# Advisory Blog

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# Calvert Mortgage Access: Tackling Barriers to Homeownership

*By: Calvert Research and Management | July 12, 2022*

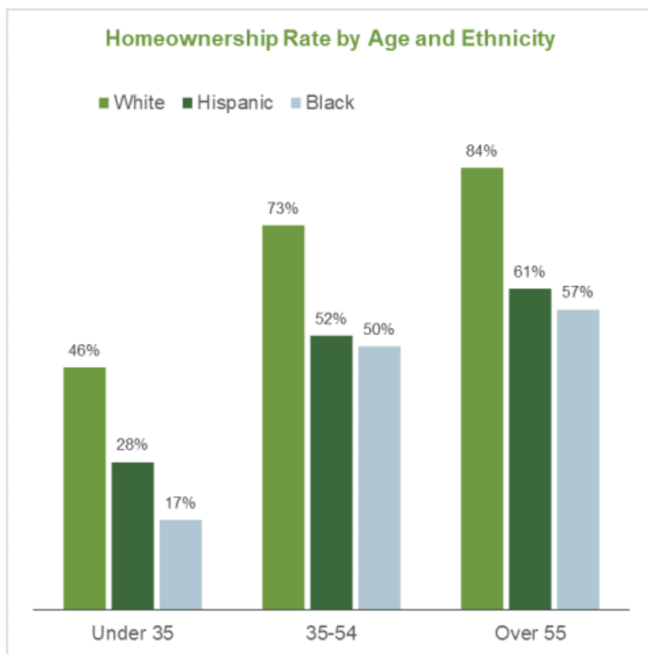
**Boston** - Calvert Mortgage Access Fund (CMA) was launched on April 29, adding actively managed mortgage expertise to our responsible investment fund lineup. The fund will seek to expand homeownership access by investing in mortgages provided to underserved communities, including minorities, low-income individuals and first-time homebuyers, among others.

CMA is co-managed by Andrew Szczurowski and Alex Payne, who bring deep experience creating customized pools of mortgages that they believe offer strong investment merit and positive social impact.

*Portfolio managers Andrew Szczurowski and Alex Payne discuss their sustainable and environmental, social and governance (ESG) strategy and investment approach for CMA.*

**Counter barriers to entry**

It is well documented that inequality in the rate of homeownership is a key driver of wealth inequality in the U.S. and that significant homeownership gaps exist between races and across generations. A 2019 survey by the Federal Reserve Board found that homeownership rates for white populations far exceed those for Hispanic and Black populations across all age groups.[1]




Source: Federal Reserve Board, 2019 Survey of Consumer Finance.

According to a 2018 survey by the Urban Institute, a Washington, D.C.-based think tank that conducts research on economic and social policies, the two barriers that are most often cited as reasons for not purchasing a home are "affording the down payment" (68% of respondents) and "qualifying for a mortgage" (53% of respondents).[2]

While the first barrier may be a result from a longstanding cycle of wealth inequality, we believe the second barrier has been the unintended consequence of the well-intentioned regulatory response to the abuses of the 2008 financial crisis. Following the financial crisis, lending standards became so restrictive that many first-time homebuyers were unable to qualify for mortgages. In our view, the unfortunate result is that many otherwise creditworthy borrowers may have been shut out of the conventional mortgage market.

By focusing on investing in and facilitating access to mortgages and loans targeted to minority, low-income and first-time homebuyers, we seek to alleviate some of these longstanding barriers.

**Target areas for impact**

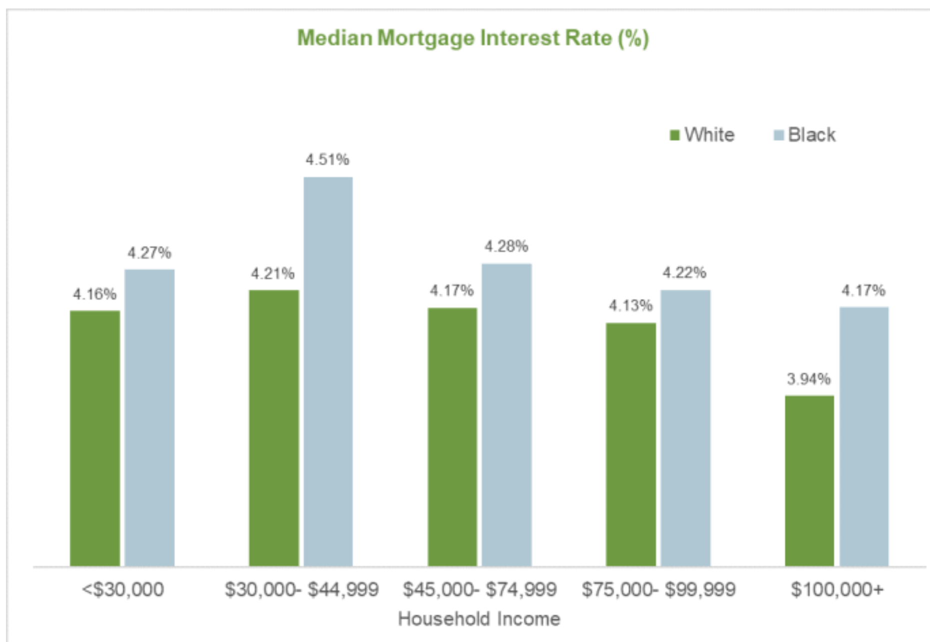
CMA's strategy is focused on supporting homeownership for borrowers who have been traditionally underserved by the financial system, and one of our guiding principles is to deploy capital in areas where it can have the biggest impact.

With the help of the ESG Analytics Lab at the Wharton School of the University of Pennsylvania, we have identified 100 metro areas with the highest degrees of housing value inequality. Wharton's research created a county-level measure of inequality in housing values, uncovering more than 250 counties across the U.S. in which the median home price of nonwhite homeowners was more than 20% lower than that of white homeowners.[3] The 100 areas with the largest gap are believed to be at least partly due to historical redlining[4] policies.

We believe that there is economic value in lending against artificially depressed home prices. As access to credit improves in these focus communities, we expect that the home values of nonwhite homeowners will converge with those of white homeowners.

**Address mortgage market inefficiencies**

Another glaring example of inequality in homeownership can be found in the mortgage financing process. Harvard University's Joint Center for Housing Studies found that the median mortgage rate for Black households can be up to 30 basis points higher than for white households with similar income.[5]




Source: Joint Center for Housing Studies of Harvard University, February 2021.

By offering competitive market rates to borrowers with good credit, we may help to make homeownership more affordable for underserved populations.

We seek to address other inefficiencies and gaps in the mortgage market by collaborating with originators and setting the standards in custom pools focused on underserved populations, such as:

**Target frontline occupations** — nurses, teachers and police — who may have previously been declined for not having saved enough for a down payment; as these occupations are generally more recession-resistant, potential borrowers may actually be more creditworthy than individuals in other professions.

**Focus on multigenerational households** in which multiple wage earners contribute to the monthly mortgage payment despite not being named on a mortgage — a common practice among Hispanic, Black and immigrant populations.

**Use alternative data** — rent payments and bank statements — for borrowers with limited credit histories or without W-2 tax statements because they are self-employed.

**Provide short-term "warehouse financing"** to help rural lenders make more loans and sell them to investors faster.

**Seek to avoid mortgage defaults**

Our goal with CMA is to facilitate borrowers buying homes they can comfortably afford, and help avoid circumstances that could ultimately lead to foreclosure. Given our goal to deliver market-leading investment returns, we could not achieve that objective with many defaulted loans in the portfolio.

In times of financial stress, the ideal outcome is for borrowers to remain in their homes and pay what they can afford. To accomplish this, we will have the ability to direct mortgage servicers to prioritize consumer education programs and loan modifications before initiating foreclosure procedures. After all, keeping someone in their home when they otherwise would have been foreclosed upon can be just as impactful as putting them in that home in the first place.

**Bottom line:** With this fund, we seek to leverage our asset class experience and leadership in responsible investing to implement innovative solutions that help expand access to homeownership.

1. 2019 Survey of Consumer Finances, Federal Reserve Board.

2. "Barriers to Accessing Homeownership: Down Payment, Credit and Affordability," September 2018, p. 2, Urban Institute, Housing Finance Policy Center, Laurie Goodman et. al.

3. "ESG Integration Across Asset Classes, Geographic Clusters, and Identity Groups, December, 2021, by Christopher Bruno & Witold Henisz, ESG Analytics Lab, Wharton, University of Pennsylvania and Calvert Research & Management.

4. Redlining is a discriminatory practice in which financial services are withheld from potential customers who reside in specific neighborhoods — typically those with low-income residents and significant numbers of racial and ethnic minorities.

5. "High-Income Black Homeowners Receive Higher Interest Rates than Low-Income White Homeowners," February 16, 2021, by Raheem Hanifa, Harvard University, Joint Center for Housing Studies.

For more information about Calvert Mortgage Access Fund click here.

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Calvert Research and Management

> Our strategy for the fund is to support homeownership for qualified borrowers in traditionally underserved communities, deploying capital to areas where we believe it can have the greatest impact.

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