

Urban Institute – Background Research and Data

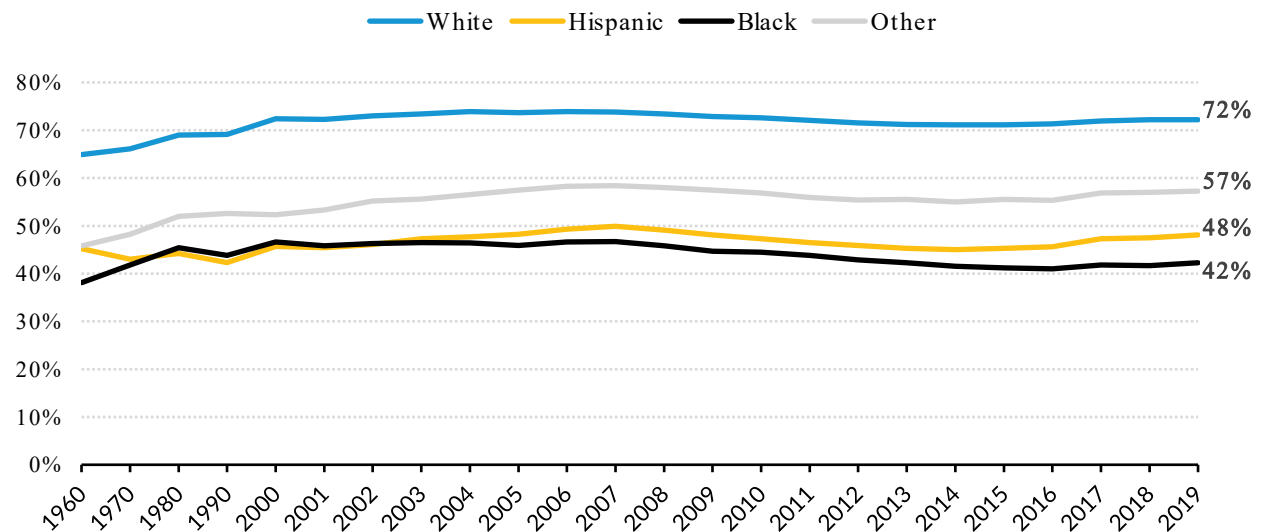
May 26, 2022

Part I: Why use SPCPs in home lending? Background Research and Data.

Topic 1: Large gaps in homeownership rates and wealth persist between racial groups as households of color face significant disadvantages relative to white households in both attaining and sustaining homeownership

- The white homeownership rate is 72 percent, which is 30 points higher than the Black homeownership rate (42 percent) and 24 points higher than the Hispanic homeownership rate (48 percent) ([American Community Survey](#), [McCargo & Strochak, 2018](#))
- Median wealth for white families' is \$188,200, compared to \$24,100 for Black families and \$36,100 for Hispanic families; the median white family has over 7 times the wealth of the median Black family and over 5 times the wealth of the median Hispanic family ([Bhutta et al. 2020](#), [Nine Charts about Wealth Inequality in America \(Updated\)](#)).
- The Black-white homeownership rate gap is wider now than it was in 1960, when the Fair Housing Act had not yet been passed and housing discrimination was still legal ([McCargo & Choi 2020](#), *Figure 1*)

Figure 1: Homeownership rates by race/ ethnicity, 1960-2019



Source: Census Bureau.

- In 2019, households of color accounted for 32 percent of all households but only held 24 percent of primary-residence housing wealth ([Neal et al. 2021](#), [Dettling et al. 2017](#)).

- Relative to white homeowners, Black homeowners will pay on average \$67,320 more for their homes because they pay higher relative mortgage rates, mortgage insurance premiums, and property taxes ([Golding et al. 2020](#)).
- Driven by targeted lending of predatory products to borrowers of color, the great recession had a greater negative economic impact on homeowners of color; during the foreclosure crisis Black and Hispanic households were 76 and 71 percent more likely to be foreclosed on than white owners, respectively. ([Bocian, Li and Ernst 2010](#), [Neal and McCargo 2020](#), [Choi et al. 2019](#))
- Negative shocks like recessions and natural disasters disproportionately impact homeowners of color, widening gaps and setting vulnerable households further back (Neal...) Prohibitively tight credit in the aftermath of the 2008 recession reduced lending to Black and Hispanic borrowers by 76 and 78 percent from 2005 to 2012 ([Goodman, Zhu and George 2014](#)). During the latest COVID-19 pandemic,
- There is evidence that homes owned by people of color as well as homes located in majority non-white communities are systematically undervalued by appraisers (by \$48,000 per home on average) and these homes are susceptible to larger errors even in automated-valuations ([Perry 2018](#), [Neal, Stochak and Young 2020](#))

Topic 2: A long history of regulatory and business practices of discrimination towards Black households around homeownership has led to the gaps that remain today. history of In the mid-20th century, the Federal Home Owner's Loan Corporation (HOLC), the pre-cursor to the Federal Housing Agency, explicitly and systematically denied mortgage lending to communities that were predominantly non-white through a process known as redlining (Rothstein, 2017)

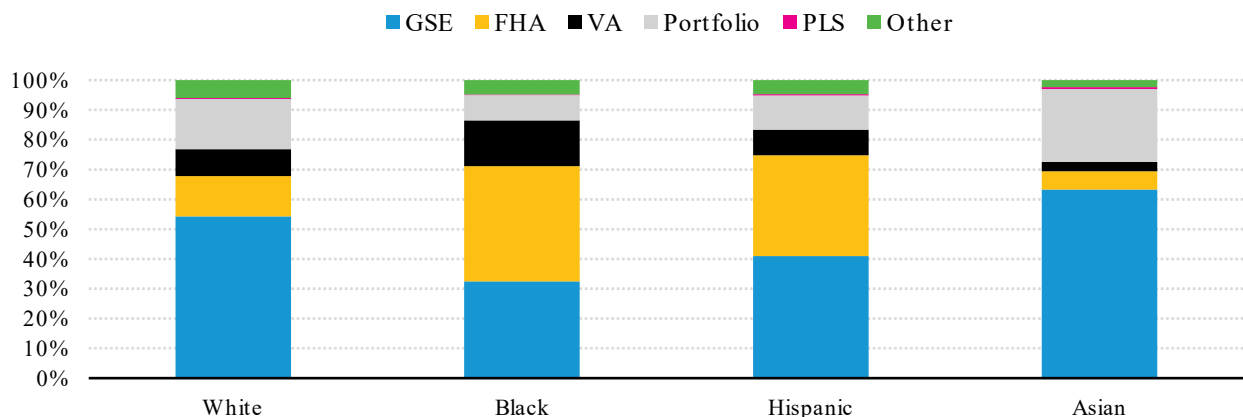
- Racially restrictive covenants in the early 20th century prohibited African Americans from purchasing or owning homes in certain, often affluent and white, communities ([Turner and Greene](#))
- Black homebuyers have disproportionately utilized land sale contracts to purchase housing, which lack the protections of mortgage financing in default scenarios. Between 1950-1970, in Chicago alone it is estimated land sale contracts stripped Black households of between 3.2 and 4.0 billion in wealth. ([George et al. 2019](#), [Brown 2016](#))
- People of color had less access to the 30-year mortgages, revolving credit, and Federal Deposit Insurance Corporation-backed bank accounts that underpinned the growing middle class. In their absence, costlier, riskier, and less regulated alternatives filled the void, using business models that often trapped people in cycles of debt” ([Perry, Choi, and Reynolds blog](#)) and limited their ability to build a traditional credit history.
- The staple legislation aimed at remedying historic lending discrimination, the Community Reinvestment Act (CRA), has fallen short of creating equal access to housing credit. Majority-minority communities receive less lending as a share of households than white neighborhoods, and research demonstrates that low-to-moderate designation that guides CRA activity is not a strong proxy for race ([Goodman et al. 2022](#)).

Part II: Why use specific elements in SPCPs in home lending?

Topic 3: Wealth Disparities and the role of targeted downpayment assistance: Black and Hispanic homebuyers put less money down on average when purchasing a home and are less likely to have access to wealth for down payments

- Black and Hispanic homebuyers are overrepresented in low-downpayment programs (e.g. FHA & VA) (Figure 2). For homeowners of color, having more mortgage debt relative to equity has adverse impacts on housing sustainability and results in higher overall housing costs ([McCargo and Choi 2020](#)).

Figure 2: Race/ethnicity purchase origination share by channel



Source: 2020 Home Mortgage Disclosure Act (HMDA).

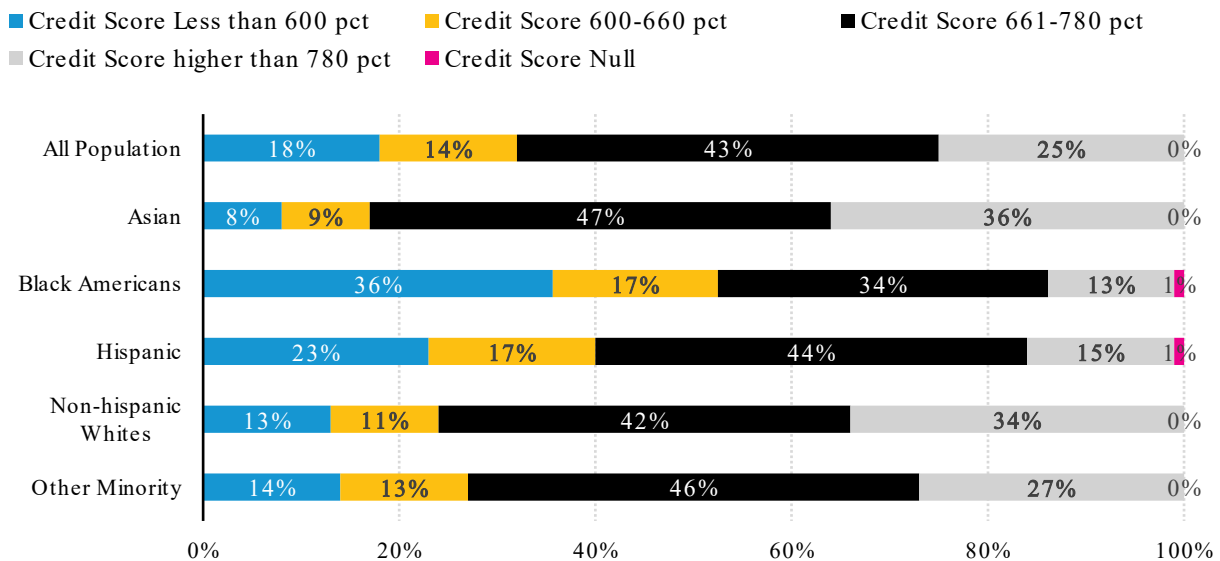
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- 30 percent of white families received an inheritance or gift, compared to about 10 percent of Black families and 7 percent of Hispanic families. Gifts from relatives account for approximately 32 percent of down-payments for first-time home buyers ([Bhutta et al. 2020](#), [National Association of Realtors 2019](#))
- Black households are less likely to have had parents that were homeowners and/or owned over \$200,000 in wealth, both of which greatly increase the likelihood of becoming an owner ([Choi, Zhu & Goodman 2018](#))
- More than 1.7 million mortgage-ready young Black renters could afford a median-price home in the 31 most-populous metropolitan statistical areas if they could come up with a 10 percent down payment ([McCargo, Choi, and Golding 2019](#))
- In a sample of 31 metro areas, 47 and 46 percent of originations made to Black and Hispanic borrowers, respectively, met the criteria for down payment assistance, compared to 25 percent of originations to white borrowers ([Goodman et al. 2018](#))

Topic 4: Disparities in credit history and the role for more flexible credit standards in underwriting and pricing: Households of color on average have lower credit scores and face discriminatory practices that negatively impact scores that harm their ability to qualify for standard mortgages or result in them having to pay more for those mortgages.

- Credit score distributions differ between racial/ethnic groups, with Black and Hispanic individuals being much more likely to fall in the 660 and below range than white and Asian individuals (Freddie Mac, Figure 1)

Figure 3: Credit score distribution by race/ethnicity (2021)



Source: Freddie Mac calculations using anonymized credit bureau data for Jan 2021

- Black-white credit score gaps are significant: 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 ([McCargo & Choi 2020](#)).
- Lending discrimination is prevalent and people of color are more likely to be targeted by predatory lending practices, however, credit bureau systems do not account for discrimination when creating a score ([Rice, 2019](#))
- Historical discrimination limited the economic choice of households of color and drove them to use alternative financial services (e.g., payday lending) which has negatively impacted modern credit scores ([Broady, McComas and Ouazad 2021](#))
- Alternative credit scoring could open the door for many US households. Though 20 percent of US adults can't be scored using traditional scoring practices now, a disproportionate share of which

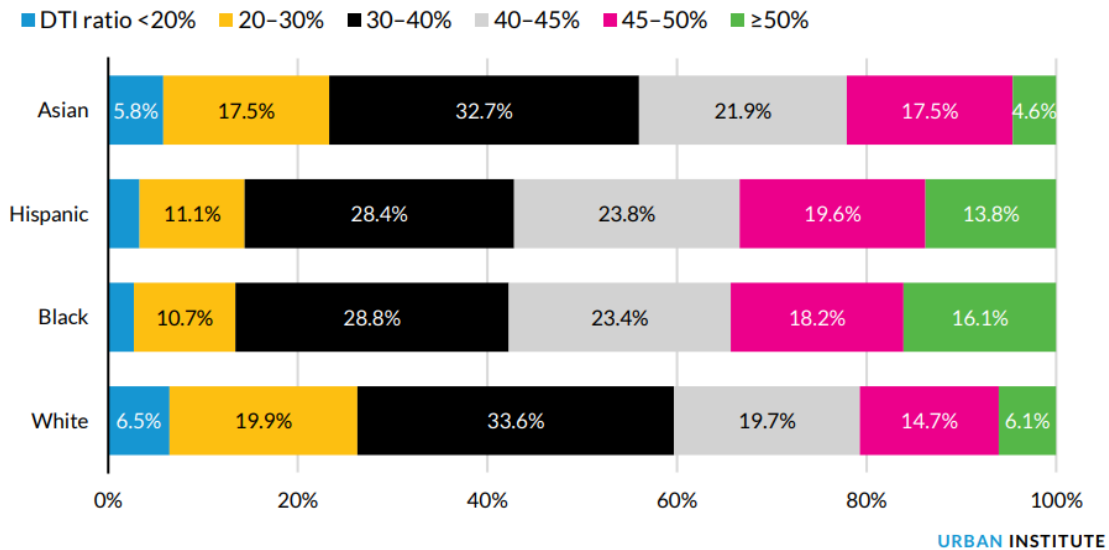
are Black and Hispanic, 96 percent of US households have a bank or a prepaid account and 91 percent have at least one utility account in their name ([Kaul 2021](#), [Finreg 2019](#))

- The credit health of major demographic groups improved during the COVID-19 pandemic, but gaps have not narrowed. Majority-Black, Hispanic, and Native American communities experience rates of subprime credit scores, debt in collections, and high-cost nonbank borrowing at least 1.5 times higher than rates in majority-white communities as of 2021 ([Urban Institute](#))

Topic 5: Debt to Income and the role for more flexibility in evaluating ability to repay. Homebuyers of color average greater mortgage debt as a share of their income

- In 2019, approximately 34 percent of both Black and Hispanic homebuyers had DTI ratios at or above 45 percent, compared with 20 percent of white homebuyers ([McCargo & Choi 2020](#)).

Figure 3: Debt-to-income ratios by race/ethnicity (2019)



Source: 2019 Home Mortgage Disclosure Act data.

Note: DTI = debt to income.

- Data from the Home Mortgage Disclosure Act show that Black applicants are denied due to high debt-to-income ratios at a higher rate than all other races and ethnicities ([Ky and Lim 2022](#)).
- The average homebuyer of color puts less money down (*see topic 3*), resulting in higher monthly payments that increase DTI ratios.
- Median household income for black households is substantially lower than for white households (\$38,183 versus \$61,363 in 2017) ([Choi et al. 2019](#)). Racial discrimination in the private sector contributes to fewer job opportunities and lower wages for Black and Hispanic workers ([Pager, Bonikowski and Western 2009](#)), lowering average income for these households.
- Black-white income gaps among men are large, driven by differences in wages and employment, and persist regardless of the census-track where the individual was born ([Chetty et al. 2019](#)).

The Community Reinvestment Act is Not a Final Solution for Equitable Lending

The Community Reinvestment Act (CRA) is the staple legislation aimed at remediating the negative impacts of racist housing policy and discrimination in the US, particularly the former practice known as redlining (Rothstein). Enacted in 1977, CRA put in place an incentive system for banks to meet the credit needs of the entire communities they serve. Current CRA rules provide “credit” to banks for lending to low- and moderate-income (LMI) borrowers and inside LMI neighborhoods (with LMI set at incomes less than 80 percent of the area-median-income).

Race and ethnicity **are not** explicit considerations in current CRA legislation and analysis of lending data find that depository institutions continue to underserve Black and Hispanic neighborhoods and borrowers ([Goodman, Zhu and Zhu](#)). Despite persistent racial differences in lending services, over 90 percent of banks reviewed under CRA received a *satisfactory or outstanding* ranking from CRA regulators in 2019 ([NRCR 2020](#)).

Moreover, LMI neighborhoods do not highly overlap with minority neighborhoods and compared with the persistently low minority homeownership rate, minority neighborhoods do not receive their proportionate share of purchase loans from institutions covered by the CRA. Overall, purchase mortgage lending by banks to minority borrowers inside of LMI neighborhoods is proportionate to existing minority homeowners in those communities. But when the minority category is broken down by race or ethnicity, there is a huge divergence in lending to different racial and ethnic groups, with Black borrowers in LMI neighborhoods in particular receiving less than their proportionate share of mortgage loans.

Lending to Minority Borrowers

	Households	Homeowners	Owner-occupied, purchase loans
LMI neighborhoods			
Black borrowers	23.8%	17.9%	13.1%
Hispanic borrowers	23.2%	19.0%	23.1%
Asian borrowers	4.3%	3.9%	5.4%
Other borrowers	3.2%	2.6%	1.7%
Middle-income neighborhoods			
Black borrowers	8.9%	6.5%	7.3%
Hispanic borrowers	10.3%	8.1%	12.5%
Asian borrowers	3.7%	3.2%	4.4%
Other borrowers	2.5%	2.0%	1.5%
Upper-income neighborhoods			
Black borrowers	5.6%	4.2%	5.5%
Hispanic borrowers	8.4%	7.0%	10.2%
Asian borrowers	6.6%	6.3%	8.1%
Other borrowers	2.1%	1.7%	1.5%
All neighborhoods			
Black borrowers	11.8%	7.8%	7.6%
Hispanic borrowers	13.1%	9.8%	13.4%
Asian borrowers	4.7%	4.4%	6.0%
Other borrowers	2.5%	2.0%	1.5%

Source: Authors' calculations based on 2015–19 American Community Survey data and 2018–19 Home Mortgage Disclosure Act data.

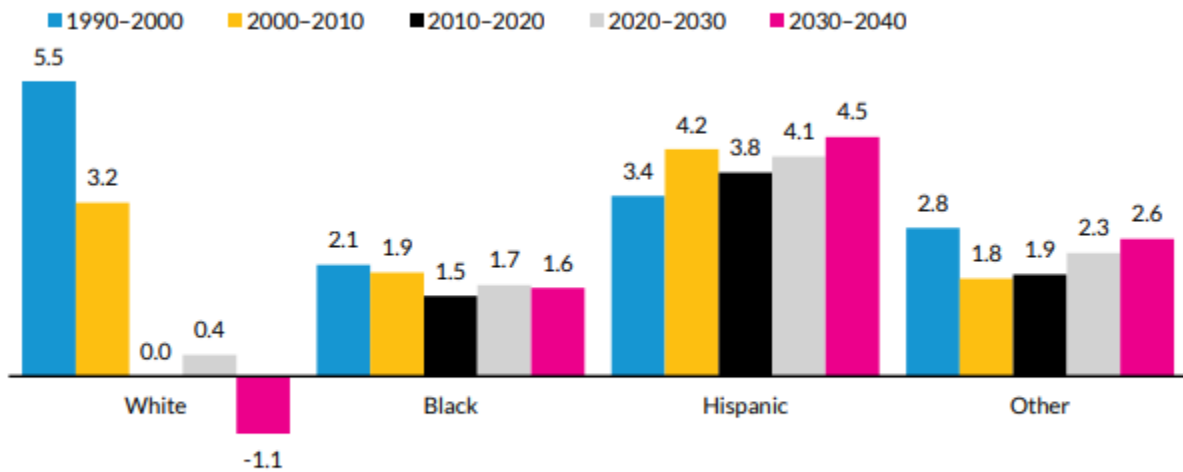
Note: LMI = low- and moderate-income.

Changing Demographics of The Housing Market

Households headed by nonwhite individuals make up a rapidly increasing share of the total US population and with it a larger demand for mortgage financing from nonwhite borrowers. Demographic growth models predict that all net new households formed between 2020 and 2040 will come from nonwhite households, driven by 8.6 million additional Hispanic headed households, 4.8 million more Asian and other households and 3.4 million more Black households (Goodman and Zhu). White households are anticipated to decline by 600,000.

Net Household Formation, by Race or Ethnicity, 1990-2040

Millions



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Sources: Decennial censuses, American Community Surveys, and Urban Institute projections.

Notes: Values for 2020, 2030, and 2040 are projected values. The "Other" category includes Asians, American Indians, Alaska Natives, Native Hawaiians, other Pacific Islanders, and multiracial individuals.

Without policy interventions, it is estimated that most new households will rent instead of buy their home (Goodman and Zhu). As a result, the US will see homeownership rates decline among most demographic groups and racial homeownership gaps widen. Promoting equitable access to mortgage financing will play an important role in reversing this trend. Originators can reevaluate how they qualify borrowers for mortgages and implement programs that sustain homeownership for low-wealth, disproportionately minority borrowers.

Reference List (in progress): Citations

Topic 1: Racial homeownership rate and wealth gaps

2019 5-year American Community Survey: [Selected Population Profile in The United States](#)

Neal et al. 2021 [Why Do Households of Color Own Only a Quarter of the Nation's Housing Wealth When They Compose a Third of the Nation's Households?](#)

Topic 2: Historical Discrimination

Topic 3: Downpayments

Topic 4: Credit Scores

Topic 5: Debt-to-income

Community Reinvestment Act