



Closing the Homeownership Gap: New Wealth-Building Tactics from across the Country

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July 11, 2024

The Need for Innovation to Help Close Racial Homeownership Gaps

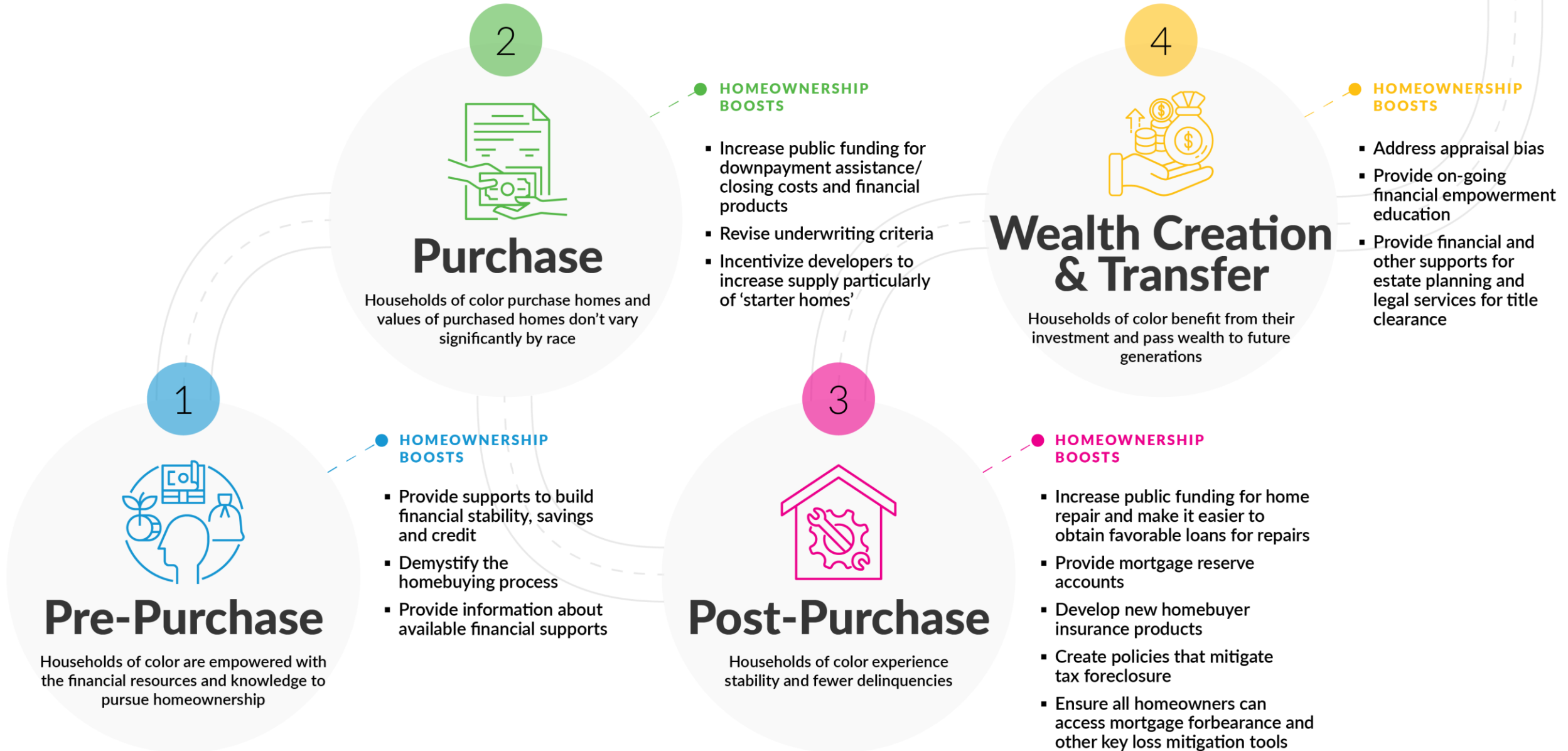
Housing Innovation Program



Michael Neal
Senior Fellow, Housing Finance Policy Center
Urban Institute

Wealth Building through Homeownership:

Supports for Households of Color along the Homebuyers Journey



1



Pre-Purchase

Households of color are empowered with the financial resources and knowledge to pursue homeownership

HOMEOWNERSHIP BOOSTS

- Provide supports to build financial stability, savings and credit
- Demystify the homebuying process
- Provide information about available financial supports

2



Purchase

Households of color purchase homes and values of purchased homes don't vary significantly by race

HOMEOWNERSHIP BOOSTS

- Increase public funding for downpayment assistance/closing costs and financial products
- Revise underwriting criteria
- Incentivize developers to increase supply particularly of 'starter homes'

3



Post-Purchase

Households of color experience stability and fewer delinquencies

HOMEOWNERSHIP BOOSTS

- Increase public funding for home repair and make it easier to obtain favorable loans for repairs
- Provide mortgage reserve accounts
- Develop new homebuyer insurance products
- Create policies that mitigate tax foreclosure
- Ensure all homeowners can access mortgage forbearance and other key loss mitigation tools

4



Wealth Creation & Transfer

Households of color benefit from their investment and pass wealth to future generations

HOMEOWNERSHIP BOOSTS

- Address appraisal bias
- Provide on-going financial empowerment education
- Provide financial and other supports for estate planning and legal services for title clearance

Households of Color Are Less Likely to Own a Home, Build Housing Wealth, and Receive an Inheritance

	Black	Hispanic	Other	White
Homeownership Rate	46%	49%	58%	74%
Median Housing Equity Share of Home Value	70%	63%	68%	77%
Share Receive an Inheritance	8%	6%	11%	28%

Sources: Housing Vacancy Survey and 2022 Survey of Consumer Finances.
Note: Housing Vacancy Survey calculations are an annual average over the four quarters of 2023.

Key Disparities Experienced by Households of Color

Building Savings and Credit

- Fewer financial resources
- Lower or missing credit scores

Equitable Financing

- Higher denial rates
- Less equity at closing suggesting smaller down payments

Sustaining and Benefitting from Homeownership

- Living in physically inadequate housing
- Less housing equity

Passing Wealth to Future Generations

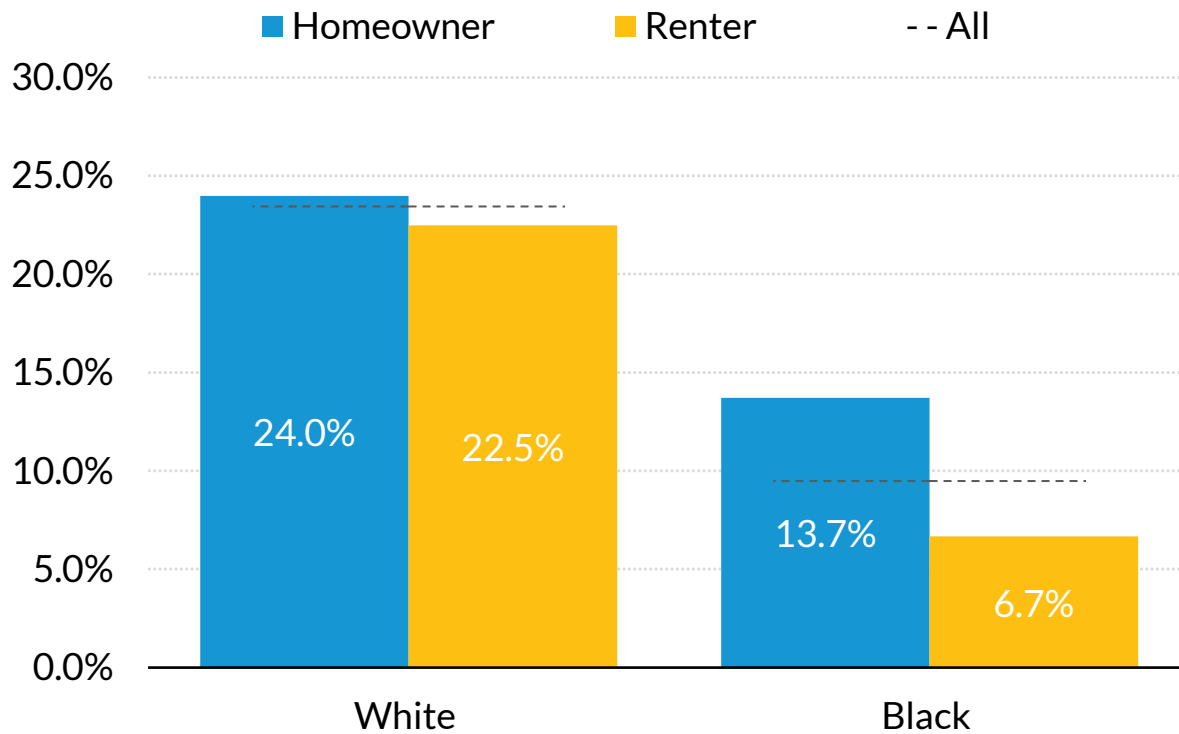
- Less likely to have a will
- Less likely to receive an inheritance

What Can Public Policy Do?

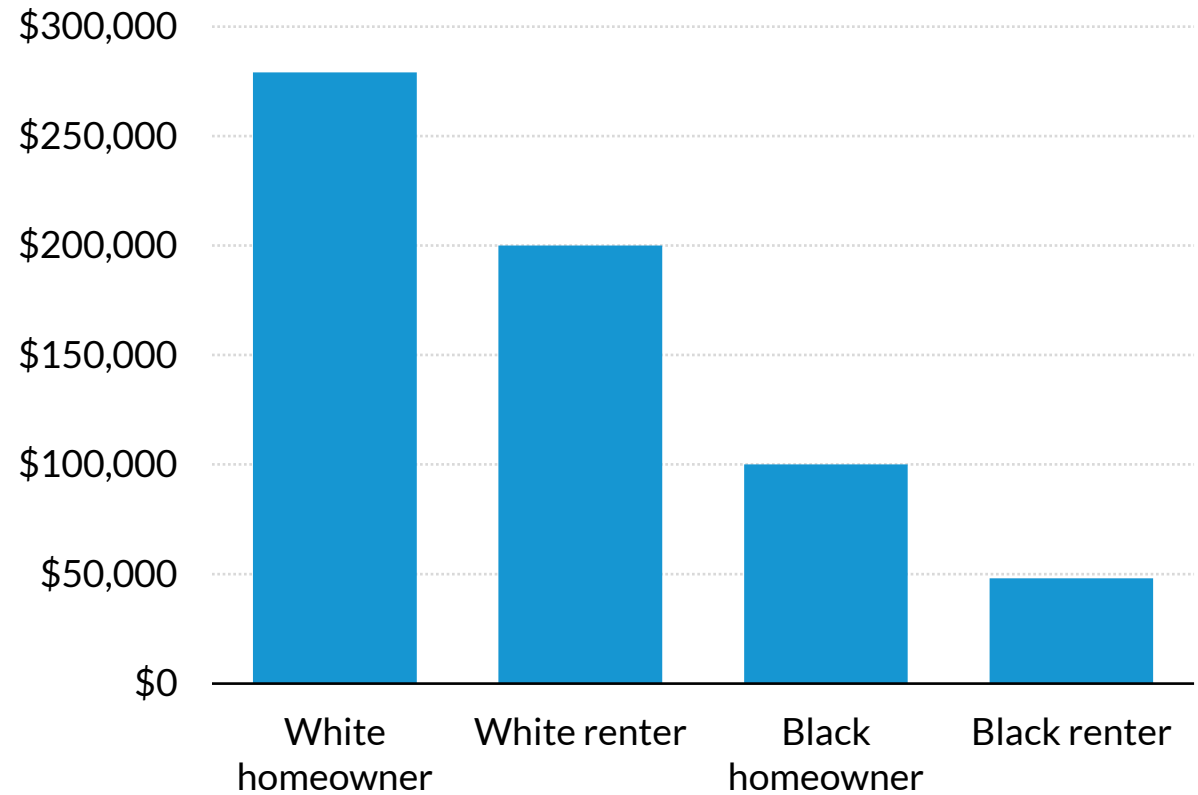
- Provide Access to Capital
- Boost the Supply of Housing
- Prevent Foreclosure
- Help Identify Properties with Tangled Title

Great Wealth Transfer Could Widen Racial Homeownership Rate Gap

Share of Younger Households Expecting to Receive a Substantial Inheritance, 2023



Median Amount Expected to Receive, 2023



Source: Potential Implications of the Great Wealth Transfer for the Black-White Homeownership Rate Gap
Michael Neal, Linna Zhu and Amalie Zinn.

Disaster Risk Could Disproportionately Impact Neighborhoods of Color

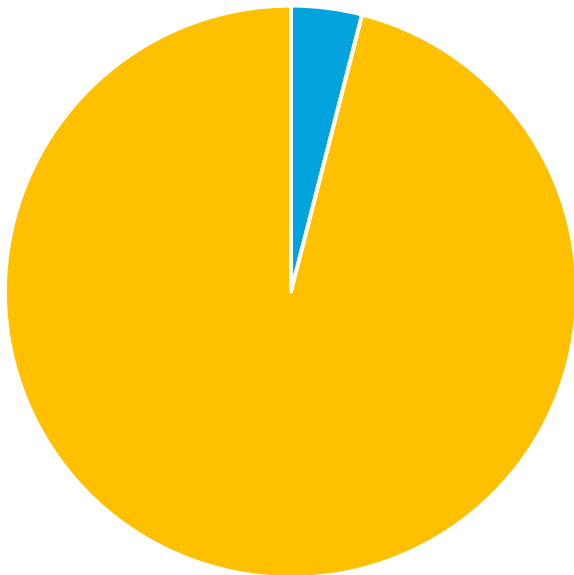
	LMI Neighborhoods	Middle-income Neighborhoods	Upper-income Neighborhoods	All Neighborhoods
	Share of Tracts Rated as Very High Risk of Riverine Flooding			
Neighborhoods of Color	10.6%	8.3%	6.0%	9.5%
Majority-White Neighborhoods	7.2%	5.9%	3.4%	5.3%
All Neighborhoods	9.1%	6.4%	3.7%	6.4%

Source: Assessing Climate Risk in Marginalized Communities.
Linna Zhu, Michael Neal, Laurie Goodman and Amalie Zinn.

Artificial Intelligence Could Reduce Costs and Boost Efficiency, But Improving Equitable Outcomes Is Important As Well

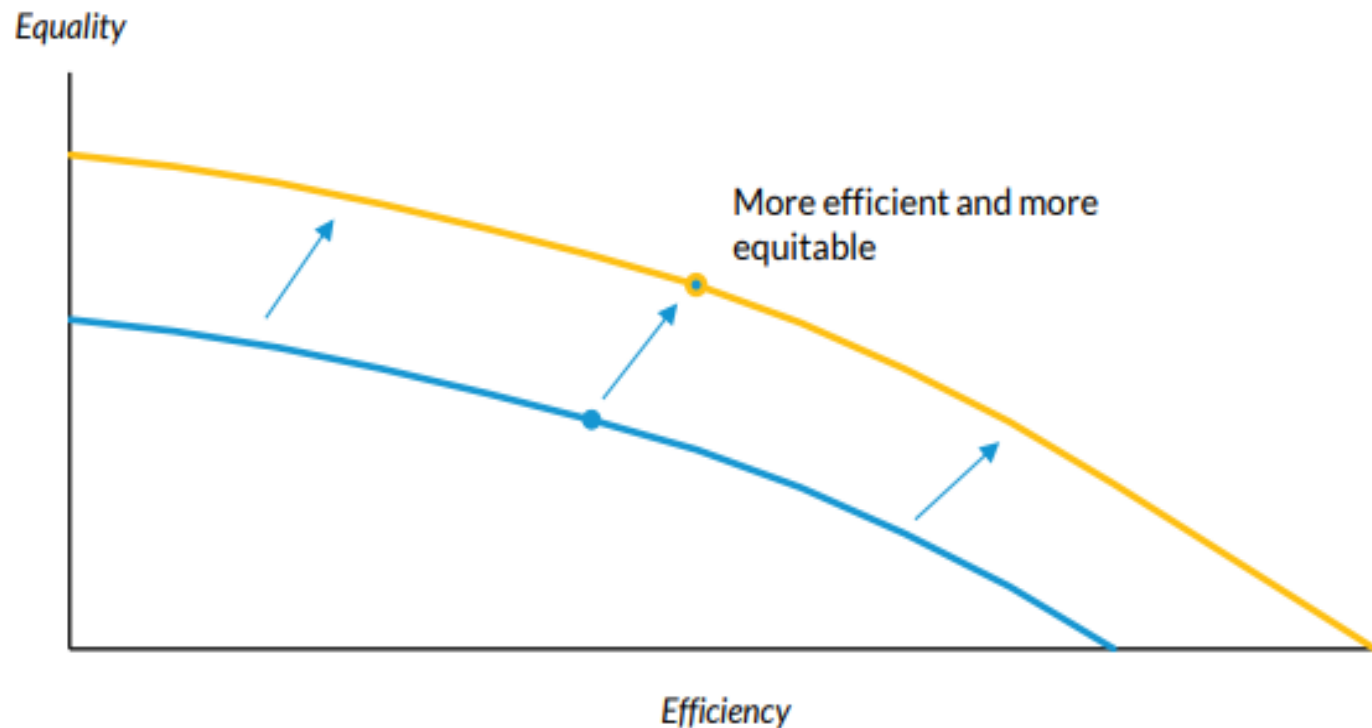
Share of mortgage loans in 2022, by loan amount

- Share of Purchase Mortgage Loans Less than \$100,000
- Share of Purchase Mortgage Loans At or Above \$100,000



The Equality-Efficiency Trade-Off and the Effect on Innovation

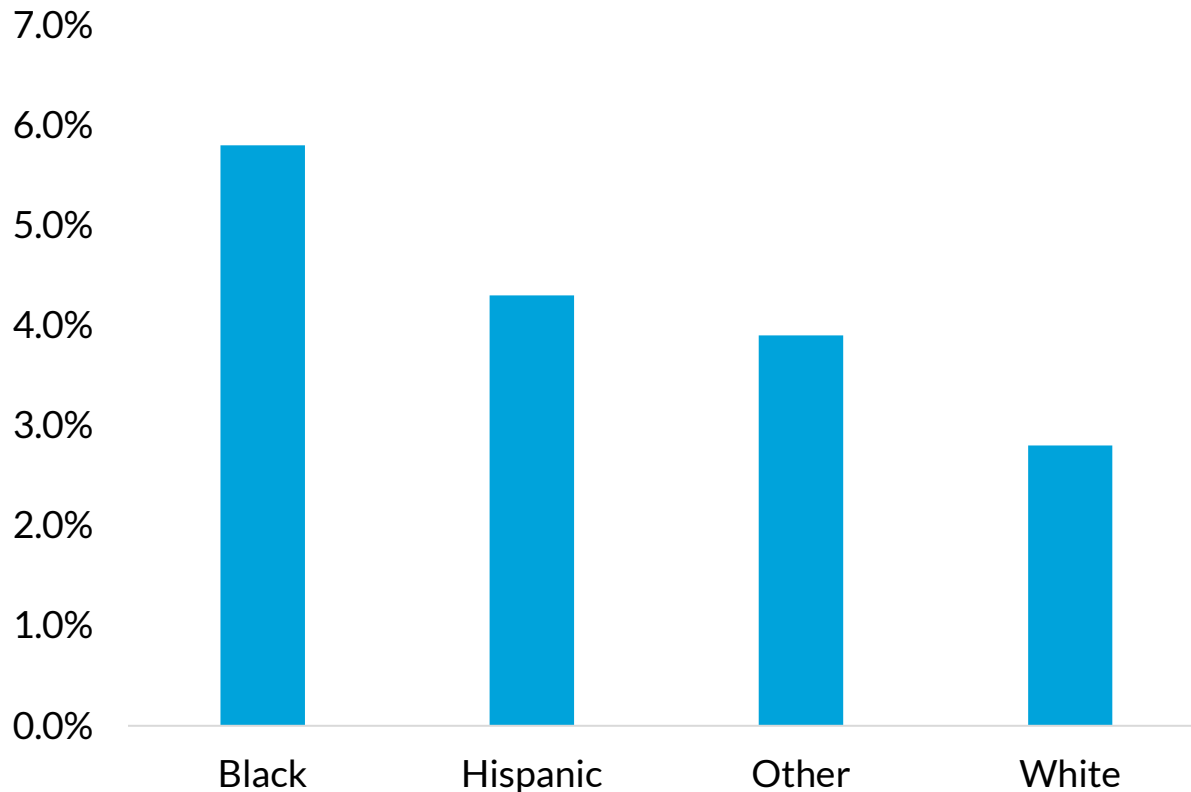
The production possibilities curve moves out because of innovation



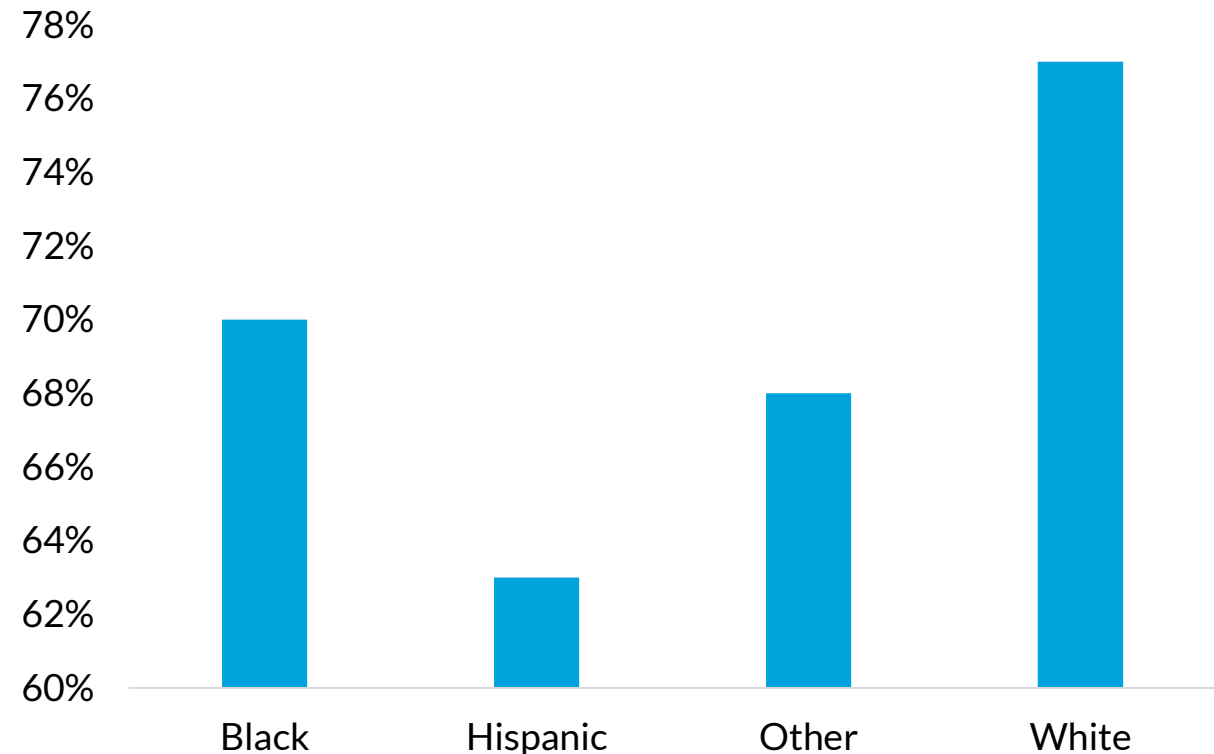
Source: Harnessing Artificial Intelligence for Equity in Mortgage Finance. Michael Neal, Linna Zhu, Caitlin Young, Vanessa Perry, Matthew Pruitt.

Foreclosure Risk is Low, but Key Determinants Suggest Homeowners of Color are More Vulnerable

Homeowner Unemployment Rates, 2022



Median Housing Equity Share of Home Values, 2022



Source: Sustaining Homeownership: The Case of Foreclosure Prevention.
Michael Neal, Aniket Mehrotra and Daniel Pang.

What Can Public Policy Do?

- Great Wealth Transfer: Expand financial assistance for key homeownership programs; tax policy considerations
- Artificial Intelligence: Use pilot programs to determine effective and equitable AI tools
- Climate: Continue incorporating racial equity into environmental, social and governance (ESG) frameworks
- Recessions: Ensure that permanent loss mitigation tools are efficiently administered

Characteristics of Private Action

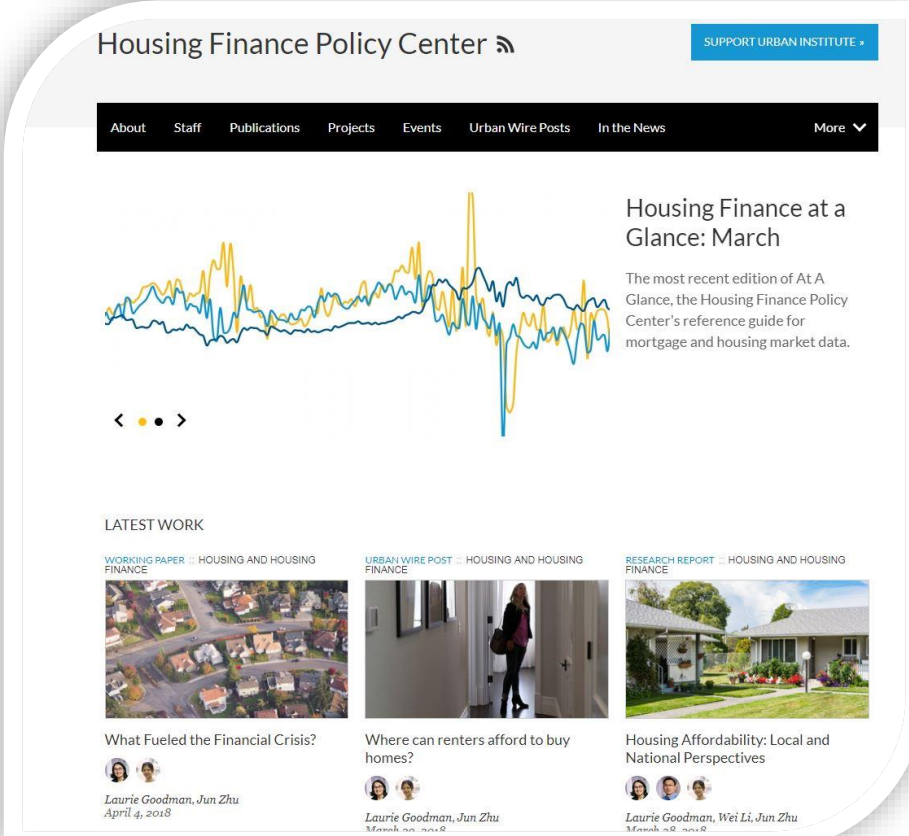
- Inventive
- Flexible
- Individualized
- Adaptive
- Transformation v. Treatment


Examples of Steps Taken by Private Organizations

- Escrow Accounts Which Grow at the Pace of Rental Inflation
- Providing Access to Capital for a Home Purchase
- Supporting Developers of Color
- Insurance Product for Critical Life Events
- Comprehensive Financial Coaching
- Assistance with Title Clearance

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The most recent edition of At A Glance, the Housing Finance Policy Center's reference guide for mortgage and housing market data.

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