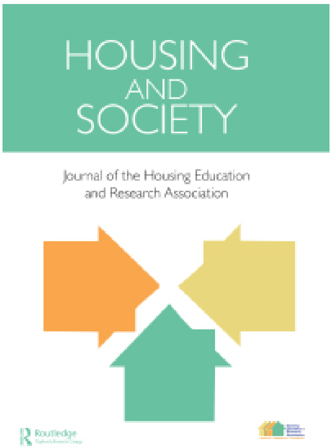




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# The little downpayment savings policy that could: revisiting building and loan societies and their products in times of the tight credit box and the pending housing finance reform

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# The little downpayment savings policy that could: revisiting building and loan societies and their products in times of the tight credit box and the pending housing finance reform

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In the United States, homeownership is an important part of wealth building, especially for low- and moderate-income people, many of whom are of color. Interestingly, savings products geared towards downpayment are scarce and public support for downpayment is minimal. The current tight credit box, the pending housing finance reform, and the possible elimination of the Mortgage Interest Deduction (MID) will make wealth building through homeownership more challenging in the future. Thus, the author of this paper argues that products geared towards saving for downpayment should be revisited and that downpayment savings policies should be implemented. These products and policies, possibly modeled after the products of building and loan societies (B&Ls), will facilitate access to homeownership, in particular for low- and moderate-income people and people of color.

**Keywords:** building and loan societies (B&Ls); saving; downpayment; homeownership; housing

## Introduction

In the United States, wealth building typically occurs through homeownership, especially for low- and moderate-income people and people of color (Belsky & Retsinas, 2005; Barr & Blank, 2009; Bostic & Lee, 2009; Cramer, Sherraden, & McKernan, 2008; Scholz & Seshadri, 2009; Shapiro, 2004). Thus, most homebuyers, especially first-time homebuyers, take out mortgages (National Association of Realtors, 2011). From the late 1990s to the mid-2000s it was relatively easy for most borrowers to obtain mortgages due to the ready availability of capital by international and domestic investors (Rajan, 2010; Roubini & Mihm, 2011); the national house price bubble, fueled by irrational exuberance (Shiller, 2005); relatively low mortgage interest rates, facilitated by the Federal Reserve System (Freddie Mac, n.d.); the emergence of innovative mortgage products (Engel & McCoy, 2011); and relaxed paperwork requirements by some lenders (Immergluck, 2009). In this environment, in 2004 the average borrower had a FICO score of 706 (Urban Institute, 2014) and a loan-to-value (LTV) ratio in the lower 80s (Urban Institute, 2014).

However, since the first quarter of 2007, when the national foreclosure crisis hit many cities and neighborhoods, it has been relatively difficult for most borrowers to obtain mortgages, as most lenders have become very careful when originating mortgages. Currently, the average borrower has a FICO score of 742 (Urban Institute, 2014) and an

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LTV ratio of 86.4 (Urban Institute, 2014). In other words, the credit box has become tight (Parrott & Zandi, 2013). As stated by Bernanke (2012),

> [c]ertainly, some tightening of credit standard was an appropriate response to the lax lending conditions that prevailed in the years leading up to the peak in house prices. [. . .] However, it seems likely at this point that the pendulum has swung too far the other way, and that overly tight lending standards may now be preventing creditworthy borrowers from buying homes, thereby slowing the revival in housing and impeding the economic recovery. (Bernanke, 2012, pp. 6/7)

While it has been relatively difficult for most borrowers to obtain mortgages, there are nevertheless at least two strategies borrowers can undertake: increase one's FICO score and reduce one's LTV ratio. In regard to increasing one's FICO score, there are several effective strategies, for example, checking one's credit report (and possibly disputing errors); setting up payment reminders; reducing one's amount of debt; paying bills on time; getting and staying current on missed payments; seeing a credit counselor; keeping balances low on credit cards and other "revolving credit"; paying off debt rather than moving it around; not closing unused credit cards; and not opening unneeded new credit cards (myFICO, n.d.). However, increasing one's FICO score may be impeded by the opaqueness of the proprietary FICO score system (Covert, 2011).

In regard to decreasing one's LTV ratio, a borrower could negotiate with a seller to obtain a lower home sale price, although the seller might be unwilling to reduce the asking price. A borrower could also reduce a mortgage amount by increasing the downpayment portion by saving for downpayment. However, this approach has become more difficult to implement, as income and wealth levels have stagnated or decreased for many Americans since the beginning of the Great Recession (Bricker, Kennickell, Moore, & Sabelhaus, 2012; Kochhar, Frey, & Taylor, 2011).

Saving for downpayment is *explicitly* supported by the US tax code through Individual Development Accounts (IDAs), although only low-income people are eligible for this policy (Barr & Blank, 2009; Bostic & Lee, 2009; Cramer, 2014; Cramer & Shanks, 2014; Freeman & Ratcliffe, 2014; Friedline, 2014; Nam, Huang, & Sherraden, 2008a; Nam, Ratcliffe, & McKernan, 2008b; Reid, 2014; Scholz & Seshadri, 2009; Shanks, 2014; Sherraden, 1991, 2009, 2014; Sherraden & Boshara, 2008; Sherraden & McKernan, 2008; Tantia, White, & Wright, 2014; Tufano & Schneider, 2009). Saving for downpayment is also *explicitly* supported in states that exempt income received from savings for downpayment from income taxes (Haynes, 2014). Saving for downpayment is *implicitly* supported by the US tax code through allowing up to $10,000 to be withdrawn tax-free from an individual retirement account for downpayment purposes (Oakley, 2014). In sum, compared to some other countries,[1] public support for saving for downpayment in the United States is minimal (Garon, 2012).

Nevertheless, many borrowers have benefited from public support for homeownership, either through the Federal Housing Administration (FHA), which insures mortgages of borrowers who pay 3.5% down; the Veterans Administration (VA), which insures mortgages of veteran borrowers, who do not have downpayment requirements; the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), which insure mortgages and then bundle and sell them to Wall Street; or the Mortgage Interest Deduction (MID), which allows itemizing taxpayers to deduct mortgage interest and property tax payments.

However, public support for homeownership might be waning in the near future. In the current housing finance reform, policy-makers intend to wind down the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), channeling their business and thus profits to private financial firms and bringing the 70-year-long era with a relatively high homeownership rate to an end (Carr & Anacker, 2014). Public support for homeownership might be decreasing or disappear altogether if the MID is eliminated (Harris, Steuerle, & Eng, 2013; Toder, 2013).

The minimal public support for saving for downpayment, the current tight credit box, the pending housing finance reform, and the possible decreasing public support for the MID are worsened by the fact that there are currently no savings products geared towards downpayment in place, with the exception of IDAs (Cramer, 2014; Cramer, Black, & King, 2012; Cramer & Shanks, 2014; Freeman & Ratcliffe, 2014; Friedline, 2014; Nam et al., 2008a, 2008b; Reid, 2014; Shanks, 2014; Sherraden, 2009, 2014; Tantia et al., 2014). Interestingly, the United States did have a well-functioning savings infrastructure with contractual savings vehicles for downpayment for homeownership from the 1880s to the 1930s (Snowden, 1997, 2003), and possibly until the 1950s (Mason, 2004). The author of this manuscript argues that savings products geared towards downpayment should be revisited and that downpayment savings policies should be implemented in the current climate, which has been characterized by a decrease in the homeownership rate, especially for Blacks/African Americans and Hispanics/Latinos,[2] to increase wealth-building opportunities (US Bureau of the Census, n.d.a).

## Background: building and loan societies

Building and loan societies (B&Ls) were established in the United States in the 1830s, when they "devised a practical 'workingman's way to wealth'" (Bodfish, 1931, p. 2; Dexter, 1889; Wright, 1894). B&Ls were cooperatives "in which the individuals concerned are organized in a form of productive activity not for the profit of any one, or even for any part of the group, but rather so that each may advance in a degree proportionate to his contribution of labor or capital" (Bodfish, 1931, p. 5).

The first B&L was the Oxford Provident Building Association, which was established in January 1831 in Frankford, an independent borough that later became incorporated into Philadelphia (Bodfish, 1931; Dexter, 1889; Mason, 2004; Piquet, 1930; Teck, 1968; Wright, 1894). The immediate ancestor of this B&L was a building society that was established in Birmingham, England, in 1781 (Bodfish, 1931; Mason, 2004; Piquet, 1930; Teck, 1968). The first B&Ls gradually benefited from the movement to cities and the westward migration (Bodfish, 1931; Mason, 2004; Riegel & Doubman, 1927; Teck, 1968). Many of the city dwellers did somewhat well, working in factories and earning small but regular wages, which enabled them to save for homeownership (Bodfish, 1931; Mason, 2004).

During the time of the early B&Ls, banking institutions primarily discounted commercial paper or made business loans. "National banks were discouraged by custom and prohibited by regulation from lending on real estate of any kind before 1900, while life insurance companies concentrated their mortgage lending on western farm property and urban commercial property" (Mason, 2004; Snowden, 2003, p. 164). Along the same lines, "banking institutions in general were of no benefit to the working man so far as the protection of his savings were concerned. They made no attempt to develop savings accounts" (Bodfish, 1931, p. 29; Mason, 2004). Thus, most prospective homeowners in the United States saved to buy their homes, informally arranged loans through relatives or friends, or applied for mortgages with individual conventional lenders (Weiss, 2002).

The number of B&Ls remained very small in the first five decades, including during the Civil War, and then increased in the 1880s during a period of rapid urbanization (Bodfish, 1931; Mason, 2004; Riegel & Doubman, 1927; Teck, 1968). In the 1880s, urban home building activity and then mortgage lending increased rapidly, although annual building volumes fluctuated, partly due to the national economy and partly due to a collapse in the local real estate market that also negatively impacted the respective B&Ls (Mason, 2004; Snowden, 1988, 2003; Weiss, 2002). During the same time, B&Ls became more popular and were the primary provider of residential mortgage financing for single-family homes until the 1930s, when savings and loan societies (S&Ls) became more prominent (Mason, 2004; Snowden, 1997, 2003). B&Ls did fairly well until about the early 1930s but eventually declined when most of them were eventually transformed into S&Ls in the 1950s (Mason, 2004; Snowden, 1997, 2003).

B&L members pledged to contribute a certain amount at a constant rate over a specified time. A typical historic B&L was a "small, undiversified mutual fund into which all members made weekly or monthly dues payments. The pooled dues were invested in mortgage loans that the association made to the subset of members who chose to purchase a new or existing home" (Bodfish, 1931; Mason, 2004; Snowden, 2003, p. 178). B&Ls are similar to rotating but non-bidding and non-random savings and credit associations (ROSCAs). ROSCAs are common in the contemporary developing world and also among immigrants in the contemporary developed world (Banerjee, Besley, & Guinnane, 1994; Besley, 1995; Besley & Coate, 1995; Besley, Coate, & Loury, 1993; Collins & Morduch, 2009; Huppi & Feder, 1990; Light, 1972; Tufano & Schneider, 2009; Varian, 1990). Alternative names for B&Ls were cooperative savings and loan associations, building and loan associations, building associations, mutual loan associations, mutual savings and loan associations, homestead aid associations, savings fund and loan associations, cooperative banks, cooperative savings and loan associations, building societies, and building clubs, among others (Bodfish, 1931; Clark & Chase, 1927; Dexter, 1889; Riegel & Doubman, 1927; Wright, 1894). Also, there are many variations among these associations (Riegel & Doubman, 1927; Wright, 1894)

B&Ls' market share of the institutional mortgage market was 14% in 1893, 24% in 1905, "around 36% throughout the 1920s [and] between 1925 and 1930, in fact, B&Ls held just under 50% of the nation's institutionally held mortgage debt" (Bodfish, 1931; Mason, 2004; Snowden, 2003, p. 168), although these market shares substantially declined between 1929 and 1933, partly due to the economic crisis and refinancing activities through the Home Owners' Loan Corporation (HOLC). By 1935 the market share of B&Ls was 29% of the intermediated single-family residential debt. After that time, S&Ls had an increased share while B&Ls had a decreased share of the market (Mason, 2004; Snowden, 2003; Weiss, 2002).

Along the same lines, the number of B&Ls increased from 528 in 1880 (Wright, 1894) to 12,804 in 1927, decreased to 5983 by 1949, increased to 6223 by 1959, and then continually decreased to 1437 by 1995 (Mason, 2004). Along the same lines, their assets increased from $300,000 in 1888 to $8.829 billion in 1930, decreased to $5.682 billion by 1937, increased to $1.3 trillion by 1988, and then decreased to $770 billion by 1995 (Mason, 2004, not corrected for inflation).

The geographic concentration of B&Ls, however, was uneven. In 1880, 64% of B&Ls were located in the Northeast, most of them in just four cities: Philadelphia (191 B&Ls), Baltimore (44 B&Ls), Cincinnati (38 B&Ls), and Minneapolis-St Paul (12 B&Ls)

(Bodfish, 1931; Dexter, 1889; Snowden, 1988, 2003; Teck, 1968; Wright, 1894). However, by 1893 B&Ls operated in every region of the country and in cities of all sizes (Bodfish, 1931). Whereas the Northeast and the Midwest had higher building activity and also a higher density of B&Ls than the South and the West in the 1880s, these proportions and densities gradually decreased in the Northeast and the Midwest and increased in the South and the West until the 1930s (Bodfish, 1931; Mason, 2004; Snowden, 1988, 2003; Teck, 1968).

B&Ls had a cooperative character and might remind some of local fraternal organizations (Banerjee et al., 1994; Dexter, 1889). The contractual foundation of B&Ls was the share accumulation plan, in which each non-borrowing member, after having paid an entrance fee in some cases, pledged to buy shares in the association by paying regular weekly or monthly dues until his or her investment reached a predetermined maturity value (Bodfish, 1931; Dexter, 1889). Then, once a certain amount was reached, a non-borrowing member became a borrowing member, who could take out a mortgage based on a mortgage contract (Bodfish, 1931; Dexter, 1889). Non-borrowers and borrowers fully shared the risks and rewards of the association's mortgage portfolio (Snowden, 1997, 2003). Unlike bank customers, B&L members were the legal owners of the thrift and thus could not demand immediate withdrawal of deposits, which "helped insulate B&Ls from 'runs' that had forced many commercial banks to close [...]" (Mason, 2004, p. 77).

Obviously, members were interested in relatively high dividends of their shares (i.e. higher rates than in the conventional market) and relatively low interest rates on their mortgages (i.e. lower rates than in the conventional market). At the same time, B&Ls tried to keep administrative expenses to a minimum. Within this setup, B&Ls were able to make loans and pay premiums on time if both non-borrowing members paid their dues and borrowing members paid their payments on time. Whenever a member wanted to leave the B&L, he or she could do so after a 30- to 90-day grace period, paying an early withdrawal penalty (Bodfish, 1931; Dexter, 1889), although courts ruled against these withdrawal penalties and statutes prohibited total withdrawals in excess of 50% of current association earnings (Mason, 2004; Snowden, 1997, 2003). These early withdrawal fees, however, relieved the association from maintaining higher reserves and liquidity, thus making them less vulnerable to shocks (Mason, 2004; Snowden, 1997, 2003).

B&Ls were typically mutually owned and local, so non-borrowing and borrowing members were able to monitor each other and convene in frequent membership meetings, thus minimizing information asymmetries, at least in theory (Bodfish, 1931; Snowden, 1997; Stiglitz, 1990). Organizational schemes differed slightly. In terminating associations, established in the 1830s, every member joined when the association was established and each was required to attend meetings and to borrow during the life of the association, which was typically short-lived. In serial associations, established in the 1850s, members could join at certain points in time over the life of the association, and funds could be shifted across saving and borrowing cohorts. In permanent (or Dayton) plan associations, established well after the 1850s, business was not conducted at membership meetings but in offices that were open several hours each day to collect members' dues and interest payments (Bodfish, 1931; Clark & Chase, 1927; Dexter, 1889; Piquet, 1930; Riegel & Doubman, 1927; Snowden, 1997; Teck, 1968). In 1893, 14% of B&Ls were organized as terminating associations, 58% were organized as serial association, and 28% were organized as permanent plan associations, although the spatial distribution was uneven (Snowden, 1997; Wright, 1894)

The majority of B&Ls had less than 200 members, while a few had more than 500 (Mason, 2004; Snowden, 1997, 2003). Many B&L members might have had pre-existing social connections, as they resided in the same cities and possibly in the same neighborhoods (Besley et al., 1993). Many sources stress the role of "the community in sustaining non-opportunistic behavior among participants. Social sanctions are typically not available to a conventional bank, but are available in a co-op" (Banerjee et al., 1994, pp. 491–492). Thus, many cooperatives were sustained by repeated interactions among the participants, circumventing problems of imperfect or asymmetric information and imperfect enforceability and enabling peer monitoring, as "neighbors are assumed to have better information about borrowers than banks" (Banerjee et al., 1994, p. 492; Besley et al., 1993; Stiglitz & Weiss, 1981). There are several types of liability setups. First, in case the cooperative defaults, the other members may be made fully or partly liable; second, in case of a member's default, the other members may have to finance the lost portion; third, in case of any default, the interest payment may be increased (Banerjee et al., 1994).

A typical B&L was managed by its secretary, president, and directors (Bodfish, 1931). The secretary dealt directly with its members and also recruited members, collected fees at meetings, collected loan applications, prepared mortgage papers, kept the association's accounts, and reported on the status of the B&L to the directors and stockholders. The president headed the association and all of its meetings, signed documents, and led the board of directors. The board of directors, consisting of at least three to five rotating directors that were elected by the members at the annual meeting for term-limited positions, managed the B&L, approved loan applications at monthly board meetings, and monitored the secretary (Piquet, 1930; Riegel & Doubman, 1927; Snowden, 1997). The appraisal committee "was key to the safety and soundness of a B&L" (Dexter, 1889; Riegel & Doubman, 1927; Snowden, 2003, p. 171). It examined loans presented to the association, viewed and appraised properties, and made recommendations for mortgages (Riegel & Doubman, 1927).

Often, the officers and the director served on a voluntary or part-time basis, while the president typically served without pay and the secretary received moderate pay (Bodfish, 1931; Mason, 2004; Piquet, 1930; Riegel & Doubman, 1927). Other people typically involved in a B&L were local people who worked in closely related specialties in the real estate field, for example, surveyors, title specialists, attorneys, real estate and insurance agents, homebuilders, and building material suppliers, among others (Piquet, 1930). B&Ls were typically promoted by the so-called building and loan men, who, on a part-time and voluntary basis, praised homeownership and becoming a homeowner as a way of bettering oneself and one's community (Snowden, 1997, 2003).

Obviously, with professionals involved in B&Ls, the issue of conflict of interest arose. For example, Snowden (1997) points out that a secretary who ran the day-to-day operations earned fees and commissions for each loan the B&L made. "This individual would have abused his office by encouraging the association to increase the number of loans made while hiding their poor quality. To do so the secretary would have had to collude with the board of directors, but the board of directors had no interest in expanding loan volume beyond those necessary to finance the purchase of the homes which they or their affiliates built" (Snowden, 1997, p. 245, 2003).

The vast majority of B&Ls were local organizations, although in the mid-1880s to mid-1890s a few regional or national B&Ls were founded, culminating in the establishment of the US League of Local Building and Loans (USBLL), a forerunner of the US Savings and Loan League, in 1893 (Bodfish, 1931). However, the national B&L movement ended quickly in the 1896 due to national economic and foreclosure crises (Bodfish, 1931; Mason, 2004; Snowden, 1997). Local members of B&Ls had tried to prevent the formation of a national B&L, stressing "localization for soundness and safety" (Mason, 2004; Snowden, 1997, p. 228), fearing competition, willing to protect the good reputation of the local B&Ls, and pointing out that there was no close supervision by the national B&Ls of the local actors (Bodfish, 1931).

The national B&Ls had several advantages, but they also had disadvantages over the typical local B&L. In terms of advantages, national B&Ls had a geographically more diverse loan portfolio, potential higher earnings due to an increased market size, and lower administrative expenses in theory due to efficiencies of scale (Bodfish, 1931; Snowden, 2003). In terms of disadvantages, national B&Ls had to maintain centralized, full-time staffs along with field staff and the local loan boards, thus requiring an entrance fee for new members and a fixed proportion of the regular dues to fund these expenses; thus, their operating expenses were much higher than the expenses of local B&Ls. For example, a national B&L in Minnesota had operating expenses of 6% of total receipts, whereas local B&Ls typically had less than 1% of expenses (Bodfish, 1931; Snowden, 2003).

While B&Ls were essentially self-regulating and organized under general incorporation laws in the 1880s, allowing them to be "governed by all the provisions of the general laws relating to corporations" (Riegel & Doubman, 1927, p. 9), some state legislatures began passing special incorporation laws for B&Ls, although "regulatory supervision remained rudimentary before 1900 even in the most progressive states and virtually nonexistent in the rest" (Bodfish, 1931; Piquet, 1930; Snowden, 2003, pp. 169–170). However, by 1925 building and loan supervisory agencies had been established in California, Ohio, and Pennsylvania, while in many other states supervision of B&Ls was conducted by a commissioner of banking or insurance or by the state auditor himself (Bodfish, 1931; Snowden, 2003). B&Ls were corporations with bylaws that were subject to special building and loan statutes and that had to be approved by the supervising regulatory agencies of a particular state, although these restrictions were typically less stringent than for other regulated financial intermediaries. In general, interested parties could organize and operate a B&L with only a nominal contribution of capital in terms of shares, not dollar amounts. Due to this ease of entry, the number of B&Ls increased rapidly over time in the early 1900s, 1910s, and 1920s, also resulting in an increased heterogeneity in terms of their structure, purpose, and function (Bodfish, 1931; Snowden, 2003).

In the 1930s and 1940s the local and regional B&L movement gradually morphed into the regional and national S&L industry when the federal S&L charter, the Federal Home Loan Bank (FHLB) system, federal deposit insurance, and associated regulations were established, enabling S&Ls to become a national industry until their decline in the 1980s and 1990s (Mason, 2004). This manuscript will not discuss S&Ls due to their different evolutionary path than B&Ls, their increasingly fragmented nature after the 1950s, and space constraints.

## Designing a new downpayment savings product and policy

As stated earlier, the author of this manuscript argues that savings products geared towards downpayment should be revisited in a time when these type of savings products are scarce and public support for downpayment is minimal, the current credit box is tight, housing finance reform is pending, and the MID might be eliminated. Thus, wealth building through homeownership will be more challenging in the future. However, a new downpayment savings product and policy might facilitate access to homeownership, especially for low- and moderate-income people and people of color. The savings product could be offered by any financial institution in the United States, ideally with a broad geographical coverage to counter the problems many local and regional B&Ls and S&Ls ran into several decades ago.

The savings product could be part of a contract that combines a savings and a mortgage portion. The contract could run for 30 years, possibly longer, similar to the 30-year mortgage that has been popular for decades in the United States (Carr & Anacker, 2014). The first few years of the contract could be designated to accumulate savings for downpayment, and the remaining years could be designated to pay off a fixed-rate amortizing mortgage. The savings portion of the contract would specify the savings amount and saving period thresholds, determined by the saver, and the minimum allocation points necessary for a mortgage that would be originated after the savings period, determined by the financial institution. The allocation points would be calculated by the financial institution each quarter and then just before the origination of the mortgage, based on the actual quarterly savings situation of the pool, which could include all of the savers in the program (Landesbausparkasse, n.d.; Schwäbisch Hall, n.d.; Wüstenrot, n.d.). Over the life of the savings period, savers would obtain quarterly statements that list the contributions, savings periods, and points they have obtained.

A subsidy for the savings portion could be provided by the US government and possibly state governments. The funding for this subsidy would come from the current MID, which is under discussion and cost $70 billion in fiscal year 2013 (Toder, 2013). While the current MID benefits only those taxpayers who itemize (i.e. typically middle- and upper-income taxpayers; Cramer, 2014; Cramer & Shanks, 2014; Sherraden, 2014), the subsidy for the savings portion of the new downpayment savings policy would benefit those savers with incomes that fall above the eligibility threshold for IDAs yet below a set threshold, to be determined by the US and state governments; it could be an income below the median income of a Metropolitan Statistical Area (MSA). This subsidy would fund the exempted income from federal and state income taxes (Haynes, 2014).

Insurance for the savings portion of the product could be based on an insurance pool model similar to the Federal Deposit Insurance Corporation (FDIC). Insurance for the mortgage portion of the product could be provided through a charge to borrowers, similar to the mortgage insurance premium charged by the FHA (US Department of Housing and Urban Development, 2012). Regulation could be administered by the current actors in the current regulatory structure (Murphy, 2013).

## Conclusion

Over the next few decades, the United States will gradually become a society in which non-Hispanic Whites will be in the minority and people of color will be in the majority (Frey, 2015; US Bureau of the Census, n.d.b). In other words, the United States will become a "majority-minority" nation in a few decades, although Texas, New Mexico, and California are already "majority-minority" states (Frey, 2013, 2015). In 2011, 50.4% of the nation's population younger than one year of age was of color (Passel, Livingston, & Cohn, 2012). In two to three decades the vast majority of these very young people will form households, which typically occurs when people are in their twenties and thirties (Paciorek, 2013). Thus, the majority of newly formed households will be of color (Joint Center for Housing Studies of Harvard University, 2014). Almost all will start as renters, while some will eventually become homeowners.

However, there is a current gap in terms of incomes, wealth, and the homeownership rate among the different racial and ethnic groups. While incomes and wealth levels are relatively high for non-Hispanic Whites and Asians, *as groups*, they are relatively low for

Blacks/African Americans and Hispanics/Latinos, *as groups*. Similarly, while the home-ownership rate for non-Hispanic Whites and Asians, *as groups*, is relatively high, it is relatively low for Blacks/African Americans and Hispanics/Latinos, *as groups* (Scholz & Seshadri, 2009). Thus, Blacks/African Americans and Hispanics/Latinos face hurdles when it comes to saving for downpayment.

The current tight credit box allows limited opportunities for homeownership for those with relatively low credit scores. In 2013 the average credit score on loans to purchase homes was 750, 50 points higher than the average among those who took out mortgages about a decade earlier (Parrott & Zandi, 2013). As Blacks/African Americans and Hispanics, *as groups*, have lower credit scores compared to non-Hispanic Whites and Asians, *as groups* (Traub, n.d.), and as the lending industry seems to be currently unwilling to broaden the credit box, alternative compensating strategies need to be found. The pending housing finance reform will most likely limit opportunities for those for whom the mortgage interest matters, as interest rates will most likely increase [retracted during review period]. Thus, many borrowers will face hurdles when it comes to obtaining mortgages. The savings downpayment product and policy discussed in this manuscript is a solution that might facilitate access to homeownership and wealth building in the future.



## Disclosure statement

No potential conflict of interest was reported by the author.

## Notes

1. For example, interest on the *Livret A*, France's popular, all-purpose savings account, currently capped at a balance of €22,950, is exempt from tax and social security contributions (HSBC France, n.d.). Interest on the *Sparbuch*, Germany's equivalent, is exempt from taxes up to €801 for single and €1602 for joint filers (Sparkasse, n.d.).
2. The Black/African American homeownership rate peaked at 49.7% in the second quarter of 2004 and stood at 42.1% in the fourth quarter of 2014; the Hispanic/Latino homeownership rate peaked at 50.15 in the first and third quarters of 2007 and stood at 44.5% in the fourth quarter of 2014 (US Bureau of the Census, n.d.a).

## Notes on contributor

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