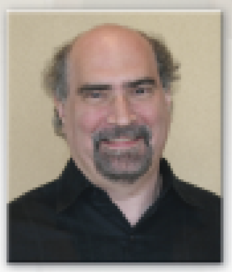
Homeownership is often, but not always, the Path to Prosperity



By Stan Fitterman

The United States is clearly a country that puts a lot of value in home ownership. Much of our housing policy at both the state and local level focuses on home ownership. There are benefits built into the tax code that provided financial incentives for homeownership (historically limited to those filers that itemize) and nearly two-thirds of the local housing trust fund in Florida had to be used to promote new home ownership opportunities or improve the housing stock through owner-occupied rehab. But is homeownership right for everyone? At some point does a family's income or life circumstance make home ownership a less than viable option?

Benefits and Costs of Homeownership

Strong and consistent evidence indicates that homeowners are more likely to: a) be satisfied with their homes and neighborhoods; b) participate in voluntary and political activities; and c) stay in their homes longer, contributing to neighborhood stability. Homeowners are also more likely to have accumulated additional wealth through a combination of mortgage amortization and home price appreciation. (Rohe et al. p.3).

Of course with benefits also come costs. In addition to principal, interest, taxes and insurance, homeowners must set aside money regularly to cover ongoing maintenance and to replace components and appliances as they wear out. Homeownership may also limit a family's mobility. This can restrict a family's earnings if jobs leave an area or if higher earning jobs become available in a distant city shortly after the family purchases a home or in a market in which selling a home is difficult.

Tax Benefits of Homeownership for Very Low Income Households

The tax code allows homeowners who itemize to deduct the entire annual amount of interest paid on their home mortgage. In order to take advantage of this deduction, the amount of itemized deductions must exceed the amount of the family's standard deduction. For most low income households, the annual interest paid on the family's mortgage will provide the majority of that deduction. For the 2010 tax year, the standard deduction for a single head of household filer will be $8,400. A $145,000 mortgage is needed to have interest payments higher than $8,400 just for the first year of a 30-year mortgage. To qualify for a $145,000 mortgage at 6% annual interest rate takes an annual income of about $55,000, or about 105% of median in Miami-Dade. To have a higher interest payment than the standard deduction for 5 years takes $155,000 loan amount or a $58,000 income to qualify – about 110% of median in Miami-Dade. For very low or even low income families, homeownership does not provide a tax savings. According to IRS records, for the 2007 tax year, the standard deduction was taken by 75 percent of all families earning less than $75,000.

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(NSP): A Statewide Snapshot

- In Escambia County, a unique situation arose when BRACE, a nonprofit organization. acquired a foreclosed manufactured home community known as Heritage Oaks. NSP funds will be used in the rehabilitation of these units, of which a portion will be used as the low income set-aside. The units will be available for rent or sale to new residents. The Coalition has long recognized the special role of mobile home parks in providing affordable housing and has participated in preservation initiatives throughout Florida.

- In Lake Worth, the Coalition is assisting the Lake Worth CRA NSP2 project as it mobilizes to acquire 130 foreclosed properties. This project is unique in that the homes will be included in a community land trust to further the permanence of affordability as well as stabilization. This innovative consortium has 21 members including Adopt-a-Family and Habitat for Humanity working together to buy, rehab, rent, resell or land bank these properties. To learn more, visit ***www.lakeworthcra.org***.

- The platted community of Port St. Lucie, one of Florida's hardest hit communities, has nearly obligated all of its NSP funds. Not only are homes being purchased for rehab and resale, but demolition and land banking are active components of the program.

Register for the 23rd Annual Affordable Housing Conference: "Next Stop on the Route to Recovery" in Orlando on September 20 – 22, 2010 for the NSP Track, From Obligation to Stabilization: NSP 2010 and the second annual NSP Roundtable.

For any variety of technical assistance in the Neighborhood Stabilization Program, contact the Coalition at 850-878-4219 or email info@flhousing.org. We can work with you on or off site. Visit our website ***www.flhousing.org*** and select NSP for resources and information. HNN

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Will There be Enough Money at the End of the Month?

Lenders determine the mortgage amount a family can qualify for based on front and back ratios. The front ratio is the percent of gross monthly income that a family can afford to spend on principal, interest, taxes and insurance (PITI). Generally speaking, front ratios don't exceed 31 percent of a family's gross monthly income. Back ratios are the percent of a family's income that can be used for PITI plus any debt that is going to last longer than a year. Generally speaking, this number cannot exceed 42 percent of a family's gross monthly income.

Let's consider a family earning $2,000 per month, or $24,000 per year. This is about 40 percent of median income in many communities. With $240 per month in long-term debt, this family can qualify for approximately an $80,000 mortgage (2 percent down payment, 6% rate, 30-year term). PITI for this loan will be $573 per month. Assuming the family's net income is closer to $1,800 per month this leaves just $1,227 per month to meet all other expenses. Take out the $240 per month in long-term debt and this leaves under $1,000 per month for all other expenses. On less than $1,000 per month it is very difficult for this family to meet its monthly expenses over and above housing and debt, much less save for ongoing maintenance and long-term repairs.

Let's compare the $2,000 per month family to a family earning $5,000 per month or $60,000 per year. Using the same terms as above but with $600 per month in long-term debt, this family could qualify for approximately a $186,000 mortgage, or a $1,450 monthly payment for PITI. If that $5,000 gross income per month is closer to $4,200 net, this still leaves this household with $2,771 for other expenses. Subtract the $600 per month in long-term debt and they still have over $2,100 per month for all of their other expenses. Even though they are paying the same percentage of monthly income for housing costs, the higher earning family will have a better ability to meet their monthly expenses and save for ongoing maintenance and future repairs.

There are many benefits of homeownership. There are also many costs. As a family's income increases, its ability to take advantage of the financial incentives and wealth building aspects of homeownership also increases. Very low and even some low income families are often better off remaining as renters until their income starts to increase, or their expenses start to drop. For this reason policymakers need to focus on the importance of providing quality affordable rental housing in addition to initiatives that expand the home ownership rate. HNN

References: Rohe, et al. "The Social Benefits and Costs of Homeownership: A Critical Assessment of the Research". Joint Center for Housing Studies Harvard University. October 2001.