

Joint Task Force Addressing Racial Disparities in Home Ownership

REVISED Building Assets Through Home Equity Proposal September 9, 2022

Proposal

Because community land trust (CLT) models limit the equity gained from the increased home value through price appreciation, in exchange for the secondary community benefit of long-term affordability, the Joint Task Force on Addressing Racial Disparities in Home Ownership (Task Force) recommends the development of an option to boost or fast-track the equity gained through the mortgage principal a homebuyer pays down on the mortgage over time by subsidizing the interest rates on 15-year or 20-year mortgages.

Funding

- The total amount of funding, amount of subsidy, and funding source are to be determined.

Programmatic Considerations

- Borrowers must earn 80 percent or less of area median income, with priority given to ~~must be~~ buyers of a CLT or other shared equity property that provides permanent affordability.
- Borrowers would also be eligible for other homeownership assistance funds.
- Program outcomes could include: tracking the characteristics of borrowers, including demographics and income information; assessing the amount of equity accrued in comparison to appreciation; and calculating the average ownership period. Since the average ownership period is about eight years, this would require long-term tracking and reporting requirements to the Legislative Assembly.
- Administration of the mortgage product is to be determined.
- The proposal may also need to set a ceiling for how much interest rate buy-down is allowed.

Background

Shared equity programs allow income-eligible families to purchase homes at below-market rates with the program keeping 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 price and total mortgage loan amount, monthly payments may be more affordable to low-to-moderate homebuyers. Shared equity programs include deed restrictions, community land trust models, or limited equity cooperatives.

Problem Statement

The first Joint Task Force on Addressing Racial Disparities in Home Ownership heard concerns about use of shared equity programs for addressing racial disparities because it limits the ability of homeowners to accumulate wealth through homeownership and to close the racial wealth gap.

Using the example of payment on a \$200,000 mortgage, **Table 1** shows the interest rate buy-down needed to get to the same monthly payment (roughly \$1,385) at each length of the mortgage, and the resulting change in equity gained through principal repayment. The increase in equity gained from the principal paid down after ten years from a 30-year to a 20-year mortgage is \$48,712, which is almost the same as the full value of market-rate price appreciation at ten years.

Table 1: Interest Rate Buy-Down – Equity Gains Compared to Appreciation

Mortgage Length	Interest Rate	Equity from Principal Paid Down At...			Equity from Average 2.2%* Annual Appreciation		
		5 Years	10 Years	15 Years	5 Years	10 Years	15 Years
30-Year	5.7	\$14,595	\$33,989	\$59,762	\$22,989	\$48,621	\$77,200
20-Year	3.5	\$37,062	\$82,701	\$136,239	\$22,989	\$48,621	\$77,200
15-Year	0.6	\$64,348	\$130,988	\$200,000	\$22,989	\$48,621	\$77,200

Source and Data: Emily Reiman, DevNW

*The best 30-year period for appreciation was 1976-2005, averaging 2.2% real price appreciation