

The Asset Policy Forum Presents

## American Dream 2.0

Safe and Sound First-Time Homeownership Strategies for  
Working Families in California

Lori Bamberger

This bipartisan event is co-hosted by the Asset Policy Initiative of California, the New America Foundation, and the California Research Bureau, in association with...



# American Dream 2.0

- APIC's Assets & Homeownership Initiative
- Today's Crisis
- The Danger for California and Future Generations
- Opportunity for California Legislators
- Proven Innovations and Solutions





Only 58% of Californians own their own homes – the 3rd lowest rate of ANY State



At least 29% of Californians live in asset-poverty

# Assets and Homeownership Initiative

How can we:

- Boost our homeownership rate, responsibly and innovatively?
- Offer Californians the same wealth-building opportunities available in other states?
- Build a cross-sectoral team of champions to move forward?
- Address these questions in the middle today's devastating crisis?



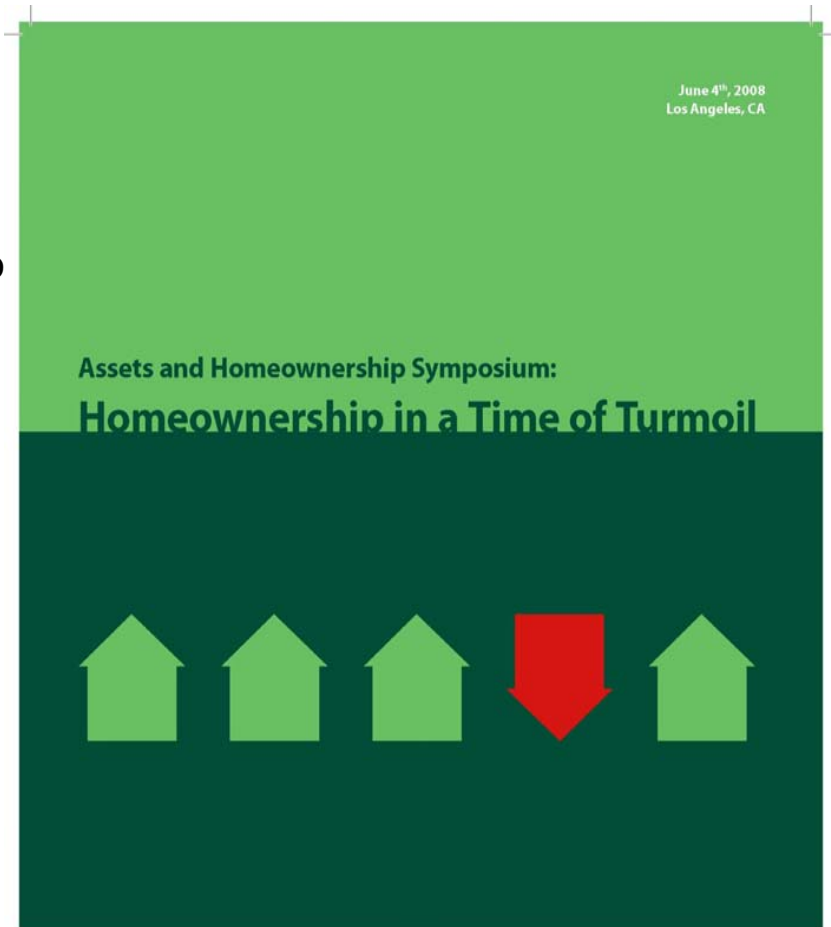
# Assets and Homeownership Initiative

## Task Force: February 2008

- CA HCD
- City of Los Angeles and LA Business Council
- City of Oakland, City/County San Francisco
- CA Homebuilders
- Federal Reserve
- Housing California & California Housing Consortium
- Policy Link & Center on Responsible Lending

## Statewide Symposium: July 2008

- Federal Reserve, HUD, Fannie Mae
- Wells Fargo, Wachovia
- Assn of Asian Realtors
- Energy Programs Consortium
- Elected Officials: LA City Council
- LANHS, Mercy Housing, Neighborworks
- Foundations, Cities, Counties, Businesses, Developers, Banks, Nonprofits



# Today's Crisis is an Asset Crisis

- Homeownership “Done Wrong”
  - Predatory lending and exotic loans
  - No Underwriting
  - No Oversight
  - Wall Street greed
  - Buyers turned speculators
- Everyone Loses Assets
  - People lose homes and savings
  - Banks go under
  - Communities lose neighborhoods and stability
  - Businesses lose credit, customers, jobs
  - Governments lose tax revenue and services



# The Homeownership Crisis in California

- 28% of entire Nation's foreclosure sales\*
  - Nearly 300% increase in just 1 year
- 18% of US foreclosure starts
- Despite only 13.8% of US mortgage loans
- California's crisis looms large
  - Foreclosure starts = 5.7% of all CA mortgages
  - Foreclosure sales = 3.3% of all CA mortgages
    - 82% > Ntl. Rate
  - 66% foreclosure sales are subprime
    - up 200% in just 1 year
    - 16.5% of all CA Subprime mortgages --129% > Ntl. Rate
  - 44% foreclosure sales are prime
    - Up 581% in just 1 year
    - Only 1.4% of all CA prime mortgages – but 71% > Ntl rate



Source: Hope Now Alliance Data & Lori Bamberger Consulting Calculations

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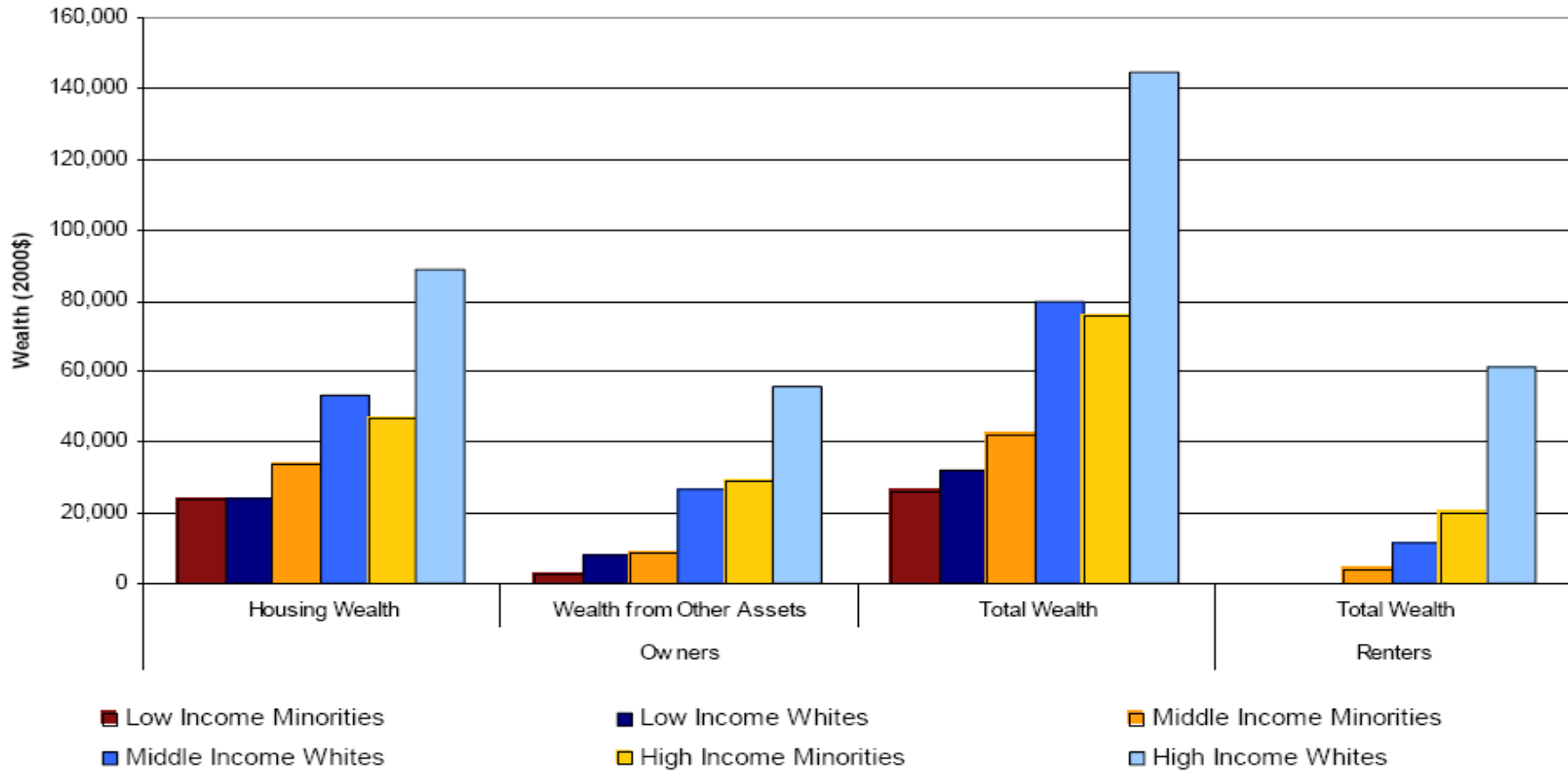


# The Vital Role of Homeownership in Asset-building

- Single largest component of family net worth even today
- Home Equity benefits families
  - Private Safety Net
  - Finances college, retirement
  - Seeds business
  - Keeps families housed even if markets & savings crash
- Home Equity builds Community Assets
  - Vesting: in neighborhoods, schools, open space, streets
  - Outcomes for children: Improved school performance & health
  - Full public revenue coffers



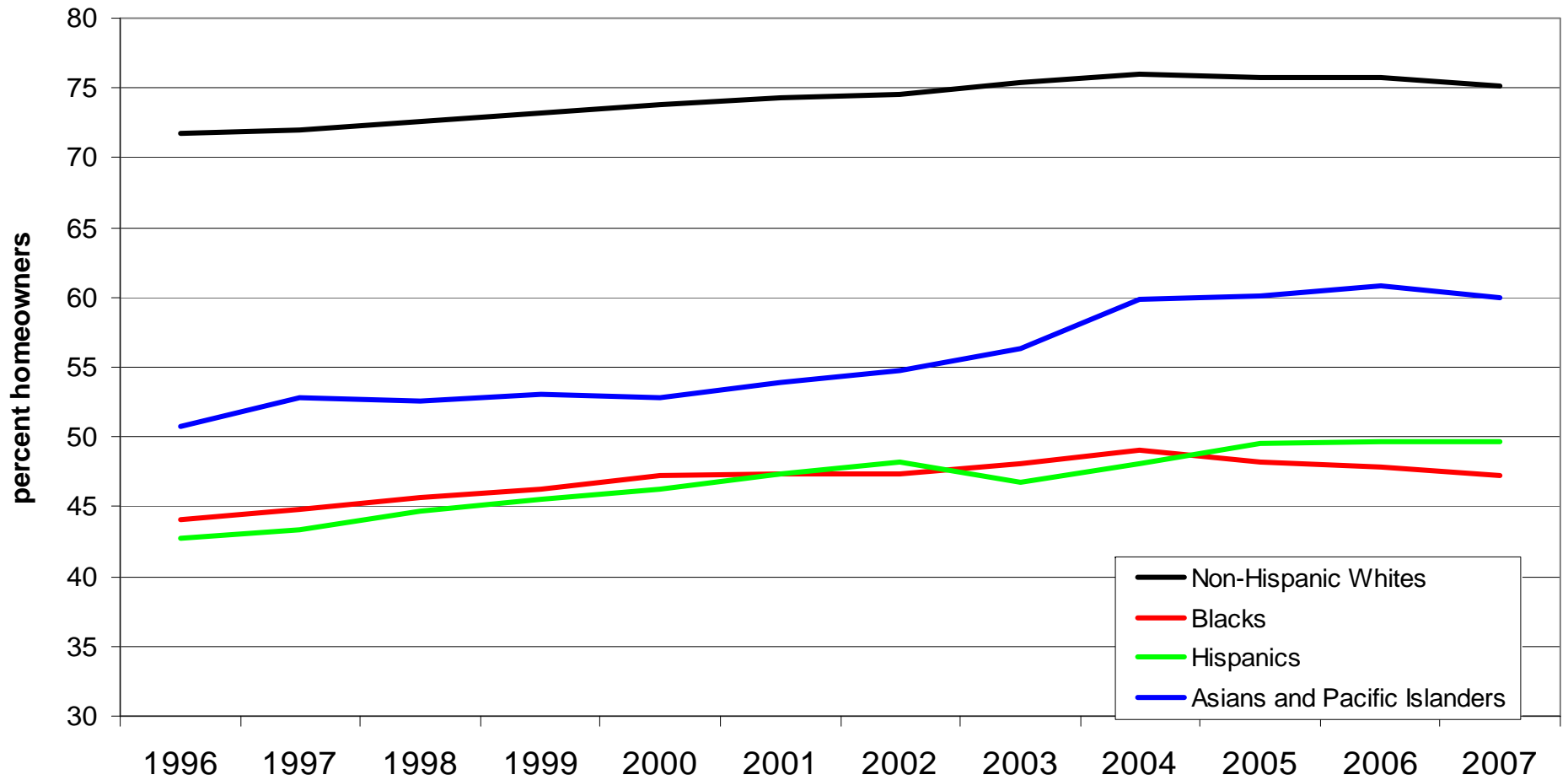
# Wealth of Owners & Renters



**Figure 20: Differences in Household Wealth, Renters versus Owners, 1994**

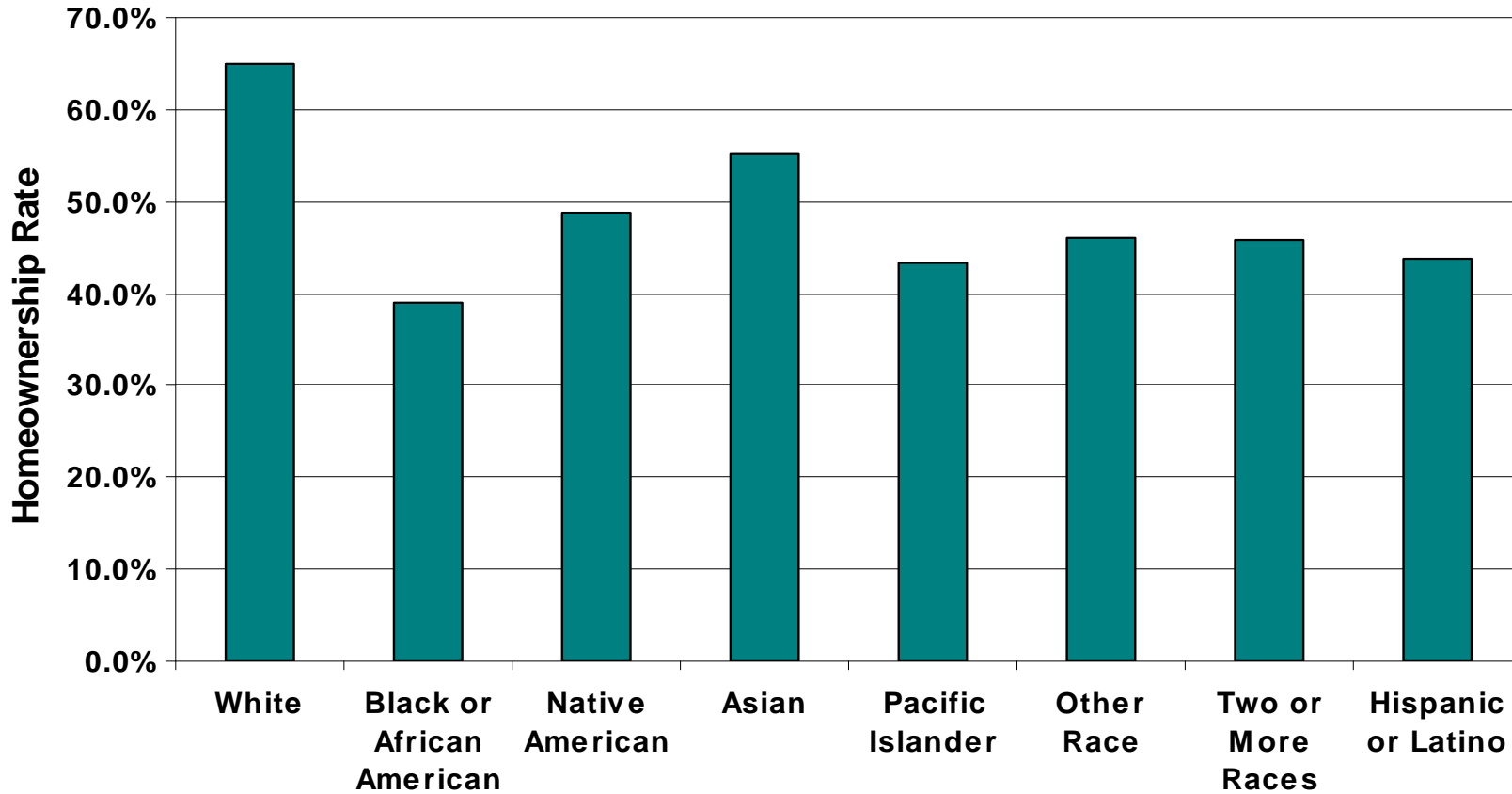
Source: Carolina Katz Reid, Achieving the American Dream? A Longitudinal Analysis of Homeownership Experiences of Low-Income Households  
 Jeff Lubell Presentation to APIC Symposium June 2008

# Important Progress: Homeownership by Race 1996-2007



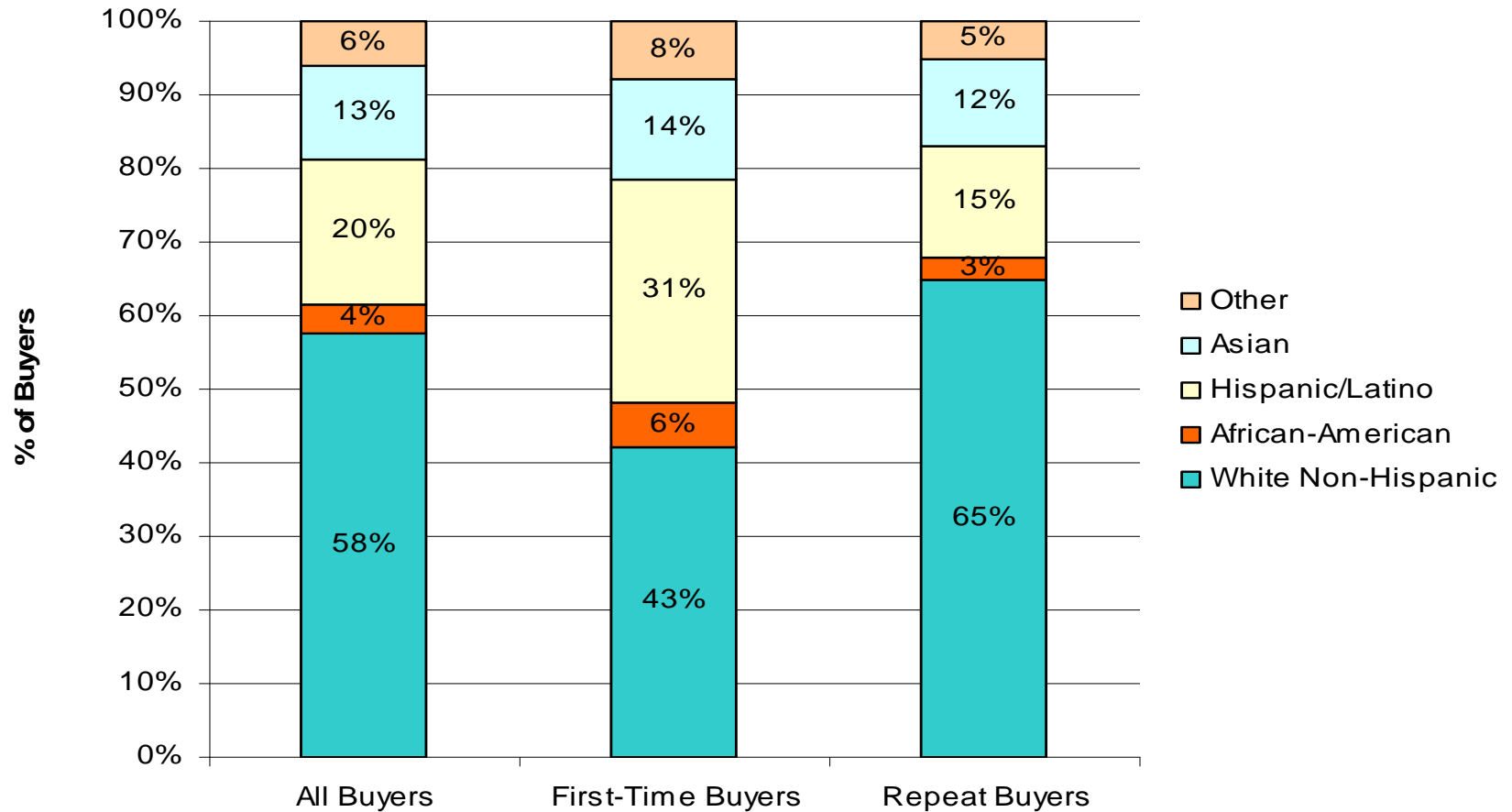
Source: Margery Austin Turner and Lynette Rawlings, Urban Institute  
From Jeff Lubell Presentation to APIC Symposium June 2008

# Overview of Homeownership in CA



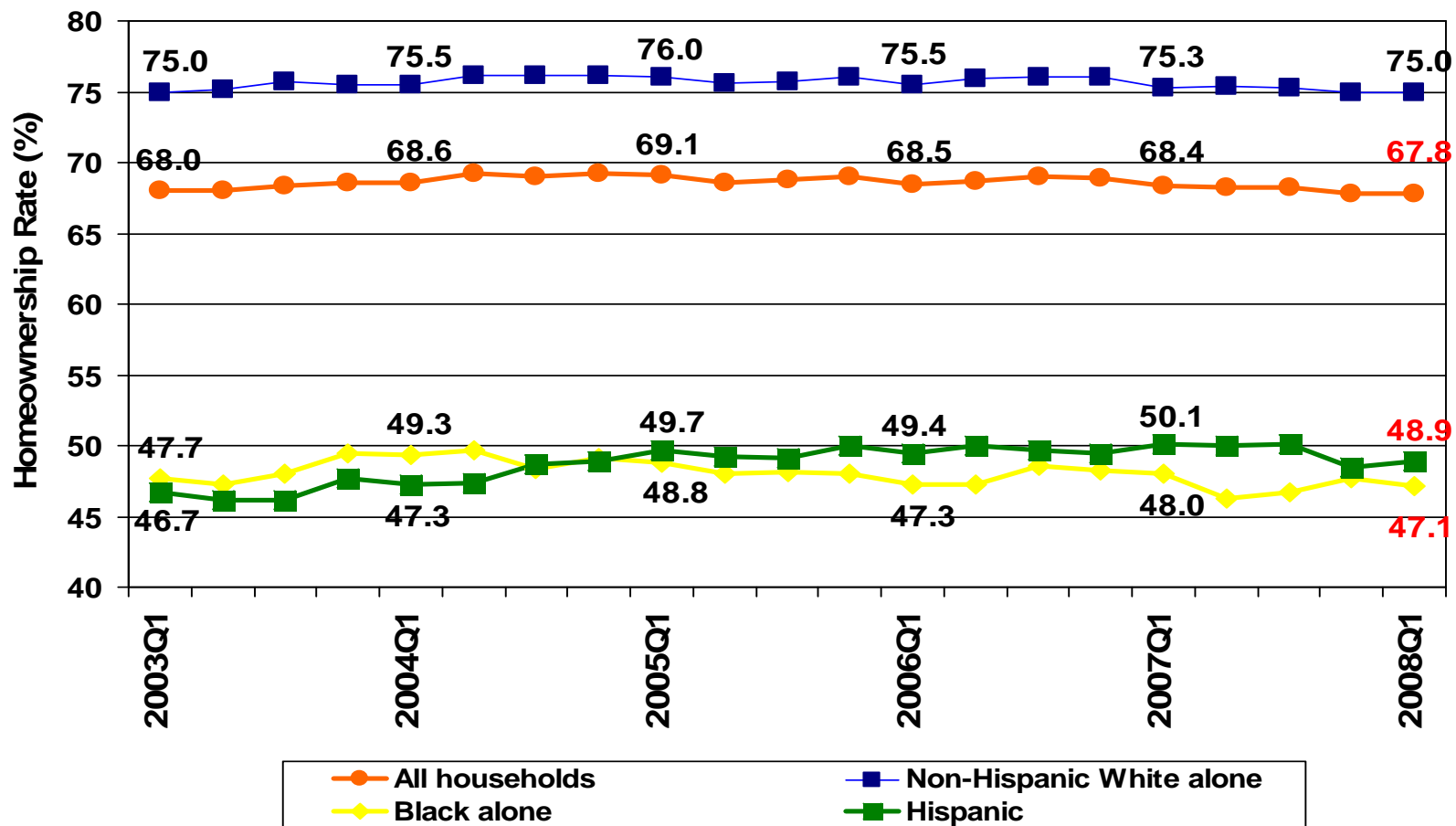
Source: US Census, Public Use Microdata Sample, 2000; BAE, 2008

# 2006: First-Time Homebuyers Make Equity Gains in California



Source: Bay Area Economics using *State of the California Housing Market 2007*, California Association of Realtors, 2007

# Homeownership Progress Now Threatened Nationwide



\*Slide from Paul Weech, Fannie Mae, presentation to APIC Symposium June 4, 2008

# Large Pockets of New Affordability; but prices still high in many

- CA First-Time homebuyer affordability has nearly doubled in just 1 year
- Vast majority of places where Californians live is still unaffordable to most
  - CA median income in 2007: \$59k - \$67k\*
- Median Sales Price\*\*
  - Down 39.9% statewide (\$311,060) –
    - Entry Level Affordable at \$51,600
  - Down 36% Bay Area (\$520,000) –
    - Entry level Affordable at: \$102,000
  - Down 32% Los Angeles (\$ 366,000)
    - Entry level affordable to approx \$65,000

\*US Census – 2008 American Community Survey update  
\*\*California Association of Realtors as of November 25, 2008

<b>CA Realtors - 1st Time HB Affordability</b>	<b>Index q3 2008</b>	<b>entry price</b>	<b>monthly incl PITI</b>	<b>min income</b>	<b>Q2 2008</b>	<b>Q3 2007</b>
California	53	\$287,760	\$1,870	\$56,100	48	24
California - Condos	57	\$260,070	\$1,690	\$50,700	52	38
United States	68	\$170,430	\$1,110	\$33,300	67	62
Central Valley	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
High Desert	73	\$143,900	\$930	\$27,900	68	48
Los Angeles County	42	\$332,680	\$2,160	\$64,800	39	20
Monterey Region	51	\$313,510	\$2,040	\$61,200	40	16
Northern California	51	\$278,430	\$1,810	\$54,300	49	38
Northern Wine Country	49	\$327,850	\$2,130	\$63,900	43	24
Orange County	43	\$439,660	\$2,860	\$85,800	38	23
Palm Sprgs/Lwr Desert	59	\$187,270	\$1,220	\$36,600	48	33
Riverside/SBernardino	66	\$193,130	\$1,250	\$37,500	60	39
Sacramento County	71	\$180,170	\$1,170	\$35,100	68	46
San Diego County	51	\$320,710	\$2,080	\$62,400	45	24
San Francisco Bay	35	\$523,310	\$3,400	\$102,000	32	18
San Luis Obispo County	38	\$356,120	\$2,310	\$69,300	34	20
Santa Barbara Area	45	\$335,000	\$2,180	\$65,400	46	11
Santa Clara County	39	\$552,500	\$3,590	\$107,700	33	21
Southern California	52	\$289,650	\$1,880	\$56,400	47	24
Ventura County	50	\$392,310	\$2,550	\$76,500	48	25
Alameda	39	\$445,860	\$2,900	\$86,860	37	23
Contra Costa	30	\$598,640	\$3,890	\$116,630	29	16
Fresno	65	\$161,240	\$1,050	\$31,410	60	44
Marin	24	\$805,050	\$5,230	\$156,840	22	20
Merced	75	\$120,200	\$780	\$23,420	69	48
Riverside	66	\$195,150	\$1,270	\$38,020	59	36
San Bernardino	68	\$178,470	\$1,160	\$34,770	63	45

# The Difficult, Critical Choices Facing California's Legislators

Who's entitled to the American Dream?

And, who should make this decision?

- Wall Street?
- Washington?
- Californian policymakers?

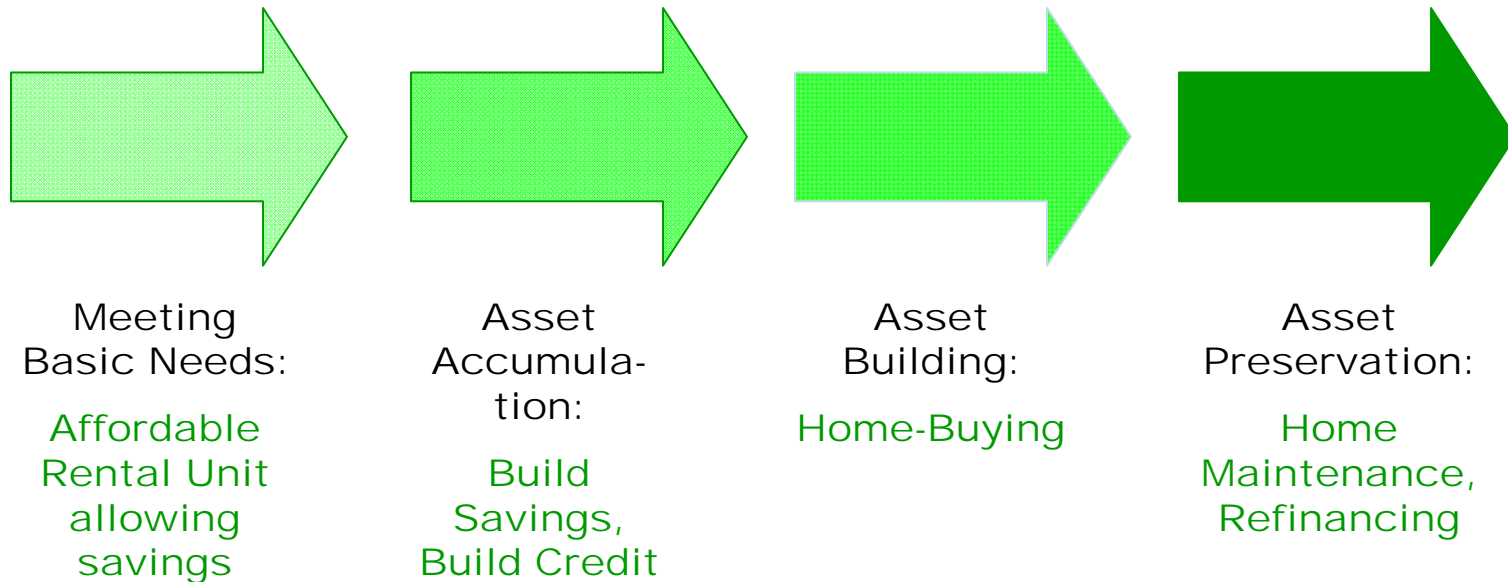


# Why California must lead our Innovation

- Help hard-working families buy low-priced REO
  - Not Speculators
- Rebuild minority homeownership gains
- Stabilize our neighborhoods
- Replenish public coffers
- Tailor California-specific solutions
- Re-create a healthy homeownership cycle



# Homeownership Asset-building Continuum



# Leadership Strategies for Renters

- **Build savings: Create a Homeownership IDA**
  - For working families
  - Saving a 3% Downpayment
- **Build Credit: Promote a California Alternative**
- **Build Knowledge:**
  - Expand PrePurchase Counseling
  - Require Energy Efficiency Transparency
- **Build Savings: Rent an Affordable Unit by Increasing Supply**
  - Statewide Permanent Revenue Source
  - Incentives for local governments to carry out SB 375 planning

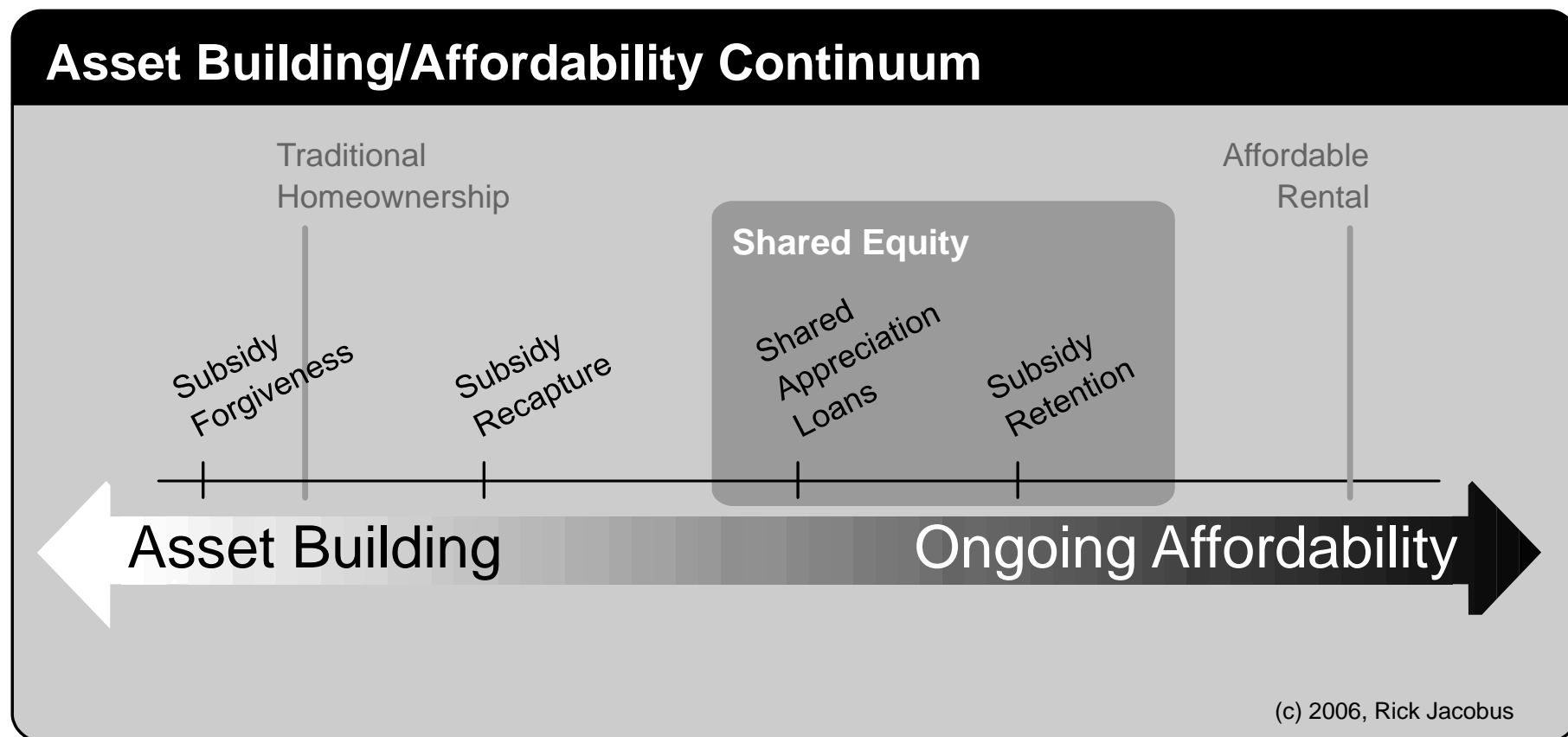


# Leadership Strategies for Homebuyers

- Affordability Touchpoints
- Innovations in equity-sharing and ownership
  - Shared Equity Mortgages
  - Lease Purchase
  - CLTs and LECs
- Innovations to reduce carrying costs
  - Energy Efficient Financing
  - Location Efficient Mortgages
- Leadership Actions
  - Optimize resale formula
  - Expand CalHFA authority
  - Incentivize revolving loan funds
  - Pioneer innovative but responsible products



# Asset-Building vs. Ongoing Affordability



Source: Rick Jacobus in Jacobus and Lubell. *Preservation of Affordable Homeownership: A Continuum of Strategies* (CHP 2007)

# Leadership Strategies for Employees

- Offer Employee “Benefits”
  - Downpayment
  - Direct Mortgages
- Help build employee housing
  - Use or buy land
  - Partner with public surplus property
- Examples:
  - Universities, School Districts, Hospitals
- Leadership Strategies
  - Incentivize businesses to create more employer-assisted housing opportunities for workforce



# Going Forward

- American Dream = Unparalleled asset-building for working families
- Crisis offers an opportunity & challenge
  - Prices are at an all-time low
  - But credit is disappearing
- We can innovate quickly & responsibly
  - For renters: IDA, credit, information, & rent
  - For buyers: shared equity, alternative ownership, energy efficiency
  - For employers: downpayment, mortgages, and supply



# For More Information

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