

A Working Paper on Housing and Poverty

December 2008

Just outside Charleston, S.C. with its bistros and high-end B&B's, families who have lived on their land for generations have been forced out by prosperity.

The region's booming tourist and retirement economy has been great for the tax base. But housing prices in historic Charleston and throughout the Lowcountry have increased so much that many poor and working families can no longer afford to live there.

"Our biggest challenge is what happens nationally: housing prices escalate and wages are stagnant," said Tammie Hoy, the executive director of the [Lowcountry Housing Trust](#), a non-profit agency that advocates for and finances affordable housing. "South Carolina is a huge property rights state. It's about owning property and not really about people."

Families in Appalachia face the other extreme. In coal-producing counties throughout Kentucky, southern Virginia and West Virginia home prices have dropped so low that a family can lose all its accumulated wealth without spending a penny.

"We have certain areas in Appalachia where if you put a young, upwardly mobile family in homeownership, you'll have shackled them with debt without the benefit of wealth creation that traditionally comes with home ownership," said James King, the president of the [Federation of Appalachian Housing Enterprises](#), an organization that works in four states on affordable housing.

These stories illustrate central themes about the relationship between housing and poverty in the Southeast that emerged from a recent study by the [Mary Reynolds Babcock Foundation](#).

It's long been assumed that homeownership is crucial to families trying to improve their economic conditions. With homeownership comes pride and the chance to build wealth and with that the opportunity to make the leap out of poverty.

But the story is so much more complex.

Every region of the Southeast contends with its own market forces, its own zoning ordinances, its own history -- all of which affect housing prices and the challenges a family struggling with low wages and low wealth faces finding a place to live. What's more, such families need more than shelter to move out of poverty. They need housing, rented or owned, that provides stability and allows them to accumulate assets.

Learning at the Babcock Foundation

The Mary Reynolds Babcock Foundation, based in Winston-Salem, N.C., supports organizations throughout the Southeastern US that work to help low-wealth families and communities break the cycle of poverty.

The foundation understands that there is no simple answer to reducing poverty. With that in mind, the foundation supports programs that focus on education, jobs, community development and advocacy but only when these programs work to reduce persistent poverty.

Affordable housing is not a goal in itself either, but fits the foundation's mission when it serves as a path out of poverty.

In 2008 the foundation set out to better understand which housing strategies work best to improve the economic status of low-income families. It commissioned a scan of federal and state housing policies and the scholarly research on affordable housing. In its effort to understand how people and places move out of poverty, the foundation intends to study additional pathways in the future.

The foundation has more than 10 years of experience investing in organizations that use housing as a tool for moving families out of poverty, but it wanted to know whether it needed to change any of its strategies or shift its focus.

This study produced some surprising insights and confirmed beliefs the foundation has long held about individual responsibility and community empowerment. The foundation presents the following report with the aim of sharing these lessons with other organizations and policy makers working to reduce poverty.

The foundation's review found there's been little formal research on the questions the foundation wanted answered. When is housing an asset? What is the relationship between affordable housing and other tools for reducing poverty including jobs, education and community development? How do regional and cultural differences shape housing strategies?

The foundation's consultant interviewed housing experts and leaders with organizations that work on affordable housing. The findings that emerged provide themes that explain how housing needs differ across the Southeast, why some strategies work and how foundations can help. These interviews took place at the beginning of the current housing meltdown.

Stable Homes and Escaping Poverty

Many interviewed for the study said that homeownership may be the American dream, but it's not the only way to a stable home and a meaningful step out of poverty.

“The asset-building rhetoric and research was very seductive, not that it’s untrue, but a very seductive policy line,” said Chris Estes, the executive director of the [North Carolina Housing Coalition](#).

“What was missing in that analysis is how do you get poor people adequately prepared for ownership and what about poor people who may never be ready for homeownership or are a very long way away? It’s not that homeownership is not a good thing, but it’s drowned out where the greatest needs are.”

In most low-wealth communities, that’s an affordable place to rent.

An affordable rental apartment in a safe neighborhood can create the kind of stability a low-income family needs to get ahead. The stability means their children won’t have to switch schools in the middle of the year and risk falling behind. Stability gives families the chance to save money for hard times ahead or for a down payment on a home. And it means better health and security for a family already stretched to its limits by poverty.

CONCLUSION: Stable housing, either rental or home ownership, is a fundamental building block for families moving out of poverty.

The Current Crisis

Today the nation’s economy is in crisis from the toxic combination of lax regulation of financial institutions, a housing boom gone bust and a recession.

Predatory lenders fed on the American dream of homeownership for all, selling high-interest loans to millions of families who could not afford the payments they agreed to make.

The fallout has crippled the economy. Credit froze, banks and insurers failed and the government stepped in with a \$700 billion bailout. Even as the crisis continues to unfold, the lessons for low-wealth families are clear.

Families bought homes they could not afford. They took on debt with escalating interest rates and terms they did not understand. And property values in high-crime neighborhoods or towns abandoned by industries lost value even when housing prices in another part of town or in the next county over rose.

Conclusion: But community-based housing organizations and community development financial institutions have developed working strategies over many years that avoid the pitfalls that turn homeownership into a trap. As Daniel Gross reported in Newsweek on November 24, 2008, “Even amid the worst housing crisis since the 1930s, many of these institutions sport healthy payback rates. They haven’t bankrupted their customers or their shareholders. Nor have they rushed to Washington begging for bailouts.” Families served by these organizations are holding onto what is probably their biggest financial asset—their homes.

With the right kinds of loan packages and counseling, families with incomes as low as \$15,000 a year can succeed in owning a home. These packages require subsidies, but the public investment pays off. The community-based organizations that evaluate loan applications carefully and provide low-cost mortgage packages combined with classes on budgeting and homeownership counseling report default rates of lower than 2 percent.

Federal Policy

Federal policy has promoted homeownership as the American ideal at least since the Great Depression. The Federal Housing Administration, created in 1934, stabilized the mortgage market with insurance and regulation making homeownership possible for millions. At the end of World War II the government stepped in again to help veterans returning from the war buy homes with guaranteed loans and with those loans the American suburb flourished. The Internal Revenue Service provides the largest housing subsidy of all, through the mortgage interest deduction, which is worth thousands of dollars a year to millions of Americans. Few, however, think of the deduction as a federal housing subsidy.

During much of the 20th Century, discrimination prevented millions of Americans from taking advantage of these generous federal programs. Banks routinely denied mortgages to minority borrowers and redlined entire neighborhoods. Without a mortgage, minorities could not benefit from the interest deduction. Landlords, including federal housing officials, discriminated against minority renters, who ended up isolated in poor neighborhoods. The Fair Housing Act of 1968 ended legal discrimination, but in many communities those patterns persisted, and they continue to shape housing values and family wealth today.

During the 1950s and 60s, the federal government built thousands of subsidized apartments in large cities and small towns across the country. But these were never intended to help poor families move out of poverty. Instead, the regulations that set rental subsidies discouraged work and kept many families isolated in ghettos for generations.

Among the federal government's primary affordable-housing programs, HOME and Community Development Block Grants provide grants to state governments to spend on projects ranging from slum clearance to multi-family housing. But over

SOLUTION: Successful home ownership programs combine counseling with low-interest loan packages that give low-wealth homeowners the chance to own a home and accumulate wealth. Here are key components for affordable housing programs that help break the cycle of poverty.

- *Buyers have stable income.*
- *Mortgages have fixed rates, no balloon payments and low fees.*
- *Public subsidies are available for down payment and other costs.*
- *Total payments are no more than 30 percent of household income.*
- *Buyers have savings for medical expenses, home repairs and other financial emergencies.*
- *Buyers have no debts to predatory lenders for cars or payday loans.*
- *Buyers have supportive relationships with real estate and financial experts.*
- *Financial counseling is provided before and after home purchase.*
- *Legal protection exists against predatory lending.*
- *Homeowners live in safe neighborhoods with good schools and transportation.*

the last 20 years these and other federal housing programs have declined by 75 percent. Contrast those cuts with the growth in housing subsidies provided by the mortgage-interest deduction. In 2007 alone that subsidy was worth between \$69 and \$100 billion to American homeowners.

Most of the research on affordable housing was narrow in scope, or focused on large northern cities where the results may not apply to the Southeast. Even the federal government's Hope VI program, which has redeveloped public housing neighborhoods and pushed homeownership since the 1990s, has never been evaluated to find out whether it helped the original low-income residents of those neighborhoods.

State and Local Policy

States take their own approach to housing policy. Most states in the Southeast operate quasi-public agencies called housing finance agencies. These agencies administer a program of federal tax credits, which are awarded to developers who build affordable rental housing. Beyond that, state policies have little in common. For example, North Carolina and Virginia allocate their tax credits for small-scale projects to avoid high concentrations of poverty. Other states have no such restrictions.

States set different priorities too for their federal HOME funds and Community Development Block Grants (CDBG.) Some administer HOME funds through the housing finance agency, some through other state agencies.

Policies are not consistent. South Carolina, for example, uses its CDBG money for economic development instead of housing and community development. Many southern states have established a housing trust to help administer federal grants, but state funding for these trusts varies. The best-financed trust is in North Carolina, where state funding has grown from \$3 million to \$17 million a year. Louisiana taxpayers support their state's housing trust through a voluntary check-off on their state income tax return. South Carolina uses real estate transfer fees to fund its trust.

Local governments also influence affordable housing through zoning and land-use regulations. Regulations that restrict apartments to certain areas or require large lot sizes in other districts end up concentrating affordable housing. Such economic segregation isolates low-wealth families in neighborhoods often troubled by failing schools, high crime and few jobs.

Local policies can have unintended consequences for poor and working families. When several local governments in the greater Charleston area froze new development in an effort to control rapid growth, rental prices increased in a region already short of affordable housing.

Ingredients of Success

The financial forces that created the current mortgage crisis and the collapse of old-line Wall Street firms have also made the task of non-profits working on affordable housing more complicated than ever.

The days when the local banker could renegotiate the terms of a home mortgage when the local plant shut down are long gone. Today, affordable housing requires the combined skills of a banker, developer and social worker with a dose of a rabble-rouser to make people think.

Ideals and good intentions are not enough. Developers who build low-income rental housing need to understand how to finance their projects by selling federal tax credits to investors. Lenders who work with low-income families need to understand the intricacies of the mortgage markets where loans are bundled and resold many times over as securities. And non-profit organizations need dozens of partnerships with government agencies, banks and other non-profits to make these deals work.

The foundation's study found that the most successful local organizations were also the most sophisticated. They understand the social and political forces that drive their local housing market as well as the forces that drive Wall Street.

"What you end up with is layers of financing in highly complex deals," said King of the Federation of Appalachian Housing Enterprises.

There are many examples of organizations with the savvy needed to make these deals work. King's organization, for example, works with more than 40 housing agencies in four states to develop and advocate for affordable housing. He understands the strong preference among mountain people for owning land. But he also understands the harsh realities of a falling real estate market, where the dream of homeownership so easily turns into a trap.

In some ways the story of affordable housing today is a bleak one. Affordable housing is less of a federal priority than ever. Few states in the Southeast have made affordable housing a top priority. The subprime mortgage crisis has made lenders more wary than ever of risk -- real or perceived. And we are in a major economic recession.

SOLUTION: Foundations can help by making sure the organizations and networks they support demonstrate the technical sophistication needed to succeed. Foundations can also help by supporting umbrella organizations that can share expertise with other member organizations. Key components for successful community housing organizations and their partners include:

- *Visionary leadership*
- *Mechanisms for accountability to the communities that they serve*
- *Management systems for large capital investments*
- *Expertise in federal tax-credit programs and other tools for developing low-income rental housing*
- *Access to low-cost mortgages and housing subsidies*
- *Federal approval to make loans as a Community Development Financial Institution; the capacity to evaluate loan applications and support loans*
- *Strong customer service and education*
- *Partnerships with organizations that connect customers with job training, education and savings programs*

But in the face of crisis, non-profits across the Southeast have developed strategies that work.

Examples of Success

East Biloxi was home to about 10,000 people when Hurricane Katrina blew in from the Gulf of Mexico in August 2005.

The storm destroyed 80 percent of the neighborhood's housing stock. Most of the neighborhood's residents were low-wealth, working families. Many people owned homes, passed down to them by their parents and grandparents, but few had flood insurance or the money to repair them.

Community organizers worked through the disaster to help with food and immediate shelter, and as conditions improved they saw an opportunity in the ruined city. They would rebuild with affordable, decent housing that would help the neighborhood's low-income residents build a better life than they had had before the storm.

They formed the East Biloxi Coordination, Relief and Redevelopment Agency. So far the agency has renovated 650 houses and replaced 36 that were damaged beyond repair. The agency also has 78 new houses under construction. As importantly the agency has rebuilt a sense of community with a center staffed by community residents and volunteers, who, after coming to the Gulf Coast to assist disaster recovery efforts, have chosen to stay in Mississippi. The center has set up a network of block captains and put together a group that will work on developing neighborhood businesses.

"There are communities like East Biloxi all over the country, and unless something happens, a tragedy like Katrina, they are overlooked," said Misty Maaya, the agency's director of development and strategic marketing.

"To truly recover from Katrina we needed to take whatever tools we could to empower community residents because the volunteers, the foundations, the national attention will not always be here."

The [Santee-Lynches Community Development Corporation](#) started more than 15 years ago by residents of Sumter, S.C. who understood the challenges families face breaking the cycle of poverty.

The CDC works at reducing poverty in 14 mostly rural counties by combining affordable housing with local economic development and financial counseling. Santee-Lynches has developed affordable rental complexes and it also helps low-wage families buy houses. The CDC also developed a shopping center in Sumter and helped county officials recruit a metal finishing plant to rural Lee County.

Luis Rodriguez, the president of the CDC, grew up in the housing projects on New York's Lower East Side and understands the families he serves.

"We don't see a lot of foreclosures in our end of it because we provide housing counseling and we don't allow people to get in over their heads," Rodriguez said. "Once you understand how you gain wealth through homeownership it's unlikely you'll ever go back to renting and giving that money to the landlord."

In Burnsville, N.C., a mountain town of about 1,600, community organizers started working with immigrant families who had settled in the mountains of North Carolina, mostly for construction jobs. Several families lived in a small mobile-home park, half occupied by immigrants and the other half by older, lifelong Burnsville residents.

Advocates for affordable housing have traditionally overlooked manufactured housing. Until recent improvements in construction quality, manufactured housing was considered substandard and carried a stigma.

Nonetheless, mobile homes represent about 18 percent of the housing stock in North Carolina. The N.C. Housing Coalition and others have worked since 2003 to improve consumer protections for buyers and owners of manufactured housing. Advocates have also worked to improve protections for thousands of North Carolinians who own their home but lease a lot in one of an estimated 4,000 parks in the state. These residents have few legal protections. Until recently, a landlord was required to give just 10 days notice of closure. Once evicted, residents often lose their homes too because they are too expensive to move.

The Burnsville project provides greater protection for mobile-home owners who lease their lots. Working with the N.C. Housing Coalition and others, Burnsville organizers bought the park from its owner and turn it over to a non-profit organization, which will hold the land in trust. The land trust will provide residents with a stable place to park their homes. With that stability comes the chance to save money, keep their children in the same schools and develop a sense of community.

The Housing Coalition helped develop state legislation for tax credits for the owners of mobile-home parks who sell to tenant-owned cooperatives or non-profits. The coalition also won legislation that requires landlords to give residents and the state 180 days notice before beginning an eviction. The coalition hopes to learn from its experience in Burnsville and find a larger park in another part of the state that could be converted into a tenant-run cooperative, which would give mobile-home owners a chance to build an asset through their share in the cooperative.

"It's one of those things that I think a lot of people are still uncomfortable with because it doesn't fit the stereotype of the picket fence and stick-built house," said Estes, of the housing coalition. "We think it's worth trying because it's a big part of our housing stock and it's where a lot of poor people live."

The Mary Reynolds Babcock Foundation found much to be inspired by. Imagine turning mobile-home parks across the Southeast into communities where low-income families could build a stake in collective ownership. Imagine a town with zoning that encouraged mixed-use housing developments where poor and middle-income people are neighbors. Imagine rebuilding from the ruins of Katrina.

Stepping Up

Housing costs remain a barrier to many families in the region who want to improve their economic status. Local governments have stepped up in promising ways.

In some communities, cities make loans to low-income homebuyers in exchange for an equity stake in the home. The homeowner also agrees to resell at a price set by formula to make the house affordable for the next buyer.

Non-profits are also finding ways to buck rising home prices. In Orange County, N.C., for example, the [Orange Community Land Trust](#) works to keep about 100 housing units affordable by retaining ownership of the land. Homeowners lease the land long-term, which gives them the rights of property owners. But when they sell, a resale formula keeps the price affordable.

The foundation's report suggests a framework for policy makers as they think about the relationship between affordable housing and poverty reduction. State and local organizations such as the North Carolina Housing Coalition and The Lowcountry Housing Trust in Charleston are critically important policy partners.

Conclusion: Local housing organizations have proven themselves as responsible lenders and developers that can help low-wealth families find housing that serves as a path out of poverty. Successful programs connect families to job training and education. They pay attention to community and build affordable housing in neighborhoods with good schools and transportation.

Success requires an understanding of local market forces, history and cultural bias. A strategy that works in rural Appalachia may fail in suburban Charleston. Think about the barriers created by local zoning ordinances and state policy. Do policies isolate low-wealth families or connect them to opportunity? How can you change these policies to promote affordable housing in a way that helps reduce poverty?

SOLUTION: Foundations can take the lessons learned in successful organizations such as the ones mentioned here and look for ways to apply them in other communities. Examples of promising lessons are:

- *Community-based strategies that empower residents to rebuild communities after disasters even better than they were before*
- *Combining affordable housing with local economic development can begin to build a base for reducing poverty*
- *Innovative shared ownership strategies such as using a land trust to hold land can be used with other kinds of housing as a way to build community wealth, stability and pride*
- *Local and statewide housing trust funds can help make housing more affordable for more people*
- *Regional networks of local organizations can collectively reach a larger scale of impact than individual organizations can do alone*

In addition to the solutions cited already, the report suggests numerous opportunities for other foundations and non-profits working nationally and in the Southeast.

- Consider direct investments in housing organizations through Program Related Investments, or PRI's.
- Support a housing organization's operating costs, a worthwhile investment for organizations with the technical skills needed to make homeownership and rental housing work for poor families.
- Remember many families choose manufactured housing, in spite of its stigma. Land trusts and cooperatives can turn mobile-home parks into assets for poor communities.
- Invest in rental housing, especially in communities where foreclosures have driven up demand and prices for rentals.
- Invest in neighborhood revitalization in communities where high numbers of foreclosures have lowered property values.
- Invest in universal design housing for people with disabilities.
- Invest in services for ex-offenders who don't qualify for traditional housing subsidies.
- Support advocacy for affordable housing at all levels of government.

For its part, the Mary Reynolds Babcock Foundation expects to continue its focus on helping people and places in our region move out of poverty. We will use lessons cited in this report to inform our decisions about investments in housing when it is linked to other pathways out of poverty such as jobs, asset-building and community development. We are interested in housing as it contributes to moving people out of poverty, not in housing as a stand-alone strategy. See www.mrbf.org for more information on our mission, beliefs about moving people out of poverty, and funding guidelines.

Let's Talk and Learn Together!!!

We would like very much to continue to learn with our partners in the Southeast and nationally. We offer this report as a living document with an invitation for you to share your experience, critique and advice to the Babcock Foundation and to colleagues who read this report. We are especially interested in the following questions:

- 1. What is the relationship between housing and other tools for reducing poverty, such as jobs and community development? How can different approaches to building assets and escaping poverty work together for the greatest benefit for families and communities?*
- 2. What are the immediate and long-term opportunities for affordable housing in the current housing market and recession?*