Designing a Nationwide Downpayment Assistance Program

Lessons from Five International Case Studies

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Executive Summary

This paper is intended to help policymakers design a scalable nation-wide downpayment assistance program in the United States. In particular, this paper makes a set of recommended improvements to the downpayment tax credit that President Biden announced[1] as part of his presidential campaign.

This paper achieves this in two ways. First, it examines the examples of national downpayment assistance programs in five international jurisdictions: Ireland, England, Canada, Australia, and New Zealand. This paper analyses the successes and failures of each of these programs and draws lessons for policymakers in the United States. Second, this paper extracts from these international examples a synthesized list of 'design choices' that policymakers must consider as they design a downpayment assistance program in the US. Each of these design choices are placed on a linear spectrum between making a program more tightly targeted or more broadly accessible.

The key insight of this paper is that policymakers face a design challenge: in order to increase the rate of homeownership, downpayment assistance should only flow to those who would not have achieved homeownership without it. A downpayment assistance program should be designed to target these individuals. While this seems blatantly obvious, an examination of the international case studies shows that in many instances, assistance was provided to homebuyers who would have achieved homeownership without any help. In these cases, government funds may have actually worsened housing affordability by inflating demand and driving prices higher.

Based on this insight, five recommendations are made to improve the downpayment tax credit that the Biden campaign proposed. First, US policymakers should make the design choices that will tightly target the program to ensure that the recipients of assistance are those that need it most. Second, policymakers should be cognizant of the political costs of a tightly targeted program, and should thus mitigate these costs by clearly defining the objectives of the program. Third, policymakers should be deliberate in the level of assistance. Fourth, the program be tied to new housing supply. Fifth, policymakers should deploy the program using a simple, unified, and nationwide approach.

[1] https://joebiden.com/housing/

Context

Despite mortgage interest rates being at record lows, many people with decent stable jobs find themselves unable to afford a home purchase. Research[2] has shown that access to a downpayment is one of the key barriers to attaining homeownership—colloquially known as the 'downpayment gap'. This gap has widened over the last decade in particular, as record low interest rates have reduced returns on savings and inflated home prices.

Downpayment assistance has been shown to be a key policy tool in overcoming this gap. This type of assistance is particularly effective for individuals who don't have access to generational home equity and family wealth via the 'bank of mom and dad'. This is especially the case for people who are Black, who due to historical discrimination in housing policy in the United States, have far less housing wealth to pass to their children.

While downpayment assistance is a promising tool, to date it has been deployed in the United States in a fragmented and piecemeal manner. Assistance is typically administered via a patchwork of local and state programs. Indeed, over 2,500 distinct downpayment assistance programs exist across the United States.[3] Each of these programs often have differing eligibility requirements, separate application processes, and different levels of funding available. This landscape makes it difficult for both prospective homebuyers and lenders to navigate the application process. Eligible individuals may miss out on programs due to the complexity of the process, or because small-scale local programs have run out of funds. Lenders who may otherwise partner with these programs may shy away due to the variety of local-level requirements.

Previous research has highlighted the need for a 'one stop' approach to downpayment assistance to resolve these issues above. [4] With that in mind, this paper begins to explore what a nationwide downpayment assistance program might look like by examining a series of international case studies.

The premise of this paper is that downpayment assistance should be targeted towards those who would not be able to purchase homes 'but for' the assistance. Indeed, pursuing this approach is the only way that a downpayment program will mathematically increase the rate

[2] See, for example Kirstin Perkins et al., "The Potential for Shared Equity and Other Forms of Downpayment Assistance to Expand Access to Homeownership," *Cityscape* 22, no. 1 (2020): 147–86.
[3] Joe Weisbord, "Reimagining Down Payment Assistance: MNHOC DPA Phase I Findings," 2020.
[4] Weisbord.

of homeownership over the long term. Without tight targeting, assistance is provided to households who would have attained homeownership regardless. At best, their purchases would have been brought forward. At worst, government assistance inflates house prices, and acts as a transfer of wealth to home sellers and property developers. Through an examination of the international case studies below, it will become apparent that not all downpayment programs satisfy this ‘but for’ test.

This paper aims to provide a set of recommendations to US policymakers. In particular, it responds to the $15,000 downpayment tax credit that President Biden proposed during his presidential campaign. Little detail on that proposal has been provided by the Biden administration since the election.

Part 1: International Case Studies

This section examines five countries that have deployed nationwide downpayment assistance programs: Ireland, England, Canada, Australia, and New Zealand. These countries were chosen since each has operated broad programs at a national scale. As a result, data exists to assess the impact of these programs, and local policy analysts and media commentators have closely scrutinized these programs.

The downpayment assistance programs operating in each of these countries are each described and analyzed in turn below:

Ireland - “Help to Buy Incentive”

Quick Facts

Structure

- Up to €30,000 tax refund (paid at time of closing)
- Refunded from homebuyer’s income tax paid over preceding 4 years
- Refund is the lessor of:
    - €30,000
    - 10 percent of the purchase price of the property
    - The amount of income tax paid for the previous 4 years

Eligibility

- Purchase price limit <€500,000
- LTV must be at least 70 percent
- Must be newly built property
- Must be first-time homebuyer
- Must be fully ‘tax compliant’ in previous 4 years
- No income limit

https://www.revenue.ie/en/property/help-to-buy-incentive/index.aspx

Of all the international case studies examined, Ireland’s model is the closest to President Biden’s proposal. Ireland’s “Help to Buy Incentive” was introduced in 2017 by the conservative coalition government. The scheme provides a tax refund paid in full at the time of closing a housing purchase. This allows the refund to be used as a downpayment. The refund is paid from the homebuyer’s previous four years of income tax payments (and cannot exceed the total amount of tax paid over those four years).

When the scheme was originally introduced, it had a maximum refund of €20,000. That amount was increased to €30,000 in July 2020 as part of an emergency COVID-19 stimulus plan. That increase has been extended until December 2021. The scheme is targeted at first-time homebuyers purchasing a newly built property. It is capped at a €500,000 purchase limit.

The median home price was Ireland was ~€264,000 in 2020[5], and the median income was <€43,552 in 2019[6] (the most recent years data is available).

Analysis & Commentary

More than 22,000 first homebuyers have used the program since its introduction in 2017 up to early 2021. Total disbursements from the program during that period were ~€389 million.[7]

The Irish Revenue Commissioners (the Irish tax agency) estimated that more than 40 percent of the first-time homebuyers who received assistance from the program already had enough savings to fund their own downpayment. This indicates that these funds were not particularly well targeted and instead went to buyers who would have likely achieved homeownership without assistance. Furthermore, the Revenue Commissioners report found that 56 percent of recipients bought homes above €300,000 (the national median house price) and 22 percent of recipients purchased homes above €376,000 (a price tier that would only be affordable to upper income buyers).[8]

Likewise, a report into the program from the independent Parliamentary Budgetary Office argued that the scheme was too generous and concluded that "the scheme did not fulfil its original aims in an efficient manner as the scheme supported a significant number of transactions that would have taken place without the scheme". On a positive note though, the same report did not find a statistically significant impact on house prices.[9]

As a result of these findings, the opposition Sinn Féin party has criticized the scheme. The party's housing spokesperson, Eoin Ó Broin, argued that the PBO's figures "show that many people who are getting it don't need it". Sinn Féin parliamentarian Pearse Doherty stated in "We opposed this scheme from day one".[10]

[5] Ireland Central Statistics Office, "HPA02, Residential Dwelling Property Transactions," 2020, https://data.cso.ie/.
[6] Ireland Central Statistics Office, "Survey on Income and Living Conditions (SILC)," 2019, https://www.cso.ie/en/statistics/socialconditions/surveyonincomeandlivingconditionssilc/.
[7] Eoin Burke-Kennedy, "Help to Buy Scheme Used by More than 22,000 First-Time Buyers," March 25, 2021, https://www.irishtimes.com/business/economy/help-to-buy-scheme-used-by-more-than-22-000-first-time-buyers-1.4519931.
[8] Eoin Burke-Kennedy, "More than 40% of Help-to-Buy Recipients Already Had Deposit," August 4, 2020, https://www.irishtimes.com/business/economy/more-than-40-of-help-to-buy-recipients-already-had-deposit-1.4321033.
[9] Houses of the Oirechtas, "Select Committee on Finance, Public Expenditure and Reform, and Taoiseach Debate," November 5, 2019, https://www.oireachtas.ie/en/debates/debate/select_committee_on_finance_public_expenditure_and_reform_and_taoiseach/2019-11-05/2/.
[10] Houses of the Oirechtas.

Concluding Thoughts

The Irish scheme is unique in its use of a tax refund as opposed to a loan or direct grant. In this sense, it is the closest to the model proposed by President Biden during his presidential campaign. However, while the Irish model issues a refund of previous-years' tax payments, President Biden's proposed payment is described as "advanceable".[11] In the absence of more detail from the Biden team, this paper presumes that an advanceable payment would be 'deducted' from an individual's future tax returns.

The Irish scheme appears to have suffered from an insufficient level of targeting. A very significant portion of the assistance provided went to households that would have achieved homeownership without the assistance. This likely could have been rectified with either an income limit, or a lower purchase price limit.

Lessons Learned:

1. Tax refunds may be structured such that they only refund previous years' payments (as opposed to Biden's "advanceable" payment)
2. Tax refunds also allow you to vet a recipient's 'tax compliance', which may be a proxy for readiness for homeownership
3. A lack of income limits, and high property price limits, leads the program to be utilized predominantly by middle class homebuyers who would've achieved homeownership without assistance

[11] Joe Biden, "The Biden Plan for Investing in Our Communities Through Housing," 2020, https://joebiden.com/housing/.

England - "Help to Buy: Equity Loans"

Quick Facts

Structure

- Up to 20 percent downpayment assistance (40 percent in London)
- Structured as interest-bearing equity mortgage
- Repaid pro-rata at time of sale

Eligibility

- No income limits
- Up to £600,000 purchase price limit
- Must be a newly built property
- Open to both first-time and repeat buyers

https://www.helptobuy.gov.uk/equity-loan/equity-loans/

England's "Help to Buy: Equity Loans" scheme was announced in 2013 as part of a suite of housing policies. The scheme allowed any homebuyer (both first time and repeat buyers) to access an equity loan from the government to purchase a newly built property, up to a purchase price cap of £600,000. The median home price in England is ~£250,000,[12] and the median household income is £29,900.[13]

The loan is structured as an 'interest-bearing equity mortgage'. This operates as a hybrid between an equity stake and a loan. The government takes an equity stake in the home, which is repaid as a pro-rata share of the sale price when the home is sold. In addition, the government also charges an interest rate on the balance of its equity stake. In the first five years of the loan, no interest is charged. From year six onwards an interest rate of 1.75 percent begins being charged. This rate of 1.75 percent increases by a small amount annually to account for inflation. This is an interest-only charge that does not pay down the balance of the equity stake.

[12] UK Office for National Statistics, "Median House Price in England," June 22, 2021, https://lginform.local.gov.uk/reports/lgastandard?mod-metric=5230&mod-area=E92000001&mod-group=AllRegions_England&mod-type=namedComparisonGroup.

[13] UK Office for National Statistics, "Average Household Income, UK: Financial Year 2020," January 21, 2021, https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyear2020.

The scheme is planned end by March 2023. For the final two years of the program, two new restrictions have been put in place. First, regional price caps have been introduced. Previously, a £600,000 limit applied nationwide. Now that limit only applies in London, and lower price caps exist elsewhere. Second, the program will only be available to first-time buyers, whereas before this change the program was accessible by existing homeowners.

Analysis & Commentary

Participation in the program has been robust. According to government data, 270,000 properties have been purchased using the program since 2013 with equity loans totaling £11.7b disbursed.[14] The government expects ~350,000 total purchases to be funded by the time the program concludes in 2023. The program is the UK government's single largest housing initiative by dollar value.

Government forecasts expect the program to recoup its investment in cash terms after 15 years of operation, and to have made a gross profit of £4.8 billion by 2040-41.[15] In fact, repayments of the loan balance (what the government calls "redemptions") have been higher than forecast. A 2019 report found that almost 50 percent of buyers who had been in the program for five years had repaid their loan (presumably due to selling and moving to a new property).[16] This has in fact *reduced* the expected returns to the government, since less interest is charged to the homebuyers, and less future price appreciation has been captured than originally forecast. Notwithstanding this, it indicates that the government is recouping the cash value of its investment relatively quickly, which is a positive sign for policymakers.

Independent assessment by the UK's National Audit Office identified several successes and issues with the program. Encouragingly, the program seemed to disproportionately assist first-time buyers, young buyers, and racial minorities. It also had a positive effect on stimulating housing supply. Eighty-one percent of loans were made to first-time buyers. Twenty-five percent of participants were from racial minorities (compared with 15 percent of buyers nationally). And 63 percent of buyers were aged 34 years or younger. Thirty-eight percent of all newly built homes in England were supported by the scheme, and that new homebuilding was increased by 14.5 percent.[17]

[14] UK Government, "New Help to Buy Scheme Open for Business," November 16, 2021, https://www.gov.uk/government/news/new-help-to-buy-scheme-open-for-business.
[15] National Audit Office, "The Help to Buy Equity Loan Scheme," March 6, 2014.
[16] House of Commons Committee of Public Accounts, "Help to Buy Equity Loan Scheme," September 17, 2019.
[17] National Audit Office, "Help to Buy: Equity Loan Scheme – Progress Review," June 13, 2019, https://www.nao.org.uk/wp-content/uploads/2019/06/Help-to-Buy-Equity-Loan-scheme-progress-review.pdf.

However, the Office also found that the program did a relatively poor job of assisting people who needed financial assistance the most. The Office found that 63 percent of participants in the program would have been able to purchase a home even if they had not received assistance. Furthermore, it found that 5 percent of participants in the scheme had household incomes over £100,000 (recall that the median household income in England is £29,900).[18]

On this point, the UK's House of Commons Committee on Public Accounts was critical of the fact that the majority of the participants in the program did not require government support, stating: "the large sums of money tied up could have been spent in different ways to address a wider set of housing priorities and focus more on those most in need". London School of Economics Professor of Housing Policy Darren Whitehead described the program as a "scheme for middle England" (analogous to 'Middle America'). And Sam Bowman from the conservative think tank The Adam Smith Institute lamented the fact that "This scheme is being used by investment bankers and doctors. They are certainly not the sort of people who the taxpayer should be subsidising."[19]

The broad accessibility of the England's program also had the downside of potentially further inflating property prices. At the announcement of the scheme in 2013, many commentators (including the IMF,[20] and the Office of Budget Responsibility)[21] warned that the injection of funds into the property market would raise prices. Indeed, property prices did experience a rapid increase following the commencement of the program.

A study by Carozzi, Hilber & Yu of the London School of Economics attempted to quantify and isolate the impact of this program on property prices and construction activity. It found that in the supply-constrained London area, the program inflated property prices by around 6 percent, and had no appreciable impact on stimulating supply. In contrast, outlying areas of England with no supply constraints saw a considerable uplift in building activity, with no impact on prices.[22]

Criticism was also directed at the fact that only a handful of nation-wide property developers seemed to benefit from the scheme. Five developers alone constructed almost half of all

[18] UK Office for National Statistics, "Average Household Income, UK: Financial Year 2020."
[19] Hugo Duncan, "Wealthy Families Exploit £7billion Help to Buy Home Scheme with 40% of Recipients on More than £50k a Year," October 7, 2017, https://www.dailymail.co.uk/news/article-4957030/Wealthy-families-exploit-7billion-Help-Buy-home-scheme.html.
[20] Chris Giles, "IMF Says Help to Buy Risks Inflating Prices," October 9, 2013, https://www.ft.com/content/6f8c2d50-30f3-11e3-b478-00144feab7de.
[21] Josephine Moulds and Jennifer Rankin, "Help to Buy Scheme Could Drive up House Prices, Says OBR," March 26, 2013, https://www.theguardian.com/money/2013/mar/26/help-to-buy-house-prices-obr.
[22] Felipe Carozzi, Christian Hilber, and Xiaolun Yu, "On the Economic Impacts of Mortgage Credit Expansion Policies: Evidence from Help to Buy" (London School of Economics, March 2020), https://cep.lse.ac.uk/pubs/download/dp1681.pdf.

homes built under the scheme. The CEO of property developer Persimmon (the largest recipient of funds) resigned after attracting public criticism due to receiving a £75m bonus, driven in large part by the company's record level of revenue, subsidized by public funds.[23]

Concluding Thoughts

England's program is by far the largest and most expansive of all the case studies examined (both in terms of number of participants, and the dollar value committed). It is also the most generous (with up to 40 percent of the purchase price available for subsidy). Overall, the scheme seemed effective in its scale and execution. By tying the program to newly constructed housing, the program appears to have had a stimulatory effect on housing supply. Crucially however, this increase in supply did not occur in the highest cost areas that needed it most (i.e., London). In addition, the program's lack of income limits, and relatively high purchase price limit, has meant that the program predominantly benefited middle class Britons. Thus, it is questionable under the 'but for' test whether the program has actually increased the rate of homeownership. It seems probable that the program would've been more effective at increasing homeownership if the funds were spent assisting the neediest who wouldn't have purchased a home otherwise.

Lessons Learned:

1. Eligibility criteria that are too loose will lead to individuals utilizing the program who would've purchased a home without assistance; this ties up public funds that could be spent helping needier cohorts
2. Tying a downpayment assistance program to newly built properties only stimulates supply in areas where there are no constraints on housing construction
3. The homebuilding industry can become dependent on the stimulus of this program, and the benefits may flow predominantly to the largest builders who are most adept at administering the program

[23] Ben Chapman, "Help to Buy Scheme Handed Billions to People Who Could Afford Homes, Spending Watchdog Finds," June 14, 2019, https://www.independent.co.uk/news/business/news/help-buy-scheme-uk-housing-market-national-audit-office-a8955931.html.

Canada - "First-Time Home Buyer Incentive"

Quick Facts

Structure

- 5 -10 percent downpayment assistance
- Interest-free equity mortgage
- Repaid pro-rata at sale, or after 25 years

Eligibility

- Household Income <$150,000 CAD
- Borrowings must be <4.5x income
- House purchase price limit $675,000 CAD
- Must be first-time buyer

https://www.cmhc-schl.gc.ca/en/nhs/first-time-home-buyer-incentive

Canada's "First-Time Home Buyer Incentive" was announced in 2019. Under the scheme, the federal government provides 5-10 percent downpayment assistance in what they describe as an "interest-free equity loan". In practice, this amount is repaid as a pro-rata share of the eventual sale price of the property, thus it functions as equity rather than a loan.

Income limits were originally announced at $120,000 CAD per household, and house price limits at 4x income. The average home price in Canada is ~$620,000 CAD,[24] and the median household income is ~$61,000 CAD.[25]

In 2020 these limits were raised to $150,000 CAD and 4.5x respectively for buyers purchasing in Canada's three most expensive markets (the Toronto, Vancouver, and Victoria metropolitan areas). This policy change was in response to criticism that the previous limits were too low for those markets.[26]

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[24] The Canadian Press, "Canadian Home Sales, Prices Hit New Highs for January Compared to Last Year," February 16, 2021, https://www.cbc.ca/news/business/crea-january-home-sales-1.5915326.

[25] Statistics Canada, "Canadian Income Survey, 2018," February 24, 2020, https://www150.statcan.gc.ca/n1/daily-quotidien/200224/dq200224a-eng.htm.

[26] Jessy Bains, "Federal Liberals Boost First-Time Home Buyer Incentive and Plan Foreign Buyers Tax," December 1, 2020, https://finance.yahoo.com/news/federal-liberals-boost-firsttime-home-buyers-incentive-and-plan-foreign-buyers-tax-204818131.html.

Analysis & Commentary

The program saw disappointingly low levels of uptake during its first year of operation. Uptake was forecast to be ~100,000 households over three years of the program. However according to media reports, as of April 2020 (eight months into the program), only 2,061 approvals had been made. Participation was even lower in Canada's most expensive housing markets: only 109 buyers used the program in Toronto, and 29 buyers used the program in Vancouver. Total approvals had reached 9,520 by September 2020, though this is still below the ~33,000 annual approvals originally expected.[27]

Canadian Government forecasts predicted that "millennials and new Canadians [immigrants] will be the main beneficiaries of the program". Indeed, this seems to be the case. As of September 2020, 79 percent of approved applicants were aged between 20 and 39 years, with a median age of 32 years.[28]

Critics of the program argued that income and purchase price thresholds were set too low for the program to be utilized in the most expensive markets.[29] These criticisms led to the increase to these thresholds in December 2020. Other critics suggested that uptake was low because individuals were reluctant to share the ownership of their home with the government.[30]

Several Canadian think tanks (including the centrist Institute for Public Policy[31], and the center-right Fraser Institute[32]), argued that the program might worsen affordability by stoking increased demand for a fixed supply of housing. Likewise, BMO Senior Economist Robert Kavcic expressed skepticism, arguing that "In general, these 'affordability' measures just stimulate demand and bump prices further". Although this did not occur during the first year of the program (due to low uptake), market observers have renewed this criticism due to the (hoped for) increase in uptake caused by the higher income and purchase price limits.[33]

[27] Government of Canada, "2020 National Housing Strategy Triennial Progress Report," September 2020, https://www.placetocallhome.ca/en/triennial-nhs-report.
[28] Government of Canada, "GBA+ Summary for the Fall Economic Statement," September 2020, https://www.budget.gc.ca/fes-eea/2020/report-rapport/anx3-en.html.
[29] Amanda Connolly, "Only 2K Canadians Have Used First-Time Home Buyer Incentive — so Axe It, Experts Say," April 2020, https://globalnews.ca/news/6827978/first-time-home-buyers-incentive-canada/.
[30] News Staff, "First-Time Home Buyer Incentive Program Not Targeted Enough: Expert," March 2, 2020, https://toronto.citynews.ca/2020/03/02/first-time-home-buyer-incentive-program-progress/.
[31] Francis Fong, "Ottawa's First Time Home Buyer Incentive Is Flawed," May 7, 2019, https://policyoptions.irpp.org/magazines/may-2019/ottawas-first-time-home-buyer-incentive-is-flawed/.
[32] Josef Filipowicz and Finn Poschmann, "Homebuyer Plan Unlikely to Work, for at Least Two Reasons," September 13, 2019, https://www.fraserinstitute.org/blogs/homebuyer-plan-unlikely-to-work-for-at-least-two-reasons.
[33] Bains, "Federal Liberals Boost First-Time Home Buyer Incentive and Plan Foreign Buyers Tax."

Concluding Thoughts

While uptake of the program was certainly well below forecasts, an alternate interpretation of the low participation rates is that only the neediest self-selected into the program (i.e. those who wouldn't be able to attain ownership 'but for' the downpayment assistance). Though this hypothesis can't be proven or disproven (due to lack of data), it is consistent with prior research that found potential homebuyers avoided shared equity programs because they hoped to achieve homeownership via conventional means, and were thus reluctant to give up a share of potential price appreciation.[34] From a public policy perspective, this is a positive outcome. Unlike an unconditional cash grant (which any eligible homebuyer would rationally accept, even if they don't need the assistance), shared equity programs only attract buyers who believe they wouldn't achieve homeownership without government help. Nonetheless, the relatively low uptake has proven to be politically problematic for policymakers.

Lessons Learned:

1. A delicate balance exists between tightly targeting a downpayment assistance program, and achieving high levels of participation
2. Low levels of participation may result in political criticism and lower levels of support from the public

[34] Emily Thaden, Andrew Greer, and Susan Saegert, "Shared Equity Homeownership: A Welcomed Tenure Alternative Among Lower Income Households," *Housing Studies* 28, no. 8 (2013): 1175–96.

Australia - "First Home Owner Grant"

Quick Facts

Structure

- Cash grant ranging from ~$7,000-20,000 AUD (varies by State)
- Originally established by Federal Government, but now funded & administered by State Governments

Eligibility

- No income limits
- Up to $800,000 purchase price limit
- Must be newly built home
- Must be first-time buyer

https://www.firsthome.gov.au/

Australia's "First Home Owner Grant" was first established in 2000 by the Federal Government. The grant was conceived and outlined by the Federal government but was funded and administered by Australia's eight states and territories.[35] The Grant provided $7,000 AUD to first-time buyers of either established or newly constructed homes. Though the grants were largely the same across each state in 2000, they have slowly morphed with some state-based differences over time (with slightly different payment amounts or eligibility criteria).

Since its implementation in 2000, it has evolved and morphed through various iterations. At the height of the 2008/9 Financial Crisis, the grant was increased as a part of a broader economic stimulus package. As a result, the grant rose to $14,000 for established homes, and $21,000 for newly built homes. Once the worst of the Financial Crisis had subsided, the grant was scaled back to its original level of $7,000. Since then, each state has somewhat tweaked the program. Most states now restrict the grant to newly constructed homes, each state has different purchase price limits, and most states have tweaked the value of the grant (ranging from a high of $20,000 in the state of Tasmania, to a low of $7,000 in the Australian Capital Territory).

[35] This grant was part of a broader set of negotiations between the Federal and State governments when a nationwide sales tax (the "GST") was introduced. The ostensible purpose of the First Home Owner Grant was to offset the impact of the newly-introduced GST on home prices.

In 2020 as a stimulatory response to COVID-19, the Federal Government announced and funded a supplemental payment called the HomeBuilder grant. The HomeBuilder grant can be applied for in conjunction with the First Home Owner Grant. This program provides an additional grant of $25,000 to the purchasers (both first time buyers and repeat purchasers) of newly built homes with prices less than $750,000.[36] The HomeBuilder grant was extended until 2021.

Australia's median home price is ~$800,000,[37] and the median household income is ~$88,000.[38]

Analysis & Commentary

The First Home Owner Grant is a highly-visible and nationwide program with reasonably broad eligibility criteria. All major lenders and financial institutions understand the program, and these lenders fill out all paperwork on the buyer's behalf. As a result, uptake has been high. Previous research by the Australian Bureau of Statistics in 2015 estimated that approximately 80 percent of all first-time homebuyers had received the grant since it was first implemented.[39] Given that lenders apply on the homebuyer's behalf, it would be safe to assume that almost all eligible homebuyers receive the grant. Studies have shown that the voting public overwhelmingly supports these grants.[40]

Independent policy analysts have been less supportive of this program. Chief amongst their concerns is the fact that the program is not tightly targeted, does not achieve its objective of increasing homeownership, and leads to inflationary pressure on the housing market.

The Australian Productivity Commission (an independent Federal agency) was critical of the broad accessibility of the program. It argued that "A deficiency in the present arrangements is their lack of targeting. The bulk of assistance goes to families who might otherwise have purchased a house before too long, even without assistance", and suggested that "A greater impact on home ownership levels could be achieved if that assistance were better targeted at

[36] Australian Government Treasury, "HomeBuilder," 2020, https://treasury.gov.au/coronavirus/homebuilder.
[37] Kate Burke, "Australia's Median House Price Rising Back to Peak Levels as Key Markets Rebound: Domain House Price Report," January 23, 2020, https://www.domain.com.au/news/australias-median-house-rising-back-towards-peak-prices-as-key-market-rebound-922435/.
[38] Australian Bureau of Statistics, "Household Income and Wealth, Australia," July 12, 2019, https://www.abs.gov.au/statistics/economy/finance/household-income-and-wealth-australia/latest-release.
[39] Australian Bureau of Statistics, "5609.0.55.003 - Information Paper: Changes to the Method of Estimating Loan Commitments to First Home Buyers," February 4, 2015, https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5609.0.55.003Main+Features12015.
[40] Jill Sheppard, Matthew Gray, and Ben Phillips, "Attitudes to Housing Affordability: Pressures, Problems and Solutions," May 2017, https://csrm.cass.anu.edu.au/sites/default/files/docs/ANUpoll-24-Housing-2017_0.pdf.

lower income households, with assistance rates commensurately increased". It also criticized the inflationary impact of the policy, finding that "Measures that increase purchasing power will tend to increase house prices".[41]

The centrist think tank The Grattan Institute has been broadly critical of the program. It has similarly criticized the lack of targeting, arguing that the program "end[s] up giving grants to people who would have bought a home anyway." Grattan was critical of the inflationary impact of the program, adding "Nor do grants to home buyers actually make housing more affordable. They are typically passed through into higher house prices, which benefits sellers more than buyers."[42]

Similarly, the conservative think tank The Institute for Public Affairs was skeptical of the program. The IPA has called for the program to be abolished.[43] And in relation to similar Federal housing subsidies, the IPA argued "Government subsidies increase demand which in turn causes prices to rise, not fall".

In contrast, independent analysis by the Reserve Bank of Australia (Australia's central bank), found the program to be a net positive. The report found "Overall, the net effect of these grants has been beneficial to first-homebuyers. While the additional purchasing power arising from the grants has, at the margin, added to the upward pressure on house prices, the impact has been relatively small". However, the Reserve Bank did conclude "An important lesson from this experience is that simply adding to the capacity of the household sector to pay more for residential property does little to improve overall affordability. Indeed, by pushing up prices it can make it more difficult for those who do not already own a property to get a foothold in the market".[44]

Concluding Thoughts

Overall, the Australian program demonstrates that a broadly accessible program with nationwide visibility leads to high uptake and wide public support. Australia also shows that

[41] Australian Productivity Commission, "First Home Ownership," March 2004, https://www.pc.gov.au/inquiries/completed/first-home-ownership/report/housing.pdf.
[42] Brendan Coates, "Money for Social Housing, Not Home Buyers Grants, Is the Key to Construction Stimulus," June 1, 2020, https://theconversation.com/money-for-social-housing-not-home-buyers-grants-is-the-key-to-construction-stimulus-139743.
[43] John Roskam, Chris Berg, and James Paterson, "Be Like Gough: 75 Radical Ideas To Transform Australia," August 5, 2012, https://ipa.org.au/ipa-review-articles/be-like-gough-75-radical-ideas-to-transform-australia.
[44] Reserve Bank of Australia, "Productivity Commission Inquiry on First Home Ownership," November 2003, https://www.rba.gov.au/publications/submissions/housing-and-housing-finance/inquiry-productivity-commission-on-first-home/pdf/inquiry-productivity-commission-on-first-home.pdf.

lender-initiated grant application leads to near-universal utilization by eligible applicants. However, the lack of targeting has made it questionable as to whether the program has achieved its objective of increasing the rate of home ownership over the long term (as opposed to simply bringing purchases forward). Indeed, the program may have had the opposite effect that it intended - by stimulating demand amongst middle income homebuyers, the program has undoubtedly had at least a minor inflationary impact on house prices, pushing homeownership further out of reach for some.

Lessons Learned:

1. Broad eligibility leads to broad popular support
2. Highly visible and well-known program leads to broad participation by the banking sector, increasing uptake amongst homebuyers
3. Lender-initiated grant application leads to near-universal utilization by eligible applicants
4. Broadly accessible programs that lack any income restrictions or means testing do little to increase the rate of homeownership, and may also inflate property prices

New Zealand - “First Home Grant”

Quick Facts

Structure

- Cash grant up to $5,000 NZD for existing homes, or $10,000 NZD for newly built homes
- Administered by the national Government

Eligibility

- Household income limit <$130,000 NZD
- Purchase price limit <$700,000 NZD (for Auckland, lower in other regions)
- Must have contributed for >3 years towards the voluntary national pension scheme (‘KiwiSaver’)
- Must be first-time homebuyer

https://kaingaora.govt.nz/home-ownership/first-home-grant

New Zealand’s “First Home Grant” allows first-time homebuyers to access a grant of $5,000 when purchasing existing homes, or $10,000 when purchasing newly built homes. These grants are subject to a household income limit of $130,000, and a property purchase price limit (up to $700,000 in Auckland, and lower in other regions). In March 2021 the government announced an increase to the purchase price caps for various regions. For example, the cap for Auckland increased from $650,000 to $700,000.

The New Zealand scheme is linked to the nation’s voluntary national retirement savings scheme known as ‘KiwiSaver’. Applicants are only eligible for the First Home Grant if they have been making the minimum contribution to KiwiSaver (3 percent of gross income) for at least three years. Though the scheme is voluntary, almost 95 percent of the working age population is enrolled in KiwiSaver.[45] In addition to the First Home Grant, applicants may also choose to withdraw their KiwiSaver funds to use as a downpayment.

[45] New Zealand Financial Markets Authority, “KiwiSaver Annual Report,” 2020, https://www.fma.govt.nz/assets/Reports/Kiwisaver-Annual-Report-2020.pdf.

Analysis & Commentary

In 2014 the value of the grants was doubled by the then-government to their present levels. At the time, this prompted criticism by the Government's Treasury Department, the Reserve Bank of New Zealand, as well as the opposition Labour Party.

Treasury analysis in 2014 warned that the scheme may inflate property prices. Treasury stated: "The Kiwi Saver Home Deposit Scheme increases the cash available to homebuyers for deposits. Increasing eligibility may encourage buyers to take on more debt/seek more expensive houses. This could exacerbate house price pressures." In a separate memo, Treasury also argued "Government subsidies for home ownership are low value for money and tend to be regressive." And the New Zealand Treasury also warned that the most likely outcome was that the assistance would "bring forward purchases that would otherwise happen anyway".[46] These conclusions from the New Zealand Treasury seem to indicate that these grants don't satisfy the 'but for' test.

The Reserve Bank of New Zealand also warned the conservative government and then-Finance Minister Bill English in a memo in 2014 that "Over the longer term, subsidies have the potential to add to existing house price pressures in what is a highly overvalued market".[47] Despite warnings from these agencies, Minister English proceeded to double the-then value of the cash value of the scheme. House prices did indeed rise in the subsequent years, though it is difficult to definitely pin the blame on the First Home Grant scheme, given the range of other macroeconomic factors at play.

During New Zealand's 2017 election campaign, the conservative (then Prime Minister) Bill English promised to again double the First Home Grant again if re-elected. Labour had consistently criticized the scheme in opposition (arguing that increased demand would stoke house price increases),[48] and then-Opposition Leader Jacinda Arden criticized the proposed doubling during the election campaign.[49] However, upon being elected as Prime Minister, Jacinda Arden did not wind back the policy (though she did not proceed with English's

[46] Parliament of New Zealand, "Oral Questions — Questions to Ministers," August 20, 2019, https://www.parliament.nz/en/pb/hansard-debates/rhr/combined/HansDeb_20190820_20190820_12.

[47] Bernard Hickey, "RBNZ Warned Government That HomeStart Subsidy for First Home Buyers Could Boost Developer Margins and Pump up Already Over-Valued House Prices," April 1, 2015, https://www.interest.co.nz/property/74820/rbnz-warned-government-homestart-subsidy-first-home-buyers-could-boost-developer.

[48] Stacey Kirk, "Housing Leg-up Worth $20,000," March 31, 2015, https://www.stuff.co.nz/national/politics/67570567/housing-leg-up-worth-20000.

[49] Shane Cowlishaw, Bernard Hickey, and Lynn Grieveson, "Election 2017 Live: National Doubles First Home Grant," September 10, 2017, https://www.newsroom.co.nz/2017/09/09/47097/election2017live-15days.

proposed increases). Indeed, the Arden government announced in March 2021 that it was increasing the purchase price limits (thus expanding access to the program).

In contrast to the economic critiques described above, popular media has criticized the scheme for not being generous enough. Media outlets have cited research from the Real Estate Institute of New Zealand[50] that highlights that very few properties in New Zealand's major cities qualify under the regional price caps: in Auckland, 86 percent of properties are above the cap; in Wellington, 90 percent of properties are above.[51] Stories abound in the media of middle-class couples attempting to find homes under the respective regional price caps and being frustrated by the lack of options.

Concluding Thoughts

Overall, the New Zealand scheme resembles the Australian scheme quite closely, and as such, shares many of the successes and problems. The unique feature of the program is the requirement that recipients must have participated in the KiwiSaver voluntary saving scheme. As a result, recipients of downpayment assistance have demonstrated the ability to save for three years. However, given the very high participation rates of KiwiSaver (~95 percent of the working age population), we probably cannot draw strong conclusions about the especial creditworthiness of grant recipients.

New Zealand's scheme is somewhat more tightly targeted than Australia's, but despite this, many economists still expressed concern that it should have been even more so. As a result, economists warned that the program was mainly helping buyers who would have achieved homeownership regardless, and thus the program may have had an inflationary impact on prices.

New Zealand also appears to have become stuck in the 'trap' of widely accessible grants: as house prices have continued to increase, successive governments have faced calls to increase the size of the grants and to raise the purchase price cap. There is potential for this to lead to a never-ending cycle of increasing subsidies to a largely middle-class cohort—which would ultimately be self-defeating and have no appreciable impact on the rate of homeownership.

[50] REINZ is an industry associate for real estate professionals
[51] Kate Nicol-Williams, "Govt's First Home Grant Not Enough for Most First Home Buyers, Figures Show," June 25, 2020, https://www.tvnz.co.nz/one-news/new-zealand/govts-first-home-grant-not-enough-most-buyers-figures-show.

Lessons Learned:

1. Widely available subsidies may put inflationary pressure on property prices, without increasing the rate of homeownership
2. Politicians will face popular pressure to loosen eligibility restrictions, potentially leading to an endless ‘creep’ of rising subsidies
3. Tying downpayment assistance to a voluntary savings scheme gives recipients the ability to demonstrate an aptitude for savings, potentially increasing their suitability for grant homebuying assistance

Part 2: Design Choices for a Downpayment Assistance Program

Following the examination of these international examples, several structural similarities across each of the programs become apparent. It is thus possible to synthesize these case studies into a framework. Based on these international observations, this paper has identified eight key choices that policymakers must make when designing a downpayment assistance program.

Each of these design choices can be thought of as a 'dial'. A policymaker may turn each dial one way or another when designing their program. Policymakers have two steps when designing their program:

Step 1 - Targeting the program

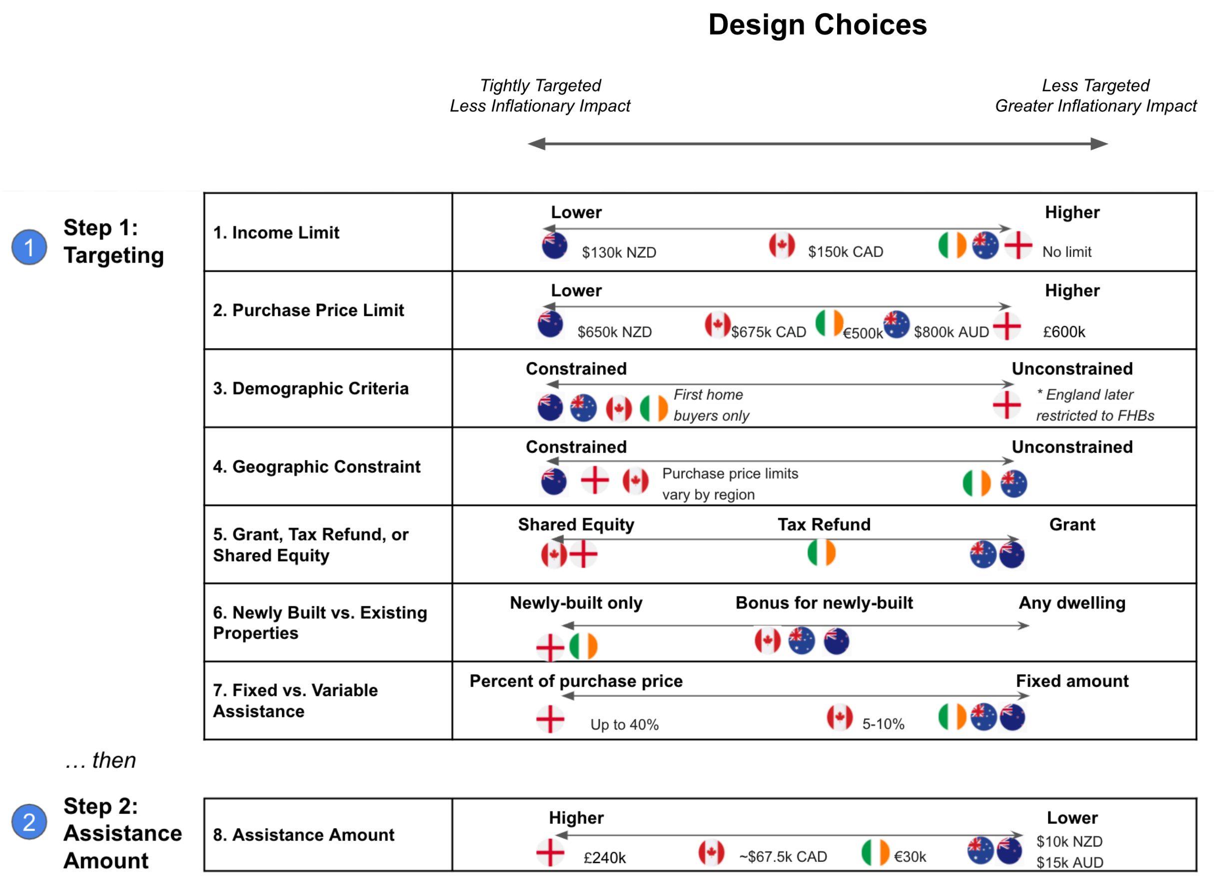
Policymakers must decide how wide or narrow they want to target the program. A tightly targeted program would provide assistance only to those who couldn't buy a home without it. A widely available program would provide assistance to a broad set of society (including those who would have achieved homeownership without assistance). Policymakers should seek to tightly target the program if they are aiming to raise the rate of homeownership. In order for the rate of homeownership to rise (relative to a theoretical base case), assistance needs to help people buy homes who would not have been able to do so 'but for' the assistance. A tightly targeted program also mitigates the potential inflationary impact on home prices throughout the broader market. So long as only a relatively small subset of people are receiving assistance, the impact on broader house prices should be minimal.

Step 2 - Determining the amount of assistance

This second step is conceptually separate from the first step due its interaction with, and dependency upon, the choice of targeting above. Policymakers should first have decided *who* is receiving assistance before deciding *how much* assistance to provide. The level of assistance will have an impact on the rate of homeownership, but only if that assistance is being targeted towards people who would not otherwise buy a home 'but for' the assistance.

To demonstrate this, consider that *if* the program is tightly targeted *and* a high level of assistance is provided, then the program is likely to aid people who were relatively further away from accumulating a downpayment. This is likely to raise the rate of homeownership. Conversely, *if* the program is not tightly targeted *and* a high level of assistance is provided, the assistance is likely to disproportionately flow to middle-income households, that will simply buy more expensive homes than they would have otherwise. This is likely to add inflationary pressure to the property market (which may actually harm lower-income potential buyers) and cost the government vastly more money.

Each of the specific design choices are discussed in the chart below, and each of the international examples discussed above are plotted on a linear spectrum against each of these choices:



Step One:

1. Income Limit

Policymakers must decide whether to impose a limit on the household income of recipients. It is worth noting that individuals with incomes close to these limits are particularly impacted by them (e.g., an individual earning $99,000 will become ineligible if they receive unexpected additional income that pushes them over a $100,000 income limit). To mitigate this risk, purchase price limits may be used instead.

2. Purchase Price Limit

Policymakers must decide whether to impose a limit on the purchase price of eligible properties, and if so, the threshold at which to impose that limit. Higher purchase price limits have the effect of attracting middle-class buyers who are buying more expensive properties. This increases participation (and public awareness/support), but also increases the likelihood of adding broad inflationary pressure to the property market. Conversely, lower price limits means that only properties affordable to lower-income individuals will be eligible for purchase.

3. Demographic Criteria

Policymakers must decide whether to restrict the program to certain demographics of the population. The most common criteria observed in the international case studies was 'first home buyer status' (i.e., the programs were restricted to individuals purchasing a home for the first time). However, policymakers could theoretically consider a broader set of eligibility criteria (subject to relevant discrimination laws). There are also political impacts to consider, as the public perception of any demographic criteria may increase or decrease support for the program.

4. Geographic Constraints

Policymakers must decide whether to impose a geographic constraint on the program. For example, the constraint could limit downpayment assistance to only the least affordable geographies of the US; it could offer differential income or price limits depending on geography (e.g. higher income and price limits in cities with higher costs of living); or it could make assistance contingent on certain historical factors (e.g. only providing downpayment assistance in historically redlined neighborhoods).

5. Cash Grant, Tax Refund, Low-Cost Loan, or Shared Equity

Policymakers must decide whether to structure the assistance as either a cash grant, a tax refund, a loan,[52] or a shared equity investment. Since cash grants need not be repaid by the recipient, they tend to be more broadly accessed by applicants (including those who may not need assistance). Conversely, since shared-equity schemes must be repaid by the buyer, potential buyers who are reluctant to give away equity upside will opt-out of the program. This preserves funding for those who have greater financial need. Administrative complexity is also a consideration here: grants are the easiest to manage; tax refunds are more complex; and shared equity and loan structures are more complex still. These structures require ongoing reporting, monitoring, and collection, which adds cost and complexity to the program.

6. Newly Built vs. Existing Properties

Policymakers must decide whether to limit downpayment assistance to properties that have been newly constructed, provide a 'bonus' amount of assistance to newly constructed and/or renovated properties, or to not differentiate between properties at all. Limiting the program to newly built properties has the potential impact of stimulating new housing supply. However, it introduces a 'lag' into when housing will be available for occupancy (this will be especially so in high-cost, highly-regulated housing markets). Conversely, allowing existing properties to be purchased under the program will have the potential to have an inflationary impact on the housing market, since aggregate purchasing power is increased without a corresponding increase in supply.

7. Fixed vs. Variable Assistance

Policymakers must decide on providing either a fixed amount of assistance per individual, or a variable amount of assistance that is contingent on the purchase price of the property. Variable assistance has the potential to be more targeted (since greater assistance can be provided to individuals with greater need in higher cost markets). But care must be taken to combine this with other design choices (e.g., income or purchase price limits) to ensure that the homebuyers receiving this assistance are those who wouldn't have purchased otherwise. In the absence of these supplemental limits, a variable level of assistance may actually be less targeted, as it will provide more assistance to middle income buyers in high-cost markets.

[52] Note, none of the countries examined used a pure loan structure, so it is not included on the infographic above.

Step Two:

8. Assistance Amount

Policymakers must decide on the absolute value of the assistance provided--i.e., whether a larger or smaller check is provided to homebuyers. Similar to Step 7 above, this choice must be considered in conjunction with other design choices and eligibility restrictions. A larger amount of assistance has the potential to be more targeted when combined with other design choices (such as income or purchase-price limits). Given fixed a level of program funding, policymakers must decide whether to disburse a relatively smaller amount of assistance to many people, or a larger amount of assistance to fewer people who need it more. The latter is more likely to assistance people who would not be able to achieve homeownership 'but for' the subsidy.

Part 3: Recommended Improvements to President Biden's Proposed Downpayment Tax Credit

Based on the lessons from these international case studies, this paper makes several recommendations to US policymakers. As a point of reference, this paper considers the $15,000 downpayment tax credit that President Biden's announced during his presidential campaign.[53] As of now, few details have been provided by the Biden administration since the presidential campaign. In the meantime, two bills have been discussed in the House relating to downpayment assistance: The First-Time Homebuyer Act,[54] and the Downpayment Toward Equity Act of 2021.[55] The former closely resembles President Biden's campaign proposal and was introduced to the House in April. The latter proposes grants instead of tax credits and is still in draft form. Neither has been put to vote.

It is worth noting that of the case studies examined, President Biden's proposal looks most like Ireland's scheme. And like all of the international examples, President Biden's proposal was criticized for its potential to inflate property prices by stimulating demand without a

[53] Biden, "The Biden Plan for Investing in Our Communities Through Housing."
[54] US Congress, "To Amend the Internal Revenue Code to Provide for a First-Time Homebuyer Credit, and for Other Purposes.," March 29, 2021, https://blumenauer.house.gov/sites/blumenauer.house.gov/files/BLUMEN_028_xml.pdf.
[55] US Congress, "To Provide Downpayment Assistance to First-Generation Homebuyers to Address Multigenerational Inequities in Access to Homeownership, and to Narrow and Ultimately Close the Racial Homeownership Gap in the United States, and for Other Purposes.," April 6, 2021, https://financialservices.house.gov/uploadedfiles/bills-117pih-downpaymenttowardequityact.pdf.

commensurate increase in housing supply.[56] As a result, this paper makes five suggestions as to how this issue could be mitigated, and thus how the program could be improved:

Tightly target the program: the 'but for' test

All of the international case studies examined demonstrated the importance of ensuring that the recipients of assistance are those who actually need it. Policymakers should endeavor to ensure that households receiving downpayment assistance are those who would not be able to purchase a home 'but for' the assistance. Indeed, pursuing this approach is the only way that a downpayment program will increase the rate of homeownership over the long term.

Policymakers can achieve this through tight targeting of the tax credit (such as via income or purchase price limits), by implementing a shared equity scheme (which research shows dissuades higher income buyers), or perhaps implementing geographic criteria (such as offering 'extra' assistance to homebuyers in neighborhoods that have been historically redlined). In the absence of such restrictions, recipients of downpayment assistance are likely to be those who would've purchased a home anyway (as independent commentators observed in most of the case studies examined above).

Given tight targeting, be cognizant of the political costs of doing so

Notwithstanding the policy advantages of tight targeting (described above), such targeting does appear to come at a political cost. The case of Canada poses a 'warning'—that targeting too tightly can lead to low uptake, which may then diminish support for the program. The Biden administration could perhaps mitigate this by clearly defining from the outset the objective of the program (i.e., that it is intended to serve homebuyers who wouldn't achieve ownership 'but for' the assistance).

In the international case studies examined, policymakers appeared to suffer from a case of 'damned if you do, damned if you don't': in the case of England for example, they were criticized for making their assistance programs too generous and loose (giving subsidies to 'doctors and lawyers'), and in the cases of Canada and New Zealand, they were criticized for not making their assistance generous enough (since the vast majority of homes in expensive cities were above purchase price limits). In both Canada and New Zealand, politicians acted in response to this criticism, making the programs more generous, and thus implicitly increasing accessibility for middle-income buyers.

[56] Michele Lerner, "How Biden's Proposed Tax Credit Could Help — and Hurt — First-Time Home Buyers," December 15, 2020, https://www.washingtonpost.com/business/2020/12/15/how-bidens-proposed-tax-credit-could-help-hurt-first-time-home-buyers/.

US policymakers should seek to avoid this ‘eligibility creep’. Instead, they should be clear from the outset who the program is intended to help; be realistic about the expected uptake (especially if eligibility restrictions are tight); and manage the public’s expectations accordingly.

Be deliberate in deciding the level of assistance

The level of assistance announced by the Biden campaign ($15,000) is quite high for the average American household seeking to enter homeownership. A recent study by Perkins et al. found that 30 percent of ‘potential homeowners’ (equivalent to almost 12 million people) would be able to purchase a median-priced home in their county of residence with downpayment assistance of $10,500 or less.[57] In this sense, the Biden proposal could actually go a long way to increasing the level of homeownership.

However, $15,000 of assistance is unlikely to bridge the downpayment gap for potential homebuyers in America’s most expensive markets. For these markets, a significantly higher payment is likely required. If differing levels of assistance were given in different geographies, it is easy to imagine the political backlash (“Why is a family in San Francisco entitled to more government assistance than a family in Rochester?). Furthermore, many of these expensive markets are supply constrained, so injecting high levels of assistance into these markets may do little to stimulate new supply, and thus the increased demand may actually worsen affordability.

Policymakers must recognize these tradeoffs and be deliberate in how they determine the level of assistance (based on a set of stated policy objectives). Given this, they must communicate the rationale clearly to avoid the perception of unfairness.

Use the program to stimulate new supply and renovation

All of these international governments attempted to stimulate new housing supply through their programs. The Biden administration would be wise to do the same. This would go some way to mitigating the potential inflationary impact of a large-scale downpayment assistance program and would generate economic output via construction activity. In the case studies examined, England and Ireland mandated that only purchasers of newly built housing were eligible for downpayment assistance. Canada, Australia, and New Zealand offered higher rates of assistance to purchasers of newly built homes. However, the case of England

[57] Perkins et al., “The Potential for Shared Equity and Other Forms of Downpayment Assistance to Expand Access to Homeownership.”

demonstrates that supply did not respond in the least affordable markets (where supply was most needed). The study by Carozzi, Hilber & Yu of the London School of Economics demonstrated that existing barriers to new supply (land, zoning, etc.) overrode any supply-stimulating effect of the program.[58]

Improve execution by maintaining a simple, unified, nationwide approach

Each of the international examples deployed nationwide programs that were simple and well understood by homebuyers, lenders, and builders. Indeed, President Biden's current proposal does suggest a nationwide approach. But Biden should resist (inevitable) calls for local variations and differing requirements. In the case studies examined, nationwide approaches appear to have aided the implementation of these programs and increased the level of uptake by simplifying the process for all parties involved. The case of Australia (where its nationwide program eventually allowed small variations at the state level) demonstrates that these eventual local variations were tolerated by lenders and builders because they had previously learned the process through several years of a single national approach.

US policymakers should maintain nationwide consistency, perhaps by administering the assistance directly through HUD to homebuyers via a consistent national application process, and disbursing funds through the existing infrastructure of the IRS.

Conclusion

This paper was intended to help US policymakers design a nationwide downpayment assistance program. It aimed to do this in two ways. First, by examining a series of international case studies. From this examination, several lessons were drawn from the successes and problems of each of these programs. Second, this paper synthesized a set of 'design choices' that policymakers must decide between when designing a downpayment assistance program. These design choices present US policymakers with a 'menu' of options as they design a downpayment assistance program.

The key insight of this paper is that policymakers face a design challenge: in order to increase the rate of homeownership, downpayment assistance should only flow to those who would not have achieved homeownership without it. A downpayment assistance program should be designed to target these individuals. While this seems blatantly obvious, an examination of

[58] Carozzi, Hilber, and Yu, "On the Economic Impacts of Mortgage Credit Expansion Policies: Evidence from Help to Buy."

the international case studies shows that in many instances, assistance was provided to homebuyers who would have achieved homeownership without any help.

Based on these observations and insights, this paper makes five recommendations to US policymakers on how to improve the $15,000 downpayment tax credit that the Biden presidential campaign proposed. First, US policymakers should make the design choices that will tightly target the program to ensure the recipients of assistance are those that need it most. Second, policymakers should be cognizant of the political costs of a tightly targeted program, and should thus mitigate these costs by clearly defining the objectives of the program. Third, policymakers should be deliberate in the level of assistance. Fourth, the program be tied to new housing supply. Fifth, policymakers should deploy the program using a simple, unified, and nationwide approach.