Adding Eligibility for First-Generation Homebuyers to the GSE Affordable Housing Programs

April 11, 2022

Executive Summary

Two vital elements of social and economic mobility are to increase the homeownership rate by enabling more non-homeowners to become first-time homebuyers and reduce the racial disparities in homeownership rates caused in large part by deliberate discriminatory policies and practices. The Government Sponsored Enterprises (GSEs) have the ability to improve both through their affordable housing goals and lending programs.

The National Fair Housing Alliance (NFHA) and Center for Responsible Lending (CRL) believe that the Federal Housing Finance Agency (FHFA) should expand the eligibility of the GSEs' affordable lending programs to include first-time, first-generation homebuyers with moderate incomes.[1] First-generation homebuyers, defined as non-homeowners whose parents do not currently own their home, are unlikely to receive financial assistance from their parents to cover the substantial out-of-pocket costs of purchasing a home and, as a consequence, many with moderate incomes still struggle to become homeowners.[2]

Allowing these first-generation homebuyers to receive the substantial benefits of the GSEs' affordable lending products would bolster the GSEs' efforts to increase the homeownership rate and, because Black and Latino families make up the majority of the group, also help reduce the race-based gaps in homeownership rates.[3] In fact, including first-generation homebuyers whose incomes do not exceed 120%

[1] The National Fair Housing Alliance (NFHA) is the country's only national civil rights organization dedicated solely to eliminating all forms of housing and lending discrimination and ensuring equitable housing opportunities for all people. Through its education and outreach, member services, public policy, advocacy, housing and community development, tech equity, enforcement, and consulting and compliance programs, NFHA works to dismantle longstanding barriers to equity and build diverse, inclusive, well-resourced communities.

The Center for Responsible Lending (CRL) is a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. For 40 years, Self-Help has created asset-building opportunities for low-income individuals, rural communities, women, and families of color. In total, Self-Help has provided over $9 billion in financing to 172,000 homebuyers, small businesses, and nonprofit organizations and serves more than 160,000 mostly low-income families through 72 credit union branches in North Carolina, California, Florida, Illinois, South Carolina, Virginia, Washington, and Wisconsin.

[2] This paper builds on the CRL/NFHA paper on a Targeted Down Payment Assistance Program, described in NFHA/CRL Homeownership DPA report.indd (responsiblelending.org).

[3] Note on the language in this report: As civil rights organizations, we are aware that there is not universal agreement on the appropriate race or ethnicity label for the diverse populations in the United States or even on whether or not particular labels should be capitalized. We intend in all cases to be inclusive, rather than exclusive, and in no case to diminish the significance of the viewpoint of any person or to injure a person or group through our terminology. For

of area median income (AMI)[4] as eligible for the GSEs' affordable lending programs would add 1.2 million households of prime home-buying age (25-54) to the group of potential participants, of which the majority (about 630,000 or 53%) are Black or Latino households. This would increase the pool of eligible borrowers by 14%.

While some of these loans would not count toward the GSEs' low-income purchase goals, they may contribute toward their "minority"[5] and low-income areas purchase goals. More importantly, they would further the GSEs' fair housing and public interest obligations and improve their Equitable Housing Finance Plans.

Homeownership and the Homeownership Rate

Homeownership is a vital part of the American dream. In addition to providing shelter, homeownership offers families stability, housing security, a long-term investment, and an asset they can pass on to their children. For most homeowners, buying a house will be their largest expenditure, their mortgage will be their largest debt and largest monthly bill, and the equity in their home will be their largest source of wealth.

However, for families that do not receive financial assistance from parents or grandparents to buy their first house, accumulating enough savings to cover a down payment and closing costs can constitute a significant barrier to entering into homeownership.[6] For example, our analysis indicates that in 2021, a renter household with an income at the national median for renters (about $49,400) that saves 5% of their income per year for a home purchase would need 10 years to accumulate enough savings to cover a 5% down payment ($13,000) and the associated costs ($13,500) for a median-priced first home ($260,000).[7] For

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purposes of this paper, we have utilized the following language (except in cases where a resource, reference, case, or quotation may use alternate terminology): Black, Latino, Asian American, Native, and White. We are aware that many persons prefer the term "Hispanic" or "Latinx." We intend in this report to include those who prefer "Hispanic" or "Latinx" in the term "Latino" and intend no disrespect. We refer to people of color or households of color to refer to people who are not non-Hispanic White rather than utilizing the term "minority".

[4] AMI is defined by FHFA in https://sf.freddiemac.com/content/_assets/resources/pdf/fact-sheet/medinc_readme_2021.pd.

[5] We use the term "minority" here to reflect verbiage used by Congress in establishing the GSEs' affordable housing goals for low-income areas. See 12 U.S.C. 4502(28).

[6] For example, as described in Intergenerational Homeownership (urban.org) and The Transition to Home Ownership and the Black-White Wealth Gap | The Review of Economics and Statistics | MIT Press.

[7] Median renter income for 2020 (Household Income: HINC-01 (census.gov)) inflated by the 2021 CPI (Consumer Price Index Summary - 2021 M12 Results (bls.gov)). Savings rate for 2019 (Personal Saving Rate | U.S. Bureau of Economic Analysis (BEA)), adjusted for federal, state and local taxes. Savings rates in 2020 and 2021 were abnormally high due to pandemic-related shutdowns and temporary government assistance. Median first home price is the 2020 median FHA purchase loan amount (cfpb_2020-mortgage-market-activity-trends_report_2021-08.pdf (consumerfinance.gov) divided by a 96.5% LTV, inflated by the FHFA SA HPI (House Price Index Datasets | Federal Housing Finance Agency (fhfa.gov)) between January 2021 and October 2021. Costs include closing costs and reserves (Barriers to Entry -- Closing Costs for First-Time and Low-Income Homebuyers (fanniemae.com), moving costs (Moving Cost Calculator for

many would-be first-time home buyers, the rapid house price appreciation of the last two years, increases in rental housing costs that exceed annual cost of living increases,[8] tightening of the mortgage market, record shares of home purchases by investors,[9] and the more recent rise in mortgage rates has taken homeownership even further out of reach.[10]

As a result of these and other factors, despite many government policies and programs aimed at helping families purchase their first home, the homeownership rate has stagnated for the last 50 years. From 1970 to today, the overall homeownership rate has held relatively steady at around 65%.[11] There was a brief period when the homeownership rate exceeded 65% during the housing boom of the late 1990s / early 2000s. However, many of the subprime and alt A mortgages made during that period proved to be toxic and unsustainable. In fact, many credit-worthy borrowers were steered into harmful and predatory subprime loans.[12] Additionally, both the home price appreciation and increase in the homeownership rate above 65% were lost in the ensuing housing crash and the Great Recession.[13]

Furthermore, the effect of government policies and programs has not had the same impact on all groups; instead, federal policy has limited the ability of families of color to share equitably in building home equity and the associated wealth that could be passed on to successive generations.[14] For example, the homeownership rate for White households increased by about 7 percentage points from 1960 to 2019, outpacing the gains for both Black households (4 percentage points) and Latino households (3 percentage points).[15] As a result, over the last six decades racial disparities in homeownership rates have widened: the

Moving Estimates | Moving.com), and first year property taxes estimated as the median real estate taxes paid / median owner-occupied house value in 2019 ACS (Census - Table Results).

[8] See Inflation's big casualty: Rents up 40 percent in some cities, forcing millions to find another place to live - The Washington Post; Biden's next inflation threat: The rent is too damn high- POLITICO.

[9] See https://www.washingtonpost.com/business/interactive/2022/housing-market-investors/?itid=hp-top-table-main.

[10] From January 2020 to September 2021, the FHFA Seasonally-adjusted National Home Price Index rose 26%, sourced from House Price Index Datasets | Federal Housing Finance Agency (fhfa.gov). From December 23, 2021 to January 20, 2022, the rate for a 30-year fixed rate mortgage has increased from 3.05% to 3.56%, as per Mortgage Rates - Freddie Mac.

[11] See The Homeownership Rate and Housing Finance Policy – Part 1: Learning from the Rate's History (harvard.edu) for a review of the long-term history of the homeownership rate and housing finance policies.

[12] Source: Subprime Debacle Traps Even Very Credit-Worthy: As Housing Boomed, Industry Pushed Loans to a Broader Market.

[13] The Financial Crisis Inquiry Commission determined that the housing crisis that led to the Great Recession was totally avoidable and primarily the result of lax regulation and excessive risk taking by Wall Street firms. See, The Financial Crisis Inquiry Commission, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, at 27 (January 2011), available at untitled (govinfo.gov).

[14] See, A Review of the State of and Barriers to Minority Homeownership. U.S. House Financial Services Committee. 116th Cong. (2019) (Testimony of Nikitra Bailey). hhrg-116-ba04-wstate-baileyn-20190508.pdf (house.gov); Separate and Unequal: The Legacy of Racial Discrimination in Housing. U.S. Senate Committee on Banking, Housing, and Urban Affairs. 117th Cong. (2021) (Testimony of Lisa Rice). Rice Testimony 4-13-21.pdf (senate.gov).

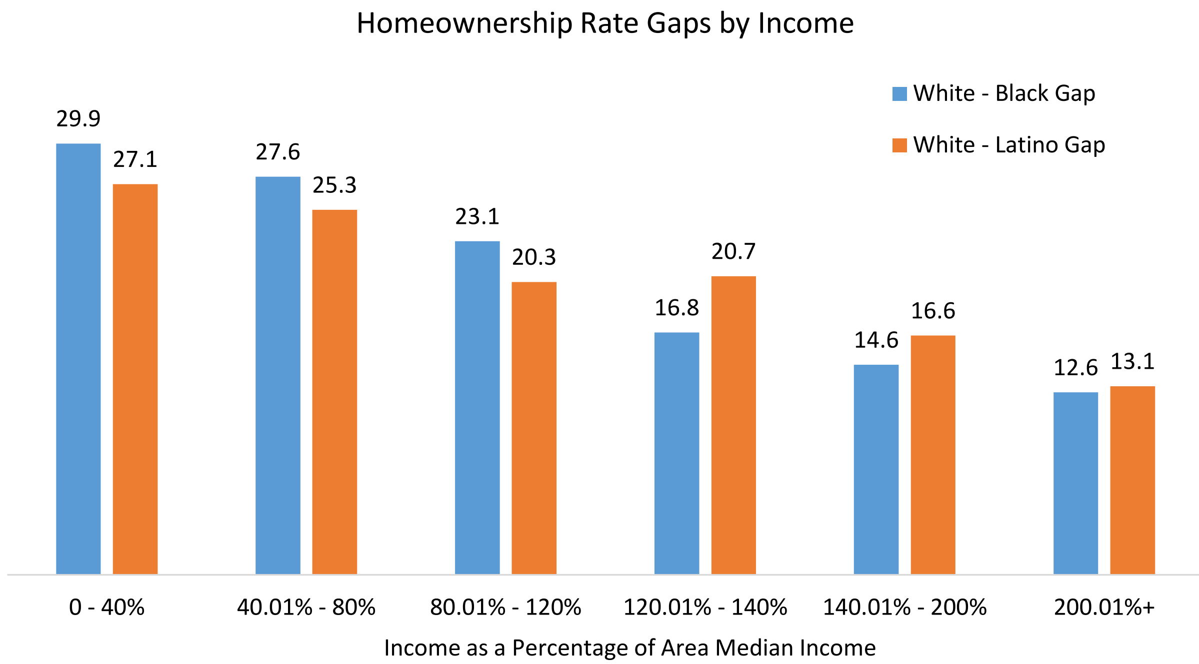
[15] Source: Closing the Gaps (urban.org).

White – Black homeownership rate gap increased from 27 to 30 percentage points and the White – Latino homeownership gap increased from 20 to 24 percentage points.[16]

Moreover, as shown in the figure below, higher income alone is not enough to close the race-based gaps in homeownership rates. At moderate income levels (80% to 120% of AMI), the homeownership rate gaps between White and Black families (23 percentage points) and White and Latino families (20 percentage points) are only modestly lower than the overall gaps. In fact, the homeownership rate for Black families does not reach the rate for White families of moderate income (75.1%) until the earnings of the Black family exceed 200% of AMI.

[16] Ibid.

Figure. Race-based Homeownership Rate Gaps Persist regardless of Income.



Sources: Current Population Survey ASEC March 2019 (MDAT (census.gov)), Freddie Mac Home Possible Income Eligibility Limits for 2019 (Home Possible Eligibility Map - Freddie Mac Single-Family), and HUD Median Family Incomes for 2019 (Income Limits | HUD USER).

Increasing the homeownership rate by enabling more renters to buy their first home and reducing the race-based gaps in the homeownership rate are critical to social and economic mobility, but have proven to be challenging. One way in which a housing program can contribute to reducing the race-based disparities in homeownership rates would be to permit families to buy who have less family wealth, since a wealth shortfall disproportionately affects households of color due to the nation's exclusionary federal housing policies.

The GSEs' Affordable Lending Products

With the understanding that obtaining homeownership is a struggle for low-income families generally and to support their affordable housing mission, the GSEs offer *affordable lending products,* Fannie Mae's

HomeReady[17] and Freddie Mac's Home Possible[18] mortgages, to low-income borrowers.[19] These programs recognize the need to address the shortfall in family wealth and income by reducing down payment requirements and monthly costs for qualifying borrowers with an income at or below 80% of AMI:

- Accepting small down payments (as low as 3%) and allowing down payments and closing costs to be paid from a variety of sources;
- Including boarder or rental income as qualifying income; and
- Offering favorable pricing, as loan-level pricing adjustments are capped at 1.5% of the loan amount and are waived for borrowers with a credit score at or above 680 and an LTV above 80%.[20]
- Allowing lower mortgage insurance coverage for LTVs above 90% compared to standard requirements

The GSEs provide these products to meet their statutory and regulatory *affordable housing goals* by financing home purchases for low-income and very low-income families. In addition, there are goals covering families buying a home in a low-income area or those at or below the median income buying in areas that have high percentages of Black, Latino, Native, and Asian groups. In meeting their 2020 low-income and very low-income affordable housing goal, the GSEs financed purchase mortgages for about 655,000 families with an income at or below 80% of AMI.[21]

In 2020, about 335,000 low-income families used a HomeReady or Home Possible mortgage to purchase their home.[22] Not every homebuyer who meets the criteria under the low-income and very low-income affordable housing goal makes use of the GSE affordable lending products: in 2020, just over half of the families who qualified as low-income used HomeReady or Home Possible.

By providing low-income and very low-income borrowers with mortgages, the GSEs are already working to increase the homeownership rate, because many of these borrowers are first-time homebuyers. For example, in 2020, 80% of HomeReady and Home Possible mortgages were made to first-time homebuyers.[23] Furthermore, because on average Black and Latino homebuyers have lower incomes and

[17] See HomeReady Mortgage | Fannie Mae for additional details.
[18] See Home Possible® - Freddie Mac Single-Family for additional details.
[19] We do not include the GSEs low down payment programs because the 97% LTV Option is not subsidized and HFA Preferred allows local housing finance agencies to set borrower income limits.
[20] While we recognize the importance of the waiver of LLPAs on some loans and cap on the LLPAs for others in the GSEs' affordable housing programs, we urge the GSEs to explore eliminating LLPAs altogether for these programs. The LLPA surcharges are tied to metrics – credit score and LTV – that are fundamentally inequitable and have a discriminatory effect on households of color. See, for example, research regarding the discriminatory effects of legacy credit scoring systems. Discriminatory Effects of Credit Scoring Systems on Communities of Color.
[21] Sources: Fannie Mae 2020 Annual Housing Activities Report and Freddie Mac 2020 Annual Housing Activities Report.
[22] Sources: Fannie Mae 2020 Financial Supplement and Freddie Mac 2020 10K, with the assumption that the average HomeReady loan amount matches the average Home Possible loan amount ($177,000).
[23] Sources: Fannie Mae 2020 Annual Housing Activities Report and Freddie Mac 2020 Annual Housing Activities Report.

less wealth resulting from the legacy of housing and broader societal discrimination, many are only able to afford smaller down payments[24] and therefore make up a greater proportion of the borrowers who can benefit from the GSEs' affordable housing programs. As a result, the GSEs' affordable housing programs have the potential to reduce the gaps in race-based homeownership rates. To do so would require the GSEs to increase their loan purchases from consumers of color from the current abysmal levels. In 2020, just 4% of Fannie Mae and 3.4% of Freddie Mac home purchase loans were from Black borrowers, while 10.9% of Fannie Mae and 8.4% of Freddie Mac home purchase loans were from Latino borrowers.[25]

First-time, First-generation Homebuyers

First-generation homebuyers with incomes above the current 80% limit for the Affordable Lending products often need assistance in purchasing their first home, and FHFA should consider expanding the eligibility criteria for the GSEs' affordable lending products to cover those with incomes up to and including 120% of AMI. Given that neither they nor their parents own their homes, these potential homebuyers are unlikely to have the benefit of intergenerational wealth to help them cover the required down payment and closing costs and will struggle to accumulate the required savings. Moreover, as described in the next section, the majority of this group are Black and Latino families, so adjusting the eligibility requirements for HomeReady and Home Possible to include first-time, first-generation homebuyers within these higher income limits would allow more underserved families to have access to the substantial benefits of these programs.

We recommend defining first-time, first-generation homebuyers[26] as individuals who:

- Are a first-time homebuyer per HUD's definition, which means they have not owned a house in the United States in the previous three years;[27]
- Are first-generation homebuyers based on the fact that their parents do not own a house; and
- Have a family income less than or equal to 120% of the AMI where the borrower currently lives or where the house is to be purchased.

As discussed in the Appendix, there are alternative definitions to first-generation homebuyers, with trade-offs. Defining first-generation homebuyers as we recommend, those first-time homebuyers whose parents currently do not own their home, would best serve the interests of the GSEs' affordable housing programs by expanding access to potential first-time homebuyers who do not have the benefit of intergenerational wealth and would be straightforward to administer.

[24] Source: Closing the Gaps (urban.org).
[25] Source: Annual-Housing-Report-2021.pdf (fhfa.gov).
[26] The eligibility criteria for first-generation homebuyers described here follows the criteria for the First-generation Down Payment Assistance program described on page 93 of the Build Back Better draft bill, found here: OLL21E11 (senate.gov).
[27] Source: HUD's definition of First-Time Homebuyer.

To qualify as a first-generation homebuyer, the borrower would simply attest that, to the best of their knowledge, their parents do not currently own their own home. We also recommend including individuals who grew up in foster care given the harm foster care causes to life prospects. Similarly, either the borrower or the borrower's parent(s) having an interest in an heir property should not be disqualifying, as families with fractional ownership interest are generally unable to access their home equity to purchase a house.

The suggested income limit for first-time, first-generation homebuyers of 120% of AMI (equating to approximately $96,000 on a national basis)[28] would be above the current 80% of AMI income limit (roughly $64,000 on a national basis) for HomeReady and Home Possible that is set at the traditional line defining low-income families. The higher 120% of AMI income limit would be responsive to the fact that families with moderate incomes but without the benefit of intergenerational wealth face severe challenges in achieving homeownership. FHFA might consider raising the income limit to 140% of AMI if the first-time, first-generation homebuyer is acquiring a home in a high-cost area, as is done in the House-passed Build Back Better first-generation program.[29] For borrowers who do not meet the first-generation definition, the traditional 80% of AMI income limit for HomeReady and Home Possible would still apply.

The Impact of Expanding the Eligibility of GSE Affordability Products to Include First-time, First-Generation Homebuyers

Expanding the eligibility requirements of the HomeReady and Home Possible programs to include first-time, first-generation households with incomes up to and including 120% of AMI would permit an additional 1.2 million households, the majority of whom are either Black or Latino, to make use of these programs assuming they met the other eligibility criteria.

The figures in Table 1 show our estimate of the number of potential homebuyers who would meet the recommended first-generation homebuyer definition beyond those already covered by the current 80% AMI or below eligibility. The 128.5 million households in the US are first reduced to only include renters (about 34% of the total), and then reduced further to those with an income below 120% of AMI (about 82% of renters). Of that group, 34% would meet the definition of first-time, first-generation homebuyer, leaving about 12.2 million eligible households.

[28] FHFA AMI limits are based on HUD's calculation of median family income, as described in https://sf.freddiemac.com/content/_assets/resources/pdf/fact-sheet/medinc_readme_2021.pdf. HUD's estimate of national median family income for 2021 was $79,900, as per Estimated Median Family Incomes for Fiscal Year (FY) 2021 (huduser.gov).

[29] Adjusting the income limit to 140% of AMI in high-cost areas would be consistent with the Build Back Better draft bill.

However, not every household that is eligible will need or be able to use the expanded eligibility criteria. In order to avoid double-counting households that could already qualify under the current 80% of AMI income limit, we reduce the population to only include those households among the 12.2 million with an income between 80% and 120% of AMI. We then further filter the remaining group to only include households of prime home-buying age (25 to 54). This leaves us with 1.2 million additional eligible households, of which the majority (about 630,000 or 53%) are Black or Latino households. An additional approximately 240,000 eligible borrowers are Native, Asian, and other multi-racial groups.

Table 1. Incrementally Eligible First-time, First-generation Households.

`	White	Black	Latino	Other	Black & Latino	Total
Total Households						
# of All Households (millions)[a]	84.9	17.1	17.7	8.9	34.7	128.5
% of Total Households	66%	13%	14%	7%	27%	100%
Eligible Households						
% Renter Households[b]	26%	56%	51%	42%	53%	34%
% Renter Households at or below 120% AMI[c]	79%	87%	87%	78%	87%	82%
% of All Above, First-Generation Homebuyer	20%	63%	36%	25%	50%	34%
# of Eligible Households (millions)	3.4	5.2	2.8	0.7	8.1	12.2
Potential First-Generation Program Participants						
% of All Above, Eligible, Income Above 80% AMI[c]	14%	5%	21%	33%	11%	13%
% of All Above, Households Age 25-54[c]	70%	88%	66%	100%	73%	76%
% of Group Potential Program Participants	0.4%	1.5%	2.2%	2.7%	1.8%	0.9%
# of Potential Program Participants (millions)	0.33	0.25	0.39	0.24	0.63	1.20
% of Total Potential Program Participants	27%	21%	32%	20%	53%	100%

Note: Black and Latino combined totals are excluded from the Total column to avoid double-counting. Figures may not sum due to rounding.

[a] Census Bureau "Historical Household Tables"; calculated using 2020 estimates for number of households by race (Table HH-7).

[b] From "Quarterly Residential Vacancies and Homeownership, Fourth Quarter 2020" published by the Census Bureau.

[c] Urban Institute calculations using PSID data. Estimates based on limited sample size data, therefore variations should be interpreted with care. The sample size for the "Other" category aged 25-54 was too small to yield useful results.

Approximately 8.5 million households are potential program participants for the HomeReady and Home Possible programs based on the current income limit of 80% of AMI, an assumed floor of 40% of AMI to be a potential homebuyer, and an assumed age range of 25-54.[30] Of those 8.5 million households, 3.9 million

[30] Source: Appendix 2 of the NFHA/CRL Homeownership DPA report.indd (responsiblelending.org).

(46%) are Black or Latino. Therefore, by adjusting the eligibility criteria for HomeReady and Home Possible to include first-time, first-generation homebuyers with an income at or below 120% of AMI, FHFA would increase the population of all potential program participants by 14%. Moreover, the inclusion of the additional eligibility criteria would disproportionately increase Black and Latino households' eligibility—the percentage of Black or Latino potential participants would increase by 16% as compared to 9% for White households.

By increasing the number of potential users of the GSEs' affordable lending products to include potential homebuyers with limited family wealth, particularly Black and Latino families, FHFA can strengthen the GSEs' efforts to increase the homeownership rate while reducing the race-based gaps in the homeownership rate.

Increasing the Take-up Rates of Black and Latino Households for GSE Mortgages

FHFA may want to consider taking additional steps to increase the take-up rate of GSE mortgages, HomeReady, Home Possible, or otherwise, by low-income Black and Latino households. As shown in Table 2 below, current take-up rates indicate that Black and Latino borrowers have been less successful in getting mortgages that qualify against the GSEs' affordable housing goals.

The distribution by race or ethnicity of the roughly 655,000 GSE loans that qualified for the GSEs' low-income affordable housing goal in 2020 is shown in the first row of Table 2. Two-thirds of the 655,000 low-income homebuyers were White, 5% were Black, and 12% were Latino. Based on these percentages, 436,000 White, 32,000 Black, and 79,000 Latino households received financing that qualified for the GSEs' low-income housing goal, as shown in row 2 of Table 2.

With these figures in hand, we can use the number of potential program participants for the HomeReady and Home Possible programs (using the calculations described in the previous section) to estimate take-up rates for the GSEs' affordable lending products.[31] Specifically, row 3 of Table 2 shows the distribution by race or ethnicity of the 8.5 million estimated renter households with an income between 40% and 80% of AMI and of prime home-buying age (25 to 54) in 2020.[32]

[31] This analysis assumes the distribution by race or ethnicity for HomeReady and Home Possible loans matches the distribution for loans that qualified against the GSE's low-income affordable housing goal.
[32] Renters with an income below 40% of AMI are unlikely to qualify for a mortgage and are therefore removed from consideration.

Table 2. Take-up Rates of Qualifying GSE Low-Income Loans by Race or Ethnicity.

	White	Black	Latino	Other	Black & Latino	Total
1. Percentage of Qualifying Low-income Loans[a]	66.5%	4.9%	12.0%	16.5%	16.9%	99.9%
2. Number of Qualifying Low-Income Loans (thousands)	436	32	79	108	111	654
3. Potential Program Participants (thousands)[b]	3,828	1,921	1,987	720	3,909	8,457
4. Estimated Take-up Rate	11.4%	1.7%	4.0%	15.0%	2.8%	7.7%

Note: Figures may not sum due to rounding.

[a] Appendix E of Annual-Housing-Report-2021.pdf (fhfa.gov). Percentages for Fannie Mae and Freddie Mac have been combined.

[b] Appendix 2 of the NFHA/CRL Homeownership DPA report.indd (responsiblelending.org).

Dividing the number of qualifying GSE low-income loans (row 2) by the number of potential program participants (row 3) indicates that overall, about 7.7% of the 8.5 million estimated potential participants used a GSE mortgage that qualified for the GSEs' low-income income affordable housing goal. However, take-up rates for White (11.4%), Black (1.7%), and Latino (4.0%) households indicate that White households were nearly 7 times more likely than Black households and 3 times more likely than Latino households to make use of the affordable lending programs. While there may be many reasons for the variation in take-up rates by race or ethnicity, and this analysis does not take into consideration other qualifying factors such as credit score, debt-to-income ratio, or discriminatory lending practices, FHFA may want to consider additional actions or outreach to ensure that the GSE affordable lending programs are being used at least proportionately by Black and Latino borrowers, especially in light of the large homeownership gaps that exists.

Conclusion

The GSE affordable lending programs are designed to address hurdles that make attaining homeownership difficult for many low-income households and, in 2020, accounted for about half the loans that met the GSE low-income purchase housing goals. Amending the eligibility criteria to include first-time, first-generation homebuyers with moderate incomes would allow the GSEs to provide more households, particularly Black and Latino families who lack intergenerational wealth, with access to the substantial benefits of the programs. By doing so, FHFA can contribute to the GSEs' Equitable Housing Finance Plans, bolster the GSEs' compliance with fair housing goals, and increase the likelihood that the GSE affordability programs both raise the homeownership rate and shrink the persistent and pernicious race-based gaps in the homeownership rate to further the important public interest mission of the GSEs

Appendix: Defining First-Generation Homebuyers

Defining first-generation homebuyers as those first-time homebuyers whose parents currently do not own their home has two distinct advantages over alternative definitions. First, it would best serve the interests of the GSE affordable housing program by expanding access to potential first-time homebuyers who do not have the benefit of intergenerational wealth. Second, it would be straightforward to implement and administer.

First, we recommend that program eligibility should be based on the current homeownership status of the borrower's parent(s), which is consistent with the Down Payment Assistance program in the draft of the Build Back Better bill. In the extreme, eligibility could instead be limited to borrowers whose parents have never owned a home. However, use of this alternate definition would not serve the interests of the programs and would do little to increase the homeownership rate. This is because research indicates that only continuous home ownership by parents over the relatively long study period (16 years) led to a statistically higher homeownership rate for their children; the difference in homeownership rates between children of parents who never owned a house during the period and children of parents who owned a house during part of the period was small.[33]

We also prefer the first-generation definition based on the parents' current ownership status to requiring that the borrower's parents must not have owned a home in the previous three years.[34] Based on the research noted above that demonstrates that only continuous parental homeownership raises children's homeownership prospects, this alternative definition of first-generation homebuyer would unnecessarily reduce the incrementally eligible population of borrowers and negate some of the benefits of expanding the affordable lending programs to include first-generation homebuyers.

We also recommend allowing individuals who may have an interest in an heir property to access the programs and would apply this same standard to the applicant's parents. Families with fractional ownership interests are generally unable to sell or borrow against their interests or the house, and therefore are unable to use home equity to help their children purchase a house. We also recommend including individuals who grew up in foster care in the definition of first generation given the harm foster care causes to life prospects.

The fact that some wealthy parents may enter a retirement community toward the end of life does not warrant a different definition of first-generation homebuyer. For one thing, if one or both parents purchase

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[33] Jung Hyun Choi, Jun Zhu, and Laurie Goodman, *Intergenerational Homeownership: The Impact of Parental Homeownership and Wealth on Young Adults' Tenure Choices*, Urban Institute, pp. 10-11 (Oct. 2018), https://www.urban.org/sites/default/files/publication/99251/intergenerational_homeownership_0.pdf.

[34] Children of parents who lost their home to foreclosure during the three-year lookback period should retain eligibility, given that it is unlikely that these parents could provide their children with financial assistance during this period.

a home in a retirement community, their children will not meet the definition of first-generation homebuyer. Further, while some wealthy parents may convert to renters late in life, by then their children, if they were ever going to buy a house, will likely be homebuyers already; for example, 87% of White families who buy a house do so by age 35.[35] At age 35, a homebuyer's parents are likely around 65, much younger than the average age (84) at which seniors enter senior living communities.[36] Finally, even if some wealthy parents become renters before their children purchase a home, many of those parents will not be able to help their children because of the high costs of their rental; this is especially true for those living in a skilled nursing facility. The average stay in a nursing home is just over 2 years, making it even less likely that a parent sells their home and enters a facility just before their child buys their first home.[37]

Second, defining first generation homebuyers based on their parents' current homeownership status would be straightforward to administer. In order to qualify as a first-generation homebuyer, the borrower would simply be asked to attest that, to the best of the borrower's knowledge, their parent(s)' do not currently own their own home. The process would follow the approach by which first-generation college student programs are administered, without the burden of additional documentation, beyond potentially providing the parent(s)' names and current address.

In some cases, where the identity or location of one parent is unknown, the borrower may only have knowledge about one parent, which would be sufficient to be eligible for the programs. If just one of the borrower's parents/guardians is alive, we would suggest that the living parent's homeownership status would govern. If neither parent is still living, both parents could not have owned at their death. The homebuyer's spouse should have to meet the first-time homebuyer definition, whether they are a co-borrower or not, but should not also be required to meet the first-generation definition.

In contrast, requiring that the borrower's parents have never owned a home would add unnecessary complexity, be difficult to ascertain, and dissuade many potential applicants who could benefit from the

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[35] Jung Hyun Choi, Alanna McCargo, and Laurie Goodman, Three Differences Between Black and White Homeownership That Add to the Housing Wealth Gap, Urban Institute (Feb. 28, 2019), https://www.urban.org/urban-wire/three-differences-between-black-and-white-homeownership-add-housing-wealth-gap.

[36] Where You Live Matters: A Senior Living Resource, *Life in a Senior Living Community* (Feb. 9, 2021), https://www.whereyoulivematters.org/life-senior-living-community/.

[37] Brad Breeding, *So I'll Probably Need Long-Term Care, But for How Long?*, myLifeSite (July 6, 2016), https://mylifesite.net/blog/post/so-ill-probably-need-long-term-care-but-for-how-long/. The largest potential exception to a parent renting toward the end of life when they in fact have the resources to help their child buy a home is continuing care retirement communities, which are largely nonprofit owned with no individual ownership option. *See* Mary Kate Nelson, *Only 22% of CCRCs in the U.S. are For-Profit*, Senior Housing News (May 24, 2018), https://seniorhousingnews.com/2018/05/24/only-22-of-ccrcs-in-the-u-s-are-for-profit/. However, just 600,000 adults live in these arrangements, only 2% of the 70-plus population, meaning the segment is not large enough to warrant changing the first-generation homebuyer definition. *See* LeadingAge, *Coming Nov. 1: A New Name for CCRC* (Oct. 21, 2015), https://leadingage.org/members/coming-nov-1-new-name-ccrc. In addition, the average age of those who enter, 81, is well past when parents who help their children buy a house generally do so. *See* CCRC Task Force, *Today's Continuing Care Retirement Community*, p. 13 (July 2010), https://www.naccrau.com/RGHyland/AAHSA%20on%20CCRC%20Characteristics.pdf.

programs. Children will have difficulty knowing their parents' living situation dating back to their own birth. This may lead some eligible participants who aren't sure whether their parents owned to avoid the programs for fear of misstating their parents' status, and lead others to not participate because they wrongly believe that their parents did own at some point. Further, lenders may be unwilling to accept such an attestation even if provided, given the uncertainty of the information provided. Requiring that the borrower's parents have not owned a home during a three-year look-back period would modestly increase administrative complexity.

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