Small Loans, Big Barriers

How Small-Dollar Mortgages Impact the Racial Homeownership Gap in the United States

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Executive Summary

Mortgage loans are essential for accessing homeownership in the United States because most families cannot afford to purchase a home without long-term financing. As a result, any barrier to obtaining a mortgage loan becomes a barrier to homeownership—and to the wealth-building and stability it can provide. Yet for homes valued at $150,000 or less—commonly referred to as small-dollar homes—accessing a mortgage loan today is significantly harder than it was two decades ago.

To better understand the consequences of this decline, the U.S. Department of Housing and Urban Development (HUD) Office of Policy Development and Research funded New America's Future of Land and Housing program and Craig J. Richardson Economic Consulting, LLC to examine how the limited availability of small-dollar mortgage loans affects homeownership opportunities for low- and moderate-income families—particularly first-time buyers and communities of color. This report presents findings from two main components of that inquiry.

The quantitative component of the study explores whether the decline in small-dollar mortgage lending has disproportionately affected Black homeownership levels compared to White homeownership levels. Using county-level data from the U.S. Census Bureau's American Community Survey and the Consumer Financial Protection Bureau's Home Mortgage Disclosure Act from 2009 to 2022, the analysis employs an ordinary least squares regression model. A key finding is that access to small-dollar loans is modestly but significantly correlated with growth in Black homeownership, but not with growth in White homeownership, suggesting that a decline in the growth rate of small-dollar loans will negatively impact Black homeowners more than White homeowners. The study also finds that counties with higher wealth inequality and older housing stock see reduced homeownership rates for both Black and White populations—but the negative effects are roughly twice as large for Black households.

The qualitative component investigates three interrelated barriers to small-dollar homeownership: financing, quality, and supply. Major financing challenges include the low profitability of small-dollar loans for lenders, given high mortgage origination costs, a lack of capital amid secondary market constraints for small lenders, and the need for safer alternative financing arrangements. Major quality challenges brought on by the older housing stock in this price range include a scarcity of existing financing options for rehabilitation and purchase, and persistent appraisal gaps. Lastly, major supply challenges that have limited the availability of small-dollar homes include the lack of favorable financing options for manufactured homes, the scarcity of homeownership options outside the speculative homeownership market, and the need to increase opportunities for families to purchase homes free from investor competition.

The report presents a range of policy and programmatic approaches to improving access to small-dollar homeownership, such as offering targeted subsidies for lenders issuing small loans; reforming secondary market access and enhancing liquidity for portfolio lending; modernizing Federal Housing Administration and U.S. Department of Agriculture loan programs, especially for

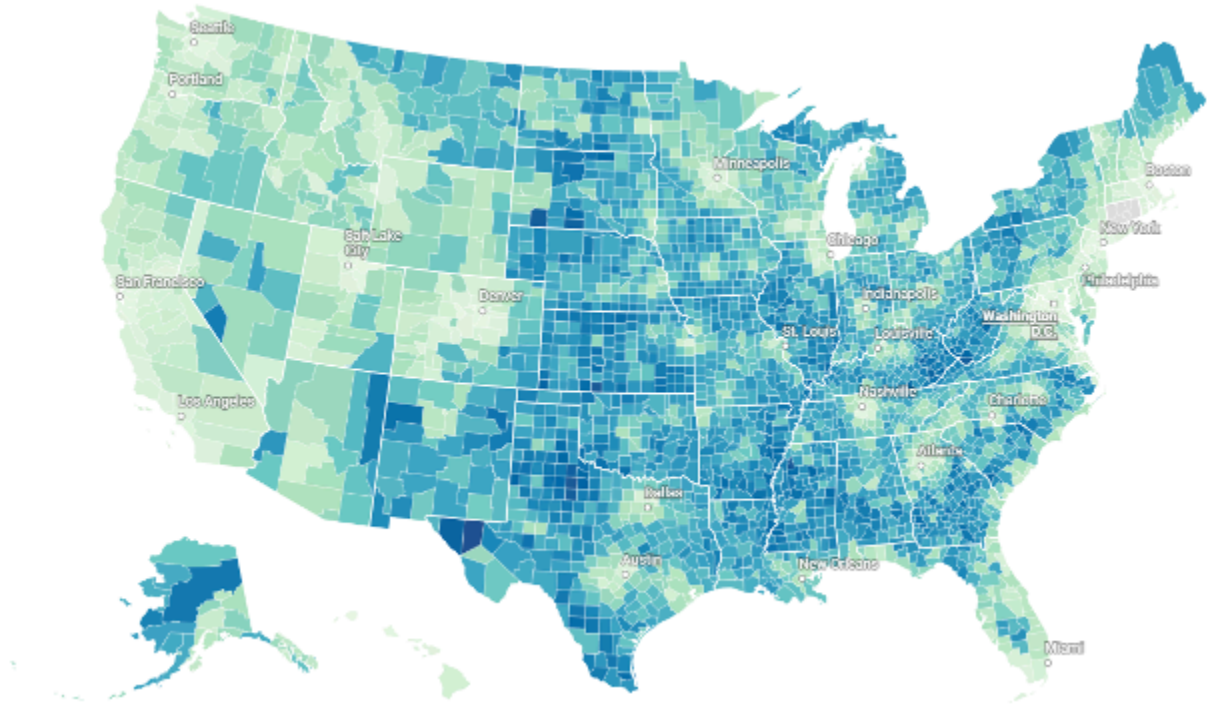
rural and historically underserved communities; supporting efforts to scale alternative loan products; and developing homeownership pathways outside speculative markets. The report also includes case studies highlighting local leaders addressing these challenges through innovative programs, products, and partnerships.

Section I. Introduction

Mortgage loans are a critical tool for accessing homeownership in the United States because most families cannot afford to buy a home without long-term financing. According to a recent survey, 78 percent of all homebuyers and 97 percent of first-time buyers relied on a mortgage loan to finance their home purchase (National Association of REALTORS®, 2022). For this reason, any barrier to mortgage financing effectively serves as a barrier to homeownership and all the wealth-building and stability it can bring.

In the decade and a half following the 2008 financial crisis, small-dollar mortgage lending has steadily declined (D'Acunto and Rossi, 2022). This decline is critical to understand because these loans provide a critical source of financing for low- and moderate-income families, often first-time homebuyers and communities of color.

Exhibit 1. Small-Dollar Homes Throughout the United States.



Source: 2019–23 American Community Survey 5-year estimate.

This study defines *small-dollar mortgage loans* as those of $150,000 and below. No threshold under which a mortgage loan is considered "small" is commonly accepted, with some researchers using a threshold of $100,000 (McCargo et al., 2020), and others using $150,000 (Horowitz and Roche, 2023). This inconsistency occurs partly because the threshold has risen over time to reflect both home price appreciation and variation of home prices across U.S. housing markets. To address the inconsistency in this study, the study team used a county-year Federal Housing Finance Agency home price index.

As of 2023, 20.8 percent of owner-occupied homes in the United States were valued at less than $150,000, although home prices in many areas of the nation are appreciating. Exhibit 1 shows that, although these homes are concentrated in the Plains, Midwest, and South, they are prevalent in counties across the nation.

However, a marked decline in small-dollar mortgage lending has occurred during the last decade and a half. A 2019 analysis shows that between 2009 and 2018, originations for mortgage loans nationwide between $10,000 and $70,000 and between $70,000 and $150,000 dropped by 38 percent and 26 percent, respectively, whereas originations for loans exceeding $150,000 rose by 65 percent (Eisen, 2019).[1] A HUD report for Congress found that out of more than 25 million homes purchased in 2020, fewer than 3.6 percent were bought using a small-dollar loan (HUD, 2022).

This decline in small-dollar lending is partly due to banks and other mortgage lenders extending fewer loans below certain mortgage thresholds in response to specific regulations in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA). Although these regulations were designed to protect borrowers from excessive fees and predatory lending, an unintended consequence is that they have also increased the fixed and per-loan costs of extending a mortgage, making smaller mortgage loans increasingly unprofitable (Richardson and Blizard, 2023).

Not only is access to mortgage credit for small-dollar homes declining, but the supply of small-dollar homes is also limited relative to more expensive homes. This limited supply is due to an all-time low share of starter, or entry-level, homes (those most likely to be "small-dollar") being newly constructed each year, meaning fewer new small-dollar homes are coming on the market. Furthermore, as the existing small-dollar housing stock ages, more homes in this price range are falling into disrepair, which presents additional barriers to securing mortgage financing (Horowitz and Roche, 2023; Zinn et al., 2022).

The declining access to small-dollar mortgage loans has the effect of locking millions of low- and moderate-income families out of homeownership, notably first-time homebuyers and communities

[1] Manufactured homes are included in this analysis if financed as "real property," i.e., if the borrower owns the land and if the home is titled as real property. In 2022, 58 percent of the 131,980 manufactured homes were financed as real property. These 76,277 homes made up 1.9 percent of all mortgage loans (Gerecke, Goodman, and Pang, 2023).

of color. To better understand the impacts of this decline and how to address it, this report investigates the decline in two components.

Quantitative Component: Research Questions and Hypotheses

First, this report investigates whether the decline in small-dollar mortgage loans over the last decade and a half has had a disproportionate impact on the Black homeownership rate relative to the White homeownership rate in the United States. According to the latest available estimates, the overall homeownership rate in the nation is 65 percent, with a White (non-Hispanic) homeownership rate of 72.4 percent and a Black homeownership rate of 44.7 percent (U.S. Census Bureau, 2019–23). Moreover, the gap between White and Black homeownership rates was larger in 2019 than it was in 1960, when racial discrimination in homeownership financing was still legal (Ratcliffe, Zinn, and Visalli, 2023).

The quantitative component of this report seeks to address the following research questions:

Research Question 1 (RQ1): *How does the change in small-dollar lending explain the disparities in Black and White homeownership rates? More specifically:*

> *RQ1a. If access to small-dollar mortgage loans changes in a positive or negative direction, does it impact the Black homeownership rate differently than the White homeownership rate?*
>
> *RQ1b. To what extent are changes in Black homeownership rates a function of specific time periods since the implementation of DFA, geographic region, housing stock, economic inequality, and other social factors?*

For RQ1a, the study team hypothesizes that *changing access to small-dollar loans disproportionately impacts the Black homeownership rate relative to the White homeownership rate across the United States.* This hypothesis is based on research that finds that small-dollar homes are more likely to be occupied by minority families than the overall market; this is especially true for Black families (HUD, 2022). Further, Black households have lower median wealth relative to White households overall, suggesting that Black households may be more reliant on mortgage financing.

For RQ1b, the team includes time-period dummies during the period after the enactment of DFA to capture any differences in secular homeownership rate trends during this period. Although not measuring the impact of the regulations directly, the study team still captures any disruptions in secular trends in the lending environment and evaluates the differences between Black and White households.

The team investigates both RQ1a and RQ1b using quantitative methods, including regression estimation, described in detail in Section III and the appendixes. The team employs national and publicly available datasets, including the Home Mortgage Disclosure Act data and the U.S. Census Bureau's American Community Survey data, spanning 2009 to 2022.

Qualitative Component: Research Questions and Hypotheses

The second component of this report uses policy research and qualitative interviews to address the following questions:

Research Question 2 (RQ2): *What are the major barriers to increasing access to small-dollar homeownership in low- and moderate-income communities, and what policy and financing approaches and actions are available to address these barriers?*

For RQ2, the team addresses a current gap in understanding the range of potential approaches to increasing access to small-dollar homeownership for low- and moderate-income households. The team investigates RQ2 using policy analysis and qualitative research methods, providing a landscape analysis of various approaches and actions to address three key challenges to small-dollar homeownership: (1) small-dollar mortgage financing access, (2) the quality of small-dollar homes, and (3) the supply of small-dollar homes. This component also includes a series of case studies from more than a dozen in-depth interviews with housing leaders and subject matter experts, highlighting how these approaches are being implemented in practice.

The remainder of this report is structured as follows. Section II explores the existing research on small-dollar homeownership; Section III details the quantitative research and findings; and Section IV presents the qualitative component, including a landscape analysis and case studies of approaches and actions that address existing barriers. Section V concludes the report, and additional information related to the study is included in the appendixes in Section VI.

Section II. Existing Research on Small-Dollar Homeownership

This section synthesizes peer-reviewed and relevant research on small-dollar mortgage lending, with a focus on racial disparities in homeownership.[2] This review of existing research helps make clear what motivated the research questions and hypotheses addressed in this report, and how this research contributes to the field. Section IV also presents relevant research as it relates to the specific challenge and actions discussed.

Declines in Small-Dollar Mortgage Lending

The availability of mortgage financing is critical for first-time and low- and moderate-income homebuyers' ability to purchase a home (Acolin, Goodman, and Wachter, 2018; Anenberg et al., 2019), and this is particularly true of small-dollar mortgages. A 2024 study assessing the distributional impacts of small-dollar mortgage loans across income levels found that applicants in

[2] As noted earlier, small-dollar mortgage loans are defined in this study as loans of $150,000 and less; although, as seen in the literature, researchers have used different cutoffs to reflect geographic variation in home prices and home price appreciation over time.

the bottom income quartile were disproportionately likely to take out small-dollar loans: 60 percent of small-dollar mortgages were taken out by applicants in the bottom quartile (Chu, Zhang, and Zhang, 2024). As such, declines in the availability of small-dollar mortgage financing more acutely affect homebuyers with lower incomes (McCargo et al., 2018). Existing research also finds that small-dollar homes are more likely to be occupied by minority families than the overall market, notably for Black families (HUD, 2022).

Over the past decade and a half, analyses have shown that access to small-dollar mortgage loans in the United States has steadily declined. A study of the number, size, and approval rate of mortgage loans post-financial crisis finds that since 2011, lenders have decreased originations for small and medium-sized loans but have increased loan originations sized $200,000 and more, suggesting a "sizable redistribution of mortgage credit from low- and middle-sized loans to large loans" (D'Acunto and Rossi, 2022). A 2019 *Wall Street Journal* analysis shows a similar trend: Between 2009 and 2018, origination for mortgage loans nationwide between $10,000 and $70,000 and between $70,000 and $150,000 dropped by 38 percent and 26 percent, respectively. During this same period, originations for loans exceeding $150,000 rose by 65 percent (Eisen, 2019).

A Pew Charitable Trust analysis shows that, from 2004 to 2021, small-dollar mortgage lending fell by nearly 70 percent (to 830,000 loans a year), whereas large mortgage lending grew by 52 percent (to 4.4 million loans a year). Before the financial crisis, however, lenders originated small-dollar loans and larger loans in roughly equal measure. In 2004, lenders issued 2.7 million mortgage loans of less than $150,000 and 2.9 million mortgage loans of more than this amount (Horowitz and Roche, 2023). A HUD report to Congress on small-dollar mortgages found that in 2020, fewer than 900,000 of more than 25 million home purchases—just 3.6 percent—involved loans classified by HUD as "small-dollar" (HUD, 2022).

Although national-level research shows that small-dollar lending has been declining nationwide, the severity of the decline varies by geographic location. A New America analysis in Forsyth County, North Carolina, found that between 2007 and 2019, originations for small-dollar mortgage loans declined by 52.5 percent (Zainulbhai et al., 2021); an analysis from the Federal Reserve Bank of Philadelphia found that between 2019 and 2021, mortgage loans below $100,000 declined 28 percent in Pennsylvania, 43 percent in New Jersey, and 28 percent in Delaware (Goldstein and DeMaria, 2022).

Although rising home prices contribute to the decline in small-dollar mortgage availability, multiple analyses show that the drop persists even after adjusting for home price appreciation. The 2022 HUD report, using the Federal Housing Finance Agency (FHFA) home price index (HPI), found that small-dollar loans still fell from more than 6 percent of originations in 2007 to 3.5 percent in 2013 (HUD, 2022). Similarly, Pew researchers report that despite fewer homes qualifying for small-dollar mortgages due to price increases, the overall supply of small-dollar loans has declined compared to two decades ago, even when accounting for rising home values (Horowitz and Roche, 2023).

Disincentives for Small-Dollar Lending from Dodd-Frank Regulations

Existing research links the decline in small-dollar lending partly to banks and other mortgage lenders responding to regulatory and structural changes in the wake of the 2008 financial crisis, and to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA) in particular. To increase borrower safety and protection from risky lending practices that were common leading up to the financial crisis, DFA introduced the Qualified Mortgage (QM) rule, which caps the fees and points that lenders can charge. Some researchers have suggested that the QM rule has increased the cost of mortgage origination and that when loans exceed allowable limits of the QM rule, lenders either have to operate at a loss or offer borrowers less desirable loan products instead (Horowitz and Roche, 2023).

Although the regulations in DFA significantly improved protections for both borrowers and lenders, analysis shows that some of these regulations may have increased the fixed costs and per-loan costs of mortgage origination (Richardson, 2024a). Because the cost of originating a mortgage loan is mostly fixed, and lender fees are generally tied to the size of the loan, lenders are often unable to recoup costs or make a profit on smaller loans.

A study by D'Acunto and Rossi (2022) using causal methods found that between 2008 and 2017, there was a distributional shift among lenders toward larger loans relative to small- and medium-sized loans nationwide. The researchers hypothesized that these shifts are caused by the increase in fixed and per-loan costs of originating mortgages, and that regulatory changes and lender preferences have led to regressive credit allocation, disproportionately affecting lower-income borrowers.

Though not focused on mortgage lending, Bordo and Duca (2018) investigated DFA's impact on small business lending. The authors found that fixed regulatory compliance requirements reduced incentives for banks to make modest loans to small businesses; small commercial loans at large banks fell by 9 percentage points, and by twice this amount at small banks, because the regulations were enacted.

Richardson and Blizard (2023) examined the broader impact of DFA on small-dollar credit availability and property values in a low-income area of Forsyth County, North Carolina. The authors found indirect evidence that DFA led to a contraction in the availability of smaller loans, particularly in economically disadvantaged regions.

Increases in Cash Purchases of Small-Dollar Homes

The direct relationship between cash purchases and declines in small-dollar lending is underexplored, but declines in small-dollar lending can be measured in part by the increase in cash purchases for homeownership. Cash purchases can be completed more quickly and with fewer risks for sellers than mortgage loans, and studies show that cash purchases, notably in the small-dollar housing market, have steadily risen over time.

Between 2018 and 2021, 26 percent of small-dollar home purchases (defined as less than $150,000) in the United States were financed using a mortgage loan, and the remaining 74 percent of small-dollar homes were purchased using cash. The inverse is true in the market for homes priced at more than $150,000: 71 percent were purchased with a mortgage during this period, and 29 percent were purchased with cash (Horowitz and Roche, 2023). A local analysis of cash purchases in the small-dollar mortgage market in Forsyth County, North Carolina (using a $100,000 small-dollar threshold) found that, although 30 percent of small-dollar homes were purchased with cash in 2001, cash purchases of these homes increased to 75 percent by 2020 (Zainulbhai et al., 2021).

Similar to cash purchases, research shows that investor purchases in the housing market are also concentrated in the small-dollar housing market (Hermann, 2023). Indeed, investors—particularly those backed by private equity—hold sufficient liquid capital to buy homes without requiring mortgage financing. Between 2018 and 2021, corporate investors (i.e., limited liability companies, limited partnerships, limited liability partnerships, and corporations) purchased 29.3 percent of homes sold for less than $100,000 in the United States, compared with only 7 percent of home sales for $100,000 and more; of the homes purchased by corporate investors, only 17.3 percent involved a mortgage (Zinn et al., 2022). Although the post-purchase use of properties is understudied, research shows that investors commonly convert homes into rental properties, renovate them, or demolish them to make way for higher-cost housing (Mallach, 2010).

Several studies have also found that small-dollar home purchases by large investors are concentrated in predominantly minority neighborhoods. A *Washington Post* analysis of 40 major metropolitan areas in 2021 found that investor activity in the housing market disproportionately impacts Black neighborhoods, particularly in the South (Schaul and O'Connell, 2022). Research in Forsyth County, North Carolina, found that large investor activity was concentrated in the sub-$100,000 housing market and that large investors' share of home purchases was particularly pronounced in Winston-Salem's predominantly Black neighborhoods (Zainulbhai and Blizard, 2022).

Black Homeownership and Small-Dollar Homes

The history of racial exclusion in mortgage markets across the United States has restricted access to homeownership financing away from Black and other marginalized communities with reverberating consequences (National Community Reinvestment Coalition, 2024). Although discriminatory practices that enabled this exclusion have since been outlawed, Black communities continue to experience unequal access to homeownership (Ratcliffe, Zinn, and Visalli, 2023).

The latest available estimates show that the rate of Black homeownership in the United States is 44.7 percent, compared with an overall homeownership rate of 65 percent and a White (non-Hispanic) homeownership rate of 72.4 percent (U.S. Census Bureau, 2019–23). Among households that rented in 2012, Black households were one-half as likely as White households to have purchased a home using mortgage financing by 2018, partly because of differences in income growth, lower credit profiles, and unemployment rates (Dey and Brown, 2022). Further, in a nationwide analysis of intergenerational income data, Hilber and Liu (2008) found that intergenerational wealth and living

in an urban or rural area contributed to the persistent Black-White homeownership gap between 1985 and 2001.

In addition, disparities in loan denials for Black and White mortgage seekers play a significant role in perpetuating the racial homeownership gap both pre- and post-Great Recession (Charles and Hurst, 2002; Myers and Lee, 2018). Charles and Hurst (2002) found evidence that Black applicants were 73 percent more likely than comparable White applicants to be rejected, even after accounting for credit history proxies and measures of household wealth. The authors argue that a "discouragement effect," where Black applicants anticipate rejection and are thus less likely to apply for loans, also contributes to the persistence of the racial homeownership gap.

The present-day de facto racial segregation resulting from historical discriminatory policies means that Black families are more likely to live in neighborhoods where small-dollar housing stock, which tends to be older and in poorer condition, is concentrated. Research in Atlanta and Memphis shows that housing stock in majority-Black neighborhoods is more likely to be in poor physical condition than in majority-White neighborhoods (Neal et al., 2022) and that Black homeowners are more likely to live in older properties than White homeowners (Zhu, Zinn, and Neal, 2023). A New America analysis in Forsyth County, North Carolina, found that small-dollar homes in below-average physical condition were concentrated in and around majority-Black neighborhoods (Zainulbhai et al., 2021). Because Black families have 87 percent less median wealth on average than White families, are more likely to purchase older homes, and are more likely to live in neighborhoods where small-dollar housing stock is concentrated, Black homebuyers in the United States are more likely to buy small-dollar homes and to need mortgage financing for those homes relative to White families (Choi, McCargo, and Goodman, 2019).

Although the tightening of mortgage credit has been linked to lowered homeownership rates (Acolin, Goodman, and Wachter, 2018), this report seeks to fill a gap in the literature by exploring how this phenomenon affects Black homebuyers nationwide.

Section III. Quantitative Component: The Impacts of Small-Dollar Lending on Homeownership Rates

This section presents the data sources, methodology, and findings of the quantitative component of this study, which investigates whether an overall decline in small-dollar mortgage loan access between 2009 and 2022 has had a differential, disparate, and larger impact on the Black homeownership rate relative to the White homeownership rate.

Quantitative Data Sources

This study uses two primary data sources: (1) U.S. Census Bureau, specifically IPUMS data from the American Community Survey (ACS) 5-year estimates, and (2) Home Mortgage Disclosure Act (HMDA)

data from the Consumer Financial Protection Bureau. Exhibit 2 summarizes the data sources, each of which is described in more detail below.

Exhibit 2. Data Sources for Quantitative Analysis.

Data Source	Years Used	Information Available	Status
Census Bureau American Community Survey Data	2009–2022	Economic, socioeconomic, and demographic characteristics	Publicly available
Home Mortgage Disclosure Act Data	2009–2022	Mortgage loan activity	Publicly available

Note: American Community Survey 5-year estimates are produced using a rolling sample covering 5-year windows.

U.S. Census Bureau ACS microdata: The IPUMS ACS microdata set is a nationwide dataset that includes demographic, socioeconomic, and economic measures at varying geographic units. The study team collected data at the county-year level, along with myriad other control variables. To calculate the homeownership rate, defined as the percent of occupied housing units that are owner-occupied, the team collected data on the number of occupied housing units and the number of owner-occupied housing units in a county. The measure has been calculated for both White and Black households.[3]

HMDA data: HMDA data are collected by the Consumer Financial Protection Bureau and include data on mortgage loan applications across the United States for numerous lenders, including the outcome of mortgage applications, the type of loan, the purpose of the loan, and the race and gender of the loan applicant. Small-dollar loans are defined as less than $150,000. This study defines a completed loan application as one that made it through the entire application process and resulted in a final decision. The study focuses on the number of completed small-dollar loan applications for the purpose of purchasing a home to occupy as a primary dwelling, at the county-year level.

Merging the Datasets

The study team merged data across the two datasets over the study period (2009–22) to create a national panel dataset. The team used the county-year as the primary unit of analysis due to the following factors: (1) Counties are critically important governmental and communal boundaries

[3] This analysis uses the ACS's 5-year estimates because the 1-year estimates are missing for many counties. The U.S. Census Bureau calculates the 5-year estimate by taking the average of the 1-year estimates. Thus, the 5-year estimate for 2015–19 is the average of the 1-year estimates for 2015, 2016, 2017, 2018, and 2019. Some researchers assign the middle year as the representative year—for example, assigning the value for the 5-year estimate of 2015–19 to the year 2017. Other researchers use the last year, which would be 2019 in the case of 2015–19. This study used the last year as the representative year to avoid inputting missing values for 2021 and 2022.

within the United States, around which housing policies are often developed and implemented (Lobao and Kraybill, 2005; Schuetz, 2023); (2) county boundaries are stable and consistent; (3) a wide variety of data are available at the county level; and (4) county definitions do not change across the timeframe of interest, so areal interpolation techniques are not needed to standardize the data (compared to census tract-level data).

Each HMDA dataset contains loan application records with a corresponding state and county identifier. A small share of all records (less than 1 percent) is missing county identifiers. To examine instances where county identifiers are missing, the team analyzed whether missing data are more prevalent among particular states and whether they are more frequent among particular types of loans. The state with the highest percentage of missing county codes was Vermont, with approximately 0.9 percent missing. No state-related pattern to missing county codes is apparent in the HMDA data. Regarding loan types, conventional loans had the highest share of missing county codes at 0.11 percent.

The merged analysis dataset spans from 2009 to 2022 and covers 3,142 U.S. counties. The resulting dataset has 45,402 records. The study team aggregated the two datasets at the county-year level and then joined them together using a simple SQL INNER JOIN. The final dataset, however, is nearly 16,000 records. The smaller dataset was a result of using a lagged percentage change on the loan access variable and limiting the counties to those with at least 400 Black households. The team uses a statistical formula that establishes these criteria to have at least 95-percent confidence in estimates of the number of Black homeowners and Black homeownership rates. (Appendix A includes more detail and technical documentation for how and why this dataset filter was applied to have statistically valid analyses of comparisons between Black and White households.)

Data Limitations

The data sources used in this study have some limitations. First, a substantial number of records in the HMDA datasets are missing geographic information, specifically related to the census tract identifier. The study team addressed the missing information by using the county as the primary geographic level of analysis. ACS data are estimates that use a weighted sample and a sliding 5-year average approach. Hence, they are not point-in-time estimates, so trends are sometimes difficult to detect. Nevertheless, using ACS 5-year estimates for point-in-time measures is a common practice, as existing studies have done (Chetty et al., 2014). Considering this particular limitation, the team conducted several robustness checks on the results to ensure the key results are stable. The team (1) estimated the models with different combinations of covariates included and excluded to compare how key coefficient estimates change, and (2) estimated the models with different definitions of a *small-dollar mortgage*.

Main Model Specification

The study employs ordinary least squares to empirically investigate the key drivers of homeownership rates as a function of small-dollar loan access and other control variables.

The team used the following models to address the primary research question, estimating separately for Black homeownership rates and White homeownership rates, as specified below in (1) and (2):

$$(1)\ BLACK_HOMEOWN_{i,t} = \alpha_B + \beta_{1,B}\, LOANACC_{i,t-1} + \sum_{k=2}^{K} \beta_{k,B}\, X_{k,i,t} + \delta_{t,B} + \gamma_{j,B} + \varepsilon_{i,t,B}$$

$$(2)\ WHITE_HOMEOWN_{i,t} = \alpha_W + \beta_{1,W}\, LOANACC_{i,t-1} + \sum_{k=2}^{K} \beta_{k,W}\, X_{k,i,t} + \delta_{t,W} + \gamma_{j,W} + \varepsilon_{i,t,W}$$

Where:

i = county,
j = Census region or division containing county i,
t = time period,
$BLACK_HOMEOWN_{i,t}$ = Black homeownership rate in county i, region j, year,
$WHITE_HOMEOWN_{i,t}$ = White homeownership rate in county i, region j, year,
α_B and α_W = intercepts in the Black and White regressions,
$LOANACC_{i,t-1}$ = Lagged measure of small-dollar mortgage access (previous year),
$\beta_{1,B}$ and $\beta_{1,W}$ = coefficients on the lagged loan access,
X_k = a set of k control variables,
$\beta_{k,B}$ and $\beta_{k,W}$ = coefficients on k control variables,
$\delta_{t,B}$ and $\delta_{t,W}$ = time fixed effects for two periods,
$\gamma_{j,B}$ and $\gamma_{j,W}$ = regional fixed effects, and
$\varepsilon_{i,t,B}$ and $\varepsilon_{i,t,W}$ = error terms.[4]

Specifically, the study team used the estimated equations to examine the research question: *Does access to small-dollar mortgage loan credit affect Black homeowners differently than White homeowners?*

This question can be directly investigated by testing for a statistically measurable difference in the estimated coefficients for the variable *LOANACC* from both models (1) and (2). The team employed the method proposed by Clogg, Petkova, and Haritou (1995) for testing the equality of regression coefficients estimated from two separate regression models. The specific test is shown in (3):

$$(3)\ z = \frac{(\hat{\beta}_{1,Black} - \hat{\beta}_{1,White})}{\sqrt{(SE_{\hat{\beta}_{1,Black}})^2 + (SE_{\hat{\beta}_{1,White}})^2}}.$$

[4] The authors of this study considered using a relative measure of loan access (e.g., small-dollar loans as a share of all mortgages in a county), which may capture supply constraints more directly than growth rates alone. However, small-dollar loans are available across county lines, making interpretation difficult.

At the 95-percent confidence level, the absolute value of z should be 1.96 or greater to determine if the Black and White coefficients are statistically different from each other. The team used this test for every independent variable's coefficient estimates for models (1) versus (2).

Creation of Dependent and Independent Variables

Dependent Variables: Black Homeownership Rate and White Homeownership Rate

The variables are specifically defined as:

Black homeownership rate =
Number of Black homeowners / Number of Black households

Where:
A Black homeowner is an individual or family who owns a home, and
A Black household is an individual or family that owns or rents a home.

The variable is defined similarly for the White homeownership rate.

Independent variable: Small-dollar loan access: To investigate how changes in small-dollar loan access contribute to homeownership rates, the study team considered two different definitions of small-dollar loan access in the econometric model on a county-year basis, as seen in equations (4) and (5).

$$\text{(4) Small-Dollar Loan Denial Rate} = \frac{\text{Number of small-dollar loan denials}}{\text{Number of small-dollar loan applications}}$$

OR

(5) Small-Dollar Loan Access Rate = Originated small-dollar loans issued per 1,000 housing units

One challenge complicating equation (4) is that loan denial rates could rise in two ways. First, the number of denials could go up, holding small-dollar loan applications constant. Second, the number of small-dollar loan applications could fall, holding loan denials constant. Interpretation is difficult if the number of denials and the number of loan applications are changing at the same time, thereby making it difficult to identify the root cause of the change in denial rates. This challenge, in turn, makes policy implications difficult to ascertain. For example, if small-dollar loan denials are the underlying cause of declining access, possible solutions may reside with banks and other mortgage lenders. If applications for mortgages are falling, solutions might reside with individuals seeking a mortgage. Applicants may be dissuaded from applying for a mortgage by the bank, by the lack of housing stock, or for any number of other reasons. In other words, this definition of small-dollar

loans opens up more questions than it answers, because there is no way to disentangle the motivating factors of the two variables potentially driving the small-dollar denial rate.

Equation (5) is a superior approach in that it straightforwardly measures the level of lending, with the numerator driving the rate of small-dollar loan access. The number of housing units is expected to be far more stable than the number of small-dollar loans, thereby largely eliminating the problem illustrated in equation (4). This definition is thus used for all the analyses in this study.

Rather than employing loan levels, growth in small-dollar loan access for each county is in line with most economic studies that focus on growth trends (e.g., gross domestic product, wages, stocks) to estimate the marginal change of one variable on another.

For this reason, the study team measured the growth rate in small-dollar loans per 1,000 housing units, using the current and previous county-year's levels. The team then lagged the growth rate by 1 year because obtaining a mortgage and buying the house are not instantaneous transactions, and 1 year is a typical length of time for rental agreements that buyers may be transitioning out of prior to homeownership. Changing growth trends are more likely to take time to work their way into changes in homeownership rates over the course of a year, if not longer. Using a lag recognizes the delay between the origination of the loan and the purchase of the home.

The independent variable used in the regression equation is thus:

Small-dollar loan access = Lagged 1-year growth rate in small-dollar loans issued per 1,000 housing units per county-year, adjusted for housing inflation and the cost of living using the FHFA housing price HPI index.[5]

[5] The authors of this study also considered an alternative measure of growth in small-dollar loan access, using a difference in logs approach between the earlier and later years' levels of small-dollar loans issued. However, there was low explanatory power with no statistical significance in the key variable in the regressions. The probable reason is that this approach compresses larger changes in loan growth, leading to less variation. A difference-in-logs model also makes the coefficient harder to interpret and translate for meaningful use—e.g., the estimated coefficient must be divided by 100 before one can interpret its meaning as a change in homeownership rates. Because this approach does not add explanatory power, and the coefficients are more difficult to interpret, this approach was not used.

Exhibit 3. Data Variables and Definitions.

Variable	Variable Name	Definition(s)	Variable Type
Homeownership	HOMEOWNB HOMEOWNW	(1) Black homeownership rate (%) (2) White homeownership rate (%) Percent of Black (White) households occupied by Black (White) homeowners	Outcome/ dependent
Small-dollar mortgage loan access	LOANACC	Growth rate in originated small-dollar loans issued per 1,000 housing units issued to owner-occupied households in the previous year[6]	Key control
Age composition	PCT65+	Percentage of the population older than 65	Control
Income	MEDFAM$	Median family income ($1,000s)	Control
Home values	MEDHOME$	Median owner-assessed home values of owner-occupied homes ($10,000s)	Control
Home age	MEDAGEHOME	Median age of house (years)	Control
Inequality	GINICOEF	Gini index of income inequality	Control
Census divisions	WNCENTRAL WSCENTRAL SATLANTIC PACIFIC MOUNTAIN MIDATLANTIC ESCENTRAL ENCENTRAL NEWENGL (REF)	Dummy variables for eight census divisions, with New England as reference group	Control
Post-Dodd Frank/Great Recession time periods	YR 2009–11 (REF) YR 2012–18 YR 2019–22	Dummy variables for ranges of years, with years 2009–11 serving as the reference group	Control
Rural county	RURAL	Dummy variable for whether the record is in a rural county[7]	Control

Source: U.S. Census Bureau American Community Survey microdata (county level), except for small-dollar loan information, which comes from Home Mortgage Disclosure Act data.

[6] Small-dollar loans were defined as $150,000 or less and adjusted for housing inflation and local prices using the county-year Federal Housing Finance Agency price index, with 2020 as the base year.
[7] The study team uses the urban-rural classification from the National Center for Health Statistics (based on a scheme developed by the Office of Management and Budget) that considers rural counties as micropolitan or non-core (i.e., not a metropolitan county).

Small-dollar loans are defined as $150,000 or less, with 2020 as the base year. Further methodological considerations for choosing the definition of $150,000 as the threshold for a small-dollar loan and details for how the Federal Housing Finance Agency (FHFA) calculations were made on a county-year basis for housing inflation and cost of living are covered in Appendix B.

Other independent variables include age composition, family income, home values and ages, income inequality, census regions across the country, and two periods post-Dodd Frank/Great Recession, as seen in Exhibit 3.

Regression Results

Exhibit 4. Regression Estimates of Black and White Homeownership Rates.

	Black Homeownership Rate With Counties >= 400 Black HHs, Indexed < $150k Cutoff				White Homeownership Rate With Counties >= 400 Black HHs, Indexed < $150k Cutoff				Z-TEST			CONF. LEVEL
	Model 1				Model 2				Difference of coefficients:			* = 95% ** = 98%
Control Variables	Coef.	Std. Err.	t	p	Coef.	Std. Err.	t	p	ABS(Z)	P-STAT	CONF. LEVEL %	*** = 99%
Key Explanatory Variable Lagged Growth Rate in Small Dollar Loans (Indexed, < $150k) per 1,000 Housing Units	0.01	0.00	2.67	< 0.01	0.00	0.00	0.81	0.41	2.04	0.02	98	**
Demographic Variable Population 65 and Older (%)	0.83	0.03	33.52	< 0.01	0.88	0.01	66.10	< 0.01	1.72	0.04	96	
Economic Variable Wealth Inequality (Gini Index)	-0.61	0.03	-18.98	< 0.01	-0.33	0.12	-20.00	< 0.01	2.30	0.01	99	***
Median Family Income ($1,000s)	0.09	0.01	6.63	< 0.01	0.26	0.01	37.90	< 0.01	11.52	0.00	100	***
Housing Variable Median Home Value ($10,000s)	-0.13	0.02	-6.92	< 0.01	-0.41	0.01	-41.60	< 0.01	12.67	0.00	100	***
Median Age of Housing Units (Years)	-0.44	0.01	-32.19	< 0.01	-0.21	0.01	-30.64	< 0.01	15.19	0.00	100	***
Year (Base = 2009-2011) 2012-2018	-2.10	0.24	-5.80	< 0.01	-1.76	0.18	-9.74	< 0.01	1.13	0.13	87	
2019-2022	-2.41	0.40	-6.09	< 0.01	-1.54	0.20	-7.81	< 0.01	1.96	0.03	97	*
Census Divisions (Base = New England) West North Central	-9.27	0.86	-10.78	< 0.01	-2.19	0.43	-5.05	< 0.01	7.34	0.00	100	***
West South Central	10.29	0.84	12.30	< 0.01	1.48	0.42	3.55	< 0.01	9.40	0.00	100	***
South Atlantic	11.70	0.82	14.29	< 0.01	1.48	0.41	3.55	< 0.01	11.15	0.00	100	***
Pacific	2.32	0.92	2.52	0.01	-1.60	0.46	-3.46	< 0.01	3.81	0.00	100	***
Mountain	-0.66	1.00	-0.66	0.51	-2.29	0.50	-4.57	< 0.01	1.45	0.07	93	
Mid Atlantic	4.99	0.82	6.08	< 0.01	1.89	0.41	4.59	< 0.01	3.36	0.00	100	***
East South Central	13.64	0.84	16.57	< 0.01	3.86	0.42	9.12	< 0.01	10.41	0.00	100	***
East North Central	1.27	0.82	1.48	< 0.01	1.30	0.41	3.18	< 0.01	0.03	0.49	51	
Rural	2.14	0.24	8.86	< 0.01	2.01	0.12	16.75	< 0.01	0.4845	0.31402	69	
Constant	70.23	2.02	34.77	< 0.01	75.50	1.02	74.28	< 0.01	2.33	0.01	99	***
N	15,997				15,999							
F	616.35				817.39							
p	< 0.01				< 0.01							
R-squared	0.40				0.47							
Adjusted R-Square	0.40				0.47							

$$Z = \frac{\hat{\beta}_{1,black} - \hat{\beta}_{1,white}}{\sqrt{\left(\widehat{SE}_{\hat{\beta}_{1,black}}\right)^2 + \left(\widehat{SE}_{\hat{\beta}_{1,white}}\right)^2}}$$

Source: Research by the authors, using U.S. Census Bureau American Community Survey microdata (county level), except for small-dollar loan information, which comes from Home Mortgage Disclosure Act data.

In summary, using regression analysis, the study team estimated the impact of various independent variables on two dependent variables: homeownership rates among White households and Black households. The team was then able to calculate disparities between the two groups in not only loan access but other control variables by examining the differences in coefficient estimates for the independent variables.

Exhibit 4 reports the findings of the regression model, using variables based on the empirical model. Key findings are highlighted that indicate statistical significance at a minimum 90-percent confidence level (though most are 95 percent and higher). Unless otherwise specified, the findings cover the period from 2009 through 2022. All results are to be interpreted in the context of holding all the other independent factors specified in the model constant.

Growth rate of small-dollar loans: The growth rate of small-dollar loans in the United States has a small but statistically significant positive correlation with the growth of Black homeownership rates, but not with White homeownership rates, which implies that a decline in the growth rate of small-dollar loans will negatively affect Black homeowners more than White homeowners. Alternatively, an increase in access to small-dollar loans will increase Black homeownership rates faster than White homeownership rates.[8]

Specific interpretation: For every 10 percent increase in the lagged growth rate of small-dollar loans (≤ $150,000, indexed by geography and housing inflation), the Black homeownership rate increases by 0.10 percentage point, at a 99-percent level of confidence, and vice versa. In other words, if small-dollar loans grew by 10 percent in the previous year, then Black homeownership rates increased by 0.10 percentage point, say from 45.6 percent to 45.7 percent.

The study team found no statistically significant effect on White homeownership rates. Under a regression model where small-dollar loans were defined as ≤$100,000, a slightly smaller impact on Black homeownership rates occurred. For every 10 percent increase in the lagged growth rate of small-dollar loans, the Black homeownership rate increases by 0.09 percentage point, a 99-percent level of confidence. Again, there was no statistically significant finding for White homeownership rates.

Demographics—population aged 65 and older: As the population ages, the likelihood of obtaining a house increases, which fits in line with wealth accumulation and potentially receiving a home or money from predecessors as time goes on. The study team found little difference in the impact of an aging population on access to homeownership between Black and White households.

Specific interpretation: For every 1 percent increase in the population older than 65, Black homeownership rates increased by 0.83 percentage point, at a 99-percent degree of confidence. For the White population, it was 0.88 percentage point, with the same degree of confidence.

[8] A small-dollar loan is defined as $150,000 or less, indexed for inflation using the FHFA HPI at the county-year level. See Appendix B for more details on the construction of this variable.

Wealth inequality: The degree of wealth inequality (measured by the Gini coefficient) in a county plays a large role in diminishing homeownership rates across the board, and the impact is twice as high for Black homeownership rates as White homeownership rates. One interpretation is that if wealth inequality increases generally, Black households could find themselves disproportionately on the lower end of the distribution due to unequal access to labor markets, educational opportunities, and a host of other factors. This finding could be further tested by examining counties with different racial distributions.

Specific interpretation: For every 1-point increase in measured wealth inequality (using the Gini coefficient) on a scale of 0 to 100, the Black homeownership rate drops by 0.61 percentage point. For White homeownership, the rate drops by 0.33 percentage point. Both are statistically significant at a 99-percent level of confidence.

Median family income: A higher median family income in a given county increases homeownership across the board, but it has a stronger positive impact on the White homeownership rate than the Black homeownership rate; in fact, the impact is nearly four times higher.

Specific interpretation: For every $1,000 increase in median family income in the county, homeownership increases by 0.09 percentage point for Black households and increases by 0.26 percentage point for White households, both at a 99-percent degree of confidence.

Median home value: A higher median home value in a county lowers the rate of homeownership for both the Black and White populations, though the impact is more negative for the White population.

Specific interpretation: For every increase of $10,000 in median home value in a given county, the rate of homeownership drops by 0.13 percentage point for Black households and 0.41 percentage point for White households. Both are significant at the 99-percent level of confidence. Greater sensitivity on the part of White households may be a factor because of higher homeownership rates to begin with. In addition, high-growth areas are more likely to be majority White, so Black people are already underrepresented to begin with, which could explain the smaller impact.

Median age of housing units: A higher median age of housing units in a given county lessens the rate of homeownership overall, though it affects Black homeownership rates more than twice as much as White homeownership rates.

Specific interpretation: For every year that the median age of housing increases in a given county, the Black homeownership rate falls by 0.44 percentage point, and the White homeownership rate falls by 0.21 percentage point. One reason may be that it is difficult for older homes in need of repair to qualify for mortgage financing, which may present an additional barrier to Black households. These households may anticipate lower access to home improvement financing, either through loans or family savings. Mortgage loans backed by the Federal Housing Administration, which are meant for lower-income families, have stricter standards regarding the quality of housing stock.

Thus, older housing stock may represent a larger hurdle for Black families in terms of maintaining a home over time on average. Both regression estimates are significant at the 99-percent level of confidence.

Time Periods

2012–18: The years immediately following the Great Recession and Dodd-Frank banking reforms had a modest negative impact on both Black and White homeownership rates, with roughly the same impact and no statistically measurable difference between the two.

Specific interpretation: Black homeownership rates dropped by 2.1 percentage points, and White homeownership rates dropped by 1.8 percentage points from 2012 to 2018, with both estimates significant at the 99-percent confidence level.

2019–22: The years following had larger negative effects on the Black homeownership rate than the White homeownership rate, with Black homeownership rates falling 2.4 percentage points and White homeownership rates falling 1.5 percentage points. Both estimates were significant at the 99-percent confidence level. This period was marked by the beginning of the economic downturn, which accelerated during the spread of the COVID-19 pandemic.

Specific interpretation: One interpretation is that during the years immediately following Dodd-Frank regulations, with the closing and/or merging of thousands of smaller community banks, there was less access to small-dollar mortgage loans. Many of these smaller banks served Black communities and knew their customers—many of whom may not have had complete credit histories—well. With a move toward larger corporate banking and independent mortgage companies, these personal connections have been lost. The 2020 recession and COVID-19 pandemic led to much higher unemployment rates that hit those at the lower end of the economic ladder harder, as they had fewer savings on which to rely. Black families were more likely to be in this category and thus were hit harder by the pandemic than other families.

Geographic regions: Geographic regions had a large impact on homeownership rates, depending on the region of the country. A 2018 Urban Institute study found that of 100 cities assessed, northern cities tended to have larger White-Black homeownership gaps than cities in the South and West Coast (McCargo and Strochak, 2018). The study suggested that these gaps were driven by the “size of the cities, economic and job opportunities, the makeup of the Black population (native born versus foreign born), home prices, proximity to education centers and colleges, access to traditional financial services, type of housing stock, and affordability.” The study noted that the northern and western cities also have a higher proportion of Black immigrants, who, on average, have lower homeownership rates (McCargo and Strochak, 2018).

This study is broader in terms of comparisons because it expands from cities to counties. In general, counties in the South had far greater Black homeownership rates relative to White homeownership rates.[9] In particular, the South Atlantic and East South Central regions are good illustrations of this.

The West North Central region has a tremendously negative impact on homeownership rates for both populations, but the negative impact on Black homeownership is almost three times larger.

Exhibit 5. Census Divisions.

Divisions	States
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Middle Atlantic	New York, Pennsylvania, New Jersey
East North Central	Indiana, Illinois, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, New Mexico, Montana, Utah, Nevada, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, and Washington

NEW AMERICA

Note: Pacific, East North Central, West South Central, South Atlantic, Middle Atlantic, and East South Central regions have higher Black homeownership rates than New England. The Mountain region has a slightly lower Black homeownership rate than New England, and West North Central's Black homeownership rate is much lower.

Source: U.S. Census Bureau. *Census Regions and Divisions of the United States*. U.S. Department of Commerce. Accessed August 12, 2026.

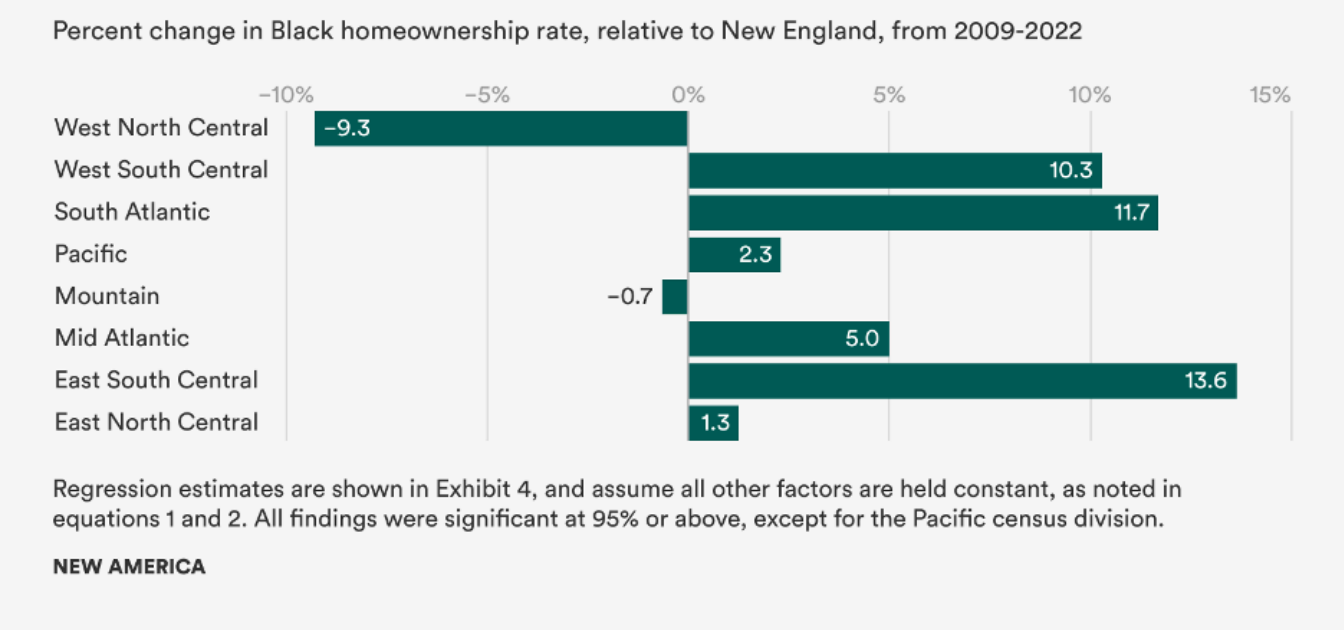
Compared to other groups, Black households have lower incomes on average, which translates to a significantly higher housing cost burden. In 39 states, Black people spend more than 30 percent of their income on housing (National Association of REALTORS®, 2025). However, the American South, particularly in more rural areas, has a far greater proportion of inexpensive housing than the Northeast and Northwest areas of the country, especially in the number of small-dollar homes (Zainulbhai et al., 2021).

[9] Although it has no impact on the findings, the study team used New England as the comparison group because it is a more familiar and easily visualized region for most people.

In the past, there has been a greater concentration of Black people in the South, which could lead to stronger family ties and network effects. These ties could help, say, for a downpayment or for inheriting a family abode, thus passing down wealth through the generations, compared to regions like New England or the West North Central division, where relatively few Black people live.

All findings for the Black homeownership regression, except the Pacific region, were statistically significant at the 95-percent confidence level or higher. Exhibit 6 illustrates the differential effects on Black homeownership of living in these regions relative to New England.

Exhibit 6. Difference in Black Homeownership Rates, by Census Region (Relative to New England).



Source: Regression estimates from Exhibit 4 using U.S. Census Bureau American Community Survey microdata (county level), except for small-dollar loan information, which comes from Home Mortgage Disclosure Act data.

Lastly, living in a rural region means higher homeownership rates for Black and White households. Specifically in rural areas, there is a 2.1 percentage point increase in Black homeownership rates and a 2.0 percentage point increase in White homeownership rates. Both are statistically significant at the 99-percent level of confidence. This trend may be capturing some of the variation in lower home prices in rural areas and in typically less-tight housing markets due to fewer zoning restrictions.

Sensitivity Tests

Z-tests for statistical differences in coefficients: Black and White (B/W) homeownership rates served as dependent variables in two regression models that both had the same independent variables. A z-test for the difference between B/W coefficient estimates was used to determine

whether the coefficients were statistically different from each other at a 95-percent level of confidence. The coefficients for the two regression models, and the formula for this particular z-test, are shown in Exhibit 4. Note that in Exhibit 4, *the vast majority of z-tests reject the null hypothesis that the B/W coefficients are not statistically significantly different from each other, with 95-percent confidence.*

In other words, in most cases, there is a 95 percent likelihood that the estimated coefficients have differential impacts on homeownership rates (Black vs. White) and are not due to random chance. Thus, the independent variables matter in different ways, depending on the population being studied. The exceptions were "Population 65 and older" (94 percent), "2012–2018 year dummy" (71 percent), "Mountain region" (93 percent), and "East North Central (51 percent). Most others exceeded a 95-percent level of confidence, including the key explanatory variable, "Loan Access." The specific findings for each of the z-tests are found in Exhibit 4 in the rightmost column.

Strong evidence shows that this study's regression models not only separately predict homeownership rates for Black and White populations with a high degree of confidence, but also that the impacts of the models' independent variables are statistically different for the two groups in most cases. These disparate impacts were discussed earlier under the Regression Results section.

Unrestricted vs. restricted regression estimates (F-test): Appendix C reports the original two B/W regression models and then adds two additional regressions that restrict the number of independent variables to the LOANACC variable, year dummies, and geographic region variables for each model.

An F-test can be used to test whether a regression with a larger (unrestricted) set of independent variables has increased explanatory power. In other words, it investigates if the unrestricted version has a statistically significant better fit.

The F-statistic that tests whether the unrestricted regression is statistically different from the restricted version can be written as:

$$F \equiv ((SSR_r - SSR_u) / q) / (SSR_u / (n - k - 1))$$

Where:

SSRr is the *restricted* sum of squared residuals,

SSRu is the *unrestricted* sum of squared residuals,

q is the number of restrictions, and

(n-k-1) is the degrees of freedom of the unrestricted model.

Both the Black and White regression model F-tests strongly rejected the null hypothesis that the unrestricted regression added no explanatory value, with F-test statistics at 522.8 and 1,170.6, respectively, compared with a critical value of F = 1.0.[10]

Different definition of a small-dollar loan sensitivity check: Further robustness and sensitivity checks were performed using the identical regression model configurations for both Black and White homeownership rates and using the FHFA Housing Price Index for small-dollar loans less than $100,000. Coefficient estimates were highly comparable to the original specification, and these results are also included in Appendix C. Appendix D provides means and standard deviations for the variables used in this analysis, including the overall sample, and years 2011 and 2022 (beginning and ending years). From looking at the differences in many of these variables, there appears to be little change between 2011 and 2022. Black and White homeownership rates stay basically the same.

This evidence further supports the rationale for regression analysis, which teases out the differential effects of individual drivers of homeownership and pinpoints key differences in how they influence B/W homeownership rates. These key differences suggest that more research is needed to investigate underlying causes.

Section IV. Qualitative Component: Solutions for Addressing Barriers to Small-Dollar Homeownership

This component of the study presents a range of solutions that address the nationwide decline in small-dollar homeownership across the United States. Recognizing that not all solutions apply to every housing market or address the needs of every community, this landscape analysis presents a range of solutions that, when applied in combination, can help ease small-dollar mortgage access for low- and moderate-income (LMI) buyers in communities across the United States. It is designed to help policymakers, advocates, and practitioners locate their roles within the broader landscape of solutions and align their efforts with the housing market conditions in which they operate and the needs of the populations they serve.

For the purposes of this analysis, small-dollar mortgage loans (or small-dollar loans) are defined as loans that are $150,000 and less, and small-dollar homes are those that cost buyers $150,000 or less. Relatedly, small-dollar homeownership suggests access to homeownership for a home in this price range generally, whether through the use of a small-dollar mortgage loan or another means altogether.

Notably, the solutions explored in the landscape analysis are not strictly tied to this small-dollar cutoff. In many parts of the country, the median home value is approximately $150,000, and a majority of existing housing stock falls below this amount. As such, this cutoff is more of a proxy for

[10] The numbers used to make these calculations were the following for the F-test (Black): SSRr (restricted) = 2,836,101; SSRu (unrestricted) = 2,372,230; q = 5, d.f. = 15,999. For F-test (White): SSRr (restricted) = 947,857; SSRu (unrestricted) = 600,748; q = 5, d.f. = 15,993.

low-cost homeownership opportunities for low- and moderate-income households and first-time homebuyers in a given housing market, recognizing that this threshold varies across housing markets. The term low-cost housing throughout this analysis is intended to reflect this complexity.

This study focuses specifically on solutions that increase access to small-dollar homeownership in LMI communities. However, homeownership access alone does not necessarily lead to financial stability and wealth-building; for these benefits to accrue, homeownership must also be sustainable over the long term. However, strategies to sustain homeownership are outside the scope of this analysis. Given the nationwide decline in small-dollar mortgage financing, this analysis prioritizes expanding access to small-dollar homeownership as a critical first step toward broader wealth-building opportunities.[11]

Structure of the Landscape Analysis

Although the nationwide decline in small-dollar mortgage lending is the catalyst for this analysis, the goal of this research is to improve access to homeownership writ large, beyond just financing.

This analysis, therefore, considers how three interconnected challenges—financing, quality, and supply—constrain small-dollar homeownership access. This report presents multiple *approaches* to addressing each challenge and a set of policy, programmatic, and financing *actions* that, if implemented, would help bring about the given approach. Each action is accompanied by the *key actors* required for implementing the action (see "key actors" section below), the type of action, and the scale of the action (federal, state, or local). Where relevant, the study team also includes local and national examples to demonstrate how certain actions work in practice.

The three interconnected challenges to small-dollar homeownership are described below.

Financing refers to the ability to purchase a home through a mortgage loan or another financing product. Small-dollar mortgage lending by banks and other lenders has declined over time, notably in the aftermath of the 2008 financial crisis, with fewer lenders extending loans of less than $150,000 and instead shifting toward originating higher-value loans, which are more profitable than small loans. This decline has constrained the purchasing options for many households, because most families—especially first-time, LMI families—cannot afford to purchase a home without long-term financing.

Quality in this context refers to the age and condition of a home. Small-dollar homes are often older and require significant repairs or rehabilitation compared with newer or more expensive homes. Repair costs can increase the effective price of an older home to the point where it is no longer affordable for an LMI buyer. In addition, homes in poor physical condition—as is common among

[11] Sufficient income and credit are major barriers to homebuyers' ability to qualify for and thus access homeownership. The scope of this assessment, however, does not include solutions for income and credit challenges.

small-dollar homes—commonly face challenges qualifying for mortgage financing.

Supply refers to the small-dollar housing stock available for purchase at any given time in a specific housing market. Existing housing stock valued at $150,000 or lower accounts for a significant portion of housing in the United States, but a lack of new construction during the past two decades, especially of smaller homes intended for first-time homebuyers, means that the supply of small-dollar homes is relatively limited (Freddie Mac, 2021). Further, given their age and poorer condition, small-dollar homes may be purchased by investors who may renovate the homes and resell them at higher prices or turn them into rental properties, further limiting the availability of this stock.

The categories used for action types include:

- *Legislative action*: requires action from Congress or a state legislature, whether revising existing legislation or enacting new legislation.
- *Regulatory action*: requires a change in the rules or processes of a government agency (e.g., HUD or Federal Housing Finance Agency [FHFA]) through rulemaking or administrative powers, without requiring new legislation.
- *Guidance change*: requires guidance or clarification by government actors, often via handbooks, memos, or FAQs, without needing to change laws or regulations.
- *Program*: the creation or improvement of a program or partnership in the public, private, or nonprofit sector.
- *Product*: the development or improvement of a mortgage loan product or other financing vehicle.
- *Exploratory*: additional research needed to better understand the issue.

This analysis also includes a series of case studies from in-depth interviews conducted with policymakers, subject matter experts, and housing program leaders across the United States working to address a particular challenge related to small-dollar homeownership over the course of this study. Additional information about the interviews conducted in this study is provided in Appendix F.

Definitions for key terms commonly used throughout the landscape analysis are in Appendix E.

Key Actors in Increasing Small-Dollar Homeownership

A host of public, private, governmental, and nongovernmental actors play a role in increasing access to small-dollar homeownership. Below is a discussion of these actors and their roles in the housing market. Relevant actors for each solution in this analysis are also included.

The *federal government* plays an active role in homeownership financing, through tax policy (via the mortgage interest tax deduction); providing mortgage default insurance (through the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs [VA], and the U.S. Department of

Agriculture [USDA]); support of the secondary market (via Fannie Mae and Freddie Mac); and regulation of the market to ensure safe and responsible lending and to promote racial equity and antidiscrimination (via the Fair Housing Act, Federal Equal Credit Opportunity Act, and Community Reinvestment Act). In addition to financing, Congress appropriates funding for HUD-administered programs that support state and local governments' ability to increase homeownership, including the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships program, and the Low-Income Housing Tax Credit.

Federal government actors include Congress, the presidential administration, and federal agency staff at HUD, the U.S. Treasury Department, and others.

State governments support homeownership financing through direct spending (via low-cost mortgage loans and/or downpayment and closing cost assistance via state housing finance agencies); the flow and use of federal funds (via HOME, CDBG, and others); and statewide policies that support homeownership (e.g., foreclosure policies, zoning ordinances).

State government actors include state elected officials (including governors), state housing finance agencies, and state legislatures.

Local governments play a direct role in homeownership, including by funding the development of homes; establishing land use regulations that dictate the type of homes that can be built; offering tax incentives for developing lower-cost homes; and applying for and determining the use of federal and state housing funds and block grant programs. Local governments can also form land banks and other development agencies to address vacant or delinquent properties, and/or contract with nonprofit organizations and other local organizations to deliver homeownership services and to monitor compliance with public homeownership programs.

Local government actors include mayors, city councils, county boards of directors, local housing agencies, and zoning or planning boards.

The private sector plays a large role in the development and financing of housing, via private developers who construct homes and private banks and mortgage lenders who provide the financial support for their purchase. Private sector actors in the homeownership market include private developers, banks, and mortgage lenders.

Philanthropic institutions provide financial support for homeownership directly and indirectly, including through subsidies for construction or grants to buyers, and through seeding support for homeownership pilot programs and research.

Community development financial institutions (CDFIs) are public or private federally designated organizations tasked with channeling financing to communities underserved by traditional credit markets. CDFIs tend to serve a specific population or community, such as low-income families or a

particular neighborhood. Many different types of institutions and organizations qualify as CDFIs, including loan funds, credit unions, banks, and other depository institutions.

Community-based nonprofit organizations support homeownership supply, financing, and quality in a variety of ways, including by constructing homes affordable to lower-income families, offering housing counseling and financial coaching services, undertaking rehabilitation and repairs for aging housing stock, and even serving as mortgage loan or grant administrators to help meet the needs of local communities. Nonprofit organizations may also form partnerships with lenders or other entities to connect potential buyers with homeownership opportunities that specifically meet their needs.

Challenge 1: Financing

Mortgage financing for small-dollar homes is increasingly difficult to access. In the decade and a half following the 2008 financial crisis, small-dollar mortgage origination has steadily declined (D'Acunto and Rossi, 2022; Roche, 2024). Lenders extending fewer small-dollar mortgages over time have contributed to this decline.

A *Wall Street Journal* analysis shows that originations for mortgage loans between $10,000 and $70,000 and between $70,000 and $150,000 dropped by 38 percent and 26 percent, respectively. Over this same period, originations for loans exceeding $150,000 rose by 65 percent (Eisen, 2019). A study of mortgage lending finds that since 2011, lenders have decreased originations for small- and medium-sized loans, whereas loan originations sized $200,000 and higher have increased (D'Acunto and Rossi, 2022). Further, a Pew analysis shows that small-dollar loans are no longer originated in equal measure as larger loans, as was the case before 2008. From 2004 to 2021, researchers found that small-dollar mortgage lending fell by nearly 70 percent to 830,000 loans a year, whereas large mortgage lending grew by 52 percent to 4.4 million loans a year. Of the more than 5,000 lenders that originated mortgages over this period, 38 percent did not issue a single small-dollar mortgage (Horowitz and Roche, 2023).

Because the cost of originating a mortgage loan is mostly fixed for lenders, and lender fees are largely based on the size of the loan, lenders are often disincentivized from originating mortgage loans that fall below a certain amount. In addition, research shows that lenders deny small-dollar loan applications at higher rates than larger loan applications, and these differences do not entirely reflect an applicant's credit (HUD, 2022).

The declining availability of small-dollar mortgages in housing markets is leaving a gap increasingly filled by cash buyers, often investors or other speculative non-owner-occupants. Between 2018 and 2021, only 26 percent of homes that sold for less than $150,000 were financed using a mortgage loan, meaning that 74 percent of small-dollar homes were purchased using cash. The market for homes priced higher than $150,000 shows the inverse: 71 percent of these homes were purchased with a mortgage, whereas 29 percent were purchased with cash (Pew Charitable Trusts, 2023). Given that 97 percent of first-time homebuyers use mortgage loans (National Association of REALTORS®, 2022),

the prevalence of cash purchases in the small-dollar housing market suggests that housing in this price range is increasingly less available to low- and moderate-income, first-time owner-occupants, and instead is being purchased by investors or wealthier families.

The following sections provide varied approaches to addressing the challenges of accessing small-dollar mortgage loans.

- **Approach 1.1:** Address disincentives for small-dollar lending stemming from the high fixed costs of mortgage origination.
- **Approach 1.2:** Support the development of innovative mortgage loan products and programs that meet the needs of low- and moderate-income buyers, notably for small-dollar and low-cost homes.
- **Approach 1.3:** Expand access to capital for small-dollar and low-cost mortgage lending products, including via a viable secondary market.
- **Approach 1.4:** Expand the loan production capacity of local lenders (e.g., community banks, credit unions, and independent mortgage companies), to extend small-dollar mortgages.
- **Approach 1.5:** Increase the loan production capacity of lenders who operate in rural areas, where small-dollar homes are concentrated.
- **Approach 1.6:** Leverage the Community Reinvestment Act (CRA) to increase small-dollar mortgage lending.
- **Approach 1.7:** Pursue pathways for developing safer alternative financing products for small-dollar homes.

Each approach is described in detail and accompanied by several actions that could realize those approaches. Each action indicates the key actors, the type of solution, the scale of the approach, and, where relevant, local and national examples.

Approach 1.1: Address disincentives for small-dollar lending stemming from the high fixed cost of mortgage origination.

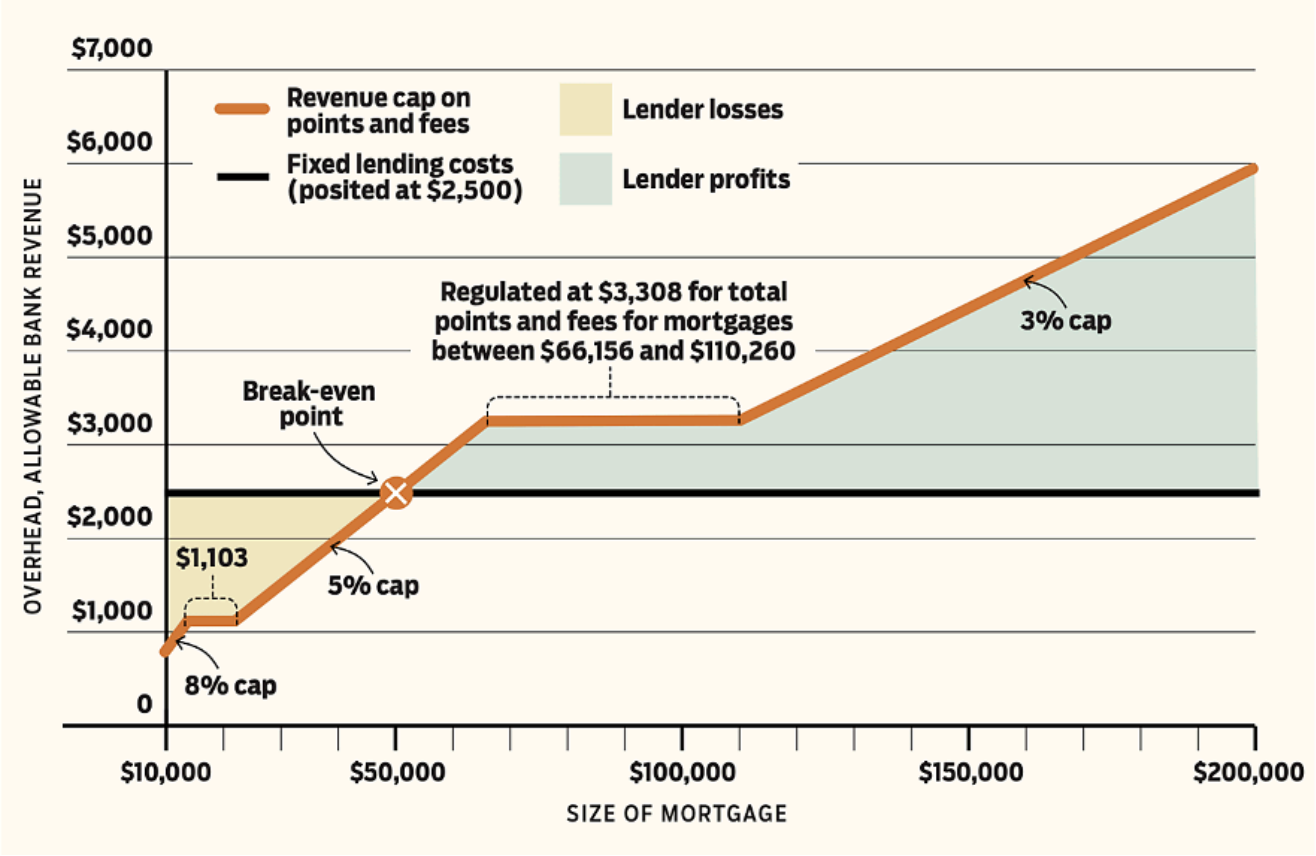
Declines in small-dollar mortgage lending partly stem from the high fixed cost of originating a mortgage loan. Because the cost of originating a mortgage loan is mostly fixed, and lender fees are largely tied to the size of the loan, lenders are often unable to recoup costs or make a profit on smaller loans, disincentivizing them from extending these loans.[12]

Regulations in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA) are designed to protect borrowers from the predatory lending that was rampant in the run-up to the 2008 financial crisis. At the same time, some regulations have increased the fixed and per-loan costs

[12] Lenders typically charge mortgage borrowers an origination fee of 0.5 to 1.0 percent of the total loan balance and closing costs of roughly 3 to 6 percent of the home purchase price (Horowitz and Roche, 2023).

of originating a mortgage, cutting into the profit potential of smaller loans, as illustrated in Exhibit 7 (D'Acunto and Rossi, 2022; Hogan, 2019; Richardson, 2024a).

Exhibit 7. Consumer Financial Protection Bureau's Regulated Caps on Fees and Points at Different Lending Levels for Home Mortgages: January 1, 2021.



Note: Assuming a fixed lending cost of $2,500, lenders will not break even when originating a loan of less than $50,000 due to the revenue cap on points and fees. Source: Richardson (2024a).

In an effort to protect borrowers from excessive risk, DFA requires that lenders conduct an intensive income-verification process, increasing the fixed cost of originating a loan (Richardson, 2024). Between 2007 and 2019, for example, community banks were subject to 157 new rules and regulations, making adherence particularly difficult for banks with small compliance units (FDIC, 2020). At the same time, the Qualified Mortgage (QM) rule, implemented by the Consumer Financial Protection Bureau (CFPB) in 2014, capped the fees and points that lenders can charge for processing a loan based on the size of the loan. For small-dollar loans that exceed allowable limits imposed by the QM rule, lenders either operate at a loss or offer borrowers less desirable loan products instead.[13]

[13] Revisions to the QM rule in 2020 gave lenders more flexibility in calculating a borrower's ability to repay, though the extent to which those changes help lenders keep origination costs in check remains unclear (Horowitz and Roche, 2023).

Exhibit 8. Approach 1.1: Address Disincentives for Small-Dollar Lending Stemming from the High Fixed Costs of Mortgage Origination.

Actions	Key Actors	Solution	Scale
Action 1.1.1: Investigate which regulatory barriers may add cost or complexity to the mortgage origination process, and for which kinds of lenders, and assess whether they could be revised without compromising protection to borrowers.	**Federal government actors** *CFPB, FHA, FHFA, GSEs, Ginnie Mae* **Private lenders** **Consumer advocacy groups**	Regulatory action	Federal
Action 1.1.2: Investigate loan officer compensation structures impact on small-dollar lending, and explore flat fee compensation for lenders through pilot programs.	**Federal government actors** *CFPB, GSEs, FHA* **Private lenders** **Consumer advocacy groups**	Regulatory action	Federal
Action 1.1.3: Streamline processes to reduce mortgage origination costs where feasible.	**Federal government actors** *FHFA, GSEs* **Private lenders**	Exploratory	Federal
Action 1.1.4: Provide federal subsidies to offset disincentives to small-dollar lending stemming from high fixed costs of mortgage origination among financial institutions.	**Federal actors** *HUD, FHA, FHFA, GSEs*	Guidance change; Regulatory action	Federal
Action 1.1.5: Leverage existing federal agency plans, such as FHFA's Equitable Housing Finance Plans and Duty to Serve requirements, to incentivize small-dollar lending from banks and other lenders.	**Federal actors** *FHFA, GSEs*	Guidance change	Federal
Action 1.1.6: Investigate why lenders deny more mortgage applications for small-dollar mortgage loans relative to larger loans.	**Federal government actors** *CFPB* **Private lenders**	Exploratory	Federal

New America

CFPB = Consumer Financial Protection Bureau. FHA = Federal Housing Administration. FHFA = Federal Housing Finance Agency. GSEs = Government-Sponsored Enterprises.

Source: Research by the authors; New America.

Action 1.1.1: Investigate which regulatory barriers may add cost or complexity to the mortgage origination process, and for which kinds of lenders, and assess whether they could be revised without compromising protection to borrowers.

Regulations that may merit assessment include the DFA and the QM rule, the Home Ownership and Equity Protection Act of 1994, and parts of the CFPB Loan Originator Compensation rule.

CFPB, FHA, and FHFA could investigate which federal regulations or GSE (such as Fannie Mae and Freddie Mac), FHA, or Ginnie Mae requirements make small-dollar lending cost-prohibitive, and whether additional flexibility or exemptions—especially for smaller lenders, such as community banks or credit unions originating smaller mortgages—would be helpful.[14] The bar for changing origination requirements, however, should be high because borrowers of small-dollar mortgages are often the same borrowers who require the protections that many of these regulations are intended to instill.

Action 1.1.2: Investigate loan officer compensation structures' impact on small-dollar lending and explore flat fee compensation for lenders through pilot programs.

Researchers have observed that lender pay structures may be incentivizing the origination of larger loans over smaller loans.[15] To prevent loan originators from steering borrowers into riskier loans that accrue more profits, the loan originator compensation rule requires that any loan officer's compensation be tied only to the amount of the mortgage origination, whether that is a fixed percentage or a minimum or maximum set by the lending institution. Under this regulation, lenders are not prohibited from offsetting the lower profits generated from smaller loans, nor are they prohibited from paying loan officers a flat amount or a salary (National Consumer Law Center, 2024). However, most loan officers are paid partially or wholly on commission, meaning that the most typical payment structure is based on a percentage of the loan size, and as a result, larger loans will result in larger profits.

To address individual lender behavior and encourage more small-dollar mortgage origination, CFPB could mandate that lenders subject to DFA requirements use a flat compensation or salary-based

[14] Senate Bill 2651, ROAD to Housing Act of 2025, mandates that CFPB and FHFA evaluate the impact of the points and fees in existing regulations that lenders can charge, and directs CFPB to make regulatory changes to help encourage additional lending for small-dollar mortgages. See: https://www.congress.gov/bill/119th-congress/senate-bill/2651/text.

[15] The ROAD to Housing Act also calls for CFPB to issue a report to Congress studying the effect of loan originator compensation on the availability of small-dollar mortgage loans and gives CFPB the flexibility to amend rules to encourage small-dollar loan origination. See: https://www.congress.gov/bill/119th-congress/senate-bill/2651/text.

compensation model through rulemaking.[16] Alternatively, GSEs or FHA could incentivize flat compensation structures through their programs or policies, via pilot programs that measure the impact on lender behavior and small-dollar mortgage origination volume for lenders utilizing differing incentives and compensation structures (Horowitz and Roche, 2023; Zinn et al., 2022).

Action 1.1.3: Streamline processes to reduce mortgage origination costs where feasible.

Lenders' profit potential has been constrained by rising fixed costs of mortgage origination—such as staff salaries, technology, and compliance that do not vary with loan size (Horowitz and Roche, 2023). A recent Freddie Mac study found that average origination costs across all loan sizes now exceed per-loan revenue, with costs rising 35 percent over the past 3 years—from $8,243 per loan in 2020 to approximately $11,600 in 2023 (Freddie Mac, 2024). As these fixed costs continue to climb, the profitability of small-dollar mortgage loans becomes increasingly limited.

Although the drivers of mortgage origination costs are clear, there has not been a comprehensive examination of possible ways to effectively address and manage these costs, and in what contexts. FHFA could investigate which drivers have the most potential to streamline loan underwriting processes, reduce costs, improve efficiencies, and explore the adoption and scalability of new technologies. For example, FHFA recently expanded its use of desktop appraisals, using publicly available data instead of an in-person site visit (Horowitz and Roche, 2023). FHFA could consider expanding the use of automated valuation models, notably in rural areas where human appraisals are more difficult and expensive to complete, in ways that do not compromise borrower safety.

Action 1.1.4: Provide federal subsidies to offset disincentives to small-dollar lending stemming from high fixed costs of mortgage origination among financial institutions.

Rising fixed costs in mortgage origination—though potentially reducible through streamlining and efficiency improvements—are still likely to exceed revenue from small-dollar loans, and thus disincentivize profit-driven lenders from originating them. FHFA could establish a federal small-dollar loan fund to help offset lenders' upfront costs when originating loans that meet a certain criterion. This fund could provide a fixed subsidy per loan (e.g., $7,000), offering a more predictable incentive than current secondary market pricing, which varies with loan size and interest rates.

At the same time, GSEs could introduce a cap on per-loan compensation—such as limiting fees to $11,000 and discouraging excessively high interest rates—across all loans, not just small-dollar

[16] However, addressing loan officer compensation still does not address the profitability of small-dollar loans relative to larger loans for lending institutions as a whole, and so any adjustments to federal regulations would need to carefully assess the impact of individual lender incentives versus financial institution incentives.

ones.[17] GSEs already purchase loans directly from smaller lenders through their cash window, then package them into mortgage-backed securities. This change would only affect the purchase terms (i.e., the flat fee and interest rate requirements) and would not require rulemaking or Congressional action. Similarly, HUD could implement an incentive program to reduce the upfront costs of originating small-dollar FHA loans.

Action 1.1.5: Leverage existing federal agency plans, such as FHFA's Equitable Housing Finance Plans and Duty to Serve requirements, to incentivize small-dollar lending from banks and other lenders.

Every three years, FHFA—which oversees Fannie Mae and Freddie Mac—requires both entities to develop and update two key planning frameworks: the Equitable Housing Finance Plans (EHFPs) and Duty to Serve (DTS) plans. FHFA's EHFPs outline strategies to reduce disparities in access to housing finance, whereas the DTS plans focus on improving mortgage access and increasing liquidity in specific underserved markets. These markets include sectors such as manufactured housing and rural communities—areas where home prices are more likely to fall below $150,000.

In both the EHFPs and DTS plans, FHFA could include small-dollar mortgage lending as an explicit lending category and create explicit targets for the number of mortgages for homes valued below a certain threshold, including small-dollar homes in rural areas and for manufactured housing (Alexandrov, 2024).

Action 1.1.6: Investigate why lenders deny more mortgage applications for small-dollar mortgage loans relative to larger loans.

Research shows that lenders deny applications for small-dollar mortgages more often than larger loan sizes, even for applicants with similar credit profiles (Goodman, Bai, and Li, 2018). A Pew analysis found that from 2018 to 2021, lenders denied small-mortgage applicants with low debt-to-income ratios 8.8 percent of the time, compared with 4.7 percent for larger loan applicants with a similar credit profile (Horowitz and Roche, 2023). Research also shows that racial disparities in mortgage denials between applicants of color and White applicants, even among applicants with similar incomes, credit scores, and loan sizes on comparable homes, are persistent at the local and national levels (Faber, 2018; Horowitz, Ky, and Starling, 2024). Although higher denial rates do not account for the majority of the disparity in small-dollar lending relative to larger loans, better understanding and addressing the root causes of denial-rate differences would still have an impact on mortgage financing accessibility (Horowitz and Roche, 2023).[18]

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[17] Between the minimum per-loan compensation for smaller loans and limits on the maximum per-loan profitability, there could also be an incentive for lenders to flatten their loan officer compensation structure, as it may no longer make sense to pay officers based on loan size.

[18] Pew researchers find that if lenders denied applications for small-dollar loans at the same rate as larger loans, this would yield 31,000 more small mortgages a year (or an increase in the share of small-dollar homes financed with a mortgage by ~3 percentage points; Horowitz and Roche, 2023).

CFPB and other researchers could investigate mortgage denials for small-dollar loans relative to larger loans, controlling for metrics of creditworthiness, race and ethnicity, and other factors. Currently, lenders must disclose to CFPB their reasons for denying mortgage applications, which are captured in Home Mortgage Disclosure Act data. Investing in this research would disentangle various reasons for denials and help track racial disparities in lending, potentially establishing patterns or practices in lender behavior that can be addressed through policy.

Approach 1.2: Support the development of innovative mortgage loan products and programs that meet the needs of low- and moderate-income buyers, notably for small-dollar homes

Across the country, local banks, credit unions, governments, and community-based organizations offer programs designed to meet the needs of low- and moderate-income households, communities of color, and other communities underserved by traditional credit markets. These programs often connect buyers with mortgage loan products that reduce home purchase costs—such as downpayment and closing cost assistance and below-market interest rates—while still ensuring borrower safety and sustainability. Adequately supporting and strengthening these locally driven efforts is essential to expanding access to small-dollar homeownership.

Exhibit 9. Approach 1.2.

Actions	Key Actors	Solution	Scale
Action 1.2.1: Increase support for local delivery systems that connect existing mortgage credit with LMI buyers of small-dollar homes.	**Federal government actors** *Congress* **State and local government actors** *state housing finance agencies, local housing departments* **CDFIs and local lenders** **Community-based nonprofit organizations** **Philanthropic organizations**	Program; Product	State and local
Action 1.2.2: Expand the use of special-purpose credit programs (SPCPs) targeted towards LMI communities by actively promoting their use and marketing.	**Federal government actors** *FHFA, HUD* **Local lenders**	Product	Federal, state, and local

New America

CDFIs = community development financial institutions. FHFA = Federal Housing Finance Agency. LMI = low- and moderate-income.

Source: Research by the authors; New America.

Action 1.2.1: Increase support for local delivery systems that connect existing mortgage credit with LMI buyers of small-dollar homes.

In many housing markets, sufficient mortgage credit is available, but the infrastructure to deliver that credit effectively to LMI households is missing. CDFIs, nonprofits, and local government agencies play a key role in bridging this gap, often through public-private partnerships. These organizations—often underfunded and understaffed—frequently must take on multiple roles to address specific gaps in their local homeownership financing markets, including community outreach and financial education, serving as a loan processor, and helping buyers navigate the mortgage process.

Organizations such as Local Initiatives Support Corporation (LISC), which operates local offices in urban and rural areas across the United States, exemplify this approach by identifying unmet needs across the suite of homeownership supports and tailoring their solutions to meet those specific gaps. The MicroMortgage MarketPlace Demonstration, launched in Louisville, Kentucky, in 2020, sought to originate small-dollar mortgage loans via a public-private partnership between a local lender (Fahe), a technical assistance firm (Homeownership Council of America), local CDFIs, and the Urban Institute. The Demonstration, though time-limited and no longer active, sought to address the range of homeownership challenges that buyers face in accessing small-dollar loans, including using more flexible underwriting criteria and reducing origination costs (McCargo et al., 2020). In addition, a national scan conducted by New America identified a range of local homeownership financing programs and products designed to address common barriers faced by LMI buyers, highlighting the variety of program structures and approaches in use (Zainulbhai, 2022).

Increasing funding for local homeownership programs—and for the national organizations that support them—is essential to building an effective homeownership financing system for LMI families. These programs typically rely on a mix of funding sources, including government grants, philanthropic and corporate investments, and revenue from their own grantmaking or lending activities. To ensure they are adequately funded and staffed, it is critical to expand public investment at the federal level through programs such as HUD's HOME and CDBG, the Federal Home Loan Bank (FHLB) system, and the U.S. Treasury's CDFI Fund. State and local support through housing trust funds, public-private matching grants, and municipal bonds is also critical, as is attracting private capital.

Case study: LISC designs innovative local programs that address the unmet homeownership needs of its communities.

Through local offices in more than 38 cities and rural areas, LISC connects underinvested communities with the capital, strategy, and expertise they need to support safe, stable housing and help communities build wealth. An interview with members of LISC's national housing team in December 2024 highlighted innovative strategies that LISC programs and their local partners employ nationwide to address gaps and unmet needs in local housing finance systems.

Innovative local programs include LISC's home repair and preservation initiatives for LMI homeowners. Programs in Detroit and Memphis, for example, include a 150 percent loan-to-value ratio and the use of alternative credit for those without a traditional credit score. In these markets, where small-dollar or relatively inexpensive homes are common, a relatively high loan-to-value ratio (which provides capital that would otherwise be difficult to save upfront) and a decreased reliance on formal credit histories provide the adaptability needed to ensure that barriers to financing are not simply being reproduced in new ways.

Another innovative LISC program, launched in several cities, ties home repair loans with heirs' property or tangled title programs. This integrated approach addresses the reality that a lack of formal ownership is a major barrier to accessing home repair capital, and that tackling these two complex challenges separately increases costs and often leads to further deferred maintenance. By including legal assistance and education to resolve tangled titles as part of home repair programs, LISC and its local partners are tackling one of the biggest barriers to housing preservation that families face, notably in Black communities, and thus strengthening both program outcomes and long-term housing stability.

LISC team members also emphasized that limited local financing infrastructure and capacity can sometimes hinder innovation, even if the innovation itself is promising. For example, LISC Cleveland and the city recently piloted a hybrid product that combines a grant with a low- or zero-interest repair loan for homeowners earning up to 60 percent of the Area Median Income (AMI), offering a novel way to address unmet repair needs without predatory terms. However, underwriting and servicing such products requires a level of flexibility and technical sophistication that many local financing systems lack—making these innovations, regardless of how well they are designed, difficult to sustain or scale.

Action 1.2.2: Expand the use of special-purpose credit programs (SPCPs) targeted toward LMI communities by actively promoting their use and marketing.

Authorized by the Equal Credit Opportunity Act over 40 years ago, SPCPs allow nonprofit and for-profit organizations to explicitly consider one or more common characteristics, such as race, ethnicity, or other protected classes, for programs that direct financial assistance to those who have historically been locked out of homeownership (Local Housing Solutions, 2022).

SPCPs can take a variety of forms, as long as they address demonstrated and unmet credit needs; for example, some SPCPs offer downpayment or closing cost assistance, offer second mortgage products, or use alternative credit data—like rent, utility, or auto payment histories—in their underwriting criteria.

Federal agencies could help expand access to small-dollar mortgages for low-income borrowers and communities of color by actively promoting SPCPs and clarifying regulatory uncertainties that may deter lenders from using or marketing these products. For instance, FHFA's EHFPs have supported the development of new SPCPs, including pilot programs aimed at first-time homebuyers in majority-Black markets (National Consumer Law Center, 2024). Combining SPCPs with local homeownership initiatives and additional financial subsidies could better target often-scarce resources. To further encourage adoption, federal agencies could offer technical guidance to lenders—such as standardized templates for SPCP plans or data tools to support the determination of local need (Burnett et al., 2022).

Approach 1.3: Expand access to capital for small-dollar and low-cost mortgage lending products, including via a viable secondary market.

Securing sufficient capital to scale local financing is one of the biggest challenges CDFIs and other local lenders originating mortgage loans to underserved communities face. In addition to monthly loan payments, lenders generate and recycle capital by selling mortgage loans on the secondary market (as opposed to holding these loans on a lender's or program's balance sheets or portfolio). In selling loans to investors, GSEs, banks, pension funds, and others on the secondary market, lenders can use this capital to increase their loan volume without taking on additional debt. This increase creates liquidity that exponentially increases the impact of even limited amounts of funding for local lenders (Zainulbhai, 2022).

Exhibit 10. Approach 1.3.

Actions	Key Actors	Solution	Scale
Action 1.3.1: Use loan loss reserve funds to increase liquidity for small dollar lending on a local and national scales.	**Federal government actors** *FHFA, GSEs* **State and local government actors** **Private lenders** **Philanthropic organizations**	Program; Product	Federal, state, and local
Action 1.3.2: Address limitations for smaller lenders selling mortgage loans through existing secondary market players, specifically GSEs.	**Federal government actors** *FHFA, GSEs*	Guidance change	Federal
Action 1.3.3: Explore the potential of secondary market premiums as a source of subsidy for small-dollar lending.	**Federal government actors** *FHFA, GSEs*	Guidance change	Federal
Action 1.3.4: Develop a viable secondary market for small-dollar loans, beyond Fannie Mae or Freddie Mac.	**Private lenders** **Philanthropic organizations**	Product	State and local
Action 1.3.5: Explore the creation of state-chartered public banks that enhance the capacity of existing lenders to originate small-dollar loans.	**Federal government actors** *FDIC* **State and local government actors** **Local lenders**	Legislative action	State and local

New America

FDIC = Federal Deposit Insurance Corporation. FHFA = Federal Housing Finance Agency. GSEs = Government-Sponsored Enterprises.

Source: Research by the authors; New America.

Action 1.3.1: Use loan loss reserve funds to increase liquidity for small-dollar lending on local and national scales.

One of the ways that private and government-insured mortgage loans, such as FHA, VA, and USDA, cover what they perceive as higher risk (e.g., lower downpayments, lower borrower credit scores, and higher loan-to-value ratios) is by passing on higher costs to buyers through requiring mortgage insurance, higher lender fees, and higher interest rates (Zainulbhai, 2022). Although these loan terms can improve access to mortgage financing and help make homeownership attainable, they can also increase costs in ways that make loans unaffordable or unsustainable for borrowers over time. As such, lenders could look for alternative ways to cover the higher perceived risk, such as through loan loss reserve funds.

A loan loss reserve fund is a pool of funds established to cover a specified amount of loan losses, thereby minimizing the risk to lenders from possible defaults. Many programs use these loss reserves as a guaranty or credit enhancement, in lieu of sufficient collateral, to improve the risk profiles of mortgage loans, thereby incentivizing more investors to purchase these loans. A common form of credit enhancement is recourse, or an agreement between a lender, GSE, or secondary market investor and the seller of the loans that the seller will repurchase or replace the lost funds in the case of a default.

Along with mortgage insurance, FHFA allows recourse to be used as a credit enhancement, but a 2019 FHFA white paper indicates that the use of recourse as a credit enhancement likely amounts to significantly less than 1 percent of GSE activity (FHFA Office of the Inspector General, 2019). FHFA (or another federal agency) could pilot a loan loss reserve fund for small-dollar loans that addresses existing barriers to the secondary market, thereby increasing liquidity for small-dollar lending while also assessing the impact of recourse on the GSEs' activities.

Though no longer operational, Self-Help Credit Union's national Community Advantage Program served as a financial intermediary between lenders and investors. Using a $50 million grant from the Ford Foundation, the program established a loan loss reserve fund to provide recourse to Fannie Mae in case of a buyer defaulting on their loan. Self-Help retained the credit risk and agreed to purchase sold loans back in case of a default, enabling Fannie Mae to pool these loans and sell them to investors on the secondary market (Zainulbhai, 2022).

Loan loss reserve programs also exist at the local level. Massachusetts Housing Partnership's ONE Mortgage program, for example, is a public-private partnership between the state, the nonprofit organization Massachusetts Affordable Housing Alliance, and more than 25 commercial banks and credit unions providing a single affordable mortgage loan product to lower-income borrowers and borrowers of color (Ziegler, Schmiedl, and Callahan, 2017). Participating lenders retain credit risk (i.e., hold loans on their books), and the program has a loan loss reserve account that is pooled by lenders and is available to pay losses incurred by that lender in lieu of mortgage insurance. The program is financed partly through a state law that requires companies that acquire Massachusetts banks to make loan funds; since its inception, banks have provided more than $4.2 billion in capital, and ongoing bank commitments exceed another $500 million. A similar structure could be leveraged for loan loss reserve funds, specifically for small-dollar mortgage loans.

Action 1.3.2: Address limitations for smaller lenders selling mortgage loans through existing secondary market players, specifically GSEs.

Although raising additional capital through the secondary market is important, investors—including Fannie Mae and Freddie Mac, which purchase more than one-half of all mortgages in the United States (National Consumer Law Center, 2024)—have specific underwriting requirements related to loan size, loan-to-value ratios, insurance coverage, and loan terms. Many affordable loan products are intentionally designed with more flexible terms to serve borrowers traditionally excluded or underserved by mortgage markets. However, selling such loans to GSEs or other secondary market

investors may require trade-offs for lenders—between attracting private capital (and scaling their reach) and maintaining access for underserved borrowers.

Local lenders, including community banks, CDFIs, and credit unions, often do not meet the criteria of secondary market investors and thus carry loans on their books. Further, obtaining GSE approval to sell mortgages (and becoming what is known as a GSE seller-servicer) is expensive and can be challenging for smaller lenders. Once approved as a seller-servicer, lenders must originate a certain volume of mortgages each year, which becomes harder to meet with loans that are small-dollar or low-cost (National Consumer Law Center, 2024).

FHFA could direct GSEs to implement alternative underwriting standards for small-dollar or low-cost mortgages for borrowers, including the incorporation of cash flow and rental payment history. Doing so on smaller loan amounts means that GSEs will not be taking on significant risk, nor is it likely to change investor behavior, given that small-dollar mortgages are a small part of GSEs' book of business. FHFA could also investigate barriers to small-dollar GSE lending, in particular those related to approval processes and volume requirements, and address these barriers accordingly (National Consumer Law Center, 2024).

Case study: GSEs' flexibility in loan terms strengthens Fahe's ability to deliver mortgage financing to low-income and rural communities.

Fahe is a nonprofit network based in Kentucky dedicated to increasing access to capital for communities that lack traditional financing options, especially in Appalachia and rural areas. In a February 2025 interview, Fahe staff shared that since becoming a GSE seller-servicer in 2019, they have been able to establish an open line of communication and feedback loop with the GSEs (Freddie Mac and Fannie Mae), which have been instrumental in facilitating real-time adjustments to loan products to better meet the needs of local buyers in rural and underserved communities across Appalachia. Through monthly meetings, Fahe shared ongoing feedback on how their loan products are faring and any unforeseen barriers to access.

One real-time adjustment that Fahe staff discussed with the study team is raising income eligibility thresholds to align more closely with the actual income of a community. As is often the case in lower-income and rural areas where median income does not accurately reflect actual earnings, using AMI as an affordable loan eligibility cutoff can be overly restrictive. This observation, presented to the GSEs in real time by Fahe, resulted in an adjustment to the AMI threshold for buyers, expanding loan access to those who may be just above the previous 80 percent threshold but still require below-market loan products to access homeownership.

Fahe was able to demonstrate immediate impact, with a staff member noting that, “Once [the GSEs] gave us that exception, we had [a buyer] under contract. The borrower is at 86 percent AMI, and I have two more that now qualify for that program because they moved that income band up just a little bit to make it work.”

In addition to increasing FHFA’s awareness of the critical role that CDFIs play in bridging access to homeownership in local communities, Fahe’s ability to provide regular and ongoing feedback on loan products allowed for the kind of flexibility that can make all the difference between a family being able to access homeownership and it being just out of reach.

Action 1.3.3: Explore the potential of secondary market premiums as a source of subsidy for small-dollar lending.

A recent Fannie Mae working paper suggests that secondary market revenue—specifically from “specified pool” (or “spec pool”) pay-ups—may influence lender behavior more than previously recognized (Bednarek et al., 2023). Spec pool pay-ups are premiums that investors pay for mortgage loans with particular characteristics (such as smaller loan sizes, lower loan-to-value ratios, or higher credit scores) when these loans are bundled into mortgage-backed securities (MBS). Investor demand for these spec pools depends largely on how they expect the loans to behave—particularly whether borrowers are likely to repay early. Loans with more favorable prepayment behavior can justify a higher price (a pay-up) compared to the standard MBS, which is priced based on loans with the least favorable prepayment traits.

The Fannie Mae authors highlight that loans with smaller balances often qualify for these pay-ups because of their strong performance in the secondary market.[19] Without this extra revenue, originating small-dollar loans typically costs lenders more than they earn, making such loans financially unattractive. The authors propose treating spec pool pay-ups as a form of market-based subsidy. Although the effect on overall loan pricing may be modest, revenue from spec pay-ups can make a critical difference, either by slightly lowering costs or by making GSE-backed loans accessible to borrowers who might otherwise be excluded (Bednarek et al., 2023).

[19] The authors note, “In the secondary market, loans are pooled separately into specified MBS pools with varying maximum balance cut-offs (e.g., 85k, 115k, 125k, etc.) and traded with a pay-up to TBA. The threshold is determined by the market (based on prepayment characteristics) and has been increasing along with home prices” (Bednarek et al., 2023).

Action 1.3.4: Develop a viable secondary market for small-dollar loans, beyond Fannie Mae and Freddie Mac.

Mortgages designed to meet the needs of buyers historically excluded from credit markets often struggle to meet the criteria required for secondary market investors (Barr et al., 2024). The creation of an alternative secondary market—supported by philanthropic organizations, financial institutions, and other corporate entities—could provide local lenders with large-scale, risk-mitigated access to capital while maintaining borrower safety, allowing smaller lenders to attract funding without having to conform to GSE requirements. It could also increase lending capacity for CDFIs, credit unions, community banks, and other local lenders that play a pivotal role in local homeownership financing systems. Relatedly, the creation of "tech-enabled marketplaces" to match lenders selling small-dollar loans eligible for CRA credit with banks looking to buy these loans could help create such a marketplace (Barr et al., 2024).

One possible model is the New York Forward Loan Fund (NYFLF)—a $104 million fund created to support small businesses in New York (Campbell and Shin, 2021). NYFLF serves as an intermediary between CDFIs and investors by purchasing loans originated by CDFIs, then securitizing and reselling them. The fund uses a tranched structure with waterfall payments to attract investors with varying risk tolerances and return expectations: an A-Class tranche funded by banks, a B-Class tranche supported by foundations and impact investors, and a $20 million loan loss reserve provided by New York State as a credit guaranty. NYFLF demonstrates how a large-scale fund can acquire what are typically considered high-risk, uncollateralized assets while managing risk through a layered capital structure (Zainulbhai, 2022).

Another example is Inclusiv, a trade association for credit unions that operates a secondary mortgage market and a "second look" program. Inclusiv purchases mortgages to replenish credit unions' capital and supports more inclusive underwriting practices.

Action 1.3.5: Explore the creation of state-chartered public banks that enhance the capacity of existing lenders to originate small-dollar loans.

A public bank is a government-owned depository institution that holds government deposits and partners with local lenders to enhance their loan production capacity for the public good. The Bank of North Dakota remains the only public bank currently operating in the United States, though legislation to establish similar institutions has been proposed in several states and cities (Abello, 2022a). In most of these proposals, public banks would operate by purchasing loan participations—a structure in which one lender originates the loan while others share in funding it; all participating lenders share the interest earned, allowing for risk distribution and freeing up space on their balance sheets to extend additional loans.

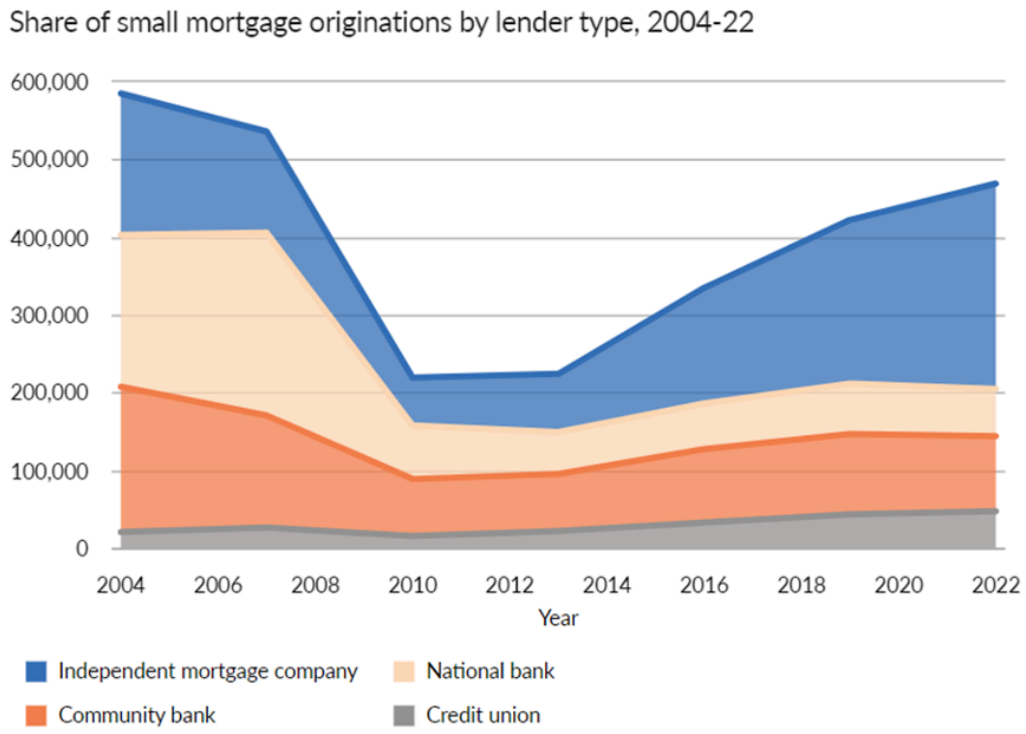
Key implementation considerations include: aligning lending standards across participating institutions, designing governance structures that ensure independence from political interference,

clarifying legal authority under state law, and navigating Federal Deposit Insurance Corporation (FDIC) insurance limits (Abello, 2022b).

Approach 1.4: Expand the loan production capacity of local lenders (e.g., community banks, credit unions, and independent mortgage companies) to extend small-dollar mortgages.

Independent mortgage companies, such as Rocket Mortgage and Freedom Mortgage, dominate small-dollar lending today, originating more small-dollar mortgages than national banks, community banks, and credit unions combined (Nash and Beardsley, 2015). Independent mortgage companies are institutions that provide mortgage lending and servicing but do not hold deposits. As seen in Exhibit 11, banks (both large and community banks) and credit unions lend less than one-half of all mortgage loans under $150,000 today (Staveski and Maguze, 2024).

Exhibit 11. Banks Make Fewer Small Mortgages Than Before the Great Recession.



Note: Before the Great Recession, national banks, community banks, and independent mortgage companies all originated a significant share of loans, with national banks originating the largest share. Since the Great Recession, independent mortgage companies have originated the largest share. Mortgages include closed-end, first-lien, home purchase loan originations for single-family owner-occupied homes. Percentages represent the share of the total loan count originated by each institution type. Small mortgages are loans of less than $150,000, adjusted for inflation using the Zillow Home Value Index. For example, a $150,000 mortgage in 2022 has roughly equal purchasing power to a $75,000 mortgage in 2004. Source: 2007–17—Consumer Financial Protection Bureau; 2018–21—Federal Financial Institutions Examination Council; 2004–06—National Archives via Staveski and Maguze (2024).

Independent mortgage companies not only out-originate banks and credit unions by volume (number of loans originated), but also by the share of small-dollar loans originated to borrowers of color and to LMI borrowers (Zhu, Goodman, and Zhu, 2022). Although these companies have the benefit of faster origination and national reach, the rise in small-dollar lending by these institutions cannot fill the small-dollar financing gap or replicate some of the services lost due to the decline in local brick-and-mortar banks.

Independent mortgage companies have a largely online business model and are less likely to reach rural communities, where small-dollar homes tend to be concentrated and where borrowers are more likely to rely on physical branches of banks and credit unions (Staveski and Maguze, 2024). Further, a nationwide study finds a significant causal relationship between the rise of non-banks and the decline of small-dollar loans across the United States, and that there are spillover effects on housing markets that are more traditionally served by banks and credit unions (Chu, Zhang, and Zhang, 2024. As such, it is important to expand the loan production capacity of CDFIs, minority depository institutions (MDIs), community banks, and credit unions, in addition to independent mortgage companies, as local lenders tend to serve different geographic regions and borrowers than non-banks.

Exhibit 12. Approach 1.4.

Actions	Key Actors	Solution	Scale
Action 1.4.1: Enhance the capacity of local and national CDFIs to increase their loan production capacity, with an emphasis on small mortgages.	**Federal government actors** *Treasury* **Local lenders and CDFIs** **Investors**	Guidance changes (within CDFI Fund); Program	Federal
Action 1.4.2: Enhance the capacity of minority depository institutions (MDIs) to extend portfolio loans that meet the needs of the communities they serve.	**Local lenders** *MDIs* **Philanthropic organizations and other investors**	Product	State and local
Action 1.4.3: Leverage the Federal Home Loan Bank (FHLB) system to support homeownership financing, including small dollar financing, by expanding the membership and requiring higher member contributions.	**Federal government actors** *FHFA, FHLBs*	Guidance change	Federal

New America

CDFIs = Community Development Financial Institutions. FHLBs = Federal Home Loan Banks. FHFA = Federal Housing Finance Agency. MDIs = Minority Depository Institutions.

Source: Research by the authors; New America.

Action 1.4.1: Enhance the capacity of local and national CDFIs to increase their loan production capacity, with an emphasis on small mortgages.

CDFIs are public or private federally designated organizations that channel third-party capital and technical assistance to communities not adequately served by traditional credit markets. Many different types of entities qualify as CDFIs, including loan funds, credit unions, banks, and other depository institutions. Though CDFIs fill critical gaps in local homeownership financing markets, public and private funding sources fall short of meeting the increasing demands of CDFIs.

Increased technical and capacity-building support for CDFIs through federal infrastructure grants that strengthen staffing, underwriting systems, and loan processing would be helpful, particularly if the support is dedicated to homeownership—not just to community development generally. In 2021, the U.S. Treasury CDFI Fund launched a Small Dollar Loan (SDL) program to support CDFIs' lending of $2,500 or less to create an alternative to payday lenders. The SDL program provides grants to support loan loss reserves and technical assistance for CDFIs' small-dollar lending—a structure that could be leveraged to pilot a small-dollar mortgage lending program.

In the private sector, the Mission-Driven Bank Fund, created in 2021 by Microsoft and Truist Financial Corporation, is a capital investment vehicle managed by Calvert Impact and Elizabeth Park Capital to help FDIC-insured mission-driven banks—including CDFI lenders—build capacity and scale with flexible capital. The fund started with an initial infusion of $120 million from Warner Bros. Discovery. This structure and partnership between banks and private corporations could be leveraged to create similar funds, particularly at the state or local level, that fulfill a similar role of helping CDFIs enhance credit access and scale their programming.

Action 1.4.2: Enhance the capacity of minority depository institutions (MDIs) to extend portfolio loans that meet the needs of the communities they serve.

MDIs, like CDFIs, are mission-driven institutions focused on increasing access to capital in underserved communities, and specifically are minority-owned. Between 2019 and 2022, MDIs originated 164,000 mortgage loans, totaling $58 billion in originations, and originated a higher share of mortgages to minority borrowers than other lenders (Barr et al., 2024). Because MDI loan products have more flexible underwriting criteria and work with buyers with lower credit scores and varied income sources, they tend to have lower denial rates but higher interest rates, and must hold these loans on their portfolio as a result.

Although expanding access to the secondary market is critical to scaling mortgage lending by MDIs, portfolio lending—where loans are held on the lender's balance sheet—remains essential for maintaining flexibility. By keeping loans in portfolio, MDIs are not bound by the eligibility requirements of GSEs or other regulators, which enables them to offer innovative and inclusive loan products tailored to their communities' needs. For example, MDIs can provide loans to borrowers who have a tax identification number but no Social Security number, or structure loans with higher

interest rates in exchange for eliminating the need for mortgage insurance, thereby improving affordability.

Investors and philanthropic organizations could help increase the liquidity of MDIs by leveraging funding to cover bank losses, taking a first-loss position, and absorbing the initial losses on a mortgage loan if a borrower defaults. This support would allow MDIs to continue to mitigate risk and use flexible underwriting criteria—something they are already well suited to do—while supporting a greater volume of lending (Barr et al., 2024).

Action 1.4.3: Leverage the Federal Home Loan Bank (FHLB) system to support homeownership financing, including small-dollar financing, by expanding the membership and requiring higher member contributions.

FHLBs, overseen by FHFA, are a government-sponsored system of regional banks that provide low-cost liquidity to member institutions—particularly during economic downturns—to support the mortgage market. Their role is especially critical for smaller community banks and local lenders that lack alternative sources of liquidity and would need a lender of last resort (Goodman and Zinn, 2024).

Researchers at the Urban Institute have proposed two reforms to strengthen FHLBs' mission (Goodman and Zinn, 2024). First, FHLB membership could be expanded to include institutions that are helping to close gaps in mortgage lending, such as independent mortgage banks, which currently originate the majority of small-dollar loans. Second, each of the 11 regional FHLBs should be required to allocate at least 30 percent of their prior year's earnings (up from the current 10 percent) to FHLBs' Affordable Housing Program, which funds grants and subsidized loans for LMI households. These additional funds could help support pilot initiatives described earlier in this section.

Approach 1.5: Increase the loan production capacity of lenders who operate in rural areas, where small-dollar homes are concentrated.

Small-dollar homes are heavily concentrated in rural areas. Between 2004 and 2022, the median home purchase price in rural areas was $213,000, with 37 percent of homes priced at less than $150,000; in contrast, urban areas had a median purchase price of $374,000 during the same period, with only 15 percent of homes falling below $150,000 (CFPB, 2022).

Yet, unique barriers to accessing mortgage financing exist in rural areas. Of the 2,100 existing and potential banking deserts across the United States, 1,500 are in rural areas (Dahl and Franke, 2017). Despite these banking shortages, community banks and credit unions play a big role in providing mortgage financing in rural areas, even when compared to non-banks, which have dominated small-dollar lending as a share of overall lending in recent years (Staveski, 2024). The reliance on community banks and credit unions in rural areas reflects the fact that rural borrowers tend to rely on physical branches rather than online services.

Because rural communities depend on community banks, credit unions, and other small lenders—and because small-dollar homes, including manufactured housing, are especially prevalent in these areas—it is critical to ensure that these lenders are equipped to meet local credit needs and expand access to mortgage financing to support homeownership in these areas.[20]

Exhibit 13. Approach 1.5.

Actions	Key Actors	Solution	Scale
Action 1.5.1: Leverage FHFA's Duty to Serve plans to increase small-dollar lending in rural areas.	**Federal government actors** *FHFA, GSEs*	Guidance change	Federal
Action 1.5.2: Strengthen federal and local capacity to administer the USDA 502 Loan Program to support homeownership for LMI households in rural areas.	**Federal government actors** *USDA* **Local nonprofits, CDFIs**	Product	Federal

New America

CDFIs = Community Development Financial Institutions. FHFA = Federal Housing Finance Agency. GSEs = Government-Sponsored Enterprises. LMI = low- and moderate-income. USDA = U.S. Department of Agriculture.

Source: Research by the authors; New America.

Action 1.5.1: Leverage FHFA's Duty to Serve plans to increase small-dollar lending in rural areas.

The GSEs (Fannie Mae and Freddie Mac) and Ginnie Mae are critical sources of mortgage capital for rural lenders—especially community banks. One key way the GSEs support rural lending is through their cash window, which allows lenders to sell individual mortgage loans directly to the GSEs without needing to package them into securities or sell them to larger institutions. Importantly, the GSEs do not require lenders to transfer servicing rights to a third party, enabling community banks, credit unions, and other small lenders to maintain their relationships with borrowers throughout the life of the loan.

To ensure the cash window continues to serve small lenders effectively, FHFA could use DTS plans to establish rural lending performance targets for the GSEs. For example, FHFA could require a minimum number of small-dollar mortgage originations in rural areas, including those for manufactured housing (Alexandrov, 2024). Because much of the nation's manufactured housing stock is in rural areas, GSE activities that increase access to lending for one are likely to impact the

[20] Senate Bill 2651, ROAD to Housing Act of 2025, Sec. 503—Rural Housing Service Reform Act—enacts reforms decoupling rental assistance from maturing mortgages to preserve affordable housing in rural areas. See: https://www.congress.gov/bill/119th-congress/senate-bill/2651/text.

other—which is useful given DTS plans' focus on improving lending in rural areas and for manufactured housing.

Action 1.5.2: Strengthen federal and local capacity to administer the USDA 502 Loan Program to support homeownership for LMI households in rural areas.

The USDA 502 Loan Program helps LMI buyers in eligible rural areas access mortgage financing and home repairs. Similar to other government-sponsored loan products, these USDA loans typically do not require a downpayment, have low fixed interest rates, and are either funded directly by USDA (the Section 502 Direct Loan Program) or privately funded but backed by USDA (the Section 502 Guaranteed Loan Program).

Modernizing and digitizing the application and underwriting system for the 502 Loan Program, and allowing local nonprofits or CDFIs to serve as an intermediary to help process applications, can go a long way in streamlining the process and addressing staffing shortages (see the Fahe case study below). To better reflect the financial circumstances of rural borrowers and the condition of the housing stock, the 502 Program could consider expanding eligibility to include alternative credit histories and nontraditional income sources, and also expand eligibility to older homes that are in need of repair. Further, strengthening partnerships with local CDFIs and credit unions at the local or regional level, to help improve outreach and awareness of the program and help support borrowers through the process, would help increase the number of borrowers it serves.

Case study: Fahe leverages a hub-and-spoke model to provide access to capital for underserved communities.

Fahe is a nonprofit network based in Kentucky dedicated to increasing access to capital in communities that lack traditional financing options, especially across Appalachia and rural communities. Fahe staff interviewed in February 2025 described Fahe's hub-and-spoke model of collaborating with over 50 nonprofit members to collectively support underserved populations across Appalachia. This model allows Fahe (the hub) to provide flexible support to its members (the spokes) by filling in capacity gaps where needed—whether for a three-person nonprofit, for example, that has deep community ties but lacks the capacity to process and close loan applications, or for a 300-person CDFI that can originate loans but needs an entity to buy those loans so they can generate capital without taking on additional debt.

An area where the hub-and-spoke model has been particularly effective is in the operation of the USDA 502 Direct Loan Program. As the largest intermediary for USDA, serving over 10 states, Fahe is a liaison between low-income applicants and USDA, ensuring that all

program criteria are met and loan applications are complete and neatly packaged upon submission. This not only eases the process for the applicant but also bolsters the capacity of USDA to deliver financing, which has been critical given the program's persistent staffing shortages.

On the buyer side, Fahe leverages the hub-and-spoke model to bring together a national network of organizations dedicated to, and with deep expertise in, addressing the range of challenges that lower-income buyers face in accessing homeownership. The role that organizations in the network play in increasing access to homeownership differs and includes conducting "boots-on-the-ground" outreach to families, and providing home construction and rehabilitation services or financial counseling. Collectively, these organizations are able to come together to bridge the homeownership access needs of the communities they serve, and ultimately increase access to mortgage financing for communities of color in underserved and rural areas.

Due to existing housing market barriers, however, including the lack of quality low-cost housing stock, avoidance of government-backed loans from sellers and Realtors®, and industry disincentives and lack of flexibility for small-dollar lending, only a small percentage of these applications close. Despite these challenges, Fahe has successfully expanded the visibility, popularity, and uptake of USDA's 502 loan program. Their hub-and-spoke model, commitment to boots-on-the-ground community engagement, and adaptive program delivery demonstrate a replicable framework for increasing access to mortgage financing in underserved and rural areas.

Approach 1.6: Leverage the Community Reinvestment Act (CRA) to increase small-dollar mortgage lending.

CRA, enacted in 1977 to combat redlining and other discriminatory practices in the U.S. housing market, aims to encourage banks to meet the credit needs of LMI communities within their service areas. Because the CRA gives regulators the authority to approve or deny bank mergers, acquisitions, and branch openings based on a bank's compliance with CRA, it does have the potential to influence lender behavior (Ding and Nakamura, 2020); however, because most banks easily meet their CRA obligations, the law's enforcement power has been limited (Getter, 2022).

Banks and other lenders can earn CRA credit by originating mortgage loans to LMI borrowers that are guaranteed by the Federal Housing Administration, USDA, or VA, or by lending to borrowers in LMI census tracts. In addition, banks may receive credit by purchasing qualifying CRA loans from other banks—especially when they cannot generate enough loans on their own to meet CRA requirements.

In 2023, the three agencies that implement CRA—Office of the Comptroller of the Currency (OCC), FDIC, and Federal Reserve—updated CRA rules for the first time since 1995 (Hill, 2023). These changes, which were set to be fully enacted in 2026, are now uncertain due to industry challenges (Office of the Comptroller of the Currency, 2025). Regardless, in addition to the changes in the 2023 update, many opportunities remain for the CRA to use its authority to address the credit needs of LMI and minority communities, and small-dollar mortgages in particular.

Exhibit 14. Approach 1.6.

Actions	Key Actors	Solution	Scale
Action 1.6.1: The CRA could include small-dollar loans as an explicit category in its evaluation criteria, incentivizing banks to extend these loans in exchange for CRA credit.	**Federal government actors** *Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Federal Reserve*	Regulatory action	Federal
Action 1.6.2: Prohibit double-counting of CRA credit when loans are sold on the secondary market.	**Federal government actors** *Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Federal Reserve*	Regulatory action	Federal
Action 1.6.3: Supplement federal CRA regulations with state-level CRAs, to incentivize banks to meet the specific needs of their communities.	**Federal government actors** *Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Federal Reserve*	Regulatory action	State

New America

Source: Research by the authors; New America.

Action 1.6.1: CRA could include small-dollar loans as an explicit category in its evaluation criteria, incentivizing banks to extend these loans in exchange for CRA credit.

Banks earn CRA credit for mortgage loans to LMI borrowers based on the number of loans originated, not the loan size, which means there is no CRA-related disincentive for banks to extend or purchase smaller loans. To further encourage small-dollar lending, OCC, FDIC, and Federal Reserve could add it as a specific assessment category in CRA and award points to banks that provide these loans, defining “small-dollar” based on their lending assessment area.

Action 1.6.2: Prohibit double-counting of CRA credit when loans are sold on the secondary market.

The 2023 update to CRA regulations allows banks and lenders to sell loans on the secondary market in exchange for CRA credit, freeing up capital for new loans (Opportunity Finance Network, 2023). Importantly, CRA credit is awarded based on the number of loans purchased—not their dollar

value—which does not disincentivize the purchase of smaller loans. Taking this a step further, the CRA could also prohibit "double-counting" of purchased loans to prevent banks from favoring resales over new loan originations. In other words, CRA credit should only be given for non-securitized mortgage loans bought directly from the original lender to avoid encouraging continuous buying and selling, known as CRA churn (Bourke, 2021).

Action 1.6.3: Supplement federal CRA regulations with state-level CRAs to incentivize banks to meet the specific needs of their communities.

Several states—including California, New York, Massachusetts, and Illinois—have either passed or introduced legislation for state-level CRAs to align more closely with the original intent of CRAs to address redlining and racial gaps in mortgage lending (Abello, 2021). Some states, like Illinois, are exploring ways to take factors such as race and ethnicity into account in evaluating lenders for CRA credit (Hill, 2024). At the federal level, race is not a factor that can be used in evaluating banks for CRA credit; it can only be assessed indirectly insofar as evidence of racial discrimination can harm a bank's CRA standing (Dworkin, 2022).

Although state-level CRAs do not have the power of the federal CRA to approve or decline mergers and acquisitions and branch openings, they could expand coverage of CRA to include credit unions and independent mortgage companies, which currently are not subject to CRA at the federal level, and both of which are critical to small-dollar lending.

Approach 1.7: Pursue pathways for developing safer alternative financing products for small-dollar homes.

Alternative financing arrangements in homeownership are nontraditional methods of purchasing a home—such as lease-to-own, land contracts, or seller financing. Operating outside conventional mortgage lending channels, alternative financing arrangements are not subject to the same state and federal regulations.

A 2022 national survey by the Pew Charitable Trusts found that 1 in 5 home borrowers—approximately 36 million Americans—have used alternative financing at least once, and 1 in 15 borrowers, or 7 million people, are currently using it (Siegel, 2022). Research also reveals that lower-income communities and communities of color are more likely to rely on these financing methods. The same Pew survey finds that 34 percent of Hispanic homebuyers, 23 percent of Black homebuyers, and 19 percent of White homebuyers have used alternative financing. In addition, families earning less than $50,000 annually are seven times more likely to use these arrangements than those earning more (Siegel, 2022).

Alternative financing arrangements are generally riskier and more expensive, with fewer consumer protections compared to traditional mortgages (Canavan, Roche, and Siegel, 2022). However, they are often more accessible to buyers who would not qualify for conventional loans or for homes that banks avoid financing due to their condition. Some advocates note that certain options—like land

contracts and lease-purchase agreements—frequently fail to lead to homeownership and may even limit future opportunities to buy a home (Mancini, 2023). Despite the inherent challenges, improving the safety of alternative financing is critical, given their prevalence, especially among lower-income buyers and buyers of color, and especially because research suggests that limited availability of mortgages less than $150,000 may be pushing many buyers toward these options. At the same time, expanding access to small-dollar mortgage financing could also reduce reliance on riskier alternatives.

Exhibit 15. Approach 1.7

Actions	Key Actors	Solution	Scale
Action 1.7.1: Strengthen consumer protections for land contracts and other forms of alternative financing.	**Federal government actors** **State government actors**	Regulatory action	Federal and state

New America

Source: Research by the authors; New America.

Action 1.7.1: Strengthen consumer protections for land contracts and other forms of alternative financing.

The standard 30-year mortgage loan has become a paragon of safe and affordable financing, largely because it requires a minimum level of consumer protections, habitability standards, clear ownership documentation, and federally mandated foreclosure processes. Alternative financing arrangements, such as land contracts in which buyers only obtain full ownership after their final payment, are subject to a patchwork of federal and state laws that vary widely in origination standards and consumer protection. Despite differences in types of alternative financing arrangements, research shows that they tend to have higher long-term costs, less favorable contract terms, and a higher risk of losing home equity than traditional mortgage products (Horowitz, 2022).

To make alternative financing arrangements a viable pathway to homeownership, state and federal policymakers should consider establishing a minimum set of required protections for them. Researchers at Pew Charitable Trusts detail the following five protections that should be strengthened, specific to land contracts (Roche, 2024):

- Requiring disclosure in written contracts for all terms and conditions (e.g., the sales price, payment schedule, interest rate, prepayment penalties, existing liens on the property, and which party is responsible for paying for home repairs and property taxes).
- Requiring that arrangements are publicly recorded with a local or state government or records office so that there is proof of the buyer's ownership status and the ability to enforce existing protections.

- Ensuring enforcement of consumer protections via sufficient regulation and oversight of sellers of these arrangements.
- Ensuring that buyers in these arrangements are considered homeowners and subject to the foreclosure protections and other consumer protections that apply to homeownership in that state.
- Banning predatory terms and fees, including balloon payments.

Challenge 2: Quality

Existing small-dollar housing stock is aging and in disrepair, making qualifying for mortgage loans on these homes difficult. The condition of small-dollar homes poses a major barrier to accessing mortgage financing. Housing stock in this price range is typically older and in worse condition than more expensive homes,[21] often due to years or even decades of deferred maintenance. Not only does disrepair threaten the existing supply of small-dollar homes, but it also presents a barrier to financing because homes requiring renovation or rehabilitation often face challenges qualifying for a mortgage (Horowitz and Roche, 2023; Zinn et al., 2022).

When deciding whether to approve a mortgage loan, lenders evaluate the home's condition based on specific property standards, which are mainly set by the entity backing or purchasing the loan. These standards protect lenders from excessive risk and prevent buyers from facing unaffordable repair costs. If a home does not meet these criteria, it is unlikely to qualify for a loan (Horowitz and Roche, 2023). Consequently, securing traditional mortgage financing for older homes in need of repair—often lower-cost or small-dollar homes—can be challenging.

The geography of poor housing conditions is also related to decades of disinvestment in minority neighborhoods, resulting in deferred maintenance. Research in Atlanta and Memphis shows that housing stock in majority-Black neighborhoods is more likely to be in poor physical condition than in majority-White neighborhoods, and that Black homeowners are more likely to live in older properties than White homeowners (Neal et al., 2022; Zhu, Zinn, and Neal, 2023). A New America analysis in Forsyth County, North Carolina, similarly found that small-dollar homes with a below-average physical condition were concentrated in and around majority-Black neighborhoods (Zainulbhai et al., 2021).

Although there is an ecosystem of federal, state, and local funding programs for home repairs that could help make homes mortgage-ready, these programs are largely targeted toward covering repair costs for existing homeowners (Mayes and Martin, 2022). For buyers looking to purchase homes in need of repair, financing options are scarce. The worsening physical condition of existing small-dollar and low-cost homes and the lack of resources to repair them threaten the homeownership opportunities of LMI families and of communities of color.

[21] More than one-half of the U.S. housing stock (51.2 percent) is at least 45 years old (built before 1979; U.S. Census Bureau, 2018–22 American Community Survey 5-year estimates).

This section explores approaches and actions to improve the quality of existing small-dollar and low-cost homes such that this critical housing stock can qualify for financing. These approaches include:

- **Approach 2.1:** Review and ease property condition requirements for FHA loans to expand FHA eligibility to include small-dollar housing stock.
- **Approach 2.2:** Improve the FHA 203(k) renovation program to better serve homebuyers purchasing small-dollar homes in need of repair.
- **Approach 2.3:** Improve access to financing sources for rehabilitation and renovation of low-cost homes beyond the FHA 203(k) program.
- **Approach 2.4:** Address appraisal gaps for homes in neighborhoods where small-dollar housing stock is prevalent and in need of repair.

Approach 2.1: Review and ease property condition requirements for FHA loans to expand FHA eligibility to include small-dollar housing stock.

Mortgage loans insured by the FHA are designed for borrowers with lower credit scores and smaller downpayments than conventional loans. FHA loans have served as a critical source of homeownership financing for many first-time and LMI buyers, including in communities of color (Cornelissen and Harrison, 2024).

A key difference in purchasing a home using FHA loans is the stricter property standards and appraisal and inspection processes relative to conventional loans. FHA loans must meet minimum property standards (HUD, n.d.), covering safety (the house should provide a safe and healthy environment), security (the property should offer its occupants protection), and soundness (the home should not have any structural defects; HUD, 2022). These requirements are intended to protect buyers from hazards and unsustainable repair costs, but inspections often surface less critical issues—such as peeling paint and openable windows—that can derail the approval of an FHA loan. Research finds that small-dollar loans are denied at higher rates than larger loans because of property condition or value (relative to other reasons, such as credit or debt-to-income ratio), and this gap is greatest for FHA loans (Zinn et al., 2022).

Although intended to protect buyers and lenders, FHA mortgage standards create a catch-22: Homes that are more affordable for LMI buyers are also more likely to be older and in disrepair, and therefore less likely to meet the stricter standards for FHA loans, decreasing access to mortgage financing for those who need it the most.

Exhibit 16. Approach 2.1.

Actions	Key Actors	Solution	Scale
Action 2.1.1: Allow more flexibility in FHA home inspections and appraisals, reducing overly strict requirements while ensuring buyers are still protected from unexpected, costly repairs.	**Federal government actors** *HUD, FHA, VA*	Guidance change	Federal
Action 2.1.2: Increase transparency around FHA inspection requirements and closing timelines to address common misconceptions and improve borrower and seller confidence.	**Federal government actors** *HUD, FHA, VA*	Guidance change	Federal

New America

FHA = Federal Housing Administration. VA = U.S. Department of Veterans Affairs.

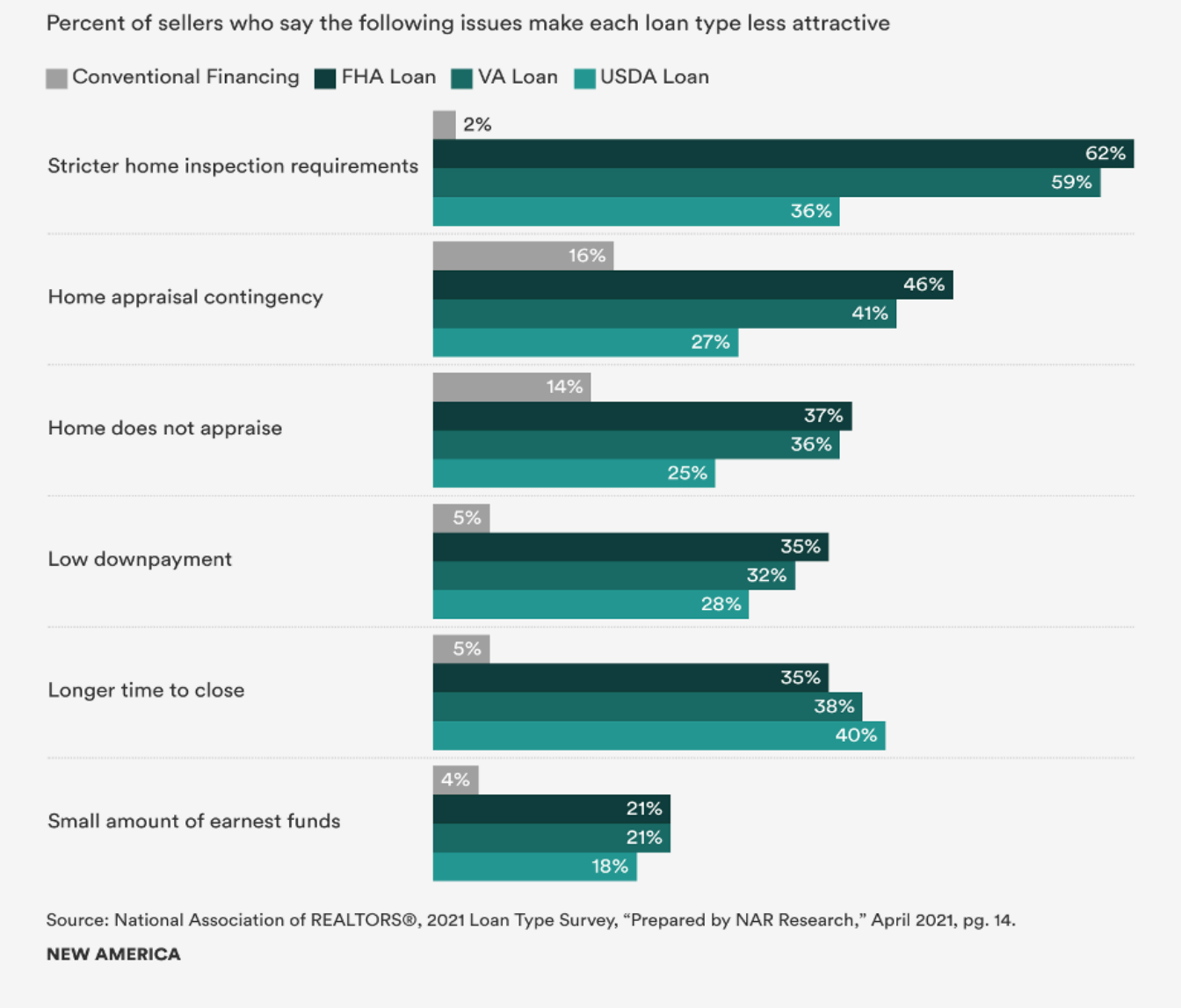
Source: Research by the authors; New America.

Action 2.1.1: Allow more flexibility in FHA home inspections and appraisals, reducing overly strict requirements while ensuring buyers are still protected from unexpected, costly repairs.

If a home does not meet FHA's property standards, sellers are required to address the repairs prior to the sale. These additional requirements, and the inability to waive them, can reduce the likelihood that a buyer will be selected by a seller, especially in competitive housing markets (New America and Center for the Study of Economic Mobility, 2022). Indeed, a 2021 National Association of REALTORS® survey found that only 30 percent of sellers say they would be likely to accept an FHA or VA loan when selling their home, and 6 percent said they would not consider these loans at all (Goodman and Ratcliffe, 2021). As shown in Exhibit 17, sellers cited stricter home inspection requirements, home appraisal issues, and the length of time it takes to close as their top reasons.

HUD and VA could consider revising their minimum property standards to make them less prescriptive and more flexible (Goodman and Ratcliffe, 2021). HUD could also evaluate where its inspection requirements can be simplified in an effort to reduce denials (due to the property condition) based on nonessential home repairs (Cornelissen and Harrison, 2024).

Exhibit 17. Several Aspects of Government Loans Make Them Less Attractive to Sellers Than Conventional Loans.



Note: Sellers cited stricter home inspection requirements, home appraisal issues, and the length of time it takes to close as their top reasons why both Federal Housing Administration and Veterans Affairs loans are less desirable.

Action 2.1.2: Increase transparency around FHA inspection requirements and closing timelines to address common misconceptions and improve borrower and seller confidence.

To dispel misconceptions that FHA loans take a long time to close among sellers and Realtors®, HUD could proactively publish data on average closing times of FHA loans relative to conventional loans (Cornelissen and Harrison, 2024). HUD could also publish an accessible checklist of FHA requirements for sellers, homebuyers, housing counselors, and real estate agents to use in evaluating a home before a sale to increase trust in the process and reassure those involved that there should not be delays or unexpected costs (Cornelissen and Harrison, 2024).

Approach 2.2: Improve the FHA 203(k) renovation program to better serve homebuyers purchasing small-dollar homes in need of repair.

The FHA 203(k) Rehabilitation Mortgage Insurance Program, or FHA 203(k) program, is a federally backed mortgage program for LMI buyers purchasing a home in need of repair or rehabilitation. With its lower credit score and downpayment requirement, FHA 203(k) mortgages are intended for buyers who may not qualify for a conventional mortgage loan and whose incomes may not allow them to purchase move-in-ready homes. Since its inception in 1978, the program has been intended to address the racial homeownership gap, because households of color are more likely to have lower incomes and credit scores and thus more likely to qualify for FHA mortgages relative to conventional loans. They are also more likely to purchase homes in neighborhoods that have experienced disinvestment, and thus more likely to require renovation financing (Goodman and Zinn, 2024).

However, program uptake is low; less than 1 percent of FHA's mortgage originations are 203(k) loans, with few lenders originating 203(k) loans (Goodman, Tozer, and Neal, 2023). This low uptake is largely due to the program being cumbersome for borrowers and costly for lenders: To use an FHA 203(k) loan, buyers must find contractors to take on renovations, and lenders must find HUD-approved consultants to oversee and inspect repairs, disburse funding at specified intervals, and schedule appraisals to assess the after-repair value of the home (Goodman and Zinn, 2024).

However, the FHA 203(k) program remains one of the few ways for lower-income buyers to access mortgage financing to purchase a home in need of significant repair. To increase uptake, FHA revised the 203(k) program guidelines in July 2024 (HUD, 2024). These updates increase the total allowable costs for rehabilitation (from $35,000 to $75,000), extend the rehabilitation period to account for the time it takes to make repairs, and increase consultant fee schedules to attract more qualified consultants (Goodman and Zinn, 2024).

Exhibit 18. Approach 2.2.

Actions	Key Actors	Solution	Scale
Action 2.2.1: Introduce a preferred vendor approach that streamlines existing complexity in the FHA 203(k) mortgage program.	**Federal government actors** *HUD, FHA, VA*	Guidance change	Federal
Action 2.2.2: Increase the use of FHA 203(k) loans by increasing allowable fees for lenders.	**Federal government actors** *HUD, FHA, VA*	Guidance change	Federal

New America

FHA = Federal Housing Administration. VA = U.S. Department of Veterans Affairs.

Source: Research by the authors; New America.

Action 2.2.1: Introduce a preferred vendor approach that streamlines existing complexity in the FHA 203(k) mortgage program.

Recent changes to the FHA 203(k) mortgage program have the potential to increase uptake among buyers and lenders, but ultimately do not address the underlying complexity of the program that makes it inaccessible to the general public. As described by the Urban Institute: "The real issue is that the borrower does not have the knowledge to judge which repairs are cost-effective, the lender is not a construction expert, and program design must be such that the FHA or the government-sponsored enterprises finance projects that are comparable with their regular financing (or perhaps a bit more risky but not a lot more risky)" (Goodman et al., 2023).
HUD could use a preferred vendor approach, in which 203(k) mortgage loan borrowers can select from a list of preferred, preapproved contractors. A preferred contractor would scope out the work and produce a fixed-cost estimate, which borrowers can then present to lenders as a turnkey financing package. The current approach requires lenders to use HUD-approved contractors to play an oversight role and ensure the repairs meet the agreed-upon budget and quality standards. The program would no longer need a HUD consultant to make sure the FHA's interests are protected. Fannie Mae has a list of preferred vendors for their real estate owned program that could be leveraged as a model. The goal of the preferred contractor is to address the root causes of the program's challenges by streamlining and simplifying the process for both buyers and lenders (Goodman et al., 2023).

Action 2.2.2: Increase the use of FHA 203(k) loans by increasing allowable fees for lenders.

Lenders in the 203(k) program take on a pivotal role in overseeing renovation, requiring them to have in-house expertise and capacity for overseeing contractors. As such, FHA 203(k) lending is concentrated among a small number of lenders in most markets who have these skills (Goodman et

al., 2023). To increase lenders' interest in the 203(k) program, HUD could raise its allowable fees. Currently, the maximum allowable fee for lenders is 1.5 percent of rehabilitation (e.g., $750 from a home costing $200,000 with $50,000 in repairs), and the maximum fee on a conventional or refinance loan is 1 percent. The current 203(k) fee may not be enough to offset additional costs for originating and servicing these loans (Goodman and Zinn, 2024).

Case study: Consumer Federation of America addresses when homes are too cheap for a mortgage.

An interview with a housing expert at Consumer Federation of America in March 2025 emphasized the importance of informal housing transactions in U.S. housing markets. In markets where properties are inexpensive and often in too much disrepair to be mortgage-eligible, formal real estate infrastructure that supports homeownership, such as the presence of Realtors®, appraisers, and contractors taking on repairs, is often absent. A cycle tends to play out in which homes are sold, occupied, or repaired through informal means—including via Craigslist, Facebook, or informal rental agreements among family members—and repairs paid in cash or done by sweat equity.

Informal housing transactions can often lead to worsening and unhealthy housing conditions, such as mold or no running water, and lack the legal and financial consumer protections facilitated by formal ownership. At the same time, ownership of any kind, even if informal, affords a level of housing stability that would not exist otherwise, not to mention a deep sense of pride and cultural significance, notably in Black and rural communities.

An example of how a lack of formalization in housing transactions harms homeownership can be seen in the FHA 203(k) Rehabilitation Loan program. This loan program was designed to create homeownership opportunities for affordable homes in need of repair, which are increasingly in markets where informal housing transactions are common. The required use of HUD-approved, licensed contractors to undertake repairs, however, limits the ability of buyers who could otherwise benefit from this unique FHA product to live in markets where no such infrastructure is available. As a result, this loan program is inaccessible to those relying on sweat equity or informal labor, such as the use of non-licensed contractors, confining its use by buyers (and low uptake by lenders) to housing markets where a certain set of conditions exists.

As housing stock continues to age and older properties provide potential homeownership opportunities for lower-income and first-time homebuyers, it would be useful to create room for the prevalence of informal housing transactions in many markets, without formalizing them to the point of exclusion. Doing so could unlock the FHA 203(k) loan

program beyond its current use and create conditions that allow more local owner-occupants to own this housing stock, as opposed to only investors with the capital and scale.

Approach 2.3: Improve access to financing sources for rehabilitation and renovation of low-cost homes beyond the FHA 203(k) program.

Additional options are needed to help LMI owner-occupants finance the purchase of homes in need of repair, beyond what the FHA 203(k) program currently offers. Although an ecosystem of federal, state, and local funding programs exists for home repairs for lower-income households, these programs are largely targeted toward covering repair costs for existing homeowners and operate at a scale far too small to meet the widespread need (Mayes and Martin, 2022).

Exhibit 19. Approach 2.3.

Actions	Key Actors	Solution	Scale
Action 2.3.1: Expand purchase-rehabilitation financing products and programs for buyers at the national, state, and local level, outside of the FHA 203(k) program.	**National and local lenders** **State and local government actors** *(e.g., state housing development authorities)* **Philanthropic organizations** **Local nonprofit organizations**	Product	State and local
Action 2.3.2: Bundle purchase-rehab financing products and financial assistance with existing homes in need of repair.	**State and local government actors** *(e.g., housing agencies, development authorities, land banks)* **Local lenders**	Product	State and local
Action 2.3.3: Develop a registry for buyers navigating the renovation process of high-quality, vetted contractors who understand the rehabilitation loan process.	**Local nonprofit organizations**	Program	State and local

New America

FHA = Federal Housing Administration.

Source: Research by the authors; New America.

Action 2.3.1: Expand purchase-rehabilitation financing products and programs for buyers at the national, state, and local levels, outside of the FHA 203(k) program.

National and local lenders could explore the development of small-dollar purchase-rehabilitation loans targeted to lower-income buyers for properties in need of repair, building off existing national and local programs and financing options.

National examples: U.S. Bank's American Dream Loan program offers a fixed-rate mortgage loan that includes rehabilitation funding, with flexible underwriting and no requirement for private mortgage insurance, targeted to low-income buyers. U.S. Bank's Access Home Loan program offers these same loan terms, but is targeted specifically to buyers living in majority-minority census tracts in select states. Both types of loans can be paired with financial assistance for downpayments, closing costs, or required repairs, capped anywhere between $5,500 and $12,500.

Local examples: A collaboration of local and national banks, foundations, and nonprofit groups launched the Detroit Home Mortgage program in 2016 to address the lack of financing for home purchases and renovation in the city's distressed housing market (U.S. Office of the Comptroller of the Currency, 2018). Eligible buyers can obtain a first mortgage for the appraised value of the home, and a second mortgage of up to $75,000 to fill the gap between the appraised value and the sale price, plus any renovation costs. First mortgages are held on banks' balance sheets, and second mortgages, after necessary rehabilitation is complete, are sold into a loan fund to which many local and regional financial institutions have contributed, along with support from the Kresge Foundation and the Michigan State Housing Development Authority. An innovative feature of the program is the protection offered to the homeowner; the Kresge Foundation has made a guaranty to forgive a portion of the second mortgage should a homeowner need to sell a home at a short sale to avoid foreclosure.

CHN Housing Partners, an affordable housing nonprofit developer, and its affiliate, CHN Housing Capital, developed the Believe Mortgage program to address the dearth of small-dollar mortgages in Northeast Ohio. In addition to affordable first mortgages with downpayment assistance and no credit score minimums, the program offers a second mortgage for home repairs. The average loan amount is $89,000, and 96 percent of the program's applicants are Black; of those, 49 percent are Black female heads of households (Blankenship, 2023).

Action 2.3.2: Bundle purchase-rehab financing products and financial assistance with existing homes in need of repair.

Most home repair programs are designed for current homeowners, leaving a gap in support for buyers seeking to purchase and renovate homes in disrepair. To help preserve the existing supply of small-dollar homes, there is a need to better connect purchase-rehab financing products with distressed properties in need of repair. Local entities—such as land banks, public housing agencies, and development authorities—should explore opportunities to bundle these financing tools with

their property inventories. Doing so could allow them to expand their offerings to include homes in better condition (because many land bank properties are severely deteriorated) and accelerate the pace at which buyers can be brought into the market. These partnerships can also leverage federal funding sources, such as HOME or CDBG, to help cover acquisition and rehabilitation costs and layer in additional subsidies to meet buyer needs.

Action 2.3.3: Develop a registry for buyers navigating the renovation process of high-quality, vetted contractors who understand the rehabilitation loan process.

Even where repair financing is available, buyers are often required to oversee and manage parts of the rehabilitation process—such as obtaining contractor bids—themselves, which can make the process significantly more complicated (U.S. Office of the Comptroller of the Currency, 2018). Many buyers lack experience with vetting contractors, navigating bids, or understanding permitting requirements. To ease this burden, local governments could partner with nonprofit intermediaries or community organizations to develop and maintain an up-to-date registry of reputable contractors.

For example, the Chicago Bungalow Association is a local nonprofit, supported by the City of Chicago, that helps residents maintain, preserve, and adapt their older homes. The organization provides in-depth seminars on how to work with contractors and maintains a directory of “Trusted Referrals” that includes service providers with at least three member references and specialized expertise in older-style homes.

Approach 2.4: Address appraisal gaps for homes in neighborhoods where small-dollar housing stock is prevalent and in need of repair.

An appraisal gap occurs when a home’s appraised value is lower than the agreed-upon purchase price. This difference or “gap” can thwart access to homeownership, especially for low-income buyers, because the amount of mortgage financing is based on the value of the home, not the purchase price, and buyers must find a way to make up the difference. Appraisal gaps are especially common in neighborhoods that have experienced disinvestment, where fewer home sales make it difficult for appraisers to find comparable home sales on which to base their appraisals. Homes in majority-Black or majority-Hispanic neighborhoods are more likely to be appraised below their contract price, even when controlling for home and neighborhood characteristics; this trend can cause financing to fall through if the appraisal value is too low relative to the loan amount (Rothwell and Perry, 2022).

Exhibit 20. Approach 2.4.

Actions	Key Actors	Solution	Scale
Action 2.4.1: Provide financial assistance for closing appraisal gaps through targeted loans and grants.	**Local lenders**	Product	State and local
Action 2.4.2: Design a federal tax credit to close appraisal gaps for home rehabilitation and LMI homeownership.	**Federal government actors**	Legislative action	Federal
Action 2.4.3: Modernize appraisal industry practices to reduce bias and address gaps in disinvested, minority, and rural neighborhoods.	**Appraisers**	Guidance change	Federal

New America

LMI = low- and moderate-income.

Source: Research by the authors; New America.

Action 2.4.1: Provide financial assistance for closing appraisal gaps through targeted loans and grants.

CDFIs, MDIs, state housing finance agencies, and other local lenders could offer financial assistance to cover appraisal gaps for small-dollar or low-cost homes, especially in neighborhoods that have experienced disinvestment, including majority-Black or majority-Hispanic neighborhoods. Such assistance may require pairing a first mortgage with a subsidized second mortgage that covers the amount above the appraised value of the home.

To increase the affordability of second mortgage loans, lenders could develop and expand loan products with zero percent interest rates or that are forgivable. Some loan products, for example, base borrowing on the ability to repay instead of property value, allowing loan-to-value ratios to reach as high as 140 percent, reasoning that reinvestment in housing will cause property values to rise (Abt Associates, 2022a).

Action 2.4.2: Design a federal tax credit to close appraisal gaps for home rehabilitation and LMI homeownership.

The federal government could implement a tax credit to close appraisal gaps and mobilize private investment to build and rehabilitate homes for LMI homeowners. This type of federal tax credit could help bridge the gap between the cost of rehabilitation and the purchase price of a home.

Action 2.4.3: Modernize appraisal industry practices to reduce bias and address gaps in disinvested, minority, and rural neighborhoods.

Appraisal gaps disproportionately impact disinvested neighborhoods due to a lack of comparable sales and historical undervaluation, especially in minority and rural neighborhoods, thus further perpetuating the racial homeownership gap. The current industry approach to appraisals is to use comparable market sales, but in areas where these are limited or nonexistent, appraisers could instead base appraisals on the cost of replacing the home or the income a property would generate in rent (Abt Associates, 2022a).

Challenge 3: Supply

The supply of small-dollar homes in the United States is limited. In 2023, 20.8 percent of owner-occupied homes in the United States were valued at $150,000 or less, meaning that one in every five homes in the United States is a small-dollar home (U.S. Census Bureau, 2023). As shown in Exhibit 1, homes priced at less than $150,000 are concentrated in rural counties and across the South and Midwest.

However, this supply is dwindling because fewer entry-level homes are built each year.[22] The number of *starter homes* (defined as 1,400 square feet or less) built as a share of new construction has fallen to historic lows (Freddie Mac, 2021). In the 1940s, close to 70 percent of new homes were starter homes, but by 2022, only 8 percent of new homes built were of this size (Badger, 2022). Although housing construction in the United States has declined for homes of all sizes, housing shortages are most concentrated among starter homes (Freddie Mac, 2021), partly because of the rising cost of land, materials, and construction, which have incentivized construction of larger, more profitable homes (Badger, 2022).

These trends, compounded over decades, have resulted in a limited amount of starter homes on the market. As fewer starter homes are constructed and more starter homes age and fall into disrepair, the supply of small-dollar homes available for LMI buyers is falling, further limiting access to homeownership.

[22] In this discussion on housing supply, *starter homes* is used as a proxy for *small-dollar homes* to capture the existence of lower-cost, more affordable housing stock, even as the price may change with inflation and other market fluctuations. Freddie Mac and other researchers define a starter home as 1,400 square feet or less.

This section offers approaches and actions that could increase the supply of homes affordable to LMI buyers.

- **Approach 3.1:** Improve the accessibility and affordability of financing for manufactured homes.
- **Approach 3.2:** Develop pathways for land banks to acquire, hold, manage, and redevelop existing housing to boost small-dollar housing supply.
- **Approach 3.3:** Scale shared equity models of landownership and homeownership that allow buyers to build wealth starting at a small-dollar price point.
- **Approach 3.4:** Increase opportunities for LMI owner-occupants to purchase small-dollar homes free from investor competition.

Approach 3.1: Improve the accessibility and affordability of financing for manufactured homes.

Manufactured homes, or homes constructed in a factory and subject to federal construction standards, are a critical source of housing at small-dollar and other affordable price points.[23] In 2021, manufactured homes represented 5.6 percent of all homes in the United States (Herbert et al., 2024).

The lower cost of constructing a manufactured home translates to lower purchase prices relative to site-built homes. Construction costs of the most basic style of manufactured home account for approximately 35 percent of the costs for a comparable site-built home, whereas the largest manufactured homes with the most amenities (e.g., a "CrossMod" style[24]) cost 73 percent of comparable site-built homes (Herbert, 2024).

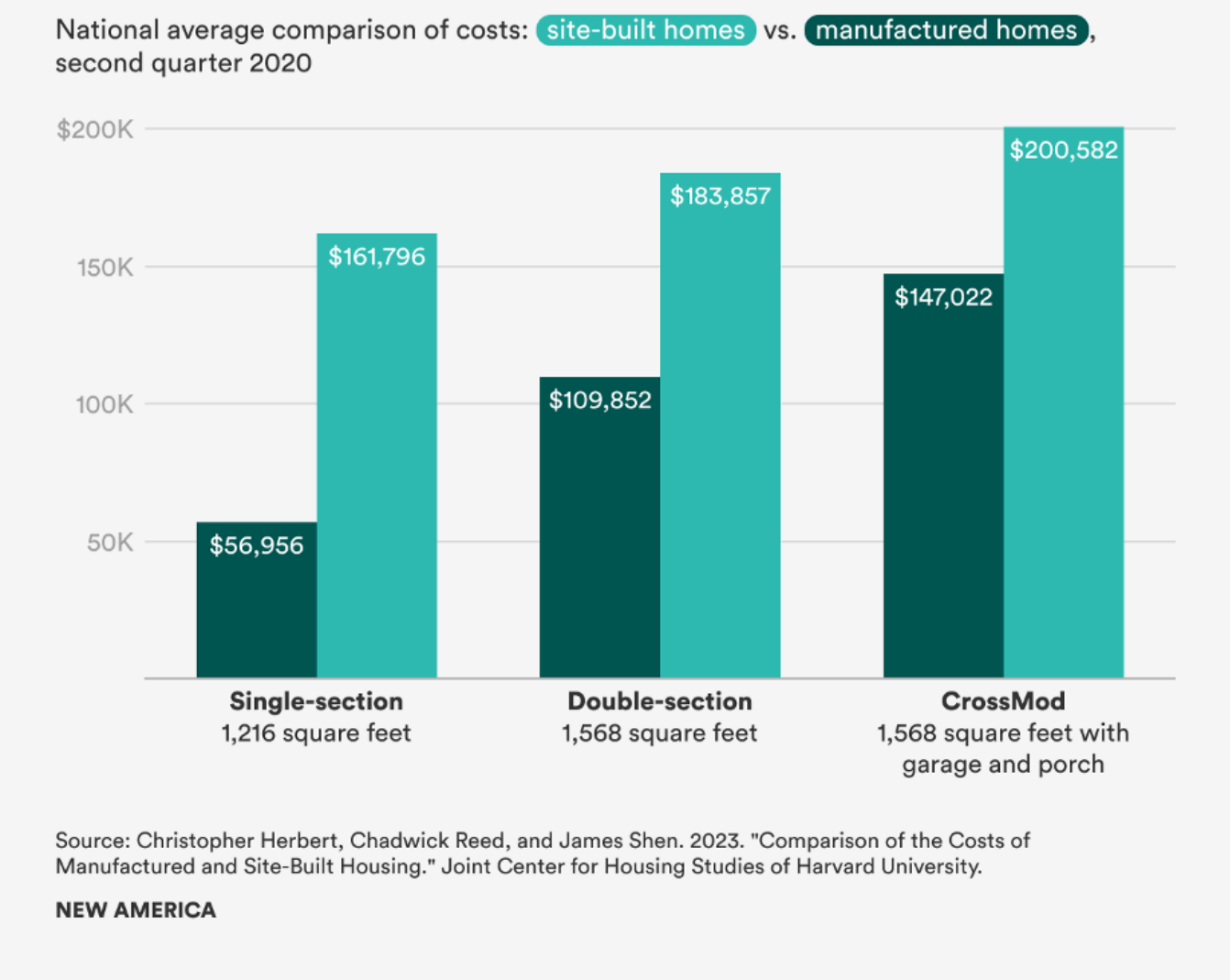
The latest data on the average sales price of a new manufactured home was $124,800 in April 2025, whereas the median listing price of all U.S. homes in that same month was $431,250 (Realtor.com via Federal Reserve Bank of St. Louis, 2025; U.S. Census Bureau, 2025). Although this price does not include transporting the home, preparing the land, utility installation, and other costs, site-built home prices nonetheless considerably outweigh those of manufactured homes by tens of thousands of dollars.

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[23] *Manufactured homes* specifically refer to dwellings constructed and assembled in a climate-controlled factory setting in accordance with the HUD Manufactured Home Construction and Safety Standards. Manufactured homes are related, but distinct from, *mobile* and *modular homes*. Mobile homes are not subject to the HUD standards that set safety, quality, design, and efficiency standards for manufactured homes, and as such, their quality varies. Modular homes, like manufactured homes, are built inside a factory setting, but adhere to the local and state building codes applicable to the home's eventual site, rather than federal codes set by HUD.

[24] A *CrossMod manufactured home* features certain design, efficiency, and construction features not seen in traditional manufactured housing, such as a pitched roof, garage, and porch, and is affixed to a foundation (Manufactured Housing Institute, 2023).

Exhibit 21. Manufactured Homes Cost Far Less Than Comparable Site-Built Homes.



The purchase of manufactured homes is typically financed with one of two types of loans: mortgages and home-only loans (also called *personal property* or *chattel loans*). Mortgage loans, for manufactured and site-built homes alike, are secured by the home and the land beneath it, which are titled together as “real property.” Home-only loans cover just the home itself, titled separately from the land beneath it, which a homeowner may own or rent. The phenomenon of home-only loans is unique to manufactured homes that are not titled as real property. Between 42 and 76 percent of manufactured homes are estimated to have been financed with home-only loans in 2019 (Russell et al., 2021).

In general, home-only loans tend to offer borrowers less favorable conditions than mortgage loans, including higher interest rates and fewer consumer protections (Gerecke, Goodman, and Pang, 2023; Herbert et al., 2024). For example, the average home-only loan for manufactured housing costs 4.4 percentage points more per year than the average mortgage loan; on an $80,000, 20-year loan, for example, the additional cost for using a chattel loan versus a mortgage loan would be $2,600 a year

(Goodman and Ganesh, 2018). Therefore, homeowners who are not able or willing to retitle their manufactured home as real property (through a process that varies by state) are excluded from obtaining mortgage financing and the more favorable terms it offers.

Over the past two decades, federal support for manufactured homes titled as personal property has been scarce, leaving few avenues to address high denial rates or expand access to home-only financing. Between 2009 and 2022, the number of home-only loans for the purchase of manufactured homes guaranteed by FHA declined significantly, with zero loans guaranteed in 2021 or 2022 (GAO, 2023).

A lack of access to favorable manufactured housing financing in both mortgage and home-only markets poses a critical barrier to homeownership for residents of this affordable housing type.

Exhibit 22. Approach 3.1.

Actions	Key Actors	Solution	Scale
Action 3.1.1: Expand opportunities to purchase federally-backed mortgages for manufactured homes through FHA.	**Federal government actors** *FHA* **Manufactured home lenders**	Program	Federal
Action 3.1.2: Build on 2024 updates to FHA's Title I lending program to promote meaningful opportunity for home-only borrowers.	**Federal government actors** *HUD, FHA*	Program; Guidance change	Federal
Action 3.1.3: Resume the GSE's home-only loan pilot to explore the creation of a secondary mortgage market for home-only loans.	**Federal government actors** *FHFA, GSEs*	Guidance change	Federal
Action 3.1.4: Promote lending opportunities and technical assistance for the creation of manufactured housing resident-owned communities (ROCs).	**Federal government actors** *FHFA, GSEs* **State government actors** *State housing finance agencies* **Private lenders and CDFIs**	Product; Program	Federal and local

New America

CDFIs = Community Development Financial Institutions. FHA = Federal Housing Administration. FHFA = Federal Housing Finance Agency. GSEs = Government-Sponsored Enterprises.

Source: Research by the authors; New America.

Action 3.1.1: Expand opportunities to purchase federally backed mortgages for manufactured homes through FHA.

Manufactured homes titled as real property are eligible for mortgage loans. The federal government seeks to improve access to mortgage lending for manufactured homes through FHA's Title II, VA's Home Loan, and USDA's Section 502 Guaranteed Loan programs. These programs allow the federal government to guaranty lenders that they will cover any losses incurred should the borrower default on their mortgage loan. In 2021, these three programs combined insured slightly less than one-half (47 percent) of all mortgage loans for manufactured homes titled as real property, of which FHA's Title II insured 78 percent (GAO, 2023); therefore, this action focuses on Title II as the primary vehicle for federally backing manufactured home mortgages.

One obstacle to accessing mortgage loans for manufactured homes, making these federal programs so necessary, is the high denial rate for this loan type. Denial rates for manufactured home loan applications are much higher than for site-built homes: In 2021, 64 percent of applications for home-only loans and 40 percent of applications for manufactured housing mortgage loans were denied, compared to only 7 percent of applications for site-built mortgage loans (Liang, Siegel, and Staveski, 2022). Denial rates are particularly high for Black applicants seeking manufactured home financing compared to White applicants. Between 2018 and 2022, 80 percent of home-only loan applications and 83 percent of mortgage loan applications were denied for Black applicants. During the same period, 63 percent of home-only loan applications and 51 percent of manufactured home mortgage loan applications were denied for White applicants (Horowitz and Roche, 2024).

Research shows that a key driver of high denial rates is that applicants for manufactured housing loans tend to face higher credit standards than applicants for traditional mortgages (Liang, Siegel, and Staveski, 2022). This trend is partly due to lenders commonly keeping these loans "on the books" or "in portfolio," meaning they also retain the financial risk of each of these loans.

At the same time, lenders are much less likely to deny applications for manufactured home loans that are insured by the federal government. These programs have been linked to increased mortgage access for manufactured homebuyers: 14 percent of mortgage loan applications through FHA's Title II were denied, whereas 52 percent of applicants for conventional (i.e., non-federally insured) manufactured home mortgages were denied (Liang, Siegel, and Staveski, 2022).

However, research shows that Black borrowers are less likely than White borrowers to apply for FHA-backed mortgages for manufactured homes. Although 49 percent of both Black and White borrowers applied for conventional mortgages to finance their manufactured homes, only 6 percent of Black borrowers and 19 percent of White borrowers applied for FHA mortgages. Some of this disparity is attributed to the fact that Black borrowers are more likely than White borrowers to apply for home-only loans, which are ineligible for mortgage financing or these federal mortgage insurance programs (Horowitz and Roche, 2024).

At the same time, for Black borrowers who do apply for mortgage loans on manufactured homes, application rates for conventional mortgages far outstrip application rates for Title II mortgages. Because FHA mortgages have more flexible underwriting standards and higher approval rates than conventional mortgages and home-only loans, they provide an important avenue for LMI homebuyers, particularly Black buyers, to access homeownership.

FHA and lenders could pursue actions to increase uptake of Title II mortgage loans, including working with major lenders to encourage their participation in Title II loans. Concentrated lender outreach would be particularly valuable in the Southeast, which is home to the largest population of Black manufactured homebuyers in the nation, yet few manufactured home lenders in the region participate in FHA's mortgage financing program (Horowitz and Roche, 2024). FHA and lenders could also do more to increase awareness among manufactured home borrowers, particularly Black borrowers, about programs like Title II.

Action 3.1.2: Build on 2024 updates to FHA's Title I lending program to promote meaningful opportunity for home-only borrowers.

In the home-only loan market, FHA's Title I program is the federal government's only avenue for guaranteeing loans. Just as Title II insures mortgage loans for homes titled as real property, Title I insures home-only loans. Between 2009 and 2022, the number of home-only loans for the purchase of manufactured homes guaranteed by FHA declined significantly, with zero loans guaranteed in 2021 or 2022 (GAO, 2023).

Although manufactured housing production increased from 2017 to 2022, Title I was essentially defunct for decades because the program capped loan size at a prohibitively low price of $69,678 per unit—covering approximately 64 percent of the average sales price of a new manufactured home in 2021 (GAO, 2023). The lack of federal backing for home-only loans has been associated with poor outcomes for Black homebuyers in particular, given that Black borrowers are more likely than White homebuyers to apply for home-only loans and thus stand to particularly benefit from Title I (Horowitz and Roche, 2024).

In 2024, FHA announced new loan limits that would greatly expand access to home-only loans under the Title I program. As under Title II, home-only loans for qualified LMI borrowers may be insured by FHA if borrowing from a participating lender. The 2025 loan limits, which will be updated annually, insure loans of up to $105,532 for smaller homes and up to $237,096 for larger manufactured homes plus the underlying lot (FHA, 2024).

Although monitoring and assessing how the new Title I loan limits impact borrowers and lenders, FHA could consider additional improvements to the Title I program. In particular, permitting lenders to automate some underwriting processes would make home-only loans more profitable, which could bring more lenders into the chattel loan market. In addition, FHA could require that Title I loans include protections for borrowers who rent the land beneath their home—as the GSEs already do—and strategies for loss mitigation to keep borrowers stably housed if they fall behind on a

payment, as is required in FHA Title II mortgages (Horowitz and Roche, 2024). These changes could encourage lenders to offer products that can connect personal property borrowers to FHA backing and improve consumer protections for those borrowers.

Action 3.1.3: Resume the GSEs' home-only loan pilot to explore the creation of a secondary mortgage market for home-only loans.

Buyers of manufactured homes titled as personal property are ineligible for mortgage financing and thus seek home-only loans to finance their home purchase. A higher share of home-only loans—more than 86 percent—is made by the top 10 lenders in the country compared with manufactured home mortgage loans and site-built mortgage loans, at 33 and 24 percent, respectively (Gerecke, Goodman, and Pang, 2023). These loans are less likely than other loans to be sold on the secondary market: In 2021, 76 percent of manufactured home mortgage loans and 85 percent of site-built mortgage loans were sold on the secondary market. In contrast, only 27 percent of home-only loans were sold on the secondary market (GAO, 2023).

Although a more competitive and less concentrated marketplace of home-only lending would benefit borrowers, the lack of a robust secondary market for home-only loans would still stifle lender participation and innovation in this market, which serves some of the lowest-income homebuyers in the country.

Federal support for the manufactured home loan secondary market is addressed in the GSEs' Duty to Serve Underserved Markets Regulation. The GSEs play an important role in the secondary market for manufactured housing real property loans, securing 23 percent of such loans in 2022. In contrast, the GSEs' lack of involvement in the secondary market for home-only loans—securing only 0.6 percent in 2022—translates to a minimal to nonexistent secondary market for home-only loans (Gerecke, Goodman, and Pang, 2023).

The GSEs could establish a robust secondary market for home-only loans. A first step toward this goal would be to resume the home-only loan pilots planned by the GSEs in 2017 and 2018 and put on pause in 2019 (Russell et al., 2021). In the most recent Duty to Serve 2025–27 plan that the GSEs published in November 2024, a home-only loan pilot was not included in the planned Regulatory Activities (FHFA, 2024). The Federal Housing Finance Agency has not approved a proposed chattel loan pilot, preventing the GSEs from moving to enact it (Underserved Mortgage Markets Coalition, 2024).

If the GSEs securitized more home-only loans, it could result in more lenders offering these loans and at more affordable rates (GAO, 2023). If such a pilot program were to include consumer protections for borrowers, requiring lenders to adhere to certain transparency and underwriting standardization measures, it could produce additional benefits for borrowers and potentially decrease denial rates (Gerecke, Goodman, and Pang, 2023).

Action 3.1.4: Promote lending opportunities and technical assistance for the creation of manufactured housing resident-owned communities (ROCs).

Approximately 4.3 million manufactured homes are titled as personal property and in manufactured home communities, in which manufactured homeowners pay to rent the land (or "pad") beneath their homes and use the community's utility infrastructure (Manufactured Housing Institute, n.d.). These annual rental costs, often called lot fees, generate revenue for owners of manufactured home communities and increase by 3.9 percent in a typical year (Abt Associates, 2022b).

These fees are increasingly accrued to corporate investor-owners: In 2017 and 2018, institutional investors accounted for 13 percent of manufactured home community purchases, rising to 23 percent in 2019 and 2020 (Kasakove, 2022). The cost of moving a manufactured home to a different location is high and can leave homeowners unable to avoid shouldering high lot-fee increases. The dual-ownership structure in manufactured home communities, combined with increases in lot fees, can jeopardize the stability and wealth-building opportunities that homeownership could otherwise bring.

To address this challenge, lenders and the GSEs could promote lending opportunities for the creation of manufactured housing ROCs, which afford residents stability and control over the land beneath their homes. ROCs allow residents of manufactured home communities to establish collective ownership over the land on which their individually owned homes sit. ROCs are governed democratically by residents and can adopt a limited-equity or market-rate model. As of 2018, there were 1,065 ROCs across the country, representing 2.4 percent of all manufactured housing communities. ROCs are concentrated in Florida, California, and New Hampshire (Freddie Mac Multifamily and Duty to Serve, n.d.).

To establish a ROC, manufactured home communities form a corporation that takes out a commercial loan covering the cost of the community's land, utilities, and other infrastructure. Once established, ROCs would continue paying monthly lot fees as before, but instead of a landlord, the fees would go to the collectively owned corporation to pay back the commercial loan.

For residents of manufactured home communities, coming together to adopt a ROC model can be challenging and typically requires a favorable state-level legal landscape offering an opportunity to purchase their community, access to low-interest capital, and professional technical assistance (Freddie Mac Multifamily and Duty to Serve, n.d.).

Private lenders, particularly CDFIs and state housing finance agencies, could offer specialized loan products for ROCs at favorable rates. In 2018, Freddie Mac launched a refinance and acquisition loan product for manufactured housing ROCs, both limited-equity and market-rate. However, uptake is low and primarily focused on refinancing, not on ROC creation. To encourage ROC formation, local governments and CDFIs could facilitate access to technical assistance through grantmaking.

Case study: ROC USA combines affordable capital with technical assistance to enable the creation of resident-owned communities.

ROC USA provides technical assistance to residents of for-sale manufactured home communities looking to collectively purchase their community and fosters peer-to-peer support among its member network of 347 manufactured home ROCs in 21 states.

In a December 2024 interview, a ROC USA leader shared a host of conditions that can ease a community's ability to purchase their community and become a ROC. Resident cohesion, sufficient scale (at least 25 homes), and strong local support from ROC USA's regional network are key. Policy-related conditions include the existence of some form of tenant opportunity to purchase law (right of first refusal) and zoning laws that support manufactured housing. Financially, the purchase price and closing costs must be low enough that residents can cover the operating expenses and debt on the loan without their monthly fees becoming unaffordable.

When all these conditions align, communities transitioning to ROCs can access financing from ROC USA Capital, a CDFI subsidiary of ROC USA and the leading lender for manufactured home ROC purchase loans. These loans generally have a 110 percent loan-to-value ratio that bundles the cost of purchase inspections, appraisals, and closing into a single loan. These loans are also coupled with prepurchase forgivable loans that cover the inspection, appraisal, and deposit, plus the corporation's legal fees. ROC USA Capital's goal when financing the purchase of manufactured housing communities is to limit residents' out-of-pocket expenses beyond a small membership fee (for which ROC USA provides financial assistance to ensure there is zero displacement) and for residents' monthly lot fees to increase by as manageable an amount as possible (pre-COVID-19 pandemic, site fee increases post-conversion typically were less than $100, but have increased in recent years).

ROC USA Capital's loans are able to pencil out because the organization has secured low interest rates in attracting capital to its loan fund. In the past five years, with higher interest rates and higher asking prices for communities up for sale, ROC USA Capital has increasingly turned to state and local housing agencies or housing finance agencies for debt financing to keep its loans affordable for ROC residents, who are among the lowest-income homeowners in the country.

ROC USA Capital's loans have performed well, partly because, as a CDFI, the organization can quickly and agilely attract capital from a variety of sources that enable these affordable loans to comply with sellers' closing timelines (Swack and Rivera, 2009). In addition, loans for manufactured housing ROCs, although they serve very low-income populations, are low

risk because the corporation owners—the ROC residents—already have "skin in the game" through the ownership of their homes.

Currently, ROC USA Capital's loans' high loan-to-value ratios render them ineligible for GSE financing. To scale ROC USA's successful model of supporting residents through the process of buying their manufactured housing community, especially amidst high interest rates and soaring purchase costs, access to low-cost debt is necessary, whether through Fannie Mae and Freddie Mac, state housing finance agencies, or other sources.

Approach 3.2: Develop pathways for land banks to acquire, hold, manage, and redevelop existing housing to boost small-dollar housing supply.

Preserving existing low-cost housing stock is essential to expanding the supply of affordable small-dollar homes. Not only is rehabilitation much less costly than new construction, but failing to preserve existing stock means an estimated 350,000 units would be lost to disrepair each year (Freddie Mac, 2018).

In 2024, approximately 1 percent of all non-rental housing units were vacant (U.S. Census Bureau, 2024). Vacant, abandoned, and delinquent homes not only produce negative impacts on the surrounding community (Center for Community Progress, n.d.a; Roude et al., 2024) but also incur high costs for owners and local governments. The expensive renovations needed to bring the house back up to habitable standards can jeopardize both affordability and mortgage eligibility (as discussed in the Challenge 2 section on housing quality in this report). Establishing, funding, and scaling land banks can address these challenges by bringing delinquent land and homes on line for owner-occupants and creating more opportunities for affordable homeownership.

Land banks are public authorities or nonprofit organizations created to acquire, hold, manage, and sometimes redevelop vacant, delinquent, or foreclosed properties and return them to productive use, often with the goal of increasing affordable housing or stabilizing property values (Local Housing Solutions, 2021b).[25] Land banks vary in size, structure, and strategy, but in general, they receive funds from local and county governments, federal and state grants, revenue from the sale of properties, tax revenue, and foundation grants (Center for Community Progress, 2025). Land banks vary in the kind of properties they acquire and sell, ranging from empty lots to newly built or renovated homes. In general, land banks are most effective in housing markets with large inventories of vacant property with little to no market value and/or significant delinquent property taxes and liens (Center for Community Progress, n.d.c).

[25] Generally, development authorities' mission may focus more on aligning with economic development goals, whereas land banks' may center on increasing affordable housing. Therefore, this solution focuses on land banks while acknowledging that other redevelopment authorities may also play a role in affordably developing homes in the small-dollar range.

In many cases, the homes that land banks purchase are ones that an owner-occupant would be unable to afford to purchase and rehabilitate. Private investors are the entity most able to bring delinquent homes back on line through rehabilitation, sometimes at the expense of preserving their affordability. In contrast, as mission-driven public entities, land banks do not have a profit mandate that passes on costs to LMI homebuyers, making it possible for 64 percent of properties sold by land banks in 2023 to be priced below fair market value (Center for Community Progress, 2023). By purchasing and holding homes and aligning their use with community needs, land banks can prevent existing homes or desirable but unproductive land from being converted from affordable owner-occupant housing to rental housing or less affordable owner-occupant housing.

Exhibit 23. Approach 3.2.

Actions	Key Actors	Solution	Scale
Action 3.2.1: Adopt laws at the state level allowing localities to create land banks with authority to acquire, manage, and dispose of property.	**State government actors**	Legislative action	State
Action 3.2.2: Ensure sustainable funding for establishing, operating, and scaling land banks through federal, state, and local public and private sources.	**Federal government actors** *Congress* **State and local government actors** **Nonprofit organizations** **Philanthropic organizations**	Program; Legislative action	Federal, state, and local

New America

Source: Research by the authors; New America.

Action 3.2.1: Adopt laws at the state level allowing localities to create land banks with authority to acquire, manage, and dispose of property.

Land banks are generally created by local governments through municipal appointment of a governing board or through direct administration by a government department. Local governments typically do not have the authority to grant land banks the power to acquire abandoned or tax-delinquent properties, unless permitted by state legislation. Unless they grant localities an exceptional degree of autonomy, states must take action to enable land banks to work effectively (Alexander, 2015).

States can pass legislation outlining localities' authority to establish land banks. These laws may outline the funding sources and financing mechanisms available to land banks, the role that land banks can play in the tax foreclosure process, the number of homes allowable in land banks' inventories, and more (Alexander, 2015). As of June 2026, 20 states and Puerto Rico had passed legislation enabling land banks (Center for Community Progress, n.d.b). In states without enabling

legislation, nonprofit or government entities are very limited in which land banking activities, if any, may be carried out.

The national land bank advocacy and technical assistance organization, Center for Community Progress, has developed a comprehensive guide that advocates and lawmakers can use to advance enabling legislation for land banks (Alexander, 2015).

Action 3.2.2: Ensure sustainable funding for establishing, operating, and scaling land banks through federal, state, and local public and private sources.

State, local, and federal government actors' financial support of land banks is critical for their creation and operation. A 2023 land bank survey by the Center for Community Progress found that the largest sources of funding for land banks were government grants or appropriations (37 percent), revenue from property sales (33 percent), and tax recapture or delinquent tax fees (17 percent). That same year, 47 percent of land banks participating in the Land Banking Survey reported being directly funded by or involved in projects enabled by American Rescue Plan Act State and Local Fiscal Recovery Fund grants (Center for Community Progress, 2023).

Another historical example of federal funding for land banking is the Neighborhood Stabilization Program, which Congress established through the Housing and Economic Recovery Act in 2008 (Spader et al., 2015). Through the Neighborhood Stabilization Program, HUD provided funding to localities with high numbers of abandoned and foreclosed homes for establishing land banks to purchase, demolish, and redevelop abandoned properties.

Philanthropic actors can also provide meaningful sources of funding for land banks. Grants that do not explicitly name land banking activities as permissible uses of funding could clearly permit grant funds for the use of land banking activities and supportive technical assistance.

In addition to grantmaking and appropriations, state and local legislative bodies can ensure adequate funding by permitting land banks to take advantage of financing mechanisms— through passage of state-level enabling legislation or inclusion in the land banks' charters, respectively—that sustain land bank operations with some degree of self-sufficiency. Depending on the state legal context, the array of financing mechanisms available to land banks may include: bond financing, investments, recaptured taxes on properties disposed of by the land bank, revenue from property sales, payment from services rendered, grants and gifts, rental payments, and loans (Alexander, 2015). Land banks with a variety of funding tools at their disposal will be better able to innovate and evolve in accomplishing their communities' affordable housing goals.

Case study: Houston Land Bank creates affordable homeownership opportunities with support from local and federal partners.

Houston Land Bank (HLB) is a public nonprofit that leverages an inventory of formerly tax-delinquent properties to facilitate affordable single-family homeownership opportunities, especially in Black and Hispanic neighborhoods in Houston. In a December 2024 interview, a housing expert at HLB discussed their core model involving stewarding public land, soliciting community input, contracting with local developers to build homes, and selling those homes to income-eligible families, targeting the "missing middle," or households earning 80 to 120 percent of AMI—those who earn too much to qualify for public subsidies but not enough to afford market-rate housing. HLB has employed a variety of approaches to create 500 new affordable homes since 2004; no matter the strategy, effective partnerships and collaboration with governmental entities, nonprofits, and private builders have been key to its success.

In its Traditional Home Program, through which the majority of its homes are built, HLB acts as a predevelopment partner, facilitating the land disposition and oversight of construction standards. Homes are built quickly and for less money because HLB partners with local builders, selling them land at deeply discounted rates—as low as $10,000 or $15,000. These discounts, in turn, reduce home prices for buyers, enabling HLB homes to remain well below the market rate.

To leverage small or awkwardly shaped lot sizes that might otherwise go unused, HLB is also partnering with Fannie Mae, the Insurance Institute for Business and Home Safety, and Auburn University's Rural Studio to develop a catalog of pre-permitted floor plans for affordable, resilient homes. These pre-permitted homes will not only streamline development delays and speed up the housing delivery process but will also be designed to reflect local needs and preferences.

These examples are just two of many that HLB has developed within the Houston housing market, but additional partnerships that bridge different sectors would be useful at the local and federal levels. One such partnership is between the Environmental Protection Agency and HUD, because delinquent properties in historically Black and Hispanic neighborhoods across Houston, adjacent to industrial activity, may be sites of environmental contamination. HLB has conducted environmental reviews and facilitated reuse planning for numerous contaminated sites, and given that environmental contamination is a major barrier to safe homeownership, stronger collaboration between the two agencies is critical.

Approach 3.3: Scale shared equity models of land and homeownership that allow buyers to build wealth starting at a small-dollar price point.

Shared equity models of homeownership—including deed-restricted housing, limited equity co-ops, and community land trusts—generally subsidize home or land purchases with a grant or loan. The property then retains that subsidy for future buyers through resale restrictions. In limiting the future sales price, shared equity homeownership models generate less financial gain for owners and sellers, but they also keep the home affordable for future buyers by buffering it from the speculative homeownership financing system.

In recent years, households of color continue to use shared equity housing models; more than 40 percent of shared equity homeowners were people of color between 2013 and 2018 (Wang et al., 2019).

Exhibit 24. Approach 3.3.

Actions	Key Actors	Solution	Scale
Action 3.3.1: Establish and scale Community Land Trusts to create small-dollar homeownership opportunities.	**Federal government actors** *Congress, HUD* **State and local government actors** **Nonprofit organizations** **Philanthropic organizations**	Program	Local
Action 3.3.2: Promote and scale partnerships between land banks and Community Land Trusts to produce affordable homeownership opportunities for LMI buyers.	**Local government actors** **Nonprofit organizations** **Philanthropic organizations**	Program	Local
Action 3.3.3: Scale limited equity cooperatives to increase lasting affordable homeownership opportunities.	**State and local government actors** **Nonprofit organizations** **Residents of limited equity cooperatives**	Program	State and local

New America

LMI = low- and moderate-income.

Source: Research by the authors; New America.

Action 3.3.1: Establish and scale community land trusts to create small-dollar homeownership opportunities.

One of the many obstacles to homeownership is the high cost of homes. In 2022, the median price of single-family homes was 5.6 times greater than the nationwide median household income—the greatest home-price-to-income gap seen in approximately 50 years (Hermann and Whitney, 2024). Supports like downpayment assistance or first-time homebuyer programs aim to close this gap for individual households seeking to buy, but affordability is embedded in that one purchase and cannot be passed on to future buyers.

The community land trust (CLT) model maintains affordability over time by keeping land trust properties affordable in perpetuity. CLT homeownership can allow LMI buyers to enjoy some of the benefits of homeownership, and it can serve as a springboard to ownership on the conventional market; nearly 60 percent of shared equity homeowners who sell their homes move on to become homeowners in the traditional market (Cabral, 2024; Wang et al., 2019). CLT homeownership may also offer more sustainable and predictable alternatives to homeownership on the traditional market; for example, in 2010, traditional market mortgages saw a 4.6 percent foreclosure rate, whereas land trust properties' mortgage default rate was only 0.5 percent (Thaden, 2011).

Community land trusts acquire, manage, sell, and steward residential properties that are affordable to LMI homebuyers. When buying a CLT home, an eligible household purchases a single-family home or a unit in a multifamily building from a CLT, and at the same time signs a "ground lease" to rent the land beneath the dwelling structure. Ground leases typically last for 99 years—indicating affordability that remains permanent over the occupant's duration of ownership—and specify terms for reselling the property to the next buyer. Under this model, buyers own their home or unit and lease their land from the CLT, which retains ownership of the land (Local Housing Solutions, 2021a).

As in other shared equity models, the resale price of CLT homes is restricted, often through a resale formula that allows for below-market appreciation of the home value. This restriction keeps the price affordable for the next buyer, ensuring that the initial subsidy used to bring the home into CLT stewardship benefits future families. Most CLTs set buyer eligibility criteria according to the AMI, but some may also give preference to households that work in a certain community or to first-time homebuyers. The prices of homes sold through CLTs vary, and some CLTs build new homes, whereas others renovate existing homes or acquire homes in good condition.

Funding for CLTs tends to come from grants—often from local governments, federal sources like CDBG and HOME funds, and philanthropic organizations (Local Housing Solutions, 2021a). These entities can continue or expand funding for CLT operations to promote access to this affordable homeownership opportunity. Congress could appropriate additional funds for these block grants. Besides continuing to allow CLT activities under the grants they administer, HUD could promote technical assistance opportunities for HOME and CDBG grantees seeking to use these funds for the initial CLT purchase subsidy or for the development of new homes. In communities where no CLT

exists, local policymakers could establish CLTs, and in the over 200 communities already served by a CLT, public and private funding could support and scale their work.

Case study: Grounded Solutions Network supports CLTs by balancing unique local challenges with national scaling efforts.

Beyond providing an alternative pathway to homeownership, the CLT model helps stabilize communities for current and future residents, notably in appreciating markets, where affordability wanes with each passing rent increase or lease renewal. Grounded Solutions Network (GSN) is a national nonprofit that supports local communities in building lasting affordable homeownership opportunities, primarily through the development of CLTs. In a November 2024 interview, housing experts at GSN detailed the tailored technical assistance, advocacy, and policy support they provide to residents and local governments forming CLTs, adapting their approach to each community's individual needs and regulatory, political, and financial environment.

In some places, GSN may support residents in securing sufficient subsidies so that home prices are affordable to families with incomes between 60 and 80 percent AMI, whereas in others, they may share information to educate real estate agents and lenders about adapting their services for CLT buyers. In any community, however, GSN staff highlighted three elements critical for CLT creation: an engaged and motivated community of residents; buy-in and support from local government (both through subsidies and land acquisition); and adequate funding from public and private sources to support CLT startup costs.

A major barrier, however, is the dearth of lenders familiar with CLT models, including factors such as long-term ground leases and resale restriction formulas. GSN staff observed that it can take a local regional bank, a state housing finance agency, or a national originator to customize their loan products and process a few CLT mortgage transactions in a local housing financing ecosystem before other lenders in that market realize that by tweaking their processes, they too can be a viable line of business.

GSN staff also discussed state and federal policy changes that would help facilitate CLT creation, operation, and expansion. At the state and local levels, having tax policies that assess and value CLT properties according to their resale price, rather than their value on the open market, is critical to CLT development. At the federal level, GSN emphasizes that a robust secondary market for these kinds of loan products is needed to increase the availability of CLT loans. Although HUD and state housing finance agencies can play an important role, the GSEs—Fannie Mae and Freddie Mac—are the organizations with the capacity and resources to take this on and to standardize requirements that the financing

market can follow. Another critical action at the federal level is including language in HUD funding opportunities that explicitly permits the use of federal grant dollars in programs like CDBG and HOME for establishing or operating CLTs and other shared-equity homeownership models. A lack of explicit permission can prevent state or local governments from using these funds to form CLTs, stymieing land trusts' scaling potential.

Currently, establishing and operating a CLT requires significant collaboration and often niche, bespoke interventions across a wide variety of stakeholders at the local, state, and national levels. To scale this model, financing systems must adapt to more innovative loan products, and requirements must be standardized to create greater certainty in the market.

Action 3.3.2: Promote and scale partnerships between land banks and CLTs to produce affordable homeownership opportunities for LMI buyers.

Through coordination, collaboration, and funding opportunities, local governments and other housing leaders could encourage establishing partnerships between land banks and CLTs.

In some localities, land banks and CLTs work in conjunction, with land banks acquiring and selling land or developments and CLTs stewarding homes with ground leases. This approach increases efficiency and affordability in buying and reselling homes; land banks are well-positioned to acquire publicly owned or vacant properties, but their mission and economic model may not always allow for their properties to be sold at affordable prices. CLTs, on the other hand, may find it financially difficult to acquire properties, but their ground lease model ensures that the homes they sell are affordable to LMI buyers. Exhibit 25 outlines some of the differences between land banks' and CLTs' structure and operations.

The Maggie Walker Community Land Trust in Richmond, Virginia, began operating as a land bank in 2018, becoming the first combination land bank-CLT in the country. In its first eight years of operation, this trust sold 89 homes to Richmond residents at a median sales price of $165,000 (Greene, 2024).

The Central Ohio Community Land Trust is a subsidiary of the Central Ohio Community Improvement Corporation-Franklin County Land Bank. Properties acquired by the land bank are automatically assessed to determine suitability for transfer to the CLT, illustrating a streamlined system for moving land bank inventory to a CLT (Sorce and Graziani, 2022).

Exhibit 25. Key Differences Between Land Banks and Community Land Trusts.

	Land Banks	Community Land Trusts
Legal Structure	Public entity (nonprofit or public authority)	Private nonprofit
Governance	Board/governance defined by state statute/intergovernmental agreement (mix of government/private/community)	Tripartite board (lease-holders, community members, and external stakeholders)
Mission	Acquire tax delinquent, vacant, abandoned property and connect to responsible end user	Acquire and hold land permanently for public good (e.g., affordable housing)
Acquisition	Special acquisition powers or preferred access to property (e.g., tax or lien foreclosure)	Status as nonprofit may allow for preferred access from local government
Management/ Maintenance	Manage/maintain vacant and abandoned property, hold land tax exempt	Steward property, may hold land tax exempt
Disposition/ End Use	Dispose of property to responsible transferee according to community goals	Permanently hold land for public good

Source: Zehner, 2020.

NEW AMERICA

Case study: Houston Land Bank and Houston Community Land Trust explore ways to collaborate in building affordable homeownership opportunities.

The City of Houston established the Houston Land Bank (HLB) and Houston Community Land Trust (CLT) in 2018, with coordination between the two entities as an explicit part of their respective missions and goals. The following year, HLB and Houston CLT began collaborating through the New Home Development Partnership, in which the City of Houston constructed homes on HLB land to be sold to Houston CLT, for income-eligible households to buy through the land trust model. This program has yielded at least 30 newly built homes at an average purchase price of $75,134—far below Houston's 2019 median home price of more than $310,000.

Although the New Home Development Partnership no longer operates as a partnership between HLB and Houston CLT as of 2025, partly because of challenges with the quality of homes, the two entities remain in partnership with one another, with HLB stewarding the sale of several new homes built and owned by HLB's partner contractors to Houston CLT.

Houston CLT can take advantage of a lower purchase price underpinned by the low cost of the land HLB initially sold to the developers for construction. The collaboration of the private-sector developers with the public-sector HLB and Houston CLT generates high-quality, affordable homes for Houstonians making 80 percent or less of the AMI. Whether through a formal or informal partnership, the complementary models of Houston's land bank and CLT illustrate how these two types of entities can align to generate permanently affordable homeownership opportunities.

Action 3.3.3: Scale limited equity cooperatives to increase lasting affordable homeownership opportunities.

A limited equity cooperative (LEC) is a model of homeownership wherein residents purchase a share in a multifamily property and agree to resell their share at a price limited by a formula. Similar to CLTs, the resale price of an LEC share is calculated by the initial share purchase price plus a limited amount of the share's appreciation, which results in the resident selling their share for less than the full amount of market-rate appreciation, but more than they originally sold it for, allowing residents to benefit from modest wealth-building while keeping the purchase price affordable for the next buyer.

In 2016, an estimated 166,000 LEC units existed across the country, primarily concentrated on the East Coast (Urban Homesteading Assistance Board, n.d.). LECs vary in their governance structure and guidelines, but their common characteristics are that residents jointly control the property and make decisions democratically. As an incorporated entity, LEC residents generally pay for their property with a "blanket mortgage," or one loan covering all of the building's shares (Papoutsis, 2019). Individual residents buy an upfront share in the cooperative and thereafter pay a monthly carrying fee that covers mortgage payments, building maintenance, and insurance (California Center for Cooperative Development, n.d.). Freddie Mac and Fannie Mae both purchase loans for cooperatives, and Fannie Mae offers loan products for LEC residents.

Local and state policymakers could explore opportunities to finance and support the creation and maintenance of LECs, including by expanding existing low- or no-interest loan products for LECs. Many such products are enabled through HUD's Section 108 Loan Guarantee Program, which the federal agency could consider expanding to enable the creation of LECs in jurisdictions across the country (HUD Exchange, n.d.). Technical assistance for owner-residents of existing LECs can also safeguard the longevity of this affordable housing type (Howell, Bruton, and Clemens, 2020).

Approach 3.4: Increase opportunities for LMI owner-occupants to purchase small-dollar homes free from investor competition.

The availability of small-dollar homes for purchase by LMI owner-occupants is strained by the increasing prevalence of home purchases bought in cash (i.e., without financing). Although some owner-occupants may purchase their home without a mortgage, cash purchases are not economically viable for the vast majority of first-time homebuyers, 94 percent of whom used mortgages in 2024 (National Association of REALTORS®, 2025a).
On the other hand, investors—particularly those backed by private equity—hold sufficient liquid capital or access to credit to be able to buy homes without mortgages and either convert them to rental properties, renovate them for upscale resale, or demolish and replace them with higher-cost housing (Abt Associates, 2022b).[26] Institutional investors' presence in the housing market grew in the aftermath of the 2008 financial crisis, when large companies started to purchase foreclosed properties, often in bulk, at a time when few others were financially able to do so (Christophers, 2021). Investors' ability to take on significant repairs at scale is likely contributing to the preservation of some existing housing stock (Horowitz and Starling, 2024). However, Pew Charitable Trusts has noted that "a lack of mortgage access tend[s] to benefit investors, possibly at the expense of homeowners" (Horowitz and Roche, 2023).

Investor activity in home sales has been slowly increasing over the past two decades, particularly in the lower-cost housing market (Katz, 2024). Between 2018 and 2021, corporate investors purchased 29.3 percent of homes sold for less than $100,000, compared with only 7 percent of home sales for $100,000 and more (Zinn et al., 2022).

Large investor activity is concentrated in predominantly minority or economically distressed neighborhoods in metropolitan areas across the country. Across 40 major metropolitan areas, housing investor activity in 2022 disproportionately impacted Black neighborhoods, particularly in the South (Schaul and O'Connell, 2022). Research in Winston-Salem, North Carolina, found that large investor activity was concentrated in the sub-$100,000 housing market and that large investors' share of home purchases was particularly pronounced in Winston-Salem's predominantly Black neighborhoods (Zainulbhai and Blizard, 2022). Investor home purchases in 2020 and 2021 were more common in areas with higher mortgage denial rates, lower home values, and below-average rates of homeownership (Dowdall et al., 2022).

Because investor activity in the single-family housing market is not a longstanding phenomenon, efforts to curtail their presence through legislation and research on the efficacy of those policies are nascent. The following solutions are promising avenues for exploring methods of decreasing investor activity in the small-dollar homes market, with the aim of freeing up more affordable

[26] Although the definition of an investor differs across studies, an entity is generally defined as an "institutional investor" by owning a certain number of properties, holding high-value assets, or some combination of these two factors.

housing supply and reducing competition for owner-occupants seeking to purchase a home using mortgage financing.

Exhibit 26. Approach 3.4.

Actions	Key Actors	Solution	Scale
Action 3.4.1: Expand and adapt first-look programs to increase opportunities for owner-occupants to purchase small-dollar homes before investors do.	**Federal government actors** *HUD, GSEs* **State and local government actors** **Nonprofit organizations**	Program	Federal, state, and local
Action 3.4.2: Disincentivize investor ownership through tax code reforms.	**Federal government actors** *Congress* **State and local government actors** *(state legislatures, city councils)*	Regulatory action	Federal, state, and local
Action 3.4.3: Prohibit investor ownership in housing markets through regulation.	**Federal government actors** *Congress* **State and local government actors** *(state legislatures, city councils)*	Legislative action	Federal, state, and local

New America

GSEs = Government-Sponsored Enterprises.

Source: Research by the authors; New America.

Action 3.4.1: Expand and adapt first look programs to increase opportunities for owner-occupants to purchase small-dollar homes before investors do.

Relative to owner-occupants seeking to buy a home with a mortgage loan, large investors are able to buy homes quickly at foreclosure or other distressed-sale auctions, leveraging greater capital and market knowledge to navigate the process of acquiring real estate owned (REO) properties, which have gone through the foreclosure process and are now owned by a bank or other qualified financial institution (Horowitz and Starling, 2024). Reforms to foreclosure sale processes through first look programs can give non-investor buyers an advantage in making offers on homes before investors do.

First look programs allow eligible buyers—which could be owner-occupants fitting certain criteria, state or local governments, or nonprofit or mission-aligned developers—a period of exclusivity in which to make an offer on a property, free from competition from investors. Other first look programs include waiting periods in which non-investor buyers are offered the opportunity to match offers already made by investors, or the option to buy the home at a discounted price.

HUD and the GSEs have offered first look programs over the past two decades via the National First Look Program, Freddie Mac First Look Initiative, and HomePath (Treuhaft, Rose, and Black, 2010).

Research by the National Community Stabilization Trust (NCST), a nonprofit that stewards first look sales nationwide, found that first look programs in Florida stabilized communities and created homeownership opportunities for owner-occupants, particularly in predominantly minority and low-income census tracts. Of the first look sales for which community partners have reported data, 83 percent of properties were rehabbed and sold to an owner-occupant (Jakabovics and Sanchez, 2021).

Although the volume of homes entering foreclosure and real estate ownership is lower than in the aftermath of the financial crisis, government entities at all levels and nonprofit partners can adapt the first look model to today's landscape of investor ownership, in which many homes are already owned by investors, and buyers seek to purchase homes earlier in the foreclosure process. Government and nonprofit groups could incentivize or collaborate with sellers of foreclosed or investor-owned homes to participate in first look programs.

Case study: National Community Stabilization Trust's "First Look Program" has evolved in the face of housing market shifts while continually prioritizing affordable homeownership.

Since its inception, NCST has worked to support families by restoring distressed single-family homes, strengthening neighborhoods, and increasing affordable homeownership opportunities for historically underserved communities. NCST was formed in 2008 as a direct response to the national foreclosure crisis, with an explicit goal of intervening in REO sales to facilitate the transfer of foreclosed properties to mission-driven nonprofits for the purpose of neighborhood stabilization.

In a January 2025 interview with NCST, housing staff shared that NCST's flagship property acquisition program, First Look, has proven to be a particularly beneficial tool in the organization's pursuit to deliver REO inventory to nonprofits with affordable homeownership as their central mission. This First Look program allows vetted, mission-driven nonprofits and for-profit entities an exclusive opportunity to purchase properties in their communities before the units are more broadly available for sale. In many cases, REO properties may be acquired at a discounted rate to assist the financial feasibility for small and emerging developers to rehabilitate and eventually sell to eligible homeowners. The approach has successfully made more single-family homes available to eligible households and nonprofits instead of large-scale investors. As a result of its First Look program, NCST has successfully produced over 28,000 transactions totaling over $1.8 billion and has provided over $325 million in savings to its community buyers.

As market conditions evolve, NCST has also continued to enhance its property acquisition programs to ensure its community partners can continue to compete in buying and rehabilitating foreclosed properties. Most notably, NCST uses its property acquisition platform, REOMatch™, to market properties for qualified buyers to purchase foreclosed homes auctioned through FHA's Claims Without Conveyance of Title (CWCOT) Program, a mechanism that streamlines the foreclosure process by allowing mortgagees to sell foreclosed properties to third parties rather than conveying the assets directly to HUD (Goodman and Choi, 2025). NCST began working with this program in 2022, when FHA and HUD instituted a 30-day exclusive bidding period for qualified buyers. It continues to market CWCOT properties for its broad network of community buyers despite HUD's recent rescission of an exclusive bidding period (HUD, 2025).

Although mandating participation of sellers in first look programs is an effective way to maximize impact, private partnerships at the local level have also proven to be a promising approach. One of NCST's trusted community partners, Atlanta Neighborhood Development Partnership, Inc. (ANDPI), launched a first-of-its-kind partnership with corporate housing investor Pretium Partners in 2024. This program offers ANDPI an exclusive look at properties the investor plans to sell from its national inventory of more than 97,000 homes, and allows the nonprofit to rehabilitate and sell these homes to owner-occupants at below-market prices.

As housing markets change, NCST and its partners' ability to adapt to changing housing market dynamics, and potentially expand access to homes at earlier stages, will allow the first look model to continue creating affordable homeownership opportunities for communities nationwide.

Action 3.4.2: Disincentivize investor ownership through tax code reforms.

A key motivator behind investor purchases of homes is the profit returns from either renting or flipping these properties, notably in appreciating markets. Data from Redfin, a national real estate brokerage, indicates that in June 2024, the typical home sold by an investor went for 58 percent more ($190,404) than the purchase price (Redfin, 2024).

Some regulations and taxes could make residential property ownership—particularly of single-family homes—less attractive to institutional or large investors by decreasing the profit potential of renting or selling homes. Adding a tax on the sale or ownership of a home for certain buyers (i.e., ones that own a large amount of homes) could make homeownership less attractive for large investors. For example, federal legislation could deny residential real estate investors certain tax deductions, such as those for mortgage interest, insurance, and depreciation that are available to other homeowners (Congress.gov, 2022).

Alternatively, legislation could impose an excise tax, or a tax on a good or service, on the sale of homes bought by large investors. The tax could be based on a percentage of the home's sale price or set at a flat rate (Congress.gov, 2023b, 2024). The length of time between purchase and sale of a home may also factor into whether the sale of a home would be subject to the tax (Fu, Reynolds, and Atherton, 2024). These types of changes to tax codes—whether local, state, or federal—could disincentivize large investors from pursuing the purchase of homes as an investment opportunity.

Action 3.4.3: Prohibit investor ownership in housing markets through regulation.

A much more interventionist solution to reducing the share of small-dollar homes bought and owned by institutional investors is prohibiting these entities from owning this type of property altogether. Investor ownership of real estate could be targeted in a variety of ways, including preventing owners of 1,000 properties or more from renting additional properties, prohibiting any real estate investment trust from owning any single-family homes, or banning the bulk sale of homes by developers (Fu, Reynolds, and Atherton, 2024).

These types of prohibitions could occur at the federal, state, local, or even neighborhood level, through action by homeowner associations (Congress.gov, 2023a). Some homeowner associations aim to limit investor presence in their communities by adopting bylaws that ban or cap the number of rental homes in the neighborhood, or that impose a waiting period of 1–2 years after sale until a home can be rented (Fallon, Noble, and Reynolds, 2023; O'Malley, 2022).

Section V. Conclusion

This study assesses the persistent barriers to homeownership for low- and moderate-income (LMI) households and communities of color, focusing on access to small-dollar mortgages (loans of less than $150,000). The findings of this study suggest that efforts to improve access to small-dollar mortgage loans in the United States would disproportionately impact the Black homeownership rate, even if modestly, and increase the homeownership rate overall. As such, efforts taken by policymakers, advocates, and practitioners to address the barriers to small-dollar homeownership are likely to have widespread beneficial impacts.

A range of solutions exists that, when applied in the right environment, can increase homeownership opportunities in LMI communities and address the racial homeownership gap. However, the complexity of these solutions, including the local capacity needed to implement them, also demonstrates that the current homeownership financing market is not particularly well suited to fit the needs of those underserved by traditional credit. At the same time, a coordinated response across the public and private sectors that aligns subsidy tools, secondary market access, regulatory levers, and financial innovation can unlock significant opportunities for equitable wealth-building through homeownership.

Section VI. Appendixes

Appendix A. Methodologies for Dataset Construction: Weighting vs. Filtering

Black residents are not evenly distributed across U.S. counties relative to White residents. In some places, particularly in the West, there may be few or none in an entire county. This unevenness poses challenges for a national research investigation into a comparison between Black and White homeownership rates using county-year data.

To address the challenges introduced by the disproportionate concentration of Black households in certain regions of the United States, the study team uses 2022 data to refine their approach with two potential approaches toward ordinary least squares (OLS) regression analysis:

1. Weighting the county-year observations in the regression analysis by the number of households in each county.

2. Filtering out counties with too few Black households to produce statistically significant results.

This appendix discusses in more detail a common method of weighting found in academic literature and its applicability to OLS regression for this project. It also discusses the alternative procedure of identifying an appropriate filter (i.e., a minimum number of Black households per county) for this analysis that ensures a statistically reliable sample for this national investigation into causes of homeownership rates. The authors conclude that a filter serves the purpose of this project better than using weighted observations.

Why weight? Weighting is a commonly used method for situations in which groups of data have different sample sizes. An oft-cited paper by Solon, Haider, and Wooldridge (2013) on the use of weighting discusses the appropriate cases and reasons to weight observations.

As Friedman (2013) points out in a discussion of the Solon, Haider, and Wooldridge paper, weighting is ostensibly used to "reverse the distortion imposed by the differential sampling probabilities. However, most analysis, and virtually all analysis related to impact evaluation, is not concerned with the accurate measure of population parameters *but with the estimation of causal effects*" [italics added for emphasis]. That is indeed the case with this study, which is producing an estimation of the causal effect of mortgage lending on homeownership rates.

For example, weighting counties by population would be appropriate to find the overall mean height for the entire country's residents. However, if one were to explore dynamic reasons why people are taller in some regions across the country using a multiple regression model, it would not be appropriate to weight.

Several potential pitfalls occur in weighting with causal analysis, according to Solon, Haider, and Wooldridge (2013). The most relevant finding for this study is that weighting grouped data by a measure of population can lead to higher standard errors; as a result, researchers should exercise caution in identifying the problem they are trying to solve before applying this method. In addition, Solon, Haider, and Wooldridge discuss how weighting can sharply discount the information from regions with smaller populations, which is a problem if there are systematically different unmeasured aspects based on geography or region. Each potential pitfall is explored in turn.

Higher bias and more inefficient estimates. Friedman (2013) further notes in a discussion of the Solon, Haider, and Wooldridge paper (2013) that "Lee and Solon [show] where weighting actually *reduces* the efficiency of the estimates—the exact opposite of what should happen. It turns out that weighting can reduce precision when the grouped data have unmeasured characteristics in common with each other."

Dickens (1990) further elaborates on the problem of weighting grouped data, because *the data are likely correlated with each other* (such as in the authors' study that includes neighboring counties):

> The problem with this (weighting) as a practical approach to grouped data is the assumption that the Ejj's (of these groups) are independent.[27] The errors represent unobserved determinants of Y. To assume these errors are independent is to *assume that individuals in the same group share no common unobserved determinants. When grouping is done by characteristics such as geographic location or industry, this assumption is untenable* [italics added for emphasis].

In other words, homeowners in counties grouped close by each other in the same state (say Alabama), certainly have more unobserved characteristics in common with each other than two counties chosen at random in the United States. When counties are weighted by size (say, population), the effect is to "introduce considerable heteroskedasticity, produce inefficient parameter estimates and biased estimates of the standard errors." Dickens (1990) finds that unweighted OLS is the preferred method for grouped data unless a strong case can be made that the grouped data's unobserved errors are not correlated with each other.

Less representation of smaller counties. This study represents thousands of counties across the country, each with its own set of characteristics, measured and unmeasured, that affect Black and White homeownership rates. Aside from statistical inefficiency, using a weighting procedure means that smaller counties will barely register in this analysis relative to larger ones. If differences exist that vary by geography and by rural-versus-urban environments, then weighting the analysis will make it more difficult to tease out these differential effects.

For example, Los Angeles County has over 10 million residents, whereas Arthur County, Nebraska, has 469 residents, representing a 21,000:1 ratio. Using a standard weighting procedure of employing

[27] Ejj represent the aggregated error term or residual for a specific group or cluster of observations.

the square root of the population as the weight (Dickens, 1990), the Los Angeles County weight would be 3,162, versus 22 for Arthur County, or a 144:1 differential. Such a differential means there is likely little to learn from less populated counties using a weighting method.

Thus, based on widely cited academic literature on this topic, the study team believes the use of unweighted analysis, combined with some geographic and urban/rural dummy variables, will allow for a better understanding of the ways that homeownership rates are impacted and, as the literature suggests, provide more efficient parameter estimates.

The next section discusses how the criteria for inclusion in this study's dataset (i.e., using a filter of a minimum of 400 Black households per county) give greater assurance that the unweighted samples have a measure of statistical precision and information that is not overly subject to large percentage changes, as a smaller sample base would be.

Filtering counties for use in the regression analysis. After considering many different ways to address the wide variation in distribution of Black households across the United States, the study team landed on a filter that would assure a minimum *number* of Black households in each county. This filter is preferable to a filter for Black homeownership *rates* because there are many cases where Black homeownership rates are high, and yet the total number of Black households may be very small in these circumstances. In addition, there are other counties where the Black homeownership rate is zero because very few Black people live there. In both cases, an appropriate filter is needed to ensure a statistically valid representation of Black homeownership rates.

This study's unit of analysis is the county-year, and the dependent variable for a given regression is the homeownership rate, which varies by race (Black vs. White).

The homeownership rate in a given county for say, Black homeowners, is defined as:

$$\text{Black homeownership rate in county i, year j} = \frac{\text{Number of Black homeowners in county i, year j}}{\text{Number of Black households in county i, year j}} * 100 \quad (1)$$

Where:

a Black homeowner is an individual or family who owns a home, and

a Black household is an individual or family who either owns or rents a home.

Black homeownership rates vary widely across U.S. counties, and as a key dependent variable for the regression analysis, having confidence in these estimates is critical. Confidence in these estimates on a county level is a function of the size of the respective county's number of Black households on which these estimates are based. As with any statistical estimates, larger samples bring about greater statistical confidence. At the same time, establishing a minimum number of

Black households to estimate Black homeownership rates from equation (1) in a given county will necessarily exclude more counties as the minimum number of Black households increases. This necessitates a careful examination of establishing the minimum sample sizes to find the ideal tradeoff between statistical confidence and national representation of Black households.

This next section details how the team aimed to create a filter that would ensure 95-percent statistical confidence in calculating a Black homeownership rate on a county-year basis. The team uses 2022 housing data; a separate analysis for comparison used 2009 data, with small differences. Note that, although the team focused on Black homeownership rates in this study, White homeownership rates are defined similarly, as could be done for any other race or ethnicity.

Choosing a filter. The study team suggests a common statistical method to answer the following question: Which of the 3,144 U.S. counties have a sufficiently large number of Black households to estimate statistically sound estimates of Black homeownership? The filter the team employs is:

Filter: Exclude any county with fewer than 400 Black households to assure estimates for Black homeownership rates with 95-percent statistical confidence.

Formula (2) can be used to establish the minimum number of Black households in a county to have 95-percent confidence in estimates of Black homeownership rates.

$$n = (Z^2 \cdot \hat{p}(1 - \hat{p})) / E^2 \quad (2)$$

Where:

Z = 1.96 (for 95 percent confidence level),

$\hat{p}$ = estimated proportion, and

E = 0.05 (desired margin of error).

This formula calculates the required sample size to estimate a population proportion ($\hat{p}$) with a specified margin of error (E) and confidence level.

Exhibit 27 indicates the minimum number of Black households, or sample sizes, in a county that is needed to estimate Black homeownership rates with 95-percent confidence. For example, to have a 95-percent confidence in estimating a county with a Black homeownership rate of 10 percent, or a 0.10 proportion p, one needs a county with at least 139 Black households. Using equation (2) in this example produces the following:

$n = (1.96)^2 * (0.10*0.90) / (0.05)^2 = 138.2$ (rounding up to 139 Black households)

Exhibit 27. Required Sample Sizes to Estimate Proportions (*p*) of Homeownership with a 95-Percent Level of Confidence.

Estimated Proportion (*p*)	Black Homeownership Rate	Required Sample Size (*n*) or Number of Black Households, per County
0	0	0
0.05	5	73
0.1	10	139
0.2	20	246
0.5	50	384
0.8	80	246
0.9	90	139
0.95	95	73
1	100	0

Source: Research by the authors; New America.

To estimate counties with higher Black homeownership rates, these minimum sample sizes continue to rise, peaking at 384 Black households (representing a 50-percent Black homeownership rate), with 95-percent confidence. After that, the minimum sample sizes decline, as seen in Exhibit 27.

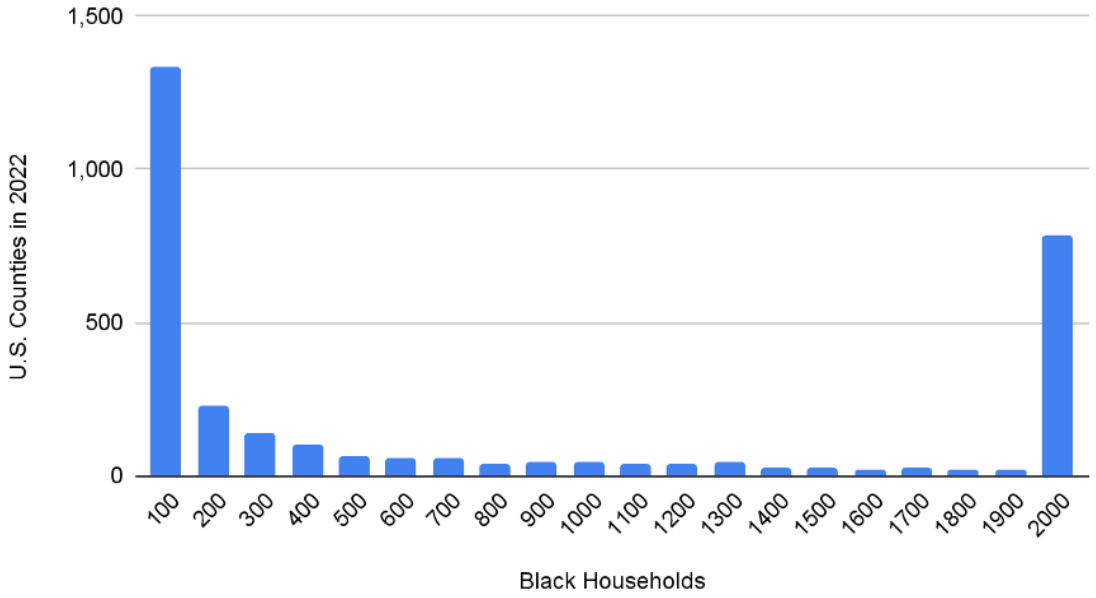
This analysis justifies a conservative and simplified approach that excludes all counties with fewer than 384 Black households to calculate an estimate of Black homeownership rates at a minimum of 95-percent confidence. For simplicity, the study team rounds up to 400 Black households in a given county as a minimum sample size for the analysis.

Chetty et al. (2020) employ a similar method in their article, “Race and Economic Opportunity in the United States: An Intergenerational Perspective,” when comparing economic mobility across the country on a county-by-county basis. In that article, counties with fewer than 500 Black children are excluded in an analysis of economic mobility by race, on a county-by-county basis.

Below are the results of the study analysis, showing the breakdown as a result of the filter. In 2022, 1,348 counties had zero Black households and 454 counties had 1 to 399 Black households , meaning that 1,802 counties will be excluded.

Exhibit 28 represents the overall distribution before the exclusion of counties with fewer than 400 Black households. For the rightmost tall vertical bar, this represents more than 750 counties that had approximately 2,000 Black households per county and thus are not subject to exclusion, along with the other groupings.

Exhibit 28. National Distribution of Black Households Across U.S. Counties, 2022.

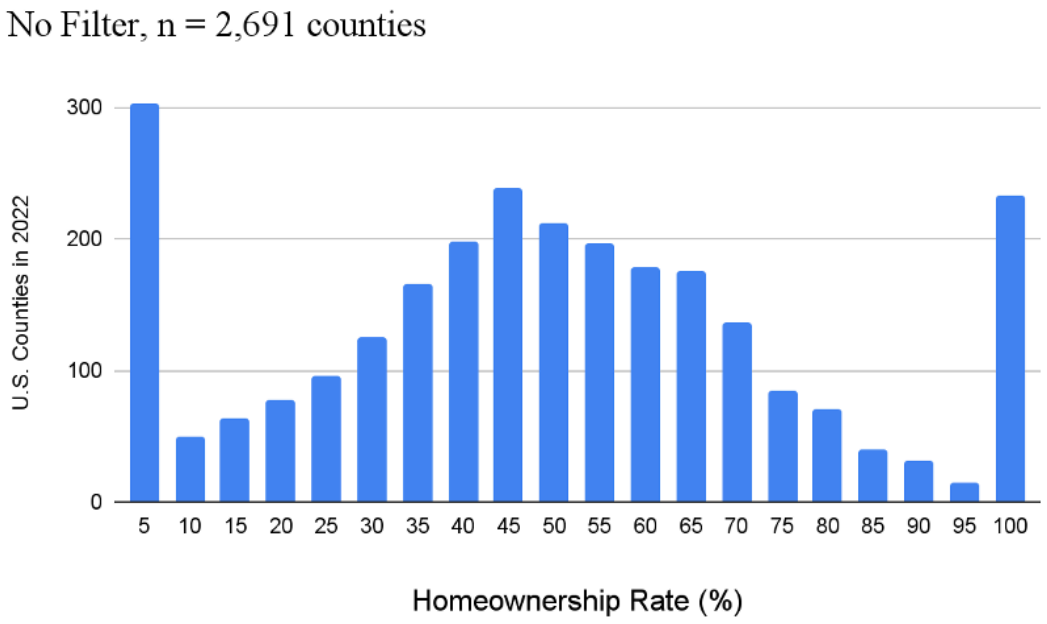


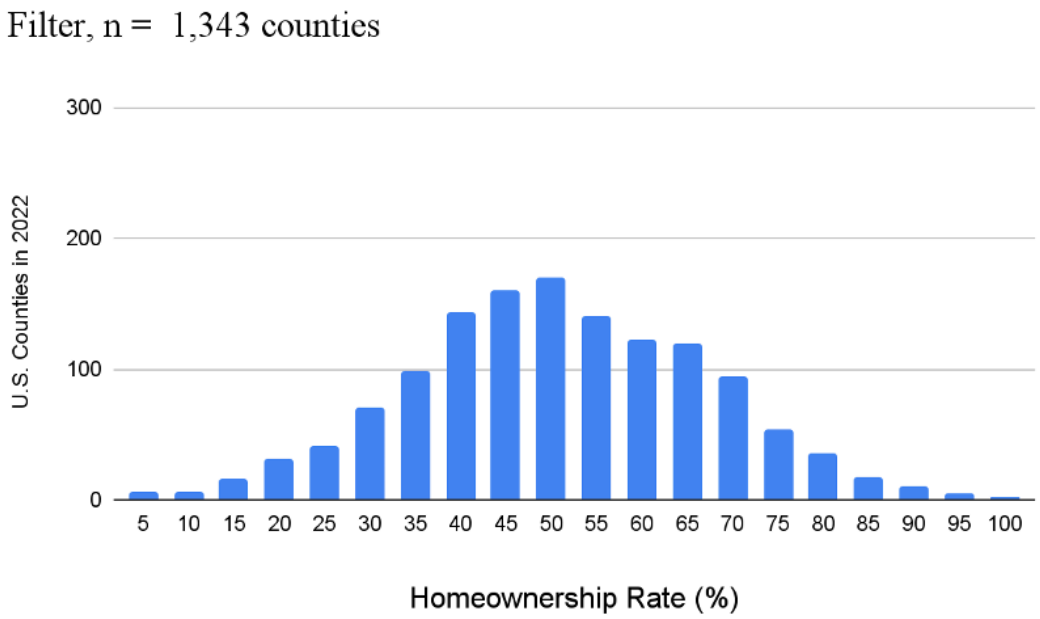
Note: 1,348 U.S. counties had zero Black households in 2022, and more than 750 counties had 2,000 or more Black households. n = 3,144 counties.

Source: Research by the authors; New America.

Exhibit 29 shows the impact on the distribution of Black homeownership rates after employing the authors' filter and excluding 1,802 counties. Black homeownership rates of 0 percent were automatically excluded, which addressed the problem of not being able to make comparisons with White homeownership rates. On the other end, counties with 100 percent Black homeownership rates also turned out to be in counties with fewer than 400 Black households (the average is 24.7, and the max is 302). These counties were also excluded based on the filter. The end result of using the filter based on the number of Black households in a given county was a normal distribution of homeownership rates for the remaining counties.

Exhibit 29. Distributions of County-Level Black Homeownership Rates in 2022 Before and After Excluding Counties with Fewer Than 400 Black Households.

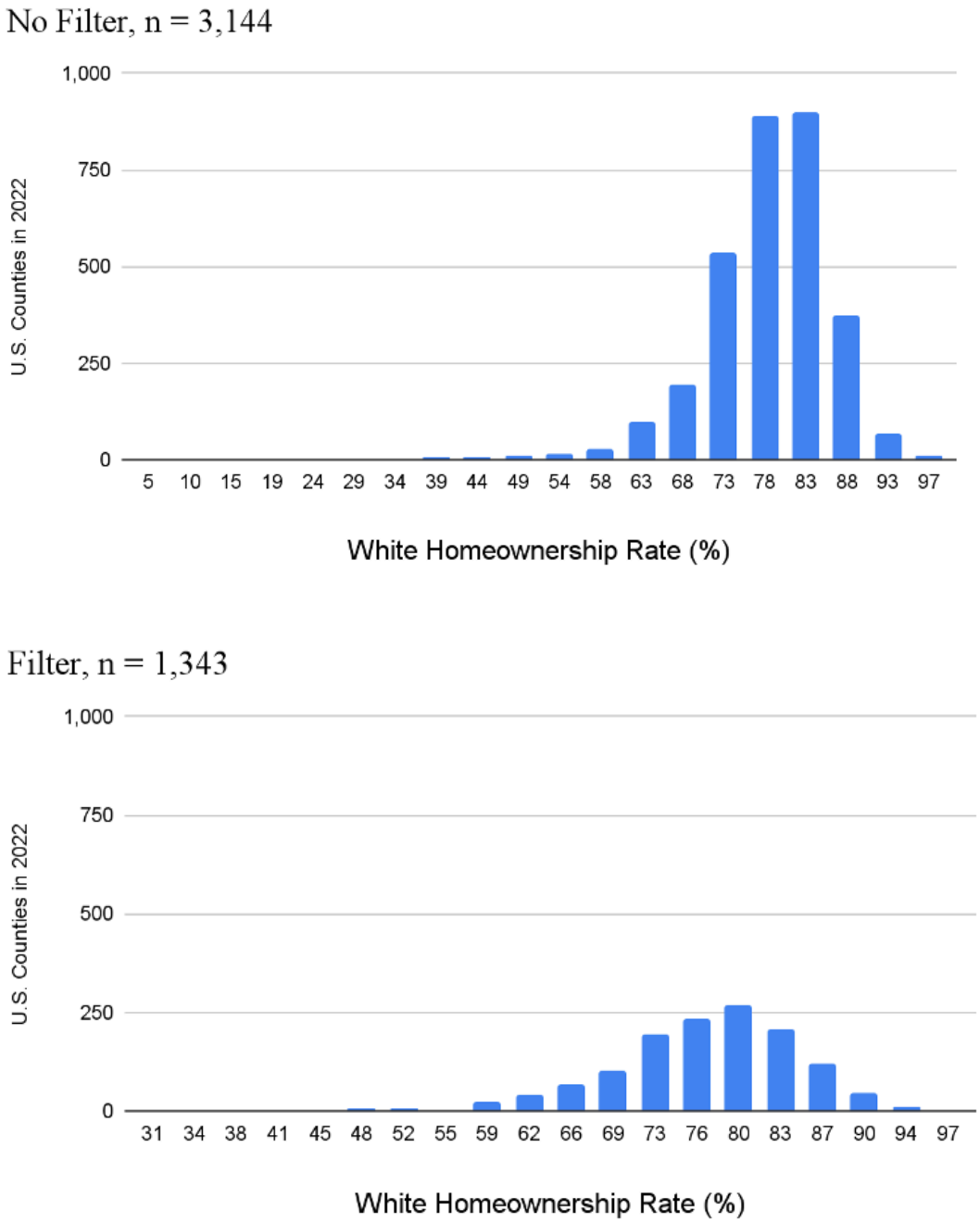




Source: Research by the authors; New America.

Exhibit 30 illustrates how the distribution of white homeownership rates changed after creating the filter for excluding counties with fewer than 400 Black households. The distribution retains a roughly normal distribution after the filtering.

Exhibit 30. Distributions of County-Level White Homeownership Rates in 2022 Before and After Excluding Counties with Fewer Than 400 Black Households.



Source: Research by the authors; New America.

Exhibit 31 provides a means of comparison of how the dataset used in the analysis compares to a national dataset that includes all counties. As it shows, about 42 percent of all counties were included in this national study, or 1,343 counties after the filter for Black homeownership was applied. This was necessary to have sufficient numbers of Black households to statistically compare the two groups.

Exhibit 31. Comparisons of National Datasets Before and After Applying Filters for Black Homeownership, for 2022 Data.

County-Level Information	All U.S. Counties* (1)	Dataset for Analysis: Filter Only Included Counties With 400+ Black Households (2)	Percentage Included in Final Dataset (2)/(1) * 100
Number of counties	3,144	1,343	42.7
Minimum number of Black households	-	400	-
Maximum number of Black households	-	480,816	-
Average Black homeownership rate	-	47.8	-

*Black households and ownership rates were not calculated for all U.S. counties because of the large number of counties with no Black households.

Source: Research by the authors; New America.

Exhibit 32 gives a sense of the distribution of the average number of Black households, as Black homeownership rates vary, with a look at the lower and upper tails of the distribution and the area of central tendency.

Exhibit 32. Distribution of Black Households in Counties with Varying Homeownership Rates.

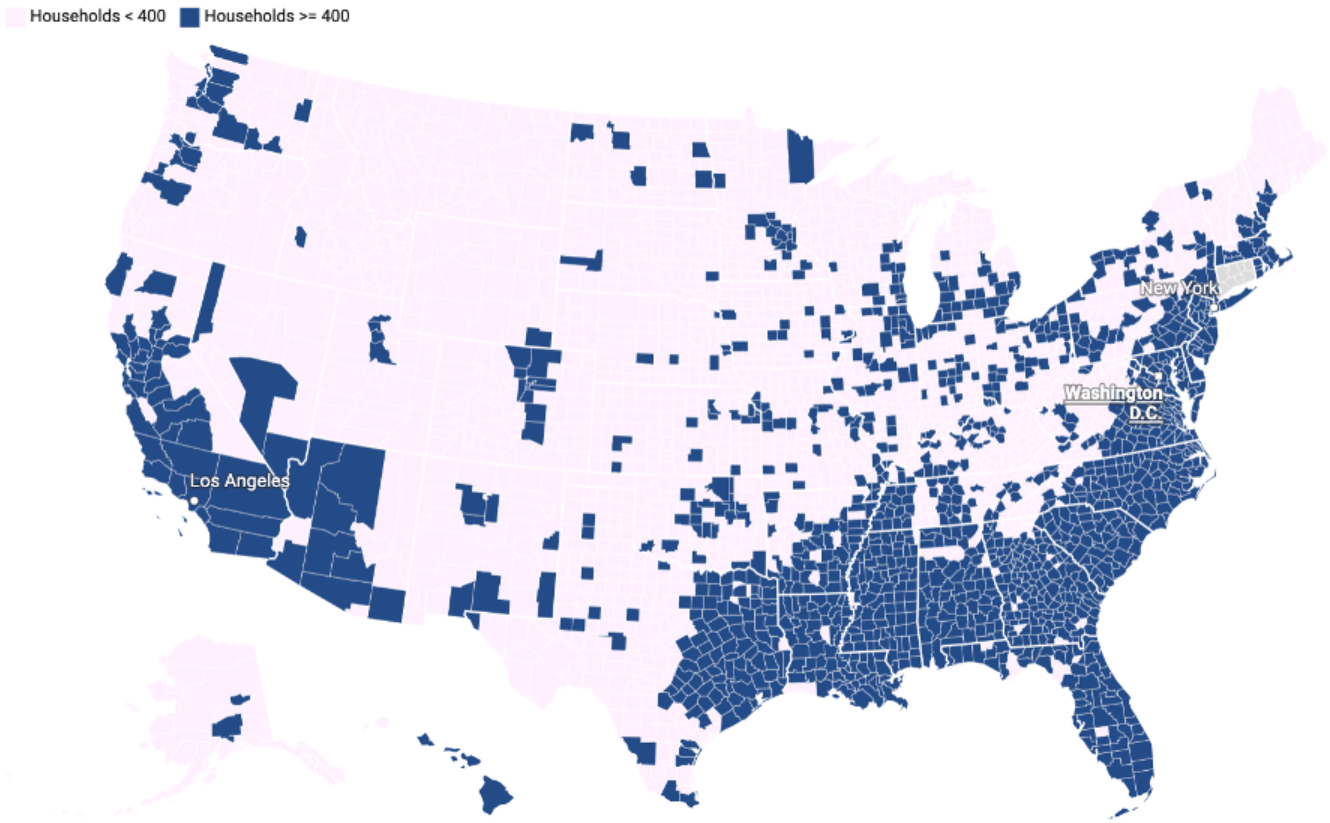
Counties by Rate of Black Homeownership (%)[28]	Number of Counties	Average Number of Black Households in Each Category
Counties with less than 20	58	3,355.9
Counties with 20–80	1,258	11,948.2
Counties with greater than 80	27	1,485.6

Source: Research by the authors; New America.

[28] Only includes U.S. counties with more than 400 Black homeowners.

Exhibit 33 illustrates the map of U.S. counties after this filter has been applied, which reduces the number of U.S. counties studied from 3,144 to 1,343. This map indicates the sweep of analysis for the study, which has a statistically valid number of Black households in each county to compare to White households regarding homeownership rates.

Exhibit 33. U.S. Counties That Have at Least 400 Black Households



Source: Research by the authors; New America.

Appendix B. FHFA Housing Price Index Use and Definition

This appendix details the specific challenges that have arisen during the course of the study and documents the study team's methodological approach to addressing each.

This study tracks the impact of small-dollar mortgages that are under a threshold defined as a *small-dollar mortgage* and eliminates all mortgages above that amount. A small-dollar mortgage has no commonly accepted definition, with some researchers describing it as $100,000 and less (McCargo et al., 2020) and others as $150,000 and less (Horowitz and Roche, 2023).

This study employs the definition of $150,000, but also includes the lower $100,000 estimate in regression estimates to obtain sensitivity analyses, included in Appendix C.

However, that approach becomes problematic when applying the threshold over time and across regions because of factors like house price appreciation and substantial county price variation within a given year. Thus, to make more reasonable comparisons across time and regions, an index can be used to make statistical adjustments in the threshold of which loans are included and which are excluded.

Although no one index addresses all the issues stemming from price appreciation, the Federal Housing Finance Agency (FHFA) Housing Price Index (HPI) comes close. The study team uses the county-year HPI to adjust the small-dollar mortgage threshold by county and by year to ward off potential distortions from inflation. As with any price index adjustment, the nominal amount of the value of variable X is divided by the index and then multiplied by 100. Here, the nominal amount is $150,000 for the threshold amount. A similar process was employed for the $100,000 threshold used for the authors' sensitivity analysis.

Prior to making that adjustment, the HPI is transformed to a base year of 2020, because home price growth was fairly stable up to that time and rapid thereafter, which creates an anchor of comparison that is readily interpreted.

The FHFA HPI has an advantage over other indices, such as the Zillow index, because it provides an "apples to apples" comparison of the same homes—rather than a comparison of average prices of newer homes to older homes, even if the newer homes are larger and have more amenities. According to FHFA, the HPI is a weighted, repeat-sales index, meaning that it "measures average price changes in repeat sales or refinancings on the same properties. This information is obtained by reviewing repeat mortgage transactions on single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac since January 1975" (FHFA, n.d.).

On the other hand, Zillow price indices do not control for housing characteristics, and thus part of the measured house appreciation over time also includes the fact that the average house is far larger than it used to be. In 2022, only 8 percent of newly built homes were 1,400 square feet or less, compared to approximately 70 percent in the 1940s (Badger, 2022). This trend underscores the superiority of the FHFA HPI for this analysis.

Appendix C. Sensitivity Testing of Regression Analysis

Exhibit 34. Restricted vs. Unrestricted Regression, Small-Dollar Loans (< $150,000), Indexed by the Federal Housing Finance Agency Housing Price Index.

	Black Homeownership Rate With Counties >= 400 Black HHs,								White Homeownership Rate With Counties >= 400 Black HHs,							
	Model 1				Model 2				Model 3				Model 4			
Control Variables	Coef.	Std. Err.	t	p	Coef.	Std. Err.	t	p	Coeff.	Std. Err.	t	p	Coef.	Std. Err.	t	p
Key Explanatory Variable																
Lagged Growth Rate in Small Dollar Loans (Indexed, < $150k) per 1,000 Housing Units	0.0110	0.0036	3.0300	< 0.01	0.0100	0.0033	3.01	< 0.01	0.004	0.002	1.76	0.08	0.0024	0.0017	1.45	0.15
Demographic Variable																
Population 65 and Older (%)	x	x	x	x	0.87	0.03	33.52	< 0.01	x	x	x	x	0.92	0.01	70.06	< 0.01
Economic Variable																
Wealth Inequality (Gini Index)	x	x	x	x	-0.61	0.03	-18.83	< 0.01	x	x	x	x	-0.33	0.02	-20.00	< 0.01
Median Family Income ($1,000s)	x	x	x	x	0.06	0.01	4.84	< 0.01	x	x	x	x	0.23	0.01	34.87	< 0.01
Housing Variable																
Median Home Value ($10,000s)	x	x	x	x	-0.14	0.02	-6.99	< 0.01	x	x	x	x	-0.41	0.01	-41.41	< 0.01
Median Age of Housing Units (Years)	x	x	x	x	-0.43	0.01	-31.68	< 0.01	x	x	x	x	-0.20	0.01	-29.53	< 0.01
Year (Base = 2009-2011)																
2012-2018	-2.41	0.39	-6.12	< 0.01	-2.10	0.36	-5.80	< 0.01	-1.49	0.23	-6.56	< 0.01	-1.87	0.18	-10.28	< 0.01
2019-2022	-2.96	0.41	-7.22	< 0.01	-2.53	0.40	-6.37	< 0.01	-0.71	0.24	-2.98	< 0.01	-1.66	0.20	-8.31	< 0.01
Census Divisions (Base = New England)																
West North Central	-4.47	0.90	-4.94	< 0.01	-8.96	0.86	-10.40	< 0.01	0.70	0.52	1.33	0.18	-2.19	0.43	-5.05	< 0.01
West South Central	16.78	0.84	20.03	< 0.01	10.68	0.84	12.75	< 0.01	5.36	0.48	11.07	< 0.01	1.85	0.42	4.38	< 0.01
South Atlantic	20.36	0.82	24.86	< 0.01	11.91	0.82	14.54	< 0.01	6.20	0.47	13.09	< 0.01	1.69	0.41	4.11	< 0.01
Pacific	4.20	0.94	4.49	< 0.01	2.37	0.93	2.56	0.01	-6.26	0.54	-11.57	< 0.01	-1.56	0.47	-3.35	< 0.01
Mountain	7.10	1.04	6.85	< 0.01	-0.69	1.00	-0.69	0.49	-0.04	0.60	-0.07	0.94	-2.32	0.51	-4.59	< 0.01
Mid Atlantic	4.95	0.89	5.53	< 0.01	4.98	0.82	6.04	< 0.01	2.77	0.52	5.36	< 0.01	1.87	0.41	4.52	< 0.01
East South Central	20.43	0.84	24.32	< 0.01	14.07	0.85	16.57	< 0.01	7.50	0.49	15.45	< 0.01	4.27	0.43	10.00	< 0.01
East North Central	4.66	0.87	5.37	< 0.01	1.22	0.82	1.48	< 0.01	4.78	0.50	9.53	< 0.01	1.25	0.41	3.02	< 0.01
Constant	35.97	0.87	41.25	< 0.01	70.23	2.02	34.77	< 0.01	70.29	0.50	139.45	< 0.01	75.50	1.02	74.28	< 0.01
N	16,005				15,997				16,007				15,999			
F	551.23				646.82				250.48				836.89			
p	< 0.01				< 0.01				< 0.01				< 0.01			
R-squared	0.28				0.39				0.15				0.46			
Adjusted R-Square	0.27				0.39				0.15				0.46			

Source: Research by the authors, using U.S. Census Bureau American Community Survey microdata (county level), except for small-dollar loan information, which comes from Home Mortgage Disclosure Act data.

Exhibit 35. Restricted vs. Unrestricted Regression, Small-Dollar Loans (< $100,000), Indexed by the Federal Housing Finance Agency Housing Price Index.

	Black Homeownership Rate				Black Homeownership Rate				White Homeownership Rate				White Homeownership Rate			
Control Variables	Coef.	Std. Err.	t	p	Coef.	Std. Err.	t	p	Coef.	Std. Err.	t	p	Coef.	Std. Err.	t	p
Key Explanatory Variable																
Lagged Growth Rate in Small Dollar Loans (Indexed, < $100k) per 1,000 Housing Units	0.0105	0.0024	4.30	< 0.01	0.0088	0.0022	3.94	< 0.01	0.0051	0.0014	3.62	< 0.01	0.0038	0.0011	3.38	< 0.01
Demographic Variable																
Population 65 and Older (%)	x	x	x	x	0.8719	0.0261	33.46	< 0.01	x	x	x	x	0.9076	0.0131	69.45	< 0.01
Economic Variable																
Wealth Inequality (Gini Index)	x	x	x	x	-0.61	0.03	-18.50	< 0.01	x	x	x	x	-0.34	0.02	-20.47	< 0.01
Median Family Income ($1,000s)	x	x	x	x	0.06	0.01	4.60	< 0.01	x	x	x	x	0.23	0.01	34.74	< 0.01
Housing Variable																
Median Home Value ($10,000s)	x	x	x	x	-0.13	0.02	-6.64	< 0.01	x	x	x	x	-0.41	0.01	-41.27	< 0.01
Median Age of Housing Units (Years)	x	x	x	x	-0.43	0.01	-31.76	< 0.01					-0.20	0.01	-29.30	< 0.01
Year (Base = 2009-2011)																
2012-2018	-2.28	0.39	-5.84	< 0.01	-2.00	0.36	-5.53	< 0.01	-1.44	0.22	-6.38	< 0.01	-1.82	0.18	-10.05	< 0.01
2019-2022	-2.81	0.41	-6.89	< 0.01	-2.40	0.40	-6.08	< 0.01	-0.65	0.23	-2.78	0.01	-1.58	0.20	-7.98	< 0.01
Census Divisions (Base = New England)																
West North Central	-4.45	0.90	-4.93	< 0.01	-8.90	0.86	-10.33	< 0.01	0.70	0.52	1.35	0.18	-2.22	0.43	-5.15	< 0.01
West South Central	16.80	0.84	20.09	< 0.01	10.70	0.84	12.78	< 0.01	5.36	0.48	11.14	< 0.01	1.84	0.42	4.39	< 0.01
South Atlantic	20.37	0.82	24.92	< 0.01	11.91	0.82	14.55	< 0.01	6.22	0.47	13.22	< 0.01	1.71	0.41	4.17	< 0.01
Pacific	4.24	0.94	4.53	< 0.01	2.27	0.93	2.45	0.01	-6.29	0.54	-11.67	< 0.01	-1.64	0.46	-3.54	< 0.01
Mountain	7.08	1.03	6.85	< 0.01	-0.73	1.00	-0.73	0.47	-0.06	0.60	-0.10	0.92	-2.34	0.50	-4.65	< 0.01
Mid Atlantic	4.98	0.89	5.58	< 0.01	5.04	0.82	6.12	< 0.01	2.78	0.51	5.41	< 0.01	1.87	0.41	4.52	< 0.01
East South Central	20.46	0.84	24.41	< 0.01	14.08	0.85	16.60	< 0.01	7.51	0.48	15.55	< 0.01	4.27	0.43	10.03	< 0.01
East North Central	4.69	0.87	5.41	< 0.01	1.29	0.82	1.58	0.11	4.79	0.50	9.60	< 0.01	1.23	0.41	2.99	< 0.01
Constant	35.82	0.87	41.17	< 0.01	69.81	2.02	34.50	< 0.01	70.22	0.50	140.16	< 0.01	75.92	1.01	74.82	< 0.01
N	15,971				15,963				15,973				15,965			
F	552.71				644.96				253.70				834.32			
p	< 0.01				< 0.01				< 0.01				< 0.01			
R-squared	0.28				0.39				0.15				0.46			
Adjusted R-Square	0.28				0.39				0.15				0.46			

Source: Research by the authors, using U.S. Census Bureau American Community Survey microdata (county level), except for small-dollar loan information, which comes from Home Mortgage Disclosure Act data.

Appendix D. Means and Standard Deviations of Variables

Exhibit 36. Means and Standard Deviations of Variables, Overall, 2011 and 2022.

	Overall					2011					2022				
	N	Mean	Std. Dev	Min	Max	N	Mean	Std. Dev	Min	Max	N	Mean	Std. Dev	Min	Max
Dependent Variables															
Black Homeownership Rate	18,672	48.34	15.64	0.00	100.00	1,333	50.14	15.38	0.00	91.78	1,334	47.84	15.93	0.85	97.88
White Homeownership Rate	18,676	74.11	8.29	18.87	100.00	1,334	74.98	8.08	25.92	97.49	1,334	75.02	8.41	27.23	97.40
Control Variables															
Key Explanatory Variable															
Lagged Growth Rate in Small Dollar Loans (Indexed, < $150k) per 1,000 Housing Units	16,007	8.69	29.42	-100.00	900.00	1,334	-3.99	38.91	-100.00	900.00	1,334	18.19	22.83	-41.67	187.50
Demographic Variable															
Population 65 and Older (%)	18,676	15.65	4.15	2.60	57.91	1,334	13.94	3.50	3.73	42.22	1,334	17.99	4.29	2.89	57.91
Families. Single Parent Headed (%)	18,676	37.48	9.78	7.77	88.62	1,334	36.61	9.34	13.80	74.17	1,334	38.02	10.43	7.77	80.69
Economic Variable															
Wealth Inequality (Gini Index)	18,676	45.21	3.51	33.00	71.00	1,334	44.50	3.53	34.00	67.00	1,334	45.73	3.46	35.00	61.00
Median Family Income ($1,000s)	18,676	56.09	15.99	18.67	139.37	1,334	55.30	15.22	24.66	127.62	1,334	59.48	16.94	25.34	138.19
Housing Variable															
Median Home Value ($10,000s)	18,676	16.51	10.83	3.05	144.13	1,334	15.36	9.78	3.33	84.23	1,334	22.22	14.51	4.75	144.13
Median Age of Housing Units (Years)	18,676	37.65	42.27	10.00	84.00	1,334	34.01	9.75	11.00	72.00	1,334	40.74	10.40	17.00	84.00
Year															
2009-2011	18,676	0.21	0.41	0.00	100.00	1,334	1.00	0.00	1.00	1.00	1,334	0.00	0.00	0.00	0.00
2012-2018	18,676	0.50	0.50	0.00	100.00	1,334	0.00	0.00	0.00	0.00	1,334	0.00	0.00	0.00	0.00
2019-2022	18,676	0.29	0.45	0.00	100.00	1,334	0.00	0.00	0.00	0.00	1,334	1.00	0.00	1.00	1.00
Census Divisions															
New England	18,676	0.02	0.13	0.00	1.00	1,334	0.02	0.13	0.00	1.00	1,334	0.02	0.13	0.00	1.00
West North Central	18,676	0.06	0.24	0.00	1.00	1,334	0.06	0.24	0.00	1.00	1,334	0.06	0.24	0.00	1.00
West South Central	18,676	0.17	0.38	0.00	1.00	1,334	0.17	0.38	0.00	1.00	1,334	0.17	0.38	0.00	1.00
South Atlantic	18,676	0.35	0.48	0.00	1.00	1,334	0.35	0.48	0.00	1.00	1,334	0.35	0.48	0.00	1.00
Pacific	18,676	0.05	0.21	0.00	1.00	1,334	0.05	0.21	0.00	1.00	1,334	0.05	0.21	0.00	1.00
Mountain	18,676	0.03	0.16	0.00	1.00	1,334	0.03	0.16	0.00	1.00	1,334	0.03	0.16	0.00	1.00
Mid Atlantic	18,676	0.07	0.25	0.00	1.00	1,334	0.07	0.25	0.00	1.00	1,334	0.07	0.25	0.00	1.00
East South Central	18,676	0.16	0.37	0.00	1.00	1,334	0.16	0.37	0.00	1.00	1,334	0.16	0.37	0.00	1.00
East North Central	18,676	0.10	0.30	0.00	1.00	1,334	0.10	0.30	0.00	1.00	1,334	0.10	0.30	0.00	1.00

Source: Research by the authors, using U.S. Census Bureau American Community Survey microdata (county level), except for small-dollar loan information, which comes from Home Mortgage Disclosure Act data.

Appendix E. Key Definitions in Landscape Analysis

Terms commonly used throughout the landscape analysis are defined below.

For the purposes of this study, *small-dollar mortgage loans* (or *small-dollar loans*) are defined as those that are $150,000 and less. *Small-dollar mortgage loan origination* means the extension of a small-dollar mortgage loan to an applicant, presumably resulting in homeownership.

Small-dollar homes are those that cost buyers $150,000 or less. Relatedly, *small-dollar homeownership* suggests access to homeownership for a home in this price range generally, whether through the use of a small-dollar mortgage loan or another means altogether.

Notably, the solutions explored in the landscape analysis are not strictly tied to this small-dollar cutoff. In many parts of the country, the median home value is approximately $150,000, and a majority of existing housing stock falls below this amount. As such, this cutoff is more of a proxy for low-cost homeownership opportunities for low- and moderate-income households and first-time homebuyers in a given housing market, recognizing that this threshold varies across housing markets. The term *low-cost housing* throughout this analysis is intended to reflect this complexity.

Low- and moderate-income (or *LMI)* buyer or family is used to refer to families with incomes that fall within this range—potentially up to 120 percent or 150 percent of the Area Median Income, depending on local income levels and geographic context. In this context, it often refers to those traditionally underserved by credit markets.

An *owner-occupant* is defined for the purposes of this study as an individual who purchases a home with the intent to live in it, whereas an *investor* is a person or company that purchases homes to renovate and either rent out or sell for a profit (ranging from small, mom-and-pop investors who own a few properties to private equity-backed institutional investors who own tens of thousands).

The terms *all-cash buyer* or *cash buyer* refer to anyone who purchases a home without financing (either through a mortgage loan or an alternative financing arrangement). An all-cash buyer can be an investor or an owner-occupant, as this term refers only to the means used to purchase a home and not the buyer's intent once a home has been purchased.

The term *lenders* refers to any institution or financial organization that extends mortgage loans to individuals, including large banks, community banks, credit unions, community development financial institutions, and non-bank mortgage lenders. The kind of lender is specified where relevant.

The terms *conventional loans* and *conventional market* describe loans that are not insured or guaranteed by a federal government agency, such as the Federal Housing Administration (FHA), VA, and USDA, which are intended to serve specific populations.

Appendix F. Landscape Analysis and Semi-Structured Interviews Methodology

To develop the scope of the landscape analysis, the study team began by conducting background research to identify the major barriers affecting access to small-dollar homeownership. This research included producing literature reviews of existing research and analysis to ensure the study addressed the full range of challenges. The team started with the barriers so that the landscape

analysis would be inclusive of the range of solutions that impact access, even if beyond financing. Based on this initial research, the team organized the barriers to homeownership access into three broad categories: financing, quality, and supply. The team then conducted policy analysis and additional research to explore the range of solutions aimed at addressing these barriers. For each solution, the team developed a summary that captured key characteristics, including the primary actors involved, the type of solutions, and the solutions' scale. Where applicable, the team also included specific examples to illustrate how these solutions have been implemented in practice.

To complement the landscape analysis, the team conducted qualitative interviews with mortgage lenders, housing leaders, and subject matter experts specializing in housing financing, housing quality, and innovative programs advancing housing supply. The goal of these interviews was to better understand how different approaches to reducing barriers to homeownership are implemented, and to identify what is needed to scale successful solutions. The team selected interviewees by reviewing the summaries of approaches developed as part of the landscape analysis and documenting all organizations referenced or included as local examples. Based on this review, the team developed a list of local and national organizations representing each of the three key challenges.

The research team conducted 13 interviews between December 2024 and March 2025, with the following organizations and individuals: Alexei Alexandrov, formerly with the Federal Housing Finance Agency; City of Baltimore, Department of Housing and Community Development; Consumer Federation of America; Fahe; Grounded Solutions Network; Houston Land Bank; Lincoln Institute of Land Policy; Local Initiatives Support Corporation; Minnesota Housing; Mortgage Bankers Association; National Community Reinvestment Coalition; National Community Stabilization Trust; and ROC USA.

The team developed tailored interview guides for each conversation to explore the key barriers and facilitators involved in implementing specific programs, policies, and products—with particular attention to their sustainability and potential for scaling.

Each interview was conducted via Zoom and lasted approximately 60 to 75 minutes. A lead interviewer and a notetaker from New America were present for each interview. Participants were asked for their consent to take part in the study, and all interviews were recorded and transcribed using Otter.ai. Researchers then reviewed and edited each transcript for accuracy, referencing the original audio recording.

Based on the transcripts, the research team developed high-level summaries of each interview, highlighting the main barriers and facilitators to implementation and other key insights. These summaries were then analyzed for their relevance to specific recommended actions, and where applicable, the team created case studies to showcase these findings. Each case study was shared with the interviewee for review prior to finalization, giving them the opportunity to correct any inaccuracies or clarify information.

Appendix G. Approaches and Actions for Each Challenge to Accessing Small-Dollar Homeownership

Exhibit 37. Small-Dollar Financing Approaches and Actions

Approach 1.1: Address disincentives from the high fixed cost of mortgage origination.	Key Actors	Solution	Scale
Action 1.1.1: Investigate which regulatory barriers may add cost or complexity to the mortgage origination process, and for which kinds of lenders, and assess whether they could be revised without compromising protection to borrowers.	*Federal government actors* (CFPB, FHA, FHFA, GSEs, Ginnie Mae); *Private lenders;* *Consumer advocacy groups*	Regulatory action	Federal
Action 1.1.2: Investigate loan officer compensation structures impact on small-dollar lending and explore flat fee compensation for lenders through pilot programs.	*Federal government actors* (CFPB, GSEs, FHA); *Private lenders*; *Consumer advocacy groups*	Regulatory action	Federal
Action 1.1.3: Streamline processes to reduce mortgage origination costs where feasible.	*Federal government actors* (FHFA and GSEs); *Private lenders*	Exploratory	Federal
Action 1.1.4: Provide federal subsidies to offset disincentives to small-dollar lending stemming from high fixed costs of mortgage origination among financial institutions.	*Federal actors* (HUD, FHA, FHFA, GSEs)	Guidance change; Regulatory action	Federal
Action 1.1.5: Leverage existing federal agency plans, such as FHFA's Equitable Housing Finance Plans and Duty to Serve requirements, to incentivize small-dollar lending from banks and other lenders.	*Federal actors* (FHFA, GSEs)	Guidance change	Federal
Action 1.1.6: Investigate why lenders deny more mortgage applications for small-dollar mortgage loans relative to larger loans.	*Federal government actors* (CFPB); *Private lenders*	Exploratory	Federal

Approach 1.2: Support development of innovative local programs and mortgage loan products that meet the needs of low- and moderate-income buyers, notably for small-dollar homes.	Key Actors	Solution	Scale
Action 1.2.1: Increase support for local delivery systems that connect existing mortgage credit with LMI buyers of small-dollar homes.	*Federal government actors* (Congress); *State and local government actors* (state housing finance agencies, local housing departments); *CDFIs and local lenders; Community-based nonprofit organizations; Philanthropic organizations*	Program; Product	State and local
Action 1.2.2: Expand the use of special-purpose credit programs (SPCPs) targeted toward LMI communities by actively promoting their use and marketing.	*Federal government actors* (FHFA, HUD); *Local lenders*	Product	Federal, state and local

Approach 1.3: Expand access to capital for small-dollar and low-cost mortgage lending products, including via a viable secondary market.	Key Actors	Solution	Scale
Action 1.3.1: Use loan loss reserve funds to increase liquidity for small-dollar lending on local and national scales.	*Federal government actors* (FHFA, GSEs); *State and local government actors*; *Private lenders; Philanthropic organizations*	Program; Product	Federal, state and local
Action 1.3.2: Address limitations for smaller lenders selling mortgage loans through existing secondary market players, specifically GSEs.	*Federal government actors* (FHFA, GSEs)	Guidance change	Federal
Action 1.3.3: Explore the potential of secondary market premiums as a source of subsidy for small-dollar lending.	*Federal government actors* (FHFA, GSEs)	Guidance change	Federal
Action 1.3.4: Develop a viable secondary market for portfolio loans that cannot be sold to Fannie Mae or Freddie Mac.	*Private mortgage lenders; Philanthropic organizations*	Product	State and local
Action 1.3.5: Explore the creation of state-chartered public banks that enhance the capacity of existing lenders to originate small-dollar loans.	*Federal government actors* (FDIC); *State and local government actors; Local lenders*	Legislative action	State and local

Approach 1.4: Expand the loan production capacity of local lenders (e.g., community banks, credit unions, and independent mortgage companies) to extend small-dollar mortgages.	Key Actors	Solution	Scale
Action 1.4.1: Enhance the capacity of local and national CDFIs to increase their loan production capacity, with an emphasis on small mortgages.	*Federal government actors* (Treasury); *Local lenders and CDFIs; Investors*	Guidance changes (within CDFI Fund); Program	Federal
Action 1.4.2: Enhance the capacity of minority depository institutions (MDIs) to extend portfolio loans that meet the needs of the communities they serve.	*Local lenders* (MDIs); *Philanthropic organizations and other investors*	Product	State and local
Action 1.4.3: Leverage the Federal Home Loan Bank (FHLB) system to support homeownership financing, including small-dollar financing, by expanding the membership and requiring higher member contributions.	*Federal government actors* (FHFA, FHLBs)	Guidance change	Federal

Approach 1.5: Increase the loan production capacity of smaller lenders who operate in rural areas, where small-dollar homes are concentrated.	Key Actors	Solution	Scale
Action 1.5.1: Leverage FHFA's Duty to Serve plans to increase small-dollar lending in rural areas.	*Federal government actors* (FHFA, GSEs)	Guidance change	Federal
Action 1.5.2: Strengthen federal and local capacity to administer the USDA 502 Loan Program to support homeownership for LMI households in rural areas.	*Federal government actors* (HUD, USDA); *Local nonprofits and CDFIs*	Product	Federal

Approach 1.6: Leverage the Community Reinvestment Act (CRA) to increase small-dollar mortgage lending.	Key Actors	Solution	Scale
Action 1.6.1: CRA could include small-dollar loans as an explicit category in its evaluation criteria, incentivizing banks to extend these loans in exchange for CRA credit.	*Federal government actors* (Comptroller of the Currency; FDIC; Federal Reserve)	Regulatory action	Federal
Action 1.6.2: Prohibit double-counting of CRA credit when loans are sold on the secondary market.	*Federal government actors* (Comptroller of the Currency; FDIC; Federal Reserve)	Regulatory action	Federal

Action 1.6.3: Supplement federal CRA regulations with the creation of state-level CRAs, to incentivize banks to meet the specific needs of their communities.	*Federal government actors* (Comptroller of the Currency; FDIC; Federal Reserve)	Regulatory action	State

Approach 1.7: Pursue pathways for developing safer alternative financing products for small-dollar homes.	Key Actors	Solution	Scale
Action 1.7.1: Strengthen consumer protections for land contracts and other forms of alternative financing.	*Federal government actors; State government actors*	Regulatory action	Federal and state

CDFIs = Community Development Financial Institutions. CFPB = Consumer Financial Protection Bureau. CRA = Community Reinvestment Act. FDIC = Federal Deposit Insurance Corporation. FHA = Federal Housing Administration. FHFA = Federal Housing Finance Agency. FHLBs = Federal Home Loan Banks. GSEs = Government-Sponsored Enterprises. LMI = low- and moderate-income. MDIs = minority depository institutions. USDA = U.S. Department of Agriculture.

Source: Research by the authors; New America.

Exhibit 38. Quality of Small-Dollar Homes Approaches and Actions

Approach 2.1: Review and ease property condition requirements for FHA loans to expand FHA eligibility to include small-dollar housing stock.	Key Actors	Type	Scale
Action 2.1.1: Allow more flexibility in FHA home inspections and appraisals, reducing overly strict requirements while ensuring buyers are still protected from unexpected, costly repairs.	*Federal government actors* (HUD, FHA, VA)	Guidance change	Federal
Action 2.1.2: Increase transparency around FHA inspection requirements and closing timelines to address common misconceptions and improve borrower and seller confidence.	*Federal government actors* (HUD, FHA, VA)	Guidance change	Federal

Approach 2.2: Improve the FHA 203(k) renovation program to better serve homebuyers purchasing small-dollar homes in need of repair.	Key Actors	Type	Scale
Action 2.2.1: Introduce a preferred vendor approach that streamlines existing complexity in the FHA 203(k) mortgage program.	*Federal government actors* (HUD, FHA, VA)	Guidance change	Federal

Action 2.2.2. Increase the use of FHA 203(k) loans by increasing allowable fees for lenders.	*Federal government actors* (HUD, FHA, VA)	Guidance change	Federal

Approach 2.3: Improve access to financing sources for rehabilitation and renovation of low-cost homes beyond the FHA 203(k) program.	Key Actors	Type	Scale
Action 2.3.1: Expand purchase-rehabilitation financing products and programs for buyers at the national, state, and local level, outside of the FHA 203(k) program.	*National and local lenders; State and local government actors* (e.g., state housing development authorities); *Philanthropic organizations; Local nonprofit organizations*	Product	State and local
Action 2.3.2: Bundle purchase-rehab financing products and financial assistance with existing homes in need of repair.	*State and local government actors* (e.g., housing agencies, development authorities, land banks); *Local lenders*	Product	State and local
Action 2.3.3: Develop a registry for buyers navigating the renovation process of high-quality, vetted contractors who understand the rehabilitation loan process.	*Local nonprofit organizations*	Program	State and local

Approach 2.4: Address appraisal gaps for homes in neighborhoods where small-dollar housing stock is prevalent and in need of repair.	Key Actors	Type	Scale
Action 2.4.1: Provide financial assistance for closing appraisal gaps through targeted loans and grants.	*Local lenders*	Product	State and local
Action 2.4.2: Design a federal tax credit to close appraisal gaps for home rehabilitation and LMI homeownership.	*Federal government actors*	Legislative action	Federal
Action 2.4.3: Modernize appraisal industry practices to reduce bias and address gaps in disinvested, minority, and rural neighborhoods.	*Appraisers*	Guidance change	Federal

FHA = Federal Housing Administration. LMI = low- and moderate-income. VA = U.S. Department of Veterans Affairs.

Source: Research by the authors; New America.

Exhibit 39. Small-Dollar Housing Supply Approaches and Actions

Approach 3.1: Improve the accessibility and affordability of financing for manufactured homes.	Key Actors	Type	Scale
Action 3.1.1: Expand opportunities to purchase federally backed mortgages for manufactured homes through FHA.	*Federal government actors* (FHA); *Manufactured home lenders*	Program	Federal
Action 3.1.2: Build on 2024 updates to FHA's Title I lending program to promote meaningful opportunity for home-only borrowers.	*Federal government actors* (HUD, FHA)	Program and guidance change	Federal
Action 3.1.3: Resume the GSEs' home-only loan pilot to explore the creation of a secondary mortgage market for home-only loans.	*Federal government actors* (FHFA, GSEs)	Guidance change	Federal
Action 3.1.4: Promote lending opportunities and technical assistance for the creation of manufactured housing resident-owned communities (ROCs).	*Federal government actors* (FHFA, GSEs); *State government actors* (state housing finance agencies); *Private lenders and CDFIs*	Product and program	Federal and local
Approach 3.2: Develop pathways for land banks to acquire, hold, manage, and redevelop existing housing to boost small-dollar housing supply.	**Key Actors**	**Type**	**Scale**
Action 3.2.1: Adopt laws at the state level allowing localities to create land banks with authority to acquire, manage, and dispose of property.	*State government actors*	Legislative action	State
Action 3.2.2: Ensure sustainable funding for establishing, operating, and scaling land banks.	*Federal government actors* (Congress); *State and local government actors;* *Nonprofit organizations;* *Philanthropic organizations*	Program; Legislative action	State and local

Approach 3.3: Scale shared equity models of land and homeownership that allow buyers to build wealth starting at a small-dollar price point.	Key Actors	Type	Scale
Action 3.3.1: Establish and scale Community Land Trusts to create small-dollar homeownership opportunities.	*Federal government actors* (Congress, HUD); *State and local government actors*; *Nonprofit organizations; Philanthropic organizations*	Program	Local
Action 3.3.2: Promote and scale partnerships between land banks and CLTs to produce affordable homeownership opportunities for low- and moderate-income buyers.	*Local government actors; Nonprofit organizations; Philanthropic organizations*	Program	Local
Action 3.3.3: Scale limited equity cooperatives to increase lasting affordable homeownership opportunities.	*State and local government actors; Nonprofit organizations; Residents of limited equity cooperatives*	Program	State, local

Approach 3.4: Increase opportunities for LMI owner-occupants to purchase small-dollar homes free from investor competition.	Key Actors	Type	Scale
Action 3.4.1: Expand first look programs and other reforms to foreclosure sale processes to increase opportunities for owner-occupants to purchase small-dollar homes before investors do.	*Federal government actors* (HUD, GSEs); *State or local government actors; Nonprofit organizations*	Program	Federal, state, and local
Action 3.4.2: Disincentivize investor ownership through tax code reforms.	*Federal government actors* (Congress); *State and local government; actors* (state legislatures, city councils)	Regulatory action	Federal, state, and local
Action 3.4.3: Prohibit investor ownership in housing markets through regulation.	*Federal government actors* (Congress); *State and local government actors* (state legislatures, city councils)	Legislative action	Federal, state, and local

CDFIs = Community Development Financial Institutions. CLTs = Community Land Trusts. FHA = Federal Housing Administration. GSEs = Government-Sponsored Enterprises. ROCs = resident-owned communities.

Source: Research by the authors; New America.

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