DISPARATE IMPACTS OF THE COVID-19 PANDEMIC ACROSS RACE AND ETHNICITY IN THE HOUSING MARKET

Statement of

Jung Hyun Choi*

Senior Research Associate, Urban Institute

before the

Committee on Financial Services,

United States House of Representatives

BOOM AND BUST: INEQUALITY, HOMEOWNERSHIP, AND THE LONG-TERM IMPACTS OF THE HOT HOUSING MARKET

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* The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

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500 L'Enfant Plaza SW
Washington DC 20024
urban.org

Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for inviting me to speak before you today about inequality in the housing market.

I am a senior research associate in the Housing Finance Policy Center at the Urban Institute, a leading research organization dedicated to developing evidence-based, nonpartisan insights that improve people's lives and strengthen communities. The views expressed in this testimony are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

My testimony today focuses on how long-standing racial and ethnic disparities in the housing market have worsened during the COVID-19 pandemic. Additionally, recent changes in the housing market environment—including rising interest rates, increasing home prices and rents, and tighter lending standards—are making it more difficult for households of color to obtain and sustain homeownership and are widening the racial wealth gap. Two promising demand-side strategies—better targeting down payment assistance and incorporating rental payment history into mortgage underwriting—could help the federal government address these disparities.

Large Racial and Ethnic Disparities in Homeownership Predate the Pandemic

Homeownership is the primary tool for building wealth in the United States, but households of color face greater barriers in accessing homeownership and difficulties sustaining homeownership. As a result, the median Black family has one-eighth, and the median Latino family has one-fifth, of the wealth that the median white family has.[1] Householders who buy their first homes earlier in life are more likely to have greater wealth when they reach their retirement age.[2] However, in 2019, only 23 percent of households headed by Black adults ages 25 to 40 were homeowners. This number has fallen by 11 percentage points since 2000 and is substantially lower than the rate for other racial and ethnic groups.

The overall Black homeownership rate was 42 percent in 2019, 30 percentage points lower than the white homeownership rate. This gap is larger now than in 1960 before the passage of the 1968 Fair Housing Act. Because of concentrated predatory lending practices in Black neighborhoods, Black households experienced the greatest drop in homeownership during the Great Recession and the slowest recovery afterward. The Latino homeownership rate was about 24 percentage points lower than whites in 2019, and the Asian homeownership rate was about 12 percentage points lower.

Even after controlling for income, the homeownership disparity remains. For all income ranges, homeownership rates for households of color lag behind white households (figure 1). In fact, for Asian households, we see a wider gap in homeownership rate once we control for income.

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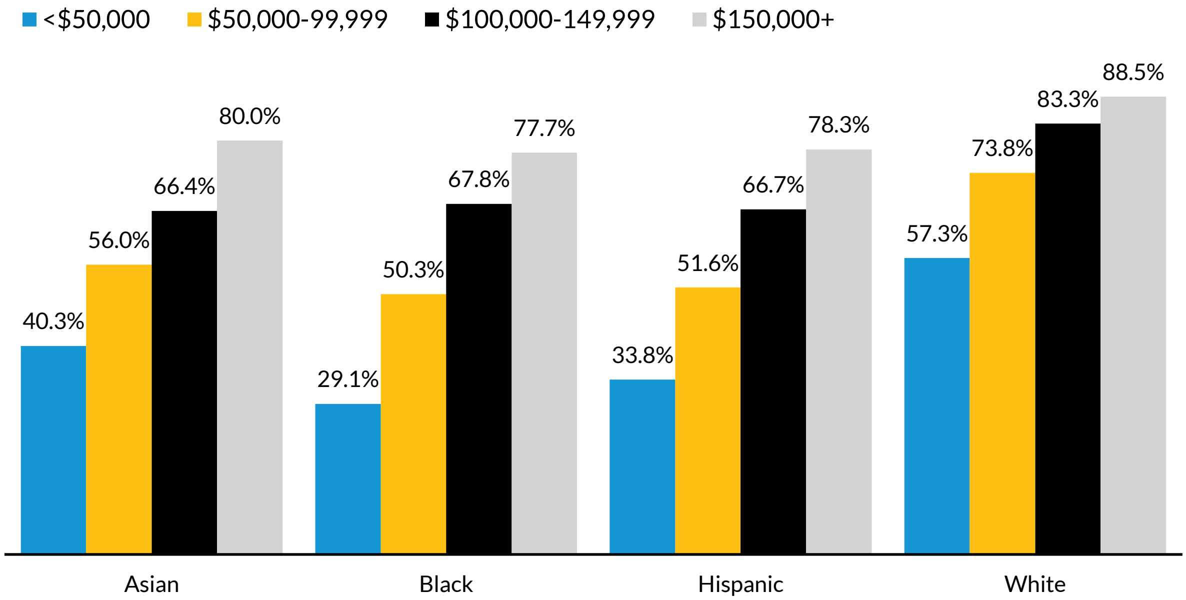
[1] Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes, Board of Governors of the Federal Reserve System, September 28, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm.

[2] Jung Hyun Choi and Laurie Goodman, "Buy Young, Earn More: Buying a House before Age 35 Gives Homeowners More Bang for Their Buck," *Urban Wire* (blog), Urban Institute, November 8, 2018, https://www.urban.org/urban-wire/buy-young-earn-more-buying-house-age-35-gives-homeowners-more-bang-their-buck.

FIGURE 1

Homeownership Rates by Income Group and Race/Ethnicity



Source: 2019 American Community Survey.

The higher mortgage denial rate for home purchase loans partially explains the racial disparities in homeownership. Black and Latino households are more likely to be denied home purchase loans. In 2020, almost a quarter of Black homebuyers were denied mortgages. About 18 percent of Latino households were denied. Again, Black households have a substantially higher mortgage denial rate than white households at all income levels. For example, the mortgage denial rate was 48 percent for Black households with incomes below 50 percent of area median income (AMI), compared with 29 percent for white households with similar incomes. For households earning more than 150 percent of the AMI, the home purchase mortgage denial rate for Black households was 12.5 percent while for white households it was only 5.3 percent.

These differences are just one outcome of long-term structural discrimination that Black households encountered when accessing and sustaining homeownership. Black households faced multiple explicit and implicit barriers as the housing finance system evolved,[3] and today, despite the visible improvement in fairness, the financial damage is still preventing Black households from becoming homeowners.

Goodman and Zhu (2021) project that unless well-designed intentional policies and actions are designed and implemented, the Black-white homeownership gap will remain unchanged in the next 20 years.[4] The Black homeownership rate is expected to decline to 41 percent by 2040, 30 percentage

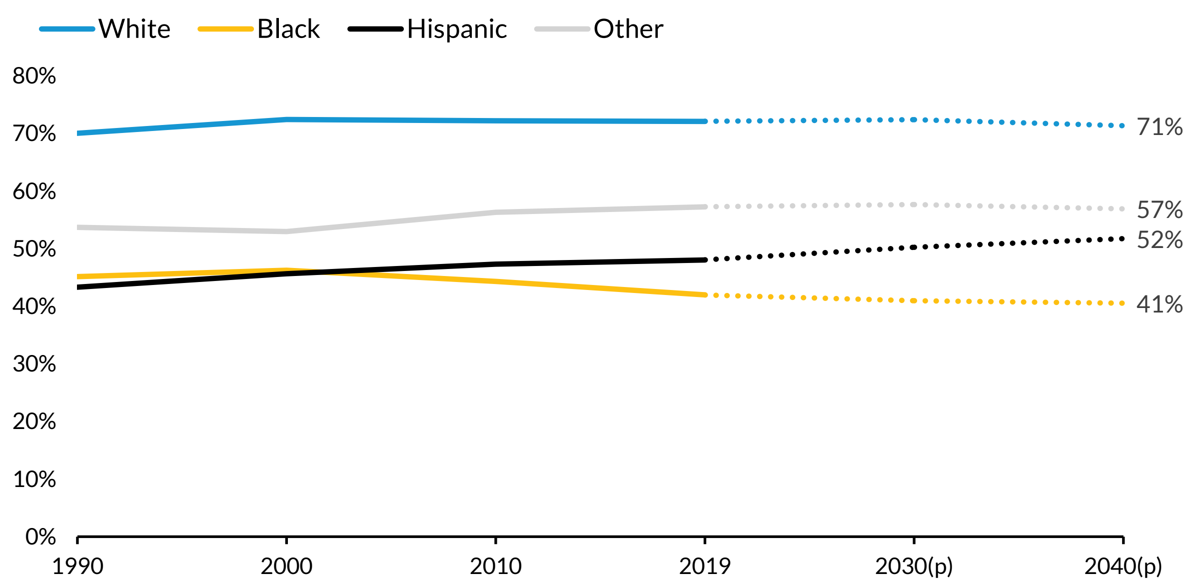
[3] See Alanna McCargo and Jung Hyun Choi, *Closing the Gap: Building Black Wealth through Homeownership* (Washington, DC: Urban Institute, 2020).

[4] See Laurie Goodman and Jun Zhu, *The Future of Headship and Homeownership* (Washington, DC: Urban Institute, 2021).

points below the white homeownership rate. Note that this analysis does not incorporate the effect of the COVID-19 pandemic, which disproportionately impacted households of color. The COVID-19 pandemic threatens to widen the racial homeownership and wealth gap as Black and Hispanic communities continue to suffer greater health and economic losses than white communities.

FIGURE 2

Historical Homeownership Rates and Projections for 2030 and 2040 by Race and Ethnicity



Source: Urban Institute estimates using decennial Censuses and American Community Survey data.

Homeowners and Renters of Color Were More Impacted by COVID-19

Thanks to various efforts by the government to help households stay housed during the COVID-19 pandemic, including forbearance and emergency rental assistance, both foreclosure and eviction rates fell below pre-pandemic levels. However, homeowners and renters of color were more likely to be missing their monthly housing payments, showing their greater vulnerability to macroeconomic changes.

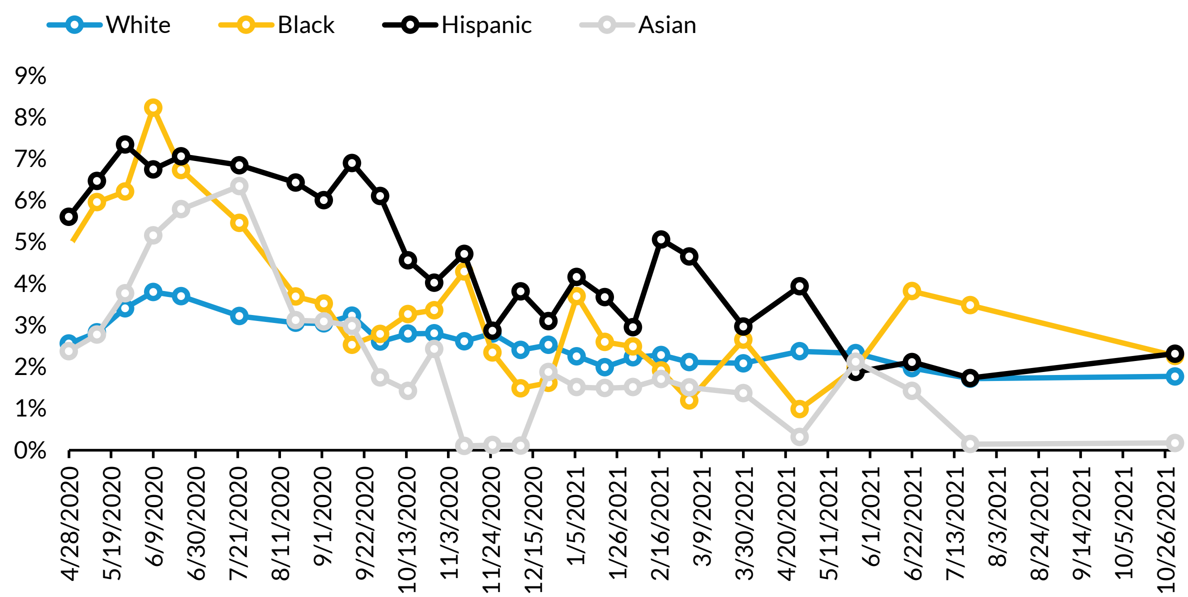
The University of Southern California's Understanding America Study (UAS) followed the same households from the outbreak of the pandemic through October 2021. Although the sample size is smaller than the Census Bureau's Household Pulse Survey, the UAS data have a significantly higher response rate (above 80 percent versus below 5 percent), and the housing payment data better align with large administrative datasets.[5] Unlike administrative datasets, UAS provides detailed demographic information that enables us to track housing payments across racial and ethnic groups.

[5] See Jung Hyun Choi, Laurie Goodman, and Daniel Pang, *Navigating Rental Payment and Eviction Data during the Pandemic* (Washington, DC: Urban Institute, 2022).

For homeowners, we find the share of Black and Latino households who missed their mortgage payment went up to about 7–9 percent in the early months of the pandemic. While the numbers came down over time as the economy improved and government benefits including stimulus checks and UI payments were distributed, Black and Latino households were still more likely to miss their mortgage payment than white households. (For comparison, the share of white homeowners missing monthly mortgage payments stayed between 2 and 4 percent throughout the pandemic.) Asian households also experienced a sharp increase in the share of missed rental payments in the summer of 2020 (over 6 percent), but this number sharply declined in August 2020 and remained low.

FIGURE 3

Share of Homeowners Who Missed Their Mortgage Payments by Race and Ethnicity, April 2020–October 2021



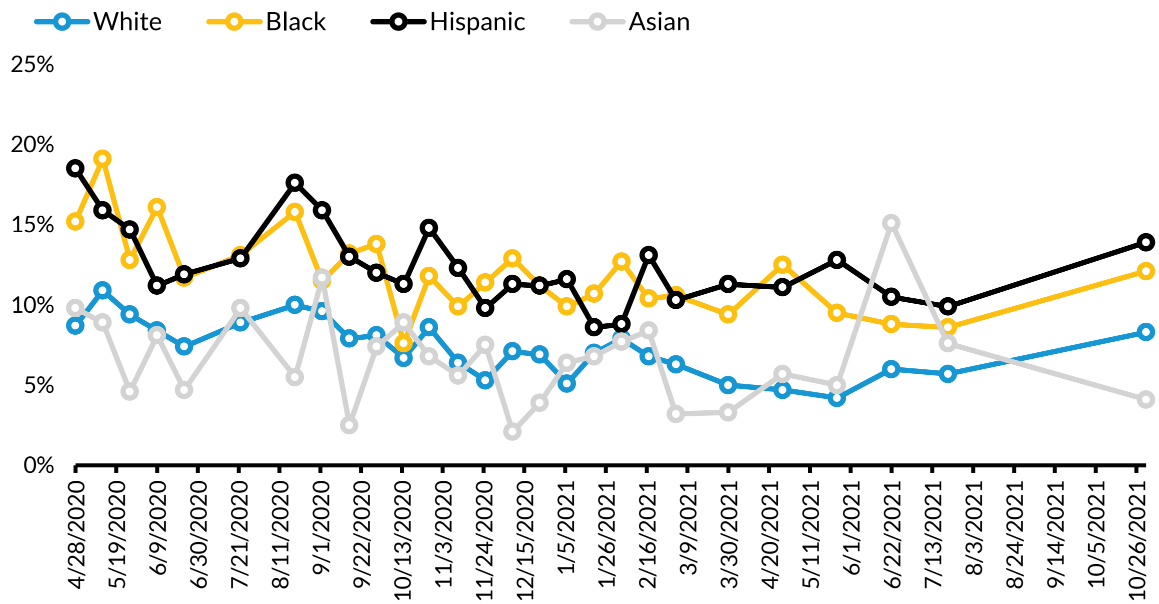
Source: Understanding America Study.

The share of renters who missed their housing payments is significantly higher than the share of homeowners. This is largely because renters, especially lower-income renters and renters of color, were more likely to work in industries such as food, accommodation, and other service jobs that were hit hard by the COVID-19 pandemic.[6] Black and Latino renters were more likely to miss their monthly rent payments than white renters (figure 4). Every month, between 15 to 20 percent of Black and Latino renters missed their rent. The numbers did go down a bit in late 2020, again reflecting the gradual economic recovery and various government interventions, including Emergency Rental Assistance.

[6] Mary K. Cunningham, Laurie Goodman, and Jung Hyun Choi, "Don't Overlook the Importance of Unemployment Benefits for Renters," *Urban Wire* (blog), Urban Institute, April 23, 2020, https://www.urban.org/urban-wire/dont-overlook-importance-unemployment-benefits-renters.

FIGURE 4

Share of Renters Who Missed Their Rent Payments by Race and Ethnicity, April 2020–October 2021



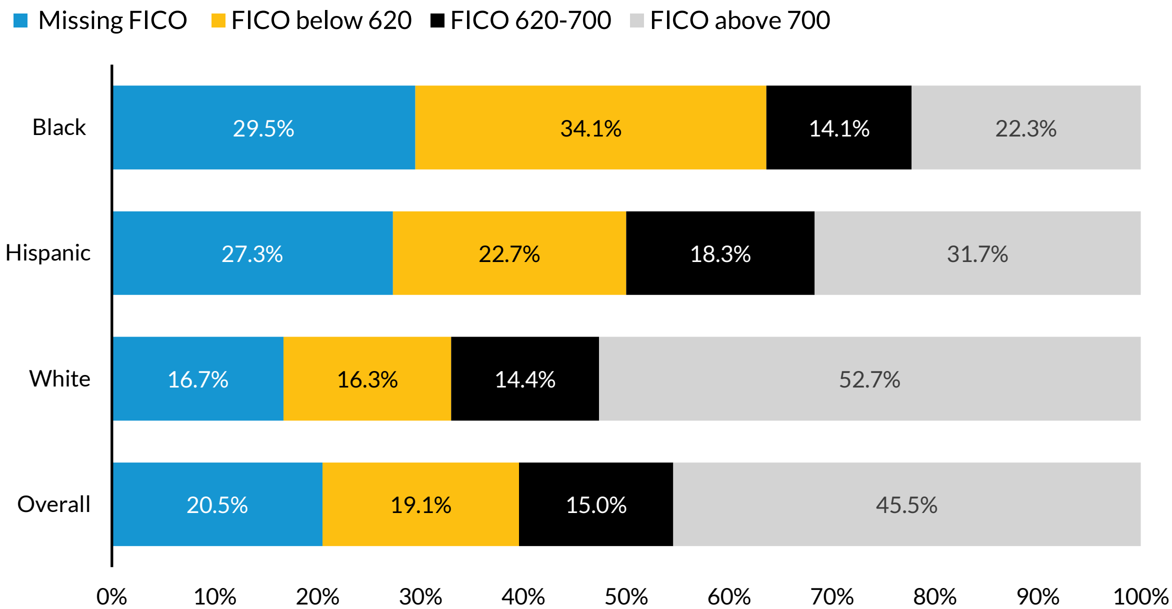
Source: Understanding America Study.

Following the Great Recession (and now again during the COVID-19 economic fallout), financial markets tightened credit, restricting lending and making it difficult for households with less-than-perfect credit to buy homes. Credit history, the most cited reason for mortgage denial, has a disproportionate impact on Black and Latino borrowers (figure 5). About 30 percent of Black adults do not have FICO scores, and about 34 percent have FICO scores below 620. For Latino adults, these numbers are 27 percent and 23 percent, respectively. Past discriminatory practices that denied communities of color access to financial services resulted in today's disparities in credit scores, making people of color less likely to satisfy lenders' credit requirements.[7]

[7] Liam Reynolds, Vanessa G. Perry, and Jung Hyun Choi, "Closing the Homeownership Gap Will Require Rooting Systemic Racism Out of Mortgage Underwriting," *Urban Wire* (blog), Urban Institute, October 13, 2021, https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting.

FIGURE 5

FICO Score Distribution by Race and Ethnicity



Source: 2018 credit bureau data obtained from Freddie Mac.

Tighter lending standards and disparities in credit scores mean that many Black and Latino renters who would have been able to obtain a mortgage under the prior credit standards were more likely to face greater difficulties accessing homeownership and benefiting from the lower interest rates and rising home prices of the past couple of years. This resulted in widening racial and ethnic wealth gaps.

Rising Home Prices, Rents, and Interest Rates Will Likely Disproportionately Harm Households of Color

Since the beginning of the pandemic, both home prices and rents have risen significantly. National home prices were 21 percent higher in March 2022 than a year ago, and rents were up by about 11 percent.[8] The 30-year fixed mortgage rate is now around 6 percent,[9] more than double the average rate in 2021. Increased competition in the market has also worsened prospects for buying a home, especially for households with few financial resources. The share of cash buyers has increased in recent months and currently accounts for more than a third of home purchases. Together with limited supply, the rise in competition has led to a drop in monthly active listings on sale and median days on the market (the time from when a property is listed to when the transaction is closed). From April 2018 to April 2022, the

[8] Diana Olick, "Home Prices Surged over 20% in March as Interest Rates Also Rose, According to S&P Case-Shiller," CNBC, May 31, 2022, https://www.cnbc.com/2022/05/31/home-prices-surged-in-march-as-interest-rates-also-rose-sp-case-shiller.html; Abha Bhattarai, Chris Alcantara and Andrew Van Dam, "Rents Are Rising Everywhere. See How Much Prices Are Up in Your Area," *Washington Post*, April 21, 2022, https://www.washingtonpost.com/business/interactive/2022/rising-rent-prices/.

[9] Diana Olick, "30-Year Mortgage Rate Surges to 6.28%, Up from 5.5% Just a Week Ago," CNBC, June 14, 2022, https://www.cnbc.com/2022/06/14/30-year-mortgage-rate-surges-to-6point28percent-up-from-5point5percent-just-a-week-ago.html.

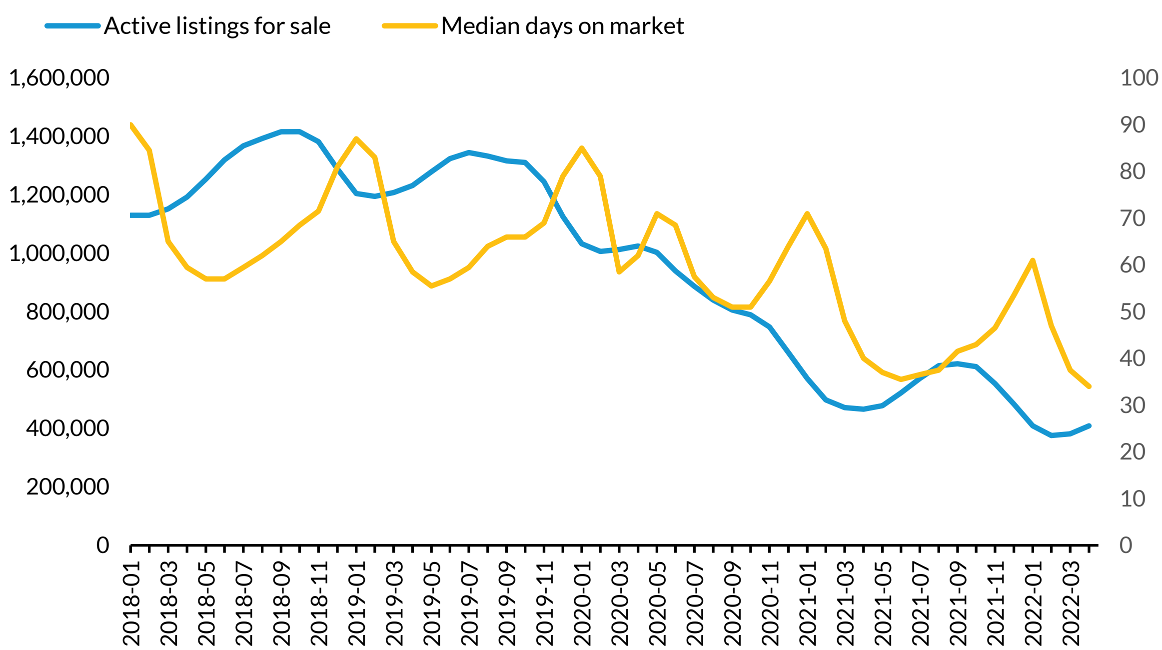
number of active listings on sale dropped 65 percent, and the median days on the market dropped 43 percent (figure 6).

These numbers indicate that households who remained as renters because of tight credit and limited supply will face greater challenges finding affordable homes to purchase. Homebuyers of color are more likely to purchase through FHA loans, but it has become more and more difficult for buyers using the FHA channel to compete with buyers with greater financial resources.[10] Additionally, because of the spike in rental prices, people who remain renters will have greater difficulties saving up for future down payments.

All these factors indicate that the racial homeownership and wealth gap will likely widen further unless we can quickly address the housing supply challenges and find innovative solutions to safely expand the credit box to households of color.

FIGURE 6

Active Listings and Median Days on the Market, January 2018–April 2022



Source: Realtor.com.

[10] Laurie Goodman, and Janneke Ratcliffe, "The Tight Housing Market Boxes Out Government-Insured Borrowers, Widening Homeownership Gaps," *Urban Wire* (blog), Urban Institute, June 16, 2021, https://www.urban.org/urban-wire/tight-housing-market-boxes-out-government-insured-borrowers-widening-homeownership-gaps.

How the Federal Government Could Help Households of Color Obtain and Sustain Homeownership

No single solution can bridge the persistent racial-ethnic homeownership gap. Multiple strategies and actions are needed from a collaboration of multiple stakeholders, including an increase in the affordable housing supply. Here I highlight two promising demand-side solutions that the federal government could consider to help households of color obtain and sustain homeownership.

Better Target Down Payment Assistance

Saving for a down payment is one of the greatest obstacles renters face to buying a home.[11] The challenge to come up with enough savings is especially significant for young adults of color whose parents cannot provide support through intergenerational wealth. My Urban colleagues and I find that young adults with homeowning parents are significantly more likely to be homeowners than those with parents who rent.[12] We also find that Black college graduates have a lower homeownership rate than whites who don't finish high school,[13] highlighting how the differences in family wealth affect young adults' access to a stable wealth-building opportunity.

There are many down payment assistance (DPA) programs in this country, and most impose income limits for borrowers' eligibility. However, income criteria alone are less effective in reaching Black and Latino families. Additionally, people of color are less likely to be homeowners across all income categories (see figure 1 on page 2), suggesting many of them, even with higher incomes, are struggling to access homeownership compared with white households.

My recent analysis with Janneke Ratcliffe finds that increasing income limits to 120 percent of AMI and targeting assistance to first-generation homebuyers—those who have been renters for the past three years and whose parents also rent—can increase the number of eligible Black and Latino borrowers more than imposing an 80 percent AMI limit alone. For a DPA program using an 80 percent of AMI criteria, 46 percent of the potential households are either Black or Latino households.[14] The first-generation DPA program increases the share of potential Black and Latino households to 64 percent.[15]

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[11] See Laurie Goodman, Alanna McCargo, Edward Golding, Bing Bai, and Sarah Strochak, *Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability–2018* (Washington, DC: Urban Institute, 2018).

[12] See Jung Hyun Choi, Jun Zhu, and Laurie Goodman, *Intergenerational Homeownership: The Impact of Parental Homeownership and Wealth on Young Adults' Tenure Choices* (Washington, DC: Urban Institute, 2018).

[13] Jung Hyun Choi and Laurie Goodman, "Why Do Black College Graduates Have a Lower Homeownership Rate Than White People Who Dropped Out of High School?" *Urban Wire* (blog), Urban Institute, February 27, 2020, https://www.urban.org/urban-wire/why-do-black-college-graduates-have-lower-homeownership-rate-white-people-who-dropped-out-high-school.

[14] See Nikitra Bailey, Tucker Bartlett, Mike Calhoun, Keith Corbett, Debby Goldberg, Deborah Momsen-Hudson, Lisa Rice, and Eric Stein, *First Generation: Criteria for a Targeted Down Payment Assistance Program* (Washington, DC: National Fair Housing Alliance and Center for Responsible Lending, 2021).

[15] Jung Hyun Choi and Janneke Ratcliffe, "Down Payment Assistance Focused on First-Generation Buyers Could Help Millions Access the Benefits of Homeownership," *Urban Wire* (blog), Urban Institute, April 7, 2021, https://www.urban.org/urban-wire/down-payment-assistance-focused-first-generation-buyers-could-help-millions-access-benefits-homeownership.

Incorporate Rental Payments into Mortgage Underwriting

Credit history is one of the most cited reasons for mortgage denials, but many households of color are credit invisible. According to FICO, about 53 million US adults cannot be scored under its classic models.[16] Almost 30 percent of Black adults do not have FICO scores, compared with 27 percent of Hispanic adults and 17 percent of white adults.

Rent and mortgage payments have a lot in common. Both are monthly payments for housing, so it is natural to expect a household that pays its rent on time would also make timely mortgage payments. And, according to an Urban Institute study, renters and homeowners at similar income levels have similar monthly housing payments.[17] Past mortgage payment history is a stronger predictor of future performance than credit scores.[18] Even for households with lower FICO scores, those who do not miss mortgage payments are significantly less likely to default on their mortgages in the subsequent two years. This finding suggests that including rental payments in mortgage underwriting can enhance predictability for mortgage performance.

The GSEs have started to explore ways to include rental payment history in mortgage underwriting. In August 2021, Fannie Mae announced that it would allow rental payments to be incorporated into mortgage applications for certain first-time homebuyers. Under the new standard, its Desktop Underwriter system will enable single-family lenders "to automatically identify recurring rent payments in the applicant's bank statement data to deliver a more inclusive credit assessment," with the applicant's consent. In November 2021, Freddie Mac entered into a contract with Esusu, a rental credit reporting company, to increase rental payment data into credit files for its new multifamily loans.

Because households of color are more likely to be renters and more likely to be credit invisible, they are more likely to benefit from including rental history payments in mortgage underwriting. Our analysis support this finding, even after incorporating the fact that households of color are more likely to miss their monthly rental payments. Currently, negative rental payment history is often reflected in credit files through collection or eviction efforts, but those who pay on time get no credit for doing so.

While the GSEs are moving in the right direction, much more work is necessary to facilitate the use of rental payment data in mortgage underwriting. This work includes encouraging more landlords to report rental payment data to credit bureaus; standardizing these data; expanding the use of rental payment data for underwriting at Fannie Mae; introducing its use at Freddie Mac, FHA and the VA; and providing guidelines to lenders on how to use these data in their underwriting process.

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[16] See FICO, "Expanding Credit Access with Alternative Data" (San Jose, CA: FICO, 2021).

[17] Laurie Goodman and Jun Zhu, "Rental Pay History Should Be Used to Assess the Creditworthiness of Mortgage Borrowers," *Urban Wire* (blog), Urban Institute, April 17, 2018, https://www.urban.org/urban-wire/rental-pay-history-should-be-used-assess-creditworthiness-mortgage-borrowers.

[18] Laurie Goodman and Jun Zhu, "Fannie Mae's Decision to Incorporate Rental Payments into the Mortgage Origination Process Will Expand Access to Homeownership Over Time," *Urban Wire* (blog), Urban Institute, August 12, 2021, https://www.urban.org/urban-wire/fannie-maes-decision-incorporate-rental-payments-mortgage-origination-process-will-expand-access-homeownership-over-time.

Our research shows that economic downturns can lead to even worse outcomes for individuals and families of color.[19] Many timely policies and actions amid COVID-19 kept people stay housed, and I hope our society could take the lessons we learned from the pandemic and create longer-term solutions to improve the economic health and resilience of vulnerable communities and families.

I appreciate your consideration of this testimony and welcome any future opportunity to share research and data with the Committee.

[19] See Michael Neal and Alanna McCargo, *How Economic Crises and Sudden Disasters Increase Racial Disparities in Homeownership* (Washington, DC: Urban Institute, 2020).

<u>Rep. Sylvia Garcia Submission for the Record</u>

- Thank you, Madam Chair, and thank you to the witnesses for being here today as we discuss this important issue.

- As we know, homeownership is an essential way for individuals and families to build generational wealth, both at home in my district and across the nation.

- Homeownership in my hometown of Houston is becoming more challenging, particularly for minority communities, largely because of an affordability issue.

- Home prices skyrocketed as demand did, creating an environment in which only the wealthiest could participate.

- Minority communities have historically been at a disadvantage in the housing market, due to issues of lending discrimination and predatory practices, family wealth disparities, and, more recently, institutional investments.

Question 1:

- First, I'd like to discuss the issue of lending discrimination with Dr. Choi. My district is majority Latino, and Latinos are 81% more likely than white homebuyers to be denied conventional lending. As a result, they must rely on Federal Housing Administration lending, which puts them at even more of a disadvantage as FHA borrowers face delays and competition from buyers who have conventional loans.

- How can we ensure that we are reaching all groups with responsible lending? Does the answer lie in reform to the FHA system or in tackling loan discrimination? How can we begin to address this lending equity gap that Latinos and other minority groups face?

Our research suggests that the answer to this question is: Both.

Although there is no single solution that will ensure all groups receive responsible lending, strengthening the FHA's role is a critical part of the solution. The FHA accounts for 34 percent of purchase mortgages to Latino borrowers (according to 2020 Home Mortgage Disclosure Act data) compared with just 14 percent for white borrowers, and when combined with US Department of Veterans Affairs (VA) loans, government-backed mortgages make up the largest share of purchase mortgages used by Latino borrowers in 2020 (43 percent). This compares with 41 percent of Latino borrowers' purchase mortgages financed through the government-sponsored enterprises (Fannie Mae and Freddie Mac). The recent increase in cash purchases (see our discussion of investors below) and seller unwillingness to accept offers from FHA-financed buyers[1] poses a direct threat to Latinos' home purchasing capacity. As noted below, increasing the flexibility of the FHA appraisal and property valuation requirements could address a key barrier for FHA borrowers.

Because of its low down payment requirements, smaller average loan balances, and more flexible underwriting rules, the FHA is an important option for first-time buyers of color. But, as our Housing Credit Availability Index shows, lenders in the government channel (and in the government-sponsored enterprise channel) have maintained tight credit since the Great Recession, below levels that were considered acceptable under the reasonable lending standards of the early 2000s.[2] These tightened guidelines make it harder for borrowers with low or nontraditional incomes and credit histories to qualify for mortgages. The more the FHA can facilitate the use of alternatives to credit scores and account for nontraditional sources of income, the more Latino households are likely to qualify. Enhancements and flexibilities in specific products, such as purchase-renovation lending, could further help first-time homebuyers. And generally strengthening the FHA through investments in systems and people could extend the reach of this important homeownership tool.

At the same time, it is important to address the systemic barriers that Latino households face across the mortgage cycle. The effects of historical racial and ethnic discrimination in housing remain prevalent, as many Black and Latino households have not had the opportunity to benefit from family wealth accumulated through intergenerational homeownership. In addition, they still face inequities in employment and in access to mainstream banking and credit resources that can help build positive credit histories. Efforts like special purpose credit programs[3] and first-generation targeted down payment assistance (DPA)[4] can level the playing field.

Urban Institute research underscores the importance of doing so. We project that, through 2040, the number of white homeowning households will fall and that all growth in homeownership will come from nonwhite households. Because of the large share of Latino households entering prime homebuying years over that period, researchers project Latino households are poised to constitute 70 percent of all net new homeowners. We find that "Hispanic households are the only group holding the homebuying ground," but without access to affordable homes and the credit to buy them, this outcome is far from certain.[5]

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[1] Laurie Goodman and Janneke Ratcliffe, "The Tight Housing Market Boxes Out Government-Insured Borrowers, Widening Homeownership Gaps," *Urban Wire* (blog), Urban Institute, June 16, 2021, https://www.urban.org/urban-wire/tight-housing-market-boxes-out-government-insured-borrowers-widening-homeownership-gaps.

[2] "Housing Credit Availability Index," Urban Institute, last updated August 8, 2022, https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index.

[3] See the website for the Special Purpose Credit Program Toolkit for Mortgage Lenders at https://spcptoolkit.com/.

[4] Jung Hyun Choi and Janneke Ratcliffe, "Down Payment Assistance Focused on First-Generation Buyers Could Help Millions Access the Benefits of Homeownership," *Urban Wire* (blog), Urban Institute, April 7, 2021, https://www.urban.org/urban-wire/down-payment-assistance-focused-first-generation-buyers-could-help-millions-access-benefits-homeownership.

[5] Laurie Goodman and Jun Zhu, "The Number of Hispanic Households Will Skyrocket by 2040. How Can the Housing Industry Support Their Needs?" *Urban Wire* (blog), Urban Institute, February 25, 2021,

Question 2:

- Further, I would like to discuss the issue of institutional home investments and iBuying. Dr. Chandan, Yesterday, the Subcommittee on Oversight and Investigations held a hearing entitled on private equity and single-family rentals. We discussed the ways that investment groups can use predatory practices, particularly in Texas and other Sunbelt states, to maximize profit at the expense of the wellbeing of tenants.
- How much has institutional homebuying contributed to rising home prices? And, how should Congress act to address this problem?
  The limited supply relative to demand has put upward pressure on home prices, and with historically low interest rates during the pandemic, the share of investors and cash buyers has increased, further elevating home prices. About a third of homes are bought by cash buyers,[6] and about 20 percent of homes in recent months were bought by investors.[7] These investors include individuals buying second homes and small mom-and-pop landlords, who typically own fewer than 10 units. According to Freddie Mae, large institutional investors and i-buyers account for only 4 percent of home purchases[8] and have a limited impact on home price increases.

  But, as I stated during the hearing, the impact of institutional investors on home prices is likely to vary across locations. For example, recent research in Atlanta[9] found that the rise in the share of institutional investors in the single-family market dampened the homeownership rate, while no such relationship was found for smaller investors. The research also found that Black households, who have fewer resources with which to compete for homeownership, were most likely to be pushed out. At the national level, Federal Reserve researchers found[10] that the increasing presence of institutional investors explains about half the increase in real home price appreciation rates between 2006 and 2014 and is mostly responsible for homeownership rate declines.

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https://www.urban.org/urban-wire/number-hispanic-households-will-skyrocket-2040-how-can-housing-industry-support-their-needs.

[6] Jung Hyun Choi, "Disparate Impacts of the COVID-19 Pandemic across Race and Ethnicity in the Housing Market" (Washington, DC: Urban Institute, 2022), https://www.urban.org/research/publication/disparate-impacts-covid-19-pandemic-across-race-and-ethnicity-housing-market.

[7] Lily Katz and Sheharyar Bokhari, "Investor Home Purchases Slump 17% from Pandemic Peak as Interest Rates Rise," Redfin, last updated June 22, 2022, https://www.redfin.com/news/investor-home-purchases-q1-2022/.

[8] Freddie Mac, "What Drove Home Price Growth and Can It Continue?" (McLean, VA: Freddie Mac, 2022), https://www.freddiemac.com/research/insight/20220609-what-drove-home-price-growth-and-can-it-continue.

[9] Brian Y. An, "Concentrated Home Purchasing by Institutional Investors: Who Gets Pushed Out of the Market?" (presentation given at the Atlanta Regional Housing Forum, Atlanta, GA, June 1, 2022), https://www.atlantaregionalhousingforum.org/_files/ugd/9bcf20_11f06a798a664f85b75fdba51f0df29c.pdf.

[10] Lauren Lambie-Hanson, Wenli Li, and Michael Slonkosky, *Institutional Investors and the U.S. Housing Recovery* (working paper, Federal Reserve Bank of Philadelphia, 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3494193.

Still, more research is needed to identify the size of the impact institutional investors have on home price increases. Institutional investors do bring benefits to the market, as they have greater capital to repair and renovate homes and improve quality.[11] Therefore, rather than directly targeting investor activity, it would be more realistic to implement policies to level the playing field between those who have greater financial resources to purchase homes and those who do not.

As interest rates rise, we are observing some cooldown in investor activity and a rise in the share of home purchases with FHA and VA loans, which a greater proportion of households of color and first-time homebuyers use for home purchases. But Congress could consider improving the government loan process so FHA borrowers can be more competitive even in heated markets. For example, the US Department of Housing and Urban Development (HUD) and the VA could consider adjusting appraisal requirements, which deter sellers from entertaining FHA buyers' offers and can derail transactions when they do accept them. HUD and the VA could also consider allowing for parties to renegotiate the price if the appraised value is less than the agreed-upon price, following the rules applied to conventional loans.[12]

Some are concerned that providing greater DPA could further increase home prices, but a well-targeted DPA program could help borrowers with fewer financial resources access homeownership; for many of these families, the lack of DPA is still the most common barrier to homeownership.[13] Congress could consider designing and implementing the first-generation DPA program[14] or providing clear guidelines for special purpose credit programs.[15]

Question 3:

- I also want to turn our attention to an issue inherent in this discussion but unfortunately too often left out. That is the issue of homelessness.

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[11] Laurie Goodman and Edward Golding, "Institutional Investors Have a Comparative Advantage in Purchasing Homes That Need Repair," *Urban Wire* (blog), Urban Institute, October 20, 2021, https://www.urban.org/urban-wire/institutional-investors-have-comparative-advantage-purchasing-homes-need-repair.

[12] Goodman and Ratcliffe, "The Tight Housing Market."

[13] Laurie Goodman, Alanna McCargo, Edward Golding, Bing Bai, and Sarah Strochak, *Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability—2018* (Washington, DC: Urban Institute, 2018), https://www.urban.org/sites/default/files/publication/99028/barriers_to_accessing_homeownership_2018_4.pdf.

[14] Choi and Ratcliffe, "Down Payment Assistance Focused on First-Generation Buyers."

[15] National Fair Housing Alliance, "NFHA and MBA Launch Online Toolkit to Help Lenders Develop Special Purpose Credit Programs for Underserved Communities," press release, June 21, 2022, https://nationalfairhousing.org/nfha-and-mba-launch-online-toolkit-to-help-lenders-develop-special-purpose-credit-programs-for-underserved-communities/.

- What remains unsaid in these discussions is that factors like foreclosures and predatory lending can – and too often do – result in homelessness for individuals and families.

- Dr. Choi, can you provide your thoughts on how we can ensure that those bearing the brunt of our nation's housing crisis do not end up on the streets? And, how can we make sure that homeless individuals have access to housing and ultimately to homeownership should they choose?

Foreclosures and predatory lending led many households to lose homes and significant housing wealth following the Great Recession. But in the current housing market, the lack of housing supply, especially affordable housing supply, is keeping many individuals and families from staying housed. Rental prices have risen significantly from a year ago, and our research finds[16] that even though many tenants are struggling to make ends meet, most landlords are planning to increase rent further.

Swift policy actions, such as unemployment benefits, emergency rental assistance, and the eviction moratorium, prevented the increase in eviction and homelessness amid the pandemic, but we need long-term policies to improve renters' financial health, prevent homelessness, and enhance homeownership opportunities. On the supply side, we need more affordable housing, which will take several policy actions, including reforming zoning and land-use regulations, providing financial incentives to developers to build more affordable homes, and expanding manufactured housing.[17] On the demand side, expanding housing choice vouchers to renters would help keep renters housed when facing economic shocks. Because of underfunding, only one in five renters[18] who qualifies receives vouchers. Our research found that both tenants and landlords have benefited from housing choice vouchers during the pandemic because they guarantee at least a portion of the rent being paid.[19]

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[16] Jung Hyun Choi, Laurie Goodman, and Daniel Pang, "Though Most Mom-and-Pop Landlords Plan to Raise Rent under Market Rates, Many Tenants Will Struggle Financially," *Urban Wire* (blog), Urban Institute, June 29, 2022, https://www.urban.org/urban-wire/though-most-mom-and-pop-landlords-plan-raise-rent-under-market-rates-many-tenants-will.

[17] Jung Hyun Choi and Daniel Pang, "Opinion: Without Real Solutions, Renters Will Continue to Be Worse Off," CNN Business, last updated July 22, 2022, https://edition.cnn.com/2022/07/22/perspectives/rent-home-prices-inflation/index.html?fbclid=IwAR0iBHVwcz2qPimIOfiBJ_ZIsF4_JH4ZbJg_PdXt_j9-bjYoLsLBnHw9vyU.

[18] Corianne Payton Scally, Samantha Batko, Susan J. Popkin, and Nicole DuBois, *The Case for More, Not Less: Shortfalls in Federal Housing Assistance and Gaps in Evidence for Proposed Policy Changes* (Washington, DC: Urban Institute, 2018), https://www.urban.org/research/publication/case-more-not-less-shortfalls-federal-housing-assistance-and-gaps-evidence-proposed-policy-changes.

[19] Jung Hyun Choi and Laurie Goodman, "Housing Vouchers Have Helped Tenants and Landlords Weather the Pandemic," *Urban Wire* (blog), Urban Institute, March 23, 2021, https://www.urban.org/urban-wire/housing-vouchers-have-helped-tenants-and-landlords-weather-pandemic.

Without long-term investments today, future economic downturns are likely to produce even greater social and economic costs.