

Executive Summary

AN EXAMINATION OF THE PUBLIC POLICY IMPACTS OF NEHEMIAH'S DOWN PAYMENT ASSISTANCE PROGRAM

It is a long-held belief that owning a home is a symbol of and testament to the American Dream. Nationally, over 115,000 primarily low-to moderate-income households (approximately 70% of Nehemiah's total DAP portfolio) saw their home equity rise by an aggregate total of over \$2 billion between 1997-2003—an average of more than \$18,000 per household over the past six years. While some of the social and economic benefits of owner-occupant housing have been documented, a more specific measure of the benefits of effective market-driven approaches has not been emphasized. This study is one of the few large-scale studies of its kind, and one of the first efforts to investigate wealth accumulation by Nehemiah Corporation Down Payment Assistance Program (DAP) recipients as well as DAP's impact on government finance. We found:

- The positive fiscal impacts created by Nehemiah DAP recipients are in the hundreds of millions of dollars;
- The gift of financial capital in the form of down payment assistance has catalyzed the creation of three types of capital essential to any society—economic, social and cultural—for a very modest median amount of \$3,957 per beneficiary. These benefits extend to city, county and state governments by directly increasing revenues to those entities.
- The down payment assistance program helps bridge the “affordability gap” among low- to moderate-income households who otherwise would not be able to own a home.

In the study, we also presented new evidence that supports and extends standard conclusions drawn from research on homeownership in underserved markets. Beyond our findings that homeownership confers socioeconomic benefits to homeowners and to the community, our study explored two additional roles of the Nehemiah DAP:

- This analysis was undertaken to deeply probe the role and the impact of enhanced homeownership rates, and their substantial growth in market value, on local government revenues. We also examined how the down payment assistance program influenced recent minority housing trends, and whether this new class of low- to moderate-income homeowners broadened the local tax base, thereby reducing fiscal constraints faced by many local governments during economic downturns. Our analysis laid the groundwork for an examination of the powerful fiscal implications and economic ramifications of Nehemiah DAP households on local government revenues.

- In the study, we also focused on another important issue regarding homeownership as a vehicle for asset accumulation: timing. The Nehemiah DAP enabled households with financial constraints to purchase a home sooner than they otherwise would have been able to without this financial gift. In an environment of rising house prices, our study revealed that the sooner these households were able to buy a home, the greater the capital gains the households captured. Equally important were our findings on equity gains among Nehemiah DAP households with regard to how the down payment assistance program is shaping overall racial/ethnic homeownership rate trends.

To address these issues and identify the implications of those trends, our empirical and statistical analyses captured Nehemiah DAP recipients who purchased their homes between 1997 and 2004 in six regions: Atlanta MSA, Baltimore PMSA, Columbus MSA, Philadelphia PMSA, Sacramento PMSA and St. Louis MSA. These six markets (57 counties) are part of the portfolio that Nehemiah serves in the country. The Milken Institute selected these regions as a representation of current U.S regional employment and housing characteristics. The entire portfolio of these six regions on which we ran our statistical analysis consists of 36,240 primarily low- to moderate-income households. The availability of this proprietary data coupled with statistics, such as datasets from Federal agencies, and our overall research approach led to our finding that Nehemiah DAP beneficiaries and the communities in which they live benefit in three distinct, yet interconnected ways—economically, socially and culturally.

Fiscal Impacts on Local Government Revenues

Local governments in all six regions collected more than \$287 million in property tax revenues over the past eight years.

Our analysis demonstrates the importance of the Nehemiah DAP as a way to subsidize and expand county tax bases. With federal and state budgets in the red, many local authorities increasingly rely on residential property tax revenues to support essential local services and balance their budgets. One solution to the fiscal dilemma of local governments can be seen in the increase of revenues from transfer and title fees, and increased tax receipts from new owner occupants.

The most important finding in our statistical attempt to quantify the amount of property tax revenues paid by the 36,240 Nehemiah DAP recipients from fiscal year (FY) 1997-1998 through FY 2004-2005 was that a substantial portion of local tax revenues derived from the large amount of property taxes paid by Nehemiah DAP recipients. Local governments of all six regions collected more than \$287 million in property tax revenues over the past eight years (including the projected amount for FY 2004-2005). This analysis suggests that these property tax revenues are useful in helping local governments adequately fund service delivery policies such as education, and consist of taxes that would not have been paid had many of the Nehemiah DAP recipients remained renters under the prevailing lending standards. Removing these new homeowners from the local tax base, *ceteris paribus*, would subtract a substantial amount of property tax revenues from local governments.

House Price Appreciation Among Nehemiah DAP Recipients

Household wealth in 57 counties grew almost uninterrupted since 1997; minority homeownership growth among Nehemiah DAP recipients accelerated substantially between 1997 and 2004.

Our study verifies that the ability to accumulate home equity is essential to the well-being of low- to moderate-income households. Nehemiah DAP beneficiaries view their housing equity as a source of liquidity and as a means of smoothing fluctuations in income. The surge in housing prices over the past years created additional wealth for Nehemiah DAP recipients. Overall data show a striking pattern of growth in home equity. Although house price appreciation varied with location and the year of purchase, we found that household wealth in the 57 observed counties grew almost uninterrupted since 1997. Perhaps even more important, intensive examination of the results revealed that wealth in the form of home equity is evenly distributed among the different races and ethnicities studied. Minority homeownership growth among Nehemiah DAP recipients accelerated substantially between 1997 and 2004.

Market timing of purchases proved to be essential to the returns realized by Nehemiah DAP recipients and worked to the advantage of most of them. Home prices of existing and new single family homes rose in all six major regions over the past decade. In such a tight housing market, the benefits of homeownership, particularly to low-income families, are very pronounced. Nehemiah owner-occupants whose property appreciated over the past years accumulated wealth in the form of home equity. On the other hand, without the financial aid of the Nehemiah DAP these households would still be renting and therefore, instead of accumulating wealth, would have been economically worse off by allocating more disposable income towards rising rents. Our analysis concludes that the timing of transition to homeownership is critical to housing dynamics, with interest rates influencing mortgage payments as a percentage of household income. Most Nehemiah DAP respondents to our survey confirmed that they were able, due to their accelerated opportunity for homeownership, to take advantage of historically low interest rates.

The vast majority of down payment assistance recipients were also able to rebalance their portfolios toward lower-cost mortgage debt through refinancing. Moreover, the wave of mortgage refinancing undertaken by Nehemiah DAP recipients, who were renters in the past, gave a boost to effective purchasing power and household spending through the cash-out of increased housing equity.

Nehemiah DAP Recipients are Greatly Affected by Economic Conditions and Housing Characteristics

Nehemiah DAP recipients are greatly affected by economic conditions and housing characteristics. In the regions studied, the gap between wages and home prices widened by 2.5% each year over the past 10 years.

Our analysis devoted particular attention to economic changes embedded in shifting demographic landscapes in order to evaluate their implications for housing consumption and housing trends during the past decade in the six observed regions.

We provided statistical evidence that the economies in all six regions put a premium on a highly educated workforce by shifting wages toward those engaged in high-technology and related high-value producing occupations. At the same time, most of the six metropolitan areas experienced net job gains in service and retail trade occupations with low- to moderately paying wages per employee. Our research on job creation reveals that between 1992 and 2002 nearly 70 percent of all jobs created in all six regions paid below regional average salaries.

Responding to the rising economic prosperity of the past decade, median home prices in most of the analyzed metros rose well above national market level. Median sale prices of existing single-family houses in all six regions increased on average by 68 percent from 1992 to 2003 while wage growth in low- to moderate-paying occupations increased on average by 38 percent between 1992 and 2002, creating an “affordability gap” of 30 percent. Additionally, in the regions studied, the gap between wages and home price widened by 2.5 percent each year over the past 10 years. This polarization between wages and home pricing trends combined with increasingly restricted housing supplies in the six regions studied creates an insurmountable obstacle for low- to moderate-income families who aspire to fulfill the American Dream of homeownership.

To gauge the true affect of the evidenced “affordability gap” on low- to moderate-income households, we analyzed the socioeconomic standing of a typical Nehemiah DAP applicant. Our study advocated a portfolio approach, using data on the entire portfolio of 36,240 Nehemiah DAP recipients in the six observed regions. The following description represents a composite profile of the “archetypical” Nehemiah household:

The typical Nehemiah household earns a median income of \$40,764 and purchased a home with a median value of \$116,750. Moreover, the analysis determined that a substantial proportion of the Nehemiah DAP applicants do not have a bachelor's degree and did not achieve higher levels of education and, therefore, higher levels of earned wages.

As a result, the typical Nehemiah DAP household faces slower growth in his or her wages compared to upward trends in housing prices, implying that low- to moderate-income households struggle to get their feet on the property ladder; they are basically shut out of the housing market.

Empirical Analysis

Interviews with representative Nehemiah DAP recipients indicated that homeownership leads to positive spillovers like business and residential development.

In addition to the numerical analysis that supports our findings, the study also relies upon rich textual interviews with randomly selected DAP recipients. Milken Institute researchers conducted interviews with a representative sample of 49 participants in the Nehemiah DAP to determine the homeowners’ attitudes since obtaining their homes through this program. The empirical analysis that we employed allowed an appropriate means of capturing the dynamics of the analyzed statistical economic relationships.

When examining the responses to the survey questions, there is a clear indication that the Nehemiah DAP helps empower individuals to improve their standard of living, has a positive impact on economic growth in the observed six regions and contributes to the overall health of society. The majority of the respondents expressed higher life satisfaction associated with homeownership attributable to feelings of happiness, pride, dignity and personal triumph—an important verified impact of homeownership. Given the fact that homeownership leads to social stability, our analysis found positive associations between homeownership and improved family life, including children’s ability to learn or do well in school. In addition, the benefits of homeownership extend beyond individual homeowners to the greater community. Most of the interviewees stated that they spend more time and money on maintaining their properties than they did as tenants. Owner-occupants have a vested economic interest in their homes and communities. When asked about the impact of homeownership on local communities, many of the interviewees pointed out that homeownership leads to positive spillovers like business and residential development.

As reflected in the empirical analysis, the typical down payment assistance recipient, after overcoming borrowing constraints, was able to bear the financial commitment associated with homeownership and could participate in the process of wealth accumulation. This new class of homeowners, many of whom are families in low- to moderate income brackets, adapted to ownership and financial responsibility. Our analysis found consistent evidence that homeownership is positively associated with enhanced financial knowledge and an improved sense of financial responsibility, including improved financial management skills. High rates of foreclosure were not present among the low- to moderate-income families in our study; on the contrary, more than 30 percent of the participants indicated that they already purchased or are planning to finance a second home or investment property in the near future.

Beyond these socioeconomic and financial benefits of homeownership, the vast majority of Nehemiah DAP recipients increased spending on products and services associated with their new homes, such as small appliances and other durable goods. The overall effect is that Nehemiah DAP recipients who became homeowners benefited businesses that sell home improvement and other housing related goods and services.

Conclusion and Key Findings

The results of our statistical and empirical analyses strongly support one another. Homeownership is a pathway toward financial independence and provides an important opportunity for low- to moderate-income households to accumulate economic resources that empower individual families while simultaneously improving neighborhood stability and community development. Increasing homeownership rates also contribute to the overall health and economic stability of local governments. The analysis reveals that the fiscal impacts resulting from the total share of local property taxes paid by Nehemiah DAP beneficiaries were substantial and effective in helping local governments to achieve fiscal balance. Our analysis concludes that it is judicious to encourage market-oriented solutions such as the Nehemiah DAP to continue breaking down the barriers to homeownership and help low- to moderate-income households achieve homeownership.

