Redressing the Racial Wealth Divide through Homeownership and Community Equity

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About the Nowak Metro Finance Lab

The Nowak Metro Finance Lab was formed by Drexel University in July 2018. It is focused on helping cities find new ways to "finance the inclusive city" by making sustained investments in innovation, infrastructure, affordable housing, quality places, and the schooling and skilling of children and young adults. It is an initiative of Drexel University's Lindy Institute for Urban Innovation.

EXECUTIVE SUMMARY: REDRESSING THE RACIAL WEALTH DIVIDE WITH HOMEOWNERSHIP & COMMUNITY EQUITY

The economic recovery especially for families and communities of color will need more than just relief from a year of a pandemic; the recovery calls for community equity.[1]

The pandemic amplified many of the racial inequalities festering in our country for decades. Today's median Black family has just thirteen cents for every dollar of wealth held by White families.[2] Thirteen cents. In 2018 dollars, that's a median Black family net worth of $24,100 for every white family's median wealth of $188,200.[3] The consequences of this gap are stark, and they implicate families of color, whole neighborhoods, regional economies, and the nation's ability to heal from the pandemic's economic ravages. While the reasons for this racial wealth gap are manifold, and include historic, pervasive housing and lending discrimination and redlining, the solutions are more pointed. Namely, to redress intergenerational racial wealth inequality, we must re-prioritize homeownership, asset-building, and business ownership for families and communities of color.

On the centennial anniversary of the Tulsa Race Massacre, which resulted in the obliteration of a thriving Black community, the Biden Administration committed to a series of reforms and transformational funding to grow Black wealth through ownership.[4] In addition, Congress has just passed the Administration's historic $1 trillion Infrastructure bill, and will soon hopefully enact the Biden Administration's proposed Build Back Better reconciliation bill that would appropriate trillions of dollars in a once-in-a-generation transformational level of federal investment, including sources to transform American cities and to redress racial wealth inequality. We applaud these important acknowledgements that wealth depends on an intentional focus on cultivating homeownership and business ownership, and especially on transformational levels of federal investment. Yet, we'd go one step farther.

A focus on wealth-building through homeownership at scale cannot succeed as an isolated effort disconnected from other investments in a neighborhood. An owned home in a disinvested community with significant out-commuting and limited focus on job and economic growth will be a home whose value stagnates or declines. We contend, instead, that ownership capable of transforming communities into thriving places for families, businesses, and economic activity depends on coordinated and integrated opportunities to cultivate community wealth -- assets grown by and for residents and the whole community at large.[5] In particular, our bold, ambitious vision asks that we build whole community wealth using a scaled, focused, and synergistic three-part approach we refer to as a "Community Equity District", which consists of the following:

1. **A scaled, accessible homeownership effort must be immersed in a planned, whole-neighborhood, public/private "district economic redevelopment" initiative in order to successfully grow value appreciation (equity).** This includes creating a neighborhood "district," comprised of hundreds of units of newly built and revitalized high-quality owned homes for low- and moderate-income families (to stabilize and grow neighborhoods). The district also features mixed-use and mixed-income development for a broad array of economic activity, and community amenities such as parks, sustainable infrastructure, and neighborhood-serving retail. This whole neighborhood approach – "district economic redevelopment" – effectively comprises a neighborhood-wide land parcel assembly and economic reinvestment strategy necessary to uplift whole neighborhoods and grow community and family assets, including forming businesses and providing pathways to the innovation economy, job-creation and worker upskilling, and equity-building via homeownership.

2. **Scaled homeownership depends on sharing the community's growing wealth from district economic redevelopment, aligning resident interests with those of investors.** Ownership capable of transforming communities depends on a new, ultimately liquid, security product we refer to as "community equity" – akin to shares of stock – that enables all community residents, whether owners or renters, to participate in the financial upside and value appreciation of a whole

1. Several of the concepts and examples in this paper pertaining to community equity, neighborhood redevelopment, and accessible homeownership, and their interrelationship, were inspired by Kofi Bonner, CEO of Bedrock Detroit.
2. White House Fact Sheet, "Biden-Harris Administration announces new actions to build Black wealth and narrow the racial wealth gap. June 1, 2021.
3. Jung Hyun Choi and Alanna McCargo, "Closing the Gaps: Building Black Wealth through Homeownership," Urban Institute Housing Policy Center, November/December 2020, p.1. (Based on 2018 data).
4. White House Fact Sheet, "Biden-Harris Administration announces new actions to build Black wealth and narrow the racial wealth gap. June 1, 2021.
5. Ross Baird, Bruce Katz, Jihae Lee, and Daniel Palmer, "Toward a new system of community wealth-building," Drexel Nowak Metro Finance Lab and Accelerator for America, 2019.

neighborhood.[6]

How this works: over the life of the district economic redevelopment, and at build-out, assessed value would appreciate within the district and in surrounding areas. Similar to structures used in tax increment financing, a portion of that appreciation will be set aside for community benefit, but here, deployed to residents as "community equity" in the neighborhood district area, eligible for liquidity after a certain appreciation or timing threshold is achieved. Community equity retains local ownership of local assets, while also providing a new incentive to stay and plant roots, joining the long-game of community growth.

3. **An accessible pathway to homeownership, especially suited for certain older industrial cities deploying district economic redevelopment and community equity, is a scaled lease-purchase model.** A scaled, accessible homeownership strategy requires a credible, safe and market-specific approach to growing homeownership. While we support several approaches to accessible homeownership, only a lease-purchase pathway offers solutions to the homeownership gap in older industrial communities by offering a long-enough runway to enable financial qualification and provide time to re-build resident belief in a neighborhood's potential for upward revaluation. During the leasing period, community equity can accumulate to be used toward the home purchase. In our district economic redevelopment, in particular, a certain percentage of the homes would be designated as part of an inclusive, wealth building lease-purchase and community equity homeownership program.

Our synergistic Community Equity District solution recognizes that home equity will only appreciate if communities grow. And that communities will only grow if their value proposition for businesses grows. The integration of these three elements –district economic redevelopment, community equity, and homeownership -- builds on the Biden Administration's path-breaking agenda to drive community transformation capable of redressing the racial wealth gap and rebuilding equity for families and communities of color.

This paper is organized as follows:

Section II: Barriers to Homeownership for families and communities of color. This section includes a discussion of "second generation redlining," market barriers, buyer skepticism, the inadequacy of public resources, and structural impediments to transformational whole-neighborhood economic redevelopment solutions that include accessible homeownership.

Section III: Our Solution: A Community Equity District with Accessible Homeownership. This section includes further discussion of each of the three parts of our solution introduced above, as well as the interactions between each part of the solution.

Section IV: Policy Implications and Recommendations. This section includes a discussion of the federal impediments to accessible homeownership and policy solutions designed to enable district development, community equity, and a scaled lease-purchase accessible homeownership approach for older industrial communities.

Section V: Conclusion

Section VI: About the Authors and Appendix

6. See also: Kofi Bonner, Bruce Katz, et. al., "Growing Wealth in Opportunity Zones: A Proposal for a Community Equity Trust," Drexel University Nowak Metro Finance Lab and Accelerator for America, July 2020. Our paper today fleshes out and simplifies the "community equity trust" model so that community equity can be a key component of any inclusive whole-neighborhood approach, not just Opportunity Zones.

BARRIERS TO HOMEOWNERSHIP FOR FAMILIES AND COMMUNITIES OF COLOR

The State of Black Homeownership

Homeownership is the single most important contributor to family and intergenerational wealth, especially for families of color. For Black households, 60 percent of family net worth is comprised of home equity, compared with 43 percent of net worth for White households.[7] Yet the gap between Black and White homeownership in America today is larger than it was in the 1960s, when racial discrimination was legal.[8]

Tragically, the homeownership rate for Black families has plummeted since the Great Recession. The rate has fallen from 49.1 percent in 2004 to 41.6 percent in 2016, a 7.6 percentage point decline representing an enormous fifteen percent loss in Black homeownership.[9] This loss effectively wiped out the substantial gains made in Black homeownership since the 1970s.[10] While White families also lost ground during the recession, the national percentage point decline in homeownership for White families is approximately about half that of Black families. More, three quarters of all white families were homeowners by 2004, and while the rate dipped post-recession, it bottomed out at nearly 72 percent, still nearly three quarters.

Despite large nonwhite populations, older industrial cities also fare poorly when it comes to homeownership for Black families. In Detroit, among middle-aged households, a segment with one of the highest national homeownership rates, Black homeownership dropped by nineteen percentage points (a loss of nearly one-third) since 2000, from 60 percent to 41 percent.[11] In Cleveland, the Black homeownership rate today is only 33.4 percent, an 18 percent loss since 2000. [12]

Market Barriers and Secondary Redlining

Communities of color today also confront a kind of second generation redlining, that exacerbates the weak trends in Black homeownership. For the areas inside former red lines, credit is tighter and mortgages now available to families of color typically are higher cost.[13] These dynamics are especially perverse since they are partially the unintended results of regulations enacted to protect against predatory abuses. These challenges are even greater in older industrial communities ravaged by the Great Recession and its foreclosure crisis, which scarred middle income (particularly Black) neighborhoods, leaving abandoned homes, deteriorated interior infrastructure, blighted tracts, and vacant lots in its continuing wake.[14]

In disinvested neighborhoods like these, even families who meet underwriting criteria may be caught in a double bind that excludes them from mortgage qualification. On the one hand, buyers of relatively inexpensive homes often cannot qualify. In disinvested neighborhoods like these, even families who meet underwriting criteria may be caught in a double bind that excludes them from mortgage qualification. On the one hand, buyers of relatively inexpensive homes often cannot qualify for a mortgage due to small dollar loan limits that limit qualification for mortgage amounts under $70,000.[15] On the other hand, many of the homes in these communities need renovation, which requires an infusion of capital or a mortgage-plus-rehab loan that can also finance the cost of improvement. Yet the cost of the combined home plus

7 Jung Hyun Choi and Alanna McCargo, p 2.
8. Jung Hyun Choi, "Breaking down the Black-white homeownership gap", Urban Wire: Housing & Housing Finance Blog, Urban Institute, February 21, 2020; and Choi and McCargo, p. 3 (using 2018 data, at 30.5 percent).
9. U.S. Census Bureau, Homeownership Rates by Race and Ethnicity: Black Alone, and non-Hispanic White Alone, in the United States [BOAAAHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOAAAHORUSQ156N). This compares with a 4.1 percentage point homeownership rate decline for White households. Note that early tabulating of census figures from the 2020 decennial show that Black homeownership has trended up since 2016 closing about half of the recession loss (compared to White homeownership nearly fully recovering to pre-Recession levels) even as the homeownership gap stays at its same record-high levels.
10. Laurie Goodman, Jun Zhu, and Rolf Pendall, "Are Gains in Black Homeownership History?" in Urban Wire: Housing & Housing Finance Blog, 2/14/2017 (Black Americans gained approximately 5.7 percentage points in homeownership from 1970-2000, but lost 6 percentage points from 2000-2016." Authors show that the gap declined from the 1960 to 1980 (from 26.7 To 23.6). In contrast, authors show the gap rising consistently each decade beginning in 1980 to 2015 at 29.9
11. Carl Hedman and Rolf Pendall, "Rebuilding and Sustaining Homeownership for African Americans," Southeast Michigan Housing Futures, Brief 3, Urban Institute, June, 2018. ("African American homeownership slipped further in Michigan than in any other state in the last 18 years.") Authors compare the middle aged homeownership decline experienced by white households as 3 percent.
12. Brookings Center on Urban and Metropolitan Policy, "Cleveland in Focus: A profile from Census 2000," Living Cities: National Community Development Initiative (used here for Year 2000 census statistics); and Prosperity Now, "Prosperity Now Scorecard: Cleveland Data" (used here for
Year 2018 (2013-2017) ACS Census data).
13. Choi and McCargo, pp. 7-12. ("Black homebuyers also face more expensive mortgage financing because loan underwriters believe Black homebuyers pose a higher risk of loan default...even controlling for financial characteristics"). Authors discuss the vicious cycle of a lack of credit history adversely affecting FICO scores, and other systemic issues related to DTI, LTV ratios, and low down payment but ultra-extended FHA mortgages. All of this contributes to what they coin as a "Black Homeownership Tax."
14. Alan Berube and Cecile Murray, "Renewing America's Economic Promise through Older Industrial Cities," Brookings Metropolitan Policy Program, April 2018. The authors define older industrial cities as a "particular class of cities that at one time were some of the heavyweights of the U.S. economy...Many of these cities have endured wrenching economic transitions over the past few decades..."
15. Alanna McCargo and Sarah strophic, "Debunking the myth that small dollar loans are riskier," Urban Institute, April 17, 2019.

renovation typically exceeds the appraisal value of these homes, given surrounding neighborhood comparables.

This "appraisal gap" typically precludes successful underwriting, and therefore mortgage origination.[16]

The upshot of these trends is that while Black homeownership has never exceeded a 50 percent nationwide rate, the gap between white and Black homeownership rates is approximately 30.5 percent, the highest level in 50 years.[17] This ownership gap has a particular geographic character to it that poses a barrier to accessible homeownership: this afflicts not just a parcel here or a parcel there, but whole neighborhoods that have not fully recovered from the impacts of the Great Recession, or again from the Pandemic.

Buyer Marketplace Skepticism

The net result of these trends ––playing out in older industrial neighborhoods across America–– is that would-be buyers in these communities may have a (justified) skepticism about the potential of an appreciating neighborhood marketplace. This skepticism is grounded in two features of daily life in these neighborhoods.

First, many of these would-be buyers are prior homeowners who lost homes, equity, or life savings in the Great Recession or earlier, sometimes as a result of predatory lending. This includes prior rent-to-own installment contract abuses, which were notoriously found in older industrial cities. It follows that after this series of events, believing that an investment in home ownership could be a growth investment, rather than a loss or an abusive gimmick, requires a delicate balance of seeing growth potential, accessing an affordable and safe mortgage product, and trusting the lender and surrounding community.[18]

Second, long-term structural neighborhood disinvestment grounds this skepticism. For would-be homebuyers to believe that buying a house is a good idea, they must credibly believe that the resale value of their homes ––from a liquidity perspective and from a neighborhood demand perspective–– may grow, let alone not shrink. After decades of disinvestment and structural racism in many older industrial neighborhoods, internalizing such a belief requires a high degree of optimism, a leap of faith.

Public and Private Homeownership Resources and Innovations are Lacking

Across the board, public and private resources to support accessible homeownership pathways for low-

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16. Note that many believe the problem inherent in appraisal gaps is not the result of an appraiser, but of automated valuation models. In any event, appraisals feed into originators' underwriting systems, creating a market impediment that particularly disadvantages older industrial communities and communities of color.
17. Choi and McCargo, p. 3 (Based on 2018 data). Note that early 2020 census tabulations show the gap in 2019 even higher, at 31.3 percent, although the 2020 gap is at 29.6. Annual data show that, since 2012, the gap between Black and White homeownership has hovered at record high levels, ranging from 29.6 to 31.3 percent. U.S. Census Bureau, Homeownership Rates by Race and Ethnicity: Black Alone, and non-Hispanic White Alone, in the United States [BOAAAHO-RUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOAAAHORUSQ156N).
18. Land contracts have robbed households of color for decades. They've been particularly rampant in post-recession Rust Belt communities, offering one of the only sources of financing available to families who have not been able to qualify for mortgages once regulations tightened as part of the financial reform following the recession. See Joel Kurth, "Loose regulations make land contracts a tool to exploit low-income homeowners", Crain's Detroit Business, May 20, 2017.

and moderate-income families of color are lacking. Key limitations are detailed by institution below.

HUD: The primary federal resources for homeownership don't sufficiently catalyze minority homeownership or overcome barriers found in distressed communities. In particular, HUD's primary focus on rental housing, and on extremely low-income families ––while laudatory from a poverty-alleviation perspective–– means that the vast majority of appropriated funding excludes homeownership and an asset-building focus on moderate-income families of color.

FHA/GSEs/Treasury: In the wake of the 2008 Recession, federal banking regulations imposed tighter and more expensive credit requirements on the marketplace in the name of preventing abuses. Neither FHA nor the GSEs adjust these restrictions to solve for the historic absence of equity among communities of color ––and Black communities in particular–– by assuaging some of the underwriting requirements and affiliated pricing that adversely affects families with limited prior wealth gains, credit history, or down payment resources.[19]

The most robust federal homeownership subsidy –– the mortgage interest tax deduction –– which is a $60 billion annual subsidy to only 13.7 percent of taxpayers (primarily those earning over $200,000), simply doesn't influence or assist homeownership for low- or moderate- income families in disinvested older industrial communities. [20]

Local Governments/CBOs: Local government and nonprofit innovations, especially in high cost (e.g. coastal) areas, help low- and moderate-income working families attain homeownership often using below-market-rate (BMR) financing and/or shared equity models[21]. Some shared equity homeownership models are structured as down payment assistance programs with soft second mortgages repayable upon re-sale, with a share of the appreciation (often in lieu of interest) going back to the city city or program sponsor.[22] Some programs (for example, community land trusts and some BMR programs) use an income-growth index (for example, the Consumer Price Index) rather than property appreciation index to guide the equity share in order to retain affordability of specific units over time. While these complex shared equity formulas still yield solid wealth-building returns to families, the formula complexity and index variation, currently limits their scalability. In addition, a shared appreciation structure in lower-cost markets may inhibit market uptake and realizable gain (in the form of equity).

As an example, a 10 percent 10-year appreciation on a $60,000 home is just $6,000. Sharing that equity repositions the risk-return model for that household. This creates distinct limitations for the applicability of shared equity models in post-industrial neighborhoods.

Philanthropy: Understandably, philanthropic efforts to champion homeownership are not nearly as prevalent as philanthropic strategies targeting homelessness or affordable rental housing. Typically, philanthropic homeownership efforts focus on affordability, often through down payment assistance programs or homebuyer counseling. San Francisco, Detroit, and Silicon Valley philanthropy have tried additional homeownership innovations. In San Francisco, philanthropy assembled a coalition that centralizes and streamlines assistance to homebuyers, called HomeownershipSF. Some philanthropic efforts focus on home renovation for low-income families or in targeted distressed neighborhoods. In Detroit, the Rehabbed and Ready initiative, seeded by the Detroit Land Bank and the Rocket Community Fund, renovates vacant homes and sells to homebuyers at the market value, thereby avoiding the appraisal gap through subsidy.[23] Over time, this program raises comps of homes sold in specific neighborhoods. Another approach considers impact investment in mission-driven solutions. The Chan Zuckerberg Initiative, as an example, harnesses some of its charitable impact capital into mission-focused startups, including a shared appreciation homeownership model for teachers.[24] While innovative and crucial, many of these efforts have not yet scaled to the point of becoming national solutions.

Low Income Housing Tax Credit (LIHTC) for Homeownership: Another strategy, to create a longer-term pathway to high quality affordable homeownership, creates a 15-year lease purchase program using LIHTC. Cleveland Housing Network, for example, operates lease purchase programs in Cleveland and Detroit. Through these programs, CHN has created several thousand new single family homes for rent to low-income tenants, of which approximately 1,000 have already converted to homeownership.

This model is limited by LIHTC structure. Because LIHTC recapitalization requires the leasing period in this program to be at least 15 years it means that the

19. At the time of press, the House of Representatives' markup of the housing section of the reconciliation bill includes $10 billion for down payment assistance, which would begin to ease this burden.
20. Scott Eastman and Anna Tyger, "The Home Mortgage Interest Deduction," Tax Foundation, October 15, 2019 (60 percent of benefits are for families earning more than $200,000; only 4% of taxpayers earning under $50,000 will claim the deduction, and will receive less than 1 percent of the benefits).
21. Note that a "shared equity" model of homeownership is a very different concept than the "community equity" model we are proposing as a kind of security tied to neighborhood appreciation.
22. San Francisco's down payment program offers $375,000 down payment assistance in the form of a soft second mortgage that requires repayment of the loan and a share of the appreciation upon resale (https://sfmohcd.org/dalp). This program has resulted in substantial capital flowing to San Francisco, but it is in a market with the average two-bedroom home (condo) price of $1.4 million.
23. Detroitist, "$5 Million Investment into Rehabbed & Ready Program Announced by Rocket Community Fund and the City of Detroit" 4/19/2021.
24. Asmis, Jonathan, "Chan Zuckerberg invests $5 million to help educators access Landed," Landed Updates, September 13, 2016. https://www.landed.com/blog/chan-zuckerberg-initiative-invests. CZI's investment seeded a downpayment fund specifically for Landed to serve educator homebuyers with its shared equity model.

lessees who can convert into mortgages are somewhat arbitrary and often not the original lessee. In addition, down payment requirements even for very low-income families may still prove too high despite affordable home sales prices.

Start-ups: A few venture-funded startup companies offer a lease-purchase "scattered site" model of homeownership, primarily targeting regions with home prices that are appreciating, and would-be buyers whose incomes and credit scores are comparatively high. Unfortunately, programs even in these markets achieve relatively low conversion-to-homeownership rates (under 30%), in part because of the ROI demands of venture and other capital market investors.

Impediments to Transformational Whole-Neighborhood Economic Redevelopment that Includes Homeownership

The federal government has rarely delivered neighborhood transformation at scale or inclusive of homeownership in older industrial communities, leaving local governments to shoulder the primary economic investment burden. Four systemic shortcomings of the existing national economic development approach contribute to this short-sightedness.

1. **Siloed and fragmented funding streams prevent a unified focus on transforming whole neighborhood**s. Specific silos of funding streams include federal sources targeted to rental housing and community development (HUD), transportation grids and barrier removal (Transportation), sector-based economic development (Commerce/EDA), Small business (SBA), and environmental and land and water remediation (EPA). While these funding streams are critically important to the redevelopment of disinvested places, the lack of coordination within and between federal agencies increases transaction costs and impedes a neighborhood-wide solution.

2. **The federal project-by-project approach exacerbates silos**. As funding silos have become well established within agencies, the federal financing approach has evolved into an uncoordinated one-development-at-a-time ("project-by-project") methodology. In practice, this means one community might succeed in receiving funding for one senior apartment building, while another gets brownfield remediation, and a different one gets sufficient funding to re-engineer a street grid, or remediate riverfront flooding. This lack of coordination between agencies and projects means that more often than not federal funding does not amount to projects greater than the sum of their parts. Some agencies have prioritized collaborative applications for specific funding, but examples where they have offered collaborative federal funding for specific communities at-scale remain elusive.

3. **A limited supply of development capital exists for large-scale accessible and affordable homeownership development**. In part, this is because, the costs of a scaled single family district redevelopment demand a mixed-income, mixed-use approach not typically supported federally. Yet, even federal sources for low- and moderate-income scattered site homeownership are just not available at scale. This impediment is explained in more detail in our subsequent discussion of Plank 3, in Section IV, below.

4. **Private economic development investment generates returns that are typically exported out of communities**. Those communites lucky enough to receive outside private investment, including through the use of Treasury-administered tax incentives, find that returns are typically exported out of these communities; at a minimum, they aren't shared directly with residents.

THE SOLUTION: A COMMUNITY EQUITY DISTRICT FOCUSED ON ACCESSIBLE HOMEOWNERSHIP AND COMMUNITY TRANSFORMATION

We propose a national approach to homeownership and shared community wealth-building that we refer to as a "Community Equity District." In particular, this solution consists of three interdependent and essential planks: 1) District Economic Redevelopment; 2) Community Equity; and 3) Accessible homeownership using a lease-purchase approach.

Each of these planks depends on the other. And, while we espouse each of these planks as individually important national goals, it is the interrelationship between the three of them, undertaken simultaneously, that becomes an unparalleled federal opportunity to enable true community transformation, economic prosperity, shared community wealth, and restored opportunities for Black and minority ownership.

Plank One: District Economic Development

All three of our interventions (planks) aim to boost homeownership for families of color. However, we view our first intervention, district-focused whole-neighborhood economic redevelopment, as a necessary precondition for a successful homeownership initiative. This first plank, therefore, comprises the precondition to homeownership as a community wealth-building tool, which is fundamentally premised on value appreciation; yet, in many lower-income neighborhoods in the older industrial cities that would be well suited for a homeownership effort (i.e., North St. Louis, South Detroit, East Cleveland, West Philadelphia), purchasing a home is currently not a wealth-building strategy. This is for the simple reason that these neighborhoods have suffered from decades of disinvestment, meaning that the potential for home appreciation is low, barring additional neighborhood-wide changes.

Because this economic baseline characterizes many low-income neighborhoods, we contend that the federal government's approach to homeownership, especially in older industrial communities or disinvested markets, take place in or adjacent to a novel whole-neighborhood "district" economic redevelopment effort. With the aim of closing the racial wealth gap, this holistic approach to community uplift and ownership would integrate a mix of uses including: 1) commercial and industrial (including minority-led commercial and industrial business ownership), 2) sustainable infrastructure,[25] including open, green, and communal spaces; and 3) residential (including accessible homeownership and mixed-income approaches that include market-rate homes and the middle-income repopulation of urban cores). Indeed, the market reality in many of these neighborhoods is that it is only where strong economic development occurs that substantial private investment can be attracted and deployed alongside public investments. And, attracting private investment to a community's economic and industrial base is a critical component in driving home (and community) value appreciation. In other words, a wealth-building approach to accessible homeownership in certain markets depends on the intentional district economic redevelopment that can drive growth of community value – community equity.

Our plan envisions a district boundary being defined locally, whether as a neighborhood, a census tract, or something influenced by informal local boundaries. Locally designated districts might target existing neighborhoods that private development often bypasses, or continue an economic redevelopment effort that includes more than one parcel or tract. The size of specific economic development districts would follow neighborhood lines, and therefore vary from place to place, as neighborhoods are not a uniformly recognized federal designation.[26]

Districts as a Federal-to-Neighborhood Nexus to Anchor Homeownership and Other Build Back Better Investments

We envision plank one of our three-part plan, especially as it pertains to older industrial cities, as enabling aprioritization of the award of federal homeownership financing (including both the at-scale development financing described in our policy recommendations and direct homeowner assistance via down payment or other homebuyer assistance tools) to those communities simultaneously engaged in district economic development. In the ideal world, given the whole-neighborhood orientation of a district economic redevelopment effort, the district could serve as a key place-based distributional anchor for (or at least additional award "points" enabling the braiding of) multiple streams of federal economic revitalization investments and products that are spread across multiple agencies for infrastructure: land development, environmental remediation, economic development, transit, energy, and homeownership access. Often the neighborhoods this paper focuses on are tragically bifurcated by federal highways, suffer from

25. Our inclusive definition of sustainable infrastructure also includes sustainable water (including storm water mitigation), energy, and waste infrastructure, transit-oriented building infrastructure and removal of transit barriers, and digital infrastructure.
26. Note, however, that to generate sufficient community equity using a TIF, described in Plank 2, the TIF's district boundary must include both the homeownership effort described in Plank 3 and the economic redevelopment efforts described in this first plank, even if there is not geographic contiguity.

dilapidated or nonexistent public infrastructure, and have vacant or blighted built environments. The crucial unifying factor, however, is that coherent neighborhood economic redevelopment districts should be a strong precondition to a homeownership initiative (especially in an older industrial community) and could be prioritized in a place-based approach to streamlined and braided federal funding (for example, from HUD, EPA, Transportation, Energy, and EDA) to accomplish the Administration's response to these longstanding issues afflicting older industrial communities.

District Economic Redevelopment enables Homeownership

There is both a distributional and a program design component to the district-focused economic redevelopment plank of our plan. District economic redevelopment aims to unify three discrete goals with one tool. It is a unique mechanism that can turn around the physical geography of formerly blighted places, but more fundamentally, it can create long-term virtuous cycles of growth coming from federal investments. Specifically, if a district economic redevelopment approach is carried out, it can:

1. **Boost residents' belief in the viability of homeownership in their neighborhood as a wealth building strategy**. The parallel economic development activities (in or adjacent to the district) are critical to proving the economic buoyancy of this district from an underwriting and re-valuation perspective in older communities too frequently characterized by low-dollar home appraisals. This can renew a belief in homeownership as a way to safely rebuild equity among families who have lost, or never accessed, homeownership.
2. **Integrate business attraction and growth of industry clusters with a homeownership and asset-building residential strategy**. Doing this well will realize the full ambition of federal urban policy, enmeshing federal housing strategies with place-based economic investments.
3. **Anchor and coordinate public (local, state and federal) funding for economic development around a holistic, place-based, whole-district focus**. If fully implemented, this whole-neighborhood geographic approach (as opposed to a project-by-project ad hoc approach) can have a powerful impact in turning around formerly blighted places.

If done well, this district approach alongside community equity (plank two, described below) would drive cyclical investments and build markets. It would support significant economic development investment in real estate, workforce and operating businesses occurring in, or adjacent to, neighborhoods, while also raising values and increasing homeownership and wealth-building opportunities.

Plank Two: District Shared Benefit Through Community Equity

The lynchpin of our approach is the community equity share: a financial manifestation of the idea that the wealth created through an economic redevelopment investment should be shared among all the community residents, whether owners or renters, long-time residents, or workers repopulating the urban core. This shared wealth -- "community equity" -- uniquely aligns the benefits of value appreciation in disinvested neighborhoods. In doing this, it also aligns the economic incentives of homeowners and renters in low-income neighborhoods so they both benefit ––and have a shared participation in–– the value appreciation of the neighborhood. Effectively, this recycles the returns typically afforded to, and exported by, private investors back in to broad-based prosperity. A community equity approach can also attract homebuyer-eligible families to stay in and stabilize the neighborhood, rather than move away. Finally, shared wealth can be used to provide added security to new homeowners, and to the financial institutions that provide them with mortgage loans.

How the Community Equity Share is defined and financed

The community's economic growth – its community equity – comprises shared wealth that would be distributed to residents in the form of an equity "share" in the underlying and growing value of the entire district parcel, akin to a security interest in the whole neighborhood's real property. The security would be crafted as an (ultimately liquid) "pledge" of tax increment that grows as the value of this neighborhood increases over time. As value increases, all the community's residents would be able to capture that value and use it toward building their own wealth and liquidity –– giving them a direct economic stake in neighborhood development and reducing the risk of unmitigated displacement.

At its most basic, the community equity share could be funded through a common tool of city redevelopment: Tax Increment Financing (TIF).[27] TIFs operate in designated areas ––districts–– whereby tax rates over a period of time are split into a base rate (calculated at the time of

27. While this paper is oriented toward federal reforms in support of a pathway to equity, these concepts rest on community equity, which depends, in part, on the availability of tax increment financing (TIF), a product of state law.

designation) and the tax increment (additional revenues collected from the appreciated property value); as the name suggests, the increment is used to pay for real estate, infrastructure development, and community benefits in the district. The community equity share would operate through this mechanism, where a portion of the increment generated by appreciation is used to pay for the equity share to community residents; this "value" would come out of a portion that would be allocated to the developer to support community benefit objectives. It might also be financed via dedication of another tax source, such as sales taxes, or, as we describe in the policy recommendations at the end of this paper, via a set-aside of the returns from tax incentivized or other publicly subsidized but privately financed development.

Liquidity of the Community Equity Share

The community equity share will be treated as a "restricted share." That is, it would become available to shareholders after a certain period (e.g., after the district as a whole reaches a 20% increase in value). Participants in the accessible homeownership program are incentivized to remain in the home over the long-term, contributing to neighborhood stabilization through long-term occupancy, and building wealth as a result not only of homeownership but by living in an inclusive wealth-building community. Note that community equity as part of a lease-purchase program (the third piece of our framework) is particularly appealing because the share can gain value during the leasing period so it becomes available to the lessee as soon as the lessee converts from renter to homeowner.

Community equity benefits undergird each of the other two elements of our framework. Community equity strengthens the district approach to economic redevelopment, by creating long-term and stable stakeholders (now shareholders) in the community's economic reinvestment. Community equityalso supports the accessible homeownership program, by serving as a source to defray the homebuyer's purchase (see Plank 3, below).

Plank Three: Building Equity and Homeownership Access through Lease-Purchase

The third plank in our plan to grow homeownership and community wealth in economic redevelopment districts is the scaled development of a market-specific accessible homeownership program. This program is designed to transition moderate- and middle-income existing residents to a place where homeownership is not a large financial risk, and is, in fact, a pathway to building wealth.[28]

Our preference, especially for housing markets in older industrial cities with relatively lower cost home sales prices, is a lease purchase model. As described below, the lease-purchase model uniquely benefits from our community equity share approach.

Access to low-cost development capital and capital markets standardization

Lease purchase has struggled to get off the ground at scale. In part, this is due to financing structural impediments, and in part due to program design flaws in the past. The Terner Center for Housing Innovation introduces some of these structural impediments ––confronting both business and nonprofit lease-purchase approaches –– in its pivotal 2017 lease purchase white paper.[29] The Center notes that, on one hand, nonprofits lack development subsidy for the acquisition and renovation of properties at scale,[30] while simultaneously lacking the risk- and asset-management capacities to hold properties at scale during the lease period.[31] On the other side, for-profit enterprises exploring the lease-purchase business model are typically financed in the venture capital marketplaces, with required ROIs that thwart affordability and lower conversion rates.[32]

These programmatic challenges faced by entities seeking to operationalize lease-purchase arise from federal program and operations design. Namely, they arise from federal silos that exist within public and quasi-public housing finance enterprises. In particular, FHA and GSE credit enhancement models that make low-cost development capital available are bucketed into either of single-family or multifamily capital silos (neither of which directly serves the lease-purchase model). Given the GSE significance to private capital markets, these silos are replicated in private institutional lending marketplaces.

The lease-purchase model for single family homes does not currently fit into federal financing sources with ease. The lease-purchase approach begins with a singular (multifamily) borrower financing a scattered site "multifamily" rental development effort which then gets converted en-masse to multiple individual single-family

28. Note that we distinguish "accessible" homeownership from "affordable" homeownership. The legacy of racism has created all sorts of impediments to homeownership for families of color beyond mere affordability, as described in our section on secondary redlining, including a lack of savings for a down payment, small balance loan issues, appraisal gaps, and credit impediments often arising from disproportionate impact in the Great Recession and Pandemic. A federal restorative justice prioritization of accessible homeownership targeted to families of color who are low-, moderate-, and middle-income is called for.

29. Carol Galante, Carolina Reid, and Rocio Sanchez-Moyano, "Expanding Access to Homeownership through Lease-Purchase: A Report Commissioned by the J. Ronald Terwilliger Foundation for Housing America's Families," UC Berkeley Terner Center for Housing Innovation, January 2017.

30. Galante, Reid, and Sanchez-Moyano, p. 13.

31. Galante, Reid, and Sanchez-Moyano, p. 9, 15. In addition to the complexities of managing a geographically dispersed single-family scattered site rental program, lease-purchase sponsors would need to "have significant financial capacity to take on debt, including risk sharing."

32. Galante, Reid, and Sanchez-Moyano, p. 13.

homes collateralized by single-family mortgage products.

This hybrid rent-to-own model does not have a designated federal financing or insurance authority. The upshot of these dynamics is that homeownership in older industrial cities and other relatively low-cost markets, where a lease-purchase approach makes sense, is adversely affected.

Two exceptions to this impediment in federal housing finance policy include a small FHA lease purchase authority under the pivotal single-family mortgage rehab product (203(k)), and a prior Freddie Mac assumed mortgage instrument that is no longer offered.[33] Our understanding is that the 203(k) product allows only nonprofits to offer homes with a lease-purchase structure, with a program maximum of only seven (7) single family homes.[34] An at-scale program may be able to take advantage of other existing FHA risk-sharing authorities, as proposed previously as a source for hybrid-tenure options enabling neighborhood stabilization.[35] But, to our knowledge, these models have not been operationalized.

33. The Terner paper reminds us that Freddie Mac had an assumable mortgage lease-purchase product, that was terminated in the mid-2000s. Galante, Reid, and Sanchez-Moyano, p. 14.
34. John O'Callaghan and Paul Weech, "Policy Lessons from Neighborhood Stabilization," Community Development Investment Review, 9(2): 11-12, 2013.
35. O'Callaghan and Weech, p. 12.

The third plank of our policy framework echoes the Terner Center's call for the creation of a high loan-to-value financing product suitable for a lease-purchase at-scale program, available to high capacity nonprofits, governments, and private entities for the purpose of accessible homeownership. We believe this would restore wealth and assets to families and communities of color as a central component of our larger vision for Community Equity Districts. Ultimately, the design of this product turns on its viability as both a large-scale development financing mechanism and its ability to enable the conversion from the single mortgage/single borrower (developer of a scattered site rental development) to the multiples of borrowers and multiple mortgages supporting the home purchases of participants, as described below. It also turns on the capacity of the program sponsor, including financial, asset management, and risk management capacities.

Program Design

The details of program design features are of central importance. If poorly designed (for example, with high annual sales price increases or interest rate escalators), lease-purchase programs could impede a participant's access to ownership, thwarting the whole premise of a seamless runway to home purchase eligibility and program effectiveness.

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Lease Conversion and Mortgage Design

The success of our lease purchase program's *accessibility and affordability* turns on how effectively the program can lock in lower home prices at the commencement of the leasing period.

Our understanding is that assumed mortgages enable a seasoning of the lessor's mortgage prior to the lease-purchase conversion, and (as described above) function as low-cost financing for the lessor/developer (to the extent that the mortgage might be an aggregated FHA or other GSE product), both reducing the costs of conversion for a target market of families with impediments to homeownership. The Terner Center calls for an FHA product, in part because its mortgage assumption feature already exists. In our eyes, the central factor that will resolve the question of mortgage assumption versus issuance in program design is whichever structure, including capital market financing instrument, allows the program to offer a homeowner a mortgage product that can best capitalize on low home prices and mortgage rates for participating borrowers.

Lease Term and Community Equity

This lease purchase program would have a 2-5[36] year lease structure before the home purchase. We think that this runway to home purchase is sufficient to improve the buyer's ability to qualify for a mortgage, but not too long to disincentivize or disqualify homeownership. In particular, during the 24 to 60 months of the lease, the lessee would have sufficient time to improve homebuyer qualification, by undertaking actions considered standard in lease-purchase approaches, including:

- Improving credit;
- Demonstrating consistent income stability;
- Using consistent rent and utility payments to improve credit;
- Participating in homeownership counseling, often a precondition to mortgage origination; and
- Accumulating savings for a down payment, including through participation in a matched savings account.

However, the unique aspect of our approach to the lease term ––and the reason we'd extend it out for up to five years–– is the timing of the community equity valuation. Our proposal for utilizing a participant's community equity share (despite the liquidity timing restriction) impacts this design in two ways. First, as the share appreciates during the term of the lease, the value of the community equity may be counted toward, or potentially liquidated to fund, the homebuyer's down payment. Second, to the extent that the community equity serves as a kind of proof of upwardly rising neighborhood value, the equity may be pledged (as a kind of programmatic collateral) to the mortgage lending partner or secondary market partner to overcome any other marketplace impediment to underwriting the conversion to homeownership. And, once the value appreciates sufficiently – for example, by 20 percent – the pledge may be released, and the equity becomes available without constraint to the homeowner.

36. Our goal is to enable homeownership as soon as practicable. Most sources indicate that credit repair and homeownership education can be completed in approximately two years. However, as discussed in Plank 2, the community equity share will become more valuable with more time, though even five years may be too soon for accumulated growth sufficient for a down-payment.

The Lease-Purchase Design uniquely solves market barriers.

The Community Equity District lease-purchase program we propose uniquely addresses barriers and the needs of homebuyers in certain lower-cost communities simultaneously undertaking greater economic reinvestments and transformational efforts.

For the Lease-Purchase Participant, the approach:

- **Creates a path to real equity**, rather than a perpetual rental strategy typically offered to families residing in low-income census tracts. By creating an accessible pathway to a home mortgage, the lease-purchase program promotes wealth-building.
- **Offers a short-term, realistic pathway to clearing credit** and down payment impediments.[37]
- **Bridges the trust gap** among long-time residents, by offering a relatively short-term window during which to witness neighborhood reinvestment, rebuilding, and community value appreciation before requiring the home purchase transaction.
- **Benefits from a share of community wealth deployable in the home purchase transaction**, which can be used toward a down-payment if needed.
- **Offers a standard mortgage product upon conversion**: Offering competitive interest rates, fair terms, and a standard mortgage product, preconditions to resident participation and building trust that this program is structured fairly and is not built like predatory rent-to-own programs that have been prevalent in older industrial cities in the past. [38]

37. Bond, Casey, "How long does it take to build credit," US News & World Report, 12/26/19. As an example, a credit score of 500 can be repaired in 12-18 months.
38. Detroit residents, for example, have suffered from predatory rent-to-own programs that were never really designed to enable homeownership safely and affordably. Some of these contracts required upwards of 10 percent in interest payments. Breana Noble, "Detroit's Mortgages return to pre-recession levels, still face obstacles" Detroit News, 2/14/2019.

- **Retains 100 percent of home equity**: Ensuring that the buyer, in exchange for meeting the minimal leasing requirements gets to retain 100 percent of the buyer's home equity. This is a critical feature of a lease-purchase (vs. shared equity) homeownership program, especially as it deploys in low-cost markets, and after navigating a 2-5 year leasing "down payment" of time.

For the District, the approach:

- **Streamlines availability of public resources for development and rehabilitation of single family homes for low- and moderate-income families**.
- **Staves off the exodus of a newly homeownership-eligible population, by creating financial incentives - to stay in place and convert to homeownership (rather than move).** Likewise, it creates new incentives for repopulation by nearby populations – such as university graduates with new job opportunities in the city's downtown -- looking for high quality homes at affordable prices.
- **Creates a stake in the community's appreciation, aligning long-term residency with long-term neighborhood reinvestment**: by using community equity that entitles owners to a share in the entire neighborhood's appreciation over time.
- **Innovatively deploys community equity in support of a mortgage capital partner**, by collateralizing a portion of community equity.
- **Enables a "side-stepping" of an appraisal gap.**[39] The availability of subsidy to renovate these homes (resulting from the large scale district-level redevelopment) enables pricing below actual renovated cost of these homes that could sidestep an appraisal gap.

39. Note that another strategy to side-step the appraisal gap could be to offer a rehab loan to an owner up to a certain amount over the appraisal level. Indeed, that is the strategy of Detroit Home Mortgage, which offers a $75,000 soft second rehab loan (at 5%) to buyers who seek to renovate on top of home value. It also offers the same loan to buyers of already renovated homes. This program is centralized by CRF, a CDFI, with 7 participating mortgage lenders.

Credit: Pixabay/CCO Public Domain

- **May offer a solution to the low-dollar mortgage problem.** The aggregation of hundreds of units of single family homes within a district economic redevelopment effort (and lease purchase program) could be sufficiently sizeable to enable a partnership with a lender, CDFI, or GSE to overcome any small-dollar loan problem.

A note on displacement risk

We understand that the terms "value appreciation" arising from private investment and "neighborhood transformation and re-valuation" may raise concerns about displacement risk. We agree that rapidly increasing the real estate value of a neighborhood without additional measures to increase residents' direct benefit from these changes raises risks of displacement. That is why we view the other two planks of our plan as necessary. Together, they: (1) provide clear pathways into accessible resident homeownership through lease-purchase, this will enable residents to benefit from 100 percent of their home value appreciation, and; (2) provide a model for distributing the "community equity" of the whole neighborhood (including residential and commercial assets) to its residents as values go up, with payout defined at a certain point of appreciation from a baseline (e.g., 20%), putting unrestricted passive income into the pockets of neighborhood residents.

As such, our proposal recommends pursuit of all three strategies in coordination ––not in isolation–– to realize the full benefits for communities. The harsh alternative in these neighborhoods is the status quo: piecemeal economic development or housing projects that do not fundamentally alter the trajectory of neighborhoods or adequately create broad incentives for community value capture.

POLICY IMPLICATIONS FOR A COMMUNITY EQUITY DISTRICT AND ACCESSIBLE LEASE-PURCHASE HOMEOWNERSHIP APPROACH

The federal legacy: redlining, exclusion, equity loss

Racial equity and inclusion demand that we look at the array of federal community and economic development programs with a different lens: that we ask whether our delivery of federal resources not only be accomplished in a way that is non-discriminatory, but whether the outcomes we seek are equitable. The legacy systems we are seeking to address have not yet advanced equity; indeed, the Black/white homeownership gap is larger today than it was in the 1960s.

The Federal Housing Administration was the first national foray into housing finance. It was created in the 1930s to enable homeownership among a new middle class and its early days juxtaposed a novel 30-year mortgage that enabled middle class homeownership with the redlining of Black potential homebuyers, which together concentrated wealth among white households. As more recently understood, FHA also is responsible for the concentration of predominantly white subdivisions and the literal removal of wealth building opportunities from families who live in industrial cities and communities of color.[40]

At the opposite extreme, the federal government offers a wealth-building mortgage interest deduction. This is the primary housing subsidy in America, at approximately $60 billion a year through 2015, and is offered to an ever-smaller concentration of mostly-white and wealthy homeowners. At the other extreme, Congress, HUD, and banking regulators (via the Community Reinvestment Act) have shifted over time toward the appropriation of rental assistance funding and financing for lower income tenants, and away from affordable, accessible homeownership and equitable community wealth-building through homeownership for low- and moderate-income families.

In addition to the design and usage of legacy home finance programs, the failure to support equity for communities of color emerges from the fragmentation of federal programs. The development of fragmented siloes of funding and approaches comprise an unnecessary abdication of responsibility in the transformation of whole-neighborhoods into thriving places to live and to work.

Against this backdrop, we recommend that the federal government create an integrated, synergistic approach to reducing the racial wealth gap by refocusing on equity-building: on homeownership through scaled mortgage innovation and gap assistance, on whole community wealth-building through district economic redevelopment and community equity, and on coordinating accessible homeownership financing with the more streamlined delivery of urban economic development programs.

40. Richard Rothstein, The Color of Law: A forgotten history of how our government segregated America, Liveright Publishing Corp, 2017; 59-75.

Biden Administration Priorities

We applaud the Biden Administration's early actions supporting homeownership, beginning with their commitment to ownership, articulated on June 1, 2021, and continuing throughout the past 4 months, including:

- ✓ The Administration's June announcement of New Actions to Build Black Wealth and Narrow the Racial Wealth Gap, including a focus on homeownership, ending discrimination in the home purchase marketplace, and the creation of a community revitalization fund.[41]
- ✓ Launch of interagency task force on Property Appraisals and Valuation Equity (PAVE).[42]
- ✓ An interagency effort committing to 100,000 new affordable homes, making more single family homes available to individuals, families, and nonprofits, and researching zoning reforms. [43]

We're also quite hopeful that Congress will continue to pass the Administration's landmark once-in-a-generation series of federal investments that began with the $1 billion bipartisan federal Infrastructure bill. But to get to community transformation and meaningful community wealth-building that redress racial wealth inequality by boosting Black and other minority homeownership, Congress and the Administration must go farther.

Our Community Equity District Policy Proposals:

Our federal policy proposals focus on the following policy reforms, many of which can be implemented without legislation.

Broadening and streamlining federal authorities for an at-scale accessible lease-purchase homeownership alongside transformational district economic redevelopment

Authorizing the administration of Community Equity shares as an eligible use of several federal financing authorities.

Streamlining mortgage products suited to lease purchase approach (and conversion to) homeownership.

Creating a delivery priority mechanism for Community Equity Districts

Focusing ARPA discretionary funding on discrete strategies for community wealth-building and community equity.

Broadening and streamlining federal authorities for at-scale accessible homeownership lease-purchase approach as part of a transformational district economic redevelopment

We recommend a set of reforms that would broaden and streamline federal authorities in support of the scaled development (including acquisition and renovation) of accessible homeownership, in particular using a lease-purchase model alongside a District Economic Development approach.

- **Transformational Neighborhood Redevelopment funding to remove barriers and build wealth**: We encourage enactment of flexible community transformation funding, such as the Biden Administration's proposed Community Revitalization Fund (HUD) and the proposed Reconnect Communities and Thriving Communities funds (Department of Transportation) to remove barriers to neighborhood connectivity and to invest in community assets, equity, and wealth-building. In addition to a streamlined multi-agency delivery vehicle described below, flexible tools for aggregated land assembly, acquisition, renovation, environmental remediation, and infrastructure should be made available to support the district economic redevelopment approach and this pathway to homeownership.

- **Create or streamline an FHA or GSE capital source like 203(k) for the scaled acquisition, development, and renovation of single family homes for an at-scale lease-purchase program**. Using existing 203(k) or other possible FHA authorities would offer high LTV financing that could rival or better the costs of private debt or equity financing otherwise available, enhancing affordability of lease-purchase models and streamlining functionality. Ideally, this source could cut across the boundaries impenetrably dividing single family and multifamily financing authorities, and enable the ultimate conversion to a standard single family mortgage.

- **Broaden FHA's existing lease purchase authority** to be used for an at-scale effort that includes significantly more than 7 units.

- **Enact the Neighborhood Homes Investment Act (HR 3316)[44] with lease purchase eligibility**: expanding eligible uses in this critical tax incentive for single family homeownership to include the financing of single family homes in an affordable

41. FACT SHEET: Biden-Harris Administration Announces New Actions to Build Black Wealth and Narrow the Racial Wealth Gap
42. Readout of the First Interagency Task Force Meeting on Property Appraisal and Valuation Equity (PAVE), August 5, 2021.
43. White House FACT SHEET: Biden-Harris Administration Announces Immediate Steps to Increase Affordable Housing Supply, 9/1/2021.

44. https://neighborhoodhomesinvestmentact.org/proposal

lease-purchase homeownership program.[45]

- **Broaden eligibility for sponsorship of a lease-purchase program to include nonprofits, local governments, or private entities with high capacity**, as long as the program meets standards of accessibility, affordability, equity, and high capacity (including financial, development, leasing management, and homebuyer readiness) .

- **Encourage the deployment of community development block grant (CDBG) and Choice Neighborhood funds** in support of lease-purchase homeownership programs, district economic redevelopment, and community equity program administration where deployed as a key component of neighborhood transformation efforts.

Community equity as a key component of federal neighborhood transformation efforts:

- **Authorize and encourage the incorporation of community equity share structures into federally financed transformational development** efforts enabling residents and small business owners to share in the upside of large-scale redevelopment activity, whether financed by DOT, HUD, Treasury (for OZ and NMTC), EPA, or EDA.

- **Authorize administration of a community equity share mechanism**, or a pilot program, as an eligible use.

- **Incentivize enabling state legislation for TIFs created to support transformational District Economic Redevelopment** *that specifically includes an accessible single-family homeownership initiative with a community equity feature.* Our understanding is that most State TIFS do not support homeownership (particularly detached single family redevelopment), even in older industrial communities. Flexible federal funding allocations to states could match, extend the timeline, or otherwise defray, the costs of state TIFs established to support homeownership as a community wealth-building strategy.

Mortgage Product innovations and improvements

- **Create an FHA or GSE assumed or other mortgage product tailored to a lease-purchase program.**[46] While FHA already permits an assumed mortgage, the GSEs do not. Aside from the development financing potential of a scaled FHA lease-purchase financing tool, we think that there should be a specific mortgage product that best permits a lock-in of low rates and lower home prices enabling lease-purchase to succeed.

- **Create an FHA small dollar mortgage product**. At a minimum, Congress should enact HR 1532, the FHA Support for Small Dollar Mortgages Act of 2021, sponsored by Congresswoman Rashida Tlaib, which requires FHA to produce a study of impediments to small dollar loans and recommended solutions.[47] We'd go even farther, requiring FHA to immediately establish an FHA small-dollar loan product, for certain areas, including lower-cost communities. A demonstration version of this launched recently in Louisville, KY and Southern Indiana.[48] Cleveland Housing Network recently created a Community Development Financial Institution for this purpose.[49]

- **Broaden the Duty to serve to support lease-purchase capital tools**. GSE regulators oversee the GSE compliance with affordable housing goals and with a "duty to serve" underserved populations and communities. While a lease purchase program akin to the one we are proposing fits within broadly existing duties to promote single family home renovations, it is not explicitly prioritized in the way that shared equity models are. We think that the Duty to Serve should be expanded to focus on lease-purchase innovations, and especially those safely tailored to stabilize lower-cost markets or older industrial communities in concert with other transformational neighborhood revitalization efforts.

District Development Authorities and Delivery Mechanism

- **Streamline the delivery of multiple federal funding sources and products to cities that opt to take a Community Equity District approach to economic redevelopment and accessible homeownership**. Success in district economic development with an enmeshed homeownership initiative depends on a coordinated effort, within a neighborhood, to weave infrastructure activities (roads, energy grids, transit and removal of transportation barriers, environmental remediation) with community wealth-building and neighborhood uplift (homeownership, business development, and

45. This proposal would create a public/private financing partnership to support the rehabilitation and purchase of owned homes in distressed areas by working families up to 140 percent of the Area Median Income, estimated to support over 500,000 homes.
46. Note that this proposal is similar to what we have stated above, but if there is no scaled financing for development permitted under the FHA authorities, we at least seek an assumed or other product that can best facilitate the home purchase upon conversion from a leasing status.
47. This House bill was introduced by Rep Rashida Tlaib, D-MI.
48. Allana McCargo, Linna Zhu, Sarah Strochak, and Rita Ballasteros, "Micromortgage Marketplace Demonstration Project," Urban Institute, December 2020. The Demonstration project recommends a federal credit enhancement entity to encourage CDFIs and other lenders to ramp up small-dollar mortgages.
49. CHN's new CDFI offers a "Believe Mortgage" for small dollar mortgages in certain OH counties. https://chnhousingcapital.org/believe/

community development). A holistic, coordinated approach would currently require an applicant to submit multiple applications to multiple agencies for multiple financing vehicles with competing timeframes and silo-ed objectives. We support, instead, the development of a flexible, coordinated approach to a novel, integrated district economic redevelopment with community wealth-building as its objective. This integration could take the shape of any of the following: a new delivery mechanism, an intentional system of blending similar to the Obama Administration's Strong Cities, Strong Communities initiative at a larger scale, or deployment of additional selection criteria/award points (in each federal funding NOFO) for infrastructure and homeownership/community wealth-building funding where there is a proposal to implement this 3-pronged Community Equity District approach. We envision such an approach applying to programs and financing products from HUD, EPA, Transportation, Energy, and EDA.

ARPA Discretionary Funding to Transform communities with disproportionate Covid Impact.

For those hardest-hit communities whose residents suffered disproportionately from health and economic consequences from the COVID-19 pandemic, we recommend the deployment of ARPA funds ––and specifically the Treasury Department's State and Local Fiscal Relief Funds, allocated to states, counties and cities–– to support Community Equity Districts, including the following eligible uses:

- Funding or financing for acquiring and assembling land for district economic redevelopment with community equity and accessible homeownership.
- Funding to support state TIF deployment for whole-neighborhood district development with a for single family accessible homeownership approach, especially in lower cost markets.
- Funding to support an accessible lease-purchase homeownership program.
- Funding to support the administration of a community equity share program.

CONCLUSION

After a year of a pandemic, economic crisis, and a renewed and critical focus on racial equity -- and on the precipice of a once-in-a-generation federal investment in infrastructure and social and climate change -- we have an unparalleled opportunity to rebuild equitable, thriving cities that offer families homes, jobs, and a stake in community wealth. This asset-building approach must have as its goal the building of equity through ownership for communities and families of color, and particularly for Black families who have suffered disproportionately from the economic consequences of decades of redlining and its legacy. And, the solution for families and communities is one and the same: growing sustainable community equity that can give rise to homeownership and shared wealth.

Today, the federal government is called upon to extend, modify, and reprioritize resources that can weave together into a Community Equity District each of the following: 1) a District economic redevelopment that undertakes the interdisciplinary and transformational revitalization of whole neighborhoods; 2) the creation of a neighborhood "security" – a Community Equity Share – provided to all residents so that as values rise in this neighborhood, residents join in the upside; and 3) a scaled accessible lease-purchase homeownership approach, especially suited to lower-cost and older industrial community markets. While each of these three components can exist on their own, the deliberate joinder of these components is what we believe builds thriving communities and community wealth.

ABOUT THE AUTHORS

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APPENDIX

LEASE-PURCHASE DESIGN CONSIDERATIONS

Program Design Questions

Administering a lease-purchase program depends on many program details and alternatives that we are still exploring. Some of these design features will depend on the program's capital source/financing mechanism for development and rehab, described above. Some of the program design features we will consider and finalize include:

- Converting the lease to a mortgage through an assumed mortgage, a newly issued mortgage, or some other alternative.
- Lease Term Length.
- Housing options and community equity options for lessees who, for a variety of reasons, do not or cannot convert to homeowner status.
- Participant Eligibility.
- Rent and mortgage payment setting.
- Home Sale Pricing Setting.
- Down payment alternatives to community equity liquidity if conversion takes place before the liquidity event.
- Preconditions to conversion to homeownership.
- Buyer credits for: capital improvements and other relevant contributions
- Choice of homebuyer counseling.

Program Administration Recommended Capacities

To facilitate the programmatic scale we envision, the program administrator – whether public, private, or non-profit, must possess high level capacities to accomplish, or partnering for the execution of, each of the following:

- Purchasing single-family homes in the aggregate and quickly.
- Constructing or renovating scattered site single-family homes at scale.
- Possessing significant financial capabilities and access to low-cost capital.
- Risk-management capacities, including abilities to hold properties during the lease period with an 2-5 year conversion period.
- Managing a complex scattered site leasing/rental program and ongoing capital improvements.
- Negotiating and executing assumable or ordinary purchase mortgages to the lessee within 2-5 years.
- Homebuyer pre- and post-purchase counseling (or partnering).

Community Equity Design Considerations

There are several design questions that must be addressed before the full operationalization of community equity shares mechanism. Each has a central importance to the schedule of benefits (and costs) for the program. We expect to release an updated paper on community equity as we get closer to operational decisions. Design considerations include:

- District resident eligibility to participate in community equity.
- Community equity share allocation structure and pricing.
- Community equity share liquidity timing and operational structures.
- Community equity liquidity exceptions and forfeiture.
- Community equity administration and securitization structure.