Statement of
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before the
Committee on Housing & Community Development
Boston City Council

HOMEOWNERSHIP ASSISTANCE, INCLUDING FOR FIRST-GENERATION HOMEOWNERS

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* The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

I thank Jung Choi for her excellent research in preparing this testimony.
Chair Edwards and councilors of the Committee on Housing & Community Development, thank you very much for inviting me here today. I am Janneke Ratcliffe, Assistant Vice President of the Urban Institute’s Housing Finance Policy Center; the views I express today are my own and should not be attributed to the Urban Institute, its board, or its funders.

Homeownership brings many benefits. Compared with people who rent, homeowners are more civically engaged, experience better mental and physical health, and have a greater sense of control over their lives. Financially, homeowners lock in most of their long-term housing cost with a fixed rate loan, and with each monthly payment, they build more equity. Even with modest appreciation, investment in a home can easily beat the return that might have been had putting the down payment into the stock market. These facts together make homeownership the cornerstone of wealth building in the US, and homes are most households’ largest asset. As this asset grows, it forms the basis for further wealth by funding businesses, paying for higher education, and helping children buy their first home. In fact, all else equal, we find that when parents own a home, their children are more likely to be homeowners as young adults (ages 18–34).

Historically, however, in large part because of government policies, white families were helped into these benefits while families of color were largely denied them. The result is that today some 75 percent of white households own homes, yet less than half of Black and Latinx households own homes. The gaps in Boston are even starker. Compounding over generations, this has contributed to a striking wealth disparity: for every dollar held by the median white family, the median black family has about a dime. Moreover, research by my colleagues projects that absent concerted policy efforts, the Black homeownership rate will continue to decline over the next two decades. What efforts can have the most impact? The number-one barrier cited by renters is lack of assets to make a down payment and pay closing costs.

We calculated about 235,000 mortgage-ready millennials of color live in the Boston area. This means they have the income and credit to potentially qualify, suggesting that down payment is a big missing piece.

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6 For Massachusetts headship and homeownership projections, see “The Future of Household Formation and Homeownership in Massachusetts,” Urban Institute, accessed August 9, 2021. We forecast that Black homeownership in Boston will actually increase to 43.4 percent in 2040, continuing a steady upward climb since 1990 (a trend that deviates from the country as a whole).
7 See Laurie Goodman, Alanna McCargo, Edward Golding, Bing Bai, and Sarah Strochak, “Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability” (Washington, DC: Urban Institute, 2018). Data from Freddie Mac and the Urban Institute for the Boston-Cambridge-Newton, MA-NH metropolitan statistical area in
Many young adults of color cannot turn to their parents for help with a down payment. The median wealth of white young adults’ parents is $215,000, compared with less than $15,000 for the parents of Black young adults and $35,000 for the parents of Latinx young adults. Suffice it to say that the parents of Black and Latinx young adults cannot provide much help with a down payment in Boston and have any financial cushion left. Down-payment assistance can break this cycle, especially if it is targeted to those who haven’t had access to the intergenerational wealth-building benefits of homeownership. I commend the Massachusetts Affordable Housing Alliance and all your city’s work on down-payment-assistance programs. As far as we know, STASH is the first program to use first-generation targeting for homeownership, an approach that has been adapted into proposals for federal programs.

Of the approximately 36 million renter households nationwide making less than 120 percent of the area median income, nearly 25 percent are Black, 22 percent are Latinx, and 49 percent are white. The mix shifts when looking just at first-generation households. Using the STASH definition (i.e., the homebuyer’s parents never owned a home when the child was growing up), we estimate about 2.5 million eligible likely participating households nationwide. Of those, we estimate one-third are Black, 40 percent Latinx, and just 20 percent, white. But this definition may be hard to operationalize at a national scale. Our blog post, cited with this testimony, looked at three other options. Note that our research shows that only continuous homeownership by parents over the 16-year study period led to statistically higher home ownership for their children. In other words, parents having a late start to homeownership or intermittent episodes of homeownership does not have the same wealth-building effect as sustained homeownership. STASH recognizes this in part by including people whose parents lost homes during the foreclosure crisis. The standard definition of a first-time homebuyer is someone who has not owned in the prior three years. Applying that definition to both the buyer and their parents gave us a larger potential pool (4.37 million), 36 percent of whom are Black, 28 percent Latinx, and 30 percent white. Down-payment assistance can help these households by putting homeownership within reach for people with less access to parental wealth. It also helps them become homeowners sooner, giving them more years for the wealth-building effects to accrue. And it can make for a stronger borrower who has a greater financial cushion; lower payments; more equity; and with homebuyer education, more knowledge. All this suggests that STASH is a great step in the right direction, and we are all eager to learn from it. I look forward to the discussion of what can be done to make the program even more effective.

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8 Jung Hyun Choi, Jun Zhu, and Laurie Goodman, “Intergenerational Homeownership.”
10 Black and Latinx borrowers lost their homes at around 1.8 times the rate of white borrowers. See Debbie Bocian, Wei Li, and Keith S. Ernst, Foreclosures by Race and Ethnicity (Durham, NC: Center for Responsible Lending, 2010).