Oxford Handbooks Online

Homeownership Policy

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Online Publication Date: Jul 2014
Subject: Political Science, U.S. Politics
DOI: 10.1093/oxfordhb/9780199838509.013.030

[-] Abstract and Keywords

Since the nation's founding, Americans have generally preferred owning property to renting. Government policy in the U.S. has long supported the goal of increasing homeownership through regulation and support of the financial system to strengthen credit for homeowners, tax subsidies for homeowners, direct subsidies for consumers and developers, local zoning laws, and tenant-landlord law that make renting less favorable. This chapter will briefly describe the history of these policy tools, explain how they work, and explore the strengths and weaknesses of homeownership in general and government policy to encourage Americans to buy rather than rent their homes.

Keywords: homeownership, zoning, tax breaks, rental housing, racial discrimination, redlining, land use, mortgage lending

The cover story on the September 6, 2010 issue of *Time* magazine, "The Case Against Homeownership," asked whether the American Dream of owning a home still made sense. "Buying a house is supposed to make us better citizens, better investors and better off," it began. "But that American Dream may well be a fantasy" (Kiviat 2010). It called the pursuit of homeownership a "cult" and a "fetish." It described the "dark side" of homeownership as "foreclosures and walkways, neighborhoods plagued by abandoned properties and plummeting home values, a nation in which families have $6 trillion less in housing wealth than they did just three years ago."

The article appeared three years after the nation's housing bubble had burst. The country was awash in "underwater" mortgages, an epidemic of millions of foreclosed homes, and a dramatic decline in the value of Americans' houses. *Time* and other publications wondered whether these stark realities would lead Americans to reconsider their love affair with homeownership. Polls revealed that the housing crash made Americans somewhat wary of homeownership as an investment and less optimistic about their likelihood of buying a home. Nevertheless, Americans still cherished the idea of owning a home and expected the government to help them achieve it. The belief in homeownership was so deeply ingrained in American culture that even the crisis of the nation's financial system and the dramatic loss of residential wealth over a few years period couldn't shake it.

The importance of culture will be a major theme of this chapter. Homeownership is supposed to bring freedom and security, two core values in American society. Homeownership may also facilitate racial segregation, a logic that was stronger in earlier eras than it is today. Understanding the links between culture and policy is complicated because U.S. housing policy is often indirect or unseen; unlike retirees or the disabled, homeowners do not receive monthly checks from the government. The federal government has long supported the goal of increasing homeownership through regulation and support of the financial system to strengthen credit for homeowners, tax subsidies for homeowners, as well as direct subsidies for consumers and developers (Carliner 1998; Collins 2002; Rapoport 2013). This chapter will briefly describe the history of these tools and explain how they work.

For most of human history, housing was viewed primarily as a form of shelter—protection against the elements. Since the mid-twentieth century, homeownership has also been seen as the most effective way for families to accumulate wealth. For most Americans, their home is their major asset and the principle source of their wealth (Mishel, et al. 2012). That asset can provide a crucial buffer when individuals retire, face extraordinary medical bills, or lose their job. Thus housing policy intersects with many of the other social policies discussed in this

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volume.

Historical Background

Before the Great Depression, the national government did little consciously to promote homeownership. Tenement reform laws passed in the early 1900s set the precedent that local government would set standards and regulate housing safety. During the 1930s, the public housing programs and banking reforms of the New Deal established the federal role in expanding homeownership and providing subsidies to the poor.[1] From that point on, public policy at all levels of government would favor owning over renting.

Until the Depression, the federal government played no significant role in housing finance.[2] Savings and loan associations and mutual savings banks dominated the housing market, but they had no protection if a borrower defaulted on a loan, making them extremely cautious. They required large down payments (up to 50 percent of the house value) and short time periods (often 10 years or less) for repayment. Even a household with a steady income, good credit record, and a down payment in hand might be rejected for a loan simply because local lenders lacked the funds (Jackson 1985; Schwartz 2010).

By the spring of 1933, more than half of all home mortgages were in default (Jackson, 1985: 193), undermining the solvency of many lending institutions. Fearing that banks were going under, many customers began to withdraw their savings, which made lending institutions even more strapped for cash and thus unable or unwilling to make loans (as portrayed in the James Stewart film, "It's a Wonderful Life"). In response, the federal government established the first home financing program to protect lending institutions, help homeowners at risk of losing their homes, stimulate employment in the building industry (and thus the wider economy), and expand homeownership.

The first new institutions included the Federal Home Loan Bank (1932, under President Herbert Hoover) and the Home Owners Loan Corporation (HOLC) (1933, under FDR). The former had little impact because the demand for mortgages was so low. The HOLC was more successful. It bought and refinanced mortgages in default and then rewrote them on terms that allowed owners to avoid foreclosure. It lengthened the terms of mortgages to 15 years, reducing the monthly payments for hard-pressed homeowners. About 40 percent of all eligible homeowners sought HOLC's help. Within two years, HOLC had acquired and refinanced more than one million mortgages, about 10 percent of all owner-occupied nonfarm properties, at a cost of about $3 billion (Jackson 1985: 196).

The Housing Act of 1934 created the Federal Savings and Loan Insurance Corporation (FSLIC), which insured individual depositors' accounts from bank failures, and the Federal Housing Administration (FHA), which guaranteed individual mortgages against default. Both agencies gave lenders the incentive to make more mortgage loans, at lower interest rates, with a much smaller down payment (closer to 20 percent than 50 percent), and for 25- and 30-year periods. This was a form of mortgage insurance for banks, not consumers. These laws were intended primarily to boost new housing construction, and thus employment. The FHA also required stricter design and construction standards for the homes it insured (Carliner 1998).

In 1944, Congress passed the Servicemen's Readjustment Act (aka the GI Bill of Rights) to reward military veterans and active-duty military personnel. This law is most famous for helping veterans afford college, but another provision provided low-cost mortgage loans, in many cases with no down payment required. Approximately 16 million veterans purchased homes through the VA (Veterans Administration) program.

The changes brought about by the FHA and VA soon extended to the rest of the housing industry. Lenders began to offer 30-year loans with low down payments on mortgages without federal insurance. Private insurance companies began to offer insurance on non-FHA mortgages. These changes made homeownership more affordable to working-class families. The FHA's requirements for appraisals, inspections, and construction standards soon became the industry yardstick.

After World War II, two federal agencies—the Department of Agriculture (USDA) and the Department of Housing and Urban Development (HUD), which was created in 1965 and absorbed the Federal Housing Administration—helped increase homeownership to families with modest incomes. In 1949 the Farmers Home Administration (a division of USDA) offered mortgages directly to farmers in areas where they could not get private loans. The program was extended to nonfarmers in rural areas in 1961. In 1968, the USDA started to provide subsidized mortgages to rural

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borrowers with modest incomes The USDA made more than one million of these Section 502 loans between 1969 and 1993 (Carliner 1998).

In 1968, Congress enacted a similar program, HUD's Section 235, targeted to urban residents, hoping that subsidies to help low-income families become homeowners would improve their standard of living and quell the unrest that had led to several years of urban riots. By 1973, the program had helped about 400,000 low- and moderate-income families purchase homes. But Section 235 was mired in mismanagement and scandal; President Nixon and Congress ended it in 1973.

The federal government also shaped housing finance by expanding the availability of mortgage credit. In 1938, the Roosevelt administration created the Federal National Mortgage Association (Fannie Mae) to purchase, bundle, and resell FHA mortgages. In 1968, Congress changed Fannie Mae into a private "government-sponsored" corporation, with the mandate to purchase FHA and VA loans. At the same time, Congress created the Government National Mortgage Association to guarantee securities backed by pools of government-insured mortgages issued by private lenders. The Emergency Home Finance Act (1970) authorized Fannie Mae to buy conventional (not just government-insured) mortgages and also created the Federal Home Loan Mortgage Corporation (known as Freddie Mac). These organizations primarily dealt with single-family mortgages, which were easier to "pool" and sell to investors, and thus contributed to the expansion of homeownership.

Finally, the rapid expansion of the income tax during World War II had a profound effect. As more individuals owed income taxes, more could take advantage of deductions for home mortgage interest and property taxes. The effective cost of buying a home dropped. Initially, few people noticed this change. But when Brookings Institution economists began suggesting in the l960s and l970s that the homeowner deduction was inequitable and unnecessary (Aaron 1972), real-estate groups, especially the National Association of Home Builders and the National Association of Realtors, declared it sacrosanct and used their political influence to maintain it.

Collectively, these policies helped homeownership become the norm. In 1930, 48 percent of American households owned their own homes. Battered by the Depression, that figure dropped under 44 percent by 1940. It surged in the 1950s and 1960s, and by 1980 it reached almost 65 percent—the greatest increase in homeownership of the twentieth century (U.S. Census 2013).

State and Local Policies

State governments provide housing subsidies to developers through state revenues and through tax-exempt revenue bonds. Most states favor home ownership over rental housing (Katz et al. 2003). State housing finance agencies, for example, issue tax-exempt bonds to finance low-interest mortgages for first-time home buyers and for affordable rental housing. Cumulatively through 2010, these agencies had issued $260 billion in mortgage revenue bonds, compared to $95 billion in multifamily bonds for apartment buildings (National Council of State Housing Agencies 2012).

States and localities receive Community Development Block Grants (CDBG) from the federal government that can be used for an array of purposes. Rehabilitation of single-family housing accounts for about half of all housing-related CDBG expenditures, and direct homeowner assistance accounts for another 5 percent. In contrast, less than 7 percent of CDBG funds are used to rehabilitate multifamily housing (Schwartz 2010: 214).

The HOME Investment Partnership program, created in 1990, is another federal block grant for housing-related purposes. The program provides states and municipalities with funds that can be used for homebuyer activities, rehabilitation of owner-occupied properties, rental housing development, and tenant-based rental assistance. From 1992 through 2009, HOME allocated $21.7 billion. Homebuyer activities have accounted for 27 percent of total funding commitments (funding 373,866 units) and owner-occupied rehabilitation for another 17 percent (Schwartz 2010: 216).

Local governments have several ways to favor homeowners over renters. One is through their property taxes. Owner-occupied homes are frequently taxed at a lower effective rate than rental properties (Furman Center for Real Estate and Urban Policy 2012). Local zoning codes often favor single-family housing over multifamily housing (Danielson 1976). Tenant-landlord law remains biased against tenants—a remnant of its agrarian and feudal origins (Rose, 1973; Dreier 1982; Lebowitz 1981; Krueckeberg 1999). A 1967 federal government study, only slightly

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outdated by recent reforms, found that:

> The traditional legal interpretation of the tenants' obligation to pay rent as independent of the landlord's obligation means that no matter how badly the landlord fails in his obligations to the tenant, the tenant must continue to pay his full rent to the landlord on time, or be evicted (U.S. Department of Housing and Urban Development, 1967:5).

Due to the influence of the real estate industry, only a few cities have adopted rent control, which limits rent increases. Since the 1970s, most states have adopted "warranty of habitability" laws, which impose certain duties on a landlord to maintain the premises in habitable condition. Failure to do so may be legal justification for a tenant to withhold rent until the problem is fixed. Except in New Jersey (which has a statewide "just cause" eviction law), landlords can evict tenants for almost any reason at all, not only failure to pay rent, and can use the power of the courts to back them up. Homeowners are more secure. Mortgage lenders can take possession of a home only if the homeowner fails to make payments. Even then, however, the process of foreclosure and eviction is relatively slow compared to the procedures available to a landlord to evict a tenant.

Class and Race

Homeownership is a vivid marker of inequality in American society, with some segments of the population far more likely than others to own their homes. Homeownership rates are highest among married couples, Whites, middle-aged and older household heads, and households in suburban and nonmetropolitan areas (See Table 1). Homeowners are increasingly more affluent than renters, and they are far wealthier. In 2011, the median annual income for homeowners was $62,500, nearly double renters' median income of $31,800. The gap between owners and renters is much greater in terms of net worth. In 2010, the median net worth of homeowners amounted to $174,600, compared to just $5,100 among renters. Homeownership can determine whether families amass any wealth at all: home equity accounts for a large proportion of total household wealth, and for all but the wealthiest households, it is the largest single asset (Bricker, et al. 2012; Joint Center for Housing Studies 2012).

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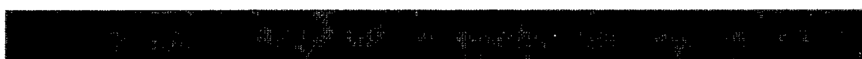

	1983	2004	2011
Total	64.9	69.0	66.2
Household Type			
Married Couple Families	78.3	84.0	81.4
Other Family Households	49.5	53.3	47.2
One-Person Households	46.2	55.8	56.1
Age of Householder			
Less than 25 Years	18.8	25.2	15.4
25 to 29 Years	38.3	40.2	35.9
30 to 34 Years	55.4	57.4	50.2
35 to 44 Years	69.3	69.2	62.8
45 to 54 Years	77.0	77.2	72.6
55 to 64 Years	79.9	81.7	78.8
65 Years and Older	75.0	81.1	80.8
Race and Ethnicity			
Non-Hispanic White	69.1	76.0	73.9
Non-Hispanic Black	45.6	49.1	45.9
Hispanic	41.2	48.1	47.2
Other	53.3	58.6	57.0
Metropolitan Status			
Central City	48.9	53.1	51.3
Suburban	70.2	75.7	72.1
Outside Metropolitan Area	73.5	76.3	73.4

Source: U.S. Census Bureau, American Housing Survey, 2011 and previous years.

Given that roughly two-thirds of Americans own their own homes, one might assume that the nation's housing

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policies are aimed broadly at the middle class. In fact, some of these policies are targeted at the lower and upper ends of the income distribution. For example, the FHA originally served borrowers with higher incomes, since less affluent families lacked the savings for a down payment and the monthly income for mortgage payments. But by 1970, the prices of FHA-insurance homes and the incomes of their owners were lower than those with conventional loans. By imposing limits on the prices of homes and the loan amounts covered by FHA insurance, Congress guaranteed that FHA-insured homes would be concentrated in inner-city and minority neighborhoods, disproportionately among low-income borrowers.

In contrast, the major tax expenditures have always benefited the more affluent. In 2012, three homeowner tax breaks cost the federal government $115 billion in lost revenues. The best known are the mortgage interest deduction ($68.5 billion) and the property tax deduction ($24.5 billion). Another provision of the tax code allows homeowners to exclude paying capital-gains taxes (on up to $250,000 in sales proceeds for singles and up to $500,000 for married homeowners) when they sell their homes. This cost the federal treasury $22.3 billion in 2012. Taken together, this spending dwarfs what the U.S. government does for poor renters via Section 8 vouchers or public housing.

Wealthy households are most likely to own homes, often expensive homes, and to itemize deductions on their tax returns. Their nominal tax rates are higher, which increases the benefits of any tax deduction. Thus, more than 76 percent of the mortgage interest and property tax subsidies went to the 19 percent of taxpayers with incomes over $100,000. One-third went to the wealthiest 4 percent of taxpayers with incomes over $200,000. Households with incomes above $200,000 averaged $6,641 from these two tax breaks. Only about 5 percent of households with incomes between $20,000 and $30,000 received any subsidy, averaging $679. Households between $30,000 and $75,000 do not fare much better (Dreier 2006; Howard 1997; U.S. Congress 2013).

The real-estate industry—homebuilders, realtors, and mortgage bankers—argues that the homeowner tax break is the linchpin of the American Dream, making homeownership available to many families who could otherwise not afford to buy one. There is little evidence for this. These tax deductions help push up housing prices artificially, especially at the upper end, because homebuyers include the value of the tax subsidy in their purchase decision. And because tax breaks are so small for low-income and middle-income homeowners, they hardly make it more affordable to own a home rather than rent. A 2005 Congressional Research Service report noted that, "other homeownership subsidies, like down-payment assistance programs, are proven to be more effective at increasing homeownership among lower-income families and are less expensive than the mortgage interest deduction" (Jackson 2005: i). Moreover, other countries with comparable homeownership rates (including Australia, England, and Canada) do not have these tax breaks.

These deductions also promote suburbanization and sprawl, encouraging homebuyers to buy larger homes in outlying areas rather than more modest homes in central cities and older suburbs. The tax code thus contributes to transportation gridlock, pollution, and costly infrastructure. In other words, the "cost" of these housing tax breaks is greater than the amount that appears in the federal budget each year. There are related "external" costs to the environment, public health, and other factors. By the same token, the promotion of owner-occupied housing—in cities as well as suburbs—affects access to other public goods and services. Compared with renters, homeowner tend to live in areas with better schools and amenities like parks and playgrounds (McClure and Schwartz 2013).

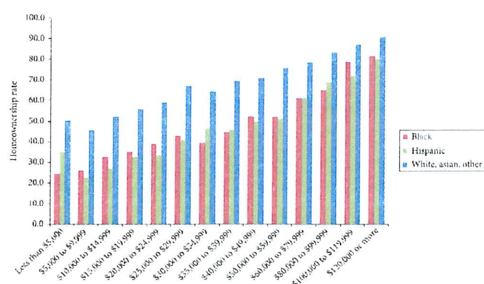

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Figure 1 Homeownership Rate by Income and Race Ethnicity in 2011

As illustrated in Figure 1, the homeownership rate among African American, Latino, and Asian households is 10 to

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20 percentage points lower than for whites at all income levels. Data on the incomes of African Americans, Hispanics, and whites show similar disparities in terms of banks' rejection of mortgage applications. Although some of the disparity reflects differences in income, assets, employment, credit history, and other factors, racial discrimination in the mortgage and housing markets prevents millions of African Americans and Hispanics from becoming homeowners (Conley 2009; Katznelson 2006; Munnel, Tootel et al. 1996; Shapiro and Oliver 1995). For example, national fair-housing audits show that African American and Hispanic home buyers face systemic discrimination in their interactions with real-estate agents, including their ability to inspect potential properties for purchase, receiving assistance in obtaining finance, in the amount and quality of encouragement provided. (Dewan 2013a). Above all, African Americans and Hispanics are often steered to predominantly minority neighborhoods, where, among other things, the prospects for price appreciation are lower than in other neighborhoods (Turner et al., 2002; Shapiro, Meschede, and Osoro 2013).

To some degree, these disparities are rooted in public policy. For instance, the 1934 federal law creating the FHA also required that homes with FHA insurance be located in "homogeneous" neighborhoods—which put the federal government's official stamp on residential segregation. In its 1935 *Underwriting Handbook*, the FHA stated that mortgage lenders should avoid making loans in areas with an "infiltration of inharmonious racial or nationality groups." The following year's edition of the *Handbook* noted that the presence of "incompatible racial and ethnic groups" or the possibility that a neighborhood could be "invaded by such groups" were sufficient reasons to deny making a mortgage loan in an area (quoted in Schwartz 2010: 55). The FHA preferred that this mandate be implemented through racially restrictive covenants on deeds, which prohibited property owners from selling their homes to minority (and in some cases Jewish) buyers. The FHA even supplied the forms for doing so.

This government-sponsored "redlining" had a significant impact on racial segregation and suburbanization. From 1934 to 1960, for example, the FHA insured more than five times as many mortgages in suburban St Louis County than in the city of St. Louis (Jackson 1985: 213). By 1966, the FHA hadn't insured even one home in Camden or Paterson, New Jersey, two declining industrial cities. Homeowners who wanted to remain in cities could not obtain FHA mortgages, whereas white homeowners who wanted to buy homes in suburbs had access to these affordable loans.

In 1948, the U.S. Supreme Court ruled in *Shelley v. Kraemer* that state and local governments could not enforce racially restrictive covenants. But FHA's policy of promoting "homogeneous" neighborhoods persisted until 1962, when President Kennedy issued an executive order requiring equal opportunity in both FHA and VA lending. This equal opportunity requirement was not extended to conventional mortgages until the 1968 Civil Rights Act.

In the 1970s, neighborhood groups and academic researchers discovered that local banks (primarily S&Ls) were taking their deposits but refusing to make loans (particularly for home repairs) in inner-city neighborhoods, thus contributing to a self-fulfilling prophecy of disinvestment and decline. Under pressure from community groups, and under the leadership of Senator William Proxmire (D-WI), Congress passed the Home Mortgage Disclosure Act in 1975, requiring lenders to make public the location of their loans, and the Community Reinvestment Act of 1977, requiring lenders to provide mortgages in all areas from which they draw deposits. Initially, federal bank regulators failed to significantly enforce either law, but community groups learned how to utilize the laws to embarrass lenders and pressure regulators. Eventually these laws were strengthened and banks began to voluntarily comply with their provisions, creating a stream of private investment into inner-city areas (Dreier 2003; Sidney, 2003). By 2007, the CRA had helped catalyze more than $4 trillion in private lending in inner-city areas. (Joint Center for Housing Studies 2002; National Community Reinvestment Coalition 2007; Immergluck 2011b). Complementing the CRA, Congress imposed "affordable housing goals" in 1992 on Fannie Mae and Freddie Mac, requiring them to purchase mortgages issued to low-income and minority borrowers and in inner-city and other disadvantaged communities.

Local zoning laws have also intersected with class and race. In 1926, the U.S. Supreme Court issued a landmark decision (*Village of Euclid v. Ambler Realty Company)* in defense of restrictive zoning, arguing that the presence of apartment buildings lowered the value of single-family dwellings. Zoning has often served to segregate residents by economic class, both within and between municipalities. It has also been used to segregate homeowners from tenants. Exclusionary zoning is directed primarily against the poor and racial minorities (who are disproportionately apartment dwellers). Many suburbs exclude apartments entirely (Babcock and Bosselman, 1973; Danielson 1976; Mandelker and Ellis 1998; McKibben 2004).

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Homeownership in American Culture

Americans have long cherished home ownership as a key element of the "American dream." They believe that owning a home means freedom and security, as homeowners have more freedom to decorate, renovate, and improve their dwellings than do renters (Rakoff 1977). Renters, in contrast, face restrictions on noise, pets, and how many people are permitted to live in the house. For many tenants, a major downside of renting is the constant risk of eviction. Especially when thinking about old age and retirement, homeowners are comforted by knowing they will always have a place to call their own.

The virtues attached to property ownership (and property owners), and their presumed absence among tenants who do not own property, have remained remarkably similar over the years. The earliest European settlers came in part to escape oppressive landlords (Kim, 1978; Kraus, 1971). As a colonial official observed in 1732, these people were "the better sort" who sought to "avoid the dependency on landlords" (Warner, 1968:16). The abundance of land created enthusiasm about the possibility of individual ownership and "nourished the first settlers' vision of land as a civil right, a right against the long-standing obligations of a crumbling feudal society" as well as "freedom for even the poorest family to win autonomy" (Warner, 1972:16).

The colonial era debate over whether tenants should be granted the vote hinged on these views. Among landowners, they argued, one could "always expect to find moderation, frugality, order, honesty, and a due sense of independence, liberty, and justice" (Carter and Stone, 1821: 220). Those without property, in contrast, were considered "indolent and profligate" (Carter and Stone, 1821: 221). Thomas Jefferson (1956: 37), who favored tenant suffrage, nevertheless held that "the small landholders are the precious part of a state." Only property owners were permitted to vote in federal elections until 1860 (Martin, 1976). Referring to the Homestead Act of 1862, Abraham Lincoln said, "I am in favor of settling the wild lands into small parcels so that every poor man may have a home" (Robbins 1942).

Following the Civil War, tenancy became the lot of wage and salary workers, not just farmers. As more people came to the cities, the nation witnessed the first significant movement away from downtown neighborhoods near their industrial workplaces. At the time, thanks to the new trolleys, affluent middle-class families could afford to move to owner-occupied, one-or two-family houses in the "streetcar suburbs" (Warner, 1962). Home ownership increasingly became not only a symbol of status and achievement, but also a goal that working-class families could strive for and attain.

After World War I and the Russian Revolution, the American real-estate industry promoted homeownership as a bulwark against socialism, as a way to promote more civic engagement and social stability, and even as a patriotic duty. Soon, the federal government adopted the same crusade. The campaign included "We Own Our Own Home" buttons distributed to schoolchildren, lectures at universities, newspaper editorials, model sermons, essay contests, and posters (distributed to two millions workplaces) about the benefits of homeownership (Vale 2007: 20–21). In their classic study of Middletown (pseudonym for Muncie, Indiana), Lynd and Lynd (1937: 411) found that even during the Depression, one of the most widely held values was "that home ownership is a good thing for the family and also makes for good citizenship."

During the twentieth century, every president and most other public figures have extolled the virtues of homeownership. President Calvin Coolidge observed that, "No greater contribution could be made to the stability of the nation, and the advancement of its ideals, than to make it a nation of homeowning families" (quoted in Dean, 1945: 40). Facing a dramatic increase in home foreclosures and bank closures, President Herbert Hoover noted in 1931 that, "To possess one's own home is the hope and ambition of almost every individual in our country, whether he lives in hotel, apartment, or tenement" (Hoover, 1931: 573). President Franklin Roosevelt echoed that, "A nation of home owners, of people who own a real share in their own land, is unconquerable" (quoted in Dean, 1945: 40). President Lyndon B. Johnson said: "Owning a home can increase responsibility and stake out a man's place in his community... The man who owns a home has something to be proud of and a reason to protect and preserve it." (Johnson 1968). President George W. Bush, who made increasing homeownership a key aspect of his policy agenda, said: "We can put light where there's darkness, and hope where there's despondency in this country. And part of it is working together as a nation to encourage folks to own their own home" (Becker, Stolberg, and Labaton 2008). In a weekly address in May 2013, President Barack Obama said that "few things define what it is to be middle class in America more than owning your own cornerstone of the American Dream: a home" (Obama

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2013).

Public opinion polls confirm the widespread appeal of homeownership (Fannie Mae 2014; Starobin 2011; Streitfeld and Thee-Brenan 2011). The U.S. Department of Housing and Urban Development (1978) found that 85 percent of people in the United States preferred owning a home to renting. Even in the midst of the 2007–2011 recession, with housing values declining, Americans' faith in homeownership remained robust. In 2011, 89 percent of existing homeowners said that they would choose to buy a home again (Edwards and Andrews 2011). Most renters (81 percent) said they would like to buy a home someday. Asked if they rented out of choice or because they couldn't afford to buy a home, only 24 percent of renters said they rented out of choice ("Home Sweet Home. Still." 2011). As the housing crisis persisted, however, Americans became more skeptical. In 2013, two-thirds of Americans said that the focus of national housing policy should be split fairly equally between rental and ownership, as opposed to promoting one over the other. In fact, 61 percent believed that renters can be just as successful as owners in achieving the American Dream (Hart Research Associates 2013).

Homeownership and the Recent Housing Crisis

The U.S. housing market collapsed in 2007, triggering the worst financial crisis and economic recession since the 1930s. The crisis was precipitated by an unsustainable rise in house prices that started in the late 1990s and accelerated in the early and mid-2000s. The bubble was driven in part by the reckless, risky, and often illegal practices of banks and private mortgage companies, especially rapid increases in "subprime" and other forms of high-risk mortgage lending based on increasingly lax underwriting standards (Gramlich 2007; Immergluck 2009, 2011a, 2011b; Lewis 2010). Subprime loans made up 8.6 percent of all mortgages in 2001 but soared to 30.1 percent by 2006. After 2004, more than 90 percent of subprime mortgages came with adjustable interest rates that were initially low and then skyrocketed after several years (Joint Center for Housing Studies 2007).

Demand for mortgages was fueled by the proliferation of increasingly complex and risky mortgage-backed securities and their derivatives. These securities were in high demand among investors, hedge funds, and banks, and they were often incorporated into other securities. Banks made astounding profits while squeezing consumers. The growth of mortgage-backed securities was enabled by the major credit-rating agencies, which gave investment-grade ratings to most of the securities they assessed, even though the underlying mortgages were increasingly risky. As these events unfolded, federal regulators looked the other way (National Commission on the Causes of the Financial and Economic Crisis in the United States 2011; U.S. Department of Housing and Urban Development 2010; Zandi 2009; Suskind 2011; Dreier, Squires and Atlas 2008; McLean and Nocera 2010).

This crisis affected millions of Americans. The nation's homeownership rate peaked at 69 percent in 2004, before the bubble burst. By 2013, it had fallen to 65 percent, the first sustained drop since the Great Depression (U.S. Census 2013). More than 20 percent of all homeowners with a mortgage were "underwater" by 2012, with the balance of their mortgage exceeding the value of their home. In Nevada, Florida, and other areas hit hardest by the housing crisis, upward of 50 percent of all homeowners were underwater (Core Logic 2013). In 2011, total mortgage debt in the United States exceeded the total value of all residential real estate (Joint Center for Housing Studies 2011). More than five million households lost their homes to foreclosure from March 2009 through June 2011 (Immergluck 2012). Many others had to sell their homes to avoid foreclosure. As a result, the bursting of the housing bubble led to a decline not only in the homeownership *rate* but also in the *number* of homeowners.

Millions of low-income and middle-class families watched their major source of wealth stripped away, their neighborhoods decimated by falling property values, their cities devastated by dramatic declines in property tax revenues, and their economic security destroyed. The drop in housing values affected not only families facing foreclosure but also families in the surrounding community, because foreclosed homes in a neighborhood bring down the value of other houses in the area. The neighborhood blight was much worse in African American and Hispanic areas. African Americans and Hispanics were almost twice as likely as whites to lose their homes to foreclosures, in large part because they were more often the victims of predatory practices by lenders (Joint Center for Housing Studies 2007; Bocian, et. al, 2011).

In response, mortgage lenders imposed extremely stringent underwriting standards. Many borrowers who would have easily qualified for a mortgage before the crisis could, therefore, not obtain one afterwards—despite record-low interest rates. As of 2013, many lenders required down payments of at least 20 percent of the purchase price,

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and they rejected applicants without very strong credit ratings (Joint Center for Housing Studies 2012).

The Obama Administration launched its first foreclosure prevention programs in March 2009 with a goal of preventing seven to nine million foreclosures by helping owners refinance their mortgages on more favorable terms. As of March 2012, however, these programs had helped only 2.2 million homeowners avoid foreclosure. Its biggest shortcomings were relying on the voluntary participation of bank loan servicers and targeting only homeowners who were paying less than 31 percent of their income on their first mortgage, even if they were severely "underwater." Another proposal to assist homeowners—to reform the bankruptcy code to allow judges to restructure the terms of residential mortgages—was defeated in Congress by the banking industry lobby (Immergluck 2012; Schwartz 2012). Many economists argued that banks should reset mortgages to reduce borrowers' principal in order to help underwater homeowners, but lobbying by the financial industry made the Obama administration and Congress were reluctant to require banks to do so (Stiglitz and Zandi 2012). By 2013, however, a growing movement of community groups and labor unions was making headway at convincing the Obama administration and local governments to pressure banks to reset mortgages for underwater homeowners (Estevao 2012; Dewan 2013b and c; Dreier 2013a and b; Dreier, 2013a; Kuttner 2013; Lowrey 2013).

Conclusion

Homeownership is often touted as beneficial for individuals and families, as well as forsociety in general. This is why government involvement is seen as essential (e.g., National Association of Realtors 2012). Nevertheless, a careful reading of the evidence indicates that homeownership entails sizable costs as well as benefits, leading many scholars and policy analysts to question the primacy of homeownership in American policy and culture. (Adams 2009; Belsky 2009; Coulson 2002; Krugman 2008; Rohe, Van Zandt, and McCarthy 2001; Rossi and Weber 1996; Shlay 2006).

Without a doubt, the home is the single most important asset for most Americans and a key source of economic security. However, the recent crisis demonstrated that many Americans are too invested in their homes. Principle residences account for about 10 percent of the wealth of the richest one percent of Americans, but 66.6 percent of the wealth of the middle three quintiles (Wolff 2013). Therefore, though the bursting of the housing bubble and resulting Great Recession affected households across the entire distribution, middle-class households and those below were hit particularly hard. From 2007 to 2010, the average wealth of the top 1 percent of households dropped 16 percent, but median wealth dropped an astounding 47 percent. The middle "fifth of households saw their housing equity drop 44.6 percent between 2007 and 2010, and in 2010 households in the bottom 40 percent of the wealth distribution had *negative* housing equity on average for the first time on record" (Mishel et al. 2012: 376). Many families who bought homes in the 2000s would have been better off renting their home and investing their money elsewhere (Li and Yang 2010). Given all the tax breaks and loan subsidies, it is understandable why they bet so heavily on homeownership.

Residential construction is also an important sector of the American economy. In 2005, 16 percent of all economic activity in America came from the housing sector. According to the National Association of Realtors (2012), the construction and sale of houses generates on average 2.5 million jobs annually. However, the construction of rental housing could provide the same economic impact and job creation stimulus as building single-family homes or condominiums. Homeownership may even have negative economic impacts. Many economists argue that government promotion of homeownership, through tax breaks and other policies, encourages people to buy bigger homes than they need and reduces savings needed for economic growth. (Aaron 1972; Gale Gruber, and Stephens-Davidowitz 2007; Porter 2005; Lowenstein 2006; Poterba and Sinai 2011). Others argue that homeownership makes workers more rooted and less mobile. In the modern labor market, employees' mobility may be considered a positive factor in economic productivity and growth. The limited mobility of homeowners in a volatile and ever-changing job market may cause a mismatch in the location of work and available workers (Agnew 1981; Kemeny 1981; Oswald 2012; Branchflower and Oswald 2013; Norris 2013).

Finally, some advocates argue that homeownership enhances civic engagement (e.g., Dietz 2013). DiPasquale and Glaeser (1998), for example, found that homeowners are more likely to vote in local elections, know the name of their U.S. representative and school board members, and "work to solve local problems." But one can question whether homeownership directly causes people to become "good citizens" or whether those citizens are more

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likely to own homes. In fact, the evidence on homeowners' greater participation in civic life and organizations is mixed (Rohe and Stegman 1994). Glaeser and Sacerdote (2000) found that homeowners are much more likely than renters to vote for policies that will benefit themselves, even at the expense of community members or low-income residents, such as restricting new housing developments and voting in favor of strict zoning and land-use rules. (Again, this may simply be the result of homeowners having higher incomes.)

Housing tenure in the United States is almost always viewed as a choice between homeownership and renting. There are, however, alternative arrangements that encompass qualities, including the "bundle of rights" that are commonly associated with homeownership (Marcuse 1980 and 2008). These include "limited equity" and "cooperative" housing, and community land trusts, through which people purchase a home at a discount or receive a subsidy that imposes limits on the amount of profit they can make if they subsequently sell the property, but which confers many benefits of homeownership. By limiting the profits, these programs preserve the affordability of the housing for subsequent buyers. Alternatively, programs may allow properties to be sold at full market price but require the owner to share any profits with the government or a nonprofit organization so that the funds may be used to help subsidize homeownership for other families (Davis 1994; Jacobus 2010; Schwartz 2010; Temkin, Theodos, and Price 2010)

Clearly, it goes against the grain of American culture to suggest that homeownership should not be an essential part of the American Dream. But those values are powerful in part because they have been institutionalized by decades of public policies that privilege owning over renting—policies that effectively favor more affluent Americans and major industries. If the recent housing and financial crises do not lead policy makers to examine these policies more carefully, it is hard to imagine what else will.

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Notes:

([1]) Public housing is discussed in Chapter 5 in this volume.

([2]) Although deductions for home mortgage interest and property taxes date back to 1913, they helped very few people before the 1940s. One basic reason is that only the very rich paid income taxes during this era.

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