



RESEARCH BRIEF

Gap in Homeownership Rates

SEPTEMBER 2021





STATE OF THE RESEARCH

The difference in national homeownership rates between white and Black households is larger today than it was in 1960. This racial gap in homeownership limits the ability of Black families to realize the financial benefits and participate in the wealth accrual which may result from homeownership. Considerable research has examined the causes of the homeownership gap and research is increasingly seeking to develop policy and programmatic solutions to bridging the gap.

BACKGROUND

According to a 2017 report compiled by the Urban Institute, in 1960, there was a 27-point gap between Black and white homeownership rates; at the release of the report in 2017, the gap stood at 30-points. The report notes the decline in Black homeownership, relative to white homeownership, threatens to exacerbate the racial wealth gap and undermine efforts to become a more equitable society. As a point in case, a 2016 report by the Federal Reserve, found homeowners have an average household wealth of \$231,400 compared to the average renter's net worth of \$5,200; to the degree Black households are excluded from homeownership opportunities, they are similarly excluded from the wealth generating opportunities attributable to homeownership.

As with other racial disparities, the differences in homeownership rates between whites and Blacks are steeped in a long history of *de jure* and *de facto* segregation that limited housing and wealth building opportunities for Black families. For Black families who achieved homeownership, governmental and private actions—such as federal housing policy, redlining, predatory lending, appraisal biases, displacement from gentrification, among others—have limited the ability of those families to realize the full financial and wealth building benefits of homeownership.

SUMMARY OF RESEARCH FINDINGS

Recently, a number of research efforts have examined potential causes of the homeownership gap; many of these issues and causes are inter-related which creates challenges in identifying singular causal factors. A recent report by the Urban Institute examined income, educational attainment, credit scores and marital status as potential causal factors for lower homeownership rates among Black families (recognizing Black-white differences in these domains are symptoms of larger societal challenges).

Once controlling for income, educational attainment was not highly correlated with homeownership; however, the other three areas examined were. The report notes that solving income disparities would reduce the Black-white homeownership gap by roughly 9 percentage points; if Black families had the same credit score distributions as white families the homeownership gap would close by 10.6 percentage points; and if Black families had the same percentage of married households, the homeownership rate would increase by 9 percentage points.

The Urban Institute examined metropolitan areas—in addition to its national analysis—finding those same categories to be strong factors in explaining the gaps in homeownership at the metropolitan level as well. Further, it found Black households tended to have higher homeownership rates in regions in which more building permits (i.e., more residential construction) was occurring (although their report does not ascribe causation to more construction and higher Black homeownership rates).

A number of research efforts and press articles note Black homeowners were hit harder than other groups by the housing crisis in the late 2000s; Black homeowners were more likely to purchase homes at the peak of



the housing price bubble and were more likely to be impacted by non-traditional lending products that fared poorly when the housing bubble popped. In addition, wages and incomes among Black families have been slower to recover, relative to other racial and ethnic groups, following the recession in the late 2000s. A report from the Economic Policy Institute found Black wages only fully recovered to their 2007 levels in 2019; further, the report notes the Black-white wage gap is wider today than it was in 2000.

Coupled with these broad challenges, Black families tend to have higher interest rates and are more likely to have applications for mortgage financing denied, when compared with white households. A report by the Joint Center for Housing Studies finds higher income Black homeowners have higher interest rates than white homeowners with substantially lower incomes; among homeowners earning \$100,000 or more the median mortgage interest rates for Blacks is 4.17 percent, while for whites it is 3.94. The gaps in interest rates hold true regardless of whether a household has refinanced.

An article in *NextAdvisor*, citing the Economic Policy Institute, reports the median Black household earns 61 cents on the dollar compared to a similarly-situated white household. In addition to long-standing income disparities, Black wage earners were more likely than white wage earners to be impacted by the economic disruption caused by the COVID-19 pandemic.

Multiple outlets note student debt also contributes to limiting the realization of homeownership among Black families. Black families tend to hold higher levels of student debt compared with similarly-situated white families. Further, a Brookings report notes that, upon completion of a degree, a Black graduate may be expected to contribute to supporting their family's economic wellbeing while servicing their student debt, whereas a white graduate may be more likely to have his or her education expenses paid with no remaining obligations or expectations.

Potential Solutions

The National Community Reinvestment Coalition (NCRC) has proposed a, self-termed, radical goal of achieving a 60 percent Black homeownership rate by 2040. To meet this goal, the NCRC proposes targeting households on the edge of homeownership: individuals and families over 40 years old with credit scores between 600 and 700 and an annual household income of \$40,000 to \$100,000. Further, the NCRC effort notes the importance of focusing efforts in southern and midwestern states with larger populations of middle-income Black families will be important in closing the national gap. NCRC estimates achieving a 60 percent homeownership rate will require 3.3 million new Black homeowners, or 165,000 each year between 2020 and 2040.

To achieve the homeownership gap, the NCRC notes the importance of identifying and deploying financing that better meets the needs of low-wealth Black homebuyers who may have difficulty within the mainstream mortgage market. Specifically, the call to action notes the need to overcome challenges associated with down payments and closing costs as well as low- or no credit.

As part of its research agenda, the Urban Institute is likewise examining strategies to close the Black-white homeownership gap; it has proposed a *Five-Point Framework* for addressing the homeownership gap (see detailed graphic on the final page of this brief). Recommendations within the five-point framework fall within the following categories:

- Advance policy solutions at the local level
- Tackle housing supply constraints and affordability



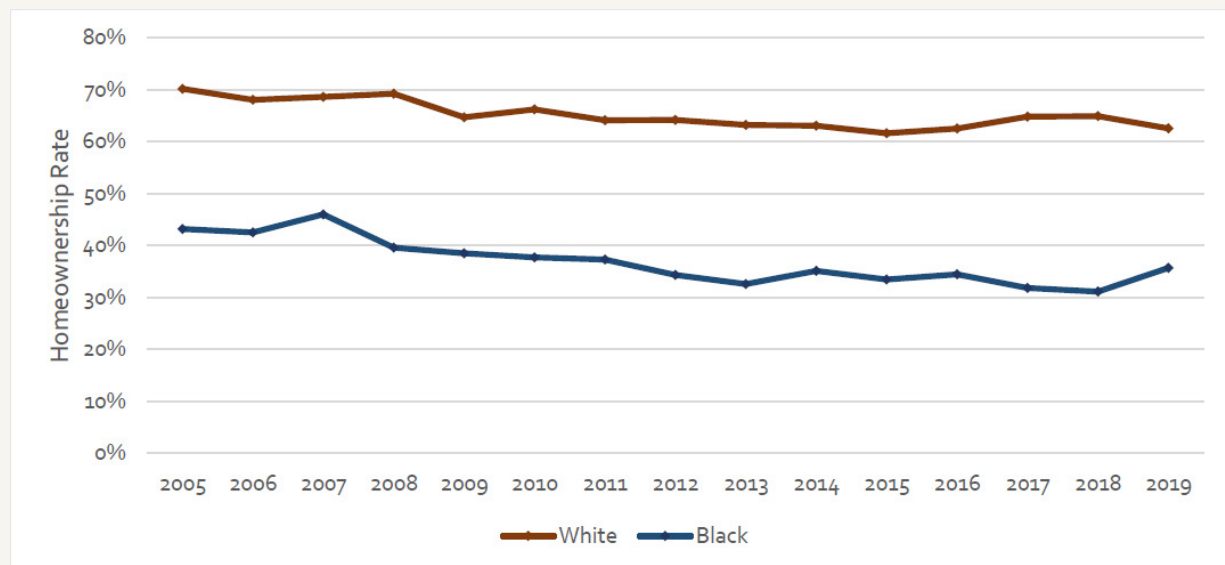
- Promote an equitable and accessible housing finance system
- Accelerate outreach and counseling for renters and mortgage-ready millennials
- Focus on sustainable homeownership and preservation

To address the disparities in homeownership rates, the Urban Institute notes that changes are needed across the housing ecosystem to address entrenched structural barriers. Successfully closing the gap will require intentional policy making, research and evaluation, and effective partnerships at the national and local levels.

LOCAL DATA

Within Marion County, since 2005, the gap between white and Black homeownership rates have ranged from 22.6 percentage points (2007) to as much as 33.8 percentage points (2018), see Figure 1. While both white and Black households have seen decreasing homeownership rates between 2005 and 2019, Black homeownership rates declined sooner and more precipitously than white homeownership rates. Black homeownership peaked in 2007 and declined 6.4 percentage points by 2008, likely as a result of the housing crisis and recession. White homeownership peaked in 2005, and while it saw a substantial decrease between 2008 and 2009, the drop of 4.5 percentage points was not as drastic as that realized by Black homeowners the year before. The most recent available survey data suggest a dramatic positive movement in rate of Black homeownership relative to previous years. It will be important to review 2020 and 2021 data, as it becomes available, to assess this trend, particularly within the context of the COVID-19 pandemic.

FIG 1. HOMEOWNERSHIP RATE BY RACE OF HOUSEHOLDER: *Marion Co., Indiana (2005-2019)*



Source: American Community Survey: 1-year estimates



RELATED RESEARCH & COMMENTARY

Explaining the Black-White Homeownership Gap (Urban Institute):

Available at https://www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_2.pdf

60% Black Homeownership: A Radical Goal For Black Wealth Development (National Community Reinvestment Coalition): Available at <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>

A Five-Point Framework: Reducing the Black Homeownership Gap (Urban Institute) Available at <https://www.urban.org/policy-centers/housing-finance-policy-center/projects/reducing-racial-homeownership-gap/five-point-framework>; with additional detail available at

High-income black homeowners receive higher interest rates than low-income white homeowners (Joint Center for Housing Studies at Harvard University): Available at <https://www.jchs.harvard.edu/blog/high-income-black-homeowners-receive-higher-interest-rates-low-income-white-homeowners>

The Black Homeownership Gap Is Larger Than It Was 60 Years Ago. COVID-19 Made It Worse (NextAdvisor): Available at <https://time.com/nextadvisor/mortgages/what-is-black-homeownership-gap/>

Reducing the Racial Homeownership Gap (Urban Institute): Available at <https://www.urban.org/policy-centers/housing-finance-policy-center/projects/reducing-racial-homeownership-gap>

A FIVE-POINT FRAMEWORK

Reducing the Black Homeownership Gap



ADVANCE LOCAL POLICY SOLUTIONS

- Responsibly expand small-dollar mortgages for purchase and renovation (micro-mortgages)
- Reform local land use and building codes, and revisit zoning laws and regulations
- Strengthen access to and capacity of homeownership Community Development Financial Institution (CDFI) networks
- Improve and invest in Community Development Corporations' (CDCs) capacity and partnerships locally
- Remove discriminatory terms in Homeowner Association (HOA), Condominium Owner Association (COA), and Planned Unit Development (PUD) deeds on single-family residential units
- Expand the reach of Housing Finance Agency (HFA) programs locally, and strengthen realtor/lender/HFA networks
- Consider property tax relief for lower and moderate-income taxpayers



TACKLE HOUSING SUPPLY CONSTRAINTS AND AFFORDABILITY

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



PROMOTE AN EQUITABLE AND ACCESSIBLE HOUSING FINANCE SYSTEM

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



ACCELERATE OUTREACH AND COUNSELING FOR RENTERS AND MORTGAGE-READY MILLENNIALS

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



FOCUS ON SUSTAINABLE HOMEOWNERSHIP AND PRESERVATION

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