

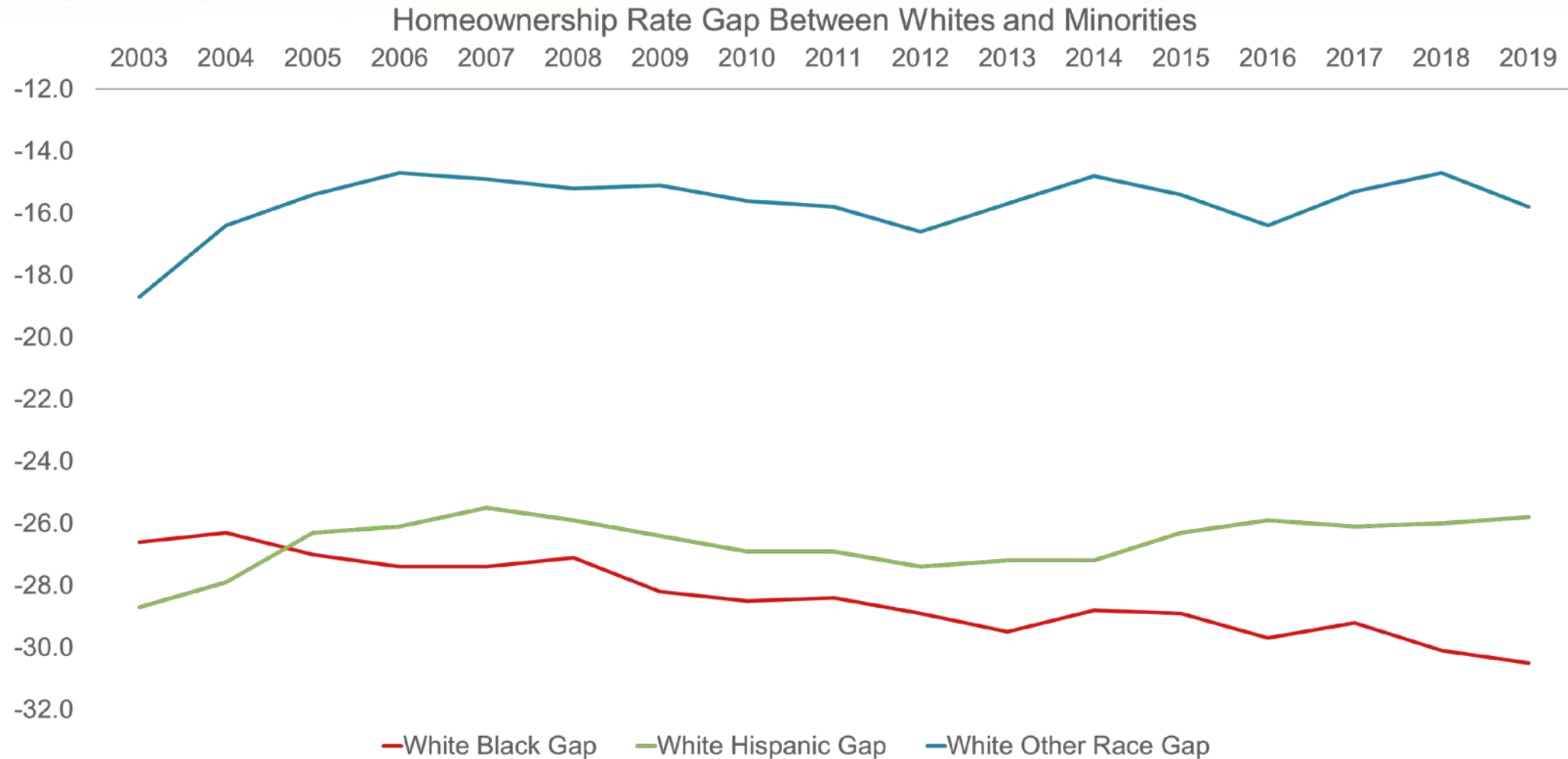


# Minority Homeownership: Understanding Challenges And Opportunities

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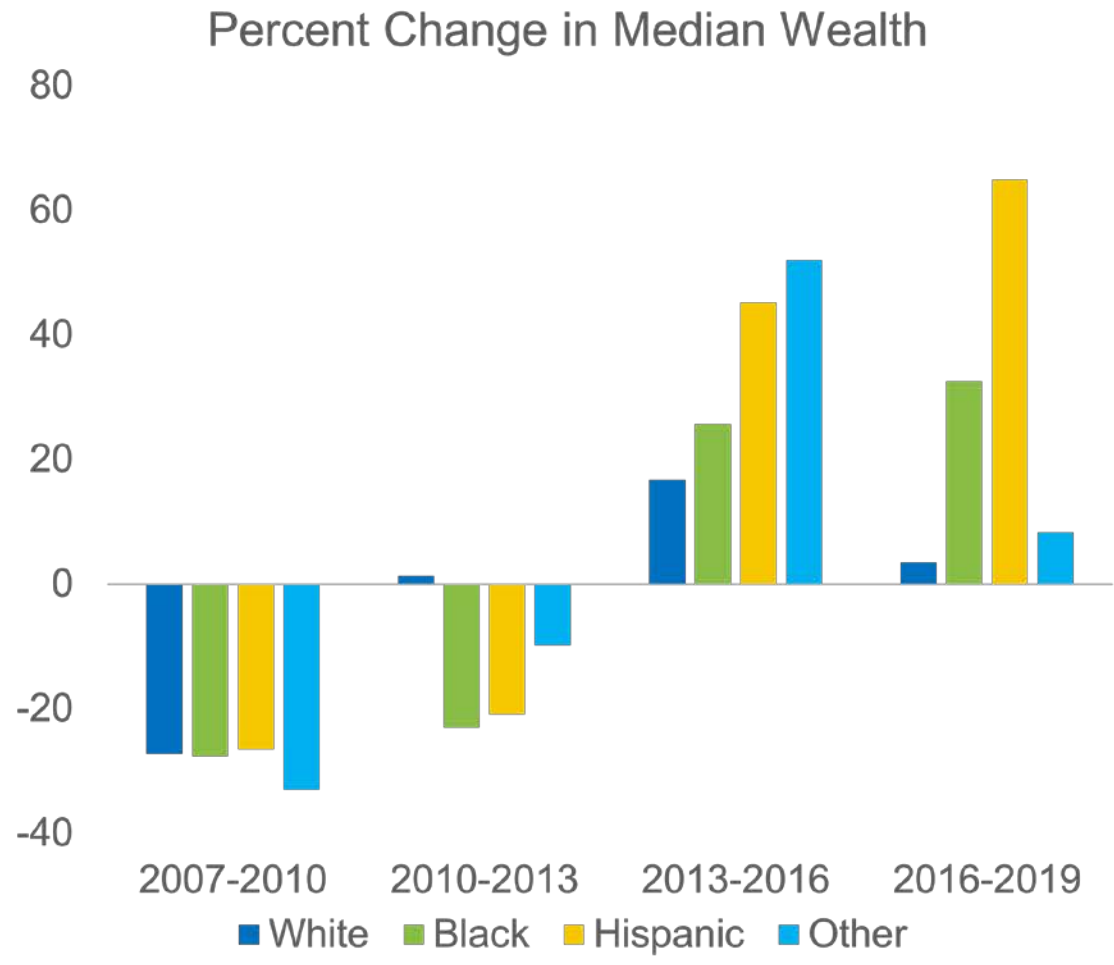
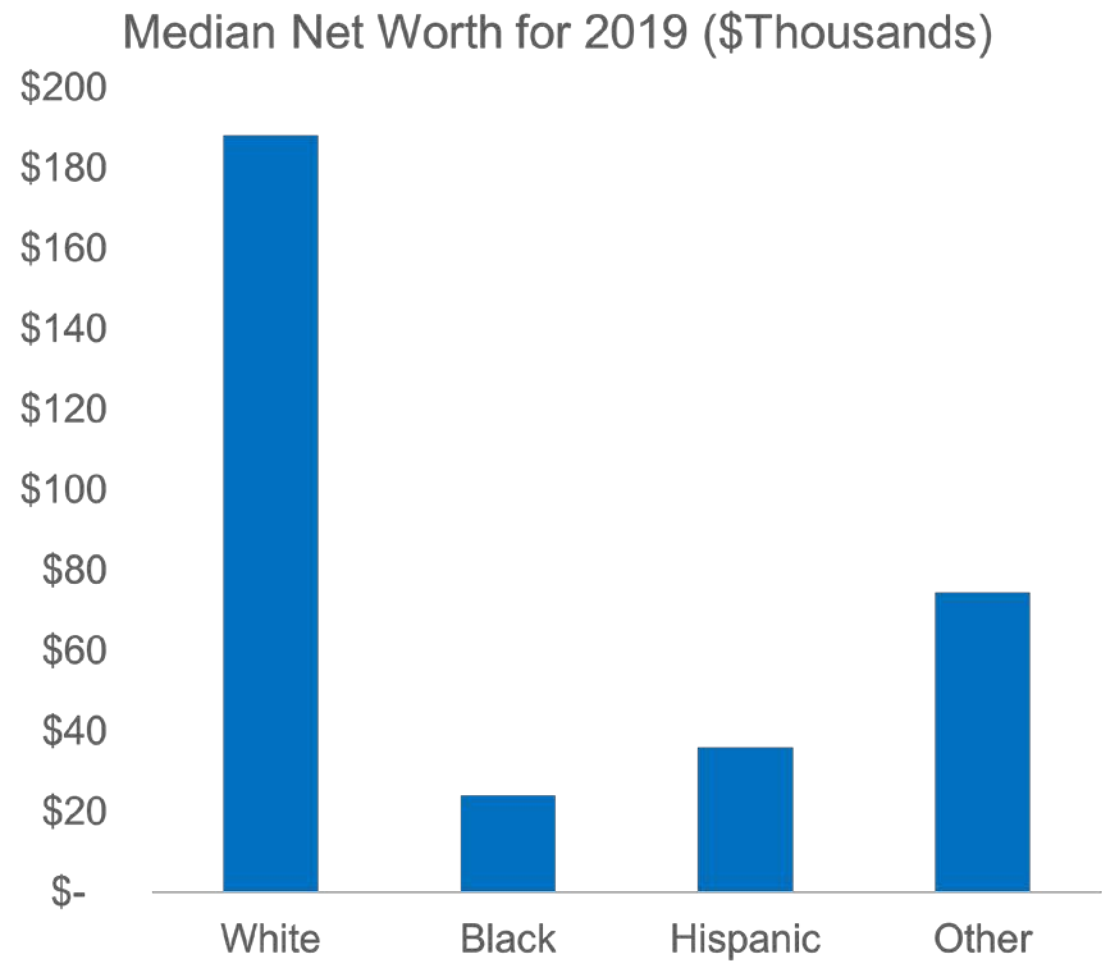
October 29, 2020

# The White-Black homeownership gap is growing.



Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, 2019.

Minority wealth grew faster than Whites the last few years, but it remains between 10% and 20% of White wealth.



Source: Federal Reserve

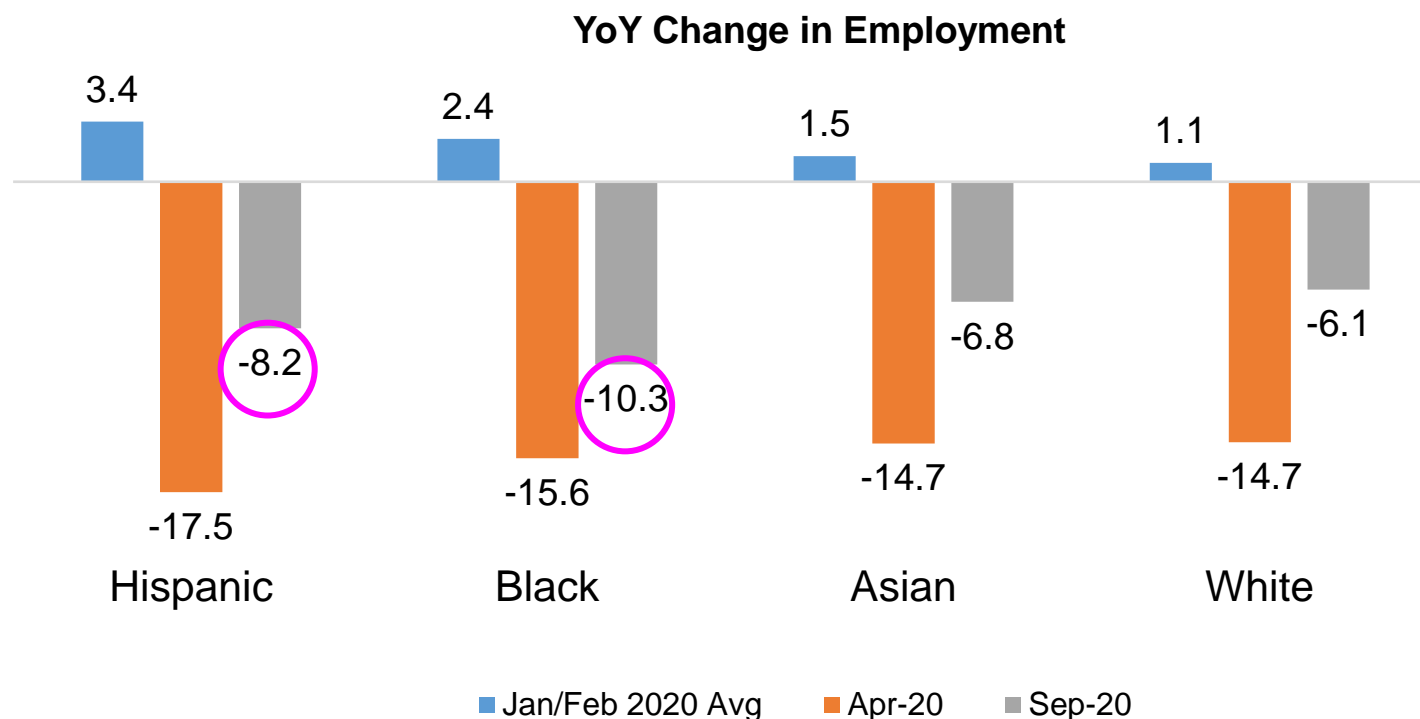
# Individual Demographics

	Age	Median Income (1000s)	Median FICO	Median Debt (any)
<b>Overall</b>	49	\$ 64	722	\$ 5,572
<b>Non-Hispanic Whites</b>	52	\$ 72	742	\$ 9,629
<b>Asians</b>	43	\$ 70	755	\$ 2,583
<b>Blacks</b>	46	\$ 46	627	\$ 1,175
<b>Hispanics</b>	43	\$ 51	684	\$ 1,913

Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018

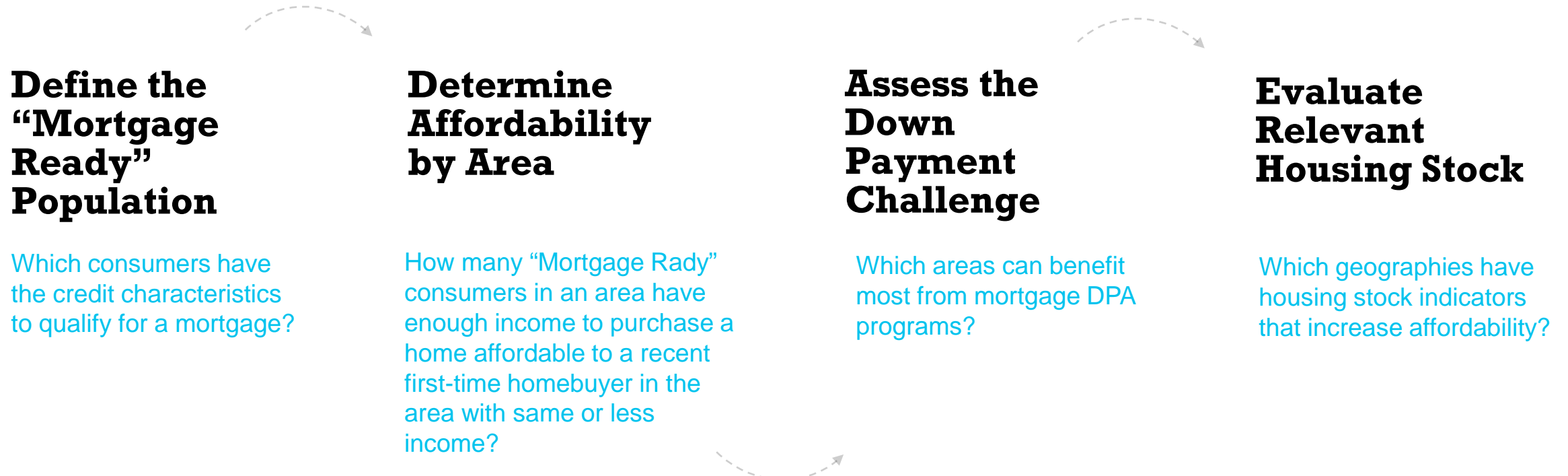
- » Blacks and Hispanics tend to be younger than overall population.
- » Blacks and Hispanics tend to have lower income and lower credit scores compared to overall population.

# Blacks & Hispanics have experienced the largest declines in employment and unequal recovery.



Race/Gender	Jobs Recovered since April
Black Men	34%
Black Women	39%
White Men	60%
White Women	60%
Asian	59%
Hispanic	55%

# Identifying future borrowers



## Define the “Mortgage Ready” Population

Which consumers have the credit characteristics to qualify for a mortgage?

## Determine Affordability by Area

How many “Mortgage Ready” consumers in an area have enough income to purchase a home affordable to a recent first-time homebuyer in the area with same or less income?

## Assess the Down Payment Challenge

Which areas can benefit most from mortgage DPA programs?

## Evaluate Relevant Housing Stock

Which geographies have housing stock indicators that increase affordability?

# White-Black gap in homeownership potential is wide.

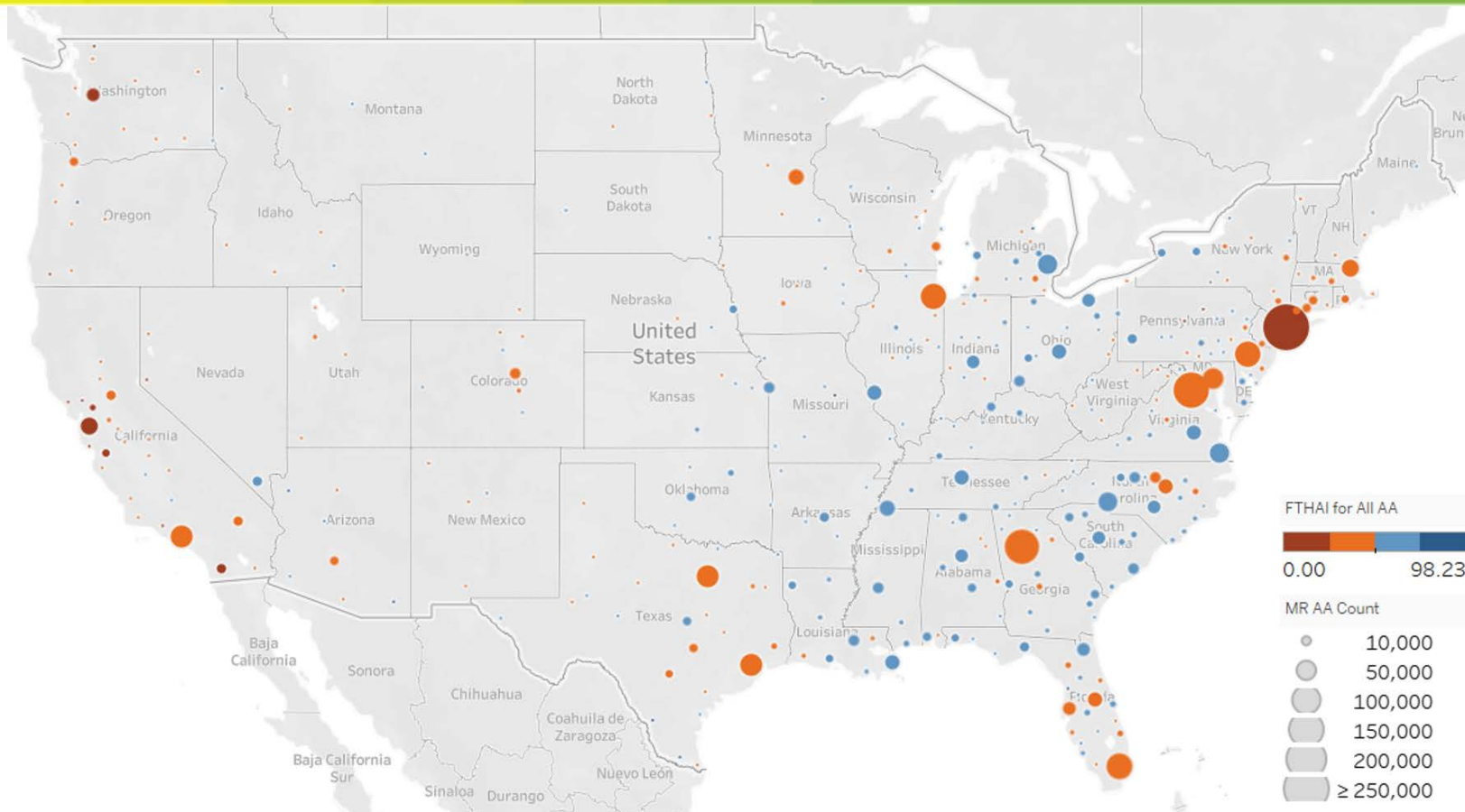
(In percent)	Whites	Blacks	Hispanics	Asians
"Mortgage Weak"	37	69	51	24
"Mortgage Ready"	34	20	35	56
Mortgage Owner	29	11	15	21

Source: Housing Insights and Solutions, Freddie Mac.

Note: Freddie Mac define "Mortgage Ready" as non-mortgage owners of ages 45 and younger in 2018, who have credit characteristics to qualify for a mortgage. "Mortgage Ready": FICO  $\geq$  620, DTI  $\leq$  25, No foreclosures in 84 months, No bankruptcies in 84 months, No severe delinquencies in 12 months. Based on anonymized credit bureau data, 2018.



# “Mortgage Ready” Blacks are concentrated south and northeast, and have lower affordability.



Source: Freddie Mac calculations using anonymized credit bureau data and National Mortgage Database, 2018.

Note: Freddie Mac define “Mortgage Ready” as non-mortgage owners of ages 45 and younger in 2018, who have credit characteristics to qualify for a mortgage. “Mortgage Ready”: FICO  $\geq 620$ , DTI  $\leq 25$ , No foreclosures in 84 months, No bankruptcies in 84 months, No severe delinquencies in 12 months. Freddie Mac’s First-time Homebuyer Affordability Index (FTHAI) measures how many creditworthy renters have enough income to purchase a home by comparing creditworthy renters’ income distribution to recent first-time homebuyers’ income distribution at local geographic level.



While “Mortgage Ready” Blacks take less time to save for down payment, “Mortgage Ready” Hispanics take more time to save.

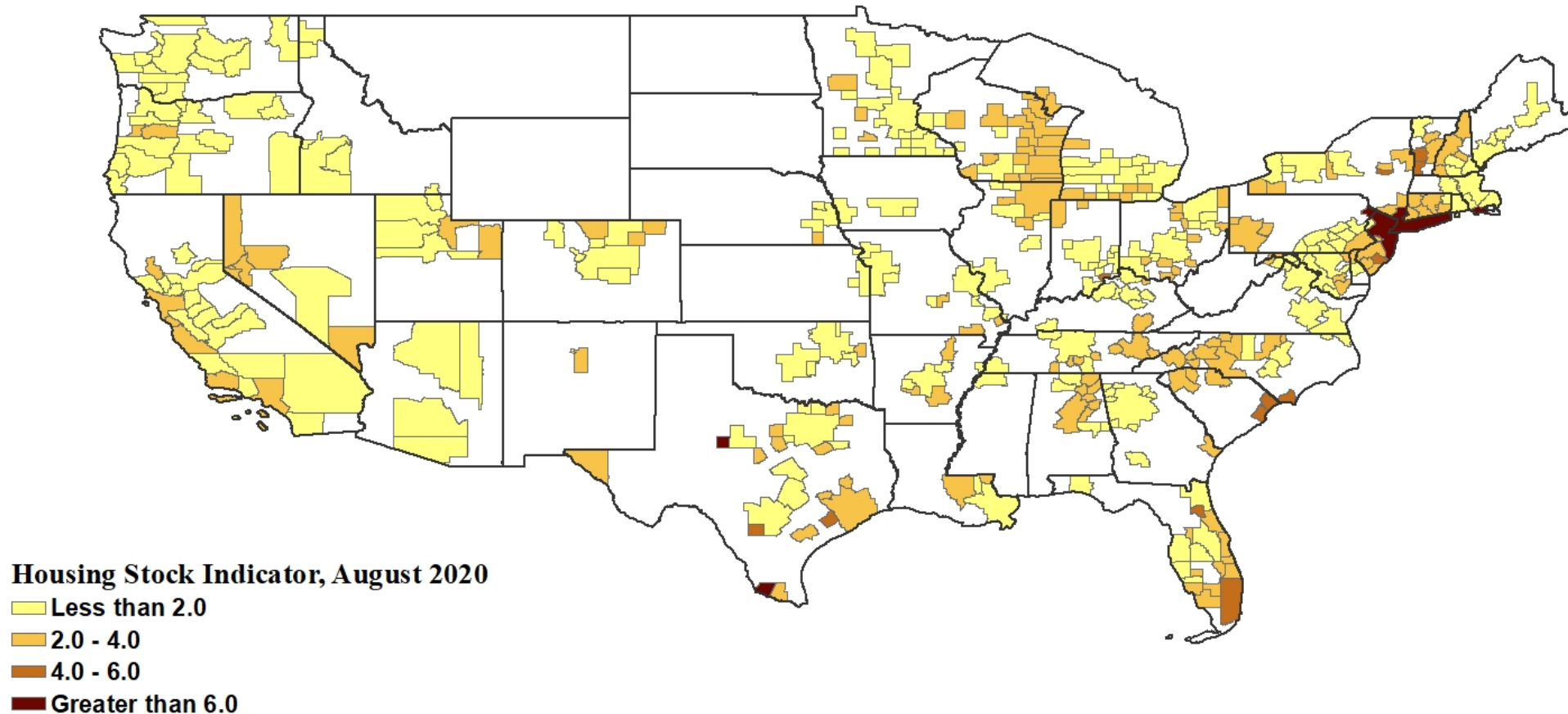


Race/Ethnicity	"Time to Save" (year)			Monthly Net Income	Median House Price (SFH)
	20% down	5% down	3% down		
Whites	14.4	3.6	2.2	\$4,326	\$243,076
Asians	24.6	6.2	3.7	\$4,306	\$444,307
Blacks	15.4	3.8	2.3	\$3,679	\$215,774
Hispanics	24.5	6.1	3.7	\$3,588	\$349,351

Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018.

Note: Freddie Mac define “Mortgage Ready” as non-mortgage owners of ages 45 and younger in 2018, who have credit characteristics to qualify for a mortgage. “Mortgage Ready”: FICO  $\geq$  620, DTI  $\leq$  25, No foreclosures in 84 months, No bankruptcies in 84 months, No severe delinquencies in 12 months. Time to Save is calculated by dividing down payment requirements by monthly savings. According to Bureau of Economic Analysis, average personal savings rate is 6.7% of net income in 2018. We estimate net income by subtracting both federal and state taxes from gross income at the individual-level.

# There is shortage of housing stock nationally.



Source: Freddie Mac calculation using housing stock data from Redfin.com for May 2020. Housing Stock Indicator is equal to inventory divided by sales. According to industry standards, housing stock is adequate if Housing Stock Indicator exceeds 6.0.

# How Many Are “Mortgage Weak”?

	Whites	Blacks	Hispanics	Asians
<b>"Mortgage Weak"</b>	37	69	51	24
<b>"Mortgage Ready"</b>	34	20	35	56
<b>Mortgage Owner</b>	29	11	15	21

Source: Freddie Mac calculations using anonymized credit bureau data with individuals aged 45 and younger for Sep 2018.

Note: Freddie Mac define “Mortgage Ready” as non-mortgage owners of ages 45 and younger in 2018, who have credit characteristics to qualify for a mortgage. “Mortgage Ready”: FICO ≥ 620, DTI ≤ 25, No foreclosures in 84 months, No bankruptcies in 84 months, No severe delinquencies in 12 months.

# Substantial share of “Mortgage Weak” minorities are “Clean” thin files.



Weak Credit Concerns	Whites	Hispanics	Blacks	Asians
Severe Delinquency	16%	12%	14%	9%
D90 / D60 in Last 12 Months	57%	51%	65%	31%
DTI > 25	4%	4%	2%	5%
Thin Credit File (2 or Fewer)	20%	30%	17%	52%
No FICO/Otherwise Low FICO	3%	3%	2%	3%
Total “Mortgage Weak”	100%	100%	100%	100%

Weak Credit Count (in million)	18.72	9.97	8.77	1.52
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Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018

# What are the short, medium, and long term opportunities to increase minority homeownership?

## Short Term Mortgage Ready Population

- Target cities based on mortgage ready, affordability, and adequate housing stock

## Medium Term Thin Files Population

- Alternative credit
- Bank statements, utility/rent payments
- Credit education

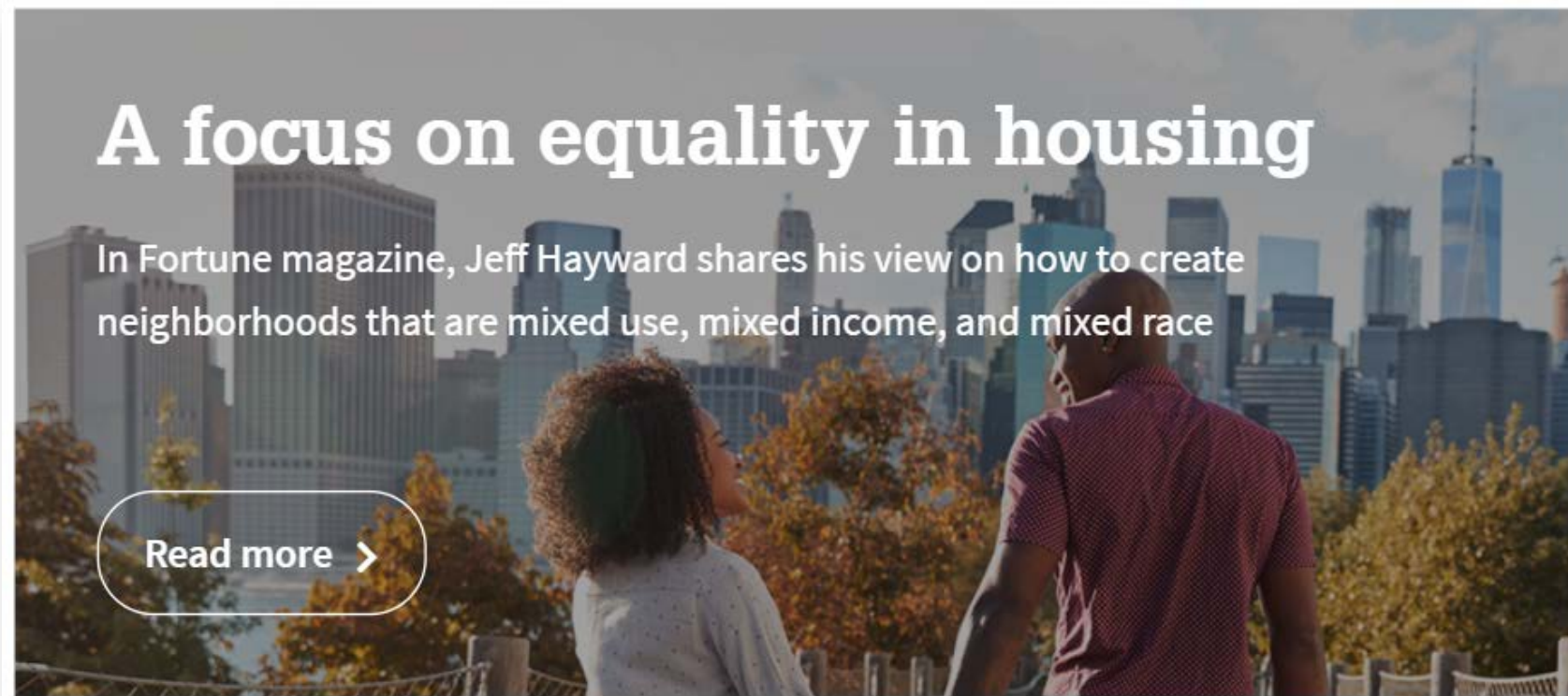
## Long Term Credit Concerns Population

- Counseling
- Credit education

# Supporting Housing Equity

Fannie Mae update

- Our mission, evolving but unchanged
- The importance of early education and homeownership stability
- Increasing industry advocacy and representation





OCTOBER 2020

# NCSHA Annual Conference 2020

Alanna McCargo  
Housing Finance Policy Center

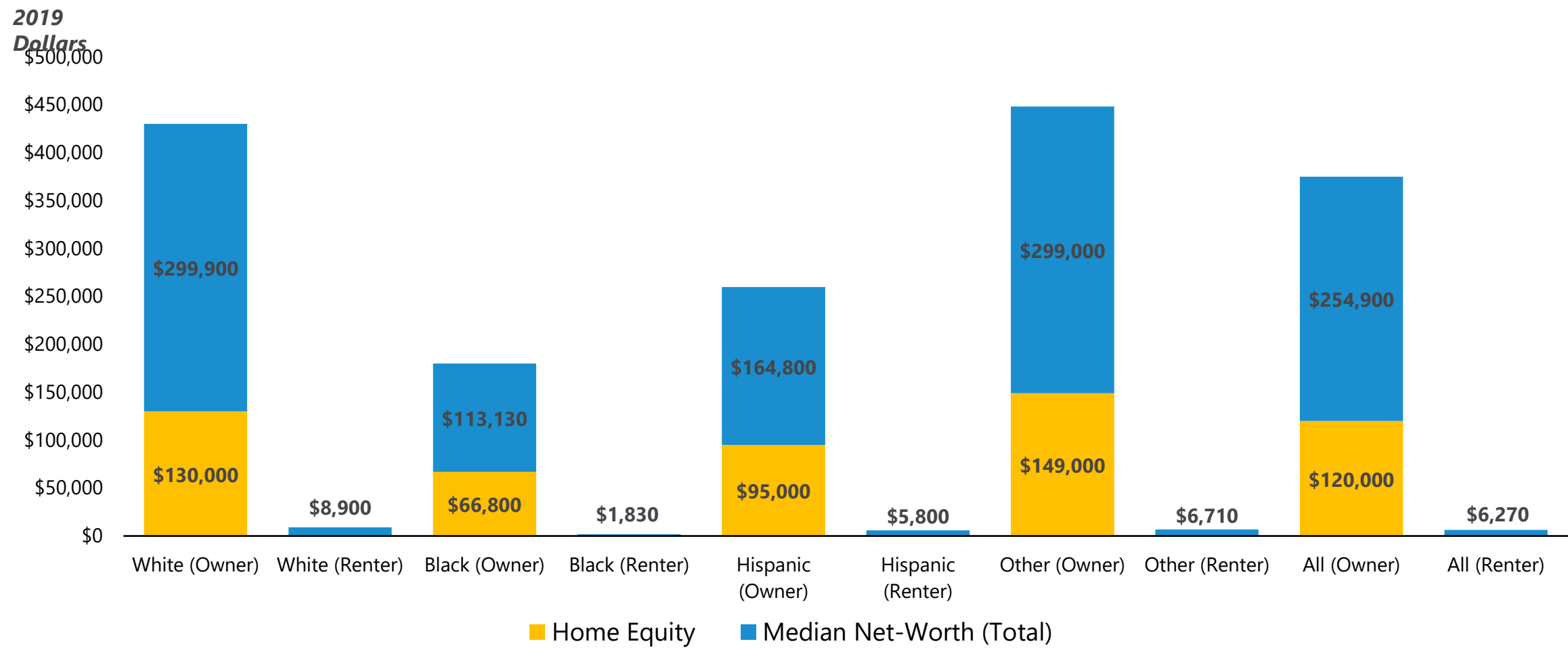




# Racial Homeownership Gaps Persist

# Homeownership has historically been best way to build wealth

Homeowner Versus Renter Net-Worth



Sources: Urban tabulations of Federal Reserve Board, 2019 Survey of Consumer Finances.

# Homeownership is a Crucial Wealth Building Tool for Households of Color

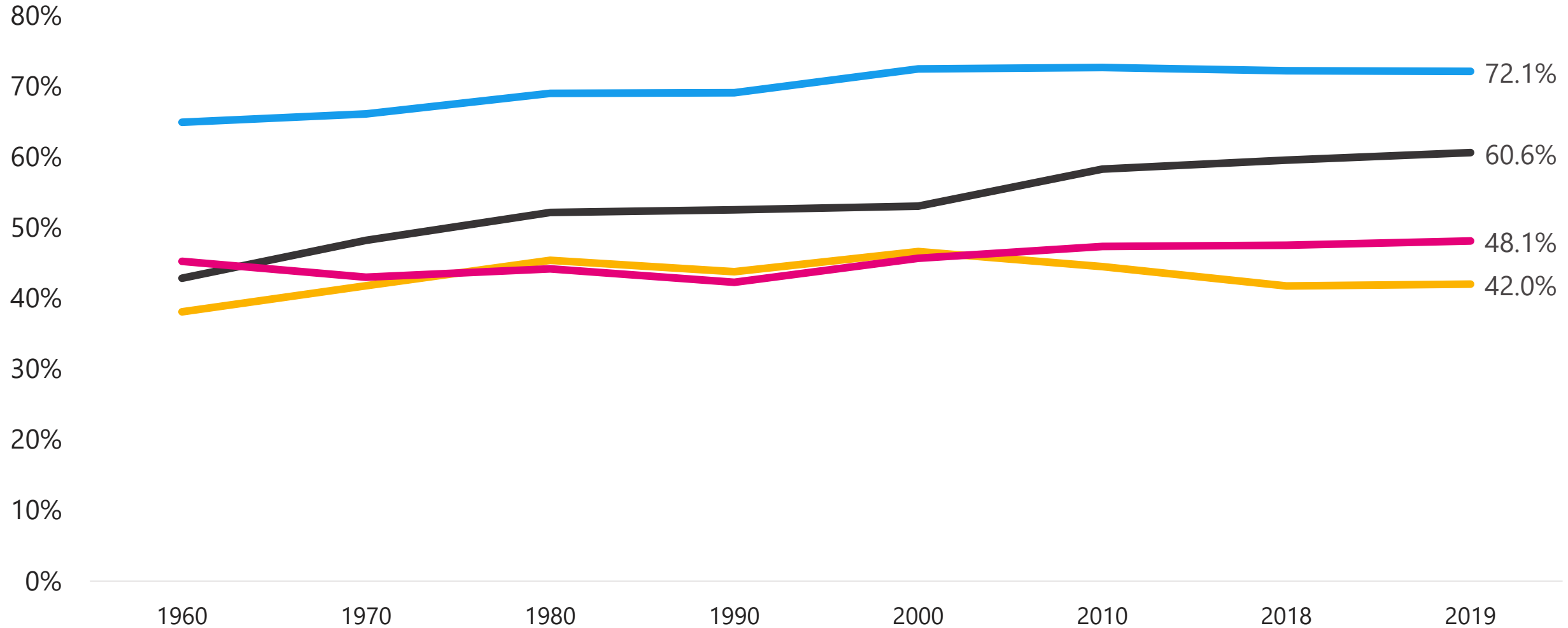
Home equity share of wealth

	Overall	White	Black	Hispanic	Other
Home equity	\$120,000	\$130,000	\$66,800	\$95,000	\$149,000
New worth	\$254,900	\$299,990	\$113,130	\$164,800	\$299,000
Housing equity share of net worth	47.1%	43.3%	59.1%	57.6%	49.8%

Source: Author's calculations from the 2019 Survey of Consumer Finances.

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

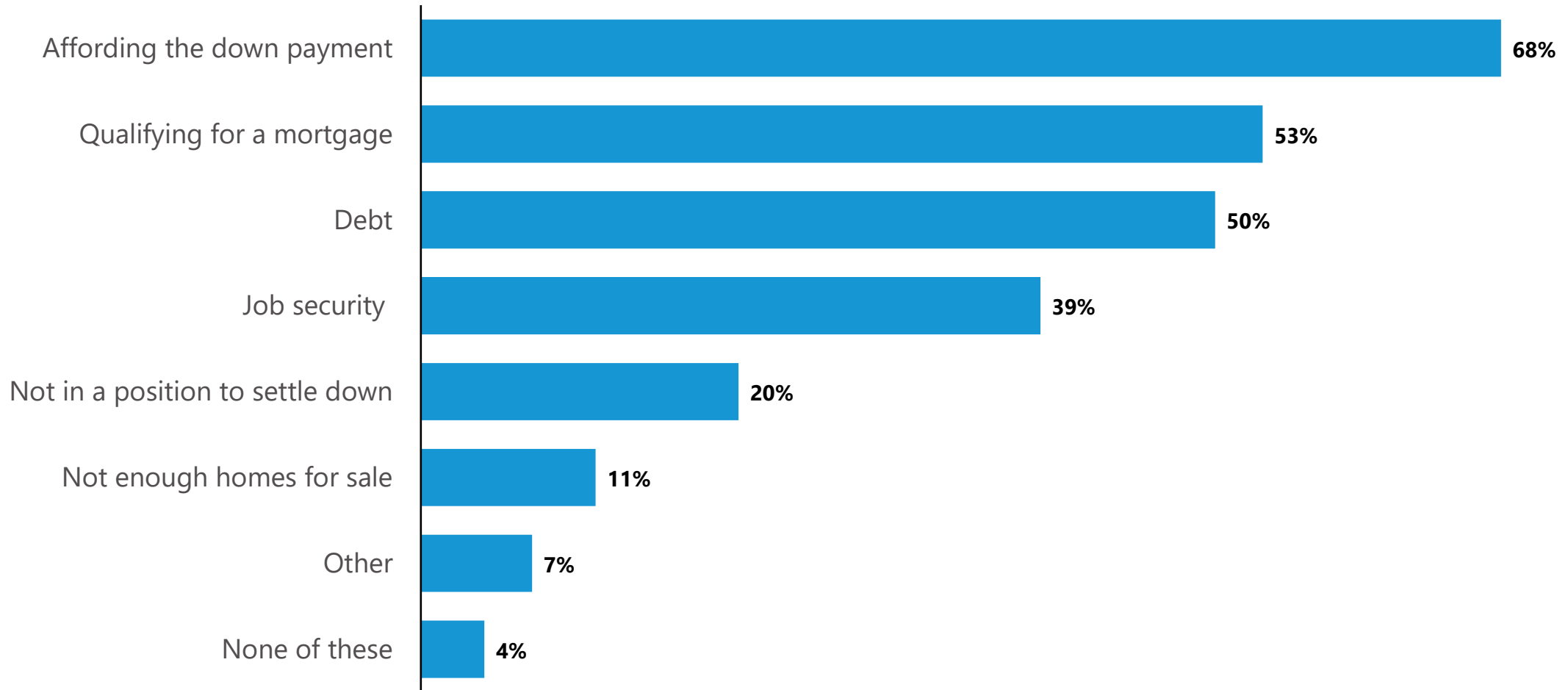
— White — Black — Asian — Hispanic



Source: Decennial Census, American Community Survey.

# ***Explaining Racial Homeownership Gaps***

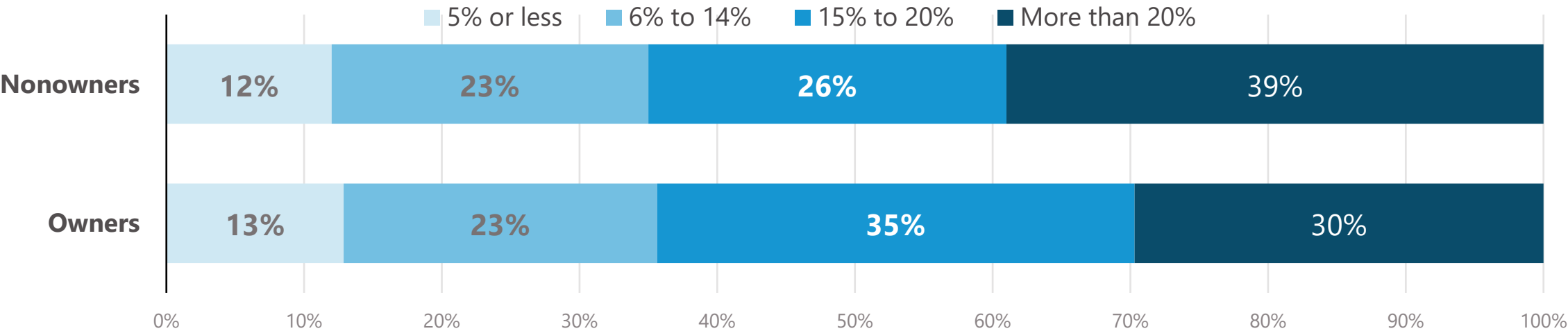
# What are the Major Barriers to Homeownership?



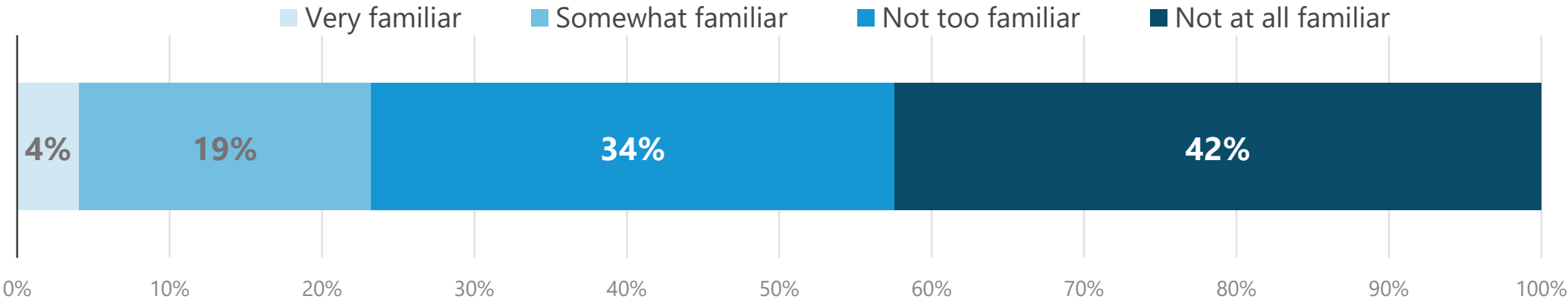
Sources: 2018 Zillow Housing Aspirations Survey and the Urban Institute.

# 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.



# Differences in benefits of homeownership

- Black homebuyers buy less expensive first homes with more debt than white homebuyers
- Black households buy homes later in life than white households
- Black homeowners are less likely to sustain their homeownership than white homeowners



# The unequal costs of homeownership

- Black homeowners pay \$743 more per year in mortgage interest payments
- Black homeowners pay \$550 more per year in mortgage insurance premiums
- Black homeowners pay \$390 more per year in property taxes
- Totals to \$13,464 over the life of the loan, amounting to \$67,320 in lost retirement savings

# Pandemic Impacts on Homeownership

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

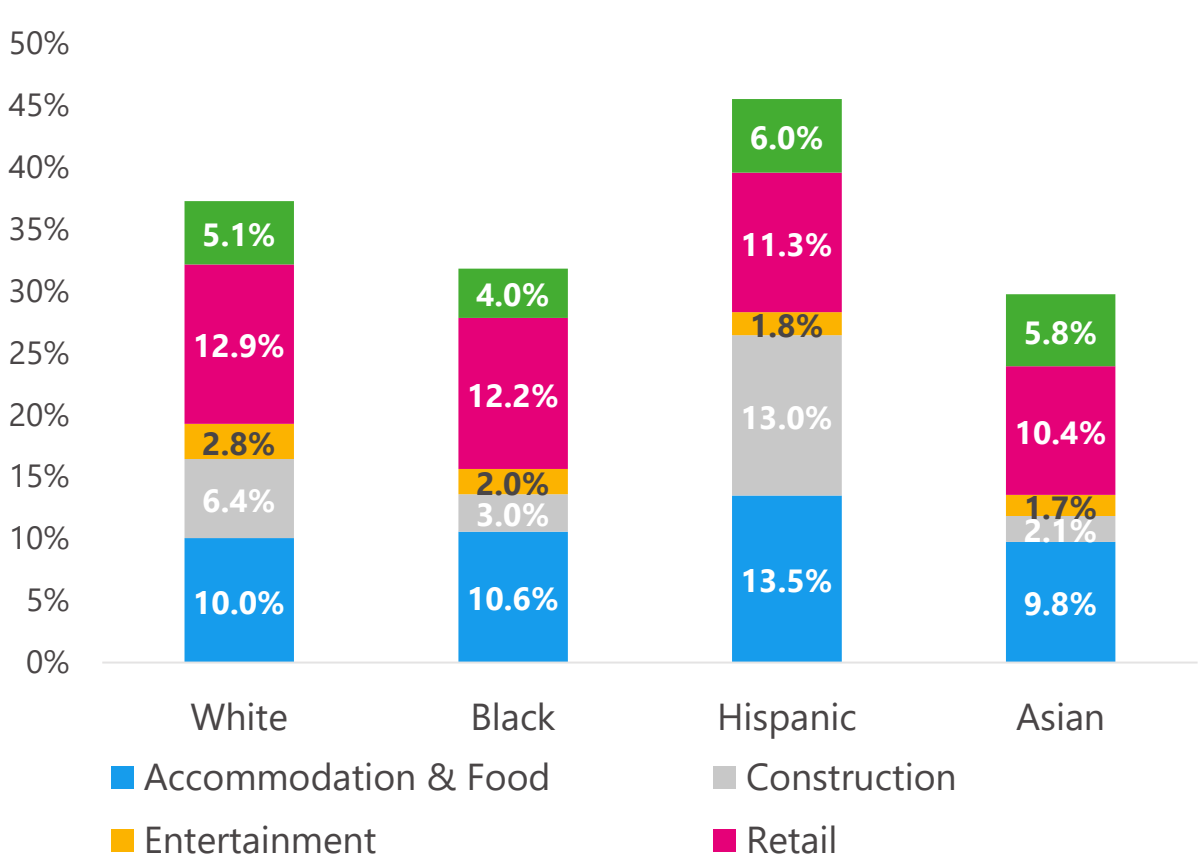
(% of mortgages with designated characteristics)

	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
May, 2020	60.3	64.5	13.1	9.3	11.3	10.7
<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
May, 2020	36.4	6.7	5.1	3.2	4.2	3.6

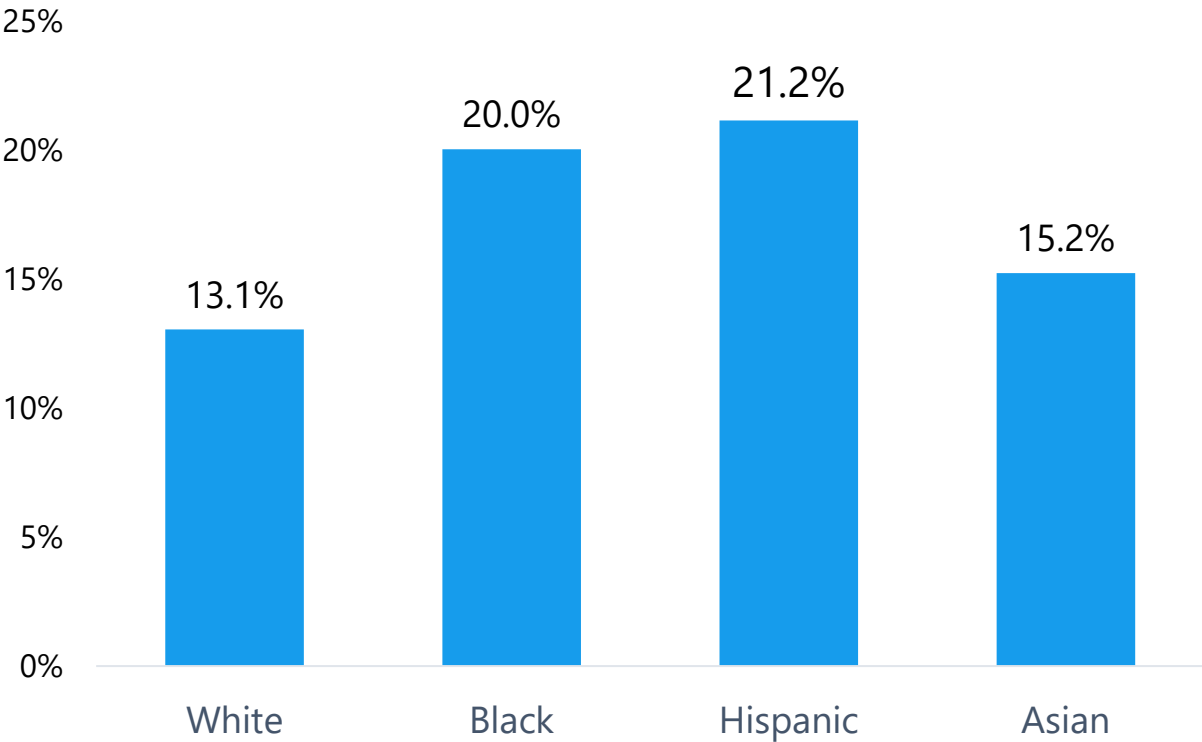
**Source:** Urban Institute calculations from eMBS data.

# Black and Hispanic homeowners are more likely to face unemployment due to COVID-19

Percent In Vulnerable Industries - Homeowners

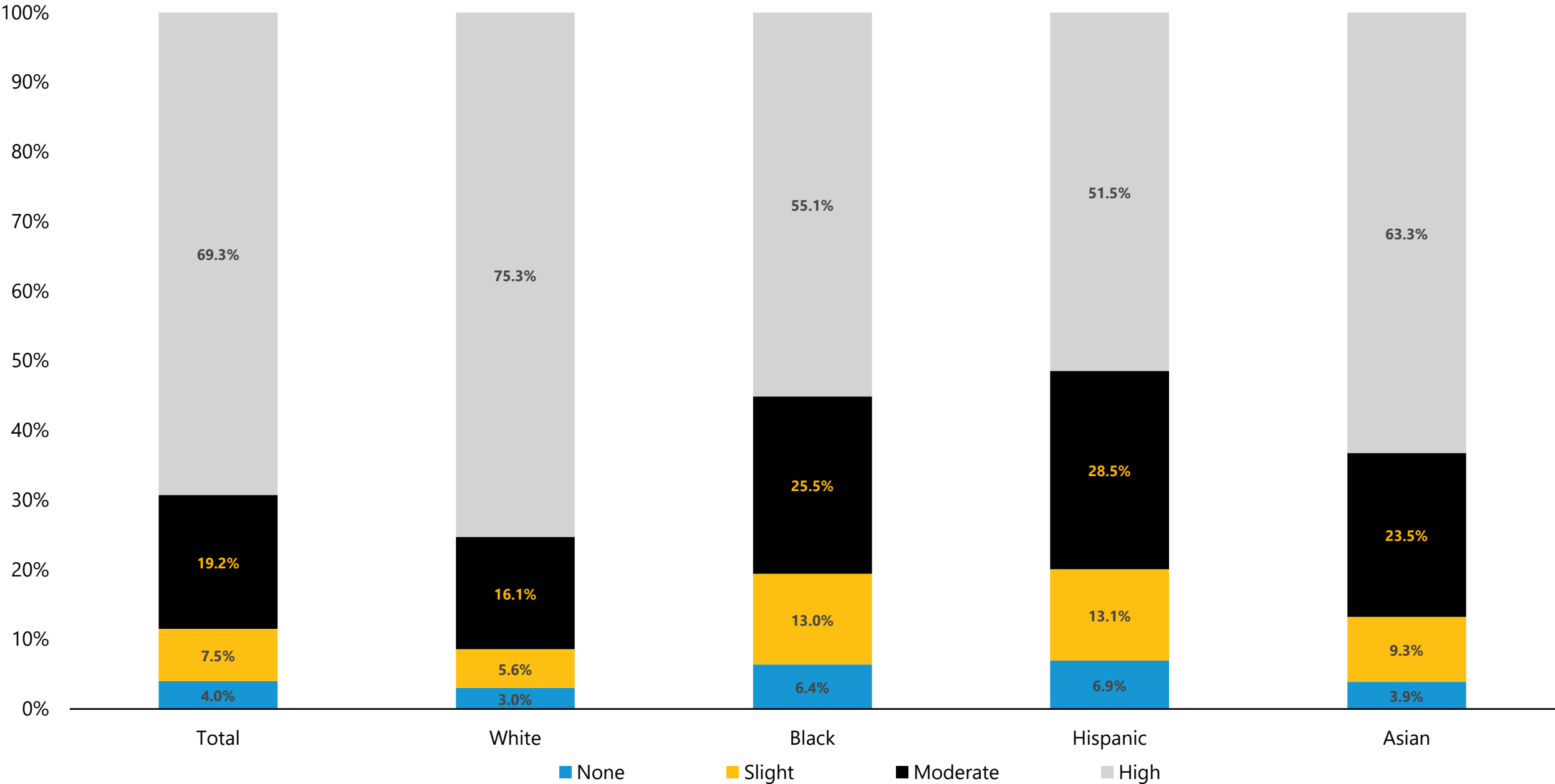


Percent with service occupation- Homeowners



Source: American Community Survey 2018

# Confidence in ability to make next month's mortgage payment



**Source:** Census Bureau Household Pulse Survey Week 15 (9/16/20-9/28/20).  
**Note:** "Hispanic" includes respondents who identified as "Hispanic or Latino" of any race.

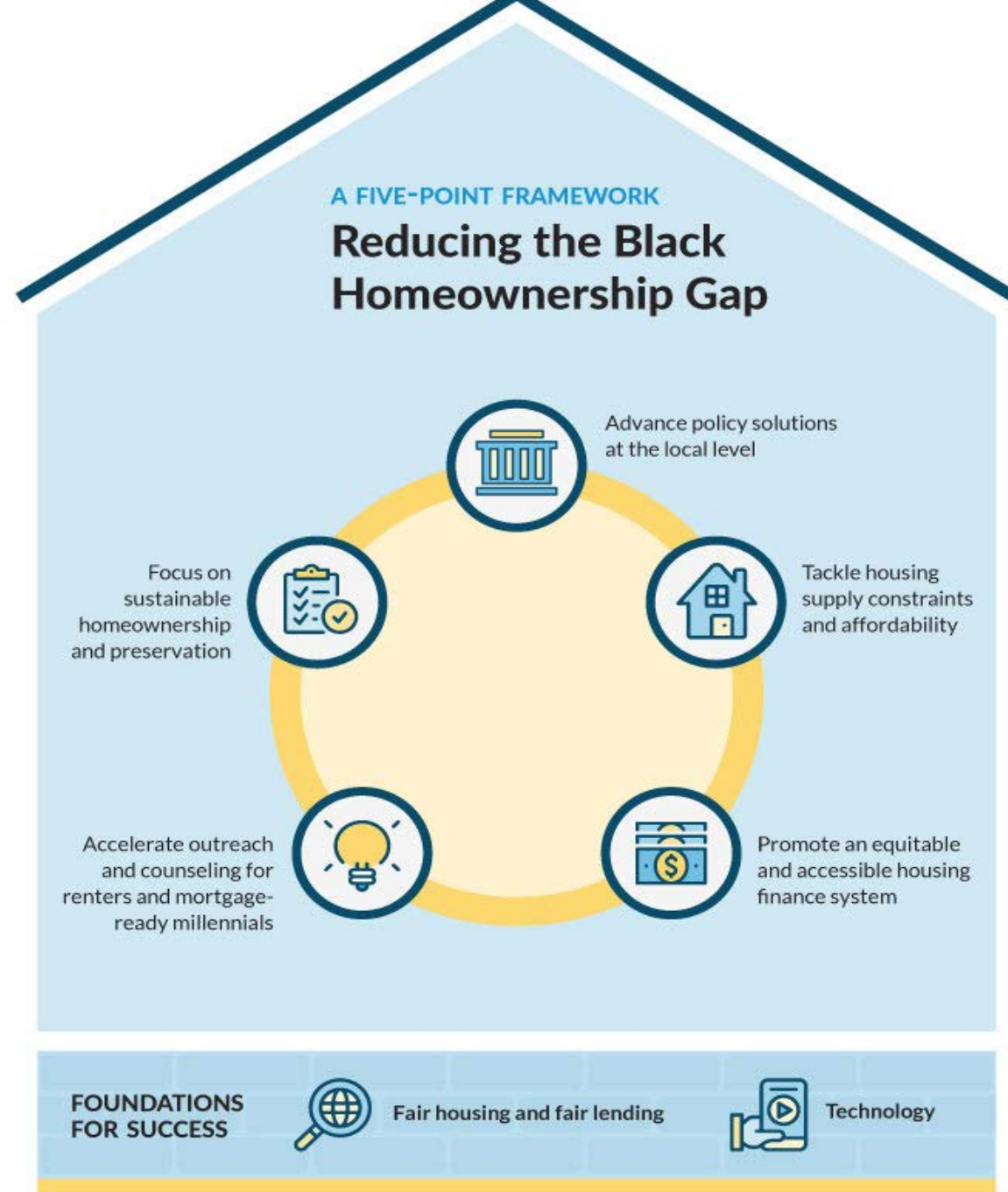


# Policy Considerations in the Pandemic

- Keeping people in their homes – forbearance and the transition back to regular payments, foreclosure and loss mitigation, eviction moratoria, and ensuring support for those renters and homeowners not covered by the CARES Act.
- Limiting adverse action fees and penalties – these extra costs deter consumers from refinancing or purchasing in a time of record low interest rates
- Race-conscious policymaking – the impacts of the pandemic on people of color are disproportionately worse across many dimensions
- Housing and credit counseling – distressed renters and homeowners will need these supports through the recovery to regain financial footing
- Access to credit beyond the pandemic – credit has tightened, and prolonged credit constraints will have consequences for homeownership opportunity
- Using additional data in mortgage underwriting – there is practical and available data that can be introduced in credit scoring models including payment histories for rent, telecommunications, utility, and TV bills.



# **Additional Policy Considerations**



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
<ul style="list-style-type: none"> <li>Responsibly expand small-dollar mortgages for purchase and renovation (micromortgages)</li> <li>Expand the reach of Housing Finance Agency (HFA) programs locally, and strengthen realtor/lender/HFA networks</li> <li>Strengthen access to and capacity of homeownership CDFI networks</li> </ul>	<ul style="list-style-type: none"> <li>Reform local land-use and building codes and revisit zoning laws and regulations</li> <li>Explore and expand production of affordable housing types such as manufactured housing and factory-built housing</li> <li>Improve single family 2- to 4-unit preservation, financing, and credit underwriting</li> </ul>	<ul style="list-style-type: none"> <li>Increase visibility, access, and types of down payment assistance programs</li> <li>Incorporate alternative data in credit history (e.g., rental payments)</li> <li>Improve and expand financial education and homeownership preparation for renters</li> </ul>	<ul style="list-style-type: none"> <li>Improve and expand financial education, housing counseling, and homeownership preparation to renters and younger generations</li> <li>Expand programs that automate saving for down payments/reserves</li> <li>Identify and reach out to millennials that are "mortgage-ready"</li> </ul>	<ul style="list-style-type: none"> <li>Promote healthy mortgage servicing relationships and loss mitigation options (keep people in their homes)</li> <li>Develop safe and sensible equity-tapping products</li> <li>Improve products and access to affordable repair/ renovation financing</li> </ul>

# Revamping the Hardest Hit Fund

## *Targeting Funding by State Need in the COVID-19 Crisis*

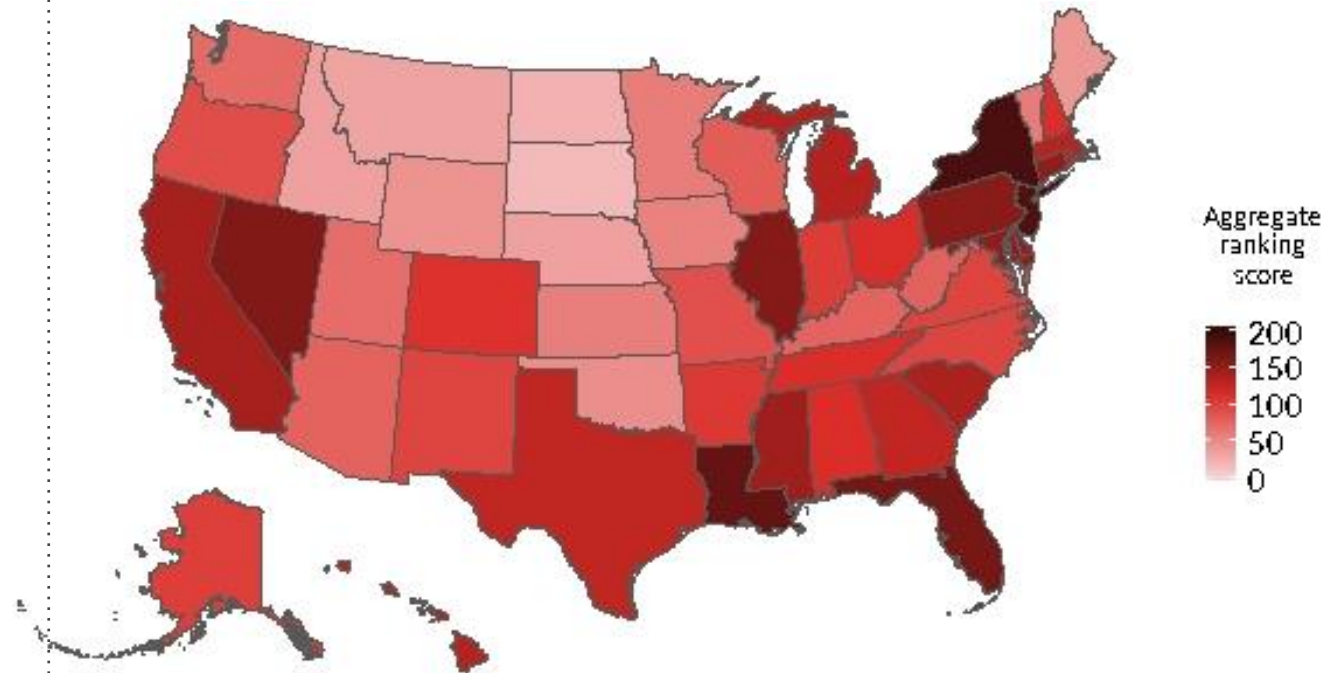
- From lessons learned in 2010 Treasury Hardest Hit Fund (HHF), A COVID-19 HHF could help distribute funds to State and Local HFAs to be distributed locally.
- We built a framework to prioritize states based on key data indicators.
- A COVID HHF can use quantitative and qualitative indicators of housing instability for homeowners **and** renters for determining how to target relief and outreach campaigns.
- A methodology for determining need should prioritize *racial and economic equity*, as we have seen the pandemic hit low-income and communities of color the hardest

# Results

## Ranking and state

1	New York	18	Georgia	35	West Virginia
2	New Jersey	19	Rhode Island	36	Arizona
3	Louisiana	20	District of Columbia	37	Kentucky
4	Florida	21	Alabama	38	Washington
5	Nevada	22	Ohio	39	Utah
6	Illinois	23	Tennessee	40	Vermont
7	Pennsylvania	24	New Hampshire	41	Minnesota
8	Maryland	25	Colorado	42	Kansas
9	Connecticut	26	Arkansas	43	Iowa
10	Delaware	27	Indiana	44	Oklahoma
11	Mississippi	28	Alaska	45	Wyoming
12	California	29	Virginia	46	Maine
13	South Carolina	30	North Carolina	47	Nebraska
14	Michigan	31	New Mexico	48	Idaho
15	Hawaii	32	Oregon	49	Montana
16	Massachusetts	33	Missouri	50	North Dakota
17	Texas	34	Wisconsin	51	South Dakota

## Hardest-Hit States



Sources: Urban Institute calculations based on data from the American Community Survey, Black Knight, the Census Bureau's Household Pulse Survey, and the Bureau of Labor Statistics.

Note: Delinquency rates are loans 30 or more days delinquent as a share of active loans not in foreclosure at the start of June. See appendix table A.1 for aggregate state rankings.

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