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# What Works – Reducing Racial Homeownership Gaps

Housing Finance Policy Center

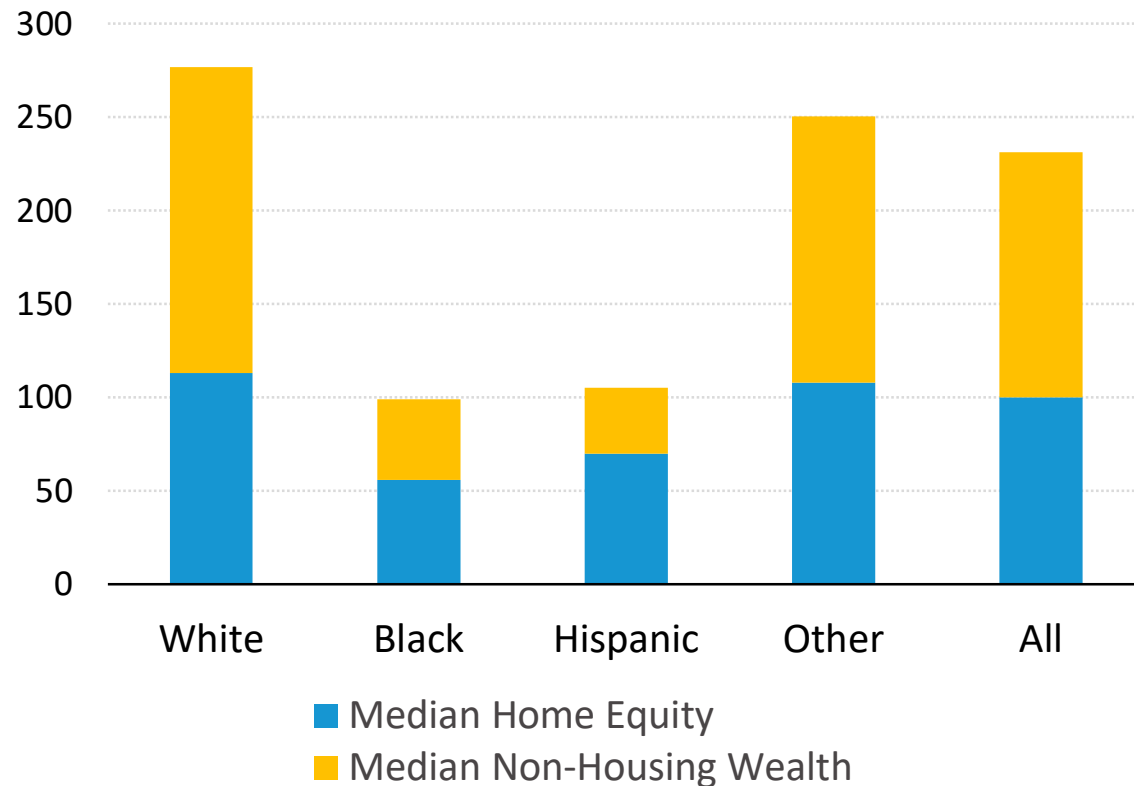
Photo by Monkey Business Images/Shutterstock

# Racial Homeownership Gaps Persist

# Homeownership has historically been the best way to build wealth

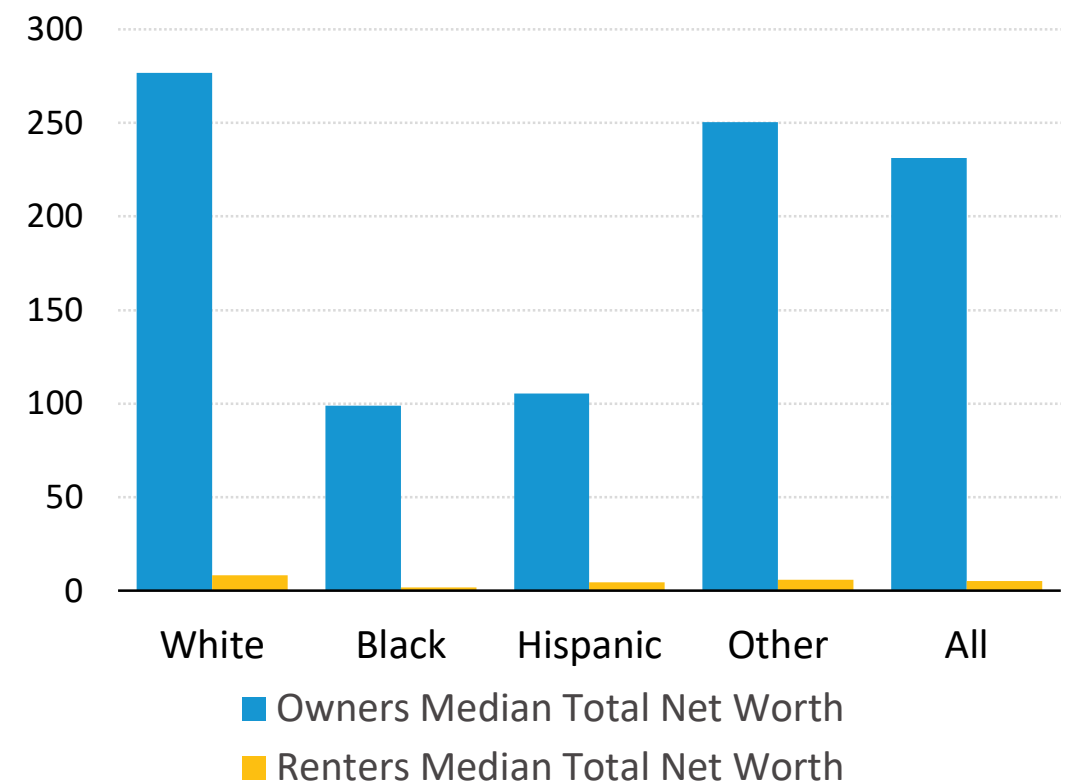
Owners, Home equity as a portion of total wealth

2016 dollars  
(thousands)



Owners vs. Renters, Total Wealth

2016 dollars  
(thousands)



Sources: JCHS tabulations of Federal Reserve Board, 2016 Survey of Consumer Finances.

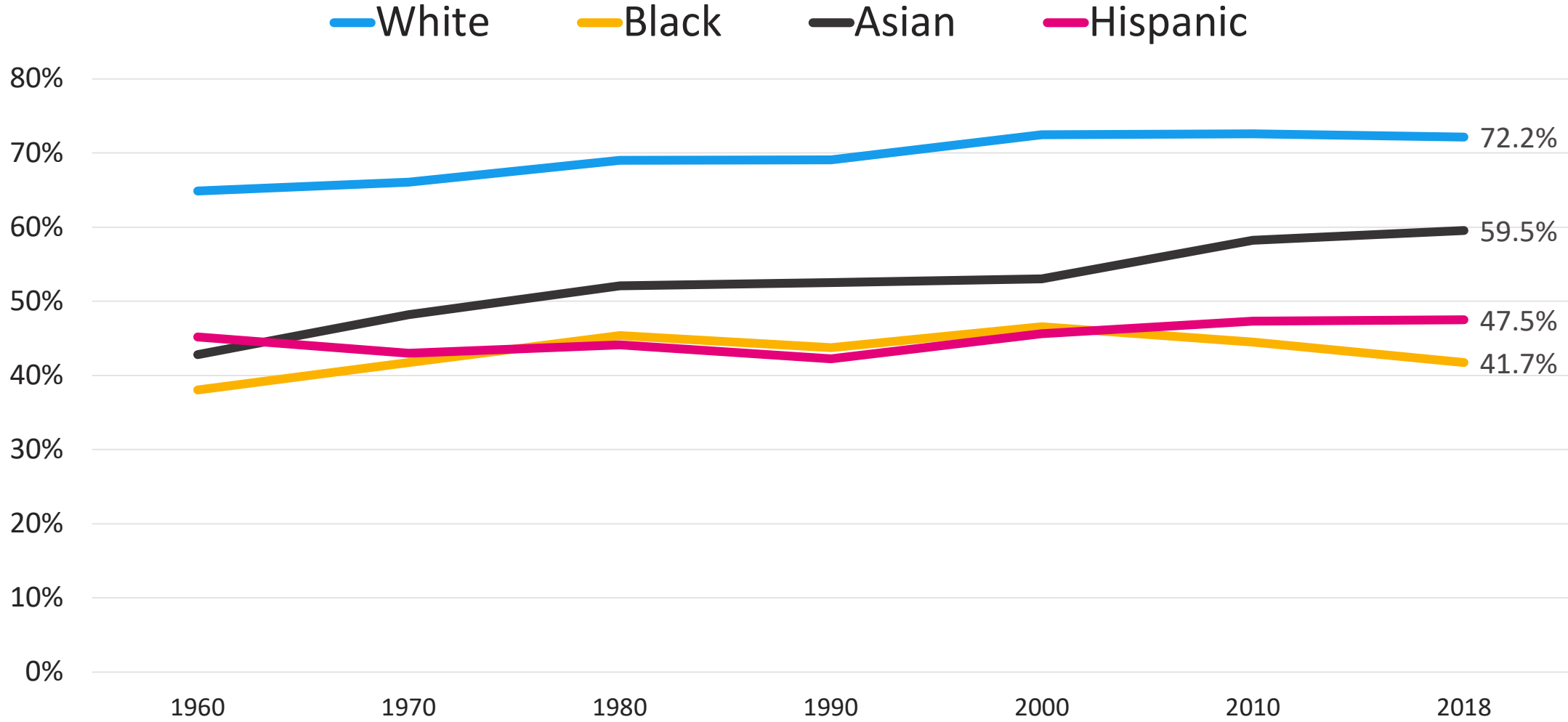
# Homeownership a Crucial Wealth Building Tool for Households of Color

Home equity share of wealth

	Overall	White	Black	Hispanic	Other
Home equity	\$100,000	\$113,000	\$56,000	\$70,000	\$108,000
New worth	\$234,060	\$276,680	\$98,910	\$105,200	\$250,000
Housing equity share of net worth	42.7%	40.8%	56.6%	66.5%	43.1%

Source: Author's calculations from the 2016 Survey of Consumer Finances.

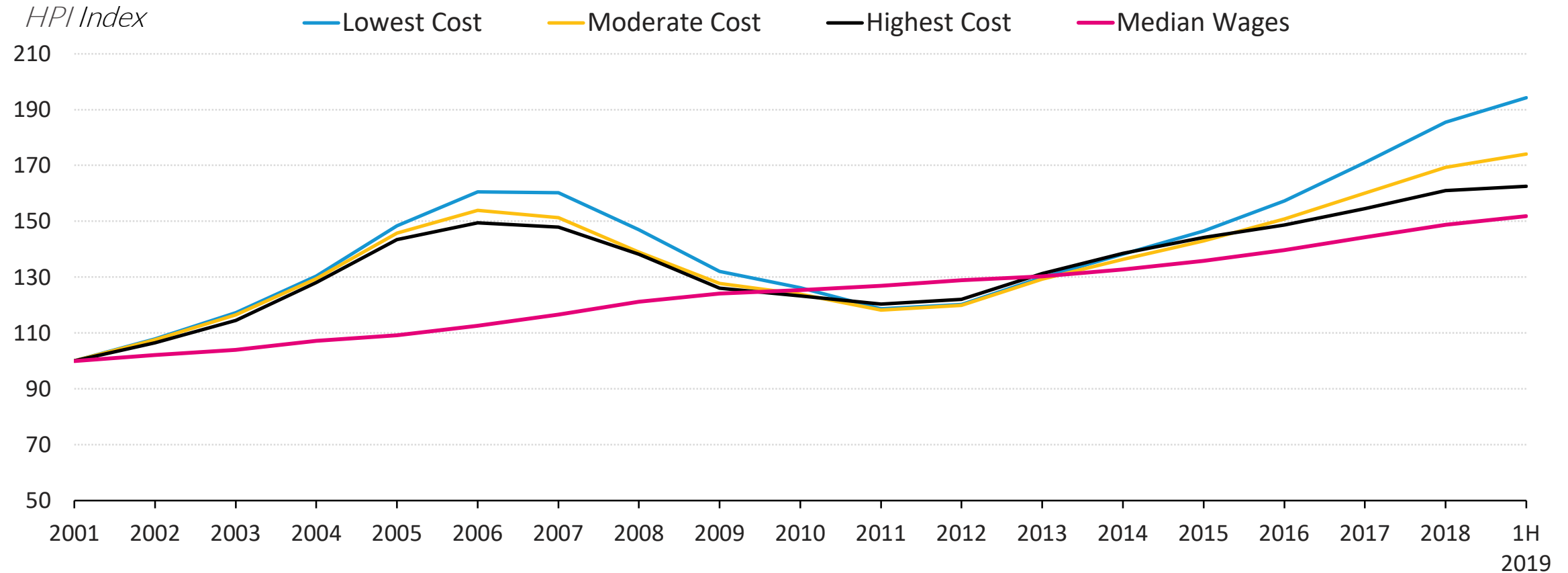
# Black households are still as likely to own as they were in 1960



Source: Decennial Census, American Community Survey.

# Home price appreciation is most robust at the low end of the market

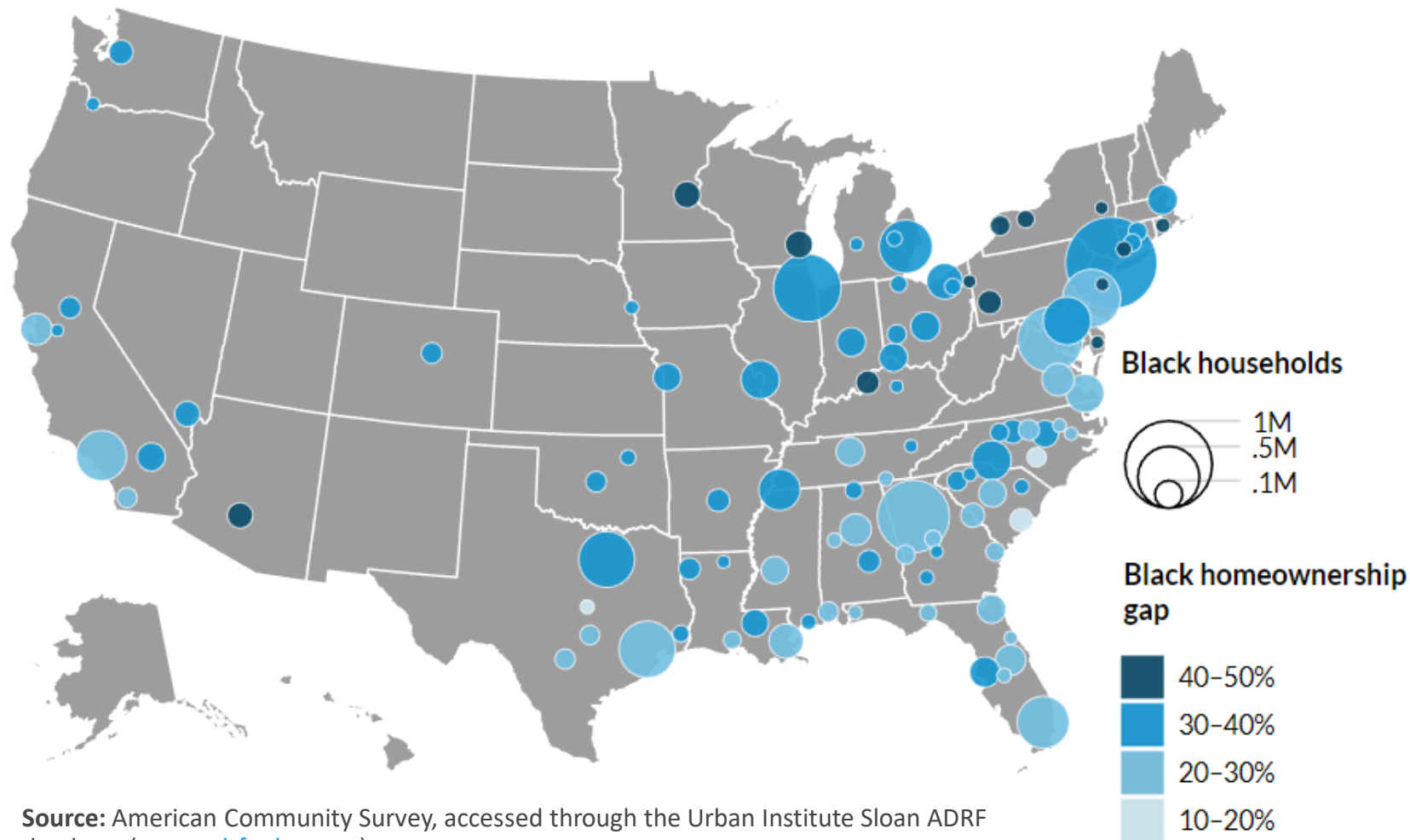
## HPI Growth by Price Tier & Median Wages



Sources: Urban Institute Calculations from Current Population Survey and Black Knight Home Price Index.

Note: Data as of September 2019.

# No major city has come close to closing the black/white homeownership gap, not even majority black cities

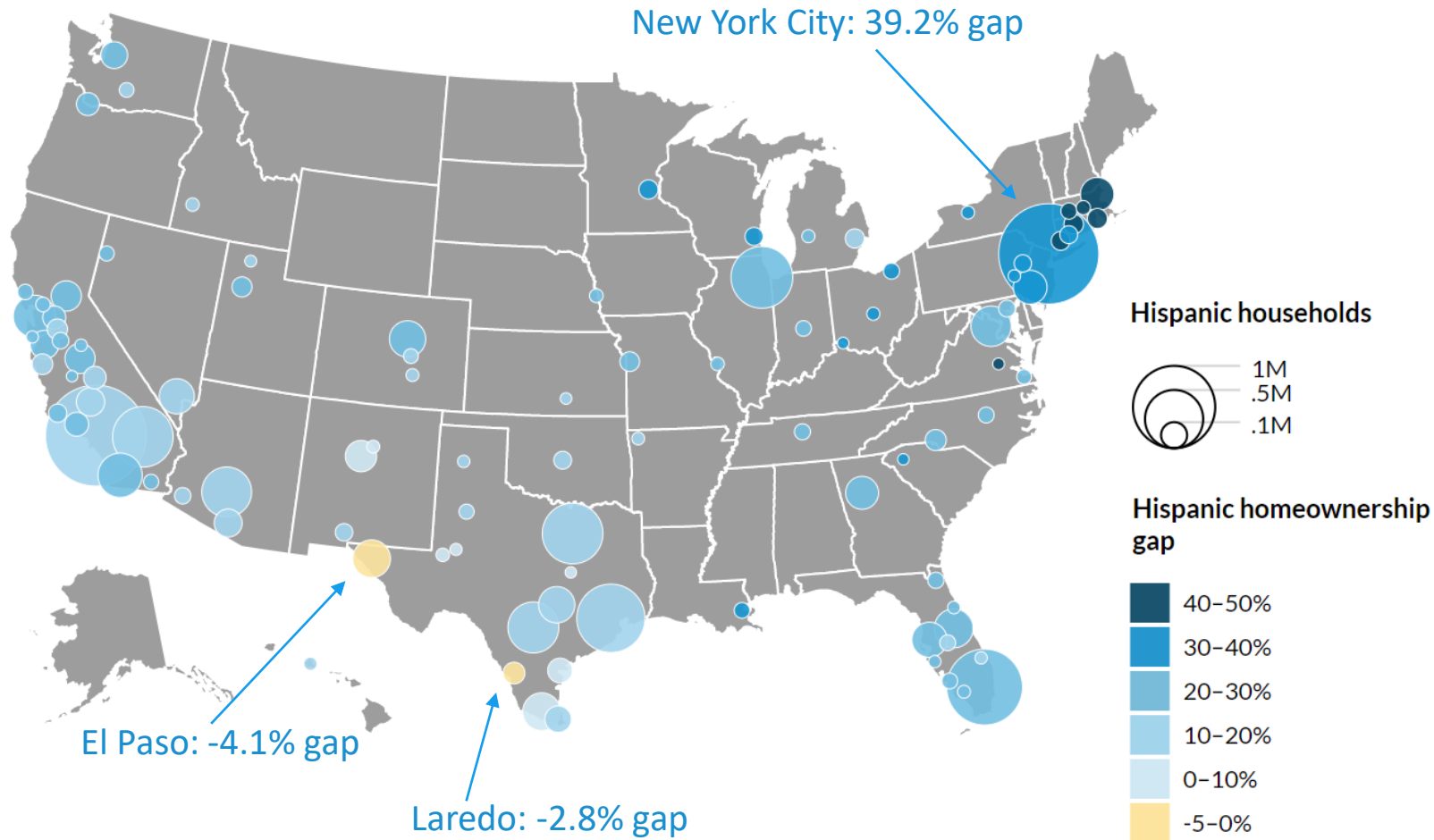


## Top MSAs by Number of Black Households

- New York-Newark-Jersey City, NY-NJ-PA
- Atlanta-Sandy Springs-Roswell, GA
- Chicago-Naperville-Elgin, IL-IN-WI
- Washington-Arlington-Alexandria, DC-VA-MD-WV
- Philadelphia-Camden-Wilmington, PA-NJ-DE-MD
- Houston-The Woodlands-Sugar Land, TX
- Dallas-Fort Worth-Arlington, TX
- Detroit-Warren-Dearborn, MI
- Miami-Fort Lauderdale-West Palm Beach, FL
- Los Angeles-Long Beach-Anaheim, CA
- Baltimore-Columbia-Towson, MD
- Memphis, TN-MS-AR
- Charlotte-Concord-Gastonia, NC-SC
- St. Louis, MO-IL
- New Orleans, LA
- Cleveland, OH

Source: American Community Survey, accessed through the Urban Institute Sloan ADRF database ([www.adrf.urban.org](http://www.adrf.urban.org))

# Two Texas cities have closed the Hispanic homeownership gap



- El Paso and Laredo, TX both have Hispanic homeownership rates slightly higher than their white homeownership rates.
- The Hispanic homeownership gap is largest in the Northeast and smallest in the Southwest.
- Cities with larger Hispanic shares of their population tend to have smaller homeownership gaps.

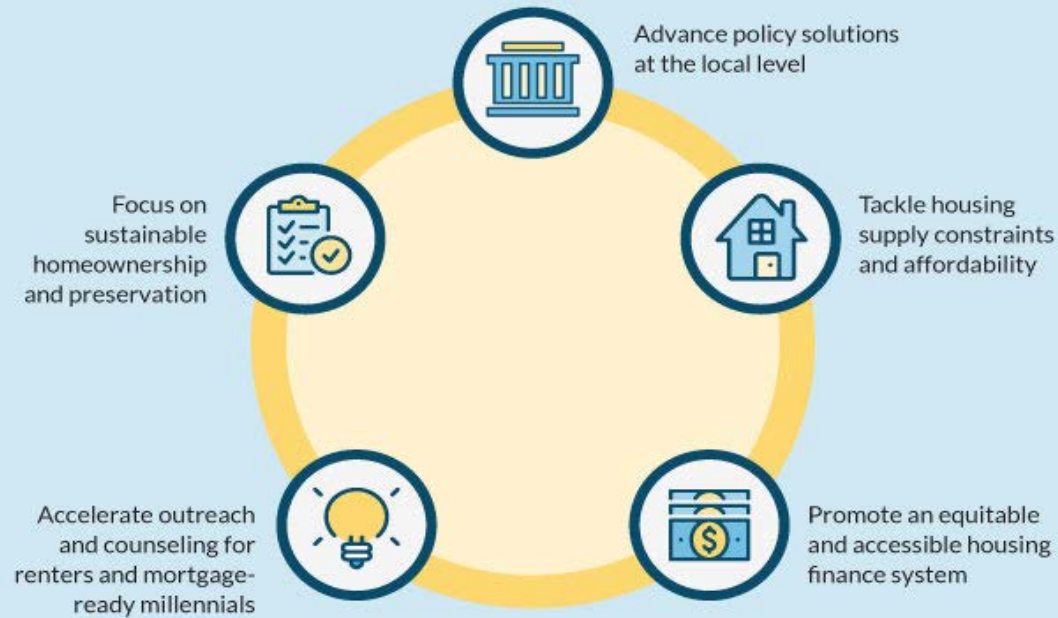
Source: Urban Institute calculations of American Community Survey data.  
Notes: Map shows the 100 US cities with the largest Hispanic populations.



# *Reducing the Gaps* Framework

A FIVE-POINT FRAMEWORK

# Reducing the Black Homeownership Gap



FOUNDATIONS FOR SUCCESS



Fair housing and fair lending



Technology

Source: Urban Institute, [Building Black Homeownership Bridges](#)

# Reducing the Black homeownership gap: A Five-Point Framework

## 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

- Responsibly expand small-dollar mortgages for purchase and renovation (micromortgages)
- Expand the reach of Housing Finance Agency (HFA) programs locally, and strengthen realtor/lender/HFA networks
- Strengthen access to and capacity of homeownership CDFI networks
- Reform local land-use and building codes and revisit zoning laws and regulations
- Explore and expand production of affordable housing types such as manufactured housing and factory-built housing
- Improve single family 2- to 4-unit preservation, financing, and credit underwriting
- Increase visibility, access, and types of down payment assistance programs
- Incorporate alternative data in credit history (e.g., rental payments)
- Improve and expand financial education and homeownership preparation for renters
- Improve and expand financial education, housing counseling, and homeownership preparation to renters and younger generations
- Expand programs that automate saving for down payments/reserves
- Identify and reach out to millennials that are “mortgage-ready”
- Promote healthy mortgage servicing relationships and loss mitigation options (keep people in their homes)
- Develop safe and sensible equity-tapping products
- Improve products and access to affordable repair/ renovation financing

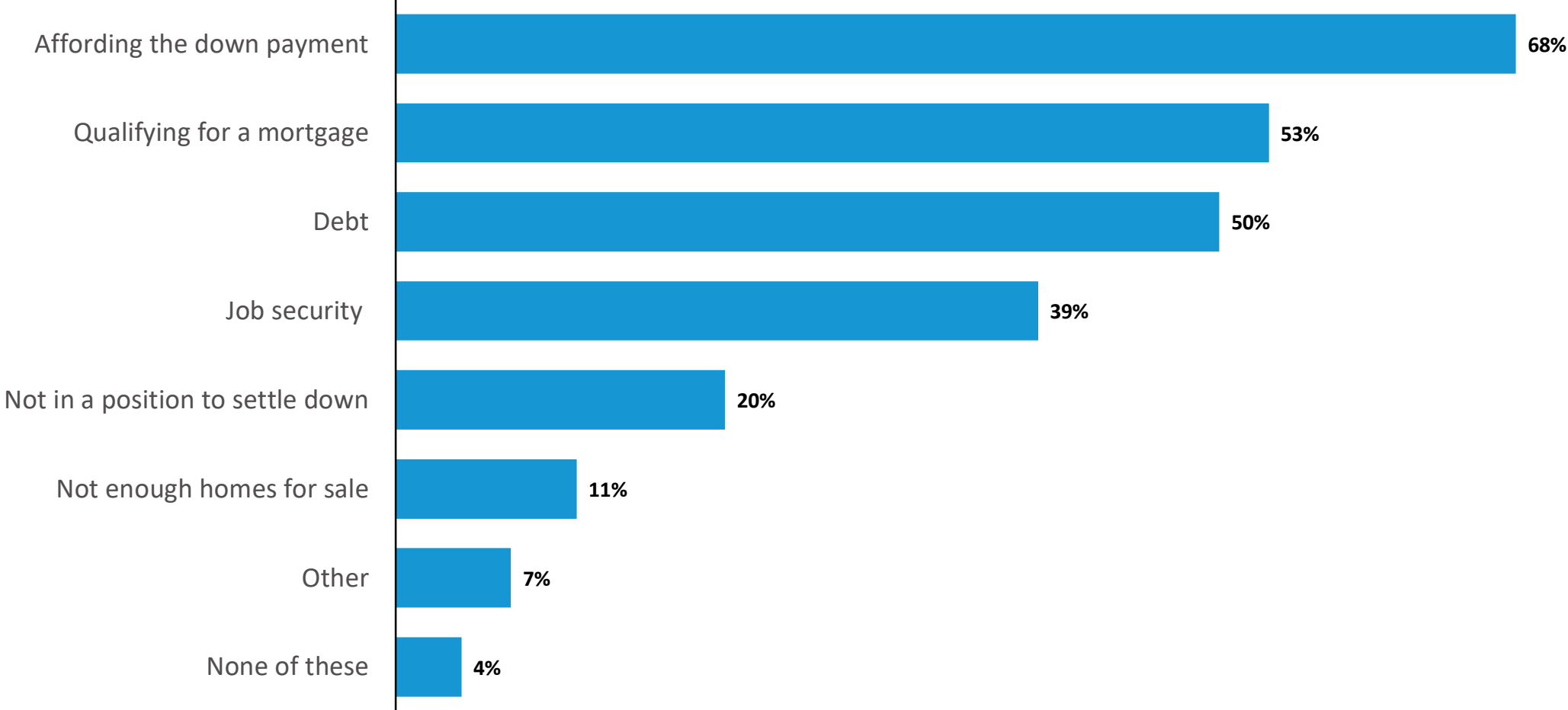
# *Explaining Racial Homeownership Gaps*

# 17% of the Gap is Unexplained

17 percent of the black-white homeownership gap across MSAs remains unexplained by differences in income, credit score, marital status, and education after controlling for the level of racial segregation, housing supply, and housing affordability at the MSA level.

- Differences in parental **wealth**, information access, housing affordability, local policy barriers and the vestiges of racial discrimination make it difficult for black households to obtain homes.
- We also find that racially segregated MSAs have higher white homeownership rates, and MSAs with more housing permits per household have higher black homeownership rates.

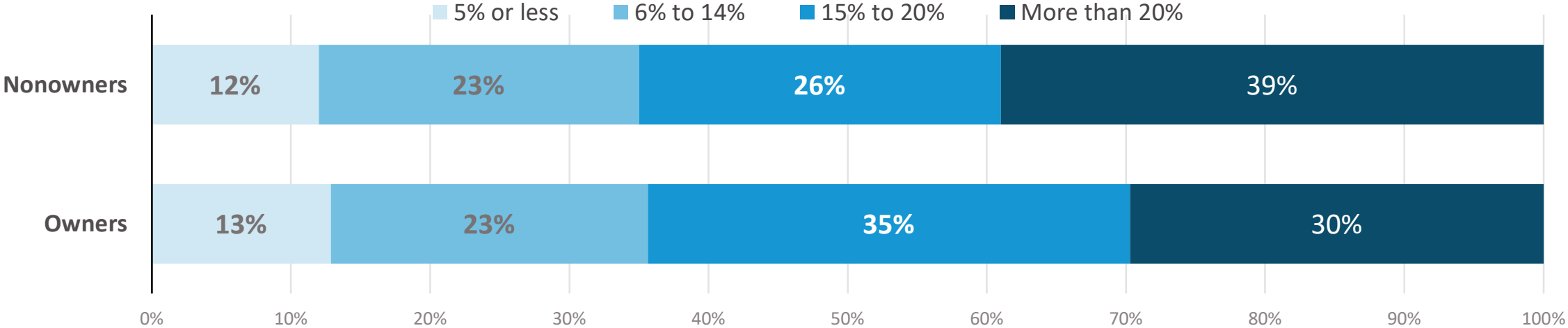
# What are the Major Barriers to Homeownership?



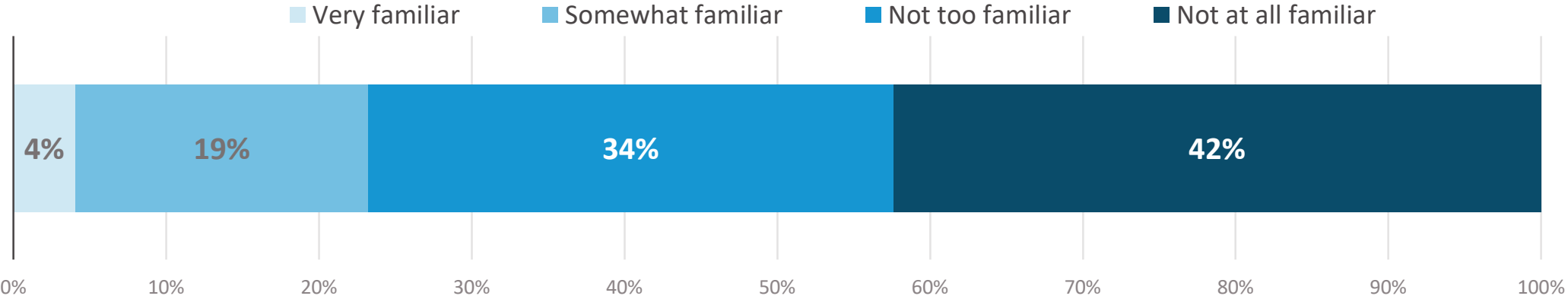
Sources: 2018 Zillow Housing Aspirations Survey and the Urban Institute.

# Down Payment is a Major Barrier

What Percentage Is Needed for a Down Payment?



How Familiar Are Consumer with Low-Down Payment Programs?



Sources (1): National Association of Realtors and the Urban Institute.  
 Sources (2): 2015 Fannie Mae American Housing Survey and the Urban Institute.

# Number of active down payment assistance programs by state

- **2,572** active down payment assistance programs.
- Offered by **1,304** agencies at the state, local, and national levels.

					WI				VT	NH	ME
					48				38	43	86
WA	ID	MT	ND	MN	IL	MI		NY	MA		
18	38	14	42	14	25	39		55	36		
OR	NV	WY	SD	IA	IN	OH	PA	NJ	CT	RI	
79	8	12	31	13	20	31	10	15	37	29	
CA	UT	CO	NE	MO	KY	WV	VA	MD	DE		
262	24	63	24	8	25	10	55	77	19		
	AZ	NM	KS	AR	TN	NC	SC	DC			
	38	83	18	13	164	7	12	236			
			OK	LA	MS	AL	GA				
			29	9	28	15	7				
HI	AK		TX					FL			
17	2		22					59			

Sources: Down Payment Resource and Urban Institute, as of 2016.

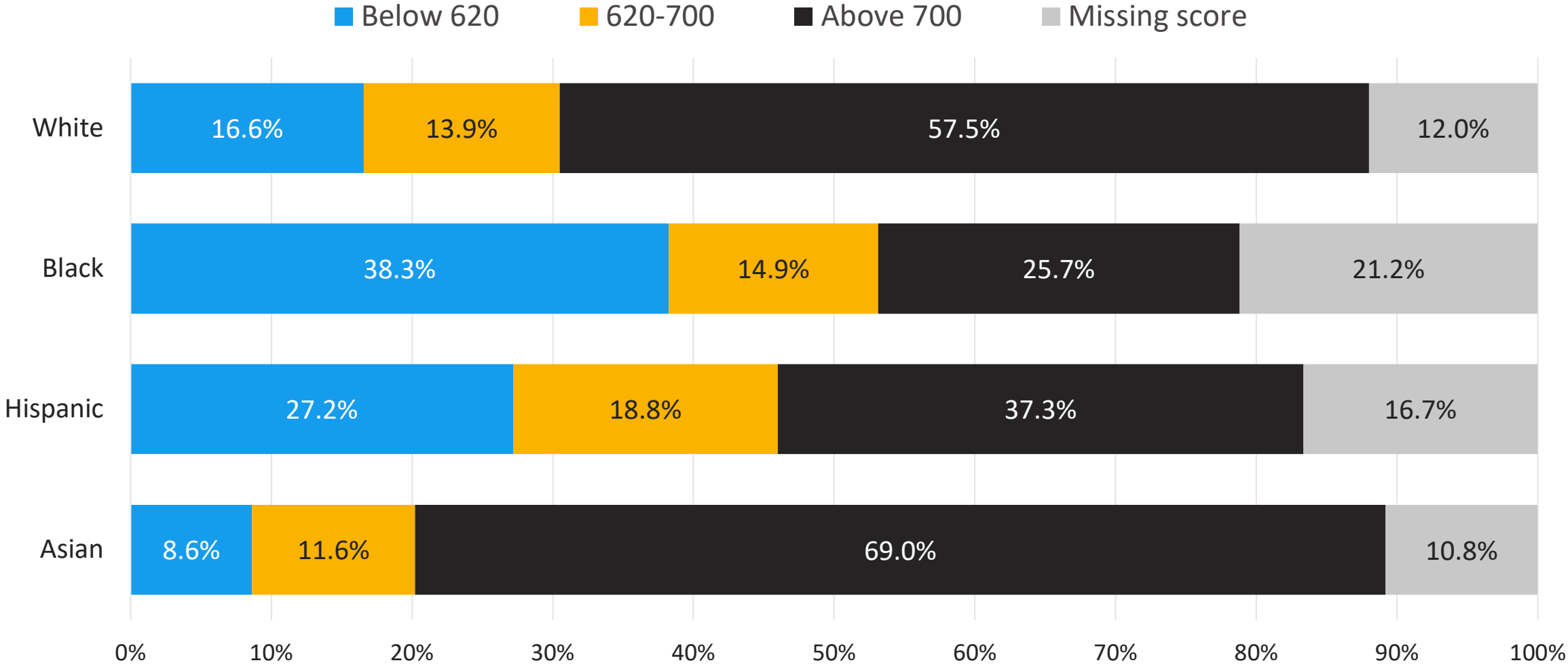


# FICO, DTI and LTV by Race/ethnicity (2018 originations)

Borrower Race/Ethnicity	FICO score	Median CLTV, purchase mortgages	Median CLTV, refinance mortgages	Debt-to-income ratio
Non-Hispanic White	748	90	72	38
Hispanic White	710	96.5	70.3	42
Black	691	96.5	76.6	42
Asian	759	80	65.9	39
Other	720	96.5	73.7	40
Total	741	90	72.1	39

Source: Urban Compilation from "Introducing New and Revised Data Points in HMDA", Consumer Financial Protection Bureau, August 2019.

# FICO score by race, 2018



Source: 2018 American Community Survey.

# The Mortgage Credit Box: Already Tightening Going into COVID-19, Accelerated by the Virus

(% of mortgages with designated characteristics)

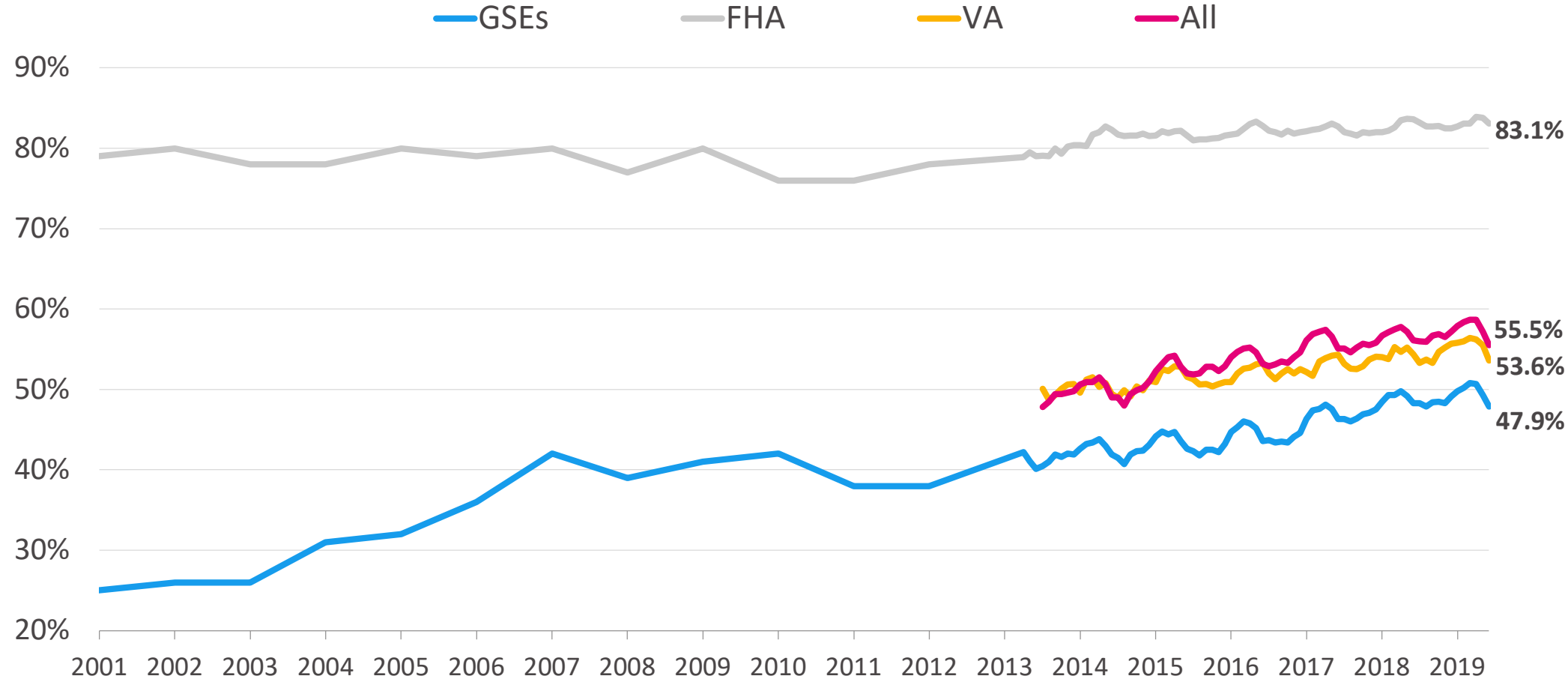
	Ginnie Mae Purchase	Ginnie Mae Refi	Fannie Mae Purchase	Fannie Mae Refi	Freddie Mac Purchase	Freddie Mac Refi
<b>% FICO &lt; 700</b>						
Jan, 2019	65.2	70.2	17.9	29.3	14.5	23.5
Jan, 2020	61.6	65.6	13.9	14.8	12.3	16.2
April, 2020	61.4	62.3	12.6	9.2	11.4	9.8
<b>% FICO &lt; 700; DTI &gt; 40</b>						
Jan, 2019	44.2	38.5	9.2	13.6	6.4	9.0
Jan, 2020	38.0	12.8	5.9	6.3	5.0	6.6
April, 2020	37.0	8.5	5.2	3.3	4.3	3.6

Source: Urban Institute calculations from eMBS data.

# *First-time Homebuyers and Millennials*

# Role of First-Time Homebuyers

## First-Time homebuyer share



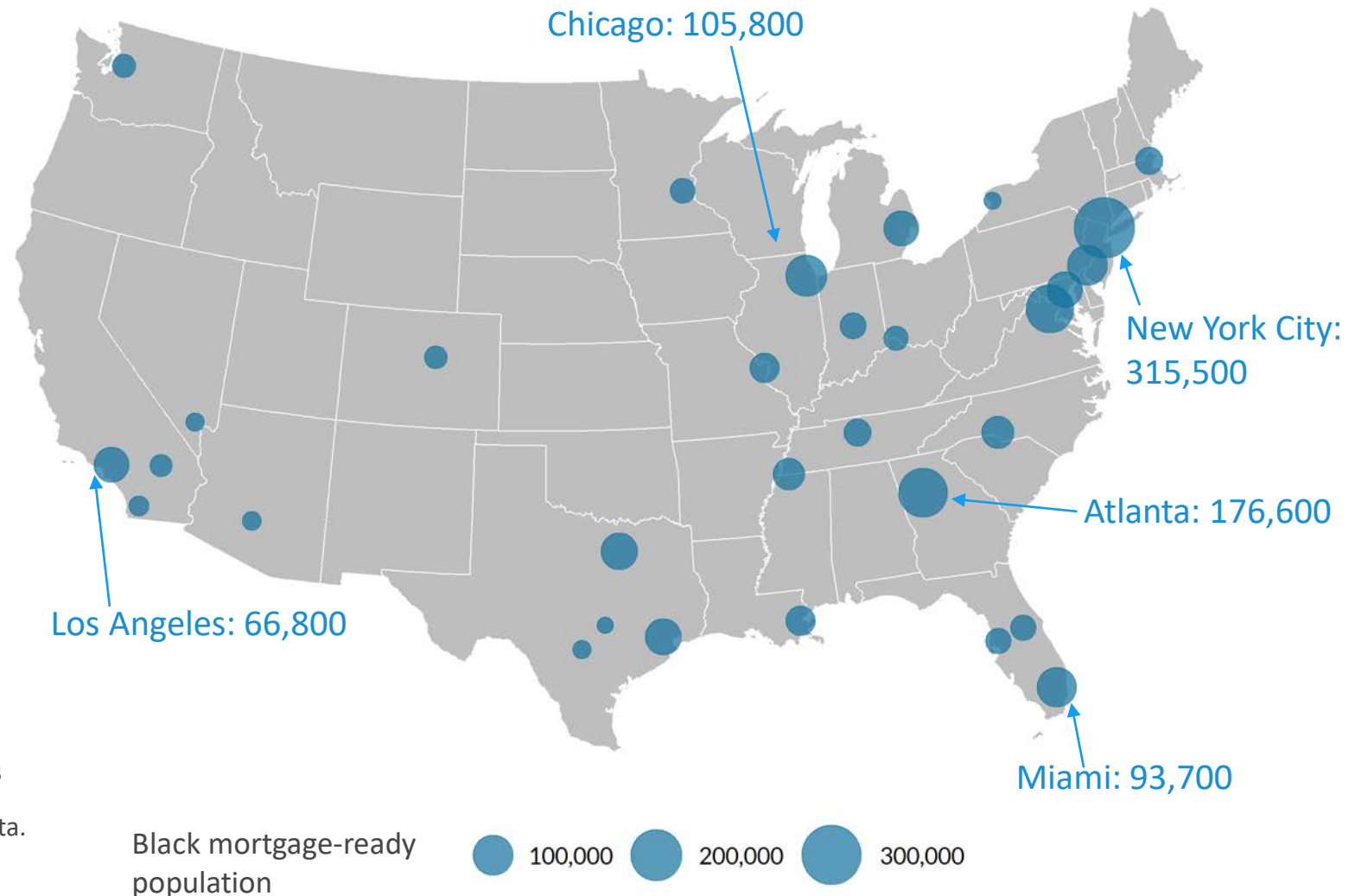
Sources: eMBS, Federal Housing Administration (FHA) and Urban Institute.  
Note: All series measure the first-time homebuyer share of purchase loans for principal residences.

# 6.3 Million

Mortgage ready Black and Hispanic millennials in the 31 largest MSAs

# Black Millennials ready for homeownership

- In the 31 largest MSAs, there are over 1.7 million black millennials who would qualify for a mortgage.
- New York City, Atlanta, Washington, DC, and Chicago each have more than 100,000 blacks ready for homeownership.

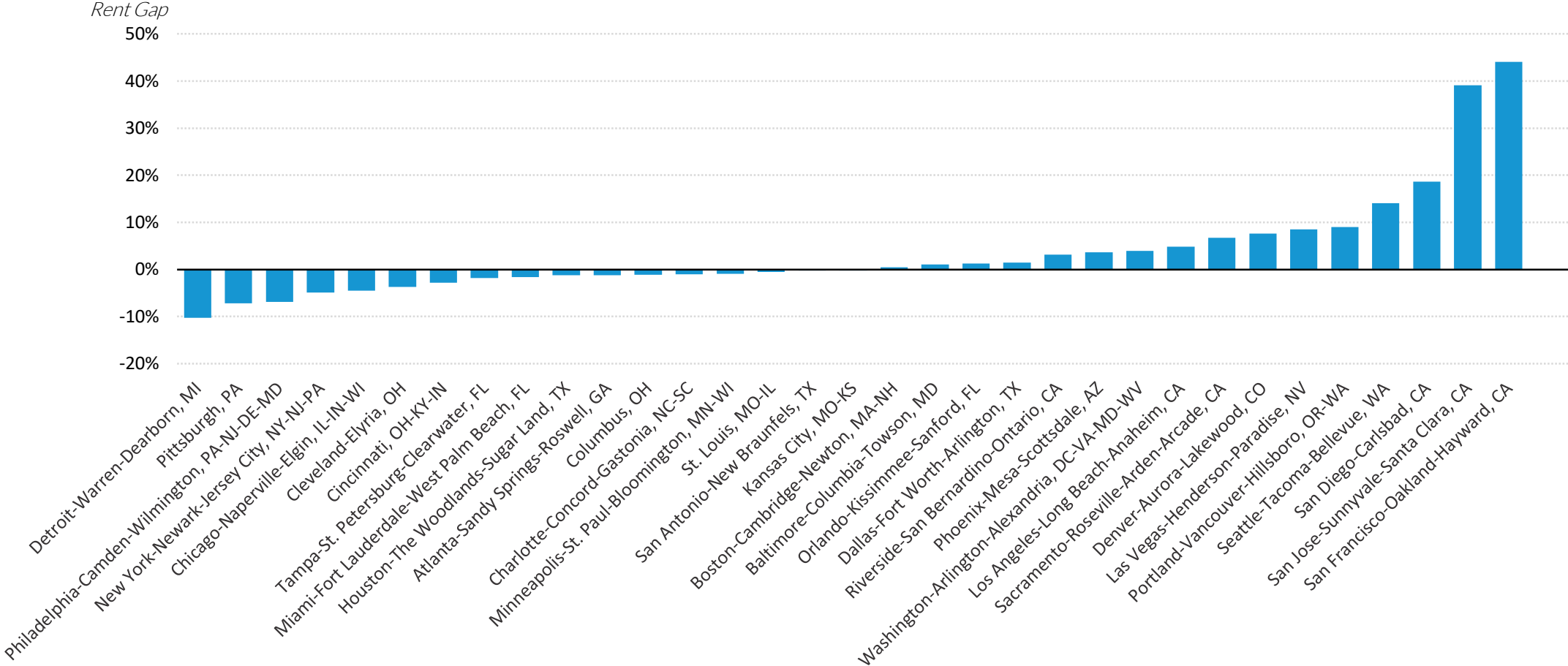


**Source:** Freddie Mac calculations using anonymized credit bureau data.

**Notes:** A consumer is mortgage ready if he or she does not have a mortgage, is 40 or younger, has a FICO score of 620 or above, has a debt-to-income ratio not exceeding 25 percent, 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.

# In Many Areas it is Cheaper to Buy than to Rent

Metropolitan Statistical Area Mortgage and Rental Affordability



Sources: National Association of Realtors, US Census Bureau, Current Population Survey, American Community Survey, Moody’s Analytics, Freddie Mac Primary Mortgage Market Survey, Zillow, and the Urban Institute.  
 Note: The “rent gap” measures the difference between the amount of income the median family would spend on homeownership versus rent. For example, in Pittsburgh, the percent of the median income spent on homeownership (assuming 3.5% down) is 15%, the percent of the median income spent on rent is 22%, so the rent gap is -7%.



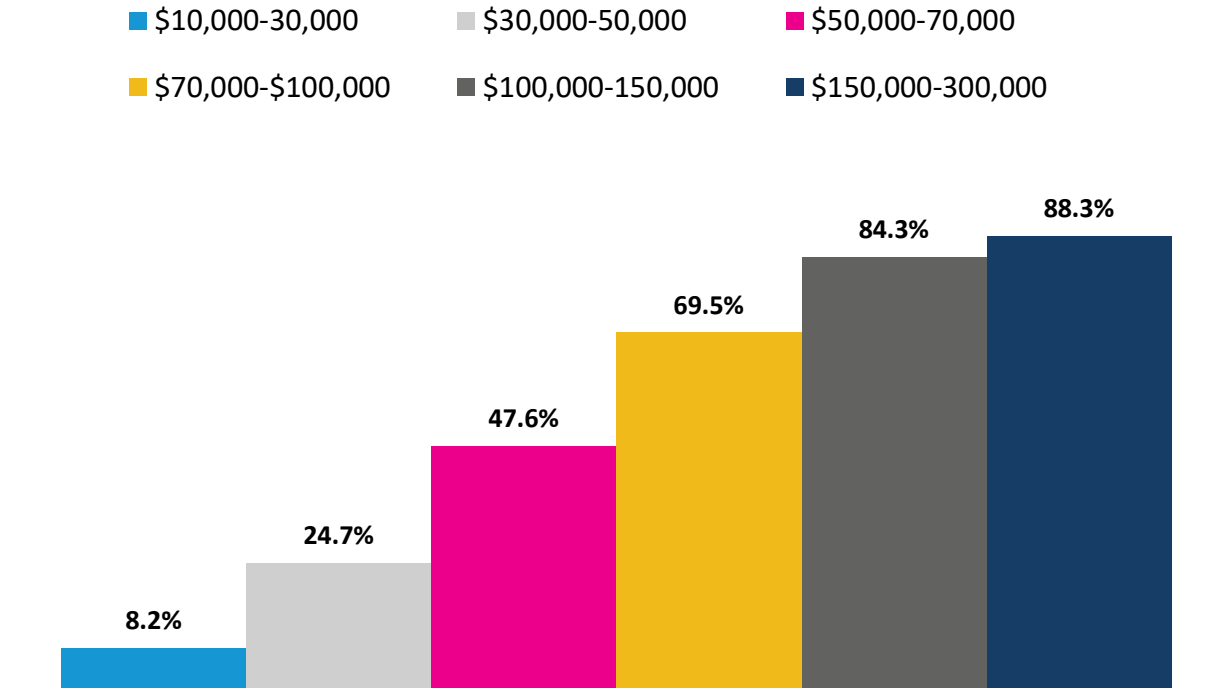
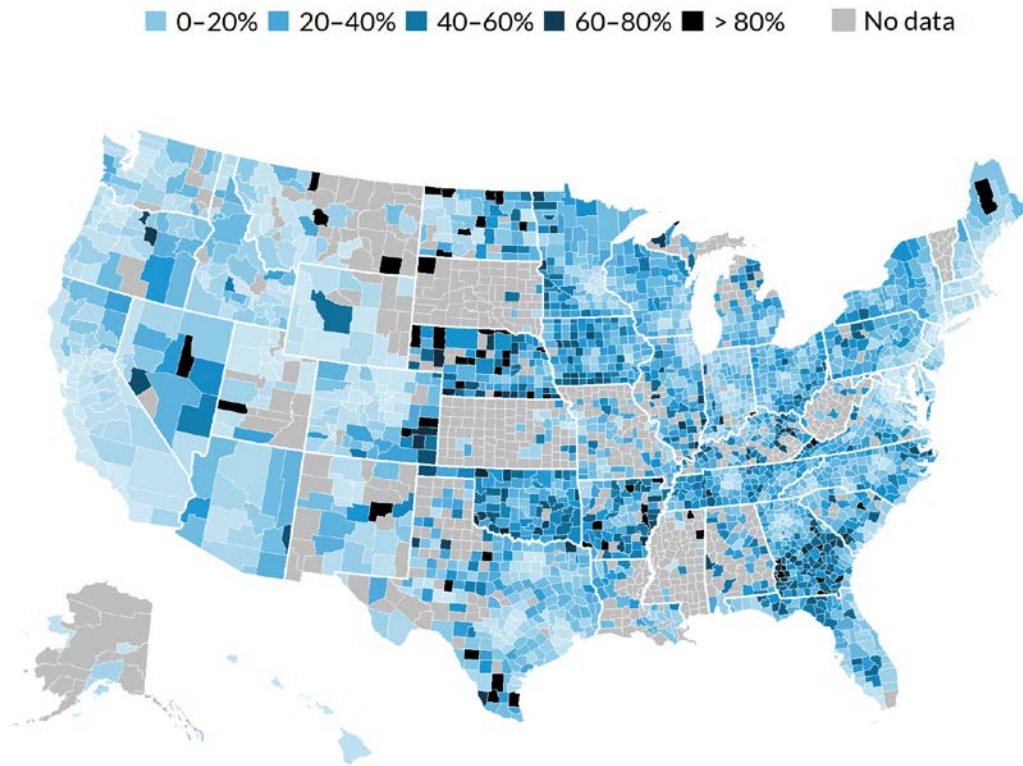
# *Small-Dollar Mortgages Need More Support*

# Small dollar mortgages offer opportunities to expand access to homeownership

Though widespread throughout the US, small dollar sales are rarely financed with a mortgage.

Share of homes sold for \$70,000 or less

Share of home sales financed by a mortgage, by sales price



Source: CoreLogic, Urban Institute, and the Federal Reserve Bank of Chicago.

Note: Data as of 2016

We need to increase the availability of affordable homes and small-dollar mortgages to make them accessible

Small-Dollar  
Mortgages  
Are SCARCE



Illustrations by Shannon Ryan/Made With Relish

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The screenshot displays the Housing Finance Policy Center website. At the top, the title "Housing Finance Policy Center" is visible next to a logo, and a blue button labeled "SUPPORT URBAN INSTITUTE" is on the right. A navigation menu includes "About", "Staff", "Publications", "Projects", "Events", "Urban Wire Posts", "In the News", and "More". The main content area features a line chart with two data series, one in blue and one in yellow, showing fluctuations over time. Below the chart is a navigation arrow. To the right of the chart, the text reads "Housing Finance at a Glance: March" and "The most recent edition of At A Glance, the Housing Finance Policy Center's reference guide for mortgage and housing market data." Below this, a "LATEST WORK" section is displayed with three items: a "WORKING PAPER" titled "HOUSING AND HOUSING FINANCE" with a thumbnail of a suburban neighborhood, an "URBAN WIRE POST" titled "HOUSING AND HOUSING FINANCE" with a thumbnail of a person in a doorway, and a "RESEARCH REPORT" titled "HOUSING AND HOUSING FINANCE" with a thumbnail of a house. Each item includes a title, author names, and a date.