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Habitat for Humanity: The Challenge of Selecting Low-Income Homeowners

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Abstract

In analyzing Habitat for Humanity's use of low income cut-offs as constructed by Statistics Canada, this article critically assesses the policy of this organization that determines which families are eligible to receive their interest-free mortgages. In demonstrating the failings of the adoption of low income cut-off (LICO) guidelines through the review of relevant demographic data and the presentation of the case study of a single mother, it is argued that using LICOs to determine eligibility for Habitat for Humanity's signature home building program creates unequal access among the poor to their services. In utilizing LICO scores to determine which families receive support, Habitat for Humanity is choosing families that are only poor in a relative sense, and not in the absolute frame that would best help Habitat for Humanity meet their stated mission of Housing for All. This use of relative poverty has created unequal access to Habitat for Humanity services among those who remain at the bottom of Canada's low-income demographic through no fault of their own. Framing Habitat for Humanity's policy decision through the Community Economic and Social Production Model reveals how balancing the books as a community development corporation creates unique challenges that must be continuously evaluated so that a not-for-profit organization can better support their social goals. Recommending the adoption of the Canadian Mortgage and Housing Federation's guidelines relating to income and housing, it is proposed that this change will better support the mission of Habitat for Humanity by creating fairer access to key programs.

Keywords: Habitat for Humanity, low-income housing, low income cut-offs, community development corporation, not-for-profit

Questioning Habitat for Humanity Foreclosure Rates

Since 1985 Habitat for Humanity (HFH) has been growing in Canada. It has created 72 affiliates and built close to 2000 low-cost homes across the country, providing families with a secure and comfortable environment (HFH Canada, n.d.-b). The organization has succeeded in supplying affordable, interest-free mortgages to their low-income partner families in both Canada and the United States, with around 2% of them ending in foreclosure in the US, and less than 1% ending in foreclosure in Canada (Gillispie, 2008; HFH Canada, n.d.-a). While these foreclosure rates are broadcast as being quite low, they actually mirror those of their respective nations. They are only low when specifically considering low-income households. This is especially true for those in minority communities, which usually experience disproportionately high rates of foreclosure and have traditionally been considered a high-risk group for mortgages (Stuart, 2011).

In the US, we can look back at 2010 and see that during what was described as their national housing crisis, their national mortgage foreclosure rate peaked at 2.23%, up from 2.21% in 2009 and 1.84% in 2008 (Trac Staff, 2011). The Canadian Bankers Association places the number of mortgage arrears during the recession within Canada as low as 0.30% and up to 0.43% by October of 2010 (Dunning, 2011, p. 17).

We have seen shocking numbers in the media about the housing market. In June 2011, it was estimated that 22.5% of all mortgage holders in the US faced the reality of owing more than their home was worth (Veiga, 2011). In October 2011, 77,733 homes were issued a default notice in that month alone (Veiga, 2011). In consideration of figures such as these, there is something intriguing going on with HFH's selection process for new homeowners from low-income groups and their rates of success (Veiga, 2011).

How are HFH low-income homeowners, traditionally a high-risk group, faring just as well as, if not better than, the general population in a time of economic upheaval? Is it just a matter of an excellent financial literacy and fair mortgage program, or is HFH inadvertently picking winners from certain demographics through their careful screening program?

This paper will analyze how the Canadian HFH's use of low income cut-offs (LICOs) creates a seemingly uniform approach to screening applicants that inadvertently creates a small window in which to select worthy families. Analysis of HFH's public documents regarding how LICO scores are utilized by each affiliate will show disparity between branches, leaving the poor in some regions, especially single parents, with greater barriers in accessing HFH services.

Corporate Community Development and the Worthy Poor

To understand HFH's success it is important to understand their orientation and goals. HFH is an example of what is described as a 'community development corporation' (CDC). This differs from a traditional corporation as their efforts are turned towards a mission and not profit (Rubin & Rubin, 2008, p.193). HFH's mission is "to mobilize volunteers and community partners in building affordable housing and promoting homeownership as a means to breaking the cycle of poverty" (HFH, n.d.-c, n.p.). Following a strict corporate business model, HFH structures their organization from the top-down, with all country branches being composed of their own board of directors which oversees their network of affiliates, while reporting to the current HFH CEO Jonathan T.M. Reckford and his board of directors (Reckford, n.d.).

While some CDCs such as HFH build homes that are affordable and help the tangible structure of a community, as well as the social structure in order to empower individuals, they also struggle with the reality of a "double-bottom line" (Rubin & Rubin, 2008, p. 389). Community economic and social production CDC organizations like HFH face the reality of breaking even financially or folding, meaning that they must place careful bets in order to meet both the financial and social cost of building affordable homes (Rubin & Rubin, 2008, p. 389).

Being inspired by a moral mission, as HFH is, does not mean that they can avoid paying bills any more than any other housing builder. What makes HFH successful at creating low-income housing, through 0% mortgages, also creates very real risk for the corporation. In truth, although HFH is a not-for-profit corporation, they must still earn the capital needed for physical development projects and expert staff to make projects feasible (Rubin & Rubin, 2008, pp.392, 406).

With the structure of HFH relying on a vast network of autonomous affiliates to create the community ties needed to develop successful projects, the one thing that brings them together, beyond a mandate of housing for all, is a somewhat contradictory definition of who should be helped by their organization (HFH, n.d.-c). This definition plays a key part in the success of their home ownership program. HFH uses a measure of relative poverty by utilizing the LICO scores employed by the Canadian government. Relative poverty is defined by the common living standards and lifestyles of the majority of a population within a country (Bennett, Grossberg, & Morris, 2005). Labelling applicants as low-income by this standard is a component of the rigorous screening program of families so that only the worthy poor are chosen to become partner families. These are the ones that can handle being given what HFH describes as "a hand up," rather than a hand out (HFH, n.d.-a).

The home building program is HFH's signature work and requires potential homeowners to be carefully screened for selection on a 'merit' system that considers their worthiness and possibility of homeownership success (Robinson, 2004). Those chosen must be willing to provide a great deal of personal and financial information to the organization, including income tax returns, proof of income, residency information, relationship status information, a credit report, copies of all bills, and a willingness to enter into a long-term loan agreement (Robinson, 2004). Additionally, home visits and comprehensive interviews by HFH are a basic requirement, while some affiliates, such as those in West Virginia, have gone a step further in the past and required a mandatory character assessment (Robinson, 2004; Husock, 1995). The character assessment checks family traits such as how often the family has moved to how they care for their current property and even whether or not the family gets along well and the children are well-behaved (Husock, 1995). In addition, candidates chosen by HFH must show a willingness to undergo money management classes for 10 months and to do 500 hours of required 'sweat equity labour,' such as working on building their own home and volunteering to help others in the same situation (Robinson, 2004).

As a corporation that describes itself as an ecumenical Christian organization with strong religious values, it can be argued that HFH's idea of the worthy poor has as much to do with the structure of the families they choose to support as it does with their finances (HFH, n.d.-a). While HFH has a strict non-discrimination policy, the fact remains that specific groups in Canada continue to suffer from barriers that, by no fault of their own, prevent them from even qualifying for HFH's help.

Habitat for Humanity Canada – Issues in Demographics

Figure I - Low income cut-offs (1992 base after-tax income low income cut-offs)

Size of family unit	Rural areas outside CMA or CA[1]	Census Agglomeration (CA)		Census Metropolitan Area (CMA)	
		Less than 30,000 inhabitants[2]	Between 30,000 and 99,999 inhabitants	Between 100,000 and 499,999 inhabitants	500,000 inhabitants or more

	Current dollars				
2010					
1 person	15583	17729	19375	19496	22637
2 persons	19400	22070	24120	24269	28182
3 persons	23849	27132	29652	29836	34646
4 persons	28957	32943	36003	36226	42065
5 persons	32842	37363	40833	41086	47710
6 persons	37041	42140	46054	46339	53808
7 or more persons	41240	46916	51274	51591	59907
(Statistics Canada, 2011-a) 1. Can include some small population centres. 2. Includes population centres with less than 10,000 inhabitants.					

In Canada, the government publishes LICO scores for what it considers to be low-income, and in turn, who is considered relatively poor, in relation to the rest of the population. For example, to be considered a low-income individual in a large city of 500,000 or more inhabitants, you must earn less than $22,637 per year before tax (Figure I).

HFH utilizes this data to determine who is poor enough for their assistance. In Hamilton, Ontario, population 721,053, the HFH affiliate states that a family of two persons must have a minimum income of $25,000 per year, and must not exceed the region's low income cut-off guidelines of $29,004 (Statistics Canada, 2012; HFH Hamilton, n.d.; City of Hamilton, 2012). This differs from an HFH affiliate that handles all cities in the Southern Alberta region which states that all applicants must have an income that falls *within* a low-income range of $32,400 - $67,050 (Statistics Canada, 2012; HFH Southern Alberta, n.d.). In the case of Calgary – population 1,214,839 - covered by this affiliate, the LICO score for this area would set the range between $28,182 for a family of two and $59,907 for a family of seven or more (Statistics Canada, 2012; Statistics Canada, 2011-a). This means that a family of two in Calgary must earn at least $4,218 more than the LICO cut-off to even qualify for funding. Securing these additional funds is a difficult task for a single mother, especially in a city with a high cost of living and historically low rates of labour force participation among females with children (Vibrant Communities Calgary, 2009).

Both of these figures create difficulties for a family of two (or more) seeking acceptance into HFH's housing program. In the case of Hamilton, a family of two must stay within a small income window of $4,004 before they earn too little or too much to qualify. In the case of Calgary, the family must earn a minimum of $4,218 more than government LICO cut-offs. The problem with such a tight window and high income level needed is that some social groups make up a disproportionate percentage of persons of low income, so much so that they rarely skim the top of what is considered to be the working poor.

Figure II: Percentage of persons in low income (1992 base after-tax income low income cut-offs)

	%									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
All persons	12.5	11.2	11.6	11.6	11.4	10.8	10.5	9.2	9.4	9.6
Persons under 18 years old in economic families	13.8	12.1	12.3	12.5	12.9	11.6	11.3	9.4	9	9.5
In two-parent families	9.5	8.3	7.4	7.9	8.4	7.8	7.7	6.6	6.5	7.3
In female lone-parent families	40.1	37.4	43	41.4	40.4	32.9	31.7	26.6	23.4	21.5
Persons 18 to 64 years old	12.9	11.7	12	12.2	11.9	11.4	11.2	9.9	10.2	10.5
Persons 65 and over	7.6	6.7	7.6	6.8	5.6	6.2	5.4	4.9	5.8	5.2

Source: http://www.statcan.gc.ca/daily-quotidien/110615/t110615b3-eng.htm

As illustrated in Figure II, it becomes clear that female lone-parent families are the majority of persons with low income, and on average many single mothers do not even come close to Habitat for Humanity's low income cut-off rates due to factors such as lack of access to childcare, which impacts their ability to work, and a continuing trend of women in Canada earning less than their male counterparts – currently 28.6% less (Statistics Canada, 2011-b; Cool, 2010). Evaluating the net worth of single mothers gives us a clear view of this disparity, with the average low-income mother only having a net worth of $17,000, while single fathers have a net worth of around $80,000 (Statistics Canada, 2008).

Having viewed HFH's guidelines for who is considered the worthy poor, it becomes clear that a large group of individuals - single mothers - face a greater barrier than a couple in receiving a home. For HFH, using the upper end of the LICO guidelines to help choose who has the financial power to succeed at homeownership creates a pool of eligible candidates that are in actuality not high risk.

The Problems with LICO Scores

The LICO score utilized by the government has often been criticized for not painting a full enough picture of poverty, as it is frequently and easily misinterpreted (Sarlo, 1999). In addition to this, because it uses a relative measure of poverty, it makes it difficult to discern between common conceptions of absolute poverty and what it actually takes to afford things like housing and food (Sarlo, 1999). In effect, the LICO poverty line makes it too easy for people to be considered poor when considering the common sense meaning of poverty and how it should relate to an actual measure of deprivation (Sarlo, 1999).

Another problem with the LICO is that it only considers variations in family size and the population of the city one is living in, giving no thought to the differences in cost of living (Sarlo, 1999). To illustrate this point, we turn to Chris Sarlo's (1999) example in *The Problems with LICO:*

> In 1997, the LICO for families of various sizes in large urban communities (where about half of Canadians live) were: for a family of one, $16,318; for two, $22,117; for three, $28,115; for four, $32,372; and for five people, $35,368. These are by no means 'high' incomes, but they do not correspond to common sense notions of 'poverty'. Let us take, for example, the single unattached individual earning $16,000 in Vancouver, the most expensive urban market in Canada. The average rent of a one-bedroom apartment in Vancouver in October 1997 was $673 per month, or $8,076 per year. Our single wage earner is left with just under $8,000 for food, clothing and other necessities, including income taxes, net of tax credits. He is not living extravagantly, but is not impoverished in the sense of absolute poverty. Earning the same amount in other major urban centres makes the poverty label appear even more subjective. In Ottawa, this person would have $8,700 for non-shelter needs; in Calgary, he would have almost $10,000; and in Montreal $10,600. (n.p.)

To further illustrate this point, let us look at a single mother in Toronto who does not meet Habitat for Humanity's minimum income requirement of $26,200 for the area, despite having the funds to rent a one-bedroom apartment for $849 a month (HFH Toronto, n.d.; Daly, 2006). Daly (2006) cites the example of Maheswary Puvaneswaran, a single mother with three children and a member of the working poor, with a yearly after tax income of $16,000 when considering all government benefits. With 63.6% of her yearly income going to rent, she was left with only $5,812 for food, clothing, and other necessities of life. To get by, Maheswary had to rely on the generosity of friends, and a tight budget (Daly, 2006).

Habitat for Humanity strives to provide mortgages to low-income families that take up just 25% of their annual income, which would mean that Maheswary would pay just $4,000 a year on housing, or $333 monthly until her mortgage was paid off (HFH South Okanagan, n.d.). Assuming that Maheswary's home was at the top-end of HFH's property prices, due to a Toronto location and family size, we can calculate that she would repay a $120,000 mortgage in 30 years (HFH South Okanagan, n.d.). Now, if HFH insisted on their preferred mortgage period of 20 years, Maheswary would be required to pay $500 a month for housing, putting her at 37.5% of her income spent on housing (HFH South Okanagan, n.d.). While this is higher than the recommended amount of 32% of gross income spent on housing, as suggested by the Canada Mortgage and Housing Corporation (CMHC), it would substantially increase Maheswary's quality of life (CMHC, n.d.). As HFH places emphasis on the ability to provide flexible 0% mortgages to low-income individuals, it would be reasonable for Maheswary and the corporation to reach an agreement that allowed them both to profit. Freeing up an additional 26.1% to 38% of Maheswary's meager income would give her the hand-up she needs, while allowing her to retain her dignity. The fact remains that with LICO numbers continuing to be employed, Maheswary will never be able to qualify for a mortgage through HFH, no matter how much she exemplifies the struggle of a single mother and low-income Canadian.

Conclusion

HFH promotes the idea that access to affordable shelter is a basic human right and that homeownership is a way to break the cycle of poverty in which so many low-income families find themselves trapped (HFH Canada, n.d.-c). To date, HFH has shown great success in their ability to choose partner families that can repay 0% interest mortgages in Canada and the US. They have helped thousands of low-income families gain dignity and decent housing, all while creating a sustainable corporation that keeps funds flowing back into new housing projects. However, this success is supported by employing low-income cut-off guidelines which favour those who are relatively poor rather than those most would consider poor through a lens of absolute poverty.

The people HFH does choose for their homeownership program do need a hand-up, but as we have discussed, looking at LICO scores leaves many who are poor and in need of low-income housing ineligible for the program. Housing for all is a wonderful mandate but the reality remains that relative poverty is not the best marker for choosing those who most need assistance for housing programs.

The question of whether or not it is fair mortgages and financial literacy programs that make HFH's low-income families a success has turned out to be just part of the picture. HFH partner families are reflecting the national average because at the upper end of the relative low-income scale the families are in fact average. Those who are in desperate need of housing help are so far below LICO score cut-offs they cannot even qualify for assistance.

While Habitat for Humanity may risk more foreclosures if they start including those families that do not meet LICO guidelines, an adoption of the CMHC guidelines will provide an opportunity for more low-income individuals to achieve a higher quality of life. It is necessary for HFH to realize that following LICO guidelines is inadvertently discriminating against a huge swath of the low-income population, such as single mothers. While investors want HFH to be successful as a business, they must recognize that greater flexibility in who is selected to be a HFH partner will allow the organization to reach those that need them most. If the LICO guidelines are dropped in favour of the percentage of income spent on housing that the CMHC recommends (32%), more families can take on mortgages and begin securing equity, so that they too can finally escape the poverty trap.

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