RESEARCH REPORT

Explaining the Black-White Homeownership Gap

A Closer Look at Disparities across Local Markets

Jung Hyun Choi   *Alanna McCargo*   *Michael Neal*   *Laurie Goodman*

Caitlyn Young
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Contents

Acknowledgments

Executive Summary

Homeownership is a key source of household wealth and often represents the largest asset on a household's balance sheet, according to the Survey of Consumer Finances. But the well-documented racial gap in the homeownership rate has limited the financial benefits that accrue to black households, contributing to the broader racial disparity in wealth accumulation.

Since the housing bust and Great Recession, the homeownership gap between black and white households has widened to its largest level in 50 years. Between 2010 and 2017, according to the American Community Survey, the gap increased from 28.1 percentage points in 2010 to 30.2 percentage points in 2017. Over this period, the homeownership rate for white households fell from 72.6 percent to 71.9 percent while the rate for black households declined 2.7 percentage points to 41.8 percent.

The black-white homeownership gap existed for decades before the recent recession. The persistent discrepancy has drawn the interest of researchers (e.g., Acolin, Lin, and Wachter 2019; Brown and Dey 2019) and policymakers alike. The trend has also exposed policy failures and has been a call to action to address barriers that persist and to reduce the racial homeownership gap (McCargo, Choi, and Golding 2019). Our analysis identifies key variables that drive the homeownership gap and estimates the unexplained portion of the gap based on available data.

The key findings from our analysis are as follows:

At the National Level

- Median household income for black households is substantially lower than for white households ($38,183 versus $61,363 in 2017). The homeownership gap is larger for low-income households likely because low-income white households, on average, have higher household wealth and young white adults are more likely to have access to financial support from their parents. Reducing the income gap would reduce the black-white homeownership gap by about 9 percentage points.

- For both black and white households, the homeownership rate increases with educational attainment. But black households with a bachelor's degree or more were less likely to own their home than white households without a high school diploma. Once controlling for income, education is not strongly correlated with homeownership.

- More than 50 percent of white households have a FICO credit score above 700, compared with only 20.6 percent of black households. Thirty-three percent of black households with credit histories have insufficient credit and lack a credit score, while only 17.9 percent of white households have missing credit scores. The share of black households with a mortgage would increase 10.6 percentage points if their credit score distribution was the same as the distribution for white households.

- Marital status has a strong association with homeownership rates. Compared with white households, black households are less likely to get married. If black households were married at the same rate as white households, the black homeownership rate would increase 9 percentage points.

At the Local Level

- There are substantial variations in the black-white homeownership gap across metropolitan statistical areas (MSAs). Based on our analysis of the 105 MSAs with more than 40,000 black residents in 2017, we found that the Minneapolis-St. Paul, Minnesota, MSA had the widest black-white homeownership gap at 51 percentage points, while the Dover, Delaware, MSA had the smallest gap at 22.3 percentage points.

- Marital status, credit score, income, and age distribution explain a significant portion of the homeownership gap.

- Black households have a higher homeownership rate in MSAs with more building permits per household, while white households have a higher homeownership rate in MSAs that have higher levels of segregation. Building permits indicate areas where there is more new construction.

- Roughly 17 percent of the homeownership gap across MSAs remains unexplained by the observed variables in our analysis. The remaining gaps could be caused by differences in parental wealth or information networks or the vestiges of policies that have made it difficult for black households to obtain homeownership.

We recommend specific policy actions for officials across federal, state, and local government as well as institutional policy changes. Implementing these recommendations could boost black homeownership and potentially close the homeownership gap:

- Policy change is needed both at the federal level and at the state and local level. Policymakers should seek to understand local residents' access to credit and survey down payment assistance programs. Taking inventory of the developers and rehabilitators that are working on affordable construction and renovation locally is key to understanding housing supply, affordability, and homeownership attainment.

- State and local policymakers should create deep-dive demographic profiles with a racial equity lens for each city or region. This insight would help local policymakers, businesses, and service providers more concretely address community needs and identify gaps and barriers to homeownership.

- Federal and institutional policymakers working on administrative or legislative housing finance system reforms to the government-sponsored enterprises, Fannie Mae and Freddie Mac, should focus on reaching underserved geographies and people of color. The Federal Housing Administration (FHA) provides a disproportionate number of black households access to credit. Ensuring that FHA programs are updated and the FHA retains the capacity to support and expand homeownership opportunities is critical to addressing the homeownership gap.

Fair housing and lending policies should be strengthened and expanded, and laws that address disparate impact, discrimination, and bias should be enforced.

Explaining the Black-White Homeownership Gap

The decades-long debate about racial wealth and homeownership disparities continues in 2019. The racial homeownership gap between black households and white households is more than 30 percentage points, which is greater than it was before the passage of the 1968 Fair Housing Act. In 2017, the black homeownership rate, at 41.8 percent, was the lowest of all racial and ethnic groups and was at its lowest level in 50 years.

Homeownership by Race or Ethnicity
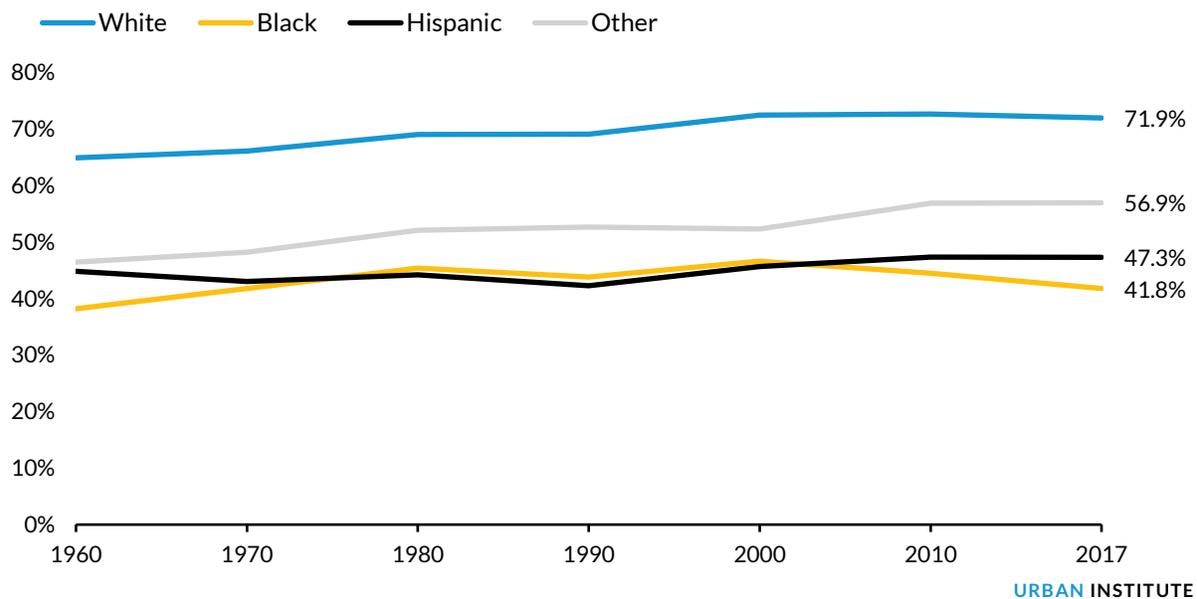
Sources: Decennial Census and the American Community Survey.

Black households have seen little recovery since the housing crisis, and the homeownership rate is significantly below its 2000 level. From 2000 to 2017, the black homeownership rate dropped 4.8 percentage points, while the white rate dropped only 0.5 percentage points. The homeownership rates among Hispanic households and households of other racial or ethnic groups (largely Asians) increased (figure 2). If the black homeownership rate had stayed the same as it was in 2000, 770,000 more black households would have been homeowners in 2017.

FIGURE 2
Changes in the Homeownership Rates by Race or Ethnicity, 2000–17
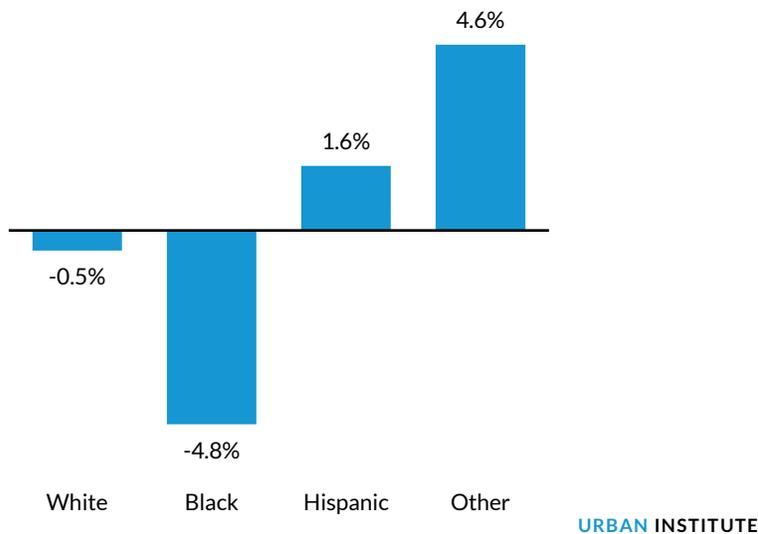
Sources: Decennial Census and the American Community Survey.

This disparity in wealth and homeownership has been extensively documented. For decades, federal policies promoted community segregation explicitly, through laws, and implicitly, through inaction that created and sustained low black homeownership rates and segregated residential communities (Rothstein 2017). White families could accumulate wealth through homeownership and pass it on, enabling intergenerational benefits, but black families were deliberately excluded from accruing such wealth. Research confirms that parental homeownership and wealth influence homeownership outcomes for children, and differences in parental wealth and homeownership can explain 12 to 13 percent of the homeownership gap between black and white young adults (Choi, Zhu, and Goodman 2018). Because of these historical inequities and a failure of federal and local public policy to address the issues head on, efforts to close the black-white homeownership gap will not succeed without significant steps focused on dramatically reducing the gap.

In this report, we investigate how different factors explain the racial homeownership gap and how these variables affect regional variations. We first present a national household-level analysis that examines how income, educational attainment, credit scores, and marital status explain the homeownership gap. Then, we explore how these variables play out at the local level, after controlling for racial segregation, local housing supply, and housing affordability.

Although this report focuses on quantifiable variables, we acknowledge that the homeownership gap could also be influenced by factors that are difficult to measure, such as discrimination, social and

professional networks, or variables that are not available in most datasets (e.g., parental resources).[1] For example, non-Hispanic white people are more apt to rely on intergenerational wealth transfers (Choi et al. 2018) or gain information on accessing homeownership via family and neighborhood networks than similarly situated black and Hispanic people. Even for the variables we can measure, such as income and credit scores, structural barriers limit opportunity for black households to obtain higher incomes and credit scores. Pager, Bonikowski, Western (2009) find subtle yet systematic forms of discrimination in the labor market that lower employment and income of black workers relative to white workers. Credit scores are far lower, on average, for black people (Brown and Dey 2019), which could reflect differences in health insurance coverage and student loan debt (Rice 2019). And even marital status could exhibit differences for structural reasons; 4 in 10 unmarried adults cite financial instability as the reason they are not married.[2] Determining how structural racism plays a role in the black-white homeownership gap is important but beyond the scope of this report, though the large homeownership disparities in most of our quantitative variables suggest structural factors play a role.

We hope this analysis and the broad policy considerations we outline will provide more insight into how federal, local, and institutional stakeholders in housing policy might work together with a racial equity focus to address wealth and housing disparities nationwide. Cities are beginning to do more to address racial homeownership and wealth gaps through new programs and funding. This research is designed to offer further insight to inform those efforts.

Currently, 32 percent more white households own homes in Louisville than households of color. The city is committed to combating the history of racism and inequity that has created that gap. Our Lean Into Louisville initiative will help us explore and understand that history—and then confront it. Because understanding is not enough. We must act, learning from national partners and best practices to create innovative solutions that fundamentally change the system of homeownership so all residents have the opportunity to build wealth and thrive.

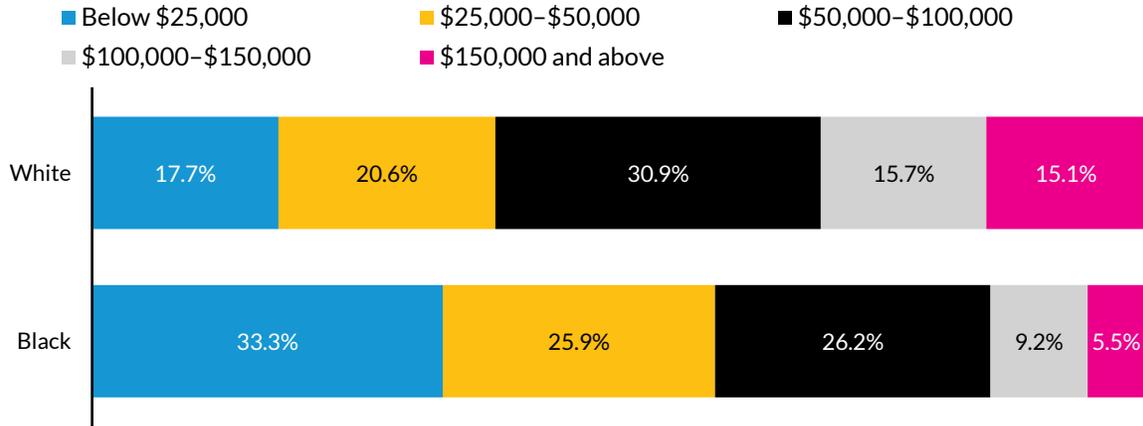*—Greg Fischer, Mayor, Louisville, Kentucky*

Key Variables Explaining the Gap

In this section, we examine four variables highly associated with homeownership attainment: income, educational attainment, credit scores, and marital status. We estimate each factor's role in exacerbating the black-white homeownership gap.

Income

Income plays a major role in homeownership and wealth accumulation. There is a well-documented persistence of income inequality by race, a key factor contributing to the homeownership gap. Household income is a key input for mortgage underwriting determinations, and income is used in various calculations required for mortgage approval, such as the debt-to-income ratio. According to the 2017 American Community Survey, the median household income for white households was $61,363, significantly higher than the $38,183 median income for black households. There are stark differences in income distribution between black and white households. Figure 3 shows that 33.3 percent of black households have household income below $25,000 compared with 17.7 percent of white households. More than 15 percent of white households earn more than $150,000 compared with less than 6 percent of black households.

FIGURE 3

Household Income by Race, 2017

■ Below $25,000 ■ $25,000–$50,000 ■ $50,000–$100,000
■ $100,000–$150,000 ■ $150,000 and above

White: 17.7% | 20.6% | 30.9% | 15.7% | 15.1%

Black: 33.3% | 25.9% | 26.2% | 9.2% | 5.5%

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Source: 2017 American Community Survey.

Income disparities nationwide are related to homeownership disparities (figure 4). For both black and white households, those with higher incomes have higher homeownership rates. If the household income distribution was the same for both white and black households, the black homeownership rate would increase 9.0 percentage points, reducing the homeownership gap from 30.2 to 21.1 percentage points. But income convergence alone cannot close the homeownership gap. Other factors play a role. Even among black and white households in the same income cohort, there is a noticeable homeownership gap. The gap is large among low-income households but is less than 10 percentage points for households earning more than $150,000. The gap jumps to 27 percent for households earning less than $25,000 and 28 percent for households earning between $25,000 and $50,000. Low-income white households are more likely to be homeowners, and white households at the lowest income levels still have a higher overall homeownership rate than black households, at over 50 percent.

FIGURE 4

Homeownership Rate by Household Income, 2017
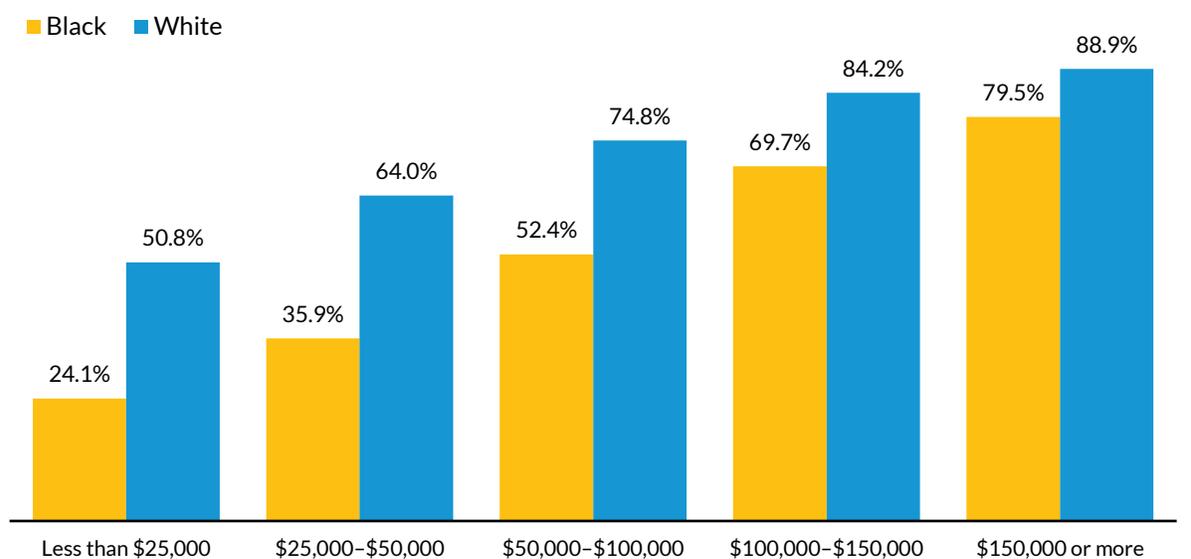
Source: 2017 American Community Survey.

Wealth is not included in the American Community Survey, but it helps explain homeownership differences within income groups. Low-income white households are likely to have greater wealth than black households. According to the 2016 Survey of Consumer Finances, the median wealth of black households in the 20th percentile income group was $3,040, while white households in the same income group had a median wealth of $11,860. Furthermore, white young adults are significantly more likely to receive down payment support from their parents (Charles and Hurst 2002). Parental support

increases the probability of owning among young adults (who are more likely to have less income). Choi, Zhu, and Goodman (2018) find that parental homeownership and wealth explains about 12 percent of the black-white millennial homeownership gap, suggesting that intergenerational transfers reinforce racial and ethnic disparities.

Educational Attainment

Educational attainment is highly correlated with income potential. Black households are less likely to have a bachelor's degree or more, which is a limiting factor on income potential and lowers the likelihood of becoming a homeowner. Figure 5 shows that 23.5 percent of black households had a bachelor's degree or more in 2017. Meanwhile, 38.2 percent of white households had a bachelor's degree or more. In contrast, more black households than white households had less than a bachelor's degree, a condition that corresponds with a lower likelihood of homeownership. By our estimates, if black educational attainment was the same as white educational attainment in 2017, holding black homeownership constant across levels of educational attainment, the black homeownership rate would be 3 percentage points higher. In the later section, however, we find that once income is controlled for, education itself is not significant in explaining the black-white homeownership gap.

FIGURE 5
Education Attainment by Race, 2017

■ High school dropout   ■ High school graduate   ■ Some college   ■ Bachelor's degree or more

|	High school dropout	High school graduate	Some college	Bachelor's degree or more
White	5.1%	32.3%	24.4%	38.2%
Black	10.4%	37.0%	29.2%	23.5%
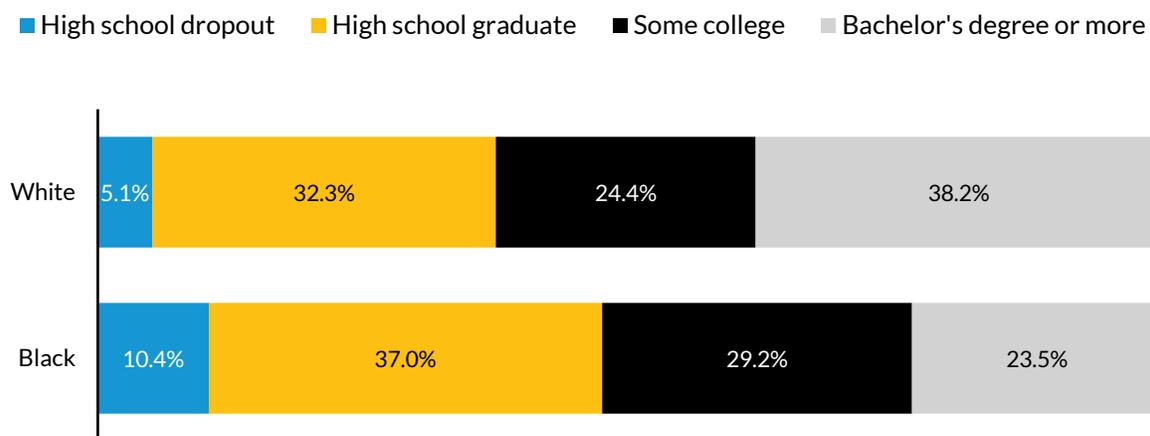
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Source: 2017 American Community Survey.

Although having more black households with a college degree would likely increase black household income and homeownership, the impact would be small and would not close the

homeownership gap. Black homeownership increases with educational attainment, but a smaller share of black households own homes relative to white households, irrespective of educational achievement. More surprisingly, black households with a bachelor's degree or more were less likely to own a home than white households without a high school diploma. This is partly because 20.5 percent of black people are younger than 35 compared with 16.4 of white people. If black people had same age distribution as white people, the homeownership rate among black college graduates would be 59.1 percent, still 1.4 percentage points lower than the rate for white people who dropped out of high school. The difference in the return on education provides another explanation. The literature finds that return on education is lower for black graduates than for white graduates. In 2017, black college graduates had a median income of $72,000, versus $100,000 for white college graduates. The accumulation of debt burden for college is also higher for black graduates, who are more likely to need loans to pay for college and experience higher default rates. A recent report from the Center for Responsible Lending and the National Association for the Advancement of Colored People finds that 85 percent of black college graduates and 69 percent of white college graduates borrowed to cover higher education. The study also finds that about a half of black borrowers who entered college in 2003–04 had defaulted by 2016 (CRL and NAACP 2019). Again, without parental wealth or family support, black households experience higher debt burdens than white households who have access to greater financial resources.

FIGURE 6
Homeownership Rate by Educational Attainment, 2017
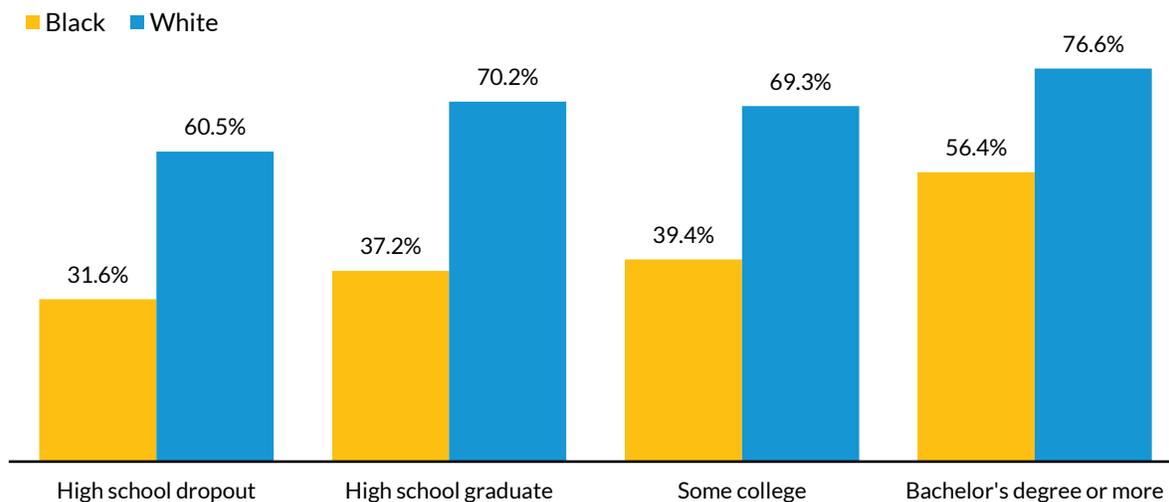

Source: 2017 American Community Survey.

Credit Score

Having a credit score and credit history is important for underwriting determinations, especially for accessing mortgages, which tend to be the largest debt on the household balance sheet. Without a credit score and credit history, attaining homeownership is difficult. Most literature does not directly examine how credit scores affect homeownership because of a lack of data on credit scores by race. According to a recent Freddie Mac study, credit attributes explain more than 50 percent of the black-white differences in securing a mortgage (Brown and Dey 2019). Freddie Mac shared a summary analysis[3] showing the relationship between credit score and mortgage ownership[4] by race (figures 7 and 8). A FICO credit score sample, broken down by race at the MSA level, was analyzed and used in our regression analysis.

Key observations in the sample data show that more white people than black people have a FICO score. For those with scores, more than half of white people have FICO scores above 700 compared with just 20.6 percent of black people. About one-third of black people do not have a FICO score. Although they have some credit history in the credit bureau system, they do not have enough reported transactions or tradelines to generate a valid score. If we include people who are not in the system, the share of black people without a score will likely be higher than the share of white people without a score (CFPB 2016).

FICO Score by Race, 2016
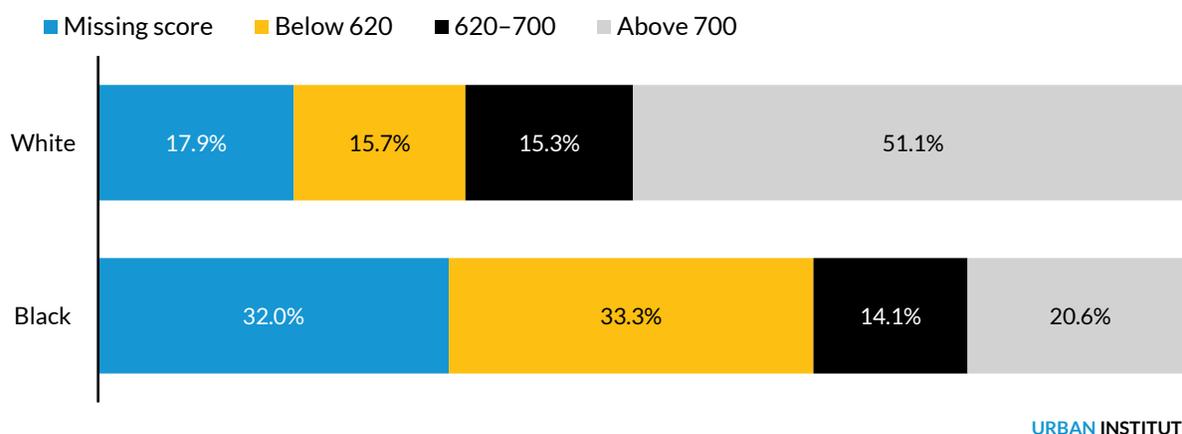
Source: Freddie Mac.

Figure 8 presents the share of people with a mortgage by FICO score. This number is substantially lower than the homeownership rate because some homeowners do not have a mortgage and because only people in households whose financial information was included in the mortgage application process

are shown as mortgage holders. In the data, 30.8 of white people and 14.8 percent of black people have mortgages. If black people had the same credit score distribution as white people (figure 7), while holding constant the likelihood of having a mortgage by credit score buckets, the share of black people with a mortgage would increase 10.6 percentage points. This reduces the black-white gap in the share of people with a mortgage from 16.0 percent to 5.4 percent, indicating that credit score is a significant factor in the black-white homeownership gap. But black borrowers are still less likely to have a traditional mortgage than white borrowers in the same credit score bucket, suggesting that black borrowers may face additional barriers to accessing homeownership on top of having a lower credit score. This warrants a closer look at how alternative and sometimes predatory products that are often unreported to traditional credit bureaus (e.g., risky seller contracts) might be a factor.

FIGURE 8
Share with a Mortgage, by FICO Score, 2016
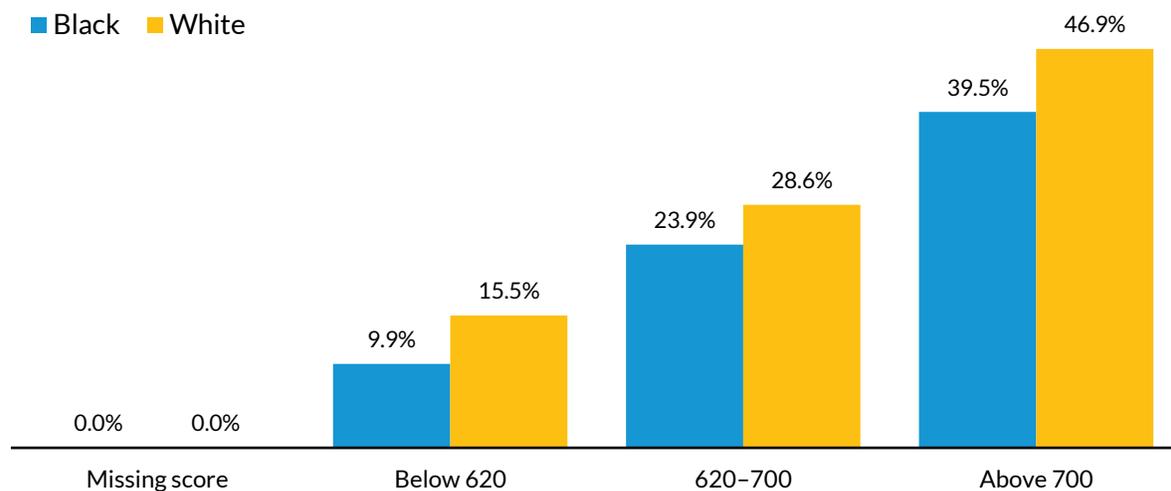
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Source: Freddie Mac.

We know credit scores are important for accessing homeownership, and these data explain the critical nature of ensuring that a fair, updated, and equitable credit scoring system serves the mortgage market. The data show that black people are disproportionately more likely to have thin credit histories and no credit scores. This is a key point because in the housing context, we know that most black households are renters and that rental payments are largely unreported to traditional credit bureaus. A black household may not own a home and pays only for rent, utilities, cell phones, and similar recurring expenses, but these transactions are not reported to credit bureaus in any positive way. Derogatory and negative credit reporting is common, but no credit is given for on-time payments of such critical and

basic household items that would continue to apply in ownership. Research suggests that reporting rental payments to the credit bureaus could bring more people onto the credit spectrum and create a housing history.[5]

Marital Status

Finally, marital status is an important barometer for homeownership. Married households typically have higher household incomes and more financial assets, which strengthens underwriting criteria. Married households also have a significant advantage over single households when applying for a mortgage because household income increases if both members work. And as a major life event, marriage often coincides with a household's decision to expand housing and obtain homeownership. As a result, married households are more likely to be homeowners. Among unmarried households, widowed households are more likely to be homeowners than divorced or separated households or never-married households.

Marital Status by Race, 2017

■ Married ■ Divorced or separated ■ Widowed ■ Never married

	Married	Divorced or separated	Widowed	Never married
White	53.0%	19.0%	10.6%	17.5%
Black	30.2%	23.6%	9.1%	37.1%
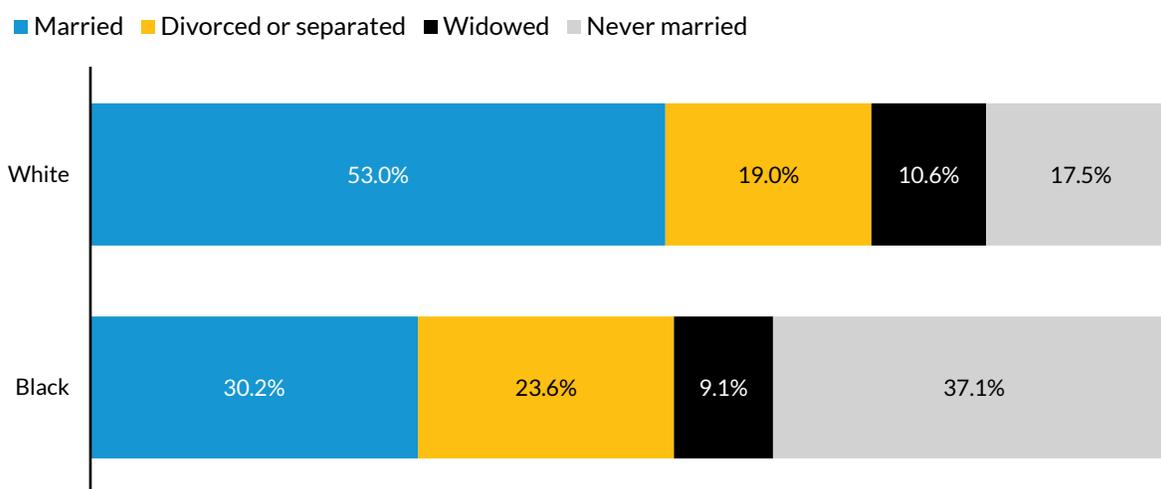
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Source: 2017 American Community Survey.
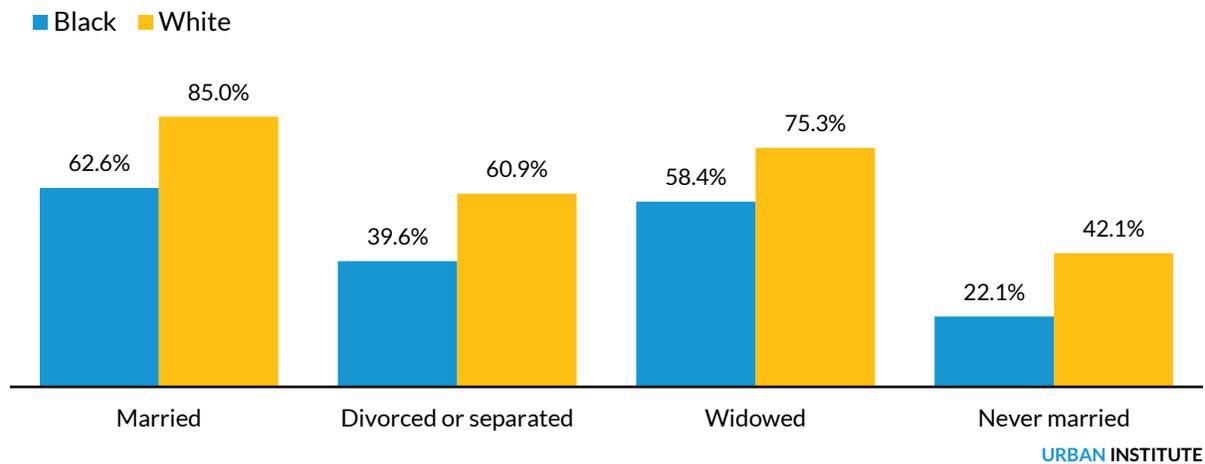
These patterns by marital status hold true for both white and black households. But black households are more than 50 percent less likely to be married. This could be partially because of individual preferences, but studies find that structural factors, such as economic instability and high incarceration rates among black men, have depressed black marriage rates (Raley and Sweeney 2009;

Raley, Sweeney, and Wondra 2015). Among unmarried households, black households are more likely to have never been married or to be divorced or separated but have the same likelihood of being widowed as white households. If black households were married at the same rate as white households, holding constant homeownership rates in each category of marital status, the black homeownership rate would be 9 percentage points higher.

A shift in the distribution of black households by marital status toward a composition equal to white households (higher rates of marriage and lower rates of divorce, separation, or never being married) would not fully address the black-white homeownership gap. Although the relative homeownership rate across marital status is similar for both white and black households, black households are less likely to be homeowners, irrespective of their marital status. This gap holds true even for widowed households, where the black share and the white share are nearly identical.

FIGURE 10
Homeownership Rates by Marital Status, 2017

■ Black ■ White

	Married	Divorced or separated	Widowed	Never married
Black	62.6%	39.6%	58.4%	22.1%
White	85.0%	60.9%	75.3%	42.1%

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Source: 2017 American Community Survey.

In the following sections, we compare homeownership rates at the local level. Using data from the American Community Survey, we identify metropolitan statistical areas (MSAs) with the highest and lowest black and white homeownership rates. We also distinguish between MSAs with the largest and smallest homeownership gaps. We then attempt to isolate the key variables discussed above to explain the homeownership rates and the homeownership gap at the local level using regression analyses. In addition to household and market characteristics obtained from the American Community Survey, we include credit scores provided by Freddie Mac. We test for how much of the homeownership gap can be explained by the available data. Using this method, our model explains 83 percent of the gap, leaving 17 percent unexplained.

Mapping the Gap: A Closer Look at Local Differences in Homeownership

Nationally, the black-white homeownership gap remains persistent, but there are variations across geographies. In this section, we look at local differences in the black and white homeownership rates. To ensure statistical accuracy, we selected 105 MSAs with more than 40,000 black residents in 2017.

The Black Homeownership Rate across MSAs in 2017

Table 1 lists the 10 MSAs with the highest and the lowest black homeownership rates. In 2017, the two MSAs with the highest black homeownership rate (close to 60 percent) were both in Florida: Ocala and Palm Bay-Melbourne-Titusville. On the other hand, Fresno, California, had the lowest black homeownership rate, at 23.2 percent.

TABLE 1

MSAs with the Highest and Lowest Black Homeownership Rates

MSAs with the highest black homeownership rates		MSAs with the lowest black homeownership rates	
Ocala, FL	59.5%	Fresno, CA	23.2%
Palm Bay-Melbourne-Titusville, FL	58.8%	Albany-Schenectady-Troy, NY	24.3%
Dover, DE	55.8%	Syracuse, NY	25.8%
Charleston-North Charleston-Summerville, SC	54.5%	Minneapolis-St. Paul-Bloomington, MN-WI	25.8%
Raleigh-Cary, NC	54.1%	Omaha-Council Bluffs, NE-IA	27.5%
Augusta-Richmond County, GA-SC	52.8%	Milwaukee-Waukesha-West Allis, WI	27.6%
Baton Rouge, LA	52.2%	Las Vegas-Paradise, NV	28.4%
Lakeland-Winter Haven, FL	51.7%	Seattle-Tacoma-Bellevue, WA	29.0%
Cape Coral-Fort Myers, FL	51.0%	Toledo, OH	29.8%
Washington-Arlington-Alexandria, DC-VA-MD-WV	50.5%	San Diego-Carlsbad-San Marcos, CA	30.5%

Source: 2017 American Community Survey.
Note: MSA = metropolitan statistical area.

Figure 11 shows that the MSAs with higher black homeownership rates are concentrated in the South and the East. In addition to Florida, MSAs in the Carolinas, on average, have higher black homeownership rates. On the other hand, MSAs in the West (California) or the North (Minnesota, New York, and Wisconsin) tend to have lower black homeownership rates.

FIGURE 11
Black Homeownership Rate, 2017

● 23.2%—33.0% ● 33.3%—38.4% ● 38.6%—42.6% ● 42.7%—46.6% ● 47.0%—59.5%

Fresno, CA: 23.22%

Ocala, FL: 59.50%
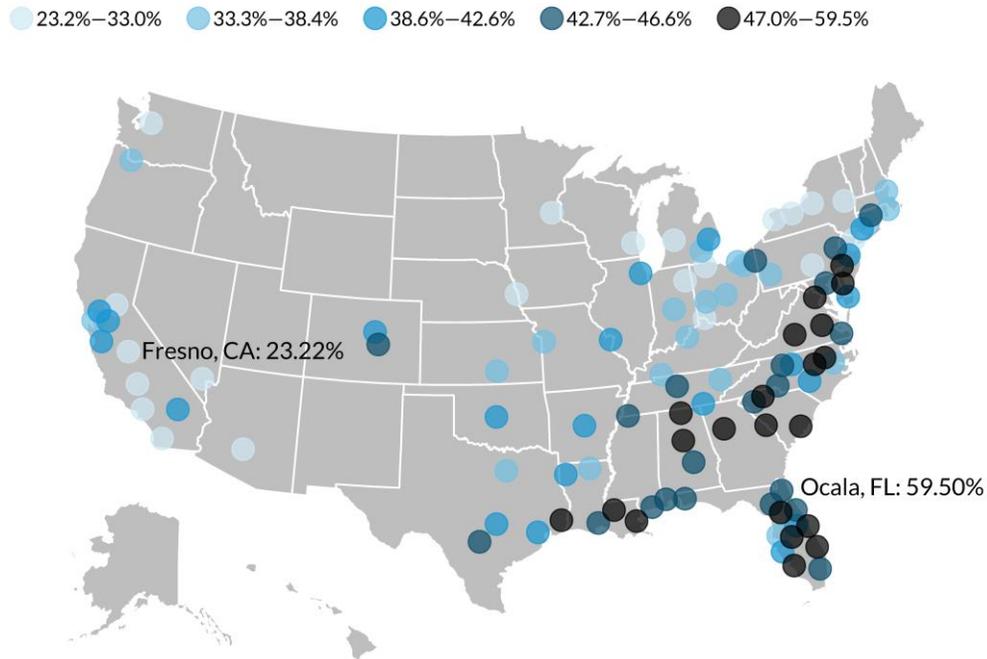
Source: 2017 American Community Survey.

Changes in Black and White Homeownership Rates from 2000 to 2017

Minorities, particularly black and Hispanic households, experienced more severe losses during the housing market downturn than white households. Homeownership rates declined during that time for all racial and ethnic groups, but most have recovered or exceeded the precrisis level. Black homeownership rates, though, have not seen the same recovery. Between 2000 and 2017, 89 of the 105 MSAs experienced a drop in the black homeownership rate, but only 58 experienced a decrease in the white homeownership rate. Among the few MSAs that experienced an increase in the black homeownership rate during this period, Providence-New Bedford-Fall River in Rhode Island showed the largest increase, 6.2 percentage points.

The extent of the homeownership decrease also differs by race. Fifteen MSAs, including Fort Wayne, Indiana, and Phoenix-Mesa-Glendale, Arizona, had a black homeownership decline more than

10 percentage points. But no MSA experienced a white homeownership drop that large. In figure 13, the dots representing changes in the black homeownership rate are darker colors.

Metropolitan Statistical Areas with the Greatest Increase and Decrease in the Black Homeownership Rate

■ White   ■ Black

MSA	White	Black
Fort Wayne, IN	0.3%	-14.2%
Phoenix-Mesa-Glendale, AZ	-0.6%	-13.3%
Omaha-Council Bluffs, NE-IA	-2.3%	-13.3%
Kansas City, MO-KS	-0.7%	-13.2%
Salisbury, MD	-1.5%	-11.9%
Las Vegas-Paradise, NV	1.9%	-11.9%
Fresno, CA	-0.5%	-11.7%
Deltona-Daytona Beach-Ormond Beach, FL	-3.6%	-11.6%
Harrisburg-Carlisle, PA	-2.0%	-11.2%
Toledo, OH	2.6%	-11.2%
New York-Northern New Jersey-Long Island, NY-NJ-PA	1.9%	1.7%
New Orleans-Metairie-Kenner, LA	0.5%	1.7%
Bridgeport-Stamford-Norwalk, CT	0.3%	2.9%
Cape Coral-Fort Myers, FL	-3.3%	2.9%
Raleigh-Cary, NC	-1.2%	3.1%
Palm Bay-Melbourne-Titusville, FL	0.0%	4.2%
Hartford-West Hartford-East Hartford, CT	3.2%	5.1%
Dover, DE	1.8%	5.3%
Allentown-Bethlehem-Easton, PA-NJ	1.2%	5.9%
Providence-New Bedford-Fall River, RI-MA	3.8%	6.2%

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Source: 2017 American Community Survey.

FIGURE 13

Changes in the Homeownership Rate, 2000–17
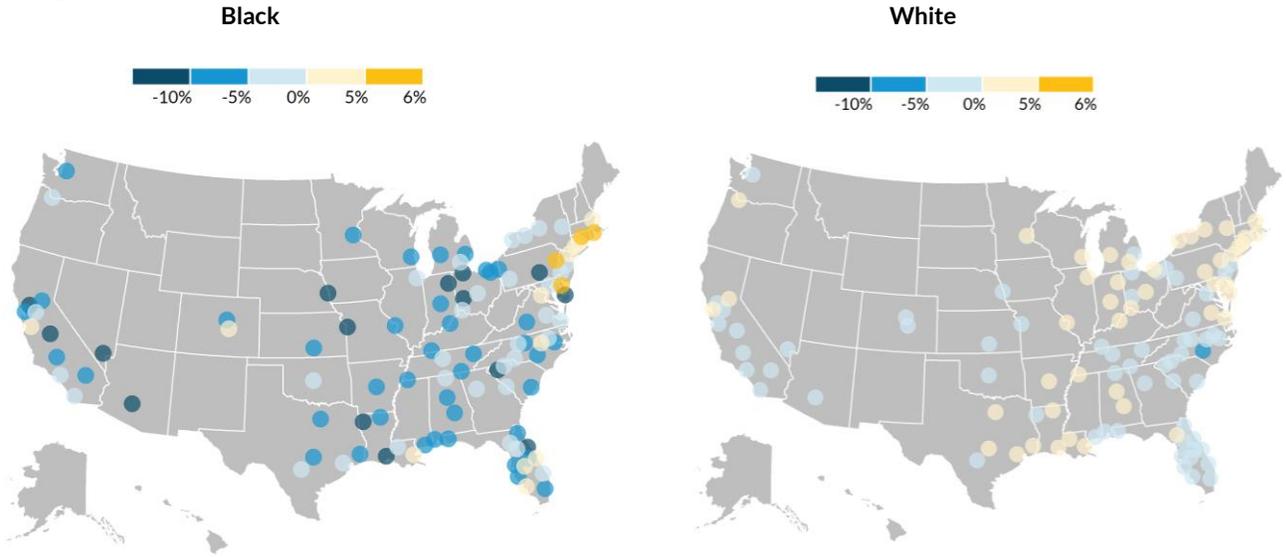
Black   **White**

Source: 2017 American Community Survey.

The Black-White Homeownership Gap across MSAs in 2017

No MSAs have closed the black-white homeownership gap. But the size of the gap varies by place (table 2). In 2017, the homeownership gap ranged from 51 percentage points in Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin, to 15 percentage points in Charleston-North Charleston-Summerville, South Carolina. Of the 105 MSAs we analyzed, the average homeownership gap in 2017 was 32 percentage points. MSAs with the largest racial homeownership gaps are primarily in the Northeast.

TABLE 2
MSAs with the Largest and Smallest Black-White Homeownership Gaps, 2017

MSAs with the largest gap		MSAs with the smallest gap	
Minneapolis-St. Paul-Bloomington, MN-WI	51.0%	Charleston-North Charleston-Summerville, SC	15.0%
Syracuse, NY	46.3%	Fayetteville, NC	17.2%
Albany-Schenectady-Troy, NY	46.2%	Palm Bay-Melbourne-Titusville, FL	18.4%
Harrisburg-Carlisle, PA	45.4%	Gainesville, FL	18.8%
Grand Rapids-Wyoming, MI	44.7%	Raleigh-Cary, NC	19.2%
Fresno, CA	44.0%	Ocala, FL	21.2%
Milwaukee-Waukesha-West Allis, WI	43.1%	Washington-Arlington-Alexandria, DC-VA-MD-WV	21.7%
Omaha-Council Bluffs, NE-IA	42.8%	Colorado Springs, CO	21.9%
Fort Wayne, IN	42.8%	Augusta-Richmond County, GA-SC	22.2%
Rochester, NY	42.7%	Dover, DE	22.3%

Source: 2017 American Community Survey.

Note: MSA = metropolitan statistical area.

FIGURE 14

Black-White Homeownership Gaps in 2017

Legend: 15.0%—25.9%   26.0%—30.1%   30.2%—33.0%   33.1%—36.9%   37.7%—51.0%

Minneapolis, MN: 51.0%

Charleston, SC: 15.0%
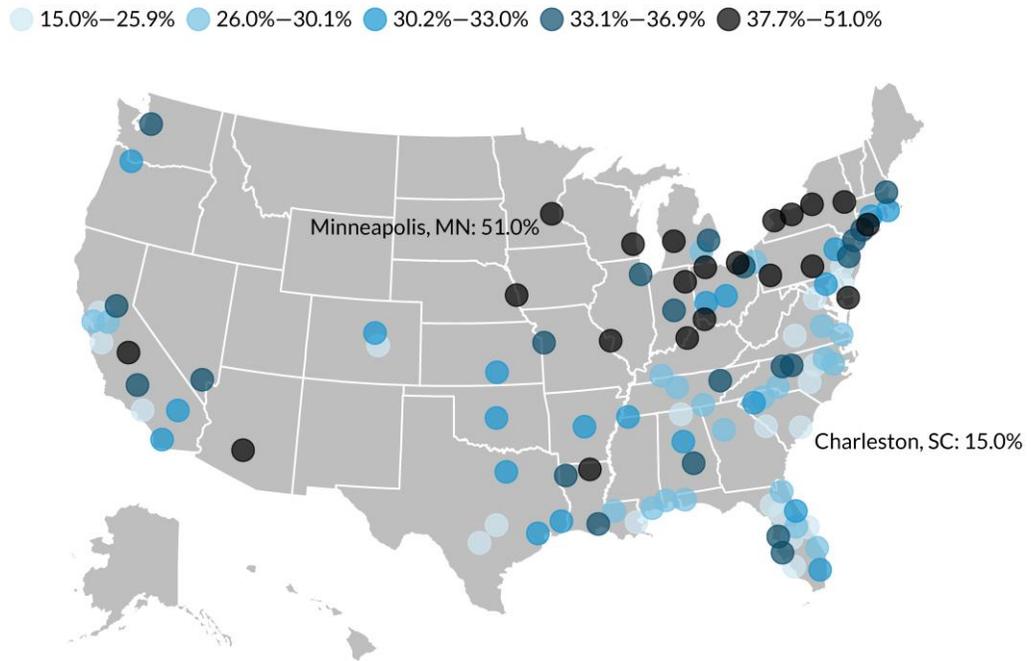
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Source: 2017 American Community Survey.

Changes in the Black-White Homeownership Gap across MSAs from 2000 to 2017

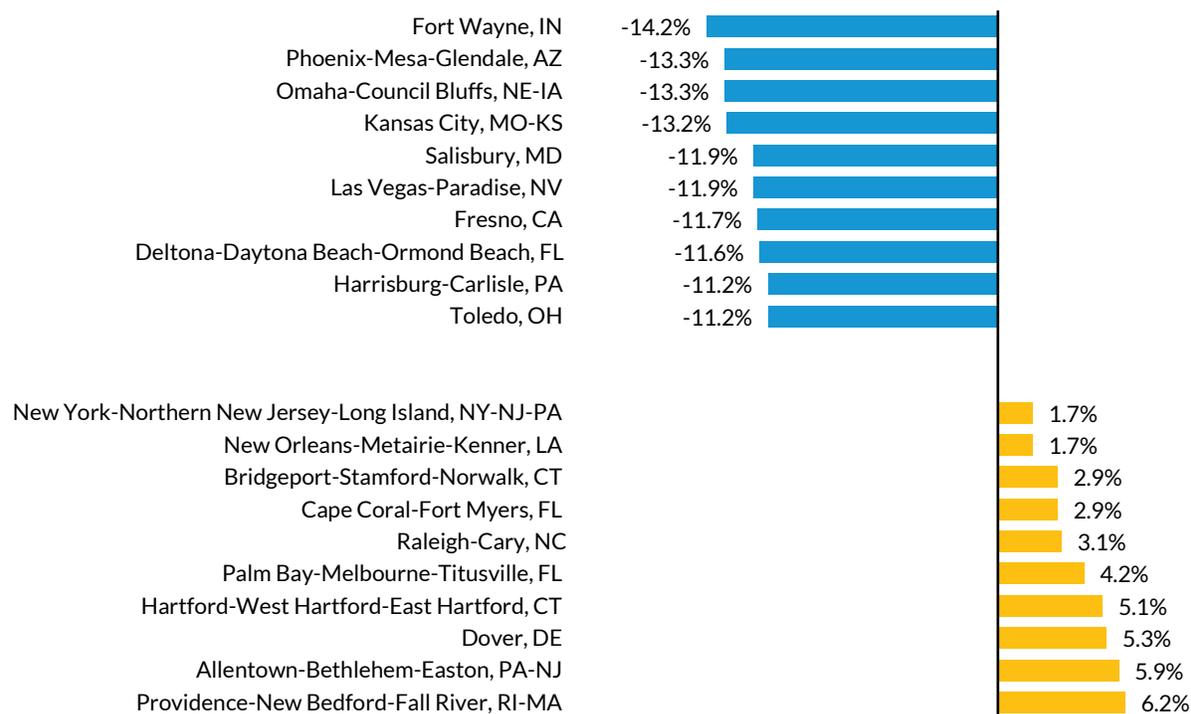Eighty-eight of the 105 MSAs experienced an increase in the black-white homeownership gap between 2000 and 2017. On average, the homeownership gap increased 4.5 percentage points. The gap increased most in Fort Wayne, Indiana (14.4 percentage points), and decreased most in Cape Coral-Fort Myers, Florida (6.2 percentage points). Among the 10 MSAs that experienced the largest drop in the black-white homeownership gap, only Port St. Lucie, Florida, showed a decline in both the black and white homeownership rates. In Port St. Lucie, the black homeownership rate fell 1.3 percentage points, and the white homeownership rate fell 4.7 percentage points between 2000 and 2017. The remaining 9 MSAs experienced an increase in black homeownership that was greater than the increase in white homeownership. Figure 16 shows homeownership changes for all 105 MSAs.

FIGURE 15

**Metropolitan Statistical Areas with the Greatest Increase
and Decrease in the Black-White Homeownership Gap, 2000–17**

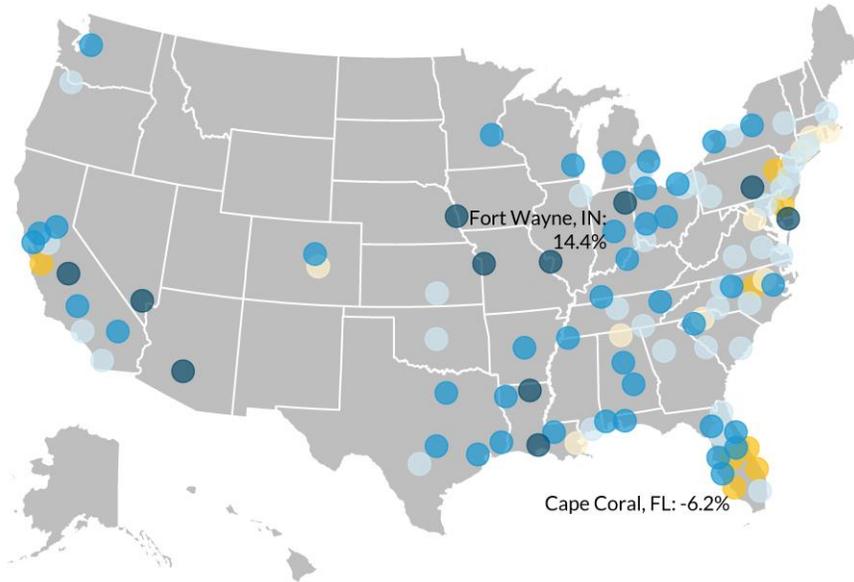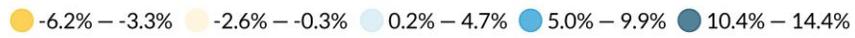|	
Fort Wayne, IN	-14.2%
Phoenix-Mesa-Glendale, AZ	-13.3%
Omaha-Council Bluffs, NE-IA	-13.3%
Kansas City, MO-KS	-13.2%
Salisbury, MD	-11.9%
Las Vegas-Paradise, NV	-11.9%
Fresno, CA	-11.7%
Deltona-Daytona Beach-Ormond Beach, FL	-11.6%
Harrisburg-Carlisle, PA	-11.2%
Toledo, OH	-11.2%
New York-Northern New Jersey-Long Island, NY-NJ-PA	1.7%
New Orleans-Metairie-Kenner, LA	1.7%
Bridgeport-Stamford-Norwalk, CT	2.9%
Cape Coral-Fort Myers, FL	2.9%
Raleigh-Cary, NC	3.1%
Palm Bay-Melbourne-Titusville, FL	4.2%
Hartford-West Hartford-East Hartford, CT	5.1%
Dover, DE	5.3%
Allentown-Bethlehem-Easton, PA-NJ	5.9%
Providence-New Bedford-Fall River, RI-MA	6.2%

Changes in the black-white homeownership gap

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Source: 2017 American Community Survey.

FIGURE 16
Change in the Black-White Homeownership Gap, 2000–17

Legend: ● -6.2% — -3.3% ● -2.6% — -0.3% ○ 0.2% — 4.7% ● 5.0% — 9.9% ● 10.4% — 14.4%

Fort Wayne, IN: 14.4%

Cape Coral, FL: -6.2%

Source: 2017 American Community Survey.

Explaining the Black-White Homeownership Gap

The large differences in the black-white homeownership gap across MSAs leads to this question: what causes local homeownership differences? This section examines key factors associated with geographic differences in the homeownership gap.

Data and Summary Statistics

For this analysis, we used 2000 Decennial Census data in addition to American Community Survey data from 2005, 2010, 2015, and 2017. The 105 selected MSAs all had more than 40,000 black residents in 2017. Table 3 presents the summary statistics for 2017, the most recent year available. In addition to homeownership differences, black and white residents show disparities in several variables, including age distribution, educational attainment, marital status, and credit score distribution. The black population (more than 50 percent are younger than 35) is younger than the white population. The share of female-headed black households (58 percent) is higher than the share of male-headed black households. Black households are less likely to be married (figure 9) but are more likely to have children (47 percent) than white households (36 percent), indicating that there are many black single-parent households.

The black unemployment rate (12 percent) is double that of the white population. The black median household income is $28,000 lower than the white median household income. About 40 percent of black households fall into the lowest quartile of area median income, compared with 21 percent of white households. The median FICO score for black households is more than 100 points lower than it is for white households. More than half of white households have FICO scores above 700, but only 20 percent of black households fall into this category. About one-third of black households do not have a FICO score, compared with 17 percent of white households.

Additionally, we collected MSA-level variables that could affect the black-white homeownership gap. The dissimilarity index is a measure of residential segregation. The index measures how evenly black and white residents are distributed across census tracts within an MSA. If black residents are concentrated in a few census tracts, the dissimilarity index is higher, indicating highly segregated neighborhoods. We also look at building permit data per household as a proxy to measure new housing

supply. In addition, we include median house value and median gross monthly rent to measure housing affordability. Macroeconomic variables, including the unemployment rate and gross domestic product per capita, measure economic conditions in MSAs; the population variable controls for city size.

Summary Statistics

Variable	Obs.	Black		White	
		Mean	**SD**	**Mean**	**SD**
By race					
Homeownership rate	525	43%	8%	73%	5%
Younger than 35	525	54%	4%	41%	5%
Has a bachelor's degree or more (older than 25)	525	18%	6%	33%	9%
Female-headed household	525	58%	6%	44%	6%
Married (older than 16)	525	24%	4%	46%	3%
Household with children	525	47%	6%	36%	4%
Unemployment rate	525	12%	5%	6%	2%
Median household income	525	$38,580	$9,067	$66,188	$13,438
Earns below 25th percentile of AMI	525	40%	5%	21%	2%
Median FICO score in 2016	525	621	23.7	736	15.9
FICO score below 620 in 2016	525	34%	4%	16%	3%
FICO score above 700 in 2016	525	20%	4%	51%	6%
Missing FICO score in 2016	525	32%	5%	17%	3%
MSA aggregate					
Dissimilarity index	524	0.56	0.11	0.56	0.11
Building permits per household	515	0.01	0.01	0.01	0.01
Median house value	525	$209,911	$119,380	$209,911	$119,380
Median gross monthly rent	525	937	213	937	213
GDP per capita	525	49,441	15,053	49,441	15,053
Population	525	1,828,562	2,599,026	1,828,562	2,599,026

Sources: Decennial Census, the American Community Survey, Freddie Mac, and the Bureau of Economic Analysis.

Note: AMI = area median income; GDP = gross domestic product; MSA = metropolitan statistical area; SD = standard deviation.

Regression Analysis

Using the variables in table 3, we conducted three regression analyses. The first investigates factors that explain the black-white homeownership gap. To examine whether variables related to the black homeownership rate differ from those related to the white homeownership rate, the other two regressions separately run black and white homeownership rates on various explanatory variables.

The Black-White Homeownership Gap

Table 4 presents the results of the black-white homeownership gap regression. In all the regressions, we include year fixed effects to control for common time trends. The dependent variable is the difference

between the black and white homeownership rates. A negative sign in the coefficient means that the black homeownership rate is lower than the white homeownership rate, indicating a larger gap. For example, the first coefficient (the gap in the population share younger than 35) shows that MSAs with a greater share of black residents younger than 35 than white residents younger than 35 have a lower black homeownership rate than white homeownership rate. Key findings from table 4 are as follows:

1. **Age, sex, and marital status.** The black-white homeownership gap is wider in MSAs where the black population is younger, and the gap is smaller in MSAs where more black people are female, are married, and have children.

2. **Income and unemployment.** The median household income gap coefficient in column 1 shows that in MSAs where black median household income is higher, the black homeownership rate is higher. But this coefficient becomes statistically insignificant once we add the gap in the share of households that fall into the lowest quartile of the area median income (column 2). This result suggests that the difference in the income distribution may be a more important factor in explaining the black-white homeownership gap than the median income gap alone. The homeownership gap is larger when the unemployment gap is larger.

3. **Educational attainment.** The gap in educational attainment does not show statistical significance at the local level. This is likely because education is correlated with other variables, such as income and employment.

4. **Racial segregation.** In columns 1 and 2, the dissimilarity index, a proxy for racial segregation, is statistically significant with a negative sign, indicating that the homeownership gap is greater in places with greater segregation. But this variable becomes insignificant once additional MSA-level variables are included in column 3.

5. **Housing affordability and housing supply.** Columns 3 through 5 show that MSAs with higher house prices relative to rents and fewer building permits per household have a greater homeownership gap. But the median house value to median income shows a positive sign, indicating that the homeownership gap is lower where home prices are high relative to the median income. Tables 5 and 6 show that this is because white homeownership is significantly lower in MSAs where home prices are high relative to income, while black homeownership is not as sensitive to this variable.

6. **Credit scores.** The two credit score variables[6] show that credit is a significant factor in explaining the racial homeownership gap. A larger gap is observed where many black residents do not have a FICO score and few have a FICO score above 700.

TABLE 4
Gap Regression: Black-White Homeownership Rate

	Base		MSA variables	Credit scores	
	(1)	(2)	(3)	(4)	(5)
Younger than 35 (%): gap	-0.58***	-0.53***	-0.69***	-0.64***	-0.61***
	(0.07)	(0.07)	(0.06)	(0.06)	(0.07)
Has bachelor's degree or more (%): gap	-0.03	-0.02	-0.04	-0.06	-0.12***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.05)
Female-headed HH (%): gap	0.23***	0.26***	0.18***	0.18***	0.21***
	(0.06)	(0.05)	(0.05)	(0.05)	(0.05)
Married (%): gap	0.36***	0.27***	0.25***	0.23***	0.26***
	(0.08)	(0.08)	(0.08)	(0.07)	(0.07)
HH with children (%): gap	0.26***	0.20***	0.06	0.06	0.07
	(0.06)	(0.06)	(0.05)	(0.05)	(0.05)
Unemployment rate: gap	-0.29***	-0.20***	-0.25***	-0.23***	-0.23***
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
Log(median HH income): gap	0.03***	0.01	-0.01	-0.01	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Earns below 25th percentile of AMI (%): gap		-0.29***	-0.19***	-0.17***	-0.19***
		(0.06)	(0.06)	(0.06)	(0.06)
Dissimilarity index	-0.13***	-0.13***	-0.04	0.00	0.01
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Building permits per HH			0.60***	0.59***	0.61***
			(0.21)	(0.21)	(0.21)
Log(median house value/median rent)			-0.24***	-0.22***	-0.20***
			(0.02)	(0.02)	(0.02)
Log(median house value/median HH income)			0.20***	0.19***	0.17***
			(0.02)	(0.02)	(0.02)
Missing FICO score in 2016 (%): gap				-0.25***	
				(0.06)	
FICO score above 700 in 2016 (%): gap					0.22***
					(0.06)
Log(GDP per capita)			0.02	0.03***	0.02*
			(0.01)	(0.01)	(0.01)
Log(MSA population)			0.00	0.00*	0.00
			(0.00)	(0.00)	(0.00)
Year fixed effects	Y	Y	Y	Y	Y
Observations	523	523	514	514	514
R^2	0.470	0.496	0.613	0.627	0.624

Sources: Decennial Census, the American Community Survey, Freddie Mac, and the Bureau of Economic Analysis.

Notes: AMI = area median income; GDP = gross domestic product; HH = household; MSA = metropolitan statistical area. Standard errors are in parentheses.

* $p < 0.1$; *** $p < 0.01$.

The Black Homeownership Rate

Table 5 shows the regression results where the black homeownership rate is the dependent variable.

Key findings from table 5 are as follows:

1. **Age, sex, and marital status.** The black homeownership rate is lower in MSAs with a greater share of black millennials and higher in places where more black people are female, are married, and have children.

2. **Income and unemployment.** The share of black people falling into the lowest quartile of area median income shows strong statistical significance, while the coefficient of median household income is less significant and shows different signs. Black unemployment is negatively associated with black homeownership. Although promoting homeownership to the lowest income group may not be the first step, it does indicate the need to enhance the economic mobility of the lowest income group so they have a path to homeownership. In other words, focusing on policy interventions that boost income and employment makes sense, leading to more upward mobility and potential for eventual homeownership.

3. **Educational attainment.** The coefficient for college graduates shows a negative sign in the first two columns, but once housing affordability is controlled for, the coefficient becomes positive. This indicates that black college graduates are likely to reside in less affordable regions.

4. **Racial segregation.** Columns 1 and 2 show that black homeownership is lower in more-segregated MSAs. But this variable becomes insignificant once additional variables are included.

5. **Housing affordability and housing supply.** MSAs with lower median house prices relative to median rent and more building permits per household have higher black homeownership rates. The median house value relative to the median black household income is not statistically significant.

6. **Credit scores.** FICO scores are strongly related to the black homeownership rate. The black homeownership rate is higher in MSAs where a greater share of black households have a FICO score above 700 and fewer black households have missing FICO scores.

TABLE 5
Level Regression: Black Homeownership Rate

	Base		MSA variables	Credit scores	
	(1)	(2)	(3)	(4)	(5)
Younger than 35 (%)	-0.57***	-0.50***	-0.69***	-0.67***	-0.64***
	(0.10)	(0.10)	(0.09)	(0.09)	(0.09)
Female-headed HH (%)	0.46***	0.42***	0.35***	0.35***	0.37***
	(0.08)	(0.07)	(0.07)	(0.07)	(0.07)
Has bachelor's degree or more (%)	-0.19**	-0.13*	0.12*	0.10	0.07
	(0.08)	(0.07)	(0.07)	(0.07)	(0.07)
Married (%)	0.62***	0.58***	0.36***	0.31***	0.30***
	(0.12)	(0.11)	(0.10)	(0.10)	(0.10)
HH with children (%)	0.19***	0.11	0.11*	0.12*	0.13**
	(0.07)	(0.07)	(0.06)	(0.06)	(0.06)
Unemployment rate	-0.33***	-0.28***	-0.19**	-0.17**	-0.15**
	(0.09)	(0.08)	(0.08)	(0.08)	(0.08)
Log(median HH income)	-0.02	-0.07***	0.04*	0.04**	0.05**
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Earns below 25th percentile of AMI (%)		-0.45***	-0.22***	-0.20***	-0.24***
		(0.06)	(0.07)	(0.07)	(0.07)
Dissimilarity index	-0.16***	-0.08**	0.03	0.06*	0.09**
	(0.03)	(0.03)	(0.03)	(0.04)	(0.04)
Building permits per HH			1.03***	1.05***	1.18***
			(0.26)	(0.26)	(0.26)
Log(median house value/median rent)			-0.13***	-0.13***	-0.15***
			(0.03)	(0.03)	(0.03)
Log(median house value/median HH income)			0.02	0.03	0.02
			(0.02)	(0.02)	(0.02)
Missing FICO score in 2016 (%)				-0.16***	
				(0.06)	
FICO score above 700 in 2016 (%)					0.30***
					(0.09)
Log(GDP per capita)			-0.04***	-0.05***	-0.05***
			(0.01)	(0.01)	(0.01)
Log(MSA population)			-0.01***	-0.01***	-0.01***
			(0.00)	(0.00)	(0.00)
Year fixed effects	Y	Y	Y	Y	Y
Observations	524	524	515	515	515
R^2	0.392	0.450	0.567	0.574	0.577

Sources: Decennial Census, the American Community Survey, Freddie Mac, and the Bureau of Economic Analysis.

Notes: AMI = area median income; GDP = gross domestic product; HH = household; MSA = metropolitan statistical area. Standard errors are in parentheses.

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

The White Homeownership Rate

Table 6 shows the results of the regression in which the white homeownership rate is the dependent variable. Key results from table 6 are as follows:

1. **Age, sex, and marital status.** As with the black homeownership rate, the white homeownership rate is lower in MSAs with more young adults and higher in MSAs with more married households and households with children. The size and the sign of the coefficients suggest that marriage and having children is more strongly associated with white homeownership than black homeownership. Unlike the black homeownership rate results, MSAs with more white female-headed households have lower white homeownership rates.

2. **Income and unemployment.** White homeownership is lower in MSAs with higher white unemployment and where more white households fall into the lowest quantile of area median income.

3. **Educational attainment.** The college share variable does not show statistical significance.

4. **Racial segregation.** White homeownership is higher in MSAs with greater racial segregation. The significance of the dissimilarity index in the black homeownership results becomes weaker as more variables are added, but the relationship between racial segregation and homeownership remains strong and significant in all white homeownership regressions. Further research is needed to explore why white households have a higher homeownership rate in MSAs with greater racial segregation.

5. **Housing affordability and housing supply.** Columns 3 through 5 show that MSAs with higher house prices relative to median income have lower white homeownership rates. In contrast to the black homeownership results, white homeownership is higher where the median house value is higher than rent, but this relationship becomes insignificant once FICO scores are controlled for. This is likely because more black households are renters and their homeownership is more sensitive to the relationship between house prices and rent costs. MSAs with more building permits per household also have higher white homeownership rates, but the white homeownership rate is less sensitive to building permits than the black homeownership rate (the size of the building permit coefficient is about half the coefficient that appears in the black homeownership regression).

6. **Credit scores.** FICO score distribution is strongly related to the white homeownership rate.

TABLE 6
Level Regression: White Homeownership Rate

	Base		MSA variables	Credit scores	
	(1)	(2)	(3)	(4)	(5)
Younger than 35 (%)	-0.45***	-0.46***	-0.65***	-0.64***	-0.57***
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
Female-headed HH (%)	-0.17*	-0.16*	-0.14*	-0.16*	-0.18**
	(0.09)	(0.09)	(0.08)	(0.08)	(0.08)
Has bachelor's degree or more (%)	-0.05	-0.06	-0.01	-0.03	-0.10**
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Married (%)	0.76***	0.75***	0.40***	0.39***	0.39***
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
HH with children (%)	0.37***	0.36***	0.32***	0.32***	0.34***
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
Unemployment rate	-0.62***	-0.59***	-0.36***	-0.31**	-0.26**
	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
Log(median HH income)	-0.08***	-0.08***	-0.00	-0.00	-0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Earns below 25th percentile of AMI (%)		-0.18**	-0.23**	-0.26***	-0.34***
		(0.09)	(0.09)	(0.09)	(0.09)
Dissimilarity index	0.09***	0.09***	0.08***	0.08***	0.07***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Building permits per HH			0.50***	0.53***	0.63***
			(0.16)	(0.16)	(0.16)
Log(median house value/median rent)			0.06***	0.05***	0.02
			(0.02)	(0.02)	(0.02)
Log(median house value/median HH income)			-0.11***	-0.10***	-0.08***
			(0.02)	(0.02)	(0.02)
Missing FICO score in 2016 (%)				-0.12**	
				(0.06)	
FICO score above 700 in 2016 (%)					0.22***
					(0.05)
Log(GDP per capita)			-0.02**	-0.02**	-0.02**
			(0.01)	(0.01)	(0.01)
Log(MSA population)			-0.01***	-0.01***	-0.01***
			(0.00)	(0.00)	(0.00)
Year fixed effects	Y	Y	Y	Y	Y
Observations	524	524	515	515	515
R^2	0.508	0.513	0.601	0.605	0.618

Source: Decennial Census, the American Community Survey, Freddie Mac, and the Bureau of Economic Analysis.
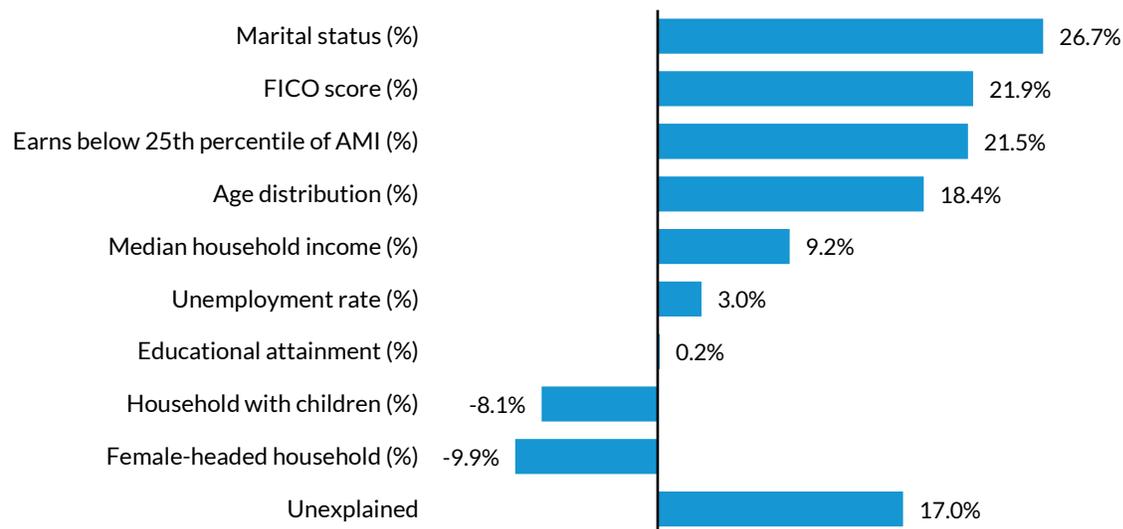
Notes: AMI = area median income; GDP = gross domestic product; HH = household; MSA = metropolitan statistical area. Standard errors are in parentheses.

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Oaxaca Decomposition

We use the Oaxaca decomposition method to estimate how much each variable explains the black-white homeownership gap. This method provides estimates only for the variables that show different values for the black and white population living in the same MSAs. Thus, although we control for MSA-level variables (e.g., the dissimilarity index and building permits per household) in the Oaxaca decomposition, we cannot estimate the share of the black-white homeownership gap these variables explain. Figure 17 shows that marital composition, FICO score distribution, age, and income distribution explain the largest proportion of the black-white homeownership gap at the MSA level. The results also show that about 17 percent of the homeownership gap remains unexplained.

FIGURE 17
Oaxaca Decomposition

Variable	Value
Marital status (%)	26.7%
FICO score (%)	21.9%
Earns below 25th percentile of AMI (%)	21.5%
Age distribution (%)	18.4%
Median household income (%)	9.2%
Unemployment rate (%)	3.0%
Educational attainment (%)	0.2%
Household with children (%)	-8.1%
Female-headed household (%)	-9.9%
Unexplained	17.0%

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Sources: Decennial Census, the American Community Survey, Freddie Mac, and the Bureau of Economic Analysis.
Note: AMI = area median income.

Next Steps and Policy Implications

Summary and Future Research

Over the past 50 years, the black homeownership rate has persistently lagged the white homeownership rate. Instead of converging, the gap has increased since the housing market crisis, as black households experienced a more severe hit and a slower recovery. Although no MSA has closed the black-white homeownership gap, it ranges from 15 to 51 percentage points, depending on location. The variations can be largely explained by differences in marital status, FICO scores, income distribution, and age distribution between black and white people. But about 17 percent of the gap remains unexplained by the observed differences.

As outlined in earlier research providing a five-point framework for reducing the black homeownership gap (McCargo, Choi, and Golding 2019), local market sensitivities are unique and require local-level analysis. Local factors affect how large or small homeownership gaps are. Delays in marriage and greater income inequality, two factors that have a strong association with homeownership, can also be affected by local economics, systems, and policies. The presence of strong networks in black communities (e.g., faith-based affiliations) or differences in local policies (e.g., property taxes and land-use and zoning regulations) can also be important determinants in homeownership opportunities and accessibility. Delving further into specific cities' policies and local economic factors and structures (e.g., employment opportunities and transportation) is a next step that can be done with localities.

Given marriage's significant correlation with homeownership, it is important to note structural and systematic reasons beyond the scope of this report that explain why black marriage rates are lower than white marriage rates, beyond a simple preference for later marriage. In particular, the high incarceration rate among black men, the high mortality rate of black men, and the decline in low-skilled jobs that offer living wages contribute to the marriage rate differential.[7]

Wealth and homeownership disparities between black and white households may also be linked to parental financial and tenure characteristics. A recent study by the Federal Reserve Bank of St. Louis found that white college graduates were more likely to receive financial help for education and a home purchase while black college-educated households were less likely to receive and more likely to give parental support (Meschede et al. 2017). An earlier Urban Institute study found that parental financial

wealth and parental tenure status is correlated with the incidence of homeownership among young adults (Choi et al. 2018). Millennials with wealthy parents or parents that are homeowners are themselves more likely to be homeowners. These results have important ramifications for the black-white homeownership gap because they could be an exacerbating source both now and in the near future as more baby boomers reach retirement age. Intergenerational factors are a fertile area for future research on the causes of racial wealth and homeownership disparities.

Further research should attempt to evaluate the effects of discrimination on the size of the homeownership gap. Abedin and coauthors (2018) find that there are more than 4 million instances of housing discrimination each year. A 2012 Urban Institute report found that although overt discrimination has declined, implicit discrimination continues to limit housing options for black Americans. Real estate agents recommend and show fewer available homes to people of color than they recommend and show to white people (Turner et al. 2012).

Policy Implications

Homeownership can have a significant impact on a household's financial well-being, economic mobility, and intergenerational wealth (Choi et al. 2018). Reducing the racial homeownership gap will require establishing opportunities to create new homeowners while ensuring existing homeowners can sustain their homes. Addressing the gap will require local, state, and federal coordination and action, along with policy and systems change. Housing is heavily influenced by local economic conditions, and no two housing markets are exactly alike. Policy solutions will need to come from state and local governments, the federal government, and institutions.

State and Local Change

- **Conduct deep-dive demographic profiles for each city.** Key characteristics to analyze include credit scores, income distribution, age distribution, household headship and family structure, sources of income, employment, housing tenure, race or ethnicity, wealth, and debt. These local-level insights can help policymakers, businesses, and service providers more concretely address community needs and understand housing tenure options for local residents. A city's financial health is often defined by the financial health of its residents, and cities should analyze local demographics and changes in population characteristics (McKernan et al. 2016). These

factors can reveal the housing affordability or sustainability challenges residents face as local markets shift and can help cities manage change.

- **Build strong local housing market data and indicators.** To address housing gaps and needs and to build indicators that will identify housing market issues early, localities can begin taking stock of current housing market conditions to understand housing characteristics such as type, age, price, quantity, location, vacancy status, neighborhood racial makeup, new construction, and housing conditions, as well as the size of the housing stock. Our results show that black households have higher homeownership rates in MSAs with more building permits per household, indicating new construction. One important dataset localities control contains local tax assessment and deed data on all properties in a jurisdiction. Every locale collects, reports, and requires important data at different times. Often, critical information about a property, such as who owns the property, is vague, incomplete, or missing. In many jurisdictions, it is difficult to locate an exact property owner because the property records indicate the owner is an LLC name that is difficult to track. Lack of transparency on property ownership or tax rolls can cause issues for community residents, tenants, or owners. Timely and complete property records can alert local policymakers to key demographic or ownership changes (e.g., individual or institutional) that might affect the local homebuying market. In addition, visibility, consistency, and transparency in local data collection can help build a better knowledge base and inform and improve policies and responses to housing market trends. Third, a complete record of housing inventory can alert cities to the presence and location of high-quality low-cost single-family housing stock, a potential source of new homeownership opportunities. Solutions around small-dollar housing finance (McCargo et al. 2018) can be identified locally, and cities or regions can create more robust and consumer-friendly programs.

- **Understand the local capacity for access to credit and of down payment assistance providers and developers and rehabilitators of affordable homeownership opportunities**. Almost as important as understanding the financial health of residents is understanding the institutions offering housing-related credit and mortgage products and building or rehabilitating housing for affordable ownership. City leaders, housing counselors, and real estate professionals need to know who is offering mortgage credit, capital, and affordable housing ownership opportunities in their market. Local communities have different capacities set up to support development and lending, and some have such institutions as community and national banks, community development financial institutions, minority-owned banks, community development corporations, and state housing finance agencies. These locally based and locally focused institutions offer such services as new construction or rehabilitation, mortgage lending

products for underserved populations, or access to acquisition financing to prepare vacant properties for rent or sale. These locally focused organizations typically operate on a smaller scale and can help reduce local homeownership and financing gaps. Research has confirmed that communities that lack access to financial services and banks suffer from disinvestment and a lack of fairly priced basic financial services. These effects have been particularly pronounced in black neighborhoods. Increased access to state and local down payment assistance programs and ensuring that renters and potential homebuyers are connected to and aware of these programs during the home counseling and buying process can also increase sustainable homeownership (Goodman, McCargo, et al. 2018). In addition, these institutions can address the lack of housing supply because they tend to be more intimately knowledgeable about neighborhoods, local building codes, and community needs.

- **Reform local zoning laws, land-use policies, and building codes that inhibit affordable housing development.** Local zoning laws have perpetuated racial segregation. After federal courts and statutes banned overtly racist zoning laws, restrictive regulations prevented affordable housing construction in wealthy and white communities, causing segregation and disparities in access to opportunity across racial and ethnic groups.[8] Cities should preserve housing affordability and create more opportunities for affordable homeownership. Local building codes can reduce affordability by raising construction costs, potentially limiting production. Many building codes ensure a safer living environment, but they should also be assessed for their impact on affordability. Local policymakers can also use zoning rules to support affordability. These rules often restrict dense construction, especially in affluent neighborhoods, which can limit housing supply and lower affordability. Overcoming sentiments of "NIMBYism" (not in my backyard) that often paralyze political action can lead to more construction of for-sale multifamily buildings, such as condominiums, increasing the affordable housing stock.

Federal and Institutional Change

The federal government can increase black homeownership through job training programs and minimum wage increases to boost incomes. In addition, actions to close the education gap without aggravating the student loan debt burden will improve the speed and likelihood of black households becoming homeowners. Addressing the lack of affordable rental housing, particularly in large MSAs, would allow young renters to save for a down payment and spur black homeownership. These policies are important but are outside the scope of our research. Our analysis found that FICO scores and income distributions are also critical components that explain the black-white homeownership gap. In

addition to local efforts, federal policies need to address the racial homeownership gap. Below is a list of suggested policies.

- **Improve credit measurement and underwriting systems for evaluating access to the housing finance system.** One in 10 adults does not have any credit history with one of the three nationwide credit reporting companies. Black consumers, Hispanic consumers, and consumers in low-income neighborhoods are more likely to have no credit history or not enough current credit history to produce a credit score (CFPB 2016). Helping these households establish and build a credit history is likely to particularly benefit black and Hispanic households, as they are disproportionally less likely to have mainstream credit (Apaam et al. 2018). Policymakers can advance racial equity in credit evaluation by looking beyond credit scores and relying less on blunt measures such as debt-to-income ratios, which tend to be less predictive of default and more punitive to black borrowers and others with low incomes.[9] Increasing the use of alternative types of credit information, such as rental payment history, is one way to reach more potential black and Hispanic homeowners.[10] Further, policymakers and lenders can include cash flow data to augment traditional credit history and scoring and to attract potential borrowers who have difficulty accessing loans from traditional sources (FinRegLab 2019).

- **Broaden and update underwriting standards to address income variations and to better assess ability to pay**. As the financial technology (fintech) sector evolves, the mortgage industry is well positioned to improve underwriting through automation. Additionally, fintech can provide better data for analyzing income and the variability of income sources that many workers and self-employed households have that is not well captured in the current system (Kaul, Goodman, and Zhu 2018). Increasingly, young people are earning income through gig work or through entrepreneurial self-employment. Encouraging the government-sponsored enterprises (GSEs) and the Federal Housing Administration (FHA) to update their selling guidance on variable income sources and encouraging lenders to improve their systems for understanding and underwriting these income sources could increase black homeownership. This is especially important in view of the mandates in appendix Q of the ability-to-repay and the qualified mortgage rule, part of which requires lenders to verify a borrower's income and debts to ensure he or she can repay the loan. Greater reliance on earnings from the gig economy can make income verification more difficult and keep some of these workers from buying a home. In addition, the GSE patch—which amends the part of appendix Q that exempts borrowers of GSE-backed mortgages from ensuring a borrower's monthly debt-to-income ratio

does not exceed 43 percent—should support workers in the gig economy who want to buy a home. More broadly, the patch likely benefits minority homebuyers because they are more likely to have a debt-to-income ratio over 43 percent.[11]

- **Update the Federal Housing Administration loan insurance program.** The FHA has historically provided housing finance options to borrowers who have low incomes or weak credit. Policymakers should improve and modernize the FHA program by removing the barriers that make underwriting and servicing FHA loans more cumbersome, expensive, and onerous than conventional loans. The FHA's inspection and occupancy requirements for condominium lending often pose challenges for borrowers using this financing and should be considered for reform. Also, fixing the mortgage servicing fundamentals for FHA loans would support homeownership sustainability for families that have government-insured loans and may need relief after a natural disaster or other unexpected hardships (Goodman, Kaul, et al. 2018).

- **Ensure that administrative or legislative reforms to the GSEs, Fannie Mae and Freddie Mac, focus on reaching underserved geographies and groups.** The GSEs' portfolio share of loans to black borrowers has remained well below 5 percent of total mortgage acquisitions (Fannie Mae 2018) despite several decades of housing goals. This racial disparity reflects a systemic deficiency in serving borrowers of color and a failure to provide liquidity and access equitably. Conventional financing is inherently viewed as more favorable in the eyes of home sellers, real estate agents, and appraisers, and consequently, the GSEs should focus on expanding access to conventional sources to include first-time homebuyers, millennials, and households of color. Recent improvements have been possible thanks to the GSEs' introduction of safe low–down payment lending products enhanced by mortgage insurers, as well as lending under the GSE qualified mortgage patch, which allows for safe expansion of the credit box.[12] Both these changes improved mortgage access for black and Hispanic borrowers. Although the patch should not last in perpetuity and will soon expire, the idea of safe and broad credit access supported by the patch should be conserved across GSE and non-GSE loans as a long-term solution. Maintaining focus on serving first-time homebuyers and the homebuyers of the future—who will be predominantly people of color—will be a necessity in housing finance system reforms.

- **Enforce fair housing, fair lending, and disparate impact laws**. Regression results show that when key variables are controlled for, 17 percent of the black-white homeownership gap remains unexplained, which suggests that variables that are hard to control for, such as discrimination, may be contributing to the gap and persisting in current structures, such as credit scoring. Strong enforcement of the Affirmatively Furthering Fair Housing (AFFH) laws in jurisdictions across the country is fundamental to addressing discriminatory and structural racial barriers in housing markets. The AFFH rule, adopted in 2015, interprets and enforces the federal Fair Housing Act's requirement that every state and local government that receives federal housing and community development funding take affirmative steps to address racial segregation and remove barriers to housing choice.[13]

Conclusion

Observable data cannot fully explain the racial homeownership gap. In addition to our findings, such factors as uneven access to credit, inequitable distribution of capital in neighborhoods, and macroeconomic forces could further inhibit black homeownership. Policy changes, including the Fair Housing Act and the Community Reinvestment Act, tried to address these inequities, but more effort is needed. Discriminatory practices are not necessarily overt, but the legacies and bias from a history of racism persist. Dismantling structural racism is essential. The growing racial homeownership gap, which we have outlined in this report, is particularly acute among black households and will affect generations to come. Now is the time to consider bold steps, sweeping policy changes, and massive reforms to federal, state, and local programs. To keep pace with economic changes, it is necessary to invest in communities and people lacking access to capital and resources. No single program or policy can mitigate and remedy decades of disenfranchisement. Just as systemic barriers did not emerge overnight, long-term solutions will not solve everything overnight. Reversing this trend will also require a concerted and coordinated effort on the part of many stakeholders, including community organizations, financial institutions, philanthropy, local government, and federal policymakers. It will take leadership from all corners to move the ball forward, and we hope the evidence here will turn the tide and reduce the racial homeownership gaps that persist both nationally and locally.

Notes

[1] Parental wealth and homeownership data can be obtained in the Panel Study of Income Dynamics. Our previous report (Choi et al. 2018) finds these factors show a significantly positive relationship with young adults' homeownership. But this variable is not included in the American Community Survey, a larger dataset that enables us to compare black and white homeownership across MSAs.

[2] Kim Parker and Renee Stepler, "As U.S. Marriage Rate Hovers at 50%, Education Gap in Marital Status Widens," *FactTank* (blog), Pew Research Center, September 14, 2017, https://www.pewresearch.org/fact-tank/2017/09/14/as-u-s-marriage-rate-hovers-at-50-education-gap-in-marital-status-widens/.

[3] Freddie Mac has constructed a household panel dataset that combines anonymized individual credit bureau records with marketing data containing race and ethnicity information in 2012, 2016, and 2018.

[4] This measure is lower than homeownership because some homeowners do not have mortgages.

[5] 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.

[6] We have obtained FICO score variably by race from Freddie Mac. We use 2016 numbers for all years because we do not have variables for every period of our analysis. Although this lowers statistical accuracy, we still find that FICO scores are an important determinant in explaining the racial homeownership gap.

[7] Elizabeth Caucutt, Nezih Guner, and Christopher Rauh, "Incarceration, Unemployment, and the Black-White Marriage Gap in the US," *Vox* (blog), Centre for Economic Policy Research, April 6, 2019, https://voxeu.org/article/incarceration-unemployment-and-black-white-marriage-gap-us.

[8] Solomon Greene, "Can We Deregulate Ourselves out of the Affordable Housing Crisis?" *Urban Wire* (blog), Urban Institute, July 1, 2019, https://www.urban.org/urban-wire/can-we-deregulate-ourselves-out-affordable-housing-crisis.

[9] Laurie Goodman, "New Data Confirm the Urgency of Addressing the Expiration of the GSE Patch," *Urban Wire* (blog), Urban Institute, March 25, 2019, https://www.urban.org/urban-wire/new-data-confirm-urgency-addressing-expiration-gse-patch.

[10] Goodman and Zhu, "Rental Pay History."

[11] Goodman, "New Data Confirm."

[12] Goodman, "New Data Confirm."

[13] Ruth Gourevitch and Solomon Greene, "Federal Fair Housing Data Highlight the Need for Action to Reverse the Nation's Legacy of Segregation," *Urban Wire* (blog), Urban Institute, June 28, 2018, https://www.urban.org/urban-wire/federal-fair-housing-data-highlight-need-action-reverse-nations-legacy-segregation.

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About the Authors

Jung Hyun Choi is a research associate with the Housing Finance Policy Center at the Urban Institute. She studies urban inequality, focusing on housing, urban economics, real estate finance, and disadvantaged populations in the housing market. Before joining Urban, Choi was a postdoctoral scholar at the University of Southern California Price Center for Social Innovation, where her research examined innovative housing and social policies to enhance quality of life for low-income households. Choi holds a PhD in public policy and management from the Price School of Public Policy at the University of Southern California.

Alanna McCargo is vice president for housing finance policy at the Urban Institute, where she focuses on management, development, and strategy for the Housing Finance Policy Center, including the cultivation of innovative partnerships within Urban and with external stakeholders. McCargo has over 20 years of experience in housing finance, policy, and financial services. She has worked in the private, public, and nonprofit sectors on programs, policies, and research to improve access to housing and mortgage finance. Before joining Urban, McCargo was head of CoreLogic Government Solutions, working with federal and state government agencies, regulators, government-sponsored enterprises, think tanks, and universities to deliver custom data, analytics, and technology solutions to support housing and consumer policy research. Previously, McCargo held leadership roles with Chase and Fannie Mae, managing portfolios, policy efforts, and mortgage servicing transformation and alignment. From 2008 to 2011, she was an agent of the US Treasury Department on housing programs, such as Making Home Affordable and Hardest Hit Funds, working with industry stakeholders on the recovery. McCargo serves on nonprofit boards and committees, focusing on her passion for helping underserved populations with financial literacy, economic stability, and housing security. She works with Doorways for Women and Families, Women in Housing and Finance, and DC Habitat for Humanity. McCargo has a BA in communications from the University of Houston, an MBA from the University of Maryland, and an executive certificate in nonprofit management from Georgetown University's McCourt School of Public Policy.

Michael Neal is a senior research associate in the Housing Finance Policy Center. Previously, he worked at Fannie Mae, where he was a director of economics in the Economic and Strategic Research division. Before his service at Fannie Mae, Neal was the assistant vice president at the National Association of Home Builder's economic and housing policy department. As a housing economist, Neal has an in-depth

knowledge of housing market trends and has provided expert analysis and commentary on housing to media outlets around the country. Previously, Neal worked at the congressional Joint Economic Committee, within the Federal Reserve System, at the Congressional Budget Office, and at Goldman Sachs. Neal has a bachelor's degree in economics from Morehouse College and a master's degree in public administration from the University of Pennsylvania.

Laurie Goodman is a vice president at the Urban Institute and codirector of its Housing Finance Policy Center, which provides policymakers with data-driven analyses of housing finance policy issues that they can depend on for relevance, accuracy, and independence. Goodman spent 30 years as an analyst and research department manager on Wall Street. From 2008 to 2013, she was a senior managing director at Amherst Securities Group LP, a boutique broker-dealer specializing in securitized products, where her strategy effort became known for its analysis of housing policy issues. From 1993 to 2008, Goodman was head of global fixed income research and manager of US securitized products research at UBS and predecessor firms, which were ranked first by *Institutional Investor* for 11 years. Before that, she held research and portfolio management positions at several Wall Street firms. She began her career as a senior economist at the Federal Reserve Bank of New York. Goodman was inducted into the Fixed Income Analysts Hall of Fame in 2009. Goodman serves on the board of directors of MFA Financial and Arch Capital Group, is an adviser to Amherst Capital Management, and is a member of Morningstar Credit Ratings Regulatory Governance Board. She has published more than 200 journal articles and has coauthored and coedited five books. Goodman has a BA in mathematics from the University of Pennsylvania and an AM and PhD in economics from Stanford University.

Caitlin Young is a research assistant in the Housing Finance Policy Center. Before joining Urban, she interned with the Center for Community Self-Help, a community development financial institution. Young graduated from the University of North Carolina at Chapel Hill with double majors in political science, for which she received highest honors, and in economics. She wrote her senior thesis on the impact of state social welfare policy on recidivism outcomes.

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