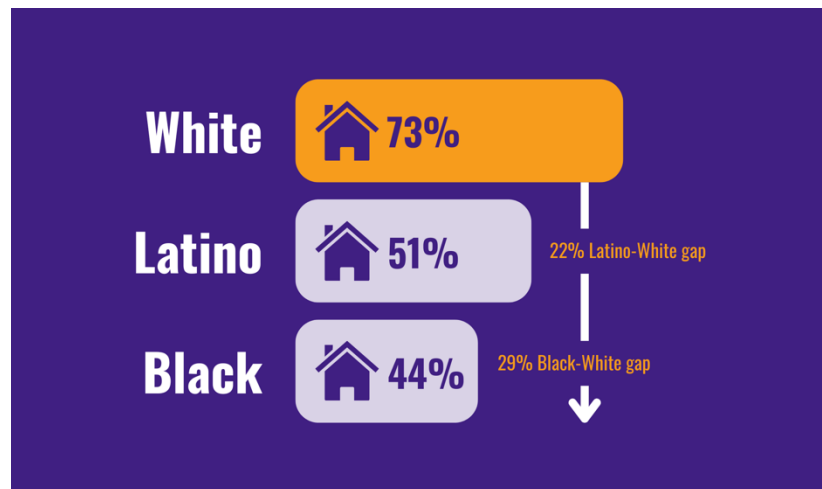


First-Generation Down Payment Assistance vs. First-Time Homebuyer Tax Credits

September 4, 2024

Homeownership is the primary way that most families build wealth and achieve economic stability. But buying a home is an expensive life decision, and the upfront costs stand as a significant barrier, especially for people of color who are less likely to be able to access family wealth for a down payment and closing costs. This is largely due to the ongoing legacy of government-sponsored discrimination and segregation, the dual credit market, restrictive zoning laws, and other systemic barriers that perpetuate the racial wealth and homeownership gaps we see today.

Today's Black/White racial homeownership gap (29 percentage points) is wider than before the Fair Housing Act was passed in 1968 (27 percentage points)



[According to Freddie Mac](#), it will take over a decade, if not longer, to save for a down payment for a median priced home:

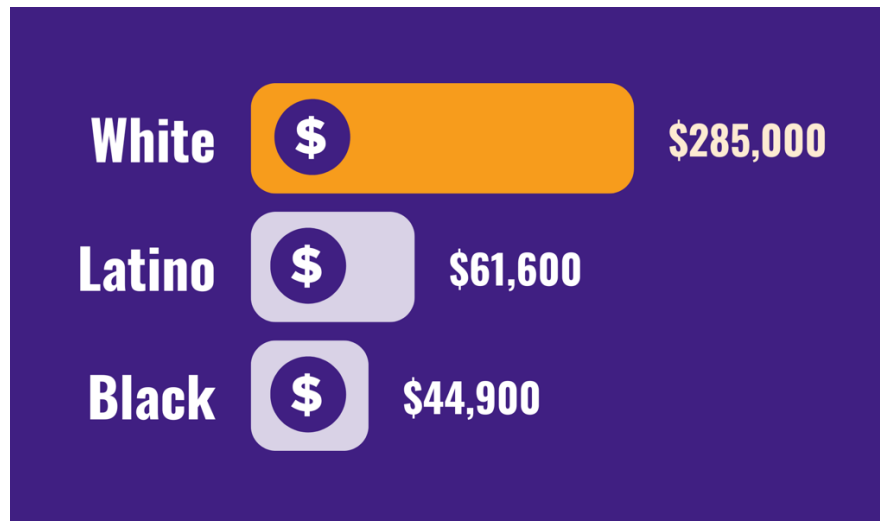
- White, non-Hispanic: 14.4 years to save 20 percent down payment (median home price \$243K)
- African American: 15.4 years to save 20 percent down payment (median home price \$216K)
- Asian: 23.5 years to save 20 percent down payment (median home price \$429K)
- Hispanic: 24.5 years to save 20 percent down payment (median home price \$349K)

The Benefits of Upfront First-Generation Down Payment Assistance

- First-generation down payment assistance can cut down on the initial expenses of buying a primary residence by reducing the amount of cash buyers need to make a purchase, and in the long-term, by reducing the total amount of the mortgage through increased down payment assistance.
- [The primary barrier for most potential homebuyers is the lack of a down payment, especially for Black, Latino, Asian American Pacific Islander, and Native Americans who often lack intergenerational wealth as discriminatory housing policies and practices excluded them from equitable homeownership opportunities.](#)
- [Because of the lack of intergenerational wealth, Black and Latino families are far less likely than White families to receive down payment assistance from their family, delaying transitions into homeownership. In fact, Latinos indicated that one of the biggest hurdles to buying a home was insufficient funds for a down payment.](#)

The Limitations of First-Time Homebuyer Tax Credits for First Generation Homebuyers

- Tax credits for first-time homebuyers could be a powerful way to save money on the purchase of a home as they provide a dollar-for-dollar reduction of a homebuyer's tax liability. However, if the tax credit is not allocated at closing, the actual sale of the home must be completed in order for the homeowner to receive the benefit.
- Tax credits can be an incentive to enter homeownership as they cut the amount of tax a homebuyer will pay after purchasing the home. Yet, a homebuyer is unable to use them for the rising upfront costs associated with homeownership, which is the main hurdle for low-wealth consumers to overcome, if they are not issued during the closing process.
- Tax credits can be refunded and nonrefunded. Refunded tax credits apply after the home is purchased and do not assist with the upfront costs of purchasing a home. Tax credits can also require repayment unlike grants of down payment assistance.

The racial wealth gap is wide and persistent

[Over seventy percent of first-generation down payment assistance will benefit potential homebuyers of color.](#) While homebuyer tax credits may have a broader impact, they can exacerbate existing racial homeownership and wealth gaps if they are not provided during the home closing process. Post-closing homebuyer tax credits would most likely benefit homebuyers that receive downpayment assistance from the [“Bank of Mom and Dad.”](#)