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# Low- and Moderate-income Homeownership and Wealth Creation

By Allison Freeman and Roberto G. Quercia

*The foreclosure crisis decimated American wealth, particularly housing wealth. From 2006 to 2011, home equity held by U.S. households fell by $7 trillion – an average of $61,277 for every homeowner household.*

*The losses hit low- and moderate-income (LMI) households particularly hard, since their wealth is disproportionately concentrated in their homes. That has reenergized the debate over whether homeownership remains a reliable wealth-building mechanism for LMI families.*

A new report by the UNC Center for Community Capital provides clear evidence that, despite the losses experienced by LMI homeowners during the crisis, homeowners fared significantly better than renters. The report draws on the center's long-term study of nearly 50,000 low- to moderate-income homeowners who obtained affordable mortgages compared to a similar group of renters.

In "Low- and Moderate-income Homeownership and Wealth Creation," researchers Allison Freeman and Roberto G. Quercia conclude that homeownership remains an effective wealth-building tool, providing homeowners with financial benefits not available to renters.

Specifically, researchers found that in 2012:

- Homeowners' median net worth was nearly 10 times that of comparable renters ($64,971 vs. $6,515) – that is, homeowners held $1 for every 10 cents held by renters.
- Homeowners held four times the "banked" assets (checking and savings accounts and certificates of deposit) of renters ($3,053 vs. $722 at the median).
- More than twice as many homeowners as renters owned stocks, bonds and mutual funds (24 percent vs. 11 percent).
- Nearly twice as many homeowners as renters held retirement accounts (66 percent vs. 36 percent).
- More than twice as many homeowners as renters owned real estate in addition to their primary residence (17 percent vs. 7 percent).
- More homeowners than renters owned vehicles (97 percent vs. 83 percent) and their vehicles were worth more (median of $13,000 vs. $5,000).

### Homeowners' and Renters' Median Net Worth (2005-2012)

Homeowners held $1 for every 10 cents held by renters in 2012, despite a near doubling of renters' net worth from 2005-2012.

| | 2005 | 2012 |
|---|---|---|
| Homeowners | $71,591 | $64,971 |
| Renters | $3,740 | $6,515 |
| Ratio Rent/Own | $0.05 | $0.10 |

## Consistent Homeowners' Net Worth Grows While Renters Lose Wealth

Center researchers examined changes in wealth among 46,000 LMI homeowners and a comparable group of renters from 2005 to 2012, capturing the period before, during and after the crisis.

Each homeowner obtained a 30-year, fixed-rate home loan and these loans were purchased and brought into the Community Advantage Program, a national affordable secondary-market program.

Researchers analyzed data for four groups:

- Homeowners who remained homeowners during the study period.
- Homeowners who transitioned to renting.
- Renters who bought homes.
- Renters who remained renters throughout the study.

They found that, at the median, the group of homeowners who remained owners accumulated far greater levels of wealth than all other groups. Renters who became homeowners during the study period also saw their wealth grow. Meanwhile, the renters who remained renters lost wealth during the period along with homeowners who became renters.

## Findings Support Homeownership for LMI Households

The new report adds to the body of center research that shows LMI households that obtain high-quality mortgage products that are carefully underwritten and sensibly serviced can reliably repay their mortgages, even during perilous economic times. Center research has also shown that homeownership provides a range of economic, social and psychological benefits for households, neighborhoods and communities.

As policymakers and regulators grapple with the intricacies of rebuilding a safe and sound U.S. housing finance system, these results confirm the merits of ensuring that housing finance policy promotes homeownership for LMI households.

While the old adage advises it is better not to put all of your eggs in one basket, these findings suggest that when it comes to homeownership, it is better for LMI families to have all of their eggs in one basket than to have no basket at all.

## Homeowners' vs. Renters' Assets (2012)

More homeowners than renters held assets of every type, and the owners' assets were worth more.

| | Owners | | Renters | |
|---|---|---|---|---|
| Asset Type | % Holding | Median | % Holding | Median |
| Bank Accounts, CDs | 96.8 | $3,053 | 89.8 | $722 |
| Stocks, Bonds, Mutual Funds | 24.3 | $6,000 | 11.0 | $4,100 |
| Cash Value Life Insurance | 21.0 | $15,000 | 18.3 | $10,000 |
| Retirement Accounts | 66.3 | $55,139 | 36.0 | $42,027 |
| Real Estate (Non-Primary) | 16.5 | $50,000 | 6.7 | $49,000 |
| Vehicles | 96.6 | $13,000 | 82.7 | $5,000 |

## Homeowners' and Renters' Median Net Worth in 2012

Homeowners saw their median net worth rise sharply from 2005-2012 as did renters who became homeowners during the period. By contrast, renters watched their median net worth decline along with homeowners who transitioned to renting.

| . Net Worth in 2005 | Owners Who Remained Owners | Owners Who Became Renters | Renters Who Remained Renters | Renters Who Became Owners |
|---|---|---|---|---|
| <$0 | $38,145 | $-105 | $266 | $15,809 |
| $0-$10,000 | $40,861 | $8,170 | $1,331 | $24,884 |
| $10,000-$20,000 | $37,532 | $29,997 | $8,777 | $46,385 |
| $20,000-$30,000 | $64,344 | $50,051 | $15,246 | $54,415 |
| >$30,000 | $84,426 | $52,083 | $16,089 | $55,954 |