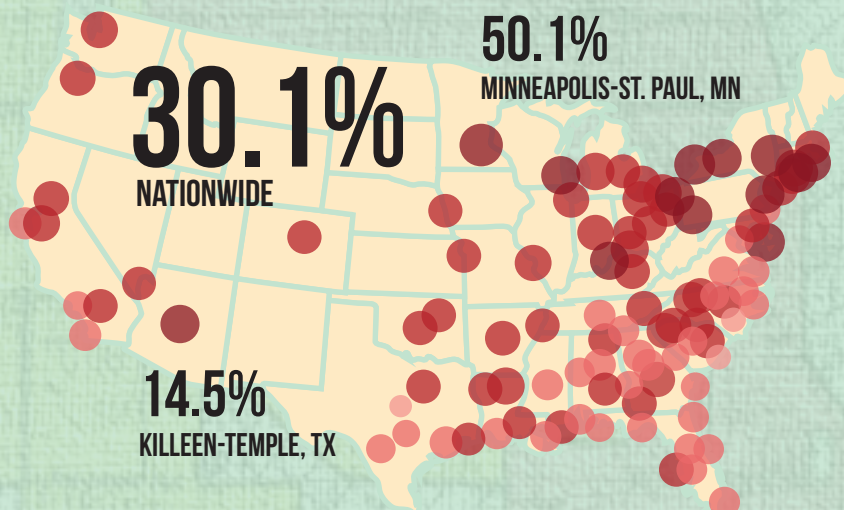


CREDIT WHERE CREDIT IS DUE:

CLOSING THE BLACK/WHITE HOMEOWNERSHIP GAP IN AMERICA'S CITIES

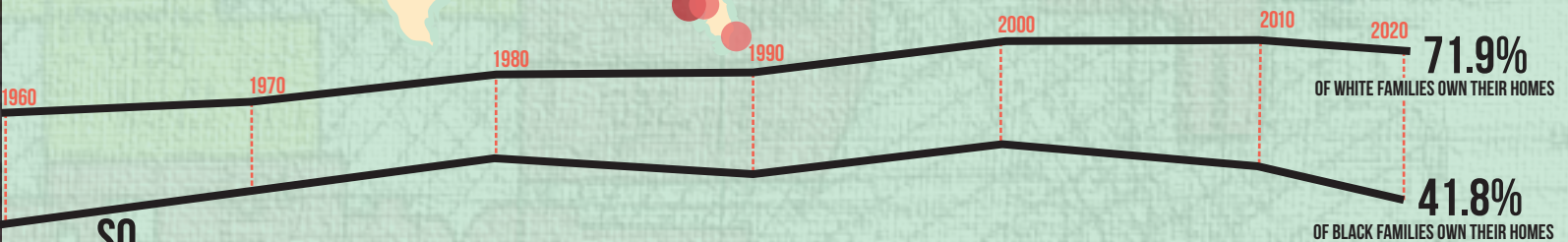
NOAH CLAPACS

THE HOMEOWNERSHIP GAP PERSISTS IN EVERY CITY IN THE UNITED STATES



AS OF 2017, THE DISPARITY BETWEEN BLACK AND WHITE HOMEOWNERSHIP IN THE UNITED STATES HAS PEAKED AT 30.1%.¹ THIS NUMBER HAS INCREASED IN RECENT YEARS—BLACK FAMILIES WERE DISPROPORTIONATELY HARMED IN THE HOUSING MARKET CRASH OF 2008, AND BLACK HOMEOWNERSHIP RATES HAVE STRUGGLED TO RECOVER SINCE.

ALTHOUGH AVERAGE HOUSEHOLD INCOME FOR BLACK FAMILIES HAS INCREASED IN THE PAST TEN YEARS, BLACK HOMEOWNERSHIP HAS REMAINED RELATIVELY STAGNANT SINCE THE 1960S.¹



SO, WHAT'S THE CAUSE?



FAMILY WEALTH

FAMILIAL HOMEOWNERSHIP IS THE PRIMARY DETERMINING FACTOR OF WHETHER OR NOT SOMEBODY WILL BE ABLE TO PURCHASE A HOME IN THEIR LIFETIME.² HOWEVER, HOME EQUITY IS ALSO THE GREATEST SOURCE FAMILY WEALTH.³ IN 2016, THE AVERAGE NET WORTH OF A BLACK HOUSEHOLD WAS ONE-TENTH OF THE AVERAGE WHITE HOUSEHOLD. A SIGNIFICANT WEALTH GAP PERSISTS AT ALL EDUCATIONAL ATTAINMENT LEVELS, HIGHLIGHTING THE IMPORTANCE OF POLICY THAT EMPOWERS FIRST-GENERATION BUYERS TO BREAK THE CYCLICAL WEALTH GAP.⁴



PREDATORY LENDING

WELL-QUALIFIED BLACK BUYERS ARE 2.8 TIMES MORE LIKELY TO BE OFFERED HIGH-RISK, HIGH-INTEREST MORTGAGES THAN WHITE BUYERS.⁵ THIS IS OFTEN DUE TO PREDATORY TARGETING OF MINORITY NEIGHBORHOODS BY SUBPRIME LENDERS. SINCE RACIALLY SEGREGATED NEIGHBORHOODS OFTEN LACK ACCESS TO REPUTABLE LENDING INSTITUTIONS, THESE RACIST PRACTICES NEARLY DOUBLE FORECLOSURE RATES FOR BLACK HOMEOWNERS.⁶



ACCESS TO CREDIT

AS WE KNOW, WEALTH BEGETS WEALTH. RACIST FEDERAL HOUSING ADMINISTRATION POLICIES THROUGHOUT THE 20TH CENTURY CODIFIED THE DENIAL OF CREDIT TO BLACK FAMILIES DURING THE POST-WWII HOUSING BOOM. IN TURN, MANY BLACK FAMILIES HAVE BEEN UNABLE TO BENEFIT FROM THE APPRECIATION OF HOME EQUITY THAT WHITE FAMILIES HAVE. THESE POLICIES HAVE RESULTED IN LIMITED MORTGAGE OPTIONS FOR FIRST-GENERATION BLACK HOMEOWNERS AND INCREASED DEPENDENCE ON SUBPRIME MORTGAGES.⁷



INCOME INEQUALITY

ALTHOUGH INCOME INEQUALITY IS NOT THE ENTIRE STORY, IT CERTAINLY IS A FACTOR. DECOMPOSITIONS REVEAL THAT ABOUT HALF OF THE GAP CAN BE ATTRIBUTED TO INCOME INEQUALITY—LOWER HOMEOWNERSHIP GAPS ARE SEEN IN CITIES WITH RELATIVELY LITTLE INCOME INEQUALITY, MOST NOTABLY THE MILITARY CITIES OF KILLEEN, TX AND FAYETTEVILLE, NC.⁸ HOWEVER, EVEN BLACK HOUSEHOLDS IN THE UPPER QUANTILE OF INCOME AVERAGE A NET WORTH ONLY 51% OF THEIR WHITE PEERS.⁴ THE BEST POLICY SOLUTIONS WILL ADDRESS THE HOMEOWNERSHIP GAP AS A FUNCTION OF WEALTH INEQUALITY, RATHER THAN INCOME INEQUALITY.

HOMEOWNERSHIP MEANS OPPORTUNITY

NET IMPACTS:

DISCRIMINATORY FEDERAL POLICY HAS SET THE MEDIAN BLACK FAMILY 10 TIMES BACK FROM THE MEDIAN WHITE FAMILY IN TERMS OF HOUSEHOLD WEALTH.

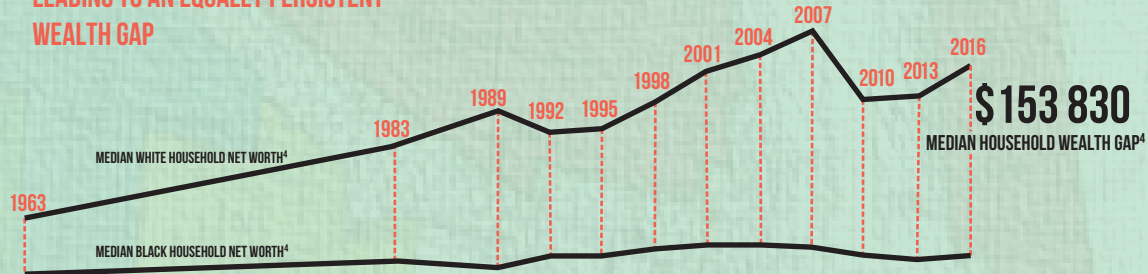
BLACK AMERICANS GENERALLY DEPEND MORE ON FAMILY ASSETS TO MAKE INITIAL PAYMENTS ON HOMES, SO NET WORTH HAS AN OUTSIZED IMPACT IN BLACK PURCHASING POWER.²

MED. WHITE HOUSEHOLD WEALTH:⁴
\$171 000

MED. BLACK HOUSEHOLD WEALTH:⁴
\$17 150

THE COST OF THE HOMEOWNERSHIP GAP IS FAR GREATER THAN A PLACE TO LIVE—IT'S COSTING BLACK FAMILIES OPPORTUNITY TO ACCUMULATE WEALTH BETWEEN GENERATIONS.

THIS IMPACT IS CYCLICAL: BY LIMITING MEANS FOR BLACK FAMILIES TO ACCUMULATE WEALTH, 20TH CENTURY POLICIES LIKE 'REDLINING', WHICH DENIED HOUSING TO BLACK AMERICANS IN CERTAIN NEIGHBORHOODS, HAMPER PRESENT-DAY ACCESS TO CREDIT, LEADING TO AN EQUALLY PERSISTENT WEALTH GAP



HOUSEHOLD WEALTH, OR NET WORTH, REFERS TO THE DIFFERENCE BETWEEN TOTAL ASSETS AND TOTAL DEBTS. IT GREATLY DETERMINES WHETHER A FAMILY WILL BE ABLE TO PURCHASE A HOME—BUT HOME EQUITY IS THE GREATEST DRIVER OF AMERICANS' NET WORTH.³

WE NEED EQUITABLE POLICY TO BUILD HOME EQUITY

SO, HOW CAN POLICY UPLIFT WEALTH FOR THOSE WHO HAVE BEEN HELD BACK?



FEDERALLY-BACKED SMALL-DOLLAR MORTGAGES

ALTHOUGH CITIES WITH LOW BLACK HOMEOWNERSHIP, SUCH AS PITTSBURGH, PA AND YOUNGSTOWN, OH HAVE HIGH NUMBERS OF HOMES \$70,000 AND BELOW, ONLY 25% OF THESE HOMES ARE MORTGAGED. THIS IS DUE TO THE INFREQUENCY OF FEDERALLY-BACKED SMALL-DOLLAR LOANS.⁹ RESEARCH HAS SHOWN THAT INCREASING AVAILABILITY OF MORTGAGES UNDER \$70,000 THROUGH APPRAISAL WAIVERS, LOAN OFFICER COMPENSATION, AND OTHER FEDERAL LENDING CREDITS WOULD INCENTIVIZE REPUTABLE LENDERS TO FINANCE SMALLER PURCHASES.¹⁰ BY ALLOWING BUYERS TO ESTABLISH EQUITY ON SMALL PURCHASES, FEDERAL POLICY COULD ALLOW FIRST-GENERATION HOMEBUYERS TO BUILD THEIR ASSETS ON SECURE MORTGAGES. A BIPARTISAN BILL, HR 5931, IS CURRENTLY ON THE SENATE FLOOR TO INVESTIGATE THIS OPTION.



ALTERNATIVE CREDIT METRICS

WHILE LONGTIME RENTERS OFTEN HAVE LITTLE CREDIT HISTORY, THEY DO HAVE A RENT PAYMENT HISTORY. BY STANDARDIZING CREDIT METRICS TO ALLOW RENT PAYMENT HISTORY, THOSE WHO ARE "CREDIT INVISIBLE", OR HAVE NO TO LITTLE CREDIT HISTORY, COULD ESTABLISH PORTFOLIOS OVER THE COURSE OF THEIR TENANCY. IMPLEMENTATION WOULD BE COSTLY, SINCE CREDIT EVALUATION METRICS ARE PRIVATE SERVICES, BUT RESEARCH THAT SUCH A METRIC WOULD DECREASE RELIANCE ON PREDATORY LENDERS AND INCREASE FIRST-GENERATION HOMEOWNERSHIP.¹¹



PUBLIC LOAN COUNSELING

IN SOLVING THE ISSUE OF SPATIAL TARGETING AND MISINFORMATION FOR FIRST-TIME BLACK BUYERS, EXPANSION OF HUD ACCREDITED LOAN COUNSELORS WOULD DECREASE PREDATORY LENDING. WHILE MANY BANKS AND CREDIT UNIONS PROVIDE THIS SERVICE AUTOMATICALLY, ONLY 27% OF BLACK BUYERS RECEIVE PROFESSIONAL SUPPORT, WHEREAS 47% OF WHITE BUYERS USE THESE SERVICES.⁷ UNDER THE DODD-FRANK ACT, HUD PROVIDES CONTRACTED COUNSELING, WHICH PRIMARILY SERVES LOW-INCOME BLACK AND LATINX BUYERS. RESEARCH SHOWED THAT HUD'S PRE-PURCHASE COUNSELING REDUCED FORECLOSURES BY 40%, AND POST-PURCHASE COUNSELING REDUCED RE-DEFAULTING BY 70%.¹² MAKING THIS SERVICE PUBLIC AND EXPANDING ITS REACH WOULD LIKELY SHOW INCREASING RESULTS.

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