
Reparative Homeownership Pilot Program

(DRAFT – 10/11/2021)

What is the Restorative Homeownership Pilot Program?

- The Restorative Homeownership Pilot Program (“R-HOME”) is a pilot program based in the Richmond Metropolitan Statistical area (MSA) intended to redress the continuing harm to Black and other non-white Virginians’ ability to access and build wealth through homeownership caused by past discriminatory government policies, such as redlining, race-restricted deeds, and “urban renewal” projects that destroyed Black neighborhoods, and the ongoing disparate impact of certain lending practices (e.g. sub-prime mortgages) on communities of color.
- R-HOME seeks to redress how homeownership policies and practices forced disinvestment from Black neighborhoods and denied non-white Virginians homeownership opportunities by making it difficult if not impossible for them to get low-interest mortgages. This in turn forced them into predatory products, such as contracts for deed and sub-prime mortgages, which did not support long-term homeownership. As a result, the gap between Black and white homeownership in Virginia is now larger than it was in 1960: Only 48% of Black Virginians own homes, compared to 73% of non-Hispanic white Virginians.¹
- The wealth gap between Black households and white households flows largely from the discrepancy in homeownership rates, as home equity and retirement accounts comprise 63% of household net worth in the United States. In 2019, the median wealth of Black households was \$24,000; the median wealth of white households was \$189,000.

How will the Restorative Homeownership Pilot Program work?

- R-HOME will provide qualifying first-time homebuyers² down-payment assistance up to 50% of the sales price of the home through forgivable second mortgages. Homeowners in the lower income brackets will receive significantly more down-payment assistance than those in higher income brackets, with those at 30% Area Median Income receiving approximately eight times that of households earning 80% AMI. R-HOME will also connect eligible participants to credit repair, homeownership counseling and housing mobility counseling. Finally, R-HOME will provide funding through a competitive grant process to non-profits that will provide free services to eligible existing homeowners to address deferred maintenance and improve energy efficiency.
- Because of the robust down-payment assistance provided by the program, program participants will not have to pay more than 25% of their income toward their mortgage, and they will not be required to make any payments on their forgivable second mortgages. One-fifth of their second mortgage will be forgiven for every year these homeowners make payments on their first mortgages.
- The Virginia Department of Housing and Community Development, with input from Virginia Housing,

¹ U.S. Census Bureau, 2018 ACS 5-year average.

² R-HOME will use the Housing and Urban Development definition of “first-time homebuyer” as someone who has not owned a home within the previous three years.

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will establish guidelines for the R-HOME program in consultation with a group of stakeholders. The stakeholder group must include the mortgage industry, the real estate industry, legal aid, housing counselors, low-income Virginians and at least one community land trust. The guidelines developed shall at a minimum address:

1. Income eligibility requirements to ensure that the R-HOME program serves Virginians with the lowest incomes possible while guaranteeing that program participants will not have to spend more than 25% of their income on housing. We anticipate that this the program will serve people with incomes below 80% of the Area Median Income for the Richmond MSA.
2. Eligibility requirements that prioritize Virginians: (i) whose ancestors' homes were taken by the government through eminent domain for highway construction and other "urban renewal" projects without just compensation, (ii) who have lost or whose ancestors lost farmland they owned because of discrimination in government and private lending or other policies and practices, (iii) who were or whose ancestors were denied low-interest mortgages for the purchase of a home in an area designated as "Hazardous" by the Home Owners Loan Corporation (iv) who had sub-prime mortgages and lost their homes through foreclosure, and (v) who presently own homes in a neighborhood that has experienced disinvestment due to racist policies or practices and are unable to afford the cost of making needed repairs and improvements to their homes, if they are seeking support to address deferred maintenance at their homes.
3. A requirement that participants be first-time homebuyers as that term is defined by HUD.³

How will the success of the Restorative Homeownership Pilot Program be measured?

It will be most cost-effective to pilot the R-HOME program in a single metropolitan statistical area (MSA) before launching it statewide. The Richmond MSA is a good choice for the pilot program because:

- The Richmond MSA includes rural, urban and suburban localities.
- There is a clearly documented history of government-backed and systemic housing discrimination in the Richmond MSA.
- Nonprofits in the Richmond MSA offer down-payment assistance, housing counselling and mobility counselling already, so there is an available and ready group of potential grantees to administer the R-HOME program.

Intended outcomes include, but are not limited to:

1. Increased homeownership among historically disenfranchised communities, including Black Virginians
2. Increased use of Community Land Trusts
3. Increased access to homeownership for Virginians whose incomes are at or below median income
4. Increased investment in previously red-lined or otherwise discriminated against neighborhoods

What are the potential costs associated with the Restorative Homeownership Pilot Program?

If the initial R-HOME program were piloted in the City of Richmond Metropolitan Statistical Area, we estimate the cost to be **\$10.9M for each of the next two biennia (2022-2024 and 2024-2026); the annual cost is estimated to be \$5.45M.** This is based on the following:

- \$17.8M in down-payment assistance for approximately 200 eligible households

³ Ibid

- \$2M in grants to fund needed deferred maintenance for 50 eligible homeowners
- \$2M (10% of the total appropriated for the above) for administration of the program

Spreading the program out over two budget cycles lowers the cost and provides a better window for data collection, since program participants may need the initial year to become “homeowner ready” and because the second mortgage will be forgiven at a rate of 20% for every twelve months of payments made on the homeowner’s first mortgage.

What are some potential benefits of the sliding scale down-payment approach?

- It enables qualified program participants of all income levels to pay no more than 25% of their income toward their housing cost, providing truly affordable housing.
- It enhances existing benefits provided by federal and state programs, such as the federal HOME program and the Virginia Housing SPARC program.
- Based on the experience of staff at existing down-payment assistance and community land trust programs serving clients in the Richmond MSA, a substantial down-payment subsidy amount is needed to enable the R-HOME program to successfully serve homeowners below 80% AMI.

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