RESEARCH REPORT

A New Model for the Provision of Affordable Homeownership

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A New Model for the Provision of Affordable Homeownership

Introduction

The foreclosure crisis following the Great Recession has called into question whether homeownership is a viable option for low- and moderate-income households. Homeownership rates have fallen to levels not seen since the mid-1990s. But with the experience of the bubble and bust behind them, policymakers and practitioners are increasingly focused on how to create sustainable homeowners who can afford to maintain and stay in their homes.

This report explores the approach to encouraging sustainable homeownership practiced by Homewise, an affordable-housing organization based in Santa Fe, New Mexico. The organization's mission is to "help create successful homeowners so that they improve their financial wellbeing and contribute to the vitality of our communities (Homewise 2015)."

Homewise differs from many other affordable-homeownership organizations in two respects. First, Homewise lowers the amount clients must invest up front and pay on a monthly basis. Homewise requires clients to put only two percent down on their homes—compared with 3.5 percent for Federal Housing Administration (FHA) loans and five percent or more for many conventional mortgages—thus lowering a key barrier to purchase. Homewise then provides a second mortgage (for 18 percent of the purchase price) with conventional interest rates and terms. The combination of the Homewise second mortgage and the down payment enables clients to avoid paying for private mortgage insurance (or FHA mortgage-insurance premiums) on their first mortgage (for 80 percent of the purchase price), which results in considerable monthly savings. Homewise clients must meet traditional creditworthiness standards.

Second, Homewise differs from many other programs in that it offers services and products supporting homeownership in a vertically integrated model, from initial inquiry through to the final financing of the mortgage and post-purchase products and services. This vertical integration enables Homewise to transition clients from one step to the next within the same organization, potentially reducing the drop-off associated with each transition. Vertical integration also enables Homewise to be financially self-sustaining, as some services generate fees that help offset the cost of others.

In this report, we explore the Homewise model, which we situate in the affordable-homeownership landscape. We also present evidence on the characteristics of the clients that Homewise serves, and the

services and outcomes experienced by these clients. Homeownership is certainly not attainable for all interested households, but Homewise's model suggests that with a carefully structured, vertically integrated system, homeownership can be encouraged in a way that better aligns risks and incentives for the counselor, the borrower, and the lender.

Is Homeownership Beneficial for Low- and Moderate-Income Households?

The recent foreclosure crisis has taught advocates of homeownership that while many low- and moderate-income families can sustain homeownership opportunities, others cannot.

Why, then, do many policymakers and researchers still seek to encourage homeownership (Lerman, Steuerle, and Zhang 2013)? There are financial and nonfinancial reasons to promote homeownership for low and moderate-income households—reasons that have not been altered by the recent crisis.

Beginning with the financial reasons, homeownership with a fixed-rate mortgage, in contrast to renting, locks in the price of shelter. Thus, owners with fixed-rate mortgages are at less risk of rising monthly payments than renters. Additionally, inflation erodes the value of the debt held by owners. As is widely understood, inflation is beneficial for debtors, and home loans are the largest debt most households will ever owe.

Given current interest rates, it is often less expensive to purchase a home than to rent (Kolko 2014). This is especially true in weak-market cities, but it is the case even in high-priced cities such as San Francisco and Honolulu. Buying is more likely to be advantageous when owners can remain in their homes for more than a short number of years and itemize deductions on their tax returns.

In addition, an amortizing mortgage represents the most important savings vehicle most low- and moderate-income Americans will ever participate in. Even after owning for a few years, owners begin paying down the principal of their mortgage, not just interest, and accumulating assets—even without house price appreciation. Moreover, the leverage of a mortgage increases its wealth-building properties in any market in which nominal house prices are rising. A mortgage is a "forced savings" mechanism, and given what we have learned from behavioral psychology and economics, automatic savings mechanisms are an important means to asset accumulation (Thaler and Benartzi 2004). Homeownership has been demonstrated to lead to wealth increases (Herbert and Belsky 2008; Rappaport 2010), and has provided reasonable long-run gains (Mallach 2011).

As a result of these factors, home equity represents nearly half of nonannuitized (i.e., non-Social Security and nondefined benefit pension) net worth for all households upon retirement (Poterba, Venti, and Wise 2013)—and, of course, an even larger share for owner-occupants. For those in the bottom quintile of the income distribution, home equity represents 60 percent of total net worth, even though only 27 percent of these households are homeowners (Soto 2010).

The nonfinancial reasons for supporting homeownership are more challenging to establish empirically, though there has been quite a bit of research in this area. It is clear that in many areas, homeownership provides access to neighborhoods, and thereby schools, services, and amenities, that renting does not—simply given patterns of residential segregation by unit type. But more than providing access, homeownership is believed to actually lead to improved neighborhood stability (Mallach 2011). This relationship results from higher levels of investment made by owner-occupants compared with rental-property owners, and from higher levels of civic engagement among owners (DiPasquale and Glaeser 1999; Manturuk, Linblad, and Quercia 2010).

Other studies have found that homeownership promotes more stable families, higher educational attainment, and improved health outcomes for owners' children (Galster 1987; Haurin, Parcel, and Haurin 2002). Many studies in the late 1990s and early 2000s found that homeownership was associated with positive youth outcomes such as increased years of schooling (Green and White 1997), reductions in teenage pregnancies (Green and White 1997), higher cognitive test scores (Haurin, Parcel, and Haurin 2002), fewer behavioral problems (Boyle 2002; Haurin, Parcel, and Haurin 2002), and higher income later in life (Boehm and Schlolttmann 1999).

These findings are contested, however (Leventhal and Newman 2010). More recent studies have found that, once selection and other factors are controlled for, the benefits of homeownership disappear (Barker and Miller 2009; Holupka and Newman 2012; Mohanty and Raut 2009). More research is needed to determine whether the benefits associated with homeownership are due to selection into owning a home, or can be attributed directly to ownership itself.

How Can Low- and Moderate-Income Households Access Homeownership?

Despite the potential personal and community benefits of homeownership, owner occupancy is not for everyone. There are many requirements associated with successfully maintaining an owner-occupied home: regular cash flow for the mortgage, insurance, and tax payments; the ability to cover maintenance costs; the

ability to stay in the home for a number of years (homes are typically a poor investment when owned for short tenures); and willingness to invest time in home upkeep.

But many low- and moderate-income households can successfully manage owning their home with the right financing and, in some cases, support. A number of supportive options exist. The options, while distinct, are not mutually exclusive and can be used in combination.

- **Low down payment requirements.** For the past year, Fannie Mae and Freddie Mac have only been willing to purchase loans that have at least a five percent down payment, while FHA has accepted down payments as low as 3.5 percent. Other programs have been willing to accept even lower down payment amounts, though there have been questions about the performance of these loans. Urban Institute research has found that the default rate of loans with down payments of 3 to 5 percent of the home purchase price is on par with that of loans with down payments of five to 10 percent (George, Goodman, and Zhu 2014). Fannie Mae and Freddie Mac have recently announced they will again begin purchasing loans with down payments as low as three percent.
- **Down payment assistance.** Research has found that a lack of wealth is among the most important factors that prevent households from becoming homeowners—more than either having low income relative to area house prices or having poor credit (Barakova et al. 2003; Herbert and Tsen 2007; Linneman and Wachter 1989; Listokin et al. 2002; Quercia, McCarthy, and Wachter 2003). Down payment assistance programs that provide deferred or forgivable loans for the down payment on a home are a means to remove this barrier and to help people who have little or no savings purchase a home (Herbert and Tsen 2007). However, down payment assistance programs that provide the full down payment amount and require no "skin in the game" from the borrower may not produce sustainable homeownership. Research suggests that down payment assistance programs that require some amount of investment from the borrower may be the most successful at producing sustainable homeowners (Kelly 2008).
- **Flexible underwriting.** Another option for reducing barriers to home purchase is through flexible underwriting that takes into account compensating factors. Some mortgage products designed to serve low and moderate-income borrowers feature underwriting guidelines that are more flexible than conventional products—for example, they may allow higher debt-to-income ratios or accept alternative measures of credit quality, such as rent and utility payment histories (Board of Governors of the Federal Reserve System 2000). Of course, programs that offer mortgages with modified underwriting have to balance the benefit of increasing access to homeownership with the potential increase in default risk (Lam, Dunsky, and Kelly 2013). This risk may be mitigated by, for example, homeownership counseling.

- **Mortgage-insurance alternatives.** Making a smaller down payment reduces the up-front costs for a borrower, but often requires the borrower to pay for mortgage insurance either through FHA, which charges an upfront mortgage-insurance premium as well as a monthly premium, or through private mortgage insurance purchased on a conventional loan. Both add to either the up-front cost, the monthly cost, or both, but allow borrowers to significantly reduce the amount of cash required to close on a home. An alternative to mortgage insurance is for the borrower to take out a first mortgage that equals 80 percent of the home value, and then a second mortgage, or a piggyback loan, in an amount equal to the sale price of the home minus the amount of the down payment and the amount of the first mortgage. In this way, the borrower eliminates the need to pay for mortgage insurance; however, some piggyback loans carry a substantially higher interest rate than the first mortgage, which can erode the comparative monthly savings.
- **Shared equity**. Another model for supporting affordable homeownership is through shared equity. Shared-equity initiatives allow income-eligible families to purchase homes at below-market prices. In return for the subsidized purchase price, the owner's potential capital gains from the resale of the home are limited by resale restrictions. Many programs allow homebuyers to earn returns that exceed what they would have received had they invested in stocks or bonds, but nevertheless result in homes that remain affordable to lower income buyers over time as the homes are resold (Temkin, Theodos, and Price 2013). Further, delinquency and foreclosure rates have been found to be very low under shared-equity programs (Temkin, Theodos, and Price 2013). However, shared-equity models may not work well in housing markets where houses are either depreciating in value or are not appreciating at a high enough rate.
- **Pre-purchase and post-purchase counseling, coaching, and stewardship.** Most affordable-housing organizations directly provide or facilitate homeownership support services to complement financial products, such as financial counseling and coaching or homebuyer education courses. Pre-purchase coaching and homebuyer education programs appear to be linked with lower rates of delinquency and foreclosure, but the research evidence is not yet conclusive (see Collins and O'Rourke 2011 for a review). In addition to pre-purchase supports, some affordable-housing nonprofits provide post-purchase counseling. Some, including community land trusts and Habitat for Humanity, provide stewardship of the properties as well as continuing contact with the borrowers. Post-purchase (e.g., foreclosure) counseling and stewardship have been linked to lower rates of delinquency and foreclosure (Temkin et al. 2014; Temkin, Theodos, and Price 2013).

Some affordable-ownership programs provide only one of the services described above, while others provide a combination of services. Typically, however, services are split between many different

organizations, and a homebuyer must coordinate between different organizations and lenders to purchase a home.

The decision of which of supports to include in an affordable-ownership program depends on what the program is trying to achieve for whom, and the resources available to it, as both pre-and post-purchase supports can be expensive to provide. If the primary goal is to build wealth for creditworthy moderate-income potential buyers, then forgivable down payment assistance loans will likely be preferred. If the primary goal is affordability preservation, or community development, then deferred down payment assistance programs or shared-equity programs will likely be more successful at keeping the subsidy within the neighborhood. If a program is meant to encourage people to live in certain areas or to assist those with lesser ability to afford a home, then multiple models can work with careful attention to how and to whom they are targeted. Intensive pre-purchase counseling will help programs reach less qualified applicants and prepare them for ownership, and stewardship can help less secure buyers maintain tenure.

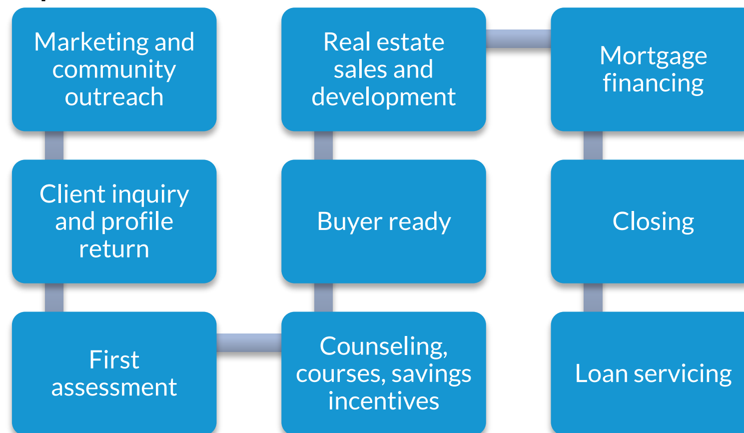
The Homewise Model

Homewise's mission, similar to other affordable housing organizations, is to help low- and moderate-income individuals become successful homeowners and thereby achieve financial security, strengthen their families, and increase the economic and social vitality of their communities. Homewise works to improve potential buyers' credit standards by providing contexts to impart knowledge, build financial habits, select an appropriate home, and access preferred financing.

Homewise began in 1986 in Santa Fe, New Mexico, and has served seven counties in north central New Mexico for several years. In addition, the organization recently expanded into the Albuquerque metropolitan area. Homewise differs from many homeownership nonprofits in that it offers most of the services and products required to become a homeowner, from initial inquiry through final financing or refinancing. Homewise offers in-house counseling, homebuyer education, real estate development, real estate sales, mortgage origination, and loan servicing, as well as an in-house incentivized savings program. Each function is aligned in sequence, with early steps intended to build the foundation for customers' long term financial security. However, clients need not participate in every step; they can access any individual component of the model and not the others. For example, clients are not required to use a Homewise realtor or purchase a home developed by Homewise to access financing through the organization. This sequence of activities is displayed in Figure 1.

FIGURE 1

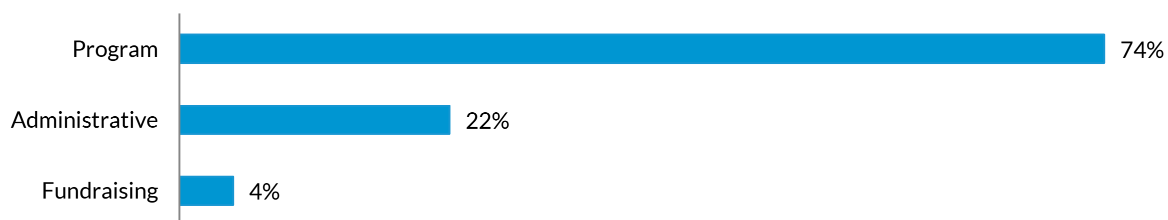
Homewise Client Steps



Through these vertically integrated services, Homewise hopes to successfully transition clients from one step to the next at higher rates than occur under conventional lending and purchase processes. This approach also allows Homewise to be self-sustaining financially by using fees collected from loan originations, real estate commissions, real estate development, loan interest, and home improvement (among others) to finance the services that prepare clients for homeownership, including outreach, counseling, and homebuyer education. In 2014, Homewise had total net assets over $36 million, total support and revenues of over $19 million, and total expenses of nearly $17 million. Homewise's expense and support and revenue breakdowns can be seen in figures 2 and 3. Nearly three-quarters of Homewise expenditures are on programmatic activities. Government grants are the single largest source of support and revenue for Homewise (representing 26 percent), followed by loan-portfolio interest (22 percent) and home-development sales, net of expenses (21 percent).

FIGURE 2

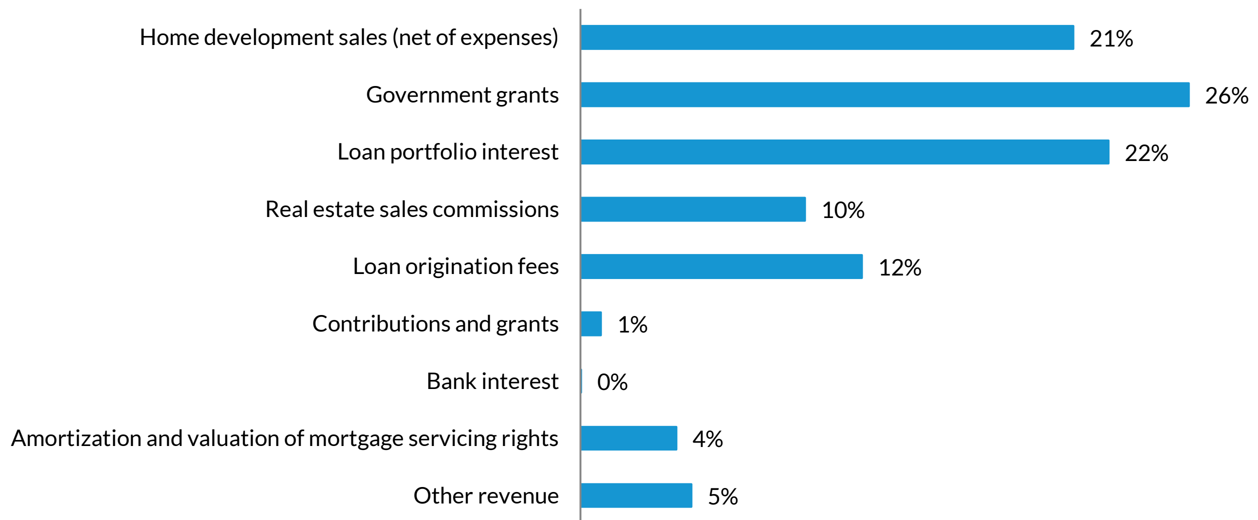
Homewise Expenses, FY 2014



Source: Homewise 2014 financial statements and supplementary information.
Note: While the organization's expenses total $16,871,874, home-development sales represent $10,221,384. These expenses are compensated by $12,154,458 in associated revenues. As such, the figure above excludes expenses associated with home-development sales; expenses in this formulation are $6,650,490. Homewise's 2014 fiscal year ended March 31, 2014.

FIGURE 3

Homewise Support and Revenues, FY 2014

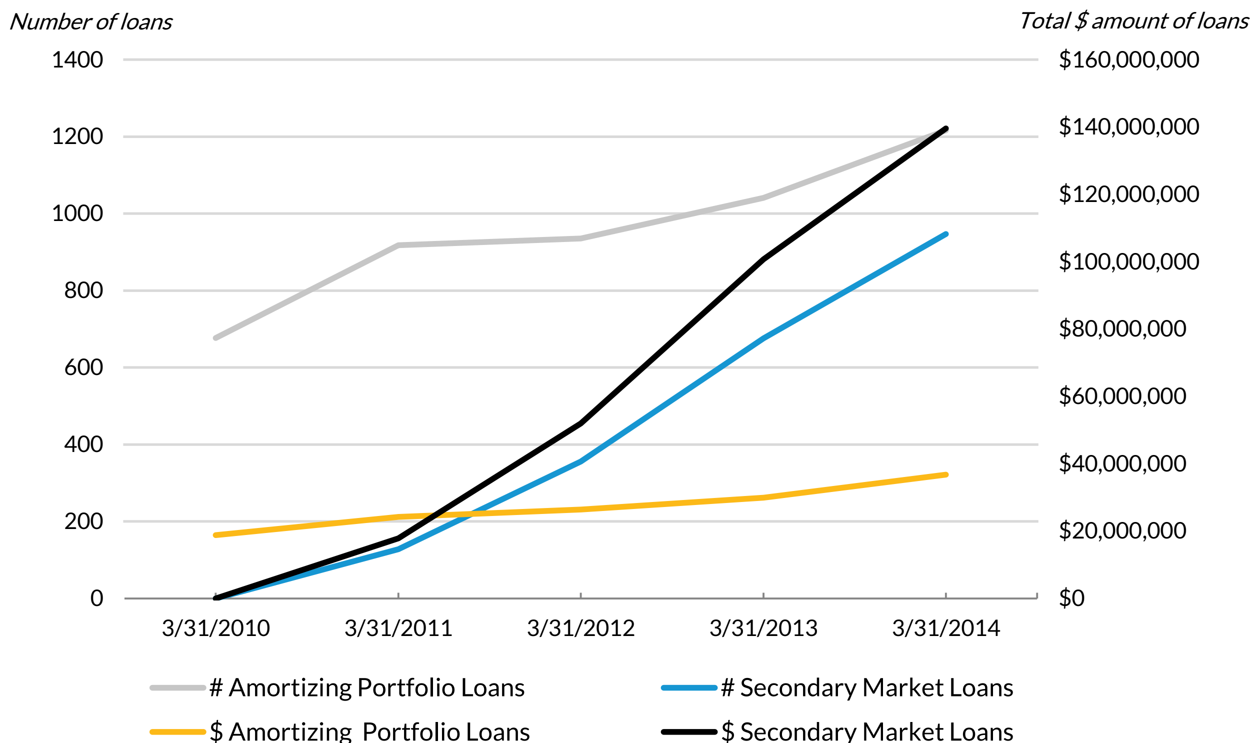


Source: Homewise 2014 financial statements and supplementary information.
Note: While the organization's supports and revenues total $19,491,048, home-development sales represent $12,154,458. These revenues are offset by $10,221,384 in associated expenses. As such, the figure above presents the distribution of Homewise support and revenues, including *net* home development sales revenue of $1,933,074; total supports and revenues in this formulation are $9,269,664. Homewise's 2014 fiscal year ended March 31, 2014.

Homewise has experienced significant growth of its loan-servicing portfolio in recent years. As shown below, the number of loans and the total loan dollar volume rose in lockstep from fiscal years 2010 through 2014, both nearly doubling. Homewise began selling its 80 percent loan-to-value and refinance loans to Fannie Mae in 2010. The amortizing portfolio loans depicted below are: home purchase second loans, non-conforming first loans, home improvement loans, and a small number of refinance second mortgage loans.

FIGURE 4

Homewise Loan-Servicing Volume, 2009–13



Financial Counseling

Homewise offers individual financial counseling toward the goal of home purchase. Counseling is integrated into the home-buying process from initial inquiry to post-purchase, and counselors work in collaboration with the real estate agents and the lending staff to help clients overcome barriers to mortgage qualification and to ensure that the home purchase process runs smoothly. The counselors work one-on-one with the clients, helping balance the clients' homeownership expectations with their existing savings and monthly income.

For the organization, the benefits of providing counseling before providing real estate services are twofold. First, Homewise can increase demand for its services by developing buyers from clients who were not mortgage-ready when they first inquired. In addition, if Homewise underwrites a loan, it has greater certainty about the applicant's true creditworthiness, having observed his or her work with a counselor to become buyer ready. This structure keeps cancellation rates and default rates low.

Homebuyer Education and Financial Fitness Classes

Homewise also offers homebuyer education, which is required of all clients before a home can be purchased. In addition, financial fitness classes are offered, with a closer focus on the basics of personal finance. The classes are free and are offered in both Spanish and English.

Homebuyer education classes are designed to augment, not duplicate, the one-on-one counseling services. The classes cover the following topics: how to be an informed homebuyer, how to save money on payments and closing costs, how Homewise programs will help throughout the home purchase process, how to select the best possible mortgage loan, how to understand purchase contracts to protect the borrower's interests, and how to protect the value of the new home and build equity.

Financial fitness classes help clients think through the decisions they want to make in their financial life overall. Topics include how to establish and achieve personal financial goals with a SMART plan (a technique to reduce or eliminate debt), understanding and improving credit, and how to spend and save money wisely.

Savings Incentives

Homewise offers a savings program called Savesmart that makes saving automatic each month. First, a client commits to a monthly savings goal. Then, the client arranges for an automatic direct deposit into the Savesmart account from his or her paycheck or checking account each month.

Homewise also offers an incentive program within Savesmart whereby if individuals complete their plan, they receive $250 off of their closing costs. Clients are able to speak with their counselor about their savings progress without any added fee. Since the account is not accessible via ATM, it allows for easy deposits but only thoughtful withdrawals. Homewise believes the program's largest benefit, even beyond the amount saved, is the development of a habit of saving.

Savesmart is akin to an individual development account (IDA), which is an asset-building tool designed to enable moderate-income families to save toward some goal, usually a home, education, or a small business. However, in an IDA, savings are matched as a percentage of each dollar saved, whereas with Savesmart, an incentive is given at the end, when the goal is reached.

Realty Services and Real Estate Development

Homewise offers realtor services in house, which is unusual for affordable-homeownership organizations. This allows Homewise greater influence over realty processes, helping to control costs and assist clients

with finding homes that are affordable. The organization reports that its realtors have particular expertise in the affordable market—homes that are offered through special programs and not widely listed or known to all realtors. Many times, Homewise clients prefer to pay much less than their maximum estimated monthly payments, and the real estate agent knows in advance the maximum purchasing power of the client, as well as the amount that he or she feels comfortable paying. Homewise realtors work in collaboration with the financial counselors to ensure that the home that is purchased will be sustainable. Realtors are paid a flat salary rather than a commission for each sale, which means that they do not have personal financial incentives to make sales or for those sales to be higher cost.

Homewise also builds homes that are energy and water efficient and are designed to lower utility and maintenance costs for their owners. In 2014, home development sales netted $1.9 million for the organization.

Financing

Homewise offers a variety of financial products such as home-purchase first mortgages, home-purchase amortizing second mortgages (that eliminate the need for mortgage insurance on the first mortgage), home-purchase deferred due-upon-sale subordinate mortgages (down payment assistance loans), home improvement mortgages including Energy Saver loans, and refinance mortgages.

The first and second mortgages that Homewise offers allow clients to pay a smaller down payment than they would with a conventional or FHA loan without having to purchase private mortgage insurance or pay FHA mortgage insurance costs. Homewise accomplishes this by making the first mortgage at 80 percent of the value of the home and then selling it to Fannie Mae. Because the first mortgage has only an 80 percent loan-to-value ratio, the client does not have to purchase private mortgage insurance on it. Instead, Homewise provides a second mortgage equal to 18 percent of the home value. Together with the borrower's down payment of two percent, this brings the first mortgage down to 80 percent. In this way, Homewise takes the risk of this second loan for the client and reduces the client's monthly costs. Homewise estimates that this structure lowers the monthly payment by $140.

Clients receiving financing through Homewise are required to provide a down payment of at least 2 percent of the purchase price, below the 3.5 percent currently required by FHA and the 5 percent currently required for many conventional mortgages. It is also important to note that Homewise clients' down payments can be used toward closing costs, while FHA down payments cannot. This means that the actual upfront down payment and closing costs required by Homewise are 2 percent, compared with perhaps 7 percent for FHA (3.5 percent down payment and roughly another 3.5 percent for closing costs). While

lowering the down payment required, Homewise does not approve clients for mortgage financing who do not meet Fannie Mae's creditworthiness standards.

Integrated Data System

Homewise maintains a data system that integrates its programmatic activities. This system facilitates communication across services. Loan officers use a desktop underwriting program that communicates with the main database to assist them in evaluating whether an applicant is ready to buy. The integrated data system also allows counselors to run purchasing-power analyses for clients, which helps the clients to understand how the estimations work, what size mortgage they can qualify for, and how their qualification amount could change with improvements to debt and savings.

By offering all services, Homewise is able to keep all client data in one organization, and clients do not have to transfer information to other organizations, such as real estate agents or lenders, while making their way through the home purchase process.

Financial Self-Sustainability

Because Homewise offers services that generate fees (real estate sales, real estate development, mortgage origination fees, loan interest and servicing fees), the organization is able to fund the other services that do not (counseling and homebuyer education courses). This means that Homewise is largely financially self-sufficient, though the organization also relies on some grant funding to defray the costs of providing its services. In fact, using the measure of self-sufficiency used by many nonprofits (total earned income divided by total expenses), Homewise is actually more than self-sufficient, with a ratio of 1.02. This means that Homewise is able to increase the number of clients counseled without needing significant growth in external grant funding. It also reduces uncertainty associated with fluctuations in funding, which allows Homewise to better anticipate staffing needs.

Some key financial-health ratios for Homewise are shown in Table 1.

TABLE 1

Homewise Financial Ratios, 2013

Ratio	Definition	Homewise ratio value	What it tells us
Reliance on government funding	Total government grants and contracts/total Income	0.15	Risk related to amount of funding reliant on the government
Earned-income percentage	Total earned income/total income	0.73	Organizations with earned income have more autonomy and flexibility
Self-sufficiency ratio	Total earned income/total expense	1.02	The proportion of operating expenses covered by earned income
Functional cost allocation	Total fundraising, general, and admin expense/total expenses	0.11	A ratio frequently calculated by donors and watchdogs
Current ratio	Current assets/current liabilities	1.79	An indication of the organization's ability to pay obligations in a timely way (within 12 months)

Being financially self-sufficient allows Homewise, in contrast to many other nonprofits, to invest in needed infrastructure and overhead. A study in 2004 showed that underfunding overhead can have deleterious effects on nonprofit service quality because it may lead to problems like nonfunctioning computers and staff members who lack the training needed for their positions (Wing, Pollak, and Rooney 2004). Being financially self-sufficient allows Homewise to invest in its short- and long-term service quality.

Homewise Client Characteristics

To better understand who the Homewise model is intended to benefit, it is useful to understand the characteristics of those who are interested in the program before they have received any of the homebuyer education or counseling services. At intake, the program captures a number of demographic and economic data points on clients, summarized in tables 2 and 3 below. We report data from 2009 through 2013, the most recent period for which reliable and complete information is available.

Looking first at demographic information, we see that 46 percent of the clients were between 25 and 39 years old, prime years for buying a first home. In addition, 84 percent of the clients at intake were first-time homeowners, meaning that a substantial portion of the older and younger clients was looking to buy for the first time. Looking at marital status, nearly three-quarters of clients were single (73 percent). Households with children (either single parents or married couples) represented less than half of all applicants (41 percent). Application type (single or coapplicants) does not always correspond with household type. For

Homewise, single applicants represented two-thirds of all clients, with females more represented than males among single applicants.

Most clients were Hispanic of any race (58 percent), followed by non-Hispanic whites (36 percent). Native Americans, Blacks, and Asians represented very small shares of program applicants. Twelve percent of program participants were born outside of the United States.

Homewise's clients were, on average, more financially disadvantaged than other people in their metropolitan area, although there was a diversity of incomes among the participant population. Just over two-thirds (68 percent) had an income at intake that was below the local average median income (AMI), while 20 percent had incomes higher than 120 percent of AMI. (The AMI varies by year and household size; the current AMI in Santa Fe is $65,300 [US Department of Housing and Urban Development 2014].)

There was also heterogeneity among the savings and debt levels of clients entering Homewise. Thirty percent of clients had no reported savings (including retirement accounts) at intake. An additional 48 percent had some savings, but less than $10,000. Fourteen percent of Homewise clients had no monthly debt at intake, while just under half had monthly debt equal to 10 percent of their monthly income or greater. Looking at creditworthiness, we see that those with credit scores below 640 constituted 32 percent of clients, while 15 percent had scores between 640 and 680. Nearly one-third of clients (32 percent) entered Homewise with very strong credit scores, above 720. Income, savings, debt, and credit were not always related: clients fit a variety of financial profiles when they entered the program. Some had low incomes but healthy levels of savings and good credit, while others had relatively high incomes but also carried large amounts of debt, with little savings.

TABLE 2

Homewise Clients' Demographic Characteristics, 2009–13

	Share of clients (%)
Age	
<25	17
25–34	33
35–39	13
40–49	17
>=50	20
Total	100
Household type	
Female-headed single parent	19
Male-headed single parent	4
Married with children	18
Married without children	9
Single adult	39
Unrelated adults and other	11
Total	100
Gender and applicant status	
Female single applicant	45
Male single applicant	22
Coapplicants	33
Total	100
Race/ethnicity	
Hispanic	58
White	36
Native American	2
Black	1
Asian	2
Other	2
Total	101
Foreign born	
Born outside United States	12
Total (N)	2,276

Notes: Totals may not sum to 100 percent because of rounding. Age data missing for 16 clients; household-type data missing for 4 clients; and race/ethnicity data missing for 5 clients. Data provided at time of intake.

TABLE 3

Homewise Clients' Economic Characteristics, 2009–13

	Share of clients (%)
Income as share of area median	
<50%	20
50%–<80%	31
80%–<100%	17
100%–<120%	11
>=120%	20
Total	99
Savings (including retirement)	
$0	30
$1–$4,999	36
$5,000–$9,999	12
$10,000–$14,999	6
>=$15,000	16
Total	100
Monthly debt as share of income	
0%	14
>0%–<5%	23
5%–<10%	16
10%–<15%	17
15%–<20%	11
>=20%	18
Total	99
Credit score	
<640	32
640–<680	15
680–<720	14
>=720	32
No score	7
Total	100
Total (N)	2,276

Notes: Totals may not sum to 100 percent because of rounding. Income as share of area median income data missing for 53 clients; savings data missing for 20 clients; monthly debt as share of income data missing for 21 clients; and credit score data missing for 22 clients. Data provided at time of intake.

Homewise Client Engagement and Progression

As shown in Table 4, 2,276 clients completed an intake form—Homewise's definition of enrolling in the program—from 2009 through 2013. From this group, 41 percent were ultimately considered buyer-ready by the beginning of 2014, which means that Homewise considers them financially ready to buy a home. Of all clients, just over one-quarter placed a contract on a home and 23 percent of all clients ultimately closed on a home (whether through Homewise or not). These figures do not include clients who started work with Homewise during the period and are still actively engaged in the Homewise program, and may yet become buyer ready or close on a home.

TABLE 4

Homewise Client Conversion, 2009–13

	Number	% of intake
Intake	2,276	100
Buyer ready	924	41
Under contract	585	6
Closing	531	23

Note: This table includes only clients who had an inquiry date between 2009 and 2013.

TABLE 5

Homewise Client Time to Buyer Ready, Under Contract, and Closing, 2009–13

	Intake to buyer ready (%)	Buyer ready to under contract (%)	Under contract to close (%)
Same day	54	3	3
1 month	18	51	10
2 months	4	18	49
3–4 months	6	15	14
5–6 months	3	6	13
7–12 months	6	5	10
>12 months	8	2	0
Total	99	100	99
Total (N)	924	579	531

Note: Totals may not sum to 100 percent because of rounding. This table includes only clients who had an inquiry date between 2009 and 2013. The seven clients with under-contract dates before their buyer-ready dates are presented in the "same day" category.

Roughly half (54 percent) of clients who became buyer ready arrived for intake at Homewise with their finances already in buyer-ready condition, and therefore did not need the organization's counseling services to be able to purchase a home (Table 5). Of those who became, but did not arrive,

buyer ready, most did so within the first few months after intake. Of buyer-ready clients who moved forward and placed a contract on a home, nearly three-quarters (72 percent) did so within two months. Of the participants with a contract on a home, 62 percent closed within an additional two months.

As shown in Table 6, about half (52 percent) of clients who ultimately closed on a home navigated through the process with only one or two counseling sessions. (Intake is accomplished during the first session.) At the other extreme, 10 percent of the clients who closed participated in nine or more counseling sessions.

TABLE 6

Homewise Share of Clients Who Closed by Number of Counseling Sessions, 2009–13

Number of counseling sessions	% of clients who closed attending this number sessions
1 (intake)	36
2	16
3	10
4	10
5	7
6	6
7	3
8	3
>=9	10
Total	100
Total (N)	531

Note: This table includes only clients who had an inquiry date between 2009 and 2013.

Of the clients who closed on a home, the vast majority, 87 percent, used a Homewise real estate agent.

Examining closing success by demographic and financial characteristics at intake shows several interesting trends, as documented in Table 7. Looking separately at different racial/ethnic groups, we see that white applicants had the highest closing success rate, with 31 percent closing on a home. This compares with 18 percent for Hispanics. These disparities remain even when examining different racial/ethnic groups within the same income brackets.

Clients with the lowest incomes were less likely to close when compared with those with higher incomes: just 11 percent of those with incomes less than 50 percent of AMI successfully closed on a home. Those earning more than 100 percent of AMI were most likely to close on a home: 34 percent of clients earning 100 to less than 120 percent of AMI closed on a home, as did 32 percent of those earning

more than 120 percent of AMI. Similarly for initial savings, those with the highest savings had the highest success rate in closing on a home. Forty-four percent of those with savings of $10,000 to less than $15,000 closed on a home, as did 43 percent of those who had saved $15,000 or more. Contrast that with the 30 percent of clients who had no savings—just 6 percent were able to close on a home.

TABLE 7

Homewise Clients Who Closed by Initial Attribute, 2009–13

	% closed
Race/ethnicity	
Hispanic	31
White	18
All other races/ethnicities	24
Income as share of area median	
<50%	11
50%–<80%	20
80%–<100%	28
100%–<120%	34
>=120%	32
Savings (including retirement)	
$0	6
$1–$4,999	22
$5,000–$9,999	34
$10,000–$14,999	44
>=$15,000	43
Monthly debt as share of income	
0%	22
>0%–<5%	35
5%–<10%	30
10%–<15%	20
15%–<20%	20
>=20%	8
Credit score	
<640	6
640–<680	26
680–<720	33
>=720	38
No score	11
All	23

Notes: This table includes only clients who had an inquiry date between 2009 and 2013. Race/ethnicity data missing for 5 clients; income as a share of area median income data missing for 53 clients; savings data missing for 20 clients; monthly debt as share of income data missing for 21 clients; and credit score data missing for 22 clients.

An analysis of monthly debt as a share of income shows that those with a small amount of monthly debt in proportion to their monthly income (above 0 to less than 5 percent) were most likely to close on a home, at 35 percent. Meanwhile, those with a monthly debt-to-income ratio above 20 percent had a

success rate no higher than eight percent. Clients with no debt reported at intake had a lower success rate than those in the lowest ratio category. This observation likely indicates that these individuals had not developed a significant amount of financial history and credit, and therefore were less prepared than those with debt to purchase a home. Indeed, we see that a small share of those with no score (11 percent) were able to close on a home. And for those with credit scores below 640, an even smaller share, 6 percent, made it through the program from intake to closing. Meanwhile, 38 percent of those with credit scores above 720 closed on a home.

Client Outcomes

As mentioned above, 23 percent of Homewise's clients successfully closed on a home. While this metric is the primary outcome of interest, it is by no means the only one. Also of interest are changes in financial metrics over time, such as credit score and level of savings. Using data based on clients' first and last financial record, we can calculate how these measures changed over their tenure in the program.

Between 2009 and 2013, data show that the largest group of applicants saw no, or limited, change in their credit scores: 44 percent changed by 10 or fewer points in either direction (Table 8). Thirty-six percent of clients saw their scores improve by more than 10 points, contrasted with 16 percent who saw their scores decline by more than 10 points. Another 4 percent were able to establish credit during their time with Homewise.

Table 8 also displays a view of credit score change by participation in Homewise's financial fitness class. Among those who had more than one household finance record (i.e., session where Homewise collects financial information), clients who participated in the class were much more likely to see improvements in their credit score. Fifty-five percent of those attending the class saw their scores increase by more than 10 points, versus 32 percent of those not attending the class.

TABLE 8

Homewise Client Change in Credit Score, 2009–13

	% of all clients	Took Financial Fitness Class	
		Yes (%)	No (%)
Lost more than 40 points	3	4	3
Lost >10–40 points	12	10	13
Lost or gained 10 or fewer points	44	26	48
Gained >10–40 points	19	20	19
Gained more than 40 points	17	35	13
Established credit	4	6	4
Total	99	101	100
Total (N)	758	124	634

Note: Totals may not sum to 100 percent because of rounding. This table includes only clients who had an intake date between 2009 and 2013, who had more than one household finance record, and for whom credit data are available.

Program data show that 73 percent of clients increased their savings during the time they were working with Homewise, including 23 percent of clients who gained $15,000 or more. There was not a relationship between increased savings and participation in Homewise's financial fitness class, however (Table 9). Note that the data capture values for all people in the Homewise financial data, including those who did not close on a home.

TABLE 9

Homewise Client Change in Savings by Financial Fitness Class, 2009–13

	% of all clients	Took Financial Fitness Class	
		Yes (%)	No (%)
Lost >=$5,000	4	2	5
Lost $1–$4,999	8	7	8
No change	15	17	15
Gained $1–$4,999	24	19	25
Gained $5,000–$9,999	19	23	18
Gained $10,000–$14,999	7	13	6
Gained >=$15,000	23	18	23
Total	100	99	100
Total (N)	775	126	649

Note: Totals may not sum to 100 percent because of rounding. This table includes only clients who had an inquiry date between 2009 and 2013, who had more than one household finance record, and for whom savings data are available. N.b., the final savings value includes funds that the client intends to put toward a down payment.

In addition to overall changes in financial variables, it is helpful to assess the outcomes for clients who enter the program with certain financial deficiencies. We looked at clients who had deficient credit, debt, and/or savings at intake and calculated what share became buyer ready and what share bought a

home. We define a client as deficient in credit if his or her initial credit score was below 640, deficient in debt if his or her initial total monthly debt exceeded 10 percent of income, and deficient in savings if his or her initial savings was below $5,000.

As shown in table 10, of the three deficiencies, those with a low credit score had the lowest success in becoming buyer ready and purchasing a home. This observation is true among the deficiencies individually, but also when paired with another deficiency. Unsurprisingly, among clients with all three deficiencies at intake, only five percent became buyer ready and four percent ultimately bought a home. Clients whose only deficiency was lack of savings fared as well as the broader Homewise population, with 23 percent eventually closing on a home.

TABLE 10

Homewise Client Outcomes by Intake Deficiency, 2009–13

Intake deficiency	% that became buyer ready	Median days to buyer ready	% closed
Credit	16	194	11
Debt	28	139	19
Savings	36	116	23
Credit and debt	17	154	10
Credit and savings	10	440	7
Debt and savings	23	184	15
Credit, debt, and savings	5	447	4

Note: This table includes only clients who had an inquiry date between 2009 and 2013 who were not buyer ready within 30 days of intake. Credit deficiency at intake defined as initial credit score below 640; debt deficiency defined as monthly debt greater than 10 percent of income; savings deficiency defined as total savings below $5,000.

In addition to these outcome metrics, Homewise collects post-close variables on loan performance for the loans that they service. The overall picture is one in which delinquency and foreclosure rates are low given the beginning income, debt, and assets of clients.

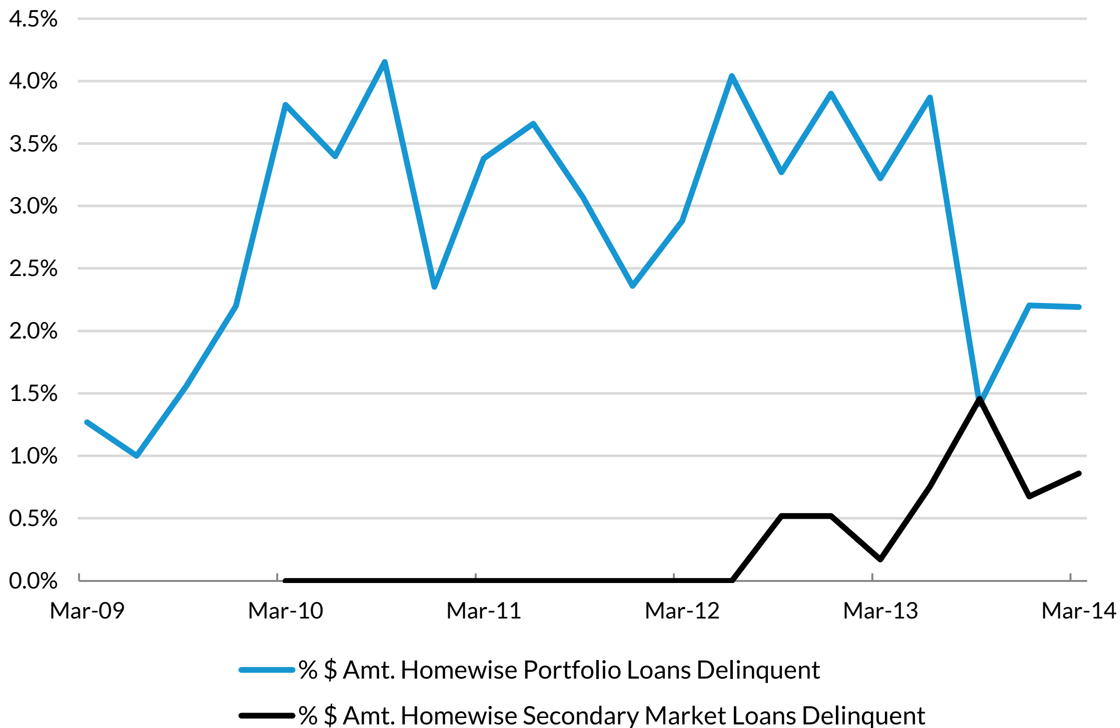
Of the 521 clients whose loans Homewise serviced from 2009 through 2013, 5.6 percent were ever delinquent (30 days late) on any of their loans. Of the clients' loans, 6.8 percent were ever delinquent. Of all 521 clients, 2.5 percent were 30 days late once, 1.9 percent were 30 days late twice, and a handful were late more than twice.

Another way to understand delinquency rates is to examine them as specific points in time. Figure 5 displays, month by month, the share of total loan volume that was delinquent between 2009 and 2013 for both the loans kept in the Homewise portfolio and the secondary market loans sold to Fannie Mae. The monthly average of the amount of delinquent loans as a share of total loan volume for portfolio

loans was 2.8 percent, ranging from a low of 1.0 percent to a high of 4.2 percent. Starting with no delinquencies, the secondary market loans reached a high of 1.5 percent delinquent (dollar value of these loans as a share of value of all such loans). During this time, Homewise charged off a total of 65 loans, valued at $1.1 million.

FIGURE 5

Homewise Loan Delinquency, 2009–13



While we do not have a comparable set of mortgages against which to gauge the performance of the Homewise portfolio, it is instructive to consider a few other benchmarks. The overall US mortgage delinquency rate for all residential real estate loans was 7.9 percent at the beginning of 2009 and 8.3 percent in the fourth quarter of 2013, with rates in between as high as 11.3 percent (Board of Governors of the Federal Reserve System 2014).

Homewise's 90-day delinquency ("serious delinquency") rate was 1.1 percent for all loans serviced between 2009 and 2013. This rate is well below the serious delinquency rate of FHA-backed loans. FHA 90-day delinquency rates went from about 7.5 percent at the beginning of 2009 to a little under 7.3 percent by the end of 2013, with highs in between at almost 9.5 percent (Goodman et al. 2014). Serious delinquency rates for subprime adjustable-rate mortgages fluctuated between 25 and 30 percent between the beginning of 2009 and the beginning of 2011, between 22 and 26 percent for subprime

fixed-rate mortgages, between 10 and 15 percent for prime adjustable-rate mortgages, and between 4 and 7 percent for prime fixed-rate mortgages (Richmond Federal Reserve 2011).

Another potential comparison for Homewise delinquency rates are those of other homeownership-support organizations similar to Homewise. Temkin, Theodos, and Price (2013) looked at seven different shared-equity homeownership organizations throughout the US and found that, in 2010, their percentage of clients currently seriously delinquent ranged from 0.0 to 2.7 percent. Homewise's delinquency rates appear on par with these organizations' rates.

Lessons for Policy and Practice

With the foreclosure crisis winding down and delinquency rates subsiding, policymakers and practitioners need to continue to strategically think about when and for whom homeownership is beneficial and how to encourage it in a way that is sustainable for both the homeowner and for his or her community.

The findings above indicate that Homewise has been able to extend credit to moderate-income consumers using conventional creditworthiness standards by requiring that clients make only a two percent down payment and take out a second mortgage from Homewise at conventional rates, obviating the need for mortgage insurance. Delinquency rates for Homewise loans indicate that the model appears sustainable for buyers.

The vertically integrated model of homeownership support that Homewise enlists also merits further exploration and analysis, especially in an era when many housing-counseling providers struggle to fund their work in light of reduced funding from the Department of Housing and Urban Development and the end of National Foreclosure Mitigation Counseling funds. Research should be done to determine whether this model can be successfully scaled up and whether it can work in markets that are more heterogeneous than the Santa Fe metro region. Evidence from Homewise's recent expansion into Albuquerque in the medium and long term will help to answer some of these questions, as will the work of other similarly vertically integrated homeownership-support organizations throughout the country.

Additionally, more research should be done to determine whether the positive outcomes that Homewise clients enjoy are a direct effect of the program, or whether some self-selection into the program and into home purchase is driving the results. A rigorous impact study, in which interested clients are split into treatment and comparison groups, or a similarly rigorous study, would help to determine whether such an integrated homeownership-support process is directly causing the effects.

If positive impacts are found, further evidence is also needed about which of the components of the Homewise model are most critical to client success.

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