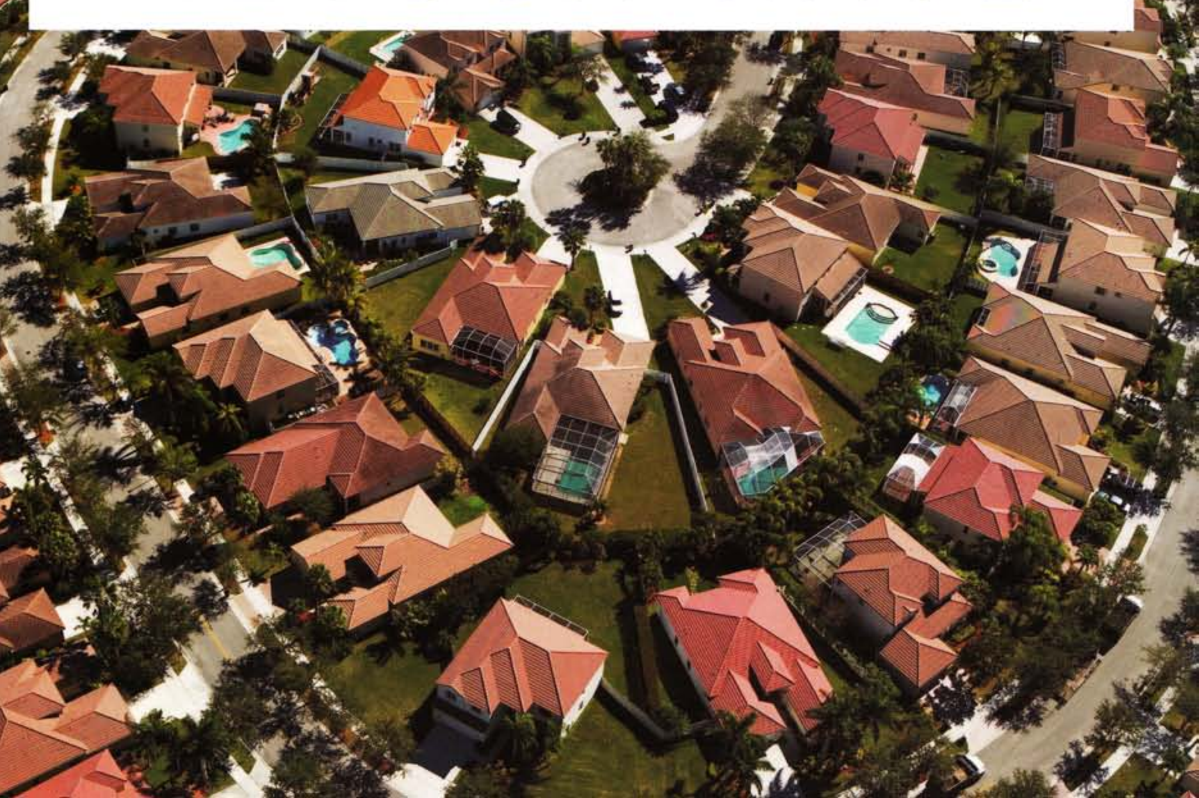
OUR LOT

HOW REAL ESTATE CAME TO OWN US

ALYSSA KATZ



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The Rising Tide

Holland, Michigan, 1996

HE WORKED IN CONSTRUCTION for a living, his specialty the muscular art of the tape knife and molding plaster into shapely interior walls. The cozy Victorian from the 1890s was a special test of Spencer Kasten's skill. Spencer and his wife, Lisa, had spent the past two and a half months gutting and rebuilding the place. The last inhabitant here, on this quiet street in the historic district of Holland, Michigan, was a cat lady with fifteen stinky life companions. The walls had crumbled behind fake wood paneling. Some previous renovator had the bright idea of spanning the ceiling with ersatz beams. Every window needed to be torn out and replaced.

"The foundation, roof, and plumbing—they had to be okay," says Spencer, listing the infrastructure he and Lisa made sure was solid. Everything else they could build themselves.

The Kastens were young, twenty-four and twenty-five, with the kind of energy you need to replaster every surface but the floor. There, they shredded room after room of carpet, exposing warm, wide oak. The laminate countertops—they had to go. Spencer and Lisa worked without pay or help, gladly, because this home was their own. They bought it with a government FHA loan. With the signature on the deed they were new people, homeowners.

Lisa wielded the toolbox and the checkbook. She also kept track of the family goals: "We knew the money we were spending on rent would not get us anywhere. We knew we wanted to have a family. We'd have a home where we could invest and start something." In 1996, homes in Holland's quaint historic district, a stroll from a walkable downtown, where independent businesses thrived and Lake Michigan was a quick drive away, were hot properties; few came on the market, and owners constantly found themselves fielding offers they had no intention of taking. The Kastens were lucky to find this fixer-upper, which had scared other buyers away.

As early June blossomed outside, Spencer brushed back his mop of blond curls and surveyed his handiwork—the concentric circular moldings around the hanging dining room lamp, the exposed wood grain (real) on the window seat near the front door, the delicately painted purple and green trim on the exterior. The house wasn't huge, and it had just one bathroom, on the stairway landing, for its three bedrooms. They couldn't even store stuff in the basement—too damp—and would have to rent a storage unit. But who could complain? They got the place for just $57,000, a typical price for the neighborhood, plus about $3,000 in closing costs.

Lisa didn't expect to hear from their Realtor again, so soon after they'd closed on their house. The agent called, with urgency in her voice. The people at HUD needed a couple, new homebuyers from somewhere out there, to come to Washington and talk about their experience. Could the Kastens do it? Like, in two days? Well, they reasoned, they would get a free trip.

Lisa is the writer in the family, and though she had never spoken publicly before, as instructed she located a notebook and pen amid the buckets of joint compound and piles of half-peeled linoleum, and put together some remarks. About how an owner takes pride in her home, and makes loving efforts to care for it. That it reflects on the owner as a person—someone who plans for the future. "Our home is no mansion," she wrote, "but to us it's the most beautiful house in the world." That would do. Lisa didn't want to screw up the speech.

Via the Grand Rapids airport—their trip was paid for by the National Association of Realtors—the Kastens got to Washington, where their escort took them to a cab with instructions to head for the White House. The White House? Neither of them had ever even registered to vote.

In the Oval Office, President Clinton was waiting for them. He asked them why they decided to buy a home. He asked them why they used a government FHA loan. Outside, on the White House lawn, aides propped up a photograph of the Kastens' half-finished home on an easel. With the president on their other flank, the couple stood on display alongside it, Lisa in a red polka-dotted dress and Spencer's slender frame almost drowning in a suit he rarely wore.

Plaster dust still in their skin, Lisa and Spencer Kasten found themselves actors in one of the showpieces of Bill Clinton's 1996 campaign for reelection. Standing next to the Kastens and the blown-up photo of their fragile new possession, the president nodded toward the nervous couple and called people like them the future of a prosperous nation. "Anything we can do to facilitate people buying their own homes and to speed the process along," promised the president, "will increase savings in America, increase security, and support families."

Clinton instructed the Secret Service to bring the Kastens in the limo with him to their next stop. In the backseat he had more questions: How had they found their home and their loan? How much had they paid? What were their closing costs? Then he pointed out the McDonald's where he bought his coffee after his run every morning. They were on their way to the Homeownership Summit, a grand event the Clinton administration pulled together at the Omni Shoreham to show off its efforts, over the previous year, to increase the number of homeowners in America to unprecedented heights.

The president's goals, which he first announced on June 2, 1995—proclaimed National Homeownership Day—were ambitious: 8 million new homeowning households over the next five years, and a record 67.5 percent homeownership rate. (That, compared with just 650,000 new homeowners a year in the previous decade.) One out of every eight renters, who couldn't or wouldn't have bought a home otherwise, would march into the ranks of the mortgage-holding mainstream.

President Clinton dive-bombed into office in 1993 with an immense economic agenda, geared toward pumping up the economy and lowering the ballooning federal deficit—which, if his advisers were right, would bring interest rates down. Selling people more homes was barely part of the plan. Lower interest rates were, rather, supposed to spur business investment; a lower debt, the Clintonians hoped, would free up money for job training and other efforts to put more money in Americans' bank accounts.

Clinton's National Homeownership Strategy, as it came to be called, began instead in a fit of campaign-trail rivalry, and with a scholarly expert on housing who decided he would rather make history than write about it.

Earlier in his career, Columbia University urban planning professor Marc

Weiss had documented the chaos of home mortgages before the New Deal and then the FHA's creation of suburbia. Through a serendipitous meeting with an old fellow traveler from the labor movement who happened to be running the presidential campaign of Arkansas' governor, Weiss forsook academia to work for the circus that was the Clinton campaign. He would be its liaison to urban development groups.

In the fall of 1992, as Clinton headed into a showdown with George H. W. Bush, Weiss called strategist George Stephanopoulos in a panic. The National Association of Home Builders was inviting the Clinton/Gore campaign to speak to its leadership—facing off with Vice President Dan Quayle. Unless the campaign could find another speaker, it would be Weiss up on the stage, not nearly as pretty as his adversary or his employers. Can we get Clinton? Weiss pleaded. Al Gore? Anyone?

In desperation, Weiss turned to an unfinished manuscript from his Columbia days, on the history of campaigns to promote homeownership. He proceeded to write its next chapter by making it happen. With a green light from Stephanopoulos, Weiss wrote a letter to the builders' industry group. Signed: Bill Clinton.

The letter told the homebuilders the bad news they already knew: home sales had dropped by nearly one quarter in the previous few years. Clinton called 1991 "the worst year for housing construction since 1945." And he told the homebuilders whom to blame. The rate at which Americans owned their own homes had declined for the past twelve years—starting with Ronald Reagan's first year in office.

With Weiss the dark-bearded professor as his medium, reading the letter to the homebuilders, Bill Clinton found himself promising that in his first year in the White House he would reverse the drop. "Homeownership, home building, home sales, home mortgages, and home values will once again be the rising tide that lifts all of America's boats," came the pledge.

The homebuilders, not suprisingly, loved the speech Bill Clinton never gave, enough to publish the candidate's message in its magazine. The Mortgage Bankers Association and the National Association of Realtors circulated versions for their members.

And so Weiss had to deliver what he—the now President Clinton—had promised. Once Clinton arrived in the White House, HUD secretary Henry Cisneros and his aides watched the numbers anxiously. Miraculously, they wriggled upward that first year, 0.1 percent, as four hundred thousand new homeowners bought in. Interest rates hadn't yet gone down, but Americans seemed to be acting on a newfound confidence in the future.

"Holy fuck," Cisneros exclaimed to Weiss. "We actually did this."

From there, the White House decided to go all out. In the summer of 1994, Cisneros sent a memo to Robert E. Rubin, then Clinton's chief adviser on the economy, outlining a plan to bring homeownership to an all-time high. Rubin was previously the cochair of the investment bank Goldman Sachs, and that gave him a special awareness of what a vastly bigger customer base would mean for the financial services business.

The reality was that the consumers the industry had depended on all this time were spoken for. More than nine of every ten suburban middle-class white households owned their homes. If the industry were going to grow, it would have to tap new borrowers, and HUD's research team concluded that those were going to be urban, black (only 43 percent were homeowners), Latino (41 percent), and people under age thirty-five (just 38 percent).

That last group was especially worrisome to the eminences of real estate and finance. In just a decade, homeownership among young people had fallen by nearly 5 points. The next generation of consumers were becoming renters instead of owners—Cisneros called them "lifers," as if they were in prison—a status that might well become permanent if their habits didn't change.

Invoking the twenty-fifth anniversary of the moon landing, the HUD secretary pitched the Clinton homeownership strategy as another Apollo Project. "MESSAGE: The Clinton Administration's Economic Plan has succeeded and is touching the lives of American families in a profoundly personal way: making it possible for families to become homeowners on a scale never before achieved," Cisneros bulleted out for Rubin. "The Clinton Administration is committed to extending the economic recovery by spurring housing production, which will translate into business and consumer confidence, increasing housing starts and home sales, and expanded economic growth and job creation." As someone at HUD calculated it, they would have to add one new homeowner every 24 seconds, 24 hours a day, 7 days a week, 365 days a year.

The White House couldn't do it alone. In August 1994, it brought representatives from the Mortgage Bankers Association, Fannie Mae, the

National Association of Realtors, the National Association of Home Builders, and other industry players, along with state and local government leaders and advocates such as ACORN and Habitat for Humanity, to Washington's National Building Museum to advance the cause. They were greeted by Rubin's deputy, Ellen Seidman, previously vice president for research and economics at Fannie Mae. That afternoon the White House would ask them all to pledge to do their part to propel the number of homeowners to new heights.

"The National Homeownership Strategy," announced the project's founding document, a compendium of a hundred steps to make buying a home cheaper, easier, and inevitable, "will attempt to help *all* American households become homeowners."

In classic Clinton style, the National Homeownership Strategy sought to sell Washington conservatives on the very thing they were trying to destroy: the sixty-year legacy of federal government involvement in housing. When Newt Gingrich and his Republican revolutionaries took over Congress that fall, one of the first things they did was cut HUD's budget by a quarter. Then they set out to eliminate the agency entirely.

But here, in the selling of homeownership, the Democrats had embraced a politically untouchable cause. No less a free market maven than Federal Reserve chair Alan Greenspan anointed the National Homeownership Strategy with a keynote speech at one of its early meetings, and even as they sought to take down HUD, Republicans never questioned the National Homeownership Strategy.

From its birth in the Great Society, HUD had focused on financing and managing inexpensive housing for those who couldn't otherwise pay for it. Now its staff experienced a culture shock. They were accustomed to talking about "affordable housing." Now the Secretary's policy aides instructed them to use the term "affordable homeownership" instead. "Housing," politically, signaled poverty, public housing projects, "Section 8" rent vouchers. Homeownership suggested the exact opposite: the great middle-class majority, responsible mortgageholders in stable communities.

Indeed, the Clinton administration expected its efforts to have a transformative effect. According to HUD's planners, homeownership would stabilize neighborhoods and build better communities because new property owners would "exercise more responsibility over their living environment."

It was no accident that the R word—responsibility—was part of the vocabulary of the National Homeownership Strategy. This was a project of mass behavior modification, in which millions of Americans would move out from the liability side of the social ledger to bloom into assets to their communities and the economy. The National Homeownership Strategy was deeply connected to the Clinton administration's more infamous crusade for personal responsibility: its overhaul of the welfare system, which for the first time required almost everyone receiving public assistance to work for their benefits.

Both welfare reform and the homeownership push were poised to herd poor people from the raunchy outskirts of the economy into the eye of the marketplace, as workers and then as consumers of financial services. Through sheer numbers, this march of millions had the power to heave the American economy to new heights.

The Clinton homeownership crusade relied on two forces to get the nation there. One was a menu of deregulation, written with industry partners, aimed at lowering the cost of building and financing a home. The other was a campaign to transform public consciousness: "Instilling a can-do attitude among those renters who have given up on the American Dream of homeownership will require a long-term approach, using both traditional and new techniques of education, awareness, and encouragement," the homeownership strategy team predicted.

Introduced as social policy, welfare reform and homeownership evolved into twin stars of Robert E. Rubin's plan to turn up the gas on the national economy. Moving masses from welfare to work, generating budget savings and tax revenues in the process, was an explicit part of the administration's plan to eliminate the federal deficit. Clinton promised that deficit reduction would in turn bring interest rates down; the most important effect of low interest rates would be to spur businesses to invest and expand, but cheap money to borrow would also make homeownership attractive and possible for those who didn't already live the dream. Around and around, this virtuous cycle would keep gyrating, an economic machine that the Clinton administration called the Community Empowerment Agenda. "An expanding economic pie," as a leading theorist labeled it, would keep the whole nation well fed.

In eight speeches leading up to Election Day 1996, President Clinton dug right into that pie, flavor: apple, with sweet words to tantalize future homeowners and their communities. Homeownership "encourages savings and investment, promotes economic and civic responsibility, and enhances the financial security of the American people," Clinton beamed as he announced his new project. "Perhaps most important, homeownership gives Americans pride in their neighborhoods and hope for a brighter tomorrow."

Clinton was drawing on a hot trend in policy wonk circles. His advisers, allies, and a growing array of philanthropists looked to homeownership as an anchor of a new prosperity for millions of Americans on the economic margins. Property ownership, as they saw it, would bring families out of tenuous economic situations—lives lived payday to payday, with little if any money in the bank—and mold them into people who saved for the future simply by dint of their mortgage payments, building home equity with every check.

"We really did believe that assets and wealth-building changed the way that people thought about the future, their planning horizons, their way of bulding wealth," says Michael Stegman, who headed policy development for Clinton's HUD and recommended the National Homeownership Strategy's goals (he's now domestic policy director for the MacArthur Foundation). Year by year, payment by payment, the new homeowners would move into what President Clinton liked to call the "economic mainstream." Rather than government spending its money on aid to families month after month, it would reward them for the desired behavior of saving for the future.

More profoundly, some especially ambitious thinkers postulated, getting poor people to acquire assets—wonk shorthand for homes and savings accounts—would actually change their consciousness, so that they would act in the world as someone with an investment to protect. "If a young mother owns her home, she begins to pay more attention to real estate values, property taxes, the cost of maintenance," social welfare expert Michael Sherraden postulated in a book that became required reading among reformers. The effects, he and others predicted, would carry on for generations.

Clinton saw few bounds to the power of homeownership: to set wayward young people on a course to success, to turn slums into orderly communities, to accomplish with a few pieces of paper what three decades of welfare had failed to do.

"We just had a report come out last week asserting that it may be that up to one third of our children are now born out of wedlock," Clinton said on the first National Homeownership Day, in 1995, in a speech viewed via satellite by housing and banking officials across the country. "You want to reinforce family values in America, encourage two-parent households, get people to stay home? Make it easy for people to own their own homes and enjoy the rewards of family life and see their work rewarded. This is a big deal. This is about more than money and sticks and boards and windows. This is about the way we live as a people and what kind of society we're going to have."

In practical terms, the Clinton administration's National Homeownership Strategy centered around a "partnership" with the real estate industry—homebuilders, bankers, Realtors—to do business with renters who had never owned a home before. Clinton's Department of Housing and Urban Development pushed lenders to sign agreements committing them to adopt more flexible loan policies and market their products to new groups of consumers.

Countrywide Home Loans, the biggest residential real estate lender in the nation, was the first to commit. Its CEO, Angelo Mozilo, was the president of the influential Mortgage Bankers Association, which also signed up to advance the National Homeownership Strategy. Countrywide was already in the process of launching a marketing campaign that reached where no mortgage lender had gone before: deep into formerly redlined city neighborhoods.

The home lender opened new offices in predominantly black areas of the District of Columbia, Los Angeles, Newark, Atlanta, Chicago, and other cities. It networked with local real estate agents and groups such as the Realtists, a national organization of black brokers. It made grants to trusted neighborhood nonprofit groups so they could counsel new homebuyers. It gave away a video, narrated by James Earl Jones, titled *A Feeling Called Home*, and unlike other lenders at the time, it made sure that all information was available in Spanish as well as English.

The pacts Countrywide and other Mortgage Bankers Association members signed signaled to their competitors and financial backers that expanding the market for home sales to formerly excluded groups would be a boon to their business.

The mortgage banks alone stood to make $500 billion in new loans. You'd think they'd be elated. Instead, they worried. "You'll be looking at people who are more likely to have employment histories that are a little speckled, or a credit history that has some nicks on it," the executive vice president of the Mortgage Bankers Association told the *American Banker*. "There is a prospect that those are going to be riskier loans." In that same article, American University finance professor Peter Chinloy predicted that lenders would look to lower the size of required down payments to bring in those new buyers. Borrowers who made low down payments, and therefore didn't have much of their own money at stake, were well known to be likelier to default on their payments than those who made high ones, and in the event they did go into foreclosure, a lender could end up saddled with a house worth less than the amount of the unpaid loan.

Clinton's man in charge of the homeownership project, FHA chief Nicolas Retsinas, shook off those concerns. "The perceived risk exceeds the real risk," he averred. The solution was to "price the risk"—charge a little more interest each month, perhaps, for those dicier borrowers—and make sure the new buyers got financial counseling.

Usually, corporations lobby politicians. But with his homeownership agenda, President Clinton chased the real estate industry like a horny prom-date suitor. In October 1994, Clinton came to the convention center across the street from Disneyland to tell the Realtors what he had in mind.

"I want to target new markets, underserved populations, tear down the barriers of discrimination wherever they are found," he proclaimed to cheers at the Realtors' annual convention. Pointing to sagging homeownership rates for young families with children, Clinton vowed to turn them around, and implored the real estate industry to do its part. "As they say back in Arkansas," he told the Realtors, "if you find a turtle on a fencepost, chances are it didn't get there by accident." The line got a big laugh from the Realtors, and no wonder: the president was committing to putting a turtle on every fencepost. By the time he came back to address the Realtors again, in the spring of 1996, they were on their way to selling a record four million homes that year.

Soon afterward, HUD secretary Cisneros applauded the news that homeownership was at a fifteen-year high. He was the official in charge of the nation's housing, but building better homes or better communities wasn't the focus of his remarks, made in a conference call with reporters and the president's chief economic adviser, Laura Tyson. He called the rise "a powerful engine of economic growth, creating jobs in the construction industry and in businesses that sell building supplies, appliances, and home furnishings." Then Tyson jumped in, to reassure reporters that an uptick in interest rates wouldn't break the upward momentum. "Housing affordability," she assessed, "will remain quite favorable."

Gale Cincotta happened to be in Washington that day, and she was irate. She was there to testify before Congress on how well Fannie Mae and Freddie Mac were measuring up to their new obligations to sponsor home loans for people of modest means. Cincotta looked around her and at the man next to her on the panel, formerly head of the National Association of Home Builders. "I am usually the only one talking about housing as shelter," she railed. "Everyone else is talking about how many refrigerators we can sell, how much carpeting, how many stoves, how many shingles, how much fencing, and it's how many jobs we can create."

Well, everybody but Bill Clinton. As the 1996 campaign plowed on, President Clinton began to weave his own personal tale into his rhapsody to the American homeowner. At the Homeownership Summit, with the Kastens onstage next to him, Clinton reminisced about the first house he bought, for $20,500, a thousand-square-foot hardwood-floored dollhouse of a home with a mortgage payment of $174 a month.

It was his way of proposing to Hillary, more valuable than any diamond. "Don't you think you'll have to marry me so I won't have to live there by myself?" he said he told his wife-to-be.

Lisa and Spencer Kasten still live in their cozy Victorian. Eleven years have given them a lot of time to fill the little house with artifacts they bought at antiques stores along the Red Arrow Highway, from other aging homes whose owners didn't value their parts—brass knobs, a folding screen, Dick and Jane–themed framed prints.

They can make their mortgage payments with no problem, on his income doing plasterwork and hers from her part-time job as a barista at JP's Coffee and Espresso down in the bustling Eighth Street shopping district. They did have to refinance, once, to pay for the adoption of their oldest child, Avery. Then they adopted two more, Elijah and Noah, filling the narrow bedrooms upstairs. All five of them share that bathroom on the landing, now painted a cheerful pink and green.

"I think we've outgrown the home we bought eleven years ago," Lisa muses. The gentle sun through the rippled glass of the living room window highlights her bleached hair and ruddy cheeks as she looks over at Elijah and Noah next to her on the couch. She wants to write the story of how she and Spencer came to adopt their children—black babies whose birth mothers agreed to give them away to be raised by blond strangers so their sons and daughter could grow up in a stable home.

Spencer doesn't see much of them these days. His current plastering job is in Ypsilanti, nearly four hours to the east, just shy of Detroit, so he stays there during the week and comes home to his family on weekends.

They'd like to relocate, somewhere where Spencer can work, but they can't. The housing boom and bust of the past few years had nothing to do with it; it bypassed Holland as surely as a hurricane would. They've tried to sell the house, asking $109,000, and have had no offers.

The theory was attractive. For a while, it even held true. During the late 1990s, economists, urban planners, geographers, and other academics produced a small forest of papers assessing the powers of homeownership—to make the poor wealthier, to turn disaffected individuals into citizens willing to spend long nights at town meetings, to keep a street clean. Until then, any case for the greater benefits of owning a home instead of renting had been a matter of anecdote and conjecture. "The validity of some of these assertions is so widely accepted," a HUD policy briefing acknowledged in 1995, "that economists and social scientists have seldom tested them."

With both the Clinton administration and Fannie Mae pushing the American Dream for people stuck in downwardly mobile American reality, homeownership, suddenly, was hot.

The research was paid for by HUD, Fannie Mae, the Federal Reserve, the Mortgage Bankers Association—institutions that stood to gain from increases in homeownership, lending, and property values. Another font of research on the social benefits of homeownership—and homeownership for poor people in particular—was Harvard's Joint Center for Housing Studies, funded by the real estate industry. The Joint Center's research, in the most literal sense, is market research, assessing opportunities for expansion and profit; its more than sixty member-sponsors are building materials manufacturers (Sherwin-Williams, Andersen Windows, National Gypsum Company, 84 Lumber, Masco kitchen and bath cabinets), builders (Lennar, Beazer, Pulte), Realtors, mortgage lenders, and investment banks. After he left HUD, Nicolas Retsinas became the Joint Center's director.

The titles of the academics' papers track the hunt in progress:

- "Do Homeownership Programs Increase Property Values in Low-Income Neighborhoods?"
- "Simulating the Impact on Homeownership Rates of Strategies to Increase Ownership by Low-Income and Minority Households"
- "A Note on the Benefits of Homeownership"
- "Homeownership and Neighborhood Stability"
- "Incentives and Social Capital: Are Homeowners Better Citizens?"
- "The Decision to Own: The Impact of Race, Ethnicity, and Immigrant Status"
- "The Social Benefits of Homeownership: Empirical Evidence from National Surveys"
- "The Economic Benefits and Costs of Homeownership: A Critical Assessment of the Research"

Yet for all the studies and the millions of taxpayer and private dollars expended to fund them, the research generated only glimmers of proof that Clinton's project was actually going to work as intended—that as more and more people became homeowners, at lower and lower levels of income, their communities and their lives would improve as a result.

Some of the research unveiled towering barriers looming between the Clinton administration and its homeownership goals. No matter how much you lowered the down payment or increased how much debt a family could carry, four out of five renters still couldn't afford to buy even the cheapest homes on the block.

That last study on the list, funded by the Mortgage Bankers Association and published in 2001, well after the first heady rush of these reports, paused to consider how little anyone still knew about the consequences of encouraging renters who weren't already wealthy to own their homes. "Raising national homeownership rates will require significant increases in homeownership among underserved populations," wrote the researchers from the

University of North Carolina. "We should have a more accurate assessment of the potential benefits and risks faced by these households before we persuade them to become homeowners."

Study after study grappled with a basic research dilemma: Does homeownership create better neighbors or neighborhoods? Or are neighborly and thrifty people more likely than others to become homeowners in the first place? The best the research could conclude is that homeowners stayed in one place longer, and that this tendency in turn led to greater community involvement.

Eventually, scholars found that once they set aside the various traits that tend to determine whether someone chooses to own or rent one's home, homeowners and tenants really aren't all that different. HUD housing policy architect Michael Stegman found that compared with low-income renters in similar neighborhoods, new low-income owners were actually less committed to "neighboring," whether that meant setting up a community play group or getting involved in a civic organization.

Some studies found that launching low-income people into homeownership wasn't always such a hot idea. While some moved up in the world, often the new homebuyers were purchasing the worst housing in the worst neighborhoods with the worst schools—hardly a solid investment. Two Yale School of Management professors compared the performance of real estate to other financial markets and concluded that during the 1980s and 1990s homes had performed worse than any other investment a household could have made. In forty states, there had been at least one five-year stretch of home price declines so great that someone who bought and then had to sell a house would end up owing more than the property was worth.

But those pessimistic voices were the exceptions, and mostly surfaced after President Clinton had left office. Industry didn't need to influence the outcomes of the research because it had already set the terms of debate. The Clinton strategy presumed that what was good for the real estate industry and economy was also good in the long term for consumers, and by extension the places where they live. The consumer found herself lashed to the prow of the ship. When the weather was favorable, everyone sailed far, and those farthest behind gained the most—within four years, the black homeownership rate had risen more than 7 percent, more than double the overall jump. But when the waters turned stormy, as they surely would, what would happen to the brave new homeowner?

As property values began to swell, that wasn't a question on many minds. What the studies couldn't prove, a few real-world experiments were tantalizingly showing off on potholed city streets: In some of the poorest and most blighted corners of the country, homeownership did seem to be working wonders. Formerly derelict city neighborhoods, places that had burned and buckled in the 1970s and into the 1980s, were importing new homeowners as anchors of stability.

There was the Nehemiah Program in the Bronx and Brooklyn, where local church activists and a civic-minded developer poured block-long foundations and then assembled modest brick homes on top of them. The nearly three thousand houses looked dinky, ugly, small. But they sold for less than $100,000 apiece, and clerks and teachers' aides and other working folks flocked to their low-slung promise. On those blocks, at least, fearsome neighborhoods were tamed with rose gardens and new residents with an investment to protect. They were in this for the long haul, since buyers signed agreements pledging that if they sold their homes in less than fifteen years, they could realize only a minimal profit.

Starting in Georgia and spreading across the country, Habitat for Humanity put hammers in the hands of the near-homeless to reclaim vacant houses. Usually, the new buyers received counseling on the responsibilities of homeownership, and stayed in the homes for a long time.

The Clinton administration started copying these shining examples, planting new homebuyers like seeds in rocky soil. HUD spent upward of $500 million a year to demolish deteriorating public housing and replace it with low-rise communities populated with owners, who it was hoped would be a good influence on the renters. The agency also quietly managed to sell public housing to nearly five thousand of its occupants.

HUD put another $50 million into "homeownership zones" that, like Nehemiah, laid down brand-new subdivisions in depopulated cities and imported buyers at low rates of interest. Those zones would have grown far more numerous if Congress had allowed it. Homeownership for Women (HOW) targeted single moms. Even poor tenants could get in on the action. Renters who received government Section 8 vouchers to pay for their rent were now able to take that money and put it toward a down payment on a new home as long as their income was at least $10,300 a year.

But ultimately the Clinton administration's homeownership dream depended on rewiring that battered division of HUD, the Federal Housing

Administration. With its public insurance fund providing a low-cost safety net that other loans didn't have, FHA could help lend more money—hundreds of billions more—to the new wave of homebuyers than anyone else.

There was just one problem. While Fannie Mae and the mortgage lenders it did business with were deploying new technology to get loans instantly approved, FHA lumbered like a mastodon. Under the first Bush administration, it nearly went bankrupt because its insurance fund had to pay back so many foreclosed loans. Government rules required every mortgage to be reviewed by a human being, who had to sift through mounds of paperwork. They processed those loans in eighty-one field offices. The agency had no flexibility to hire consultants to overhaul its technology, or even to write software to efficiently calculate prices. While other loans were getting cheaper and cheaper for consumers, FHA's layered on fees and delays. "We tried to do more," laments Nicolas Retsinas now, "but we didn't have the tools."

In 1995, the Clinton administration tried to turn FHA back into the fierce beast that led the nation out of the Great Depression by putting the seal of the U.S. government on home loans. Retsinas petitioned Congress to make FHA an independent authority, freed from stifling government procurement and management rules.

Newt Gingrich's Republican revolutionaries in Congress had no interest in helping Bill Clinton. They nixed the overhaul. FHA still insured one out of every eight new loans, but no longer could the Clinton administration hope to keep a leash on the vast new home lending market it was letting loose.

"That doesn't look like a plan to transform the American mortgage finance system!" Jim Johnson scoffed.

Well, Barry Zigas was trying, even if his needling boss didn't think so. When he had headed the National Low-Income Housing Coalition, Zigas sat alongside Gale Cincotta and other professional populists lobbying for those guarantees that Fannie Mae would fund loans for poor people. Then Johnson asked Zigas to work for Fannie Mae, to build that dream nation of homeowners.

At a meeting of the company's top execs, Zigas tossed out a number—some multiple of billions of dollars—for how much more of its own money Fannie Mae was going to pledge to make available for the nation's homebuyers to grab. Johnson threw it back at him.

Johnson was born into his suit and into power. His father had been the Speaker of the Minnesota House. Jim grew up to be a policy wonk and top aide to Walter Mondale. The Democrats' 1984 loss was Johnson's gain; he became a managing partner of Lehman Brothers, specializing in taking U.S. government programs and selling them to the private sector. One of his clients was Fannie Mae, and soon Johnson found himself on the mortgage giant's board, a master of both Washington and Wall Street.

When Johnson took over as CEO at Fannie Mae in 1991, staff found him tough to read—dry, conventional, pale, almost stiff. But Johnson spun a vision as florid as a Rousseau painting. He was looking for a figure, a concept, a mission that would literally change the American landscape.

A trillion dollars—that was more like it. Someone came up with the cheesy title "Showing America a New Way Home," under which Johnson resolved to lend $1 trillion by 2000 and make ten million new American homeowners in the process.

City dwellers, immigrants, black, brown and beyond, clock punchers and construction workers and anyone else who'd been locked out before: all of them would become part of the American Dream. Euphemistically, the company called its new target territories "communities in need."

Jim Johnson only needed to point to the *Atlanta Journal-Constitution*'s "The Color of Money" to show that he was embarking on nothing less than a civil rights crusade. A year after taking charge at Fannie Mae, he told the *American Banker*, "The evidence now is so overwhelming that there is discrimination in the housing finance system that I think it is really a social imperative that everyone who is involved in the system respond to the evidence."

Johnson was already working on test runs, and receiving guidance from Countrywide Home Loans, on how to make sure My Community Mortgage—the program born from the encounter between Gale Cincotta and Fannie Mae—would find its intended customers. By 1993, he'd made a deal with Countrywide to buy $2.5 billion in loans for lower-income and minority borrowers. Financially these homebuyers would be a motley lot, with no money in the bank, other debt to deal with, and less than stable employment histories. Every application that was rejected, Countrywide promised, would be reviewed again, to make sure that no one missed out on the chance to borrow to buy or refinance a home.

Then it was Fannie Mae's turn to sell homeownership to America's tenants. As a first step, Fannie Mae sweetened its product, irresistibly. Now that the activists' trial of 5 percent down payments for low-income buyers had proven successful, it was time to allow down payments of just 3 percent, as long as borrowers got a grant covering the other 2 percent and agreed to undergo homebuyer counseling.

In early 1994, Johnson was ready to unleash Fannie Mae's billions to the American public. He stood in Fannie Mae's lobby with Countrywide CEO Angelo Mozilo and other mortgage company executives at his side, promising, on their way to making that $1 trillion in loans, "a dialogue with every renter in America about their prospects for homeownership."

Fannie Mae's Washington pollsters had sized up the market for Fannie Mae—the country's roughly ninety-one million renters—and discovered what Zigas refers to as "a surprising amount of attitudinal resistance" toward homeownership.

"People like me don't get mortgages," they would say. Or, "I don't understand how to get a home loan." The polls found those views most pervasive among black and Hispanic people, those aged twenty-five to thirty-four, and people earning $20,000 to $35,000 a year.

To reach these reluctants, Fannie Mae went on an advertising blitz, spending some $50 million every year to spread the gospel of homeownership. "We have to offer them the necessary information to move through the home-buying process with a sense of confidence," Johnson wrote in *Showing America a New Way Home,* his 1996 paean to the blessings of homeownership. "We need a national consumer information crusade."

To advance the cause, Johnson teamed the former spokesperson for Ronald Reagan's 1984 campaign, John Buckley, with his old advertising director from the Mondale campaign, Roy Spence, who had since gone on to help make Wal-Mart the biggest retailer in America. Spence struck on a bold idea: The United Way was the NFL's charitable partner. So why couldn't Fannie Mae team up with a direct conduit to minority America—the NBA?

In 1994, Fannie Mae became a sponsor of a dozen NBA teams, including the Boston Celtics, Cleveland Cavaliers, Charlotte Hornets, Atlanta Hawks, and Milwaukee Bucks, airing commercials during games and sponsoring local homebuyers' fairs where visitors could meet the players ("the Home Team," as Fannie Mae liked to call them). Fannie proceeded to team up with the NBA itself as an official sponsor during its years of Michael Jordan glory. "It reached our target audiences: low- and moderate-income African Americans, and opinion leaders," says Buckley. Johnson told Buckley, as he gave him the assignment, "This will be the biggest political campaign you've ever run."

Fannie Mae targeted much of its advertising budget to Black Entertainment Television and made a sponsorship deal with Univision, the dominant Spanish-language TV network. In Fannie's ads viewers would see a family who looked like their own, sitting around a kitchen table and joking with one another, the merriment interrupted by a ringing phone. A rambunctious brother and sister grow quiet as their mother answers the call and her eyes tear up. The news is unexpected. "We got the home?!"

The advertising campaign explicitly targeted young families, new immigrants, and single parents. Fannie Mae's marketing department determined that 90 percent of all black Americans saw twenty or more Fannie Mae commercials in 1998.

"The public education campaign was supposed to get more people into the system," recalls Barry Zigas. "You look back at the TV ads and the message was: Owning a home is a fundamental aspiration; there are more opportunities than you think; and there are organizations and institutions that can help you." Like Countrywide, Fannie Mae opened satellite offices in cities across the country, to build personal relationships with local players in the real estate business and who, in turn, could help recruit elusive new homebuyers in their communities—places such as Miami's Little Haiti, Jingletown in Oakland, and the South Bronx. They could pick up a free guide on how to buy a home, in Vietnamese, Russian, Portuguese, Chinese, Creole, and any other language they were likely to speak.

That was just traditional advertising—TV, junk mail, and the like. The tax-exempt Fannie Mae Foundation would spend many times more on grants to organizations that counseled homebuyers and promoted the new opportunities for buying a home. Not incidentally, those grants bought Fannie Mae a national network of political allies who could be relied on to come to its defense as its growing earnings, made possible by Fannie and Freddie's unique government subsidy and their new power to sell mortgage-backed securities, began to generate increasing scrutiny on Capitol Hill.

The Ford Foundation became one of the many institutions seduced by the possibilities of what a $2 trillion company could do with all that money. In the 1960s, Ford had helped invent the community development corporation, organizations through which city residents across the country began to rebuild blighted neighborhoods. With nearly $100 million in Ford's funding, these organizations became lifelines for poor tenants, assuring them legal representation, organizers to help deal with landlords and get repairs on their housing, and opportunities to learn job skills.

In 1998, Ford shifted to a new agenda to fight poverty: It made one of its biggest grants ever to a program that would use homeownership as a path out of poverty. Ford spent its $51 million—nearly as much as the foundation devoted to all its antipoverty programs worldwide that year—to essentially create an insurance fund for Fannie Mae, to cushion the risk for the mortgage fund as it made more than $2 billion worth of new low-down-payment loans to people who had limited financial resources. "If we can demonstrate that low-income households previously thought to be uncreditworthy can manage monthly payments, the initiative could have the long-term effect of opening up lending practices across the nation," glowed Ford Foundation president Susan Berresford on the project's fifth anniversary in 2003. "And thousands of other low-income families considered high risk could own their own home."

Berresford pointed to the rising value of the homes—an average of 5.3 percent a year—as evidence that homeownership was pulling the borrowers out of poverty.

The rain of new wealth didn't fall consistently, Berresford acknowledged. Nearly one out of ten of the borrowers were falling behind on their loan bills, despite financial counseling. But look at the bright side, the Ford Foundation president suggested: four out of five of the borrowers had perfect payment records.

Faster and faster, the loans churned out. Fannie Mae's economists ran simulations of every possible factor that could increase the number of homeowners and determined that it was possible to lift the national homeownership rate far beyond where it had ever been—to three out of four American households. It would take a shift in the basic economics: Consumers would have to borrow more and pay less up front.

The memos to mortgage lenders kept coming, each heralding an innovation that would speed up and cut the expense of the formerly glacial process of approving a home loan.

- November 2, 1994 Income: On loans whose interest rates were set to rise later, it was all right to use the customer's early, lower payments when calculating the amount of debt they were going to carry each month compared with their monthly income.
- July 17, 1995 Credit: Buyers who lacked credit scores could get home loans based on evidence like canceled rent checks.
- September 26, 1996 Appraisals: From now on, lenders could have appraisers inspect just the outside of a house ("customers report significant reductions in the time and costs associated with performing an appraisal").

Fannie Mae's enormous investment in marketing was backed up with a second in technology, hundreds of millions of dollars' worth. Starting in 1990, years before most other big corporations dared, it had begun the switch from a clunky mainframe to a computer server network. When Johnson started, it took weeks for Fannie Mae to confirm with a bank that it would be able to buy its loans. The whole process happened on paper. By the time Johnson's people retooled the system, it took four minutes, boasted the company, to okay a mortgage.

A tech team labored to launch a groundbreaking system of automated underwriting, which allowed mortgage lenders to punch in vital stats about a borrower's financial profile and emerge with an instant yes or no. In close consultation with mortgage lenders, Fannie Mae designed the system to plug seamlessly into the lenders' own software for approving loans; the network tracked every step of the process, from the initial sales pitch to a customer all the way until a loan was sold to investors. Desktop Underwriter could even be used to approve loans that were destined not for Fannie Mae but for the Wall Street mortgage pools.

"Currently, it takes years to become an experienced underwriter"—to evaluate the viability of a home loan—Fannie Mae's chief information officer, Bill Kelvie, wrote in the trade publication *Mortgage Banking*, "but in a matter of months, we expect users of Desktop Underwriter to become thoroughly familiar with our automated underwriting system." In the dorky Fannie Mae nomenclature, the workstations were "dream machines."

By 1998, a year that shattered all records for the American housing market, Fannie Mae was financing or refinancing thirty thousand loans a day. To keep up with all the borrowers clamoring for funds, it needed investors willing to risk hundreds of billions of dollars on the aspirations of the American homeowner. The company created new programs to appeal to foreign investors, especially in Asia, where collapsing currency markets sparked a frantic search for safe havens for baht, yen, yuan, and ringgit. When Fannie Mae offered up $3 billion in debt that year, Asian investors scarfed up nearly half of it.

All this engineering had a groundbuckling impact. The national homeownership rate reversed its downward course and rose, first to 65, then 66, then 67 percent, a record high. The number of homeowners grew by ten million between 1988 and 1998, the year Johnson departed from Fannie Mae, to sixty-nine million.

As Johnson had hoped, minority homebuyers accounted for much of that growth; home sales to minorities rose by 30 percent in that period, while those to whites actually fell slightly. Within Fannie Mae's own $2 trillion business, close to half of loans were now being made to people who earned less than most of their neighbors, and a growing share of those were going to people in the bottom rungs of the economy. The business of selling home loans to lower-income people was growing much faster than the rest of the industry, doubling during Johnson's tenure.

"If you are not out there making sure that you are focused on cities and low- and moderate-income families and minorities, your numbers will go straight through the floor," Johnson told the African American MBA Association, the year (1998) that his company backed a record $1.5 trillion in new mortgage loans.

More than anything, Fannie Mae made working people comfortable with the idea of taking on vast debt as the price for participating in the American Dream. From 1989 to 2004, mortgage debt for low-income people increased by 46 percent, compared with just 15 percent for upper-middle-income and 5 percent for high-income. The total amount of home debt held by Americans more than tripled (by 2007 it would multiply sixfold).

Of course, other factors were at work, too—especially low and lower interest rates, as Fed chairman Alan Greenspan cut them to keep the economy raging. During Johnson's tenure, the typical thirty-year mortgage rate dipped from about 10 percent to less than 7. But interest rates alone don't account for such a monumental shift in consumer behavior in such a short time.

Step by step, Fannie Mae built a home lending machine. And what that machine made, more than anything, was money. In 1999, Fannie Mae was doing better for its shareholders than almost any company in America. Fannie Mae stock outperformed the market—the crazy 1990s bubble market—seven times over, and then some. That was better than Coca-Cola, GE, Philip Morris, or Wells Fargo. A dollar invested in Fannie Mae in 1981 was worth $64.17 by 1999. In the eight years Johnson was with the company, its earnings per share tripled. The company grew in size ten times over.

Plummeting interest rates actually reduced Fannie Mae's ability to profit off of its holdings, but what it lost on interest earnings it more than made up for in sheer volume—the fruits of its great homeownership crusade. In 1988 the mortgage fund held $273 billion worth of loans. By 1999 it had more than $1.1 trillion.

The company's growth and profitability astonished even jaded Wall Street analysts. "Since 1990 there has been a belief that there is no way it could keep up its record earnings clip," Smith Barney analyst Tom O'Donnell told *National Mortgage News* in 1996. "The thinking was that profits had to level off."

Johnson's board rewarded him well for his feat. By his final year, in 1998, Johnson's annual compensation was $21 million. His dual-seated power—partly on Wall Street and partly in Washington—brought him still more. Johnson simultaneously chaired two of the most influential institutions in Washington: the Kennedy Center for the Arts and the Brookings Institution think tank.

Yet even in the giddiness of his company's breakneck growth—when he could go to the National Press Club and soberly tell reporters that "the drive to push the homeownership rate in the United States steadily closer to a point where every person who wants to own a home does own a home should define the housing finance industry in the next millennium"—part of Johnson's success was knowing where to set limits.

During David Maxwell's final days, Fannie Mae stopped buying loans where borrowers hadn't documented their income. Johnson also took pains to distinguish his company's 3 percent down payments from the no-money-down mortgages that were starting to pop up all over the place. Some investment bank might be funding zero-down financing, but not Fannie Mae. He conceded to the Council on Excellence in Government, "About 10 to 15 percent of American households are simply outside the reach of the economic proposition that makes a mortgage viable."

The timing, it turned out, was perfect. Just as President Clinton set out to mint millions of new homeowners, the mortgage industry was dying for new customers. In the early 1990s, descending mortgage rates prompted millions of owners to refinance their home loans. But by 1993, the sales forces found themselves propping feet on desks, waiting for phones to ring. They didn't. Interest rates were rising. Mass layoffs in the mortgage industry were beginning. Where could bankers turn for new customers?

At the convention of the Mortgage Bankers Association late that year, the hot topic, out of nowhere, was something called subprime loans. "This product is going to take off," predicted Paul Reid, who would soon become the president of the trade group.

Mortgage companies referred to them as B and C loans, for the grades their underwriters gave to borrowers with bashed-up credit. Each had its own definition of a "subprime" mortgage—many in the industry came to insist on tagging these loans "nonprime," as if to dismiss the suggestion that they are anything other than first-rate—but generally the loans went for 2 or 3 points above the usual interest rates, plus hefty up-front fees, to counter the risk of lending to people with less than ideal credit. These high-risk mortgages had another thing in common: As a matter of policy, Fannie Mae and Freddie Mac would not finance them.

That year, fewer than seventy thousand borrowers took out a mortgage from a subprime lender, out of more than eight and a half million new loans Americans took out to buy or refinance their homes. Wall Street investors had been wary of these freak mortgages, which, after all, were being sold to people who had already proven themselves unreliable at paying back what they owed. But as a trickle of subprime securities issues began to deliver sexy rates of return, bond buyers, such as pension funds, began clamoring to invest in subprime mortgages. Investment banks were eager to deliver.

In 1995, investors bought $10 billion in subprime securities; the year following, four times that. By the time Clinton left office, Wall Street investment banks would finance more than $316 billion in high-interest, high-fee mortgages. Subprimes accounted for one of every eight new loans, totaling $160 billion in new mortgages in 1999 alone.

Subprime consumer loans had in fact been around for a while—since the 1970s, when late-night TV shouted the opportunities from retailers such as Champion ("When banks say no, Champion says yessss") and the Money Store. In small doses, and at high rates of interest, you could use your home equity to borrow cash.

Then this sleepy and vaguely sleazy trade got a whole lot more interesting—and destructive. First, in an effort to help S&Ls weather the late 1970s, Congress lifted interest rate limits on home loans, and blocked states from imposing their own. Freed from three thousand years of laws banning usury, lenders could charge pretty much whatever they wanted. A $100-billion-a-year business was born.

In 1986, credit card debt stopped being tax-deductible. Mortgage interest, of course, still is. So a new business grew up overnight in swapping people's plastic debt for something a little more solid: their homes. Thanks to the lobbying of Lewis Ranieri of Salomon Brothers, the IRS overhaul that year also also made the trading of tranched mortgage-backed securities tax-exempt—opening the gate to their creation on a mass scale. Suddenly, companies purveying these new subprime home equity loans—which came with high interest, and a flurry of fees—had a place to sell them to. The interest, fees, and penalties on the loans more than paid for the risk the lenders and investors were taking—a risk of default and foreclosure up to five times greater than that for conventional loans.

There was little reason for lenders or investors to care about that risk. The borrowers may have been broke, but over time their homes had become worth quite a lot. That made them ripe for the taking. For lenders, the prospect of foreclosure was actually a chance to make money, by setting up borrowers to fail and reselling the house when they did. Loan companies didn't hesitate to exploit it.

Mortgage brokers and home improvement contractors began to cruise neighborhoods with low incomes and high property values, in places such as Boston and New York and Los Angeles, looking for homes that needed repairs and owners who needed cash. They sold prospects loans with interest rates upward of 20 percent—a rate so high that they'd never be able to repay.

One customer was James Hogan, an Atlanta janitor who'd never finished seventh grade. Hogan needed to make $6,200 in home repairs but ended up, after repeated refinancings, with a $32,400 mortgage he couldn't pay. By the time his home went into foreclosure, he owed almost $85,000.

It was no secret in Washington that these practices were savaging subprime borrowers. In the *Washington Monthly* magazine, journalist Mike Hudson wrote of annual interest rates as high as 41 percent, and loans that stole homes like they were nothing more complicated than a convenience-store cash register.

On February 17, 1993, just hours before President Clinton came to the Capitol to give his first address to Congress—it was all about his plans for the economy—the Senate Banking Committee held a hearing on what activists had started to call "reverse redlining": the practice of deliberately targeting desperate people with loans they'd never be able to pay back.

The Senate heard from witnesses such as Eva Davis, a widow living in San Francisco who needed to repair damage to her front steps from the 1989 earthquake. A yellow tag on her front door, placed there by the City of San Francisco, served as a beacon to a contractor and mortgage broker—the latter claimed he worked for FEMA—who told her the repairs would cost $6,000 and that they would help her get the money. By the end of the day, a loan officer had persuaded her to take out a much bigger loan, which would also include the money she owed on credit cards and other loans. (She didn't know how much, because her eyeglasses were broken.) Davis's income was not even $1,100 a month. Her new monthly payment would be $2,000, and that didn't count another $23,000 in up-front fees. Within five months, her home was in foreclosure. The sale was supposed to take place the morning of the Senate hearing.

Then a seventy-eight-year-old granddaughter of slaves who had lived in her house since 1936 testified about her ordeal borrowing money to fix a leaky roof. Annie Diggs of Georgia owed $343 on her old mortgage. She ended up borrowing $15,000, at 18.9 percent interest, from a company called Tower Financial, which then sold the loan to Fleet Financial. Five years later, the roof still leaking, her ceiling caved in, and though she'd paid $13,000 already, she still owed another $16,000. Diggs lived entirely on a Social Security check.

With some of the most egregious reports of abuses coming from his

Commonwealth of Massachusetts, at the hearing Senator John Kerry expressed dismay at the practices that led to such calamity—such as "no doc" loans, where borrowers didn't have to prove their earnings or assets.

"Incomes were inflated," Kerry went on. "Down payments were sometimes financed by the developers themselves as a second mortgage. Appraisals were falsely inflated." Worst of all, "negative amortization" loans made interest payments seem cheap, only to surprise borrowers with a massive bill down the road. "Suddenly it would balloon to such a degree that people simply never had a prayer of being able to pay this," Kerry marveled. "No one can accept that."