CASE STUDY

Expanding Homeownership in Communities of Color

Blackstar Stability Distressed Debt Fund
www.blackstarstability.com

About This Investment
A safe, stable home is a key condition for health and wellbeing, and data show that homeownership is associated with positive health outcomes. Yet access to homeownership is not enjoyed evenly across the United States since households with low incomes—and particularly families of color—historically have been excluded from the opportunity for homeownership due to income, race, credit history, and inequitable access to capital. This systemic inequity has created room for alternative, often predatory, forms of housing financing.

A $4 million investment from the Robert Wood Johnson Foundation (RWJF) to the Blackstar Stability Distressed Debt Fund ("Blackstar" or “the Fund”) will strengthen Blackstar’s work to help households with low to moderate incomes, especially families of color, stay in their homes by transitioning them to affordable, equitable mortgage financing to achieve homeownership.

Over five years, the $100 million Fund aims to put more than 9,000 families on a path to homeownership, focusing on families that have been affected by predatory lending or are on the brink of foreclosure.

Why It Was Needed
Due to limited financing options when looking to buy a home, many people of color and people with low incomes turn to contracts for deeds (CFDs), also known as land contracts, instead of traditional mortgages. CFDs are agreements in which a buyer makes ongoing payments to a seller, but the seller retains the legal title until final payment from the buyer. CFDs create an illusion of homeownership—buyers must bear all financial obligations, including home maintenance and property taxes. However, if the buyer is late or misses a payment, the seller can cancel the contract, keep all prior payments, and evict the buyer. These contracts are not inherently predatory in themselves, but due to minimal regulation, they have a history of abuse.

Despite the harmful impact of such practices, CFDs are widespread because they provide what appears to be a homeownership option to people who cannot obtain a traditional mortgage due to (1) inadequate credit history; (2) insufficient savings for down payment; (3) lack of access to the formal financial system for mortgage credit; or (4) challenges in securing small mortgages (under $100,000), an option provided by few lenders that tends to attract borrowers of color who face systematic barriers to building wealth. Detroit, Michigan illustrates the extent of this problem: in 2016, CFDs outnumbered traditional mortgages throughout the city, putting many families at risk of losing their homes.
How It Works
The Fund purchases and restructures CFDs and mortgages on homes facing foreclosure, thus enabling families to remain in their homes and begin to build home equity. The Fund will hold these mortgages for 12 to 18 months, after which it will sell them to other investors, as is standard practice, with no significant change for the homeowners.

Over the next five years, the Blackstar team anticipates transferring more than $125 million in home equity to families, reducing $45 million of mortgage debts, and saving families more than $150 million in interest payments over the life of their loans.

About Blackstar Stability
Blackstar Stability Distressed Debt Fund is an impact fund that seeks to create wealth for low- to moderate-income families by acquiring and restructuring CFDs and distressed mortgages. The Fund works closely with the existing residents to restructure these loans and contracts into traditional, performing mortgages that suit the homeowner’s ability to pay based on current market conditions. The Fund focuses on communities with low to moderate income and communities of color that are disproportionately affected by negative home equity and concentrations of subprime or predatory lending practices.

The Fund is managed by Blackstar Stability Investment Management (BSIM), a mission-oriented Black-owned and -led real estate investment firm based in Washington, D.C. Blackstar was formed in 2019 and is modeled from a state-funded program in Oregon that was designed to keep families in their homes following the housing market downturn during the global financial crisis.

Learn More About Our Impact Investments
www.rwjf.org/impactinvesting