

It's Important to Think About Assets

- Income is important, but wealth has a more long-lasting effect
 - Cushion
 - Leverage
 - Intergenerational transfer
 - Psychology
- Asset poverty is even more pronounced than income poverty
- Asset inequality is greater than income inequality

Determinants to Building Assets

■ Individual

- Economic resources and needs
- Social networks
- Financial literacy
- Psychological variables

■ Institutional

- Access
- Information
- Incentives
- Facilitation
- Expectations
- Restrictions
- Security

Homeownership's Role in Asset-Building

■ Benefits

- Shelter as well as investment
- Stability
- Status
- Opportunity to leverage that is widely available and frequently non-recourse
- Easily used as collateral
- Externalities—community stability

■ Concerns

- Highly leveraged
- Highly concentrated
- High transaction costs
- Requires intermittent but continuing maintenance and related costs (e.g., property taxes) that can be large and unpredictable
- Complex financing instruments
- “Stickiness”
- Prices can in fact go down

Improving the Odds – The Obvious

- High quality personal finance education from childhood
- Effective pre- and post-purchase counseling, including instruction in home maintenance
- Education, licensing and responsibility standards for brokers and others dealing directly with consumers
- Enhanced credit score accuracy
- Underwriting standards that relate clearly to ability to repay, with verified information
- Well-designed and enforced appraisal standards
- Enforcement of anti-discrimination laws

The Goal: A Good Loan

- **Transparent:** Consumer understands both advantages and risks of product
 - Simpler products
 - Clear, balanced, timely disclosure
 - Quality advice
- **Fairly-priced:** Priced in a manner consistent with underlying risk and cost
 - Models complete and verified
 - Incentives aligned
 - No discrimination, including geographic discrimination
- **Net benefit:** Consistent with long- and short-term interests of consumer, who has a reasonable prospect of repaying
 - At end, consumer should have greater net worth

Improving the Odds--Further Afield

- Understanding the transportation and energy implications of housing choices and doing something about them
- Product limits
- Product innovations, such as automatic savings, shared equity
- Default products
- Non-fee options, e.g., community land trusts, co-housing
- Timely and accurate comparative data about firms' mortgage offerings and performance, including in non-prime sector
- Safe, affordable, locationally-desirable rental housing