Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap

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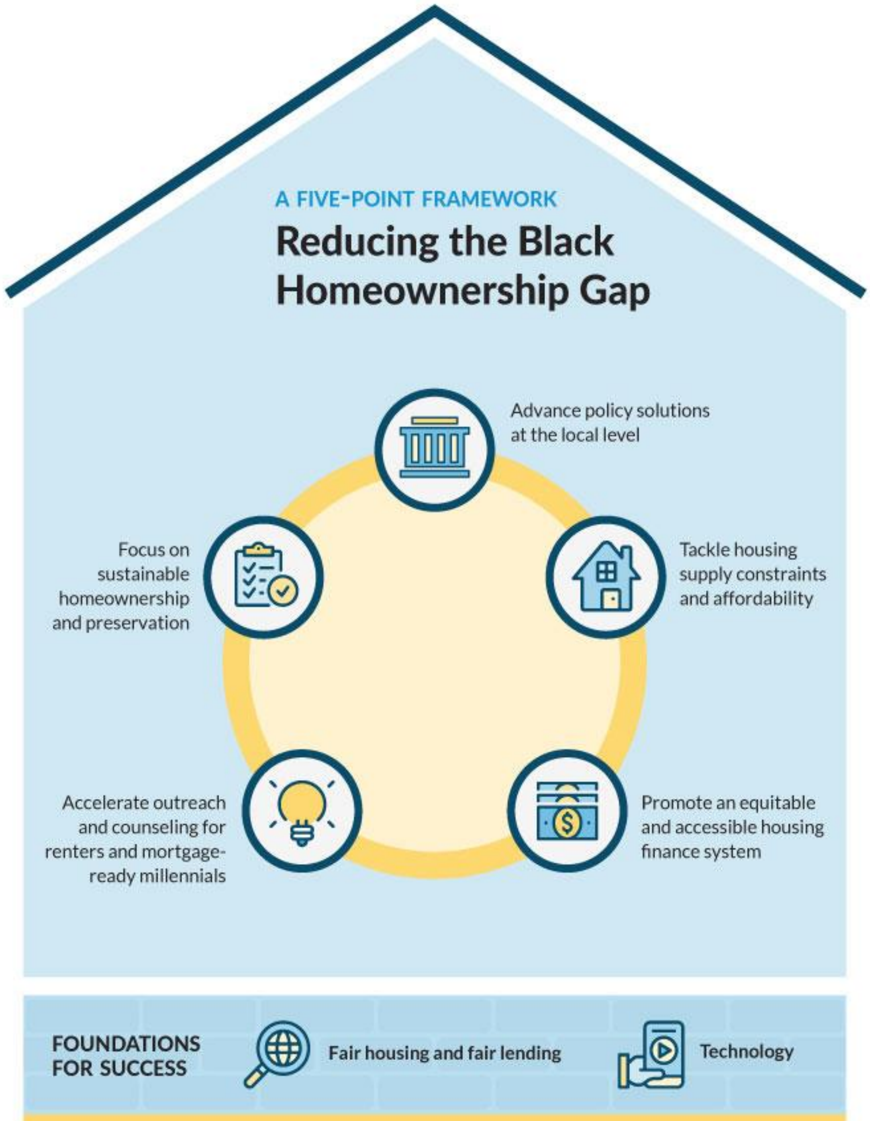
May 2019

Homeownership is an important wealth-building source and a foundation for economic stability. Owning a home can provide a stable place to live and remove significant economic uncertainty in the form of fixed housing costs. These benefits are well documented, yet there is persistent inequality in access and attainment of homeownership across racial lines and less wealth accumulation for black households through homeownership. The continually depressed black homeownership rate and overall wealth gap have reached alarming levels. The black homeownership rate has persistently lagged behind that of white families, a gap that has widened since the Great Recession. In 2017, the black homeownership rate (41.8 percent) was the lowest of all racial and ethnic groups. Between 2000 and 2017, the black homeownership rate dropped 4.8 percentage points—a loss of about 770,000 black homeowners—while the homeownership rates of other racial and ethnic groups either remained constant or increased.

Stakeholders concerned about this persistent homeownership gap asked the Urban Institute's Housing Finance Policy Center to convene a roundtable planning discussion in November 2018. The discussion sought to identify actions that, evidence has shown, can reduce the racial homeownership gap. Five themes emerged from the gathering:

- Advance policy solutions at the local level
- Tackle housing supply constraints and affordability
- Promote an equitable and accessible housing finance system
- Further outreach and counseling for renters and mortgage-ready millennials
- Focus on sustainable homeownership and preservation



The roundtable group coalesced around a five-point framework that could provide structure for further policy recommendations and research and could help stakeholders build an effective and comprehensive plan to allow national and local entities to work together to address the racial homeownership gap.

Background

Racial homeownership disparities have been large and persistent for decades. Today's 30-plus percentage-point gap between black and white homeownership rates has not decreased since the passage of the 1968 Fair Housing Act. In recent years, the gap has widened as black households experienced larger losses during the housing crisis and are experiencing a slower recovery in the aftermath. Homeownership is one of the most important pathways to building wealth and establishing strong communities, so the black-white homeownership gap explains why the overall racial wealth gap between black and white families is large and growing.

According to the 2016 Survey of Consumer Finances, the median net worth for white households ($171,000) is almost 10 times greater than that of black households ($17,600), a gap that has increased in recent years, driven largely by home equity loss in black households and the disproportionate increase in the black unemployment rate following the financial crisis. Home equity also makes up an outsize share of total black and Hispanic wealth, with retirement and traditional liquid savings making up a smaller share. To reduce the racial wealth gap, strategies must stretch beyond homeownership to include wealth equity through many vehicles.

To identify effective, evidence-based actions, the National Association of Realtors and the National Association of Real Estate Brokers asked the Urban Institute's Housing Finance Policy Center to convene a roundtable discussion of ways to narrow the racial homeownership disparity in America.

Figure 1 shows five strategic priorities that emerged from the roundtable discussion and specific policies and actions under each priority that stakeholders can consider. The five pillars are not mutually exclusive and are interrelated and mutually reinforcing.

A FIVE-POINT FRAMEWORK

Reducing the Black Homeownership Gap

ADVANCE POLICY SOLUTIONS AT THE LOCAL LEVEL

- Responsibly expand small-dollar mortgages for purchase and renovation (micromortgages)
- Reform local land-use and building codes and revisit zoning laws and regulations
- Strengthen access to and capacity of homeownership CDFI networks
- Improve and invest in CDCs' capacity and partnerships locally
- Remove discriminatory terms in HOA, COA, and PUD deeds on single-family residential units
- Expand the reach of HFA programs locally, and strengthen realtor/lender/HFA networks
- Consider property tax relief for low- and moderate-income taxpayers

TACKLE HOUSING SUPPLY CONSTRAINTS AND AFFORDABILITY

- Reform local land-use and building codes and revisit zoning laws and regulations
- Increase federal efforts to improve the existing supply of affordable housing and make investments directed toward historically segregated and devalued neighborhoods
- Explore and expand production of affordable housing types such as manufactured housing and factory-built housing
- Improve single family 2- to 4-unit preservation, financing, and credit underwriting
- Improve or overhaul renovation and rehab purchase lending programs to expand access to existing affordable housing inventory (e.g., FHA 203K, GSE renovation programs)
- Review options to improve condo lending and occupancy requirements for FHA lending
- Review the viability of programs like lease-to-own and shared equity as pathways to homeownership
- Advance research on the impact of single-family rental on homeownership, and enhance understanding of tenant demographics, performance, affordability, and transparency of ownership
- Advance efforts for GSEs and HUD to collaborate with mission-driven organizations to make affordable real estate–owned units for sale available to owner-occupant households

PROMOTE AN EQUITABLE AND ACCESSIBLE HOUSING FINANCE SYSTEM

- Increase visibility, access, and types of down payment assistance programs
- Use technology to expand responsible credit in all communities
- Increase competition in credit scoring and evaluation models
- Incorporate alternative data in credit history (e.g., rental payments)
- Count diverse sources of income to qualify for a mortgage
- Strengthen requirements that banks serve all communities in their market and consider expansion of obligation to other parts of the system
- Improve and expand financial education and homeownership preparation for renters
- Ensure affordability and access are adequately addressed in GSE reform to promote balanced and fairly priced conventional lending to people of color
- Responsibly expand small-dollar mortgages for purchase and renovation (micromortgages)
- Expand innovative forms of financing for homeownership and product development efforts (e.g., shared equity, tax savings programs)
- Modernize FHA insurance program (e.g., technology, operations) and expand FHA lending to black communities
- Advance CRA efforts that enhance incentives for banks to serve nonwhite communities and expand institutions (fintechs)

ACCELERATE OUTREACH AND COUNSELING FOR RENTERS AND MORTGAGE-READY MILLENNIALS

- Identify and reach out to millennials who are "mortgage-ready"
- Revitalize and improve tax credit incentives for renters who want to become owners
- Increase visibility and access to down payment assistance programs
- Improve and expand financial education, housing counseling, and homeownership preparation to renters and younger generations
- Expand programs that automate saving for down payments/reserves
- Increase competition in credit evaluation
- Explore more options for use of fintech to advance understanding and access to homeownership

FOCUS ON SUSTAINABLE HOMEOWNERSHIP AND PRESERVATION

- Strengthen postpurchase counseling
- Promote healthy mortgage servicing relationships and loss mitigation options
- Fund programs to prevent foreclosure for low- and moderate-income and vulnerable families of color
- Develop safe and sensible equity-tapping products
- Improve products and access to affordable repair/ renovation financing
- Monitor real-time home values and home equity at the local level
- Build tools that help create early-warning displacement triggers (e.g., insurance and property tax hike monitors, price drops or increases)
- Focus on the intergenerational transfer of wealth, estate planning, and undivided property
- Identify mitigation strategies and interventions for homeowners of color at high risk for flood and disaster events

Note: CDC = community development corporation CDFI = community development financial institution COA = condominium owner's association CRA = Community Reinvestment Act FHA = Federal Housing Administration fintech = financial technology GSE = government-sponsored enterprise HFA = Housing Finance Agency HOA = homeowner's association HUD = US Department of Housing and Urban Development PUD = planned unit development

The interventions suggested under each pillar require further research, analysis, and development. These ideas could tackle the specific barriers black households are facing and are likely to promote more equitable homeownership opportunities that cross racial boundaries and offer net positive benefits for low- and middle-income households. The roundtable group discussed systemic racism and agreed that any new strategies for advancing black homeownership would fall short if they did not recognize and understand the historic and systemic racial barriers and biases throughout the housing industry.

1. Advance Local Policy Solutions

Black households have lower homeownership rates than white households in the 100 US cities with the largest black populations, but the rate and size of the gap differs substantially across the country.[1] Housing challenges in US communities are vast and unique, and although federal interventions may influence state and local actions, the biggest impact will come through locally developed solutions. Understanding local dynamics of wealth and homeownership is important for determining the best ways to bridge the gaps[2] and understand the resources needed. For example, the black homeownership rate in Albany, New York, is 20.1 percent, while in Charleston, South Carolina, it is 53.5 percent.[3] Among the 100 metropolitan statistical areas with the largest black populations, Minneapolis-St. Paul-Bloomington, Minnesota, has the largest black-white homeownership gap (50 percent), while Killeen-Temple, Texas, has the smallest gap (14 percent). Black households are likely to face different barriers to accessing homeownership across geographies because of both past and present differences in local policies and institutions, as well as housing and labor market conditions and demographic compositions.

The variation across cities calls for advancing local solutions that are more in line with local conditions. Although housing prices have surpassed the 2006 peak, many homes in low-cost markets still sell for less than $70,000.[4] In these markets, many of which include large black renter populations, expanding access to small-dollar mortgage loans could help more black households gain access to affordable and sustainable homeownership. Access to small-dollar mortgages could help in markets with affordable housing stock in stable neighborhoods in cities like Cleveland, Ohio; Pittsburgh, Pennsylvania; Rochester, New York; and St. Louis, Missouri. Small-dollar mortgage financing programs can also help renters who want to transition to homeownership or help existing homeowners with renovation and repair financing to upgrade or modify their homes. Improving and increasing the use and reach of products such as the Federal Housing Administration's 203K renovation program or expanding access to the government-sponsored enterprises' purchase and renovation programs, particularly in black communities or highly distressed zip codes, could help improve and maintain local communities and home values. Some cities are experimenting with ways to make additional programs available through housing trust funds or tax incentive programs to directly address neighborhood-level issues. This strategic pillar will include place-based initiatives, new local products, and policies that can reduce local racial homeownership gaps. We will explore local housing supply constraints, mortgage product availability, home valuation trends, and local lending capacity through community development financial institutions, community development corporations, and other nonprofit and local lending sources. Understanding local resident credit and income profiles to gain insights into what might work at the local level can help us better understand local barriers. This work will require multiple variations and interventions and will not be a one-size-fits-all approach. In-depth local data analysis will allow us to best assess which levers will have the greatest local impact.

Here are some examples:

- Baltimore's Vacant to Value[5] initiative is one example of taking empty and dilapidated houses and using innovative approaches to address them.
- To address challenges in small-dollar financing, Philadelphia has launched a low-interest loan program[6] that will help residents fix aging homes.

The city of Rochester is poised for growth as our emerging knowledge economy, low cost of living, and outstanding quality of life continue to attract the attention of employers and young professionals. Our challenge is ensuring all of our residents benefit from this growth. Developing innovative solutions to overcome the barriers to black homeownership represents an opportunity to confront this challenge by helping our residents build a solid foundation of wealth that helps them navigate economic downturns, contribute to the vibrancy of their community, and invest in the success of future generations of their families.
—Mayor Lovely A. Warren, Rochester, New York

2. Tackle Housing Supply Constraints and Housing Affordability

High land and labor costs have constrained new housing construction and have driven up house prices over the past decade. The number of new housing starts in 2018 is below that of the 1960s,[7] when the US population was only about 55 percent of what it is today. Not only is housing inventory low, but the specific types and costs of homes that are in demand and the types and costs of homes that are being built are not well matched. As building costs increase, a greater portion of construction occurs at the higher end of the market, which does little to relieve constraints on housing supply at the lower end of the market and may increase prices in gentrifying neighborhoods. This makes it even more difficult for black homeowners, who often have lower incomes and fewer assets than their white counterparts, to find an affordable home.

Acknowledging the problem, some cities have taken bold actions to reform zoning and land-use regulations.[8] Factory-built housing production, like manufactured[9] and modular housing, could also increase homeownership affordability and supply. Contrary to common perception, recent research[10] highlights that some manufactured homes appreciate at similar rates as site-built homes. Manufactured housing has evolved and could be an affordable solution for helping black families get on the path to homeownership.

(3) Promote an Equitable Housing Finance System

Many roundtable discussants believe the current housing finance system needs to be reformed to serve all people and markets more equitably. Credit access tightened following the financial crisis. The median credit score for purchase mortgages in March 2019 was 732—higher than the median of 692 in 2000, a period of reasonable lending standards (Goodman et al. 2019). Because black families are more likely than white families to have lower credit scores or thin or no credit files because of historical structural barriers to accessing banking and credit products, mortgage credit has become more difficult to obtain for black households (Dey and Brown 2019). Lending disparities, residential segregation, and discrimination influence credit score disparities by race that persist today, pointing to deeper systemic considerations (Squires 2018). Although computer algorithms are increasingly responsible for credit decisions, there is a well-documented tendency (Brevoort, Grimm, and Kambara 2015) for these systems to disadvantage black households. In the current credit system, rent, cell phone, and utility payments are not incorporated into traditional credit score models used for mortgage underwriting. Including rental payment history[11] in credit scoring models or in the underwriting process in a more standard way could help more black households access credit without increasing default probability.[12]

New credit scoring also needs to address the racial biases embedded in the existing system. Recent studies show that black borrowers were more likely to be given high-cost mortgages during the housing market boom (Bayer, Ferreira, and Ross 2017), and both financial technology and traditional lenders are charging higher interest rates for black households (Bartlett et al. 2018) with financial records similar to those of white households. If financial institutions do not serve all communities in the market, inequities will continue.

Securing enough cash for closing and a down payment is another barrier to homeownership. More than half of renters view a down payment as the major obstacle to buying a home (Goodman et al. 2018). Also, many are unaware[13] of low–down payment mortgage options or local payment assistance programs. Increasing the visibility of and access to down payment assistance will especially benefit young black homebuyers, who are less likely to receive parental support when purchasing a home (Charles and Hurst 2002) than white young adults. Designing and implementing down payment and savings programs; making them easy to access through counseling, real estate, and lending professionals; and enhancing overall awareness of the available state, city, county, and federal programs would help black households and renters who could be first-time buyers access homeownership. New ideas that ensure priority and focus on funneling down payment capital to historically redlined communities will help ensure that needed capital and support are available in the places and to the people who need it most.

(4) Accelerate Outreach and Counseling to Renters and "Mortgage-Ready" Millennials

Millennials have significantly lower homeownership rates compared with young baby boomers and Gen Xers at the same age. The millennial homeownership rate is about 32 percent, which is 7 to 8 percentage points lower than the prior generation (Choi et al. 2018). Despite the low homeownership rate, a recent study by Freddie Mac[14] finds that, based on credit scores and debt-to-income ratios, about 33 percent of millennials are mortgage ready. More than 90 percent of these young adults can afford homes in the metropolitan statistical area where they live when the house prices for the market are considered. Although a smaller share of black millennials (about 20 percent) is mortgage ready, the study finds significant numbers of black young adults (more than 1.7 million black millennials in the 31 largest metropolitan statistical areas) have homeownership potential. Reaching out to these millennials will be critical to reducing racial homeownership gaps in the future.

Assuming that most mortgage-ready black millennials are renters, outreach that educates and counsels the upsides of homeownership to current renters should be a key part of the strategy. Because black households are significantly less likely to buy a home at an earlier age compared with white households,[15] the housing wealth gap will widen by retirement age if this trend continues. Helping black renters gain access and understanding of homeownership tools at an earlier age by providing such incentives as a first-time homebuyer tax credit or significant down payment assistance would provide black households greater opportunity to build future housing wealth.

This strategy will focus on engaging both national and local stakeholders—such as schools, real estate agents, housing counselors, faith-based organizations, and financial institutions—in working together to connect homeownership-ready renters to education and counseling resources on credit building, savings and reserve strategies, navigating the homebuying process, maintaining a home, accessing down payment assistance, and low–down payment lending programs to enhance access to affordable homeownership.

(5) Focus on Sustainable Homeownership and Preservation

Holistically addressing the net losses in homeownership rates for black households requires more than creating new black homeowners but sustaining existing black homeowners. Not only do black households have lower homeownership rates than white households, but they are less likely to sustain their homeownership. Our research[16] shows that among households who bought their first homes after age 44, only 9 percent of white households switched to rental housing, compared with 34 percent of black households. A substantially greater share of black homeowners experienced foreclosures (Bocian, Li, and Ernst 2010) following the 2008 housing market crisis. Failing to sustain homeownership directly affects future wealth. Homeowners who were not able to sustain their homeownership had significantly lower wealth[17] near retirement age. Helping black homeowners access and maintain homeownership can also reduce wealth inequality for future generations. Homeownership and housing wealth is transferred from parents to children—parental wealth and homeownership explains about 12 percent of the homeownership gap[18] between black and white young adults.

Research shows that postpurchase counseling and third-party representation lower a homeowner's likelihood of losing his or her home (Scally et al. 2019). Promoting healthy mortgage servicing[19] relationships and loss mitigation options is also effective, particularly where natural disasters pose a risk to sustainability. Many historically black communities have been developed in flood-prone areas in cities around the country, making risk of total loss from natural disaster quite high for black homeowners. Developing a measure for evaluating and mitigating foreclosure risk could also lead to early interventions to prevent foreclosure and substantial wealth losses.

Additional work is needed to develop tools and programs to support cost-burdened homeowners[20]—including black seniors or longtime homeowners—who live in volatile neighborhoods with the risk of increasing taxes and insurance costs or in homes that are aging and need significant renovations or repair. These rising costs could increase the risk of losing a home or being displaced. In addition, ensuring that mortgage servicing and foreclosure mitigation programs direct assistance to vulnerable homeowners experiencing qualified hardships is a key part of sustainability. Programs could be designed as an add-on to unemployment benefits, a tax credit, or an insurance or savings program provided through the mortgage process to help keep people in their homes.

As housing markets heat up and gentrify, black households are facing greater risk of displacement in many communities. Although empirical results are mixed because of data limitations and methodological challenges, several studies (Zuk et al. 2015) find that extensive gentrification is happening in major cities, and black households, especially those who are less educated, are especially vulnerable to displacement. Developing evidence-based early-warning systems of neighborhood displacement (Turner et al. 2019) could help local policymakers and community leaders take timely actions to prevent black households—both owners and renters—from losing their homes. Knowing displacement triggers and creating tools to identify and get ahead of them will go a long way toward enabling and sustaining homeownership among black households and is of concern particularly for black seniors, who have seen a steady decline in homeownership rates overall.

Fair Housing and New Technology Could Affect Success

As stakeholders take the next steps under each of these five pillars, two concerns should be acknowledged and addressed: fair housing and lending laws and new technologies. Even if action is taken in each of these pillars—local solutions are identified and implemented, housing supply is creatively and effectively increased, and key inequities are eliminated from the housing finance system—the gap will not close if fair lending and housing laws are not enforced and new technologies do not eliminate bias.

Our financial system is structured so that it disproportionally excludes borrowers of color. Technology has not improved the situation much because it has not been designed to correct inherent biases. But we can change that. We can build new technologies going forward that produce nondiscriminatory and fair outcomes. If we do not, black consumers will continue to be left out of the opportunity to build wealth.
—Lisa Rice, National Fair Housing Alliance

Fair Housing

Ensuring fair housing and fair lending compliance is imperative not only to address the racial wealth and homeownership gap but to effectively implement the five-point strategy outlined in this brief. Ample evidence suggests that structural barriers impede housing and credit access, and direct discrimination infringes on people's ability to access housing opportunities. There are more than 4 million instances of housing discrimination each year (Abedin et al. 2018). These illegal acts lock people out of housing in ways that affect them throughout their lives. For real progress to be made, fair housing goals must be included in policies, programs, and initiatives implemented at the local, state, and national levels. Supporting fair housing also includes equipping local fair housing organizations with the resources they need to work with stakeholders to enforce and ensure equitable housing markets.

Technology

The use of technology and data science methods in the housing and finance space is growing exponentially. Technology is being used to gain better efficiencies, improve systems, expand product delivery, and gauge consumer behavior. Data are used in myriad ways, including in the development of automated methods, artificial intelligence, and algorithm-based systems. Although data and technology can improve performance and efficiency and, in some cases, lower pricing and increase standardization, they can also be used in ways that produce adverse outcomes. If these systems do not control for the discrimination and inequities replete throughout our markets, we may trade human bias for algorithmic bias.[21] This is an issue because discriminatory technology can have serious fair housing implications.[22] As the real estate process and housing finance system continue to build out programs and develop products, policies, and systems, we must ensure that new technology, methods, and developments do not simply transfer inequities and exacerbate disparate outcomes.

The Work Ahead

Our framework is intentionally focused on addressing the black homeownership gap. These gaps also persist between other racial groups, and the priorities and interventions for each are unique. There is no one-size-fits-all intervention to solve racial inequity, and given the severe and continuously growing gap between black households and every other racial group, particularly since the housing collapse in 2008, and considering key differences in historical context, this framework puts focus on the most severe areas where gaps persist and works to build bridges for black homeownership as a first step.

The Urban Institute is celebrating its 50th anniversary in 2019 and is addressing ways to advance evidence and action on the critical issues of our time. One specific goal is identifying and advancing solutions that will close the racial homeownership gap (Turner et al) and move toward more sustainable, equitable, and accessible housing opportunities for households of color. The foundational planning work outlined in this brief establishes a framework for national and local stakeholders to advance this goal and develop concrete ideas and recommendations for measurable change.

As a next step, the Urban Institute will convene a national collaborative of dedicated public and private stakeholders committed to this issue. The goal will be to connect local and national partners to begin developing each of these five pillars and measuring progress. The black homeownership rate is the same today as it was 50 years ago when the Fair Housing Act was first passed. Changing this entrenched pattern and reducing the racial wealth gap will require a concerted, multiyear, multipartner effort with a shared vision and enormous commitment.

Notes

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[13] "What Do Consumers Know About the Mortgage Qualification Criteria?" Fannie Mae (slides), December 2015, http://www.fanniemae.com/resources/file/research/housingsurvey/pdf/consumer-study-121015.pdf.

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Acknowledgments

We express gratitude to the planning roundtable members who convened and reviewed research drafts and content on black homeownership. Thanks to the National Association of Realtors and National Association of Real Estate Brokers for their time and generous support of this planning effort.

Center for Responsible Lending
Nikitra Bailey
Mike Calhoun

Economic Policy Institute
Richard Rothstein

Federal Home Loan Bank of San Francisco
Dwight Alexander
Kevin Blackburn

Georgia State University
Daniel Immergluck

Hope Credit Union
Bill Bynum
Kiyadh Burt

Living Cities
Ben Hecht
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National Association of Real Estate Brokers
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Jeffrey Hicks
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Lydia Pope
Antoine Thompson
Donnell Williams

National Association of Realtors
Megan Booth
Jessica Lautz
Fred Underwood
Joe Ventrone
Sarah Young

National Fair Housing Alliance
Lisa Rice

Prosperity Now
Jeremie Greer

Quicken Loans
Chrissi Johnson
Jeremy Potter
Munt Alhussein

VantageScore
Barrett Burns
Phil Bracken

Wayne State University
James Carr

Wells Fargo
Raghu Kakumanu

Thank you

Special thanks to colleagues Ellen Seidman, Laurie Goodman, Todd Hill-Jones, and Sarah Strochak of the Urban Institute for their insights and feedback.

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