SECTION V

STRONGER FAMILY BALANCE SHEETS: ASSETS

Black Homeownership Matters

BY VANESSA G. PERRY AND JANNEKE RATCLIFFE

Homeownership is the primary cornerstone for asset building in the U.S. As a lasting legacy of racism, households of color have much lower homeownership rates than white households and consequently hold, at the median, just one-eighth the wealth of white households. As America's population ages and diversifies, homeownership is expected to drop, with each new age cohort less likely to own a home than prior generations at the same age.[1] *We can do better. This article lays out clear steps to increase access to the benefits of homeownership, safely and equitably.*

Homeownership works. Of the opportunities covered in this volume, owning a home remains the clearest path to long-term and intergenerational asset building.

As America's population ages and diversifies, homeownership is expected to drop, with each new age cohort less likely to own a home than prior generations at the same age. We can do better.

It works because we make it work. The government subsidizes housing for the wealthy via the tax code, has engineered a system of mortgage finance to facilitate homeownership, and intervenes in economic crises to help owners keep their homes. However, the system has not worked for all. Some 75% of white households own their own homes, yet less than half of Black and Hispanic households do.[2] The Black/white homeownership gap is greater today than it was in 1968,[3] when the Fair Housing Act supposedly ended racial discrimination in housing.

1 Laurie Goodman and Jun Zhu, 2021. "The Future of Headship and Homeownership." Urban Institute.

2 American Community Survey of 2019 and the 2020 Census Housing Vacancy Survey

3 Decennial censuses 1960-2010 and the 2019 American Community Survey. The Black/white homeownership gap was 24.3% in 1960, 26.8% in 1970 and 30.1% in 2019.

These outcomes are no accident.

Before 1968, overt and institutionalized racism denied many families of color access to homeownership, while thousands of white families got federal help to accumulate wealth. The legacy of these policies endures in systemic forms for whole communities once explicitly denied a foothold on the middle class.

Homeownership works.

Interventions at the margin have not taken root. Small gains made from 1994 to 2006 were largely lost in the Great Recession,[4] when Black and Hispanic borrowers, who were disproportionately set up for foreclosure with predatory loans, lost their homes at around 1.8 times the rate of white borrowers. And now, a year into the COVID-19-related mortgage foreclosure moratoriums, Black and Hispanic borrowers are more likely to be in forbearance or delinquent on their mortgages, once again facing greater risk of home loss when these expire.

The Black/white homeownership gap is greater today than it was in 1968, when the Fair Housing Act supposedly ended racial discrimination in housing.

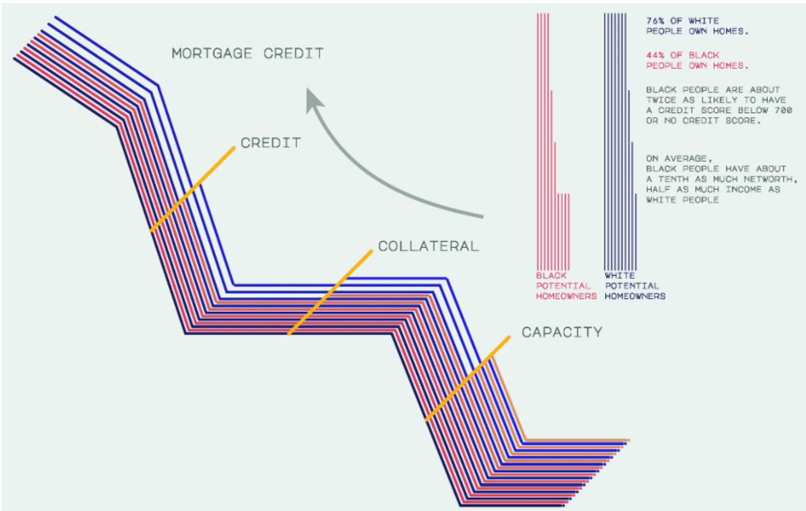
We can do better. Our vast mortgage finance system can intentionally address its past failures by extending well-regulated, affordable safe mortgages with low down payments to more people, through three steps.

First, we should update how models assess the three Cs of lending: capacity to repay, credit reputation and collateral (as illustrated below). Historical disadvantage has resulted in fewer financial resources for Black and Hispanic applicants who are in turn are more likely to be denied mortgages[5] yet manage regular, and increasingly high, rent payments. Such inequities will persist until mortgage lending models are more inclusive and fair.

[4] Census Bureau Housing Vacancy surveys 1994-2019

[5] Alanna McCargo and Jung Hyun Choi, 2020. "Closing the Gaps: Building Black Wealth Through Homeownership." Urban Institute, https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.

Race, Access to Credit and the Homeownership Gap[6]



Models that count more types of income such as earnings in the gig economy and contributions of other household members are likely to be more inclusive. Adding new factors to credit scoring models—rental payments, utilities, remittances and digital transactions—would also likely benefit unbanked and "thin-file" consumers, who are disproportionately Black, Hispanic and recent immigrants.

Second, a targeted down payment assistance (DPA) program is critical. Renters report the lack of a down payment as the primary barrier to buying a home. For the median Black family, who holds less than 15% of the wealth of the median white family, this barrier is especially steep. Across the U.S., a patchwork of DPA programs is deployed across a network of over 1,300 state, local and national agencies.[7] These funds are often oversubscribed. With new federal funds for DPA, targeted to borrowers of color, many otherwise "mortgage-ready" families could buy a home with a standard mortgage they

[6] Vanessa Perry et.al., 2020. "2020 State of Housing in Black America: Challenges Facing Black Homeowners and Homebuyers During the COVID-19 Pandemic and an Agenda for Public Policy." National Association of Real Estate Brokers, https://www.nareb.com/shiba-report/.

[7] Laurie Goodman et al., 2018. "Barriers to Accessing Homeownership: Downpayment, Credit, and Affordability." Urban Institute, https://www.urban.org/sites/default/files/publication/99028/barriers_to_accessing_homeownership_2018_4.pdf.

could afford.[8]

And third, mortgage products and processes can, by design, enhance the safety and benefits of homeownership. The standard 30-year fixed rate, fixed payment mortgage, for example, protects borrowers from unexpected payment increases. Likewise, the rules for how lenders manage loans can speed a delinquent borrower to foreclosure or give them a way to catch up. Features that would reduce risk, improve benefits and provide safer on-ramps to homeownership for more families might include loans with built-in reserves, loans that are easy to refinance when rates fall, small-balance loans, lease-to-own and shared-equity financing, and loans that facilitate home improvement and rehab.[9]

Such advances can become mainstream but only if the federal housing agencies take the lead in piloting and standardizing. The government-sponsored entities that provide liquidity to lenders to make mortgages (Fannie Mae and Freddie Mac) should be refocused on their original mission, which, since the 2008 crisis, has fallen far short of proportionate service to Black and Hispanic communities. Furthermore, with additional investments in technology and capability, Federal Housing Administration (FHA) and Veterans Administration (VA) programs that disproportionately serve Black and Hispanic homebuyers can operate more efficiently and serve more borrowers.

At the same time, our system of public support for housing should also be refocused on bolstering the supply of homes for first-time buyers. If current trends continue, we expect 6.9 million net new homeowners by 2040, all of which will come from non-white households.[10] Skyrocketing demand and

---

8 A consumer is mortgage ready if he or she does not currently have a mortgage, is 40 or younger, has a FICO score of 620 or above, has a debt-to-income ratio not exceeding 25%, has no foreclosures or bankruptcies in the past 84 months, and has no severe delinquencies in the past 12 months (based on September 2016 data). For more information, see Vanessa Perry et al., 2020. "2020 State of Housing in Black America: Challenges Facing Black Homeowners and Homebuyers During the COVID-19 Pandemic and an Agenda for Public Policy." National Association of Real Estate Brokers, https://www.nareb.com/shiba-report/.

9 Testimony of Alanna McCargo in 2017 before the Subcommittee on Housing and Insurance, Committee of Financial Services, U.S. House of Representatives. "Sustainable Housing Finance: Private-Sector Perspectives on Housing Finance Reform, Part III, p. 10-13," https://www.urban.org/sites/default/files/publication/94501/alanna-mccargo-testimony-part-iii.pdf.

10 Laurie Goodman and Jun Zhu, 2021. "The Future of Headship and Homeownership." Urban Institute.

house prices during the pandemic have further tightened the housing supply, but incentives could tip the scale to producing more affordable inventory for owner-occupancy. Viable proposals call for tax incentives and subsidies for the construction of new homes or rehabilitation of existing homes. Others focus on preserving and stabilizing affordable neighborhoods by helping current owners maintain distressed properties, or else, seeing that properties get into the hands of new owner-occupants instead of absentee investors.[11] Even more could be accomplished through concurrent changes in zoning and land-use regulation, permitting and a broader adoption of new building technologies.

We know how to get homeownership right and to dismantle barriers to Black and Hispanic homeownership. But policies that fail to acknowledge that race reflects systematic and institutional discrimination will continue to fall short.

As an asset-building strategy, we know how to get homeownership right. We have the tools to dismantle barriers to Black and Hispanic homeownership. But well-intentioned public policies that fail to acknowledge that race is a complex reflection of systematic and institutional discrimination will continue to fall short. We need public policies and business practices that explicitly target historically disadvantaged homebuyers and communities. In this way, we can correct structural inequities using the very system that created them.

Vanessa G. Perry is professor of marketing, strategic management and public policy at The George Washington University School of Business and a nonresident fellow at the Urban Institute. She previously served as senior advisor to the Secretary of the U.S. Department of Housing and Urban Development and as an expert in regulations at the Consumer Financial Protection Bureau.

Janneke Ratcliffe is the associate vice president for the Housing Finance Policy Center at the Urban Institute. Prior to joining Urban, she served as assistant director for the Consumer Financial Protection Bureau's Office of Financial Education.

---

11 Center for Community Change, 2021. "New Deal For Housing Justice: A Housing Playbook for the New Administration," https://communitychange.org/wp-content/uploads/2021/01/New-Deal-for-Housing-Justice.Policy-Paper.Community-Change.1.2020.pdf.