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Statement of

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before the

Subcommittee on Housing, Community Development, and Insurance,

Committee on Financial Services,

United States House of Representatives

A REVIEW OF THE STATE OF AND BARRIERS TO MINORITY HOMEOWNERSHIP

May 8, 2019

* The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

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Chair Lacy Clay, Ranking Member Duffy, Chairwoman Waters, Ranking Member McHenry, and members of the subcommittee, thank you very much for the opportunity to testify today. My name is Alanna McCargo, and I am the vice president of the Housing Finance Policy Center, or HFPC, at the nonprofit Urban Institute, a leading research organization dedicated to developing evidence-based nonpartisan insights that improve people's lives and strengthen communities. The Housing Finance Policy Center provides timely, impartial data and analysis on how the housing finance system affects households, communities, and the broader economy.

I have seen how the housing market operates from many vantage points, having spent more than 20 years of my career in financial services and housing finance policy. I was at Fannie Mae 2002 to 2012, a period that included Fannie Mae's entry into conservatorship and the subsequent housing market boom, bust, and recovery. My comments today focus on the critical role of homeownership access, affordability, and sustainability for communities of color and the critical role that owning property plays in creating an economic base for communities of color, helping them build wealth and economic mobility. I will focus on black homeownership in many of my remarks, as the state of black homeownership in America today is alarming and in urgent need of attention and HFPC has been conducting research over the past several years to elevate and share data to inform action on the racial homeownership gaps that persist.

The views I express today are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

President Lyndon B. Johnson founded the Urban Institute in 1968 to focus on the problems of America's cities and their people and to inform social and economic policy interventions that would help fight the War on Poverty. That same year, Congress passed the Fair Housing Act, making housing discrimination against blacks and other protected groups illegal. President Johnson and other backers of the law understood the role housing plays in American life, a role it still holds today. Despite the passage of the Fair Housing Act, many systems and practices built up over time continue to maintain unjust and discriminatory biases that exclude and inhibit families of color from owning homes and accessing financial markets and products on a level playing field.

A significant racial and ethnic homeownership gap persists in our country: the homeownership rates of blacks, Hispanics, and other communities of color are 30, 25, and 16 points, respectively, lower than the rate for whites. These gaps are large by every measure, and they are worse than the gaps that existed when private race-based discrimination was legal. We have not simply failed to make progress; we are losing ground. And we cannot continue to go backward.

Wealth disparities exist between racial lines and between homeowners and renters. Homeowners have significantly more wealth than renters. But black and Hispanic homeowners still have significantly less wealth than white homeowners. Even when simply comparing home equity, the differences are stark: black homeowners have less than half the median equity of white homeowners.

The returns on homeownership are not just financial, of course. Homeownership provides a stable place to live and an inflation hedge because mortgage costs are generally fixed while rents tend to rise.

So how do we ensure more people of color and lower- and middle-income households can participate in the benefits and wealth accumulation that homeownership can offer? A group of stakeholders recently convened by the Urban Institute spent time analyzing the data and identifying the evidence-based actions likely to reduce racial homeownership gap. I describe the details of that work in the second half of my testimony.

The face of our nation is changing, profoundly and literally. As communities of color increase in size, their experiences will increasingly come to define the housing market. In this way, understanding the current state of and barriers to homeownership for a more diverse population offers a picture of what may be to come in our country's housing market and, ultimately, our economy.

By 2044,[1] no race or ethnic group will represent more than 50 percent of the population. What's more, the overwhelming majority of new households formed from 2010 to 2030 will be nonwhite.[2] The overwhelming majority of new homeowners will, accordingly, also be nonwhite, and more than half will be Hispanic. If current trends persist, the homeownership rate will decline significantly in 2030 to 61.3 percent overall, with whites at 70 percent, blacks at 40 percent, and Hispanics at 48 percent.

As these projections and other evidence shows, we are on a dangerous trajectory that will not result in an equitable future for all Americans. Given the pluralistic and more diverse and multicultural future, this could mean a future where homeownership declines overall nationwide. A steep decline in homeownership would also mean declines in personal household wealth, family stability, and the economic prosperity of individual neighborhoods and in the economic health of the nation.

I am often asked, given the recent history of homeownership outcomes for many communities of color, if homeownership is still a good choice. I believe firmly that it absolutely is and that we have seen and experienced how homeownership and housing wealth have enabled white families throughout history. Those same benefits do not accrue as readily to minority families. But they can and they should, so we need to fix the system. We have to remember the history of our housing markets and the role that the federal government played in creating segregated neighborhoods and advancing explicit policies for white families to help them purchase homes through FHA programs and other policy-based actions that directly excluded benefits to households of color.[3]

Fortunately, changes are within the ability of this body and state and local governments. Evidence has clearly helped us recognize the deep housing affordability challenges that are plaguing low-income and middle-class families of all racial and ethnic backgrounds. Ensuring greater access and affordability to our housing finance system, expanding options to help families move safely from renting to homeownership, and making sure existing minority homeowners can maintain their homes and preserve housing-related wealth are critical components of building racial wealth equity in our society and future.

My testimony initially lays out the state of minority homeownership, then offers evidence about why homeownership remains such a powerful wealth-building tool. I conclude by offering data about the current

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[1] Sandra Colby and Jennifer Ortman, *Projections of the Size and Composition of the US Population: 2014 to 2060* (Washington, DC: United States Census Bureau, 2015).

[2] Laurie Goodman, Rolf Pendall, and Jun Zhu, *Headship and Homeownership: What Does the Future Hold?* (Washington, DC: Urban Institute, 2015).

[3] In his recent video documentary Segregated by Design, based on his book, *The Color of Law,* Richard Rothstein eloquently recounts the historical role and intentional policies that brought great wealth to white families through homeownership and further disparity and loss to black families.

barriers to minority homeownership and several evidence-based ideas about ways to overcome these barriers.

The State of Minority Homeownership

As of 2017, the homeownership rate of the four racial and ethnic categories tracked by the census showed significant differences in homeownership rates among these groups. The biggest gap—30 points—is between the white and black homeownership rates of 72 and 42 percent, respectively, followed by a 25-point gap between whites and Hispanics and a 15-point gap between whites and others, a group composed primarily of Asian Americans and Pacific Islanders.

Patterns in Homeownership Rates by Race and Ethnicity

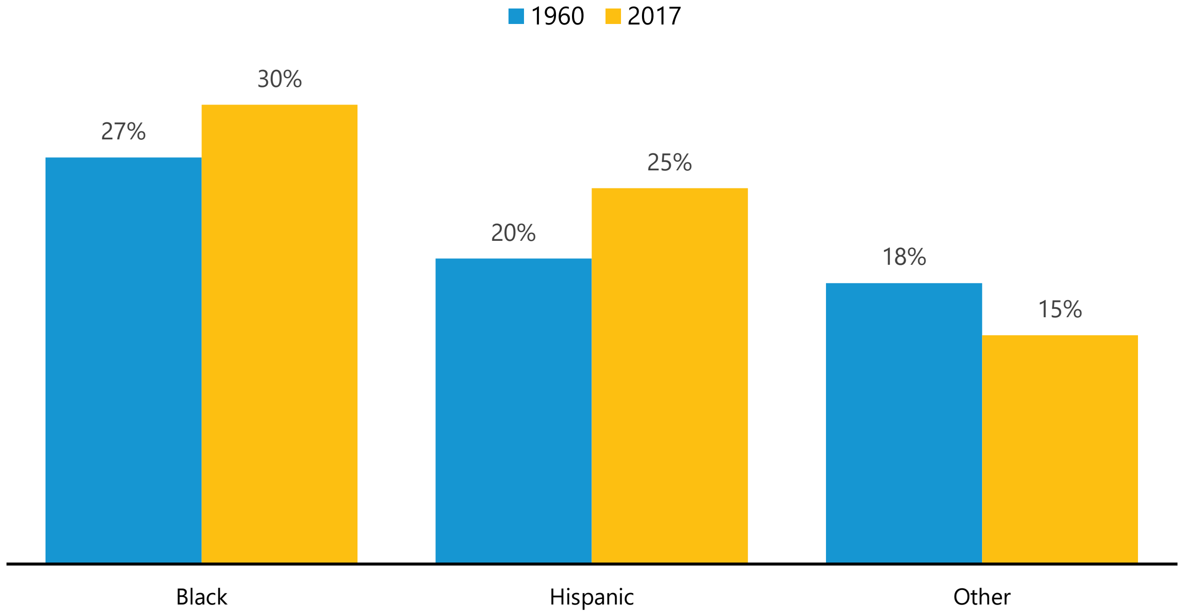
	Rates (%)			Changes (percentage points)		
	2001	**2006**	**2017**	**2001–06**	**2006–17**	**2001–17**
White	72.3	73.9	71.9	1.6	-2.0	-0.4
Black	45.8	46.6	41.8	0.8	-4.8	-4.0
Hispanic	45.4	49.3	47.3	3.9	-2.0	1.9
Other	53.3	58.3	56.9	5.0	-1.4	3.6
All	65.8	67.3	63.9	1.5	-3.4	-1.9

Source: Urban Institute calculations of the American Community Survey.
Note: “Other” primarily includes Asian Americans and Pacific Islanders.

Little Progress in 50 Years

Looking at the rates in a historical context reveals that the gap between minorities and non-Hispanic white families in the US today is bigger than it was before the Fair Housing Act was passed. The gains made in the first three decades after 1968 were more than erased after 2000 as forces within and beyond the housing market aligned to reduce the minority homeownership rate and strip tremendous wealth from communities of color.

Homeownership Rate Gap between Whites and People of Color, 1960 and 2017



Source: Urban Institute calculations of the American Community Survey.
Note: "Other" primarily includes Asian Americans and Pacific Islanders.

Many minority homebuyers bought homes at the peak of the bubble[4] at higher rates than whites and Asians and were disproportionately the victims of predators who offered subprime loans, even to those who qualified for prime loans.[5] This issue didn't just affect those buying new homes; existing minority homeowners were targeted for predatory refinancing products that ultimately stripped equity and affordability, and they lost their homes to foreclosure as a result[6].

At the same time, black families have not experienced as rapid a recovery as their white counterparts. As a result, the black homeownership rate has seen the most dramatic drop of any racial or ethnic group, declining 5 percent compared with a 1 percent decline for white families and increases for Hispanic and other families.

The racial homeownership gap that persists has an enormously negative impact on the wealth of families of color, who tend to have disproportionate shares of their total net worth invested in their homes and to have fewer alternative savings and investments.

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[4] Bing Bai, Bhargavi Ganesh, and Aaron Williams, "*An interactive view of the housing boom and bust*," Urban Institute, last updated June 2018.

[5] Sumit Agarwal and Douglas D. Evanoff. "Loan Product Steering in Mortgage Market," January 21, 2013. Available at SSRN: https://ssrn.com/abstract=2204400.

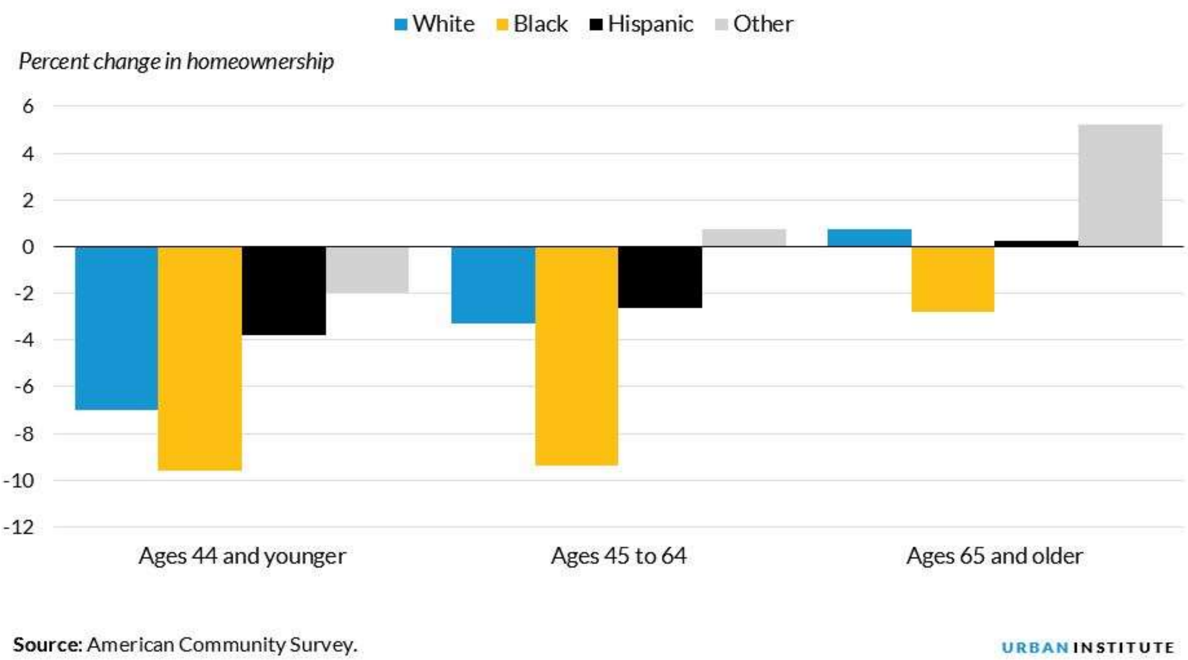
[6] Laurie Goodman, "Using homes as ATMs, not homebuying fervor, was more to blame for the housing crisis," *Urban Wire,* Urban Institute, May 10, 2017, https://www.urban.org/urban-wire/using-homes-atms-not-homebuying-fervor-was-more-blame-housing-crisis.

Laurie Goodman and Jun Zhu, *What Fueled the Financial Crisis?* (Washington, DC: Urban Institute, 2018).

Middle-Aged Black Homeowners Hit Hardest

Of great concern is the severe disparity in homeownership by age. The cohort of Americans that has lost the most ground relative to other racial and ethnic groups is middle-aged black homeowners ages 45 to 64. Having lost their homes during the 2008 crisis, these black households find themselves unable to move back into homeownership; in addition, they have experienced a huge blow to their personal balance sheet and wealth that will be difficult to recover as they approach retirement age. Homeownership for middle-aged black families declined 9 percent from 2001 to 2016, compared with 3 percent for middle-aged white and Hispanic families.

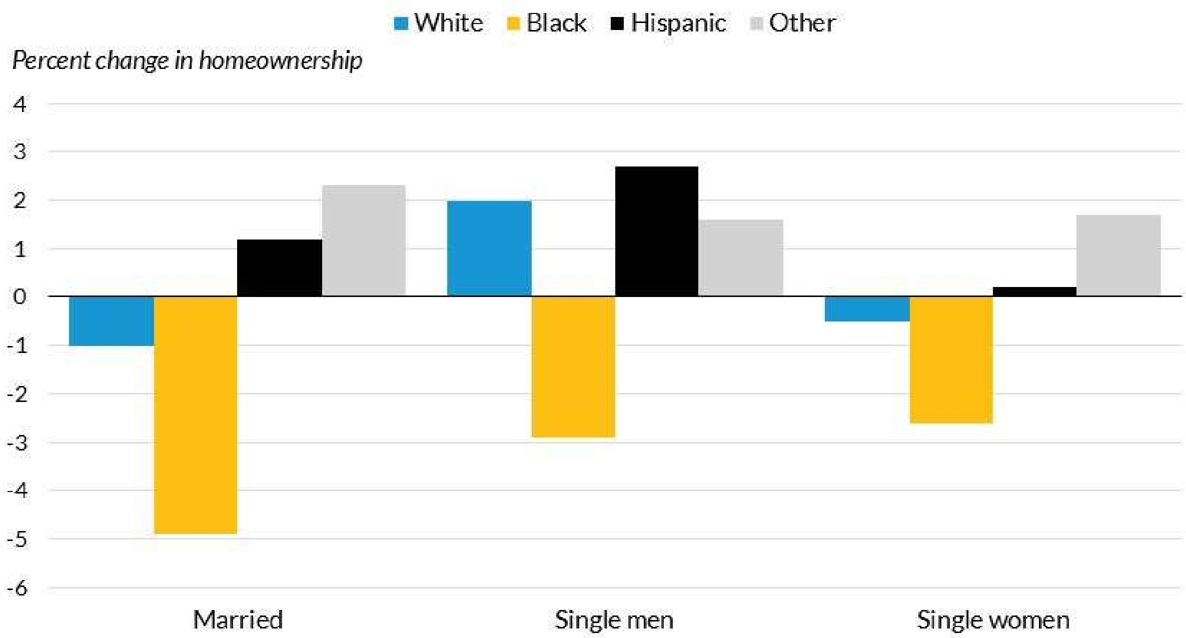
Changes in the Homeownership Rate by Age and Race or Ethnicity, 2001–16



Married black households—traditionally the group most likely to own homes—lost more ground than single-headed black households. These trends will affect retirement prospects[7] for black Americans and their ability to pass wealth to the next generation.

[7] Rodney Brooks, "Declining Black Homeownership Has Big Retirement Implications," *Forbes,* May 10, 2017, https://www.forbes.com/sites/nextavenue/2017/05/10/declining-black-homeownership-has-big-retirement-implications/#794ef7a8e90c/.

Changes in the Homeownership Rate by Family Structure and Race or Ethnicity, 2001–16



Source: American Community Survey.

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An Unprecedented Generational Retrocession

The history of homeownership by generation is particularly troubling. This view shows that the prospects for black homeownership have gone from hopeful to pessimistic in only 15 years.

About half of black people born in the last 10 years of the baby boom (1956–65) were homeowners by the time they turned 50. The early Gen Xers (born 1966–75) had a higher homeownership rate in 2000 (when they were in their late 20s and early 30s) than the late boomers had enjoyed in 1990. But the financial and housing crisis slowed early Gen Xers' transition into homeownership from 2000 to 2010 (when they were in their 30s and early 40s) and caused more of this generation to lose their homes than to become owners after 2010. This retrocession is unprecedented for any other generation or age group.

The picture only gets worse for younger black generations. Those born from 1976 to 1985—late Gen Xers and early millennials—have barely begun their homeownership transition, but they're getting an even slower start than either of the two older cohorts.

Minority Homeownership and Millennials

The Housing Finance Policy Center has published studies on the homeownership patterns of the 75 million millennials who, at 21 to 37 years old, have just entered peak household formation years but are becoming homeowners later in life and at lower rates than previous generations. The homeownership rate of millennials between the ages of 25 and 34 was 37 percent in 2015,[8] approximately 8 percentage points lower than the homeownership rate of Gen Xers and baby boomers at the same age. If the homeownership rate for millennials had stayed the same as previous generations, about 3.4 million more millennials would be homeowners today.

Homeownership among Baby Boomers, Gen Xers, and Millennials in 2015

Generation	Years born	Age	Population	Current homeownership (%)	Homeownership at age 25–34 (%)
Millennials	1981–97	18–34	75,170,263	32.2%	37.0%
Gen Xers	1965–80	35–50	66,441,487	60.4%	45.4%
Baby boomers	1946–64	51–69	74,649,971	75.0%	45.0%

Sources: 1990 and 2000 Decennial Censuses and the 2015 American Community Survey.

This research established that delayed marriage had the most significant impact on millennial homeownership followed by the increasing diversity of millennials. In other words, the lower homeownership rates of communities of color means that an increasingly diverse population will have lower overall homeownership rates, if current trends continue. We also noted with concern in our study that if these trends were left unchecked, greater wealth disparities were likely to emerge among white, black, and Hispanic millennials.

Despite the low homeownership rate, a recent study by Freddie Mac finds that about 33 percent of millennials are mortgage ready, based on credit scores and debt-to-income ratios. Over 90 percent of these young adults can afford homes in the metropolitan statistical area (MSA) they live in when the house prices for the market are considered.[9] Though smaller shares of black and Hispanic millennials are mortgage ready (20 and 29 percent), significant numbers—over 1.7 million black and 4.6 million Hispanic millennials in the 31 largest MSAs—could become homeowners.[10]

The Geographic Contours of the Homeownership Rate Gap

The drop in black homeownership has not been uniform. Some regions have wider gaps than others, but no cities have closed the gap. I have mapped this in the 100 cities with the largest number of black households.[11]

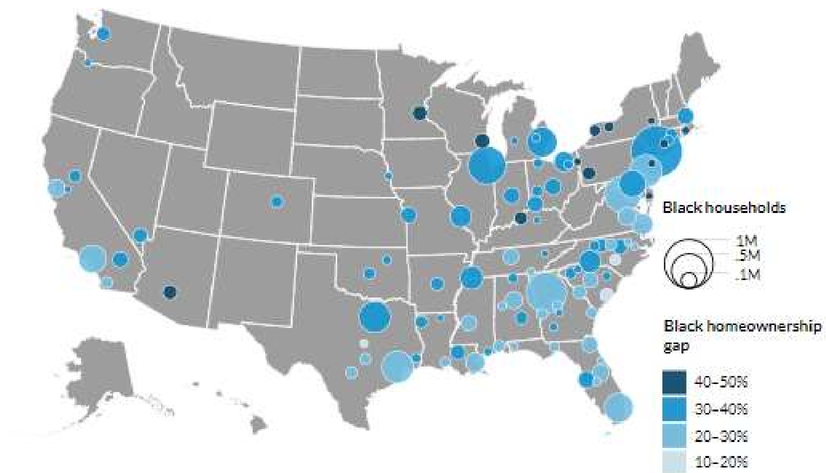
[8] Jung Hyun Choi, Jun Zhu, Laurie Goodman, Bhargavi Ganesh, and Sarah Strochak. *Millennial Homeownership: Why Is It So Low, and How Can We Increase It?* (Washington, DC: Urban Institute, 2018).

[9] "Industry Insight: Expanding Homeownership to the Millennial Market," Freddie Mac, accessed April 19, 2019, http://www.freddiemac.com/singlefamily/community_lenders/news/20170622_expanding_homeownership.html.

[10] Laurie Goodman and Sarah Strochak, "More than 19 million millennials in 31 US cities are ready to become homeowners," *Urban Wire*, Urban Institute, September 26, 2018, https://www.urban.org/urban-wire/more-19-million-millennials-31-us-cities-are-ready-become-homeowners

[11] Alanna McCargo and Sarah Strochak, "Mapping the black homeownership gap," *Urban Wire,* Urban Institute, February 26, 2018, https://www.urban.org/urban-wire/mapping-black-homeownership-gap.

The dots' color represents the disparity's magnitude, and the dots' size is scaled to the number of black households in the MSA.



Source: American Community Survey.

Not one of the 100 cities with the largest black populations has a black homeownership rate close to the white homeownership rate. Even in places where black households are the majority, like Albany, Georgia, the gap persists. In general, the gaps are smaller in the South and the West. Northeastern and Midwestern cities have the widest homeownership gaps between black and white residents. Four of the five metropolitan areas with the largest number of black households—Atlanta, Chicago, New York City, Philadelphia, and Washington, DC—are in this region. The two cities with the biggest gaps—Minneapolis, Minnesota, at 50 percent and Albany, New York, at 49 percent—are also in this region. Of the 100 cities we reviewed, northern cities tend to have larger gaps than cities in the South and on the West Coast.

Similar trends exist for Hispanic population in these places. Of the 100 cities with the largest number of Hispanic households, only one city, El Paso, TX, has a higher Hispanic homeownership rate than white homeownership rate. The cities with the largest gaps are clustered in the Northeast, while the Southwest has much smaller disparities.

Widest and Smallest Hispanic Homeownership Gaps

		White homeownership rate	Hispanic homeownership rate	Hispanic homeownership gap
	Widest gaps			
1	Springfield, MA	74.1%	24.5%	49.6%
2	Worcester, MA-CT	70.8%	23.7%	47.1%
3	Hartford-West Hartford-East Hartford, CT	75.8%	30.4%	45.4%
4	Rochester, NY	73.7%	30.8%	42.9%
5	Providence-Warwick, RI-MA	66.3%	24.6%	41.7%
	Smallest gaps			

96	Albuquerque, NM	73.1%	65.6%	7.5%
97	Las Cruces, NM	64.9%	58.4%	6.5%
98	Laredo, TX	70.1%	64.1%	6.0%
99	Santa Fe, NM	71.9%	69.5%	2.3%
100	El Paso, TX	57.6%	62.0%	-4.3%

Source: American Community Survey.
Note: Data as of 2016.

Homeownership: Still the Best Way to Build Wealth in the US

An important threshold question for this conversation is whether homeownership is truly the valuable wealth-building tool for families for which it is often credited. I believe that the preponderance of the evidence shows that it is, but also note that the benefits do not seem to accrue as readily to minority families as they do to white families.

Homeowners have significantly more wealth than renters. In 2016, the median homeowner had a net worth of $231,42—more than 40 times the median net worth of renters, which stood at just $5,202. But black and Hispanic homeowners still have significantly less wealth than white homeowners. The median net worth for black and Hispanic homeowners was $98,910 and $105,200 respectively, compared to $276,680 for white homeowners. Even when comparing home equity, the differences are stark: black homeowners had a median home equity of $56,000, less than half the $113,000 median for white homeowners.

The returns on homeownership are not just financial, of course. Homeownership provides a stable place to live and an inflation hedge because mortgage costs are generally fixed while rents tend to rise with inflation. Many studies have shown that, on average, those who bought homes before the crisis built more wealth than similarly situated renters, even taking into account the wealth effects of those who could not sustain homeownership during the crisis.

Homeownership is not the panacea for all financial ills, but the financial returns on homeownership have been more beneficial than renting for most homeowners and will likely remain so if current patterns continue. This has been true for generations of white families who have benefited from homeownership and equity building, generational transfers of wealth, and greater net worth overall and should be more accessible and equitable as a wealth building tool for households of color.

Recently, my colleague Laurie Goodman wrote an extensive research paper[12] published in the *Journal of Economic Perspectives* where she and Columbia Business School Professor Christopher Mayer showed that homeownership remains highly beneficial for most families, offering both financial gains and a way to build wealth.

Homeownership is especially beneficial for those who expect to own their home for long enough to overcome the sizable transactions costs and the cyclical volatility of home prices. It provides stability in the

[12] Laurie Goodman and Christopher Mayer. 2018. Homeownership and the American Dream. *Journal of Economic Perspectives.* 31 (1): 31−58. Available at https://www.urban.org/sites/default/files/publication/96221/homeownership_and_the_american_dream_0.pdf

form of often-fixed monthly payments and is a powerful mechanism for forced savings that comes with paying the mortgage each month.

Communities of Color Have Not Accrued the Same Gains from Homeownership

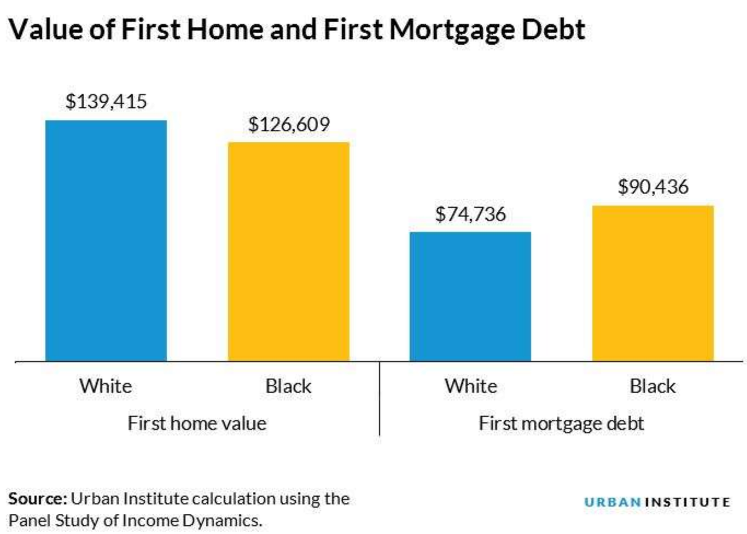
Even when minority families do achieve homeownership, they don't reap the same benefits as white families. Our recent research shows, for example, that the inflation-adjusted average housing wealth at age 60 or 61 for white households in 2015 was $124,000, compared with $54,000 for black households, a 57 percent gap.[13] We have identified three reasons for the difference in benefits achieved from homeownership between black and white families:

- 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

BLACK HOMEBUYERS BUY LESS EXPENSIVE FIRST HOMES WITH MORE DEBT THAN WHITE HOMEBUYERS.

The average first home purchased by black homebuyers is valued at $127,000, compared with $139,000 for white homebuyers. Yet black homebuyers, on average, have higher mortgage debt ($90,000) than white homebuyers ($75,000). Surprisingly and notably, the difference in mortgage debt ($15,000) is larger than the difference in the home value ($12,000).

The higher mortgage debt relative to the house value suggests that black households fall behind in their journey to building future wealth at the initial purchase. Higher mortgage debt not only lowers current and future wealth but could also be a barrier to moving and realizing housing wealth gains.



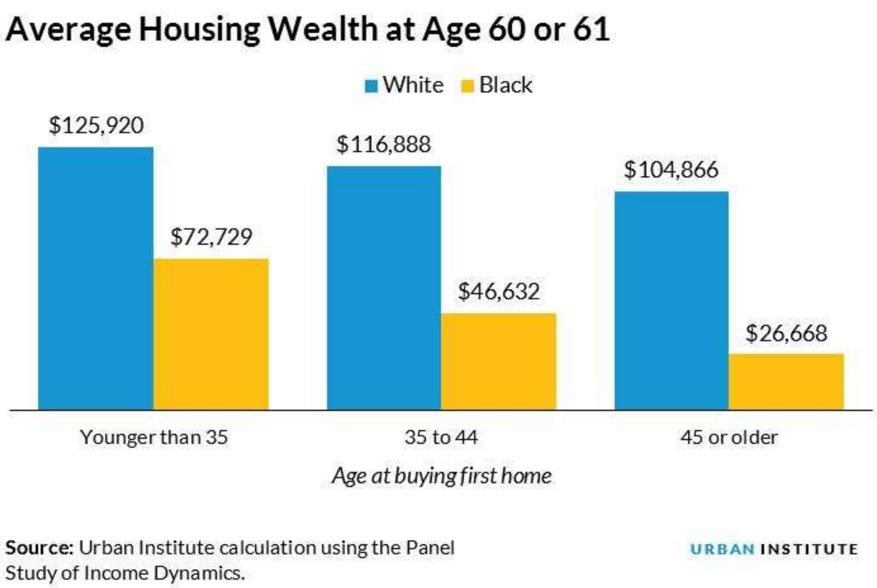
[13] Jung Hyun Choi, Alanna McCargo, and Laurie Goodman, "Three differences between black and white homeownership that add to the housing wealth gap," *Urban Wire,* Urban Institute, February 28, 2019, https://www.urban.org/urban-wire/three-differences-between-black-and-white-homeownership-add-housing-wealth-gap.

BLACK HOUSEHOLDS ARE MORE LIKELY TO BUY HOMES LATER IN LIFE

Our previous research makes it clear that buying a home at a younger age leads to greater wealth in retirement[14]. Eighty-seven percent of white homeowners bought their first homes before age 35, compared with only 53 percent of black homeowners. Not only are black households less likely to buy their homes young, 18 percent of them never own a home before turning 60 or 61.

Delaying homeownership affects future housing wealth. For both black and white households, those who bought their homes before age 35 have the greatest return on housing at age 60 or 61. Because a greater proportion of black homebuyers buy their first homes later in life, their future housing wealth is stunted. But the black households who did buy their homes in the same age bucket as white households still have substantially lower housing wealth than white households at age 60 or 61. This suggests that the age of buying does not fully explain the black-white housing wealth gap.

BLACK HOMEOWNERS ARE LESS LIKELY TO SUSTAIN THEIR HOMEOWNERSHIP



The number of black homeowners who transition to rental housing before turning 60 or 61 is substantially higher than white homeowners. For example, of the households who purchased their first home after age 44, 34 percent of black homeowner households switched to rental housing, while only 9 percent of white households did so. This suggests that black households are less likely to sustain their homeownership after first buying, which aggravates their future wealth-building potential.

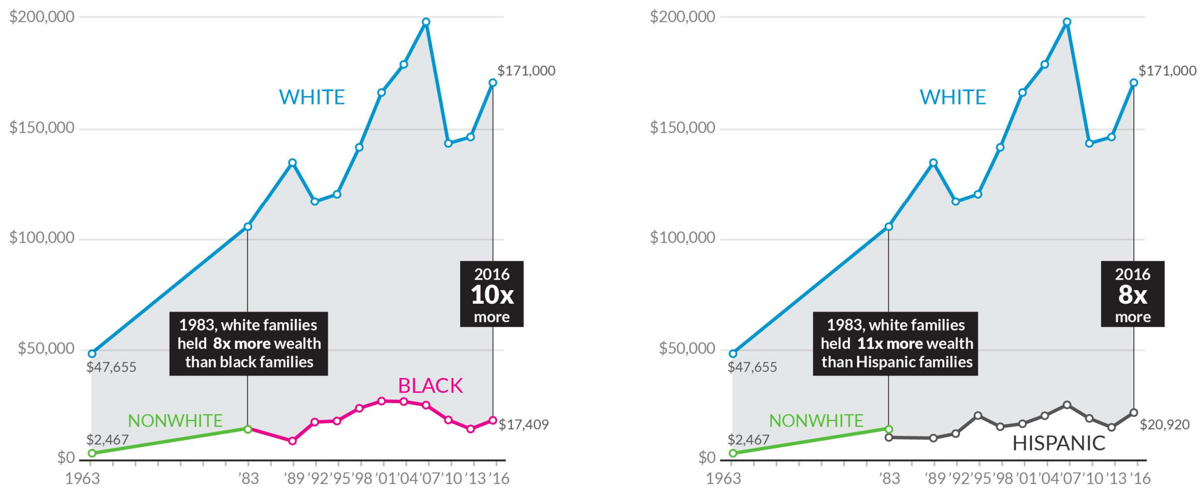
We found that black households who sustained their homeownership had more than $23,500 higher housing wealth at ages 60 and 61 than black households who moved from owning to renting during their lives. Although this amount does not close the housing wealth gap, it suggests that another crucial factor in narrowing the wealth disparity is sustaining homeownership.

[14] Jung Hyun Choi and Laurie Goodman, “Buy young, earn more: Buying a house before age 35 gives homeowners more bang for their buck,” *Urban Wire,* Urban Institute, November 8, 2018, https://www.urban.org/urban-wire/buy-young-earn-more-buying-house-age-35-gives-homeowners-more-bang-their-buck.

The Widening Racial Wealth Gap Makes Expanding Access to This Wealth-Building Tool Critical

The wealth gap in our country is growing, both between races and ethnicities and between owners and renters.

Median Family Wealth by Race/Ethnicity, 1963–2016



Source: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016.

Notes: 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.

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In 2016, the median wealth of white families was 10 times greater than the net wealth of black families and 8 times greater than Hispanic families.[15]

Our latest research on millennial homeownership[16] quantifies how parental homeownership influences their children's homeownership, a factor which contributes to the wealth gap. We show that the children of homeowners are more likely to be homeowners than the children of renters by 7 to 8 percentage points, all else being equal.

The homeownership rate for young adults also increases linearly with increases in parental wealth. A 10 percent increase in parental wealth increases a young adult's likelihood of owning a home by 0.15 to 0.20 percentage points. Only 14 percent of millennials whose parents have a net worth below $10,000 are homeowners, but 36 percent of millennials whose parents have $300,000 or more in net worth are homeowners.

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[15] Signe-Mary McKernan, Caroline Ratcliffe, C. Eugene Steuerle, Caleb Quakenbush, and Emma Kalish, "Nine Charts about Wealth Inequality in America (Updated)," Urban Institute, October 5, 2017, http://apps.urban.org/features/wealth-inequality-charts/.

[16] Jung Hyon Choi, Jun Zhu, and Laurie Goodman, "Is homeownership inherited? A tale of three millennials," *Urban Wire,* Urban Institute, August 2, 2018, https://www.urban.org/urban-wire/homeownership-inherited-tale-three-millennials.

We don't know exactly why homeownership is an inherited trait. Do children of homeowners just learn about the importance of owning a home from their parents, or do they get real financial support and advice from their parents or both? Whatever the connection, we have established that the difference in parental homeownership and wealth explains 12 to 13 percent of the 24-percentage point homeownership gap between black and white young adults.[17]

Narrowing the racial gap in the homeownership rates will be critical to narrowing the racial wealth gap in this country for the next generation.

Solutions for Racial Homeownership Gap

The Urban Institute has been researching and convening stakeholders concerned about the persistent racial homeownership gap to determine steps from moving from research to action. A group of stakeholders concerned about this persistent homeownership gap convened a roundtable planning discussion with Urban Institute's Housing Finance Policy Center in November 2018. The discussion sought to identify actions which, evidence has shown, are likely to reduce the racial homeownership gap and also covered the need to break down the barriers and solutions across racial lines as interventions and the priority of each may differ. It has also led to additional research publications on addressing the racial homeownership gap.

Several themes emerged from the roundtable, first and foremost is the need to **promote an equitable and accessible housing finance system.**

Promoting an Equitable and Accessible Housing Finance System

I believe that the current US housing finance system needs to be reformed to serve all people and markets more equitably. Credit access has tightened following the financial crisis. The median credit score for purchase mortgages in March 2019 was 732, significantly higher than the median of 692 in 2000, a period of reasonable lending standards.[18] Because minorities are more likely to have lower credit scores or thin or no credit files because of historical structural barriers in accessing banking and credit products, mortgage credit has become more difficult for minority households to obtain.[19]

SAFELY EXPAND ACCESS TO CREDIT

There are millions of creditworthy families stuck renting because of the difficulty of getting a mortgage loan. You cannot buy a property in most places in America without a mortgage given the higher cost of housing. According to HFPC research based on Home Mortgage Disclosure Act data, it was so hard to get a mortgage between 2009 and 2015 that lenders failed to make 6.3 million mortgages because of overly tight credit[20]. If

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[17] Jung Hyon Choi and Laurie Goodman, "What explains the gap between black and white young adults?" *Urban Wire,* Urban Institute, November 20, 2018, https://www.urban.org/urban-wire/what-explains-homeownership-gap-between-black-and-white-young-adults.

[18] Housing Finance Policy Center, *Housing Finance at a Glance: A Monthly Chartbook* (Washington, DC: Urban Institute, April 2019).

[19] Lariece M Brown and Jaya Day. 2019. Role of Credit Attributes in Explaining Homeownership Gap in the Post-Crisis Period, 2012-2016. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3327483

[20] Laurie Goodman, Jun Zhu, and Taz George. *The Impact of Tight Credit Standards on 2009-13 Lending*. (Washington DC: Urban Institute, 2015).

lending standards had been more reasonable based on periods of safer products, at least this many more mortgages could have been made. Black and Hispanic households have been disproportionately affected by overly tight mortgage lending standards—and they constitute a surprisingly large share of the 6.3 million loans that were not originated because of tight credit during the 2009 to 2015 period[21]. Loans to black and Hispanic borrowers declined by 50 percent and 38 percent respectively, compared with a decline of 31 percent for white borrowers. Loans to Asian borrowers increased 8 percent. Our research suggests that tight credit is not just an issue for the health of the overall economy but also affects racial and ethnic groups significantly. Very restricted lending standards leave us with the unfortunate reality that large shares of low- and moderate-credit black and Hispanic households may remain outside the credit box until policymakers take action to expand it. Our Housing Credit Availability Index, published quarterly by HFPC, continues to show that there is still plenty of room to safely expand the credit box and to lend to millions more minority families across all channels, GSEs, and government[22].

UPDATE CREDIT SCORING SYSTEMS

It is worth noting that lending disparities, residential segregation, and discrimination does influence credit score disparities by race that persist today, pointing to deeper systemic considerations.[23] While credit decisions are increasingly being made by computer algorithms, there is a well-documented tendency[24] for these systems to disadvantage black households. In the current credit system, payments such as rent, cell phone, and utility payments are not incorporated in traditional credit score models used for mortgage underwriting. Including rental payment history in credit scoring models or into the underwriting process in a more standard way could help more black households access to credit without increasing the default probability.[25]

New credit scoring also needs to address the racial biases embedded in the existing system. Recent studies show that black borrowers were more likely to be given high-cost mortgages during the housing market boom[26] and both traditional and nontraditional (fintech) lenders are charging higher interest rates for the black population with financial records similar to those of whites.[27] If financial institutions do not serve all communities in the market, inequities will continue.

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[21] Laurie Goodman, Jun Zhu, and Taz George, "Tight credit has hurt minority borrowers the most," *Urban Wire,* Urban Institute, April 7, 2015, https://www.urban.org/urban-wire/tight-credit-has-hurt-minority-borrowers-most.

[22] HFPC's Housing Credit Availability Index is available at https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index

[23] Gregory Squires. 2017. The Fight for Fair Housing: Causes, Consequences, and Future Implications of the 1968 Federal Fair Housing Act. New York, NY. Routledge.

[24] CFPB Office of Research. *Data Point: Credit Invisibles*. (Washington, DC: Consumer Financial Protection Bureau, 2015).

[25] Laurie Goodman and Jun Zhu, "Rental pay history should be used to assess the creditworthiness of mortgage borrowers," *Urban Wire,* Urban Institute, April 17, 2018, https://www.urban.org/urban-wire/rental-pay-history-should-be-used-assess-creditworthiness-mortgage-borrowers

[26] Patrick Bayer, Fernando Ferreira, and Stephen L. Ross. 2017. "What Drives the Racial and Ethnic Differences in High-Cost Mortgages? The Role of High-Risk Lenders." *Review of Financial Studies* 31 (1): 175−205. https://academic.oup.com/rfs/article/31/1/175/3782656

[27] Robert Bartlett, Adair Morse, Richard Stanton, and Nancy Wallace. 2018. Consumer-Lending Discrimination in the Era of FinTech. *UC Berkeley Public Law Research Paper.* https://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf

MODERNIZE UNDERWRITING STANDARDS AND MODELS

Underwriting models need to be updated to recognize changes in households and job employment trends. This isn't simply an exercise in tightening up credit standards but rather fully reexamining how credit is evaluated; default models, credit scoring, and volatile measures like debt to income (DTI) ratios being used as blunt measures of creditworthiness need to be reviewed. With the massive data and technological advancements happening in and around the housing market, it is critical that underwriting measures keep pace, and that systems are re-tooled as we build out our knowledge and understanding of what works. Today's homebuyers are far more diverse, earning income in different ways, living in different household arrangements and going about the homebuying experience in a completely different way thanks to technology. It is past time that we improve methods of assessing credit worthiness and evolve to meet prospective homebuyers where they are.

The government-sponsored enterprises (GSEs) are exploring some ideas in this area, such as considering income of nonborrower household members. Similar initiatives need to be undertaken recognizing income variability, and recognizing that freelance, part-time, and self-employment work are increasingly important sources of incomes for individuals and families. Removal of certain thresholds and caps in underwriting standards would help address some of these issues and would improve accessibility to sustainable mortgages for creditworthy people. Reevaluating the right levels for debt to income, considering credit scoring alternatives, including different forms of credit history, determining what the right level of savings and assets needs to be are all in need of review. These are ways in which underwriting and underlying systems and models to evaluate consumers can be modernized to meet the needs of current and future consumers.

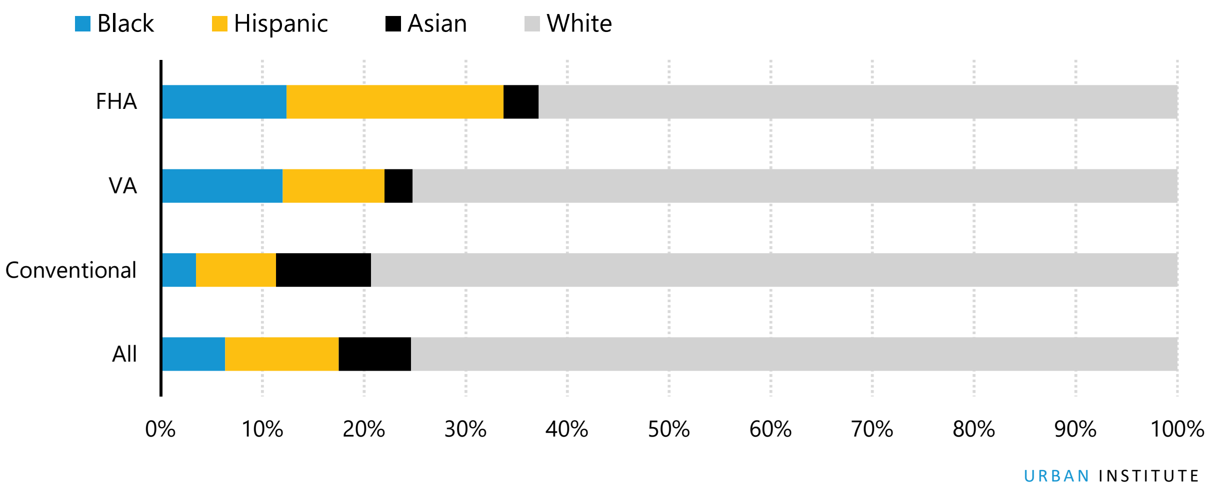
MODERNIZE FHA

The federal government housing programs, notably FHA and VA insurance programs, are the primary channels supporting access to mortgages for black and Hispanic families. It is critical that conversations about housing finance reform are comprehensive and include the reforms and investments needed in these critical government insurance programs as well as changes needed to improve the conventional mortgage market's service to communities and people of color.

In today's disjointed structure, FHA and government programs are operating one way and GSEs are operating differently, and they are serving minority and first-time homebuyers differently and less efficiently as a result. The United States cannot rely on the private mortgage market alone to keep the housing finance system robust for first-time homebuyers or seniors who want to downsize or age in place. The FHA, as well as the US Department of Agriculture and the US Department of Veterans Affairs, are particularly critical for the first-time homebuyers, minority borrowers, military families, and lower-income borrowers with limited capital to put towards down payment. These programs offer low down payment structures that remove a critical barrier to entry for many families and extend reach to lower- and middle-income homebuyers.

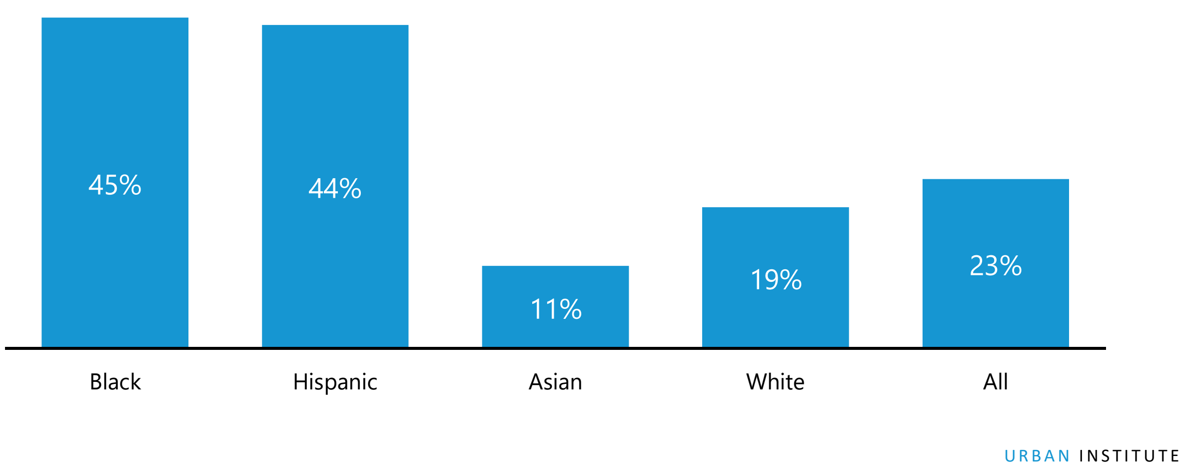
Continued investments in technology modernization and increased staff capacity for the homeownership programs at FHA require a plan and appropriations to manage a complex effort to improve the agency and its ability to effectively serve more underserved consumers and work efficiently with lenders to ensure FHA reach is funneling to all communities through financial institutions in those communities as well as nonbank lending institutions that serve these communities. GSEs should place significant emphasis on strengthening access to conventional lending for minorities as well as scaling all efforts on Duty to Serve to bring more liquidity and lending to underserved markets, and considering specifically including historically segregated and undervalued markets.

Share of Purchase Loans by Channel and Race or Ethnicity



Source: Home Mortgage Disclosure Act records.
Notes: FHA = Federal Housing Authority, VA = US Department of Veterans Affairs. Includes 2017 purchase originations.

Share of Purchase Loans That Are FHA-Insured by Race or Ethnicity



Source: Home Mortgage Disclosure Act records.
Note: Includes 2017 purchase originations.

IMPROVE DOWN PAYMENT ASSISTANCE PROGRAMS

Securing enough cash for closing and a down payment is another barrier to homeownership. More than half of renters view a down payment as the major obstacle to buying a home.[28] Also, many are unaware[29] of available low down payment mortgage options, or of the vast number of down payment assistance programs available locally. Increasing the visibility of and access to down payment programs will be especially beneficial to young black home buyers, who are less likely to receive parental support than white young adults.[30] Designing and implementing down payment and savings programs, making them easy to access through counseling, real estate, and lending professionals, and enhancing overall awareness of the available state, city, county, and federal programs would help black households and renters who could be first-time buyers access homeownership. New ideas that ensure priority and focus on funneling down payment capital to historically redlined communities will help ensure that needed capital and support is made available in the places and to the people who need it the most.

CREATE A ROBUST SMALL-DOLLAR MORTGAGE MARKET

Our research on lending in low-cost housing markets in the US shows that more needs to be done to improve access to small-dollar mortgage loans for properties at the low end[31]. Although there is significant focus on the high cost markets and affordability, there remains swaths of affordable properties at the low end that are not able to be purchased by owner-occupants because they are not able to buy in cash and cannot access traditional mortgage market for purchase. In 2015, there were over 630,000 home sales recorded under $70,000. Only one in four of those sales was mortgaged. Allthough housing prices have surpassed the 2006 peak, many homes in low-cost markets are sold for less than $70,000. In these markets, many of which include large black renter populations, expanding access to small-dollar mortgage loans could be a solution to help more black households gain greater access to affordable and sustainable homeownership. Expanded access to micromortgage financing could help in markets with affordable housing stock in stable neighborhoods in places like Cleveland, Pittsburgh, Rochester, and St. Louis. Micromortgage financing programs can assist renters with a transition to homeownership or help existing homeowners with renovation and repair financing to upgrade or modify their home in order to sustain homeownership.

Additional areas of priority have emerged from a roundtable convening and new Urban Institute research that will also help reduce the racial homeownership gap:

- tackling housing supply constraints and affordability
- focusing on sustainable homeownership and preservation
- accelerating outreach and counseling for renters and mortgage-ready millennials
- advancing policy solutions at the local level

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[28] Laurie Goodman, Alanna McCargo, Bing Bai, Edward Golding, and Sarah Strochak. *Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability*, (Washington, DC: Urban Institute, 2018).

[29] Fannie Mae, "What Do Consumers Know About the Mortgage Qualification Criteria? " December 2015. Available at http://www.fanniemae.com/resources/file/research/housingsurvey/pdf/consumer-study-121015.pdf

[30] Kerwin Kofi Charles and Erik Hurst. 2002. The Transition to Home Ownership and the Black-White Wealth Gap. *The Review of Economics and Statistics.* 84 (2): 281−297.

[31] Alanna McCargo, Bing Bai, Taz George, and Sarah Strochak. *Small-Dollar Mortgages for Single-Family Residential Properties*. (Washington, DC: Urban Institute, 2018).

Tackle Housing Supply Constraints and Affordability

Over the next decade, an additional 13–16 million new households will be formed, the US population will get older and have different housing needs, and the housing needs of people of color will increase rapidly. This leads to increases in home prices and rents, a trend that will continue for the foreseeable future, absent significant policy changes.

Between 2010 and 2030, household growth will be reasonably robust; and, notably, the overwhelming majority of that growth will be nonwhite: 77 percent between 2010 and 2020, and 88 percent between 2020 and 2030 By 2030, Hispanic families will account for 56 percent of new homeowners. Households headed by someone age 65 or older will also expand dramatically, by nearly 20 million between 2010 and 2030.[32]

High land and labor costs have constrained the construction of new housing, and have significantly driven up house prices over the past decade. The number of new housing starts in 2018 is below that of the 1960s when the total US population was only about 55 percent of what it is today.[33] In 2018, while 993,000 new households were created, only 823,000 new housing units were completed, creating a shortage of 171,000 units.

Not only is housing inventory low, but the specific types and costs of homes that are in demand and the types and costs of homes that are being built are not well matched. As building costs increase, a greater portion of construction occurs at the higher end of the market, which does little to relieve constraints on housing supply at the lower end of the market, and may result in price increases in gentrifying neighborhoods. This makes it even more difficult for low-income black homeowners, who often have lower incomes and fewer assets than their white counterparts, to find an affordable home.

Acknowledging the severity of the problem, some cities have taken bold actions to reform zoning and land use regulations. For example, Minneapolis recently eliminated all single-family zoning and allowed triplexes to be built in any part of the city[34]. Factory built housing production, like manufactured and modular housing, can also be a solution to the homeownership affordability and supply problem[35]. Contrary to the common perception, recent research highlights that some manufactured homes appreciate at similar rates to site-built homes[36]. Manufactured housing has changed over the years and could be an affordable solution for helping blacks get on the path to homeownership.

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[32] Laurie Goodman, Rolf Pendall, and Jun Zhu. *Headship and Homeownership: What Does the Future Hold?* (Washington, DC: Urban Institute, 2015).

[33] Jung Hyun Choi, Laurie Goodman, and Bing Bai, "Four ways today's high home prices affect the larger economy," *Urban Wire,* Urban Institute, October 11, 2018, https://www.urban.org/urban-wire/four-ways-todays-high-home-prices-affect-larger-economy.

[34] "Next50 Housing," Urban Institute, accessed April 24, 2019, https://next50.urban.org/question/housing#produce-more-housing-more-cheaply.

[35] Laurie Goodman, Edward Golding, Alanna McCargo, and Bhargavi Ganesh, "Manufactured homes could ease the affordable housing crisis. So why are so few being made?" Urban Wire (blog), Urban Institute, January 29, 2018, https://www.urban.org/urban-wire/manufactured-homes-could-ease-affordable-housing-crisis-so-why-are-so-few-being-made.

[36] Laurie Goodman, Edward Golding, Bing Bai, and Sarah Strochak, "New evidence shows manufactured homes appreciate as well as site-built homes," Urban Wire (blog), Urban Institute, September 13, 2018, https://www.urban.org/urban-wire/new-evidence-shows-manufactured-homes-appreciate-well-site-built-homes.

Focus on Sustainable Homeownership and Preservation

Addressing the net losses in homeownership rates for minorities holistically requires both creating new minority homeowners and sustaining existing homeowners. Not only do communities of color have lower homeownership rates than whites, but they are also less likely to sustain their homeownership. For example, our research[37] shows that among the households who bought their first homes after age 44, only 9 percent of white households switched to rental housing compared to 34 percent of black households. A substantially greater share of the black population experienced foreclosures following the 2007 housing market crisis.[38].

Failing to sustain homeownership directly impacts future wealth. The homeowners who were not able to sustain their homeownership had significantly lower wealth[39] near retirement age. Helping homeowners access and maintain homeownership can also reduce wealth inequality for future generations, as shown by our integrational homeownership research discussed above.

Research shows that post-purchase counseling and third party representation significantly lower a homeowner's likelihood of losing their home.[40] Promoting healthy mortgage servicing[41] relationships and loss mitigation options is another effective strategy, particularly in situations where natural disasters pose a risk to sustainability. Developing a measure for evaluating the risk of foreclosure could also lead to early interventions to prevent foreclosure and substantial wealth losses.

Additional work is needed in developing tools and programs to support cost-burdened homeowners[42]—including minority seniors or long-time homeowners—who live in volatile neighborhoods with a risk of increasing taxes and insurance costs or in homes that are aging and need significant renovations or repair but lack the financial capacity to do so. These rising costs could increase the risk of losing a home or being displaced.

In addition, ensuring that mortgage servicing and foreclosure mitigation programs direct assistance to vulnerable homeowners who are experiencing qualified hardships is a key part of sustainability. Programs

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[37] Jung Hyun Choi, Alanna McCargo, and Laurie Goodman, "Three differences between black and white homeownership that add to the housing wealth gap," *Urban Wire,* Urban Institute, February 28, 2019, https://www.urban.org/urban-wire/three-differences-between-black-and-white-homeownership-add-housing-wealth-gap.

[38] Debbie Gruenstein Bocian, Wei Li, and Keith Ernst. *Foreclosures by Race and Ethnicity: The Demographics of a Crisis*. (Washington, DC: Center for Responsible Lending, 2010).

[39] Jung Hyun Choi, Alanna McCargo, and Laurie Goodman, "Three differences between black and white homeownership that add to the housing wealth gap," *Urban Wire,* Urban Institute, February 28, 2019, https://www.urban.org/urban-wire/three-differences-between-black-and-white-homeownership-add-housing-wealth-gap.

[40] Corianne Payton Scally, Camille H. Anoll, Jung Hyun Choi, Patrick Spauster, Leah Hendey, Diane K. Levy, and Bing Bai. *Responding to a Crisis: The National Foreclosure Mitigation Counseling Program, 2008–2018*. (Washington, DC: Urban Institute, 2019).

[41] "What Is Mortgage Servicing?" the Urban Institute, accessed April 24, 2019, https://www.urban.org/policy-centers/housing-finance-policy-center/projects/mortgage-servicing-collaborative/help-me-understand-mortgage-servicing/what-mortgage-servicing.

[42] Laurie Goodman, and Bhargavi Ganesh, "Low-income homeowners are as burdened by housing costs as renters," Urban Wire (blog), Urban Institute, June 14, 2017, https://www.urban.org/urban-wire/low-income-homeowners-are-burdened-housing-costs-renters.

could be designed as an add-on to unemployment benefits, a tax credit, or an insurance or savings program provided through the mortgage process to help keep people in their homes.

As housing markets heat up and gentrify, minority households are facing a greater risk of displacement in many communities across the country. Although empirical results are mixed due to data limitation and methodological challenges, several existing studies[43] find that extensive gentrification is happening in major cities and blacks, especially those who are less educated, are especially vulnerable to displacement could help local policymakers and community leaders take timely actions to prevent blacks—both owners and renters—from losing their homes.[44] Knowing displacement triggers, and creating tools to identify and get ahead of them, will go a long way to helping enable and sustain homeownership among blacks, and is of concern particularly for the black senior population, which has seen a steady decline in homeownership rates overall.

Accelerate Outreach and Counseling for Renters and Mortgage-Ready Millennials

As discussed above, millennials have significantly lower homeownership rates compared to young baby boomers and Gen Xers at the same age yet nearly 6.3 million minority millennials are mortgage-ready in the nation's 31 largest MSAs. Reaching out to this population will be critical to reducing racial homeownership gaps in the future. Assuming that most mortgage-ready black millennials are renters today, outreach that educates and counsels the upside of homeownership to current renters should be a key part of the strategy. Because blacks are significantly less likely to buy a home at an earlier age than whites,[45] the housing wealth gap will widen by retirement age if this trend continues. Helping black renters gain access and understanding of homeownership tools at an earlier age by providing incentives such as a first-time homebuyer tax credit, or significant down payment assistance would provide blacks greater opportunity to build future housing wealth.

Advance Policy Solutions at the Local Level

As noted above, the size and details of the racial homeownership gaps differ substantially across the country. And while federal interventions can influence state and local actions, the biggest impact will come through locally developed and targeted solutions. Black households are likely to face different barriers to accessing homeownership across geographies due to the differences in local policies and institutions both now and in the past, as well as housing and labor market conditions and demographic compositions. Focusing on the local level is critical.

Aiming to improve and increase the use and reach of products like the FHA 203K renovation program, or expanding access to GSEs for purchase and renovation programs, particularly in black communities or highly distressed zip codes, could help with improving and maintaining local communities and home values. Some

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[43] Miriam Zuk, Ariel H. Bierbaum, Karen Chapple, Karolina Gorska, Anastasia Loukaitou-Sideris, Paul Ong, and Trevor Thomas. 2015. Gentrification, Displacement and the Role of Public Investment: A Literature Review. *Federal Reserve Bank of San Francisco Working Paper.* https://www.frbsf.org/community-development/publications/working-papers/2015/august/gentrification-displacement-role-of-public-investment/

[44] "Next50 Housing," Urban Institute, accessed April 24, 2019, https://next50.urban.org/question/housing#produce-more-housing-more-cheaply.

[45] Jung Hyun Choi, Alanna McCargo, and Laurie Goodman, "Three differences between black and white homeownership that add to the housing wealth gap," *Urban Wire,* Urban Institute, February 28, 2019, https://www.urban.org/urban-wire/three-differences-between-black-and-white-homeownership-add-housing-wealth-gap.

cities are experimenting with ways to make additional programs available through housing trust funds, or tax incentive programs to address these issues directly at the neighborhood level.

Important Update on Data Transparency and Standardization

The ability for the Urban Institute, or any policy and economic research organization, to understand the state of the mortgage market, how the system is servicing consumers and how programs are serving the American public have been enhanced over the past four decades, as more data about the housing market has moved into the public domain. Data made available under the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act, and public data released by the GSEs and the FHA in recent years, including data on new credit risk transfer structures, offer a transparent comprehensive view of the housing market and communities across America. Urban Institute's Housing Finance Policy Center has developed important tools that offer evidence of lending progress across the country. That is possible because of transparency of government and public datasets such as these.

Greater transparency into the housing market is needed to support evidence-based policymaking. Much of the critical data, especially portfolio performance data and servicing data remains in private hands and is available only at substantial cost, if at all. Additionally, the GSEs, the FHA, and the VA could make more data available to the public as part of their missions. Continuing to improve this data, and gain as much participation as possible in reporting would help Congress, regulators, market participants, and the public better understand the housing market and helps ensure evidence is available to support changes in law, new regulations, and industry practices that facilitate a housing finance system that is affordable, accessible, and stable. I highly encourage caution and extreme care as the CFPB examines changes to HMDA data reporting.

Conclusion

The overall decline in homeownership threatens to exacerbate racial inequality for decades to come. If recent trends continue, black people born between 1965 and 1975 will likely become part of the first generation since those born before 1900 to reach retirement age with more renters than homeowners among their community.

The period since the housing crisis began has been a tragic chapter for communities of color as they lost ground in their access to the wealth building, security, and the sense of belonging offered by homeownership. We must take action to avoid further decline. Reforms to access and affordability across the housing system are needed that provide more affordable rental housing and more plentiful and secure access to homeownership.

These reforms need to go beyond housing to include safe and healthy neighborhoods, high-quality education, measures to build and protect financial health, fair credit scoring, and access to good jobs and affordable health care. These influences will affect whether today's youngest generations will be homeowners by the time they retire.