agreement, if the borrower sells before year 30, the city receives a share of the home equity proportional to the DPA amount.

Participants can use the DPA funds toward the purchase of a primary residence valued at up to 95 percent of the area median purchase price, and applicants are required to contribute at least $1,000. The maximum value is set at $318,000, and the property must be located within the city boundaries. Like many other cities that have experienced rapid population growth, home prices in Austin have increased rapidly. To keep the field of eligible properties large, the city received approval from the US Department of Housing and Urban Development to adjust its loan price limits to the maximum level.

Austin's program aims to deliver DPA to 20 to 30 households a year and has reached or has been close to reaching this target each year since 2014. The program is marketed by an internal team and approved participating lenders. To help eligible borrowers compete with market demand, the DPA program coordinates with the city's SMART Housing program, which provides financial incentives to developers if they agree to sell properties at an affordable price. These affordable units are subsequently prioritized for borrowers in the DPA program.

The city uses a deed of trust to secure DPA funds. For homes purchased using funds from the shared equity program, the city has the right of first refusal upon sale, which protects these homes from being purchased by investors.

Solita House

Solita House, which serves middle-income homebuyers, is a community development financial institution in Tampa, Florida, running a DPA program funded through an internal loan pool. Solita House offers two DPA options: a standard Down Payment Assistance Loan (DPAL) and a purchase renovation DPA loan (SHI PRO). Both programs are structured as interest-bearing second liens with 10-year terms, with the rate matching that of the first mortgage. The loans are not forgivable, and full payment is due immediately if the borrower sells or transfers ownership of the home within the first five years.

Solita's DPA funds can be used for a down payment, closing costs, and prepaid items. Assistance is available to all borrowers purchasing a primary residence in Florida. Because the funds are internal, the program does not have to follow federal income constraints. But Solita ties the level of assistance

available to income: $15,000 for households earning below 80 percent of the AMI, $10,000 for households earning 80 to 120 percent of the AMI, and 3.5 percent of the sales price or $5,000 (whichever is lower) for households with incomes above 120 percent of the AMI. The maximum sales price under the program is $352,000.

Though Solita House's DPA is open to all borrowers regardless of income, the program originated 10 loans through its DPAL program in 2021, below the capacity of what its funding allows for. Interfering with Solita's ability to get funds out are rising home prices in Florida, as well as more attractive DPA options such as soft seconds and grants. In response to rising home prices and interest rates, Solita House recently updated its maximum housing cost expense and total DTI ratio maximums to 36 and 50 percent, respectively.

Solita's SHI PRO offers a unique down payment option that gives homebuyers more affordable options by targeting the affordable housing stock that requires renovation before moving in. SHI PRO is designed to contribute to borrowers who have received their first mortgage either through the FHA's 203(k) program or Fannie Mae's HomeReady program, both of which provide financing for home renovation. In the short life of the SHI PRO program, Solita has yet to complete a loan through this program.

Los Angeles County Development Authority

LACDA's DPA program, which serves low-income homebuyers, is the closest program to the SDHC's program among the seven programs the researchers learned about through our interviews. The program is funded by the federal government (HOME), so it can serve only first-time homebuyers earning below 80 percent of the AMI. The authority's Home Ownership Program (HOP) loan provides a second mortgage loan with a deferred payment, a 0 percent interest loan up to $85,000, or 20 percent of the purchase price, whichever is less. The loan can be used for a down payment or closing assistance.

Fast-rising home prices have led LACDA to increase the maximum purchase price from $394,000 in 2016 to $585,000. And LACDA is planning to talk to the US Department of Housing and Urban Development about raising the maximum further. But LACDA is concerned that increasing the maximum would not make much difference because households earning less than 80 percent of the AMI would likely not be able to buy homes costing more than $585,000.

LACDA has not yet discussed seeking nonfederal funds. Especially with the substantial increase in homelessness in Los Angeles, it is difficult to allocate more funding for households to purchase a home.

Additionally, though the number of clients has declined, LACDA has still met its target number of families, about 40 per year.

There are two main reasons LACDA was able to reach this goal. First, because LACDA covers a large geography, including unincorporated Los Angeles County and surrounding cities with no more than 50,000 people, there are still areas with affordable properties. Because of home price increases, LACDA has mostly funded condominiums. Additionally, LACDA has built a strong connection with its lenders over the past 20 years. LACDA initially started with 5 to 10 participating lenders, but it now participates with 60. LACDA provides two trainings a year for lenders and offers detailed information about its DPA program. The strong connection has helped it sustain a stable number of clients despite rapidly increasing home prices. Partnering with lenders is similar to what SDHC has done, but because SDHC DPA loans are limited to properties within the city boundary, its potential clients likely face greater challenges in seeking and obtaining affordable properties.

Recommendations for SDHC

HFPC researchers developed four recommendations for SDHC based on an analysis of the San Diego housing market and interviews with seven organizations that provide DPA to households with incomes above 80 percent of the AMI or focus on Black households:

- HomeSight (Seattle, Washington)
- DC Department of Housing and Community Development
- San Francisco Mayor's Office of Housing and Community Development
- HomesFund (Durango, Colorado)
- City of Austin, Texas
- Solita's House (Tampa, Florida)
- Los Angeles County Development Authority

The recommendations are as follows:

Diversify Funding Sources

SDHC will need to diversify its funding sources to help households earning above 80 percent of the AMI, as its current funding does not allow the commission to serve these households. The interviews revealed that organizations that help middle-income households receive state or local funding, private funding, or issued bonds. State or local funding was often initiated by strong local leaders who saw the need to provide additional assistance for households with incomes above 80 percent of the AMI in highly unaffordable competitive markets.

For example, realizing that rising home prices and heated competition are creating challenges for high-income households in San Francisco, the Mayor's Office of Housing Community Development (MOHCD) increased its program's income limit to 200 percent of the AMI. Because MOHCD's housing trust fund imposed a limit at 120 percent of the AMI, it issued general obligation bonds and allocated discretionary general funds to provide additional funding to serve high-income households.

Similarly, the Department of Housing and Community Development (DHCD) DPA program in Washington, DC, serves residents making up to 110 percent of the AMI, above the federal funding income limits. For homebuyers earning 80 to 110 percent of the AMI, the assistance comes in the form

of a zero-interest loan, which is deferred for 5 years and has a 40-year repayment period. DC's DPA funding doubled five years ago when the city's mayor increased the program's maximum assistance and injected nonfederal funds. These local funds come from the city general fund, repayment by prior borrowers, and the Unified Fund, which is funded by fees collected for various real estate transactions, such as condominium conversions and applications for registration. City general funds have accounted for at least 67 percent of local funding since 2015. Local funding has accounted for between 27 and 47 percent of total DPA funds in DC, with total local funding levels between $3.8 and $7.8 million. DHCD uses federal funds first to serve borrowers earning below 80 percent of the AMI because their eligibility requirements are the strictest and incorporate additional funding sources if necessary.

Even in more affordable housing markets such as Durango, Colorado, income limits have increased. In 2019, the Colorado state legislature passed two affordable housing bills that enabled the program to increase its eligibility to 100 percent of the AMI. More recently, the HomesFund in Durango received funding from the state via the Affordable Housing Investment Fund. Homebuyers earning up to 120 percent of the AMI are eligible for these funds. To combat rising home prices, there have been recent efforts in California and San Diego to obtain additional funding for FTHB DPA programs. California state senate president pro tempore Toni Atkins (D-San Diego) has proposed a 2022–23 budget allocation of $500 million for the California Dream for All program and an additional $500 million each year for nine years. This program would help low- and middle-income first-time homebuyers achieve homeownership by providing significant DPA to qualifying households. The program could also reduce some of the barriers to homeownership that have disproportionately prevented families of color from owning homes.

In San Diego, SDHC led a collaborative that obtained a $7.5 million Wells Fargo grant to support the Wealth Opportunities Restored through Homeownership (WORTH) program. This initiative aims to increase homeownership for Black people, Indigenous people, and other people of color in the region. Some of this grant could become a flexible funding source for the SDHC FTHB Program.

Reexamine Eligibility Criteria and Program Design

Several organizations have altered their eligibility criteria (e.g., maximum DTI ratio and maximum home value) or increased the amount of assistance to reach more homebuyers. For example, to keep pace with rising housing costs, the mayor of Washington, DC, Muriel Bowser, has proposed increasing the maximum assistance level to $202,000, and the DC Council is considering raising the minimum to $70,000. A larger down payment means a smaller loan amount and a lower DTI ratio. Many Black and

middle-income households lack sufficient funds to make a large enough down payment to make a big difference in the DTI ratio, which is the most cited reason for mortgage denial in San Diego. San Francisco's MOHCD has also reduced the minimum borrower contribution from 5 percent to 1 percent and provides an additional grant of up to $30,000 that can be used toward a down payment, closing costs, or prepaid items. The program provides up to $500,000 in DPA.

For programs to increase Black homeownership, SDHC could consider directly reaching Black borrowers through special purpose credit programs—which offer credit on favorable terms to borrowers of a protected class who have experienced economic disadvantages—and providing additional funding for down payments or renovations. For example, Local Initiatives Support Corporation and Urban League San Diego have announced the San Diego Black Homebuyers Program, which provides $40,000 grants to Black borrowers earning less than 120 percent of the AMI to be used toward a down payment and closing costs. The grant is funded by the San Diego Foundation and has no repayment requirement. HomeSight in Seattle has partnered with Windermere, US Bank, and the National Association of Real Estate Brokers to create a "Hi Neighbor" Homeownership Fund that focuses on Black borrowers with incomes between 80 and 120 percent of the AMI. It designed the program realizing that many Black renter households earn just above 80 percent of the AMI but do not have enough wealth for a down payment. Fannie Mae and Freddie Mac have also announced their plan to launch special purpose credit programs in their 2022 Equitable Housing Finance Plans.[12]

Facilitate the Lending Process

In many markets, a lack of housing supply and an increasing presence of cash buyers has made it difficult for low- and middle-income households to buy homes, partially because cash buyers can close on properties rapidly. Offering borrowers in the FTHB Program assistance during the purchase process can help them compete with other offers. For example, HomeSight said it was considering providing sellers credit to help their clients be more competitive. San Francisco MOHCD is working with lenders to reduce processing time, but it is still challenging, as it depends on lenders' capacity. SDHC could also provide incentives to sellers and real estate agents to encourage them to sell homes to low-income buyers. This is especially critical when homes for sale receive offers from multiple potential buyers.

Implement Outreach and Marketing Efforts

Our analysis found that no more than 5,000 potential Black homebuyers with incomes below 80 percent of the AMI in San Diego could benefit from SDHC FTHB programs, but SDHC can still make

additional efforts to reach out to potential Black homebuyers. Many organizations said they are using their websites, owned and earned media, and social networking services to get information to their clients. Because lenders have played a key role in outreach, SDHC could work with them to develop a strategy to reach out to Black households. Because these programs are also spread through word of mouth, SDHC could partner with reliable local organizations, including faith-based and community-based organizations, to increase awareness of the program for potential customers. SDHC can also work with organizations such as Local Initiatives Support Corporation that have started special purpose credit programs that allow for race-based outreach. If the program is used in conjunction with lender programs emphasizing Black borrowers, it can lead to greater focus and impact on homebuyer assistance.

Appendix

TABLE A.1

Number of Owners and Renters by Income, Age, Race, and Ethnicity

	Homeowners' Earnings Relative to the Area Median Income					Renters' Earnings Relative to the Area Median Income				
	< 50%	50–80%	80–120%	120–150%	≥ 150%	< 50%	50–80%	80–120%	120–150%	≥ 150%
Asian										
Ages < 45	1,420	1,343	2,304	1,760	5,160	8,267	4,775	4,654	2,292	3,459
Ages 45–64	2,527	2,233	3,148	2,348	6,647	3,300	1,749	1,255	703	1,312
Ages ≥ 65	2,144	1,732	1,733	752	1,458	2,631	504	134	77	93
Black										
Ages < 45	241	230	431	259	259	6,176	3,125	1,457	280	547
Ages 45–64	839	655	828	536	831	4,582	1,660	854	365	351
Ages ≥ 65	1,274	723	532	390	228	2,511	426	172	105	55
Latino										
Ages < 45	1,683	1,868	2,283	1,311	2,132	21,130	10,194	6,362	1,820	1,649
Ages 45–64	3,656	3,437	3,558	1,677	2,746	11,297	4,261	2,264	651	661
Ages ≥ 65	3,273	1,477	1,487	282	793	4,029	695	187	20	16
White										
Ages < 45	2,325	2,850	5,609	3,913	13,599	22,643	18,620	18,157	7,848	11,679
Ages 45–64	7,993	7,288	11,384	7,547	27,812	12,073	6,356	6,407	2,683	4,633
Ages ≥ 65	16,836	10,112	10,024	4,089	12,376	11,911	2,710	2,024	555	1,128

Source: 2019 American Community Survey data.

Notes

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7 Liam Reynolds, Vanessa G. Perry, and Jung Hyun Choi, "Closing the Homeownership Gap Will Require Rooting Systemic Racism Out of Mortgage Underwriting," *Urban Wire* (blog), Urban Institute, October 13, 2021, https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting.

8 Authors' calculation using 2015–19 American Community Survey data.

9 Laurie Goodman and Edward Golding, "Institutional Investors Have a Comparative Advantage in Purchasing Homes That Need Repair," *Urban Wire* (blog), Urban Institute, October 20, 2021, https://www.urban.org/urban-wire/institutional-investors-have-comparative-advantage-purchasing-homes-need-repair.

10 This term refers to Black people, Indigenous people, and other people of color.

11 Decennial Census table P1, US Census Bureau, accessed June 28, 2022, https://data.census.gov/cedsci/table?q=dc%20population%20&tid=DECENNIALPL2020.P1.

12 "Equitable Housing Finance Plan," Fannie Mae; and "Equitable Housing," Freddie Mac Single-Family.

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