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Biden administration brings a new focus on housing policies

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Ramping up the availability of coronavirus vaccinations and addressing the fiscal crisis facing many Americans — including housing issues — are the current priorities for President Biden and his administration.

An array of potential new housing policies proposed during his campaign could help first-time buyers, increase the affordability of housing and address discrimination.

“Housing policy is another way to address social justice and income inequality issues,” said Tim Rood, head of government and industry relations at SitusAMC, a company that provides technology, data analytics and consulting services to lenders. “Homeownership is a wealth creation opportunity that has gotten away from too many people in this country.”

Biden addressed the short-term housing crisis during his first days in office with the extension of the foreclosure and eviction moratoriums through the end of March that will allow people to stay in their homes during the coronavirus pandemic even if they cannot pay their rent or mortgage. Biden has proposed extending these moratoriums farther, providing \$30 billion in rental and critical utilities assistance to families and delivering \$5 billion in emergency assistance to help secure housing for people experiencing, or at risk of, homelessness, White House spokeswoman Rosemary Boeglin wrote in an email.

“This recession has been unusual in the way it disproportionately and severely hurt lower-income, primarily renter households,” said Rick Sharga, executive vice president of marketing for RealtyTrac, a foreclosure listings site that is part of Attom Data Solutions. “The eviction ban and rental assistance in the last stimulus bill as well as the initial Cares Act [stimulus measure] have been successful, but we still see a potential bankruptcy and foreclosure crisis if small landlords who own a few apartments or single-family rentals don’t have a way to recoup their losses and pay their mortgages.”

A public-private partnership to address the severe shortage of affordable rentals is important, said Sharga, because the affordable housing problem was exacerbated by the pandemic.

“President Biden believes that safe, affordable housing should be a right — not a privilege,” Boeglin wrote. “Especially at a time when so many Americans are struggling to pay their rent or their mortgage as a result of the health and economic crises facing our country, this means

helping families to keep a roof over their heads. But it also implies a longer-term agenda to expand the supply of affordable housing, with a strong emphasis on racial equity. The President will continue to lay out both his administration's near- and longer-term plans in the coming weeks to ensure that all Americans — regardless of Zip code, race, or ethnicity — have a home that is safe and affordable.”

On Tuesday, Biden announced an executive order for the Department of Housing and Urban Development to reinstate the “disparate impact” rule of 2013 that the Trump administration had rescinded. The rule addressed discrimination in the housing market by barring lenders and landlords and others in the housing industry from requiring criminal background checks for tenants or from using artificial intelligence to predict creditworthiness.

The Biden administration has not specified the timetable for pursuing the housing proposals, or how they might be enacted: by executive order, through HUD policies or congressional action. Typically, programs and policies that require tax policy changes or a significant expenditure by the federal government must go through Congress.

Given the divisions between Republican and Democratic lawmakers, it's an open question whether the proposals would result in legislation clearing both chambers.

Still, some analysts say they think the administration will make them a high priority given Biden's interest in social justice.

“The homeownership gap between Whites and minorities hasn't improved much in decades, so the Biden administration will look at ways to improve that,” said Mark Zandi, chief economist of Moody's Analytics. “Housing is also a big part of the focus on the K-shaped economic recovery that has crushed low-income households while wealthier households have recovered more quickly.”

We spoke with several housing analysts who offered pros and cons about Biden's housing proposals.

First-time buyer tax credit

The proposed first-time buyer tax credit of up to \$15,000 is both advanceable and refundable, which means that home buyers would receive the tax credit when they make the purchase rather than when they file their federal income taxes the following year.

The biggest challenge for many would-be home buyers is saving for a down payment and closing costs, said Bryan Greene, vice president of policy advocacy for the National Association of - Realtors.

“Once they get past this hurdle, paying the mortgage often costs about the same or less as paying rent,” Greene said. “Steep student loan payments, sky-high child-care costs and other factors, however, have made it increasingly difficult for most to accumulate the savings needed to cover initial closing costs.”

However, not everyone is sold on the first-time buyer tax credit.

“The federal government has a bias to subsidize homeownership over renting, but I don’t see any inherent advantage in owning versus renting,” said Chris Edwards, director of tax policy studies at the Cato Institute, a libertarian think tank.

“Homeownership can be expensive, but even more importantly, it makes you less mobile. That can be a disadvantage to someone wanting to change jobs or relocate for a lower cost of living.”

Sharga said that he is concerned about the unintended consequences of a first-time buyer tax credit.

“The tax credit addresses the second biggest problem that faces first-time buyers, which is the down payment,” he said. “The first problem is that there’s nothing for them to buy. These types of initiatives work great when you need to stimulate demand, but the lack of first-time buyers now isn’t a demand issue.”

Real estate agents, too, share the concern about increasing demand, particularly for entry-level housing.

“While [real estate agents] are very enthusiastic about this idea, we also note that today’s housing market is experiencing a 50-year low in inventory of available homes, and starter homes are particularly hard to find in many markets,” said Greene. “This imbalance between demand and supply is driving up prices and making it even harder for many to get in to their first home. Therefore, NAR believes that any efforts to assist first-time home buyers should be balanced with other tax incentives to create more supply of affordable homes.”

Zandi said he believes the stimulus for first-time buyers is important because it allows them to save some funds for an emergency home repair.

“But you have to marry this with incentives for builders to put up more affordable entry-level housing,” he said.

Average home prices used to be proportionately about twice the median income, but now home prices are about 3½ times the median income, said Rood.

“In theory, I love the idea of upfront down payment assistance so people can save their money for an emergency, but the challenge is that increasing demand without increasing supply will send home prices even higher and make it even harder for first-time buyers to find something they can afford,” said Rood.

Affordable housing initiatives

The housing shortage impacts every level of the market, but low- and moderate-income households are the hardest hit for both renters and buyers.

“We’re short about 1 million homes, which slows sales and increases prices for everyone,” said Jerry Howard, CEO of the National Association of Home Builders. “We need some stimulus to build more housing.”

For example, Howard said easing some regulatory burdens from the Environmental Protection Agency and other federal agencies could reduce costs and make materials for building housing less costly.

“Affordable housing is particularly an issue in coastal housing markets where prices are so high that households with moderate incomes can’t afford to rent or buy,” he said. “In those places and others, local zoning issues are the biggest problem because they prevent the development of multifamily housing.”

Edwards said he believes federal agencies such as HUD can be a powerful influence on local zoning rules and building codes that prevent solutions such as accessory dwelling units, tiny houses or more apartments to be built.

“The federal government’s role can be informational about best practices, comparisons of state and local policies, and studies that can drive changes that will make it easier to build more affordable housing,” he added.

The federal government can use a “carrot and stick” approach to zoning issues in states and cities, said Rood.

“You need a combination of infrastructure and amenities for communities, so the federal government could use those as incentives and develop penalties for jurisdictions that don’t address these land-use issues that obstruct the development of affordable housing,” he said.

One Biden administration proposal, a renter’s tax credit for low-income households to offset the portion of their housing payment that rises above 30 percent of their income, could have the unintended consequence of increasing rents, said Sharga.

“We wouldn’t want to see the same thing happen as with student loan debt, when government-guaranteed loans allowed colleges to increase tuition astronomically,” he said.

Howard said he believes addressing the supply side of housing would be more valuable than a renter’s tax credit.

“The Low-Income Housing Tax Credit program, which has been around since 1986, is one of the successful housing production tools in history,” he said.

The Biden administration proposes to expand that program and increase funding for the Housing Trust Fund, both of which support the construction and rehabilitation of affordable housing.

“There are a number of financial incentives in place that address workforce and affordable housing issues for both renters and purchasers that are effective, such as the New Markets Tax

Credit,” said Zandi. “The beauty of the Biden administration’s strategy is to empower and expand the reach of these successful ways to increase the supply of affordable housing.”

NAR also supports the Neighborhood Home Investment Act, which is targeted to rehabilitating distressed neighborhoods by offering tax benefits to encourage replacing and renovating homes for which financing is often unavailable because the home appraisals are too low, said Greene.

Addressing racial bias

Biden’s proposals would address racial bias by eliminating exclusionary local and state housing regulations, holding financial institutions accountable for discriminatory practices, and strengthening enforcement of the Fair Housing Act and the Community Reinvestment Act so that all communities are being served.

“The protections provided by the Fair Housing Act must be fully upheld,” said Greene. “We support increased funding at the federal level for fair housing enforcement, including expanding funding and support for discrimination testing programs.”

Credit scoring is a good place to focus, Zandi said, because after the lack of down payment, that’s the second biggest impediment to buyers.

“Minority groups often have less access to credit and are unbanked or lightly banked,” he said. “Even if they get credit, it’s often at a higher interest rate if they have a low credit score, which makes it more likely that they’ll have trouble paying off the debt.”

One Biden proposal would create a new credit reporting bureau within the Consumer Financial Protection Bureau.

“I’d be careful of that, because it could have unintended consequences if it reduces the efficacy of credit-scoring models,” Zandi said. “But it’s good if the federal government focus is on improving credit-scoring technology to accelerate the availability of credit scoring on things like cellphone and rent payments.”

Policies that are designed to get lenders to solve the impediments to getting loans to underserved groups are worthwhile, Zandi said.

“We’re not talking about people who are less creditworthy, they’re just different,” he said. “For example, we need to address how to allow multigenerational households with a variety of income streams to qualify for a mortgage. It’s too hard for creditworthy borrowers who don’t fit in the credit box to get loans.”

NAR also supports alternative credit programs for people with little or no credit history, said Greene.

“NAR has invested research to help policymakers reviewing new credit-reporting models to better inform regulatory and legislative proposals and ensure they promote fair lending,” Greene

said. “NAR also supports the Community Reinvestment Act, which must maintain focus on supporting minority homeownership and continue giving more CRA credit for mortgages to underserved communities.”

Rood said he is wary that new policies may force lenders to make loans to at-risk borrowers and yet punish them if those loans fail.

“If the only focus is on more requirements and fiercer punishments for lenders, you’ll get a lot less progress than if you focus on incentives,” Rood said. “If you focus on incentives, you’ll get more of what you intended in the first place, which is to serve underserved borrowers.”

Sharga warned that the challenge is to be careful not to push lenders to make loans to buyers who aren’t ready for homeownership.

“Seeing someone become a homeowner for the first time is one of the most emotionally gratifying things you can imagine,” he said.

“But seeing that homeowner lose that same house to foreclosure because they weren’t ready for the financial commitment is completely devastating,” he added. “It’s important that whatever new policies are put in place that you don’t set up people to fail, but you also don’t want to limit opportunities for qualified buyers. That’s the challenge of any policy decisions. It’s always a balancing act.”