

The Low-Income First Time Homebuyers Act (LIFT Act) of 2023

Senator Mark Warner, Senator Raphael Warnock, Senator Tim Kaine, Senator Chris Van Hollen, and Senator Jon Ossoff

Helping lower income families build sustainable wealth through homeownership

Background

Homeownership is the primary way that most middle-class families build wealth and achieve economic stability. Generations of Americans have built wealth to pass on to their kids through the simple act of paying their monthly mortgage. Yet historically too many families, particularly families of color, have been unable to take advantage of the opportunity, leaving them on the wrong side of an ever-widening wealth gap. By providing first-time, first-generation homebuyers with a wealth-building mortgage, the new Low-Income First Time Homebuyers Act (LIFT) program will help many of these families finally catch up.

Summary

The LIFT Act establishes a program at the Department of Housing and Urban Development, in consultation with the Department of the Treasury (Treasury), to sponsor low fixed-rate 20-year mortgages for first-time, first-generation home buyers who have incomes equal to or less than 120% of their area median income. Working through Ginnie Mae, Treasury would subsidize the interest rate and origination fees associated with these 20-year mortgages such that the monthly payment would be in line with a new 30 year FHA insured mortgage¹ - see example below.

This will allow qualified home buyers to build equity - and wealth - *at more than twice* the rate of a conventional 30 year mortgage.

Example

A first time home buyer of modest means purchasing a property for \$210,000 is likely to put down \$10,000 and take out a \$200,000 mortgage. In today's market, a lender would offer this borrower a 6.5% 30 year FHA insured mortgage, for which the borrower would pay an annual 0.55% FHA insurance fee and a 1.75% up-front insurance fee, which would be folded into the mortgage. The borrower would have a **monthly payment of \$1,377.**²

Under the LIFT program, the lender would instead offer this home buyer a 5.5% 20-year FHA insured mortgage, which would include a 4.00% up-front FHA fee that would be folded into the loan and no annual FHA premium. The borrower would have a **monthly payment of \$1,430.**

By paying roughly the equivalent monthly payment, a borrower with a LIFT loan would build equity more than twice as fast.

¹ The legislation gives Treasury the authority to establish program terms that would result in the monthly "all-in" payment of a LIFT 20 year mortgage being no greater than 110% of a conventional 30 year FHA mortgage. In addition, the subsidiary is capped such that the borrower's monthly payment cannot be less than 100% of a conventional FHA mortgage in order to avoid inflating home prices.

² This monthly payment will fall slightly over time as the FHA insurance payment is reduced as the loan amortizes.

Wealth Accumulated Through Built-Up Equity

Years of Payments	30 Year Loan Pay-down	20 Year Loan Pay-down
Three	\$7,290	\$18,642
Five	\$13,001	\$32,888
Ten	\$30,980	\$76,160

Because LIFT rates are tied to the FHA 30-year, even if mortgage rates rise, a LIFT loan would continue to pay down – and build wealth – at more than twice the rate of the 30-year mortgage.

Program Mechanics

Treasury would facilitate the origination of the low rate 20-year LIFT loans by buying Ginnie Mae Mortgage Backed Securities (MBS) collateralized by LIFT mortgages. Treasury would buy these MBS at a premium to their face value (i.e. par value) in order to compensate lenders for making the LIFT loans.

In order to avoid taking interest rate risk, Treasury would sell LIFT MBS into the fixed income market. Since the underlying loan rate is lower than market, Treasury would sell the MBS at a discount (i.e., below par).

Program Benefits

By allowing borrowers to build equity in their homes at more than twice the rate of a comparable 30-year loan, without meaningfully increasing their monthly payment, LIFT will improve the power of homeownership for millions of families. If LIFT is coupled with well targeted down-payment assistance, policymakers would make meaningful progress in closing the racial wealth gap, expanding and greatly strengthening the wealth building benefits of homeownership in communities too long left behind.