



Detroit Dreams Deferred: Thousands Mortgage Ready but Many Miss Out

November 5, 2021

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Acknowledgments

This project was funded with a grant from the Detroit Urban Research Center at the University of Michigan and Poverty Solutions.

Representative Rashida Tlaib
U.S. House of Representatives

Amanda Kaye
Office of Representative Tlaib

Bernadette Atuahene, J.D.
Illinois Institute of Technology, Chicago-Kent College of Law

We also would like to acknowledge the following organizations, who contributed time, data, and/or expertise to inform this research: Michigan State Housing Development Authority, Detroit Future City, Data Driven Detroit, Detroit LISC, Invest Detroit, Community Development Advocates of Detroit, the Fair Housing Center of Southeast Michigan, Southwest Housing Solutions, Capital Impact Partners, Bridging Communities, Detroit Hispanic Development Corporation, the MSU Extension, and Wayne Metro.

This project was supported by the following research team who contributed their time and expertise. Without their good work, this project would not have been possible:

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Images in the report by Nicholas Williams via <https://flic.kr/s/aHsmXck7eC>



Introduction

Building off the contributions of previous reports on and research into Detroit homeownership and housing finance, our project team was intrigued by a curious finding: Detroit is home to no less than 16 Department of Housing and Urban Development (HUD) certified housing counseling agencies. This is two-times more than any other municipality of comparable size in the U.S. Despite Detroiters having access and availability to homebuyer education, very little is known about the outcomes of these programs, their level of participation, and if participants ultimately purchase a home. The number of agencies providing such services is also excessive. As the data in this report will show, a very low proportion of residential property sales in Detroit use mortgage financing. The number of agencies providing pre-purchase housing counseling in preparation for mortgages that are hard to come by is curious indeed.

The project began with a FOIA request of HUD for 5 years' worth of records for each of these agencies, to cover the years 2015-2019. These agencies are required to submit HUD Form 9902 quarterly. The plethora of programs suggests there is strong demand for them and by extension strong demand for homeownership in Detroit. Data on these programs could serve as a measure of demand for single-family homes in the city.

While waiting on this request the project pursued additional data on homeownership and housing finance to better understand the context housing counseling participants experience when attempting to buy a home in Detroit.

Consequently, our project was guided by two questions:

1. What is the demand for homeownership in Detroit, and can participation in HUD-certified education programs capture that demand?
2. What is the context of homeownership in Detroit that program participants face?



Background

DC Palmer LLC

David Palmer (Principal, CEO) is a multi-disciplinary strategist, facilitator, convenor, and an Associate Broker Realtor based in Detroit, Michigan. He has over 25 years of management and research experience and earned a Master of Public Administration degree from Eastern Michigan University. He focuses on the areas where workforce, real estate, and nonprofits intersect to lift up normal humans with improved policy and program outcomes for our communities. Palmer is a recognized voice in the Detroit region on matters of workforce development, and labor market data.

He has volunteered as a Realtor instructor for HUD-certified homebuyer education courses since 2013. In 2020, he sought to quantify the impact and program outcomes of these programs. In an attempt to answer these questions, he convened this research group.

The team at DC Palmer LLC is supporting the work of the Detroit Regional Workforce Alliance, the Hamtramck Parks Conservancy, and the Engineering Society of Detroit, among other clients in the nonprofit and philanthropic sectors. In 2022 and beyond, the company seeks to launch community-informed real estate continuing education for Realtors and expects to continue doing the work to support greater access to quality affordable housing for median-income Detroit residents.

The Center for Equitable Family and Community Well-Being

Under the direction of Dr. Trina Shanks, the Center for Equitable Family and Community Well-Being is a community-engaged research center within the University of Michigan School of Social Work. Launched in fall 2020, it partners with community organizations to address structural barriers to thriving families and neighborhoods and provides small grants for innovative services and projects to organizations that work with children and families.

David Palmer approached faculty at the University of Michigan to partner on the proposal to Poverty Solutions, which came to the attention of Center staff. After discussing the proposal with Mr. Palmer, the Center agreed to participate in the proposal on the condition that a community partner joins the project. This was consistent with the Center's model for community-engaged research, that projects start from and benefit the community. Moreover, without previous participation in housing-specific projects, the Center needed a community partner with experience and expertise on housing-related issues in Detroit.

Southwest Economic Solutions

Southwest Economic Solutions (SWES) has been a HUD-Approved housing counseling agency since 2014. On average, SWES provides homebuyer education courses to over 400 households annually. SWES also provides additional housing counseling services including, pre-purchase counseling, post-purchase education courses as well as foreclosure prevention counseling and education courses. SWES has created a uniquely integrated service-delivery model and also offers services that do not fall under HUD housing counseling which include workforce development, financial coaching, and adult education.

The housing counseling team at SWES is dedicated to helping create homeowners in the city of Detroit. Homeownership is the single greatest path for individuals and families to create intergenerational wealth. Moreover, the mission of SWES is to help families and individuals achieve greater economic success. When David Palmer approached the Executive Director of SWES, Hector Hernandez, about this research project, there was no hesitation to participate as it perfectly aligned with our stated mission. The housing counseling team possesses a blend of programmatic expertise, on the ground experience and knows the barriers that prospective homebuyers face in Detroit. Therefore, the team wants to continue to lead the charge in convening aligned partners and stakeholders to create sustainable solutions for prospective homebuyers; this research project provided an avenue to explore this further.

Background

Working Partnership

After being awarded the grant from Poverty Solutions, the project team adopted a bi-weekly schedule to check-in, discuss strategy, delegate responsibilities, and make decisions. These were made largely through consensus, and some of the key decisions in the partnership were as follows:

- Focus on quality homes:
- Detroit has a surfeit of vacant and blighted housing, but these structures are not what individuals and families who attend pre-purchase housing counseling are looking for. The project team wanted to use data to show that there was a demand for quality homes in Detroit that is going unmet. The focus on quality homes guided the research toward data on mortgage financing in the city, under the principle that mortgages are generally made to purchase quality homes.
- Focus on geography:
- Quality homes are not evenly distributed across Detroit. While focusing on quality homes, the project team agreed it was equally important to focus on the geography of quality homes in the city. This shaped the analysis of mortgage data to identify where in the city mortgages were being made, and in what proportion to the total volume of residential purchases, sometimes referred to in this report as transfers.

Each partner on the project assumed responsibilities that were consistent with their experience and expertise. For example, as an attendee and contributor to the Detroit Housing Compact, David Palmer enlisted the support of Detroit Future City on the project to share ideas, spread information, and collaborate on future partnerships. Mr. Palmer was also instrumental in securing data both on HUD-certified housing counseling agencies in Detroit through connections with Rep. Rashida Tlaib's office, as well as on MSHDA down payment assistance loans throughout the state of Michigan from 2015-2019. Southwest Economic Solutions used its connections in the community to make targeted outreach to attend the project's scheduled convenings. It also used its existing contact list to survey past participants of pre-purchase housing counseling programs to accumulate additional data on program outcomes. For its part, the Center for Equitable Family and Community Well-Being provided research support through careful examination of the existing literature on Detroit homeownership, as well as analysis of data from the Detroit City Assessor's Office and the Home Mortgage Disclosure Act (HMDA).

Pictured: Patrick Meehan- Center for Equitable Family & Community Well-Being



Literature

Detroit faced homeownership challenges for decades prior to the Great Recession in 2008-2009. Redlining limited homeownership for African American residents to specific areas of the city, which were then bulldozed to make way for freeways. Population loss to the suburbs put downward pressure on housing prices that prevented wealth accumulation for the residents who remained (Madu, 2021). But the Great Recession magnified the city's precarious housing circumstances.

During the recession, Detroit's home-buying ecosystem experienced extreme stress, reflected in an over abundance of subprime mortgages, whose interest payments ballooned at the same time housing prices plummeted. In terms of pricing and affordability, the median value of owner-occupied housing declined during the recession, and has gradually increased since then without reaching pre-recession levels. Outside of Downtown and Midtown, the sales prices of single-family homes remain at less than half of pre-recession levels (Kresge Foundation, 2016). Statewide, half of for-sale homes were marketed at below \$100,000, with these units concentrated in high population centers including Detroit.

Across Michigan, MSHDA (2019) researchers found that monthly costs for homeowners with mortgages has decreased significantly since 2008, "largely due to changes in interest rates and mortgage terms." Commenting on affordability, the researchers observed that since 2005, around half of renters in Michigan have been rent-burdened (i.e. rent is greater than 30 percent of gross income). By contrast, the shelter burden for homeowners decreased from around 30 percent pre-recession to around 20 percent in 2017 (MSHDA, 2019).

Thus, homeownership is a more affordable housing option for Detroit residents than renting. Nevertheless, it remains elusive, particularly for the city's Black residents (Asante-Muhammad, Buell, & Devine, 2021). A report from researchers at the Urban Institute found that the homeownership rate fell to 51 percent in 2010, based on 138,000 owners of 269,500 occupied units. This was down from 55 percent in 2000, based on 185,000 owners of 336,500 occupied units (Poethig et al., 2017). Measured in building permit activity, new permit requests have steadily increased since 2010, at an annualized rate of 9,000 units. However, this rate is still historically low, comparable to the building activity of 1983 (MSHDA, 2019).

Detroit has a glut of aging and dilapidated homes (Poethig et al., 2017). Nearly half of Detroit's housing stock was built before 1960, resulting in higher maintenance, rehab costs, and lower acquisition prices. Detroit has a larger proportion of single-family homes (nearly 73 percent of Detroit's housing units are one-unit detached or attached) than any other major city in the nation (Kresge Foundation, 2016).

Lack of demand has been cited as an explanation for Detroit's homeownership challenges and aging housing infrastructure (MSHDA, 2019; Poethig et al., 2017). For example, Detroit has a median household income of \$30,894 per year (roughly half of the statewide median income) and the poverty rate in the city is twice the state poverty rate (Cassidy, 2019; U.S. Census Bureau, 2021). Additionally, the median household income in Wayne County (including Detroit) was more than \$15,000 greater than that of Detroit, according to U.S. Census estimates (Poethig et al., 2017). Unemployment rates in Detroit continually exceed the national average: in April 2016, Detroit's unemployment rate was 9.1 percent, 4.4 percentage points higher than the national unemployment rate of 4.7 percent. Detroit continues to depopulate. Currently, Detroit's population between the ages of 25 and 44, the age group with the greatest transitions to homeownership, steadily decreased between 1990 and 2014 (Poethig et al., 2017).

Literature

Income, unemployment, and population are not necessarily accurate measures of demand, though. Housing prices in Detroit have fallen to meet the ability of the median household to afford, so demand should exist for single-family housing, especially because it is more cost-effective for residents than renting.

However, income obviously affects access to credit. So the availability of mortgage financing looms large in the conversation around Detroit homeownership. Unfortunately, the city has a low average credit score (585 versus 670 nationally), a majority of residents with debt in collections, and generally high debt-to-income ratios. One result of these dynamics is the extraordinarily high rate of cash purchases in the city--97 percent in 2014 (Poethig et al., 2017). In 2020, less than a quarter of Detroit's home sales were financed by mortgage loans, the smallest share in the 50 biggest U.S. cities, according to an analysis by Attom DataSolutions, a property-information provider. When buyers do not get mortgages, they miss out on the federal home-buying incentives. Low property values have played a primary role in low mortgage rates. Lenders choose to deny small mortgage applications (\$70,000 or less), where they will earn very little profit,"small-dollar home lending has been on the decline across the country, a shift that housing analysts say disproportionately affects people of color" (Eisen, 2021).

Predictably, home financing challenges are unequally distributed across Detroit's white and black residents. Despite laws banning housing discrimination, previous decades of explicitly racist laws, neglectful public budget decisions, and discriminatory practices in real estate and lending industries have resulted in barriers to quality housing and wealth building for Detroit's Black residents (Cassidy, 2019; Madu, 2021). Exacerbating deeply entrenched vulnerabilities, the 2008 mortgage crisis disproportionately affected Black homebuyers. As illustrated, the Black homeownership rate across metro Detroit, including suburbs, was 31 percentage points lower than the white rate in 2007, the year before the financial crisis. By 2018 it had grown to 37 percentage points, according to data from the Urban Institute. Detroit has the second-biggest such gap after St. Louis among U.S. metro areas with at least half a million Black residents. Currently, mortgages made in Detroit go disproportionately to white borrowers who represent less than 10% of the population and live in downtown areas. Last year alone, White borrowers received 39% of total mortgages in the city. Black people represented 80% of the population and received 51% of the city's mortgages, making Detroit a city with the second-largest homeownership gap (Cassidy, 2019).

Such disparities in mortgage availability in Detroit suggest structural issues in the housing finance ecosystem. A key feature of that ecosystem is pre-purchase housing counseling. Such counseling can take many forms and cover many topics, but is often a precondition to obtaining mortgage financing, particularly if the borrower is applying for rate reductions, down payment assistance, reductions in principal mortgage insurance, or other reduced closing costs. Their stated rationale is to make borrowers more aware of responsibilities that come with a mortgage, and to improve the likelihood the borrower will pay off the mortgage in full (Turnham & Jefferson, 2012).

However, given their prominence in the housing ecosystem, particularly in Detroit, relatively little is known about the efficacy of pre-purchase housing counseling programs.

With respect to paying mortgages in full, Myhre and Watson (2017) argue that "pre-purchase education and housing counseling appear to be associated with factors related to sustainable homeownership." However, findings in this area are still being investigated to better understand and assess the impact of these programs. Collins and O'Rourke (2011) find "well designed and "evidence-based" homeowner education may be associated with more sustained homeownership. Moreover, early implementation of education in the home buying process may be more effective at leading to acquiring a mortgage. Additionally, there is evidence to support the claim that early post-purchase interventions at the time of purchasing or refinancing a home, with or without pre-purchase counseling, also appear to be related to improved outcomes."

Literature

Roll and Moulton (2019) find supporting evidence for counseling programs as tools for increasing credit scores and improving debt payment behaviors. Using data from the National Foundation for Credit Counseling, they show that counseling can serve as a critical tool for those struggling to navigate high debt levels. Furthermore, the data show that counseling programs increased credit scores among study participants, and debt payment behaviors returned and began to increase their pre-counseling levels after just one year of counseling. Consumers who had weaker credit profiles before participating in counseling also demonstrated improvements in their credit scores.

There is at least some suggestion then that pre-purchase housing counseling serves its intended purpose, and improves participants' financial behaviors. There is no evidence, though, that they help borrowers obtain mortgages or purchase homes.

Nonetheless, their centrality to housing finance made them useful for measuring demand for single-family homes in Detroit. Since previous attempts to measure demand in the city relied on median household income (Poethig et al., 2017; MSHDA, 2019), our research team chose instead to focus on participation in pre-purchase housing counseling for three reasons. First, the decision to attend pre-purchase housing counseling is an affirmative declaration on the part of the participant that they are interested in purchasing a home. Second, reporting on participation is accurate per administrative requirements. Finally, participation totals are more easily translatable to housing demand than macroeconomic indicators such as median household income and the unemployment rate.



Housing Demand

Much has been written over the years detailing the national and local crisis related to access to affordable housing. To better understand the demand for affordable single-family housing in Detroit, the research team obtained data highlighted in this report from the U.S. Department of Housing and Urban Development (HUD). HUD education programs include topics such as: financial literacy, fraud prevention, fair housing, and pre-purchase homebuyer education, among others. Understanding the number of people investing time in pre-purchase homebuyer education is a critical first step in better understanding demand for single-family housing in Detroit.

Completing the pre-purchase homebuyer education program avails graduates to additional education resources, as well as the opportunity to qualify for down payment assistance (DPA). DPA programs are made available to buyers who qualify based on underwriting criteria including: credit score, income, and a property that passes appraisal criteria. Buyers can qualify for up to \$10,000 in DPA from the Michigan State Housing Development Authority (MSHDA), or can seek out other programs from private lenders. Private lender programs are often linked to their Community Reinvestment Act (CRA) programming, and have a wide range of benefits and underwriting requirements. These programs can make homeownership more accessible for those buyers with lower income and minimal savings, who would not likely be able to finance a home without the benefits of a DPA program.

Homebuyer education courses must be taught by HUD-certified agencies, with HUD-certified instructors. These courses are taught in-person, and online. Classroom time is typically about 8 hours. Certified instructors lead the course, and sometimes supplement instruction with Realtors, lenders, and home inspectors, insurance agents, who add real-world expertise and context to the course material. Students receive a lot of information on the home purchase process in a short period of time. There is some early empirical research from the HUD Office of Policy Development and Research that shows homebuyer education courses demonstrate positive outcomes. This research reinforces the logical position that homebuyer education classes can help better inform and prepare first-time and returning home buyers for what proves to be a technically and emotionally challenging experience to purchase a home.

Detroit is the largest majority African American city in the U.S. It also has sizable Spanish and Arabic-speaking communities. HUD Form 9902 provides critical insight into the programs offered by the HUD-certified education agency, including ethnicity, race, income levels, and English language proficiency. The document also details the numbers of participants in group education classes like those listed previously. It also reports outcomes on the number of participants who took advantage of 1 to 1 counseling sessions, and important to this research, how many individuals self-reported having purchased housing within 12 months of taking the program.

David Palmer, a member of the research team, is an Associate Broker and Realtor, and has volunteered as an instructor for pre-purchase homebuyer education courses since 2013. He contacted the HUD Detroit office in September 2020, to learn more about homebuyer education outcomes. The local office stated that they did not have access to agency-level data, reported quarterly on HUD Form 9902. In October 2020, he submitted a Freedom of Information Act (FOIA) request to obtain the data.

With no response from HUD, in November 2020, he contacted Congresswoman Rashida Tlaib, whose staff assisted with the request moving forward. HUD never formally responded to the October 2020 FOIA request, but beginning in January 2021, did engage in an email exchange with Palmer and Rep. Tlaib's staff. Tlaib's team provided the data, obtained from HUD, to Mr. Palmer in September 2021, 11 months after the initial FOIA request.

Housing Demand

Figures 1-3, show the aggregate annual outcomes of the 14 HUD-certified education agencies located in the City of Detroit, for Federal Fiscal Years (FY) 2014-15, through 2018-19. The FY runs from October 1, through September 30.

Figure 1: HUD 9902 Data, 2015-2019

		2015	2016	2017	2018	2019	TOTAL		
Ethnicity	Hispanic	225	301	184	286	290	1286		
	Not Hispanic	2034	2423	3088	3314	3594	14453		
	Did not respond (DNR)	45	1030	526	454	524	2579		
Total number served							18318		
Race	Single Race	Amer. Indian/Alaskan Native	7	18	13	19	22	79	
		Asian	6	25	17	15	21	84	
		Black/African Amer.	1422	2471	2640	2771	2881	12185	
		Native Hawaiian/Pacific Islander	0	0	4	3	259	266	
		White	707	913	758	859	718	3955	
	Multi-Race	Amer. Indian/Alaskan Native & White	1	4	6	8	16	35	
		Asian & White	3	4	4	2	13	26	
		Black /African Amer. & White	15	59	48	87	88	297	
		Amer. Indian/Alaskan Native & Black/African Amer.	2	23	17	9	19	70	
		Other Multiple Race	30	72	68	72	135	377	
		DNR	111	165	223	209	236	944	
		Total number served							18318

Figure 2: HUD 9902 Data, 2015-2019, continued:

		2015	2016	2017	2018	2019	TOTAL
Income Levels	< 30% of AMI	757	1028	1176	1222	1171	5354
	30 - 49% of AMI	710	809	704	863	967	4053
	50 - 79% of AMI	449	1111	958	1108	1240	4866
	80 - 100% of AMI	200	420	558	534	651	2363
	>100% AMI	175	386	385	308	336	1590
	DNR	13	0	17	19	43	92
Rural Area Status	Rural Area	15	44	73	91	122	345
	Non-Rural Area	2203	3642	3698	3794	4093	17430
	DNR	86	68	27	169	144	494
Limited English Proficiency	Limited English Proficient	216	241	132	172	135	896
	Not Limited English Proficient	2054	3497	3605	3780	4041	16977
	DNR	34	16	61	102	232	445
Group Education	Complete - Financial Literacy Workshop	192	492	266	433	482	1865
	Complete - Fraud Prevention Workshop	9	0	0	0	0	9
	Complete - Fair Housing Workshop	0	0	0	46	129	175
	Complete - Homelessness Prevention Workshop	0	0	0	0	0	0
	Complete - Rental Workshop	0	1	0	20	37	58
	Complete - Pre-Purchase Homebuyer Edu. Workshop	1012	1474	1328	1490	2154	7458
	Complete - Non-Delinquency Post-Purchase Workshop	0	0	0	0	29	29
	Complete - Preventing Mortgage Delinquency Workshop	147	82	62	52	47	390
Complete - Other Workshop	4	37	61	113	228	443	

Housing Demand

Figure 3: HUD 9902 Data, 2015-2019 continued:

		2015	2016	2017	2018	2019	TOTAL
One-on-One Counseling	Homeless Assistance	4	5	42	7	14	72
	Rental Topics	4	39	70	56	28	197
	Pre-Purchase/Homebuying	479	945	1291	1098	933	4746
	Non-Delinquency Post-Purchase	19	11	149	251	51	481
	Reverse Mortgage	0	1	5	2	2	10
	Preventing Mortgage Delinquency	434	667	524	476	274	2375
Impact & Scope: One-on-One Counseling	1 on 1 & Group Education Services	436	864	639	717	918	3574
	Fair Housing/Fair Lending/Accessibility Rights	908	1134	925	1160	1098	5225
	Counseling - Sustainable Budget	287	865	627	881	1697	4357
	Counseling - Improved Financial Capacity	61	377	198	402	528	1566
	Counseling - Housing Resources	594	1048	545	730	1039	3956
	Counseling - Non-Housing Resources	413	451	259	402	236	1761
	Counseling - Obtained Temp./Permanent Housing	3	0	2	6	2	13
	Counseling - Avoided Eviction	0	3	4	14	0	21
	Counseling - Improved Living Conditions	4	64	78	26	21	193
	Counseling - Purchased Housing	213	332	240	368	292	1445
	Counseling - Home Equity Conversion Mortgage (HECM)	0	0	0	0	2	2
	Counseling - Improved Home Conditions/Home Affordability	6	31	16	29	54	136
	Counseling - Prevented Mortgage Default	116	168	93	130	56	563

In the five year period running from FY 2014-15, through 2018-19, there were 18,318 individuals served by 14 HUD-certified education providers. These providers include:

- Abayomi Community Development Corporation (CDC)
- Amandala CDC
- Bridging Communities
- Central Detroit Christian CDC
- Detroit Hispanic Development Corporation
- Family Tree, Inc.
- National Faith Homebuyers
- Neighborhood Legal Services
- New Hope CD Nonprofit Housing Corporation
- NID-HCA Borrower Help Center
- SEED - Sowing Empowerment & Economic Development
- Southwest Economic Solutions
- U-SNAP-BAC Nonprofit Housing Corporation
- Wayne Metropolitan Community Action Agency

Housing Demand

Figure 4

HUD-certified education agency	2015	2016	2017	2018	2019
Abayomi Community Development Corporation (CDC)	X	X	X	X	X
Amandala CDC			X	X	
Bridging Communities			X	X	X
Central Detroit Christian CDC	X	X	X	X	X
Detroit Hispanic Development Corporation	X	X	X	X	X
Family Tree, Inc.	X	X	X	X	X
National Faith Homebuyers	X	X	X	X	X
Neighborhood Legal Services		X	X	X	
New Hope CD Nonprofit Housing Corporation	X	X	X	X	
NID-HCA Borrower Help Center	X	X	X	X	X
SEED - Sowing Empowerment & Economic Development		X	X	X	X
Southwest Economic Solutions	X	X	X	X	X
U-SNAP-BAC Nonprofit Housing Corporation					X
Wayne Metropolitan Community Action Agency	X	X	X	X	X

Participants in the programs self-report belonging to the following race categories. Figure 4, below, shows the homebuyer program reporting compared to the 2019 U.S. Census estimates for the City of Detroit:

Figure 5:

	2015-19 Participants	2019 Detroit Census
African American	67%	78%
White	22%	15%
All others	11%	7%

The U.S. Census Bureau 2019 Area Median Income (AMI) for the Detroit-Warren-Livonia Metropolitan Statistical Area (MSA) was \$63,475. Median household income for the City of Detroit for 2019 was \$30,894. This marks Detroit's median household income at 52% lower than the MSA. HUD-certified education program participants self-reported the following AMI levels,

Housing Demand

Figure 6:

Self-reported AMI	Participants
< 30% of AMI	29%
30 - 49% of AMI	22%
50 - 79% of AMI	27%
80 - 100% of AMI	13%
>100% AMI	9%
Did not respond	1%

Nearly 41% of program participants (4,746 individuals) completed the pre-purchase homebuyer education workshop. This can be taken as either an in-person or an online course.

Figure 7:

Group Education Class	% Total # Students Completed
Financial Literacy Workshop	10.18%
Fraud Prevention Workshop	0.05%
Fair Housing Workshop	0.96%
Homelessness Prevention Workshop	0.00%
Rental Workshop	0.32%
Pre-Purchase Homebuyer Education Workshop	40.71%
Non-Delinquency Post-Purchase Workshop	0.16%
Preventing Mortgage Delinquency Workshop	2.13%
Other Workshop	2.42%

Individuals who completed Pre-Purchase homebuyer education workshops who self-reported having purchased a home within 12 months of taking the course totaled 1,445. This is equal to 19% of those who took the workshop, and almost 8% of the 18,318 individuals who engaged with the 14 HUD-certified agencies.

Housing Demand

Findings

In the 5 year period from 2015 to 2019, 14 HUD-certified education agencies in the City of Detroit engaged with 18,318 individuals. Of those, 7,458 (41%) completed pre-purchase homebuyer education. The HUD data shows that 1,445 (19%) of those completing the pre-purchase program ultimately purchased a home within 12 months of taking the class.

During this period, an average of nearly 1500 people in each year attended HUD-certified pre-purchase homebuyer education programs. Program participants were generally representative of the city's racial make-up, which is an important equity indicator in a majority African American city. Participants were also reflective of the city's economic reality, with 51% of attendees earning less than 50% of the area's median income (<\$31,200).

As of September 2020, Detroit had twice as many education agencies as any other city in the U.S. with between 600,000 and 700,000 residents. Additional research will be required to determine if the number of agencies is correlated with program outcomes.

Figure 8:

HUD-Certified Education Organizations, population 600k to 700k, as of September 2020							
2019 US rank	City	State	2019 estimate	2010 Census	% change	Land area	HUD-Certified Orgs
21	Boston	MA	692,600	617,594	12.14%	48.3 sq mi	5
22	El Paso	TX	681,728	649,121	5.02%	256.8 sq mi	2
23	Nashville	TN	670,820	601,222	11.58%	475.9 sq mi	8
24	Detroit	MI	670,031	713,777	-6.13%	138.8 sq mi	16
25	Oklahoma City	OK	655,057	579,999	12.94%	606.3 sq mi	3
26	Portland	OR	654,741	583,776	12.16%	133.5 sq mi	8
27	Las Vegas	NV	651,319	583,756	11.57%	134.4 sq mi	8
28	Memphis	TN	651,073	646,889	0.65%	317.4 sq mi	7
29	Louisville	KY	617,638	597,337	3.40%	263.5 sq mi	3

HUD 9902 data shows consistent interest and demand from median-income Detroiters who desire to own their own home. City residents have many different choices for where to receive homebuyer education. Unfortunately, less than 20% of those who receive the education, and an opportunity to receive down payment assistance for their purchase, end up purchasing a home within 12 months.

Southwest Economic Solutions Participant Survey

While the HUD 9902 reports offer valuable insights into the participants of homeownership counseling in the city of Detroit, there are still significant gaps in data tracked on these prospective homebuyers. Specifically, besides the ‘purchased housing after counseling’ outcome on the 9902, there is no other follow-up data on what happened to these prospective homebuyers after participation that is available for analysis. Our research team identified key gaps in our data and decided to survey the HUD-approved agencies’ clients who attended a homebuyer education course during the 2014-2019 time period- synonymous to our data analysis timelines. In order to survey past participants, our team created a short survey using Survey Monkey software.

The short survey was sent out to at least 1,400 past homebuyer education participants and we received 221 responses, a 16% response rate. Most responses came from clients served by Southwest Economic Solutions, a research team partner. The survey link was shared with all 16 of the Detroit HUD-approved agencies to distribute, and there is some evidence that responses came from participants from other HUD-approved agencies. Each survey participant was offered the opportunity to enter into a raffle for a \$50 gift card in exchange for the time they spent completing the survey. The survey was anonymous and if a respondent wished to be entered into the raffle, they were directed to another page to assure them that their contact information would not be tied to their responses.

Q3 What organization did you take the Homebuyer Education class through?

Answered: 219 Skipped: 2

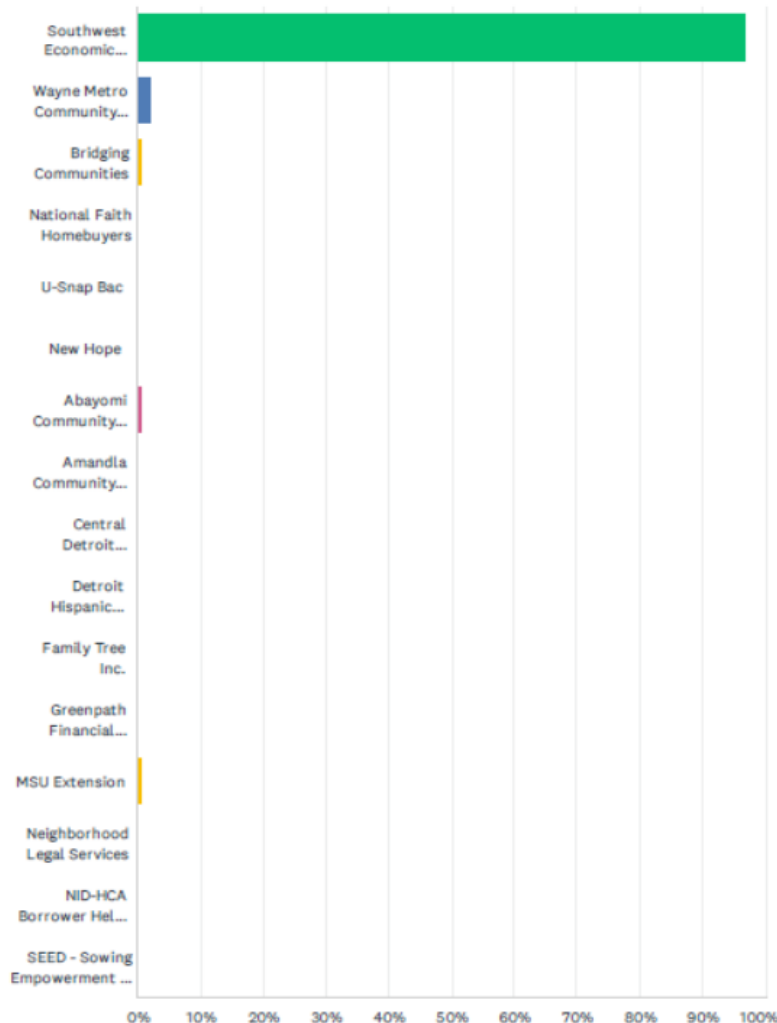


Figure 10: break-down of respondents by HUD-approved agency.

Southwest Economic Solutions Participant Survey

Questions included in the survey:

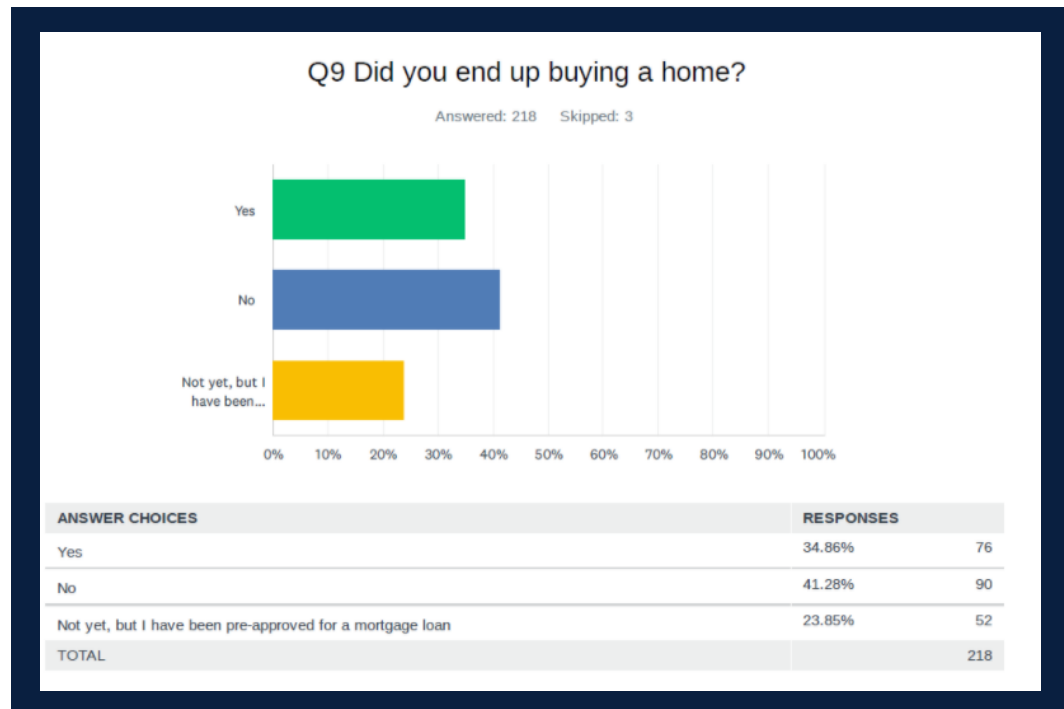
- Approximately what year did you take the class?
- What organization did you take the Homebuyer Education class through?
- How long was the class?
- What topics do you remember from the class?
- Why did you take the class?
- How helpful was the Homebuyer Education course to understanding the home buying process?
- What about the class could have been improved?

- Did you end up buying a home?
 - (If yes) Where did you buy a home?
 - (If yes) What loan amount were you approved for?
 - (If yes) What was the interest rate that you were approved for?
 - (If yes) What is your monthly mortgage payment?
 - (If yes) What was the listing price of the home you purchased?
 - (If yes) How much were you able to put down as a down payment to purchase your home?
 - (If yes) Did you use a land contract to purchase your home?
 - (If no) Why did you not buy a home?
 - (If pre-approved) What loan amount were you pre-approved for?
 - (If pre-approved) What was the interest rate that you were pre-approved for?
 - (If pre-approved) What was the estimated monthly payment based on your pre approval?
 - (If pre-approved) What was the listing price of the home you wished to purchase?
 - (If pre-approved) Did you consider using a land contract to purchase a home?

Responses offered insight into what happened for the participants after they attended homebuyer education. Most critically to our research, we learned the details of their home purchase or if they did not purchase a home, and what the barriers they experienced.

Southwest Economic Solutions Participant Survey

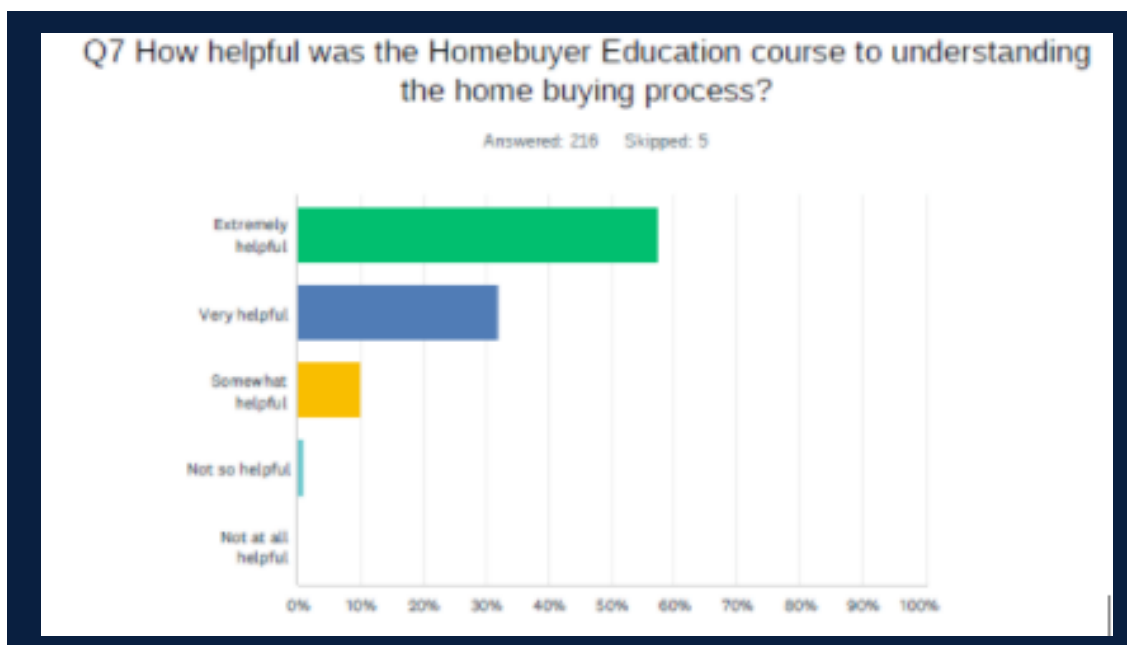
Figure 11: screenshot from the survey of the question that asked participants if they purchased a home.



Findings

Based on the responses collected from the survey, we found that 99% of respondents found the class helpful in understanding the homebuying process. Despite the usefulness of the course, only 35% of those surveyed actually bought a home (Figure 11).

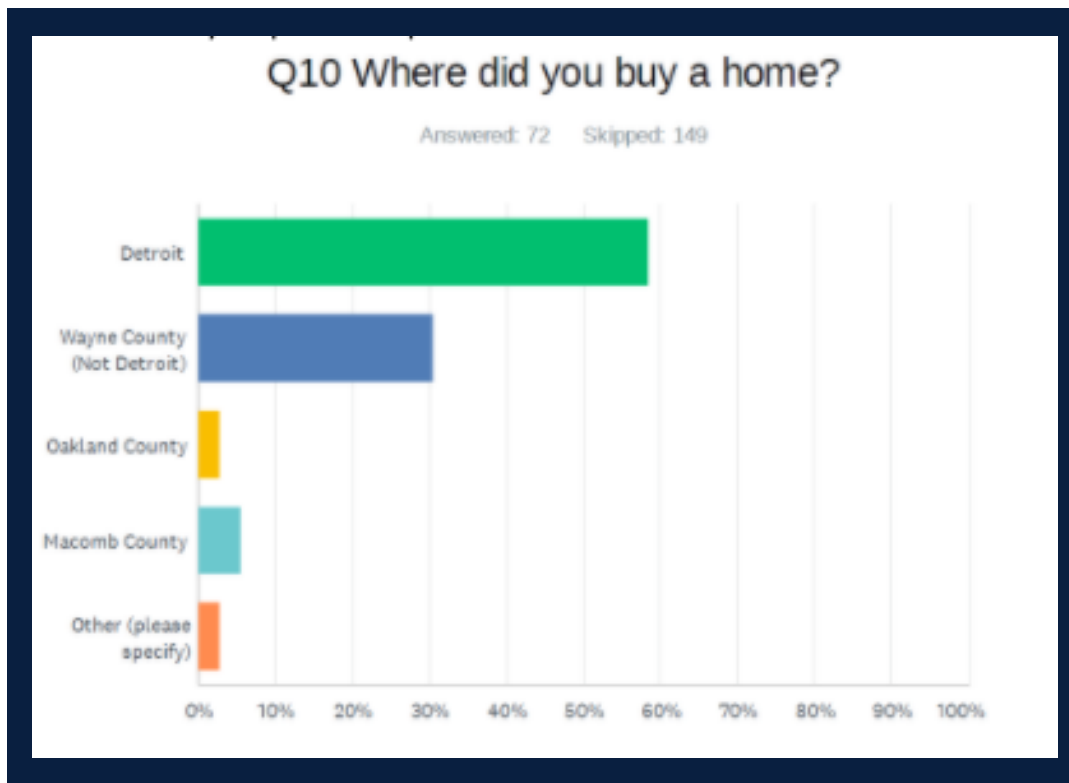
Figure 12: Shows the breakdown of how many people found homebuyer education helpful.



Southwest Economic Solutions Participant Survey

After further analysis of the responses collected by those who did purchase a home after attending a homebuyer education course, we found that 58% of respondents did in fact purchase a home in Detroit. Wayne County (not Detroit) was the second highest area that respondents purchased a home in, at 30%. Consistent with sale prices in each of the respective areas, 91% of clients who purchased a home in Wayne County (not Detroit) were approved for a loan greater than \$75k. While only 56% of clients who purchased a home in Detroit were approved for a loan greater than \$75k.

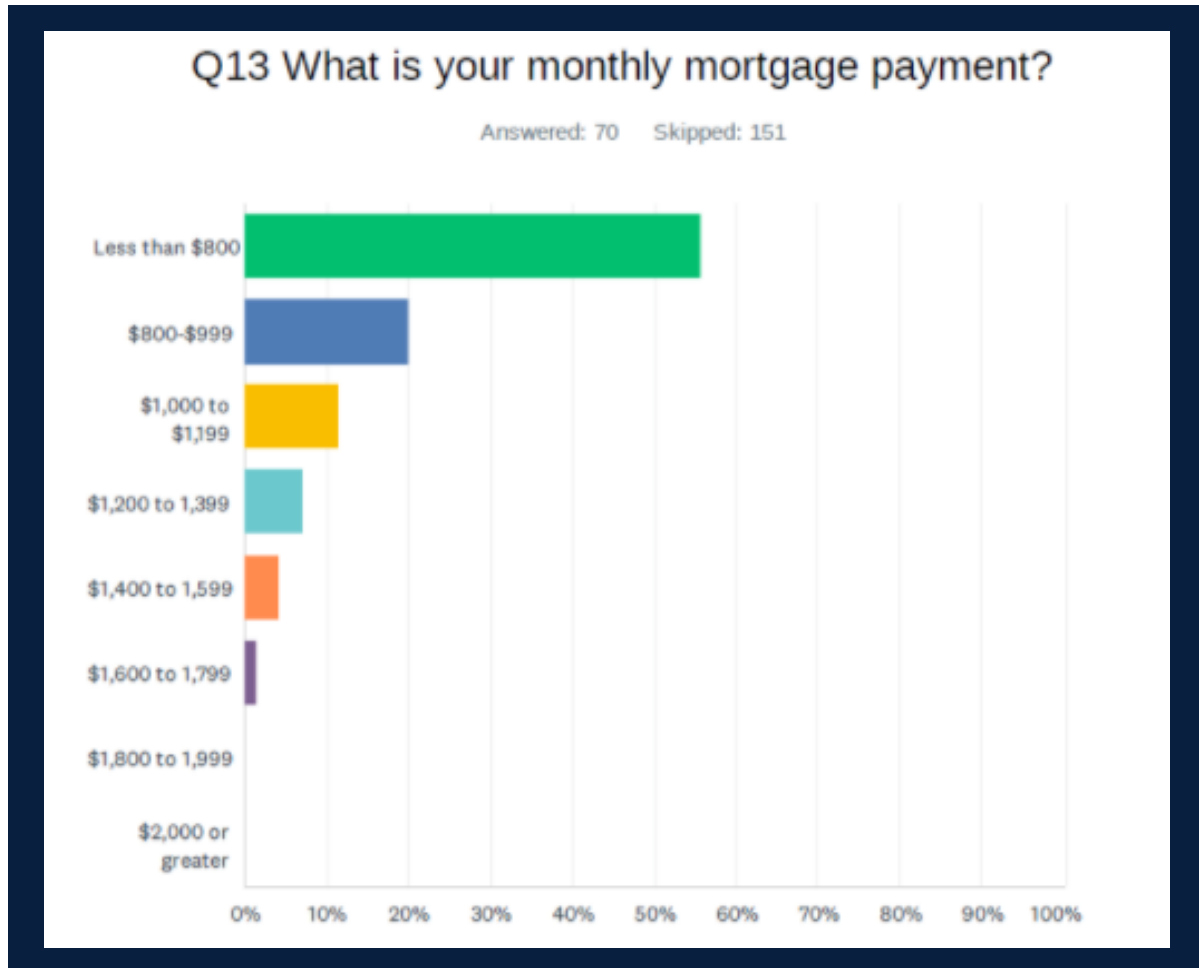
Figure 13: Shows where survey respondents purchased a home.



The survey results showed that 56% of people who purchased a home had a monthly mortgage payment that was \$800 or less and 20% of respondents had a mortgage payment between \$800 and \$999. Of the people who purchased a home in Detroit, 67% of respondents had a mortgage payment that was \$800 or less. According to HUD, households should not spend more than 30% of their monthly income on housing. The median household income for the City of Detroit in 2019 was \$30,894, which would make the average monthly household income \$2,575. This means that the average Detroyter should not be spending more than \$773 on housing each month. Luckily, we can see through the data that most likely 67% of the people are paying around or below that amount on a mortgage.

Southwest Economic Solutions Participant Survey

Figure 14: Shows the breakdown of monthly mortgage payment.



Since 65% of participants surveyed did not purchase a home, it is critical to understand the barriers to homeownership. Of the response options prompted the top three were, 13% of respondents could not find a home in the area that they wanted, 10% of respondents could not find a move-in ready property and 10% did not get approved for a loan. 62% of respondents chose the 'other (please specify)' option and gave a written response to this question. Some consistent themes captured in the narratives participants gave include:

- Needed to work more on credit score/finances
- Still looking for a home
- Homes needed too many repairs/renovations

Southwest Economic Solutions Participant Survey

Figure 15: Shows the breakdown of the reasons why respondents did not purchase a home.



Overall, the survey responses collected show two things. The first is, out of 221 respondents, 142 have not bought a house. This is synonymous with the mortgage market, or lack thereof, in the city of Detroit. The second is that there are significant gaps in the HUD 9902 data that is tracked and we need better methods and resources to follow up with our homebuyers, even after the completion of services.

Housing Context

Property Sales and Mortgage Data

To better understand the context homebuyer education participants faced trying to buy a home in Detroit, the research team purchased property sales data from Data Driven Detroit. These data were records of all property transfers within the city from 2009 to 2019, as captured by the Detroit City Assessor's Office. Each observation included the parcel ID, the property address, its geographic ID (i.e. a unique state, county, and census tract identifier), sale date, sale price, sale terms (e.g. valid arm's length, etc.), sale instrument (e.g. warranty deed, etc.), and property class (e.g. commercial, industrial, residential, etc.). Numerous parcels in the data were sold more than once between 2009 and 2019. Our analysis included the information for the parcel's most recent sale.

Additional criteria for inclusion in our analysis were as follows. We limited our research to sales between 2015 and 2019 to correspond with our data on HUD-certified homebuyer education programs. We included only properties classified as residential (i.e. property class value 401-499). Please see the Michigan Assessor's Manual for details on property classifications. A total of 46,894 residential property transfers were included in our analysis.

Mortgage data used in this project came from the Consumer Financial Protection Bureau, in two batches. The first batch was pulled from the public use data available on the CFPB website. The public-use data was mortgage-level data from 2007 to 2017. It included the mortgage's purpose (i.e. refinance, home improvement, or home purchase), action taken (i.e. originated, denied, etc.), amount, census tract, and other additional information. Our analysis included originated home purchase mortgages, and were filtered to include only Detroit's census tracts.

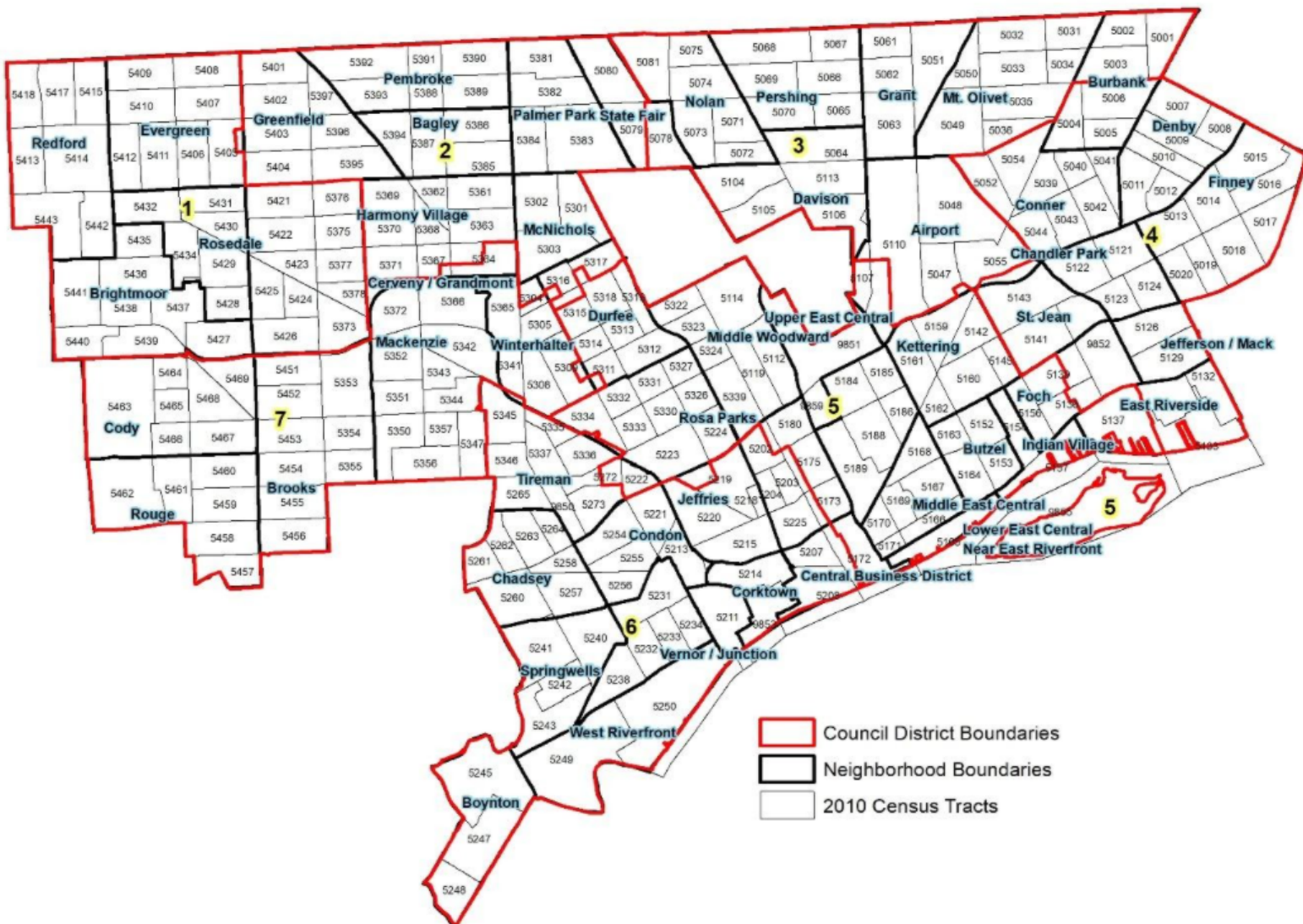
The second batch of mortgage data also came from the CFPB website, but from 2018 and 2019. These years were not part of the public use data file, and were not at the mortgage level. They were instead at the census tract level. However, they were similarly organized to include the mortgage's purpose, action taken, and loan amount. A total of 6,639 originated home purchase mortgages were included in our analysis.

Analysis

In order for the Assessor data and the HMDA data to complement each other, each observation had to include the same geographic unit of measurement. Fortunately, each observation included the census tract. By overlaying a map of Detroit's neighborhood clusters on top of a map of Detroit's 2010 census tracts, it was possible to assign the appropriate neighborhood clusters to each property and mortgage loan in their respective datasets. A similar process was used to identify city council districts. See Figure 16.

Housing Context

Figure 16: Detroit Census Tract, Neighborhood, and Council District Key



With each residential property transfer assigned to a specific neighborhood cluster, it was possible to create a denominator of all property transfers in each neighborhood cluster in each year. Similarly, with each mortgage loan assigned to a specific neighborhood cluster, it was possible to create a numerator of all originated home purchase mortgages in each neighborhood cluster in each year. Based on these two figures our research team calculated a mortgage sale proportion in each neighborhood cluster for each year.

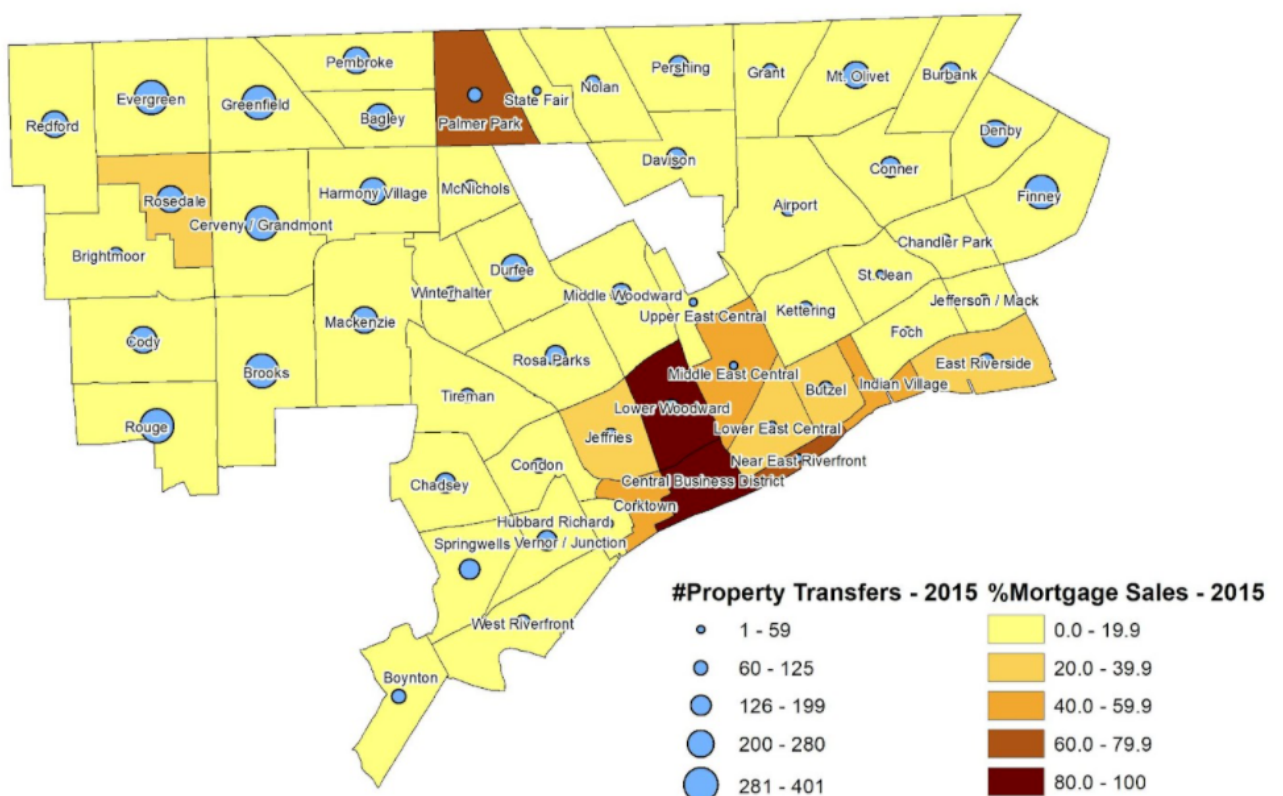
Housing Context

Findings

Maps of each neighborhood cluster’s mortgage sale proportion provided the best visualization of neighborhood-level disparities in Detroit. For additional context, each map also records a graduated symbol based on the total number of residential property transfers in each neighborhood. Please see the maps on the accompanying page.

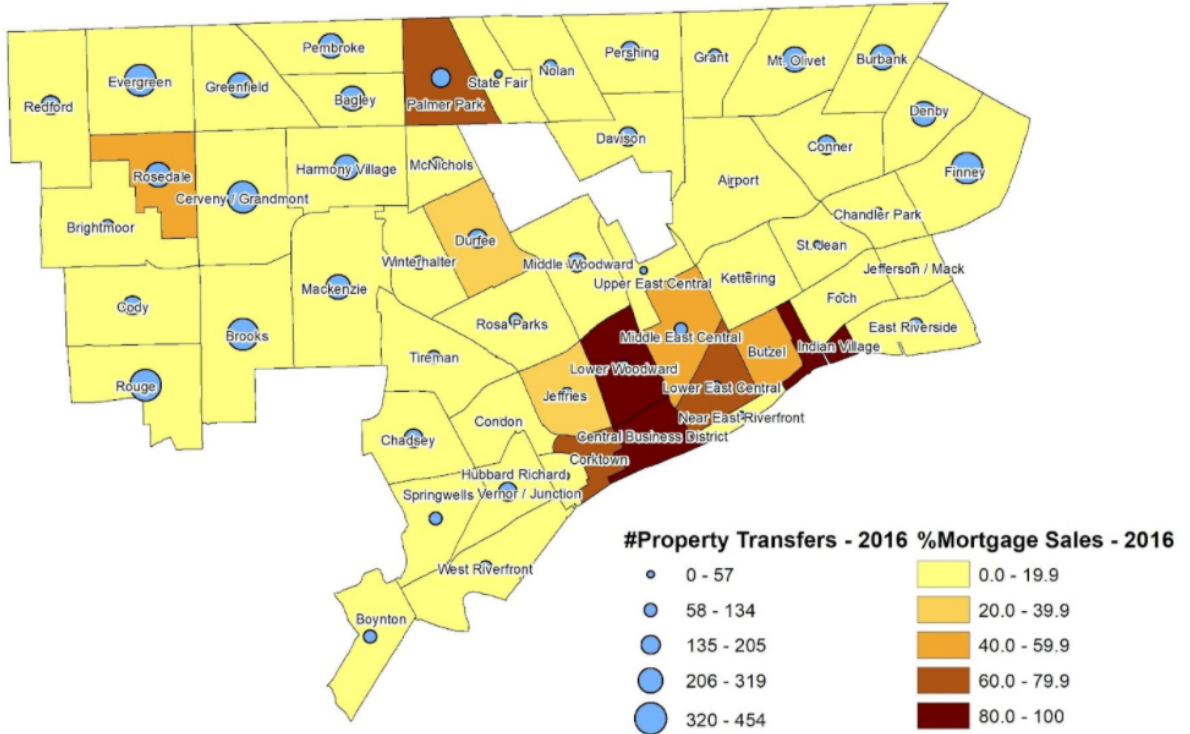
Although the maps show growth in the number of neighborhood clusters with a high proportion of mortgage sales, particularly in 2019, overall most neighborhood clusters have fewer than 20 percent of their residential property transfers financed through mortgages. Moreover, the proportion of mortgage sales is often lowest in neighborhoods with the most residential property transfers. For example, Denby, on Detroit’s east side, and Evergreen, on the city’s northwest side, are consistently neighborhoods with a high number of property transfers but a low proportion of mortgage sales. The Central Business District and Indian Village, respectively, are neighborhoods with a very low number of property transfers but a high proportion of mortgage sales. In other words, of the few residences that were purchased in these neighborhoods, almost all of them used mortgage financing.

Detroit Mortgage Sales as a Percentage of All Residential Property Transfers, 2015



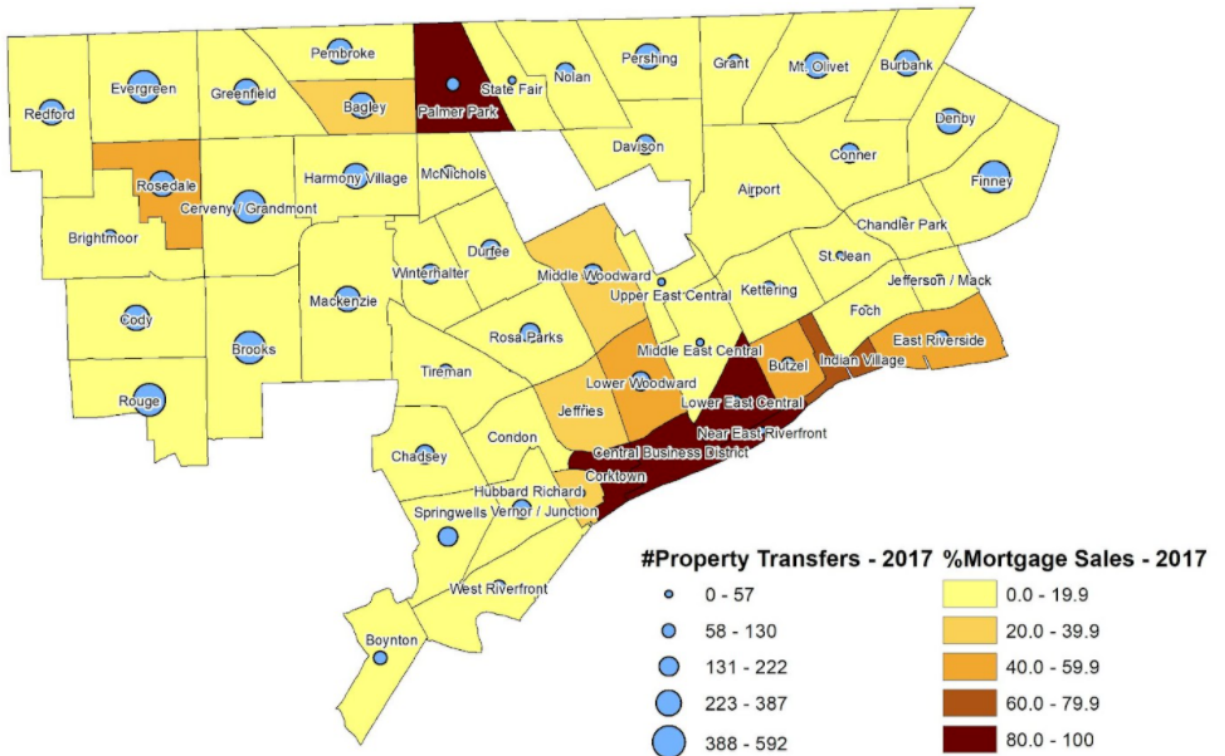
Housing Context

Detroit Mortgage Sales as a Percentage of All Residential Property Transfers, 2016



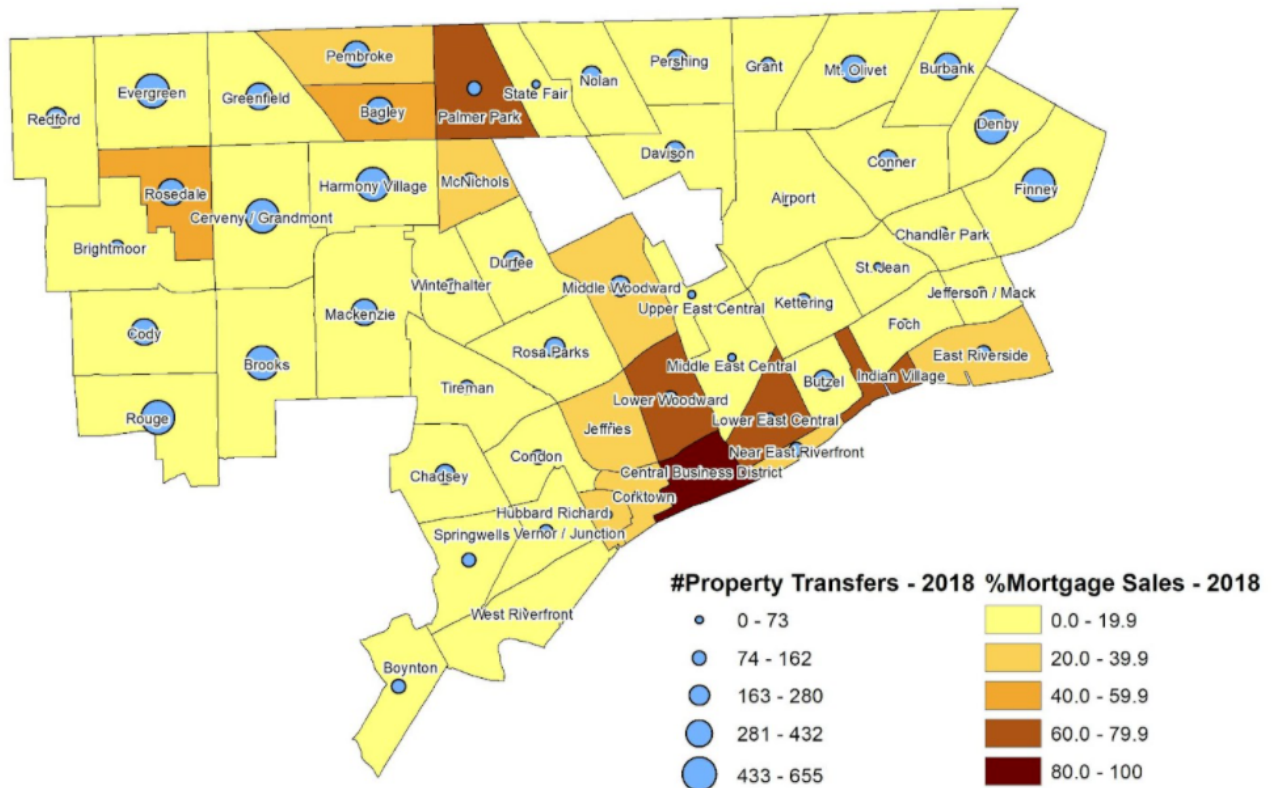
Sources: City Assessor's Office data on residential property transfers; HMDA data on home purchase loans originated, 2016

Detroit Mortgage Sales as a Percentage of All Residential Property Transfers, 2017

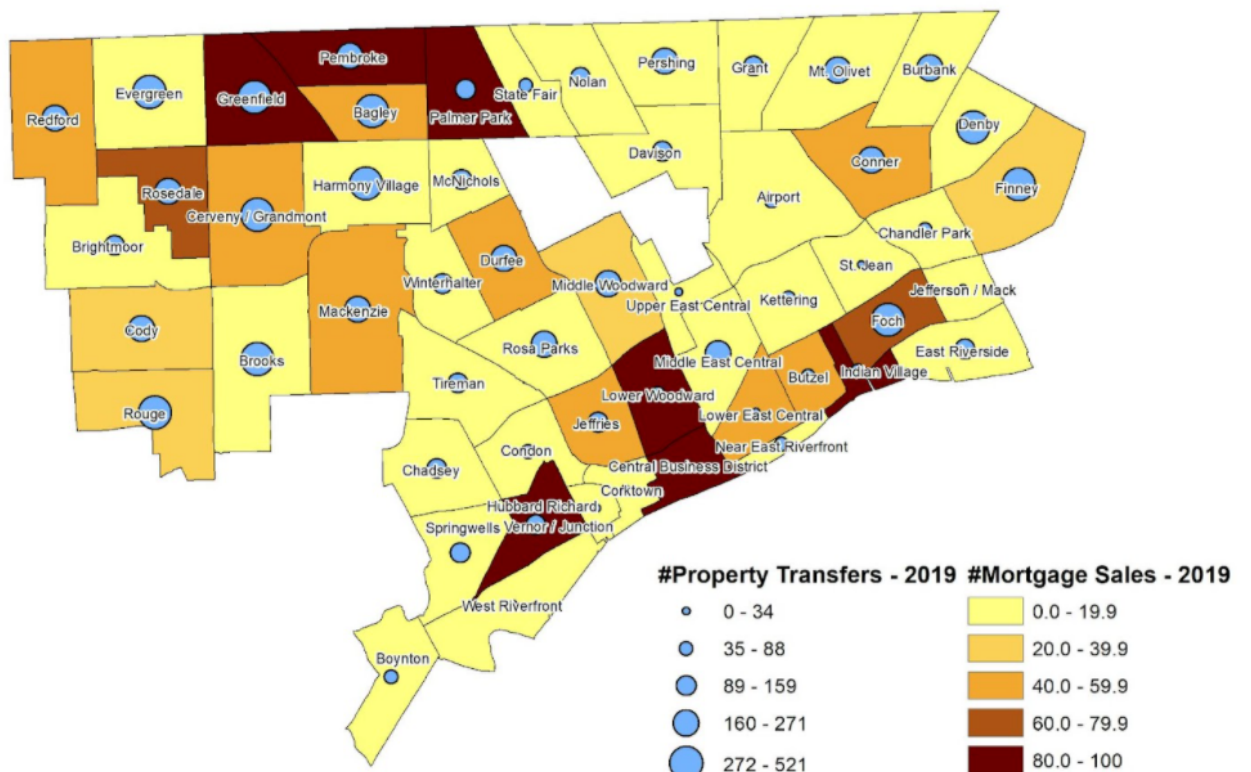


Housing Context

Detroit Mortgage Sales as a Percentage of All Residential Property Transfers, 2018



Detroit Mortgage Sales as a Percentage of All Residential Property Transfers, 2019



MSHDA DPA Loans & Proposal N

DPA loans do not appear to be evenly distributed across Detroit's neighborhoods. Rather, they appear to concentrate in neighborhoods where mortgage sales are more common, particularly on the city's northwest side. Nor do they appear to overlap with Prop N stabilization homes, which are located primarily in neighborhood clusters where mortgage financing is uncommon.

Two findings stand out after mapping these data points. First, DPA loans do not appear to help Detroiters in areas of the city that are difficult to finance home purchases. However, without better financing opportunities most residents will not be able to take advantage of Prop N homes after they are rehabilitated.

Pictured: David Palmer - DC Palmer LLC



November 5, 2021

Convening

26

The research team presented our research questions, data, analysis, and recommendations at the University of Michigan Detroit Center on November 5, 2021. The event ran from 9am until 12:30pm.

Opening remarks and introductions were made by Trina Shanks, followed by a keynote made by U.S. Representative Rashida Tlaib.

Sixty-five individuals sent RSVP for the event, and forty individuals attended the meeting in person. Twenty-one people live-streamed the event on YouTube and Facebook.

Patrick Meehan and David Palmer presented the research, analysis, and findings, via PowerPoint presentation.

After the presentations, a panel of experts provided feedback and commentary on the research and their areas of expertise. Panelists included:

- **Kimberly Faison, Director of Community and Economic Development, Detroit Future City**
- **Ruth Johnson, Public Policy Director, Community Development Advocates of Detroit**
- **Tim Thorland, Executive Director, Southwest Housing Solutions**
- **Steve Tomkowiak, Executive Director, Fair Housing Center of Metropolitan Detroit**

With lots of info from the research team and candid feedback from a variety of experts from the community, attendees were pre-selected to participate in assigned break-out sessions. These sessions were facilitated by members of the research team, and student volunteers took notes from the sessions. Participants were not personally identified in the notes.

Highlights of the panel discussion and break-out sessions have been captured and summarized in the following pages.

**DETROIT DREAMS DEFERRED:
THOUSANDS MORTGAGE
READY BUT MANY MISS OUT**

A NEW ANALYSIS OF HUD 9902 DATA
FROM 2014-2019 AND MORE!

FEATURING OUR KEYNOTE SPEAKER:
REPRESENTATIVE RASHIDA TLAIB

Join us on Friday, November 5, 2021
from 9AM-12:30PM

The Detroit Center
3663 Woodward Ave #150 Detroit, MI 48201

RSVP HERE:



Panel Discussion with Ruth Johnson, Steve Tomkowiak, Kimberly Faison, & Timothy Thorland

- Data are only one part of the complete picture. Data isn't destiny, but the data we have can be one tool among many. Others include: policy advocacy, system change (structural change), and fighting discrimination. Policy recommendations must involve the people most impacted, including neighborhood residents, neighborhood-level organizations, stakeholders in order to effect structural and systemic change. To do so, we must consider the language we are using in order to make the conversation legible for all.
- We must deal with racial discrimination within the housing market, tending to questions such as: Who applied for mortgages? Who didn't apply for mortgages? The black population is 12 percent of the population, but only 6 percent of the mortgage application.
- One explanation, among many, is that people are not seeing homeownership as a possibility. Currently, within the Detroit housing market, there are 12,000 low-income, tax credit, single-family homes that could be the opportunity for renters to transition to owners. To help get there, strategies should be developed to make home-buyers aware of the opportunities. It often takes work to even get potential buyers to understand that they could be homebuyers.

Pictured: Kimberly Faison- Detroit Future City



Panel Discussion with Ruth Johnson, Steve Tomkowiak, Kimberly Faison, & Timothy Thorland

- Michigan law says a credit-granting institution cannot impose a minimum loan amount above \$10,000. A study from 2017 revealed that lenders' denial rates for applications seeking mortgages of \$70,000 or under are double that of applications seeking higher mortgages. Even with the same credit profiles, potential borrowers are still getting denied more frequently. We need to do more to analyze lending practices, ensure that they are fair and that the law is being complied with. Turning down small-dollar loans is largely illegal. We need to draw attention to acknowledge the lenders that are doing good, and from a regulatory standpoint, we need to draw attention to lenders that are doing poorly.
- Limiting the mortgage supply to high-cost mortgages prohibits buyers with less capital and will likely have a disproportionate impact on minorities. If you chart it over the metropolitan Detroit area, it will likely look like the map where redlining has occurred.
- Banks don't have to lend money to individuals in order to create homeownership opportunities. Instead, they can invest in organizations and get the same type of Community Reinvestment Act credit from regulators. In this process, organizations are put in charge of how the capital flows. One such organization, Southwest Housing Solutions, has created the Newberry Homes Project which has successfully sold thirty-eight units to borrowers with an average credit score of 600. Since the first origination in December 2018, there have been zero defaults and only a handful of delinquencies. All but one delinquency – a wage loss due to COVID – has been cured (for more on this project, read more on page 31).
- Lastly, we need to look at our organizations' relationships with financial institutions in order to leverage those relationships and apply pressure on the financial institutions when possible.

Pictured: Representative Rashida Tlaib



Breakout Room Discussion

29

Recommendations made by attendees:

- Cultivate more meaningful partnerships across private, public, and nonprofit sectors to encourage systemic-level change.
- Build the capacity of intermediaries and community agencies to provide needed support like down payment assistance, financial counseling, and opportunities to learn more about savings. These programs also need to be better advertised to the community in order to identify people who are potential homebuyers.
- Private money is routed to groups outside of the traditional beneficiaries. I.e. CRA dollars from banks.
- Reporting mechanisms for racism within counseling programs and the general housing market
- More capital for counseling individuals
- Flexible patient capital for small-dollar loans that banks don't want to touch.
- More money is available for acquisition rehab. The community should be involved in deciding which houses are demolished, or stabilized. Programs are made available in the city to make sure properties are mortgageable.
- Incentivize loan officers to make clients whole - irrespective of the size of the loan. So loan officers put just as much effort into small-dollar loans.
- A greater process of accountability is built to ensure that the massive influx of funds that have entered Detroit for housing is spent well, but is also flexible enough to meet the needs of potential homebuyers.
- Greater acceptance of section 8 home-buying subsidies counted as income during the lending process.

Pictured: Ruth Johnson-Community Development Advocates of Detroit



Recommendations

Our research project has revealed considerable and consistent demand for single-family housing in Detroit through participation in pre-purchase housing counseling. However, this demand is not translating into either greater mortgage availability or home purchase success. Based on these findings, our research team makes the following set of recommendations to make homeownership more achievable for Detroit residents.

- **Equity by geography**

Data from 2015 to 2019 show areas of demarcation, where housing finance works and buyers have access to credit to buy homes, and areas where homes are bought and sold almost entirely through cash. Any opportunities to improve homeownership in the city must attend to these areas of demarcation.

Achieving equity by geography will require greater coordination to make them available first to Detroiters with low to moderate incomes, particularly of homes targeted for stabilization through Prop N.

- **Alternative financing mechanisms**

Pre-purchase housing counseling is often a requirement for mortgage approval, but this financial product is not working for most of the participants in these programs, nor for large swaths of the Detroit housing market. The volume of individuals completing housing counseling suggests there are thousands of Detroiters who are credit-worthy for conventional mortgages. Lenders would position themselves well if they could offer a product that graduates of housing counseling programs would be eligible for, and would help them purchase a home.

Pictured: Trina Shanks- Center for Equitable Family & Community Well-Being



Southwest Housing Solutions' Yaker Mortgage Fund

Southwest Housing Solutions' Yaker Mortgage Fund is an innovative approach to addressing systemic gaps in homeownership for legacy Detroiters, low-income credit challenged families and disenfranchised neighborhoods.

The goals of the initiative include:

- Increasing homeownership opportunity as a way to address systemic inequities and create a path toward wealth-building for lower-income households;
- Reversing the increasing and disproportionate ownership-to-rental trend in Detroit neighborhoods; and,
- Offering neighborhoods and families a path forward toward equity and inclusivity.

The initiative takes advantage of the pressing opportunity to transition existing renters to homeowners. The process combines homebuyer education, pre-and post-purchase counseling, relationship and trust-building and access to a proprietary mortgage fund that utilizes non-traditional underwriting all rooted in a shared equity transaction. The transaction is made possible through a proprietary mortgage fund (the Yaker Mortgage Fund or "YMF"), capitalized by gifts and investments, which provide buyers with a 15-year fully amortized mortgage at 4.75%.

The opportunity offers renters of existing single-family homes, originally financed using Low-Income Housing Tax Credits which have reached End of Compliance (aka. Year 16), the opportunity to purchase the home using a shared equity model and a privately financed mortgage. In general terms, the home is sold to the tenant at slightly less than appraised value. The sale price is adjusted downward by \$20,000 in the form of an owner equity contribution to ensuring affordability. That subsidy is codified by a second mortgage forgivable over five years. Additionally, the YMF makes a cash-at-closing contribution to reconcile down payment and closing costs. The buyer's contribution is approximately \$1100 cash and 12 months of property insurance. By applying an Equivalency Principal, 38 of 40 owners now pay less than their previous rent.

For example, Southwest Housing Solutions is using this model on its Newberry Homes project. Thirty-eight of 60 units have been successfully sold. The average credit score of the borrowers is approximately 600. Since the first origination in December 2018, there have been zero defaults and only a handful of delinquencies. All but one delinquency – a wage loss due to COVID – has been cured. Of the 40 sales: 100% have been minority buyers (31 African-American and 9 Hispanic/Latino), all have been 60% Area Median Income or below, and 35 have been female head of household.

The product market for this program is approximately 1300 units in Detroit neighborhoods. Approximately 1/3 have reached Year 16, 1/3 will mature in the next 2-5 years, and the balance will mature within eight years. The total YMF goal is ~\$16MM to address the immediate need. The source of these funds will be a blend of gifts, grants, investments, and recapitalization. The originated mortgages have been demonstrated to be saleable and this serves as a way to accelerate recapitalization of the YMF.

The YMF currently has about \$900,000 available to complete the Newberry transactions, about \$1.1MM in funds from recapitalization available to new program units, and additional requests for grant and investment support pending. No less than five potential partner organizations representing more than 225 units have expressed interest in adopting this model.

Conclusion

Based on participation in HUD-certified pre-purchase housing counseling from 2015-2019, there is considerable demand for single-family homes in Detroit. However, much of this demand is going unmet. Data from the City Assessor's Office and Home Mortgage Disclosure Act demonstrate that mortgage financing has not played a major role in residential property sales over the same period of time. This leaves residents who want a home unable to secure the financing to purchase one.

The partnership that put together this report will continue to make this information accessible to residents and stakeholders. Working together, homeownership can become more available. The Detroit Housing Compact and Detroit Future City share the goal of creating 500 new homeowners among the city's low to moderate-income households. More needs to be done, but with committed partners, the information will exist to change policy and make the American dream a reality for the thousands of Detroiters who want it.

Pictured: Hector Hernandez- Southwest Solutions



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