

Middle Class Proposal #6

Rebuilding Homeownership Wealth

The housing crisis has taken a catastrophic toll on middle-class wealth. Since 2004, the typical homeowner has lost as much as \$21,000 in home equity. For most Americans, the family home is their nest egg. The loss of wealth has forced many people to put their dreams on hold and sapped them of confidence in the future. The new housing bill passed by Congress will take big steps toward [rebuilding homeownership wealth](#).

THE PROBLEM

Plummeting home values and loss of wealth

The housing crisis has robbed many Americans of the value of their single greatest investment and source of wealth—the family home. As a result, many people have found themselves rethinking their plans for retirement, feeling diminished in their ability to pay for college and other expenses or worried about having a sufficient cushion in case of crisis.

American homeowners now owe more than they own on their homes.

For the first time since 1945, Americans now owe more on their mortgages than they hold in home equity.¹ To make matters worse, an estimated 8.8 million homeowners—or about 1 in 10 American homeowners—were “underwater” at the end of March 2008.² Since 2004, the typical homeowner has lost more than \$21,000 in home equity, while average home prices have dropped from \$178,990 to \$159,180.³

Ripple effects from foreclosures are eroding homeowner wealth.

Although only about 2% of homes are currently in or in danger of going into foreclosure,⁴ these foreclosures are nevertheless taking a heavy toll on homeowner wealth. Each foreclosure affects 22 neighboring homes,⁵ and more than 40 million homes will lose value because of foreclosures nearby.⁶ All told, this collateral damage is expected to reach \$202 billion in the next two to three years.⁷

Ripple effects from the housing crisis are bringing down the economy.

From 1991 to 2005, drawdowns from home equity accounted for a yearly average of \$115 billion in consumer spending, especially for big-ticket items.⁸ One in eight people who buy a car, for example, borrows from home equity to make the purchase.⁹ But plummeting home equity has severely tamped down household spending, which in the first quarter of 2008 grew at the slowest pace since 2001.¹⁰

Some forecasters predict that home prices could continue to fall by as much as 15% this year,¹¹ bringing the average home value down from the \$159,180 to \$135,303.¹² This in turn could mean a \$300 billion decline in consumer spending.¹³

THE SOLUTION

Rebuild homeownership wealth

Congress has taken a big step forward in dealing with the housing crisis by passing legislation that will help rebuild homeownership wealth. The new law will: (1) provide immediate, short-term relief to homeowners feeling pinched by the loss of equity; (2) begin restoring confidence in the housing market and (3) prevent future crises. The next step for Congress is to build on these measures to restore long-term confidence.

- **The new law will provide short-term relief to homeowners.**

The new law will provide immediate relief for homeowners who are feeling squeezed by declining property values. All homeowners, including non-itemizers, will receive a one-time \$500 federal tax rebate to provide temporary partial relief from state property taxes, which remain high. Neighborhoods and community organizations will also have greater access to funds to ensure that abandoned and foreclosed properties are adequately maintained and don't become magnets for crime. In particular, the new law will provide funding for stepped-up policing of deteriorating areas with high foreclosure rates.

- **The new law will restore confidence in the housing market.**

The housing market—and with it, the American financial system—has been paralyzed by a crisis in confidence. The housing bill takes immediate steps to get the markets moving and restore confidence in the soundness of the nation's housing and capital markets.

Of paramount importance in this law are provisions that put Fannie Mae and Freddie Mac on sound financial footing. The health of these two companies is critical to the future health of the American and even global economy. The law will also stimulate pent-up demand by creating a new \$7,500 first-time homebuyer credit. A record number of homes—2.9% in the first quarter of 2008¹⁴—are sitting empty, and this excess inventory is keeping home values down.

Third, the law will help stem the tide of foreclosures by providing emergency help to families in danger of foreclosure.

- **The new law will help prevent future crises.**

The new law takes important steps to ensure that the lessons learned today will prevent future problems. Among its provisions are better standards for disclosure of mortgage terms so that borrowers can better understand the key terms of a loan. The law also provides additional funding for financial literacy and homeownership counseling programs to help would-be borrowers steer clear of trouble.

THE ROLLOUT

Ideas for talking about publicizing the impacts of new housing legislation on rebuilding homeownership wealth

- **Hold a press conference** with families who have personal stories to tell about how the loss of housing wealth has affected their personal financial plans (sending kids to college, etc.).
- **Release a short report** on the aggregate loss of wealth in the state or in area communities and estimating the total dollar impact that lower home values have had on local communities and their economic growth.

CRITIQUES & RESPONSES

Rebuilding homeownership wealth

It's too expensive.

Much of this proposal is about setting up safeguards and new rules to ensure that history doesn't repeat itself. The emergency mortgage assistance proposal is a loan program that will have few new costs to the government. And to the extent that this plan offers tax credits to offer homeowners immediate relief from high property taxes or stimulate housing demand, this proposal will be fully paid for. For every \$1 in tax breaks that went to the middle-class, people making more than \$1 million a year received \$108.¹⁵ These tax breaks are an investment in preserving and rebuilding middle-class wealth.

This proposal rewards "irresponsible" behavior.

Nothing could be further than the truth. This proposal does nothing to reward poor choices—whether by borrowers or by lenders. Instead, its goal is to rebuild the billions in homeownership wealth that hard-working Americans have lost because of the excesses of the housing bubble. While the number of people losing their homes to foreclosure is relatively small, the loss of wealth is a problem that is affecting everyone.

Endnotes

¹ USA Today, "Home debt greater than equity for first-time since '45," March 6, 2008. At the start of 2008, overall net equity held by American homeowners dipped to 46% of total home value. ¹ Federal Reserve Board, Flow of Funds Accounts of the United States, Historical Data, "Table B.100 Balance Sheet of Households and Nonprofit Organizations," available for download at <http://www.federalreserve.gov/releases/z1/Current/data.htm> ; June 5, 2008 Release, available for download at <http://www.federalreserve.gov/releases/z1/Current/>

² Andrews, E., and Uchitelle, L., "Rescues for Homeowners in Debt Weighed," New York Times, February 22, 2008.

³ Jim Kessler and Mark Donnell, *Are You Better Off?*, Third Way, July 2008.

⁴ Press Release, "Delinquencies and Foreclosures Increase in Latest MBA National Delinquency Survey," Mortgage Brokers Association, June 5, 2008, available at <http://www.mortgagebankers.org/NewsandMedia/PressCenter/62936.htm>.

⁵ Broderick Perkins, "Foreclosure Fallout Landing On Neighboring Homes," Realty Times, February 13, 2008, available at http://realtytimes.com/rtpages/20071115_foreclosurefall.htm

⁶ Center for Responsible Lending, "Subprime Spillover," January 18, 2008, available at <http://www.responsiblelending.org/pdfs/subprime-spillover.pdf>.

⁷ Ibid.

⁸ Reuters, "Spending boosted by home equity loans: Greenspan," April 23, 2007, available at <http://www.reuters.com/article/ousiv/idUSN2330071920070423>.

⁹ Eric Dash, "Auto Industry Feels the Pain of Tight Credit," New York Times, May 27, 2008, available at <http://www.nytimes.com/2008/05/27/business/27auto.html>.

¹⁰ Bloomberg News, "Consumer Borrowing Increases," May 8, 2008.

¹¹ Michael Mandel, "The Consumer Crunch," Business Week, November 26, 2007, available at http://www.businessweek.com/magazine/content/07_48/b4060001.htm.

¹² Jim Kessler and Mark Donnell, *Are You Better Off?*, Third Way, July 2008.

¹³ Michael Mandel, "The Consumer Crunch," Business Week, November 26, 2007, available at http://www.businessweek.com/magazine/content/07_48/b4060001.htm.

¹⁴ U.S. Census Bureau, "Quarterly Homeowner Vacancy Rates, 1956 to Present," available at <http://www.census.gov/hhes/www/housing/hvs/historic/histtab2.html>.

¹⁵ Greg Leiserson and Jeffrey Rohaly, "The Distribution of the 2001-2006 Tax Cuts: Updated Projections, November 2006," Tax Policy Center, Urban Institute and Brookings Institution. See Table 3 in the Appendix. According to this table, the average millionaire will receive a tax cut of \$130,423 in 2008, while the average person making \$50,000-\$75,000 will receive just \$1,203 in tax relief. This translates into a ratio of 108 to 1.