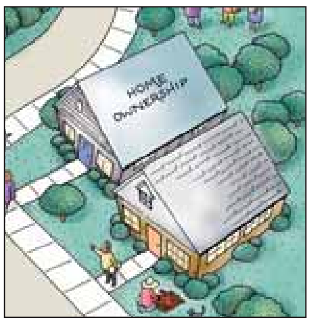
NATIONAL INITIATIVES

Backlash Against Home Ownership: Do the Critics Have a Point?

BY MARK DUDA AND MICHAEL COLLINS



Amid impressive home price gains and record rates of home owning, doomsday scenarios are being predicted in some quarters of the housing policy and community development field.

While the critics raise important questions about the sustainability of the recent surge in ownership, many of their grievances, on closer inspection, simply amount to assuming the worst in the housing and mortgage markets. A systematic look at the issues shows that home ownership, in fact, remains a valid policy priority that dovetails with the desires of American families of all incomes.

Moreover, posing a conflict between policies helping lower-income owners and those helping renters is a false dichotomy that is disruptive to and destructive of progressive housing policy goals.

The Current Boom

By any measure, housing's performance during the last decade has been stunning. The value of real estate owned by families in the United State rose 75 percent, as owners' gained $2.6 trillion in equity.

Home-ownership rates have risen 4 percentage points to 68 percent and stayed firm, despite the recent recession, jobless recovery, and unsettling geopolitical events. Importantly, underserved groups and neighborhoods have shared in these gains.

According to the Federal Financial Institutions Examination Council, minorities' share of home purchase mortgage lending increased from 14 percent to 22 percent of the total between 1993 and 2002. Meanwhile, lending to lower-income borrowers is up 91 percent, well ahead of the 62 percent pace for other borrowers.

Attacking Home Ownership: Critics Concerns

Myth #1: "Debt is inherently bad, and/or debt levels are escalating wildly." Higher housing debt levels in large part reflect the housing finance system's success in offering broader and deeper access to credit.

Most importantly, researchers continue to find that massive savings differences between same-age owners and renters result in a lack of money for down payments and present the most pernicious constraint facing would-be first-time homebuyers. Low down payment mortgages (i.e., those requiring high levels of debt) address these savings constraints head on. A return to higher-equity requirements would have a chilling effect on minority and low-income home ownership.

This preoccupation with debt levels in any case ignores the fact that the value of owners' equity has grown by several trillion dollars, even as debt levels have increased (Figure 1). Further, owners' home equity is currently a larger share of household net worth than stocks and mutual fund shares combined.

Myth #2: "Public policy support for home ownership comes at the expense of rental." While public policy support for home ownership and rental housing are often thought of as competing with one another, this really is not the case.

In the place where policies for favoring owners and renters might be thought of as being in the most direct competition – the U.S. Department of Housing and Urban Development budget – support for home ownership is modest. Changes between the 2002 and 2003 HUD budgets continue to reflect little in the way of a shift in policy priorities away from rental housing. In fact, the bulk

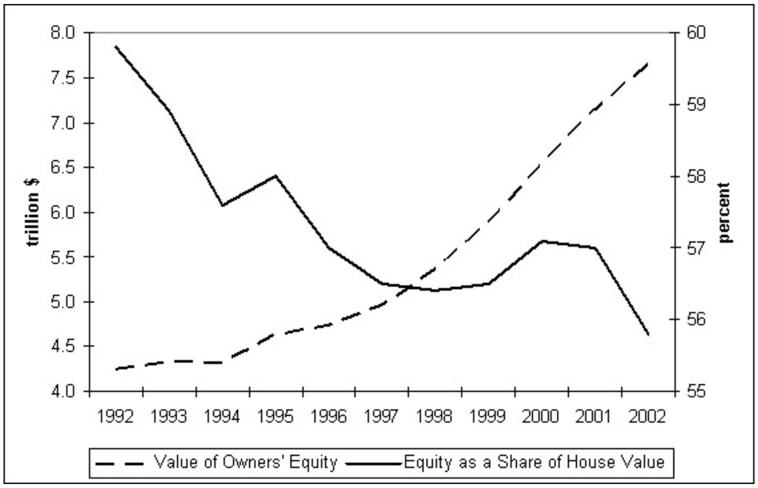


Figure 1: Equity Has Grown as Debt Levels Have Risen

Source: Federal Reserve Flow of Funds Table B.100. June 5, 2003 release.

of the $2 billion increase in spending over the past year was absorbed by renewals of existing Section 8 commitments.

The owner-renter dichotomy is a false one, obscuring the real problem that housing is under funded relative to the magnitude of the challenges facing the nation's poorest families, whatever their tenure type. Nowhere is this clearer than with chronic homelessness, which, despite being labeled an area for "major reform" by the Millennial Housing Commissions and being a national catastrophe, receives vastly inadequate support.

Myth #3: "Lower-cost homes are a bad investment." The notion that lower-cost homes are a worse investment than higher-cost homes is a persistent one. There is, however, no compelling evidence that the investment potential of low-cost homes (i.e., those lower-income households are most likely to purchase) is consistently better or worse than that of other homes. Academic researchers have not found a pattern in the relative appreciation rates of lower- and higher-cost homes that holds across MSAs, or over different time periods in the same MSA.

While no one can predict the future, the demographic trends that underpin housing demand look extremely favorable over the coming decades.

Myth #4: "The non-monetary benefits of home ownership are ambiguous." It is true that all sorts of claims are made about the benefits of home ownership, and equally true that few of these claims are based on the results of appropriately controlled research.

A recent review by economists at Ohio State University that evaluated results of all studies of the non-monetary benefits of home ownership clarifies much of the uncertainty surrounding this issue. The authors find convincing evidence that home ownership has a positive impact on owners' children. Further, these positive effects are more pronounced among lower-income families. These findings provide a basis for public policy supporting home ownership and help explain individual families' passion for it.

Myth #5: "Subprime lending is unambiguously bad." The explosive rise of subprime lending to around 10 percent of total mortgages has alarmed many. However, subprime's rise marks an expansion of credit access, driven by the ability to more accurately gauge the risk posed by different borrowers and charge them accordingly.

Previously, credit rationing by lenders had the unfortunate effect of denying loans and, hence, ownership opportunities to borrowers that we now know can afford and sustain home ownership. Today's subprime borrower is yesterday's rejected loan applicant.

Any lender engaged in misleading and abusive practices that take advantage of borrowers' naiveté are not engaged in risk-based pricing, but in fraud.

Myth #6: "Financial risks make home ownership a poor choice for lower-income families." Evidence overwhelmingly suggests that most households prefer to own in spite of the risks. Those who are able waste little time and readily sacrifice other goals to become owners.

Further, while owners of both low- and high-cost homes can and do lose money on homes bought and sold at the wrong time, very few ever experience losses catastrophic enough to cancel out the other benefits of owning. Emphasizing the risks of owning ignores risks faced by renters – one recent study shows that avoiding unpredictable rent hikes is one of the reasons families choose to own.

Myth #7: "Home-ownership counseling is unproven." Those arguing that home-ownership counseling is not a panacea for the problems lower-income households encounter in homebuying and mortgage origination have a point.

Researchers at Freddie Mac, however, found that one-on-one counseling is quite effective, lowering the likelihood of delinquency by up to 40 percent. Many lenders argue that much of the benefit of prepurchase counseling comes through helping families avoid a financial decision they are not prepared for by delaying the ownership decision until they are ready.

In short, when done right, counseling can have an important impact on mortgage outcomes for lower-income households. The widespread support for counseling programs is well-founded.

Myth #8: "Price declines lead inexorably to mass foreclosures." A final misconception draws a straight line between low-down-payment lending, negative net home equity, and loan default. This view assumes that borrowers will simply give up when home prices decline, handing the keys over to the lender the minute they owe more than the home is worth. Academic research consistently rejects this simplistic scenario, however.

Instead, the greatest risk of default occurs when owners experience an unexpected drop in income, such as major uninsured medical problems or job loss, at the same time that their mortgage balance exceeds the market value of their home.

Most families decide to ride out home price declines – in part because their home still provides a roof over their head, and because down cycles have historically been followed by significant recoveries.

Further, lenders are becoming increasingly savvy about mitigating the worst-case scenario, where the borrower winds up on the street and the holder of the mortgage incurs substantial losses. The rate of these so-called "workouts" has grown rapidly in recent years, and, in fact, is the resolution for increasing numbers of loan defaults today. Rather than castigate homebuying, critics would be better off focusing on preventing problems for existing owners.

Conclusion

Despite the risks, home ownership is an investment with an overwhelming and undeniable historic wealth-building track record. Financial gains earned by owners are complemented by the substantial non-monetary benefits families reap.

Further, many lower-income families want more than protection from fluctuating rents through affordable rental programs. They want to be helped to participate in the market, so they can build wealth and have something to pass on to their children.

In combination, the potential financial gain, improved opportunities for children, and ability to master their own domain make the opportunity for home ownership one that most households eagerly seize when given the chance.

This is not to reject the importance of rental housing as a tenure alternative and one that is under funded given the needs of many of the nation's poorest families. However, home ownership and, ultimately, quality of life have been rising for millions of middle-income and upper-middle-income households.

Why not extend the benefits of ownership to lower-income and minority households? ■

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Homebuyers' Guide for Manufactured Housing

Neighborhood Reinvestment, working with consultants, the Manufactured Housing Institute, industry experts, and practitioners, is creating a consumer education module, "Understanding Your Options: Manufactured Housing," for nonprofit home-ownership educators and counselors.

The module will be designed so it can be used by home-ownership educators and counselors, in conjunction with Neighborhood Reinvestment's Realizing the American Dream homebuyer education curriculum, or as stand-alone materials.

Publication comes as a significant portion of recent growth in home-ownership rates in low-income and rural markets is accounted for by manufactured housing, yet few consumer education programs on purchasing manufactured homes exist.

The new module will focus on various aspects of buying and owning a manufactured home, and will include special consideration based on the combination of construction – new or existing – and placement – in a rental community or on owned land. It will cover:

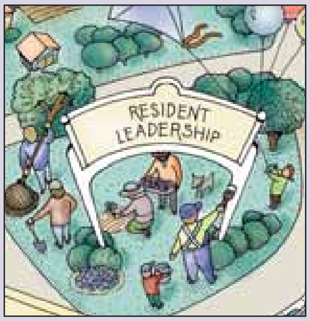
- The advantages and disadvantages of owning a manufactured home;
- The key members involved in the manufactured home process;
- How and where to shop for a manufactured home;
- How to evaluate a manufactured home and its location;
- Financing and placement options for manufactured homes;
- Manufactured home transportation and installation;
- Warranties, taxes and insurance;
- Considerations after moving into a manufactured home; and
- Where to get help if there are any problems.

The module was to be released at an afternoon workshop at the NeighborWorks® Training Institute in Atlanta in February. For a free copy: Sheila Squier, (607) 273-8374, extension 30, or ssquier@nw.org. ■

Community Organizing Pilot

Measuring the Value of Community Organizing

BY SUSAN NAIMARK AND MELVYN COLON



How to measure what matters has become a hot topic. A Google™ search of "measuring success," for example, produced more than one million entries, from fields as diverse as education, e-commerce, nonprofit management, environmental preservation, health care, advertising and optical engineering.

The focus is to get past "what have we done?" and get at "why does it matter?"

At Neighborhood Reinvestment, the Community Organizing Pilot Program is an attempt to answer this question by NeighborWorks® organizations engaged in community organizing in conjunction with their other community development activities.

Neighborhood Reinvestment launched the pilot because network organizations were not satisfied that the important work they were doing in community organizing was being captured effectively. They wanted to develop common units of analysis that would make it possible to demonstrate in a systematic way the true contribution of community organizing to the organizations and to the urban and rural communities they serve.

The 18 NeighborWorks® organizations in the pilot struggled for many months (indeed, several years) to identify an appropriate set of common measures for capturing the impacts of their community organizing work. The challenge was to identify a set of data that is manageable to collect and meaningful, that can document organizing work in all its variability and that can be aggregated across a large number of different types of organizations. We have made significant progress (see accompanying article on page 48).

Now, in fact, we're beginning to develop answers to the question "why does community organizing matter?"

Show Me the Numbers

COPP participants have amassed an impressive array of quantifiable accomplishments. Our most recent round of data collection, for activities carried out from January through November 2003, marked the first time we had asked organizations to respond to a uniform questionnaire focused on outcomes. The following data are from 17 reporting organizations. They follow the six outcome measures developed by participating organizations: resident leadership, partnerships, economic impact, physical community improvements, shifts in power dynamics, and institutional change.

Resident Leadership: Participating organizations have mobilized more than 1,900 residents to serve in organizational and community leadership roles. Such roles include serving on the NeighborWorks® organization's board of directors, serving as officers or committee chairs with the NeighborWorks® organization or another community organization, and participating on committees, block clubs, or neighborhood associations which have been supported by the NeighborWorks® organizing effort.

Partnerships: Participating organizations were involved in more than 130 active partnerships with city, county and state agencies; local businesses and business associations; public schools, universities, United Way, cultural and faith-based institutions, human service providers, resident associations, crime watch groups, and other community organizations. Social researchers, including William Julius Wilson and Robert Putnam, have extensively documented the value of such partnerships in developing social capital and increasing connectedness within communities, and, thereby, improving individual and family well-being and the overall health and welfare of communities.

Economic Impact: More than $18.6 million in funds, $410,000 in in-kind donations, and more than 9,900 volunteer hours were leveraged through community organizing efforts carried out by participating staff. These resources were invested in project financing, affordable housing development, vacant lot and public space improvements, community-building celebrations, youth development activities, and more.

Physical Community Improvements: Organizing efforts resulted in dozens of homes getting painted; planting and landscaping of parks, apartment developments, alleys, patios, yards, and community gardens; graffiti removal; street paving; and traffic calming. Virtually all participating groups that organized physical community improvement projects reported that these visible symbols of improvement spurred residents to higher levels of involvement and commitment.

Shifts in Power Dynamics: More than 1,900 individual acts of resident participation in the democratic process were documented, including meeting with public officials, registering new voters, participation in advocacy campaigns, and speaking out at public hearings. This measure can express the collective power of communities that is created when residents exercise individual power in public forums – particularly relevant for individuals and communities that historically have been excluded from the political process.

Institutional Change: At least eight organizations reported reallocation of public dollars to address priorities identified by community residents, including demolition funds, affordable housing financing, opening of new recreational facilities, and improved public transportation to underserved neighborhoods. Such responsiveness of public agencies, taken for granted in many wealthier communities, is a sophisticated indicator of a community's power and ability to influence public spending priorities.

Tell Me the Story

While the ability to translate community organizing into quantifiable data is critical, there always will be significant outcomes that cannot be reduced readily to aggregate numbers. The following are some of the compelling results of COPP efforts that get behind the numbers and provide equally critical qualitative data on impact.

- Community Housing Services of Wichita/Sedgwick County in Kansas built the first new homes constructed in 50 years in its target neighborhood.
- Lafayette NHS in Indiana and Twin Cities CDC in Massachusetts, both reported the largest turnouts ever for their NeighborWorks® Week picnics and block parties, which in turn led to increased resident commitment to larger community improvement efforts.

NHS of Duluth in Minnesota, Inglewood NHS in California, Housing Partnership of West Palm Beach in Florida, and Rochester NHS in New York each successfully used physical community improvement projects (street lighting, a park, youth sports, business façade and vacant property improvements) to create momentum and confidence in residents to tackle larger issues of public agency responsiveness to community needs.

Urban Edge and Twin Cities CDC, both in Massachusetts, engaged in organizing campaigns in which residents served in leadership roles that successfully increased resources for new, badly needed affordable housing development in "hot" housing markets.

Sacramento MHA in California, TRIP in New York, Utica NHS in New York, and Oak Hill CDC in Massachusetts each recruited and involved young people in community advocacy and improvement efforts, removing graffiti, engaging in leadership training, organizing other young people and learning how to be a positive force in their communities and beyond.

A youth recruited and trained by TRIP, for instance, had the opportunity to participate in the NeighborWorks® Community Leadership Institute in Puerto Rico last spring. The youth was profiled as one of Troy's Capital Region heroes by a popular weekly alternative newspaper.

Further Questions

We are pleased with the results we are documenting. While we know that our data collection efforts do not by themselves prove cause and effect, we look forward to comparing results with organizations that do not engage in community organizing, to see if there are significant differences. Here are some of the further questions we will be exploring:

- Do organizations that invest in community organizing leverage, on average, more resources than those that do not?
- Is there a difference in program and service utilization by residents?
- Are organizations and their leadership more accountable to their constituency when they invest in community organizing?
- Does organizing activate a stronger constituency that makes a difference to public resource allocation to the organization or the broader community?
- What is the impact of community organizing on the promotion and acceptance of affordable housing development projects in communities? ■

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Outcome Measures: Selecting Measures That Matter

BY MARGARET GANYO

Many of us struggle to define success in what we do, particularly in community organizing and resident leadership development. Agreeing on basic terms can raise issues, so reaching consensus on valid measures of outcomes is even more challenging.

In Neighborhood Reinvestment's Community Organizing Pilot Program (COPP), each of the 18 participating organizations agreed to create a community organizing action plan, which incorporated strategies to strengthen its resident leadership base and lead to community change. Each organization also agreed to monitor and evaluate its organizing process, through monthly reports in the first year, and refined quarterly reporting in the second year.

Data collection was the primary focus. It was intended to document the impacts of organizing activities, raise the profile of community organizing as an asset in resident-led community development, provide tools and sound practices for practitioners, attract resources, and raise the profile of the NeighborWorks® network as an innovator in promoting community organizing in a community development context.

A key intent was to collect information in a standardized format. While each local organization's goals and strategies may have varied, standardized reports would allow shared experiences to be communicated as never before – to suggest collective impact and effective practices.

Success hinged on developing performance measures that could quantify changes that occurred as a result of community organizing activities.

The pilot's first two years have been marked by trials and errors. They have brought the project to a deeper level of understanding of the challenges of documenting community organizing outcomes.

Participants agreed on six outcome measures – resident leadership, partnerships, economic impact, physical community improvements, shifts in power dynamics, and institutional change. These measures were developed collaboratively by determining the common elements of each group's desired outcomes. Taken together, they attempt to capture the progressive nature of community organizing.

The first measure, for example, residents assuming leadership roles, is a common first building block of effective community organizing. The next two, partnerships and economic impacts resulting from organizing efforts, indicate a group's ability to gain power through new alliances and resources. The last three, physical community improvements, shifts in power dynamics, and institutional change, demonstrate more lasting changes that can result from effective community organizing.

These outcome measures have proven to be powerful indicators of how community organizing activities can infuse revitalization efforts with funding, staffing, relationships, and power.

It may be difficult to "prove" just how these efforts link directly to future outcomes, but there is a strong consensus among COPP participants that without the organizing efforts, the outcomes were not likely to have occurred or, at the least, would not have been as positive. ■

Margaret Ganyo (mganyo@pnhs.org) directs community outreach and resource development at Pocatello NHS.

Community Organizing Outcome Measures

The outcome measures developed by the Community Organizing Pilot Program reflect the progressive nature of community organizing.

Measure 1. Number of residents assuming leadership roles

- participating on committees, block clubs, neighborhood associations
- serving as officers or committee chairs
- taking on other leadership roles
- participating on network organization's boards

Measure 2. Number of partnerships resulting from organizing efforts

Measure 3. Economic impact of organizing efforts

- funds invested
- in-kind resources leveraged
- volunteer person-hours

Measure 4. Physical community improvements resulting from organizing efforts

Measure 5. Shifts in power dynamics

- new registered voters
- number of residents involved in public advocacy or organizing campaigns
- number of residents interacting with decision-making bodies
- number of positive media hits about the community

Measure 6. Institutional change

- improved public service delivery or public resource distribution to community
- crime rates
- home-ownership rates
- resident stability and/or mobility
- property values
- voting rates
- employment and/or unemployment rates
- school attendance, graduation or dropout rates

ANNOUNCEMENTS

Campaign for Home Ownership

Annual Retreat Plans

The NeighborWorks® Campaign for Home Ownership has scheduled its annual planning retreat for April 6 to 9 in Seattle. It will be sponsored by WaMu, which is providing the use of the WaMu Leadership Center in Seattle. The focus will be on developing new sustainable business models for home-ownership activities.

Latest Home-Ownership Statistics

According to Neighborhood Reinvestment's Research Department, here are the latest home-ownership statistics from January 1, 2004, through September 30, 2004:

- Total New Homeowners: 8,305, 17 percent of five-year goal of 50,000.
- Total Minority Homeowners: 4,213, 14 percent of five-year goal of 30,000.
- Total Amount of Investment: $978 million, 16 percent of five-year goal of $6 billion.
- Total Families Counseled: 51,171, 10 percent of five-year goal of 500,000.
- Total HomeOwnership Centers: 76, 76 percent of five-year goal of 100.

MetLife Foundation Award

Sibyl Jacobson, president and CEO of the MetLife Foundation, recently announced an award of $200,000 to Neighborhood Reinvestment Corporation. The award will support the Financial Fitness program in 10 locations around the country, and will help develop a new Winning Strategies publication to document best practices in neighborhood revitalization activities. The new *Winning Strategies* will be published in July.

Minority Home–Ownership Strategies

Neighborhood Reinvestment has posted extensive materials on strategies to increase minority home ownership on its Web site. The materials include case studies from four NeighborWorks® organizations, with the specific strategies they have implemented, and research publications from the U.S. Census Bureau, Local Initiatives Support Corporation, and other organizations. For more details: www.nw.org.

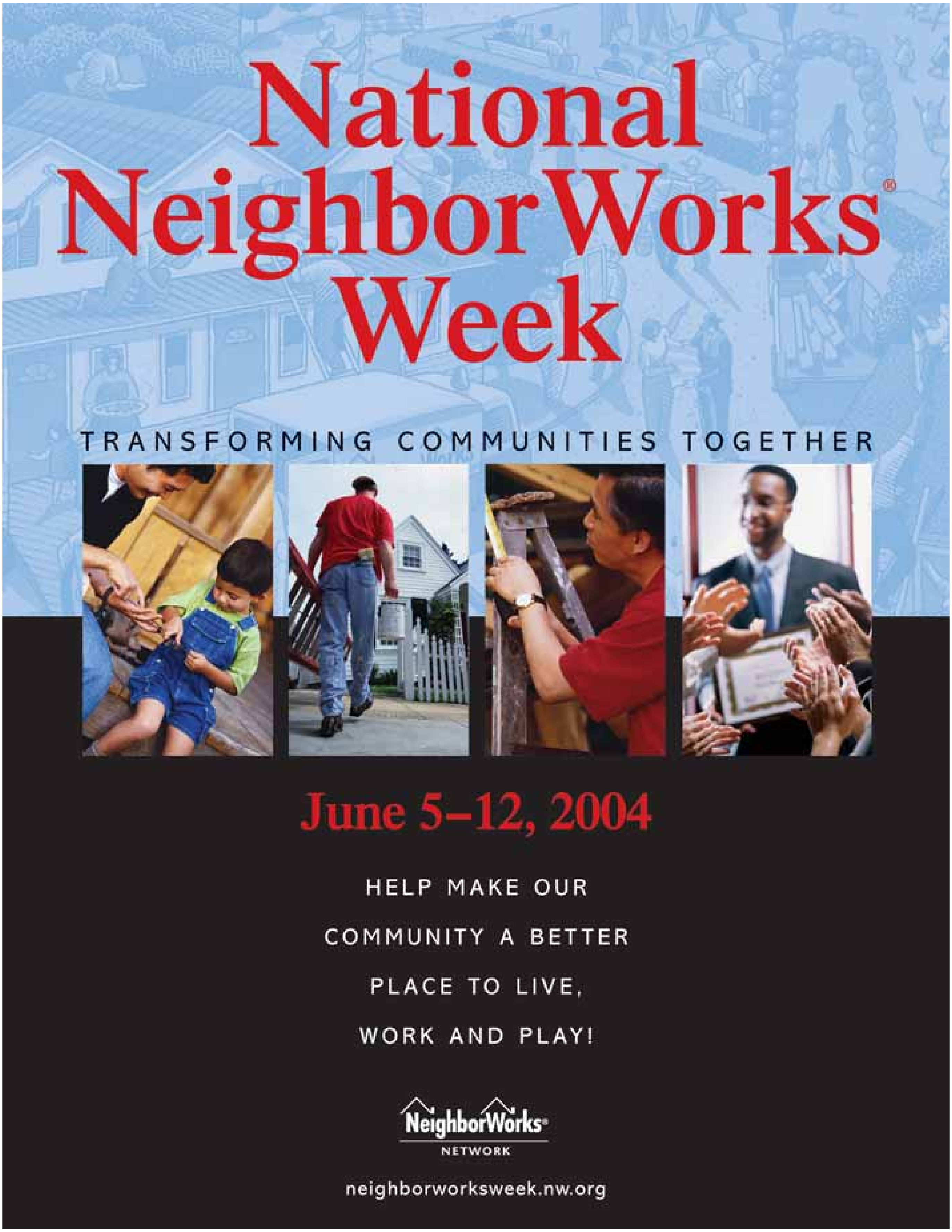
Resident Leadership Initiative

Effective Practices in Resident Leadership

The Resident Leadership Initiative is currently compiling effective practices of NeighborWorks® organizations and other resources that support resident leadership development, community organizing, and community building in the context of community development. The information initially will be available by request through Neighborhood Reinvestment management consultants or the Resident Leadership Initiative. Plans are to include it in a new and improved Resident Leadership area of the Neighborhood Reinvestment Web site. We invite you to submit your best practices for inclusion, as well as topics you wish to see included. For more information: Susan Naimark, Neighborhood Reinvestment Resident Leadership Initiative, at snaimark@nw.org.

Community Organizing Pilot Program

What are the benefits to NeighborWorks® organizations of investing in community organizing? Come to the Neighborhood Reinvestment Community Organizing Symposium on May 3 in Minneapolis to learn about the impacts of organizing, documented by 18 NeighborWorks® organizations participating in the Resident Leadership Initiative's Community Organizing Pilot Program. This daylong symposium will be followed by two days of community organizing course offerings on May 4 and 5. Special training slots are available to NeighborWorks® organizations for this event. We encourage you to send your community organizing staff to take advantage of this opportunity for high-quality training and peer learning.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