



NATIONAL HOUSING RESOURCE CENTER

Prioritizing First-Time Homebuyers and Owner-Occupants over Investors in Today's Market

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First time homebuyers are at a deep disadvantage in today's real estate market, especially low and middle income buyers. The National Housing Resource Center (NHRC), on behalf of Americans for Financial Reform Housing Working Group, hosted a series of conversations focused on the challenges first-time homebuyers face in competing with investors and cash buyers to purchase a home.

Cash buyers are outbidding many first time homebuyers and other owner occupant buyers. An astonishing 30% of U.S. home purchases in 2021 are cash buyers, [according to Redfin](#) (based on January to April, 2021 data). A growing force in many markets are private equity companies, which purchase traditionally owner occupied homes and convert them to long term rentals. Cash buyers can also be higher wealth individuals, foreign investors, and small to midsize investors.

Some real estate agents discourage sellers from accepting offers that include FHA, VA, or USDA mortgages, because it is assumed these offers take longer to process. This is especially problematic because an FHA mortgage is the vehicle that makes homeownership possible for many first time homebuyers and borrowers of color in particular. Purchase offers with downpayment assistance, a critical tool in increasing Black and Brown homeownership, are stigmatized. Buyers are told to waive their inspection, appraisal, and financing contingencies, important consumer protections. Homebuyers purchasing a lower priced home have difficulty finding a lender who will originate a low-balance mortgage. Many homes are sold through foreclosure and tax sales auctions on auction websites where mortgages and downpayment assistance are unacceptable.

While some of these issues have existed in hot real estate markets, today they appear to affect markets in every region, and in urban, suburban, and rural markets. There is a serious shortage of affordable housing. Private equity firms have created a business line to purchase single family homes and turn them into rentals, competing directly with first-time buyers and those that plan to be owner-occupants, especially targeting the more affordable segments of the market, where traditionally first time homebuyers have found their first home. Market analysts have suggested that these private equity firms are bidding above market and appraised values, thereby driving the price of housing higher.

Taken together, these developments put affordable and sustainable homeownership at risk at a time when it should be a key strategy for closing the racial wealth gap. These issues are a critical factor in the declining homeownership rate and will have a profound and negative impact on homeownership in the United States unless there is a clear and concerted housing policy to support owner occupied homeownership.

The stakeholders participating in these conversations have coalesced around the following recommendations:

FEDERAL LEVEL – Administrative and Regulatory

Protect homebuyers that use government-backed financing. Some real estate agents are discouraging sellers from accepting offers from buyers using government backed mortgages. Most Black and Brown homebuyers purchase homes with FHA mortgages. We receive reports of “No FHA, No VA, and No USDA” on listings in the field. This discriminatory practice perpetuates the longstanding inequities in the housing market in this country and should be investigated as a violation of the Fair Housing Act. HUD must act quickly to address this issue. Additionally, The Federal Housing Administration (FHA) needs to make changes to its appraisal, inspection, and other requirements to make it easier for homebuyers to use the FHA mortgages and be competitive.

Improve existing federal programs so that they better support affordable homeownership. Changes are needed in the HOME and Capital Magnet Fund Programs, such as those outlined in [these policy recommendations](#) from The Homeownership Alliance. For example, HUD could simplify the use of HOME funds for homebuyer assistance, as well as increase the number of state and local governments offering homebuyer assistance programs, by creating an underwriting safe harbor that says the HOME underwriting standards have been met if the first mortgage used to purchase a home is a Qualified Mortgage (QM). All mortgages secured by Fannie Mae, Freddie Mac, VA, USDA, and FHA meet the QM standard, which would make compliance with the HOME underwriting rule simple, safe, and quick.

Increase sales of federally backed distressed properties to non-profit and mission-minded developers. At a time of historic supply shortages, the GSEs and agencies such as FHA and VA should operate their property disposition programs consistent with their mission to support affordable homeownership. We support the Biden-Harris Administration’s recent announcement that it will expand the opportunities for nonprofits to purchase non performing loan pools at auction and that it will incorporate an exclusive nonprofit and owner-occupant purchase opportunity in FHA’s Claims Without Conveyance of Title “second chance” program. FHA and the GSEs should also conduct additional direct and targeted note sales to nonprofits and government entities who will prioritize neighborhood stabilization and homeownership.

Support shared equity homeownership models that create long-term affordability for first time homebuyers, owner-occupants, and their communities. This includes increased funding for, and reforms to, the HOME program as well as robust loan purchase goals for shared equity homeownership under the Fannie Mae and Freddie Mac Duty to Serve activities. It also means including shared equity homeownership and community land trusts in the Downpayment Towards Equity Act and the Restoring Communities Left Behind Act. This support should only be available to non-profit programs with a mission of long-term affordability rather than private equity and other for-profit products that do not create on-going affordability which can be shared by future homebuyers.

Lenders must be required to originate low-balance mortgage loans. This will enable homebuyers of modest means and homebuyers in lower cost geographies to obtain fair financing and better compete with investors to purchase lower-priced homes. The Enterprises' Duty to Serve plans should include ambitious loan purchase goals for low-balance loans, create incentives for originators, and make investments in CDFIs for the purpose of originating low-balance mortgages.

FEDERAL LEVEL -- Legislative

Increase funding for and improve access to downpayment assistance (DPA) programs. These programs need to be easier to access, quicker to close, and less complicated to administer. Currently, funders underwrite forgivable DPA grants funded through Community Development Block Grant dollars. The administrative burden of CDBG programs causes some municipalities to discontinue their DPA program. Downpayment assistance should be standardized so that eligible homebuyers can combine downpayment grants in higher priced markets.

Support the Downpayment Toward Equity Act of 2021 (H.R. 4495) which provides downpayment assistance grants to first-generation homebuyers and is aimed toward closing the racial homeownership gap.

Support the Restoring Communities Left Behind Act (H.R. 816/S. 2300) and other federal legislation to increase grant funding and lending capital for acquisition and rehabilitation of properties for first-time homeownership by nonprofit housing providers. The Restoring Communities Left Behind Act would create a new competitive grant program for neighborhood revitalization activities in distressed communities, including homeowner rehabilitation assistance, acquisition and rehab of vacant properties, and housing counseling. The Housing Investment Fund proposed in the Build Back Better Act would create a special account within the CDFI Fund offering grants to capitalize

property acquisition funds, affordable housing development funds, and affordable housing mortgage funds, including small mortgage origination.

Remove regulatory loopholes and tax advantages that benefit private equity companies and support the Stop Wall Street Looting Act (S. 2155/ H.R. 3848). Private equity companies aggressively purchasing single family homes, frequently at above market prices, are inflating costs and converting homeowner properties into long term rentals by absentee landlords.

STATE AND LOCAL LEVEL

Encourage state and local governments to create owner occupied homeownership programs, which favor long term resident ownership over corporate or absentee ownership.

Support innovative non-profit programs to help first time buyers be more competitive with investors and cash buyers, including acquiring properties for the purpose of increasing affordable homeownership opportunities for first time homebuyers, providing lower cost financing to first-time homebuyers and owner-occupants, or covering other costs associated with purchasing a home. For example, HomesteadCS in Indiana is building a program that would use capital to assist first-time buyers by purchasing the home with cash and then allowing the first time buyer to live in the home while they complete the mortgage process.

Explore local policies that would give jurisdictions and designated nonprofits a first right of refusal to purchase homes for sale in their jurisdiction, so that they can ensure they are made available to first-time homebuyers. For example, consider an equivalent single-family program to Washington DC's [District Opportunity to Purchase Act](#) (DOPA), which gives the city a first right to purchase affordable rental properties or assign that right to pre-approved nonprofits.

Explore state and local policies that discourage large scale investor purchases where appropriate. For example, [Denver limits short-term rentals](#) (such as Airbnb), and New York City has considered [additional taxes on high-end properties](#). California has created a dedicated opportunity for non-profits, tenants, and Community Land Trusts to [purchase foreclosed properties](#) and has funded property acquisition and rehabilitation.

Encourage Sellers to Sell to Owner Occupants. As an example, HomeWise in Albuquerque, NM, has a program to encourage neighborhood homeowners to preserve

the neighborhood and sell to the next generation of homeowners. They have a team of real estate agents who only solicit owner occupant buyers for the neighborhood.

Innovate on housing auctions to provide first time homebuyer opportunities.

Auctions are ideal purchase venues for investors and developers with cash to bid, but they are not designed for, nor commonly used by, families intending to live in the home. For this reason, it is important for nonprofits that develop homes for homeownership to have access to cash to purchase in auctions. Ideally, homes would be sold through a model that better aligns with the needs of homebuyers. However, to the extent an auction model is used, it should allow enough time for property inspections and use of mortgage financing to facilitate owner-occupant and nonprofit participation. Consider whether there are antitrust implications and antitrust tools that could address concerns about auctions and other mechanisms that concentrate buying power and ownership in a limited set of hands. Private equity buyers talk explicitly about taking advantage of scarcity and limiting competition by other purchasers.

WHAT NEXT?

We all recognize the need for creative public policy, regulatory, and marketplace solutions. The current trends lead to reduced levels of homeownership, a decline in one of the best tools for building household wealth, and, most serious, worsening an already unacceptable wealth gap for Black and Brown Americans. We look forward to working with policy makers and stakeholders to develop and implement solutions.

The participants in this discussion were:

Americans for Financial Reform

Belmont Housing Resources for WNY,
Inc.

California Reinvestment Coalition

Center for Community Progress

Center for NYC Neighborhoods

Center for Responsible Lending

CT Fair Housing Center

Empire Justice Center

Framework Homeownership

GO Northwest HRC

Greater KC Housing Information Center

Grounded Solutions Network

Habitat for Humanity International

Housing and Education Alliance

HomesteadCS

Interboro Community Land Trust

Little Haiti Housing Association, Inc.

Lydia's House

MA Communities Action Network

National Council of Asian Pacific
Americans

National Housing Resource Center

National NeighborWorks Association

National Community Stabilization Trust

Next Step, Network

NHS Brooklyn, CDC, Inc

NID Housing Counseling Agency

NYS Rural Housing Coalition

Prosperity Now

RCAC

Tenfold

Ubuntu Institute of Learning

Ventura County CDC