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Black Homeownership

Using Data to Navigate the Road to Equity

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In 2019, the 30 percentage-point Black-white homeownership gap was larger than it had been in 1960, when overtly discriminatory practices and policies were allowed in home selling and financing. In the intervening years, the few policies and programs that sought to address this gap typically fell short by targeting income rather than directly addressing race.

The United States' long-standing racial homeownership gap needs to be reckoned with. In the past two years, increasing attention has been aimed at removing barriers that keep Black households from buying homes and sustaining homeownership. One of these efforts, the Black Homeownership Collaborative, set an ambitious goal to increase the number of Black homeowners by 3 million by 2030.

This brief offers a dashboard to guide stakeholders working to close the racial homeownership gap by increasing the number of Black homeowners. We analyze the latest data to understand whether progress was made in 2020 and 2021 and where more work is needed. We also highlight findings from the recently released *State of Housing in Black America* (SHIBA) report, which offers broader context (Carr and Zonta 2022).

In the Rearview

The pandemic and the ensuing economic turbulence resulted in generationally low interest rates, surging demand for homes, sharp home price increases, and a housing supply shortfall. At the same time, foreclosures largely stopped thanks to foreclosure moratoriums and forbearance for borrowers struggling to make payments. Over this period, the pandemic made it hard for the US Census Bureau to collect consistent data on housing occupancy.

The bureau's recently released 2021 data revealed an increase in the overall US homeownership rate from 2019 to 2020.[1] This increase, which took place across all racial and ethnic groups, was about 1.3 percent according to the comprehensive American Community Survey and was 0.9 percent according to the more volatile Current Population Survey/Housing Vacancy Survey.[2] Black and Latino households' homeownership rates increased more than that of white households, slightly narrowing the gap. These results suggest that many households of color received the benefits of low interest rates and foreclosure aversion policies.

TABLE 1

Changes in the Homeownership Rate, by Race or Ethnicity, from 2019 to 2021

	Black	Latino	White	Other	Total
ACS	2.0%	2.5%	1.2%	2.5%	1.3%
CPS/HVS	2.1%	0.9%	0.7%	1.9%	0.9%

Source: 2019 and 2021 data from the ACS and the CPS/HVS.

Notes: ACS = American Community Survey; CPS/HVS = Current Population Survey/Housing Vacancies and Homeownership Survey. For the CPS/HVS data, we calculated the annual homeownership rate by averaging the four quarterly numbers.

According to the ACS estimates, the number of Black homeowners increased by 261,855 from 2019 to 2021 to reach about 6.7 million total Black homeowners.

Increasing the number of Black homeowners requires that Black renters become owners and that Black owners remain homeowners. We look at how each of these contributed to the increase.

New First-Time Homeowners

Home Mortgage Disclosure Act (HMDA) data indicate that Black borrowers took out 299,093 mortgages to purchase homes in 2019 and 343,959 mortgages in 2021. (These data likely understate the actual number because they do not capture the 17.6 percent of loans where race was not reported. The data also do not include homes purchased for cash, which are unlikely to be for first-time homebuyers in any case.)

Not all these loans were for first-time homebuyers. Moreover, the data do not show the share of loans to first-time homebuyers by race. A Consumer Financial Protection Bureau study indicates that an average of 46 percent of purchase mortgage borrowers are first-time homebuyers in any given year (Wong and Herman 2020).[3] Applying the 46 percent rule to the HMDA purchases gives an estimate of 296,000 first-time Black homebuyers in 2020–21.

The National Mortgage Database (NMDB) created by the Federal Housing Finance Agency is a nationally representative 5 percent sample of residential mortgages in the United States. Aggregate data from the NMDB are published annually, presenting data by month, quarter, and year. The share of all home purchase loans for which one of the borrowers is a first-time homebuyer has been published since 2004. As of December 2021, the first-time homebuyer share was 49 percent. The NMDB collects information on borrowers' race and ethnicity, but it does not publish aggregated statistics of first-time homebuyer shares by race and ethnicity.

For the 2021 full-year data, the NMDB first-time homebuyer share was 51.1 percent. The NMDB estimated that at least 4.9 million loans were originated in 2021, 6.8 percent of which (or 325,548) were originated to Black borrowers, slightly below the HMDA count. If we apply the 51.1 percent first-time homebuyer share, we can conclude that roughly 166,373 home purchase loans were originated to Black borrowers in 2021. We can conduct the same calculation for 2020; the NMDB reported a 52.2 percent first-time homebuyer share, which means there were roughly 158,810 first-time Black homebuyers in 2020. This totals 325,183 new first-time Black homebuyers in 2020 and 2021. Although higher than the estimate from HMDA data, these estimates are similar.

Although the figure of around 300,000 new first-time buyers is based on rough estimates, it is consistent with the 261,855 net increase in Black homeowners based on the overall ACS results. The difference can be explained, in part, by Black households exiting homeownership, which we address in a later section.

Next, we look at data on first-time homebuyers.

Drivers of New Homeownership

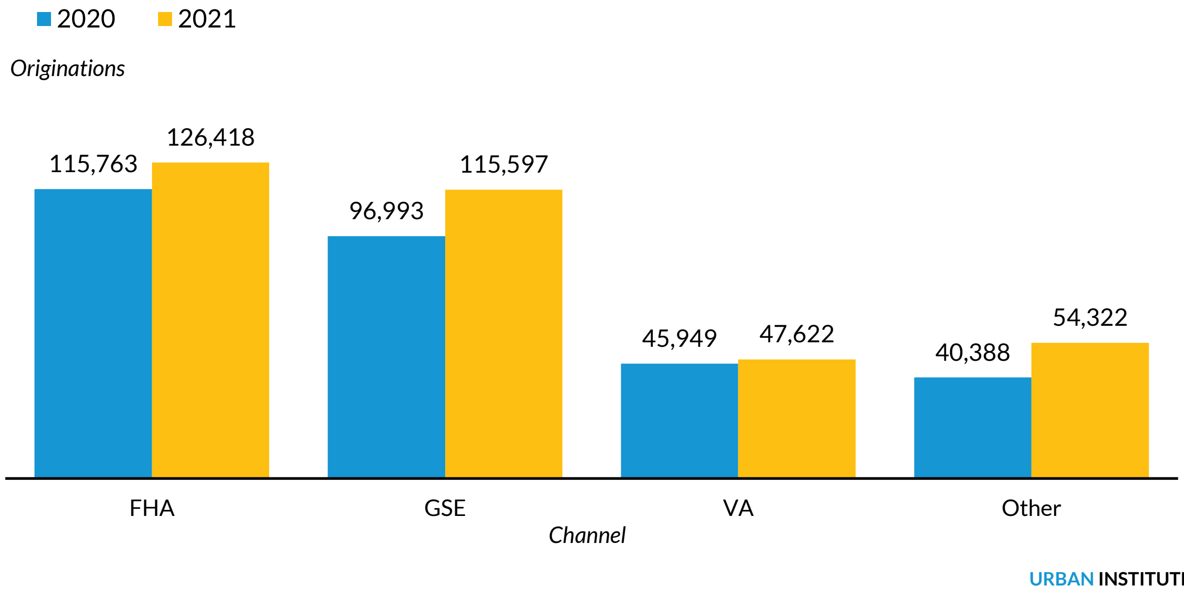
Channel

Federal Housing Administration (FHA) lending is critical to expanding Black homeownership. Loans guaranteed by the FHA, which make up 16 percent of all purchase loans in 2020 and 2021, made up the largest share of purchase loans by Black borrowers in both years (figure 1). Because the FHA's underwriting standards are less stringent than those for loans from Fannie Mae and Freddie Mac, the government-sponsored enterprises (GSEs), FHA-backed loans are more likely to be used by first-time homebuyers (68.6 percent of government-backed loans went to first-time homebuyers, according to the NMDB for 2021) who have, on average, less wealth and lower incomes than repeat buyers. FHA loans were an important force behind the increase in Black homeownership, even though many sellers refused to consider offers from FHA borrowers at the height of the pandemic homebuying frenzy.[4]

FIGURE 1

Home Purchase Mortgage Originations, by Channel

Black applicants, 2020 and 2021



Source: 2020 and 2021 Home Mortgage Disclosure Act data.

Note: FHA = Federal Housing Administration; GSE = government-sponsored enterprise; VA = US Department of Veterans Affairs.

Fifteen percent of FHA purchase loans in the two years were taken out by Black households, whereas only 4 percent of GSE purchase loans were. The share of VA-backed and other (portfolio, private-label securities, and "other") purchase mortgages that went to Black borrowers were 10.9 percent and 4 percent, respectively.

Mortgage Readiness

To qualify for a mortgage, applicants must meet certain income and credit requirements. Freddie Mac tracks the number of "mortgage ready" renters by race and income, nationally and by metropolitan statistical area. According to Freddie Mac, as of January 2021, 5.4 million Black people ages 45 and younger are potentially mortgage ready (3.4 million) or near mortgage ready (2 million) (Dey et al. 2021).

First-time Black millennial homebuyers were estimated to be the major generational contributor to the increase in Black homeownership rates in 2020 and 2021, but SHIBA warns that Black millennial homeownership still lags behind previous generations and behind millennials of other racial and ethnic groups (Carr and Zonta 2022, exhibit 33). As they near age 40, Black millennials have a homeownership rate that is about 10 percentage points lower than that of Black Gen Xers and baby boomers at the same age, and the rate is trending sharply downward. This trend, if it continues, could result in at least 900,000 fewer Black homeowners by 2040 than if younger Black renters achieved homeownership at the same rate as Black baby boomers.[5]

Black renters, on average, are more likely to have low or no credit scores and to have higher debt-to-income ratios. The main reasons Black loan applicants were denied in 2020 and 2021 were credit history and debt-to-income ratio, in that order.

Pandemic conditions eased both of these. Federal policies that held interest rates low meant that more households were able to afford the monthly payments needed to buy a home, easing the debt-to-income constraint. And Consumer Financial Protection Bureau researchers found that renters' credit scores improved during the pandemic, even more so than homeowners' scores (Dobre, Rush, and Wilson 2021).

Denial Rates

Black households who apply for a purchase mortgage are more than twice as likely as white borrowers to be turned down. In 2020, 24.6 percent of Black applicants were denied first-lien purchase loans versus 10.3 percent of white applicants. In 2021, those shares were 21.7 percent and 9.7 percent, respectively. In terms of number of homeowners, if Black applicants had had the same denial rate as white households in 2021, 56,394 more Black applicants would have been approved (assuming no applicants applied multiple times).

(Lack of) Affordable Starter Homes

Although low interest rates boosted first-time homebuying opportunities, a housing supply crunch, especially among starter homes, reduced those opportunities. Listings of homes for sale have been declining since 2015, especially affordable listings. In 2015, listings for homes under $350,000 made up more than 70 percent of all listings. As of September 2022, those homes account for just 36.5 percent of all listings, according to Realtor.com. In September 2022, only 14.2 percent of properties were affordable for people at or below the 30th percentile of the income distribution, according to Realtor.com.

The most affordable end of the market lacks both properties and financing. In 2020, while 13 percent of sales were for homes under $100,000, only 35 percent of these sales were financed by a mortgage compared with 82 percent of homes that sold for at least $100,000, indicating lack of mortgage financing in the small-dollar market (Zinn et al. 2022).

SHIBA reports that Black people are moving away from some of the most expensive cities and into more affordable areas. Census data show that Black people have migrated south from northern and western cities, perhaps for economic or labor reasons. In 2021, 64 percent of loan applications from Black applicants were submitted in the South, suggesting that this region, where government-backed lending dominates, is key to the future of Black homeownership. Among the cities with the largest Black populations, New York, Chicago, and Los Angeles have experienced Black population declines over the past decade, while Memphis, Dallas, and Jacksonville have had increases (Carr and Zonta 2022).

Competition from Investors

In 2022, investors bought about 25 percent of single-family homes, according to CoreLogic. According to Urban Institute analysis in 2021, most of the homes institutional investors bought need repairs, and institutional investors therefore have two competitive advantages over owner-occupants.[6] Investors can realize economies of scale when renovating several properties, and they can pay cash instead of the typically expensive and difficult-to-acquire rehabilitation mortgages most owner-occupants need. More than half the nation's housing stock was constructed before 1980; helping new owner-occupants access funds to acquire and repair older homes would unlock a large naturally affordable supply.

Sustaining Black Homeownership

Strategies to increase the number of Black homeowners also need to consider how to support and retain current Black owners. We look at foreclosure and delinquency patterns.

Foreclosures

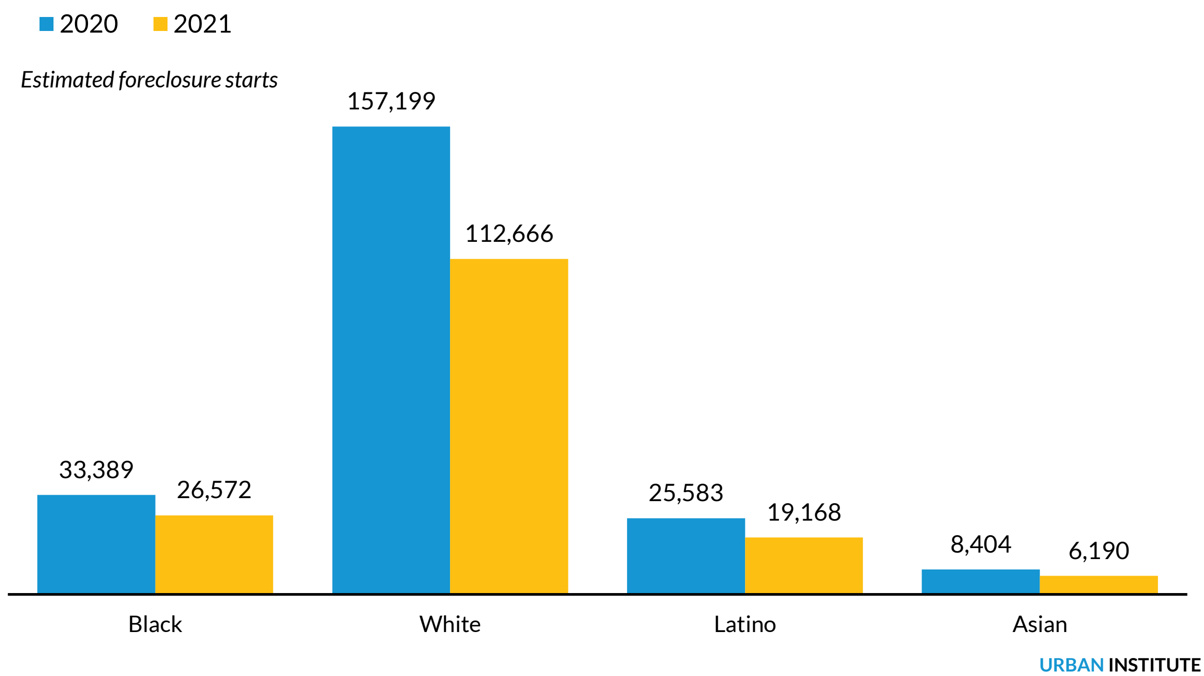
Although there is no public dataset that links active loans to borrower race or ethnicity, we weighted the numbers of foreclosures starts over the past two years by racial and ethnic composition of the zip codes where those foreclosures took place to estimate foreclosure counts by race and ethnicity (figure 2). We calculated roughly 60,000 estimated foreclosure starts in 2020 and 2021 for Black households (not all foreclosure starts result in foreclosures). This ballpark figure is generally consistent with our previous indicators of around 300,000 first-time homebuyers but just over a 260,000 increase in total Black homeowners.

We also found that the number of foreclosure starts decreased across all racial and ethnic groups from 2020 to 2021. Foreclosures were suppressed because of moratoriums and other interventions. Relative to 2019, 2020 estimated foreclosures were down by at least 54 percent and 2021 estimated foreclosures were down by at least 66 percent for all groups.

Forbearance protections during the pandemic likely improved homeownership sustainability among Black households, as forbearance take-up was higher among these households than among white households (Li and Ricks 2022).

FIGURE 2

Estimated Annual Foreclosure Starts, by Race or Ethnicity



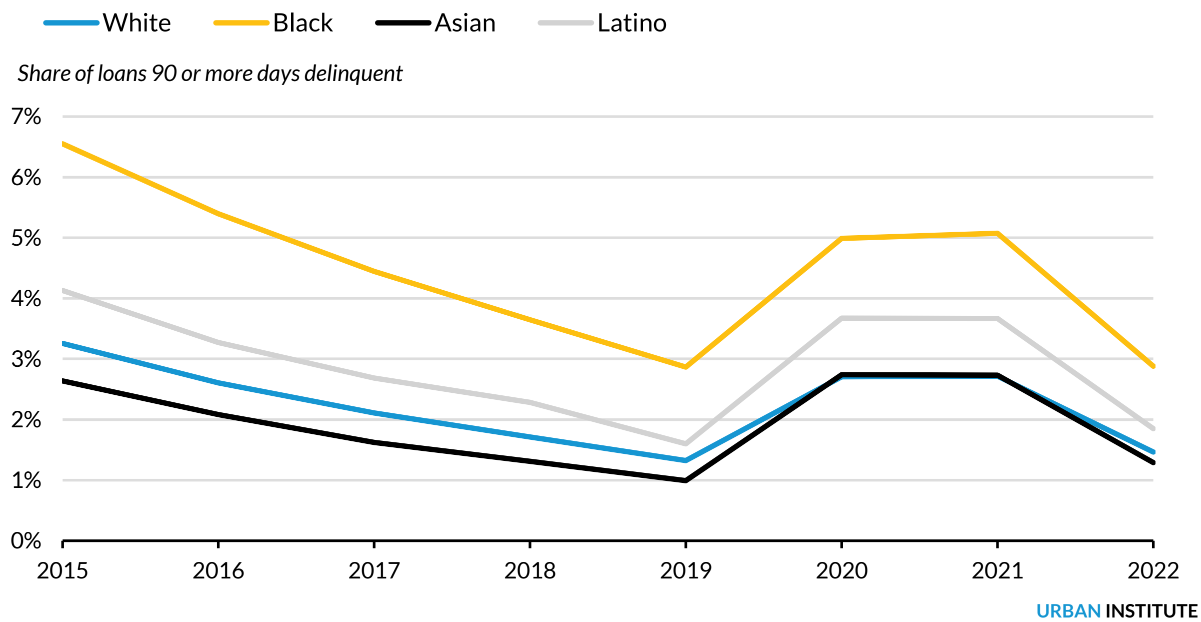
Sources: Black Knight market trends data, the American Community Survey, and Urban Institute calculations.
Note: Data are estimated using number of foreclosure starts by zip code, weighed by racial and ethnic composition within the zip code.

Serious Delinquency

Figure 3 shows the relatively high delinquency rates experienced during the pandemic, weighted by zip code racial and ethnic composition, further suggesting that federal forbearance policies played a crucial role in preventing sizeable losses of Black and Latino homeowners (which was not the case during the Great Recession).

FIGURE 3

Estimated Delinquency Rates, by Race or Ethnicity



Sources: Black Knight market trends data, the American Community Survey, and Urban Institute calculations.
Note: Data are estimated using average monthly delinquencies by zip code and weighed by racial and ethnic composition.

Navigating the Road Ahead

There is much to celebrate in the progress made over the past two years, especially considering the economic challenges the pandemic brought to all households, and to Black and Latino households in particular, who were more likely to be employed in sectors hit hardest by the shutdowns[7] and who experienced high rates of COVID-19 exposure.[8] Additionally, the highly competitive seller's market advantaged repeat buyers, cash buyers, and buyers with greater means to take advantage of the situation. That there are 260,000 more Black homeowners today than there were two years ago is a remarkable achievement.

And yet, getting 2.7 million more families to own homes, which would put the Black homeownership rate over 50 percent for the first time (given expected population and household formation rates), will require more than good timing, marginal gains, and programs that are small or poorly targeted.[9]

Moreover, prevailing conditions have changed dramatically. Interest rates have more than doubled, and home prices remain high, though they are softening. Looking at some of the indicators and factors above, we highlight implications for both new and existing buyers.

New First-Time Homebuyers

Recent reports suggest that first-time homebuyer activity has dropped sharply. According to the National Association of Realtors' 2022 Profile of Home Buyers and Sellers, the share of first-time homebuyers was 26 percent in 2022, the lowest since the National Association of Realtors began tracking these data in 1981.[10] This is the first-time buyer share of all homes, not just those with mortgages, so we would expect that this share would be lower than the Consumer Financial Protection Bureau and NMDB shares we previously cited.

This is not surprising. Home prices are still elevated relative to 2019, and interest rates are higher than even before the pandemic; unaffordability is a serious headwind. As of September 2022, the share of median income needed for a monthly median mortgage payment with 20 percent down was 31.2 percent, higher than the share at the peak of the housing bubble in November 2005 (Goodman et al. 2022). The same is true for the share of median income needed for a median payment with 3.5 percent down. These numbers show a severe worsening in affordability. Inflation is also positively correlated with home price appreciation, so the unaffordable environment may worsen before it gets better. Even further, historical data show that when interest rates rise by more than 150 basis points in one year, home price affordability is likely to decrease.

Meanwhile, rents have risen, limiting renters' ability to save for down payments. Still, for the lowest 25th percentile of recent homebuyers, housing payments remain just below median asking rents nationwide. In September 2022, the Mortgage Bankers Association (MBA) mortgage-payment-to-rent ratio was 1.46, the highest it has been since 2009.[11] National median asking rent increased, but the doubling of mortgage interest rates since 2020 kept the median mortgage payment relatively more expensive. But the ratio between the 25th percentile mortgage payment and the median asking rent was 0.95, indicating that mortgage payments were still (barely) below median asking rents. The MBA suggests that the 25th percentile ratio may be more suitable for estimating first-time homebuyers.

Mortgage requirements have been tight since the foreclosure crisis.[12] We estimate that 1 million households have been shut out each year since the crisis, compared with the standards that prevailed in 2001, before the shoddy loans and lax standards of the 2005–06 period.[13] More flexibility with respect to credit score cutoffs and ways to demonstrate ability to maintain regular payments would be particularly effective, as credit scores and predicted default likelihood disproportionately prevent Black households from attaining homeownership. According to the SHIBA report, Black people have the lowest average credit score of all racial and ethnic groups, with an average score of 677 compared with 734 for white people (Carr and Zonta 2022). But lower credit scores for Black borrowers reflect a broken and exclusive credit scoring system more so than they reflect a noncreditworthy population.

There are promising trends toward including positive rental and utility payments into the credit assessment. Our own research estimates the potential of incorporating alternative credit data (Choi et al. 2022). One study found that adding even 12 months of positive rental payment data could increase credit scores by 8.9 percent for consumers with scores below 600 and by 9.4 percent when 24 months were included. We also found that a disproportionately high share of Black and Hispanic households denied on their mortgage applications in 2020 could be reapproved if 12 months of positive rental payments were included in the underwriting. Such findings illustrate how poor our current credit scoring system is for so many potential borrowers. Black and Hispanic households denied mortgage applications because of inadequate credit may have new opportunities as rental and utility payment data are included in underwriting, not because they demonstrate more creditworthy behavior but because they are finally able to gain a foothold in a system built to exclude them.

Black applicants also continue to have higher loan failure rates than white applicants, defined in SHIBA to include loans the lender has approved but the borrowers has not accepted or withdrawn or incomplete applications in addition to denials. In 2021, the loan failure rate for Black applicants was 33 percent compared with 22 percent for white applicants (Carr and Zonta 2022), indicating there are barriers within the mortgage application process that disproportionately affect Black applicants.

Interestingly, since the Great Recession, the number of mortgage applications from Black female applicants has increased alongside originations (Carr and Zonta 2022). In 2021, there was a 14 percent increase in applications from Black female prospective borrowers. Female applicants represent the largest segment of Black applicants overall, though the inverse is true among white applicants. To increase Black homeownership, especially through new homebuyers, our mortgage application process needs to be more tailored and accessible to women.

The affordable housing supply has continued to decrease in recent years. As of September 2022, only 36.5 percent of active listings were listed for less than $350,000, according to data from Realtor.com.

Investor responses to higher interest rates and weaker values has yet to come into focus. According to CoreLogic data from the third quarter of 2022, investor purchases reach a record high since 2011 in February, reaching 28 percent of all single-family purchases, and stood at 26 percent for September.[14] CoreLogic's data also showed that investors tend to operate in less expensive parts of metropolitan statistical areas, which increases competition for first-time homebuyers, who may look for more reasonably priced homes in the same area. Should investor interest weaken, there may be greater opportunities for first-time buyers or bulk purchases from existing investors by cities and community-based organizations.

Sustaining Existing Black Homeowners

Delinquency rates are down to near prepandemic levels (figure 3). We estimate that as of June 2022, approximately 3 percent of Black borrowers, or roughly 200,000 Black homeowning households, were seriously (90 or more days) delinquent. As foreclosure moratoriums and pandemic relief tools expire, we expect an uptick in foreclosures. Historically, this has meant disproportionately more home loss among Black and Latino households.

According to MBA data, the share of loans that are 90 or more days delinquent or are in foreclosure declined in the third quarter of 2022 to 1.87 percent (Goodman et al. 2022). This is down year over year but remains high overall and is getting closer to prepandemic levels: 0.56 percent of loans were in foreclosure at the end of the third quarter of 2022, down from the second quarter but 10 basis points higher than at the same point the year before.[15]

Foreclosure starts have been below 0.7 percent since the beginning of the pandemic. Forbearance rates peaked at 8.55 percent in June 2020 but declined to 2.06 percent at the end of October 2021, according to the MBA's weekly survey conducted during the pandemic. At the end of October 2022, the total forbearance rate according to the MBA's monthly survey was 0.7 percent, with GSE loans having the lowest forbearance rates (Goodman et al. 2022).

The annual foreclosure rates from 2015 to 2019 averaged around 2 percent. Recent estimates for 2022 put the national foreclosure rate close to 1 percent. To return to the prepandemic foreclosure rate, foreclosures would need to more than double.

Moreover, falling interest rates in 2020 and 2021—and over the past four decades—made it easier to reduce the rate on a loan when a borrower needed relief, as part of a restructuring. Now that prevailing rates are higher than the rate on most existing loans, this restructuring tool is no longer available. New strategies could help keep more borrowers in their homes.[16]

Applying lessons from the pandemic by making forbearances a more automatic and permanent part of the foreclosure prevention waterfall will prevent many potential foreclosures (Alexandrov, Goodman, and Tozer 2022). As of May 2022, the Federal Reserve Bank of Philadelphia reported that 92 percent of the 8.68 million borrowers who had entered forbearance since March 2020 had so far avoided foreclosure or redefault.

Proceeding with Caution and with Intention

Given softening home prices, high interest rates, and the macroeconomic outlook, there are questions about whether this is the right time to become a homeowner, particularly for financially vulnerable households. Certainly, homeownership is a long-run wealth-building mechanism that can help people weather future financial crises, but the risks should also be considered. Prospective homebuyers need ample information and a realistic understanding of their mortgage terms to make the right financial choices for themselves and their families, and this is especially important for first-time homebuyers and first-generation homebuyers, who are disproportionately Black. The policy choices made during the pandemic showed that it is possible to make homeownership safe and sustainable even during severe crises, but lawmakers need to invest in these policies for them to work.

Furthermore, it is important to consider the growing threat of climate change, particularly in Black communities, which are disproportionately affected by environmental hazards and natural disasters (Carr and Zonta 2022). The effects of climate change affect home values in areas vulnerable to disasters and climate drift. Legislation to protect against climate change and to regulate the safety and sustainability of all homes could protect the future of Black-owned homes and ensure that encouraging Black homeownership is not pushing Black people onto a sinking ship.

Better Data to Guide the Work

More current and more granular data that include race and ethnicity could better guide efforts to advance homeownership for households of color. This is particularly true at the local level, where strategies can be tailored to each market's particular dynamics. Much of this information is not publicly available and instead resides within federal housing agencies.

Some of the most valuable top-line metrics, reported quarterly if possible, at both the national and metropolitan statistical area levels, by channel, **by household and census tract race and ethnicity**, would include

- share and number of first-time homebuyers;
- share and number of seriously delinquent borrowers;
- share and number of workouts (e.g., forbearances, repayments, and modifications), foreclosures, deeds in lieu of foreclosure, distressed sales, and exits from homeownership (which may be estimated by tracking whether borrowers who pay off their loan acquire another mortgage);
- purchase loan applications withdrawn or denied, by reason;
- applicants using formal down payment assistance programs;
- all-in costs of mortgage financing;
- summary characteristics of applicants and borrowers using data not available in public HMDA data; and
- credit trends among renters.

Because these data reside within the GSEs and public-sector datasets that are not accessible to nongovernment researchers, we urge these agencies to regularly provide these data as a more accurate dashboard for all stakeholders. The agencies should also provide more access to more granular data. Technologies and techniques exist that can enable such access for public-facing research while preventing privacy violations. We suggest a working group that includes these agencies, academic and nonprofit researchers, and consumer advocates to identify the best ways to safely use the rich storehouse of government data in service of equity. Such exploration should not be limited to the existing data but should consider what additional data need to be collected and shared.

Making such data publicly available would provide opportunities for independent researchers to gain and share insights. We applaud recent releases of appraisal data by the Federal Housing Finance Agency, which have already generated important independent researcher findings (Howell and Korver-Glenn 2022). This is an excellent demonstration of how giving independent researchers access to deeper data can uncover racism and inform remedies, but it is just a first step.

Beyond this, public data are necessary to understand where current and prospective Black homeowners stand and what policy changes can most increase Black homeownership numbers at local, state, and federal levels. Good data will help researchers, advocates, and policymakers hold one another accountable. When we are all on the same page regarding the facts, we can work together to craft sustainable solutions.

Notes

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Errata

This brief was corrected January 31, 2023. A previous version of the opening sentence incorrectly described the size of the Black-white homeownership gap.

About the Authors

Janneke Ratcliffe is vice president for housing finance policy at the Urban Institute. She joins the Housing Finance Policy Center's leadership team to manage execution of the center's mission. Over a career that spans industry, the nonprofit sector, academic research, and the federal government, her work focuses on increasing access to financial systems that foster economic security and prosperity. Ratcliffe came to Urban from the Consumer Financial Protection Bureau, where she served as assistant director, leading its Office of Financial Education. Previously, she was the executive director of the University of North Carolina Center for Community Capital, leading "transformative research on how mortgage markets and financial services can better promote financial security and economic opportunity." Ratcliffe has also served at GE Capital Mortgage, the Center for American Progress, and Self-Help, where she was instrumental in high-impact programs in affordable and Community Reinvestment Act mortgages and community development finance. Ratcliffe serves on the Consumer Affairs Advisory Council of the Mortgage Bankers Association, and she is a member of the National Community Stabilization Trust Board of Managers. She is a graduate of the University of North Carolina at Chapel Hill, where she studied economics and French.

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