PRELIMINARY RESEARCH

Prepared for: Task Force Addressing Racial Disparities in Home Ownership
Date: 7-29-2019
Written by: Melissa Leoni
Amie Fender-Sosa
Edited by: Matt DeRosa
Danielle Ross

LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

The Task Force on Addressing Racial Disparities in Homeownership has been tasked with identifying the barriers to home ownership that people of color face in Oregon and developing recommended solutions, including legislation, to modify practices or procedures for mortgage loan applications and approvals to eliminate any impermissible discrimination or barriers and to improve other conditions that reduce or prevent home ownership among people of color in this state.

The Task Force meetings from October 2018 to January 2019 focused on identifying the systemic barriers to homeownership for people of color. This document contains initial research on the 13 barrier categories identified and their related challenges or issues to provide some basic information on background, current efforts, and possible policy options. The July 29 and August 14, 2019 meetings will be focused on discussing each barrier to identify policy solutions for further research.

TASK FORCE PROBLEM STATEMENT

Oregon's communities of color do not have equal, fair, or equitable access to homeownership. A comprehensive review of public, private, and NGO data sources show that communities of color own homes at lower rates than their white counterparts.

These disparities are the result of historical and current discriminatory housing policies and practices, disparate access to credit, generational poverty, and racial biases, which are exacerbated by present-day barriers that disproportionately impact Oregon's communities of color.

2018 State of the Nation's Housing Report

While most demographic groups shared in the recent gains, homeownership trends by race/ethnicity and age have diverged sharply over the past 30 years. The homeownership rate among Asians increased 7.1 percentage points between 1987 and 2017, to 55.8 percent, the rate for Hispanics increased 5.7 percentage points, to 46.2 percent, and the rate for whites increased 3.6 percentage points, to 72.3 percent.

In contrast, black households lost ground over this period, with their homeownership rate of 43.1 percent in 2017 standing 2.7 percentage points below the 1987 level. Moreover, the black homeownership rate is also 6.6 percentage points below its mid-2000s peak, considerably more than the 5.0 percentage point difference for Asians, 3.4 percentage point difference for Hispanics, and 3.7 percentage point difference for whites. Taken together, these trends mean that while the Hispanic-white and Asian-white homeownership gaps have narrowed somewhat over the past three decades, the black-white gap has widened substantially.

Table of Contents

I. FINANCES

Finances have been identified as a barrier to homeownership for communities of color because of the disparities in income and wealth between communities of color and white Oregonians and the associated challenges of accumulating a down payment on a home.

The average monthly earnings for Oregonians in 2017 was $4,355 (per person). The average monthly earnings for communities of color was $5,332 for Asian, $3,635 for Black or African American, $3,591 for two or more race groups, $3,231 for Native Hawaiian or Pacific Islander, and $3,122 for American Indian or Alaska Native (Oregon Employment Department and U.S. Census Bureau Quarterly Workforce Indicators). Except for the Asian community, the average monthly earnings for communities of color are lower than those of non-Hispanic Whites ($4,369).

According to the 2018 Harvard State of the Nation's Housing report, the monthly payment for the median single-family home purchased in 2017 ($247,200), assuming a 30-year loan with a 3.5 percent down payment at the average interest rate, would total $1,620. This is more than 30 percent of the average monthly earnings for Oregonians (Asian is the closest at 30.3 percent). However, the 2016 median priced home in Oregon was higher than the 2017 national figure ($292,000[1]) and interest rates are rising; home prices and loan interest rates are both factors that increase monthly mortgage payment amounts.

The US Department of Housing and Urban Development (HUD) defines households who pay more than 30 percent of their income for housing as "cost-burdened" and those who pay more than 50 percent of household income for housing as "severely cost-burdened." In the city of Portland, 40 percent of homeowner households paid more than 30 percent of their income toward housing costs between 2010 and 2012.[2]

Down Payment Accumulation

1. Background: A down payment is the amount of cash a buyer uses to purchase a home and is often referenced as a percentage of the purchase price a buyer pays at closing. A down payment of 20 percent is often seen as optimal, but some programs and financial institutions allow down payments of as little as 3.5 percent. For the median priced home in Oregon ($292,000), a 3.5 percent down payment is $10,220; a 20 percent down payment is $58,400[3].

---

[1] Housing Finance Policy Center, Urban Institute. "Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability". Appendix B, Page 24. https://www.urban.org/sites/default/files/publication/94801/barriers_to_accessing_homeownership_1.pdf.
[2] US Census Bureau, American Community Survey, 2010-2012, http://www.governing.com/gov-data/economy-finance/housing-affordability-by-city-income-rental-costs.html
[3] Housing Finance Policy Center, Urban Institute. "Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability" Appendix B, Page 24.

Saving for a down payment is a barrier to homeownership. With stagnating current incomes and rising rents and other costs of living, it is increasingly difficult for many individuals to accumulate a down payment, even one as little as 3.5 percent. For communities of color with lower average incomes, saving for a down payment becomes even more challenging.

2. Current Law, Policies or Programs:

a. **Down payment assistance programs**. Down payment assistance is a set amount of funding provided by a local or state housing authority, nonprofit, or lender to qualified homebuyers to help with purchase or closing costs. The Oregon Housing and Community Service's (OHCS) Down Payment Assistance for First Time Homebuyers program, funded through the state's document recording fee, provides homebuyers who have completed a homeownership education program up to $15,000.00 for down payment and/or closing costs.

According to the Urban Institute, as of 2017 there were 79 active down payment assistance programs in Oregon. All down payment assistance programs are not available from all lenders, and programs have different eligibility requirements. Data from OHCS reports that approximately 45 percent of the use of down payment assistance has been by communities of color.

b. **Individual Development Accounts** (IDAs) are matched savings accounts that can be used to accrue a down payment. Every dollar saved by a participant is matched by the program, typically three dollars for every one dollar saved (in 12 months). In the 2017 program year, the Oregon IDA Initiative provided $6 million in matching funds to 1,108 program completers who collectively saved approximately $2.5 million. The average IDA completer deposited $2,300 into their IDA over 29 months and earned $5,500 in match funds towards their asset purchase. According to the Initiative's January 2019 report, many savers for homeownership noted in surveys and interviews that the IDA was essential in helping them buy into a challenging housing market.[4]

c. **Tax-advantaged first-time homebuyer down payment savings accounts**. Oregon's program created in 2018 (House Bill 4007) allows individuals to create a first-time home buyer savings account within a financial institution to pay or reimburse eligible costs to purchase a single family residence and to deduct up to $5,000 in contributions ($10,000 for married couples filing joint tax returns) per year beginning in 2019. The

[4] Amy Stuczynski, Neighborhood Partnerships. "2018 Annual Report on the Oregon Individual Development Account (IDA) Initiative" January 2019.

deduction starts phasing out for taxpayers whose adjusted gross income is $104,000 ($149,000 for joint returns) or higher.

3. Policy Options:

    a. Expansion or targeting of existing programs, including down payment assistance, down payment savings credits, and IDAs, to ensure that assistance is available to the communities that need it most.

    b. Limit the mortgage interest tax deduction and use revenues to support the expansion of down payment assistance or accumulation programs.

    c. Increase the visibility of and access to down payment assistance programs and improve understanding of potential borrowers through consumer education. Make programs and training more accessible through media channels, employers, and counseling, real estate, and lending professionals.

Affordable Wages

1. Background: Average incomes are lower for communities of color than for whites in Oregon. One way to increase income, and employment stability, is through postsecondary education and workforce training that helps move individuals into higher-paying jobs.

    Career pathways are an intentionally designed series of connected training and support services that help individuals develop skills, earn credentials, and find and retain employment in high-demand occupations and improve career opportunities for adults and youth. Career pathways are codified by the Workforce Innovation and Opportunity Act of 2014 and should be a key component in workforce development policy and practice. However, career pathway programs and funding often focus on the initial steps leading to entry-level jobs, often with low wages. Credentials, generally certificates of one year or less aligned with industry requirements, should allow individuals to progress in their training in manageable chunks, and progress to more advanced credentials and degrees.

2. Current Law, Policies or Programs: The Department of Labor's Employment & Training Administration (ETA) funds job training programs to improve the employment prospects of adults, youth, and dislocated workers. Programs are aimed at boosting workers' employability and earnings and are delivered primarily by states through the American Job Center Network (WorkSource Oregon), which is a partnership between the Oregon Employment Department, local workforce development boards, and other state and local agencies and is tailored to local economies.

The Governor's Future Ready Oregon policy agenda lays out pathways to provide opportunities for adult Oregonians to "skill-up" and land a better job, one that local businesses need filled, including creating new registered apprenticeships and developing training pathways in health care industries.

The ETA Division of Indian and Native American Programs (DINAP) Workforce Innovation and Opportunity Act Section 166 grantees and the Department of Labor share a vision of providing quality employment and training services to tribes, tribal organizations, Alaska Native entities, Indian controlled organizations and Native Hawaiian organizations serving unemployed and low income Native Americans, Alaska Natives, and Native Hawaiians. Funding is provided by grants. In Fiscal Year 2018, three Oregon tribes and one tribal organization received approximately $850,000 for training services in Oregon.

3. Policy Options: Enhancing the partnerships between local workforce development boards and culturally-specific community organizations, homeownership education programs, and mortgage readiness programs.

Disconnect Between Income and Market Prices

1. Background: The gap between wages and housing costs has been increasing as the value of homes has been appreciating at a geometric rate, while incomes remain stagnant or have barely risen. This drastically reduces the ability of low-to-moderate income prospective homeowners to buy a home. Home construction also remains low and has not kept pace with population growth, which has also contributed to the increase in home prices.

2. Current Law, Policies or Programs:

   a. Down payment assistance programs or Individual Development Accounts provide additional resources for down payments that allows low-to-moderate income homebuyers to afford a higher purchase price. However, current home prices may still result in monthly mortgage payments that exceed recommended debt-to-income guidelines.

   b. Shared equity programs allow income eligible families to purchase homes at below-market rates, and the program keeps a share of the home's equity so the home remains affordable to other low-to-moderate income homebuyers. Because these programs reduce the purchase prices and total mortgage loan amount, monthly payments may be more affordable to low-to-moderate homebuyers. These types of programs can include deed restrictions, community land trusts, or limited equity cooperatives. There are concerns about use of this model for addressing racial disparities because it limits the ability of homeowners to accumulate wealth through homeownership and close the racial wealth gap.

c. House Bill 2001 (2019) to allow duplexes, triplexes, fourplexes, and "cottage clusters" on parcels that are currently reserved for single-family houses in cities with more than 25,000 residents.

d. Housing and Urban Development (HUD) Good Neighbor Next Door Sales Program. HUD offers a substantial incentive in the form of a discount of 50% from the list price of the home for law enforcement officers, pre-Kindergarten through 12th grade teachers, firefighters, and emergency medical technicians. In return the homebuyer must commit to live in the property for 36 months as their sole residence.

3. Policy Options: Solutions include reducing the home purchase price, increasing the supply of lower-cost housing, increasing down payment assistance amounts to reduce overall mortgage amounts, reducing interest rates to decrease monthly mortgage payments, and increasing homebuyer income to reduce the percentage of monthly income needed for mortgage debt.

Employment Gaps or Inconsistent Job History

1. Background: Income is one of the factors that determines mortgage loan eligibility. Most lenders want to see a two-year employment work history from borrowers in the same job and same field with a consistent income history. Inconsistent job history or employment gaps can also affect financial readiness and the ability to accumulate a down payment.

2. Current Law, Policies or Programs: Most lenders comply with the underwriting guidelines of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). Compliance with these guidelines allows lenders to sell their loans on the secondary mortgage market to Freddie Mac or Fannie Mae.

3. Policy Options: Policy options for this barrier can't be disaggregated from mortgage loan and credit barriers and are discussed in those sections of this document.

Mortgage Readiness

1. Background: Mortgage readiness means non-mortgage owners who have credit characteristics to qualify for a mortgage, including a FICO greater than 620, back-end debt-to-income ratio of less than 25 percent, no foreclosures or bankruptcies in 84 months, and no severe delinquencies in 12 months.

   Research has shown that pre-purchase counseling may help individuals determine if they are ready for homeownership, connect homebuyers with safer, more affordable mortgage products, and support factors related to sustainable homeownership (improved mortgage literacy, greater appreciation for communication with lenders, and improved underwriting qualifications).[5] Counseling programs can also help potential buyers navigate the homebuying process.

2. Current Law, Policies or Programs: Oregon Homeownership Centers across the state provide a variety of pre-purchase homebuyer education, financial coaching, pre-purchase homebuyer counseling, and financial literacy education services. The Oregon Housing and Community Services department maintains a list of homeownership centers on their website.[6]

   For example, the Portland Housing Center offers culturally specific versions of its Financial Fitness class: Getting Your House in Order, created by and for African Americans, is offered quarterly in Portland; and Decide Tu Futuro, created by and for Latinos, is held quarterly in Washington County.

3. Policy Options:

   a. Pre-qualification programs or identifying individuals (i.e. millennials of color) who are mortgage ready and targeting for appropriate programs/assistance (online, in-person, or culturally specific).

   b. Additional support for non-profits and other organizations to offer community-specific homebuyer or financial literacy courses.

Individual Development Accounts

1. Background: Individual Development Accounts (IDAs) are matched savings accounts that build the financial management skills of qualifying Oregonians with lower incomes while they save towards a defined goal. Participants enroll through one of the many partners across the state, set a goal, and begin saving. Once the participant's goal is reached and all parts of the savings plan are completed, every dollar saved by a participant is matched by the Initiative, typically three dollars for every one dollar saved (in 12 months).

   The IDA 2018 Annual Report also describes that the Initiative has consistently reached its statutory annual limit on the amount of tax credit-qualifying contributions it can raise. "Programs have applied for and received funding from foundations and other funders. Perhaps the largest source of additional funding was through the federal Assets for Independence (AFI) IDA program. Since its inception, programs in Oregon had been awarded nearly $13.5 million from AFI. Because AFI was eliminated in 2016, no new funding is

[5] Marina L. Myhre, Ph.D. Nicole Elsasser Watson, U.S. Department of Housing and Urban Development. *Housing Counseling Works*.
[6] Oregon Housing and Community Services. *Oregon Homeownership Centers.* https://www.oregon.gov/ohcs/HD/SFF/brochures/Oregon-Housing-Centers.pdf, Revised September 26, 2018.

available from this source, and as programs spend down and complete their awards, they will face a reduction in resources for IDAs.” [7]

2. Current Law, Policies or Programs: The Oregon IDA Initiative is funded by a tax credit authorized in ORS 315.271. Credits are capped at $7.5 million a year. In 2019, Senate Bill 790 and House Bill 3133 would have increased the amount of the tax credit up to 100 percent of a taxpayer's donation to fiduciary organizations for distribution to IDAs and would have raised the total amount available for tax credits to $15 million.

3. Policy Options:

   a. Increasing the total amount available for IDA tax credits or accelerating match earnings to benefit those saving for homeownership.

   b. Additional targeted promotion of IDAs through mortgage readiness programs or other culturally-specific community organizations.

[7] Amy Stuczynski, Neighborhood Partnerships. “2018 Annual Report on the Oregon Individual Development Account (IDA) Initiative” January 2019.

II. CREDIT

History of Credit and Predatory Lending

Credit evaluation was standardized in the late 1980s. Previously, credit was extended based on reputation and relationships, and later, a various hodgepodge of data collection systems that were severely subjective. Presently, "the big three" of credit information collection and reporting are Experian, Equifax and TransUnion. After the passage of the Fair Credit Reporting Act (1970), to resolve the inconsistencies in interpreting and comparing the three agencies' reports, they worked with Fair, Isaac and Company, now known as FICO, to create a new, singular, algorithm. In 1989, they introduced the industry-standard credit score, which is not much different from the algorithm used today.

Historically, minorities in the United States have not had equal access to affordable, safe credit. For more than half of the twentieth century, institutionalized, discriminatory systems labeled communities of color high risk, and those geographic areas were redlined on real estate maps. (Redlining was an institutionalized form a racism, a systematic process whereby lending institutions refused to fund homes for blacks in certain neighborhoods and offered arbitrarily high rates when they would fund. Redlining was adopted by the Federal Housing Administration in 1934.)

"Loans made to residents who lived in these communities—if they were made at all—were extremely expensive. As a result, communities of color had to rely on fringe lenders, who only reported negative data to credit bureaus. This has led to a cycle of thin credit histories and subprime loans, which are harder to repay due to higher interest rates and faster repayment periods. Because of this, African Americans and Latinos were more likely to have poor payment histories, which affect credit scores."[8] Before the Great Recession, persons of color were also steered toward subprime home loans, even when they qualified for prime loans, which has contributed to the increased foreclosure rate for families of color.[9] Blacks and Hispanics face a foreclosure rate double that of white households, according to the Center for Responsible Lending.[10] This eliminated decades of headway in shrinking the racial wealth gap.[11] High-cost loans contributed to these results.[12]

Credit's Relationship to Mortgage Interest Rates

A good credit score is vital in today's market. Credit scoring models are not only often determinative in the home loan process, they are used to vet job applicants, determine

[8] Shelterforce, Can Including Rent and Utility Payments in Credit Scores Reduce Racial Disparities in Lending? https://shelterforce.org/wp-content/uploads/2019/05/TheAnswer_194.pdf

[9] National Fair Housing Alliance, Discriminatory Effects of Credit Scoring on Communities of Color, https://nationalfairhousing.org/wp-content/uploads/2017/04/NFHA-credit-scoring-paper-for-Suffolk-NCLC-symposium-submitted-to-Suffolk-Law.pdf

[10] Center for Responsible Lending, *Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures*, https://www.responsiblelending.org/research-publication/lost-ground-2011

[11] Pew Research Center, Wealth inequality has widened along racial, ethnic lines since end of Great Recession, https://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/

[12] The National Bureau of Economic Research, What drives racial and ethnic differences in high cost mortgages? The role of high risk lenders. https://www.nber.org/papers/w22004

insurance rates, screen tenants, and filter access to various other products. “Without a prime credit score—commonly defined at or around 660—individuals pay higher interest and fees on financial products like credit cards, car loans, and home loans, if they qualify for those products at all. They also spend more on essential services like car insurance and cell phones. This can create sustained expenses inequality—paying more for credit and everyday needs than necessary on a regular basis. For example, individuals with subprime credit scores spend nearly $3,000 more in interest to purchase a $10,000 used car than a person who has prime credit.”[13] This cost inflation inhibits wealth creation, wealth that could be a down payment on a home.

Credit is a discrimination tool that often does not accurately predict the default rate of a borrower, and according to the National Fair Housing Alliance, “has a disparate impact on people and communities of color,”[14] although this conclusion has been challenged by the Federal Reserve Board.[15] The Federal Trade Commission has even gone as far as stating that insurance scoring is used as a proxy for race.[16]

“Lenders and their trade organizations do not dispute the fact that they turn away people of color at rates far greater than whites. But they maintain that the disparity can be explained by factors the industry has fought to keep hidden, including the prospective borrowers’ credit history and overall debt-to-income ratio. They singled out the three-digit credit score – which banks use to determine whether a borrower is likely to repay a loan – as especially important in lending decisions.”[17]

Not only can negative credit history impede a person’s access to products, services and opportunities, but no credit history can be just as difficult to overcome. A survey by the Federal Insurance Deposit Corporations (FDIC) and the U.S. Census Bureau found that 6.5 percent (8.4 million) of households were unbanked in 2017, and an additional 18.7 percent (24.2 million) of households were underbanked.[18] This means that 45 million Americans lack the data necessary to create a reliable credit score. Fifty-five percent of black households are un- or under-banked, as are 49 percent of Hispanic households., making them invisible to credit bureaus, even if they participate in credit-worthy activities.[19]

“Without a sufficient credit history, consumers face barriers to accessing credit, or pay

[13] Shelterforce, An opportunity for housing providers to help renters build credit, https://shelterforce.org/2019/02/14/an-opportunity-for-housing-providers-to-help-renters-build-credit/

[14] National Fair Housing Alliance, Discriminatory Effects of Credit Scoring on Communities of Color, https://nationalfairhousing.org/wp-content/uploads/2017/04/NFHA-credit-scoring-paper-for-Suffolk-NCLC-symposium-submitted-to-Suffolk-Law.pdf

[15] Does Credit Scoring Produce a Disparate Impact? Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs Federal Reserve Board, Washington, D.C, Avery, et al. (2010).

[16] *Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance*, A Report to Congress by the Federal Trade Commission, July 2007.

[17] Kept Out, A Reveal Article, Glantz, A and Martinez, E, https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/

[18] Federal Deposit Insurance Corporation National Survey of Unbanked and Underbanked Households, https://www.fdic.gov/householdsurvey/

[19] Interview of Frederick F. Wherry, author of “Credit where it’s due.” https://news.yale.edu/2014/06/25/qa-economic-sociologist-frederick-wherry-sleeper-social-justice-issue

more for credit. This problem disproportionately impacts consumers who are Black or Hispanic, and people who live in low-income neighborhoods. It also impacts some recent immigrants, young people just getting started, or people who are recently widowed or divorced who don't have enough credit history on their own. Underserved consumers often resort to high-cost loans that aren't reported to credit reporting agencies, which may not help build a credit history." [20] These disadvantages accrue. "And it's not a one-time problem. Often, people are passing those debts along to their children, who are trying to go to college or start their own families."[21]

Credit Scores and Alternatives

A credit score is how most lenders calculate the likelihood that the consumer will repay a debt pursuant to a contract. According to FICO, 90 percent of the largest banks utilize FICO scores when evaluating risk to make lending decisions. FICO scoring models are periodically updated to adapt to changing consumer practices and risk data. A FICO score (between 300 and 850) is created based on information from a person's credit report, should account for positive and negative information, and is based on the following categories[22]:

- 35 percent debt history
- 30 percent debt level
- 15 percent length of credit history (time since first reported debt)
- 10 percent amount of new debt
- 10 percent type of debt / credit mix

There are weaknesses in this calculation. For example, with FICO Score 8 (the most widely used version), a consumer does not get any credit for paying rent on time, but always gets credit for paying a mortgage on time; this can lead to a less than favorable and inaccurate view of credit risk. Black and Hispanic households are twice as likely to rent their homes than their white counterparts.[23] Consumers are also unaware of errors on their credit reports. In a 2012 study by the Federal Trade Commission, 26 percent of participants had an error in their credit reports.[24]

There are various FICO models, including industry specific scores, the most recent two being FICO 9 and UltraFICO 9, which include positive rent payments. (However, reporting by landlords is voluntary.) Reporting rent payments creates the opportunity to build credit without assuming additional debt and an additional incentive for renters to

[20] Consumer Protection Financial Bureau, CFPB Explores Impact of Alternative Data on Credit Access for Consumers Who are Credit Invisible: https://www.consumerfinance.gov/about-us/newsroom/cfpb-explores-impact-alternative-data-credit-access-consumers-who-are-credit-invisible/

[21] Interview of Frederick F. Wherry, author of "Credit where it's due." https://news.yale.edu/2014/06/25/qa-economic-sociologist-frederick-wherry-sleeper-social-justice-issue

[22] What's in my FICO Score? https://www.myfico.com/credit-education/whats-in-your-credit-score

[23] More U.S. households are renting than at any point in 50 years, Cillfuo, A., et al. Pew Research Center, https://www.pewresearch.org/fact-tank/2017/07/19/more-u-s-households-are-renting-than-at-any-point-in-50-years/

[24] Section 319 of the Fair and Accurate Credit Transactions Act of 2003: Fifth Interim Federal Trade Commission Report to Congress Concerning the Accuracy of Information in Credit Reports, Dec. 2012.

pay on time. In the Power of Rent Reporting Pilot (in which Oregon participated), 79 percent of participant consumers had an increase in their credit scores, with an average score increase of 32 points (on a VantageScore 3.0 scale).[25]

The UltraFICO 9 allows consumers to enhance their score by providing additional data not normally collected, specifically checking, savings, and money market data, which can provide a broader view for lenders to evaluate risk.

The Consumer Protection Financial Bureau (CFPB) is currently exploring the benefits and risks of using alternative data, including access to credit, process complexity, impacts on costs and services, implications on privacy and security and impact on specific groups.[26]

Policy options:

1. Require landlords to report positive payments to at least one credit bureau quarterly (or require them to offer the option to tenants).
2. Exempt non-profit organizations from regulatory and training requirements for small zero-interest loans (between $250 and $2,500) as California has done, to compete with "payday" style lending.[27]
3. Provide free education on understanding the importance of a credit score, how it is calculated, how to increase/ maintain a high credit score. Require practical financial education courses in Oregon's high school curricula, including the importance of credit, the cost of credit and how to repair credit.
4. Define "alternative data" and ensure it meets the regulatory standards for accuracy and fairness required by both the Fair Credit Reporting Act and the Equal Credit Opportunity Act.
5. Require cell phone service providers, cable companies and utility companies[28] to report to a least one credit bureau quarterly (or require them to offer the option to customers). (There are federal regulatory barriers that deter utility and telecommunications companies from furnishing on-time payment data to credit bureaus. Congress was considering bipartisan legislation[29] that would have amended the Fair Reporting Credit Act (FRCA)[30] to clarify that utility and telecommunication companies can report certain data, such as on-time payments, to the big three.)(Options: clarify what is currently permitted under FRCA; pass a joint memorial to congress requesting reintroduction and adoption

[25] Rent Reporting for Credit Building, Credit Builders Alliance, https://prosperitynow.org/sites/default/files/event/2019-04/Credit percent20Building percent20Through percent20Rent percent20Reporting percent20- percent20CBA percent20Slides.pdf

[26] Consumer Protection Financial Bureau, CFPB Explores Impact of Alternative Data on Credit Access for Consumers Who are Credit Invisible: https://www.consumerfinance.gov/about-us/newsroom/cfpb-explores-impact-alternative-data-credit-access-consumers-who-are-credit-invisible/

[27] California Senate Bill 896 (2014)

[28] Let there be light. The impact of positive energy-utility reporting on consumers. An Experian white paper. (2015)

[29] H.R. 435, The Credit Access and Inclusion Act of 2017, https://www.congress.gov/bill/115th-congress/house-bill/435

[30] 15 U.S.C. § 1681

of the Credit Access and Inclusion Act.)

6. If a person is denied credit based on their credit score, that person could have the option to request alternative data be used to evaluate risk level in lieu of their credit score (If it's not a Fannie Mae or Freddie Mac backed loan? Challenges: Federal laws regulate how information can be used in lending decision, although there are several companies, in the U.S. and abroad, that are using alternative data when evaluating loan applicants.[31])
7. Encourage banks to offer a manual underwriting option, allowing for more discretion, comprehensive review (although this leaves more room for subjective evaluation which has pros and cons).
8. Require lenders to use the updated version of FICO, FICO Score 9 (which includes rental payments, etc.) (There are associated expenses with upgrading and the housing Government Sponsored Enterprises (GSE) -- secondary market government sponsored enterprise -- require FICO Classic securitization, with limited exceptions[32].)
9. Request that the GSEs redevelop, expand the credit scoring models they accept. (Fannie Mae and Freddie Mac are required to request applications to evaluate additional credit scoring models for their mortgage underwriting process; outcome is to be determined.[33])

[31] Deserve, Upstart, Fico Score XD and XD 2
[32] Fannie Mae, fanniemae.com
[33] Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174), Sec. 310 (2018)

III. MORTGAGE LENDING

Fifty years after the federal Fair Housing Act (1969) banned racial discrimination in lending, African Americans and Latinos continue to be routinely denied conventional mortgage loans at rates far higher than their white counterparts. There have been various studies on this phenomenon. Most conclude that two of the primary reasons are: 1) certain communities are exposed to high-risk lenders at a higher rate; and 2) these communities receive differential treatment by lenders.

One study conducted by the Center for Investigative Reporting found that “this modern-day redlining persisted in 61 metro areas even when controlling for applicants’ income, loan amount and neighborhood, according to … Home Mortgage Disclosure Act records analyzed by … The Center for Investigative Reporting. The yearlong analysis, based on 31 million records, relied on techniques used by leading academics, the Federal Reserve and Department of Justice to identify lending disparities. The analysis – independently reviewed and confirmed by The Associated Press – showed black applicants were turned away at significantly higher rates than whites in 48 cities, Latinos in 25, Asians in nine and Native Americans in three. [The] analysis included all records publicly available under the Home Mortgage Disclosure Act, covering nearly every time an American tried to buy a home with a conventional mortgage in 2015 and 2016. It controlled for nine economic and social factors, including an applicant’s income, the amount of the loan, the ratio of the size of the loan to the applicant’s income and the type of lender, as well as the racial makeup and median income of the neighborhood where the person wanted to buy property.”

Of similar issue to loan denials is steering borrowers into subprime mortgages. Subprime loans are characterized by high fees and high interest rates, disregarding some of the norms of underwriting, and abnormal built-in restrictions, such as pre-payment penalties.

“Study after study, nationally and in major metropolitan areas, has shown that members of communities of color received subprime loans disproportionately. One study showed that African-Americans were 30% more likely than whites to get higher-priced subprime loans. A recent Consumer Financial Protection Bureau (CFPB) press release notes that, in 2005 and 2006, during the height of the subprime lending boom, more than 53 percent of loans made to African-American borrowers to purchase homes and more than 49 percent of refinancing loans by African-Americans were higher priced loans. Home Mortgage Disclosure Act (HMDA) data confirms the disparity. The disparity remains true even after adjusting for income and credit score. What is worse, many borrowers who received costly subprime loans qualified for, but did not get, more affordable prime loans—almost half, according to one Fannie Mae report.”[34]

[34] Why Responsible Mortgage Lending is a Fair Housing Issue, National Consumer Law Center, Lindsey, D. et al. (2012)

Another paper from Duke University and the Wharton School found that "Controlling for factors, African American and Hispanic borrowers are 103% and 78% more likely to receive high-cost mortgages for home purchases. A large part of the increase is attributable to sorting across lenders (55%-65%), and this, in turn, can be largely accounted for by the lender's ex post foreclosure risk."[35]

One Wells Fargo loan officer stated during litigation, "When I got the referrals [from prime loan officers], it was my job to figure out how to get the customer into a subprime loan. I knew that many of the referrals I received could qualify for a prime loan."[36] These subprime loans generated higher commissions and allowed lenders to maximize profits.

The Urban Institute has been researching and working with stakeholders to find solutions to the continuing racial homeownership gap and found that the first need is to promote an equitable and accessible housing finance system.[37]

Policy options

Illegal Discrimination

The Community Reinvestment Act (1977)"which requires the Federal Reserve and other federal banking regulators to encourage financial institutions to help meet the credit needs of the communities in which they do business, including low- and moderate-income (LMI) neighborhoods"[38]… has not been vigorously enforced in recent years and has several loopholes.

a. Correcting this would require an update to the Community Reinvestment Act, federal level efforts to improve enforcement, and a demand that data collection be improved using updated technology to detect illegal discrimination. Consider passing a joint memorial to Congress.

b. Support legal advocates and housing counselors (legal services, foreclosure prevention counselors, fair housing programs) to ensure the laws are being used to hold lenders accountable.

c. Hold lenders and brokers to similar standards as a securities broker. Create an affirmative fiduciary duty requiring the lender/ broker to recommend loans that are well-suited and advantageous for the borrower.

d. Education: minority borrowers, even those with good credit, are less likely to shop around and compare mortgage options. Partially due to lack of knowledge base from the previous generation. Consider investing in financial education and counseling options, including at the high school level.

---

[35] What Drives Racial and Ethnic Differences in High-Cost Mortgages? The Role of High Risk Lenders. Bayer, P. et al. Oxford University Press (2017)

[36] Jacobson, E. M. (2010) Declaration filed in *Mayor and City Council of Baltimore v. Wells Fargo Bank, N.A.*, 08-cv-00062.

[37] A review of the state of and barriers to minority homeownership, Statement of Alanna McCargo, Vice President Four Housing Finance before the Subcommittee on Housing, Community Development, and Insurance, Committee on Financial Services, US House of Representatives (May 8, 2019).

[38] Community Reinvestment Act, Federal Reserve Board, https://www.federalreserve.gov/consumerscommunities/cra_about.htm

Lender & Broker Incentivization

a. Create a healthy small-dollar / micromortgage market and/ or a low-interest loan program, where Oregon has homes available within certain price brackets.[39] These loans would also assist with initial repair and renovation.[40]

b. Create a program/ organization with brokers and agents that specialize in these populations and types of loans, without incentive for providing higher interest rates or larger loans.

c. Increase counseling and outreach for renters and mortgage-ready millennials.

d. Create a state level public banking institution and allow for municipal-level public banking institutions. Most cities currently bank by collecting revenues and then placing the moneys in commercial banks. Those private banks then choose which projects or industries in which to invest the city's money. With a public bank, cities could determine how to invest funds, which could include funding certain projects at a lower interest rate than a private bank would. The banks would be managed by city employees who have financial expertise, and the priorities could be decided by the voters, such as reinvesting in the community through financing affordable housing. Sometimes roughly half the total cost of building and infrastructure projects stem from lender fees and interest. Several studies have been conducted on municipal and state-level public banking and there are municipal and state-level efforts across the country.[41] North Dakota has a statewide public bank, which is the only kind in the country (not including the territories) and has in operation for a century.[42] The model being proposed in California would be different from North Dakota.[43] An additional benefit could be that research supports that racial discrimination decreases as banking competition increases.[44]

Private Mortgage Insurance

Private mortgage insurance (PMI) is a type of financial risk protection tool that helps guard mortgage lenders from losses should a borrower default on a loan. PMI allows mortgage lenders to accept a lower down payment than they might normally be willing to accept without this added protection. It also makes it easier for a lender to sell high

[39] Alanna McCargo, Bing Bai, Taz George, and Sarah Strochak. Small-Dollar Mortgages for Single-Family Residential Properties. (Washington, DC: Urban Institute, 2018).
[40] Philadelphia Redevelopment Authority, Neighborhood Home Preservation Program, Restore, Repair, Renew, https://philadelphiaredevelopmentauthority.org/restore-repair-renew/#_ga=2.232464092.295385640.1564003629-362814052.1564003629
[41] Public banking efforts in Arizona, Colorado, Connecticut, New Hampshire, New Jersey, New Mexico, Pennsylvania, Albuquerque, Boston, Oakland, Santa Fe, Seattle and Washington D.C. Also see California Assembly Bill 857 (2019).
[42] Bank of North Dakota, https://bnd.nd.gov/the-bnd-story/
[43] Could Public Banks Help California Fund Affordable housing? RouteFifty, Holder, S. https://www.routefifty.com/finance/2019/07/could-public-banks-help-california-fund-affordable-housing/158541/
[44] Does Competition Reduce Racial Discrimination in Banking? Buchak, G and Jorring, A., University of Chicago, (2016)

loan-to-value (LTV) loans on the secondary market. The premium is paid by the borrower. GSEs, such as Fannie Me, require PMI for loans with greater than 80 percent LTV.

In Oregon, in 2016, 56.5 percent of home purchase loans had PMI. Over half of these borrowers had FICO scores at or above 740, but not a large enough down payment.[45] The average PMI premium cost ranges from 0.55 percent to 2.25 percent of the original loan amount per year. The median home value in Oregon is $346,400.[46] Assuming the purchaser put 10 percent down ($34,600) and paid closing costs upfront, with a PMI of 1 percent, the purchaser would pay approximately $3,118 a year, or $260 a month. PMI payments are no longer deductible under the federal tax code.

a. Offer state insurance for lower rates.
b. Encourage in-house mortgages with no PMI.
c. Provide education so borrowers understand how to avoid or eliminate PMI pursuant to the federal Homeowners Protection Act (1998).
d. Create a public state bank or encourage municipal banks.
e. Provide additional down-payment assistance.

Home Mortgage Disclosure Act (HMDA) of 1975

a. One of the main goals of the HMDA is to find discriminatory patterns that may be illegal and enforce anti-discrimination laws. This is difficult to accomplish as reporting by consumers is not consistent, outcomes of investigations are sometimes delayed or not made public and the process lacks full transparency.
b. Oregon could require information be provided on the importance of sharing this data during the homebuying application process, and specifically inform the applicant of the limited use of the data.
c. A joint memorial could be submitted to request a requirement that regulators annually report all fair lending examinations, and include basic information in that report, such as indicators of potential discriminatory activity, identification of the groups thought to be disadvantaged, and the outcome.[47]
d. Other similar recommendations may also require federal-level intervention, such as curtailing steering by requiring objective pricing standards, and requiring subprime lenders to disclose more detailed underwriting data.

Inconsistent Debt-to-Income Requirements

Debt-to-income (DTI) ratio is another value a lender uses to judge repayment risk. This is calculated by dividing all monthly debt payments by gross monthly income. Different regulations regarding the DTI amount for qualified mortgages apply to small lenders and

---

[45] Mortgage insurance data at a glance, Urban Institute (2017) https://www.urban.org/sites/default/files/publication/92681/mortgage-insurance-data-at-a-glance_chartbook_0.pdf
[46] Zillow, https://www.zillow.com/or/home-values/
[47] Unfair lending: The effect of Race and Ethnicity on Subprime Mortgages, Bocian, D et al, Center for Responsible Lending

larger lenders. Fannie Mae recently increased its DTI limit to 50 percent, but also increased the cash reserves and down payment requirements for the highest DTI limits. DTI can also affect the borrower's interest rate. DTI requirements vary by type of loan, the borrower's portfolio, the lender's risk appetite, and whether the lender will keep the loan in-house.

Require banks and credit unions to make their general requirements available online, in a centralized location, to make researching various bank requirements more accessible and improve the ability of a consumer searching for a loan to be matched with the best available loan. (On the consumer end, consider a program similar to ALEX, which helps state employees match with the best health insurance options.)

Language Barriers

In Oregon, approximately six percent of residents are limited English Proficient (LEP), [48] which is defined by the United States Census Bureau as someone who speaks English less than "very well." LEP individuals face significant barriers when attempting to access financial products and services, which are geared toward serving English-language proficient customers.

a. Review language accessibility in the financial sector in Oregon.
b. Require a written translation or verbal interpretation of closing documents in the preferred language of the borrower.
c. After closing, require servicing documents be provided in the preferred language of the borrower.
d. Require banks to provide interpreters when communicating substantive changes.
e. Require banks to accept certain documents in languages other than English.
f. Provide housing counselors who speak other languages.

Sources of Funding

a. Provide education to mortgage professionals regarding down payment programs.
b. Work with organizations who provide down payment assistance to discuss options to streamline transaction processes.
c. Increase access and visibility of down payment programs.
d. Increase funding for down payment programs.
e. Focus on and use down payment funds in historically redlined areas and for groups that were historically and systematically kept out of homeownership.
f. Student loan forgiveness

[48] United States Census Bureau, American Community Survey (2017)

IV. HOUSING PROGRAMS & POLICY GAPS

Staff have drafted and updated a separate memo[49] describing the home ownership programs offered by public and private organizations, primarily for first-time homebuyers with low to moderate incomes, often administered by or partnered with culturally-specific organizations. In addition to the challenges discussed below, some of these programs may be further addressed in other sections of this document.

Down Payment Assistance for People Earning Between 80-100 Percent Of Area Median Income

1. Background: Eligibility for affordable housing programs is based on a household's income relative to Area Median Income (AMI) for their community and household size. Programs through HUD or OHCS include rental assistance, homeownership help, and foreclosure prevention. Eligibility differs from program to program and is typically available to households at or below 80 percent of AMI (considered "low income") with some programs specially carved out for those households at or below 50 percent of AMI (very low income) or 30 percent of AMI (extremely low income). Between 80 to 100 of AMI is often where there is both the need for down payment assistance and the ability to afford current purchase price and the associated mortgage.

   With the growth in home prices and the stagnation of wages, the term middle-income housing has begun to be used to describe housing that is affordable to households making between 80 percent of AMI and 120 (or 150) percent of AMI.

2. Current Law, Policies or Programs: House Bill 2812 (2019) allows funds in the Home Ownership Assistance Account, which includes down payment assistance, to be used by OHCS to support households with below area median incomes (less than 100 percent AMI).

3. Policy Options:

   a. Retain current AMI thresholds for recommendations.

   b. Identify alternative AMI thresholds (minimums and/or maximums) for recommendations to address specific barriers to homeownership for communities of color.

Goals for Serving Communities Of Color

1. Background: State agencies have legislatively adopted Key Performance Measures (KPMs), which are reported on and adopted every two years during the legislative budget process. Measures must gauge progress toward and

[49] Legislative Policy and Research Office. "Home Ownership Programs Memo." https://olis.leg.state.or.us/liz/2019I1/Downloads/CommitteeMeetingDocument/203885, Page 10.

agency's goals and mission, identify performance targets to be achieved during the two-year budget cycle, and use accurate and reliable data sources, among other criteria.

2. Current Law, Policies or Programs: The Oregon Housing and Community Services Department (OHCS) has nine KPMs, including two for homeownership:

    - Percentage of households at or below the state's median household income served by our single-family programs. (Target is 55 percent; last reported result for 2018 is 69 percent)
    - Percentage of OHCS residential loan program loans issued to people of color. (Target is 20 percent; last reported result for 2018 is 25 percent)

    In 2018, OHCS adopted a five-year Statewide Housing Plan[50] that articulates how they will pave the way for more Oregonians to have access to the stable housing opportunities necessary for self-sufficiency. The plan includes two priorities with measurable goals related to racial disparities in homeownership:

    - Equity and Racial Justice: Advance equity and racial justice by identifying and addressing institutional and systemic barriers that have created and perpetuated patterns of disparity in housing and economic prosperity.
        - GOAL A: Communities of color experience increased access to OHCS resources.
        - GOAL B: Create a shared understanding of racial equity.
    - Homeownership: Provide more low- and moderate-income Oregonians with the tools to successfully achieve and maintain homeownership, particularly in communities of color.
        - GOAL A: Assist 6,500 households in becoming successful homeowners.
        - GOAL B: Double the number of homeowners of color in OHCS homeownership programs.

    The Home Mortgage Disclosure Act (HMDA), enacted in 1975, requires many financial institutions to maintain, report, and publicly disclose loan-level information about mortgages. These data help show whether lenders are serving the housing needs of their communities; they give public officials

[50] Oregon Housing and Community Services. *Breaking New Ground: Oregon's Statewide Housing Plan Summary*. https://www.oregon.gov/ohcs/DO/shp/SWHP-Executive-Summary.pdf, last visited July 22, 2019.

information that helps them make decisions and policies; and they shed light on lending patterns that could be discriminatory.[51]

3. Policy Options: With new measurable goals in the Statewide Housing Plan, the Task Force and OHCS could identify ways to set targets and increase reporting by community of color, especially related to any Task Force recommendations.

Program Capacity in Rural Areas.

1. Background: The Task Force heard from organizational representatives in November 2018 that sustainable leadership and program capacity is a barrier to delivering homeownership programs in rural areas. In small communities, individuals involved in housing organizations are often involved in many other community organizations.

   Capacity building for community organization should include improving volunteer recruitment and ensuring leadership succession, along with other organizational efforts to build the capacity of an organization to effectively deliver programs and services.

2. Current Law, Policies or Programs: There are a couple of federal funding efforts to support rural capacity related to housing.

   The Housing and Urban Development Rural Capacity Building Program enhances the capacity and ability of local governments, Indian tribes, housing development organizations, rural Community Development Corporations (CDCs), and rural Community Housing Development Organizations (CHDOs), to carry out community development and affordable housing activities that benefit low- and moderate-income families and persons in rural areas. Funds may be used for: (1) technical assistance, training, support, and advice to develop business and administrative capabilities; and (2) for loans, grants, or other financial assistance.

   The U.S. Department of Agriculture Rural Development Rural Community Development Initiative Grants are awarded to help non-profit housing and community development organizations; low-income rural communities and federally recognized tribes support housing; and community facilities and community and economic development projects in rural areas. Grants may be used to train sub-grantees to conduct home-ownership education, or to provide technical assistance to sub-grantees on strategic plan development, accessing alternative funding sources, board training, creating training tools, and effective fundraising techniques.

---

[51] Consumer Financial Protection Bureau. *Mortgage Data (HMDA).* https://www.consumerfinance.gov/data-research/hmda/, last visited July 22, 2019.

As discussed in the Funding for Homeownership Programs section, the Oregon Housing and Community Services (OHCS) Statewide Housing Plan includes a rural priority to change the way OHCS does business in small towns and rural communities to be responsive to the unique housing and service needs and unlock opportunities for housing development. The goal for the rural priority is to increase OHCS funded housing development in rural areas by 75 percent. The OHCS strategies for 2019 under this priority include building relationships and partnerships in rural communities and removing systemic barriers to accessing OHCS resources.

3. Policy Options: Best practices including creating a rural focus to existing programs (such as the OHCS priority and goal), adapting funding strategies to support rural communities, or implementing approaches to strengthen and empower rural communities to partner and collaborate on solutions.

Federal 184 Loan Program

1. Background: The Housing and Urban Development (HUD) Section 184 loan program is not widely available. There are complications when it is used with trust land and it may take longer for the loan to close. Additionally, programs for American Indian individuals or families typically require at least one person to be enrolled in a Federally Recognized Tribe, as membership is separate from Native American identity.

2. Current Law, Policies or Programs:

    a. The HUD Section 184 Indian Home Loan Guarantee Program is a home mortgage product specifically designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities. With Section 184 financing, borrowers can purchase a home with a low-down payment and flexible underwriting. Section 184 loans can be used, both on and off native lands, for new construction, rehabilitation, purchase of an existing home, or refinance.

    “The HUD Section 184 Indian Home Loan Guarantee Program has greatly expanded the supply of mortgage credit to Native borrowers. Loans under this program have grown from less than 600 per year before 2005, to over 4,000 loans in 2015 and an aggregate total of more than 6,000 as of 2017. However, most of this growth bypassed trust lands, resulting in 93 percent of HUD 184 loans being made on fee land in recent years. Other federal programs support mortgage lending on trust lands, such as the USDA Rural Housing Services 502 Direct Loan Program and the VA Native American Direct Loan Program. On a smaller but vitally important scale, community development financial institutions (CDFIs) and tribally owned financial institutions, including banks, credit unions, and internal mortgage offices, provide loan products and mortgage services to Native borrowers.

Nevertheless, developing trust lands for homeownership remains a serious challenge and involves a lengthy and often burdensome process that reduces the appeal of lending on tribal trust land, even with the federal guarantee."[52]

b. The U.S. Department of Agriculture Rural Development offers Single Family Direct Home Loans, also known as the Section 502 Direct Loan Program, to assist low- and very-low-income applicants obtain decent, safe, and sanitary housing in eligible rural areas. Applicants must have an adjusted income that is at or below the applicable low-income limit for the area where they wish to buy housing. Loans can be used on trust land.

c. The Native American Veteran Direct Loan program provides eligible Native American Veterans and their spouses the opportunity to use their Department of Veterans Affairs (VA) home loan guaranty benefit on Federal trust land to finance the purchase, construction, or improvement of homes on Federal Trust Land, or to refinance a prior loan.

d. The Native American Homeownership Initiative down payment and closing cost assistance program is offered by Federal Home Loan Bank (FHLB) of Des Moines. In 2019, only $500,000 is available for the FHLB Des Moines service area, which includes Oregon. One of the homebuyers must be an enrolled member of a Federally Recognized Tribe, a member of an Alaskan Village or Regional Corporation, or eligible Native Hawaiian.

e. The Oregon Housing and Community Services Oregon Bond Residential Loan Program is available to use on trust land.

3. <u>Policy Options</u>:

a. Homeownership programs and investment for tribal members on or off trust lands.

b. Support for or expansion of culturally-specific homeownership outreach and education programs for Native Americans and American Indian and Alaskan Native populations in Oregon.

[52] Federal Reserve Bank of Minneapolis and Enterprise Community Partners. Page 6. "Tribal Leaders Handbook on Homeownership" https://www.enterprisecommunity.org/resources/tribal-leaders-handbook-homeownership-7205, last visited on July 16, 2019

V. FUNDING FOR HOMEOWNERSHIP PROGRAMS

This category focuses on the funding available for current homeownership programs and gaps in available capital, available funding, and per capita program delivery.

Available Capital for and Investments in Existing Programs

1. Background: The Task Force heard from several organizational representatives in November of 2018 that available capital was a barrier to serving more Oregonians, including communities of color. Similarly, the Task Force also heard that additional investments in current programs were required to meet previously unmet eligibility and needs.

2. Current Law, Policies or Programs: Oregon Housing and Community Services (OHCS) entered the 2019 Legislative Session with a bold agenda to advance the Statewide Housing Plan and address needs across the housing spectrum, from homelessness to stable rental housing to homeownership. The Legislature made a historic investment of $ $331.9 million for the 2019-2021 biennium in OHCS, compared with $163.3 million for the 2017-2019 biennium. OHCS will bring together cross-sector partners to build a lasting housing infrastructure that serves all Oregonians in communities large and small. The following are the programmatic budget allocations related to homeownership:

   - $5 million for the Greater Oregon Housing Accelerator to help local governments and employers bring new housing for workers so they can live in the communities where they work.
   - $150 million for the Local Innovation and Fast Track (LIFT) Housing Program to provide housing to underserved populations, namely communities of color and rural communities. Critically, the LIFT program also includes homeownership opportunities that allow families to build intergenerational wealth and stability.
   - $15 million for House Bill 2896 and Senate Bill 586 to provide additional protections and opportunities for residents of manufactured housing.
   - $1.5 million to support the Oregon Foreclosure Avoidance program and other homeownership counseling.

3. Policy Options: As the Task Force considers specific program or policy recommendations to address identified barriers, a conversation is needed with OHCS about whether the budget and staff capacity exists within the agency or its partners to implement those recommendations. The final Task Force recommendations should include a description of the amount of

additional investment or capacity needed for implementation to make meaningful progress in addressing the barrier.

Attractiveness of Certain Loans or Programs to Funders

1. Background: Delivering homeownership programs to communities of color in rural parts of the state can be more expensive than in areas with larger or more concentrated populations, making the costs per person higher. The Task Force also heard that some funders consider "return-on-investment" and therefore may be less interested in supporting program delivery in rural areas.

2. Current Law, Policies or Programs: In 2018, OHCS adopted a five-year Statewide Housing Plan that articulates how they will pave the way for more Oregonians to have access to the stable housing opportunities necessary for self-sufficiency. The Plan includes a rural priority to change the way OHCS does business in small towns and rural communities to be responsive to the unique housing and service needs and unlock opportunities for housing development. The goal for this priority is to increase OHCS funded housing development in rural areas by 75 percent.

   The 2019 strategies for rural communities are:

   - Facilitate access to OHCS resources and information by partners in Oregon's small towns and rural communities by building consistent and reliable working relationships with local service providers, development partners, city and county governments, and tribal communities.

   - Remove systemic barriers to accessing OHCS resources by tailoring programs intended to serve small towns and rural communities to the needs and context of those areas.

   - Engage the agricultural worker community to understand the housing and service needs of Oregon farmworkers and develop strategies to meet these needs.

   In addition to the funding described in the previous subsection, two additional programs and budget additions support rural homeownership. House Bill 2056 modifies the Housing Development Guarantee to lessen the risk for housing developers in rural communities. The account has an existing coffer of $15 million. Under House Bill 2003, OHCS will create regional housing needs analyses with the Department of Land Conservation and Development and assist local governments in the development of a housing production strategy.

3. Policy Options:

   a. Consider funding distribution formulas that account for population density.

b. Leverage state investments strategically with nonprofit or philanthropic organizations to increase available per capita funding.

c. Explore ways to systematically deliver certain services, for example language access, to reduce costs to individual providers.

VI. OTHER POLICIES & REGULATIONS

This category contains the barriers to homeownership that did not thematically fit into the other categories.

Mortgage Interest Deduction

1. Background: The mortgage interest deduction (MID) is a federal itemized deduction codified in federal tax statutes and is applicable to Oregon through Oregon's connection to federal taxable income and is applicable to the mortgage interest paid on the loan to secure a home (primary home or second home).

2. Current Law, Policies or Programs: The MID is the state's largest housing subsidy at $1 billion per biennium, and 60 percent ($600 million) goes the top 20 percent income bracket ($91,000 and above). The MID does not provide up-front assistance to first-time homebuyers like down payment assistance; it provides a tax credit to existing homeowners who itemize.

3. Policy Options: There have been recent legislative discussions about eliminating or limiting the mortgage interest deduction in Oregon as a means of making funding available for housing programs. House Bill 3349 in 2019 would have disallowed the MID for a taxpayer's second home, disallowed the MID for taxpayers with adjusted gross incomes (AGI) of more than $250,000, and linearly phased out the MID for taxpayers with AGIs between $200,000 and $250,000. The resulting General Fund savings would have been directed to promoting affordable homeownership and preventing homelessness. The Legislative Revenue Office reported that approximately 96 percent of all taxpayers have an AGI of less than $200,000 and estimated that the measure would have eliminated or limited the mortgage interest deduction for about 70,000 taxpayers per year.

Renting vs Buying

1. Background: Research suggests that low-income housing assistance is biased against homeownership because the poorest homeowners are less likely than renters with similar incomes to obtain subsidies and homeownership rates are higher for unsubsidized households with the lowest incomes, while the bulk of homeownership subsidies are provided to middle- and upper-income households through homeownership tax provisions.[53] Housing assistance is a continuum, and homeownership is a critical element that needs public support and investment.

[53] Edgar O. Olsen. The Urban Institute. *Promoting Homeownership among Low-Income Households*. 2007. https://www.urban.org/sites/default/files/publication/46626/411523-Promoting-Homeownership-among-Low-Income-Households.PDF, last visited June 20, 2019.

2. Current Law, Policies or Programs:

    a. **Federal Programs**. The Housing Choice Voucher (HCV) homeownership program allows families that are assisted under the HCV program to use their voucher to buy a home and receive monthly assistance in meeting homeownership expenses. The HCV homeownership regulations include a down payment grant option, but funding has not been appropriated for this purpose, and this regulatory provision has never been implemented. The HCV homeownership program is available only to families that have been admitted to the HCV program, and it is not offered by every Public Housing Agency (PHA). PHAs have discretion to determine whether to implement the HCV homeownership program in their jurisdictions. In Oregon, 12 PHAs have used the HCV program since 2013, averaging approximately 125 contract per year.

       The HOME Investment Partnerships Program is a block grant for housing assistance allocated by formula to state and local governments. The program allows HOME funds to be used for grants, direct loans, loan guarantees or other forms of credit enhancements, or rental assistance or security deposits. In Oregon between 1992 and 2015, only 25 percent of completed projects were for homebuyers. Rental projects comprised 68 percent of all completed projects, while homeowner rehabilitation projects were seven percent.[54]

    b. Oregon Housing and Community Services has recently created and staffed a Homeownership Division, and its new Strategic Plan recognizes the importance of homeownership in the continuum of housing services.

3. Policy Options:

    a. Increase the use of Housing Choice Vouchers (HCV) for homeownership.

    b. Increase lease-purchase mortgage programs ("rent-to-own") that allow households to build a positive credit history and increase savings while locking in lower interest rates and home prices.

    c. Identify ways to move people along the housing continuum from renting to homeownership in conjunction with other wealth building supports such as IDAs and homebuyer education or training.

Professional Licensure Requirements

1. Background: While discrimination is illegal, research has identified new forms of racial bias in housing. Racial steering, selective advertising practices, and

[54] Data compiled by Legislative Policy and Research Office from HOME Funded Activity by 114th Congressional Districts. http://hud.maps.arcgis.com/apps/Solutions/s2.html?appid=014121b42f574f05aa13a302df9c9173, last visited July 22, 2019.

providing information on fewer homes are all current forms of discriminatory treatment in housing. Forms of discrimination for home mortgage applicants have also diminished and changed and now include predatory practices, subprime lending, and unfavorable loan terms for people of color.

At a couple of meetings, the Task Force discussed ways of improving training on implicit bias and language barriers to make real estate and lending professionals more aware of these new forms of bias. The Task Force also identified the potential for experience ratings to change the financial incentives for these professionals to provide exceptional service to all potential home buyers. Lastly, since the current system doesn't financially reward those professionals for the completion of more complicated purchase transactions, the Task Force discussed creating a special designation for those who specialize in certain home ownership programs in order to better inform consumers and change the incentives for brokers and other professionals.

2. Current Law, Policies or Programs:

The Department of Consumer and Business Services establishes by rule the procedures for licensing and renewing a license for mortgage bankers, mortgage brokers, and mortgage loan originators. Mortgage bankers and mortgage brokers must meet the training, education, and continuing education requirements for mortgage loan originators.

The education and testing requirements for applicants for a mortgage loan originators license includes 20 hours of education, including time dedicated to federal laws and regulations, ethics, and lending standards applicable to nontraditional mortgages (ORS 86A.215). Renewal of the mortgage loan originators license requires meeting continuing education requirements of at least eight hours, including time dedicated to federal laws and regulations, ethics, and lending standards applicable to nontraditional mortgages (ORS 86A.221). Courses are Nationwide Mortgage Licensing System and Registry reviewed and approved.

The Oregon Real Estate Agency licenses real estate brokers and principal brokers. A broker license is the entry-level license in Oregon and is supervised by a principal broker. A licensed principal broker can conduct professional real estate activity individually or with other real estate licensees. A real estate broker must complete the 150 hours of required broker pre-license education from an agency-approved real estate school. Principal brokers must complete the 40-hour Brokerage Administration and Sales Supervision (BASS) course.

To renew an active license, a real estate licensee must complete 30 hours of real estate continuing education courses during the two years preceding the renewal. The 30 hours must include at least three hours in a course on recent changes in real estate rule and law approved by the Real Estate Board, and an advanced course in real estate practices approved by the agency if the real estate broker is renewing an active license for the first time. The agency, with advice from real estate professionals and educators, sets rules for continuing education providers and the course topics and learning objectives meet for the required continuing education credit.

3. Policy Options:

   a. Changing licensure requirements or specifying content for continuing education for real estate and mortgage lending professionals. For example, establishing a reduced license fee to increase the diversity of professionals, or for professionals with demonstrated service to communities of color in conjunction with an agency or industry certification program.

   b. Creating an experience rating program for real estate and mortgage lending professionals.

   c. Creating a state agency or industry-recognized certification for companies or specific professionals who specialize in assisting customers with down payment assistance, IDA, bond program, and other homeownership programs.

VII. BUILDING & PURCHASING COSTS | SUPPLY | LAND

High land costs, material costs, and rising labor costs have driven up the cost of housing faster than income, and they have constrained construction over the past decade. Housing inventory is extraordinarily low compared to need. Even though the current U.S. population is about 45% greater than it was in the 1960s, fewer homes are being built today and every year the shortage increases.[55] In addition, builders are focusing on the high end of the market, causing a mismatch in type of housing inventory.

According to the Oregon Office of Economic Analysis, "the housing supply and affordability challenges truly are statewide issues. The increase in new construction activity in recent years has barely kept pace with the increase in population growth. A market imbalance remains."[56]

Policy options

Available Housing Stock

a. Incentivize manufactured and modular housing.[57]
b. Vacancy tax. Consider taxing vacant land and properties to encourage development and placing vacant properties on the market; Florida, California, Illinois, and Michigan have similar disincentives.[58]
c. Provide funds to those who would restore dilapidated homes and put them on the market.
d. Consider ways to increase the availability of construction labor.

Land Costs

a. Take stock of surplus public lands.
b. Subsidize land purchases for certain types of projects.

[55] Jung Hyun Choi, Laurie Goodman, and Bing Bai, "Four ways today's high home prices affect the larger economy," Urban
Wire, Urban Institute, October 11, 2018, https://www.urban.org/urban-wire/four-ways-todays-high-home-prices-affectlarger-
economy.
[56] Oregon's Housing Supply, Lehner, J. (2019), https://oregoneconomicanalysis.com/2019/01/29/oregons-housing-supply/
[57] Laurie Goodman, Edward Golding, Alanna McCargo, and Bhargavi Ganesh, "Manufactured homes could ease the
affordable housing crisis. So why are so few being made?" Urban Wire (blog), Urban Institute, January 29, 2018,
https://www.urban.org/urban-wire/manufactured-homes-could-ease-affordable-housing-crisis-so-why-are-so-few-beingmade.
[58] Housing Development Toolkit, The Whitehouse (2016) https://www.whitehouse.gov/sites/whitehouse.gov/files/images/Housing_Development_Toolkit%20f.2.pdf

c. Consider discussing solutions with the Department of Land Conservation and Development (DLCD).

Construction in Rural Areas

a. Pay system development charges
b. Offer cash rebates on new home construction that are in desired locations. The DLCD may offer funding for these kinds of programs.
c. Invest in high speed internet to draw workers who work remotely

Land Use Policies

a. Review fee structures and allow local governments to set impact and development fees on a per-acre, gross land, or square-foot basis, rather than a per-unit basis, to more accurately reflect true infrastructure costs for residential projects. This will enable higher-density projects to be financially feasible.[59]
b. Shorten lengthy building review and permitting processes that add cost and allow for manipulation by growth opponents and utilize updated technology to decrease costs and uncertainty. [60]
c. Establish zoning that allows high-density residential development in a half-mile radius around high-capacity transit station areas to build up to the allowed height without additional review or approvals, and within a quarter-mile of frequent-service/rapid-service transit lines.
d. Empower the DLCD to audit Oregon cities for adherence to statewide laws requiring clear and objective standards in approving needed housing and meeting existing permitting timelines.
e. Incentivize taller homes with smaller footprints by using a floor area ration (FAR) model similar to one outlined by the City of Portland.
f. Review requirements around system development charges.
g. Review inclusionary zoning laws.
h. Establish density bonuses to incentivize the building of a certain number of units.

Recent Housing Legislation

a. HB 4079 (2016). The Affordable Housing Pilot Program. The program allows two cities, by application, to add new housing units on lands currently outside their urban growth boundaries (UGBs) without going through the normal UGB expansion process. Redmond and Bend are participating.
b. HB 2001 (2019) allows duplexes, triplexes, fourplexes, and "cottage clusters" on land previously limited to single family houses in cities with more than 25,000 residents, as well as smaller cities in the Portland metro area. Cities with at least 10,000 residents are required to allow duplexes in single-family zones.

---

[59] Up for Growth, https://www.upforgrowth.org/research/housing-underproduction-oregon
[60] See San Diego's Expedite Program, Austin's SMART Housing Program and Rhode Island 2009 Expedited Permitting for Affordable Housing Act.

c. HB 2003 (2019) Requires the Housing and Community Services Department with the Department of Land Conservation and Development and Oregon Department of Administrative Services to develop methodology to conduct regional housing needs analysis and, for certain cities and Metro, to estimate existing housing stock, to establish housing shortage analysis and to estimate needed housing units for next 20 years. The report is due March 1, 2021.

d. HB 4006 (2018). According to the DLCD, "In 2018, the Oregon Legislature allocated $1.73 million to the DLCD for housing planning technical assistance in House Bill 4006. The bill allocates funding 'for the purpose of providing technical assistance to local governments in increasing the affordability of housing.' Funding from this program must be expended by June 30, 2019."

VIII. LIST OF ACRONYMS

AFI	Assets for Independence
AGI	Adjusted Gross Income
AMI	Area Median Income
BASS	Brokerage Administration and Sales Supervision
CDC	Community Development Corporations
CDFI	Community Development Financial Institutions
CFPB	U.S. Consumer Protection Financial Bureau
CHDO	Community Housing Development Organizations
DLCD	Department of Land Conservation and Development
DTI	Debt-to-Income Ratio
ETA	U.S. Department of Labor's Employment & Training Administration
FAR	Floor Area Ratio
FDIC	Federal Insurance Deposit Corporations
FHLB	Federal Home Loan Bank
FICO	Fair Isaac & Company
FRCA	Fair Reporting Credit Act (1970)
GSE	Government Sponsored Enterprises
HCV	Housing Choice Voucher
HMDA	Home Mortgage Disclosure Act (1975)
HUD	U.S. Department of Housing and Urban Develpment
IDA	Individual Development Accounts
LEP	Limited English Proficient
LIFT	Local Innovation and Fast Track
LTV	Loan-to-Value Ratio
MID	Mortgage Interest Deduction
NGO	Nongovernmental Organization
OHCS	Oregon Department of Housing and Community Services
ORS	Oregon Revised Statutes
PHA	Public Housing Agency
PMI	Private Mortgage Insurances
UGB	Urban Growth Boundaries
VA	U.S. Department of Veterans' Affairs