

FIRST-TIME HOMEBUYER ASSISTANCE

OVERVIEW

The home is the chief asset of many American households. It is an integral part of the American dream and provides both physical and financial security. Because mortgage payments can be substituted for rent, even households with very modest disposable incomes can nonetheless, over time, build assets through homeownership. In fact, homeownership is the single largest source of equity for American households, even in today's challenging housing markets.

Yet low- and moderate-income families face a number of barriers to achieving homeownership. Some can afford the monthly mortgage payment, but struggle to save enough money for the downpayment and closing costs. For others, the even tighter prime credit markets and enduring hazard of predatory subprime lending make it difficult to obtain an affordable, consumer-friendly mortgage product. Still others enter the homebuying process with little to no information about what to expect and how to protect their interests. State support for first-time homebuyers can help overcome these challenges.

WHAT STATES CAN DO

States can offer competitively-priced mortgage lending products directly to homebuyers. They can also provide downpayment assistance to help lower-income borrowers who may not have a lump sum of money to put down on a home. States can also help families make a successful transition to homeownership by investing in homebuyer education and by providing other programs designed specifically to assist low-income renters who wish to become homeowners.

ELEMENTS OF A STRONG POLICY

Based on the expertise of the National Council of State Housing Agencies, CFED considers a state's first-time homeownership policy strong if it meets the following criteria:

- 1. Does the state offer direct lending programs to first-time homebuyers?**
By offering loans directly to borrowers, states can play a pivotal role in assisting first-time homebuyers in securing mortgage credit at fair rates and terms, which is particularly important in the current credit market.
- 2. Does the state offer grants or loans for downpayment assistance?**
Homeownership is often out of reach for low- and moderate-income households because they lack the necessary, often substantial, downpayment. Direct grants and "soft second" mortgages (which are

subsidized and/or forgivable loans to help boost a borrower's equity) can bridge the financing gap for first-time homebuyers.

3. **Does the state provide funding for homeownership counseling?** Educating first-time homebuyers on the purchase process and helping them make informed decisions about their housing investment is one important way to ensure a successful transaction and decrease the likelihood of foreclosure. Homeownership counseling is correlated with lower mortgage payment default rates, and has a significant impact on first-time and low- and moderate-income homebuyers. States should fund homeownership education and counseling for prospective homebuyers and current homeowners.
4. **Does the state offer programs specifically designed to help transition low-income renters to homeownership?** Section 8 housing vouchers, traditionally used to subsidize rental housing for low-income families, can also be used for first-time homeownership if states permit. States should take advantage of this option. States can also implement lease-purchase programs, which allow low-income families with poor credit histories to access financing and purchase homes once they have made on-time rent payments for a set period of time. Both of these programs help low-income renters enter the housing market and acquire an appreciating asset.

WHAT STATES HAVE DONE^{1,2}

Although nearly every state has taken some action to encourage first-time homeownership, many states still have room for improvement in developing a comprehensive package of products and services for first-time buyers. The vast majority of states offer downpayment assistance in one form or another, but fewer than half offer direct lending. Thirty-seven states provide funding for homebuyer education, while 27 states target low-income renters with specialized rent-to-own programs.

¹ 2007 State HFA Factbook: NCSHA Annual Survey Results. (2007). Washington D.C.: National Council of State Housing Agencies.

² List of Public Housing Agencies using Section 8 vouchers for homeownership. U.S. Department of Housing and Urban Development, Office of Public and Indian Housing. Retrieved July 29, 2009 from www.hud.gov/offices/pih/programs/hcv/homeownership/publiclist_vhosites.xls.

For more information on this policy measure, First-Time Homebuyer Assistance, and more, go to <http://scorecard.cfed.org>.

In the 2009-2010 Assets & Opportunity Scorecard, the 50 states and the District of Columbia were rated on their existing housing-related policies. The ratings were based on all four criteria above.