



RESEARCH REPORT

Barriers to Homeownership among Active-Duty Service Members

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Executive Summary

This report provides an in-depth analysis of active-duty service members' potential barriers to accessing homeownership. Our analysis shows that active-duty service members have a substantially lower homeownership rate than both veterans and the general population, despite having higher incomes and educational attainment. We examine several potential explanatory factors for these observed differences, including higher mobility rates, younger age composition, and marital status. Younger age and higher mobility are the two factors most strongly associated with lower homeownership rates among active-duty service members. Once we control for mobility and age, as well as other demographic characteristics, socioeconomic characteristics, and location, the homeownership rate gap between active-duty service members and the nonmilitary population drops significantly.

We also look into mortgage characteristics among borrowers of US Department of Veterans Affairs (VA) loans, which both active-duty service members and veterans can use. VA loans offer several benefits compared with conventional loans, including lower denial rates, lower interest rates, lower insurance costs, and lower down payment requirements. Although VA loans have many benefits, we find that not all active-duty service members are fully aware of the benefits. In addition, not all sellers and their agents understand the strong financial characteristics of borrowers using VA loans, which suggests more efforts are needed to improve awareness. Additionally, VA loans have become less attractive to sellers in the highly competitive housing market of 2020 to 2022. The VA has made some improvements to address seller concerns to enhance the likelihood of home purchases through VA loans.

Below, we highlight some of the findings from our data analyses, interviews, and search of existing surveys:

- Age and mobility are the two largest explanatory factors for the homeownership gap between active-duty service members and the nonmilitary population.
 - » The 2021 homeownership rate for active-duty service member households was just 41.0 percent, compared with 64.5 percent for the general population.
 - » One of the biggest factors accounting for this homeownership gap is the mobility rate among active-duty service members, which measures the share of people moving from their primary residence within the past year. The mobility rate among active-duty service

members in 2021 stood at 36.0 percent, compared with just 8.9 percent among the general population.

- » Age composition is another key factor contributing to the homeownership gap, as the active-duty population is significantly younger, and homeownership rates tend to increase with age. Approximately 69.7 percent of active-duty service members are younger than 35, compared with just 30.4 percent of the general population. After controlling for age, we observe smaller differences in homeownership rates between active-duty service member households and the general population. For those with household heads younger than 55, the homeownership rate among active-duty service member households is still lower than among nonmilitary households, but the difference ranges from 1.3 to 6.6 percentage points.
 - » Once we control for various factors—including age, sex, educational attainment, income, marital status, presence of children, mobility, and location—explaining homeownership in a regression model, the homeownership gap between active-duty service members and nonmilitary households decreases from 23.5 percentage points to 8.6 percentage points.
 - » Our Oaxaca decomposition analysis shows that age and mobility explain 73 percent of the homeownership gap between active-duty service members and the nonmilitary population. The unexplained gap could be attributable to multiple factors, including wealth disparities, and the inability to fully capture the ownership of homes away from their current duty station.
- Racial and ethnic disparities in homeownership rates are substantially smaller among active-duty service members.
 - » Racial disparities in homeownership are substantially smaller among active-duty service members compared with the general population. For example, in 2021, the Black-white homeownership gap was 30.2 percentage points for the general population but was only 13.9 percent for active-duty service members.
 - » Regression results confirm that racial and ethnic disparities in homeownership among active-duty service members are smaller compared with the general population, even after controlling for socioeconomic and demographic characteristics. For the nonmilitary population, the Black-white homeownership gap is around 21 percentage points, and the Latino-white homeownership gap is around 14 percentage points. For active-duty service members, the Black-white homeownership gap is 13 percentage points, and the Latino-white homeownership gap is close to zero.

- VA loans offer many benefits to active-duty service members, but the product could be improved to enhance its competitiveness.
 - » VA loans provide an additional source of mortgage financing for both active-duty service members and veterans. This is intended as a benefit of serving in the armed forces.
 - » In 2022, VA loans had the lowest down payments of all major loan types. About 73.1 percent of VA borrowers had a loan-to-value (LTV) ratio of at least 100 percent, compared with just 5.0 percent of conventional borrowers.
 - » VA loans also had the lowest interest rates among all major loan types in 2022. The median interest rate of a VA purchase loan was 4.75 percent, compared with 4.99 percent for conventional loans and 5.13 percent for Federal Housing Administration (FHA) loans.
 - » VA loans have the lowest purchase mortgage denial rates among all major loan types in 2022. VA loans also had the lowest mortgage denial rate for all Black, Latino, and white mortgage applicants across all groups. The VA mortgage denial rate stood at 9.7 percent, compared with 14.6 percent for conventional loans and 16.1 percent for FHA loans.
 - » Many active-duty service members are not fully aware of the benefits of using VA loans and have misinformation about the product.
 - » Many lenders and realtors also do not understand VA products and VA borrowers. Studies show that many listing agents and sellers incorrectly believe that VA buyers are financially unprepared for homeownership, despite having high FICO scores and cash reserves.
 - » Although VA loans have significant advantages compared with other loan types, many sellers today give preference to buyers using cash or conventional loans because of uncertainty around closing. VA borrowers face challenges obtaining mortgages in highly competitive markets. For example, when interest rates reached historic lows in 2021, the number of conventional purchase mortgage loans reached its peak while the number of VA purchase mortgages declined from a year earlier.
 - » A 2021 survey from the National Association of Realtors found that realtors' primary concerns around VA loans were related to stricter home inspection requirements, home appraisal contingency, homes not appraising, longer times to close, and low down payments.
- Active-duty service members also face challenges in selling and maintaining the property.
 - » Because of the frequency and uncertainty of moving, active-duty service members experience greater challenges selling properties, which depends on market circumstances.

- » Several interviewees mentioned greater challenges in managing properties and tenants if they decide to keep the property but move to a remote location.

We also found that the existing data do not fully capture the actual homeownership rate among active-duty service members, as many of them own a home they do not live in and instead rent in areas where they are serving. Therefore, we recommend better data collection to accurately capture homeownership status and trends among active-duty service members. We also offer several recommendations to help improve active-duty service members' access to and ability to sustain homeownership, including continuously advancing financial education to improve awareness among active-duty service members, enhancing the competitiveness of VA loans, and improving the understanding about VA loans and VA borrowers among the mortgage community.

Although homeownership is one of the primary sources of wealth building in the US, the financial benefit of owning a home for active-duty service members would differ from the general population, who are substantially less mobile. Therefore, financial education for homeownership should be tailored toward active-duty service members' unique circumstances. The US Department of Defense (DoD) has recently made substantial improvements to access financial information, including Military OneSource, and other educational capabilities that include homebuying educational materials presented on DoD websites and mobile apps, such as mandatory financial literacy information and face-to-face counseling services. These efforts could enhance the financial options and benefits active-duty service members have to purchase a home and help them make better decisions based on their situation, and we recommend that the DoD continue improving financial education to enhance awareness about homeownership opportunities among active-duty service members. The real estate community also needs to better understand active-duty service members' unique circumstances and provide more custom services and financial advice to the populations who serve our nation. Finally, while accessing homeownership is critical to building wealth, sustaining homeownership is also critical. Active-duty service members show higher volatility in homeownership rates. We discuss ways to improve the current loss mitigation procedures for VA loans to help active-duty service members sustain homeownership when they encounter financial difficulties.

Barriers to Homeownership

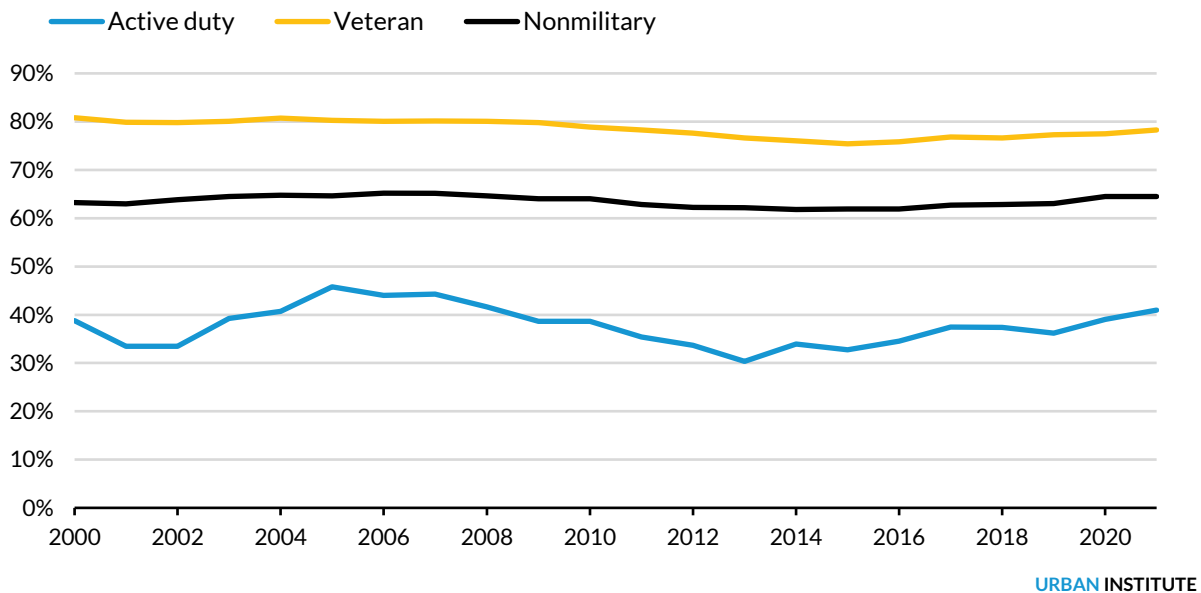
This research explores homeownership trends among active-duty service members and investigates potential barriers this population may face in accessing homeownership. This study is a result of section 666 of the National Defense Authorization Act for Fiscal Year 2023, requesting a study and report on barriers to homeownership for members of the armed forces.

Previous Urban Institute research shows that homeownership is a primary source of wealth building in the United States. Urban Institute analysis shows that returns on housing are better than returns on other assets, especially if you hold on to the home for a long period (Goodman and Mayer 2018). Additional Urban research shows that the earlier you buy your home, the more housing wealth you accumulate as you near retirement.¹ But for active-duty service members, who have substantially higher mobility rates than the general population, the fixed costs of more frequent buying and selling of homes and the inability to live in one place for a long period may substantially diminish the benefits of homeownership.

In 2021, there were almost 1.5 million active-duty service members in the US, or 0.6 percent of the population older than 18. The veteran population accounted for 6.3 percent (16.4 million), and the remaining 93.1 percent made up the nonmilitary population. There are noticeable homeownership rate differences across the three groups. Households headed by veterans have the highest homeownership rate, followed by households headed by nonmilitary heads. The 2021 homeownership rate among active-duty service member households² was 41 percent, about 37 percentage points lower than for veteran households and about 24 percentage points lower than for nonmilitary households (figure 1).³

FIGURE 1

Homeownership Rates, by Military Status



Sources: Decennial censuses and the American Community Survey.

Note: 2020 data should be interpreted with caution because of limited sample collection during the peak of the COVID-19 pandemic.

The active-duty service member homeownership rate also shows greater volatility over time (figure 1). Their homeownership rate reached its peak in 2005, but following the Great Recession, their homeownership rate continuously declined until 2013, dropping more than 15 percentage points. Although the core focus of this research is access to homeownership, this homeownership decline highlights the importance of sustaining homeownership, which we briefly discuss in our recommendations.

In the following sections, we delve into data to examine why active-duty service members have lower homeownership rates than veterans and nonmilitary households and compare VA loans with other loan types. After that, we present findings from existing surveys and our interviews with various stakeholders that further investigate the barriers active-duty service members face in accessing homeownership and building wealth that is not fully captured from our data analysis. We conclude by discussing what efforts have been made and what additional solutions could be offered to improve homeownership opportunities for those who are serving the country.

Findings from Our Data Analysis

Why Is Homeownership Lower among Active-Duty Service Members?

We analyze the 2021 American Community Survey (ACS) to examine what explains the low homeownership rate among active-duty service members. We divided adults older than 18 into three groups: (1) active-duty service members, (2) veterans, and (3) the nonmilitary population. The ACS allows us to look into the demographic and socioeconomic characteristics of active-duty service members that could explain the homeownership gaps shown in figure 1. We separately investigate mobility rate, age, marital status, education, sex, race and ethnicity, income, and location, and we examine whether the differences in these factors are related to homeownership disparities across the three groups. We then conduct a regression analysis to see how much of a homeownership rate gap remains after controlling for all these factors simultaneously.

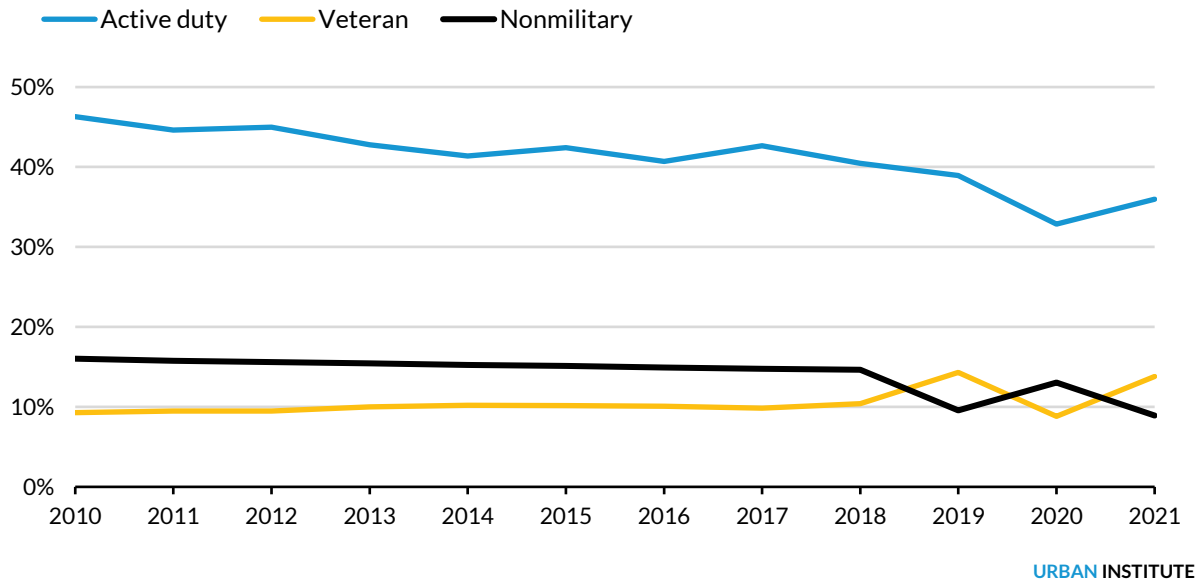
Although the ACS is useful in conducting a comprehensive analysis of factors associated with active-duty service members' homeownership status, the data provide information only for the tenure of the current residence. From our interviews, we found that many active-duty service members own a home they do not currently live in (possibly in areas where they plan to live after retirement) and instead live as renters where they are stationed. Therefore, the homeownership rate from the ACS data among active-duty service members is likely underestimated. Unfortunately, there are no reliable data that accurately track homeownership status in addition to current residence for active-duty service members as well as the nonmilitary population.

Mobility

Active-duty service members are significantly more likely to move than veterans or nonmilitary populations (figure 2). In 2010, more than 46 percent of active-duty service members had moved over the previous year, compared with 9 percent of veterans and 16 percent of the nonmilitary population. The mobility rate is negatively correlated with the homeownership rate. In recent years, the mobility rate among active-duty service members has continued to decline. In 2020, during the peak of the COVID-19 pandemic, the mobility rate dropped to 33 percent but increased to 36 percent in 2021. The homeownership rate for active-duty service member households⁴ increased by 5 percentage points

between 2019 and 2021, correlating with the lower mobility rate and historically low interest rates during this period that made homeownership more affordable.

FIGURE 2
Percentage of Households That Moved in the Past Year, by Military Status



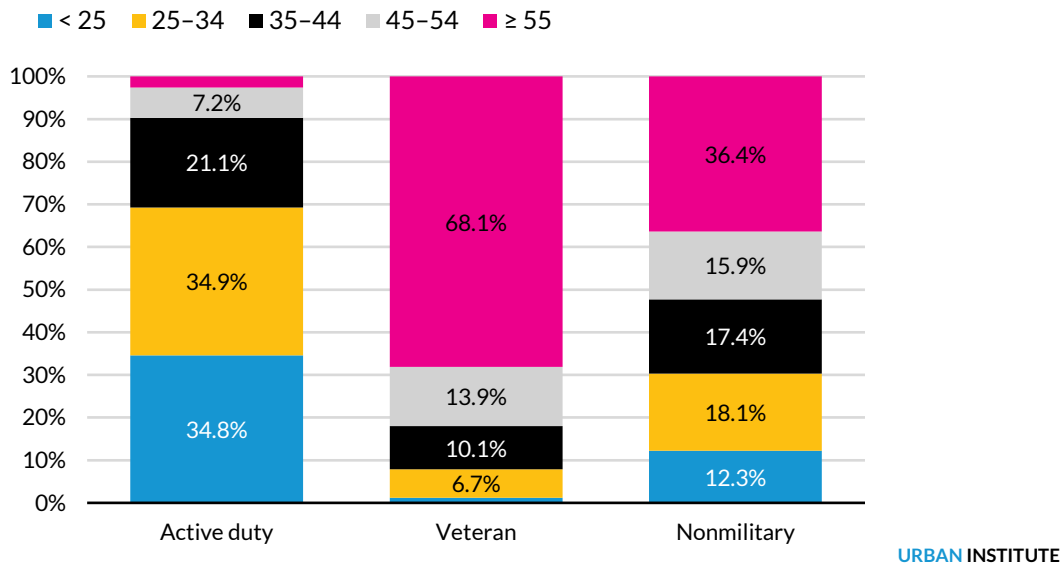
Source: American Community Survey.

Note: 2020 data should be interpreted with caution because of limited sample collection during the peak of the COVID-19 pandemic.

Age

The homeownership rate increases with age. The active-duty population tends to be significantly younger than the nonmilitary population (figure 3). In 2021, almost 70 percent of active-duty service members were ages 18 to 34, compared with just above 30 percent of the nonmilitary population. Veterans are likely to be older than the two other groups. Less than 8 percent of veterans were ages 18 to 34. More than two-thirds of veterans were 55 and older.

FIGURE 3
Age Composition, by Military Status



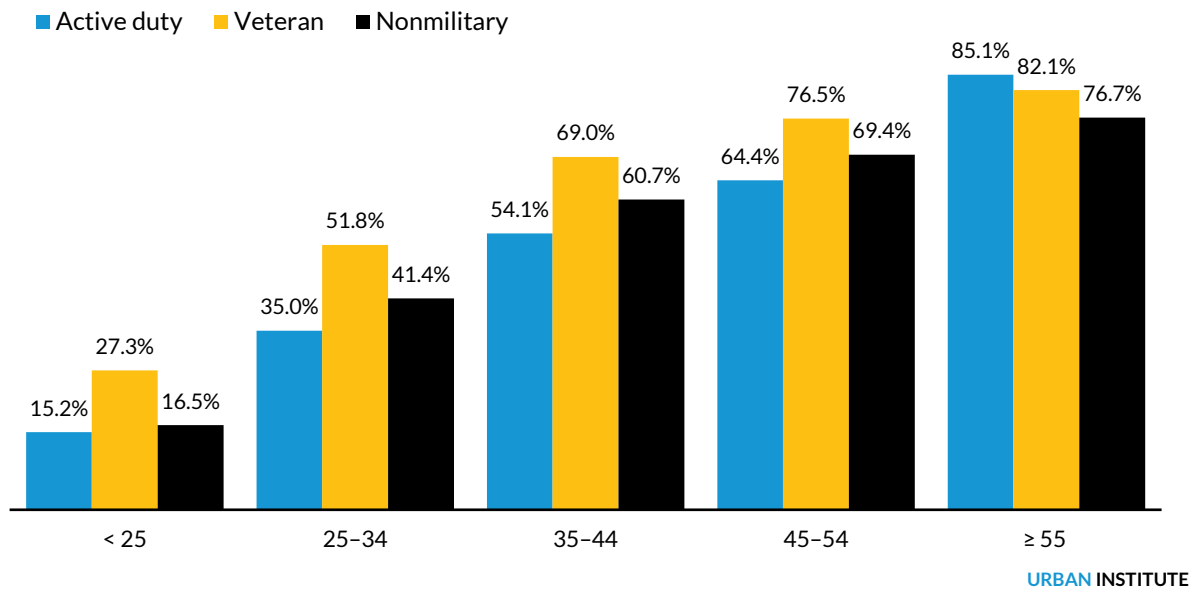
Source: 2021 American Community Survey.

Once we control for age, we observe substantially smaller differences in the homeownership rates between active-duty service member households and nonmilitary households (figure 4). For those with household heads younger than 55, the homeownership rate among active-duty service member households is still lower than that among nonmilitary households, but the difference ranges from 1.3 to 6.6 percentage points, substantially lower than the 23.5 percentage-point difference for all age groups combined. For households with heads ages 55 and older, active-duty service members have a higher homeownership rate than the nonmilitary population. But only 2 percent of active-duty service members are in this age group (figure 3). Overall, this suggests that along with mobility, age partially explains the lower homeownership rate among active-duty service members.

Veteran households have the highest homeownership rates for all age groups younger than 55. For example, for households with heads ages 25 to 34, 52 percent of veteran households are homeowners, compared with 35 percent of active-duty service member households and 41 percent of nonmilitary households. This difference indicates that many active-duty service members who leave the military and become less mobile are substantially more likely to purchase a home than nonmilitary households, even at a young age.

FIGURE 4

Homeownership Rates, by Age and Military Status



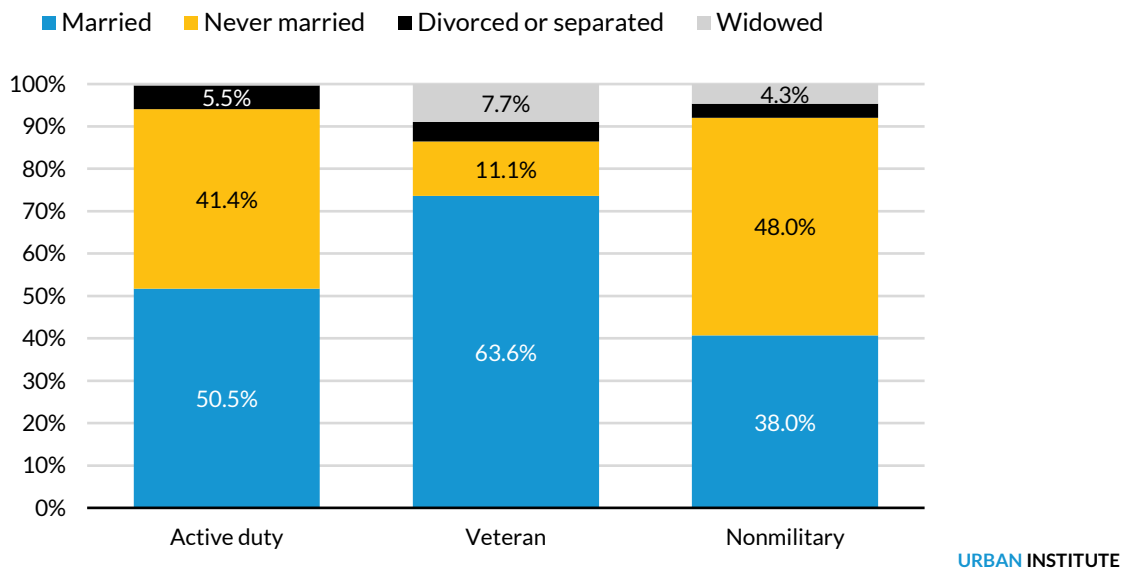
Source: 2021 American Community Survey.

Marital Status

Active-duty service members are more likely to be married than the nonmilitary population but are less likely to be married than veterans (figure 5). The active-duty population is significantly younger (figure 3), meaning the military population tends to marry at an earlier age.

FIGURE 5

Marital Status, by Military Status

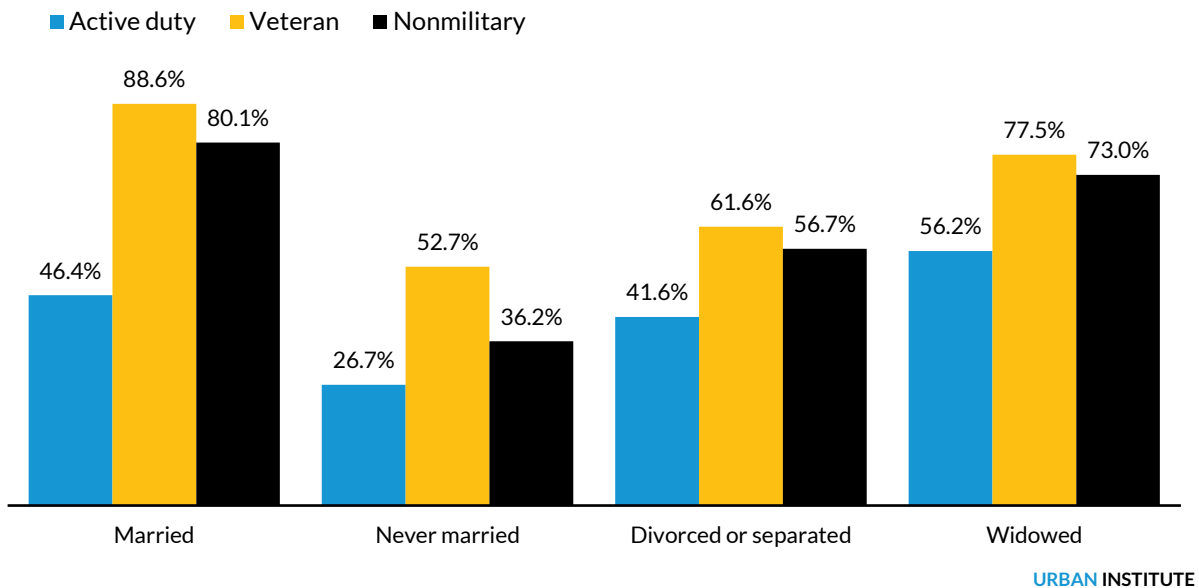


Source: 2021 American Community Survey.

Marriage is also associated with the homeownership rate (figure 6). Active-duty service members who are married are more likely to be homeowners than active-duty service members who have never married. But the homeownership rate is still significantly lower for active-duty service members who are married compared with veterans and the nonmilitary population who are married.

FIGURE 6

Homeownership Rates, by Marital Status and Military Status



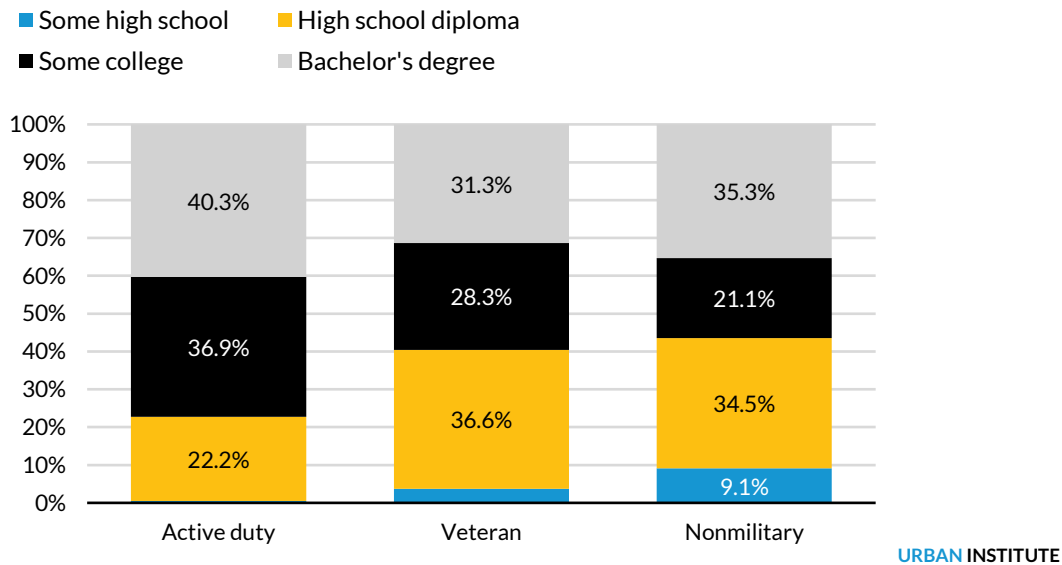
Source: 2021 American Community Survey.

High mobility directly affects active-duty service member households' decision to buy a home and affects the likelihood of spouses working. Among the married active-duty population, we found that 48 percent of spouses were working, substantially lower than the more than 60 percent of spouses of a nonmilitary head. Only 36 percent of spouses of veteran heads were working, but this may be because they are substantially older. The employment of a spouse affects household income, which could affect the likelihood of owning a home.

Education

Because a high school diploma is required to enlist in the military, virtually all active-duty personnel and most veterans have at least a high school diploma (figure 7). More than 77 percent of active-duty service members received some college education, and 40 percent hold a bachelor's degree.

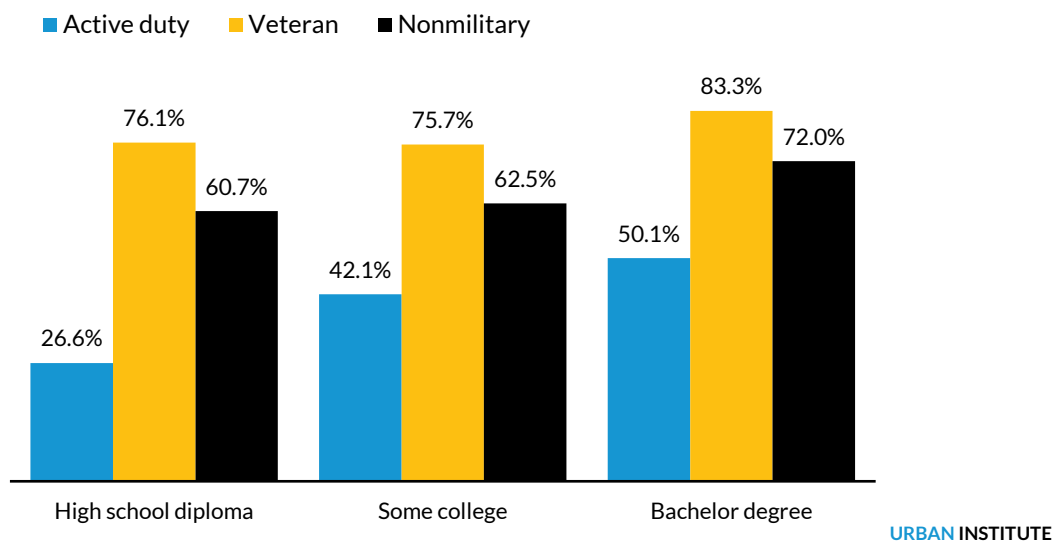
FIGURE 7
Educational Attainment Composition, by Military Status



Source: 2021 American Community Survey.

Like marriage, educational attainment is associated with homeownership; the more education received, the higher the homeownership rate. But the homeownership gap remains large (figure 8).

FIGURE 8
Homeownership Rates, by Educational Attainment and Military Status



Source: 2021 American Community Survey.

Note: Those without a high school diploma make up less than 1 percent of active-duty service members and are therefore not included.

Wages

We categorize annual wage income into four groups and match those groups with ranks using the 2021 regular military compensation (RMC) information obtained from the DoD (table 1). Military compensation is complex and consists of several types of pay and allowances. In measuring and benchmarking its total compensation, the DOD uses RMC, which is a basic level of compensation for every active-duty service member. Total compensation is the sum of basic pay, average basic allowance for housing, basic allowance for subsistence, and the federal income tax advantage that accrues because the allowances are not subject to federal income tax. In addition to basic pay that differs by the pay grade and number of years served, the basic allowance for housing and subsistence can vary by location, marital status, and number of dependents. Also, there are variations in tax benefits and specialty compensation. We use the 2021 RMC to match 2021 ACS data and estimate homeownership rates by income bucket, as ranking information is not available in the ACS data. There has been an increase in military compensation since 2021. Considering the complexity of RMC, the annual wage income and rank connection should be viewed as an approximate match.

TABLE 1
Annual Wage Income and Rank

Annual wage income	Rank
< \$50,000	■ Junior enlisted (E-1, E-2)
\$50,001–100,000	■ Midgrade to senior enlisted (E-3 to E-7)
	■ Junior warrant officers (W-1, W-2)
	■ Junior commission officers (O-1, O-2)
\$100,001–150,000	■ Senior enlisted (E-8, E-9)
	■ Midgrade to senior warrant officers (W-3, W-4, W-5)
	■ Junior commission officers (O-3, O-4)
≥ \$150,000	■ Midgrade to senior commission officers (O-5 to O-10, Joint Chiefs of Staff)

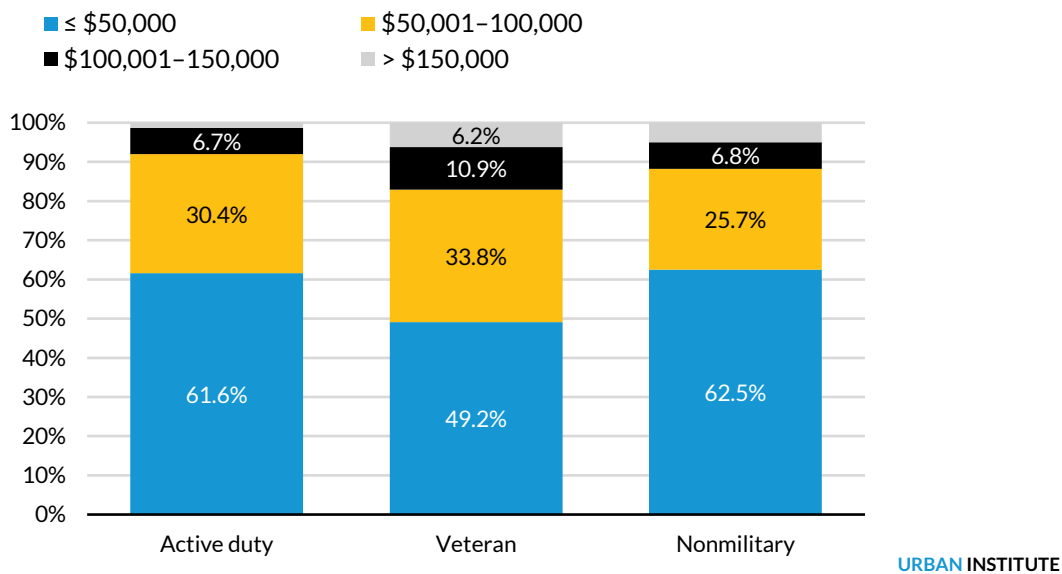
Sources: 2021 American Community Survey and regular military compensation information from the US Department of Defense.

Notes: Enlisted members are those responsible for completing military missions and carrying out orders. They are ranked below officers. Warrant officers are highly specialized single-track specialty officers, who are ranked below commission officers. Commission officers are distinguished military members who are trained as leaders and hold command positions.

The wage distribution among active-duty service members is similar to that among the nonmilitary population, though the share of those who earn above \$150,000 is lower among active-duty service members (figure 9). But because active-duty service members are substantially younger, this difference indicates that the pay is higher for active-duty service members than for the general population of similar age, a stated goal of the commissions that recommend RMC levels.

FIGURE 9

Wage Income Distribution, by Military Status



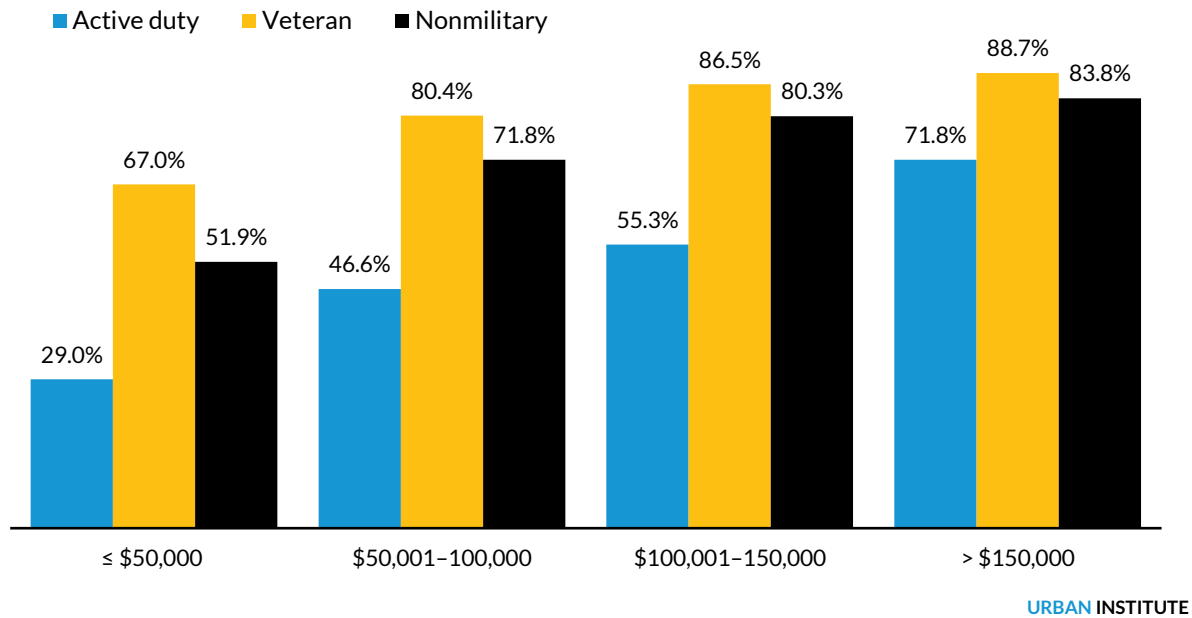
Source: 2021 American Community Survey.

When controlling for age, active-duty service members also have higher wage income than the nonmilitary population and veterans. According to the 2021 ACS, for those ages 35 to 44, the median wage income among active-duty service members was \$70,000, which is \$10,000 higher than among veterans and \$20,000 higher than among the nonmilitary population. For those ages 45 to 54, the median wage income was \$95,000 for active-duty service members, \$65,000 for veterans, and \$50,000 for the nonmilitary population.

The homeownership rate increases by wage income for all three groups, but even for the highest-income group, active-duty service members have the lowest homeownership rate (figure 10). The homeownership gap across the three groups, however, decreases with income, indicating that as income increases with rank, homeownership rates among active-duty service members begin to converge with those of the nonmilitary population.

FIGURE 10

Homeownership Rates, by Wage Income and Military Status



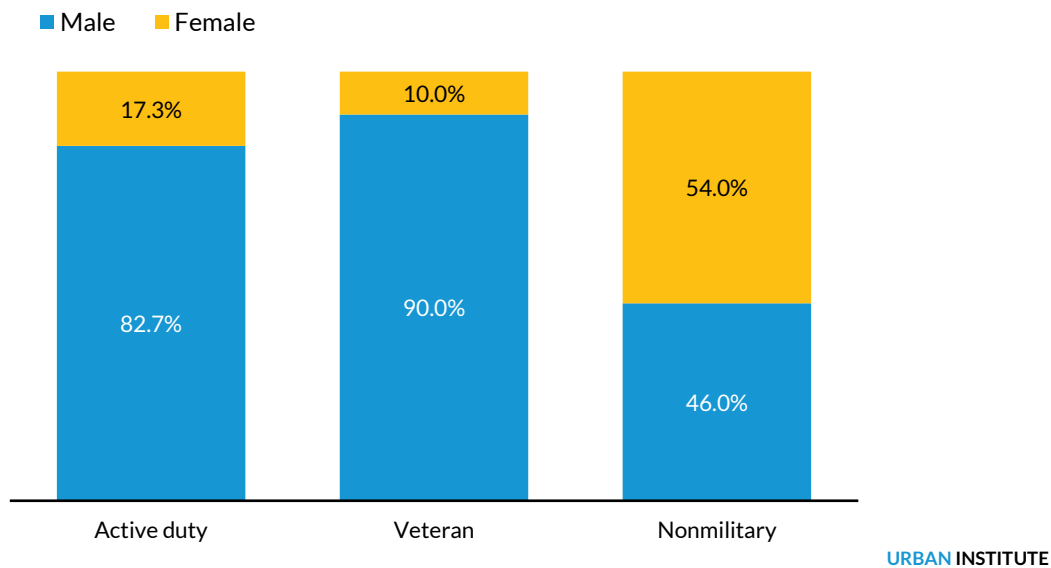
Source: 2021 American Community Survey.

Sex

The military population is significantly more male than the nonmilitary population (figure 11). More than 82 percent of active-duty service members and 90 percent of veterans are male, compared with 46 percent in the nonmilitary population. Female active-duty composition is larger than veteran composition, reflecting the military population’s changing composition.

FIGURE 11

Sex Composition, by Military Status

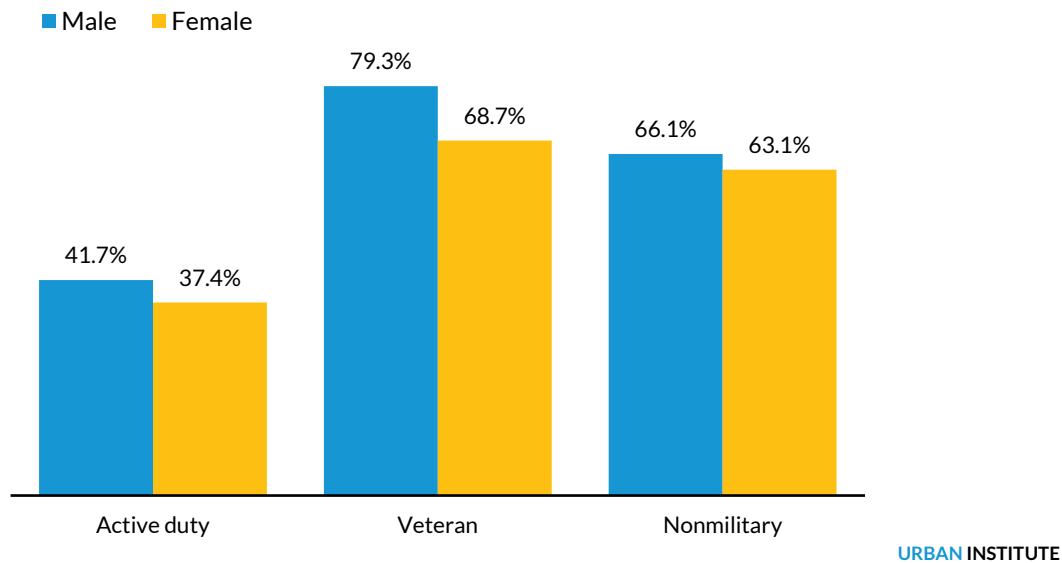


Source: 2021 American Community Survey.

Though the share of female household heads has increased over time (Choi, Goodman, and Zhu 2021), and both in military and nonmilitary households, female-headed households have lower homeownership rates than male-headed households (figure 12). For active-duty service member households, the female-male homeownership gap is 4.3 percentage points, slightly higher than the 3 percentage-point gap among nonmilitary households. But the gender homeownership gap among active-duty service member households is smaller than among veteran households (10.6 percentage points), reflecting greater gender equality in the military over time.⁵

FIGURE 12

Homeownership Rates, by Sex and Military Status



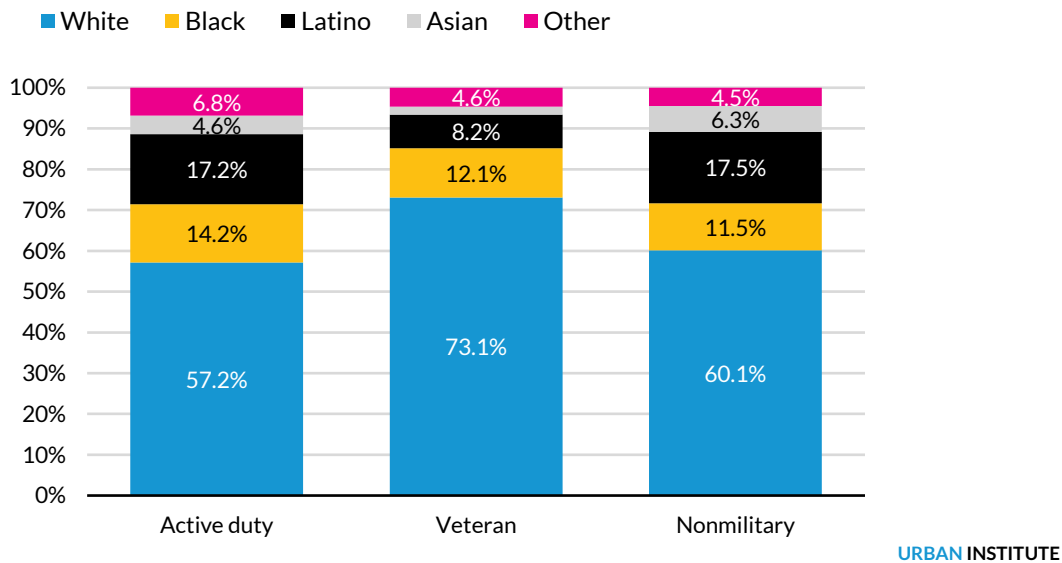
Source: 2021 American Community Survey.

Race and Ethnicity

Active-duty households are slightly more racially and ethnically diverse than nonmilitary populations, with higher shares of Black and Latino individuals and other households who are headed by people of two or more races and people who are American Indian or Alaska Native. On the other hand, the veteran population is highly skewed toward the white population, again highlighting changes in military population composition over time (figure 13).

FIGURE 13

Racial and Ethnic Composition, by Military Status

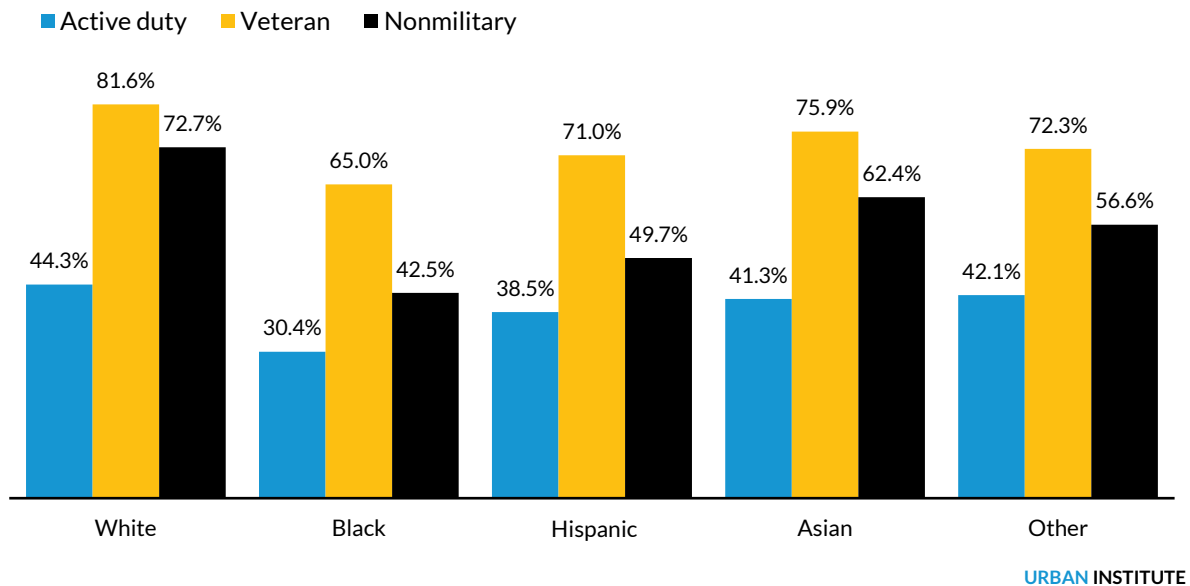


Source: 2021 American Community Survey.

Military households have smaller racial homeownership gaps than nonmilitary households (figure 14). For example, the Black-white homeownership gap—the largest gap among all racial and ethnic groups—is 14 percentage points among active-duty service member households, 17 percentage points among veteran households, and 30 percentage points among nonmilitary households.

FIGURE 14

Homeownership Rates, by Race or Ethnicity and Military Status



Source: 2021 American Community Survey.

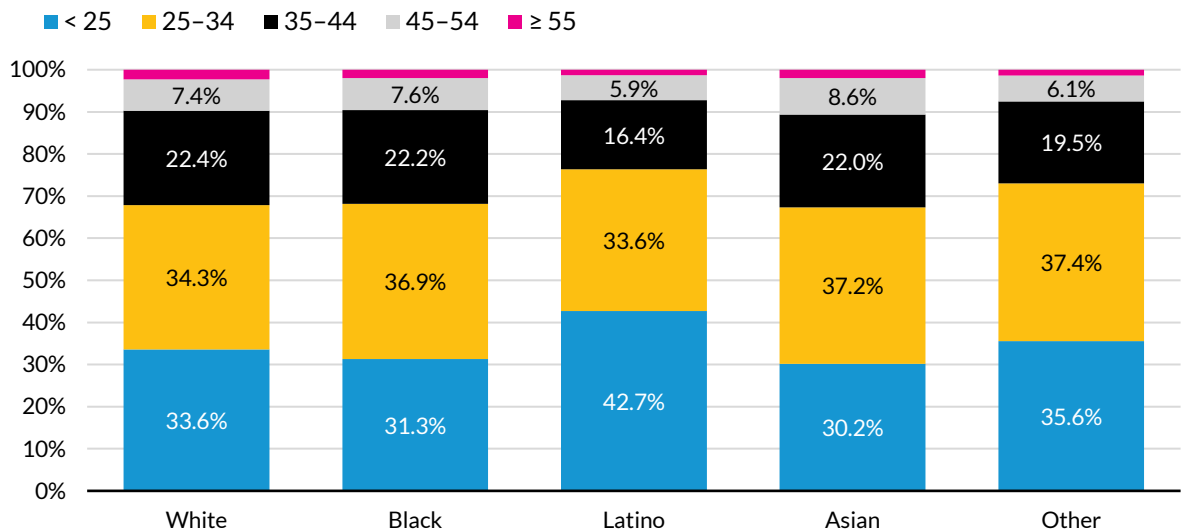
In addition to the homeownership gap, the racial wage gap is smaller among active-duty service members and veterans compared with the nonmilitary population. For example, the median Black-white wage income gap among active-duty service member heads was \$8,000, compared with \$10,000 for veteran heads and \$12,000 for nonmilitary heads. These findings align with prior studies that showed that veteran status and active-duty military status shrink racial and ethnic homeownership and income gaps (Greenberg et al. 2022; Storchak, Choi, and Goodman 2020).

Age by Race and Ethnicity among Active-Duty Service Members

We further examine the age composition among active-duty service members by race and ethnicity to identify whether some of the differences in the racial and ethnic homeownership gap are related to age (figure 15). Across all racial and ethnic groups, active-duty service members are primarily ages 18 to 45, with Latino active-duty service members skewing more toward the youngest age group: ages 18 to 25. About 43 percent of all Latino active-duty service members fall into this group.

FIGURE 15

Composition of Active-Duty Service Members, by Race, Ethnicity, and Age



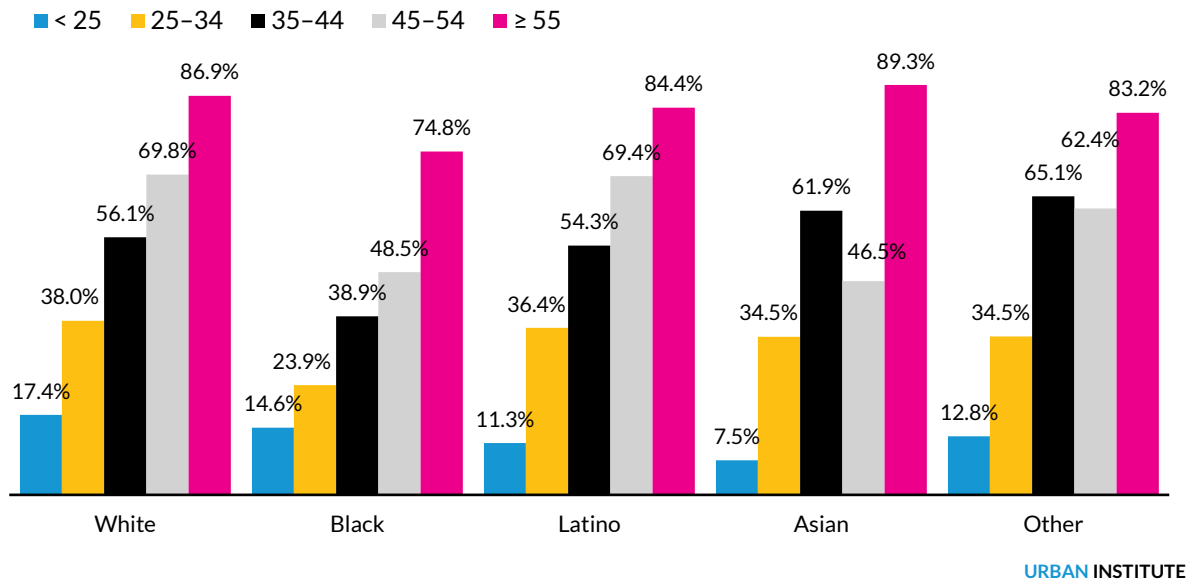
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Source: 2021 American Community Survey.

Within the same age group, we observe smaller differences in the racial and ethnic homeownership gap. For example, homeownership rates among Latino active-duty service members ages 35 to 54 and 55 and older are almost comparable with white homeownership rates (figure 16). Additionally, for each age group, the active-duty homeownership rate for Black households is higher than for nonmilitary Black households. This suggests that economic advantages for households of color to serve in the military are larger than for white households (Greenberg et al. 2022).

FIGURE 16

Homeownership Rates among Active-Duty Service Members, by Race, Ethnicity, and Age



Source: 2021 American Community Survey.

Location

Active-duty service members are concentrated in areas with military bases. About 47 percent of all active-duty service members reside in 25 metropolitan statistical areas (MSAs) (table 2). The homeownership rate among active-duty service members differs substantially by MSA. The homeownership rate variations are larger compared with those among nonmilitary households. We find the homeownership rate is generally lower in more expensive MSAs (e.g., San Diego has the lowest active-duty homeownership rate), but in some relatively affordable areas, such as Kansas City, the active-duty homeownership rate is lower than in other areas that have substantially higher home prices (e.g., Urban Honolulu and Seattle). From our interviews, we found this is likely related to the length of stay in the area and the preference for living in the area after exiting the service.

TABLE 2

25 MSAs with the Largest Number of Active-Duty Service Members

MSA	Active-duty population	Active-duty HO rate	Total HO rate	Median home value
Virginia Beach-Norfolk-Newport News, VA-NC	95,977	48.9%	61.8%	\$300,000
San Diego-Carlsbad, CA	94,721	20.1%	54.7%	\$700,000
Washington-Arlington-Alexandria, DC-VA-MD-WV	55,910	44.0%	64.1%	\$500,000
Urban Honolulu, HI	48,024	25.7%	59.0%	\$750,000
Fayetteville, NC	35,341	33.2%	52.2%	\$160,000
Colorado Springs, CO	34,632	41.2%	67.6%	\$395,000
San Antonio-New Braunfels, TX	33,632	50.1%	62.6%	\$220,000
Seattle-Tacoma-Bellevue, WA	31,608	30.1%	61.1%	\$600,000
El Paso, TX	22,766	25.4%	64.8%	\$150,000
Baltimore-Columbia-Towson, MD	22,099	44.9%	67.5%	\$345,000
Clarksville, TN-KY	21,696	34.0%	61.4%	\$200,000
Jacksonville, FL	20,685	37.8%	66.0%	\$270,000
Riverside-San Bernardino-Ontario, CA	19,602	41.1%	65.4%	\$450,000
Chicago-Naperville-Elgin, IL-IN-WI	17,343	50.2%	65.9%	\$275,000
New York-Newark-Jersey City, NY-NJ-PA	17,342	36.6%	53.2%	\$500,000
Pensacola-Ferry Pass-Brent, FL	16,865	57.6%	69.9%	\$245,000
Anchorage, AK	14,701	33.0%	69.5%	\$300,000
Augusta-Richmond County, GA-SC	13,892	48.9%	68.3%	\$190,000
Bremerton-Silverdale, WA	13,842	34.4%	68.0%	\$475,000
Las Vegas-Henderson-Paradise, NV	13,617	52.2%	56.9%	\$350,000
Atlanta-Sandy Springs-Roswell, GA	13,554	33.9%	66.8%	\$300,000
Tampa-St. Petersburg-Clearwater, FL	13,449	59.4%	67.8%	\$275,000
Charleston-North Charleston, SC	11,998	40.0%	71.3%	\$300,000
Kansas City, MO-KS	11,174	23.0%	65.4%	\$230,000
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	10,682	33.2%	67.3%	\$300,000

Source: 2021 American Community Survey.

Note: HO = homeownership; MSA = metropolitan statistical area.

Regression Analysis

We ran several regressions to examine the relationship between military status and homeownership after controlling for demographic and socioeconomic characteristics and location. The regression analysis shows how much of a homeownership gap remains between active-duty service members and the nonmilitary population once we simultaneously account for all the differences in factors that contribute to homeownership differences, as explored separately in the above sections.

The dependent variable in our regression is binary (1 = homeowners, 0 = otherwise), which typically calls for a logit or probit model. But a study by Angrist and Pischke (2009) found that the difference between marginal effects calculated from ordinary least squares and logit (or probit) models is minor when the mean of the dependent variable ranges between 0.2 and 0.8. Because the mean US

homeownership rate was around 65 percent in 2021, we used an ordinary least squares regression in our analysis, which allows us to easily interpret the coefficients as marginal effects.⁶

Column (1) of the regression results in table 3 shows that active-duty households are 21.2 percentage points less likely to own a home compared with nonmilitary households. Column (2) adds the age of the household head and mobility (whether the household moved in the past year), two factors that were most associated with homeownership disparities. We find that the gap in the likelihood of owning between active-duty service members and the nonmilitary population drops significantly, from 21.2 percentage points to 3.1 percentage points. The findings confirm that age and mobility differences explain a considerable portion of the homeownership disparity across households with different military statuses.

Column (3) adds additional demographic and socioeconomic characteristics, including age, sex, race and ethnicity, educational attainment, marital status, presence of children in the household, employment, and household income. Once these variables are included, active-duty service members' likelihood of owning a home becomes 7.5 percentage points lower than among nonmilitary households. This difference reflects findings showing that despite having higher educational attainment and income than the nonmilitary population, active-duty service members have a lower homeownership rate, a pattern we observed in the prior section.

Column (4) further controls for local housing market affordability by adding the log of the average home value by Public Use Microdata Area, and state-fixed effects account for unobserved locational characteristics. Adding these variables slightly increases the homeownership gap to 8.6 percentage points.

The final column includes interaction variables between our race and ethnicity dummy variables and active-duty dummy variable. In column (5), the active-duty dummy variable indicates that a negative 12.4 percentage-point gap exists between white active-duty households and white nonmilitary households. In contrast, the interaction terms for Black and Latino households and households of other races and ethnicities are all positive and significant, suggesting that active-duty military service produces smaller racial and ethnic disparities in homeownership than nonmilitary households, even after we control for observable characteristics that are correlated with the propensity to own.

TABLE 3

Active-Duty Service Member Homeownership Regression

	Dependent Variable: Homeownership				
	(1)	(2)	(3)	(4)	(5)
Active-duty service member	-0.212*** (0.006)	-0.031*** (0.006)	-0.075*** (0.005)	-0.086*** (0.005)	-0.124 (0.007)
Veteran	0.122*** (0.002)	0.062*** (0.001)	0.028*** (0.001)	0.016*** (0.001)	0.016*** (0.001)
Age		0.028*** (0.0002)	0.020*** (0.0001)	0.020*** (0.0001)	0.020*** (0.0001)
Age ²		-0.0002*** (0.00000)	-0.0001*** (0.00000)	-0.0001*** (0.00000)	-0.0001*** (0.00000)
Moved last year		-0.206*** (0.001)	-0.176*** (0.001)	-0.172*** (0.001)	-0.172*** (0.001)
Female			0.006*** (0.001)	0.004*** (0.001)	0.004*** (0.001)
Black			-0.195*** (0.001)	-0.206*** (0.001)	-0.206*** (0.001)
Latino			-0.161*** (0.001)	-0.138*** (0.001)	-0.138*** (0.001)
Asian			-0.056*** (0.002)	0.002 (0.002)	0.002 (0.002)
Other race or ethnicity			-0.079*** (0.002)	-0.081*** (0.002)	-0.081*** (0.002)
College degree			0.068*** (0.001)	0.092*** (0.001)	0.092*** (0.001)
Married			0.195*** (0.001)	0.189*** (0.001)	0.189*** (0.001)
Child exist			0.052*** (0.001)	0.051*** (0.001)	0.051*** (0.001)
Unemployed			-0.074*** (0.002)	-0.058*** (0.002)	-0.058*** (0.002)
Log(income)			0.036*** (0.0002)	0.040*** (0.0002)	0.040*** (0.0002)
Log(PUMA avg. home value)				-0.104*** (0.001)	-0.104*** (0.001)
Active duty * Black					0.077*** (0.015)
Active duty * Latino					0.130*** (0.015)
Active duty * Asian					0.009 (0.030)
Active duty * other					0.067*** (0.021)
Constant	0.664*** (0.0004)	-0.182*** (0.004)	-0.491*** (0.005)	0.798*** (0.013)	0.799*** (0.013)
State fixed effects	N	N	N	Y	Y
Observations	1,245,451	1,245,451	1,245,451	1,245,451	1,245,451
R ²	0.006	0.099	0.235	0.254	0.254

Source: 2021 American Community Survey.

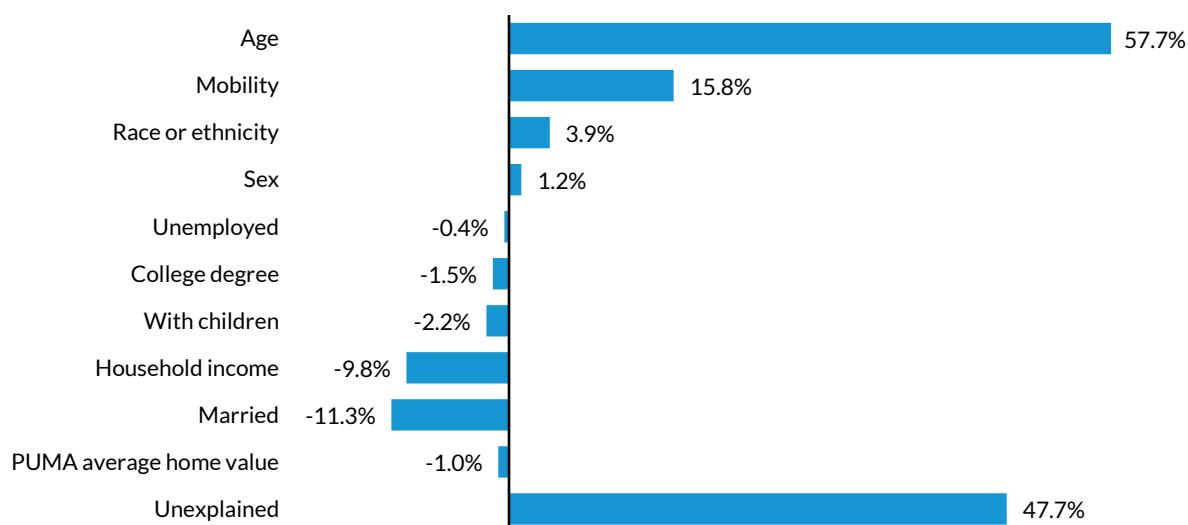
Notes: PUMA = Public Use Microdata Area. Robust standard errors are in parentheses. The dependent variable is homeownership (1 = homeowners, 0 = otherwise). All regressions are weighted by household weights provided by the American Community Survey. *** $p < 0.01$; ** $p < 0.05$.

Oaxaca Decomposition

We use the Blinder–Oaxaca decomposition method to estimate how much each variable in the regression analysis explains the homeownership gap between active-duty service members and nonmilitary households. As in the regression, we find that age and mobility explain the largest proportion of the homeownership gap between the two groups. The negative signs in household income and marital status indicate that these variables detract from the explained homeownership gap—that is, if active-duty service members had household income and marital composition similar to those of the nonmilitary population, their homeownership rate would be even lower. Additionally, 48 percent of the gap remains unexplained, indicating there are unobserved factors associated with the homeownership gap.

FIGURE 17

Blinder–Oaxaca Decomposition



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Source: 2021 American Community Survey.

Note: PUMA = Public Use Microdata Area.

Do VA Mortgages Provide Home Purchasing Benefits for Active-Duty Service Members?

VA mortgages are a military benefit created during World War II to help service members, both active and retired, achieve homeownership. VA mortgages do not curb access to other mortgage alternatives.

Using Home Mortgage Disclosure Act (HMDA) data, we examine the mortgage characteristics of VA loans versus other mortgage alternatives. Below, we show that VA loans are more favorable than other mortgage alternatives in certain respects. HMDA data do not provide information on whether the borrowers are current service members. So we can compare only households who apply for VA loans (i.e., active-duty service members and veterans) with households who apply for other types of loans to purchase a home. Additionally, not all active-duty service members and veterans might use their VA loan benefits to access homeownership.

Benefits of VA Loans

A VA loan allows the borrower to buy a home with a low or no down payment and no insurance cost because the government guarantees a portion of the loan amount if the borrower defaults at no charge. Overall, VA loans are cost effective and have lower denial rates than other types of loans. In addition, active-duty service members or veterans can have more than one VA loan at the same time. These benefits are available to service members and to their surviving spouses if they should pass.

Each potential buyer has an entitlement, which dictates the total amount the VA will pay if the mortgage defaults. The VA generally absorbs the first 25 percent of the losses, so the maximum loan amount is the VA entitlement times 4. If you have no other mortgage outstanding, the VA will pay 25 percent of the loan amount, with no limit, which could be an advantage over FHA or conventional products that have loan limits. If you have a mortgage already outstanding, the VA will pay 25 percent of the new mortgage up to your county's loan limit, less any amount already used. The loan limit for most counties for 2024 is \$766,500, resulting in an entitlement of \$191,625. (The limit is higher in more expensive areas.) If a service member already has a mortgage for \$300,000, tying up \$75,000 of entitlement, they can get a mortgage for up to $(\$191,625 - \$75,000) * 4$, or \$466,500, assuming they would qualify financially.

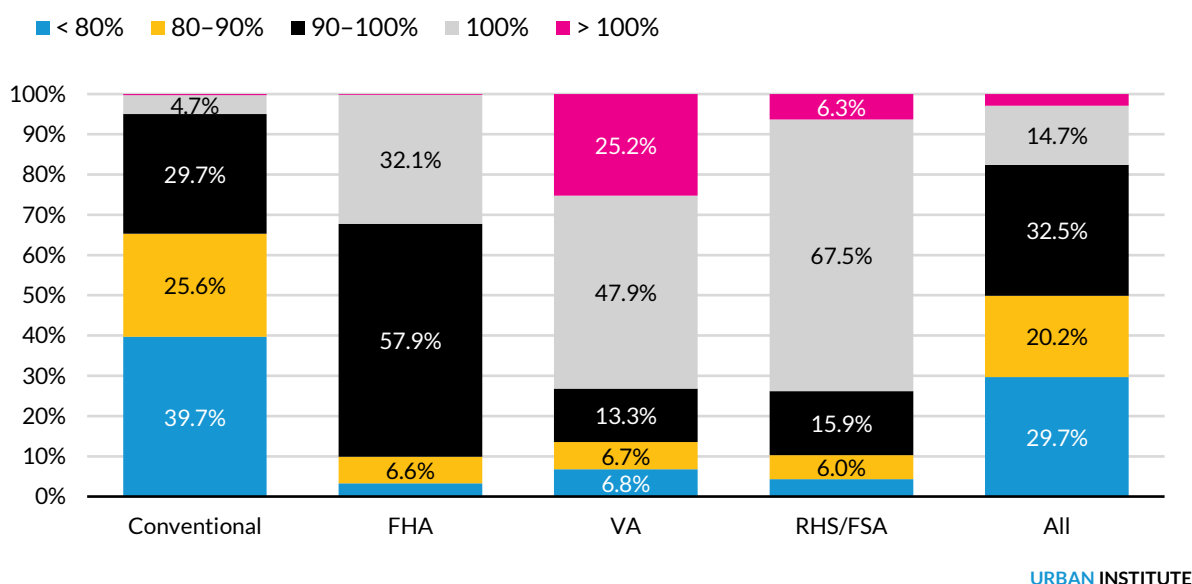
DOWN PAYMENT AND COSTS

VA loans generally require no down payment, which is more favorable than the 3.5 percent down on FHA mortgages, the 3 percent on the government-sponsored enterprise (GSE) programs for lower-income borrowers, or the 5 percent on GSE mortgages that do not qualify for programs geared toward low-income homebuyers. Borrowers can, of course, put down more to increase home equity and lower monthly payments.

HMDA data from 2022 suggest that VA loans have the lowest down payment of all the major loan types (the Rural Housing Service/Farm Service Agency program is small). Figure 18 shows that about 73 percent of VA borrowers who purchased a home in 2022 had a loan-to-value (LTV) ratio of at least 100 percent. This share is the highest among all mortgage types and is significantly higher than for borrowers who purchased homes through the conventional channel (5 percent).

FIGURE 18

Loan-to-Value Ratio Distribution, by Loan Type



Source: 2022 Home Mortgage Disclosure Act data.

Note: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs.

The down payment determines the funding fee; table 4 outlines the funding fees for active-duty service members, veterans, reserves, and US National Guard members. The fee is waived for borrowers who receive disability compensation and spouses of deceased military personnel. Estimates indicate that 35 to 50 percent of borrowers are exempt from the fee.⁷ There is no mortgage insurance premium. As a point of comparison, an FHA borrower will pay 1.75 percent up front and a 55 basis-point ongoing fee each year. If we translate the 55 basis-point fee to an up-front rate using a multiple of 5, the up-front fee would be 4.5 percent. GSE loan-level pricing adjustments are lower, but borrowers with LTV ratios above 80 percent must carry mortgage insurance.

TABLE 4

2023 VA Funding Fee Chart

Down payment	First-time VA loan use	Subsequent VA loan use
No down payment	2.15%	3.30%
5% or more	1.50%	1.50%
10% or more	1.25%	1.25%

Source: “VA Funding Fee and Loan Closing Costs,” US Department of Veterans Affairs, last updated April 7, 2023, <https://www.va.gov/housing-assistance/home-loans/funding-fee-and-closing-costs/>.

Note: VA = US Department of Veterans Affairs.

INTEREST RATES

Additionally, interest rates on VA home purchase loans, in general, are lower than they are on other loan types (table 5; figure 19). In 2022, the median interest rate on VA home purchase loans was 4.75 percent, the lowest among all loan types. VA loans also had the smallest share of loans with interest rates above 7 percent and the largest share of interest rates below 3 percent. The actual differential is likely even larger, as borrowers using GSE mortgages with LTV ratios above 80 percent must have mortgage insurance, and these rates do not include the costs of private mortgage insurance. The median for FHA loans does not include the 55 basis-point annual mortgage insurance premium.

TABLE 5

Median Interest Rates for Home Purchase Loans

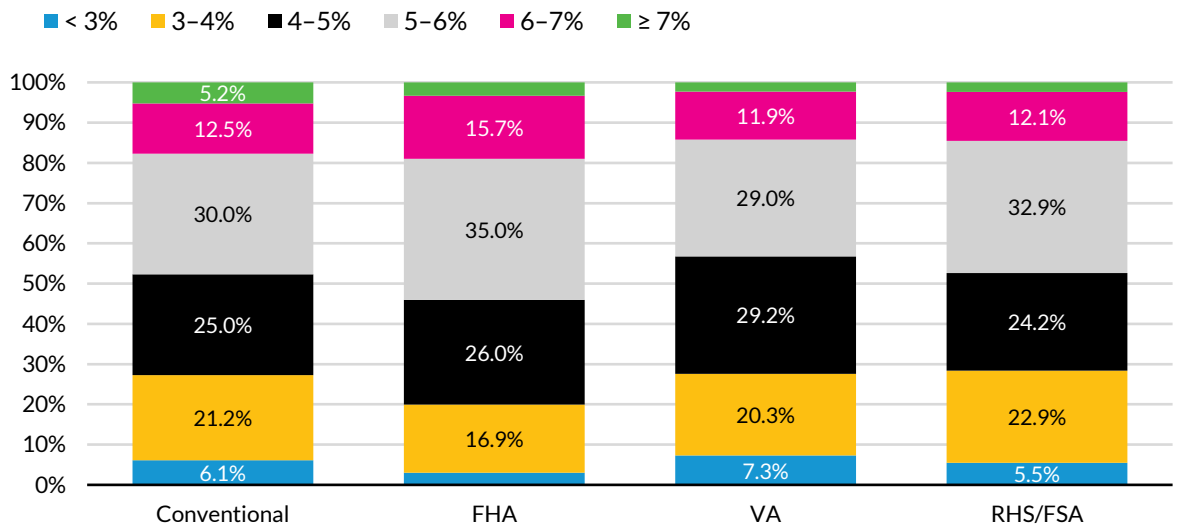
	Conventional	FHA	VA	RHS/FSA
Interest rate	4.99%	5.125%	4.75%	4.875%

Source: 2022 Home Mortgage Purchase Act

Notes: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs.

FIGURE 19

Interest Rate Distribution, by Loan Type



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Source: 2022 Home Mortgage Disclosure Act.

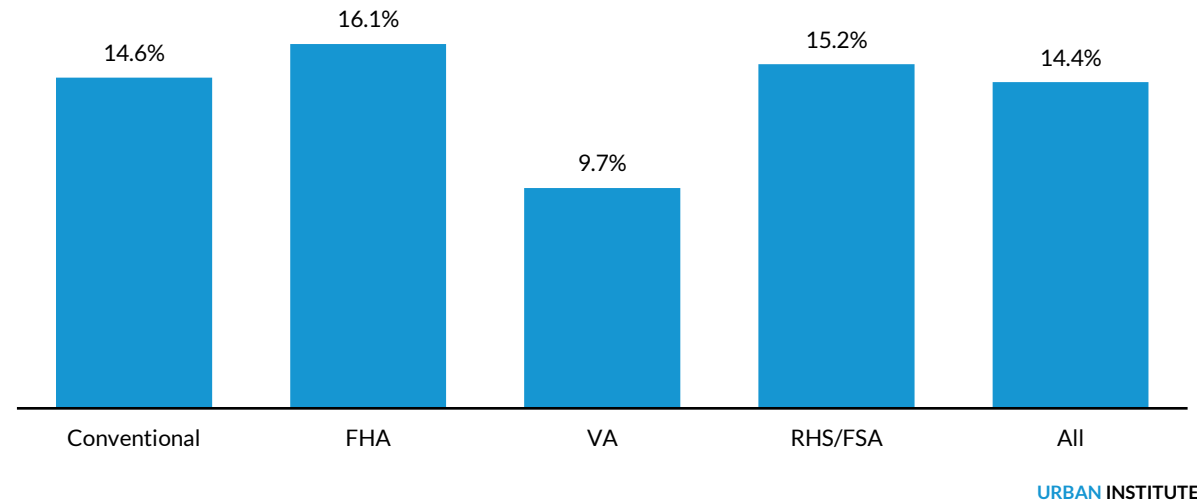
Notes: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs. Home purchase mortgages only.

VA loans are assumable, meaning that a VA borrower can take over the terms of an existing VA loan and have the same mortgage payment as the home seller. The new borrower must be creditworthy enough to qualify and can be a civilian. This feature can be particularly attractive in the current market, where interest rates have experienced an unprecedented surge.⁸ Buyers have assumed few VA loans for three reasons. First, market prices have increased so dramatically that the buyer must come up with cash or another loan for the difference between the purchase price and the unpaid principal balance of the outstanding mortgage. There is no well-developed second-lien market in which to do this. Second, if a civilian assumes the mortgage, the entitlement will count against the seller's entitlement, limiting the opportunities for their next home (if the home is sold to an active-duty service member or veteran, the entitlement will transfer). Finally, lenders must approve the assumption, and they must agree to release the seller from any liability associated with the new borrower. Some lenders are reluctant to do this; even though the borrower meets VA standards, the lender may feel they are worse off if the new borrower is less creditworthy than the old one. Although the final issue can be resolved through administrative fiat, the other issues cannot.

Frequency and Reason for Mortgage Denials

VA applicants are significantly less likely to be denied than applicants who use other loan channels (figure 20). VA loans have the lowest mortgage denial rate. In 2022, less than 10 percent of VA home purchase mortgages were denied, 5 percentage points lower than for conventional loans and more than 6 percentage points lower than for FHA loans. Even with a lower down payment and no insurance, the government guarantee for VA loans increases the likelihood of accessing homeownership for those who are serving or who have served in the military. The lower denial rates should be important to the seller, as they increase the likelihood that the borrower will be able to close on the home they purchased.

FIGURE 20
Home Purchase Mortgage Denial Rates, by Loan Type

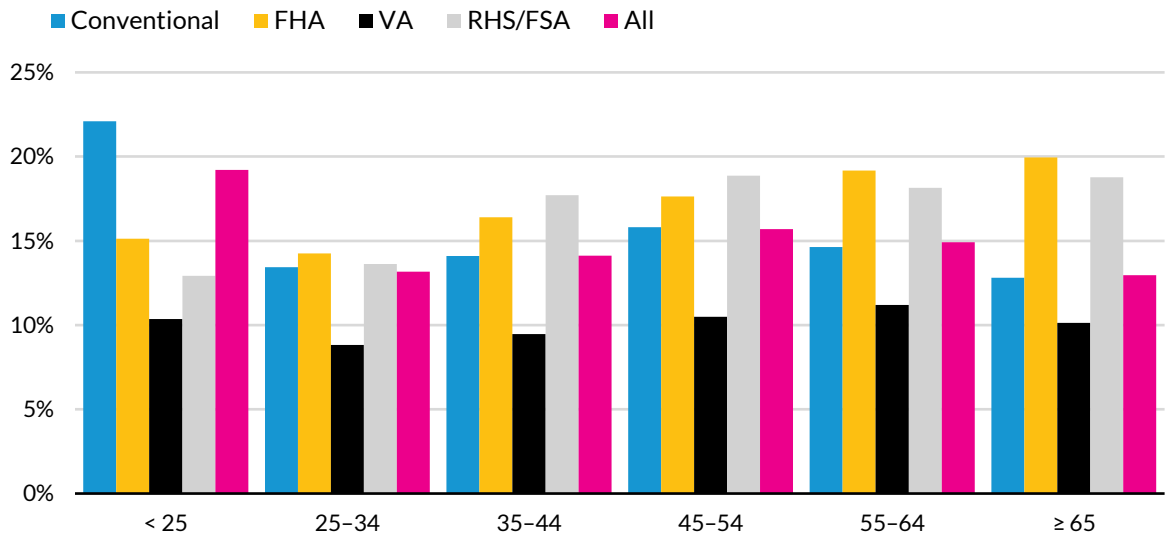


Source: 2022 Home Mortgage Disclosure Act.
Notes: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs. Home purchase mortgages only.

The VA channel had the lowest mortgage denial rate across all age groups and had the least dramatic differences in denial rates across all age groups (figure 21). Denial rates ranged from 8.8 percent to 11.2 percent for VA borrowers in different age groups while other types of loans had substantially higher denial rate disparities across different age groups.

FIGURE 21

Denial Rates, by Age and Loan Type



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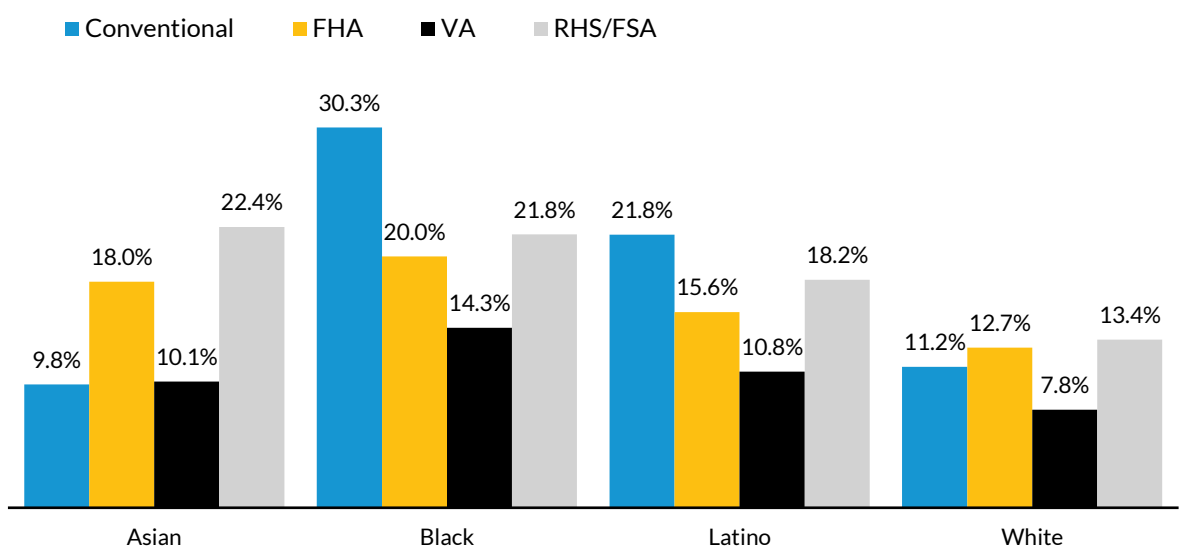
Source: 2022 Home Mortgage Disclosure Act.

Notes: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs. Home purchase mortgages only.

The VA channel also had the lowest mortgage denial rate for all Black, Latino, and white mortgage applicants (figure 22). Black VA mortgage applicants were denied 14 percent of the time, about 16 percentage points lower than the rate for Black conventional mortgage borrowers. Latino VA mortgage borrowers' denial rate was around 11 percent, or 11 percentage points lower than for Latino conventional mortgage borrowers. The white VA mortgage applicant denial rate was about 8 percent, more than 3 percentage points lower than for white conventional mortgage applicants. For Asian borrowers, VA and conventional mortgage applicants had similar denial rates of around 10 percent. Although there are racial disparities in the mortgage denial rate among VA applicants, the gap is substantially smaller than in other mortgage channels. For example, the Black-white mortgage denial rate gap was less than 7 percentage points among VA applicants but was more than 19 percentage points among conventional mortgage applicants. The Latino-white mortgage denial rate gap was 3 percentage points for VA applicants and close to 11 percentage points for conventional mortgage applicants. This again suggests that military service mitigates racial disparities in accessing homeownership.

FIGURE 22

Denial Rates, by Race or Ethnicity and Loan Type



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Source: 2022 Home Mortgage Disclosure Act.

Notes: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs. Home purchase mortgages only.

DTI ratio was the most frequently mentioned reason for mortgage denial among VA loans (31 percent), though this share was lower than for conventional and FHA loans (table 6). Credit history was the second-most-frequently-mentioned reason, but this share was also lower for VA loans than for other types of loans. Meanwhile, the share of those denied because of an incomplete credit application and other reasons was noticeably higher for VA mortgage applicants. This may be related to high mobility or lack of understanding about VA borrowers and VA loan requirements among the real estate community, but further investigation is needed. VA loans have a minimum residual income requirement, which may be captured in the “other” reason for denial category.⁹

TABLE 6

Denial Reasons for Home Purchase Mortgage

	All	Conventional	FHA	VA	RHS/FSA
DTI ratio	34.0%	33.9%	36.0%	30.8%	30.3%
Credit history	28.1%	31.3%	18.8%	18.6%	22.7%
Collateral	8.8%	7.8%	11.7%	11.6%	10.2%
Credit application incomplete	8.3%	7.6%	9.1%	13.8%	9.3%
Employment history	2.8%	2.2%	4.7%	4.5%	4.5%
Insufficient cash	4.2%	3.6%	6.7%	4.5%	3.0%
Unverifiable information	6.0%	6.3%	5.5%	4.7%	3.9%
Mortgage insurance denied	0.1%	0.1%	0.1%	0.1%	0.1%
Other	6.5%	5.7%	7.3%	11.2%	14.0%
Missing	1.1%	1.4%	0.1%	0.1%	2.0%

Source: 2022 Home Mortgage Disclosure Act data.

Note: DTI = debt-to-income; FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs.

Findings from the Interviews and Existing Surveys

What Are the Additional Barriers to Homeownership among Active-Duty Service Members?

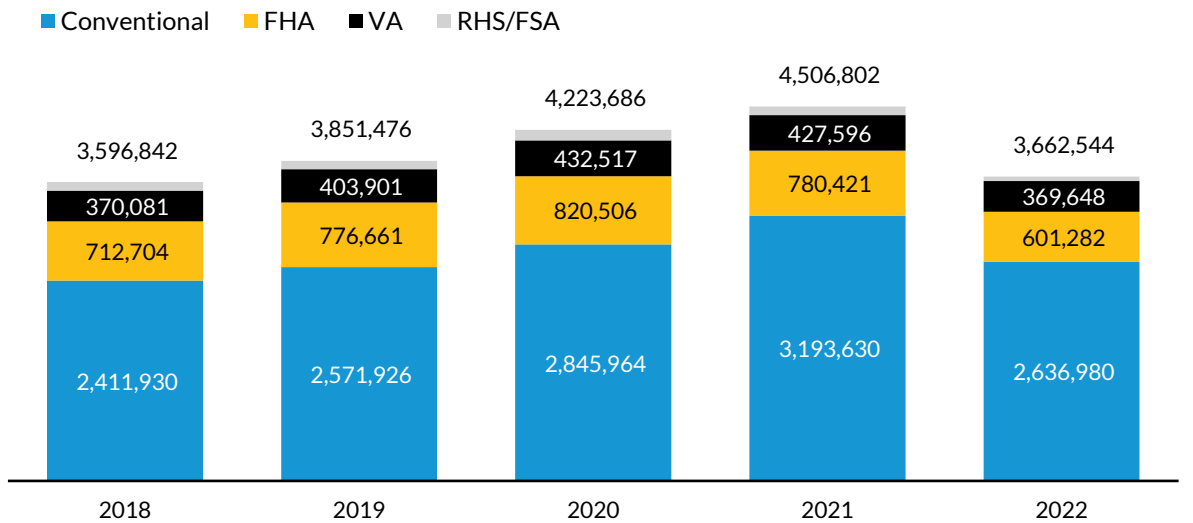
In addition to data analysis, we reviewed existing surveys and studies and conducted multiple interviews with the DoD, the Department of Veterans Affairs, the Consumer Financial Protection Bureau, mortgage lenders, active-duty service members, and veterans to better understand barriers to homeownership among the active-duty force. Below, we list five additional potential barriers preventing active-duty service members from accessing and sustaining homeownership.

Disadvantages of VA Loans

Although VA loans are advantageous to borrowers, most sellers will give preference to buyers paying cash over those who need a mortgage because cash buyers have a greater certainty of closing. And some sellers will give preference to those who use conventional loans rather than FHA or VA loans. When interest rates reached historic lows in 2021, the number of conventional purchase mortgage loans reached its peak, while the number of VA purchase mortgages declined from a year earlier (figure 23). This reflects the struggles VA borrowers face in obtaining mortgages, especially in highly competitive markets.

FIGURE 23

Number of Home Purchase Mortgage Originations, by Loan Type



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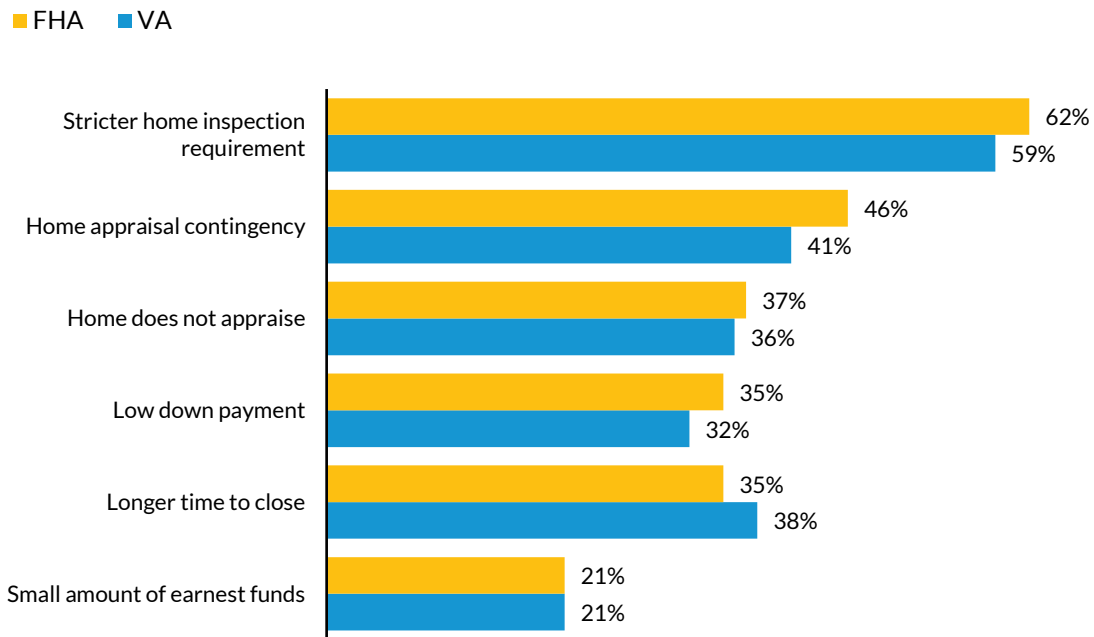
Source: 2018–22 Home Mortgage Disclosure Act data.

Note: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs.

A 2021 survey of National Association of Realtors members lists the reasons they find government loans less attractive (Yun, Lautz, and Dunn 2021). Figure 24 presents answers from the seller side. Stricter home inspection requirements was the most cited reason, followed by appraisal issues (i.e., the home appraisal contingency or the home does not appraise), and a longer time to close. In a seller's market, in which every home gets multiple bids, sellers can be picky about the bids they select and can select buyers who are not using a government loan. In a buyer's market, where the seller feels lucky to get a single bid, this is less of a problem. Sellers treat FHA and VA loans similarly, though VA borrowers should get "credit" for lower denial rates, as it means greater certainty of closing on the sale for the seller.

FIGURE 24

Government Loans versus Conventional Financing



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Source: Lawrence Yun, Jessica Lautz, and Meredith Dunn, “Loan Type Survey” (Washington, DC: National Association of REALTORS Research Group, 2021).

Note: FHA = Federal Housing Administration; VA = US Department of Veterans Affairs.

Stricter Home Inspection Requirements and Minimum Property Requirements

For a VA mortgage, the appraiser is responsible for both appraising the property and making sure the property conforms to the minimum property requirements (MPR). The property must be structurally sound, safe, and sanitary. If the property does not meet these requirements, repairs must be made before the loan is closed. For example, if the air conditioning system is broken, the loan cannot close. If the roof is not expected to last for the foreseeable future, the loan cannot close. The FHA also requires a home inspection by an authorized inspector; similar to the VA, inspectors look for defects that could cause health, safety, and security risks. By contrast, conventional loans do not have home inspection requirements, as the price is assumed to reflect the home’s condition. Approximately 17 percent of VA appraisals have MPR issues.¹⁰ Not all these sales fall through. The buyer or seller can pay for the repairs, and waivers are possible in certain cases.

Appraisal Issues

VA loans require appraisals, as FHA and conventional loans do. In all cases, the appraiser estimates the home's fair market value based on comparable sales in the area. For a VA mortgage, the appraiser must be a VA appraiser, which could increase the time before the appraiser can visit the property. For both VA and FHA loans, if the appraisal is lower than the sales price, the seller must reduce the purchase price to match the appraised price, or the deal cannot proceed. With a conventional loan, if the home is appraised for less than the sales price, the parties can renegotiate the price, and the buyer can pay the difference between the renegotiated purchase price and the appraised value. This gives the seller more flexibility if the home fails to appraise.

There have been several improvements to fix this issue for VA loans (Bell 2021). First, if the appraiser expects the appraisal report to reflect a valuation below the sales price, the appraiser is required to notify the requester and allow 48 hours for the real estate agent, lender, and the veteran or active-duty service member to supply evidence-based data to support the contract sales price. This is known as the Tidewater process, and no other program has this feature. Second, if the Tidewater process does not result in an appraised value at or above the sales price, the veteran or active-duty service member or lender may request a reconsideration of value. This will be reviewed by VA staff members, and if they determine an increase in value is appropriate, the appraisal will be amended.

Time to Close

Real estate agents note that VA and FHA loans take longer to close. The most recent Ellie Mae Origination Insight Report, produced in June 2021, shows the same pattern. VA loans took, on average, 55 days to close, FHA loans took 54 days, and conventional loans took 48 days.

John Bell, acting executive director of the VA loan program, acknowledged this point in his December 2021 congressional testimony: “Unfortunately, the strengths of Veteran borrowers are often not known by selling agents and sellers in the marketplace.... Some sellers and their real estate agents may negatively view, or even reject outright, an offer with government-guaranteed financing” (Bell 2021, 4). The VA has worked with the National Association of Realtors to make realtors more comfortable with VA loans and has produced several videos on the topic.

In these videos, Bell has pointed out that the VA has tried to address both time to close and appraisal issues, but many realtors are unfamiliar with the changes. Regarding time to close, the VA is more closely monitoring closing times and has introduced a new program, the Appraisal Assisted

Processing Program, to help appraisers gather information to cut down the time to deliver the appraisal. We do not have updated data for time to close to judge the impact of these improvements.

VA loans are a large benefit to active or retired members of the military. They tend to have higher LTV ratios, lower annualized mortgage rates, and lower denial rates. Getting a VA mortgage is perceived to be more burdensome than getting a conventional mortgage, relating to home inspection issues (i.e., the need for the minimum property requirements), appraisal issues, and time to close. Although some of this is perception and recent experience may be improved from the past, some issues, such as the MPR, are real. But these differences are small, relatively few loans are affected, and the differences should not be a major issue in a housing market that is not red hot.

Misperceptions about VA Loans and Borrowers

The VA has made strides in addressing the appraisal process, but realtor perceptions lag, and the MPR issues remain. VA loans are also turned away by sellers and their real estate agents (Yun, Lautz, and Dunn 2021) because of misperceptions about the borrowers. According to the National Association of Realtors, many listing agents and sellers incorrectly believe VA buyers are not financially prepared for homeownership because they do not need a down payment.¹¹ But in reality, the average VA buyer has a FICO score above 700 and \$40,000 in cash reserves (table 7). VA borrowers also have relatively lower default rates. In 2021, only 4 percent of VA loans went into default, compared with 10 percent of FHA loans.

TABLE 7
Median FICO Scores of Home Purchase Borrowers

	Conventional	FHA	VA	RHS/FSA
Median FICO score	765	666	723	694

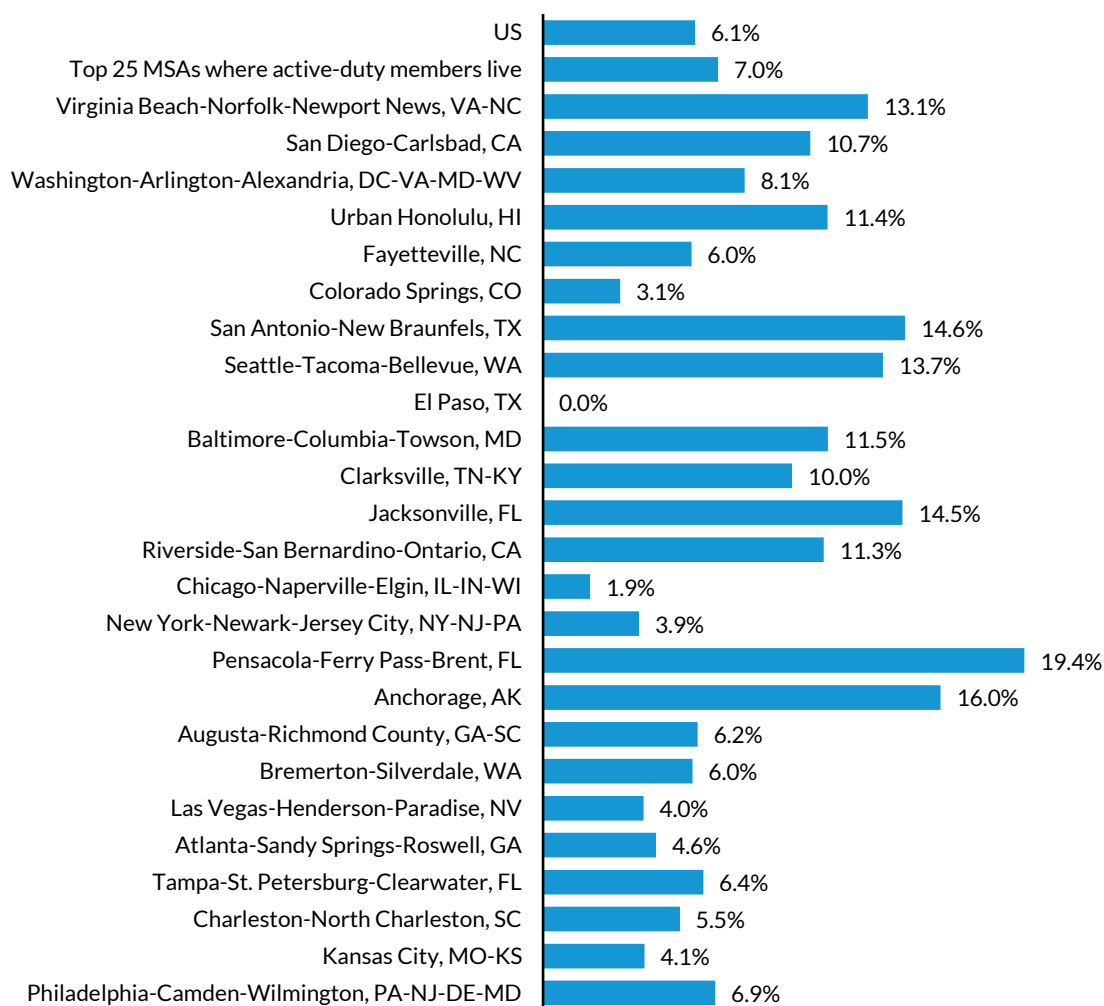
Source: 2022 Home Mortgage Disclosure Act data.
Notes: FHA = Federal Housing Administration; RHS/FSA = Rural Housing Service/Farm Service Agency; VA = US Department of Veterans Affairs.

In many cases, the mortgage industry (e.g., lenders and realtors) does not know enough about active-duty service members’ unique situations (e.g., high mobility, housing allowance, and tax benefits). Several of our interviewees pointed out that they were able to get better support when their real estate agent was a veteran because they better understood the borrower and the VA loan. But only 6.1 percent of real estate agents are veterans, training for reserves, or national guards. This share is slightly higher in the 25 MSAs where active-duty service members most commonly reside. There are also large

differences across these MSAs (figure 25). For example, in Pensacola-Ferry Pass-Brent, Florida, more than 19 percent of real estate agents were veterans, training for reserves, or national guards, while in El Paso, Texas, there were none. Although there is some variation across locations, the overall share of veterans, military reserves, and national guards that are real estate agents is not much different from the share of real estate agents in the overall population. Therefore, it is more practical to increase awareness of active-duty borrowers and VA loans among nonmilitary real estate agents rather than trying to increase the share of real estate agents who served in the military. The videos the VA has produced with the National Association of Realtors are an important first step.

FIGURE 25

Share of Military Members among Real Estate Agents



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Source: 2021 American Community Survey.

Lack of Awareness among Active-Duty Service Members

Active-duty service members, like real estate agents, lack a good understanding of the benefits of homebuying and their options. VA loans, housing allowances, and tax benefits affect the costs and benefits of owning versus renting differently for active-duty service members from the nonmilitary population, which active-duty service members may not be fully aware of.

A 2022 Navy Federal Credit Union survey examined whether active-duty service members and veterans have accurate information about VA loans.¹² Both groups had many people who had misinformation about VA loans, but awareness among active-duty service members was lower. Below are some key findings from the survey.

- Almost all active-duty service members were aware of VA loans (95 percent), and many knew they were eligible for VA loans (89 percent), but 29 percent of homeowners who did not use VA loans said the main reason was either because they did not know about the VA loan or they did not think to use one.
- Half of active-duty service members and 31 percent of veterans think a VA loan can be used only once.
- Only 10 percent of active-duty service members (compared with 32 percent of veterans) knew that VA loans could be used with zero down payment. On the other hand, 45 percent of active-duty service members and 17 percent of veterans believed they needed to put at least 20 percent down.
- Almost half of active-duty service members (compared with 22 percent of veterans) thought interest rates are higher for VA loans than for conventional loans.
- Almost 60 percent of active-duty service members and 41 percent of veterans think VA loans will delay the homebuying process. Fifty-eight percent of active-duty service members and 40 percent of veterans said VA loans will have delays because of the paperwork involved.

2023 Veterans United Home Loans survey data show similar trends. A higher share of active-duty service members had misinformation about VA loan products compared with veterans. Almost 90 percent of the survey respondents knew about the VA home loan benefit, but 23 percent of active-duty service members and 22 percent of veterans thought the product could be used only once. About 26 percent of active-duty service members and 5 percent of veterans said VA loans have higher interest rates than other mortgage products. Similarly, 21 percent of active-duty service members and 5 percent of veterans said VA loans cost more than other mortgage products. About a third of respondents

thought the government sets the interest rates on VA loans. Additionally, 25 percent of active-duty service members and 17 percent of veterans said putting money down is a requirement when using VA loans. This suggests that more work is needed to enhance awareness of the VA loan benefit. When asked how the VA home loan benefit could be improved, the most mentioned answer (11 percent) was to increase awareness and knowledge.

BOX 1

Servicemembers Civil Relief Act

Active-duty service members and members of the National Guard and reserves serving in a federal active-duty status who may be eligible might not understand some of the mortgage protections under the Servicemembers Civil Relief Act (SCRA) or how and when to access the protections.^a SCRA protections begin on the date a service member enters active-duty military service and applies to loans that originated before active-duty service. The SCRA protects service members from some actions taken while on active-duty service, including eviction and foreclosure protection, auto repossession protection, and a 6 percent interest rate cap. The interest rate cap applies to mortgages, car loans, business loans, personal loans, and student loans. Some SCRA protections require that a service member submit to their servicer their official military orders for the protections to be applied, but the Defense Manpower Data Center (DMDC) with the Department of Defense enables lenders and servicers to verify a consumer's military status, which has improved the financial service industry's compliance with the SCRA. The DMDC database has also allowed the financial service industry to engage the DMDC database without burdening or otherwise relying solely on active-duty service members to submit their official orders. As with any database, the information and data are only as good as what is put in or otherwise made available, so data accuracy concerns and regular availability of the DMDC system to be used for SCRA verification can be challenging to effective compliance.

Military service is defined under the SCRA as including (1) full-time active-duty service members of the six military branches (i.e., the US Army, Navy, Air Force, Marine Corps, Coast Guard, and Space Force), (2) reservists on federal active duty, and (3) members of the National Guard on federal orders for more than 30 days. Service members absent from duty for a lawful cause or because of sickness, wounds, or leave are covered by the SCRA. The SCRA also covers commissioned officers in active service of the Public Health Service and the National Oceanic and Atmospheric Administration.

The SCRA also provides certain benefits and protections to service member dependents and, in certain instances, to those who cosigned a loan for or took out a loan with a service member. The term "dependent" includes a service member's spouse, children, and any other person for whom the service member has provided more than half of their financial support for the past 180 days.

^a Charles A. Goldman and Yael Katz, *Protecting Those Who Protect Us* (Washington, DC: Consumer Financial Protection Bureau, 2022).

Difficulty of Selling

High mobility rates and the uncertainty in the timing of reallocation also affect home selling and hence the willingness to buy in the first place. Our interviewees often mention that active-duty service members have less control over the timing of the property's sale. If they are relocated, financial realities dictate whether they must sell the home or rent it out. If they decide to sell, the market conditions at the time of selling would have a huge impact on the amount of wealth gained. And the costs of selling after a short time may eliminate some of the gains.

Property Management

Active-duty service members can also rent out the property when they move to another location. But managing the property while deployed, or expecting a family member or acquaintance to do so, may be challenging. Three or four interviewees noted challenges collecting rent and managing the condition of their rental properties. Finding dependable tenants may also be challenging. One person said his relationship with his tenants worked out well because it was a person he already knew from the army, but he said he heard many stories where the relationship with tenants was difficult, which we also heard.

Recommendations

Active-duty service members face unique challenges accessing and sustaining homeownership, mainly because of their frequent mobility, which can affect their timing of buying and the length of time owning a home. There is no one-size-fits-all approach to educating service members about the benefits of homeownership and the barriers to accessing it, as circumstances vary. Among the active-duty military force, particularly for younger age brackets and lower-ranking members, coupled with frequent permanent change-of-station orders and mobility frequencies related to DoD mission priorities, accessing homeownership may not be the best life or financial decision to make at this point in their lives.

Based on our analysis and the work of this study, we highlight potential legislative solutions and additional recommendations to increase awareness about and improve access to homeownership. The DoD should continue its efforts to improve financial education to enhance active-duty service members' understanding of the home purchase process and the benefits and the costs of homeownership, so they can be better informed about their homebuying decision. Additionally, the real estate community needs to be better informed about VA borrowers and VA loans so they can meet active-duty service members' homeownership interests. Also, improving data quality for analyzing and tracking active-duty military homeownership trends would enhance knowledge and understanding of this issue and inform better design and implementation of adequate financial education and support for active-duty service members and military families to achieve personal financial readiness in support of mission readiness. Finally, sustaining homeownership is critical to building intergenerational wealth. Homeownership among active-duty service members has been volatile over time, which can be a barrier to building wealth. Therefore, we also recommend improvements to the VA loss mitigation program so active-duty service members with VA loans have options to preserve homeownership when facing unforeseen hardships. Below, we specify our recommendations by the actors that could take actions to improve homeownership access and preservation for active-duty service members.

Congress

There is a potential solution to address VA loan competitiveness through the bipartisan VA Loan Informed Disclosure Act of 2023 (S. 2496). The legislation would require a side-by-side comparison of conventional, FHA, and VA home loans to be included in the US Department of Housing and Urban Development's informed consumer choice disclosure notice.¹³ This bill was introduced in 2023 but has

not been acted on. Such legislation purports to improve awareness and understanding of VA loans compared with conventional loans to allow a military consumer or veteran to consider their home mortgage options. There are substantive questions about the costs of implementing the disclosure requirement, the timing of when the disclosure is provided to the potential borrower, and whether the disclosure is for all borrowers for any loan type.

To improve the real estate community's awareness of VA loans and to open the pool of potential borrowers, bipartisan legislation has been introduced to grant a federal charter to the Veterans Association of Real Estate Professionals to promote homeownership among veterans and active-duty service members. The charter's goal is to shine a light on VA-specific programs and financial literacy tools that serve the military population.¹⁴

Department of Defense

Continue Efforts to Enhance Financial Education

Since 2016, the DoD has worked to improve financial education for active-duty service members. The DoD's Office of Financial Readiness provides programs, policy, education, advocacy, and program oversight that are required for service members and families to achieve personal financial readiness in support of mission readiness.¹⁵ The office works closely with the services, federal partners, and nonfederal entities to achieve this goal.

Additionally, the DoD has made available Military OneSource, a website with trusted information and resources, such as information to weigh the pros and cons of renting versus buying, to determine whether either is the best option for the service member and their family.¹⁶ The DoD is finalizing homeownership videos for members of the active-duty force, which they expect to release in 2024. The DoD also works with the Office of Servicemember Affairs at the Consumer Financial Protection Bureau to regularly assess the delivery of financial education information to service members and military families, including access to certain financial benefits and protections while on active-duty military service. The DoD should continue these efforts to evolve financial education and improve access to information to help service members and their families make informed decisions about homeownership. Meeting active-duty service members and their families where they best absorb financial education information (e.g., online resources, mobile phone applications, gaming programs to improve knowledge, and facilitated workshops) will improve financial readiness for the active-duty military population.

Additionally, improving understanding through financial education training of how the Basic Allowance for Housing works can enable service members to purchase homes, pay down mortgages, and build financial security (Tilghman 2023). For service members who are not assigned to on-base government housing, the DoD provides a Basic Allowance for Housing, a tax-free cash entitlement that enables service members to rent or purchase a home in private-sector housing markets near military installations.

Providing Landlords and Tenants a Matching Service

Facilitating a matching service between active-duty renters and active-duty homeowners who are moving is worth consideration. From our interviews, we heard that active-duty landlords, in general, had a better experience when their tenants were also working in the military because there was a stronger connection or bond and a level of trust. The DoD could consider developing and making readily available resources where active-duty homeowners who are relocating and active-duty renters who are searching for a place can find each other more easily.

Providing Information on Mobility Frequency

The DoD could also consider giving active-duty service members and their families their best available information about how long they are expected to remain located in a specific area or market. This will allow families to make more informed choices when considering homeownership versus renting or on-base housing. This information must be accompanied by the caveat that the mission will always come first, and these estimates are not guaranteed.

Department of Veterans Affairs

Continue Enhancements That Enable VA Loans to Be Competitive

Though there has been some improvement, some features of VA loans can be improved to increase their competitiveness against conventional loans.¹⁷ The VA has already changed its appraisal process to make this less of a deterrent to using VA mortgages. And the VA has made efforts to make real estate agents aware of these changes. The VA must continue to make the real estate community aware of these changes and any others to come. The minimum property requirements also remain an issue for

sellers and real estate agents, as it increases the uncertainty of closing the mortgage. The VA can address this by implementing a system of MPR waivers, in which the buyer acknowledges the issues and the appraiser acknowledges they have accounted for the violation in its appraisal.

Improving VA Loss Mitigation

Efforts to improve the VA loss mitigation program are critical to helping active-duty service members sustain housing wealth in financially challenging times. The one area in which the VA falls short of other government and agency mortgage programs is in its loss mitigation efforts. If a borrower needs a permanent reduction in their mortgage payment to stay in their home, Fannie Mae and Freddie Mac have more flexibility than either the FHA or the VA. When a borrower cannot sustain their mortgage payment, losing the home is usually the worst outcome for both the borrower and credit risk holder on the mortgage. It is more economical for the credit risk holder to allow the borrower to make a lower payment than to lose the home. The GSEs have a portfolio and can thus buy mortgages out of a mortgage pool when they are four months delinquent and modify the payment as they see fit.

By contrast, the FHA does not have a portfolio, and the VA has a limited portfolio that can be used only with the authorization of the VA secretary, so the modified mortgages must generally be repooled and sold back into the market. The FHA can use its “partial claim” authority for loss mitigation, but the VA cannot. In FHA and VA loans, the servicer has historically bought the loan out of the pool, done the modification, and then repooled the mortgage.

The issue for both FHA and VA mortgages is that if the current interest rate is considerably higher than the contract rate on the mortgage, it becomes difficult to give the borrower payment relief. The FHA has finalized its solution to this: the FHA Loan Payment Supplement Loss Mitigation program, which will be optional as of May 1, 2024, and mandatory as of January 1, 2025. Under this solution, the partial claim is first used to pay the arrearages, with the claim’s balance used to reduce the monthly principal payment for three years. The mortgage will stay in the securitized pool, with the borrower paying a reduced amount and the FHA essentially “supplementing” the difference for the first three years.¹⁸

The VA cannot take similar action, as it has no partial claim authority. The VA has recently announced a plan that represents the best that can be done within current legislative constraints. Under the VASP (VA Servicing Purchase) program, which will launch on May 31,¹⁹ the VA will purchase the defaulted loans from the mortgage servicer and modify them. The modified loans will then be placed

into the VA's limited portfolio as direct loans.²⁰ This plan and its drawbacks are discussed in a blog post from Goodman and Tozer.²¹

How many borrowers would take advantage of VASP or a similar loss mitigation plan would depend on the final plan's design. The serious delinquency rate (90 or more days delinquent) for VA borrowers is around 2.0 percent, compared with just under 4 percent for FHA borrowers and 0.55 percent for GSE borrowers. Currently, there are approximately 3.6 million VA mortgages outstanding, suggesting up to 72,500 borrowers who might be eligible for this type of program. Actual take-up will be much lower, as some of these borrowers will be able to resume their payments through self-cure, and a small number will be unable to resume their payments even with such a program. VA numbers do not allow us to distinguish between active-duty service members and veterans.

Data Providers

Improve Data Quality

From this study, we found that the true homeownership rate among active-duty service members is difficult to identify because of data limitations. Better data collection and overall access to data can help regularly assess homeownership trends as the active-duty force evolves and changes. From our interviews, we found that many active-duty service members do own a home but live as renters in the areas they serve. It would be beneficial to collect information on the ownership status of nonprimary residences. Ideally, it would be great to include this information in the ACS, a nationally representative dataset. An addition of a military status identifier in HMDA data to differentiate between active-duty, veteran, and reserve VA loans would also be beneficial. The Census Bureau and the Consumer Financial Protection Bureau could consider adding this information to the two datasets. But this addition would not be feasible in a short period, so it could be helpful to start collecting these data from smaller surveys to estimate the real homeownership rate among active-duty service members. A 2023 Veterans United Home Loans survey found that 40 percent of active-duty service members and veterans own other types of residential properties, including secondary homes and investment properties. This share was much higher for active-duty service members (60 percent) than for veterans (34 percent). Although the sample size is not large (1,796 respondents), this survey does highlight that many active-duty service members likely own a home that they are currently not residing in. More surveys like this can improve our knowledge and understanding of the homeownership status of active-duty service members.

Appendix. Differences in Homeownership Rates between Military Branches

Homeownership rates differ by military branch, ranging from 45.4 percent for the US Air Force to 32.0 percent for the US Marines. Variation in the mobility rate is smaller than the homeownership disparities across branches. Although US Marines have relatively lower mobility rates, their median age and median wage income are lower. Members of the US Air Force and the US Coast Guard, who have relatively higher homeownership rates, also have relatively higher median age and median wage income.

TABLE A.1
Homeownership and Mobility Rates, by Military Branch

	Army	Air Force	Navy	Marines	Coast Guard
Homeownership rate	37.5%	45.4%	40.2%	32.0%	43.9%
Mobility rate	33.5%	37.7%	38.0%	35.7%	41.7%
Median age	29	28	28	23	32
Median wage income	\$43,000	\$45,000	\$40,000	\$26,900	\$50,000

Source: 2021 American Community Survey.

Notes

- ¹ Jung Hyun Choi and Laurie Goodman, “Buy Young, Earn More: Buying a House before Age 35 Gives Homeowners More Bang for Their Buck,” *Urban Wire* (blog), Urban Institute, November 8, 2018, <https://www.urban.org/urban-wire/buy-young-earn-more-buying-house-age-35-gives-homeowners-more-bang-their-buck>.
- ² We categorize households as active-duty service member households, veteran households, and nonmilitary households based on the military status of the household head.
- ³ In the appendix, we present homeownership rates for each military branch.
- ⁴ We categorize households as active-duty service member households, veteran households, and nonmilitary households based on the military status of the household head.
- ⁵ Lori Robinson and Michael E. O’Hanlon, “Women Warriors: The Ongoing Story of Integrating and Diversifying the American Armed Forces,” Brookings Institution, accessed March 22, 2024, <https://www.brookings.edu/articles/women-warriors-the-ongoing-story-of-integrating-and-diversifying-the-armed-forces/>.
- ⁶ Logit and probit analyses generate similar results.
- ⁷ “VA Home Loan Funding Fee Calculator,” Veterans United Home Loans, accessed March 21, 2024, <https://www.veteransunited.com/education/tools/funding-fee-calculator/>.
- ⁸ Ted Tozer, “Could a Rarely Used Government-Backed Loan Feature Help Level the Playing Field in Today’s High-Interest Housing Market?” *Urban Wire* (blog), Urban Institute, October 14, 2022, <https://www.urban.org/urban-wire/could-rarely-used-government-backed-loan-feature-help-level-playing-field-todays-high>.
- ⁹ Chris Birk, “VA Loan Residual Income Charts and Requirements,” Veterans United Home Loans, last updated August 10, 2022, <https://www.veteransunited.com/valoans/explaining-the-vas-standard-for-residual-income/>.
- ¹⁰ “VA Home Loans Part 2: Reducing Barriers for VA Borrowers,” National Association of Realtors, March 16, 2022, <https://www.nar.realtor/videos/va-home-loans-part-2-reducing-barriers-for-vb-borrowers>.
- ¹¹ Graham Wood, “Overlooking FHA, VA Offers May Hurt Vulnerable Buyers,” *REALTOR Magazine*, May 9, 2023, <https://www.nar.realtor/magazine/real-estate-news/bias-against-fha-va-loans-hurts-most-vulnerable-buyers>.
- ¹² “Spotlight on VA Loans,” Navy Federal Credit Union, May 3, 2022, <https://www.navyfederal.org/makingcents/home-ownership/va-loan-report.html>.
- ¹³ VA Loan Informed Disclosure Act of 2023, S. 2496, 118th Cong. (2023).
- ¹⁴ VA Loan Informed Disclosure Act of 2023, S. 2496, 118th Cong. (2023).
- ¹⁵ See the Office of Financial Readiness website at <https://finred.usalearning.gov/>.
- ¹⁶ See the Military OneSource website at <https://www.militaryonesource.mil/>.
- ¹⁷ Laurie Goodman and Janneke Ratcliffe, “The Tight Housing Market Boxes Out Government-Insured Borrowers, Widening Homeownership Gaps,” *Urban Wire* (blog), Urban Institute, June 16, 2021, <https://www.urban.org/urban-wire/tight-housing-market-boxes-out-government-insured-borrowers-widening-homeownership-gaps>.
- ¹⁸ Julia R. Gordon, “Payment Supplement,” mortgagee letter 2024-02 to all FHA-approved mortgagees and others, February 21, 2024, <https://www.hud.gov/sites/dfiles/OCHCO/documents/2024-02hsgml.pdf>.

- ¹⁹ US Department of Veterans Affairs, “VA Announces New Program to Help More Than 40,000 Veterans Stay in Their Homes,” press release, April 10, 2024, <https://news.va.gov/press-room/va-servicing-purchase-program-avoid-foreclosure/>.
- ²⁰ This plan was discussed in a February 15, 2024, hearing of the House Committee on Veteran’s Affairs, Subcommittee on Economic Opportunity. See Bell (2024).
- ²¹ Laurie Goodman and Ted Tozer, “Overcoming Obstacles to the Veterans Administration’s Loss Mitigation Options,” *Urban Wire* (blog), Urban Institute, March 19, 2024, <https://www.urban.org/urban-wire/overcoming-obstacles-veterans-administrations-loss-mitigation-options>.

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